



AGENDA CITY COUNCIL ECONOMIC DEVELOPMENT COMMITTEE

FRIDAY, JULY 21, 2017
8:30 A.M.
EMMA HARVAT HALL
CITY HALL

1. Call to Order
2. Consider approval of minutes from the May 25, 2017 Economic Development Committee meeting
3. Consider a recommendation to the City Council for support of Hieronymus Square TIF project
4. Consider a recommendation to the City Council for Revised TIF Policies
5. Staff report
6. Committee time
7. Other business
8. Adjournment

If you need disability-related accommodations in order to participate in this program/event, please contact Wendy Ford, Economic Development Coordinator at 319-356-5248 or wendy-ford@iowa-city.org. We ask that contact us early to allow sufficient time to meet your access needs.

**MINUTES
CITY COUNCIL ECONOMIC DEVELOPMENT COMMITTEE
MAY 25, 2017
EMMA HARVAT HALL, CITY HALL, 11:00 A.M.**

Members Present: Rockne Cole, Susan Mims, Jim Throgmorton
Staff Present: Ashley Monroe, Simon Andrew, Geoff Fruin, Wendy Ford, Eleanor Dilkes
Others Present: Nancy Bird (ICDD), Tim Furman (Cruise, Furman LLC), Martha Norbeck (C-Wise Consulting), Karyl Bohnsack (Greater Iowa City HBA), Tom Banta (ICAD), Kate Moreland (ICAD), Mark Ginsberg (MC Ginsberg), Michelle Galvin, Dulcinea, Charlie Eastham (CWJ), Nick Lindsley (Neumann Monson)

RECOMMENDATIONS TO COUNCIL:

Cole moved to approve the minutes from the April 5, 2017 meeting as presented.
Throgmorton seconded the motion.
The motion carried 3-0.

Throgmorton moved to approve the minutes from the April 14, 2017 meeting as presented.
Cole seconded the motion.
The motion carried 3-0.

CALL MEETING TO ORDER:

Chairperson Mims called the meeting to order at 11:02 A.M. She then asked those present to introduce themselves.

CONSIDER APPROVAL OF MINUTES FROM THE APRIL 5, 2017 ECONOMIC DEVELOPMENT COMMITTEE MEETING:

Cole moved to approve the minutes from the April 5, 2017 meeting as presented.
Throgmorton seconded the motion.
The motion carried 3-0.

CONSIDER APPROVAL OF MINUTES FROM THE APRIL 14, 2017 ECONOMIC DEVELOPMENT COMMITTEE MEETING:

Throgmorton moved to approve the minutes from the April 14, 2017 meeting as presented.
Cole seconded the motion.
The motion carried 3-0.

REVIEW TIF POLICY REFINEMENTS TO DATE:

Mims began the discussion by stating that they may want to review the process and procedure that they would like to use to complete the TIF policy review. She added that there are a few things they need to consider, including two recently memos received today -- one from the Downtown District and one from Mayor Throgmorton.

She noted that any changes to the TIF policy will greatly influence the downtown, and because of that, the Downtown District has asked for a sit-down meeting with the Economic Development

Committee to discuss their concerns. Mims said she thinks this would be a good idea, especially before they finalize their recommendations to the full Council.

Mims stated that she finds it difficult when they are working through issues, such as the TIF policy, to digest all of the information they have received, especially minutes prior to a meeting. She added that she is a little concerned about how far they should take today's discussion, given that they are still gathering public input. Mims then asked staff if any further information had been received. Ford stated that they did receive more information from Martha Norbeck on LEED certification today, as well. Mims then asked other Members what their thoughts are on how far they want to go with today's discussion.

Throgmorton stated that he would never oppose a sit-down meeting, but he did question the process. He noted that others, besides the downtown area, will also be affected by changes to the TIF policy. Therefore, he questions having a sit-down with just the Downtown District and no one else. Mims said Throgmorton makes a good point, especially given the potential significance of changes that might be adopted. Agreeing, she said they could do several sit-down meetings with stakeholders. Cole noted that his only concern is the question of time. He believes they have engaged in a very thorough process so far. He added that he would like to get a document to Council relatively soon. Cole noted that the question of the Comp Plan downtown and height, as well as the LEED issue appear to be the only things left to iron out. He again stated that he believes they have spent quite a bit of time already gathering information from others and that he would like to move forward on this as quickly as possible.

Throgmorton then asked Dilkes for clarification on what form the draft would go to the full Council, a resolution or an ordinance. She said it would be a resolution. Throgmorton noted that they could have several public hearings during the reading process in the full Council. He agreed with Cole, that they have been working on this for some time now and it is probably time to move forward. He would like to see the Committee discuss the outstanding issues of building height and LEED certification, to see if they can move forward on these.

Mims stated that she is concerned that they may be disregarding some very valuable public input, given that there is now more detail for the public to see and respond to. She believes giving stakeholders more opportunity to weigh in at this point makes complete sense, given that the public now has a good idea of where the Committee is heading with their recommendations. Fruin spoke briefly to how public meetings for such input would need to be handled. Throgmorton added that he believes they should make as many decisions as they can today, especially the two issues already mentioned. He added that he welcomes any public input that comes their way.

Referring to the sustainability section of the staff memo, Ford noted that Staff recommends developers seeking financial assistance be required to build LEED Silver certified buildings. She noted staff does not recommend that at least 8 of the LEED points be earned from the Energy Efficiency category. A suggestion had been made that the new policies should require at least 8 of the LEED points earned must come from the 'Energy Efficiency' category. Ford continued, noting that since the last Economic Development Committee meeting, staff met with Martha Norbeck, the architect who made the suggestion, and two other local architects with LEED certification experience. Staff gained understanding from these meetings about LEED and the idea of requiring at least eight points from the Energy Efficiency category. Ford said after discussions, the 8 points seem feasible, however, staff is not recommending this requirement as staff feels the LEED standards are continually updated and nationally accepted. Instead, additional points could be noted as something that would add appeal to a project, but should be left up to the developer.

Throgmorton said he believes the TIF policy should help the City achieve its carbon emission reduction goals and that the 8 points should be required, along with the LEED Silver certification. Cole stated that he agrees that both the LEED Silver certification with eight Energy Efficiency points should be required for TIF assistance. Fruin clarified that this recommendation is for the City-University Urban Renewal Area, which includes downtown and Riverfront Crossings.

Mims stated again, she believes LEED Silver certification is good, but that she would like to see it as 'preferred' yet not 'required' for TIF assistance. She believes that it could potentially lock the City in to situations where there may be other strong community benefits and for whatever reason, the Silver certification would be very difficult to achieve or cost prohibitive, otherwise negating a good project with clear public benefit. She said she is not in favor of requiring LEED Silver certification plus eight points in the 'energy efficiency' category.

Cole and Throgmorton reiterated their support for required LEED Silver certification, including at least eight points earned under 'energy efficiency.'

Moving on to building heights, Ford noted Mayor Throgmorton's request that substantial weight be given to projects seeking TIF falling within the desired heights shown on the downtown and Riverfront Crossings master plan's building height map.

Staff is recommending flexibility regarding heights. Further, staff recommends that any new policy clearly states what circumstances will merit consideration for additional height.

Throgmorton then referred to the memo he had emailed earlier in the day. He summarized it, highlighting for Members what he believes should be a part of the TIF policy. Throgmorton noted that what he is going to suggest first has to do with the downtown area only, not the Riverfront Crossings area. He read from his memo the wording that he is proposing for the TIF policy changes.

Cole said he likes the suggested proposals by Throgmorton and that they are basically part of the ongoing conversation they have been having. He then stated, regarding exceptions to the Desired Heights map from the Master Plan, he has not made up his mind yet on what these should be but that he is open to discussing these further. His overarching goal is that any deviation a developer proposes should have to be accompanied by a declaration of how the deviation is going to benefit the community. Cole also believes that any time a deviation is sought, it needs to be done as soon as possible so that there are no surprises down the road and the community has plenty of time to weigh in. Cole stated that he would like to adopt the suggested language and move forward with the full Council, and that they can always amend the resolution in the future if the need arises.

Mims stated her concern with the Comprehensive Plan being tied so tightly to this because the Comp Plan is meant to be an 'aspirational document,' in terms of how the City would like things to look. Noting the Desired Height map within the Comp Plan, Mims stated she would like to see the current zoning of every piece of property in the downtown area, with the current heights shown as well. She noted how everyone has a different idea of what is good for downtown. Mims asked what is meant by 'corner locations should be reserved for tall buildings,' as stated in the Comp Plan. She asked if that means 15 stories or five stories on a particular corner.

Cole then spoke to several occasions in the past year where a developer has raised questions about whether a project would make it through Council. Mims asked for an example, and both Cole and Throgmorton suggested Jesse Allen's project. Cole continued, stating that he is not seeing concern with this issue, that he believes they have been able to work with developers when there has been a question of what Council desires. Mims spoke to the need for

confidentiality in some situations, where a developer would want to be further along in the process before coming to Council and making their plans public.

Throgmorton responded to Mims' comments. Regarding the Comp Plan being aspirational, he said he believes it is dismissive to describe the plan this way. He believes the aspirational aspect of the plan is what makes it so profoundly important because it memorializes what the people of Iowa City have chosen as the general direction they want the community to go. Throgmorton said tools like economic development policies and zoning codes are intended to help implement the Comp Plan. He said he believes deviations from the Plan are possible, but that developers need to justify them.

Fruin addressed the bullet points in Mayor Throgmorton's memo. First noting the comment that 'new development should be located on sites that do not contain historic buildings,' Fruin stated that the Urban Renewal Plan already precludes any project that would alter a historic property.

Second, noting the comment that 'Ground floor retail, not blank walls, should be on street frontages on the City Plaza,' Fruin stated that this is already built into the zoning code standards and design review process.

Third, noting 'Upper floors should contain office, commercial, and residential uses,' Fruin stated that he is not sure what other uses could be on these upper floors.

Fourth, that 'Buildings should be built to the property line,' is already a requirement in the CB-10 zone.

Regarding the fifth point, about building heights and that 'taller buildings should have a lower base,' Fruin noted that this is already a part of the zoning code, as is the design review process.

Lastly, regarding the final point, that 'parking (only be) located both on street and behind storefronts in the downtown,' Fruin stated that surface parking is not allowed nor is going to occur in the immediate downtown area.

Regarding deviations from the Desired Heights map, Fruin stated that these situations would need to come to Council at a fairly early stage in the development process in order to see if Council would consider a deviation from the map. He added that the reality is that some developers may do this, but others will not.

Mims addressed the height issue, specifically the Desired Heights map and the range of heights it suggests calls out, stating that she believes they need a definition of what 'taller' means. She noted an example as the Meardon Law Firm building lot at Linn and College Streets shown as being only a 4-6 story building in the Desired Heights map, despite being on the corner, an example of inconsistency in the desired heights map. She said she thinks the Desired Heights map needs a serious review.

Throgmorton stated that perhaps they need to have a discussion regarding the Desired Heights map, and understand how the map came to be, saying it was likely the product of urban design professionals. Throgmorton asked if the entire area in question is zoned CB-10, and Fruin affirmed that most is CB-10 with a few publicly-zoned properties mixed in.

Cole then spoke to the height issue, saying that it may well have been developed this way to avoid a mix of structure heights, intermingling 15 story buildings with lower story ones, and the resulting mix of heights and uses.

Mims went back to the wording 'taller on the corners,' asking for further clarification. Throgmorton stated that this was undoubtedly an urban design recommendation made at that time. Pointing out an example of the confusing nature of the Comp Plan, Mims stated the example of the Law Firm building on the corner, that 'taller' there could mean as few as 2 stories, since 2 is taller than the one existing, yet the Desired Heights map shows 4-6 stories and the text in the plan calls for the highest, 7-12 story buildings, on corners. She questioned what 'taller' is in this case.

Mims stated that Fruin has made some good points regarding redundancy in the policy. She asked if he could see any problems in the future should something get changed in a zoning policy that could then have a negative effect on this policy. Fruin stated that the Council would have to actively change the zoning language or do an amendment to the Urban Renewal Plan, both of which are very public processes to strip out the items in question.

Throgmorton then stated that he believes these bullet points are still valuable in that they give a potential applicant a checklist that relates back to the Comprehensive Plan. He suggested that there also be reference in this list to the Urban Renewal Plan and to the zoning code as well. Cole spoke briefly to the redundancy issue, noting that he believes it will make it easier for the public to follow. Fruin spoke briefly about some previous issues with development projects and the fit with the Comp Plan.

Throgmorton said he thinks they need to be more precise about what would justify deviations. He suggested staff come back to them with a refined version of what he has provided, along with any public input, and that they revisit this topic.

Fruin asked if it would be helpful to also show on the map any properties that are deemed historic. Members agreed that this would be very helpful.

Mims stated that she would be interested in making part of their next meeting an opportunity for them to engage in dialogue with members of the public. She asked if Members are interested in this. No one affirmed.

Throgmorton stated that he has a different recommendation and asked if they could extend this meeting another 15 minutes. Mims stated that she is unable to stay that long today due to other commitments.

Throgmorton stated that he would like them to finish the remainder of the document before having a meeting with the public.

Fruin asked for some clarification on directions for staff, to which Members responded. The directions are to key in on the bullet points. Throgmorton then stated that he would be curious to get some insight from staff about the rationale concerning the building height map.

STAFF TIME:

Ford stated that they had a very good turnout at Kirkwood Community College for the program called "Building Business Basics," to which 60 people attended.

COMMITTEE TIME:

None.

OTHER BUSINESS:

None.

ADJOURNMENT:

**Throgmorton moved to adjourn the meeting at 12:10 P.M.
Cole seconded the motion.
Motion carried 3-0.**

**Council Economic Development Committee
ATTENDANCE RECORD
2016 - 2017**

NAME	TERM EXP.	02/04/16	04/12/16	05/10/16	06/14/16	07/12/16	10/12/16	12/13/16	03/23/17	04/05/17	04/14/17	05/25/17	
Rockne Cole	01/02/18	X	X	X	X	X	X	X	X	X	X	X	
Susan Mims	01/02/18	X	X	X	X	X	X	X	X	X	X	X	
Jim Throgmorton	01/02/18	X	X	X	X	X	X	X	X	X	X	X	

Key:

X = Present

O = Absent

O/E = Absent/Excused



CITY OF IOWA CITY MEMORANDUM

Date: July 13, 2017

To: Economic Development Committee

From: Wendy Ford, Economic Development Coordinator

Re: Agenda item #3:

Consider a recommendation to the City Council for support of Hieronymus Square TIF project

Introduction

Members of the Hieronymus family have owned the southeast corner of Burlington and Clinton Streets for decades. After years of planning, they have partnered with local developers and are proposing a \$40 million mixed use development for the site and have requested gap financing with tax increment financing (TIF) in the amount of \$8 million.

History/Background

About a year ago, developers began revising a plan that had been contemplated years earlier. The new plan consists of two distinct buildings joined by a common entry vestibule. The building at the corner of Burlington and Clinton is a 7 story mixed use building with retail on the ground floor, Class A office space on the second floor and five floors of residential units. Of the 43 residential units, 7 (15%) will be rental units affordable to income qualified people at or below 60% of the area median income (AMI).

The second building, a 92 room, 7 story hotel, also, lies parallel and south of the first building. It is connected to the first building by a two-story entry vestibule, lobby and common area. The hotel will fly the Element Hotel flag, a Marriott/Starwood company extended-stay property, and the first of its kind in Iowa City. Rooms in the Element will all be equipped with kitchenettes and be especially designed to appeal to the extended-stay market.

All required residential parking will be in a basement level garage accessible through the Court Street Transportation Center (CSTC). Hotel parking will be accommodated in the CSTC with an agreement between the City and the hotel similar to those of the Sheraton, Hotel Vetro, and the Hilton Garden Inn hotels.

