

USALI 11th Edition – Key Changes and P&L Implications

Asset Management • Loan Surveillance • Lender Support • Receivership • Acquisition Due Diligence • Manager & Franchise Selection • Development & Repositioning Services • Project Management • Property Management

Fees, Performance Test & Incentive Fee Implications:

CHANGE	IMPACT
RevPAR (but not likely RevPAR penetration)	
Rooms Revenue excludes Resort Fee (p 82)	Reduce RevPAR but not penetration if uniform for all hotels.
Package Revenue Accounting Clarification (p 13)	Unknown. Allocation of revenue is based on retail pricing. Previously non-rooms revenue allocations were more arbitrary.
Package Revenue Breakage (p 82)	Reduce RevPAR if included in Rooms previously. Clearly now in Miscellaneous.
Rebates or Subsidies to Group (p 10)	Reduce RevPAR. No longer expense; contra-revenue.
Surcharges and Service Charges (p 10)	Included in hotel ADR if meet Gross (vs. Net) test. No change from 10 th Edition. Risk is if Operators try to change Resort Fee to Surcharge or Service Charge. (Many management contracts already exclude service charges from definition of revenue).
Rooms sold to Wholesalers and OTAs (p 15)	No change from 10 th Edition. Revenue recorded at net rate received by hotel.
Mixed-Ownership (p 15)	Unknown. Excluded from rooms revenue if lease is short term (only in inventory for part of the year). Impact will depend upon past practice.
Total Operating Revenue	
Non-Operating Income (incl. CAM, cost recovery, interest income & other income generated by hotel not associated with operations such as antenna leases and billboards & retail space) (p 120)	Reduce. Total Operating Revenue "replaces" Total Revenue. Total Operating Revenue excludes Non-Operating Income. (Note: many contracts use term "Gross Revenue").
Excludes Cost Recovery (p 121)	Reduce. Cost Recovery Income is revenue per GAAP. Cost Recovery Income and Expense is now in Non-Operating Income and Expense (Eg: CAM reimbursement or reimbursement of a portion of GM salary from mixed-use facility).
Excludes Interest Income (p 121)	Reduce. Now in Non-Operating Income, below GOP.
GOP (\$)	
Owner driven Income is not in Operating Revenue (p 120)	Reduce. Moved to Non-Operating Income & Expense below GOP.
GOP Margin	
Removal of Non-Operating Income from Operating Revenue (p 120)	Likely to lower as these line items are highly profitable.
Improved guidance of gross vs net causing change in revenue reporting (p 342)	Likely to increase as net revenue is 100% profit.
EBITDA Less Replacement Reserve	
Name Change	Shoul. EBITDA replaces NOI. Net Income now defined (on Owner P&L) as EBITDA less interest, depreciation and amortization and income taxes. Replacement Reserve is not a deduction to calculate Net Income. It is still a deduction on "Operators" P&L.

Major Changes Affecting the Income Statement:

Revised Summary Operating Statement.

Definition changes. Total Revenue and NOI are gone.

New Non-Operating Income & Expense Schedule.

New uniform descriptions of Rooms revenue market segmentation (with detail beyond transient and group).

Addressed forfeited deposits or unused Gift Certificate Revenue .

Fixed language to comply with GAAP - Rebates & Subsidies to Groups is Misc. not Rooms revenue.

Package Revenue breakage from Rooms to Misc.

Labor Cost "replaces" Payroll Cost; clarification of service charges and outsourced labor.

Expanded labor reporting for each department to include sub-categories (such as housekeeping and laundry).

Cluster Services is a new line item.

Improved guidance to address revenue as gross vs net (particularly relevant to AV & parking agreements).

New IT Dept. Schedule / Telephone Dept. Schedule is gone.

New mixed ownership revenue guidance.

New language to address employee housing.

Revenue Manager and Catering Sales moved to S&M from Rooms & F&B expense, respectively.

Issues affecting Existing HMAs:

Definition changes
 Gone: Total Revenue, NOI
 New: Operating Revenue, EBITDA
 Definition change: Net Income

Fee & Performance Tests
 Revisit how 11th Edition affects calculation.

Obligation to comply with current edition of USALI
 Defined terms versus USALI compliance. Inconsistency will cause interpretation issue.

Defining whether lease income is Misc. Revenue or Non-Operating Income
 Depends on "operator involvement".

