

TO: Honorable Mayor and City Council

FROM: City Administrator Ron Johnson

SUBJECT: Cannon River Winery Expansion Request

MEETING DATE: December 19, 2017

BACKGROUND

The Cannon River Winery is proposing to expand their building by approximately 19,040 sq. ft. to the west. The purpose of this expansion is to increase capacity, add a new filtration system, expand the tasting room and add a brick fired pizzeria. Their total project cost is anticipated to be roughly \$1.6- \$1.8M (as per the attached term sheet).

This expansion stops at the 30' wide city parcel located between the existing Lee Chevrolet building and the river (this parcel was purchased by the EDA in 2013 for \$57,943.45 with the intent to be sold back to the city for park land).

Cannon River Winery hopes to break ground in the spring of 2018 with anticipated completion in the fall of 2018.

The documents included with this memo are as follows: Term sheet; project and project area maps; EDA memo; Maps of where Cannon River Winery customers come from.

This will be a follow-up discussion to the December 5 Council meeting and to a special Council meeting at 5:00 p.m., December 19.

REQUESTED COUNCIL ACTION

Discuss Cannon River Winery Project and request and consider action.

Proposed Cannon River Winery Expansion - TERM SHEET 11-15-17

EDA
City

ABOUT

Cannon River Winery (CRW) is located in historic downtown Cannon Falls and has been in business for 15-years. Located in an up-to code historic two-story building, this 15,000 sq. ft. facility offers an 8,000 sq. ft. tasting room, event center and production. Hosting over 40 weddings per year, CRW brings over 35,000 visitors to Cannon Falls annually. Under new ownership, owner Ron Stowell is looking forward to continuing to contribute to the Cannon Falls community.

CRW has 300 wholesale accounts (liquor stores and restaurants), and produces 12,000 cases, or, 120,000 bottles, per year. While current demand meets current production, CRW winery is operating at full capacity, and needs to expand operations. CRW currently employs 10 FTE averaging \$36/hr and 23 PTE. CRW grows and uses grapes from their 80-acre vineyard, located 7 miles from the winery.

PROPOSED PROJECT

CRW is looking to expand their building by approximately 19,040 sq. ft to the west. The purpose of this expansion is to increase capacity, add a new filtration system, expand the tasting room and add a brick fired pizzeria. With a goal of doubling production to 240,000 bottles/year, CRW will be purchasing new equipment, including, but not limited to: tanks, barrels and a cooling system. CRW currently leases approximately 6,000 sq.ft. of warehouse space; this will be included in the new expansion. Total project cost is anticipated to be roughly \$1.6- 1.8M*.

In discussions with Goodhue County, based upon the current project information, she estimates the total proposed project completed would be valued between \$1.4 - \$1.5M, which would result in an additional annual tax base of \$52,756 - \$56,525 per year. Please note, these are preliminary estimates, and CRW is aware this may change. **

RW hopes to break ground in the Spring of 2018, with an anticipated completion date in the Fall of 2018. Within two years of project completion CRW anticipates hiring a minimum of 12 additional PT employees, averaging over \$12/hr.

TERMS

CRW has met with the city's economic development team and reviewed the proposed expansion (as outlined on the RJRyan/Lampert Architects site plan dated 7-31-17) and hopes to work together to execute a project that will benefit both parties. To move forward with the expansion, CRW will need the following:

- Land for \$1 (total acreage TBD) - includes PID 521004160 and a portion (exact size TBD) of 521004110
- Complete removal of building(s) on 433 Mill Street West, Parcel 521004160 (staff indicated this was likely to happen regardless of the project)
- All environmental work (soil borings, Phase I, Phase II (if necessary), etc.) completed and paid for by city (staff indicated this was likely to happen regardless of the project)

- Any/all remediation and cleanup of site completed and paid for by city - this needs to be completed no later than April 1, 2018 - if total cost of clean up exceeds \$100,000, CRW is willing to reconnect and discuss.
- Replacement/abandonment/relocation costs for any applicable costs related to utilities completed and paid for by city
- City to design and install sidewalk (ADA accessible), on the west side along the river (previously discussed with City) on PID 521004161 (City of Cannon Falls parcel)
- Any applicable platting, and other applicable land use applications - completed and paid for by city, to be contingent upon project moving forward
- Pay-as-you go tax abatement for 15 years - total abatement estimates from the city and county are \$533,100
 - If county is unwilling to participate, a 9 year TIF from the city and county, totalling \$319,860 and the consideration of additional funding from City MNDEED fund*

In lieu of being able to waive future assessments, if the city is willing to work with us to obtain a letter from the School District to agree they are not willing to provide abatement, we are willing to apply for 20 years abatement, with the last five years of abatement going directly to the city. Should we decide to pursue TIF instead of abatement, further discussion regarding shared participation would need to occur.

