

COUNCIL ACTION FORM

SUBJECT: TAX INCREMENT FINANCING REQUEST FOR SMALL LOT INDUSTRIAL DEVELOPMENT SUBDIVISION LOCATED AT 2105 & 2421 DAYTON AVENUE

BACKGROUND:

In November 2021, the City Council directed staff to issue an RFP to solicit proposals for a new small-lot industrial development subdivision that would utilize Tax Increment Financing (TIF) to support the infrastructure construction.

The RFP included minimum requirements and identified issues that must be addressed by the respondents, with final terms to be negotiated with any final development agreement. Highlights of the City's interests in the RFP included: the size and type of subdivision, requirements to construct speculative buildings to expand economic development opportunities within the city, total development costs, land valuation and sale controls, and TIF duration not to exceed 10 years.

The deadline to submit a proposal was January 7, 2022. The City received only one proposal from Chuck Winkleblack representing the property ownership group Dayton Avenue Development LLC, for a 72.99 acre site along Dayton Avenue with approximately 50 acres being developable (Attachment A). **Although the proposal did not match all of the RFP's initial parameters, at the January 11 meeting, Council directed staff to continue negotiations with the developer and report back in March regarding conditions for an agreement.**

Since the January meeting staff has met with the developer multiple times to review the proposed subdivision concept (Attachment B) and to negotiate terms for a development agreement. **The developer has made what he considers to be his final proposal for the TIF subdivision. The basic terms that he is willing to accept for an agreement are described below:**

DEVELOPER OBLIGATIONS:

1. Subdivision and Platting:
 - a. Developer will be responsible for preparing all plans for the subdivision and related improvements at its cost according to all City standards.
 - b. Developer will final plat the entire subdivision by July 1, 2023.
 - c. The subdivision will include at least 7 small lots (less than 3 acres)

2. Infrastructure:

- a. Developer must construct all infrastructure within the subdivision and along Dayton Avenue to City standards (The City will not construct any infrastructure for the project)
 - b. Developer will be responsible for the extension of high-speed internet infrastructure (e.g. fiber) to serve the lots within the subdivision.
3. Speculative Buildings:
- a. Minimum speculative building size of 10,000 square feet.
 - b. Minimum speculative building shell valuation of \$500,000.
 - c. Developer will construct an initial speculative building to a “shell condition” completed by September 1, 2023.
 - d. Developer will construct subsequent speculative buildings within 18 months after the occupancy or leasing of the previous speculative building.
 - e. Penalties for failure to construct speculative buildings in a timely manner equal of \$15,000 for the first building and \$20,000 for any subsequent building.
4. Development:
- a. Prohibitions on primary uses within the subdivision for outdoor storage, mini-storage, and salvage uses.
 - b. Design covenants will be required for all buildings.
5. Valuation and Taxes:
- a. Minimum improvement value on each lot of \$350,000 per acre (exclusive of land value)
 - b. Allow for qualified uses to receive industrial tax abatement on lots over 5 acres
 - c. Limit agriculture classification of vacant lots to lots greater than 5 acres held by the developer, all other lots or third parties may not apply for the exemption.
 - d. Covenants designed to limit holding land for speculative purposes and actively marketing land.
 - e. Developer will limit sale prices for all lots to a price ceiling of \$2.50 per square foot with a 5% allowance for an annual increase.

CITY TIF OBLIGATIONS:

In return for the Developer’s obligations, the City will provide a TIF incentive for project as follows:

- a. Establish an Urban Renewal Area (URA) to allow for Tax Increment Financing (TIF)
- b. Provide the developer with an annual economic grant in the form of a Developer Rebate equal to the TIF generated within the URA equal to the total cost of water, sewer, road and other public infrastructure. The rebate will be based upon actual improvements that occur within the development.
- c. The TIF rebate total will not to exceed \$2.6 million, subject to staff verification

of actual costs of infrastructure. *(NOTE: If the final costs are less, the amount will be reduced; if costs are greater the developer would need to request the City Council increase the TIF amount)*

- d. The TIF would last until 2035, or payments totaling \$2.6 million, whichever occurs first.
- e. TIF reimbursement is subject to annual appropriation by City Council.

Additionally, a final agreement would use terminology and other terms from the Ames Community Development Park 4th Addition that relate to the above obligations.

