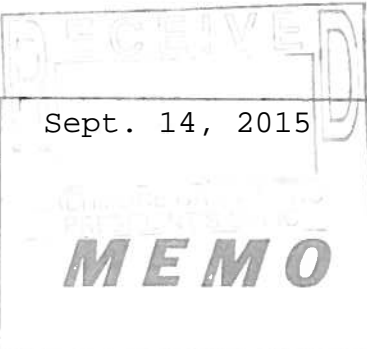



FROM	NAME & TITLE	Henry J. Raymond, Director <i>HJR</i>	 Sept. 14, 2015 MEMO 
	AGENCY NAME & ADDRESS	Department of Finance 100 Holliday Street, Rm 449	
	SUBJECT	City Council Resolution No. 15-0246R - Sale of City Owned Hilton Hotel	

TO DATE:
September 11, 2015

Honorable President and Members of the City Council
Attention: Natawna Austin, Executive Secretary

The Department of Finance has reviewed Resolution 15-0246R for the purpose of selling the city-owned, Hilton Hotel (Hotel) and using the excess proceeds to potentially fund recreation center upgrades.

While the Department would support the sale of the Hotel at some point in the future, we believe at this time proceeds from the sale of the asset would not be sufficient to satisfy the outstanding indebtedness owed on the property. Approximately two years ago the Department of Finance secured a third party financial consultant to examine this very issue. The consultant concluded that proceeds of a sale would not pay off the outstanding debt, and any sale would result in a substantial loss to the City. Operating conditions of the Hotel have not materially changed since the date of this finding.

In February 2006, the City issued its Convention Center Hotel Revenue Bonds consisting of \$246.5 million of "Aaa/AAA" insured Senior Series 2006A and \$53.4 million of "Ba1/BB" rated Subordinate Series 2006B to provide funds to construct a Convention Center Hotel to be operated under the Hilton flag. The Bonds were issued based on expectations that could not anticipate the financial and credit crisis of 2008 and the resulting national recession. As a result, the hotel opened in the third quarter of 2008 amidst the worst economic environment since the Great Depression. We have not yet fully recovered from the effects of the financial crisis.

During this trying period the Hotel has continued to experience improving financial performance, but it remains below the Original HVS projections. Income producing assets such as the Hotel are valued primarily on operating performance, and accordingly it is the Finance Department's opinion that the current valuation and sale of this asset would not allow for the full repayment of the outstanding debt.

During this difficult period the Baltimore Hotel Corporation has successfully managed the day-to-day operations of the Hotel, and we are happy to report that to date there has been no draw on the City-wide Hotel Occupancy Tax to support hotel activities. With no reasonable sale option available the only course of action at this time is to continue to do what we have been doing since opening – own and manage the Hotel in a responsible and cost saving manner until conditions improve.

The Baltimore Hotel Corporation will provide numerical details on the current valuation, and other information relating to the potential sale of the Hotel. The Department of Finance will defer to their analysis.

Defer to BHC