

RESOLUTION 2013-14

**A RESOLUTION APPROVING AN ECONOMIC INCENTIVE PACKAGE
APPLICATION FOR THE CONSTRUCTION AND OPERATION OF A HOTEL BY
DRY CREEK SUBDIVISION, LLC**

RECITALS

1. The Hayden Town Council adopted an economic incentive policy on May 9, 2009; and
2. The Town of Hayden has received an incentive package application from Dry Creek Subdivision, LLC for the proposed project named Creek View Best Western Plus, dated April, 2013; and
3. The Hayden Economic Development Commission reviewed the incentive package application named above and unanimously recommends its approval.

**NOW, THEREFORE BE IT RESOLVED BY THE TOWN COUNCIL OF THE
TOWN OF HAYDEN, COLORADO THAT:**

Section 1. The Town Council hereby approves the Incentive Package Application attached hereto subject to the following:

1. Approval by the Town's Planning Commission of a hotel development as described in the Incentive Package Application attached hereto.
2. Approval, by ordinance, of a formal economic incentive agreement between the property owner and Dry Creek Subdivision, LLC and the Town of Hayden.

Section 2. This Resolution shall be in full force and effect upon its passage and adoption.


**RESOLVED BY A VOTE OF 4 IN FAVOR AND 0 AGAINST THIS 2nd DAY
OF MAY, 2013.**



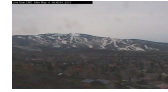
~~Leahanne Johnson, Mayor Pro Tem~~

**Richard P. Hagins, Councilmember
Chair of the May 2, 2013 Town Council Meeting**

ATTEST:



Melisa Owens, Town Clerk



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Hayden developers want to take advantage of the town's economic incentives program to secure the financing to build a 46-room Best Western-branded hotel on the west side of town.

Hayden council approves tax incentives for proposed hotel

By **Matt Stensland**

Friday, May 3, 2013

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Steamboat Springs — Hayden officials gave a [proposed hotel project on the west side of town](#) their five-star rating and are prepared to offer tax breaks.

Hayden Town Council member Bill Hayden said the council voted, 4-0, in favor of the economic incentive package application during its Thursday meeting. Council members Jim Haskins, Lorraine Johnson and Tim Redmond were absent.

“It’s the right thing to do,” Hayden said. “If we want to have people invest in the community, we need to offer help. It costs the town nothing.”

Hayden said about 10 members of the public attended the meeting and all were supportive of the project by the end.

The Hayden developers, brothers Louis and Stefanus Nijsten, have been considering building a hotel since 2009. They said tax breaks are needed if they are going to find a bank or private lender to finance the project.

“We do have some serious interest from banks and investors, and this will help in those conversations,” Stefanus Nijsten said.

For the first five years of operation, the developers are asking for a percentage of property taxes that otherwise would go to the town. For at least seven years, the developers are asking that a percentage of sales and lodging taxes collected by the hotel be rebated. The rebate would be from zero to 95 percent depending on occupancy rates at the hotel.

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The developers have argued that the town has nothing to lose by rebating tax dollars it otherwise would not be receiving anyway.

“Basically, as developers, we’re taking all the risk,” Nijsten said.

Nijsten said it was good of the town to develop an economic incentive program, and with its reception to the first application, the town has a promising future.

Even with the rebates, the developers think the hotel directly and indirectly will generate more than \$60,000 in taxes for the town by the third year.

The proposed 46-room, Best Western-branded hotel would be on the west end of Hayden in the Creek View Subdivision at Fifth Street and U.S. Highway 40. The developers said it would employ 10 full-time employees who would earn an average annual wage of \$25,533.

Nijsten said once they get their financing secured, they will enter the approval process for the hotel.

Nijsten said they hope to begin building the \$3 million project this summer.