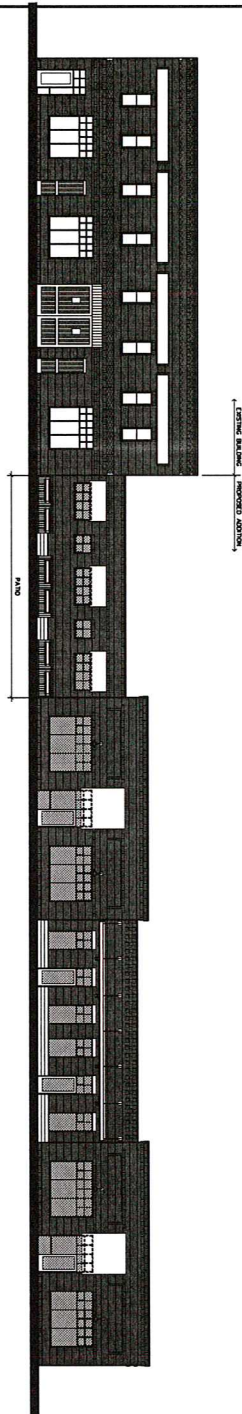
CONCLUSION

The wine industry is often miscategorized as an industry similar to bars, restaurants and liquor stores. In actuality, wineries have far more in common with medical device and food manufacturing. What the public generally sees and identifies with, are the forward facing "tasting rooms" where you can purchase wine, socialize with friends, and take in live entertainment/attend an event. Wineries operate more as advertising and market research departments than they do as bars. The real revenue generation and business operations are what you don't see; the tanks, barrels, cooling system, vineyard, etc. that make up the highly regulated wine manufacturing process.

CRW feels this proposed project will increase both their local and regional economic impact, while bringing an unmeasurable economic impact to the Cannon Falls community and area businesses. In order to make this happen, it needs to secure a level of public/private partnership with both the City of Cannon Falls and Goodhue County. The growth of CRW's physical operation, the exponential increase of its production and export of product, as well as the creation of 12 new jobs in Cannon Falls directly depends on the plan as outlined above. CRW has a great relationship with the community, and is confident they can continue working with the community to complete a project that will benefit all parties involved.

**at this time, potential site issues are unknown (i.e.: environmental, utility locations, etc.) therefore this number will likely increase. At this point we want to explore the MNDEED funding the city has, tax abatement and other city/county/state financing programs to help offset any potential gaps in financing, or extraordinary costs.*

***at this time, the preliminary valuation far exceeds what CRW had anticipated for future business planning purposes. CRW will work with the city and county regarding additional building details to determine if the valuation can be lowered. At this point in time, should the valuation remain, CRW will likely not move forward with the project.*



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PRELIMINARY FOR
CONSTRUCTION

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3E, P.O. Box 50102
Princeton, NJ 08541
Phone: 609/799-1811 Fax: 609/799-1848
http://www.430summit.com

ARCHITECT CERTIFICATION
THE ARCHITECTS CERTIFY THAT THE
PROJECT DESCRIBED ON THESE PLANS
WAS DESIGNED BY AN ARCHITECT
REGISTERED IN THE STATE OF NEW
JERSEY AND THAT THE ARCHITECT
IS THE DESIGNER OF RECORD FOR
THIS PROJECT.