RFP AND NEGOTIATIONS:

The City's RFP allowed for a development proposal to include either City constructed public infrastructure financed with TIF or for a developer to construct infrastructure and receive a TIF rebate. Staff supports the rebate option for this project to both meet the developer's desired timeline for the subdivision starting this summer and to alleviate staff time for designing and bidding the project. The RFP identified a maximum TIF duration of 10 years. As proposed, the length of TIF would be until 2035 to allow for up to 10 years of rebated payments to the developer.

The Developer reviewed a six-year land absorption projection with staff as the basis for the 13-lot (7 small and 6 larger lots) project along with engineering estimates from Bolton and Menk for the cost of development. The Developer believes he may have two users for lots within the first year of the project to create a substantial increased valuation for the TIF. With the Developer's stated optimism and speculative building schedule of the agreement, staff estimates the developer may reach the \$2.6 million cap in 2033.

The subdivision would be required to meet all City subdivision standards and is also subject to access improvements from Dayton Avenue into the site. Staff reviewed construction estimates provided by the Developer's engineer and concluded public improvement costs would likely exceed \$2.3 million for water, sewer, subdivision road improvements, and Dayton Avenue turn lanes. These costs do not include subdivision development costs borne by the Developer such as engineering, contingency, grading and soil preparation.

The Developer articulated concerns about forecasting pricing in the current construction environment and requested including contingency for the project. **Staff supports setting a cap on total TIF to account for appropriate levels of investment by the City and to allow for contingency benefitting the Developer. If costs of the specified infrastructure are less the \$2.6 million, the City's incentive will be capped at the lower amount.**

Beyond the cost of infrastructure and total value of TIF, there were a number of terms included in the original RFP concerning development of a small lot industrial subdivision. **It should be pointed out that several of the proposed terms requested by the Developer differ from the City's position outlined in the original RFP pertaining to speculative buildings, uses, and land valuations.** A summary of key differences is

below:

Issue	Developer's Position	RFP/City Position
Time to construct subsequent spec shell buildings	18 months	12 months
Speculative building valuation based on:	Shell condition	Final improved values
Warehouse/Low-Employee Intensive Uses	Warehouse uses allowed	Low-employee intensive uses prohibited
Industrial Tax Abatement	Allowed on larger lots	Not allowed
Vacant land ag classification	Allowed on larger lots	Not allowed; all land valued as industrial whether vacant or not

Staff relied on the prior Ames Community Development Park 4th Addition (South Bell) and the Kingland Development agreement as models for terms of this agreement. Much of the language of the City's more recent TIF agreements would be included in the agreement. Staff accepts a number of these adjustments to the RFP terms are in response to specific developer interests, but generally accomplish the City's intent as defined within the RFP. A comparison table showing recent TIF agreements and this proposal is included in the addendum to this report.

One of staff's priorities in granting a TIF incentive is to have new development added to the City's tax base as soon as possible, which is a philosophy consistent with other TIF agreements. However, in negotiations with the Developer it became clear that some of the City priorities for ensuring minimum valuations and limiting additional Industrial Tax Abatement were concerns to the developer affecting the marketability of the project.

Previously, in TIF agreements with the Ames Community Development Park and ISU Research Park, the City assumed the risk by paying for the subdivision infrastructure with reimbursement coming from the TIF revenues as development occurred. **In this case, the Developer has proposed terms where they construct all improvements and receive a TIF rebate for these expenses while taking the risk of seeing development happen to generate the TIF. If the City agrees to the developer's terms that include allowing for industrial tax abatement and ag valuations, the maximum amount of TIF will not change, but the length of time it takes to payback the TIF may be greater.**

Negotiations for the project are complicated by the unknowns of the construction costs and the Developer's interest to move quickly with subdivision based upon potential users for sites in the first year of the project. **If the City Council determines the projected expenses are too high or desires additional time to consider different terms for a development agreement, the City Council could choose to ask the Developer to divide the project into two phases and allow for the developer to move ahead with an initial phase for the south 10-15 acres of the site and to focus on negotiations for**

a future second phase with small lots located to the north. This approach would allow the City and Developer time to measure the market interest in development site. However, the Developer has indicated an interested in an agreement at this time for the whole site.

ALTERNATIVES:

1. If the City Council believes the final terms proposed by the Developer are satisfactory, then direct staff to finalize the proposed agreement consistent with terms described above and return to City Council for final approval of a contract in April.
2. If the City Council believes the final terms proposed by the Developer are unsatisfactory and wants to seek changes, then direct staff to attempt to negotiate modified terms into a final agreement and return to City Council for final approval of a contract in April
3. If the City Council determines the projected expenses are too high or desires additional time to consider the proposed terms of the Developer, then direct staff to negotiate terms for an agreement for a second phase of development focused on small lots in 2023 for the north 30-40 acres of the site.
4. If the City Council determines that the final terms proposed by the Developer diverge too much from those that have been successful included in other TIF agreements, then reject proposal and discontinue the process for a small lot industrial subdivision with City incentives.

