

AGENDA
ECONOMIC DEVELOPMENT AUTHORITY MEETING
FRIDAY, JANUARY 20, 2017
7:00 A.M.

CITY COUNCIL CHAMBERS

- I. Call to Order/Roll Call

- II. Approval of Agenda

- III. Consent Agenda
 - A. December 16, 2016 Minutes

- IV. Public Comment

- V. Old Business
 - A. EDA Strategic Plan and Tactics
 - B. West Interchange Utilities Extension

- VI. New Business
 - A. Hotel Feasibility Study

- VII. Other

- VIII. Updates
 - A. Buxton
 - B. Boards & Commissions
 - B.E.S.T.
 - January 9, 2017 Board of Directors Meeting

- IX. Next Meeting Date
 - A. February 17, 2017

- X. Adjournment

Upon request, accommodations will be provided for individuals with disabilities wishing to participate

MINUTES

**ECONOMIC DEVELOPMENT AUTHORITY
DECEMBER 16, 2016
7:00 AM
CITY COUNCIL CHAMBERS – CITY HALL**

I. Call to Order/Roll Call

The meeting was called to order at 7:00 a.m. by President Russ Weir.

Members Present: Dave Dunn
 Ann Fitch
 Jill Stagman
 Russ Weir

Members Absent: Marty Armstrong
 Daren Arndt
 Larry Thompson

Staff Present: Gary Sandholm, Economic Development Coordinator
 Daniel Lenz, City Manager
 Ranae Schult, Community Development Assistant

II. Approval of Agenda

It was moved by Fitch, seconded by Dunn, to approve the agenda as presented; the motion carried 4-0.

III. Consent Agenda

A. November 18, 2016 Economic Development Authority Meeting Minutes

It was moved by Fitch, seconded by Dunn, to approve the Consent Agenda as presented; the motion carried 4-0.

IV. Public Comment

No public comments were made.

V. Old Business

A. EDA Strategic Plan and Tactics

Staff received priority information for the EDA Strategic Plan from four of the seven Economic Development Authority members. Staff will contact the remaining members for their input.

This item will be placed on the January agenda in order to have a better overview and discussion regarding 2017 EDA priorities.

B. Tax Abatement Update; WAC & SAC Fees

In 2008, new home construction declined sharply within the City of Waseca, and has not recovered to previous levels. In 2014, there were no permits issued to build new homes, and only two permits had been issued through November 2015. Maxfield & Associates were hired to conduct a comprehensive housing study to evaluate the condition of existing housing in Waseca, and determine the potential for new construction. Eighty-one vacant lots were identified, with 50 in the Pondview Subdivision alone. This inventory will take up to eight years to exhaust, based on projected needs of 60 lots during the next three to five years (this equates to 12 to 20 new homes per year).

The lack of newer homes is constraining local employers. Many businesses have employees who cannot find suitable housing in Waseca, and therefore live elsewhere. This frequently leads to employees leaving Waseca businesses for jobs that are closer to their residences. Waseca has more people driving to work in Waseca than drive work from Waseca. These people are good candidates to becoming Waseca residents.

The proposed Tax Abatement program is designed to reduce the cost of development for home construction, and is flexible enough to provide benefits for spec home construction by a developer and those wanting to build a home to live in as their primary residence.

The requirements of the program are as follows:

- A building permit must be issued for the construction of a single-family home by December 31, 2018
- The maximum value of the home being constructed cannot exceed \$500,000
- The property owner can select one of three possible abatement levels
 - 100% Abatement for up to three years
 - 75% Abatement for up to six years
 - 50% Abatement for up to ten years
- The Abatement amount will be determined based on the final value of the property as determined by the County Assessor

Council discussion will also include adding a one-time waiving of the Sewer Access Charge (SAC) and Water Access Charge (WAC) fees for these new construction homes.

At their December 6, 2016, the Waseca City Council voted to set a public hearing date for Resolution No. 16-56 to their December 20, 2016 meeting.

VI. New Business

A. 2017 Meeting Dates

Staff provided the Economic Development Authority members with the 2017 meeting dates for review. Due to a CVN meeting scheduled for Friday, August 18, 2017, Staff requested the EDA discuss moving the EDA meeting to Friday, August 25, 2017.

It was moved by Fitch, seconded by Stagman, to approve the 2017 EDA meeting dates as amended; the motion carried 4-0.

VII. Other

No other business was brought forward.

VIII. Updates

Updates were provided regarding the following topics:

A. CVN

Gary Sandholm, Economic Development Authority, provided an update on three contacts received from the December CVN meeting.

A brief discussion was held regarding pursuing the construction of a freezer warehouse by Pinnacle Foods.

B. CGI Videos

The final versions of the videos have been approved. The City will be provided with a link to post these videos to our websites.