ARCHITECT'S SIGNATURE

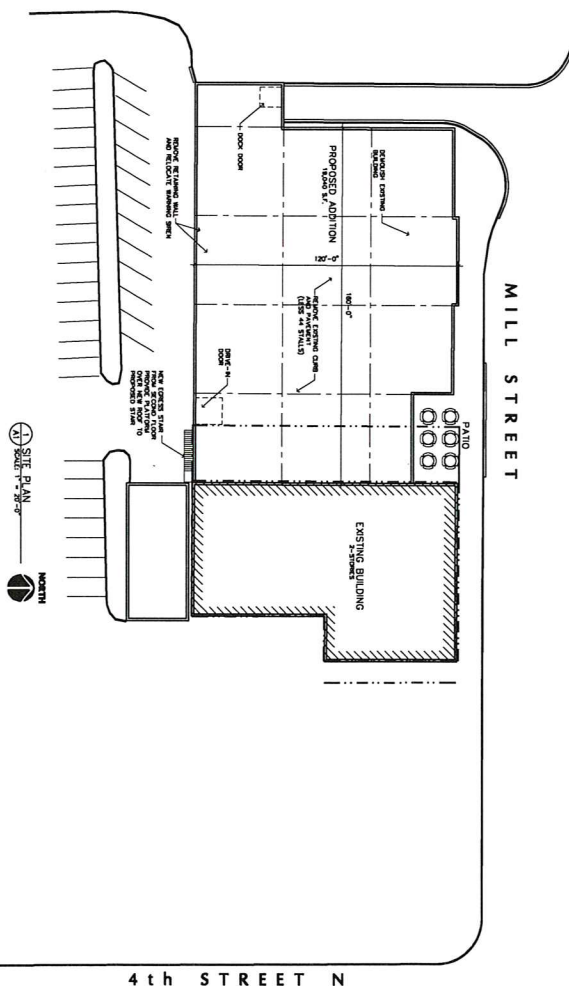
DATE: _____

BUILDING ELEVATION

Sheet Number _____

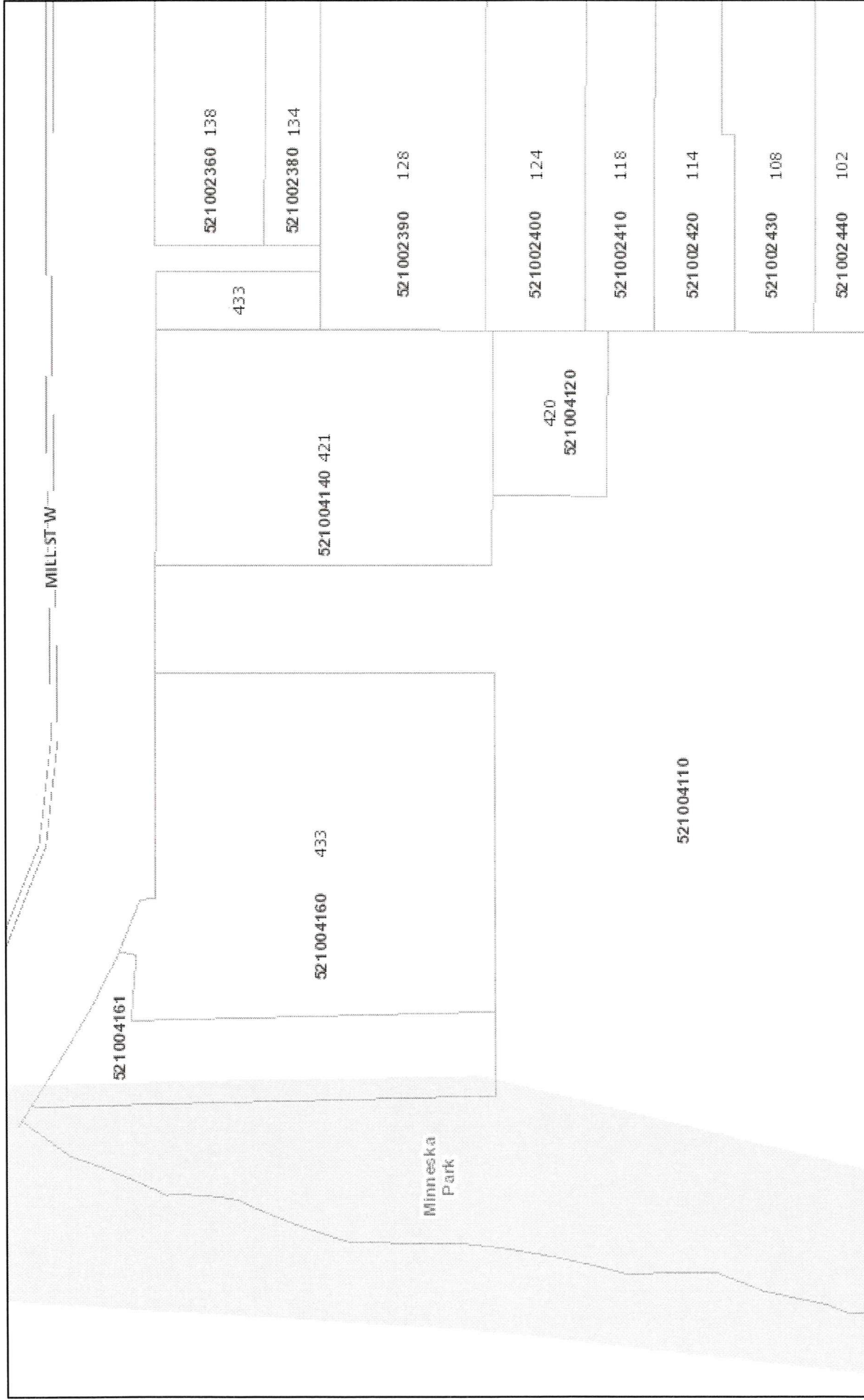
A2

Project No. 170719-1



A1

ArcGIS WebMap



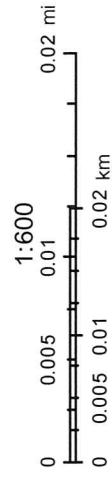
December 1, 2017

