

Staff Report

**TAX ABATEMENT REQUEST
FROM DEERY BROTHERS
FOR DEVELOPMENT ON S.E. 16TH STREET**

February 28, 2012

On February 14, 2012, the City Council referred the attached letter from Brad Deery requesting that Council consider granting five year tax abatement for their proposed development.

Background:

Representatives from Deery Brothers have been working with the City staff to develop property at the southwest corner of S.E. 16th Street and South Dayton Road. Because a portion of the property is in the floodway, only 11.5 acres out of the 26 acre site will be available for development. It is their intent to raise the elevation of the site above the road level using dirt excavated from the floodway portion of the site and to subdivide the land into three lots. Once this site work is completed, they intend to immediately begin construction of a car dealership on the middle lot. Since uses for the remaining two lots have yet to be identified, development of the remaining two lots most likely will occur at a later date.

In order to offset some of the excavation and fill work expense for the development of these three properties, Mr. Deery is requesting that the City grant a five year, 100% property tax abatement.

The City Council should be aware that Deery Brothers representatives have also requested that the City consider modifying certain Zoning Ordinance requirements as they relate to landscaping, parking lot striping, and plant species in order to facilitate the development of their car dealership within the city. This same type of request was made recently by the owners of Wilson Toyota of Ames. Staff has met with both parties to discuss their concerns with the existing zoning requirements, and will be bringing Council recommended changes regarding these issues in the future.

ARGUMENTS IN SUPPORT OF TAX ABATEMENT FOR THIS PROJECT:

- Almost three years ago the City Council invested a significant amount of money to fund the road widening, road paving, and bridge replacement along this section of the S.E. 16th corridor. That action was taken to facilitate the movement of traffic from businesses east of Dayton Road to Duff Avenue, as well as the development of commercial uses in this previously undeveloped area. Even though these public improvements are in place, there has heretofore been no development occurring along this stretch of S.E. 16th Street.

The granting of tax abatement incentives could stimulate development along this section of the street corridor on, at least, one lot immediately. **It is expected that this project will serve as a catalyst that will spur other development projects in the area.**

- Mr. Deery has indicated that the car dealership will create 40 new jobs with an average salary of \$60,000. In addition, he has advised that over \$2 million will be spent in the community to construct the car dealership and establish the business. Additional investment will be made when the other two lots are developed. Therefore, **the facility will offer financial benefits to the local economy.**
- Because this property is subject to flooding, it is not attractive for development as it currently exists. Mr. Deery has explained that it will take \$1.4 to \$1.5 million to raise the site approximately “five feet above the minimum level set by the local flood zone maps.” **Therefore, Mr. Deery suggests that because it is more costly to develop in this area, financial assistance from the City is needed if we hope for development to occur along this corridor.**
- The City Council is committed to establishing a positive image as travelers enter our community from Highway 30 and Interstate 35. In an effort to accomplish this objective, the following two initiatives were undertaken by the Council: (1) the Southeast Overlay was established with its greater design requirements to assure a higher quality appearance, and (2) the installation of decorative lights along the Highway 30 entryway is about to occur. **Mr. Deery has emphasized that the immediate development of this car dealership along the entryway corridor will accelerate and complement the positive image that the City Council is seeking.**

(The City Council should note that John Lott from Benjamin Design Collaborative has offered additional thoughts in support of a tax abatement incentive in the attached letter.)

ARGUMENT AGAINST TAX ABATEMENT FOR THIS PROJECT:

- Other car dealerships have been constructed or renovated within the City of Ames over recent years. In fact, Wilson Toyota of Ames is currently making improvements to their property. In addition, other businesses have incurred significant costs to fill in the floodplain to accommodate their developments. In both situations, these other developments occurred without the benefit of a tax abatement incentive. **Therefore, the City Council might not want to establish a precedent by providing a tax abatement incentive for this type of use or for development in the floodplain.**
- Currently there are four areas where the City Council has committed to provide a tax abatement incentive. However, just developing within one of these specific

areas does not assure receipt of the incentive. In order to qualify for the incentive, the Council has established an eligibility criteria matrix that typically requires the developer to exceed normal City requirements in exchange for tax abatement. **The City Council might not want to grant this type of incentive until additional eligibility criteria are established and met.**