Key Reads in the 11 th Edition:	Pages:
Summary of changes from 10 th Edition	xv-xviii
Summary Operating Statement	3-4
Rooms Revenue	12-17
Non-Operating Income & Expense	120
Gross vs. Net	342-350

3 Accounting Clarifications:

Gross vs. Net (banquet gratuity, AV, Parking, Mixed Use)

Package Revenue (Allocation Methodology)

Group Rebates & Commissions (Now Misc. Not Rooms)

Owner Concerns that need to be addressed in Future HMAs (b/c not addressed with GAAP or in 11th Edition):

Operating Revenue
 Fees should be based on operating revenue. Gross revenue term never existed in USALI.

Define Revenue Exclusions
 Exclude service charges, surcharges and cost recovery which are all revenue per GAAP as well as Non-Operating Income.

Define Hotel Premise Exclusions
 Exclude "owner controlled" spaces such as roof, parking, F&B or other retail spaces.

Ideally owner right to change use of spaces to convert to leased spaces.

Parking and AV Agreements
 Owner should have approval rights on all agreements where revenue could be categorized as gross versus net.

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SUMMARY OPERATING STATEMENT		
10th Edition	11th Edition - Operators	11th Edition - Owners
Rooms Available	Rooms Available	Rooms Available
Rooms Sold	Rooms Sold	Rooms Sold
Occupancy	Occupancy	Occupancy
ADR	ADR	ADR
RevPAR	Rooms RevPAR	Rooms RevPAR
	Total RevPAR	Total RevPAR
REVENUE	OPERATING REVENUE	OPERATING REVENUE
Rooms	Rooms	Rooms
Food & Beverage	Food & Beverage	Food & Beverage
Other Operated Departments	Other Operated Departments	Other Operated Departments
Rentals and Other Income	Misc. Income	Misc. Income
TOTAL REVENUE	TOTAL OPERATING REVENUE	TOTAL OPERATING REVENUE
DEPARTMENTAL EXPENSES	DEPARTMENTAL EXPENSES	DEPARTMENTAL EXPENSES
Rooms	Rooms	Rooms
Food & Beverage	Food & Beverage	Food & Beverage
Other Operated Departments	Other Operated Departments	Other Operated Departments
TOTAL DEPARTMENTAL EXPENSES	TOTAL DEPARTMENTAL EXPENSES	TOTAL DEPARTMENTAL EXPENSES
TOTAL DEPARTMENTAL INCOME	TOTAL DEPARTMENTAL INCOME	TOTAL DEPARTMENTAL INCOME
UNDISTRIBUTED OPERATING EXPENSES	UNDISTRIBUTED OPERATING EXPENSES	UNDISTRIBUTED OPERATING EXPENSES
Administrative and General	Administrative and General	Administrative and General
	Information & Telecomm Systems	Information & Telecomm Systems
Sales and Marketing	Sales and Marketing	Sales and Marketing
Property Operation and Maintenance	Property Operation and Maintenance	Property Operation and Maintenance
Utilities	Utilities	Utilities
TOTAL UNDISTRIBUTED EXPENSES	TOTAL UNDISTRIBUTED EXPENSES	TOTAL UNDISTRIBUTED EXPENSES
GROSS OPERATING PROFIT	GROSS OPERATING PROFIT	GROSS OPERATING PROFIT
MANAGEMENT FEES	MANAGEMENT FEES	MANAGEMENT FEES
INCOME BEFORE FIXED CHARGES	INCOME BEFORE NON-OPERATING INCOME & EXPENSES	INCOME BEFORE NON-OPERATING INCOME & EXPENSES
FIXED CHARGES	NON-OPERATING INCOME & EXPENSES	NON-OPERATING INCOME & EXPENSES
	Income	Income
Rent	Rent	Rent
Property and Other Taxes	Property and Other Taxes	Property and Other Taxes
Insurance	Insurance	Insurance
	Other	Other
TOTAL FIXED CHARGES	TOTAL NON-OPERATING INCOME & EXPENSES	TOTAL NON-OPERATING INCOME & EXPENSES
NET OPERATING INCOME	EBITDA	EBITDA
REPLACEMENT RESERVES	REPLACEMENT RESERVE	
ADJUSTED NET OPERATING INCOME	EBITDA LESS REPLACEMENT RESERVE	
		INTEREST, DEPRECIATION & AMORTIZATION
		Interest
		Depreciation
		Amortization
		TOTAL INTEREST, DEPRECIATION & AMORTIZATION
		INCOME BEFORE INCOME TAXES
		Income Taxes
		NET INCOME