

**To: HONORABLE MAYOR AND CITY COUNCIL.**

**FROM: Dave Maroney, Director of Economic Development and Planning.**

**SUBJECT: Proposed Hotel Development/Work Session.**

**DATE: September 6, 2016.**

**BACKGROUND.**

Last year the Economic Development Authority (EDA) hired Hospitality Consulting Group to research whether or not a market demand exists for additional lodging in Cannon Falls. The feasibility study concluded that Cannon Falls could support a 50-room limited service hotel (indoor pool, exercise room, business center and complimentary breakfast) with an average daily room rate of \$98.66 (2017). Following completion of the study, three individuals (experienced lodging developers-managers-owners) came together to serve as the Development Team and have been cooperating with the EDA to secure a site and investment capital to move the project forward. To provide access to the proposed 45-room GrandStay Hotel, I have been working to secure agreements with Cannon Falls Township, MnDOT, the landowner and the Development Team - these efforts have created the need to conduct this work session with the City Council.

Reflecting existing topographic conditions, the City Engineer prepared a *preliminary design* and cost estimate for accessing the proposed hotel site from 63<sup>rd</sup> Avenue – *see attachment*. The estimated cost to construct a 32-foot wide bituminous street section with concrete curb and gutter and some storm sewer is: (a) +/- 500 foot street - \$165,000 (“Phase 1”); and (b) +/- 1,000 foot street - \$325,000 (“Phase 2”). This information has been shared with the property owner and the Development Team – neither party feels that a road connecting 63<sup>rd</sup> Avenue to 64<sup>th</sup> Avenue (frontage road) is required at this time.

On August 3<sup>rd</sup> John Seibert (Development Team member) and I presented this information to the Public Works Commission. The proposed method for financing the street project is *property tax abatement*. Very generally, tax abatement applies the “City” portion of the Hotel’s property tax liability to finance costs incurred to design and construct the street. For example, if the total property tax liability for the Hotel is \$47,250 (\$1,050 per room @ 45 rooms) and the “City” portion of total taxes amounts to approximately 34% (2015), then the annual tax abatement (“revenue to finance development costs”) is \$16,065. Generally, the Council may approve tax abatement for a period no longer than 15-years. Assuming an interest rate of 5% and a 15-year amortization, an annual tax abatement of \$16,065 could finance a \$165,000 project (not adjusted to include capitalized interest).

**REQUESTED COUNCIL ACTION.**

Following the presentation and discussion, the City Council will be asked to indicate whether they support the plan for development of the Hotel and the use of tax abatement to pay costs incurred to provide access to the preferred site.





PHONE: 651.490.2000  
3535 VADNAIS CENTER DR.  
ST. PAUL, MN 55110-5196  
www.sehinc.com

FILE NO.  
123363

DATE:  
7-28-16

64TH AVE. INTERCHANGE  
CANNON FALLS, MINNESOTA

EXHIBIT  
NO. 1