

COUNCIL ACTION FORM

SUBJECT: **NORTH GRAND MALL REDEVELOPMENT**

BACKGROUND:

On January 11, 2011, the City Council approved a request from GK Development to extend, for an additional six months to July 18, 2011, the deadline for reconfiguring the parking on Lot 2 at the North Grand Mall (see attached map). At the same time, Council members expressed concern with the ongoing time extensions citing the public's desire to have a viable mall. Towards this end, the City Council also directed the City Manager to work with the owner of North Grand Mall to offer an incentive to induce two nationally recognized retail tenants to sign leases by April 11, 2011.

In February, the City Manager met with Greg Kveton, representing GK Development, to discuss the Council directive. The City Manager suggested making available to the two major tenants the five-year partial tax abatement program that the City has used in our other Urban Revitalization areas, with the stipulation that the major anchors be identified as a condition of granting the tax abatement. In this way the City would be assured of the quality of the tenants before granting this incentive.

On April 7, 2011, Mr. Kveton informed the City Manager that he had been working diligently to attract two anchor tenants to the North Grand Mall. While no leases had been signed yet, he indicated one major tenant was beginning the design work for 24,000 square feet of the 36,000 square foot "Sears building." According to Mr. Kveton, this was a good sign, and a logical step before signing a lease.

Mr. Kveton stated that he was having more difficulty securing the second major tenant since the company probably was focusing on their 2011 store construction plan and not yet looking ahead to the 2012 stores.

He further shared with the City Manager that the availability of the tax abatement incentive, or at least to the extent that it was being proposed, was not enough to accelerate a retailer's commitment to Ames. He believes that the City should consider a longer abatement period and focus it on the total lot (Lot 1) rather than on the two new buildings, so that the owner will be able to spread the benefit to the two major anchors. Apparently, the leases are structured so that taxes are allocated by the owner on a square foot basis to all buildings on the lot.

Since the three month period established by the Council to offer an incentive for lease signings has expired, Mr. Kveton is now requesting the City Council consider the following proposal:

- That a ten year partial tax abatement, an incentive similar to the one reflected in our Urban Revitalization Program*, be offered if GK Development is able to produce signed leases from two nationally known anchor tenants prior to July 18, 2011. This request extends the incentive eligibility period an additional three months and coincides with the date that the parking reconfiguration is required.
- That the tax abatement be applied to Lot 1, not just the buildings that ultimately house the two new major tenants. This lot includes the parking lot and the Furman Office Building.
- That the City Council not require the names of the two major anchors to be made known at this time. Rather, the approval of the tax abatement will be conditioned on the owners providing the names of the two major tenants prior to the signing of the leases. Mr. Kveton emphasized that the retailers do not want their names to be released to the public until their deal with the Mall owners has been finalized.

ALTERNATIVES:

- 1) The City Council can approve the proposal from GK Development to extend the deadline to July 18, 2011 for the City to offer an incentive to attract two nationally known retail anchor tenants to North Grand Mall. This alternative extends the incentive eligibility period an additional three months and coincides with the date that the parking reconfiguration is required.
- 2) The City Council can direct the City Manager to negotiate a counter-proposal for GK Development regarding issues such as the timing of the extension, the type of incentive, the length of the tax abatement, etc.
- 3) The City Council can deny the proposal to extend the period of time to provide an incentive. Under this alternative, no incentive will be offered and the owner will have until July 18, 2011 to reconfigure the parking lot or to amend the Adaptive Reuse Plan.

MANAGER'S RECOMMENDED ACTION:

Assuming the City Council remains willing to provide an incentive to induce two nationally recognized retail tenants to locate at the North Grand Mall, the proposal to extend the incentive eligibility period by three months and to offer a ten year partial tax abatement option similar to the one available under our Urban Revitalization Program appears reasonable.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative #1, thereby approving the proposal from GK Development to extend the deadline to July 18, 2011 for the City to offer an incentive to attract two nationally known retail anchor tenants to North Grand Mall.

*** Ten Year Partial Tax Abatement Program**

This program exempts the incremental value of the real estate greater than 15% generated from a project in accordance with the following schedule:

1 st Year	80% of Qualified Incremental Value Abated
2 nd Year	70% of Qualified Incremental Value Abated
3 rd Year	60% of Qualified Incremental Value Abated
4 th Year	50% of Qualified Incremental Value Abated
5 th Year	40% of Qualified Incremental Value Abated
6 th Year	40% of Qualified Incremental Value Abated
7 th Year	30% of Qualified Incremental Value Abated
8 th Year	30% of Qualified Incremental Value Abated
9 th Year	20% of Qualified Incremental Value Abated
10 th Year	20% of Qualified Incremental Value Abated



April 8, 2011

City of Ames
Mayor Ann Campbell & City Council Members
515 Clark Avenue
Ames, IA 50010

RE: Grand Center Redevelopment - Proposed Tax Incentives

Dear Mayor and City Council Members:

As you know, at the January 11, 2011 meeting the City Council directed the City Manager and GK Development to explore possible incentives to entice certain key tenants to the Grand Center redevelopment. During the past three months we have continued discussions with the key tenants with the goal of obtaining signed leases before the end of our current Adaptive Re-Use extension in July. Despite our best efforts and very aggressive offers on rental rates and other lease concessions, we have been unable to secure leases with these tenants to date. The national retailers we are in discussions with still view Ames as being adequately covered by their existing stores in Ankeny and Des Moines, and they are concerned that any sales gained from a new store in Ames will come at the expense of their other locations. In order to counter that objection, we believe that offering them a meaningful incentive which helps them enter the market with a lower risk than they would otherwise have is important to getting them off the fence.

In our discussions with retailers about possible incentives discussed by the Council in January, two sticking points have been raised. The first is that the retailers do not want to be identified in any way until they have signed a lease. The second is that retail properties like Grand Center have net leases which require the retailers to pay their proportionate share of taxes on the entire shopping center. Because of this, it is not possible to single out particular retailers for any tax savings. Instead, any benefit would apply to all retailers in the project. However, under this method of allocation, the anchor tenants would still receive most of the benefit based on their larger store sizes. This would also provide an inducement for the remaining retailers who also need to sign leases in order for us to finalize financing for the redevelopment.

With this in mind, we would like to propose that the Council consider a 10 year phase-in of the assessed value increase resulting from redevelopment of the property on Lot 1. Our discussions with retailers indicate that this would be a meaningful inducement for them to commit to the project. We propose that council grant this on the condition that leases with two key anchor stores are signed on or before July 18 of this year. Recognizing that the Council will likely want to know the names of the anchor tenants before committing to any incentive, final approval could be conditioned on providing the names immediately prior to the tenants signing leases.

Thank you for your continued help with and consideration of the proposed incentives.

Sincerely,
GK DEVELOPMENT, INC.

A handwritten signature in cursive script that reads 'Gregory Kveton'.

Gregory Kveton
Principal - Development