To reach Matt Stensland, call 970-871-4247 or email mstensland@SteamboatToday.com



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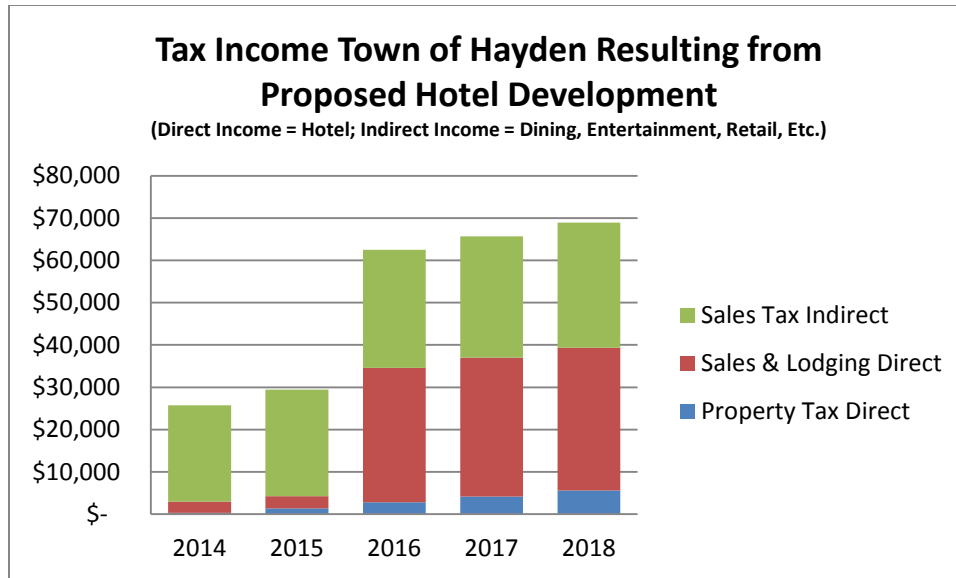
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1 Introduction

Since we have been working in Hayden, community members have been telling us that the lack of a proper hotel is limiting the future growth and development of the Town of Hayden. Visitors that are not staying in Hayden will not spend their money in Hayden. Being able to retain visitors will not only generate revenue from a lodging facility, but more importantly, enable the community to capture visitor dollars spent on retail, food & beverage as well as entertainment. In addition, the hotel will create job opportunity. As part of the development of a 46 room quality hotel on the west side of Hayden on US-40, I would like to ask you to consider the following project summary and incentive package application. I hope you find the arguments to incentivize this project strong and that this incentive package will serve in the best interest of the community by creating a much needed marketing partner and a way to retain visitors in our Town. A key element of this proposal is that it will not have any cost to the Town, rather it will generate revenue from start. However, it will make a decisive difference in whether or not this hotel will become a reality.

2 Project Summary

The project entails the new-construction of a 46 room Best Western Plus Hotel (BW's upper midscale brand). It will include a pool and spa, work-out room and a breakfast lounge. The location of the hotel is on the vacant lot on US-40 within the Creek View Subdivision. The intent is to start construction early summer of 2013. The lack of overnight lodging is recognized as one of the main obstacles in the growth potential of the Town. Introducing this new commercial business will increase the Town's tax base, utility fund and employment opportunities. Building a quality hotel will enable a variety of tourism industries to flourish and provides employment both during construction as well as the operation. It will also complement existing business by providing a way to retain visitors in Town. Restaurants and retailers, hunting outfitters and event organizers are just some of the businesses/industries that will greatly benefit from a quality hotel in Town. By providing the Town of Hayden a key service infrastructure, this hotel project will improve tax base, ultimately improve property values by making the Town more desirable to outsiders, improve service availability as well as expand job availability and help sustain the long-term economic success of Hayden and its citizens.



3 Background

As the developer of the Creek View Subdivision and as operators of several businesses in Hayden, we know first-hand the pressure that exists on the real estate market as well as the job market overall. We have been working on the development of a hotel in Hayden since 2009 and have found the economic environment very challenging in getting the project realized. Even though the feasibility study suggests that this should be a moderately successful investment, and a good idea on a good location, we have found both banks and investors hesitant in taking on real estate and operational risk in the Town of Hayden.