- The Flood of 2010 has caused the City Council to once again explore ways to minimize flood damage to properties within our community. One idea that has been discussed deals with possible limitations on development in our floodplains. An absolute prohibition of construction in these flood-prone areas might be too radical given the amount of our developable commercial land that is in these flood-prone areas. However, the **City Council might not want to encourage greater exposure to flooding by incentivizing development in this area that might shift floodwaters onto other properties in the floodplain.**

STAFF COMMENTS:

Representatives for the Deery Brothers have indicated that the granting of tax abatement is crucial to their decision to move ahead with this project. As was emphasized above, the use of this incentive is a reasonable tool to entice a developer to locate a project in our community. However, the City Council must determine if tax abatement should be used to specifically attract car dealerships to Ames, or if the circumstances highlighted above make this project, or this area, so unique that it is worthy of tax abatement.

If the Council decides to offer tax abatement, the next step would be to direct the staff to develop an Urban Revitalization Plan. Once the plan is prepared, a public hearing with a 30 notice is required before the Council can approve the incentive. It is estimated that the total process will take 90 days.

If the City Council continues with past practice, three tax abatement schedules would be offered to the developer – a three 100% abatement, a five year partial/decreasing abatement, and a 10 year partial/decreasing abatement. This is different than the five year, 100% abatement that Mr. Deery has requested.

DEERY BROTHERS



To the Ames City Council

February 9, 2012

Deery Brothers is considering the purchase of 26 acres at the southwest corner of 16th street and South Dayton Avenue. This property has some very unique conditions because of its location within the community. First of all, this property is positioned within the Gateway Overlay District, an area identified with additional planning requirements that seek to unify and enhance the visual appearance of one of the main entrances into Ames. A well-done development in this area is a priority. This property next to the river, however, was completely under water during the May 2010 flooding. Please note the attached aerial photograph of that area during the 2010 flood. Approximately 9 of the 26 acres will never be buildable since it is in the designated floodway. Due to the substantial raising of the buildable portion of the land, there will be less than 11.5 acres of the remaining 15 buildable acres that can be used for construction because of the significant sloping on the perimeter when the earthwork is completed. The usable area is much smaller than it appears and the earthwork cost is significant.

It is our intention to fully develop the buildable portion of the site so that it is ready to be divided into three properties. This decision is made because of the difficulty of preparing only one site at a time. It is unsatisfactory to have major earthwork construction going on around us after we are open for business. The initial phase will involve a car dealership that will take up the middle third of the buildable area and set the stage for new construction on either side for future owners.

Our Manufacturer has preliminarily approved the location and our site plan. A temporary site has also been approved so that we can open and operate as our new facility is being constructed, and our lending institution has committed to the project as well.

We are requesting the assistance of the City of Ames in offsetting some of our added expense for the development of these three properties by allowing us to remain at the current tax rate for a period of five years, after which we would begin to pay taxes on the full assessed value of the property. We feel we need five years of tax abatement for any new values that go on the assessor's tax rolls. The current annual taxes would continue to be paid, so we are only asking to postpone any new gain that would occur from the new construction. This would not be a cost to the City, only a delay in its increase in taxes for a short period.

Signature
SERVICE

"The Road, The Ride & The Relationship always carry our signature." - Deery Brothers

Deery Brothers

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Deery Collision Center

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We anticipate that three separate properties will be developed with our new dealership being the initial construction. We also request a five year window on the other two locations at our site, whereby any construction that begins during the five year window will upon completion receive the same five year tax abatement.