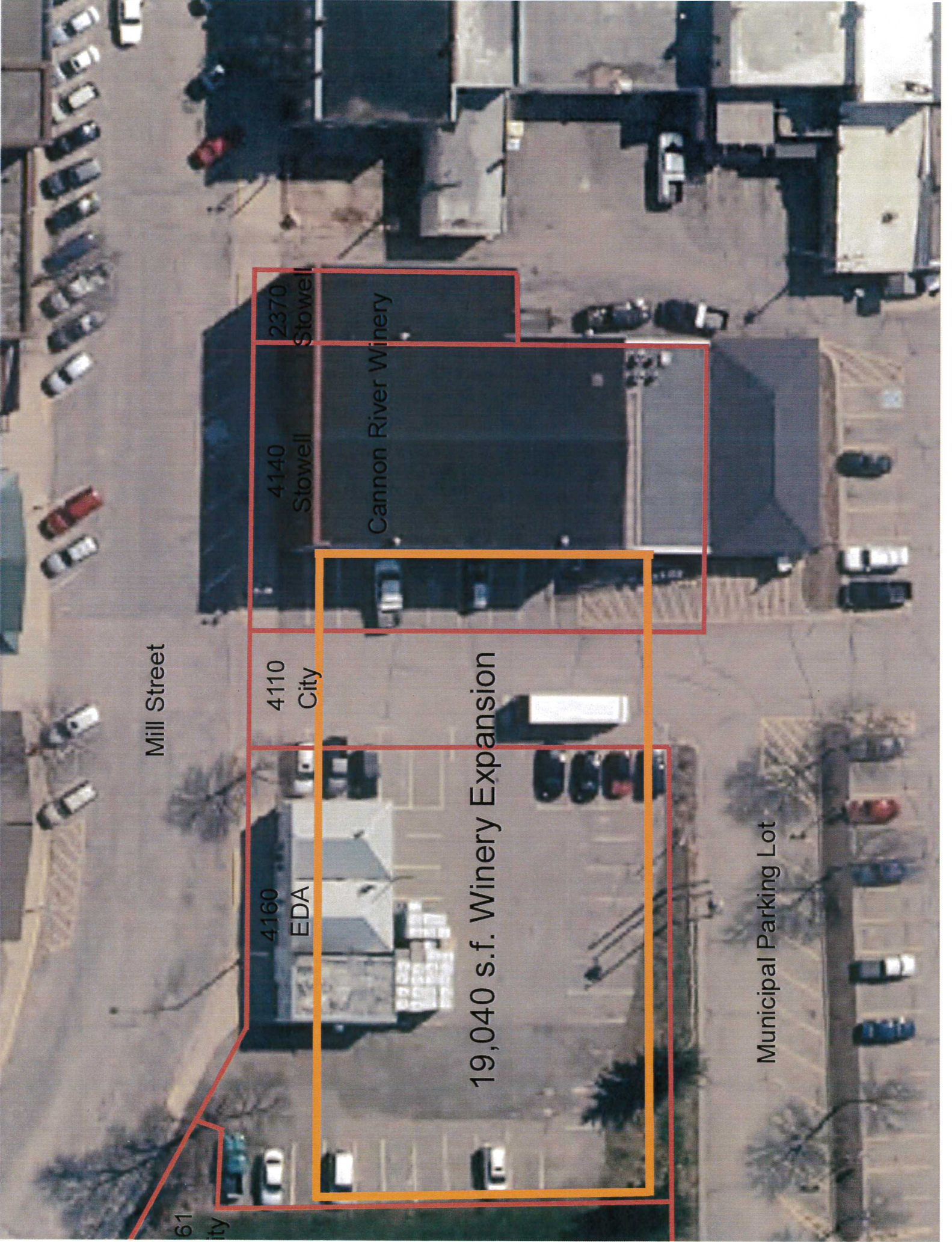
House Number
PIN

Roads 9.600

Township or Other Roads

- Major Roads 600
 - US Highway
 - State Highway
- County Roads 600
 - County Roads - Gravel
 - County Roads - Paved
- Roads 600
 - Township or Other Roads
- ESRI Major Roads
- Parcels





