

CITY COUNCIL PROCEEDINGS
BEMIDJI, MINNESOTA
Regular Meeting/Work Session – December 8, 2008

Pursuant to due call and notice, a regular meeting/work session of the City Council of the City of Bemidji, Beltrami County, Minnesota, was held on Monday, December 8, 2008, at 5:30 p.m. in the Conference Room of City Hall, Mayor Lehmann presiding.

Upon roll call, the following Councilmembers were declared present: Lehmann, Erickson, Downs, Meuers, Markeson, Hellquist. Johnson joined the meeting at 5:33 p.m.

Staff Present: City Manager John Chattin, City Attorney Al Felix, City Engineer Craig Gray, Finance Director Ron Eischens, Community Development Director Rita Albrecht, City Clerk Kay Murphy

Mayor Lehmann stated that the purpose of the work session was to discuss the southeast shore development financing.

Chattin stated the financial information provided by staff is a conservative projection, not a worst-case scenario.

Eischens summarized the important points regarding the southeast shore development project financing: 1) timing of when dollars are collected on land sales and when land bond payments and bonding costs are due cause a potential cash deficit of \$9.8 million by year 2025; 2) restrictive financial markets and delayed development have caused a reduction in projected TIF revenue; 3) \$1.5 million in original projected revenue from a hotel partner has been eliminated to enhance our success in finding a hotel partner; 4) estimated grant revenue is \$1 million less than projected; and, 5) projected BREC operations and maintenance costs have increased during the initial start up period based on CSL's latest estimate.

Eischens stated that potential shortfalls, including project costs, are due to repayment of original land acquisition costs and BREC operations, which could reach \$15.7 million by year 2026. However, surplus sales tax collections of \$2.8 million between years 2027 and 2042 and potential excess debt service funds totaling \$5 million may accumulate to offset shortfalls.

Erickson asked why the original budget included use of \$42 million from the sale of bonds when in reality the true cost is \$83 million. She asked Eischens how much is added interest? Eischens responded that it is about double over a 30 year period.

Eischens reviewed Attachment 3 which was prepared by the City's bond counsel. Eischens stated that the City could have to find other revenue sources to cover \$5 million in bond payments. After the year 2026, sales tax will exceed the bond costs.

Erickson asked if the sales tax continues to 30 years and if the city would be able to collect the amount equal to the debt. Eischens stated that the sales tax fund is in the black as of two months ago. Eischens stated that sales tax collections to complete the parks and trails obligation of \$9.8 million should be fulfilled between November 2011 and March 2012.

Felix stated that the City can collect the sales tax for 30 years after the parks and trails sales tax is satisfied. Felix stated that we then would start collecting for the construction of the BREC. Discussion continued on how the sales tax money can be used.

Eischens stated that the other land sale assumptions provided by staff are best guesses. Land sales will begin some time in 2009 and move forward as the BREC moves forward. He noted that the timing does not change the project shortfall but will impact interest costs.

Eischens noted that the City was awarded \$1 million from the Neilson Foundation to be paid in installments of \$200,000 for five years beginning in 2010.

Johnson asked if other grants are being explored. Chattin responded that staff has not explored any at this time.

Hellquist commented it was always stated as a one grant funding source for the \$2 million.

Eischens reviewed the projected shortfalls stating that bond payments will be short until sales tax is sufficient to cover the costs. Another shortfall is the BREC operation and maintenance cost for the first five years based on CSL's estimates. Eischens repeated previous recommendations that the airport contribution could be transferred to cover the BREC deficit; however, this is a policy decision by the Council.

Hellquist stated that the airport contribution would be an \$180,000 tax cut to the citizens and should not be moved to the BREC.

Hellquist asked what other sources are available for the shortfalls.

Eischens stated that the Council could consider the following as potential funding sources for shortfalls: 1) using \$180,000 in undesignated funds from liquor store profits; 2) using \$1 million in UDAG fund which are revolving loan dollars for development; 3) \$238,000 in TELNET funds, which will be fully repaid to the Council in 2013; 4) Parks & Trails sales tax funds; and 5) future property tax increases. Consensus of the Council was not to use the parks and trails sales tax dollars that are now planned for park improvements.

Mayor Lehmann asked the City Manager to explain New Market Tax Credits.

Chattin stated that there are billions of dollars in these credits available nationally with over \$90 million available through the Midwest Minnesota Community Development Corporation (MMCDC) for 2009. Staff is encouraged by this but it is still in the "if" stage. Bemidji is eligible to compete for these credits. Discussion continued on how the City of Crookston received their money which was used for an ice rink.

Albrecht stated that she is working on setting up a meeting with Mr. Kangas, with the MMCDC, regarding investing in our project. The investor gets a tax credit for a 39% over 7 years. She commented that this is huge financial project to put together.

Mayor Lehmann asked what risk is involved in using new market tax credit.

Felix stated that the money is a loan with very good terms, payback and timing. It infuses the project with cash when we need it.

Chattin stated that the city has made requests to elected officials in the Senate and House of Representatives for \$10 million in economic stimulus grants to cover infrastructure costs along the south shore.