An incentive package will signal that this community is squarely behind the idea of bringing a quality hotel to Town and it will also reduce financial risk to the owner, and thus making this investment opportunity attractive enough to make a financial commitment. The same is true for banks and any other party that is considering taking on risk with this project. First we will look at the direct and indirect benefits that will flow from this project and then explain what the application for incentives entails.

4 Direct and Indirect Tax benefit to Hayden

4.1 Direct Income to Hayden

Currently the Town of Hayden collects about \$340 annually from the proposed site in the form of property taxes. This proposal aims to create a net gain for the Town of Hayden from the very start of the project. This will be in the form of tap fees (\$106,000) and building permit fees (20% of \$16,000). Once operations start, there will be direct and indirect lodging and sales tax revenue to the Town of Hayden.

4.1.1 Tax income for Hayden

The following is the analysis of the economic impact of the proposed hotel to the Town of Hayden. This analysis has been performed by Scott Ford, Pinnacle Economic Research Group. The focus of this analysis was specifically on the Town of Hayden forecasted sales tax generated as well as the lodging tax component that is directly associated with room bookings. Based on this analysis it is reasonable to estimate that the proposed hotel would be generating annually about \$186,000 in Colorado, counties and local sales tax. This includes the spending on lodging, food and beverage, misc. retail and entertainment/other. The Town of Hayden’s share of this local tax would be approximately \$64,000. In addition to this the hotel will generate approx. \$30,600 in lodging taxes for Hayden directly.

The 3 year average 2016-2018 Average Daily Rate (ADR) shown in the HVS Consulting projections was used to estimate the number of visitors and what their average spending would be per visit.

Also used for this analysis is STR Global data for Craig, Colorado for both the average length of stay and number of individuals per room. STR Global provides hotel benchmarking data for towns throughout Colorado. It appears that STR Global data or some derivative thereof is consistent with the occupancy percentages presented in the HVS Consulting Market Analysis. STR Global data was used to estimate the average length of stay and average number of individuals staying in each occupied hotel unit.

4.1.2 Visitor Spending

It is assumed that that the allocation of spending by category will be very similar to that experienced in Craig. This data was obtained from the Craig Chamber of Commerce.

Spending Allocation by Category

Category	% of Total
Lodging	37%
Food/Beverage	33%
Misc. Retail	13%
Entertainment/Other	17%
Annual visitor Spending	100%

The table below explains the average spending per visitor during total length of the stay.

AVERAGE SPENDING PER VISITOR DURING TOTAL LENGTH OF STAY		
A	Occupancy Rate	61%
B	Room Nights Sold (46 rooms x 365 days x A)	10242
C	Average Visitors per Room	1.8
D	Total Number of Visitor Days (B x C)	18435
E	Average Length of Stay	2.5
F	Total Number of Visitors to Area (D x E)	7374
G	Lodging Average Daily Room Rate	\$85.37
H	Lodging Spending Per Stay (E x G)	\$213.43
I	Lodging Spending Per Visitor Per Stay (H ÷ C)	\$118.57
J	Total Spending Per Visitor Per Stay ((I ÷ 37%) x 100%)	\$320.46
K	Average Annual Visitor Spending (F x J)	\$2,363,042

4.1.3 Spending Allocation

Based on a projected number of room nights sold of 10,242 as the hotel stabilizes in year 3, it is estimated that the hotel would be hosting about 7,400 visitors annually. These visitors would be spending on average \$320 per visit. This number of visitors and spending per visitor would result in an estimate of total visitor spending of \$2.4 million.