Mill Street

Municipal Parking Lot

4160
EDA

4110
City

4140
Stowell

2370
Stowell

Cannon River Winery

19,040 s.f. Winery Expansion

61
City



Tillion
Brewery

Mill Street

Cannon River
Winery

433 Mill Street
PID 52.100.4160

Municipal Parking

Little
Cannon
River

20

19

19

To: Economic Development Authority.
From: Dave Maroney, Director of Economic Development and Planning.
Subject: November 21, 2017 Agenda. Date: November 17, 2017.

***EDA Determinations are conditioned upon City Council approval of Terms requested of them:**

Item 3 (C). Stowell Management LLC (Cannon River Winery) Project.

The revised *Term Sheet (11-15-17)* proposes the following *Terms* for consideration by the Authority:

1. **Sale of property** owned by the Authority (PID 52.100.4160 - see accompanying aerial map) to Stowell Management LLC for \$1.00. The *Option Agreement* that the Authority executed with the Maloney's provides for a purchase price of \$167,178.90.

***EDA Determination:** The Authority offered to sell the property for \$75,000 – the offer has not been accepted.

2. Removal (**demolition**) of the former Lee Chevrolet building, paid by the Authority. A cost estimate for this work will be sought following completion of the **Environmental Investigation** (Item #3).

***EDA Determination:** The Authority will pay the cost to demolish the building.

3. Completion of a Phase I, Phase II and Response Action Plan (RAP) - Staff recommends that the evaluation include preparation of the RAP. Proposals to complete this work have been submitted by *ATC Group Services LLC* and *Bay West LLC* - the estimated cost to complete the **Environmental Investigation** ranges from approximately \$15,000 - \$20,000, paid by the Authority.

***EDA Determination:** The Authority has engaged *ATC Group Services LLC* to complete the **Environmental Investigation** – the site evaluation/soil borings will be completed on November 30, 2017.

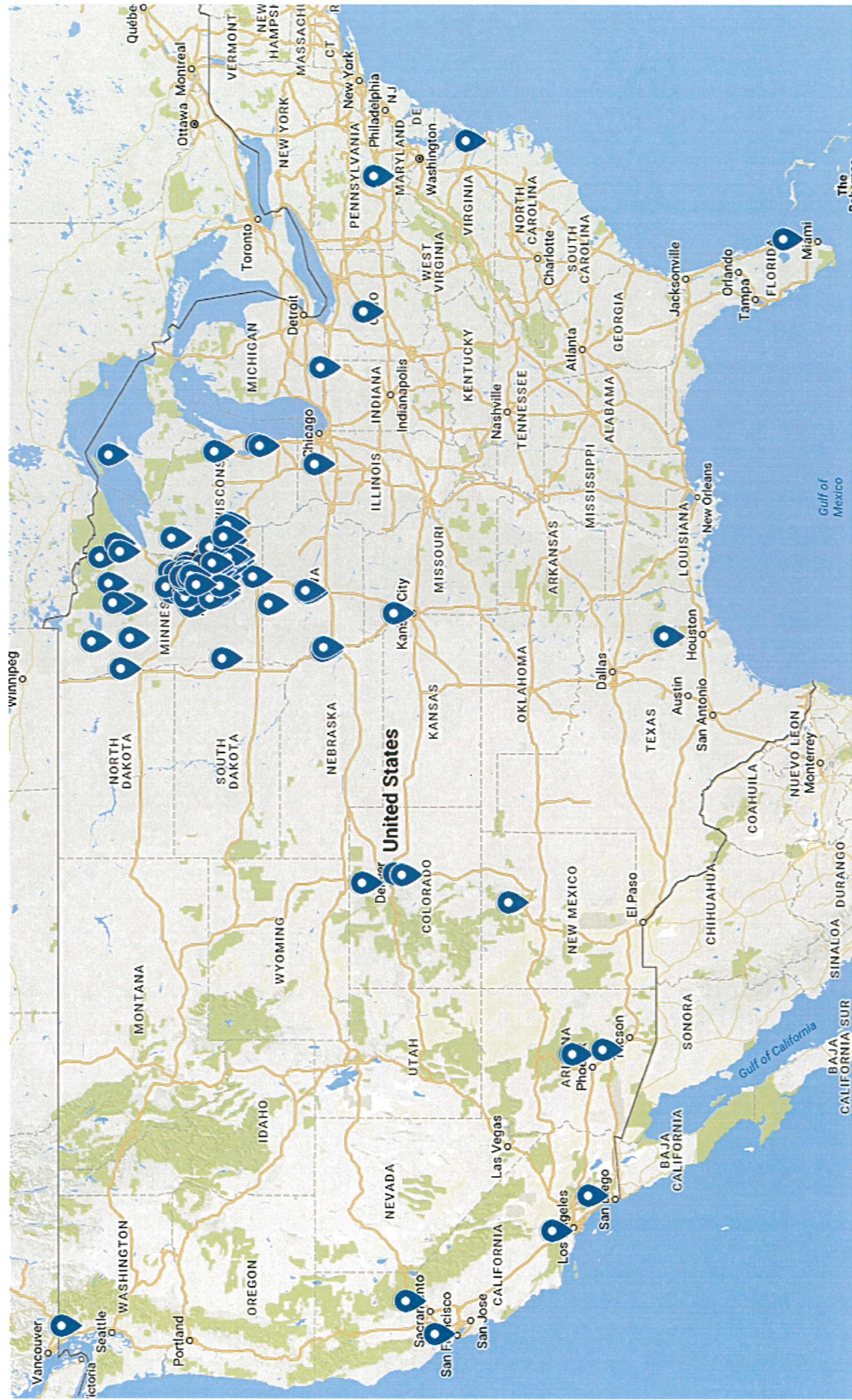
4. **Environmental Cleanup** of the site, paid by the Authority. A cost estimate for this work will be sought following completion of the Environmental Investigation (Item #3). Mr. Stowell has indicated a willingness to establish a “cap” amount of \$100,000 (or perhaps another figure proposed by the Authority?) that would allow either Party the opportunity to renegotiate this particular *Term*.

