

Staff Report

**IOWA REINVESTMENT DISTRICT PROGRAM**

December 8, 2020

**BACKGROUND:**

As you might have noticed, site work has begun on the northwest corner of the Clark and Lincoln Way intersection that will eventually house the relocated Starbucks. This project signals another step in the redevelopment of the property north of Lincoln Way from Clark to Kellogg. While staff has not heard from the project developers for many months, we know they have been working very hard to finalize the Starbucks relocation, identify new partners for their project, and complete a market study to determine the square footage and uses that will assure a financially sustainable project. **Assuming the developers proceed with this project, the following unique incentive opportunity is available to the City of Ames.**

**THE IOWA REINVESTMENT DISTRICT PROGRAM:**

The Iowa Legislature recently renewed its Reinvestment District Program (RDP). This program allows **new** state sales and hotel/motel taxes generated by new development(s) constructed within a City Council-created Reinvestment District to be rebated in a pre-approved amount to that municipality over a 20-year time period. The sales tax and hotel/motel tax rates are not increased for retailers within that area, and the City's hotel/motel and local option sales taxes will continue to be collected into the Hotel/Motel Tax Fund and LOST Fund; only the state portion of the taxes will be rebated.

**By rebating the newly generated state taxes, the City may finance (in part or in full) construction of new projects to improve residents' quality of life, create and enhance unique opportunities, and substantially benefit the community, region, and state through transformative projects.**

In order for that to occur, projects included in this program have to be awarded the incentive by the Iowa Economic Development Authority (IEDA) via a competitive application and award process. The following competitive scoring criteria is used to determine the award and amount of the incentive:

- Uniqueness of the Project = 25 points
- Economic Impact of the Project = 25 points
- Project Feasibility = 10 points
- Capital Investment = 10 points
- Funding Leverage = 10 points
- Nonretail Focus = 10 points
- Additional Factors (readiness, geographic diversity, and funding need) = 10 points

## **REQUIRED NEXT STEPS:**

With the potential Lincoln Way Project coming closer to reality, and the fact that it will likely generate significant amounts of **new** sales and hotel/motel tax, it may help the City receive the incentive under the RDP. **Unfortunately, there is very little time to prepare and submit a pre-application to be considered for an award.** The IEDA has set February 22, 2021 as the pre-application submission deadline. If provisional approval is given to the pre-application, revised information can be submitted prior to the following year's filing deadline (early 2022) when the final award is made. **The following steps need to occur to complete the pre-application:**

### **Step 1 - The developer of the Lincoln Way project must declare what will be built**

Staff has been informed that a final decision regarding the types and quantities of the uses for the proposed Lincoln Way development will not be available to the City staff until January 2021, and the development plan will not be finalized until the City and developer consummate an incentive agreement. This information is required in order for staff to calculate the estimated new additional sales and hotel/motel tax revenue generated from this private development that must be in the Reinvestment District pre-application.

### **Step 2 – Determine the project elements for the Reinvestment District Program**

City staff considered a number of project combinations to propose for the RDP and that could garner the requisite points needed to receive an award. These included a new indoor aquatics center, downtown plaza east of City Hall, a new green space north of Main Street on Burnett Ave., a parking garage in the CBD parking lot south of Wells Fargo Bank, a pedestrian bridge over the railroad tracks connecting downtown south to the new development along Lincoln Way, and improvements to the Bandshell Park.

**Preliminary discussions between a representative of the Iowa Economic Development Authority (the awarding agency) and officials from the Ames Economic Development Commission regarding the array of projects that were being considered indicated that a qualified transformative project mix from Ames could receive up to \$15 million in this incentive, however the inclusion of an indoor aquatic center is mandatory.**

In order for any project(s) to be funded by rebated taxes, the project must be located within the Reinvestment District. Thus, in the case of an indoor aquatic center, in order to be considered for funding under the RDP, it must be located in close proximity to the Lincoln Way Redevelopment project and in the Reinvestment District. This explains why the other projects that are being contemplated are also located in the downtown area.

**Given this information, the RDP parameters, and the input received from the IEDA representative, should the City Council want to pursue this incentive opportunity, then the three projects staff would propose to be included in a pre-application are:**

- 1) The mixed-used redevelopment project along Lincoln Way,
- 2) The downtown plaza in the parking lot east of City Hall, and
- 3) A new indoor aquatics center on the property owned by the Iowa Department of Transportation that is north of Lincoln Way directly across the street from the main DOT entrance (122 North Oak Ave.).