Allocation of Estimated Annual Visitor Spending

Category	Dollar Value	% of Total
Lodging	\$ 874,326	37%
Food/Beverage	\$ 779,804	33%
Misc. Retail	\$ 307,195	13%
Entertainment/Other	\$ 401,717	17%
Annual visitor Spending	\$ 2,363,042	100%

4.1.4 Hayden Capture of Spending

Of the spending that takes place on categories other than lodging, it was assumed that 75% of the Food/Beverage would take place if the restaurant at Creek View reopens. This means that 25% of this spending would still occur outside of Hayden. 30% of the Retail spending would occur in Hayden and 10% of the Entertainment/Other that would be subject to sales taxes would take place in Hayden. The balance of the spending would take place either in Craig or Steamboat Springs. To the degree that over time the business community in Hayden responds to the increase in visitors in town, it is reasonable to anticipate an increase in the sales tax collection due to a higher visitor dollar capture rate. For instance, 70% of the retail dollars and 90% of the entertainment and other dollars are opportunities for local businesses to capture.

4.1.5 Visitor Spending Tax Income

The above spending pattern results in the following Tax Revenue for the Town of Hayden (used in this table are the average occupancy rate and room rate for the years 2016, 2017 & 2018 as projected by HVS Consulting)

Tax Rate	Visitor Spending Association	Hayden Capture	State of Colorado 2.9%	Routt County 1.0%	Hayden Sales Tax 4.0%	Hayden Lodging Tax 3.50%	Total
Lodging	\$ 874,326	100%	\$ 25,355	\$ 8,743	\$ 34,973	\$ 30,601	\$ 99,673
Food/Beverage	\$779,804	75%	\$ 22,614	\$ 7,798	\$ 23,394	N/A	\$ 53,806
Misc. Retail	\$ 307,195	30%	\$ 8,909	\$ 3,072	\$ 3,686	N/A	\$ 15,667
Entertainment/Other	\$ 401,717	10%	\$ 11,650	\$ 4,017	\$ 1,607	N/A	\$ 17,274
Annual visitor Spending	\$ 2,363,042		\$ 68,528	\$ 23,630	\$ 63,660	\$ 30,601	\$ 186,420

Based on this analysis it is reasonable to estimate that the proposed hotel would be generating annually about \$186,000 in Colorado, Routt County and local Sales and Lodging Tax. This includes the spending on lodging, food and beverage, misc. retail and entertainment/other. What does this mean for the Town of Hayden?

Direct sales and lodging tax dollars from the hotel to Hayden is \$34,973 + \$30,601	= \$65,574
Indirect sales tax dollars from retail, restaurants and entertainment to Hayden	= <u>\$28,687</u>
Total amount of direct and indirect tax dollars collected by the Town of Hayden	= \$94,261

5 Hotel Employment

5.1 Hotel Management

HVS Hotel Management division made an estimation of labor and FTE's that a hotel of this size typically needs to run and operate successfully. We envision this to be an owner operated hotel with operational oversight from a professional hotel management company. This means that we will have our own trained supervisor/general manager in charge of the hotel with the support of Best Western management and quality standards as well as a contract with a Hotel Management Company that will provide operational oversight. This should ensure both the sense of locally owned and operated as well as the professional standard of management that visitors are accustomed to when visiting hotels of this brand across the country and the rest of the world.

5.2 Hotel Employment, local jobs

The hotel as proposed is to create roughly 10 full time jobs, some of the described jobs and associated payroll costs are part of the direct room costs and some are part of the undistributed expenses. Even though we cannot guarantee that all of these jobs will be filled locally, the local labor market has the advantage of not having to travel from out of town making it the logical first choice.

5.3 Employment and wages

The bureau of Labor and Statistics suggests that the average annual wage in Colorado in accommodation and food services is \$17,196 (Kate Nowak, Yampa Valley Data Partners). In our projections this hotel will generate the equivalent of nearly 10 full time jobs at an average annual wage of \$25,533 + benefits, which is higher than the average in Colorado.