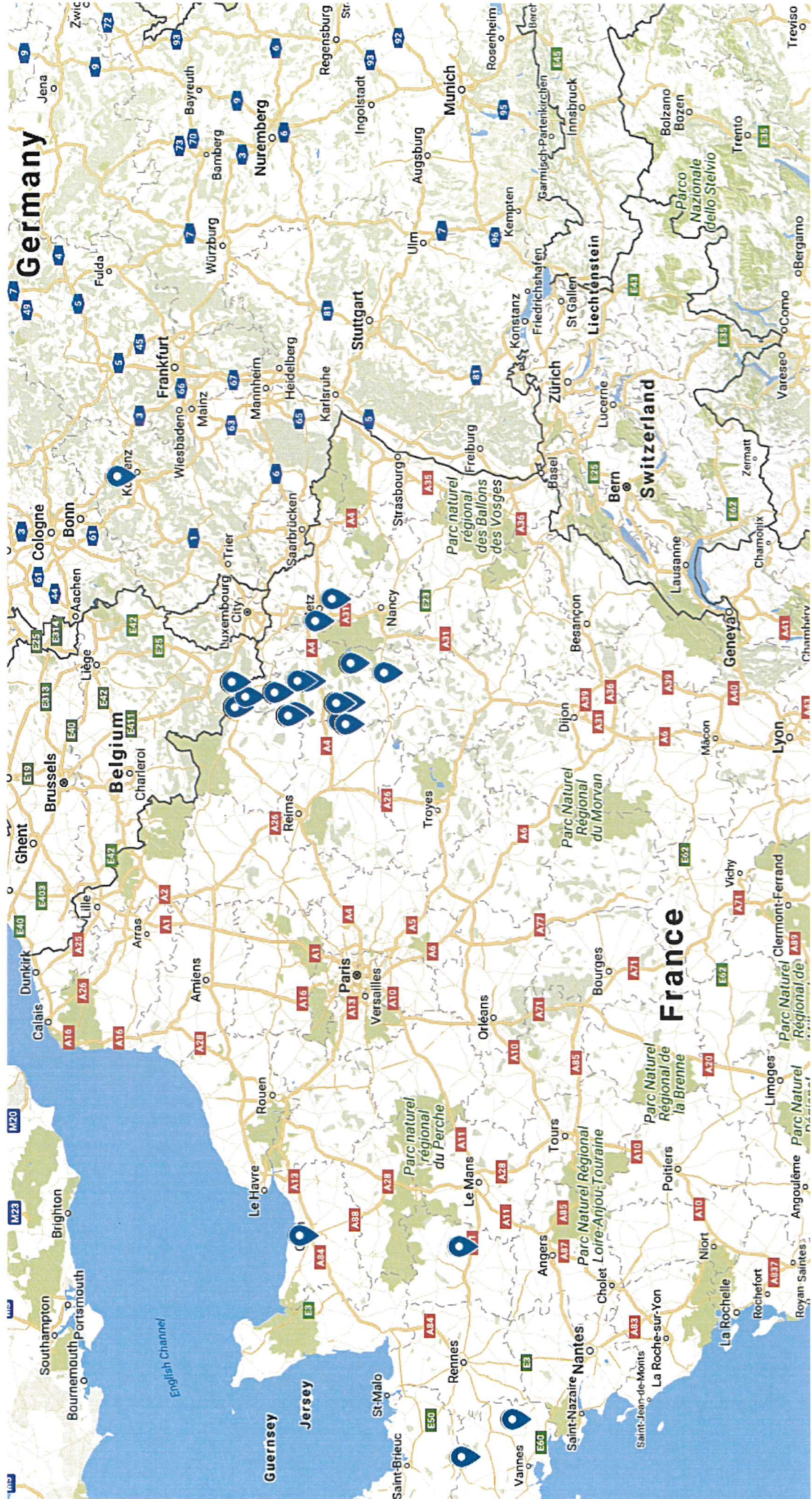
***EDA Determination:** The Authority proposed a “cap” amount of \$50,000 rather than \$100,000.

