

4B. Consideration of Authorizing Professional Services Contract with Hospitality Consulting Services, LLC (Stephen Sherf) to complete a 2023 Hotel-Hospitality Study Update

Prepared by: Economic Development Manager	Meeting Date: 06/14/23	<input checked="" type="checkbox"/> Regular Agenda Item <input type="checkbox"/> Consent Agenda Item
Reviewed by: Community Development Director, Community Economic Development Coordinator	Approved by: City Administrator	

ACTION REQUESTED

Motion to authorize a professional services contract with MSA Professional Services Stephen Sherf, Hospitality Consulting Services, LLC to complete a Hotel-Hospitality Study Update.

Motion of other.

REFERENCE AND BACKGROUND

The EDA is asked to consider entering into a contract with Hospitality Consulting Group, LLC (Stephen Sherf) to complete a 2023 Hotel and Hospitality Study Update. During the regular May 10, 2023, meeting, members discussed the value of having a Hotel-Hospitality Study Update completed. The consensus of thought among the members was that with a recent spate of hotel development inquiries as noted by staff, it may be helpful to understand the market demands and influencing factors. The information in the Study would also allow the City Council and EDA to have an early sense of the potential community economic impacts and further gauge the cost-benefits in the event a developer seeks fee waivers, concessions, or some other form of financial assistance.

The study would analyze several potential hotel development sites in the City of Monticello and illustrate the performance metrics that may be expected if hotels were located at these sites. These sites include a parcel of land located north of I-94 near Runnings, a land tract along the east entry gateway into Monticello adjacent to I-94 as well as several parcels of land near the current Best Western Hotel.

Completing the Study Update will provide City policy makers and staff with data driven indicators that will be useful in discussions and decision steps if one or more hotel development proposals are submitted to the City in the next 12 to 18 months. It should be noted that due to Mr. Sherf's schedule, he was not able submit his proposal on Friday (06-09-23). He indicated that he could submit the proposal to staff early in the week of June 12, 2023.

- I. **Budget Impact:** The cost of the 2020 Hotel-Hospitality Study (an update of the 2015 Study) was \$5,550. This figure is about 39 percent more than the 2015 Study (\$4,000). A 2023 Study Update by Hospitality Consulting Group, LLC may carry a price tag with a similar percentage increase over the 2020 Study. The 2023 EDA General Fund Budget has a line item for Professional Services in the amount of \$31,700. Presently, the EDA is also considering other potential expenditures that may draw from that line item. This may require the use of dollars in other available line items in the EDA's 2023 General Fund budget. Some of the other code lines may have a smaller amount of expenses allocated to them and thus offer availability to cover much of the proposed Study Update cost. Staff will reconcile the specific budget lines with expenditures and monitor the entire 2023 EDA General Fund Budget to avoid tapping into un-restricted reserve funds in the EDA General Fund.

- II. **Staff Workload Impact:** The Community and Economic Development Coordinator, Economic Development Manager and Community Development Director have been involved in the work tasks related to completing a 2023 Hotel-Hospitality Study Update. The in-house staff time commitment to complete the Study Update is modest. Staff time involves discussions with the consultant regarding the desired scope of work tasks and the optimal timeline. Additional time to this effort involves report preparation and EDA meeting presentation. No other staff are required to complete the work in this effort.

- III. **Comprehensive Plan Impact:** Completing a Hotel-Hospitality Study Update fits with the vision adopted as part of the Monticello 2040 + Plan as expressed in the following Value Statement "A diversified and strong local economy competitive at regional, state and national levels." The Monti 2040 Plan's Economic Development chapter includes numerous statements aligning with pro-active support for business expansion and ensuring a local economic environment with outcomes of business retention, reinvestment, and tax base growth. The proposed Hotel-Hospitality Study Update will help answer questions about current demand and further identify promising sites for successful hotel proposals with the goal of informing policy, program, and development objectives.

STAFF RECOMMENDATION

Staff recommend the EDA authorize entering into a professional services contract for a 2023 Hotel-Hospitality Study Update based on the proposed scope of work and contract submitted by Hospitality Consulting Group, LLC. The City has seen recent changes in commercial, residential and recreational amenities development which may cause changes in the demand for hotel and hospitality facilities. Updated data and findings may provide helpful information to prospective developers as well as guide policy makers and staff in discussions related to potential hotel development efforts.

SUPPORTING DATA

- Hospitality Consulting Services, LLC Study Update Proposal and Contract – **Note:**
Proposal and Contract to Be Provided



June 12, 2023

Jim Thares
Economic Development Manager
City of Monticello
505 Walnut Street
Monticello, MN 55362

Dear Mr. Thares:

Hospitality Consulting Group is pleased to present the following proposal to update the hotel market study for Monticello, Minnesota that we conducted in August 2015 and partially updated in May 2020 before the study was halted due to the disruption that Covid was having on the hotel industry. We understand that the City is interested in re-examining the economic feasibility of a new hotel to be located within the community and that four potential sites have been identified. The purpose of this study will be to re-evaluate the market potential that exists for a new hotel and, if market justified, identify the type and quality level of hotel that will best meet the lodging demand and prepare operating and financial projections for the recommended hotel concept. This letter presents our understanding of the assignment, the services which we propose to provide, the timing and fees required and the conditions and limitations under which we would work.

