

5/8/18

item 9

City of Santa Clara

Santa Clara Convention Center Management Fee

Item#: 9

May 8, 2018



Background

City of Santa Clara
Santa Clara Convention Center
Study Session
February 27, 2018

Item 2.A

Industry Trends

- Convention Center exhibit hall supply has outpaced demand making for a more competitive market.



Convention Center Actuals from FY02/03 to FY16/17 and FY17/18 Budget - 10 Years

Category	FY02/03	FY03/04	FY04/05	FY05/06	FY06/07	FY07/08	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16	FY16/17	FY17/18
Annual Rental	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Annual Management Fee	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Annual Total	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000

Industry Trends & Santa Clara

- Destination Strengths
- Geographic location
 - Proximity to high value growth industries
 - Strong market demand projected

- Destination Opportunities
- Building condition/design
 - Meeting attendee expectations
 - Destination appeal



POST MEETING MATERIAL

Historical Context

- 1975: Chamber operated a Convention and Visitors Bureau under contractual agreement with the City.
- 12/1983: Council considered four operating alternatives, staff recommended operation by the Chamber.
- 3/1984: Council approved Management Agreement with Chamber for management and operations of the Convention Center.

3



1984 Management Agreement – Basic Terms

Chamber duties:

- Market, advertise, promote Convention Center
- Coordinating use of the Convention Center
- Book events, theatre performances, conventions, exhibitions and meetings
- Schedule and administer the daily operation and provide services required by users of the Convention Center
- Prepare annual budget for City approval
- Subcontract, hire, purchase to operate facility subject to budget

4



Basic Terms - Compensation

- Management Agreement does not describe compensation
- “No monies will be transferred to the Chamber for operation of the Chamber, *except for services received as identified in the budget as approved by the City Council of City.*”
- The Management Agreement as written does not provide sufficient authority to issue public funds, require clearer language.

5



Basic Terms - Compensation

- Chamber/SCCC submits annual budget into the City budget process. Projected Convention revenues and expenses are provided..
- The management fee has historically been included as an expense but the annual budget only presents one rolled up number for all Convention Center expenses.
- There was not sufficient transparency on the management fee and the amount of the fee from year to year.

6



City Budget Documents

CITY OF SANTA CLARA NOTES TO BASIC FINANCIAL STATEMENTS For the year ended June 30, 2017

NOTE 4 - LEASE AGREEMENTS (continued)

The following schedule summarizes the approximate minimum future revenues to be received from this lease:

Fiscal Year	Balance Lease Amount
2018	\$ 321,432
2019	321,432
2020	321,432
2021	321,432
2022	321,432
Thereafter	4,125,044
Total	\$ 5,792,254

NOTE 5 - ENTERPRISE FUND MANAGEMENT AGREEMENTS

A. Santa Clara Convention and Visitors Bureau and Convention Center

In March 1981, the City entered into two separate management agreements with the Santa Clara Chamber of Commerce and Convention/Visitors Bureau, Inc. (Chamber). The first agreement with the Chamber is for the management of the operations of the Santa Clara Convention/Visitors Bureau. In fiscal year ended June 30, 2017, the City paid the Chamber \$1.49 million under this contract. The second management agreement between the City and the Chamber is for the management of the operations of the Santa Clara Convention and Convention Center (Convention Center). Under the terms of this agreement, the Chamber will receive for its services an annual management fee identified in the Convention Center budget and approved by the City Council. In fiscal year ended June 30, 2017, the Convention Center paid the Chamber \$137 thousand. Each agreement is extendible for an additional year at the end of each year. Either party may terminate the agreements by providing 180 days written notice.

CONVENTION CENTER BUDGET

Fiscal Year 2017-18

	2016-17 Budget	2017-18 Adopted	Change
OPERATING INCOME			
Space Rental	\$ 2,600,000	\$ 2,800,000	\$ 200,000
Audio Visual	758,734	927,052	168,318
Telephone	300,000	300,000	—
Catering	2,600,000	2,647,923	47,923
Electrical	360,000	341,575	(18,425)
Advertisements	40,000	40,000	—
Other Income/Interest/Etc.	176,239	208,000	31,761
Total Operating Income	\$ 6,834,973	\$ 7,284,550	\$ 429,577
Total Expenses	\$ 6,723,225	\$ 7,146,834	\$ 423,609
Net Income/(Loss)	\$ 111,748	\$ 117,716	\$ 5,968

Historical Payment

- FY 2013/14 and previous \$45,000
- FY 2014/15 \$47,250
- FY 2015/16 \$50,000
- FY 2016/17* \$136,699
- FY 2017/18* \$145,292
- FY 2018/19* (proposed) \$150,573

*Based on 2% of anticipated revenue

Direction to Staff

- The Management Agreement does not provide for the payment of a management fee.
- The fee amount was increased without proper budgetary disclosure.
- Fee amount – Staff does not have the appropriate authority from Council to continue the current payments. To remedy the situation an agreement is necessary.
- Staff is requesting direction from Council on the management fee, including structure and will return to Council with appropriate proposals for further Council consideration.

9



Five Possible Options

1. A fixed fee amount based upon % of budgeted revenue.
2. % of budgeted revenue with reconciliation at the end of the FY.
3. Fixed fee amount.
4. Fixed fee amount using the established flat management fee of \$45,000 and adjust for the Consumer Price Index (CPI).
5. Combination of a flat fee possibly enhanced by a performance incentive, established through performance outcomes in the agreement for which performance is measured and determined beyond actual revenue.

10



Alternatives

- Direct staff to bring forward an amendment to the Agreement for a management fee option as outlined in this report (all are feasible and reasonable).
- Discontinue paying a management fee.
- Any other action the Council deems appropriate

**City of
Santa Clara**

