

Detroit Lakes, Minnesota
June 22, 2010

A special meeting of the City Council was called to order in the Council Chambers of the City Administration Building at 5:00 P.M., Tuesday, June 22, 2010; all members of the City Council having been notified of the meeting and business to be transacted.

Present: Representative Paul Marquart; Mayor Matt Brenk; Assistant City Attorney Charles Ramstad; City Administrator Robert Louiseau; Assistant City Administrator Lynne Krieger; City Engineer Jon Pratt; Public Works Director Bradley Green; Liquor Store Manager Bradley MacMaster and Assistant City Liquor Store Manager Gary Baker.

Aldermen: Aune, Heltemes, Marks Erickson, Sukke, Tucker and Zeman.

Absent: Aldermen: Anderson, Imholte and Tollefson; Finance Officer Louis Guzek; Community Development Director Larry Remmen; Police Chief Kelvin Keena and Building Official Calvin Mayfield, Jr.

City Administrator Robert Louiseau summarized recent legislation that was passed relative to the City of Detroit Lakes being authorized to establish a sales tax of up to one percent on the gross receipts of all food and beverages sold by a restaurant or places of refreshment which includes retail on-sale intoxicating liquor and malt beverages if approved by the voters at a general or special City election. He further advised that the proceeds of these taxes must be used by the City to pay all or a portion of the expenses for the following projects:

- 1) Control of flowering rush infestation;
- 2) Construction and improvement of bike trail facilities;
- 3) Parking improvements near public facilities; and
- 4) Redevelopment of the area returned to the City as a result of realignment of Highway 10.

Mr. Louiseau advised that if the City would like to hold a Special City Election, after the Primary or General Election in 2010, they would need to pass a motion setting the Special City Election Date and notify the County Auditor and Secretary of State 46 days prior to that date but no special election can be held within 40 days after the State General Election. He also advised that the other alternative was that Council may place this question on the upcoming General and City Election on November 2, 2010, but the City would need to give 74 days notice to the County Auditor and the Secretary of State allowing them time to place the question on the General Election ballot.

Pursuant to the Mayor's request, Representative Paul Marquart recapped the process for passing the bill. He advised that a food and beverage tax has never required a referendum but when the bill went to the Tax Conference Committee, the Revenue Commissioner noted that when the Governor reviewed the bill, he required that any food and beverage tax bill would need to have a referendum and the Tax Conference Committee felt rather than present a bill that would be vetoed, the Committee included the referendum. City Administrator Louiseau advised that the Legislation requires that this referendum must be completed in two years. Upon the inquiry of Alderman Zeman, Representative Marquart advised that the tax can be continued until the projects identified in the bill are paid for, or bonds are retired. Alderman Zeman commented that the control of flowering rush could go on forever. Mayor Brenk advised that the reason the Council is considering this tax is to try to spread some of the cost to take care of these items over a broader base of people that are using Detroit Lakes, the beach and the parks which would take some of the pressure off the local property tax. City Administrator Louiseau advised that the estimated revenue, based on 2007 sales tax data, for a ½ percent tax would be \$110,000.00/year and 1 percent tax would be \$220,000.00/year. Representative Marquart commented that because of the Senate pulling out the entertainment portion of the tax, they approved up to a one percent tax. Upon the inquiry of Alderman Tucker, Representative Marquart explained he was opposed to a general sales tax because he felt it disproportionately placed additional tax burden on moderate and low income people. He pointed out that he is in the minority in the Legislature. Mayor Brenk referred the food and beverage tax option back to the Liquor/Gambling Control Committee Meeting which meets July 13, 2010, for further consideration. Aldermen Zeman and Heltemes stressed that the referendum should be put on the General Election ballot because more voters will turn out than at a Special City Election. City Administrator Louiseau advised that a ballot question would need to be drafted and approved. He further explained that the referendum requires a majority affirmative vote so if someone does not vote on the question, it would be counted as a no vote. Assistant City Administrator Lynne Krieger informed the Council that August 20, 2010, would be the deadline to notify the County Auditor and Secretary of State if the Council wants the question to go on the General Election ballot.