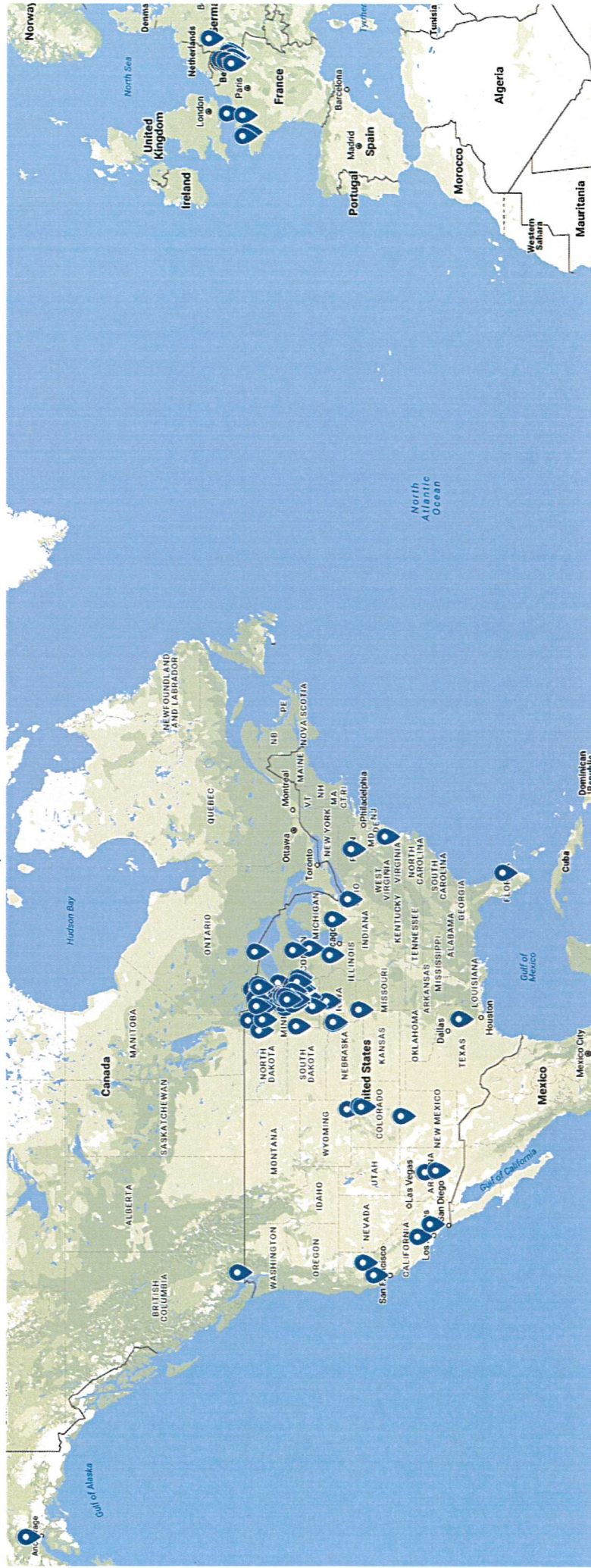
Ron Stowell has submitted his request for assistance from the Authority to facilitate the planned expansion of the Cannon River Winery in Cannon Falls. The Authority could respond to the request as follows: (a) accept the proposed Terms as presented; or (b) prepare a counter proposal to any one or more of the proposed Terms; or (c) reject the proposed Terms entirely. During the “closed” meeting, the Authority will discuss a strategy and preferred direction for responding to Mr. Stowell's request. Upon reaching a determination for proceeding, the Authority will reconvene the “public” meeting and officially move to approve *Terms*.

