



MEMORANDUM

To: City of Cannon Falls
From: Tammy Omdal
Date: April 11, 2018
Re: Tax Abatement Assistance for Cannon River Winery

The City of Cannon Falls (the "City") received a proposal for tax abatement to assist a private company, Stowell Management, LLC (RE Holding Company) operating the business entity Cannon River Winery (CRW), a Minnesota limited liability company, with the construction of an approximately 20,000 square foot facility expansion (the "Project"). The expansion will allow CRW to double its production, add a cellar, office facilities, and a warehouse space. The property where the Project will be constructed is located at 421 Mill Street West in the City (the "Property").

The proposed term of the abatement is for up to a twelve year period and shall apply to the taxes payable in the years 2020 through 2031, inclusive. The tax abatement will be based on the increase in taxable market value resulting from the Project. The combined tax abatement paid to CRW is proposed to not exceed \$389,740, including \$236,537 from the City and \$153,203 from the County of Goodhue, over a twelve year period certified in an annual amount. The present value of the combined tax abatement is \$271,785 based on a 5% rate. The present value of the City portion of the tax abatement is \$169,949.

This memorandum provides a review of the need for the public financial assistance based on Northland's analysis of the application for public financial assistance for the Project.

Background of Cannon River Winery (CRW)

As described in the application for assistance, CRW has been in business for over fifteen years and is located in downtown Cannon Falls. CRW reports that the facility brings over 100,000 people to Cannon Falls per year. CRW has built a dominant and profitable position in the growing Minnesota wine industry. Independently owned and operated by Ron Stowell (purchased in 2015), CRW has 25.35 full-time equivalent employees. The business has grown to a point where it is unable to add new products, produce more wine, or increase sales; resulting in stifled growth, limited market distribution and plateaued job creation. CRW is looking to expand and seeking public financial assistance. Tax abatement will help to offset CRW's operating costs related to an increase in real estate taxes that will result from the higher assessed market value after completion of the Project. CRW's application states that the Project will result in the addition of 4.85 full-time equivalent employees with an average hourly wage of \$12.63 per hour.

Public Purpose for Assistance

The proposed public purpose of the business subsidy is to increase or preserve the tax base and to create new jobs in the City.

Due to the extraordinary costs associated with acquisition and development of the Project, CRW is seeking financial assistance from both the City and the County of Goodhue (the "County"). The request is for tax abatement for the increase in the City and the County property taxes that will be payable from the Project.

Northland conducted a review of the information submitted by CRW, including financial statements, construction pro forma, and other pertinent information.

Exhibit A provides a summary of the estimated sources and uses of funds for the Project. Based on our review of the pro forma and under current market conditions, we find that the project may not reasonably be expected to occur solely through private investment within the reasonably near future. Due to the costs associated with acquisition of the property and construction of the improvements, the Project as proposed is feasible only through assistance, in part, from tax abatement. Without the tax abatement assistance the Project as proposed will need to be modified or not feasible.

Tax Abatement

The tax abatement for the Project is proposed to come from the City and the County. The proposed financial assistance for the Project will qualify as a business subsidy (Minnesota Statutes, Sections 116J.993 to 116J.995).

The City Council will consider approval of the tax abatement (of City taxes) following a public hearing on April 17, 2018. The County will consider and follow its own tax abatement proceedings. The City may consider approval of a tax abatement agreement with CRW following approval of the tax abatement on April 17. The tax abatement agreement will provide terms for the tax abatement assistance and requirements to satisfy the business subsidy.

The estimated City and County tax abatements is based on tax abatement equal to 100% of the increase in City and County property taxes from the increased valuation from the Project. Exhibit B provides a summary of the estimated increase in tax capacity and the City and the County property taxes that will be subject to tax abatement. The tax abatement estimate is based on a first year estimated increase in total taxable market value of \$1,400,000 for a total valuation of \$2,336,403 of the Property (\$936,403 estimated base valuation for taxes payable in 2018 plus \$1,400,000 increase in value from improvements) for taxes payable in 2020. Final valuation will be determined by the County Assessor and will vary from the estimate used for financial planning purposes.

