

City of Ada
Minutes of the Regular City Council Meeting
April 7, 2015 – 6:00 P.M.
City Hall

Members present: Mayor Jim Ellefson, Members Candy Robertson, John Rosenberger, Neil Miller, Jim Hansen, Rich Pinsonneault.

Members absent: Member Craig Edwards.

Others present: Marissa Kappes, Roxanne Visser, Shelley Kappes, Virginia Olson, Connie Rucinski, Karen Wagner, Pat Pfund, Tyson Hajicek – Moore Engineering, Josh Heggem – Attorney via Skype, James Leiman, LeeAnn Hall, Larry Millender, Mark Askelson – KRJB Radio, and others.

IV. Public Forum – Ada Liquor Store. Mayor Ellefson welcomed everyone and stated the purpose of the forum was to hear public comment on the City owning an on / off sale liquor store. Member Miller stated that due to his conflict of interest (owns a competing business) he will not be participating in the discussion as he didn't want to have any influence on the council. Member Miller removed himself from the meeting. Member Pinsonneault gave the following statement:

“Before I make my prepared statement, I feel a need to make a couple of points. There is no one around this table, to my knowledge at least, that would ever countenance closing the on and off-sale, especially because the problems that are there are fixable. Nor do I believe there is anyone around this table that would consider making such a huge decision about changing the combination liquor store into an off-sale, at least without residents voting for it on a ballot. Yes, we all have personal opinions, personal opinions that we've all voice here, but those don't come into play when making this kind of decision, it's too big of a decision for us to make at this table. That's my opinion.

As for my statement: Six years ago, our city had approximately 1.2 million in savings, money not spoken for. Today it's at \$800,000, one-third less. Though we call it the Bridges fund, and do our best to protect it, dramatic decreases in state government aid over the years, and emergencies we've faced as a community, have all forced us to spend a considerable portion of it.

With upcoming sewer and street issues, to maybe even an upcoming second new well, in addition to other emergencies that always seem to crop up, I think it is logical to assume that the Bridges account will not last long beyond 10-15 years, that is, if one of the main money makers in our city, the liquor store, continues to operate near, or at, break-even. My concern is the city's future, when that savings account does begin to get close to zero. What will future Councils be forced to do? At some point, just as in our own lives, luxuries take the hit. It's my view that if we can make changes today in that operation, that we for once start operating it like a business,

we can maintain all our enterprise operations well into the future. Whatever people at this table or what voters decide if we even go that route.

As for the Dekko, current changes are already being implementing that will have a very positive effect on its cash-flow. So I'll leave that one alone in this discussion. But as for the liquor operation, I would like to suggest two possible structural changes that will have a long-term positive impact on the city's financial balance sheet. In my opinion, one of these should be handed over to voters to decide as a ballot measure for November 2016, while my other suggestion is one that could and should be implemented immediately.

First, as to what I suggest should be handed over, I'd like to talk about our combination on and off-sale store. Six and three years ago, I did my own independent analysis of the operation. Our City Administrator did one recently, as well. Nothing that he found in his analysis surprised me, since I found almost identical conclusions in my own.

The on-sale is a major drain on our operation's overall profitability. In our most recent analysis, it was found that the on-sale lost \$94 for the year, while the off-sale did well. Keep in mind that this all is within the context of an operation averaging not much more than \$9,000 a year in net profit over 16 years.

The reason for the on-sale's drain on profitability is simple. Not only do on-sales have dram shop expenses, they are traditionally high in labor expenses, since the operation generally requires more than one individual to operate it at one time, where off-sales, on the other hand, can easily be operated with no more than one individual at one time. Coupled with the fact that we are a government entity, we exacerbate labor expenses by having to provide government wages and benefits to employees, which causes an inordinate and substantial drain on the profit. This is not just my opinion. The state's own website states, "Operating expenses are generally much higher for on-sale operations due to factors such as the added costs of bartenders, wait staff, and entertainment."

Moreover, when one studies the state's website listing profit and losses for municipal operations for 2013, since 2014 isn't yet available, one can quickly find similar proof to what we in Ada are experiencing. I found five small towns with on and off sales similar in size to us. The cities of Audubon, Browersville, and Fairfax lost \$24,000, \$12,000, and \$44,000, respectively. The cities of Frazee and Kenyon made money with \$11,000 and \$19,000, respectively. That's a cumulative loss of \$30,000, if you include Ada in the mix.