Jim McComb, McComb Group, reviewed the Lakes Liquors Retail Market Analysis Report and advised the Council that the best relocation site for Lakes Liquor would be in the Crescent Redevelopment District where Burger Time is located. The study also showed that a store of 10,500 square feet with a frontage of 100 feet and a depth of 105 feet is advisable. Upon the inquiry of Alderman Heltemes, Mr. McComb advised that the current store is approximately 6,600 square feet and has an inefficient display area, storage, coolers and if a new store was built, there would be more sales volume and a more efficient operation. He further commented that if the store was remodeled, the sales volume wouldn't exceed sales much beyond public use. When asked, he advised that there is not enough room to add onto the current store and parking spaces would be lost. Alderman Zeman stressed that currently Lakes Liquor was one of the most profitable liquor stores in Minnesota and in the last year sales were \$890,000.00 and the store was run on a 4.3% selling cost. Mr. McComb suggested that further reports relative to profits could be completed by his company. He further stressed

that the current building is difficult to remodel and make into a good retail space and the money should be spent on a good efficient store that is in a good location fifty years from now. Upon the inquiry of Alderman Imholte, Mr. McComb explained that sales will be limited if Lakes Liquor remains in their current location. Alderman Imholte inquired as to if leasing space inside a grocery store or attached to a grocery Store would be profitable. Mr. McComb agreed this is an option but does not recommend this because if you lease space from the private sector, the City is paying rent which is higher than the City's cost of capital. He further acknowledged that the City would not have to pay property taxes or rent and in today's market, the City could get a loan at 4% interest. He cited Eden Prairie as an example. Alderman Imholte inquired as to if the City had the availability to put proper signage along Highway 10, would that make a significant difference in McComb's recommendation of Parcels D/E. Mr. McComb emphasized that you would still need to make a left hand turn on Holmes Street to enter the site which makes it a secondary site and when you are in retail, you go for the best site. Alderman Zeman requested that Mr. McComb provide the Council with a list of liquor stores he has completed studies for in the last five years along with a list what their returns were and selling costs are. Mr. McComb advised his company does market analysis and some of the liquor stores were private and he could not release that information. City Administrator Louiseau advised that City staff could provide this information internally. Upon the inquiry of Liquor Store Manager MacMaster, Mr. McComb advised that the traffic counts for Highway 10, Roosevelt Avenue to McKinley that were used were prior to the change of Highway 10 but are the most recent counts from MnDOT. Mr. MacMaster commented that, from his prospective, it is important to know if Roosevelt Avenue and McKinley Avenue are busier than the frontage road in front of WalMart and Menards now that Highway 10 is completed. He questioned if there was any customer count information for Central Market or WalMart? Mr. McComb advised that those establishments would probably not release that information to him. Mr. MacMaster inquired as to if there is any information on the impact of the Fargo/Moorhead Market on Lakes Liquors? Mr. McComb advised that the store loses 40% outside of the primary business area but commented that Lakes Liquor is doing very well getting 60% of the market and stressed that Detroit Lakes has a tremendous liquor operation. As to being known for long lines, Mr. MacMaster advised that he looked at the third cash register, which is used basically for backup, and the 2009 numbers were only \$140,000.00 out of the \$5 million in sales that year. Upon Mr. MacMaster's inquiry, Mr. McComb advised if Lakes Liquor moved to the redevelopment district, the store would be more convenient to new customers, function better, operate better and there would be much better parking. Mr. MacMaster questioned why, relative to the survey, Highway 10 West had the lowest responses in the survey. It was pointed out by Mr. McComb that there are not as many people in that area which comes off of the demographic data in the report. It was suggested by Assistant Liquor Store Manager Gary Baker that the survey was done in off peak time and another survey may be feasible in peak time. Mr. McComb advised that if another survey was completed in peak time, it would be confirmed that 60% of the people in the peak period are coming from outside the trade area. Alderman Imholte suggested that parking in the current Lakes Liquor parking lot is the number one problem. Liquor Store Manager MacMaster agreed with Alderman Imholte that it is a big challenge with 35 parking spaces. Alderman Heltemes stressed that further studies need to be completed

to find out the bottom line and how long it will take to pay off the loan for the purchase of land.

