

Staff Report

**AEDC SHORT TERM HOUSING TASK FORCE REQUEST FOR RESIDENTIAL
PROPERTY TAX ABATEMENT FOR NEW CONSTRUCTION**

February 27, 2024

BACKGROUND:

City Council first reviewed a request from the Ames Economic Development Authority (AEDC) Short Term Housing Task Force to address housing impediments and needs of the community on December 12. [The original request and staff report](#) addressed a broad range of issues related to variety of housing types, lower priced housing, impediments to development, and incentives for development. City Council discussed a number of aspects of the request, but took no specific action at the December meeting. **At the conclusion of the discussion, City staff indicated they would seek further input and assess development impediments and tax abatement options for City Council to consider at a later meeting.**

Subsequently, the Task Force provided a follow up letter to staff focusing on specific issues of development impediments related to: 1) zoning, subdivisions, and conservation subdivisions, 2) pioneer infrastructure costs, and 3) the tax abatement incentives (Attachment A- January 23 Task Force Letter). **At this time, staff is bringing forward only the Tax Abatement request. City Council is being asked to provide direction regarding whether there is a desire to establish a program, and then consider the details regarding how it would be applied. While additional input regarding development issues has been received, staff intends to return with more information regarding development standards at a March meeting along with more information about an updated infrastructure oversizing and pioneer infrastructure policy.** Staff hopes to conclude the discussion regarding these issues in March to allow time to adopt new policies and standards this spring, which would allow developers to respond with new projects still this year.

At the December meeting, the City Council reviewed staff's proposed a 5-year sliding scale property tax abatement plan prioritizing single-family detached and attached housing. Staff recommended a two-year window from time of approval of development to initiate construction of housing in order to be eligible for the incentive. Staff also identified potential eligibility criteria related to other Council goals that could be applied to projects. Criteria could include topics such as specific price points of housing, housing types, green building requirements, minimum number of housing units required to be built, and ownership vs. rental. However, these additional eligibility criteria are optional for City Council.

Staff proposed a 5-year abatement schedule with a 100%, 80%, 60%, 40%, 20% sliding scale for 100% of the value of a new residential home, not including apartments. Staff noted that although use of residential tax abatement is not an uncommon tool in Iowa, tax abatement alone did not correlate to housing development in the fast-growing suburbs. Waukee, West Des Moines, and Ankeny--three prime examples of rapid growth--do not offer property tax abatement for housing.

Examples of tax abatement programs in effect in other communities are shown below:

Gilbert- 5-year sliding scale starting at 50% year 1
Pleasant Hill-5-year sliding starting at 75% year 1
Altoona- 5-year, first \$75,000
Norwalk-5-year, first \$75,000
Carlisle-5-year 100%
Indianola- 5-year sliding scale starting at 100%
Oskaloosa-5-year sliding scale starting at 80% year 1
Van Meter- 5- year sliding scale starting at 100%
Perry-10 year sliding scale starting at 100%
Des Moines: Multiple programs by building types and areas. Single Family 100% up to six years, partial after // Single-Family 7 years 100%, partial after, with increased insulation and vehicle charging capabilities

The Task Force's January letter stated a desire for a tax abatement program for all residential building types, a program duration of 5-7 years, either the 5-year sliding scale or 3-year 100% abatement schedule, inclusion of homes built since January 2023 (i.e., vacant speculative homes), and no other eligibility criteria. In addition to the Task Force letter, staff has been in discussion with the managing partner of the development group for Hayden's Preserve (formerly Rose Prairie) about development impediments for that specific site. In addition to a number of site-specific development limitations and infrastructure costs that staff is still reviewing, the Hayden's Preserve developer advocated for a city-wide 7-year 100% abatement policy modeled after a now cancelled Adel, Iowa program. The developer believes this abatement policy is necessary to attract the attention of wider pool of developers to Ames.

URBAN REVITALIZATION AREAS:

To allow for partial property tax abatement, the City must first establish an Urban Revitalization Area (URA) consistent with Iowa Code Chapter 404 criteria for support of new residential development. This URA could be either city-wide or on project-specific basis. Iowa Code allows a city to follow predetermined abatement options defined in statute or to create unique abatement schedules that do not have a greater value than those authorized within Iowa Code Chapter 404. One important standard for property tax abatement is that properties that are "qualified real estate" and of a like classification are treated the same. Additionally, once a property has been determined to be qualified real estate (i.e., constructed while the URA is in place), the incentive cannot be eliminated.

Staff believes that the current State law will not allow for City Council to find homes completed in 2023 to be eligible for abatement, as they would have been improved before the creation of the URA. Staff believes that only homes completed in 2024 or later will be considered "qualified real estate" for abatement in accordance with the Assessor's establishment of values for new improvements (full or partial) as required under state law.

A city-wide program would be uniformly applied across the city with no unique subdivision specific requirements. However, the notification process to create a city-wide program could be onerous with the requirement to send mailed notice to each property owner in the City. Creating URAs on a project-by-project basis would require multiple plans, but would include fewer overall properties and be development-specific. **Whether a URA is city-wide or project-specific, the City is allowed to define the criteria for qualified real estate and may create multiple programs of abatement that could apply to a project, of which the property owner would then pick which program to comply with and receive abatement.** Des Moines is an example of a community that uses a multi-prong approach to

provide a base incentive for residential development and then has an alternative schedule that extends the abatement in return for including additional insulation and car charging capabilities.