When you look at similar sized towns that have just an off-sale only, I found the opposite. Lakefield, Madelia, Madison, and Warroad, all with similar populations, made a combined \$300,000. Since Warroad can be argued to be an outlier, even if I cut their gross sales down to

equal ours, the combination of cities would have made \$200,000. But any way you look at it in their report, you'll find example after example of off-sales generally doing better in small communities.

Most importantly, almost all averaged 10% plus returns on gross sales, where combination stores like ours struggle to get to 10. To add even more information, as far as the top net profit producing entities in the state are concerned, 15 of the top 20 cities had off-sale operations only.

I would like to share a fact: If we had had averaged 10.4% in gross profit margins, as these combined small town off-sale only stores averaged, our city would have made \$870,000 instead of \$149,000. That would have wiped out all of the monies that have taken out of our Bridges account. But in the end, in my opinion, this decision is too big for me or anyone at this table to decide. It needs to go to the voters.

As for the rest, what we should do immediately, we need to start running it like a business, whether a vote occurs today or in the future a ballot idea, and whatever the voters would decide if people at this table ever agreed to even putting it on the ballot:

We must stop allowing management at the bar level to decide whether we make a profit, and how much profit is reasonable. This philosophy is exactly why we end up with \$9000 averages over 16 years. With zero incentive to run our store much above cost, it should come as no surprise that even though labor expenses at the bar have been going up every year, we've not had a price increase in six years on the bar side. It seems to take one of these types of meetings before management even consider raising prices. That's got to stop. And in the end, that's not managements fault, it's ours at this table because we put up with it.

Again, we are running a business, and need to act that way. If it ends up remaining a combination store, expenses will have to be reduced, if it is to contribute anything of value to our long-term savings. One of the most glaring issues is what we pay management. With our paying a bar manager near \$70,000, which includes salary, retirement, and other benefits, it will be difficult for that entity to ever make the \$40,000-\$50,000 a year it should be making on \$500,000 in gross sales. Though its not fun to discuss, it's a fact, one that needs to be addressed, however uncomfortable. We need to ask ourselves, can or should we operate it with a part-time manager instead, which could free up enough income to finally make the contributions into the general fund that this type of operation should contribute?

Whatever we do, operating any part of this business at or near cost is unacceptable. To be frank, it's no wonder to me that local private bars and jobs have been forced out of the market, particularly since we have basically forced them to compete with an operation that doesn't have price increases, and basically operates at -\$94 a year. That has to stop.

The fix as far as I am concerned is to assign our Administrator the task of making a reasonable profit in both sides of the operation, enough so for a significant positive transfer into the City's savings accounts each year. Significant would be defined as 8-10% gross profit return on the combination's overall gross sales. How he does it is up to him. Whether he chooses to do it with price increases, existing management or changed management and labor structure, is entirely up to him. All that matters is that appropriate changes take place to pry gross profit off the basement floor on the on-sale, and to protect and enhance what may already be in place in the off-sale.

This will involve putting new accounting practices in place, changes that would split the two operations. And in the end, all that matter is this. That enterprise needs to do what it was put in place to do, which is to make significant contributions towards city coffers.”

Roxanne Visser questioned if Rich compared to anyone closer, perhaps Twin Valley? Rich stated that he was looking at population.

Jennifer Atwood stated that she doesn't think the City should be competing with local business as we have a hard enough time keeping them. She felt this is especially true with the on-sale. She stated that is why there shouldn't be another grocery store or gas station, as we shouldn't be competing with the businesses that we want in town.

Roxanne Visser rebutted that if what Jennifer is saying is true than if Anytime Fitness comes to town then are they going to close the Dekko Center because that is saying the same thing. She stated that this is her opinion and asked the public if anybody agreed. For the record she stated that several others were nodding their heads in agreement.

Carl Swenson stated that he was in Tubby's on February 20th and there were two council members that came in with the City Administrator. When he asked what they were doing, the council member stated 'you know what we are doing, we are shutting the liquor store down' and then stated that he was just joking. Two weeks later it was on Kaleidoscope that they council was trying to shut it down. One of those members has now resigned. He questioned if that was a violation of the Open Meeting Law?

Connie Rucinski felt they have been meeting illegally since she has lived here and it needs to end. She felt we need honesty in this town, not the 'good ole boys club'.

