

Staff Report

EAST UNIVERSITY IMPACT AREA URBAN REVITALIZATION AREA

September 22, 2020

BACKGROUND:

At its August 25th meeting, the City Council received a staff report regarding the status of Urban Revitalization Areas and programs across the City. After discussion of potential changes to the East University Impact Area URA (Attachment A), City Council directed staff to reach out to the Greek community to gain input about potential projects that could be impacted by changes. City Council also requested additional background information regarding the value of tax abatements that have been approved previously in the area.

Staff identified four projects that are in process to varying degrees and may be eligible for future partial property tax abatement.

- 2125 Greely (Alpha Delta PI) - Approved Minor Site Development Plan completed 2020
- 224 Ash (TKE) - Approved Minor Site Development Plan for an addition 2021
- 138 Gray (Acacia) - Approved Demolition and Minor Site Development Plan, to be completed in 2020
- 120 Lynn (Kappa Kappa Gamma) - Approved Demolition and Minor Site Development Plan, planned construction in 2021

Staff received correspondence back from Steve Jones of Delta Tau Delta (See Attachment C) describing their experience and the value received to the area from the program. From his experience he believes significant projects take 3+ years to plan and execute and the abatement helps to smooth out financial changes as a result of increases in property taxes as a result of the increased value of the property. In addition, Staff discussed the potential changes with representatives of Kappa Kappa Gamma. Their concern is whether or not the City Council decides to eliminate the tax abatement incentive prior to them completing the construction of their new house. No other feedback was received about planned projects for the next two to three years or about the possibility of eliminating the tax abatement incentive.

Staff also collected data from the past ten years for 15 projects that have received property tax abatement. Attachment B includes a table identifying the project location and estimated value of abatements. The estimated value of the abated property taxes (across all levying authorities) for these 15 projects is \$1,140,359. This estimate is based upon the initial year of abatement with state rollback and levy rates. Rollback and levies

vary over time which means the abated value would be slightly more or less than what is estimated. Approximately 36% of the Greek Houses in the URA have taken advantage of the program in the past ten years. This does not include the four potential projected identified above.

OPTIONS RELATED TO EAST UNIVERSITY IMPACTED URA:

Originally the eligibility criteria were designed to encourage preservation and expansion of existing Greek houses by incentivizing reinvestment in the area and supporting the Greek system to maintain its presence near campus. During the rapid expansion of ISU enrollment during the past decade, several things started to occur more frequently than were anticipated in the early 2000's. Staff saw a steady increase in the size of Greek houses due to a reduction in required parking as a result of 2014 zoning text amendment along with the desire to upgrade and add amenity space, even if there is little or no increase in the bed capacity of the facility. Additional new chapters decided to locate in the area due to its location near campus. There have been three approved demolitions and new construction approvals in the past five years.

With the change to the URA criteria in 2018 to allow for either additions or new construction to be eligible for tax abatement, the City created somewhat opposing policies between its current restrictive demolition standards in the Zoning Ordinance and its financial incentives for Greek homes in the URA. With the potential Kappa Kappa Gamma house at 120 Lynn approved for new construction in December 2019, there would be four new construction Greek homes that would receive partial property tax abatement. City Council directed staff to address this difference with proposed adjustments to the URA criteria to not allow for new construction to be eligible for tax abatement. Council has noted the intent was to allow for the Kappa Kappa Gamma house at 120 Lynn to proceed under the current rules as it was approved for demolition in December 2019.

Rather than solely amend the criteria for new construction, it is also possible the Council could conclude that incentives for Greek house expansions are no longer necessary either due to the desirability of the area for locating Greek houses or the lack of a need to support expansion of amenity space. There does not appear to be a push to locate in other areas that are less costly or easier to develop than these areas adjacent to campus.

Option 1 – “New construction” be eliminated for the tax abatement eligibility.

The change in focus of the URA from preserving existing Greek houses in this area to the greatest extent possible to now allowing tax abatement after demolition and new construction, will over time eliminate some of the historic characteristics of the area that once made it distinctive. Although the URA criteria do not include specific historic preservation standards, it was one of the reasons for the initial standards for only addressing expansions. **Eliminating new construction as an eligibility criterion restores tax abatement as an incentive to encourage and support reuse of**

buildings or adaptive reuse of Greek houses (some of which are likely to be historically and architecturally significant).