This prospective indoor aquatics center site has the advantage of being 1) available for sale, 2) large enough to accommodate an indoor aquatics facility and accessory parking, 3) currently zoned for government use that does not generate any property taxes, and 4) a favored site of the IEDA because of its close proximity and interconnection with the downtown.

Step 3 – Selection of consultants to prepare materials to help visualize the projects, along with cost estimates

The relatively short period of time to prepare the necessary supporting documentation and to submit the pre-application makes it imperative that the City Council approves an expedited process to hire the three consulting firms needed to provide the required services. **Therefore, staff is recommending that rather than soliciting proposals from multiple qualified firms (a process that typically takes several weeks), that the City Council waive its Purchasing Policy and allow staff to negotiate contracts with:**

- 1) RDG Planning and Design for the aquatic center concept
- 2) Confluence, a landscape architecture firm with offices in Des Moines, for the downtown plaza concept, and
- 3) Decision Innovative Solutions for the required economic impact and feasibility analysis of the proposed elements of the project.

RDG completed the conceptual plans for the Healthy Life Center and is able to work quickly with City staff to develop an aquatic center concept. Confluence has experience developing concepts for plazas. Decision Innovative Solutions has prepared the required analysis for other cities who previously submitted applications for the RDP. **It is recommended that funding for these consulting services come from the available balance in the Hotel/Motel Tax Fund that includes monies earmarked for economic development initiatives.**

Step 4 – The City Council will need to initiate the process to establish an urban renewal area before the pre-application is submitted and ultimately establish a reinvestment district after the incentive is approved

**WHY THESE THREE PROJECTS FOR THE RDP?:**

Funding for the plaza is already included in the approved Capital Improvements Plan. While the downtown plaza project and the private Lincoln Way redevelopment will most likely occur without the Reinvestment District incentive, including these two projects in the pre-application will help garner points under the economic impact, capital investment, funding leverage, and non-retail evaluation criteria. In addition, the downtown indoor aquatic center seems to qualify for uniqueness points.

**If we are successful in receiving the incentive from this highly competitive process, it could be possible to fund the City’s much-needed indoor aquatics center without raising property taxes to build it.**

The funding scenario for this strategy is as follows:

Estimated Expenditures\*:

Construction Cost For Indoor Aquatics Center	\$ 19,000,000
Land Purchase Cost From IDOT (will be based on appraisal)	\$ 2,000,000
Site Preparation	\$ <u>1,000,000</u>
Total Estimated Expenditures	\$ 22,000,000*

**\*It should be emphasized that this project total will have to be updated based on consultant’s new project estimates.**

Revenues:

City Funds from Winakor Donation Account	\$ 2,000,000
Private Donations	\$ 8,000,000**
G.O. bonds (Abated by the RDP Incentive)	\$ <u>12,000,000</u>
<u>Total Estimate Revenue:</u>	\$ 22,000,000

**\*\* The Executive Director of the Ames Economic Development Commission has committed to take the lead in securing the commitments for these private donations prior to the February 2021 pre-application deadline.**

**RISK INVOLVED:**

This incentive program does not involve advancing state funds to accomplish a project. Rather, the RDP would rebate the additional new increased state sales and hotel/motel taxes to the City in the amount actually received by the State each year. Therefore, to purchase the land and construct the aquatics center, the City will have to issue General Obligation bonds up front. The GO bonds would then be paid for by the annual rebates from the State, from the taxes actually generated in the Reinvestment District for up to twenty years.

**The risk involved with this arrangement is that should the actual rebated amount not be sufficient to cover the principal and interest payments for these bonds, property**

**taxes would have to cover any shortfall. Therefore, it is important that very conservative estimates be made regarding the amount of new taxes that will be generated from the proposed redevelopment on Lincoln Way (the sole source of the new taxes for rebating) and that generous boundaries are considered when the Reinvestment District boundaries are drawn. This would allow capturing new sales and hotel/motel taxes from any other future retail development in the Reinvestment District in addition to the forthcoming Lincoln Way development.**