Following is a list of points for consideration that are unique to this site, to keep in mind when evaluating this request:

1. One Hundred Year Flood Elevation.

The 100 year flood elevation is 883.5 feet and the required building elevation is three feet above or 886.5 feet above sea level. The May 2010 flooding event had an estimated elevation of 885.5-886.0, as shown in the photo. We are likely to build our building at 890.0 or 891.0 feet. Our reasoning is that our parking lot will slope away from the building by as much as 1-2 feet for proper drainage. Our goal would be to not have to move 350 cars quickly should another flood happen. This should allow us to receive and maintain insurance coverage more easily since moving that many cars in a short period of time to protect them from flooding would be virtually impossible.

2. Excavation Work.

Dirt work costs can vary significantly depending on many factors. The dirt that is currently on site has been stockpiled only. It has not been placed or compacted. To have a new building placed on top of it successfully will require extensive grading, hauling and compaction work as well as a significant amount of compaction testing. The current dirt pile will all need to be moved and placed with compaction on the east side of the lot. A large quantity of Dirt will then have to be moved to complete our efforts. If we started with a location that had no dirt available on site, the full retail cost associated with purchasing, importing, and placing entirely off site fill could be as high as \$2,000,000.00-\$2,100,000.00. Assuming that the current on site dirt is usable along with the fact that it was obtained at a wholesale rate, our minimum cost for dirt work using an on site pull pit to prepare the entire site will most likely be \$1,400,000.00-\$1,500,000.00.

3. Ames' Commitment to Development.

The City has made a considerable investment in this flood prone area in an effort to stimulate development with that effort being substantially completed 2 ½ years ago. Upon the closing of the land sale over \$300,000.00 will be paid by the seller to the City as reimbursements for investments the city has already made.

4. Increase of Assessed Values.

Property tax assessment values on the fully developed 11 ½ acres will likely range from \$10,000,000.00-\$12,000,000.00 when all of the property is developed. This will mean total tax revenues of \$320,000.00-\$384,000.00 annually when using a millage rate of 32.

5. New Employment.

The new Dealership will employ 40 people within the first two years, with an average all-in salary with benefits wage of \$60,000.00/year. As things progress the expected employment level should grow to 50. The other 2 sites should bring as much or more in the way of employment numbers to the city.

6. Growth In Areas that Flood.

Ames' 2011 goals align with this project when considering the mitigation of flooding, and the production of economic development. The construction we intend for the site should make flooding of the businesses that would go there extremely unlikely given the Highway 30 bridge as the spill over point. Because of the position of this site relative to the river and the road this development will, in no way, directly throw or displace water to another property if a similar flood event to 2010 were to occur.

7. One Time Opportunity

The assistance we are requesting consideration for in this project is a unique opportunity for the City to act on its goals and provide positive direction toward development. This specific set of circumstances does not exist anywhere else in Ames. This assistance does not actually cost the City anything. It only guarantees an increase in taxes in five years that are not being collected at this time.

Deery Brothers is excited about the possibility of opening up a new start-up store in the Ames market. We need your consideration on this matter to make this a viable project. We are hopeful that the city will direct staff to sit down with us to complete an agreement on this matter.

I am available at your convenience. Thank you for your time and effort on this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "B Deery", with a long, sweeping underline that extends to the right.

Brad Deery



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February 21, 2012

Steve Shinker, City Manager
City of Ames
515 Clark Avenue
Ames, IA 50010

Re: Positive Comments about New Chrysler Dealership

Dear Steve,

Per your request, I've thrown some comments together to display the positive points for a tax abatement offer to the Deery Brothers and their proposed development along South 16th Street. These comments are from many conversations with Fred Rose, Dan Culhane and Seana about what it would mean to the community for this development to proceed.