CITY MANAGER'S RECOMMENDED ACTION:

The City initiated the RFP process in support of expanding small industrial development opportunities and development of speculative buildings through the use of city incentives. The Developer's proposed 13-lot concept is consistent with these objectives in combination with the proposed speculative building plans.

The proposed \$2.6 million amount of the TIF rebate through 2035 is seen as achievable by City staff based upon the Developer's projections. The amount is capped overall and will require the developer to provide verified costs related to the specified infrastructure. If the costs are substantially more than \$2.6 million the developer and City would need to reevaluate the desirability of this project.

The Developer's proposal does depart from specific terms recommended by the Staff in previous TIF agreements. This approach The developer states the proposal is their final proposal in order to move ahead with the agreement and meet their development goals of starting the project this summer.

While the Developer's final terms articulated during the negotiations depart substantially from previous TIF agreements and Staff recommendations, they do

flip the risk from the City to the Developer, who will upfront all of the infrastructure costs in the hope that incremental tax receipts through 2035 will reimburse their costs. In addition, this reimbursement approach to pay for the infrastructure costs will not count towards our debt capacity. Furthermore, while allowing the availability of Industrial Tax Abatement for the large lots will elongate the TIF payback, it will not change the total amount of the TIF incentive that is being offered.

Therefore, assuming the City Council still believes in the need for small industrial lots and is willing to provide a TIF incentive to one developer to accomplish this objective, it is the recommendation of the City Manager that the City Council adopt Alternative #1.

Addendum

As stated above the proposal closely follows the manner in which previous TIF agreements in other areas of the City have been structured with similar provisions. Below is a chart illustrating key components of similar agreements in comparison to this proposal. The chart compares this proposal with that of the 2009 Bell Avenue Ames Community Development Park 4th Addition TIF Agreement where the City installed the infrastructure reimbursed with TIF proceeds and the 2013 Kingland Systems Development Agreement in Campustown where the TIF proceeds were rebated to the property owner to pay for the projected financing gap of the project.

<u>Terms</u>	Dayton Avenue Industrial	Ames Community Development Park 4th Addition (Bell Avenue)	Kingland Agreement
Subdivision Size	13 Lots total, 7 small lots	14 lots total, 10 small lots	NA (Site Size 1.4 Acres)
TIF Amount	Developer rebate up to \$2.6 million, subject to verification	City reimbursement of up to \$875,000	Property Owner rebate of \$2,064,530
TIF Duration	2022 to 2035, up to dollar cap	2009 up to dollar cap (not yet reached)	2013 to 2026, up to dollar cap (completed)
Spec Bldg. Value (Shell)	Spec Bldg. Minimum Value \$500K	Spec Bldg. Minimum Value \$350K	NA
Spec Building Size	Minimum 10,000 sq. ft. in size	Minimum 10,000 sq. ft. in size	Ground floor of 3-story building minimum of 22,596 sq. ft. of leasable retail space
Speculative Building Timeline	1 st building by Sept. 2023. Subsequent buildings within 18 months of lease, sale, or occupancy of previous.	1 st building within 18 months. Subsequent buildings within 18 months of lease, sale, or occupancy of previous.	NA
Penalties/ Security	No security on Spec Bldg. Penalty for failure to complete on time of \$15k and \$20k	Security required of \$350K at beginning of agreement. Additional \$350K per failure to construct. <i>Note not implemented.</i>	None

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Ag Classification	Ag Classification on large lots allowed, unless sold to third party.	Ag Classification Allowed	NA
Industrial Tax Abatement	Industrial Tax Abatement on lots over 5 acres.	No Industrial Tax Abatement Allowed.	No Tax Abatement of any type permitted
Land Price Ceiling	Sale price cap at \$2.50 per sq. ft. (\$108,900/ac) with allowed increase of 5% per acre every July 1 st .	2009 sale price cap on all lots of \$55K per acre with increase of 5% per acre every starting July 1, 2011. <i>Allowable cost 2009 to 2022 will be \$98,772/ac</i>	NA
Minimum Improvement Value	Building value equal to \$350K or more per acre of the individual site. Applies to all lots	Building value equal to \$266K or more on lots over 1.5 acres in size.	Minimum assessment of \$8,840,545
Use Limitations	Prohibit principal uses of storage, outdoor, mini-storage and salvage	Covenant limiting storage, trailers, mobile homes	Restricted specified list of uses, required office, retail, rest., entertainment
Design	To be determined	Covenants limiting building materials, 60% corrugated metal, increased setbacks.	Council approved Site and Building Concept