Even though demolition must be approved based upon financial hardship, concern has been expressed that the City might be incentivizing the demolition of historic buildings, contrary to city goals, objectives and policies for cultural resources. Additionally, with an incentive available to start afresh (with new construction), the motivation to renovate an existing structure is severely reduced.

This option returns the URA to the former eligibility criteria:

- The building is an existing or former residence recognized by the Iowa State University as part of the Greek residence system; and
- 70% of the area of the existing exterior walls of the structure will remain.
- Construction of a new Greek residence recognized by Iowa State University as part of the Greek residence system if built on a site that was formerly a Greek residence with an approved Minor Site Development Plan and demolition approved by City Council prior to January 1, 2021.
- ***Note this language provides a three month window for additional demolition requests to be approved. In addition, since Kappa Kappa Gamma House already has received approval for demolition, they will be able to proceed with construction of the new home in 2021 as anticipated.***

Option 2 – Eliminate the East University Impacted URA altogether.

Since the inception of the URA, 14 different properties have received tax abatement with one property receiving a second approval for a subsequent abatement. Approximately 36% of the eligible properties have benefitted from the program through 2020.

The URA could be eliminated based upon the success of the program in solidifying the neighborhood with Greek housing and the clear market demand for this type of housing to be in areas adjacent the ISU campus. Some of the improvements incentivized by the program have been increases in amenity space more than an increase in capacity or renovation of the existing facilities to maintain their presence in the area.

Staff believes allowing for improvements completed prior to December 31, 2022 to be eligible for property tax abatement would allow for planned projects to be completed over the next two years. **This option would set an automatic repeal date of the URA for April 1, 2023 to accommodate improvements completed through 2022.** Under this option, all approved tax abatement would continue despite the repeal of the URA.

Option 3 – Determine that no changes are needed to meet the City Council’s desired goals for the East University Impacted URA.

This option leaves the current eligibility criteria as amended in 2017, in place.

- *5% increase in assessed value*
- *Properties must be located within the designated East University Impacted Urban Revitalization Area.*
- *Existing or former residences recognized by Iowa State University as part of the Greek residence system, and which, following rehabilitation, 70% of the area of existing exterior walls of the structure will remain; OR*
- *Construction of a new Greek residence recognized by Iowa State University as part of the Greek residence system if built on a site that was formerly a Greek residence.*

STAFF COMMENTS:

Staff believes the conflicting policy of demolition and incentives for new construction should be eliminated. The incentive for new construction did not exist when the recent new Greek Houses were approved for demolition and started new construction. The feasibility of the projects originally was based upon no financial incentive. It is only in the past two years that incentives have affected the financial feasibility of the projects.

It should be understood that if City Council chooses to change the URA as reflected in Options #1 or #2, all current tax abatements would continue to the end of their approved abatement schedules.

Attachment A

East University Impacted URA – Purpose: Greek Housing
established 04-25-2006 by ORD # 3880;
amended criteria 12-19-2017 by RES # 17-716; NO EXPIRATION