C. Boards & Commissions

• **B.E.S.T. of Waseca County**

➤ Election of Officers for 2017:

- Forrest Izuno, President
- Anthony Martens, Vice-President
- Brandon McCabe, Secretary
- Elizabeth Beery, Treasurer

➤ Memo of understanding between B.E.S.T. and the City of Waseca for administrative support.

• **Waseca Development Corporation (WDC)**

➤ Issued a loan to individual that is purchasing the Iversen Law Office.

IX. Next Meeting Date

The next Economic Development Authority meeting is scheduled for Friday, January 20, 2017, at 7:00 a.m.

X. Adjournment

It was moved by Fitch, seconded by Dunn, to adjourn the meeting at 7:35 a.m.; the motion carried 5-0.

Ranae Schult
Community Development Assistant



To: Russell Weir, President
Waseca Economic Development Authority

From: Danny Lenz & Gary Sandholm

Meeting Date: January 20, 2017

Subject: Hotel Feasibility Study

BACKGROUND: The construction of Highway 14 as a four lane highway has opened new possibilities for new businesses in Waseca. Even though new Highway 14 has been open for several years, the services available between Mankato and Rochester are very limited. Traffic counts are close to those along Interstate 90 in the Blue Earth/Fairmont/Jackson area. Near the I-90 interchanges, Blue Earth has two hotels, Fairmont has four hotels, and Jackson has three hotels. Fairmont also has two other hotels/motels that are at some distance from I-90. These numbers indicate the potential for another hotel to be successful in Waseca.

Locations like Waseca may be able to attract direct investment from a hospitality company, but frequently local investor groups provide the financial resources to build hotels which then are operated by management companies contracting with the investor group. Before investments are made, a feasibility study is usually performed to measure the local market's potential.

At the December Community Venture Network session, I met Steve Sherf with Hospitality Consulting Group and discussed Waseca with him. He has provided a proposal for consideration.

Benefits: A hotel will bring additional revenues into Waseca, generate additional lodging tax, and provide employment. Complementary businesses such as restaurants and convenience stores may also result from a hotel near the south Highway 14 interchange.

Recommendations: Engage Hospitality Consulting Group to perform a feasibility study for Waseca focusing on the interchange of Highways 14 and 13. If the prospects are positive, formation of an investor group can be pursued.

Budget impact: \$7500

Respectfully,

Danny Lenz

City Manager

Gary Sandholm

Economic Development Coordinator



January 4, 2017

Mr. Gary Sandholm
Economic Development Coordinator
City of Waseca
508 South State Street
Waseca, MN 56093

Dear Gary:

The Hospitality Consulting Group is pleased to present the following proposal to conduct a hotel feasibility study for Waseca, Minnesota. I feel strongly that my experience in analyzing hotel markets will be very helpful to you in evaluating the potential for a new hotel development and in identifying the scope of lodging facilities that will be successful.

This letter presents my understanding of the assignment, the services which I propose to provide, my qualifications, the timing and fees required, and the conditions and limitations under which I would work.

BACKGROUND AND UNDERSTANDING

I understand that Waseca is seeking to upgrade its lodging supply to better meet the needs of its businesses and residents. Presently, the city's hotel supply consists of a 20-year-old midscale hotel with a regional franchise and a 30-year-old independent hotel. Due to the age of these lodging properties, a new modern hotel is desired to support area businesses and the community's residents.

A key component to this mission is a feasibility study that will identify the community's lodging needs, recommend appropriate facilities, project future performance, test economic viability, and document local market conditions and the recommended hotel project in a report for use by parties interested in the hotel development.

Hospitality Consulting Group proposes to assist you with this project by evaluating the level of current and anticipated future lodging demand in the community, and if

sufficient to support a new hotel, identify the appropriate size, quality level, scope of amenities, and timing that will be economically viable.

SCOPE OF SERVICES

The scope of services that I propose to provide to assist Waseca in evaluating the community's hotel needs is detailed below.

At the initiation of my fieldwork I will meet with you to obtain an orientation to the community, insight into the present lodging environment, contact information for representatives of local large employers that generate lodging demand, and information on the proposed hotel site.

Lodging Demand Analysis

The lodging demand analysis will focus on identifying the present and future lodging needs. It will quantify the amount of demand that is presently being accommodated in the market, as well as the demand that is currently leaving the market due to lack of quality and/or capacity. The study tasks will include:

- Assemble and analyze economic and demographic data pertaining to the local and area market to evaluate the present economic climate and to estimate future growth potential, particularly as it relates to lodging demand.
- Identify the other hotels in the community and surrounding cities that accommodate local demand and evaluate them with respect to their age, facilities and amenities, rate structure and their relative competitiveness.
- Identify other proposed hotel developments in the market area, to the extent information is available, and assess their probability of completion and degree of competitiveness.
- Identify and evaluate the meeting and conference facilities available in and around Waseca.
- Quantify the current overall demand for hotel rooms in the market area, and the additional demand that may be accommodated by a high quality new hotel. Estimates will be made as to the share of market demand that is generated by commercial travelers, tourists, group meetings, and any other identifiable sources of demand.
- Recommend the type of hotel, approximate number of rooms, and amenities that are suited to the identified market.

