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MEMO

Item #31
December 11, 2018

To: Mayor and Ames City Council Members

From: Steven L. Schainker, City Manager

Date: March 14, 2018

Subject: City Council Referral – Increased Transparency When Considering Requests For Economic Development Incentives

BACKGROUND:

At the January 23, 2018 meeting, the City Council asked for a memo from Staff regarding how much advance notice should be given before the City Council makes a decision on incentive requests from developers.

As you know, along with the normal requests for LUPP map changes, annexations, rezonings, and subdivision approvals; the City Council also is asked to facilitate various economic development related projects through the granting of local incentives. These projects can include single family residential subdivisions, apartment complexes, commercial/retail developments, and industrial facilities.

Oftentimes, developers will be working very hard over a number of months to perfect their projects with their own team members and then turn to the City Council for a quick decision regarding their request for city incentives. This process sometimes leaves little time for the City Council to consider the incentive request or for the public to know what is being considered so they can provide input to the Council.

I want to emphasize that I believe for the process to work appropriately, the Staff must first be allowed to meet with a developer to understand the project, to evaluate the project, to negotiate with the developer, and to arrive at a recommendation for City Council to consider regarding what we believe is reasonable incentive level. Once this series of activities are completed, it is time to bring the request before the Council at a public meeting for your decision.

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The key questions then become how much advanced notice to the City Council members and the public is adequate to address your goal of transparency, and in what form should this notice take? In response to the City Council's referral, I am offering below three options for your consideration.

OPTIONS:

**OPTION 1 – NOTICE GIVEN TWO WEEKS IN ADVANCE AT
PRIOR COUNCIL MEETING DURING COUNCIL
COMMENTS**

The Staff could inform members and the public at a City Council meeting two weeks prior to the Council meeting when the incentive request will be considered. This option could be accomplished as a pronouncement by the City Manager at the end of the meeting during "Council Comments."

The positive aspect of this approach is, rather than communicating the advance notice to the Council in the form of memo, which will not be available to the general public, the announcement would be made publically at a Council meeting. Of course, the disadvantage of this approach is the fact that the public would have to be watching the City Council meeting, either live or a replay, to hear the advance notice.

**OPTION 2 – NOTICE GIVEN TWO WEEKS IN ADVANCE AT
PRIOR COUNCIL MEETING BY PLACING THE
ANNOUNCEMENT ON THE AGENDA**

The Staff could inform the members and the public at a City Council Meeting two weeks prior to the City Council meeting when the Incentive request will be considered. This option could be accomplished by placing the announcement of an upcoming incentive request on the Council agenda.

The advantage of this approach is that those citizens who are interested in this topic can scan the formal Council agendas each week to learn of any upcoming incentive requests.

Like Option 1, the disadvantage of this process is that neither the Council nor public will have any advance indication of the type or magnitude of the incentive that will be requested.

OPTION 3 - NOTICE GIVEN TWO WEEKS IN ADVANCE AT PRIOR COUNCIL MEETING BY PLACING THE SPECIFIC REQUEST FROM THE DEVELOPER AND THE STAFF'S RECOMMENDATION FOR AN APPROPRIATE LEVEL OF INCENTIVES ON THE AGENDA

The Staff could inform the members and the public at a City Council Meeting two weeks prior to the City Council meeting where the request will be formally considered by placing the specific incentive request from the Developer and the Staff's recommendation on the City Council agenda.

The benefit of this approach is that the advance notice will be highlighted formally on a City Council agenda and, therefore, can be detected without having to watch the meeting or wait to read the minutes to learn about an upcoming request for City incentives.

Under this approach, all of the relevant information (the specific request from the developer and the staff's analysis and recommendation) will be made available to the Council and public two weeks prior to the Council being asked to take action on the request.

If this option is selected, the Council will be asked to table the item when it first shows up on an agenda until the next regular meeting scheduled two weeks hence.

THE MOST FREQUENTLY REQUESTED INCENTIVES:

Historically, the most frequently requested incentives from the City include:

- 1) **Industrial Tax Abatement** (five year partial abatement schedule on incremental value),
- 2) **Urban Revitalization Tax Abatement** (three, five, or ten year partial abatement schedule on incremental value),
- 3) **Tax Increment Financing** (the redirection of the up to 100% and twenty years for taxes received for the incremental value towards

the benefit of the developer's project - either for infrastructure or rebate),

- 4) **Oversizing** (City payment for oversizing roads, water pipes, and sewer pipes – available in incentivized areas),
- 5) **Assessments** (City upfronts the costs for a developer's infrastructure responsibilities and recoups these costs over a ten year period), and
- 6) **Connection Districts** (City upfronts the costs for a developer's water and sewer line responsibilities and recoups these costs when the property is developed and a customer hooks onto the lines.)

It is important to note that granting advance notification in regards to the Industrial Tax Abatement incentive does not appear to be applicable given how the program is administered in Iowa.

It is Staff's understanding that once the City Council passed the original ordinance in 1985 that adopted this incentive program, all qualifying economic projects from any part of the City is eligible for the abatement. Applications for this incentive are submitted directly to the City Assessor for approval and if it is determined by that official the economic development project qualifies under the requirements of the Iowa Code, the abatement will be granted. Since the City Council does not make a separate decision regarding the granting of this incentive for each project, there is no opportunity for an advance notice to the City Council for the Industrial Tax Abatement incentive.

STAFF COMMENTS:

Ultimately, in determining the appropriate amount of advance notice that should be provided to the City Council or the public regarding requests for City incentives, four questions should be addressed:

- 1) **How many weeks of advance notice is desired?** The options provided above focus on two weeks, however, the Council might prefer another timeframe.
- 2) **In what form should this advance notice be made?** Is it appropriate to come by way of a memo to the City Council, as an oral pronouncement by the City Manager at a Council Meeting, or formally docketed on an Council agenda?

- 3) **What level of detail should be provided in the advance notice?** Is it sufficient to highlight that an incentive request will be coming before the Council in the near future? Or, is it essential to include in the notification all of the details contained in the request along with the analysis and recommendation from the Staff as to the appropriate level of incentives?

- 4) The City Council should anticipate that as soon as a policy is made to require a certain amount of advance notice, an argument will be made by a developer that because of unusual circumstances, a decision is needed by the Council in a timeframe that will not meet the approved advance notification timeframe. Therefore, **will the Council consider exceptions to the notification deadline?**

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