The two-story lobby between the buildings will serve as the entry point for the north residential building and the south hotel building. The mail room and elevators for the residential units, and the lobby, reception, hotel elevators and breakfast area will be just inside and on either side of the entry way vestibule. At the east end of the lobby area, a stairway and another elevator will connect the buildings to the CSTC to the east. The second level of the common vestibule will include an outdoor pool, upper and lower terraces, and an indoor fitness area. The skywalk and the underground connections to the CTSC will require separate agreements and FTA (Federal Transit Authority) approval.

Financial Analysis

The City contracts with the non-profit National Development Council (NDC) to review and assist in the financial analysis of proposed TIF development projects. Karen Garritson, an NDC Director, led the financial analysis of the proposed project and has submitted a memo detailing her review (following).

In summary, total development costs for the project are \$40.75 million of which \$5 million is land acquisition, \$28 million is construction, and the remaining are soft costs, interest, fees and furnishings. The cost breakdowns are further detailed in the developer's Request for TIF and in Ms. Garritson's memo, attached. Sources of funding the project include bank loans totaling \$22.4 million, developer's equity of \$10.3 million, and the City's gap financing of \$8 million.

City Financial Assistance

The City's financial analysis examines all project costs and all financing sources for a project, with special scrutiny on the developer's return. With a focus on developer equity and the maximization of project debt, the evaluation process aims to ensure that if public financing is used, that it may fill a financial gap but that it may not allow undue enrichment to the developer.

Various measures including project development costs, financial pro-formas, written evaluation reports, market analyses, and others are used to evaluate the use of economic incentives.

Each of the two components of Hieronymus Square demonstrated a financial gap after maximizing commercial financing and meeting developer equity requirements of being at least as much as the gap financing. Because the City strongly prefers to use TIF rebates, as opposed to providing up-front cash, developers have to finance the gap by taking on a "TIF loan" to be serviced by future TIF rebates. Correspondingly, the gap then grows by the cost of financing the TIF loan.

Combined, the \$40 million Hieronymus Square development demonstrates a total gap of \$8 million. For the 7 story mixed use building, the bulk of the gap is \$2.4 million, which when financed with TIF rebates, totals \$3.5 million. For the Element Hotel, the major portion of the gap is \$2.7 million, which when financed with TIF rebates totals \$3.9 million. The remaining gap of \$600,000 is proposed to be provided upon completion of the buildings as a TIF advance, after completion of the minimum improvements in the development agreement. The \$600,000 helps to reduce interest costs and will help with early project cash flow due to the lag-time before rebates commence in 2022. City risk is minimized because construction will be complete.

Recommendation

The project meets several goals and objectives set forth in the Council's Strategic Plan. Among those, it does the following:

- Helps the City maintain a solid financial foundation by adding approximately \$22 million in valuation to the tax base and by generating new hotel taxes averaging more than a \$250,000 per year or \$3.8 million over the first 15 years;

- Promotes a strong and resilient economy by adding retail, office and residential users to a prime corner in downtown Iowa City at the mid-point between Downtown and Riverfront Crossings;
- Fosters a healthy neighborhood by improving a blighted property on the busiest corner downtown;
- Encourages a vibrant and walkable urban core by the addition of storefront windows, the additional set back requirement to expand the sidewalk, and thus walkability, along this section of state highway/Burlington Street; the addition of market rate and affordable residential units to downtown; and finally,
- Promotes environmental sustainability by deploying roof-mounted solar panels and generating approximately 38,000 Kwh of its own power, thereby reducing carbon emissions.

For these reasons, staff recommends EDC forward a recommendation to support to the full City Council.

✓

**Hieronymus Square Developers L.L.C. Presents
Hieronymus Square – A Dynamic Mixed Use Complex**



Hieronymus Square Developers L.L.C.

The Site:

The location for the Hieronymus Square project site is at 314 S. Clinton St. The site is currently a vacant lot at the southeast quadrant at the intersection of Burlington and Clinton Streets adjacent to the Hilton Garden Inn and directly across from the University of Iowa's new School of Music.

Project Overview:

This project is under development by Hieronymus Square Developers L.L.C. (the developer) which is a joint venture between Iowa City ES Hotels L.L.C. and HS 314, L.L.C. The project consists of two adjoined 7 story towers. Tower #1 to be owned by HS 314, L.L.C. will feature a mixed-use building of commercial space, professional office space, residential condominiums and underground parking. The 2nd tower will be owned by Iowa City ES Hotels L.L.C. will be an all-suite Marriott branded 92 unit extended stay hotel called Element by Westin. Both Towers will share an expansive 2nd floor outdoor patio space between the buildings that will offer outdoor amenity space for both hotel guests and residents including swimming pool, seating area and fitness center. Additionally, the expansive space will also be able to hold outdoor events.

The developer believes this project will be successful due to its outstanding location and diverse mix of users. With the site serving as an anchor corner to the key intersection of Burlington and Clinton and as a gateway to Riverfront Crossings. Additionally the sites proximity to the U of I campus and UI Hospitals & clinics the Element will meet the extended stay hotel demand downtown.



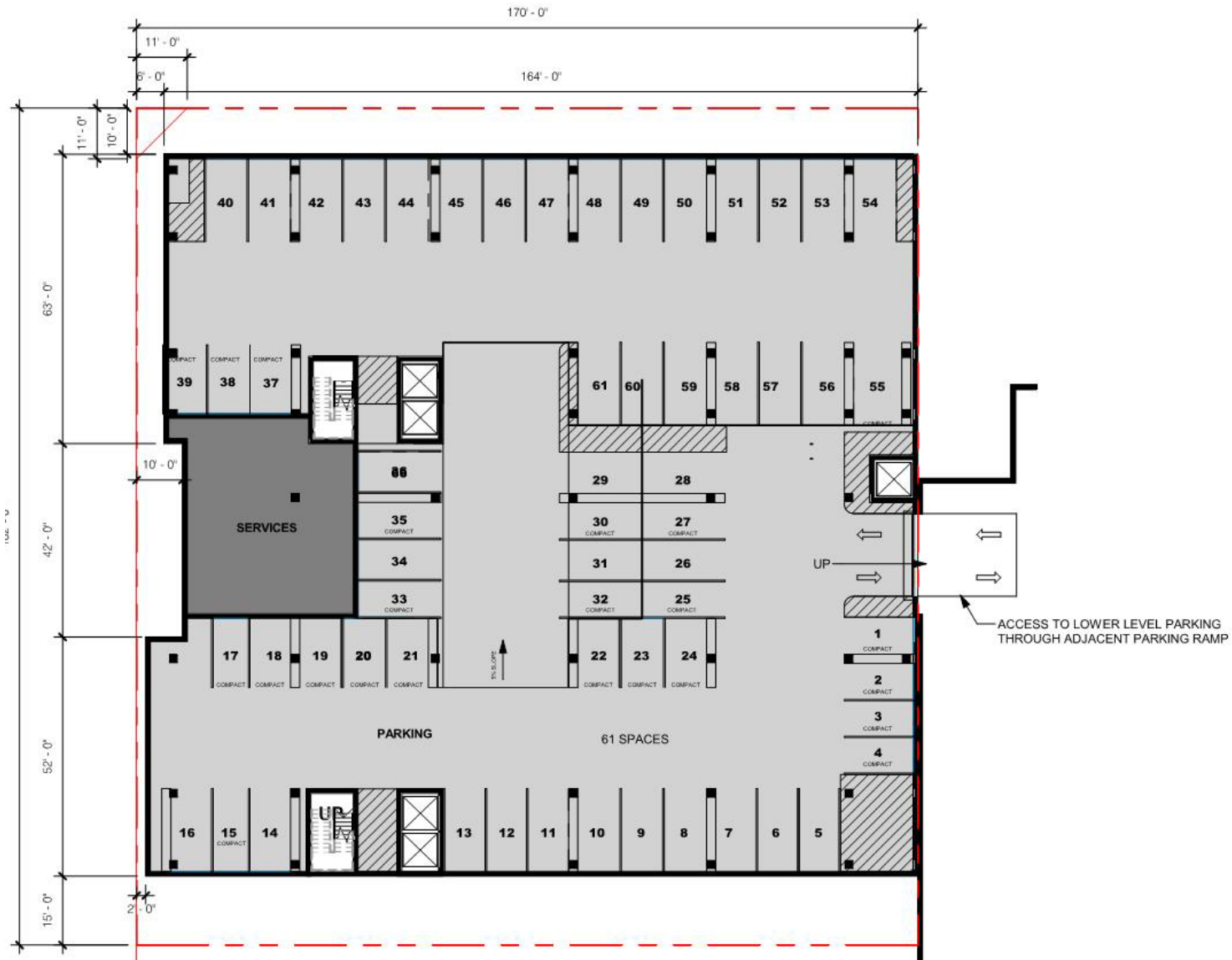
Hieronymus Square Developers L.L.C.

Building Program:

Floor	Sq. ft.	Rooms	
Mixed Use			
7	11,150	9	Condo
6	11,150	9	Condo
5	11,150	9	Condo
4	11,150	9	Condo
3	11,150	9	Condo
2	10,600		Class A Office
1	9,805		Commercial
0	27,974		Parking
Total Sq. Ft. / Units	104,129	45	Total Units
Element Hotel (upscale extended stay)			
7	8,574	15	Hotel
6	8,574	16	Hotel
5	8,574	16	Hotel
4	8,574	15	Hotel
3	8,574	15	Hotel
2	17,140	15	Hotel
1	14,528		Hotel/Lobby
Total Sq. Ft./Units	74,538	92	Total Units
Common Areas			
2	5,500		Patio
1	2,500		Shared lobby entry
Total Sq. Ft.	8,000		
Mixed Use Total:			
	104,129		
Hotel Total:			
	74,538		
Common Areas:			
	8,000		
Total:			
	186,667		

Hieronymus Square Developers L.L.C.

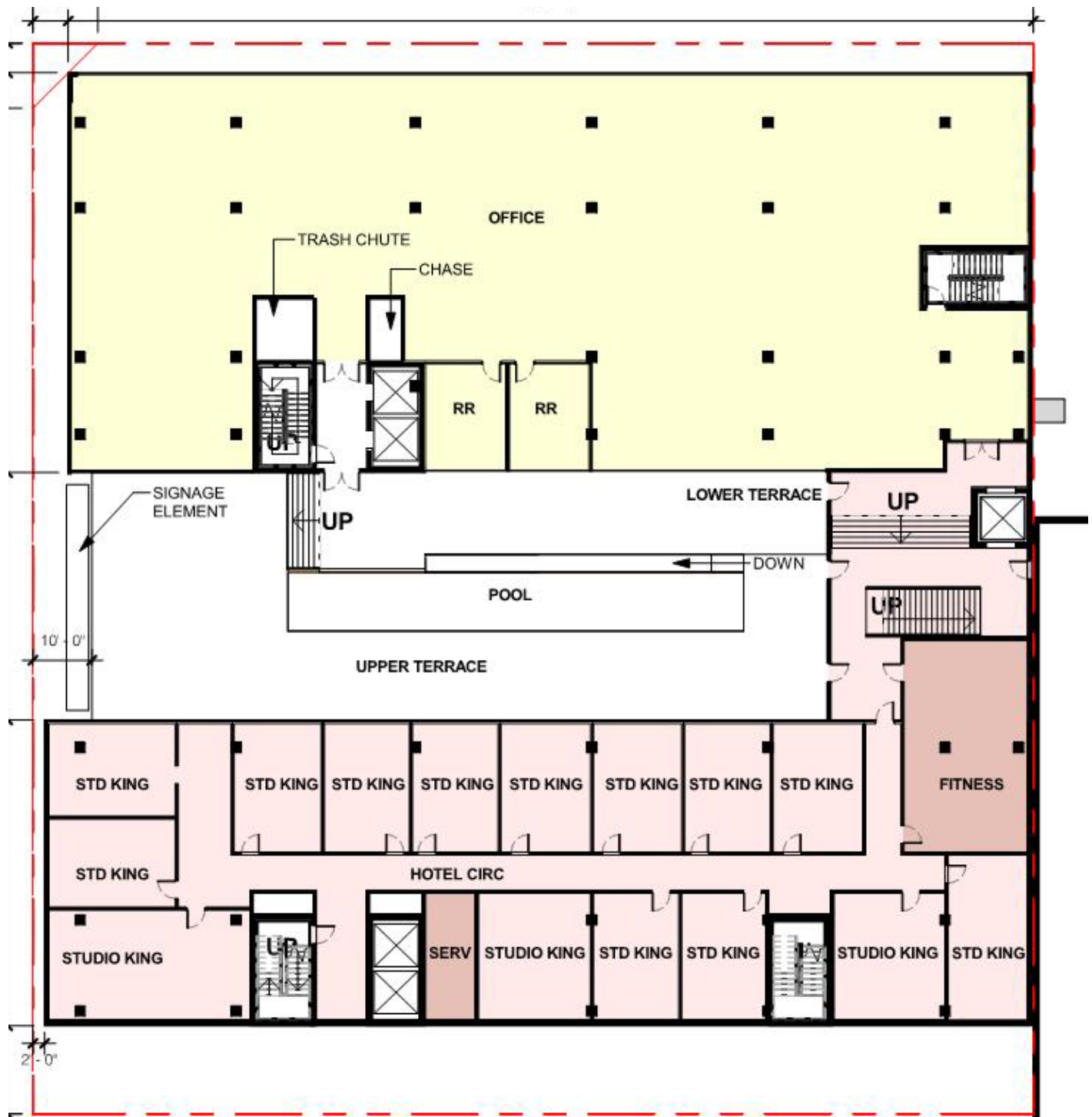
Basement:



First Floor (Hotel in Pink):

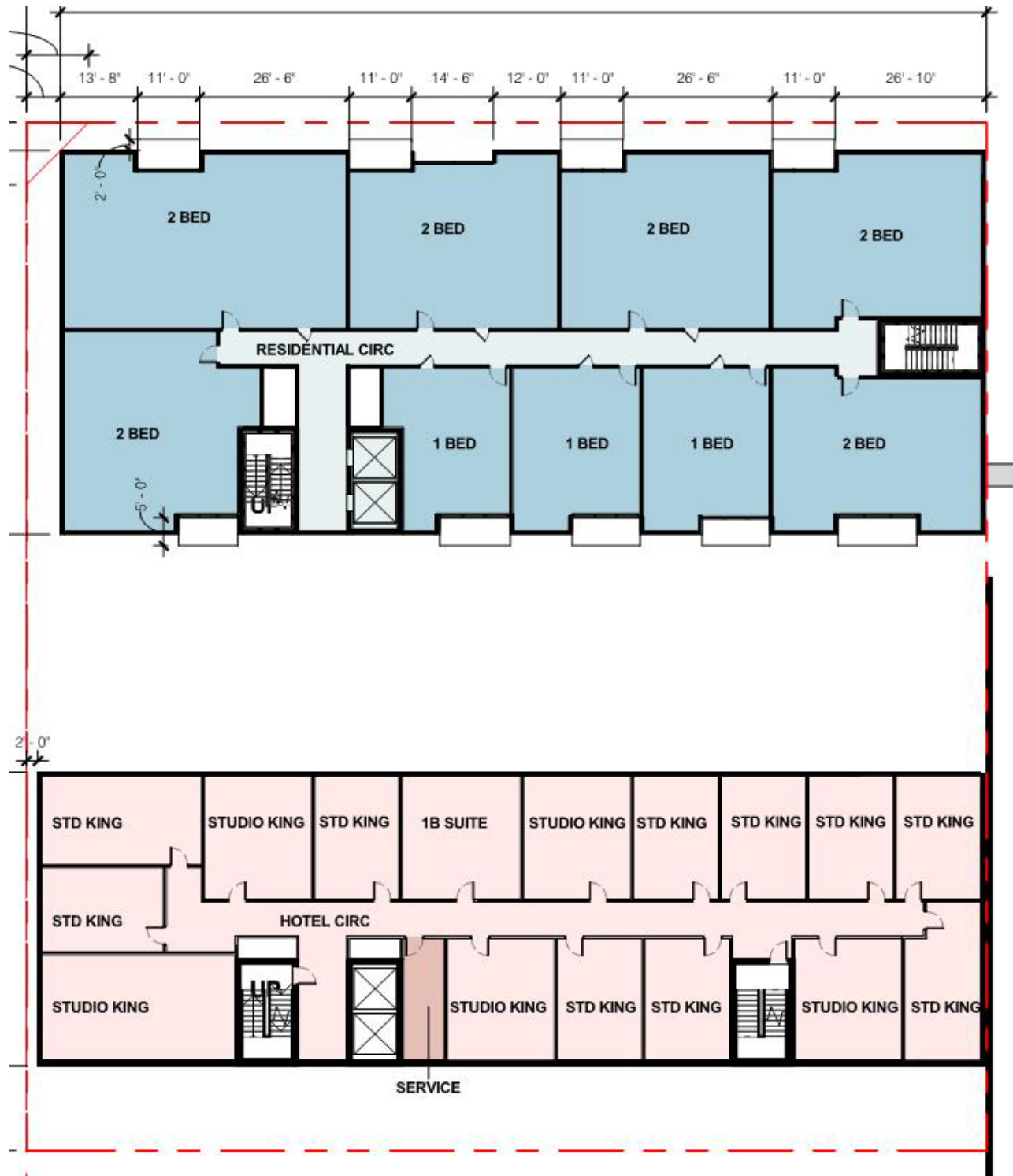


Second Floor (Hotel in Pink):



Hieronymus Square Developers L.L.C.

