

BEMIDJI CITY COUNCIL

Work Session Agenda

Monday, January 30, 2017

**City Hall
Conference Room
5:30 p.m.**



1. CALL TO ORDER / ROLL CALL

2. SANFORD CENTER WORK GROUP UPDATE AND
HOSPITALITY TAX DISCUSSION

3. ADJOURNMENT

PLEASE NOTE: All cellular telephones, pagers and BlackBerry devices to be switched to a non-audible function during Council and Committee meetings.



City Manager's Office

MEMORANDUM

TO: Honorable Mayor Albrecht and City Council
FROM: Nate Mathews, City Manager
DATE: January 30, 2017
RE: Sanford Center Work Group update and Hospitality Tax discussion

The upcoming work session will have two components: an update on the Sanford Center Work Group and a general conversation regarding a hospitality tax concept.

Work Group

Last summer there were concerns expressed in the community and by Council regarding staffing turnover at the Sanford Center and the overall stability of the service provided by VenuWorks. On September 26th the Council created the Sanford Center Work Group consisting of Dave Larson, Michael Meehlhause, Nate Mathews, and Ron Eischens.

Shortly after the Work Group formed, financial impropriety was discovered, so the timing of the establishment of this group was fortuitous. The Work Group has met every month for four months now. I would like to update the Council on the status of the Work Group meetings and discussions, which have primarily covered the following topics:

- Staffing stability and short term and long term staffing
- 3 year look back on Co-pros
- Event booking history and expectations
- BSU hockey use dynamic
- Financial impropriety updates
- Event center financial comparisons of other cities
- Identification of new policy and procedure needs
- Advisory Board governance, role, and makeup
- VenuWorks Contract review
- Hospitality tax/alternative revenue review and planning

Hospitality Tax

The continued direction of property tax dollars to fund both capital and operations at the Event Center is not a prudent public finance policy decision or common occurrence in Minnesota. The reliance of Bemidji property taxes to fund an asset constructed for regional economic benefit stretches the property tax dollar beyond its typical and

ordinary function, while limiting the City, VenuWorks, and Visit Bemidji staff in landing major 300+ people conferences and top tier artists to perform here.

In early January, the Work Group held a joint meeting with representatives of both Visit Bemidji and the Chamber to discuss this financial situation and receive feedback from them regarding the development of an alternative revenue source to reduce property taxes channeled into the Event Center. A food and beverage (Hospitality) tax and sales tax were identified/discussed as options for the City Council—with our partners in the community—to continue to examine.

At the meeting, Ron Eischens and I will review hospitality tax/sales tax material and a Power Point presentation to frame this issue for both you and the community. Attached are some spreadsheets as well on this topic. We would like to discuss with you the Council's thoughts and expectations regarding the route on this subject.



Nate Mathews
City Manager

**EVENT CENTER COMPARISONS
PER 2015 AUDIT REPORTS**

Managed By:	Mgmt Co	Mgmt Co	City	City	City
CITY:	<u>Bemidji</u> Sanford Center	<u>Mankato</u> Verizon Center	<u>Grand Forks</u> Alerus Center	<u>St Cloud</u> Civic Center	<u>Duluth</u> DECC
Operating Revenues					
Sales	3,084,072	2,534,985	5,019,402	1,655,125	9,560,564
Cost of Sales	(337,859)	(301,434)			
Gross Profit	2,746,213	2,233,551	5,019,402	1,655,125	9,560,564
Operating Expenses					
Personnel	1,650,223	524,580	2,423,418	1,207,747	5,214,296
Supplies	106,913	183,572	56,702	126,893	1,864,039
Other Services & Charges	1,002,542	4,205,109	2,093,472	819,094	2,102,524
Vehicle & Admin	28,489	6,001	225,832		
Insurance	97,807	162,548			
Utilities	395,777	373,696	428,942		1,356,471
Depreciation - non cash	2,181,815	998,580	2,563,549	1,055,321	3,812,438
Total Expenses	5,463,566	6,454,086	7,791,915	3,209,055	14,349,768
OPERATING LOSS	(2,717,353)	(4,220,535)	(2,772,513)	(1,553,930)	(4,789,204)
Addback -Depreciation	2,181,815	998,580	2,563,549	1,055,321	3,812,438
Profit/(Loss) without deprec	(535,538)	(3,221,955)	(208,964)	(498,609)	(976,766)
OPERATING LOSS	(2,717,353)	(4,220,535)	(2,772,513)	(1,553,930)	(4,789,204)
NonOperating Revenue/(Expenses) Activity					
Sales/Hospitality Tax	2,246,242	6,478,659	9,227,105	2,053,933	1,541,974
Property Tax	337,229				
Misc		1,131,222	128,769	115,855	211,493
Interest Expense	(2,358,313)	(575,318)	(2,832,610)	(1,054,486)	(2,331)
Other Revenue	683,682	(27,990)	49,836		
Transfer In/(Out)	108,142	9,518,730			
Total Nonoperating Activity	1,016,982	16,525,303	6,573,100	1,115,302	1,751,136
Change in Net Position	(1,700,371)	12,304,768	3,800,587	(438,628)	(3,038,068)

Alternative revenue sources for operations and/or debt

**CITY OF BEMIDJI
ALTERNATIVE REVENUE OPTIONS**

<u>Description</u>	<u>Hospitality Tax 1.5%</u>	<u>Sales Tax 1/4%</u>
Estimated revenue	<u>900,000</u>	<u>1,100,000</u>

Note: 85% paid by people outside City limits - from local sales tax study

Proposed Use of Funds

17% Property Tax Reduction (Sanford Center operations/capital needs)	900,000	900,000
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Determined by Community	-	200,000
Total Use of Funds	<u>900,000</u>	<u>1,100,000</u>

Can't be used for operational costs which would result in property tax reductions without special legislative approval

Pros and Cons of each tax alternative

Sales Tax

Pros

Broader tax base - any taxable service or product
Higher annual revenue generated

Cons

Can only be spent on brick/mortar projects unless special legislation
Limited time frame for tax to apply - sunset clause
Requires voter approved referendum

Hospitality Tax

Pros

Voter referendum not required - State legislative approval only
Funds can be spent on operations or capital items - no restrictions
Tax timeline is on-going, no sunset

Cons

Less annual revenue generated
Narrower base for tax - food, beverages, lodging