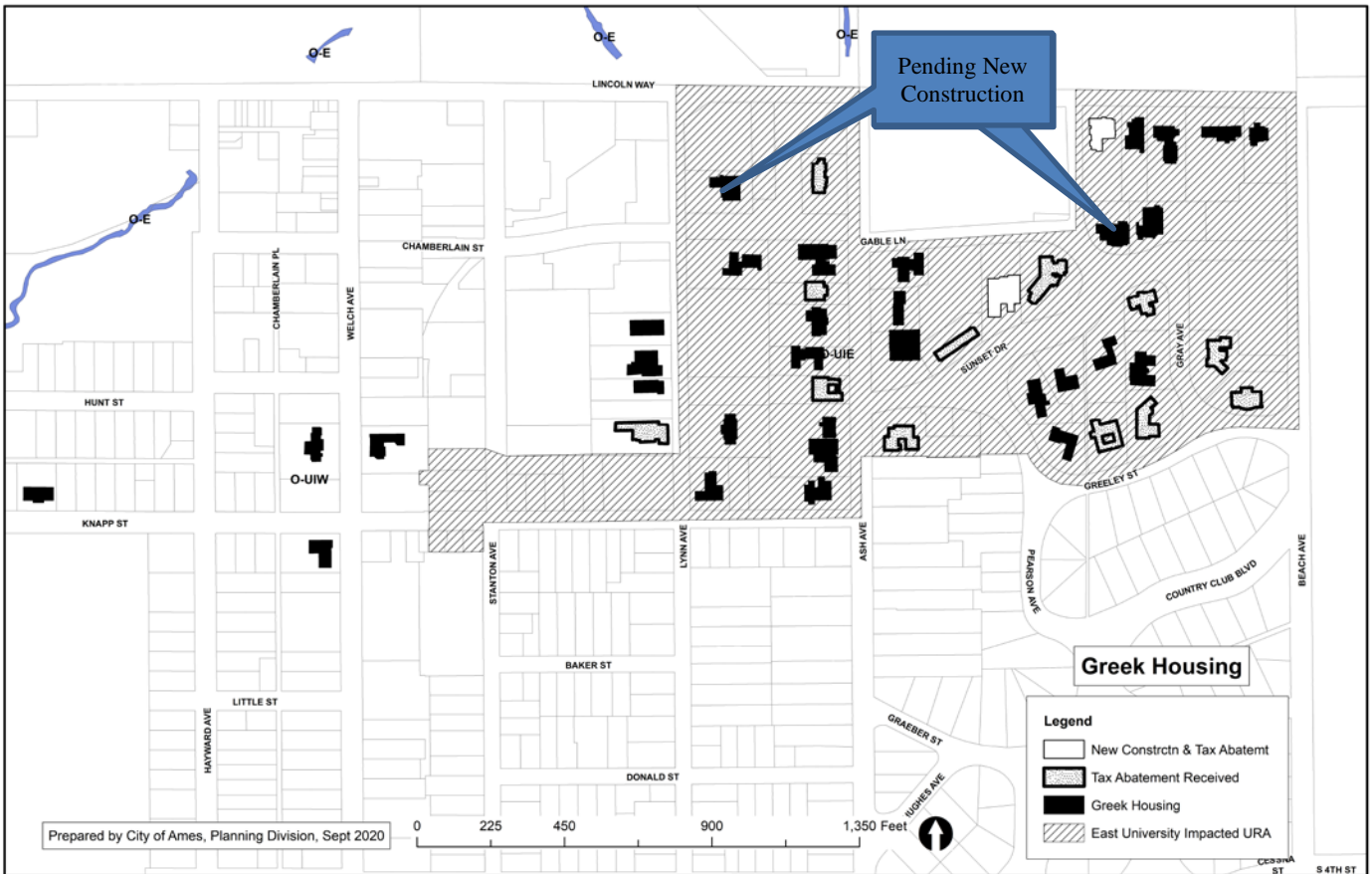
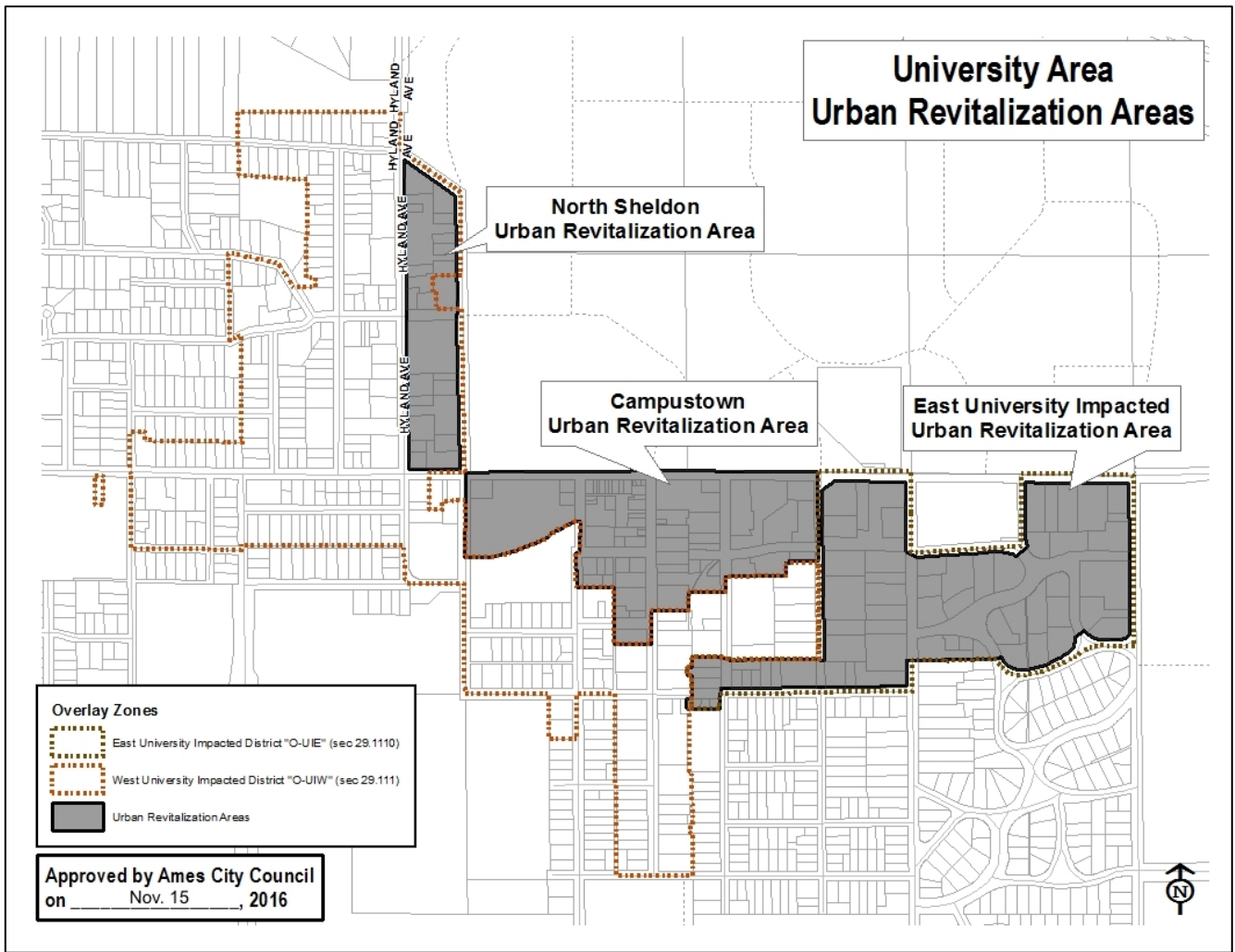
The value-added requirement is a 5% increase in value. Since its establishment, 13 different properties have received tax abatement:

- 201 Gray Ave [Alpha Gamma Rho] in 2020;
- 313 Lynn Ave [Delta Gamma] in 2018;
- 2136 Lincoln Way [Sigma Chi] in 2018 (demolition & new construction);
- 2121 Sunset Dr [Delta Tau Delta] in 2018 (demolition & new construction);
- 117 Ash Ave [Delta Upsilon] in 2013;
- 325 Ash Ave [Phi Gamma Delta] in 2012;
- 228 Gray Ave [Sigma Phi Epsilon] in 2012;
- 2125 Greeley St [Alpha Delta Pi] in 2011;
- 2102 Sunset Dr [Kappa Delta] in 2011;
- 233 Gray Ave [Sigma Kappa] in 2011;
- 302 Ash Ave [Delta Delta Delta] in 2010;
- 2007 Greeley St [Alpha Omicron Pi] in 2010;
- 201 Gray Ave [Alpha Gamma Rho] in 2010; and
- 227 Gray Ave [Chi Omega] in 2008.

Current Eligibility Criteria:

- *Properties must be located within the designated East University Impacted Urban Revitalization Area.*
- *Existing or former residences recognized by Iowa State University as part of the Greek residence system, and which, following rehabilitation, 70% of the area of existing exterior walls of the structure will remain; OR*
- *Construction of a new Greek residence recognized by Iowa State University as part of the Greek residence system if built on a site that was formerly a Greek residence.*