Marissa Carlsrud stated that some of the towns Member Pinsonneault referred to in his speech were tourists towns and may not be comparable. Rich stated that he adjusted their sales down to match Ada's in his analysis. Marissa also went on to speak on behalf of the Borup Community Club and the contributions it makes to the community through gambling funds from the Liquor Store pull tabs and gaming. She stated that over the last 5 years the Borup Community Club has

given the City over \$22,000.00. She also went on to point out the effect of the loss of jobs on the community and the school. Marissa stated that in the council minutes the city has these big plans to keep the city going and she didn't want to see another business close whether it is city run or not. She felt competition is good and forces business owners to be innovative and push themselves rather than stating that they aren't making any money cause the city's taking all my business. She stated that people need to have options, when there aren't options, you have to go elsewhere. She explained that closing it would affect the school, housing, the Dekko, and other things. She stated that if they close the liquor store they would be losing the gambling funds which would in turn hurt other organizations. (Applause was heard in the room in response to Marissa's comments.)

Roxanne Visser asked for a show of hands in the room of those in support of the liquor store staying open 'as is'. (Several in the room raised their hands.) She also reiterated Member Pinsonneault's comment that they need to start running the liquor store as a business and asked him to offer further detail on his comment. He referred to the \$94 loss on the on – sale side. He went on to say that jobs have been lost with 3 bars closing over the last 15 years and although the City isn't solely responsible he has a hard time believing that it didn't play a part by running at such a low profit. He felt both side of the operation need to be making a reasonable profit.

Connie Rucinski stated that she felt the problem with the VFW was a lack of membership and management.

Virginia Olson had asked City Hall about splitting out the on and off sale and they didn't have a breakdown. She asked how the council was able to break it down. Member Pinsonneault stated that for the last 6 years they have asked 50 times for management to split the two operations. They were told 3 years ago that if they spent \$8,000 on a fancy till that those numbers would then be provided. He stated that they have heard nothing but crickets since even though they have asked for those numbers numerous times. He has been told by people that work there that you can access those numbers but they are not being provided. He stated that he called other cities with similar operations and asked how they split out the variable costs like labor and took their average numbers because management was refusing to provide it. Virginia stated that they utilities are going to be the same, 90% of the time they are single staffed so that is going to be the same. She stated that there was talk about buying the building next door and she felt that the people still need to come through the door and they don't need to expand.

Roxanne Visser asked if the \$9,000.00 profit that they are speaking of was before or after the transfers to the general fund. Administrator Leiman stated that it is before transfers and would be unfair to the calculus to consider it.

Chuck Kroshus questioned what the different percentages were for the on and off sale and asked if the transfer of product is being counted as a sale. Member Pinsonneault stated that it is not happening. Connie Rucinski interjected by stating that she knew for a fact that those transfers are being made. Back to Chuck's question, James Leiman stated that for every dollar that is spent at the bar, four dollars is being spent in the off sale.

Member Hansen stated that they are not looking to make a decision tonight, however they are going to ask the Administrator to come up with a new business plan for the liquor store so that it is profitable.

Gerrie stated that all inventory is tracked and transferred through the computer system right down to the ounce.

Marissa Carlsrud referred to the State of the City Address that was given by the Mayor at the January meeting. In the address it was stated that the City Council shouldn't be spending time putting out fires and she felt that this is what they are doing and asked if they don't have bigger things to worry about. Mayor Ellefson gave detail on the council's responsibility for maintaining the budget and how the Liquor Store operation affects the budget.

Virginia Olson asked if the liquor store had a fund set aside for repairs, maintenance and such expenses. Mayor Ellefson stated that there was money used from a capital fund to pay for the coolers along with an energy grant. He stated that they liquor store needs to stand on its' own without help from the general fund. Virginia asked if it has stood on its' own over the past years and questioned the money that is set aside. James Leiman that the profits are set aside for the aggregate business operation.

Gerrie stated that if she goes back to when she started as manager, the average profit per year has been \$26,366.73 and the total of the transfers has totaled \$90,000.00. She also stated that there is \$263,000.00 in the liquor fund. Gerrie went on to state that she felt that she just had a public evaluation. She stated she has asked the council on several occasions what information they want to see and she feels she hasn't been told. Gerrie commented that the council comments that she hasn't raised prices which she stated that it is hard to increase prices when other establishments are holding steady.

Roxanne Visser gave comments to the trickledown effect of jobs lost and the dollars that get spent locally in reflection to those jobs. She also went on to say that if people support their town by buying local, some of these issues will resolve themselves.

V. Citizens Forum. Member Miller re-joined the meeting. David Earles – 607 East 1st Ave, stated that he would like to see something done about the speed of the traffic that goes by his

house. Perhaps with yield or stop signs. James Leiman will work with Public Safety and Public Works.