- From an analysis of economic indices and market factors, estimates of future lodging demand and likely market penetration for the recommended hotel will be developed from which its utilization (occupancy and average rate) levels will be projected for its first five years of operation.

Site Analysis

The proposed hotel site located at the intersection of U.S. Highway 14 and Minnesota Highway 13 will be inspected in order to determine its suitability for hotel development. This analysis will encompass an evaluation of accessibility, visibility, physical characteristics, suitability of surrounding land uses, and proximity to community amenities that might affect the marketability of the proposed hotel.

Financial Feasibility Analysis

Financial projections will be prepared for the recommended hotel's first five years of operation that will contain sufficient detail for analysis by hotel developers and lenders.

- Estimates of room revenue, other revenue, and the operating expenses will be prepared for the recommended hotel to the level of cash flow available for debt service, for its first five years of operation.
- Based on preliminary development cost assumptions derived from other similar hotel projects, and current hotel financing terms, the overall economic feasibility of the project will be evaluated. That is, the ability of the hotel to generate sufficient cash flow to meet its debt service and provide a return on equity will be calculated.

Communication

I will keep you apprised of my findings as the study progresses. At the conclusion of the market study the findings, conclusions and recommendations will be reviewed with you. Similarly, I will review and discuss the financial projections and results of the economic feasibility analysis.

Upon your authorization, a final written report will be prepared that will contain my findings, conclusions, facility recommendations, utilization estimates, and financial projections, as well as the underlying data and documentation supporting the analysis. An example of the table of contents for a typical report is presented in Appendix A of this proposal.

The report will be suitable for distribution to hotel developers and lenders. The report will be provided in draft form for your review and comment, prior to finalization.

QUALIFICATIONS

The ***Hospitality Consulting Group*** provides market analysis, financial projections and economic feasibility services to the hospitality industry. Our market studies are comprehensive and our facility recommendations are developed to maximize market share, yet be economically viable. We work closely with our clients to help them define financially feasible projects. I will personally conduct this study. I have an extensive background in hospitality consulting that encompasses market studies, valuations, appraisals, development and sales. I have performed more than 250 market studies in large and small communities throughout the country. My profile follows this proposal.

Over the last several years, I have worked with a number of municipalities that are seeking to attract a new hotel. In some instances it has been their first hotel, in others it has been a modern hotel to upgrade the community's accommodations or add capacity. Recent upgrades in franchised hotels have rendered older hotels obsolete. Although older franchised and independent hotels can function well in a market, many communities are surprised at the amount of lodging demand that is leaving to find lodging at newer hotels in surrounding towns. New hotel facilities typically bring new business to a community, as local residents will now hold social functions in town and meetings and other group functions can be accommodated.

Other communities where I have prepared hotel studies for public entities include:

Alexandria, IN	Dennison, OH	Milbank, SD
Austin, IN	Elk Point, SD	Monticello, MN
Barnesville, MN	Hartford City, IN	Northfield, MN
Buffalo, MN	Hibbing, MN	Orrville, OH
Cannon Falls, MN	Lamoure, ND	Prescott, WI
Canton, SD	Lebanon, KY	Watertown, WI
Delphi, IN	McGregor, IA	Winsted, MN

FEES AND TIME FRAME

Based on the scope of the work outlined, the fee required for this engagement will be \$7,500. This fee includes all expenses incurred for field work, the purchase of hotel data and report reproduction. This fee includes three bound copies and an electronic copy of the final report. If additional bound copies are requested, I will provide them to you at reproduction cost.

If, during the course of the study, it appears that a new hotel will not be viable, I will stop work and discuss my findings with you. If the decision is made to discontinue the study, you would only be responsible for the fees and expenses incurred to that point.

The fees for this engagement will not exceed the quoted amount unless the scope of the work is significantly expanded. If additional work is requested, I will discuss the matter with you so that a mutually acceptable revision may be made.

In order to maintain independence on this consulting assignment, a retainer of \$3,750 must accompany confirmation of this engagement. The remaining \$3,750 will be due upon receipt of the draft report and must be paid prior to release of the final report. If the study arrives at a negative conclusion regarding the feasibility of a new hotel, my fee will be limited to the initial retainer.

My availability to begin this engagement is subject to scheduling but typically falls within two weeks of receiving authorization and the retainer. I will use my best efforts to complete the market study within four weeks of beginning the assignment.