Typical Floors (3-7) (Hotel in Pink):

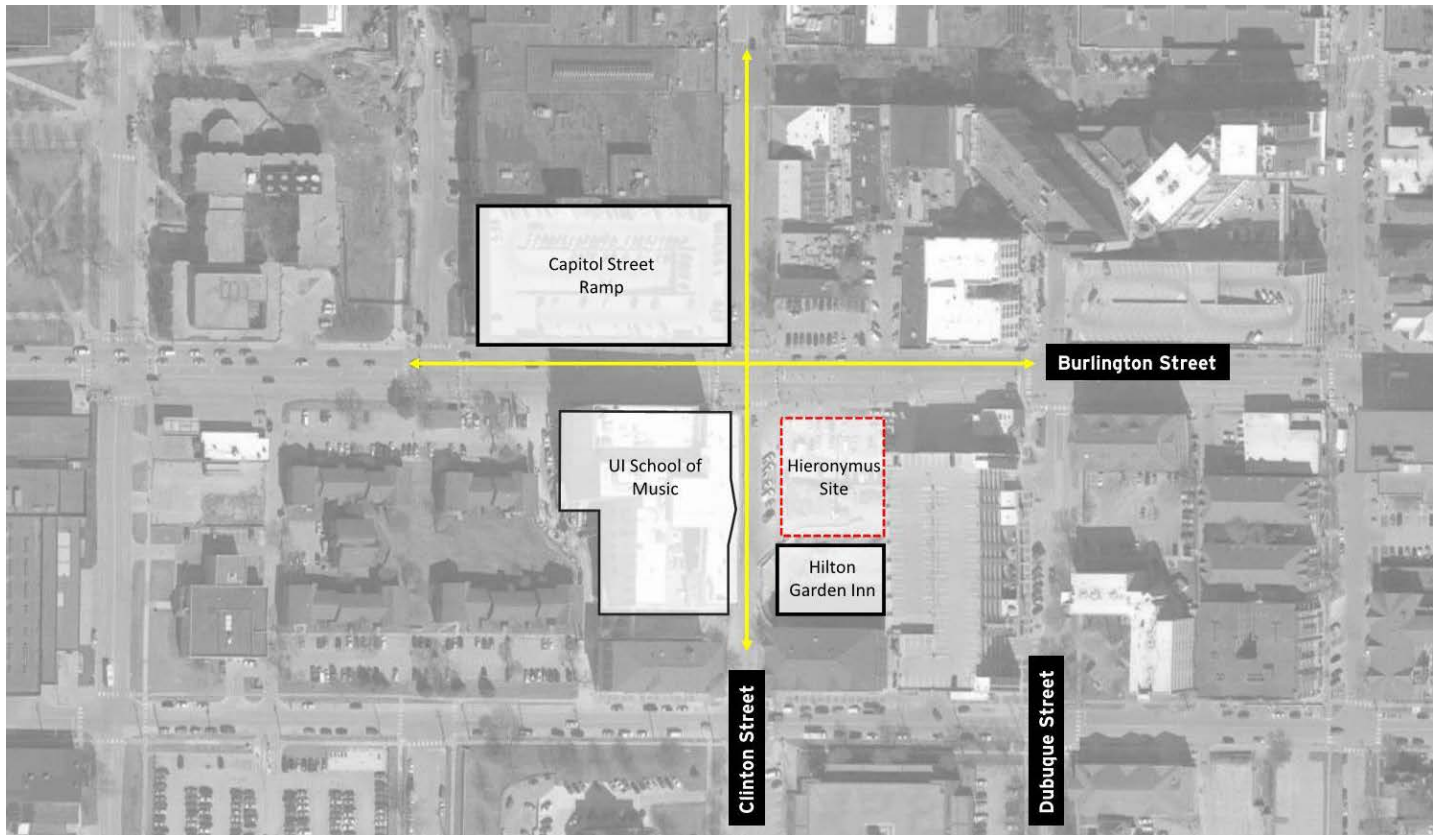


Section North South (Hotel in Pink):



Hieronymus Square Developers L.L.C.

Site/Location:



The site for the project is an exceptional location in the heart of downtown Iowa City directly adjacent to the University of Iowa campus. Dining, entertainment and culture are only steps away with the downtown district next door featuring a diverse group of restaurants, bars and retail shops. The diverse mixed use complex of two towers will be a highly visible fixture at the hallmark intersection of Burlington and Clinton streets. The site is immediately across the street from the University of Iowa's new \$152 million School of Music that recently opened in August of 2016.

The new School of Music building, houses a 700-seat concert hall, a 200-seat recital hall, an organ performance hall, a music library, rehearsal and practice rooms, classrooms, a faculty studio and administrative offices. <http://music.uiowa.edu/building/building-construction#overlay-context=Building/>.

The high-profile intersection will have significant synergies with the Hieronymus square facilities. They will help uniquely define the complex as a destination and provide an added energy and sense of place to the corner of Burlington and Clinton Streets.

Hieronymus Square Developers L.L.C.

Element Brand Information and Facilities:

The hospitality tower proposed for development is a 7-story, concrete and wood- framed constructed, 92-unit, Element by Westin (recently acquired by Marriott and now part of Marriott family of brands) extended stay hotel. Amenities will include an expansive lobby, free breakfast/afternoon reception area, expanded fitness room, outdoor lap pool, outdoor patio and a full kitchen in each room. As of year-end 2016, there were 30 Elements open and many more proceeding in development due to Marriott's acquisition of Starwood.

SEE attached Element Information Packet

Element is an upscale extended stay brand within the Marriott franchise 'family' of hotel brands.

Marriott International, Inc. (NASDAQ: MAR) is the world's largest hotel company based in Bethesda, Maryland, USA, with over 6,000 properties in more than 120 countries and territories. Marriott operates and franchises hotels and licenses vacation ownership resorts. The company's 30 leading brands include: Bulgari®, The Ritz-Carlton® and The Ritz-Carlton Reserve®, St. Regis®, W®, EDITION®, JW Marriott®, The Luxury Collection®, Marriott Hotels®, Westin®, Le Méridien®, Renaissance® Hotels, Sheraton®, Delta Hotels by MarriottSM, Marriott Executive Apartments®, Marriott Vacation Club®, Autograph Collection® Hotels, Tribute PortfolioTM, Design HotelsTM, Gaylord Hotels®, Courtyard®, Four Points® by Sheraton, SpringHill Suites®, Fairfield Inn & Suites®, Residence Inn®, TownePlace Suites®, AC Hotels by Marriott®, Aloft®, Element®, Moxy® Hotels, and Protea Hotels by *Marriott®*. The company also operates award-winning loyalty programs: Marriott Rewards®, which includes The Ritz-Carlton Rewards®, and Starwood Preferred Guest®. The Element brand is targeting travel savvy, value-wise extended-stay guests, within an 'edgy', mid-scale brand offering and price point.

Given the wide acceptance of the various Marriott brands and even more so Element's position in the thriving extended stay upscale segment, the proposed Element is projected to be a market leader among the hotels in the Iowa City marketplace. We anticipate the Element hotel to be a clear first choice for extended stay guests as well for many Marriott loyal travel-savvy extended stay guests, who prefer the look, ambiance and amenities, for a customized guest experience.

Considering all the current hotels in Iowa City/Coralville the Element will have a competitive advantage with the extended-stay travelers due to its extended stay focus while the more traditional higher rated, transient and leisure business and general Marriott rewards guest will also be attracted to the offering as well. These factors indicate a premium performance compared to competitor hotels in the area.

The 'Marriott' name, its worldwide reservation system, and the Marriott Rewards frequent guest stay program will help to drive a premium occupancy and average daily rate in both the commercial and leisure demand segments in the Iowa City hotel market.

Recently Marriott already the leader in lodging worldwide acquired Starwood Hotels & Resorts a major competitor. Combined the two companies create the largest lodging platform worldwide and add to the compelling value a Marriott branded hotel will provide in the Iowa City marketplace.

Hieronymus Square Developers L.L.C.

In conclusion, given the wide acceptance of the Marriott brand platform nationally and the extended stay hotel business model the proposed Element is projected to be a market leader. We anticipate the hotel to be a clear first choice for extended stay customers who prefer the look, ambiance, amenities, size and quality of a modern all Suites hotel. The well-established Marriott platform and its worldwide reservation system combined with the new and fresh Element brand will support a premium market share for the planned hotel.



Hieronymus Square Developers L.L.C.



Hieronymus Square Developers L.L.C.

Element Hotel Pictures:



Kineth Hospitality Background

Kineth Hospitality Companies is a leading Midwest hospitality development & management company headquartered locally in North Liberty, Iowa. With a large and diverse portfolio of over 70 hotels, Kineth offers an approachable, hands-on style of management. Kineth is a preferred hospitality company by guests, franchises, hotel owners and lenders. Kineth is committed to providing clients with many proven operational systems in all facets of the hospitality business from hotel development to daily hotel management systems and services.

Staffed in all areas of hotel management and development, Kineth has assembled an experienced team of hospitality professionals who continually support property level managers to benchmark performance against major competitors, maximize quality, market share and profitability. Kineth's extensive background, coupled with a seasoned executive team fosters a culture that is oriented toward success.

Hieronymus Square Developers L.L.C.

Kinseth Hospitality Companies Hotel Development Services

Kinseth Hospitality Companies is a leader in hotel development with a detailed understanding and successful track record of developing award-winning hospitality assets. From the construction of new hotels, restaurant and conference center\ to the re-conception and renovation of existing properties, Kinseth is determined to maximize return and enhance the value of hospitality assets. Kinseth offers a thorough blend of hotel development services including customize programs based on client needs. Kinseth services include:

- Turnkey Hotel Development Project Management
- Hotel Brand Selection, Plan Review & Concept Development
- Purchasing Furniture, Fixtures & Equipment
- Installing FF&E
- Hotel Property Acquisition
- Coordination of Licenses, Permits & Code Compliance
- In-house Development
- Hotel Construction Services
- Hotel Renovation Services

Similar projects completed:

- Homewood Suites, West Des Moines, IA
- Homewood Suites, Ankeny, IA
- Residence Inn, Lincoln, NE
- Homewood Suites Downtown Milwaukee, WI (opening summer 2017)

Full List of Hotel's Kinseth Has Developed:

<u>Hotel</u>	<u>City, State</u>	<u>Rooms</u>	<u>Year</u>
Hilton Garden Inn & Rooftop	Iowa city, IA	143	2017
Home2 Suites by Hilton	Minomonee Falls, WI	105	2017
Hampton Inn & Suites	Minooka, IL	93	2016
Courtyard by Marriott & Conference Center	Bellevue, NE	120	2016
Home2 Suites	Brookfield, WI	105	2016
Hampton Inn & Suites	Mason City, IA	83	2016
Hampton Inn & Suites	Hudson, WI	83	2016
Hampton Inn & Suites	Kenosha, WI	93	2015
Homewood Suites	Ankeny, IA	92	2015
Hilton Garden Inn	Bettendorf, IA	116	2015
Homewood Suites	West Des Moines, IA	105	2015
Hampton Inn & Suites	West Des Moines, IA	100	2015
Home2 Suites	Omaha, NE	105	2013
Hilton Garden Inn	Manhattan, KS	135	2010

Hieronymus Square Developers L.L.C.

Hilton Garden Inn	Council Bluffs, IA	153	2009
Sleep Inn	Milwaukee, WI	80	2009
Candlewood Suites	Lacrosse, WI	92	2009
Marriott Residence Inn	Lincoln, NE	93	2008
Hampton Inn & Suites	Lincoln, NE	83	2008
Hampton Inn & Suites	Grafton, WI	83	2008
Country Inn & Suites	St Charles, MO	86	2008
Hampton Inn	Dubuque, IA	97	2008
Marriott Courtyard	Ankeny, IA	118	2007
Hampton Inn & Suites	West Bend, WI	83	2007
Marriott Spring Hill Suites	Cheyenne, WY	92	2007
Hilton Garden Inn	Omaha, NE	118	2006
Candlewood Suites	Kenosha, WI	91	2006
Marriott Courtyard	Columbia, MO	134	2005
Country Inn & Suites	Middleton, WI	84	2004
Hampton Inn	Council, IA	98	2001
Holiday Inn Express	Coralville, IA	84	1998
Holiday Inn	Council Bluffs	187	1996

Hieronymus Square Developers L.L.C.

Benefits of This Project to Iowa City:

Affordable Housing

The project will generate up to 7 units for affordable housing or other offsite solution as approved by the City. This would help advance the City of Iowa City's goal to bring more affordable housing to the downtown area.

Sustainability

The mixed use tower of the project will look to include 108 rooftop solar modules. On an annual basis the 108 solar modules would generate an estimated 38,732 kWh and reduce estimated CO2 emissions by 1,413,599 pounds.

Element Brand

Improving hotel air quality, minimizing pollutants and chemicals. Ample access to natural light. From sustainable design to eco-friendly practices and programs we've built a smarter, better place to stay. Element Hotels has been designed to comply with the mandates for high performance green buildings, resulting in a cleaner, healthier place for both guests and associates and a more sustainable environment for earth.

With the brand pillars of Sustain, Conserve, Reduce and Reuse.

Sustain

Eco-friendly materials are incorporated in the element design whenever possible: rooms feature carpets with up to 100% recycle content, wall art is mounted on a base from recycled tires and low VOC (volatile organic compounds) paints improve indoor air quality

Conserve

Element was built to conserve without compromising performance. Low-flow faucets and fixtures help save water, compact fluorescent light bulbs use about 75% less energy than standard incandescent bulbs, and energy-efficient appliances use approximately 30% less energy.

Reduce

Element reduces waste wherever we can: silverware and glassware are available in guestrooms instead of plastic utensils and paper cups, filtered drinking water eliminates the need for plastic bottles, and all natural bathroom amenities are stored in a dispenser system instead of disposable bottles.

Reuse

Element offers an extensive recycling program – bins are located in every guestroom and common areas of the hotel, including the lobby and motion fitness center

****Element Brand Sustainability Certification program requirement****

Hieronymus Square Developers L.L.C.