David Earles also addressed a different issue regarding having a fence in the front yard. He asked if there is something that can be done to allow a fence in the front yard.

Karen Wagner questioned why the City hasn't done anything to take care of its only historic building – City Hall. She stated how disappointing it is to see this building deteriorating as it represents Ada's history. Karen stated that \$22,000 was spent on automatic showers at the Dekko and \$4,600 on the kiddie pool that still isn't fix and questioned if that money could have been better spent elsewhere. Rich stated that they last price the council was given was around \$600,000 to restore the building. Karen questioned if the Public Works Building needed a new roof, would they put a new roof on? Rich stated that they would.

VI. Consent Agenda. Listed on the consent agenda was: March 3, 2015 Council meeting minutes, City pre – paid checks - \$154,005.31, City accounts payable - \$125,156.52, approve hiring Chantelle Kappes and Connie Renshaw as Desk Clerks at the Dekko at Salary Grade 1, Step 4, approve hiring Anita Torkelson as Cleaning Staff at the Dekko at Salary Grade 3, Step 6 and Alyse Brockway at Salary Grade 3, Step 3, approve hiring Dawn Kappes for Ice Skating Lessons for \$90.00, approve donation to the Ada – Borup Post prom - \$500.00, approve list of licenses.

Member Rosenberger suggested moving the new hires to New Business.

Motion by Member Robertson, second by Member Miller to approve the consent agenda with changes. Members voting for: Robertson, Rosenberger, Miller, Hansen, Pinsonneault. Against: None. Motion passed.

VII. Approve Agenda. Tyson from Moore Engineering was placed on the Administrator's Report, City Hall criteria.

Motion by Member Rosenberger, second by Member Robertson to approve the agenda with changes. Members voting for: Robertson, Rosenberger, Miller, Hansen, Pinsonneault. Against: None. Motion passed.

IX. A. 1. Mayor's Report. Approve Resolution 2015-04-02 – declaring vacancy of Member At Large Seat. The council will post the vacancy and have a time set aside at the next meeting for the candidates to share their views.

Motion by Member Pinsonneault, second by Member Hansen to approve Resolution 2015-04-02. Members voting for: Robertson, Rosenberger, Miller, Hansen, Pinsonneault. Against: None. Motion passed.

2. Arbor Day Declaration. Mayor Ellefson declared April 24th as Arbor Day and encouraged everyone to observe it.

B. 5. Administrator / Clerk / Treasurer report. Moore Engineering. Approval is needed for a DNR Reimbursement request in the amount of \$269,209.41.

Motion by Member Pinsonneault, second by Member Robertson to approve the DNR Reimbursement Request in the amount of \$269,209.41. Members voting for: Robertson, Rosenberger, Miller, Hansen, Pinsonneault. Against: None. Motion passed.

Braun Intertec Proposal for an environmental assessment for Phase 2.

Motion by Member Pinsonneault, second by Member Miller to approve the proposal from Braun Intertec not to exceed \$18,652.40. Members voting for: Robertson, Rosenberger, Miller, Hansen, Pinsonneault. Against: None. Motion passed.

FEMA Flood Plain Maps. The City received the letter stating that the Flood Plain Maps will become effective on September 30, 2015. Tyson went over the process that will need to happen by that date in respect to changing ordinances, holding public hearings, etc. The DNR will also come and facilitate an open meeting to answer questions about the changes. The City won't be able to have the flood plain maps changed until after the flood project is completed. The City will be submitting a petition to exclude the part of Ada that lies north of Hwy 200 from the flood plain once the levy is certified. The remaining area of the City won't be able to be certified until after the south levy is completed. The benefit to residents in having a flood levy is not only to offer protection against flooding but also would save money for those who are required to purchase flood insurance.

New Well. Tyson gave an update on the progress of the well project. He also had two pay request for the contractor. Pay request #2 in the amount of \$14,630.11 and pay request #3 in the amount of \$45,454.66 to be paid to Municipal Builders Inc.

Motion by Member Pinsonneault, second by Member Hansen to approve pay requests 2 & 3 for Municipal Builders Inc. Members voting for: Robertson, Rosenberger, Miller, Hansen, Pinsonneault. Against: None. Motion passed.

4. Department Updates. James gave an update on the software used by the City and how the City might better utilize it to maximize efficiencies. He also gave an update on the progress of the upgrades for the Dekko. James was looking for permission to go forward with purchases for the new carpet, air fresheners, cameras, weights and the pool obstacle course.