Meuers asked about the savings that could be realized at the City arena. Chattin stated that there may be other ways to save money on the City arena, i.e., summer ice would be only at the BREC. Eischens stated that the City arena has an annual operational deficit of \$100,000. Discussion continued on the city arena and if it was operating more efficiently. Eischens noted that the floor may be updated but the building is still old.

Discussion continued on the fairgrounds property. Chattin stated that there has never been any marketing of this property.

Meuers asked if a hotel will be built prior to the BREC. Chattin stated that there is no way to know that at this time but the City will be reissuing the RFP to attract a hotel partner.

Erickson stated that the UDAG funds should be used as a one-time fund not as a revolving fund. She noted that it has been put to good use over the years and strongly encouraged the Council to continue to operate the UDAG funds in this way.

Johnson noted that there are some discrepancies between the CSL report and reality, i.e., personnel required to operate the BREC, ticket surcharge, naming rights.

Chattin agreed but the purpose by staff was not to paint the best case scenario, but a conservative picture.

Eischens stated that staff did not want the Council to be surprised. Meuers agreed but on the same hand the City taxpayers will have to pay more property taxes and she did not want them to be surprised either.

Chattin stated that the scenario outlined in the memo indicated a possible liability of close to \$11 million, if the BREC is built. He also noted that, if the BREC is not built, \$3 to \$4 million has already been paid out of city reserves and \$14.5 million in bonds are coming due in 2010. That would create a liability of \$17.5 to \$18.5 million with no improvements made to

the south shore that would make land sales possible. Chattin stated that, to truly protect the taxpayer, the project needs to be completed.

Johnson stated that the CSL presentation did not take into account the potential for spin-off development and economic stimulus from the project. He noted that the council for 2009 raised property taxes, but the tax rate went down due to new development.

Markeson stated that staff has outlined a way to make it better and council needs to find a way to come together.

Erickson stated that operation and maintenance deficits are not reflected for anything over 5 years. She further stated that she has visited with other event centers which had not experienced a breakeven. Eischens stated that his numbers are his interpretation.

Discussion continued regarding the CSL report. Hellquist referred to the minutes where CSL was present.

Meuers asked about charging a hospitality tax. Discussion continued regarding how it is used and if available for the city.

Hellquist asked about tax increment financing and when would it be utilized. Chattin stated after development occurs. Hellquist asked if the “but for” test would pass for the development. Eischens stated that there are a number of steps and processes that need to be considered by the Council.

Chattin stated that the infrastructure is not there for the properties outside of the BREC area. He stated that the hardest part of this development is that cities are not set up to be developers. Will this project be the same in six months, no, but staff is doing their best to make it successful.

Hellquist asked if there would be a benefit to delaying for a year. He discussed construction costs versus interest rates, a better picture of where our economy is going, new administration, and finding another partner to waylay some of the risks.

Mayor responded that delaying a year there may be inflation following closely behind. He commented that bidding and building now are going to get the city the best bids the city could possibly realize.

Hellquist stated that the partnership with BSU is driving the timeline and there is no real idea whether BSU will be taken into the WCHA. There is no memorandum of understanding with BSU. The Council voted not to have weight room or permanent offices for BSU and yet they are still in the plans. He stated that it is “iffy” on so many sides.

Chattin stated that getting into the WCHA is BSU’s risk, not the City’s.

Erickson asked what the cost was in adding the weight room and permanent offices back into the project.

Chattin stated that the cost was something less than \$1 million and these facilities are included in the new terms of the lease agreement. Staff believe that it is money well spent and Leo A Daly was told that they were to add them only if they can stay within budget. He noted that \$80,000 to \$100,000 will be realized by adding the weight room and offices for BSU. Discussion continued on the lease agreement. A draft lease with BSU will be coming within a couple of weeks.

Johnson commented that perhaps the city needs to look at other scenarios for the use of other city owned land. Staff has met regarding other land that the City owns and will be bringing recommendations to the Council at a future meeting.

Motion by Johnson, seconded by Markeson, directing staff to work with bond consultants to issue short term bonds in the approximately amount of \$18 million on January 20, 2009. Motion carried with the following vote: Ayes: Johnson, Downs, Lehmann, Markeson. Nays: Meuers, Erickson, Hellquist.

Motion by Hellquist, seconded by Johnson, to close this meeting in accordance with Minnesota Statute Section 13D.05, Subd. 3 for the purpose of reviewing confidential or non-public appraisal data relating to the acquisition of real property, as well as to develop or consider offers or counter-offers for the purchase of said property. Motion carried unanimously. Meeting closed at 7:15 p.m.


Staff present: City Manager John Chattin, City Engineer Craig Gray, City Attorney Al Felix, City Clerk Kay Murphy

Motion by Hellquist, seconded by Johnson, to reopen the meeting. Motion carried unanimously. Meeting reopened at 7:56 p.m.

ADJOURN

There being no further business, motion by Hellquist, seconded by Johnson, to adjourn the meeting. Motion carried. Meeting adjourned at 7:57 p.m.

Respectfully submitted,


Kay M. Murphy
City Clerk