

CITY COUNCIL PROCEEDINGS
BEMIDJI, MINNESOTA
Special Meeting – November 1, 2006

Pursuant to due call and notice, a special work session of the City Council of the City of Bemidji, Beltrami County, Minnesota, was held on November 1, 2006, at 5:00 p.m. in the Council Chambers of City Hall, Mayor Lehmann presiding.

The following Councilmembers were declared present: Lehmann, Markeson, Hellquist, Johnson, Erickson, Downs, Meuers.

City staff present: Alan Felix, Ron Eischens, Curt Oakes, Brian Freeberg, Rita Albrecht, Shawn Swenson

DISCUSSION OF DRAFT REPORT PREPARED BY CSL CONSULTANTS REGARDING
PROPOSED BEMIDJI REGIONAL EVENTS CENTER

Lehmann opened the meeting by inviting discussion and/or questions for Bill Krueger of CSL regarding their draft economic feasibility report. Erickson started by stating she had attended a forum at the Senior Center earlier that day with Dave Hengel and John Carlson and had heard them use a \$35 million preliminary total project cost number which conflicted with more recent estimates she heard from Brian Freeberg. She asked Brian to relate the current preliminary numbers, where the estimates came from and, if from Widseth, Smith and Nolting (WSN), whether Brian had been able to talk to Paul Richards of WSN and verify the estimated numbers.

Freeberg responded stating that in discussions both with WSN and the Leo Daly firm, the consultants related that as an example, if the building was an approximate 213,000 square feet and with the current building costs projected to be at approximately \$200 per square foot, the building cost could be as much as \$42 million. They also estimated that the site acquisition, demolitions, utilities, streets and relocation of residents and businesses in the area may add as much as an additional \$8 - \$12 million, and with inflation between now and actual construction, it could push the Event Center project total at close to \$60 million. However, Freeberg cautioned that practically speaking the predesign work would start with that higher estimate and then decide how to scale back to meet budget constraints.

John Carlson of the Event Center Finance Sub-Committee stated that until February 1 when predesign programming is complete and the City had a full year's statistics on annual local sales tax collections, it'll be hard to estimate how much building cost might be and how much could be afforded. He stated that costs would also depend on the type of bonds the City sells and what sort of interest rate could be obtained. The finance committee had estimates for a GO Bond with an interest rate of approximately 3.85%.

Carlson also questioned whether CSL would run estimates with an assumption that there was a hotel within walking distance to the Events Center. Krueger stated that the analysis did not use such an assumption for the report, but if the City Council wanted that, he could run those numbers easily enough. He stated that if he had to guess, he would say a hotel may bring in another half dozen major events, but this is a rough guess.

Dave Hengel pointed out that when the Events Center Team brought the idea to the Council, they were talking about a facility that was approximately 180,000 square feet at \$180 per sq. ft. He is not aware of where the 213,000 square feet has ever been brought up, which impacts the construction number significantly. Al Felix stated that the City's legislative application used a 200,000 sq foot estimate, and that Leo Daly increased that to 213,000 based on the input gathered during the selection interview process.

With no further building cost comments, Krueger went on to the questions emailed to him from the Committee and Council members. Krueger prefaced his remarks with the observation that the City is only at this point because of BSU's interest to benefit its Division I hockey program and bid to join the WCHA. He stated that as an industry rule of thumb, CSL used a .5% of the hard construction costs of the building, or \$30,000,000, as an annual Capital Replacement Reserve funding obligation. Erickson stated that this amount surprised her because it only equals approximately \$150,000 and wondered if this was too low. Krueger explained that in some years, especially early on it may not be used much or at all and the fund balance just keeps growing.

Another comment questioned the economic impact that might be expected with the Event Center. Krueger related that CSL estimates that approximately 70% of the convention or event center use will be by new visitors/business. Erickson stated that a citizen questioned her about what amount of a ticketed event stays in the community and how much leaves with the entertainer. Krueger stated that some of that revenue is going to leave, but in the grand scope of economic impact and new spending and new tax generation in the community, it is really minor or fairly limited amount. Krueger stated that gate receipt revenue from concerts in a year, even if it all left town, would have a small or insignificant impact when talking in terms of the economic impact.