Projected Payroll - By HVS Hotel Management

Position	FTE	Pay Rate	Total payroll
Housekeeper	2.2	\$ 10	\$ 45,000
Supervisor/ Public area	1	\$ 17	\$ 35,360
Breakfast Attendant	1.4	\$ 10	\$ 29,120
Front Desk	3.4	\$ 12	\$ 84,832
Maintenance	1	\$ 13	\$ 27,040
Management Oversight	0.5		\$ 21,216
Total Raw	9.5		\$ 242,568
Taxes and Benefits	25%	of Raw	\$ 60,642
Total Payroll			\$ 303,210

Average wage per FTE \$ 25,533

6 Proposal for incentives

6.1 Why are Incentives Needed?

The key to this application is to ask the Town to forego short term income from a business that does not exist today, in exchange for long term revenues from that same business. In our estimation, the only way to make this hotel work is if it is done as a high quality hotel with brand recognition and professional management. This however creates the need for substantial investment and financial risk. This is part of the reason why a hotel of this kind has not been developed to this day. The incentive package is needed to help cover the high financial risk associated with the project as well as mitigate the ‘small town’ risk by a strong show of community support. Very important to us and to this application is that the community understands that there will be no net cost to the Town of Hayden as a result of this project or this incentive package. In fact, we will demonstrate that there will be a net gain to the Hayden Tax base from day one with the outlook of substantial tax base growth in the future. The proposed incentive package is based on partial rebates of three tax revenue sources, namely the annual property taxes, the monthly sales taxes and the lodging taxes. The package requests rebate of the taxes that are collected directly by the business and not the indirect tax dollars that are a result of visitor spending in other areas than lodging.

6.2 Property Tax Incentive

The property tax rebate is an annual rebate designed to help relieve the business financially in the first five years, with the majority of the relief in the first few years when the hotel occupancy rate has not yet reached target levels. The Hayden general fund component of the total property tax bill is roughly 20%. The following table explains the percentage of the Hayden property tax component that we are requesting as a refund to the business. The taxes in 2014 will be based on the 2013 before improvement land value and are insignificant for the purpose of this rebate package. Therefore, the partial rebate starts after year 1 of operations in 2015. Please note that even though part of the property taxes are rebated in the second and subsequent years, in 2015 the Town will collect roughly 4 times the amount of tax dollars it is currently collecting and this increases to roughly 20 times the amount collected today after 2018. The property tax rebate system ends after the last rebate takes place in 2018.

HVS projected scenario (assumed to stay roughly the same)					
Property Taxes	2014	2015	2016	2017	2018
Estimated total	\$ 1,700	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000
Hayden component	\$ 340	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000
Rebate % request	0%	80%	60%	40%	20%
Rebate to project	\$ -	\$ 5,600	\$ 4,200	\$ 2,800	\$ 1,400
Net income to Hayden	\$ 340	\$ 1,400	\$ 2,800	\$ 4,200	\$ 5,600

6.2.1 Sales and Lodging Tax Incentive

The benchmark used for the amount of sales and lodging tax to be rebated is tied to the hotel’s performance and a common performance measure for hotels is occupancy rate. The stabilized target set by HVS Consulting is an occupancy rate of 61%. Occupancy rate is measurable (monthly tax reporting) and a logical performance measure as it reflects how many visitors are actually staying at the hotel. If the hotel is not performing well because of a lack of visitors, the rebate will be larger to help with the coverage of debt payments. As the hotel builds in clientele the occupancy rate will go up and rebate amount will go down, resulting in a higher net tax income for the Town of Hayden. In essence the motive for both the hotel owner as well as the Town of Hayden is to attract more visitors, to build business and to increase occupancy rate.

6.2.2 Sales Performance categories and rebate brackets

Performance	Occupancy	Rebate
Below Target	60% or lower	95% of sales and lodging tax
At Target	Between 61% and 80%	50% of sales and lodging tax
Above Target	81% and higher	0% of sales and lodging tax

6.2.3 Explanation of the brackets

The brackets are chosen so that the ability to cover debt stays at or above an acceptable level for banks and investors. As gross sales volume goes up as a result of increased occupancy, so should the ability to cover debt payments and the rebate amount will go down keeping the debt coverage ability of the business relatively stable (debt coverage ratio of 1.35 on a 15 year loan at 5% interest).

