

## Legislation Details (With Text)

**File #:** 18-101 **Version:** 1  
**Type:** Action Item **Status:** Agenda Ready  
**In control:** Urban Renewal Agency  
**On agenda:** 3/12/2018 **Final action:** 3/12/2018  
**Title:** Management Agreement Incentive Fee Calculation for the Salem Convention Center  
Ward(s): Ward 1  
Board Member(s): Kaser  
Neighborhood(s): CANDO

**Sponsors:****Indexes:****Code sections:****Attachments:** 1. Continuation of Incentive Fee Letter

Date	Ver.	Action By	Action	Result
3/12/2018	1	Urban Renewal Agency	approved	Pass

**TO:** Urban Renewal Agency Board  
**THROUGH:** Steve Powers, Executive Director  
**FROM:** Kristin Retherford, Urban Development Director

**SUBJECT:**

Management Agreement Incentive Fee Calculation for the Salem Convention Center

Ward(s): Ward 1  
Board Member(s): Kaser  
Neighborhood(s): CANDO

**ISSUE:**

Shall the Agency Board approve the Management Agreement Incentive Fee calculation for the Salem Convention Center for the three year period commencing July 1, 2017 through July 1, 2020?

**RECOMMENDATION:**

Approve the Management Agreement Incentive Fee calculation for the Salem Convention Center for the three year period commencing July 1, 2017 through July 1, 2020.

**SUMMARY AND BACKGROUND:**

On December 15, 2008, the Agency Board approved amendments to the Conference Center (now known as the Convention Center) Management Agreement, including the addition of a Management Fee. The Management Fee (Fee) has two components; a Fixed Fee and an Incentive Fee. The Fees were incorporated as an incentive to encourage aggressive marketing and operation of the Convention Center. The Fees were based upon models found in other publicly-owned conference center management agreements.

The Fixed Fee is a monthly fee of \$1,000 to compensate the Manager of the Convention Center for providing strategic direction, management oversight, and other services required to operate the Convention center and contribute to its success. The Incentive Fee is a performance-based fee under which the Manager receives an amount equal to one percent (1%) of Gross Revenues plus ten percent (10%) of the excess of Gross Revenues over certain Operating Expenses for each fiscal year.

The Incentive Fee is calculated and paid after the audited financial statements are received at the end of the fiscal year. The Total Fee (Incentive and Fixed Fee) is capped. The Fee cannot exceed the lesser of \$100,000 or the Convention Center's audited income when all expenses are taken into account (the Cap). The Cap ensures the Manager receives an Incentive Fee only when the Convention Center, taking into account all expenses, generates income. The payment of an Incentive Fee cannot create or increase a loss.

According to the terms of the Management Agreement, the incentive calculation is to be re-evaluated every three years. The presentation of this calculation was delayed due to the review of other terms in the Management Agreement, which will be presented at a future date.

The following summarizes the management fee earned starting in 2009.

Year	Management Fee	Incentive Fee	Total Fee
FY 2009-10	\$12,000	\$ 72,478	\$ 84,478
FY 2010-11	\$12,000	\$ 59,605	\$ 71,605
FY 2011-12	\$12,000	\$ 88,000	\$100,000
FY 2012-13	\$12,000	\$ 65,407	\$ 77,407
FY 2013-14	\$12,000	\$ 70,153	\$ 82,153
FY 2014-15	\$12,000	\$ 78,440	\$ 90,440
FY 2015-16	\$12,000	\$ 77,116	\$ 89,116
FY 2016-17	\$12,000	\$125,244	\$100,000 <sup>1</sup>

Note<sup>1</sup>: Maximum Management Fee Allowed is \$100,000

## **FACTS AND FINDINGS:**

Section 2.12.5 of the Amendment to the "Convention Center Management Agreement for the Salem Convention Center" provides the Incentive Fee be evaluated every three years beginning in FY 2011-12. The Incentive Fee for each three-year period occurring after July 1, 2011, shall be subject to the mutual approval of the Agency and the Manager which shall be in writing and executed with the same formalities as the Agreement. If the Incentive Fee and the method by which it is calculated have not been mutually approved within the ninety days of July 1 of each fiscal year during which the re-evaluation occurs, then no Incentive Fee shall be paid unless and until such time as these conditions are satisfied. This most recent re-evaluation was delayed due to the consideration of other

modifications to the Agreement, which will be brought forward for consideration in the future. The Gain Loss Reserve of \$4M to fund capital costs and any cash shortfalls is fully capitalized. Since its opening, the Salem Convention Center has operated in the black and had one of its most successful years in 2017.

If approved, The Salem Group, LLC has expressed their support for the continued methodology for calculating the Incentive Fee for the next three years.

Sheri Wahrgren  
Downtown Revitalization Manager

**Attachments:**

1. Continuation of Incentive Fee Letter.