

**CITY OF BEMIDJI
SPECIAL USE TAX COMMITTEE**

AGENDA

MEETING DAY/DATE: THURSDAY, FEBRUARY 28, 2019

LOCATION: CITY HALL

TIME: 5:00 P.M.

1. Call to Order
2. Discuss Special Use Tax
3. Adjourn

SPECIAL USE TAX COMMITTEE **AGENDA ITEM**



Meeting Date: February 22, 2019

Action Requested: Discuss special use tax

Prepared By: Ron Eischens, Finance Director *Ron*

Reviewed By: Nate Mathews, City Manager

Background

The City has discussed alternative funding sources, either sales or hospitality tax, for the Sanford Center, since the facility opened in 2010. Recently the Council again expressed interest in pursuing this topic and established this committee to review information and make recommendations.

As background data, included are two attachments as follows:

Event Center Financial Comparisons – Attachment # 1

Represents summary financial and statistical information for city owned event centers in Minnesota and North Dakota. These facilities represent regional center cities as well as Bemidji's competition for events, concerts and conferences. The operating income or loss is from the audit report for each City. Audits were used because of the independence of their financial information. Due to size and construction cost differences between event centers, operating income or loss before depreciation is used, resulting in more comparable information as depreciation is a non-cash expense based on capital costs.

Operating results are listed best to worst from left to right. The Fargo Dome is profitable due to their lease agreement with NDSU football (dynasty with large fan base following), parking fees and having their utility system connected to NDSU, significantly reducing utility costs.

Profitable event centers are extremely rare. If they were consistently profitable, the private sector would build and own them. Rather, event centers are owned by taxing jurisdictions, allowing the owner to collect public taxes to pay for operations, debt and maintenance costs. Their purpose is economic impact and entertainment value.

The Sanford Center workgroup identified a "success pyramid" to help the community define Sanford Center success as shown below in order of importance:

- Economic Impact
- BSU Hockey
- Regional Recruitment Engine
- User Experience

Points to note:

- All listed event centers indicate operating losses greater than Bemidji, other than the Fargo Dome due to special circumstances explained above.
- Bemidji has the lowest population and median income level of comparable cities.
- Other event center cities have various special taxes (sales, hospitality or lodging) to support their facility as well as other community capital projects. Special taxes for event center purposes (per audit reports) are listed on line 2. As you can see, only **Bemidji uses property taxes to pay event center costs.**
- St Cloud and Duluth also use lodging taxes to support their event center. Duluth uses 65% of their lodging taxes, or \$1.8 million for debt service and operations. St Cloud uses 40% of their lodging taxes, or \$649,000 for event center marketing.

Special Use/Hospitality Tax Projections – Attachment # 2

Turning next to special taxes, the Minnesota Department of Revenue provides taxable sales by industry category for cities and counties, with year 2016 the most current year available. Attachment # 2 summarizes five years of sales for food/beverage establishments (restaurants) and lodging facilities from 2012 to 2016. Average annual sales growth is 5.1% for food and beverage.

The bottom portion represents revenue estimates at various tax rates for each category. The major assumption is a 10% growth factor to account for projected increases in taxable sales from 2016 to 2019.

Sales Tax – An additional sales tax, above the current ½% City tax, has been mentioned as an alternative funding source, primarily due to its larger tax base. The current ½% sales tax is committed by statute to pay bonds sold to construct the SC. The Committee could consider sales tax as an option for "brick and mortar" projects including meeting Sanford Center capital repair/replacement needs. Attachment # 2 indicates what a new local sales tax could generate.

Several differences exist between hospitality and sales tax as follows:

- **Timeframe** – sales tax requires a sunset, hospitality tax does not
- **Use** – sales taxes are for “brick and mortar” projects, unless special legislative language allows otherwise. Hospitality tax allowable for any purpose.
- **Voter referendum** – sales tax requires referendum, hospitality tax does not.

