



Staff Report

File #: 18-549

Version: 1

Date: 12/10/2018

Item #:

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

SUBJECT:

Salem Convention Center Kitchen Remodel and Expansion

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

ISSUE:

Shall the Agency Board authorize the Executive Director to execute the attached Amendment and Addendum to the Convention Center Management Agreement to temporarily suspend Gain Loss Reserve Account requirements to facilitate the remodel and expansion of the Salem Convention Center kitchen facilities?

RECOMMENDATION:

Authorize the Executive Director to execute the attached Amendment and Addendum to the Convention Center Management Agreement to temporarily suspend Gain Loss Reserve Account requirements to facilitate the remodel and expansion of the Salem Convention Center kitchen facilities.

SUMMARY AND BACKGROUND:

The Amendment and Addendum to the Convention Center Management Agreement suspend the requirement that the Urban Renewal Agency fund shortfalls in the Salem Convention Center Gain Loss Reserve Account through January 31, 2021. The amendment allows timely completion of the kitchen remodel and expansion project.

Salem Convention Center (SCC) construction was completed in 2005. The design, layout, and function of the kitchen area that provides meals and beverages for events is inadequate to support large or multiple events scheduled at the same time. The SCC has declined business in order to maintain the quality and high service standards.

FACTS AND FINDINGS:

The proposed kitchen project will add preparation space on the second floor and completely renovate the existing kitchen space to upgrade equipment and improve functionality. The kitchen will be out of service during construction. Because summer is a slow time of year for the SCC, completing the design and bid documents in FY 2018-19 to undertake renovations in the summer of 2019 is advantageous for events and other bookings.

The Gain Loss Reserve is an account established per the Management Agreement (Attachment 2) between the Urban Renewal Agency and the Salem Group, LLC, who manages the SCC. The account was established as a precaution prior to opening the SCC to fund potential operating shortfalls and capital projects. The Management Agreement stipulates the Gain Loss Reserve maintain a balance of \$4 million. If the Gain Loss Reserve falls below \$4 million, the Urban Renewal Agency is obligated to contribute \$300,000 a year to the reserve until the \$4 million balance is restored.

Urban renewal funds cannot be used to fund an operating shortfall. Consequently, there is an intergovernmental agreement between the Urban Renewal Agency and the City stipulating that if the Agency requests, the City will make transfers to the Agency for the Gain Loss Reserve until the balance at the end of any fiscal year exceeds \$4 million. The City has used Transportation Occupancy Tax (TOT) funds to meet this obligation.

The SCC has generated a profit each year since opening and has not experienced an operating shortfall. Annual profits of the SCC contribute to the reserve. In recent years contributions have ranged between \$300,000 and \$700,000. The current balance of the Gain Loss Reserve is \$4.8 million.

The estimated cost for the kitchen renovation project is \$2,100,000. A month-by-month cash-flow analysis for the kitchen expansion project indicates that the Gain Loss Reserve balance will fall below \$4 million in the summer of 2019. Based on the SCC's past profit history, the balance in the Gain Loss Reserve is forecasted to be restored to \$4 million in January 2021 without the need for a City transfer.

Kitchen renovations are an eligible capital project for Gain Loss Reserve funding.

Sheri Wahrgren
Downtown Revitalization Manager

Attachments:

1. Amendment and Addendum to the SCC Management Agreement
2. SCC Management Agreement