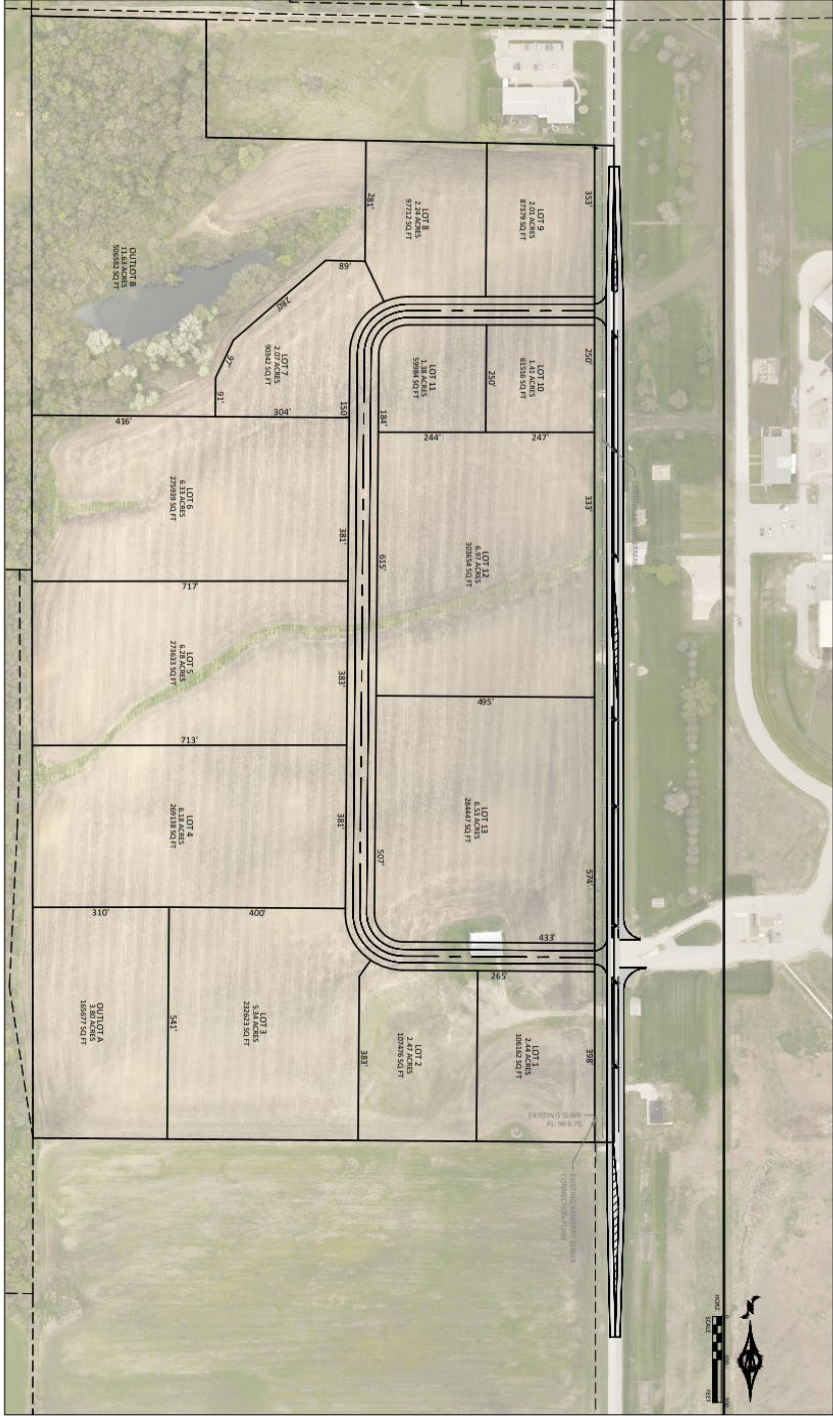
Attachment A-Location Map



2105 & 2421 Dayton Avenue Location Map



Attachment B-Subdivision Concept



2105 Dayton
Hunziker

Concept Layout
March 2022
BOLTON & MENK