One final note: A stand-alone aquatic center project (such as the previous Healthy Life Center concept) requires an up-front bond referendum because of the requirements under state law for issuing GO bonds for *general corporate purposes*. This RDP project is different because the bonds will be issued as part of an Urban Renewal project, which is an *essential corporate purpose*. Therefore, in this instance the bond issuance can be approved by the City Council rather than by a referendum vote from the public. **However, the issuance of the bonds is subject to a reverse referendum whereby the submittal of a qualifying petition would force a bond election.**

### **WHY NOT WAIT UNTIL NEXT YEAR?:**

Given the short time available to develop a pre-application, some might question why not wait until next year to submit a project for consideration. Waiting poses two problems. First, there are no assurances that the program will exist next year. The last time this state program was available was in 2015 and it was subsequently discontinued by the Iowa Legislature. Second, there is no guarantee that an additional new development project will be introduced next year that will generate the same magnitude of rebated taxes that are anticipated from the Lincoln Way project.

### **OPTIONS:**

#### **Option 1:**

The City Council can agree that the effort is worthwhile to pursue the Iowa Reinvestment District Program incentive by:

- a) Directing staff to prepare a pre-application including:
  - the Lincoln Way redevelopment project
  - the downtown plaza east of City Hall
  - an indoor aquatics center on IDOT property
- b) Waiving the Purchasing Policy, allowing staff to select Confluence for the plaza, RDG for the aquatics center, and Decision Innovative Solutions for the economic impact and feasibility analysis
- c) Indicating to the IDOT our willingness to purchase its property north of Lincoln Way at the appraised price subject to the RDP incentive being awarded to the City and private donations being secured in an amount sufficient to construct a new indoor aquatics center

**Option 2:**

The City Council can agree that the effort is worth it to pursue the Iowa Reinvestment District Program incentive by:

- a) Directing staff to prepare a pre-application for some other combination of projects
- b) Waiving the Purchasing Policy, allowing staff to select RDG for the aquatics center, a different consultant(s) for the Council-selected other projects, and Decision Innovative Solutions for economic impact and feasibility analysis
- c) Indicating to the IDOT our willingness to purchase its property north of Lincoln Way at the appraised price subject to the RDP incentive being awarded to the City and private donations being secured in an amount sufficient to construct a new indoor aquatics center

**Option 3:**

The City Council can decide to not pursue the Reinvestment Program at this time because:

- Too much staff time is required to pursue the RDP and the compressed time frame to complete the pre-application,
- Too many outstanding and uncertain issues such as, but not limited to, the commitment of the Lincoln Way developers, ability of the AEDC to obtain private donation commitments of \$8 million, the ability to purchase the IDOT site for a reasonable amount, and the uncertainty that our proposed project elements may not score high enough on the evaluation criteria to warrant award of the RDP funding.

**STAFF COMMENTS:**

As the Council is aware, in Spring 2022 the Ames School District intends to demolish the City's Municipal Indoor Pool to allow site improvements related to the new high school to continue. Therefore, the community is faced with the prospect of having no public indoor aquatic facility in two years' time. Our recent effort to incorporate an indoor aquatics center into the Healthy Life Center failed with the defeat of that proposed bond issue. With the negative impact that COVID-19 is having on our economy, the likelihood of passing a bond issue for an indoor aquatics center in the near future is questionable at best.

There is no doubt that many pieces of this strategy must fall into place for us to be successful:

1. The Lincoln Way redevelopment project must come to fruition
2. IDOT must agree to sell its property at a reasonable price

3. The economic analysis must indicate there will be sufficient tax revenue to help pay for the new indoor aquatics center
4. The AEDC must secure commitments from private donors in the amount of \$8 million to fill the financing gap for the new aquatics facility
5. The Iowa Economic Development Authority must approve our pre-application for the incentive.

**However, since the RDP offers the City a unique opportunity to fund a high priority for the City Council (a new indoor aquatics center) that will benefit our residents without requiring property tax revenue to build the facility or purchase the land, Option 1 appears to be too good an opportunity to pass up.**

**Please remember, like all City Council decisions, not everyone will be happy should the Council decide to pursue this State incentive. Some will not like the site. Others will question how you could move ahead without a public referendum regarding a project where a bond election was recently defeated. Even though the initial capital costs will be addressed by this incentive program, an indoor aquatic facility will require a significant amount of annual tax subsidy and/or user fees to operate.**