

ITEM #: 48
DATE: 04-23-24
DEPT: P&H

COUNCIL ACTION FORM

SUBJECT: CITYWIDE URBAN REVITALIZATION AREA DESIGNATION AND PLAN TO INCENTIVIZE NEW RESIDENTIAL HOUSING CONSTRUCTION

BACKGROUND:

On February 27, City Council reviewed the request from the AEDC Short Term Housing Taskforce to consider incentives for new construction of residential housing. Staff provided background information regarding housing construction and examples of other communities with property tax abatement incentives. City staff also discussed options for eligibility criteria, including green building requirements.

At the February 27 meeting, City Council directed staff to prepare an Urban Revitalization Area (URA) designation for the entire City if feasible, and to include a Plan for incentivizing construction of new ownership housing, subject to certain eligibility limitations pertaining. Council also directed staff to provide options at a late date for incentivizing green building construction with an alternative program. Staff returned to City Council on March 7 to finalize the city-wide area designation and notification requirements for all property owners in the City and set April 9 as the public hearing date for the URA Designation and Plan.

The Draft Plan is included as Attachment A. The URA designation will apply city-wide to the current boundaries of the City. When the City annexes additional lands, an amendment to the Plan would be required to incorporate the new lands into the boundaries of the URA.

To approve an Urban Revitalization Area, Iowa Code 404 outlines certain conditions that must exist. A City Council resolution must be adopted that declares that a URA designation is necessary and that it conforms to the requirements of Chapter 404. **Expanding housing options within the community is both desirable and necessary for the economic health of the city and having a URA is in the interest of general welfare of the residents of the City. The designation of the entire city as a URA conforms to the criteria that the area is appropriate for the construction of new housing described in Iowa Code 404.1.**

The URA Plan includes background and objectives of the City of Ames for encouraging the creation of additional new construction ownership housing in the City. **Section 7 of the Plan includes requirements for new residential construction to comply with certain requirements to be "Qualified Real Estate" eligible for a partial property tax abatement incentive, including:**

- i. A residential dwelling with its related improvements, for the actual value of improvements up to a maximum value of \$500,000.
- ii. The qualified improvement must have received a building permit from the City of Ames, Iowa prior to December 31, 2027.
- iii. Improvements must be completed in conformance with zoning and building code standards of the Ames Municipal Code.

- iv. Only the Residential assessment classification of improvements is eligible, regardless of underlying zoning. Property classified as agricultural or zoned agricultural is not eligible.
- v. The property must be owner-occupied, inclusive of all building types with individual defined ownership, including single family detached, single family attached, condominiums, accessory, dwelling units, and two-family homes.
- vi. Located on a vacant lot that was not previously developed with a single-family dwelling that was demolished to allow for new improvements.

Section 8 of the Plan includes a duration designed to allow for new construction of housing starting as late as December 31, 2027 and requires the construction to be completed no later than December 31, 2028. This means that any improvements that begin on or after January 1, 2028 will be ineligible as Qualified Real Estate and any improvements completed on or after January 1, 2029 will be ineligible, regardless of when construction had begun.

Properties with improvements may be eligible for a partial property tax exemption on New Construction improvements as described in Section 7 of the Plan and within the duration of the Plan listed in Section 8 of the Plan. A partial property tax exemption on the first \$500,000 of eligible improvements is authorized on five-year sliding scale as follows:

- Year 1- 100%
- Year 2- 80%
- Year 3- 60%
- Year 4- 40%
- Year 5- 20%

The required improvements and eligibility must be maintained for the life of the tax exemption. If the home is not owner-occupied the City Council can determine the property is no longer Qualified Real Estate and notify the City Assessor the property is no longer eligible for abatement. Staff intends to relay on the "homestead credit" primarily to determine consistency with the owner occupied requirement.

PUBLIC NOTICE:

Notification for the public hearing was mailed to all property owners in the City on March 8. A public hearing notice was also published in the newspaper. The draft URA Plan was made available on the City's website on the Planning Division webpage.

ALTERNATIVES:

1. Approve the resolution for conformance to Iowa Code 404, approve the ordinance for city-wide Urban Revitalization Area (URA) designation, and the resolution approving the Plan to incentivize new construction of ownership residential housing as described in Attachment A.
2. Approve the resolution for conformance to Iowa Code 404, approve the ordinance for city-wide Urban Revitalization Area (URA) designation, and the resolution approving the Plan to incentivize new construction of ownership residential housing with modifications.

3. Continue the public hearing to another date and direct staff to provide additional information.
4. Deny approval of the ordinance for the URA designation and resolution for the Plan.

CITY MANAGER'S RECOMMENDED ACTION:

Staff estimates (using 2023 tax rates) that if a property owner claims the full \$500,000 allowance, then during the 5-year abatement schedule the homeowner would pay approximately \$7,400 in taxes to the County and City. Over the same period, the homeowner's property tax liability would be reduced by \$11,100 compared to no abatement. The homeowner will pay 100% of the school district taxes during the five years.

A critical element of the new housing construction incentive is the timing of completing the improvements. **State law only allows for improvements made after approval of a URA to be eligible to file for the property tax abatement incentive.** This means homes completed before approval of the URA will not receive a tax abatement incentive. If a home is under construction but not completed, part of the improvement may be eligible for abatement based upon the date of approval of the URA. The owner will need to provide information at the time they file for the abatement what the specific qualified improvements are and their estimated value that will be eligible for abatement. All improvement started after approval of the URA will be eligible for the maximum incentive of \$500,000 of abatement of improvement value if they are completed in accordance with the URA Plan.

Approval of the URA designation and Plan require: the following two actions by City Council. First, the city-wide URA designation will require approval of an ordinance including the typical three readings. Second, the URA Plan will require approval of a resolution.

If City Council desires to accelerate the final approval of the URA designation, it could consider waiving the Council's rules and complete all three readings on April 9 and approve the ordinance. If City Council waives the rules, the ordinance would be published on April 12 and become effective. **If City Council does not waive the rules, the third reading is scheduled for the Council's regular meeting on May 14 and the ordinance would be published on May 17.** Approval of the resolution for the Plan will be contingent on the date the ordinance is effective.

In accordance with the City Council's goal to increase the diversity of housing in the city, it is the recommendation of the City Manager that the City Council approve either Alternative #1 for the city-wide URA designation and Plan consistent with Attachment A.

Please note that at the February 27th City Council meeting, there was a motion to direct staff to provide options for criteria related to green building and sustainability measures as an additional option to the basic requirements of the proposed URA. Approval of the proposed city-wide URA allows for City Council to amend the URA Plan at any time to modify criteria or to provide an alternative abatement schedule with a normal published notice requirement and not full citywide mailed notification.

ATTACHMENT(S):

[Ordinance Ames City-wide URA.PDF](#)