Here are the points we can verbalize, listed in no particular order:

- ▶ It is our opinion that the City Council are the leaders of the community, and are charged by the voters to enact that leadership toward the betterment of Ames and its long term growth and sustainability. Providing that leadership means to take action when action is needed, to address an issue directly and provide the motivation needed to guide the City forward, and not let happenstance happen and opportunities slip away. With the assumption that each City Council member believes that this development is a positive step forward, a tax abatement is a positive step forward. As stated by Mayor Campbell during her State of the City address, "Historically we have been extremely conservative - some would argue too conservative - on enticing businesses via the tax incentive route".
- ▶ The City Council established the Southeast Gateway Overlay District in the zoning code in response to the spoken need to provide a positive image of the community to travelers arriving from the south and east. They are moving ahead this year to install specially designed lighted bollards to beckon folks forward. Immediate development along Hwy 30 would represent a continued positive movement toward linking to "an established urban center."
- ▶ Since the establishment of the Overlay District and completion of the widening of 16th Street, no projects have begun along the Highway Oriented Corridor (HOC). This would be a catalyst, an anchor project that would possibly jumpstart development in this area.
- ▶ To ensure the City's intentions with the Overlay District, the City Council a few years ago completed the widening of 16th Street and installation of a new bridge over the Skunk River, at considerable cost. This development will be the first completed along that new street, allowing the City to make good on its investment.
- ▶ For a long time the City of Ames has had the reputation within the business / building community to be a difficult place to get a project approved. This reputation was enhanced by the long protracted struggle surrounding Bucky Wolford's new mall concept which was eventually canceled. Having an active role in supporting a larger development, a signature project, would allow the members of the City Council, the City staff, and community members to be able to dispel that argument.
- ▶ Even though this property has been proposed for development and supported by the City, it is encumbered with the liability of periodic flooding. The land is currently unusable for permanent development. The developer has outlined his intentions to provide the best for the new owners by raising the floor level approximately five feet above the minimum level set by the local flood zone maps. The cost of this work, to "set the stage" for development, is somewhat unique to this area. The cost of this work is projected to be \$1.4 to \$1.5 million dollars.

Benjamin Design Collaborative

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- ▶ Instead of working on only the area of the site intended for development of a car dealership, the developer intends to bring the entire area, three multi-acre sites, up above the flood minimum so that they are ready for development. This will “set the stage” for additional development within the Overlay District.
- ▶ The property is currently zoned as agricultural and taxes are assessed at that rate. If development continues to lag, so will the taxes. If a small project is developed that doesn’t provide strong encouragement for future development in the area, the growth in the tax base will be just as slow. A strong positive development such as this one, that carries with it links to future development on either side and more, will grow the tax base much more quickly once the abatement is over.
- ▶ The proposed car dealership is an active business, with a projected employment base of 40 people with an average \$60,000 salary package. This will provide much needed new jobs for Ames.
- ▶ The potential development of the other two adjacent sites will also likely bring a large employment base, adding even more jobs.
- ▶ According to a recent past president of the NADA, “Car dealerships are the last Main Street businesses left in America.” Traditionally businesses such as car dealerships are strong community supporters, tightly vested within the active community as a whole. They are not simply a corporate structure where all the attention is focused out of town. This community support would likely be noticed in many school functions and non-profit groups.
- ▶ The development of the car dealership will be a direct investment in the community of over 2 million dollars simply to construct the building and establish the business. Considered along with the other two properties being prepared, this will be a several million dollar investment in this community.
- ▶ The development of the car dealership will have an effect on the retail traffic routes surrounding Ames. Traditionally people drive to dealerships to look at cars, ponder their decisions, and then support other retail (eating) establishments while they’re shopping. Very few people decide what to buy, drive to the store and buy it and then go home. A new car dealership has a positive effect on other businesses.
- ▶ According to many folks that we have discussed this with, this development will provide the greatly desired improvement to the look of the Highway 30 corridor as visitors drive in to Ames.
- ▶ According to the potential agreement surrounding the land sale, the City of Ames stands to be reimbursed over \$300,000 in street costs by the seller for the improvements made in this area. This will be immediate upon the sale of the property.
- ▶ Concluding with a statement made by Dan, “We believe extending tax abatement to this project would be a great way to get things rolling in this corridor and hope that you will move forward with their request.” He has mentioned that he spoke to the AEDC Executive Committee on this matter and they encouraged him to urge your support of this project.

Well, this is a start of all the major points. I welcome the chance to discuss these and others with you. Feel free to contact me at any time.

Sincerely,



John D. Lott, AIA, LEED AP