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**TO:** Mayor and Ames City Council

**FROM:** Kelly Diekmann, Planning and Housing Director

**DATE:** September 9, 2022

**SUBJECT:** Downtown Urban Revitalization Area (URA) Criteria

City Council received a request from Dylan Kline of the AEDC to consider two changes to the current Downtown URA. One was to allow for a partial property tax abatement schedule of 3, 5, or 10 years compared to the current 3-year allowance. The second request was to allow for additional projects to qualify for abatement without having to meet the Downtown Façade Program requirements.

### **History of Urban Revitalization Area Tax Abatement Incentive**

The current structure of the Downtown URA was approved in 2001. The program was established to support improvements Downtown that are consistent with the design guideline of the Downtown Façade Grant Program. The program was updated in 2008. Although the topic of incentives has been discussed as part of Downtown development issues during in relation to a 2018 Council Goal and Downtown Workshop, City Council has not given any direction to adjust the eligibility requirements.

Benefits of a URA are the partial abatement of property taxes related to increased value because of improvements to a property. This is viewed as an incentive to make improvements to a property. Typically, maintenance and refurbishing existing components of a property does not increase value as an improvement to the property. Because abatement can be of substantial value, the City has specific criteria in Downtown concerning eligibility.

#### **Eligibility Criteria:**

- Properties must be located within the designated Downtown Urban Revitalization Area.

- Façade Improvements and the scope of work must follow the current Downtown Design Guidelines as approved by City Council. If additional interior or exterior improvements are part of the same project, the entire project is eligible for tax abatement, as long as the project includes façade improvements whose scope and design follow the Guidelines.

*Note that the eligibility is based on compliance with the Façade Design Guidelines, not that a project was in fact awarded a façade grant.*

- If the first floor is vacant before the façade improvements are made, then the front half of the first floor is required to have a retail use after the improvements are completed. If the first floor has a permitted use before the façade improvements are made, then it is eligible. No residential structures are eligible.

- Improvements must be made to the property increasing its actual value by 5% or more. The property is eligible to receive abatement of 100% of this added value for each of three (3) years.

- The improvements must be maintained for three (3) years. If City Council is not interested in pursuing changes at this time, then no further action is needed.

When a property qualifies for abatement, there is a prescribed schedule that accompanies a URA. State statute outlines abatement schedules that can be applied to a property. The City typically follows state law options with the a 3-year 100% abatement and a 10-year sliding, or an option 5-year sliding scale. For Downtown, it uniquely only allows for the 3-year 100% abatement option. It is not clear from the original adoption why only the 3-year option is allowed. Staff hypothesizes that due to limited value of improvements that the quick schedule of 100% abatement was adequate as an incentive compared to lower percentages of abatement over longer periods of time.

### **Staff Comments**

The Downtown URA was clearly established to incentivize improvements and revitalization Downtown that include exterior façade work in a manner that was consistent with the desired character of Downtown. The zoning regulation for Downtown have no specific design standards and the City tends to rely upon the incentive program of the URA to promote desired design features.

If City Council desires to take a broader view of incenting investment Downtown, it could choose from range of choice of having no criteria to altering the existing criteria to promote targeted investment. For example, converting space to housing on an upper floor may add value to a building, but not necessarily have façade improvements, and Council

would have to consider if including a housing incentive with or without façade improvements should be allowed.

Regardless of changes to allow for broader eligible activities, staff believes that external façade work is valuable component of the incentive program and should be maintained as a criterion due to lack of other design requirements for Downtown. **To discuss any changes to the criteria, City Council would have to place this issue on a future agenda.**

Regarding the tax abatement schedule, staff has no concerns regarding changes to the schedule. City Council could direct staff to initiate a URA amendment to include the 5-yr and 10-year sliding scale options and to have that added to the Planning and Housing Department Work Plan for later this winter.