Motion by Member Robertson, second by Member Rosenberger to make the purchases as requested. Members voting for: Robertson, Rosenberger, Miller, Hansen, Pinsonneault. Against: None. Motion passed.

James informed the council of the trees that available to citizens at no charge for boulevard beautification. Fifty five trees will be available on a first come first serve basis.

1. Email address and record retention conversion. James stated that everyone is on the same email system and is able to retain records in accordance with State guidelines.

2. Update on Community and Economic Development. James included in the agenda packet the plan moving forward for the community groups working toward development of the area.

X. A. Old Business. Garbage Rates for Home Businesses. Member Robertson wanted to bring back the garbage rate resolution for discussion. Items she would like to discuss would include the senior rate and the home business rate and what criteria are used to determine the rate for home businesses. James will research the criteria and bring it back in May. Member Robertson requested that people not be charged the new rates yet.

D. Update on live council meeting production. James stated that for about \$2,000 the City could air the council meetings live. This could happen as soon as May.

XI. New Business. Kaleidoscope guests. Member Rosenberger volunteered.

B. Approve Resolution 2015-04-01 – Sale of Property to Weave Got Maille.

Motion by Member Pinsonneault, second by Member Robertson to approve Resolution 2015-04-01. Members voting for: Robertson, Rosenberger, Miller, Hansen, Pinsonneault. Against: None. Motion passed.

C. Approve Resolution 2015-04-03 – Transfer of Land to Pinnacle Agriculture Distribution, Inc.

Motion by Member Pinsonneault, second by Member Miller to approve Resolution 2015-04-03. Members voting for: Robertson, Rosenberger, Miller, Hansen, Pinsonneault. Against: None. Motion passed.

D. Tree City USA Designation and requirements and Arbor Day Proclamation. This designation would open up the city to opportunities to grants and other funding available.

E. City Hall Sale criteria. James stated that there is a lot of interest in purchasing the building. The council discussed what criteria they would like to see for that building. Attorney Heggem suggested entering into a development agreement. James, Todd Sawrey and Karen Wagner will work together to develop criteria for the development agreement and bring it back to the May council meeting.

F. Approve hiring Chantelle Kappes and Connie Renshaw as Desk Clerks at the Dekko at Salary Grade 1, Step 4, approve hiring Anita Torkelson as Cleaning Staff at the Dekko at Salary Grade 3, Step 6 and Alyse Brockway at Salary Grade 3, Step 3, approve hiring Dawn Kappes for Ice Skating Lessons for \$90.00. Member Rosenberger questioned why these people are already working when they haven't been hired. He wouldn't be opposed to having a special meeting to get people hired before they actually start work. James agreed that better planning would have prevented this from happening and that he is working with the management team to make the process flow better. Member Rosenberger stated that they city does not have a ice skating instructor position so this person would need to be classified as an independent contractor so he questioned if they have the proper liability insurance. James stated that they don't have the proper coverage and he is working with Dekko management to insure this doesn't happen again. Member Rosenberger suggested to perhaps letting these individuals offer their services privately so that the City isn't liable for accidents that could occur. Member Miller also suggested having the Administrator responsible for hiring so there isn't a delay but also that the department heads should know well in advance if they are going to need to hire somebody. Mayor Ellefson suggested having the Administrator work with the Attorney to develop a hiring strategy.

Motion by Member Pinsonneault, second by Member Robertson to approve the new hires as stated. Members voting for: Robertson, Rosenberger, Miller, Hansen, Pinsonneault. Against: None. Motion passed.

G. Closed session to evaluate the performance of an individual subject to council authority.

Motion by Member Pinsonneault, second by Member Miller to close the meeting at 8:30 p.m. to evaluate the performance of an individual subject to council authority – James

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**Leiman. Members voting for: Robertson, Rosenberger, Miller, Hansen, Pinsonneault.
Against: None. Motion passed.**

**Motion by Member Miller, second by Member Robertson to re – open the meeting at 9:04
p.m. Members voting for: Robertson, Rosenberger, Miller, Hansen, Pinsonneault.
Against: None. Motion passed.**

**XII. Motion by Member Robertson, second by Member Pinsonneault to adjourn the
meeting at 9:05 p.m. Members voting for: Robertson, Rosenberger, Miller, Hansen,
Pinsonneault. Against: None. Motion passed.**

Respectfully submitted,

James Leiman
Administrator / Clerk / Treasurer

Jim Ellefson
Mayor