Additionally as part of the element brand requirement an operational sustainability certification program will be selected for the hotel and approved by the brand/Marriott for this location. Example of possible program: www.greenseal.org

Increase tax base to Iowa City

The project will allow a portion of the vacant ground at the corner of Burlington and Clinton to be developed with a diverse mixed use complex that will produce significant assessed value. We expect the facility to generate assessed value more than \$22,000,000.

Hotel/motel tax generated

The proposed project is a rare sizeable full service hotel project for the area. With 94 rooms and planned amenities the project will generate significant hotel/motel taxes. The hotel is expected to generate hotel/motel tax more than \$3.8 million over the course of 20 years.

Creation of jobs in downtown area

In addition to significant construction jobs the project will generate more than 90 new long-term jobs in downtown area. Many of these employees will also choose to live in or around downtown.

	Non-Exempt Employees	Salaried Managers
Hotel	40	3
Office/Retail	50	4
Total	90	7

Positive Economic Impact

The complex will generate significant traffic and spending in downtown Iowa City. The hotel portion of the facility will attract approximately 23,000 rooms rented annually. Translating to 34,500 guests annually who in turn will have a significant positive economic impact on downtown spending over \$3,000,000 incrementally annually downtown.

Taken from Pinnacle Advisors Categorizing Hotel Impact on Communities:

**Direct Impact* - Direct impact includes all projected revenues that will be generated from consumers at the new hotel. This will include all room's revenues, food and beverage revenues from restaurants and banqueting, as well as other potential revenue sources such as spa or parking. Direct impact also includes total payroll paid out to employees hired at the hotel as well as all payroll paid out to temporary construction workers who construct the hotel.

**Fiscal Impact* - Fiscal impact refers to all federal, state, and local taxes that will be collected from the development and operations of the new hotel. Taxes include all sales taxes collected in association with the hotel-generated revenues, as well as all payroll related taxes collected from full-time hotel employees and temporary construction workers. Local governments will also collect new property taxes

Hieronymus Square Developers L.L.C.

from the operation of the hotel. Many local governments will also collect revenues through lodging taxes.

**Indirect Impact* - In addition to local governments and hotel owners/employees, contractors and suppliers to a newly developed hotel will also benefit. Indirect impact includes all jobs and income generated by businesses that supply goods and services to the hotel. Examples of businesses that will indirectly benefit from the development of a hotel include suppliers of rooms related goods (housekeeping supplies, room amenities, etc.), telecommunication vendors (internet, cable, etc.), utility companies, food and beverage suppliers, and other hotel related vendors.

**Induced Impact* - Induced impact refers to economic effects generated when employees (full-time and temporary) and suppliers re-spend their wages on local consumer purchases. For example, an employee may purchase gas for their car on their way home from work.

The Hieronymus square will have many synergies with the surrounding area including the outdoor flex space and the University of Iowa School of Music for the many activities, events and shows that will regularly be held. From new premiere, commercial and office space contributing to the thriving downtown scene to the extended stay segment of people staying 5-30+ night in the Element hotel rooms make this a new high energy corner in Iowa City.

Fair share - Lodging Market Extended Stay lodging brands

There are various high quality extended stay branded hotels in the Iowa City/Coralville region but there are not any in downtown Iowa City where there is significant demand. This project will provide a great added option while also providing Iowa City a big step in gaining a quality lodging product that facilitates people staying 5+ nights or more in the downtown.

Hieronymus Square Developers L.L.C.

Necessary Financial Assistance Mixed Use Tower:

All costs, projected revenues and expenses have been provided to the National Development Council for review and analysis on this \$20,273,940 mixed use project. It has been concluded that the financing gap for the mixed-use facility/parking at \$3,800,000. It is requested that TIF financing be provided by the City to help finance the complex.

The following table lists the sources and uses of funds for this project based on the independent gap analysis:

Sources and Uses of Funds

Mixed Use Tower

Sources

Bank Loan	\$11,140,316
Equity	\$5,333,624
City Gap Financing	\$3,800,000

Total	\$20,273,940
--------------	---------------------

Uses

Building Construction, Design, Underground Parking	\$15,015,000
Land	\$2,500,000
Developer Overhead & Contingency	\$800,000
Project Interest, Ln Fees, Soft Costs	\$950,000
TIF Rebate Financing Costs	\$1,008,940

Total	\$20,273,940
--------------	---------------------

Hieronymus Square Developers L.L.C.

Necessary Financial Assistance Hotel:

All costs, projected revenues and expenses have been provided to the National Development Council for review and analysis on this \$20,479,836 hotel project. It has been concluded that the financing gap for the hotel at \$4,200,000. It is requested that TIF financing be provided by the City to help finance the complex.

The following table lists the sources and uses of funds for this project based on the independent gap analysis:

Sources and Uses of Funds

Hotel

Sources

Bank Loan	\$11,310,831
Equity	\$4,969,005
City Gap Financing	\$4,200,000

Total	\$20,479,836
--------------	---------------------

Uses

Building Construction, Design	\$12,639,125
Land	\$2,500,000
Furniture, Fixture, and Equip	\$1,850,000
Opening Costs; working capital, training, marketing	\$896,705
Construction interest & Loan Fees	\$550,000
Developer Overhead	\$800,000
Professional Services & Closing Costs	\$75,000
TIF Rebate Financing Costs	\$1,169,006

Total	\$20,479,836
--------------	---------------------



MEMORANDUM

Date: July 14, 2017

To: Wendy Ford, Economic Development Coordinator

From: Karen Garritson, Director, National Development Council

CC: Geoff Fruin, City Manager; Iowa City City Council

RE: Hieronymus Square

At your request, NDC has reviewed the materials submitted by Ben Kinseth and Kevin Digmann on behalf of Hieronymus Square Developers (hereinafter, “the Developer”). Hieronymus Square Developers is owned by Hieronymi Partners (Hieronymus Family) (25%), Kinseth Hospitality Companies (15%) and Hodge Investment Group (60%). This request was made to evaluate the Developer’s application for City financial assistance for the development of the project described below. Pending Council approval, negotiated total assistance to the \$40.75M project is \$8M.

Project Description

The project consists of two distinct components. For purposes of this memo, they are treated as a single project since both components will utilize the 61 spaces of underground parking being created for the overall project as well as the common entrance vestibule, and neither component can be successfully developed on its own.



Component 1: The Element Hotel

The Element Hotel is a lifestyle extended-stay brand that will be located at the intersection of Burlington and Clinton Streets in downtown Iowa City. The long term owner of the hotel will be ES Hotel, LLC which will consist of the same partners, in the same percentages as Hieronymus Square Developers, the development entity.

The \$19.3M, seven-story, 93-room hotel will be proximate to the University of Iowa campus and adjacent to the 143-room Hilton Garden Inn currently under construction. Unlike the Hilton Garden, it will cater to extended stay guests for which there is a distinct market. The proposed hotel will include:

- Lower Level – Parking with 61 spaces to be shared with Component 2. Planned spaces will provide parking for hotel employees as well as the retail and residential tenants of Component 2. The parking requirement for these functions is 45 spaces.
- Level 1 – Entrance vestibule off Clinton Street (also shared with Component 2), hotel reception, lounge, breakfast seating, 1,100SF meeting room, sundry, and laundry
- Floor 2 – Guest rooms, fitness center, indoor pool, and patio
- Floors 3-7 - Guest rooms

The hotel's main entrance will be located on the front of the building along Clinton Street and will have a curb cutout for drop offs. An existing City parking garage will provide parking for the hotel guests. An alleyway currently runs between the hotel building and the parking garage. A skywalk will be built over the alley from the parking garage to the second floor of the hotel that will lead to guest rooms, the outdoor pool, and fitness center and the elevators to access the hotel lobby. The Element Hotel and the Hilton Garden Inn under construction will not share amenities or be physically connected.

The guest room matrix provided by the developer for the Element Hotel appears below, indicating a total of 92 rooms. The market study conducted by Patek Hospitality Consultants supported a total of 94 rooms before specific room type counts were refined.

Guest Room Matrix – Proposed Element Hotel

Room Type	Number of Rooms	Percent of Total
Studio King	2	2%
Studio Double Queen	30	33%
Standard & Communal King	40	43%
One-Bedroom	<u>20</u>	<u>22%</u>
Total	92	100.0%

Source: Kineth Hospitality Companies

All room types except four of the Communal Kings will contain fully equipped kitchens and ample seating; those four will share a kitchen and living room area and can be rented individually to groups. The Standard King guest rooms will contain compact full kitchen facilities. All guest rooms will contain energy efficient appliances including a two-burner cooktop, refrigerator, dishwasher, and microwave

plus utensils. Spa-inspired bathrooms feature an oversized rain shower, hand-held wand, and a dispenser system for shampoo and body wash. All rooms will offer the Heavenly® Bed with lofty duvets and pillows, oversized closets, 32" flat screen HDTV, DVD player, and movies on demand. Flexible workspace includes an oversized desk, ergonomic chair, and easy access to power and data connections, complementary Internet, and printer access. Other amenities include hairdryer, iron/ironing board, alarm clock/radio, and telephone with voice mail.

Element Hotels is a brand within the parent company of Starwood Hotels, which was acquired by Marriott International in 2016. As mentioned earlier, Element Hotels are a lifestyle extended-stay hotel concept with an environmentally friendly and sustainable design from its products, services, to its programs and physical spaces. According to Market Demand Study completed by Patek Hospitality Consultants, the brand concept is all about sustain, conserve, reduce, and reuse and as such, it is the first major hotel brand to mandate that all properties pursue sustainable certifications.

Facilities and amenities to be offered at the hotel include:

- Rise: Breakfast bar serving complimentary healthy breakfasts
- Relax: evening reception four nights per week and a salon bar cart serving wine, beer, and soft drinks
- Restore: Gourmet grab & go pantry open 24/7, patio grill, indoor pool, spacious fitness center, self-service laundry open 24/7, laundry service and dry cleaning
- Resource: Business center and meeting space of approximately 1,100 square feet.

As part of the Element's environmentally friendly concept, bikes are available to borrow and this is a complementary offering. The hotel will offer shuttle van service by appointment only. Valet parking will be offered or guests can self-park in the City's adjacent parking garage that will be connected to the hotel on the second floor. Parking rates currently charged at the Sheraton Hotel are \$14.00 per day for self-park and \$20.00 per day for valet parking. These are the same rates that the Hilton Garden Inn will charge when it opens later in 2017. When the Element Hotel opens in first quarter 2019, parking rates will be the same as the Hilton Garden Inn's rates at that time.

Component 2 – Mixed-Use

The proposed Element Hotel will be connected with the mixed-use development planned for the hard corner of Burlington and Clinton streets, a project that is also being developed by Hieronymus Square Developers. It will be owned long term by a newly formed entity, HS314 LLC, which consists of the same partner make-up and percentages as Hieronymus Square Developers. Both the Element Hotel and the mixed-use project will be constructed at the same time.

Plans call for a vestibule on the ground level that people will enter from Clinton Street that will lead to either the hotel or the mix-use building.

- Lower Level – 61 parking spaces to be shared between the Element Hotel Employees, residential and commercial tenants.
- Level 1 – Common vestibule entrance and 10,000 square feet of retail space
- Level 2 - 6,100 square feet of office space
- Levels 3-7 – 43 residential rental units of one, two, and three-bedrooms. Fifteen percent of the residential units (4 1-bedroom and 3 2-bedroom) are required to be affordable for 20 years

Residential Unit Mix

Room Type	Number of	Percent of Total
1 Bedroom – Affordable	4	9%
2 Bedroom - Affordable	3	7%
1 Bedroom – Market Rate	8	19%
2 Bedroom – Market Rate	9	21%
2 Bdrm Twnhm – Market Rate	13	30%
3 Bedroom – Market Rate	6	14%
Total	43	100.0%

Financial Analysis

NDC and City development and planning staff have met with the owner's representatives on multiple occasions since November 2016 and have exchanged questions and updated information by email between on-site visits. The Developers have refined the project's development costs and operating revenues/expenses as city valuation estimates, parking requirements and affordability measures were clarified, and as third party information, such as the Patek Hospitality Consultants Inc. hotel market study, were received.

It should be noted that while the projections for the Element align well with the third-party market study findings, there has been no similar market analysis done for Component 2, the mixed-use portion of the project. In addition, the Developers have been in discussion with lenders, but they have not presented letters of interest, preliminary commitments or terms sheets from them at this time. As a result, the ability of the project to attract senior debt may vary from the current projections.

Component 1 - Element Hotel

The Element's latest sources and uses estimates project bank financing of \$11.3 million at 5% interest with a 25-year amortization. Taken together with the negotiated \$4.2 million Request for Financial Assistance, the project's projected sources and uses are as follows:

Land Acquisition	\$ 2,500,000
Construction	\$11,632,500
Furnishings	\$ 1,852,309
Contingency (3.8% contractor & owner)	\$ 731,625
Architecture/Engineering/Tech Svcs	\$ 625,000
Project Interest, Ln Fees, Soft Costs	\$ 638,000
Marketing, Opening, Franchise Fee	\$ 431,396
Reserves/Working Capital	\$ 100,000
Developer Overhead & Profit	\$ 800,000
<u>TIF Rebate Financing Costs</u>	<u>\$ 1,169,006</u>
Total Project Costs	\$20,479,836

Bank Loan	\$11,310,831
City Financial Assistance*	\$ 4,200,000
<u>Required from Developer</u>	<u>\$ 4,969,005</u>
Total Sources	\$20,479,836

** includes \$3,030,994 in project gap (\$300K at completion) plus cost of financing*

For project costs covered by City assistance, \$300,000 will be provided to the project at construction completion/certificate of occupancy. The developer will take out a loan for the balance to be paid back over a period of years using annual TIF rebates. The principal of \$2,730,994 plus interest totals \$3,900,000. Based on valuation and property tax estimates, the project would generate annual property tax sufficient to repay the loan with about 13 years of rebates. The city would then be able to recoup their initial \$300,000 investment with taxes paid and not rebated in about year 14.

In total, the combination of City financial assistance is as follows:

Rebated TIF	\$2,730,994
Interest on TIF eligible exp.	\$1,169,006
<u>TIF Advance</u>	<u>\$ 300,000</u>
Total City financial assistance	\$4,200,000

The developer has provided the following documentation to support their projections and request for gap financing:

- A proforma statement of operating revenue and expenses
- Conceptual floor plans for the project's 7 levels produced by Neumann Monson Architects
- A Market Demand Study prepared by a third party (Patek Hospitality Consultants) verifying the demand for extended stay hotel rooms at this location

Due diligence materials not yet provided by the developer and to be followed-up on as the project progresses include:

- Contractor estimates supporting the development budget
- Purchase agreement supporting acquisition cost
- An appraisal identifying the project's as-complete fair market value (FMV) that will be relied on by the senior lender to determine the maximum loan that will be offered to the project
- A financing letter of interest or term sheet identifying a maximum loan amount, rate, term and underwriting criteria, pending completion of the appraisal
- Documentation of the developer's equity stake in the project
- Organizational documents for the ownership structure

Assuming the appraisal, when completed, supports the amount of debt the developer is projecting, NDC's analysis of the developer's current projections suggests that total City Financial Assistance including interest of \$4,200,000 will be required to bring the project's sources in line with projected uses. This assessment is based on:

- 1) The developer's assumption of the amount of bank debt the deal will be able to attract appears nearly maximized given the favorable terms of 5% for 25 years and the stiffer underwriting criteria applied to hotels as somewhat more risky ventures: 70% loan to value and 1.35 Debt Coverage with a cap rate of 7%. Actual loan to value ratio on developer's projected debt is 69%.
- 2) The developer's equity contribution of \$4.97 M yields a 7.47% internal rate of return (IRR) given the projected after-tax cash flow and net sales proceeds of the project if held for 25-years (the term of the senior debt). This is below what might typically be expected given the nature of the hotel industry, but is accepted by NDC as within the norm for purposes of its analysis due to the strength of the Iowa City market in general and this location in particular – as confirmed by the Patek study. Should the developer fee be fully earned (not needed for additional contingency), and distributed to owners, the IRR increases to just over 8.08%.