6.2.4 Goal of mechanism

The goal of this mechanism is to one day receive no rebates at all because of a successful hotel business and by having this business also creating the maximum amount of tax base for the Town of Hayden. However, if the business takes longer than expected to attain those levels of success or if the market proves weaker than expected, the mechanism will help the business in covering debt and help prevent the business from failing before it reaches its targets. Having this mechanism in place will greatly help in enticing banks and investors to participate as it helps the business financially as well as shows them strong community support.

6.2.5 How sales and lodging tax rebates work

At the end of each month the business will report sales and lodging tax collected to the State and to the Town of Hayden. The next month, these taxes will be paid to the State (sales tax) and to the Town of Hayden (lodging tax). The month after that, the town will receive the sales tax amount back from the State. We look at the occupancy rate in the month of the tax collection which is transparent because of tax reporting and the Town determines which performance bracket applies and which rebate % of the total amount applies. As described in the table above this can be 0%, 50% or 95%. So the system works

on a month to month basis with the rebates following 2 months behind the original tax collection month. This places the financial relief for the business within 2 months of having a slow month. This means that during the busy part of the year (e.g. hunting season), the business will not be eligible for any rebates if it operates at an occupancy level of 81% or higher. In the slower months it will be eligible for a 95% or 50% rebate depending on occupancy levels in each one of those months. Needless to say, the goal of the business owner is keep occupancy levels as high as possible during the entire year. There are various ways of doing this like for instance having contracts for continuous rooms with local and regional industries like the power plant, coal mine, airport and oil and gas companies.

6.2.6 Length of sales and lodging tax incentives

The 2 likely forms of financing of the project are either private investment of the whole needed amount that usually gets refinanced after 5 years or a bank loan combined with and SBA loan that will likely have an interest rate adjustment after 5 years. In either scenario, an interest rate adjustment will be happen after 5 years creating considerable risk to the operation if interest rates increase considerably within the next 5 years. It is therefore that we propose to have the downside protection from this incentive package in place for at least 2 years after the refinancing and or interest rate adjustments. For this reason we propose to deviate from the Hayden Incentive Policy’s maximum of 4 years and to have the described mechanism in place initially for 4 years to begin with.

As soon as the hotel operates at an average annual occupancy rate of 61% for 3 consecutive years after the these first 4 years, the incentive package will terminate because clearly the business has stabilized and can be considered successful and in no more need of downside protection. This makes the inner limit 7 years. The outer limit requested is 10 years, after which the package is subject to renegotiation/termination.

These terms have been chosen to create the best chance for success for the business and subsequently for the Town of Hayden. Also deviating from the Hayden Incentive Policy is the proposition that if the business works better than expected from the very start, the Town will collect most or all of the taxes for all of those 7 years and then the incentive package will terminate.

The tables below are a summary and a more elaborate projection by HVS Consulting. These tables show a substantial (direct) tax benefit for the Town of Hayden even with the incentive policy in place. In addition to this tax income will be the indirect tax benefit as described in Section 4.1.2 *Visitor Spending* of this report.

HVS projected scenario					
Sales & Lodging Taxes	2014	2015	2016	2017	2018
Sales tax (4%)	\$ 27,787	\$ 30,648	\$ 33,946	\$ 34,962	\$ 36,011
Lodging tax (3.5%)	\$ 24,314	\$ 26,817	\$ 29,703	\$ 30,592	\$ 31,509
Total collected	\$ 52,101	\$ 57,465	\$ 63,648	\$ 65,553	\$ 67,520
Rebate to project	\$ 49,496	\$ 54,592	\$ 31,824	\$ 32,777	\$ 33,760
Net income to Hayden	\$ 2,605	\$ 2,873	\$ 31,824	\$ 32,777	\$ 33,760

8 Cumulative Tax Benefit after Rebates

The chart below shows the total Net Tax Income to the Town of Hayden as a result of the proposed hotel development. Taxes to the Town of Hayden will be generated through Direct & Indirect Sales Tax, Lodging Tax and Property Tax. The Town should already see a total Net Tax Income of more than \$60,000 in the third year of operation, resulting from the existence of this hotel.