Summary

1. Sanford Center is financially performing better than other event centers with larger area populations and higher median income levels.
2. Event Centers are not profitable which is why Cities build/own them – meant for economic impact and entertainment.
3. Other cities have special taxes allowing visitors to pay this tax to fund a majority of event center costs. Unlike Bemidji, where city property taxes finance the regional event center.
4. Future capital repair and replacements obligations for the Sanford Center requires increased property taxes and/or reduced city services to keep the building operable and appealing to visitors.

The City and community should clarify what a special use/hospitality tax could be used for. As it relates to the overall South Shore development project and the Sanford Center (SC), the following costs are currently funded by property taxes:

• SC Operations	\$450,000
• SC Capital Repair/Replacement	\$230,000
• South Shore Bonds	<u>\$324,000</u>
o Total	\$1,004,000 (17% of total City tax levy)

An important point to be aware of is the capital replacement/repair needs of the Sanford Center are estimated \$500,000 higher than the above amount. Finally, depending on the timing and amount of remaining South Shore vacant lot sales, the South Shore bond amount above will end by year 2029, freeing up those tax dollars for other purposes.

If a special use or hospitality tax is approved, it could be used to replace property tax dollars currently being used for the above, resulting in lower property tax levels or redirected to other purposes.

Other anticipated requests for special use/hospitality tax will include:

- Property tax reduction – (assumed to be a partial component)
- Second sheet of ice
- Improvements/repurpose Neilson Reise Arena
- Water treatment plant and/or additional well field
- Waste Water treatment plant improvements/expansion
- Other City amenities/capital projects

Before presenting the special use/hospitality tax concept the public, the Committee and Council need to be clear on:

- Special use tax type (sales and/or hospitality tax?)
- Tax rate
- Revenue it will generate
- What tax applies to – restaurants and lodging?
- How it will be utilized/spent

**EVENT CENTER COMPARISONS
FACILITIES OWNED BY CITIES
PER 2017 **AUDIT** REPORTS**

	<u>Fargo</u>	<u>Bemidji</u>	<u>St Cloud</u>	<u>Grand Forks</u>	<u>Rochester</u>	<u>Duluth</u>	<u>Mankato</u>
	Fargo Dome	Sanford Center	River's Edge Center	Alerus Center	Mayo Center	DECC Center	Verizon Center
	339,381	(476,999)	(823,161)	(862,035)	(1,642,332)	(1,704,397)	(1,930,542)

Line #

1 Operating Income/(Loss)
before depreciation

2 Special Taxes (non operational)
not included in above income/(loss)

3 Special Tax Detail
Sales & Use
Food & Beverage
Entertainment (ticket)
Lodging - Base rate
Lodging on > 30 units

	None	2,364,489	2,172,544	8,536,183	1,767,872	1,708,506	6,178,779
		0.5%	0.5%	2.25%	0.75%	1.0%	0.5%
			1.0%	0.25%		2.25%	0.5%
		3.0%	5.0%	0.25%	7.0%	3.0%	3.0%
						5.5%	

Population	125,000	15,000	67,000	58,000	113,000	86,000	41,000
Median Income	53,000	31,000	43,000	47,000	68,000	48,000	60,000

**CITY OF BEMIDJI
SPECIAL USE/HOSPITALITY TAX PROJECTIONS**

Description	Taxable Sales per MN Dept of Revenue		
	Food & Beverage	Lodging	Total
2016	53,103,364	12,019,383	65,122,747
2015	50,631,492	11,940,388	62,571,880
2014	47,929,512	12,110,740	60,040,252
2013	43,040,627	9,179,637	52,220,264
2012	44,141,325	9,820,666	53,961,991

2019 Hospitality tax projections
assuming 10% growth from 2016 taxable sales

Tax Rate	Food & Beverage	Lodging	Total
1%	584,137	132,213	716,350
1.50%	876,206	198,320	1,074,525
2%	1,168,274	264,426	1,432,700

<u>Sales Tax</u>	<u>Amount</u>
2018 actual 1/2% local sales tax collections	\$2.4 million
New 1/4% sales tax would generate	\$1.2 million
New 1/8% sales tax would generate	\$600,000