BACKGROUND AND UNDERSTANDING

We understand that the City of Monticello is interested in encouraging the development of a new hotel. Accordingly, the City is interested in determining whether a new lodging facility can be market justified.

Based on its findings from the study performed in 2020, the Hospitality Consulting Group concluded that a new upper midscale hotel would have the greatest possibility for economic success. Key findings of the study included:

1. The Monticello lodging market experienced a number of capacity nights in the summer when tourist traffic on I-94 peaked, during certain community events, and when maintenance crews were working at the Xcel Energy power plant; and

2. Upscale demand was leaving the market in favor of higher quality hotels in Albertville and Maple Grove.

SCOPE OF SERVICES

The scope of services that we propose to update our evaluation of the hotel development potential in Monticello is detailed below:

- Meet with you and other city officials to obtain information on recent and proposed developments that may have an impact on lodging demand;
- Obtain information regarding the future plans for changes at the Xcel power plants that may impact area lodging demand;
- Update current economic and demographic data pertaining to the local and regional market to evaluate the present economic climate and to estimate future growth potential, particularly as it relates to lodging demand;
- Obtain current data regarding the performance of the local hotel market and re-interview several of the local employers who utilize lodging accommodations in order to quantify the current overall demand for hotel rooms in the market area and demand that is deterred from the market;
- Inspect the existing hotels in Monticello and evaluate them with respect to their age, facilities and amenities, rate structure and their relative competitiveness;
- Identify other proposed hotel developments in the area and assess their probability of completion and the degree to which they would compete with a new hotel in Monticello;
- Identify the type and quality of hotel that would be most successful, given the nature of Monticello's lodging demand and the existing hotel supply;
- Prepare estimates of future lodging demand and likely market penetration for the recommended hotel, from which utilization (occupancy and average rate) will be prepared for their first five years of operation;
- Comment on the suitability of the four potential hotel sites that have been identified;

- Prepare estimates of room revenue, other revenue, and operating expenses for the recommended hotel project to the level of cash flow available for debt service, for their first five years of operations; and
- Based on estimated hotel development costs, prepare a feasibility analysis that evaluates the ability of the recommended hotel to meet its debt service obligations under likely financing assumptions.

At the conclusion of the market study we will review our findings, conclusions and recommendations with you.

Final Report

We will prepare a final written report that will contain our findings, conclusions, hotel facility description and financial projections, as well as the underlying data and documentation supporting the analysis. The report will contain sufficient information and analysis to assist potential developers in determining their level of interest in pursuing a hotel development. The report will be provided in draft form for your review and comment, prior to finalization.

ESTIMATED FEES AND TIME FRAME

Based on the scope of the work outlined, the fee required for this engagement will be \$6,000. This fee includes the cost of purchasing hotel data and all other expenses associated with the assignment. Our fee includes three bound copies of the final report along with an electronic copy. If additional bound copies are requested, we will provide them to you at our reproduction cost.

Our fees for this engagement will not exceed \$6,000 unless the scope of our work is significantly expanded. If additional work in excess of the scope described above is requested, we will discuss the matter with you so that a mutually acceptable revision may be made. Of course you may terminate this engagement at any time by so informing us, in which case you would only be responsible for the fees and expenses incurred to that point.

The remaining \$6,000 fee will be due upon receipt of the draft report and must be paid prior to release of the final report. If the project is halted at any time, we will refund any unused portion of the retainer received.

We anticipate this assignment will take four weeks to complete.

TERMS AND CONDITIONS

Our report will be based on estimates, assumptions and other information developed from our research of the market, knowledge of the industry and meetings with City officials. The sources of information and bases of our estimates and assumptions will be stated in the report. The terms of this engagement are such that we 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 our field work in the market. However, we 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 our prospective analyses will vary from those described in our report, and the variations may be material. Our report will contain a statement to this effect. Further, we will not be responsible for future marketing efforts and other management actions upon which actual results will depend.

Our report is intended for the information of the City of Monticello and may be provided to interested hotel developers. It may also be used in its entirety in support of financing efforts for a specific hotel project in the community. However, 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 our prior review and written consent. It is agreed that the liability of Hospitality Consulting Group and its employees is limited to the amount of fee paid as liquidated damages.

ACCEPTANCE PROCEDURE

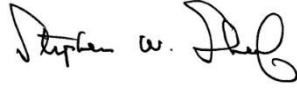
If this proposal meets with your approval, please return a signed copy of this engagement letter along with a retainer check as authorization to proceed with the engagement.

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

Sincerely,

HOSPITALITY CONSULTING GROUP



Stephen W. Sherf
President

ACCEPTED BY: _____

TITLE: _____

DATE: _____

Profile

Stephen Sherf – *President, Hospitality Consulting Group*

Stephen Sherf has over 30 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, before founding the Hospitality Consulting Group in 2000.

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 200 hotel projects located mainly throughout the Midwest, for clients that include developers, lenders, hotel companies, and municipalities.

Prior 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 has held a Minnesota real estate license and has completed several American Appraisal Institute courses. He is a Certified Public Accountant (inactive), has participated in the Minnesota Lodging Association, served on the planning commission for the City of Minnetrista, and has held a Colorado gaming license.