City Administrator Louiseau advised that the City needed to find out what the figures for sales volumes and sales potential were needed to analyze the net benefit of a new store. If the Council is interested in looking at more details on cost ratios and issues that were raised, this would be the second phase. Alderman Tucker stressed that first the Council needs to agree on the concepts provided in the report, relative to convenience, sales, location, getting outside area sales, before further study on the bottom line needs to be made. Alderman Zeman reiterated that since Lakes Liquor is returning 16.7% bottom line and is run with 4.3% selling cost, there should be no question about relocation. Alderman Marks Erickson commented that the report was very thorough, Mr. McComb has a good knowledge of the business, the report does show there is potential for growth in sales and agreed that further study should be done. After Mayor Brenk inquired as to should further study be done, the Council, in general, agreed that staff should prepare a further report showing projected sales, costs of building, land cost and net profit from a new store in the recommended location. City Administrator Louiseau suggested that staff will complete the report, present it to the Liquor Store Location Subcommittee and then bring it to the Council at the August 11, 2010, Council Meeting.

City Administrator Louiseau advised that DLM Properties are interested in doing commercial/retail structures on Sites A & B in the Crescent Redevelopment District. A Letter of Intent was recommended by the Development Authority and its subcommittee (Aldermen Imholte, City Administrator Louiseau and Detroit Lakes Development Authority Commissioner Mark Hagen). The Subcommittee had negotiated the Letter of Intent with DLM Properties over the last year. Mr. Louiseau advised that the Development Authority did not unanimously make a recommendation on the Letter of Intent. Mr. Louiseau informed the Council that the critical issue regarding this proposal was how much control the City should have over the specific tenants that will go into the development. Mr. Louiseau commented the Letter of Intent would set up parameters to use when drawing up a Development Agreement with DLM Properties. City Administrator Louiseau highlighted the following points:

- 1) The selling price of the property is presented at \$300,000.00;
- 2) The City would be able to obtain all the proceeds from the Tax Increment Financing District that would be established which would be used to pay for the costs of public improvements;
- 3) The conservative calculations of the Tax Increments over the life of the District would have a present value of \$640,000.00;
- 4) The public improvements the City would be responsible for are street, water, sanitary sewer, storm sewer and fixing up the exterior of the Turbine Plant so that it would fit with the character of the other buildings in the development;
- 5) The private improvements consist of two buildings, a minimum of 12,000 square feet each and the overall site would be 42,000 square feet and there would be some area for outside seating.

- 6) The project would include reconstruction of the parking lot that's currently adjacent to the Turbine Plant;
- 7) There is a provision for the City to do streetscape improvements and to encourage renovation of the buildings along Washington Avenue and the Development Authority has given preliminary approval to setting aside low interest loans that could be made available to potential businesses in the area to help with the renovation costs.
- 8) DLM Group has agreed to give a "best efforts" commitment to the community to fill gaps that exist within the City's retail market as identified in the RDG Plan but is unwilling to give the Development Authority the ability to approve specific tenants. They did agree to commit to attracting two regional or nationally recognized commercial/retail businesses; which could include food services. They have also agreed to set up a website to take suggestions from the community on the types of stores that would be of interest to the people in Detroit Lakes and agreed to actively employ a "cross selling" approach to not only sell to their Center but also the larger Detroit Lakes downtown community.