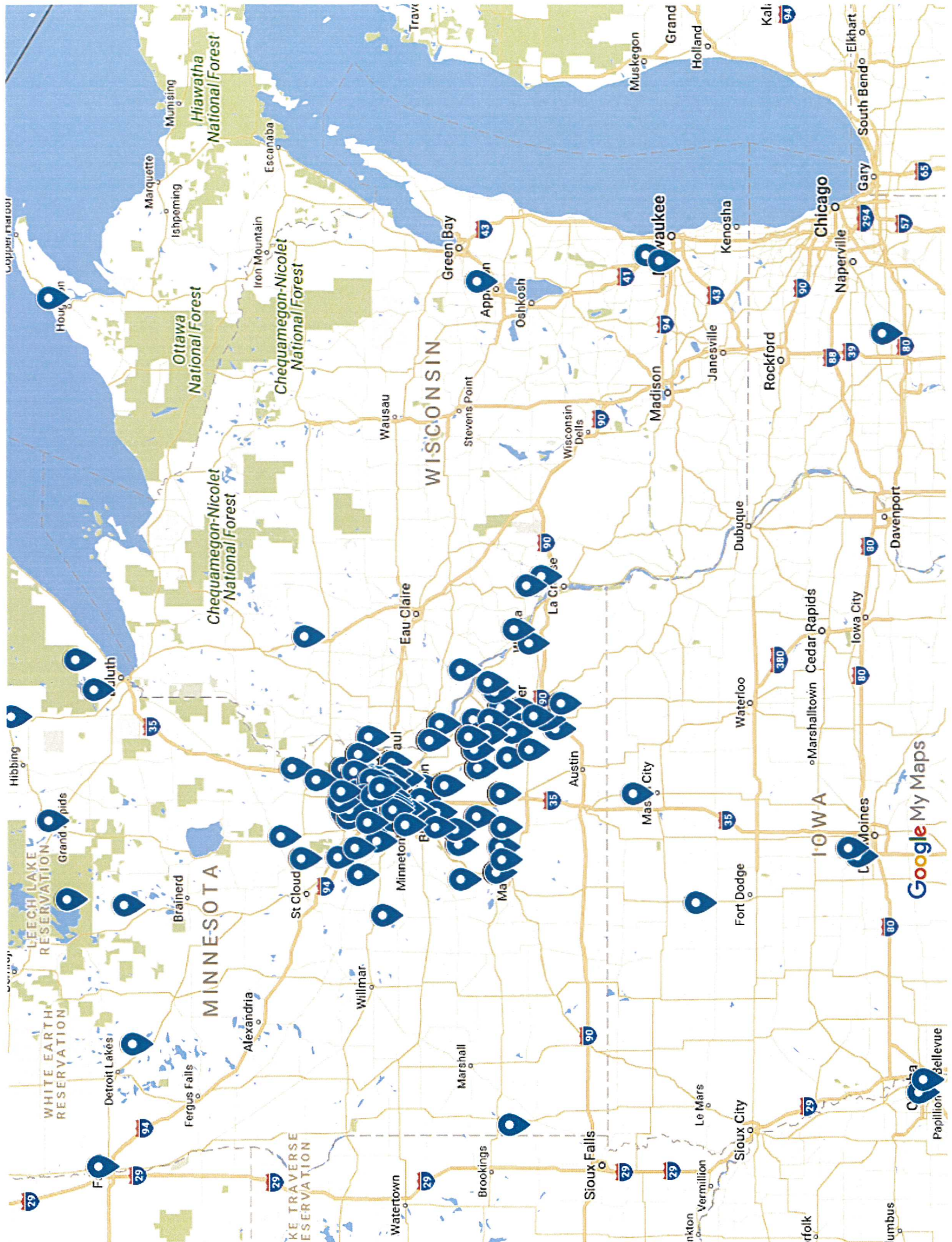
The City Council is considering the *Terms* requested of them. For either response (a) or (b) above, the Authority should “condition” your decision on approval of *Terms* requested of the City Council by the City Council.

Other Business. Reserved for topics that may be added prior to Item 3(A) - Approval of Agenda.









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