Review of Need for Assistance

Based on Northland's review of the application for the Project and under current market conditions, as stated, we find that the Project may not reasonably be expected to occur solely through private investment within the reasonably near future. Facts supporting this finding are as follows:

- As shown in Exhibit A, CRW proposes the project to be funded from a combination of debt and equity and a \$55,000 micro loan from the Cannon Falls Economic Development Authority. The estimated present value of the tax abatement assistance from the City and the County will help to reduce the effective cost of the project by an equivalent \$271,785 (present value of City and County tax abatement).
 - The total cost for the Project is estimated to be \$2,264,209, including machinery and equipment. Based on Northland's experience, and given the location of the Project, we find the Project cost estimate to be reasonable.
 - The Project includes an equity contribution of 10.0%. The present value of the City tax abatement assistance represents an equivalent of 7.3% of the total estimated costs for the Project. Northland finds the ratios acceptable and consistent with financings for similar types of projects.
 - The application for the Project included two years of financial statements for Stowell Management which Northland has reviewed. The application also included a bank commitment letter from Coulee Bank. The letter offers that based upon the Bank's preliminary review of the financial projections for the Project that the tax abatement assistance is important to the ability for CRW to service debt on the Project. Northland agrees with this statement based upon review of the information included as part of the application.
-

EXHIBIT A

**City of Cannon Falls
 Cannon River Winery
 Developer Sources and Uses of Funds for Construction**

	From Application (2/27/2018)	
	Total	% of Total
Sources of Funds		
Bank Loans	\$1,982,209	87.5%
Bank Loan - Assignment of Public Financial Assistance ¹	\$0	0.0%
Owner Cash / Equity / Other Private Funds	\$227,000	10.0%
EDA Micro Loan	\$55,000	2.4%
Total Sources of Funds	\$2,264,209	100.0%
Uses of Funds		
Land Acquisition	\$75,000	3.3%
Construction	\$1,655,417	73.1%
Machinery and Equipment	\$470,792	20.8%
Professional Fees	\$10,000	0.4%
Furniture and Fixtures	\$18,000	0.8%
Building Signage	\$15,000	0.7%
Contingencies	\$20,000	0.9%
Total Uses of Funds	\$2,264,209	100.0%

Notes

1/ Source of funds from the assignment of the tax abatement agreement for the public financial assistance to a bank is assumed to be \$0. The application from the developer did not indicate the developer was seeking to mortgage (assign) the agreement to a bank or other third party. The present value of the estimated tax abatement is \$271,785.



EXHIBIT B

**City of Cannon Falls
 Tax Abatement
 Cannon River Winery**

Projected Tax Abatement Cash Flow (City and County Tax Abatement) ⁷

Term of Abatement	Value Year	Taxes Payable Year	Taxable Market Value ^{1 5}	New Tax Capacity	Base Tax Capacity ^{3 4}	Captured Tax Capacity	City and County Combined Tax Rates ²	Tax Abatement	Present Value of Tax Abatement ⁶	City Portion of Tax Abatement	County Portion of Tax Abatement
1	2019	2020	2,336,403	45,978	(17,066)	28,912	107.478%	31,074	28,154	18,859	12,215
2	2020	2021	2,348,085	46,212	(17,066)	29,146	107.478%	31,325	55,167	19,011	12,314
3	2021	2022	2,359,826	46,447	(17,066)	29,380	107.478%	31,578	81,087	19,165	12,413
4	2022	2023	2,371,625	46,682	(17,066)	29,616	107.478%	31,831	105,955	19,319	12,512
5	2023	2024	2,383,483	46,920	(17,066)	29,854	107.478%	32,086	129,814	19,473	12,613
6	2024	2025	2,395,400	47,158	(17,066)	30,092	107.478%	32,342	152,706	19,629	12,713
7	2025	2026	2,407,377	47,398	(17,066)	30,331	107.478%	32,600	174,667	19,785	12,815
8	2026	2027	2,419,414	47,638	(17,066)	30,572	107.478%	32,858	195,736	19,942	12,916
9	2027	2028	2,431,511	47,880	(17,066)	30,814	107.478%	33,118	215,949	20,100	13,018
10	2028	2029	2,443,669	48,123	(17,066)	31,057	107.478%	33,380	235,340	20,258	13,122
11	2029	2030	2,455,887	48,368	(17,066)	31,302	107.478%	33,642	253,941	20,418	13,224
12	2030	2031	2,468,166	48,613	(17,066)	31,547	107.478%	33,906	271,785	20,578	13,328
TOTAL =								389,740		236,537	153,203

Key Assumptions

- 1 Taxable market value annual growth assumption = 0.50%
- 2 Assume Pay 2017 Tax Year for Tax Rate.
- 3 Base Taxable Market Value (TMV) for Pay 2017, Commercial Property = \$936,403
- 4 TMV includes the following parcels: 521004140; 521004160; 521004110*; 521002370
 *Includes only 4,200 SF of total parcel area.
- 5 Estimated future total TMV of property first year after project completion: \$2,336,403
- 6 Year to Date (YTD) Present Value based on semi-annual pmts, the stated rate, and the following beginning date: 11/1/2018
- 7 All figures are estimates.

