

# **BEMIDJI CITY COUNCIL**

## **Work Session Agenda**

**Monday, April 22, 2013**

**City Hall  
Conference Room  
5:30 P.M.**




1. CALL TO ORDER / ROLL CALL
  
2. REVIEW ENERGY AUDIT - HONEYWELL
  
3. DISCUSSION - PROPOSAL FOR A THIRD LIQUOR STORE AT THE WESTRIDGE SHOPPING CENTER
  
4. ADJOURNMENT



City Manager's Office

# MEMORANDUM

**TO:** City Council  
**FROM:** John Chattin, City Manager   
**DATE:** April 22, 2013  
**RE:** Considerations for Third Municipal Liquor Store

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At our work session on April 15<sup>th</sup>, several questions and concerns were voiced about the possibility of establishing a third liquor store. I will attempt to address those concerns and welcome any additional questions the council may have.

First, staff need to know if the council has any interest in a third store. If there is no interest, regardless of terms or potential revenues/deficits, any consideration is moot. If that answer depends on the terms offered or available, then further discussion is warranted.

Council questioned what other options were considered, in particular the current Sears store. I was contacted the first week of April and also about a year ago by the owner who suggested that the city should purchase his building for a liquor store. Staff considered it at that time and believed that location would not be in the city's best interests. Remodeling costs were conservatively estimated at well over \$600,000 and we did not believe the location provided adequate parking, traffic counts, or the access we would want. MnDOT's long term plan for their entrance includes closing the current left turn access to L & M/Sears. It would become a right in and right out only. It simply is not a desirable location.

We also looked at another building that is not on the market, but could be purchased, at a prime intersection. Cost of that building would be \$1.7 million plus another \$600,000 or more to renovate. If purchased, debt service costs would run over \$200,000 annually for 15-year bonds plus at least another \$6,000 to \$8,000 annually for routine maintenance, snow plowing, landscaping, etc. That was compared to a potential \$61,250 annual lease plus approximately \$200,000 in upfront costs to occupy the Marketplace location.

Neither of these possibilities were presented as we felt that either the location or the numbers were not in the city's best interest. The Marketplace option not only provided the best location but also offered the least risk and investment in establishing a third store. Furthermore, their expertise and willingness to provide a turnkey operation would save hundreds of hours of staff time.

Ron has prepared some profit and loss scenarios for the council's consideration. It appears that we would have to sell at least \$1 million annually to break even. However, if some of that is taken away from our other stores, we would not, in reality, break even. In order to mitigate that possibility, Pace Development has offered a change to our third year "out". If sales at the new store do not exceed \$1.2 million annually, after the third year, and total sales at all three liquor stores increase by at least \$1 million dollars over our current sales, we could terminate our lease. That would help ensure that we were not cannibalizing sales from our existing stores. They have also agreed to increase the threshold for applying the 1.25% variable rate to \$1.5 million and eliminate the 2% rate completely.

If we knew we could generate an additional \$1.2 million or more at the Marketplace location, this would be an easy decision. However, any risk the city would be taking is minimized by having an out after the third year. Purchasing an existing building or buying land and building creates a much greater risk that could last far beyond that three year window.

Staff are unable to answer the question of whether or not we should establish a third store. But we are able to recommend the Marketplace location and lease terms if the council is so inclined to move ahead with a new store.

**CITY OF BEMIDJI  
LIQUOR STORE EXPANSION PROJECTIONS**

<u>Description</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Sales	1,000,000	100.0%	1,500,000	100.0%	2,000,000	100.0%	2,500,000	100.0%
Cost of Sales	<u>(750,000)</u>	<u>-75.0%</u>	<u>(1,125,000)</u>	<u>-75.0%</u>	<u>(1,500,000)</u>	<u>-75.0%</u>	<u>(1,875,000)</u>	<u>-75.0%</u>
Gross Profit	250,000	25.0%	375,000	25.0%	500,000	25.0%	625,000	25.0%
<b>Expenses</b>								
Operating - see below	71,000	7.1%	83,000	5.5%	97,000	4.9%	109,000	4.4%
Personnel*	131,000	13.1%	159,000	10.6%	212,000	10.6%	265,000	10.6%
Variable Rent	-		-		6,250		12,500	
Fixed Rent	61,250	6.1%	61,250	4.1%	61,250	3.1%	61,250	2.5%
Total Expenses	<u>263,250</u>		<u>303,250</u>		<u>376,500</u>		<u>447,750</u>	
Operating Profit	<u>(13,250)</u>	<u>-1.3%</u>	<u>71,750</u>	<u>4.8%</u>	<u>123,500</u>	<u>6.2%</u>	<u>177,250</u>	<u>7.1%</u>

**Notes:**

Rent 6125 sq ft @ \$10.00 per ft fixed rent

Variable Rent @ 1.25% over \$1.5 million

Option to terminate lease after first three years if sales are less than \$1.2 million annually  
or total City liquor sales for all three stores do not increase by at least \$ 1 million

Marketplace will not sell beer, liquor or wine in their store if that becomes legal in the future

First three months rent free

If gas pumps are removed there would be a 25% reduction in rent for a year and option to terminate or continue  
at regular rental rate

**Operating Expense - Detail**

Supplies @ 1%	10,000	15,000	20,000	25,000
Credit Card Fees @ 1%	10,000	15,000	20,000	25,000
Insurance - Fixed	10,000	10,000	10,000	10,000
Utilities - Fixed	20,000	20,000	20,000	20,000
Admin - Fixed	15,000	15,000	15,000	15,000
Repairs & Maint	6,000	8,000	12,000	14,000
	<u>71,000</u>	<u>83,000</u>	<u>97,000</u>	<u>109,000</u>

Operating expenses at current stores are running 5.2% of sales

\*Personnel Costs estimated @ \$14/hr for 14 hours/day for 2 clerks @ 6 days/week for 52 weeks @ 12/hr plus 16% FICA/PERA/

Liquor Superintendent allocated 50% to this store	42,000	Salary and Benefits
Part time Clerks for 14 hrs/day 6 days wk	70,936	Salary and Payroll taxes
Part time clerk Thurs/Friday/Saturday	17,734	Salary and Payroll taxes
	<u>130,670</u>	

Personnel costs at south store are 10.6%