Conclusion: This component of the project, as presented, demonstrates a need for \$4.2M in City Financial Assistance. If the terms of the senior debt and contractor estimates are substantially different from these projections, NDC will update this evaluation as requested by the City.

Component 2 - Mixed-Use

The latest sources and uses for the Mixed-Use component estimates project bank financing of \$11.14 million at 4.75% interest with a 25-year amortization. Taken together with the negotiated \$3.8 million Request for Financial Assistance, the project's projected sources and uses are as follows:

Land Acquisition	\$ 2,500,000
Site Improvements	\$ 505,000
Building Construction	\$11,500,000
Parking Construction	\$ 2,500,000
Contingency/Dev. Fee (4%)	\$ 800,000
Prof Fees - Arch/Eng/Environ/survey	\$ 510,000
Project Interest, Ln Fees, Soft Costs	\$ 825,000
Reserves/Working Capital	\$ 125,000
<u>TIF Rebate Financing Costs</u>	<u>\$ 1,008,940</u>
Total Project Costs	\$20,273,940

Bank Loan	\$11,140,316
City Financial Assistance*	\$ 3,800,000
<u>Required from Developer</u>	<u>\$ 5,333,624</u>
Total Sources	\$20,273,940

** includes \$2,791,060 in project gap (\$300K at completion) plus cost of financing*

For project costs covered by City assistance, \$300,000 will be provided to the project at construction completion/certificate of occupancy. The developer will take out a loan for the balance to be paid back over a period of years using annual TIF rebates. The principal of \$2,491,060 plus interest totals \$3,500,000. Based on valuation and property tax estimates, the project would generate annual property tax sufficient to repay the loan with about 13 years of rebates, with sufficient additional revenue for the city to recoup their initial \$300,000 investment in the same year.

In total, the combination of City financial assistance is as follows:

Rebated TIF	\$2,491,060
Interest on TIF eligible exp.	\$1,008,940
<u>TIF Advance</u>	<u>\$ 300,000</u>
Total City financial assistance	\$3,800,000

The developer has provided the following documentation to support their projections and request for gap financing:

- A proforma statement of operating revenue and expenses
- Conceptual floor plans for the project's 7 levels produced by Neumann Monson Architects

Due diligence materials not yet provided by the developer and to be followed-up on as the project progresses include:

- Contractor estimates supporting the development budget
- Purchase Agreement supporting acquisition cost
- An appraisal identifying the project's as-complete fair market value (FMV) that will be relied on by the senior lender to determine the maximum loan that will be offered to the project
- A Market Study indicating the demand, market rents, absorption rate and other factors confirming the project's operating proforma and/or potential need for lease up and other reserves/guarantees
- A financing letter of interest or term sheet identifying a maximum loan amount, rate, term and underwriting criteria, pending completion of the appraisal
- Documentation of the developer's equity stake in the project
- Organizational Documents for the ownership structure

Assuming the appraisal, when completed, supports the amount of debt the developer is projecting, NDC's analysis of the developer's current projections suggests that total City Financial Assistance including interest of \$3,800,000 will be required to bring the project's sources in line with projected uses. This assessment is based on:

- 1) The developer's assumption regarding the amount of bank debt the mixed-use component can attract is nearly maximized with an actual debt coverage ratio of 1.23 and loan to value of 77%, given favorable terms of 4.5% for 25 years. However, it should be noted that a market study for this component of the project has not yet been done, so variations in rents, vacancies and expenses may alter this assessment.
- 2) The developer's equity contribution of \$5.33M yields a 6.42% internal rate of return (IRR) given the projected after-tax cash flow and net sales proceeds of the project if held for 25-years (the time required to retire the senior debt). This is below what might be expected in riskier markets, but accepted by NDC as within the norm for purposes of its analysis due to the strength of the Iowa City market in general and this location in particular. Should the developer fee be fully earned (not needed for contingency), and distributed to owners, this rate of return increases slightly to 6.89%.

Conclusion: This component of the project, as presented, demonstrates a need for \$3.8M in City Financial Assistance. If the terms of the senior debt and contractor estimates are substantially different from these projections, NDC will update this evaluation as requested by the City.

Combined Sources and Uses for Components 1 and 2

Land Acquisition	\$ 5,000,000
Site Improvements	\$ 505,000
Building Construction	\$23,132,500
Parking Construction	\$ 2,500,000
Furnishings	\$ 1,852,309
Contingency (3.8% contractor & owner)	\$ 731,625
Architecture/Engineering/Tech Svcs	\$ 1,135,000
Project Interest, Ln Fees, Soft Costs	\$ 1,463,000
Marketing, Opening, Franchise Fee	\$ 431,396
Reserves/Working Capital	\$ 225,000
Developer Fee/Add. Contingency	\$ 1,600,000
<u>TIF Rebate Financing Costs</u>	<u>\$ 2,177,946</u>
Total Project Costs	\$40,753,776
Bank Loan	\$22,451,147
City Financial Assistance*	\$ 8,000,000
<u>Required from Developer</u>	<u>\$10,302,629</u>
Total Sources	\$40,753,776

** includes \$5,822,054 in project gap (\$600K at completion) plus cost of financing*

Conclusion

Overall, \$8M City Financial assistance to the project appears warranted, assuming the appraisals, when completed, support the amount of debt proposed for the project. City Financial Assistance of \$8,000,000 (including interest) will be required to bring the project's sources in line with projected uses. This amount is deemed appropriate based on:

1. The relatively modest returns projected to the developers/owners
2. More than 25% of the overall capital required for the project is developer/owner equity. This proportion of equity is in keeping with typical market rate projects
3. The elevation and site constraints adding to the cost of underground parking at this particular site: It is estimated that the total development cost per space on this project (including land, site work, soft costs etc.) is about \$42,000/space. This is about \$16,000/space more than City spaces being developed on Harrison Street for \$26,000/space. As such the cost of providing 61 underground parking spaces for this project is about \$976,000 higher than would ordinarily be expected.



CITY OF IOWA CITY MEMORANDUM

Date: July 13, 2017
To: Economic Development Committee
From: Wendy Ford, Economic Development Coordinator
Re: Agenda item #4:
Consider a recommendation to the City Council for Revised TIF Policies

Following are several items relevant to your discussion of TIF Policy Revisions:

- 1) The first draft of revised TIF policies. The draft includes notations in areas where more clarification is needed.
- 2) A memo from Geoff Fruin reporting on the origins of the building heights in the Comprehensive Plan's building height map.
- 3) A new map of downtown properties that aims to help focus the building height discussion. It illustrates:
 - a) Properties that are individually eligible for the historic register or are contributing to the historic nature of downtown as per the 2001 historic survey colored with desired heights codes
 - b) Properties outlined in bold and cross-hatched are those less likely to be redeveloped in the next decade or two due to their age and other relevant circumstances
 - c) Remaining properties are color coded with the Comprehensive Plan's desired heights ranges.
- 4) Late handouts from the last meeting on May 25, 2017 including:
 - a) Mayor Throgmorton's memo dated May 25, 2017
 - b) Iowa City Downtown District's memo dated May 25, 2017
 - c) LEED certification information distributed by Martha Norbeck at the meeting
- 5) A letter from the Chamber of Commerce received after the May 25, 2017 meeting



DRAFT Tax Increment Financing (TIF) Policies

City of Iowa City's Strategic Plan

Alignment with the City's Strategic Plan will provide the first indicator about whether a project may be eligible for TIF. To the extent that a project helps achieve the City's Strategic Plan objectives and is located within an established Urban Renewal Area (Exhibit A), it may be eligible to be considered for TIF.

2016 – 2017 City of Iowa City Strategic Plan

The Strategic Plan intends to foster a more **inclusive, just** and **sustainable** Iowa City

- a) Promote a strong and resilient local economy
- b) Encourage a vibrant and walkable urban core
- c) Foster healthy neighborhoods throughout the City
- d) Maintain a solid financial foundation
- e) Enhance community engagement and intergovernmental relations
- f) Promote environmental sustainability
- g) Advance social justice and racial equity

In addition, the City will continue to seek projects that diversify existing uses in the given urban renewal area. Such projects may include Class A office, hotel, entertainment, and residential uses, provided market studies and financial analysis support such investment.

Sustainability

New residential, office and mixed use building projects receiving TIF in the entire City-University Project 1 Area (also referred to as downtown & Riverfront Crossings -- see Exhibit B) shall be certified LEED Silver or greater. Further, at least 8 LEED certification points shall be earned from the Energy Efficiency point category to ensure that TIF projects help meet the City's carbon emission reduction goals.

This requirement does not apply to renovation projects or any project outside of the City-University Project 1 Urban Renewal Area.

Downtown building heights and character

Substantial consideration will be given to projects where building height falls within the Desired Height ranges shown on the Downtown and Riverfront Crossings Master Plan's building heights diagram shown on p. 106 of the Plan (Exhibits C and D of this document). The height considerations shall only apply to area inside the border of Iowa Avenue, Gilbert, Burlington and Clinton Streets.

Additionally, applications for TIF support for downtown projects must indicate how the proposed project will help fulfill the overall vision of the downtown portion of the Downtown and Riverfront Crossings Plan, "to preserve and enhance the historic buildings and character of Downtown, while encouraging appropriate infill redevelopment with a mix of building uses." (p. 18, Downtown and Riverfront Crossings Master Plan.)

Deviations from the Comp Plan guidelines and Desired Building Height map may be considered if the applicant demonstrates that the proposed building and uses will preserve and enhance the character of downtown by contributing to the preservation and enhancement of adjacent or nearby historic structures, and/or if the public benefit aspects of the project are significant. Significant public benefits

may include but are not limited to increased affordable housing, senior housing development, and LEED Gold or Platinum certification.

Historic preservation

New construction requiring the demolition of structures identified as historic and/or architecturally significant in the most recent historic survey is not eligible for tax increment financing. Further, all rehabilitation to historic or architecturally significant structures shall be done in such a manner as to preserve or restore any historic structure to productive use. The guidelines for determining if rehabilitation does preserve or restore the structure shall be those set forth in the 1990 revised edition of the Secretary of Interior's Standards for Rehabilitation and Guidelines for Rehabilitating Historic Buildings. All additions to historically or architecturally significant structures shall be developed in such a manner as to be architecturally compatible with existing development. (Amendment #9, 2001 City-University Project 1 Urban Renewal Plan.)

Clarification needed:

Staff seeks Council direction to determine if "architecturally significant" includes properties noted as "contributing" in an official city survey.

Interestingly, there is no map or listing of historic or architecturally significant properties in the 2001 Amendment to the City-University Project 1 Urban Renewal Plan. That same year however, the Survey and Evaluation of the Central Business District was completed and it does have a map noting three types of properties:

- individually eligible/key properties (eligible for the national register of historic places),
- contributing properties (a contributing property may not have any historic significance in and of itself, but may lend the character of a historic district or neighborhood), and
- non-contributing properties.

Staff has used that 2001 map to determine historic significance since then.

The Downtown and Riverfront Crossings Master Plan of 2011 also cites key historic, contributing buildings and potential buildings of historic significance (p.9) as important to the historic character of downtown along with the importance of taking measures to actively protect them. The plan states that other properties could receive density bonuses in return for the protection of adjacent or nearby historic structures, which could conflict with the desired heights map.

The Master Plan also calls for a development on Washington Street that would cause the removal of two or three contributing historic buildings, noting that any loss of historic structures should not be taken lightly, however, in some cases, it may be necessary in order to encourage the adaptive reuse and preservation of two more significant buildings nearby (p. 56).

Because writers of the Master Plan made the exception for contributing properties, we did not change the language in the proposed TIF policy on historic preservation from the 2001 language.

Historic preservation projects may be eligible for TIF funding via district-wide TIF, in order to incentivize historic renovation projects that may not add enough taxable value to rely solely on the subject property's increment.

Affordable housing

TIF projects in any urban renewal area with a residential component as part of the project must provide a minimum of 15% of the units as affordable to tenants at or below 60% AMI (area median income). If those housing units are for sale, units will be targeted to households at or below 110% AMI. The City may require a lower AMI for rental units.

Developers may be eligible to negotiate a fee-in-lieu of providing on site affordable housing, or to provide affordable housing elsewhere in the community, subject to the City's sole discretion.

In part, in exchange for the increased density created for the Riverfront Crossings (RFC) zone, any project with housing in the district, regardless of whether it is a TIF project, must include 10% affordable housing. TIF policy in the RFC zone is that any financial gap due to affordable housing created by zoning requirements (10%) is the responsibility of the developer and that affordable housing above the required 10% in RFC could be TIF eligible, if the financial analysis determines a gap.

Social Justice

The City will not contract with or provide any economic development incentives to any person or entity who has participated in wage theft by violation of the Iowa Wage Payment Collection law, the Iowa Minimum Wage Act, the Federal Fair Labor Standards Act (FLSA) or any comparable state statute or local ordinance, which governs the payment of wages. Misclassification of employees as independent contractors is a violation of the FLSA and is included in the definition of wage theft.

Development Agreements for TIF projects shall include in the contract for the construction of the Minimum Improvements, between the Developer and the General Contractor, the following written provisions, proof of which must be provided to City prior to the start of construction:

- a) Agreement by the General Contractor to comply with all state, federal and local laws and regulations, including, but not limited to the requirements of Iowa Code Chapter 91C (Contractor Registration with the Iowa Division of Labor), Iowa Code Chapter 91A (Iowa Wage Payment Collection Law), Iowa Code Chapter 91D (Minimum Wage), the Federal Fair Labor Standards Act, and the Internal Revenue Code.
- b) Agreement by the General Contractor to provide to the Developer and the City no later than the filing of an application for issuance of a building permit, the names and addresses of each subcontractor and the dollar value of the work the subcontractor is expected to perform.
- c) Demonstration by the General Contractor that it has the capacity to meet all performance, and labor and material payment, bonding requirements relative to the Minimum Improvements.
- d) Providing to the City a certificate by the General Contractor's insurer that it has in force all insurance coverages required with respect to construction of the Minimum Improvements.
- e) Demonstration by the General Contractor that it has required all subcontractors to agree, in writing, that the subcontractor will comply with all state, federal and local laws and administrative rules and regulations, including, but not limited to the requirements of Iowa Code Chapter 91C (Contractor Registration with the Iowa Division of Labor), Iowa Code Chapter 91A (Iowa Wage Payment Collection Law), Iowa Code Chapter 91D (Minimum Wage), the Federal Fair Labor Standards Act, and the Internal Revenue Code.

Quality jobs

When a TIF project is based on the creation or retention of jobs, certain wage thresholds must be met to help ensure the City's financial participation only serves to increase the average area wage. This policy does *not* require that every job associated with a TIF project, such as those that might be created by the addition of a new retailer in a building, or the construction jobs required to build a TIF project, meet these standards. Rather, as a policy to incentivize the addition of high paying jobs to the local economy, a *jobs-based* TIF incentive would be structured using the thresholds of the State of Iowa High Quality Jobs Program.

Other Public Interests

Recognizing that some non-profit activity and/or investment in public infrastructure may influence additional private economic development activity, TIF may be an appropriate tool to further investment in Iowa City's cultural and/or natural assets. Understanding that TIF is made possible by the increased value in real property, and that most cultural organizations and public lands are generally tax exempt, a TIF project would only be possible by using increment from the district. Examples include:

- a) Arts and cultural activities or facilities
- b) Historic preservation
- c) Public improvements that serve as a catalyst for the economic development of the urban renewal area.