See Map entitled, *University Area Urban Revitalization Areas Map*



Attachment B

	Address	Total Amount Exempted	Initial Year	Period	First Year Rollback %	Rollback Value	First Year Tax Rate	Est. Total Abated Taxes	Est. City Share of Abated Taxes
Alpha Gamma Rho	201 Gray Avenue	\$13,917,200	2020	10 yr	0.550743	\$7,664,800	0.031487	\$241,343	\$76,844
Delta Gamma	313 Lynn Avenue	\$7,235,000	2018	10 yr	0.556209	\$4,024,172	0.031523	126,852	\$40,345
Sigma Chi	2136 Lincoln Way	\$6,252,400	2018	8 yr	0.556209	\$3,477,641	0.031634	110,013	\$34,865
Delta Tau Delta	2121 Sunset Drive	\$14,349,100	2018	8 yr	0.556209	\$7,981,099	0.031634	252,478	\$80,015
Colonials Club House	217 Ash Avenue	\$7,042,420	2017	10 yr	0.569391	4,009,891	0.031404	125,928	\$40,201
Alpha Phi	307 Ash Ave	\$2,948,000	2016	10 yr	0.556259	1,639,852	0.031634	51,876	\$16,440
Phi Delta Theta	2035 Sunset Dr	\$1,361,400	2014	10 yr	0.544002	740,604	0.032236	23,874	\$7,425
Delta Upsilon	117 Ash Ave	\$2,430,000	2013	3 yr	0.528166	1,283,443	0.032255	41,397	\$12,867
Sigma Phi Epsilon	228 Gray Avenue	\$4,969,000	2012	10 yr	0.507518	2,521,857	0.032401	\$81,710	\$25,283
Alpha Delta Pi	2125 Greeley Street	\$450,000	2011	3 yr	0.485299	218,385	0.032360	\$7,067	\$2,189
Kappa Delta	2102 Sunset Drive	\$1,042,800	2011	10 yr	0.485299	506,070	0.032360	\$16,377	\$5,074
Sigma Kappa	233 Gray Avenue	\$589,600	2011	10 yr	0.485299	286,132	0.032360	\$9,259	\$2,869
Delta Delta Delta	302 Ash Avenue	\$909,000	2010	5 yr	0.485299	441,137	0.032300	\$14,249	\$4,423
Alpha Omicron Pi	2007 Greeley Street	\$568,000	2010	10 yr	0.485299	275,650	0.032300	\$8,904	\$2,764
Alpha Gamma Rho	201 Gray Avenue	\$1,852,100	2010	10 yr	0.485299	898,822	0.032300	\$29,032	\$9,011
TOTAL		\$65,916,020						\$1,140,359	\$360,615

Gamma Pi of Delta Tau Delta Inc.



September 16, 2020

Kelly Diekmann
Planning and Housing Director
City Hall, 515 Clark Ave.
Ames, IA 50010

Re: East University Impacted Area Urban Revitalization Area – Potential Changes

Dear Kelly:

I am writing in response to your 15 September 2020 communication to the Iowa State Greek community regarding potential changes to the property tax abatement program in the East University Impacted Area. We would strongly encourage the City to keep the current program in place.

As you may remember, the Delta Tau Delta fraternity building located at 2121 Sunset Drive, and located in the East University Impacted Area and the Historic Greek Neighborhood, was the first demolition and new construction under the current program. In 2013 and 2014, we worked with the Ames Planning and Zoning department to finalize the site plan for a new structure as well as parking variances to comply with current zoning requirements. The site plan was approved and the zoning variances (parking) were approved in early 2014. We received approval from the City Council in February 2014 to demolish the existing structure and construct a new building for the fraternity on the same site. Construction was completed in November 2015 and a final occupancy permit was granted on January 7, 2016.

You may also remember the extended time and discussion it required (2-1/2 years) with your office as well as the City Council to get our final property tax abatement approved for the project. That extended time to get the new construction policy approved eventually cost us 2-years of abatement removed for the original 10-year abatement program. We are currently in the second year of our 8-year abatement schedule.

The Land Use Policy Plan (LUPP) and subarea plan for the University Impacted Area (UIA), has supported other Greek housing corporations that have invested in remodeling of existing structures or the construction of entirely new structures. The UIA establishes a basis for the City to support investments that preserve or enhance the neighborhood through property tax abatement (Page 8, UIA, 2005). The current version of the University Area Urban Revitalization Program for the East University Impacted Area (Historic Greek neighborhood) grants consideration of tax abatement for “existing or former residences recognized by Iowa State University as part of the Greek Residence system” AND an additional criteria for “seventy percent (70%) of the area of the existing exterior walls of the structure to remain” (Page 6, Application packet for the UIA Urban Revitalization Program).

As noted in your letter a number of Greek Housing corporations have invested in remodeling or new construction of aging facilities. Many of the existing fraternity and sorority buildings are over 80-years old and it requires a substantial investment to remodel and or construct new buildings to meet the current building and accessibility codes and standards, as well as modern-day living and programming space for today's students. I would estimate that about 50% of the current facilities in the Greek system still require some level of upgrade through an new addition, complete demoltion and rebuild, or extensive building infratstructure repair. In our case in 2012, the Gamma Pi of Delta Tau Delta house corporation conducted a feasibility study with RDG Planning and Design in Ames on options for either an extensive remodeling of our former 1952 building or starting over with a completely new building on the same site. That analysis lead us to a decision for demolition of the existing structure and constructing a new building as the most economic viable alternative. The Delta Tau Delta chapter was the first fraternity to be established on the Iowa State campus in 1875 and the organization has had a continous presence on campus since 1911. As with many of the Greek chapter facilities, our previous building was constructed in the late 1940's to mid 1950's (1952), and housed 32 students and a 1971 addition increased residency to 56. However, when considering current building codes, a remodel of an exisging structure can be cost prohibitive when compared with a new structure. New buildings and extensive remodels of current buildings can bring a facility to 100% compliance with the current building code (IBC 2012), and provide opportunities for investment in improved energy efficient features (Ames Smart Energy program), and icompliance with the ADA.

