

Staff Report

**REQUEST TO AMEND DOWNTOWN URBAN REVITALIZATION AREA ELIGIBILITY
CRITERIA AND ABATEMENT SCHEDULE**

November 8, 2022

BACKGROUND:

The City Council has established an Urban Revitalization Area (URA) for the Downtown area. This URA was established to promote façade rehabilitation for the buildings in this corridor. Financial assistance and tax incentives are available for approved rehabilitation projects.

On August 12, 2022, City Council received a request from Dylan Kline of the Ames Economic Development Commission (AEDC) to consider two changes to the current Downtown URA (attached). One requested change 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 by changing the eligibility criteria. The letter describes an interest in supporting investment Downtown regardless of whether front facades of a building are part of the improvements to a building.

The current structure of the Downtown URA was approved in 2001. The program was established to support improvements to Downtown that are consistent with the design guidelines of the Downtown Façade Grant Program. This component of the URA was intentional by the City Council in response to prior programs that did not include eligibility criteria and allowed all improvements to receive tax abatements. Council believed at that time that without mandatory design requirements for the Downtown area, using incentives based upon façade improvements and specific types of commercial uses was important to facilitate meeting the City's goals for Downtown.

The URA program was updated in 2008, but there were no significant changes to the criteria. The most recent discussion of Downtown incentives was part of the 2018 City Council Goals and Downtown workshop. However, no direction was given to adjust any parts of the URA.

HISTORY OF URBAN REVITALIZATION AREA TAX ABATEMENT INCENTIVE PROGRAM:

The City has a long history of utilizing the Urban Revitalization Area (URA) tax incentives to promote investment in specific areas of the community. In 1982 five URAs were established which included the Downtown, Campustown, and the South Duff areas. At that time a partial tax abatement incentive was offered on the incremental value of any

improvement created within the boundaries of the area. **After time, the City Council decided that this tax incentive should be offered only if it met the goals of the Council. This change in philosophy resulted in unique eligibility criteria being developed for each of the URAs.** For example, the tax incentive eligibility in the Downtown became dependent on the project meeting the criteria for facades, either historic and non-historic. In Campustown, in order to become eligible of the URA tax incentive, a project has to meet the criteria related to use, design requirements, and public safety measures.

CURRENT ELIGIBILITY CRITERIA FOR DOWNTOWN URA:

The current criteria for eligibility the Downtown URA are as follows:

1. Properties must be located within the designated Downtown Urban Revitalization Area.
2. 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 improvements complying with the Façade Design Guidelines, not that a project was in fact awarded a façade grant.

3. 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.
4. 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.
5. The improvements must be maintained for three (3) years.

TAX ABATEMENT SCHEDULES:

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 optional 5-year sliding scale.

Historically, the City Council has made available a 3, 5 and 10 abatement schedule for incremental improvements, except for the Downtown URA that only allows for a 3 year 100% abatement.

Abatements vary in value over the time of each schedule. For a commercial property, the 3 year option typically results in an approximately a value of 8%-9% of the incremental taxable value of the improvement. The longer-term schedules offer additional monetary value along with partial payment of property taxes, but the tradeoff is the value of the incentive is realized over a longer period of time. A 10 year sliding scale schedule would result in approximately a 12-13% value in relation to the improvement.

An alternative way of viewing the schedule options is to compare values over the same time frame of ten years. A 3-year 100% abatement is effectively a value of 30% of the incremental value of the improvement over a 10-year period. The 10-year sliding scale schedule results in approximately a 45% property tax abatement value over the same period. These two examples assume a constant value for the improvement and no variability in the tax rates.

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. Additionally, the types of activities incentivized by the URA are lower costs that requirements and objectives for other URAs, such as Campustown. **Staff has no concern allowing all three schedule options in the Downtown URA.**

OPTIONS:

City Council has selectively utilized tax abatement programs in the past to target specific uses and areas that would achieve a Council goal for enhancement. In this case, Downtown is a recognized area for enhancement and the City has supported significant investment in Downtown over the past 20+ years. **The issue brought up in the referral arises when a proposed improvement does not include a façade work, thereby making it ineligible for the tax abatement incentive.**

The following options are being presented for City Council consideration.

1. *Modify the Downtown URA Program to offer the 3, 5, or 10 year abatement schedules for any incremental improvement made in the area as requested within the letter from the AEDC. (No Eligibility Criteria)*

City Council could expand eligibility for all types of commercial uses and include residential uses, even if there is no exterior work. This option would promote repurposing existing space and it would not expect exterior façade work to occur to take advantage of the incentive. This option may or may not support the prior emphasis on the physical improvement of facades in Downtown as it would be up to the building owner to determine their scope of work.