Underwriting and Application

The following policies are designed to provide a consistent and transparent process for the review and analysis of all applications for TIF assistance.

- a) "But for" standard: Each project must demonstrate sufficient need for the City's financial assistance, such that without it, the project would not occur. Every other financial piece of the project must be in place prior to the consideration of TIF. TIF assistance will be used as gap financing as determined through gap analysis.
- b) Method of TIF financing: The City reserves the right to determine the method of TIF financing that is in the best interests of the taxpayer. As such, the City strongly prefers the use of TIF rebates over the shortest term possible.
- c) Developer equity: Developer Equity must be equal to or greater than City funding. TIF assistance shall not exceed the amount of equity provided by the Developer. Equity is defined as cash, unleveraged value in land, or prepaid costs attributable to the project.
- d) Project based TIF: TIF for private developments must generate TIF increment sufficient to be self-supporting. Only in exceptional cases, will the City consider using district-wide increment.
- e) Complete application submission.

Exhibit A
Urban Renewal Areas Enabling Tax Increment Financing

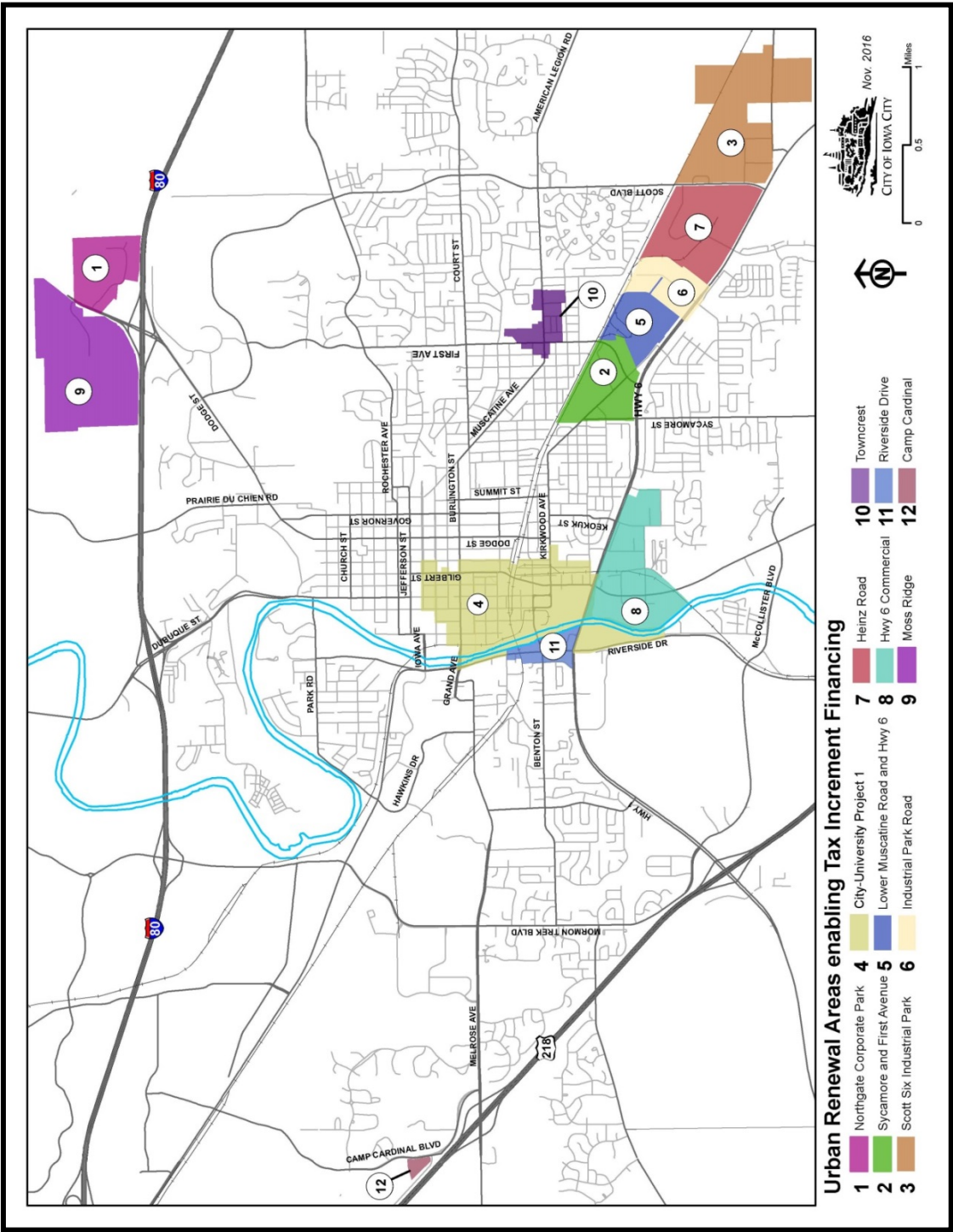


Exhibit C
Downtown and Riverfront Crossings Master Plan
Building Heights diagram

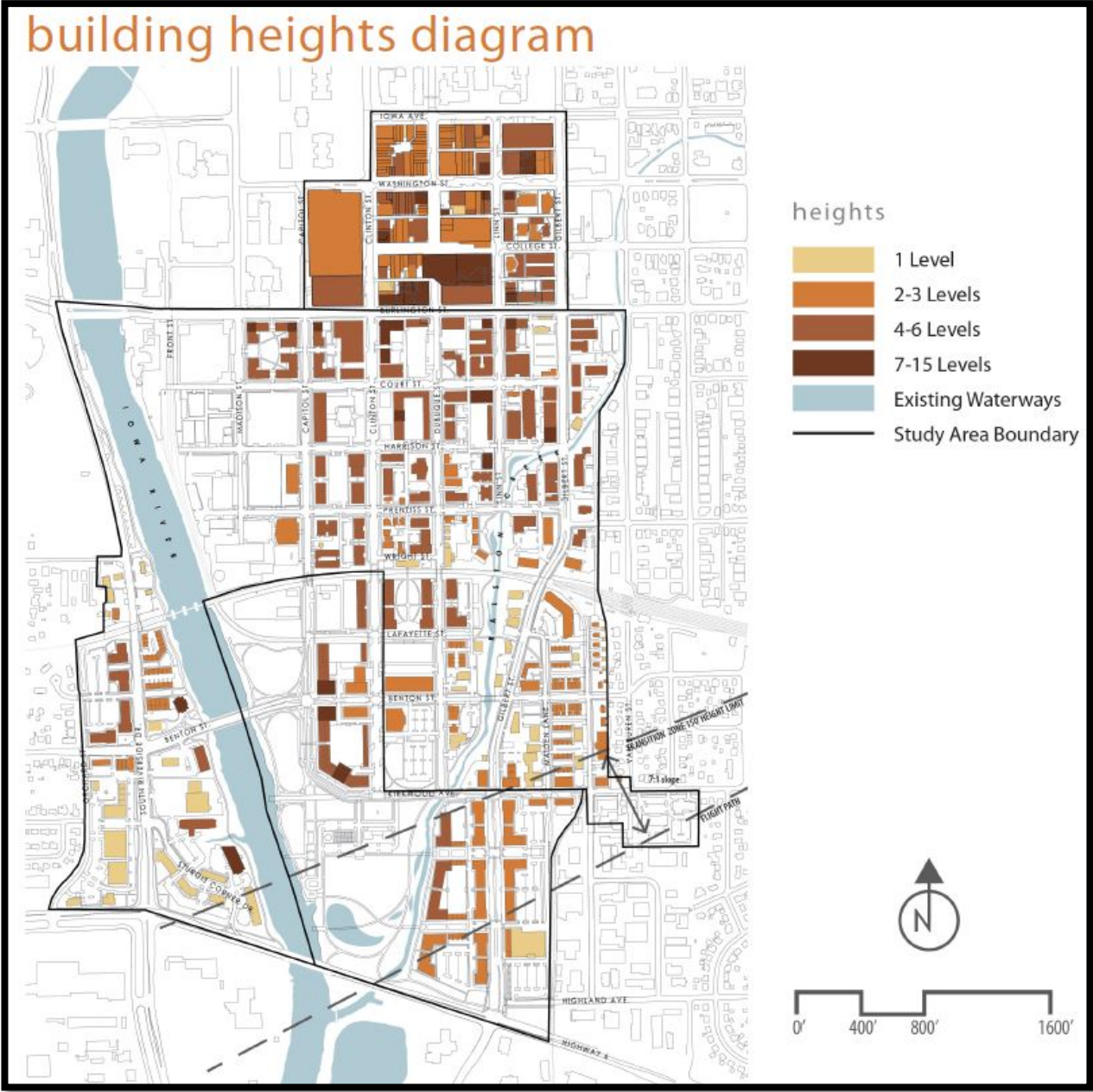
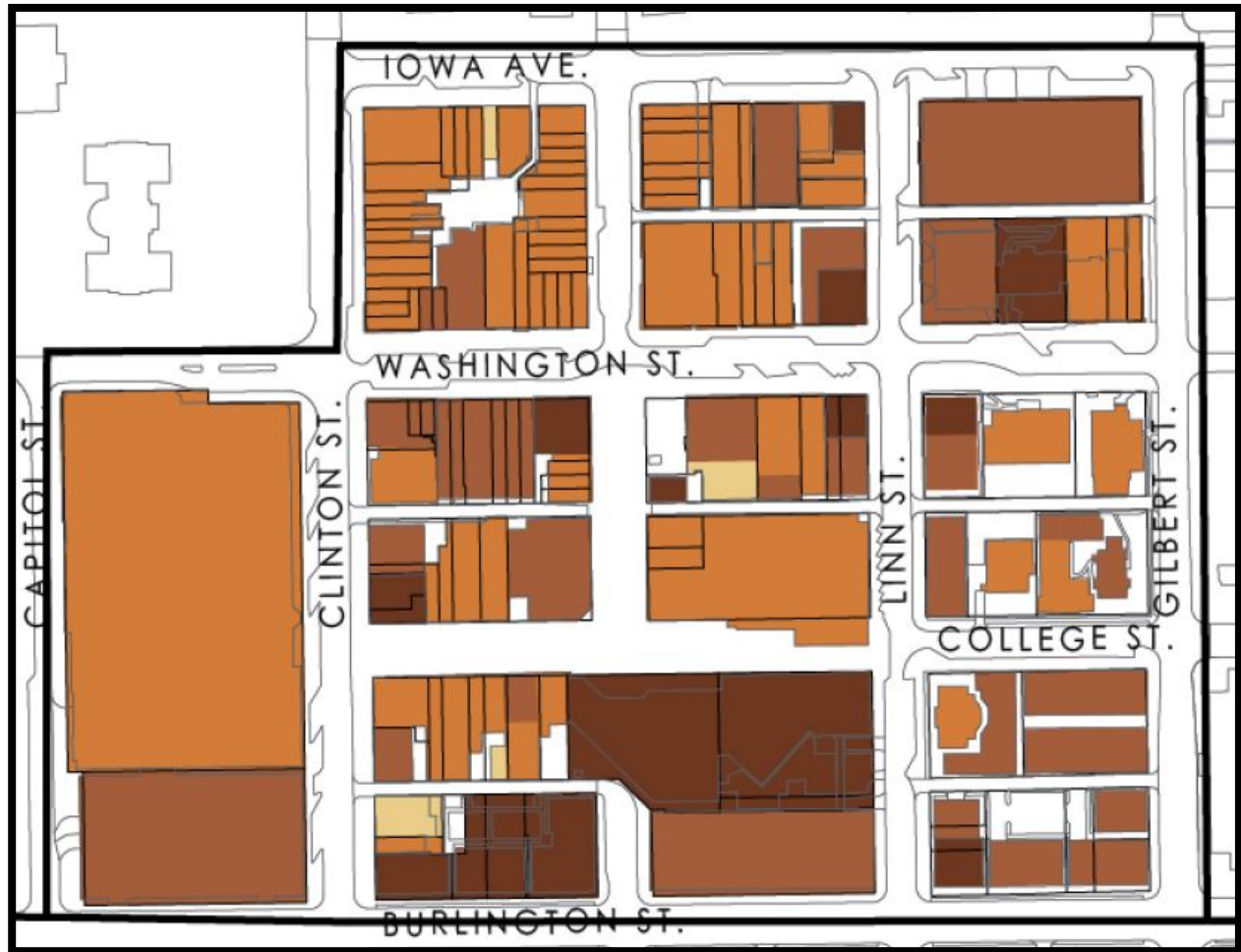
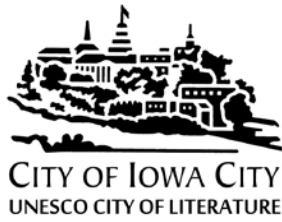


Exhibit D
Downtown and Riverfront Crossings Master Plan
Building Heights diagram





CITY OF IOWA CITY MEMORANDUM

Date: July 13, 201

To: City Council Economic Development Committee

From: Geoff Fruin, City Manager

Re: Downtown/Riverfront Crossings Building Height Map

Introduction:

The City Council Economic Development Committee requested clarification regarding the development of the 'building heights map' found on page 106 of the Downtown and Riverfront Crossings Master Plan. Below is a summary of the map's purpose and development.

Purpose:

The Downtown and Riverfront Crossings Master Plan includes a number of recommendations that were included in order to provide general land use guidance. The map on page 106 was included to illustrate the potential heights of buildings that could result from the land use recommendations contained in the plan. The map was intended to be viewed in the context of the comprehensive plan language; the Downtown District recommendations are contained on page 54 – 56 of the plan. However, it was not intended to be a regulatory tool. It was intended that the comprehensive plan language and recommendations would be used to inform the development of a form based code that incorporates the public input that was generated throughout the planning process. As recommended by the plan, a form based code has been adopted for the Riverfront Crossings District, but has not for the Downtown District. The plan identifies recommended next steps on page 116.

Development:

The map was generated by the consultant, using existing conditions as the starting point. Potential development opportunities were identified and heights were assigned to these parcels by the consultant using the guidance provided in the comprehensive plan. A public downtown visioning workshop helped to inform which development opportunities were identified. The identification of potential development sites incorporated the presence of historic buildings, location within the context of downtown and individual blocks, the size of the property, and development proposals being considered at the time the map was drawn.

The plan notes on page 52 that, ***“It bears emphasizing – the Development Opportunities identified on the following pages are conceptual in nature. Like their predecessors in previous planning efforts, their value is to identify visions and ideas for specific areas. Successful visions will endure, but details will change and evolve as projects are implemented*** [emphasis in the original]. The plan is simply a vision, highlighting certain areas. The decision to redevelop is ultimately up to the property owner. Likewise, any areas not shown as redeveloped, could have ideas implemented.”

Public Input/Review:

As noted above, the projects identified in the Downtown District section of the plan were informed in part by a downtown visioning workshop. The broader master planning process included other workshops that were not solely focused on the Downtown District. A three day design charrette was held during which the development opportunities identified in the various subdistricts of the plan were vetted.

An open house was held on October 1, 2012 in which the entire plan was presented. The downtown section of the presentation focused on the opportunities identified on pages 54 - 56 of the document and the building heights map was not addressed nor displayed in the PowerPoint shown at the open house. Maps from the plan were displayed in the lobby for the public to view during the open house. A poster containing the land use, building heights, parking, and special requirements diagrams was displayed in the lobby (see attached).

There were also two public hearings of the entire plan at the Planning and Zoning Commission and two at the City Council. Staff does not believe that there was specific attention or scrutiny of the building heights map at the Planning and Zoning or City Council meetings. A great deal of attention was given to building heights in the Riverfront Crossings District form based code adoption process, however, that did not include the downtown area.