City Administrator Louiseau also advised that if you allocate the land acquisition costs to the different activities that are going on within this area, the public related improvements (street, parking spaces, the proposed Veteran's park area), the total of those is \$710,000.00 in expenses. The area being sold for private development, the City's cost for acquisition of that property is \$290,000.00. Alderman Zeman expressed his concern that the Council may be too hasty in selling Sites A and B for \$300,000.00 when the lot on Highway 10 West that MeritCare owns is listed for \$1,250,000.00. Jim Buus, DLM Downtown Properties, advised that \$7.14 per square foot is pretty comparable on other pieces of land that are being sold. He pointed out that about every \$100,000.00 more that DLM pays for land is equivalent to a \$1,000.50 a square foot in rent that is passed through to the tenants and if they are to attract new businesses, it is hard to do if they have rents that are way out of skew with the rest of the market. Alderman Zeman inquired as to what DLM's idea of food service is, Applebees, Olive Garden or a fast food establishment. Mr. Buus advised that they would consider all of the above and made note that Mike Danner, owner of Miquel's, will be a tenant in the center and will be an investor and part owner in DLM Properties. City Administrator Louiseau advised that one of the reasons Mr. Danner will need to relocate is to enable the redevelopment of Sites D and E. Mr. Buus advised that this is the only relocation that is currently being considered. Upon the inquiry of Alderman Zeman, Mr. Buus advised that their business plan is based very closely with the RDG Plan and will be targeting the areas that the RDG Plan states are lacking in the area. Upon the inquiry of Alderman Marks Erickson, Mr. Buus advised that it is possible for tenants to be secured before construction of the development. He, along with City Administrator Louiseau agreed that there will be a contingency in the development agreement that requires DLM Properties to have a certain percentage of tenants signed up before the sale of the property is completed. Upon the inquiry of Alderman Zeman, Mr. Buus advised that when they do have prospective tenants, DLM Properties will have to sign confidentiality agreements because these businesses don't want their competitors to know that they are looking at a market or

the rental rates they are considering. Upon the inquiry of Alderman Zeman, City Administrator Louiseau informed the Council that the City has approximately \$1,000,000.00 expended on the land. Mary Beth Gilsdorf, member of the Development Authority, advised the Council that she voted against the project, not only because the Development Authority would not have more control over the tenants but also that the \$300,000.00 is not the market price for the land and feels it is not the right time because of the economy. Upon the inquiry of Lynette Price, Price's Jewelry, City Administrator Louiseau reviewed the process the City used in obtaining proposals from developers. Ms. Price cautioned the City leaders to move slowly and not cut themselves short in what they are doing in the Crescent Area. Mark Hagen, Development Authority, spoke in favor of the project and used the Mall as an example which has become a cohesive point in downtown. He stressed that DLM Properties have a good reputation and are willing to spend \$3,000,000.00 into this building. Mr. Hagen stressed that the City will be getting the money from the Tax Increment Financing which balances out the true value of the building. Alderman Zeman pointed out that the developers will own the land and expressed concern over the length of the Tax Increment Financing which is for twenty-five years. Mr. Buus advised that their proposal is not requesting any tax incentives, financing or tax breaks but have agreed to help out the City by using TIF. Alderman Tucker made the point that if Lakes Liquor is relocated to the Crescent Redevelopment District, this may change the value of Sites A and B. Mayor Brenk wanted to place this on the July 13, 2010, City Council Agenda because the Developer is anxious to move forward with construction.

Upon the recommendation of the Liquor/Gambling Control Committee, a motion was made by Alderman Imholte, seconded by Alderman Tucker and carried, without a dissenting vote, introducing, for its second reading and adoption, Ordinance No. 342, an ordinance amending Section 700, Chapter 704, 704.01, Subds. 1, 2 and 4, adding Minnesota Statute 169.A35, Subd. 6 as an exemption to consumption and possession of liquor and beer.

Upon the recommendation of the Liquor/Gambling Control Committee, a motion was made by Alderman Tucker, seconded by Alderman Imholte and carried, without, a dissenting vote, approving the issuance of a taxi license to Bar Hopper LLC for 2010, pursuant to the following conditions:

- 1) They obtain \$1,000,000.00 of liability insurance;
- 2) They are affiliated with a local business or own their own property;
and
- 3) All drivers must be at least twenty-one years of age.

Upon the recommendation of the Public Safety Committee, a motion was made by Alderman Aune, seconded by Alderman Tucker and carried, without a dissenting vote, introducing for its second reading and adoption Ordinance no. 341, amending and revising Chapter 604 of the City Code entitled "Transient Merchants, Peddlers, Hawkers, Solicitors, to provide a criminal penalty for violations of this ordinance.

Alderman Heltemes, on behalf of the Council, thanked the Fire Department, Public Utilities, Public Works and Police Department for all the help they gave Wadena.

There being no further business, by general consent, Mayor Brenk declared the meeting adjourned. (7:26 P.M.)

Respectfully submitted,

Lynne Krieger
Asst. City Administrator