Additionally, it does not address if a building may be demolished and replaced with a new building that receives abatement. Note that the current criteria do not prohibit demolition and replacement in regards to tax abatement eligibility.

2. *Modify the Downtown URA Program to offer the 3, 5, or 10 year abatement schedules for any incremental improvement made in the area, but not allow projects that include the demolition of existing buildings. (No Eligibility Criteria)*

This option would follow the model of Option 1, but include language restricting eligibility to the retention of existing buildings. A site with a demolished building would not be eligible.

3. *Modify the Downtown URA Program to offer the 3, 5, or 10 year abatement schedules for any incremental improvement made in the area if the building has a compliant historic façade or includes improvements to the façade consistent with the existing Downtown guidelines. (Retains the current façade guidelines for eligibility, potentially expand eligibility to some existing buildings)*

This approach would potentially expand abatement opportunities for buildings by allowing for eligible uses within a building that already has a compliant façade to receive property tax abatement on improvements that occur within the building. Staff would apply the Downtown Design Guidelines to a project to determine if it meets this intent of promoting storefront type features. This option could potentially be used many times as different improvements are made within a building over time. Abatement values would reset with each new improvement that is undertaken by the owner.

Projects that do make façade improvements consistent with the Guidelines would continue to be eligible just as they are now.

4. *Modify the Downtown URA Program to offer the 3, 5, or 10 year abatement schedules for any incremental improvement made in the area, but only for specific uses such as second floor residential or entertainment/food. (Exclude Trade and Office Uses)*

This option takes a different approach for incentives to focus on targeted uses that are important to the City Council compared to physical improvements to a façade. For example, adding residential as a desired use and targeting entertainment, restaurant, bar, or brewery types of uses for an incentive would match this option. This option could be combined with other options.

This approach may not promote exterior façade improvements as it the intent for the current program because it is use based and has no specific design requirements. Additionally, excluding some uses to focus on targeted uses might not motivate building owners to make exterior improvements unless they can secure a specific targeted use. Additionally, the exterior improvements would not need to match the Downtown Guidelines if they do not pursue a façade grant.

5. *No Change (Retain existing Eligibility Criteria)*

This option would maintain the status quo where the intent of the program is to incentivize exterior improvements that enhance the appearance of a building.

STAFF COMMENTS:

The question before the City Council is whether or not to modify the existing URA eligibility criteria. The Downtown URA was established to incentivize improvements and revitalization in Downtown that include exterior façade work in a manner that was consistent with the desired character of Downtown. The zoning regulations 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 rather than establishing mandatory design guidelines.

If City Council desires to take a broader view of incenting investment Downtown, it could choose from a range of choices of having no eligibility criteria to altering the existing criteria to promote targeted investment. **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 integrated into the eligibility criteria to some degree, as proposed in Option 3, due to lack of other mandatory design requirements for Downtown in the Zoning Ordinance. Additionally, staff believes that, at minimum, the program should not unintentionally incentivize destruction of the historic character of Downtown.**



August 12, 2022

Dear Mayor and Council:

In exploring potential projects that will help strengthen Downtown, we discovered a couple of issues with existing programs that, if addressed, will promote investment in the area.

They are:

As currently written, to qualify for tax abatement on downtown projects, a project must first qualify to receive a façade grant. Projects that provide a meaningful investment in downtown in a building that does not need façade improvements would therefore be excluded from the program. While the overall façade program is beneficial, we would like to see the tax abatement program decoupled from the façade grant program so that tax abatement is available in both cases.

Comparing two sample scenarios, a \$1 million dollar investment that qualifies to receive a \$15,000 façade grant will be eligible to have the entire project abated. However, a \$1 million dollar investment that does not qualify to receive a façade grant is not eligible for any abatement. We would like to see investment incentivized more globally and not be tied to a relatively small and narrowly defined program.

Secondly, under the current façade grant program, abatement is limited to a three-year, 100% abatement schedule. This is not consistent with the Campustown redevelopment abatement program, which allows 3-, 5-, and 10-year schedules. We would ask that the same 5- and 10-year schedules be added to the Downtown program.

We are excited about what is currently happening Downtown and believe these two changes will encourage future investment to strengthen it as a thriving, energetic district.

Thank you for your consideration!

Sincerely,

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Dylan Kline
Director of Business Development
Ames Economic Development Commission



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