Mixed-use building



Commercial box with pedestrian-oriented detail



On-street parking

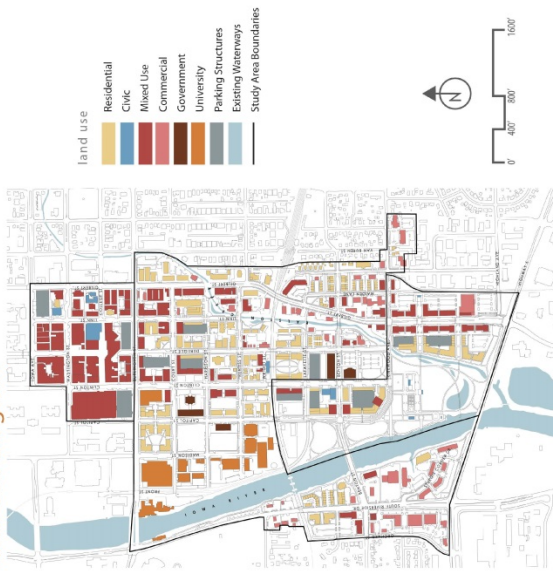


Surface parking located behind buildings

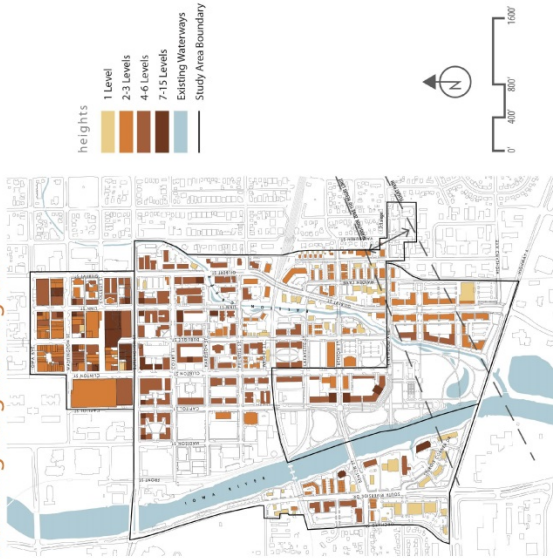


Parking Garage with Retail Liner

land use diagram



building heights diagram



Four-story mixed-use building

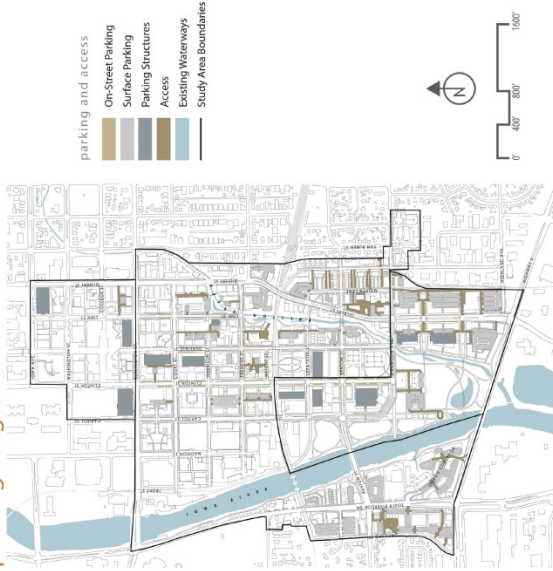


Residential tower with three-story townhomes

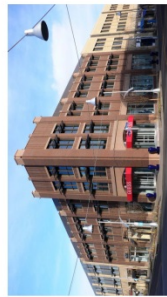
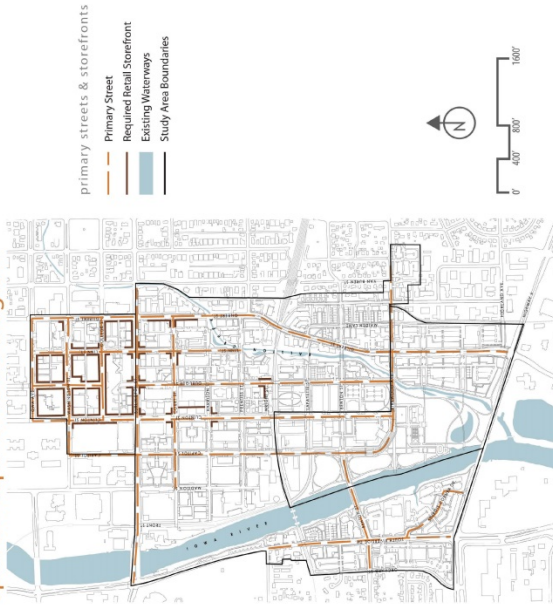


Three-story residential above retail

parking diagram



special requirements diagram



Enhanced architectural detail on corner



Parking garage enhanced facade



Enhanced use on park fountain

Poster displayed at 10/01/2012 Open House

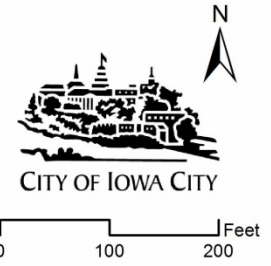
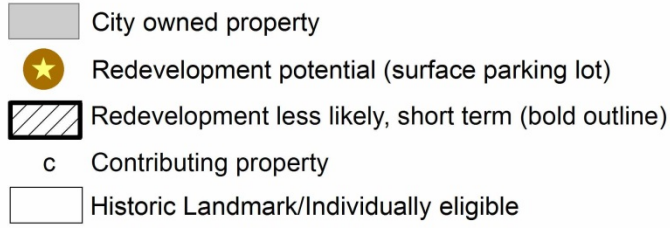
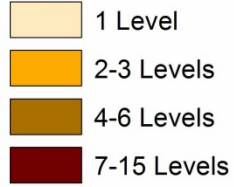
Design Guidelines



HDR

Downtown

Master Plan Desired Heights



To: Economic Development Committee
From: Mayor Jim Throgmorton
Subject: TIF Policy re: downtown building heights
Date: May 25, 2017

On p. 15 of her May 20, 2017, memo concerning our TIF policy discussion, Wendy Ford presents the following concerning downtown building heights:

2. TIF Policy: Downtown building heights

Substantial weight will be given to whether the project seeking TIF is in line with the desired heights shown on the Downtown and Riverfront Crossings Master Plan's building height map shown on p. 106 of the Plan (Exhibit C attached to this document). However, the Council will identify those factors present in a project that will allow deviation from the heights shown on the map.

Staff recommends a) maintaining some degree of flexibility in the height policy and b) determining the circumstances under which taller buildings may be considered.

In my view, the staff's statement of the policy needs to be refined. I strongly believe that out TIF policy should explicitly state the following:

To be considered for TIF support in the downtown portion of the City-University Project 1 Area [Please note the spatial focus], all applications for support *must* explicitly indicate how the proposed project will help fulfill the overall ambition of the downtown portion of the Downtown and Riverfront Crossings Plan, namely, "to preserve and enhance the historic buildings and character of Downtown, while encouraging appropriate infill redevelopment with a mix of building uses (p. 18).

As guidance about how their projects can best help fulfill the Comprehensive Plan's ambitions for the downtown, applicants *must* carefully address in their applications the following guidelines, which can be found on p. 56 of the Plan:

"In order to reinforce the existing fabric that currently exists in Downtown Iowa City, new development should be mixed-use and pedestrian-oriented in nature. In addition, it should follow a list of very basic rules that are consistent with the existing character of Downtown. The following guidelines were developed following a thorough analysis of the patterns and framework that make Downtown special. These include:

- › New development should be located on sites that do not contain historic buildings.
- › Active uses, such as ground floor retail (and not blank walls), should front onto the street frontages and the City Plaza.
- › Upper floors should contain office, commercial, and residential uses.
- › Buildings should be built to the property line.
- › Corner locations should be reserved for taller buildings, creating a block structure with taller buildings on the corners and lower scale, historic buildings between them.

- › The taller buildings on the corners should have a lower base consistent with adjacent historic buildings to make them ‘feel’ contextual with the rest of downtown, while also limiting the perceived height of towers.
- › Parking should be located both on-street and behind storefronts in parking structures.

The buildings shown in the master plan embody these rules. Departure from these guidelines will erode the special qualities that make Downtown so unique.”

Applicants *must* also strive to ensure that their proposed project are consistent with the building height map shown on p. 106 of the Plan.

Deviations from the aforementioned guidelines and building height map *may* be considered if the applicant demonstrates that the proposed building and uses will preserve and enhance the character of downtown by materially contributing to the preservation and enhancement of adjacent or nearby historic structures.



May 24, 2017

Mayor Jim Throgmorton and Economic Development Commission Members
410 E. Washington Street
Iowa City, IA 52240

RE: Comments on Recommended TIF Policy

Mr. Mayor and Council Members Mims and Cole,

On behalf of the Iowa City Downtown District, I would like to respectfully submit these comments on Wendy Ford's TIF Policy discussion memo dated April 20, 2017 for Thursday's May 25, 2017 Economic Development Committee meeting.

The ICDD works to foster reinvestment or redevelopment downtown that encourages retail, office, or long-term community housing of any kind that fits within Downtown's eclectic character and compliments our historic building stock. Our approach is based on "smart growth" principles that encourage the densest development within the Downtown commercial core as a way to leverage existing utilities and encourage a walkable, bikeable environment. A predictable TIF policy that incentivizes this kind of redevelopment is critical to the ICDD's work to foster a vibrant Downtown economy and is the primary aim of these comments.

We are pleased to see recommendations for straightforward criteria, such as a LEED certification, and consideration of using district-wide increment to support historic renovation projects that may not add enough taxable value to rely solely on the project alone. As sustainability and historic preservation advocates, we believe these elements will result in energy-efficiency projects and encourage opportunities to renovate older buildings where owners currently have limited financial incentive to do so.

We ask you to consider modifications to the following points on other items in the memo as part of your deliberation on the final TIF policy.

- LEED Silver is a high standard to set for TIF projects. Feedback from members indicates adding other layers, such as receiving at least eight LEED points in the Energy and Atmosphere category, will complicate a process already perceived as arduous. We ask the EDC consider LEED Silver without asking for specific points in LEED categories to keep the policy simple in directive.
- Utilizing the "desired height" map on page 106 of the Comprehensive Plan to *possibly*

guide Council's approval of a TIF project is counterproductive to the exercise of defining specific criteria that developers can predict. The map should either be used as a rule, or disregarded so that the direction is clear as to what specific height will be TIF eligible (i.e. what the City qualifies as "tall".)

- Related, we ask the EDC *not* use the "desired height" map for several reasons. The ICDD is concerned that the map was not sufficiently vetted by Downtown stakeholders prior to its inclusion in the back of the Downtown Master Plan. All feedback from our members indicate that this map was added outside of the Downtown section of the Master Plan without full understanding of its intent or how it would be used in the future to "disqualify" current zoning. There is significant concern that if this map is used to guide TIF projects Downtown, amenity-driven projects will be not only be deterred, but that they will locate in other communities that welcome and incentivize them. Increasing heights is a smart growth solution for efficient City servicing and provides additional housing, office, and retail supply in the commercial core. All of these objectives meet the City's Strategic Plan initiatives.
- Incentivizing historic preservation is a laudable goal for TIF and we are encouraged by the EDC's consideration of using district-wide increment towards this goal. Please consider using the new historic property survey as the only guide used when determining which buildings are architecturally significant. Using language from plans or policies that encourage "harmonious" or "sensitive" development adjacent to historic structures is subjective in nature and challenging for developers to successfully achieve without multiple design submissions and often, frustration, due to differing interpretations of these terms. As the City considers using TIF to support historic preservation, we ask the City also consider regulatory modifications that would further incentivize accessibility in historic buildings with narrow footprints, specifically:
 - Allow small footprints (less than 6000sq ft) to use residential versus commercial elevator requirements to accommodate ADA compliance as well as the ability to develop AAA office space(s) in these historic sites.
 - Ease of secondary egress, which is currently prohibitive or impossible to accomplish with existing historic building frontages.
- Similar to historic preservation, locating affordable housing through the community is a value the ICDD shares with the City. We support utilizing TIF to meet the 15% goal of affordable housing units in Downtown projects or providing the flexibility for developers to pay a fee-in-lieu of affordable housing off site. Asking developers to subsidize affordable housing without full public support may deter reinvestment.
- Last, we have had many requests for an EDC "listening post" whereby downtown stakeholders and other investors and developers can questions, express their support or concerns over various recommendations of the draft TIF policy, and allow staff or EDC members to elaborate on points that may be easily addressed prior to it going to the full Council. Would the City be amenable to such an event? The ICDD would be open to hosting the forum in collaboration. The intent is to promote a stronger dialogue and better understanding.

As always, thank you for your consideration of these comments. We have very similar interests with the City in that we want to see TIF used judiciously to incentivize projects that would foster a more robust, sustainable, inclusive, and livable Iowa City that may not happen without your incentivization.

Sincerely,

Mark Ginsberg
President, ICDD Board

Nancy Bird, AICP
Executive Director, ICDD

Date: July 5, 2017
To: Iowa City Council Economic Development Committee Members
From: Martha Norbeck

Dear Committee Members,

Thank you for your leadership as Council Members to addressing climate change multiple occasions, including adoption of the Community-Wide Target Reduction Resolution.

In light of these commitments, I ask you to reconsider nuances of the proposed TIF policy.

The 8 Energy Efficiency Points

City policy conveys intent.

Councilwoman Mims, in response to your comments at the May 25 meeting, I recommended the minimum of 8 Energy Efficiency credits as a supplemental requirement to LEED certification because it conveys the Council's intent to enact policies which support emissions reductions.

Residential and Commercial energy use account for 39% of Iowa City's emissions. Setting a floor for energy efficiency conveys the goal and intention of reducing building energy use.

You are correct that LEED has been developed and refined over the years by a broad coalition of experts. The rating system was developed to be implemented globally across a broad range of building types and communities. On this scale, it is appropriate to set the floor for energy efficiency at 5% better than ASHRAE 90.1-2010 (Iowa's current Energy Code). This floor for energy efficiency is set for all communities, including those in which even meeting code is a big step for contractors, for example, South Dakota and Missouri have not even adopted a state energy code. The energy performance of new construction in Iowa is much more advanced.

Iowa is a national leader in the implementation of Energy Efficiency measures thanks in large part to the Mid American and Alliant incentive programs. Iowa is second only to California in the percentage of projects exceeding the energy code by 50% or more.

The average energy efficiency achieved by Iowa projects participating in the utility rebate programs is about 30%. (*See chart at end of this document.*) Setting a floor of 20% conveys the city's commitment to perpetuating and expanding on Iowa's track record of excellence in this arena.

It is appropriate for Iowa City to set a higher bar that reflects the skill set of professionals and contractors in our community.

Community Wide

City policy conveys intent.

The title “Community-Wide Target Reduction” implies the entire community. What message are you sending by limiting the LEED requirement to the Central Business District? What value does this provide to the wider community?

Limiting the LEED requirement to projects seeking TIF funds to the CBD sends a message that the CBD is being held to a higher standard than other TIF districts. It may also send a message to developers that maybe they should just consider developing in Northgate or Camp Cardinal where the standards are lower.

The argument that affordable housing is difficult to finance and therefore can skip sustainability does not make sense to me. Affordable housing located along Camp Cardinal Road, for example, puts residents at an automatic economic disadvantage in that they are bound in a car-centric location. A geographic necessity for car ownership adds a significant economic burden. At the very least, insist on greater energy efficiency so that these residents can at least benefit from lower utility costs. Even better, find a way to facilitate affordable housing in locations served by transit or walkable/bike-able routes to employment centers. The LEED credits for site selection would help address this.

Certain industrial and remodel projects won't be eligible to participate in LEED due to the scope of the project and therefore would be exempt from the requirement.

If you are concerned with the challenge of achieving LEED Silver in areas which can't take advantage of LEED credits for density or public transit, then I would suggest LEED Certification + 8EE in lieu of LEED Silver + 8EE to be applied to all TIF districts.