Krueger stated that with respect to BSU Men's hockey attendance, some think that if BSU did gain entry into the WCHA, that the attendance would be higher than some of the estimates that were included in the report. However, Krueger stated that the attendance certainly could over-achieve the estimates that were included as an average in the report, but it could also be lower than the averages as well. He would not recommend that the community use as its average year's attendance estimates at a level greater than what has been used in the draft report.

As to other revenue items that CSL didn't include in the report, such as parking revenues or the potential sale of naming rights, Krueger and CSL were not convinced that these items were reliable enough to include, would make sense for the community in this scenario, or that they are even achievable. Krueger noted the limited number of corporate entities in the area. Consequently, as to naming rights, CSL did not do a standard sponsorship analysis to be able to say, for example, that they know there are five logical corporate or other candidates and determine if at least three of those are interested.

Krueger next addressed the questions regarding what the net food and beverage revenue might be if there is alcohol served at university events. He stated that the numbers in the report are based on alcohol being served at most major events, with the exception of University-related events. It was assumed that alcohol may be served in some sort of private suite or some sort of private club lounge during BSU hockey games, but not served to the general population. He stated he did not feel it would make a big impact if alcohol were sold to general attendees for BSU Hockey games.

Krueger next addressed a question regarding the amount or level of reasonable ticket surcharges. He said that CSL's experience shows that \$1.00 was a logical fit for a surcharge at this type of facility under this scenario. He stated that more could certainly be charged, but if you start getting up in the \$1.50 to \$2.00 range, it may impact attendance at promoted events.

Ron Johnson raised questions about the level of staffing of the facility, comparing Mankato's experience. CSL projected a minimum level of 12 full-time positions, along with a management firm to manage the building. Krueger stated that the City could do an in-house hiring of a manager who would then hire the staff and get the building up and running, but in any case cautioned that the City would have to be careful as to what is included in a Management Agreement. He stressed that the City should consider that with a private management firm, you'd be able to get the building up and running quicker, and that an experienced management firm could better promote events and conventions. Krueger described how Mankato went from a management firm to in-house staffing, hiring away personal from the management firm. He also compared Mankato's staffing levels of both full-time and part-time positions, finding that CSL's projection in this scenario were comparable. He further revealed that Mankato had budgeted a \$450,000 subsidy for their Event Center for 2007.

Johnson also questioned the flat floor show attendance estimates in light of Home Sport and Travel show numbers. Krueger explained the report's handling of the overlap between the arena and convention center functions. Krueger pointed out that 1000 attendees were shown under a Convention Center attendance estimate, with another 2750 under an Arena attendance estimate. Krueger reiterated that both Arena and Convention center space would typically be utilized in the case of the Home Sport & Travel show and CSL was careful not to doubly account for the phenomena.

Johnson concluded his remarks by stating that he feels that CSL and the Council should take a look at all three studies that have been done now regarding an events center. He questioned CSL's use of comparisons of facilities in Connecticut, Utah and other larger markets, where the other previous studies used City's like Willmar and places that were in Minnesota and in close proximity. He also questioned why CSL didn't talk to individuals who've had experience in conducting past events at the John Glas Fieldhouse and other

locations in the City. Krueger acknowledged that CSI didn't spend extensive effort to piece together such past history, and questioned what impact it would have given that past event promotion was piecemeal. Krueger also stated that he had looked at the previous studies, but explained that CSL was given a very specific concept with defined parameters, including a predetermined site, a building plan calling for two ice sheets and defined convention and seating space and a community vision for what it was trying to accomplish. He said that given these clear parameters, there wasn't a meaningful comparison to buildings that are in Willmar or in Hutchinson. He said that though Bemidji may be a similarly sized community, CSL felt more could be learned from other communities that have a product similar to what we're looking at, of which there are not very many. Mankato and Rochester were somewhat similar, albeit bigger, but a true comparable does not really exist.

Krueger concluded that many of the questions go to how the community is going to decide this "quality of life" decision. The meeting concluded with Krueger directed to finalize the report and prepare addendum that addresses the numbers he will run regarding the impact of a hotel in walking distance of the event center. Krueger will also provide a copy of the questionnaires or list(s) of questions that were asked of promoters and others during the interview/fact finding phase of the Study, as well as a list of the names of the people who were interviewed in the course and process of putting together the report.

ADJOURN

There being no further business, Mayor Lehmann adjourned the meeting. Meeting adjourned at 7:15 p.m.

Respectfully submitted,

Shawn M. Swenson
Deputy City Clerk