TERMS AND CONDITIONS

The report will be based on estimates, assumptions and other information developed from my research of the market, knowledge of the industry and meetings with you and/or other city representatives. The sources of information and bases of my estimates and assumptions will be stated in the report. The terms of this engagement are such that I will have no obligation to revise the report or the projected operating results to reflect events or conditions that occur subsequent to the completion of my field work in the market. However, I will be available to discuss the necessity for future revision because of changes in the economic or market factors affecting the proposed project.

Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the periods covered by the prospective analyses will vary from those described in the report, and the variations may be material. The report will contain a statement to this effect. Further, I will not be responsible for future marketing efforts and other management actions upon which actual results will depend.

The report will be intended for the information of the City of Waseca and other members of the project's development team to assist in efforts to attract a new hotel to the community. It may also be used in its entirety in support of financing efforts for the proposed hotel. Otherwise, neither the report nor its contents may be referred to or quoted in any registration statement, prospectus, private placement memorandum,

appraisal or other investment document without my prior review and written consent. It is agreed that the liability of Hospitality Consulting Group is limited to the amount of fee paid as liquidated damages.

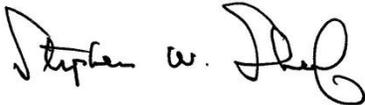
ACCEPTANCE PROCEDURE

If this proposal meets with your approval, please return a signed copy of this engagement letter along with a retainer check as authorization to proceed with the assignment.

If you have any questions or would like to discuss this proposal further, please feel free to call. I look forward to working with you on this interesting project.

Sincerely,

HOSPITALITY CONSULTING GROUP



Stephen W. Sherf
President

ACCEPTED BY: _____

TITLE: _____

DATE: _____

APPENDIX A
REPORT CONTENTS

1. INTRODUCTION

BACKGROUND
SCOPE OF STUDY

2. EXECUTIVE SUMMARY

3. REGIONAL CHARACTERISTICS

LOCATION
DEMOGRAPHICS
EMPLOYMENT
TRANSPORTATION
RESTAURANTS
AREA DEVELOPMENTS
TOURISM

4. AREA HOTEL SUPPLY

HOTEL SUPPLY
ADDITIONS TO HOTEL SUPPLY
MEETING FACILITIES

5. AREA HOTEL DEMAND

HOTEL INDUSTRY TRENDS
HOTEL DEMAND
AREA HOTEL MARKET PERFORMANCE
HOTEL DEMAND CONCLUSION

6. RECOMMENDED FACILITIES

FACILITY RECOMMENDATIONS

7. SITE REVIEW

8. UTILIZATION PROJECTIONS

PROJECTED OCCUPANCY
PROJECTED AVERAGE RATE
PROJECTED ROOM REVENUE

9. FINANCIAL PROJECTIONS

NOTES TO FINANCIAL PROJECTIONS
ECONOMIC FEASIBILITY ANALYSIS

Profile

Stephen Sherf – *President, Hospitality Consulting Group*

Stephen Sherf has over 35 years of operational and consulting experience in the hospitality industry. He spent 15 years with a large national public accounting firm, where he was the partner-in-charge of the hospitality consulting division for the Upper Midwest. He also started a gaming consulting company where he worked for 15 years, and most recently, founded a hospitality consulting company.

Mr. Sherf has an extensive background in hospitality consulting that encompasses market studies, valuations, appraisals, acquisitions and sales. He has performed market studies and other advisory services for over 250 hotel projects located mainly throughout the Midwest, for clients that include developers, lenders, hotel companies, and municipalities.

He also has particular expertise in development consulting to the gaming industry and has worked on numerous income producing real estate projects that include nursing homes, elderly housing, subsidized and market rate housing, office buildings, retail developments, water parks convention centers, ice arenas, restaurants, convenience stores, bowling alleys and cinemas.

Operating positions held during Mr. Sherf's career include restaurant manager, auditor, Vice President of Development for a hotel company, and Treasurer for a gaming company where he oversaw the operations of three Colorado casinos.

Mr. Sherf is known for his hands-on involvement and realistic conclusions. Where appropriate, development recommendations are backed by an economic feasibility analysis and a sensitivity analysis to assess risk.

He has provided expert witness testimony relating to the valuation of hotels and restaurants and business interruption claims. He has taught continuing education seminars and spoken at gaming, investment, and state appraisal conferences. He has been a guest lecturer at the University of Minnesota Graduate School of Business and Stout University. He is frequently quoted in local newspapers and business magazines.

Mr. Sherf received an undergraduate degree in economics and an MBA in finance from Cornell University. He holds a real estate license in Minnesota and Wisconsin and has taken several American Appraisal Institute courses. He is a Certified Public Accountant (inactive), is active in the Minnesota Lodging Association, and has served on the planning commission for the City of Minnetrista.