

PUBLIC AFFAIRS COMMITTEE AGENDA

***June 4, 2018 ~ 5:00 p.m.
City Hall Conference Room***

(Administration, Personnel, Legal, Finance, PEG Access, Municipal Liquor, Police & Fire)

1. CALL TO ORDER
2. LIQUOR STORE FINANCING
3. ADJOURN

MISSION STATEMENT

Provide leadership and coordination for the City Council in public policy areas related to:

- *Internal council policies and procedures*
- *External relations to other units of government and service providers*
- *Community governance and civic relations*
- *Advisory boards and commissions*

PUBLIC AFFAIRS COMMITTEE ITEM



Meeting Date: June 4, 2018

Action Requested: Liquor Store Financing

Prepared By: Ron Eischens, Finance Director

A handwritten signature in black ink, appearing to be "RE", written over the printed name "Ron Eischens, Finance Director".

Background

The City purchased land in 2017 for \$775,000 for the construction of a new north City liquor store, using liquor cash reserves. In addition, the city purchased land for potential expansion purposes at the south location for \$290,000, again using liquor cash reserves. Estimated construction costs for the new store are \$3,189,550 based on bids received.

Prior to the land acquisition, the City passed a resolution allowing the City to be reimburse itself for land and construction costs through bonding if it chose to do so. The attachment indicates four financing options briefly described as follows:

Option A – Finance all costs, construction and both land purchases. Doing so leaves approximately \$15,000 of annual liquor profits available after bond payments and transfers for other City uses.

Option B – Finance Orton land acquisition (\$775,000) and new store construction costs, pay Overbeek land acquisition with liquor cash reserves, leaving approximately \$32,000 in annual liquor profits available for other City uses.

Option C – Finance the Overbeek land acquisition and new store construction costs, pay the Orton land with liquor cash reserves, leaving approximately \$71,000 in annual liquor profits available for other City uses.

Option D – Finance construction costs only, leaving approximately \$92,000 of annual liquor profits available for other City uses.

Any of the above options will work, as there is not a right or wrong choice, just consequences to reserves available for other projects or unexpected expenses.

In order to obtain the lowest bond interest rate, the City needs to designate approximately \$257,000 to a debt reserve account. Doing so allows the City to utilize its overall City credit rating rather than just liquor operations. Three options to fund this bond reserve account are:

- 1) Undesignated General Fund reserves
- 2) Liquor reserves
- 3) Additional bond proceeds – (\$18,000 annual payment impact)

Again, of these options, there is no right or wrong choice.

Recommendation:

I recommend bonding option C and reserve funding option 1. This combination allows a reasonable amount of uncommitted annual liquor profits, minimizes interest costs by utilizing undesignated reserves to purchase the Orton's land and leaves \$637,000 of liquor cash reserves for unexpected/unplanned expenses or projects.

Provide direction to staff regarding liquor store bonding.

**CITY OF BEMIDJI
LIQUOR STORE FINANCING OPTIONS**

Description	Options			
	A	B	C	D
Ortons land purchase	775,000	775,000		
Overbeeks land purchase	290,000		290,000	
Construction Costs - Avg Hi/Low	3,189,550	3,189,550	3,189,550	3,189,550
TOTAL FINANCED COSTS	4,254,550	3,964,550	3,479,550	3,189,550
2016 Profit before depreciation**	780,000	780,000	780,000	780,000
Annual transfers	(461,000)	(461,000)	(461,000)	(461,000)
Annual bond payments	(304,000)	(287,000)	(248,000)	(227,000)
Remaining Liquor Profits	15,000	32,000	71,000	92,000

** No growth assumed for new store or other sales increases

	2016	2017
Liquor Cash	1,568,046	636,932