EXTRACT OF MINUTES OF A MEETING OF THE
CITY COUNCIL OF THE CITY OF CANNON FALLS, MINNESOTA

HELD: April 17, 2018

Pursuant to due call and notice thereof, a regular meeting of the City Council of the City of Cannon Falls, Minnesota, was duly called and held at the City Hall in Cannon Falls, Minnesota, on Tuesday, April 17, 2018 at 6:30 p.m., for the purpose of holding a public hearing to consider approving tax abatements to assist in the financing of an approximately 20,000 square foot expansion of a commercial facility to be located in the City of Cannon Falls.

The following members were present:

and the following were absent:

Member _____ introduced the following resolution and moved its adoption:

RESOLUTION NUMBER 2342

**RESOLUTION APPROVING PROPERTY TAX ABATEMENTS FOR STOWELL
MANAGEMENT, LLC**

BE IT RESOLVED by the City Council of the City of Cannon Falls, Minnesota (the "City"), as follows:

WHEREAS, the City proposes to use property tax abatement to assist a private company, Stowell Management, LLC, a Minnesota limited liability company, with the construction of an approximately 20,000 square foot expansion of a commercial facility, operating as a winery, to be located in the City (the "Project"). The City proposes to use the abatement for the purposes provided for in the Abatement Law (as hereinafter defined) including the Project. The proposed term of the abatement will be for up to twelve years in an amount not to exceed \$236,537. The abatement will apply to the City's share of the property taxes (the "Abatement") derived from the property described by property identification numbers on the attached "Exhibit A" (the "Property"); and

WHEREAS, on the date hereof, the City held a public hearing on the question of the Abatement, and said hearing was preceded by at least once more than 10 days but not more than 30 days prior published notice thereof; and

WHEREAS, the Abatement is authorized under Minnesota Statutes, Sections 469.1812 through 469.1815, as amended (the "Abatement Law").

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Cannon Falls, Minnesota, as follows:

1. Findings for the Abatement. The City Council hereby makes the following findings:

- (a) The Council expects the benefits to the City of the Abatement to at least equal or exceed the costs to the City thereof.
- (b) Granting the Abatement is in the public interest because it will:
 - (i) increase or preserve tax base; and
 - (ii) provide employment opportunities in the City.
- (c) The Property is not and will not be located in a tax increment financing district during the Abatement period.
- (d) In any year, the total amount of property taxes abated by the City by this and other abatement resolutions, if any, shall not exceed ten percent (10%) of net tax capacity of the City for the taxes payable year to which the abatement applies or \$200,000, whichever is greater (the "Abatement Limit"). The City may grant other abatements permitted under the Abatement Law after the date of this resolution, provided that to the extent the total abatements in any year exceed the Abatement Limit the allocation of the Abatement limit to such other abatements is subordinate to the Abatement granted by this resolution.

2. Terms of Abatement. The Abatement is hereby approved. The terms of the Abatement are as follows:

- (a) The Abatement shall be for up to a twelve (12) year period and shall apply to the taxes payable in the years 2020 through 2031, inclusive.
- (b) The City will abate the increase in the property amount over the adjusted 2017 Market Value for taxes collected in 2018, as established by the County Assessor's Office in which the City receives taxes from the Property, cumulatively not to exceed \$236,537 over 12 year period certified in an annual amount.
- (c) The Abatement shall be subject to all the terms and limitations of the Abatement Law.

The motion for the adoption of the foregoing resolution was duly seconded by Member _____ and, after a full discussion thereof and upon vote being taken thereon, the following voted in favor thereof:

and the following voted against the same:

Adopted this 17th day of April, 2018, by the Cannon Falls City Council.

CITY OF CANNON FALLS

BY: _____
Lyman M. Robinson, Mayor

ATTEST:

Lanell Endres, Interim City Administrator

STATE OF MINNESOTA
COUNTY OF GOODHUE

I, the undersigned, being the duly qualified and acting City Clerk of the City of Cannon Falls, Goodhue County, Minnesota, DO HEREBY CERTIFY that I have compared the attached and foregoing extract of minutes with the original thereof on file in my office, and that the same is a full, true and complete transcript of the minutes of a meeting of the City Council of said City, duly called and held on the date therein indicated, insofar as such minutes relate to the approval of property tax abatements.

WITNESS my hand this 17th day of April, 2018.

City Clerk

Exhibit A

Parcel ID Numbers for "Property"

52-100-4140

52-100-4160

52-100-4110

52-100-2370