ISSUES NEEDING CITY COUNCIL DIRECTION:

Staff believes the following issues require direction from City Council in order to move forward with a Residential Property Tax Abatement Program. The first three issues will require direction from the Council, while the last two issues are optional for the Council to consider.

Housing Type: Owner or Rental or Both

The Task Force is requesting tax abatement eligibility for all building types, whether owner- or renter-occupied. Staff recommended support in December for non-apartment development, prioritizing single family detached and attached. The rationale for staff's position was to support the Ames Plan 2040 Housing and Neighborhood Element policy to encourage an increase in the percentage of owner-occupied households in the City. Currently, the City has approximately 60% renter households and 40% ownership households. Staff believes the impediment to rental development is primarily the availability of land compared to competing with housing options in other communities. In addition, staff does not believe that abatement which goes to the property owner would correspond to any reductions in rents to the tenants, unless there is a deed-restricted affordable housing project that was required to rent to qualified low income households.

Abatement Schedule and Percent Abated

The value of the incentive is set upon completion of the new home. For example, a home that has an improvement value of \$500,000 would have this amount abated. However, if the home increases in value during the abatement schedule, the owner will pay property taxes on the additional value. The schedule determines the percentage of value abated with a defined timeframe.

The Task Force is requesting that a choice be given for either a 3-year 100% or 5-year sliding scale. While the total value of City taxes abated is the same, the City receives no revenue in year 2 or 3 of the three-year option. In comparison, the City starts to collect some tax revenues in those years under the five-year option, although there will be two additional years of partial abatement. Given the recent cap placed on the growth of the City's General Levy by the State Legislature, the ability to collect some incremental revenues earlier is a preferable alternative. The 5-year sliding scale generates property tax revenues sooner for the City than the 3-year option.

Length of the Program

The Task Force requests a long period of eligibility for 5-7 years, presumably to encourage more new developments to occur that have not yet been approved.

Staff believes this incentive should initially be considered a short-term pilot program to allow time to determine if property tax abatement does influence an increase the number of houses being built. It is possible that other factors such as the lowering of interest rates and/or the resolution of supply chain issues might have a greater impact on improving the housing market than a property tax abatement program. Therefore, it might be advisable to introduce this new program as a pilot effort for a shorter duration to allow time to gauge its effectiveness. If it proves successful, it can be extended by the Council.

There are two development scenarios that a property tax abatement program could impact: The first scenario involves a subdivision already approved. In that case, developers could move relatively quickly to final plat additional lots or start construction on approved lots. The second scenario is a developer moving forward with a new subdivision approval. Subdivision approval and completion of infrastructure to create additional new lots would be a 12-18 month process.

To support the second scenario, staff would suggest a tax abatement program that extends from 2024 through 2026. Any home started after 2026 would not be eligible.

Improvement Value

The Task Force is not supporting a limit or cap on the maximum abatement value.

The City Council can determine to abate all or some of the total improvement value, or set a maximum value cap for eligibility. For example, if City Council only desires to encourage development of moderate income housing, it could set a maximum sales price of \$400,000 or less. Alternatively, Council could support all housing types regardless of sale price by setting a maximum amount abated per house of \$400,000. This allows full abatement of value on moderate income housing, while providing abatement of only the first \$400,000 of value for a more expensive home.

Green Building/Design Requirements

City Council could elect to add other building requirements as prerequisites of eligibility if it so desires. For example, if City Council is interested in adding green building requirements, staff believes the City could specify types of features that must be included with the home or set a performance requirement for its design through a Home Energy Rating System (HERS) rating or some other evaluation tool.

Using the HERS system would be familiar in the market and require the least amount of staff administrative time because it would require a third party HERS rating report rather than staff checking the project details.

While creating an incentive for substantially reduced energy usage in support of Climate Action Goals has definite merit, Task Force members have emphasized that this eligibility requirement will add to the cost of housing and be counterproductive to the goal of immediately producing more housing. The Council will have to determine how to balance these two priorities. However, if the Council chooses to support an energy efficiency requirement, it should not be applied until the 2025 housing construction season to allow staff time to identify reasonable measures. This option could also be a separate abatement schedule with its own performance criteria, similar to Des Moines.

OPTIONS:

STAFF COMMENTS:

City Council has multiple options regarding how to proceed with the Task Force request. City Council could elect to follow the Task Force's requests for a 5-7 year long program where all residential buildings would be eligible (for sale or rental), and an abatement schedule of either a 3-year 100% or a 5-year sliding scale.

As an alternative, staff has outlined a targeted option below that tries to address multiple interests. This option attempts to take a more targeted approach and for the program to be considered a pilot program with a shorter duration. However, City Council could also choose take a more aggressive approach by approving a tax abatement incentive that includes one, or all, of the following: a longer program duration, longer abatement schedule, higher abatement percentage, and greater improvement value to encourage more development. An additional option would be to focus on green building priorities related to energy efficiency and the Climate Action Plan.

Staff's Targeted Incentive Package Extending to 2026:

1. Ownership housing Only (Single Family, Townhome, Condo, Two-Family) constructed in 2024, 2025, 2026, new vacant lots only.
2. 5-Year sliding scale (100%, 80%, 60%, 40%, 20%)
3. Abatement applies to the first \$400,000 of improvement value.
4. Program will apply on an individual development project basis, and not apply city-wide.
5. No other criteria.

ATTACHMENT(S):

[Ames Housing Task Force Letter of Follow-up - January 23_2024.pdf](#)