The current policy in effect (Page 6 – East UIA Revitalization Plan) limits tax abatement for situations in which:

- a. Existing or former residences recognized by Iowa State University as part of the Greek Residence system.
- AND
- b. Seventy percent (70%) of the area of the existing exterior walls of the structure will remain.

This was amended by action of the City Council in 2015-17 to include demolition and new construction on a site meeting the first of two criteria above.

A new addition, extensive remodel, or a completely new building is a serious, long-term investment for a Greek housing corporation. Most all of these projects require a minimum of 50% capital investment from the chapter alumni and the balance on mortgages from commercial banks. The Greek housing corporations operate as non-profit corporations, 501.c.7, and their business model must operate competitively with the other housing options for students including the University residence hall system and private, for-profit, apartment complexes. The university residence hall system does not include property taxes or property insurance in their budget model even though they do include repayment of long-term debt on the bonds used to construct the facilities. While the private, for profit housing options do pay property taxes and insurance, there have been other incentives provided in some cases for these projects. For example, the private (non-Greek) Sunset View and Beach View Condominium developments at the intersection of Sunset Drive and Beach Avenue, and within the East University Impacted Area, are also under a 10-year property tax abatement program.

A program to provide some degree of incentive for older Greek housing facilities to complete major upgrade projects through either new construction or additions has two benefits:

- a. Provides an immediate financial buffer for the housing corporation during the early post-construction period to support their annual business model and rate structure as the final project expenses and funding take effect. A five-year to ten-year tax abatement period provides that early financial buffer and helps to transition the project to full implementation. The financial incentive of the property tax abatement does help to get the projects off the ground, and does make a difference when developing a financial business model for presentation to a commercial lender for long-term mortgage financing.
- b. There is a longer-term incentive for the City as the increased property valuations support higher tax revenues after the abatement period has ended.

In the individual case of Delta Tau Delta, the property valuation in 2015 on our former facility, constructed in 1952 with an addition in 1971, was \$515,708. The new facility is now valued at \$5,875,000, an approximate 10-fold increase in valuation. The property tax revenue to the City increased from \$16,326.00 in 2015 to \$104,161.40 in 2017 (w/o abatement). That is a 640% increase in the property tax revenue to the City from that facility over the 50-year life of the property. In addition, even with the tax abatement schedule, there is an immediate increase in the property valuation and increase in tax revenues to the City. For Delta Tau Delta, the annual taxes in the first year of the eight year schedule was \$51,527.54, 3-times greater than the annual taxes in 2015. From the above discussion, it appears there are advantages for both the Greek community and the City of Ames to keep the current policy in effect.

We would strongly recommend the City of Ames keep the tax abatement program in place. The typical timeline for planning a new project, developing and completing a capital campaign, and finalizing building permits, bank financing, and construction contracts is typically 3-4 years. There are also some limitations for alumni investors seeking tax deductions for contributions to non-profit 501.c.7 projects depending on the scope of the project. With the COVID epidemic right now, most housing corporations, even with planning completed, may be in a holding pattern until at least 2022.

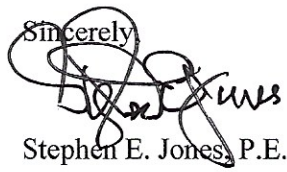
We believe a new building, or an addition to an outdated facility, is a great addition to the Greek neighborhood and a great facility for the young men who will reside there over the next 80-years. It most certainly contributes to the "Historic" cultural attributes of the Greek Neighborhood in the East University Impacted Area.

My contact information, as well as our corporate address, are included below. We would welcome an opportunity to discuss and/or present any additional information with the council members as you progress with your future plans for the tax abatement program for the East University Impacted Area.

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Thank you for the opportunity to provide comment on the proposal.

Sincerely,


Stephen E. Jones, P.E.

President

Gamma Pi of Delta Tau Delta, Inc.

Cc: Billy Boulden, Director for Sorority and Fraternity Engagement, Iowa State University