

CITY COUNCIL PROCEEDINGS

BEMIDJI, MINNESOTA

Work Session – June 9, 2008

Pursuant to due call and notice, a work session of the City Council of the City of Bemidji, Beltrami County, Minnesota, was held on Monday, June 9, 2008, at 5:30 p.m. in the Council Chambers of City Hall, Mayor Lehmann presiding.

Upon roll call, the following Councilmembers were declared present: Lehmann, Johnson, Markeson, Hellquist, Erickson, Downs, Meuers.

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

Mayor Lehmann stated that the purpose of the meeting was to review funding for the proposed Event Center and redevelopment of the southeast Lake Bemidji property.

Event Center Discussion

City Manager John Chattin reviewed the resources, investment of funds and operational considerations related to the following question, “what project the City can reasonably afford to construct and operate”.

Resources

The known resources are the state bonding money secured in 2006 for design and development (\$3 million), the 30-year extension of our local option sales tax (\$42 million), the State bonding money approved in 2008 (\$20 million), and the City utility funds (\$1.1 million). The anticipated resources are land sales (\$13.5 million), TIF bonds (\$6.4 million), private grant (\$2 million), DEED Cleanup Grant (\$1.2 million), and hotel partner (\$1.5 million). The total known resources (\$66.1 million) and total anticipated resources (24.6 million) provide \$90.7 million in total resources.

Investment of Funds

The land (\$13 million), event center buildings (\$46.5 million), furniture/fixtures/equipment (\$3.4 million), Architect and engineering fees (\$8.1 million), site corrections (\$1 million), site improvements (\$7.9 million), capitalized interest (\$5.3 million), and contingencies (\$5.5 million). Total investment equals \$90.7 million.

Construction Summary

Chattin stated resources are sufficient to cover known expenses provided 1) land sales and construction meet the projected 12-year build out; 2) private grant is secured; and 3) a hotel partner agrees to the minimum contribution. It is also possible that land sales will exceed the average projection and additional funds may be obtained from the hotel partner.

Operations

Chattin stated that the event center is not likely to break even or make money. Convention Sports & Leisure (CSL) estimates a net operating deficit of somewhere between \$323,000 and \$667,000 annually. Their base case scenario reflects a \$436,000 deficit, which includes a capital reserve expense of \$200,000. Although CSL estimates represent a stabilized year of operations (by the 5th year), shortfalls occurring during the first five years could be covered by reducing the capital reserve contribution in those years. CSL claims that actual operations have never been worse than their projections. Therefore, we can anticipate smaller deficits. Chattin reviewed possible sources to cover operating deficits without raising property taxes which include: 1) sale of naming rights (\$75,000 to \$150,000 annually); 2) charge for parking during events; 3) increase ticket surcharges; 4) dedicate savings from the creation of an airport authority to the center; 5) dedicate a portion of the \$150,000 savings from reorganization of the wastewater treatment facility; 6) reassess the need to continue city arena operations (Chattin noted that the City arena loses over \$100,000 annually plus ongoing capital needs); 7) develop the old fairgrounds site, with the county and split lease revenues; 8) find additional opportunities for advertising revenues, i.e., scoreboard, sponsorships, etc.; 9) lease any unused office space; 10) increase the current hospitality tax to cover promotional costs included in the budget; and 11) pursue corporate pledges.

Chattin stated that cities are not for profit businesses but spend money to build and maintain roads, utilities, parks, airports, arenas and city buildings. The City should expect to operate this facility at a deficit. How much that should be is a policy decision. The millions of dollars that this facility will generate in the community, as well as the hundreds of jobs created, must be considered in determining such a number.

Senator Mary Olson noted that the State approved the bonding request due primarily to the partnership with BSU hockey. She noted that Bemidji has the potential to be a regional center. Bemidji already is a medical and educational regional center.

Councilor Downs asked about the BSU agreement terms. Chattin responded that he recently met with Bill Maki, BSU, regarding finalizing the lease agreement. BSU is waiting for the City to make its decision. Discussion continued on the lease agreement. Dr. Quistgard stated that BSU has the support of the MnSCU Chancellor.

Discussion continued on taking a risk and the vision for the development of the property on the south shore of Lake Bemidji. It was noted that building the Event Center on the property will draw in more development on the property and reduce the City's risk.

Erickson stated that with the present economy it is "foolish" on the Council's part to proceed with building the event center.

Mayor Lehmann stated that building the event center will provide an economic stimulus which will help the Bemidji community.

Senator Olson stated that this year's bonding bill was called the "jobs bill" as legislators supported projects that would stimulate the economy by adding jobs in specific communities.

Hellquist asked if the City would still get the \$20 million if BSU was not involved.

Senator Olson responded that it would not, as the state does not typically support city projects like event center. Because of BSU's involvement, the Legislature considered the project to be a partnership between the city and the university, which the state supports through Minnesota State Colleges and Universities (MnSCU).

Hellquist asked about the sales tax and if the state would remove the City's extension of the half-cent sales tax if BSU was not involved.

Senator Olson stated that the entire project was presented as a package. She could not answer with any certainty, but said the legislators were led to believe it was a joint effort between the City and BSU.

Erickson stated that the objective was to own the land on the lake, thereby giving the City control over what is developed there.

Councilor Hellquist read the sales tax extension referendum question passed in 2006 by the voters. He said the voters authorized the construction of a \$35 million facility. He stated that the voters should get an opportunity to vote on whether the Event Center should be built at a special election.

Felix stated that the first sentence was what the voters voted on and the rest, in parentheses, was information that was given to voters to let them know where the project then stood. Furthermore, Felix stated that advisory questions as proposed by Councilor Hellquist have no legal standing and should not be on the ballot.

Markeson stated that there are many positive benefits for the community.

Downs stated that the risk in not moving forward with the redevelopment of the south shore ultimately outweighs the risk in proceeding.

Johnson stated that the event center itself is not a \$91 million project but the redevelopment of the south shore is.

Erickson asked how much risk is the Council willing to take on behalf of the citizens of Bemidji. She noted the following bullets from Finance Director Ron Eischens' memo:

- Uncertainty related to various revenue sources;

- Lack of other financial partners to spread risk;
- Condition of the national economy;
- Inflationary impact on construction costs; and
- City's ability to cover interest expenses related to timing differences between project cost and revenue sources.

Johnson stated that by doing this project the Council accomplishes several of their visions, i.e., controlling development of south shore of Lake Bemidji, expanding the City's trail system, renovating Nymore Beach, and constructing an event center.

Motion by Johnson, seconded by Markeson, authorizing staff to move forward with the design and development phase of the Bemidji Regional Event Center project and to use city reserves to cash flow expenses while waiting for reimbursement from the state bonding funds. Motion carried with the following vote: Ayes: Johnson, Lehmann, Markeson, Downs. Nays: Meuers, Erickson, Hellquist.

ADJOURN

There being no further business, motion by Johnson, seconded by Meuers, to adjourn the meeting. Motion carried. Meeting adjourned at 7:00 p.m.

Respectfully submitted,



Kay M. Murphy
City Clerk