Attached is information regarding different ways cities have addressed providing incentives for projects which seek a higher level of certification.

Building Height

The discussion of building heights concerns me. My observation is that after accounting for preservation of historic structures, density in the CBD is a good thing. If well executed, taller buildings have the potential of having a lower energy use per square foot. Increased density expands the pool of people who will patronize local businesses and who may choose to live car free.

My frustration with recent development in the CBD is not height, but rather with energy use and occupant comfort. I have grave concerns about glare and heat loss/heat gain in buildings with largely glass facades. Requiring LEED plus 8EE points would require project teams to discuss these issues.

While I can't offer any insight into how to settle the building height discussion, I will say that I am concerned that poorly executed limits may have the unintended consequence of encouraging less dense development in locations isolated from non-automobile transit options.

I am familiar with the literature which supports a 4-6 story walkable downtown and I love this. But I also know that Madison has a decent number of tall buildings and still manages to support a vibrant walkable downtown. We want to support a broader non-student resident base. We want people to

spend their money downtown. So while I am emotionally attracted to a downtown with a lower profile - I also appreciate the benefits taller buildings can bring to downtown. If I were a developer, I would want a clear direction and clarity from the city. Right now, I hear mixed messages.

Local Examples

Kum and Go requires all of its stores to be LEED Certified. Its Coralville store documented 30% energy efficiency. The cost per store for LEED is \$22,000.

Cedar Rapids

Cedar Rapids offers a financial incentive for projects seeking LEED certification. (Full document attached.)

- Standard Non-Housing Incentive – 10 year, 44% Tax Exemption OR 10 year, 50% Tax Reimbursement
- For Green Building: Any project receiving LEED Certification
 - Can be used as a standalone standard city incentive OR an additional 10 year, 25% reimbursement on non-housing projects

This spring, I provided a LEED feasibility study for a warehouse project (100,000 warehouse + 20,000 office space.) This project will be located near the airport and is not eligible for the same location related credits as a downtown project would be.

This company does not have a profile which pre-disposes them to consider LEED. They wanted to know if they could achieve LEED certification at a cost which would make it worth their while in exchange for the incentive. The final answer was yes.

I conservatively projected 15% energy savings and identified enough other credits to achieve certification. Last week we had our second energy incentive meeting with Mid American Energy. With the energy efficiency strategies in their base bid, the building is anticipated to perform 43% better than the state energy code. (14-16 Energy Efficiency points) With an annual energy savings of \$36,800 and an upfront \$48,500 incentive from Mid-American Energy. The anticipated ROI after the incentive is 10 years.

To clarify - this efficient design is their base bid - their proposed design before I was even involved. A target of 20% energy savings is not unreasonable - even for a warehouse.

I feel strongly that a LEED + 8EE points requirement should be applied across the all the TIF districts.

Please feel free to contact me with further questions regarding LEED.

Sincerely,



Martha Norbeck, AIA, LEED AP
Owner, C-Wise Design and Consulting
www.cwise.com

APPENDIX

Mid American Commercial New Construction Program

The chart below is based on Mid American Projects Verified Between 2007 and 2015, a total of 705 Projects equal to 52.4 Million Square Feet.

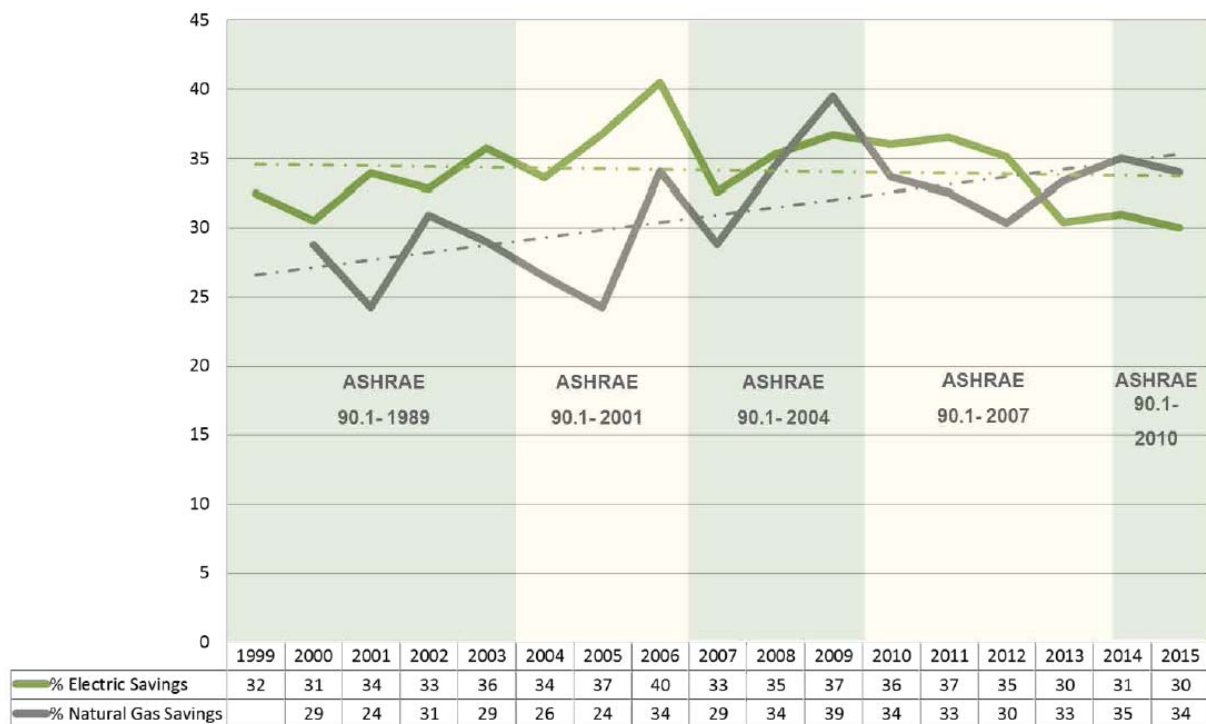
Thick green line represents electricity savings. Dashed green is average.

Thick gray line represents gas savings. Dashed gray is average.

Current Iowa Energy Code is ASHRAE 90.1-2010. The vertical bands indicate code upgrades over time. Note that after each code upgrade, performance drops. People learn and excel. The average returns to 30-35% range.

Additional details on performance in the Mid American program can be made available.

Average Project Savings by Start Date



City and County Incentives

Baltimore County, MD

New residential construction projects that earn a minimum of LEED Silver certification are eligible for property tax credits for a duration of three years. 40% property tax credit for LEED Silver, 60% for LEED Gold, and 100% for LEED Platinum.

Cincinnati, OH

Provides an automatic 100% real property tax exemption of the assessed property value for newly-constructed or rehabilitated commercial, residential or industrial properties that earn a minimum of LEED Certified. Buildings that earn LEED Certified, Silver or Gold can receive a real property tax abatement up to \$500,000, with no limit for LEED Platinum buildings. The maximum exemption period for newly constructed properties is 15 years, for remodeled industrial or commercial properties is 12 years, and for remodeled residential properties is 10 years.

Harris County, TX

Buildings that meet the Certified level would be eligible for tax abatements of 1 percent of the construction costs. Buildings with higher ratings would get higher discounts with buildings that meet the platinum certification level eligible for tax abatements of 10 percent of the construction costs.

Howard County, MD

Five-year property tax credit for projects that achieve LEED-NC and LEED-CS. The credit increases depending on the level of certification: 25% for LEED Silver, 50% for LEED Gold and 75% for LEED Platinum. County tax credits for buildings certified under LEED for Existing Buildings extend for three years: 10% for LEED Silver, 25% for LEED Gold and 50% for LEED Platinum. These tax credits will be available for tax years beginning after June 30, 2008.

PA Pittsburgh, PA

All projects receiving Tax Increment Financing and all new construction on municipal property of 10,000 sq ft or costing in excess of \$2 M, to achieve LEED Silver certification. The Pittsburgh Sustainable Development Bonus, passed in 2007, grants a density bonus of an additional 20% FAR and an additional variance of 20% of the permitted height for projects that earn LEED NC or LEED CS certification in all nonresidential zoning districts.

For additional examples, search for: "CBRE National Green Building Adoption Index"

Cedar Rapids, Iowa

Refer to attached document.

STANDARD CITY INCENTIVES

Non-Housing – 10 year, 44% Tax Exemption OR 10 year, 50% Tax Reimbursement

Housing – 75%+ of building area dedicated for housing 10 year, 100% Tax Exemption/Reimbursement

CORE DISTRICT REINVESTMENT

- Commercial development that is consistent with adopted plans
- Located within the Downtown, Kingston Village, Ellis Boulevard Area, Czech Village, New Bohemia, Uptown, and MedQuarter Districts

URBAN HOUSING

- At least 3 housing units
- Located within established commercial area – proximity to workplaces, retail, transit, etc.

HIGH QUALITY JOBS

- Non-residential development
- 10+ jobs new to the City that meet the State's High Quality Jobs wage threshold

LARGE SITE MASTER PLAN

- 15+ acres (not solely residential) with approved site plan and design guidelines

HISTORIC PRESERVATION

- Listed on National Historic Register, eligible for listing on the National Historic Register, or designated local landmark with State determination of no adverse effect

BROWNFIELD/GRAYFIELD

- Vacant or significantly underutilized properties that include demolition and site prep costs

COMMERCIAL REINVESTMENT

- Vacant strip centers or big box of at least 10,000 square feet
- Minimum renovation cost of at least 50% current taxable value with sustainable features

LOCAL MATCH

- Any project requiring a local match to receive State funding

GREEN BUILDING

- Any project receiving LEED Certification
- Can be used as a standalone standard city incentive OR an additional 10 year, 25% reimbursement on non-housing projects

COMMUNITY BENEFIT

- Commensurate with demonstrated gap and public purpose
 - Long-term benefit to the community
 - Financial viability
 - Examples include expansion of a local business, headquarters facility, emerging needs

REQUIREMENTS FOR ALL PROJECTS

- In compliance with all codes and requirements
- Quality design that enhances the area
- Experienced development team
- Financially feasible
- Market feasible
- Neighborhood and community support

All Economic Development Programs are subject to City Council approval.

LEED OVERVIEW

What is LEED?

The U.S Green Building Council's Leadership in Energy and Environmental Design (LEED ®) green building program is the preeminent program for design, construction, maintenance and operations of high-performance green buildings.

LEED is based on a 110 point scale. Up to 18 points can be earned for energy efficiency. Efficiency measures can include on-site renewable energy.



CERTIFIED	SILVER	GOLD	PLATINUM
40-49 pts	50-59 pts	60-79 pts	80+ pts

LEED is much more than an energy efficiency program. Points are available in the following categories:

- Location & Transportation
- Sustainable Sites
- Water Efficiency
- Energy Efficiency
- Materials and Resources
- Indoor Environmental Quality

LEED ECONOMIC IMPACT – IOWA 2015-2018

- **\$1.17 billion** added to GDP
- **13,000** added jobs
- **\$790 million** in labor earnings
- **\$19.7 million** in tax revenue (2018)

GREEN CONSTRUCTION - IOWA 2015-2018

- **152,000** added jobs
- **\$8.68 billion** added labor earnings
- **\$12.96 billion** added to GDP.

Why certify with LEED?

An internationally recognized third-party certification assures transparency and trust, as well as providing unmatched tools, resources, and marketing potential.

There are a number of reasons to take advantage of the LEED program, but think of the benefits being housed within three categories – the “triple bottom line” – People, Planet, Profit.

PEOPLE

- People spend 90% of their time indoors
 - Studies show building occupants are more productive, happier, and healthier, when natural light, indoor air quality, and thermal comfort are made priorities in building construction and design.

Environmental Impacts of Buildings

- **14%** of potable water consumption
- **30%** of waste output
- **40%** of raw material use
- **38%** of carbon dioxide emissions
- **24-50%** of energy use
- **72%** of electricity consumption

PLANET

- In LEED, points per category are assigned according to relative environmental impact:
 - 18 energy efficiency points
 - 2 construction waste management points
- Building energy use accounts for **49%** of the CO2 emissions which increases the incidence of extreme weather events.
- Locating buildings near other services reduces pollution from transportation which accounts for **28%** of CO2 emissions.

PROFIT

- LEED-certified buildings cost less to operate, **reducing** energy and water bills by as much as **40%**.
- Daylight and views generate increased retail sales (20%) and increased employee productivity.

LEED OVERVIEW

How much does it cost?

A common misconception about designing and constructing green buildings is that it will cost the owner a significant amount of money above what a “traditional” project calls for.

Added cost of LEED Silver Certification is 0.5 – 1.0% to total project cost. A review of LEED costs at Iowa State University has reached a similar conclusion.

To ensure performance and accountability, LEED projects require expenditure on these professional services:

- USGBC Fees
 - Project registration
 - Third party review of documentation
- Project management to document the LEED points and advise on strategies.
- Energy modeling - your utility provider may cover a substantial portion of modeling costs through efficiency incentives.
- Commissioning

Commissioning (Cx): is the process of verifying all the building mechanical and electrical systems are installed and operating as intended by the building owner and as designed by the building architects and engineers.

Guide to LEED Certification:

<http://www.usgbc.org/cert-guide/>

Have Questions?

The USGBC is available for calls Monday through Friday from 8 am to 4:30 pm Central time.

1-800-795-1747

Integrating LEED at low cost

Early analysis of how building systems and design can work better together supports high-performance and cost-effective project outcomes.

The LEED credit for this Integrative Process requires the project team members to look for synergies among systems and components, and the mutual advantages that can help achieve high levels of building performance, human comfort, and environmental benefits.

- Communication between the architect, engineers, contractors, and LEED AP should be continuous throughout the duration of the project.
- Construction materials and practices will be monitored and documented to ensure compliance with each credit requirement.

Steps in certification process

- Assemble a team with the Integrative Process in mind to discuss the design, feasibility, and cost of earning LEED credits.
- Register project with the USGBC
- Energy modeling to run computer simulations of how the building would respond to different designs.
- Integrate requirements for chosen credits into design documents
- Submit Design documents for third party review
- Construction oversight to ensure credit compliance.
- Commissioning
- Submit construction credits for review.
- Celebrate your achievement



Leadership in Energy and Environmental Design (LEED®)

Costs and Benefits

COSTS

Achieving LEED Silver certification can be fully or nearly cost-neutral for first, or building construction, costs. LEED-related project soft costs are typically fixed and can be managed through the design process, then offset by life-cycle cost-savings. Utility incentives can further offset first and/or soft costs.

First costs

- With hundreds of LEED projects completed nationwide, trends show it currently costs about 1% more and as little as 0% more to complete a LEED Silver building compared to a non-LEED building.
- A project that meets the current State Energy Code and pursues only no to low-cost measures, can achieve LEED Silver Certification.
- LEED energy usage is currently measured against the International Energy Conservation Code (IECC) 2012 energy code. The average energy savings of projects that participate in the Mid American Commercial New Construction Rebate program is 30-35%. This would secure 12 of 18 Energy Efficiency points. The typical return on investment (ROI) for these efficiency measures is under 10 years, more typically in the 5-7 year range.

Soft, typically fixed, LEED-related costs

- Project registration fee, which is based on project size, not on the desired level of certification.
- Project certification fee, dependent on level (Certified, Silver, Gold, Platinum)
- Project management to document the LEED points and advise on strategies.
- Energy modeling, which can be the most expensive of all the soft fixed costs. As explained below, your utility may cover a substantial portion of modeling costs.
- Commissioning--now required by the state energy code.
- Erosion and sediment control (a LEED requirement), measures which may already be required depending on the jurisdiction of the building site.

	Certified	Silver	Gold	Platinum
Premium for LEED ¹	0-.5%	0-2%	2.1%	6.5%

Leveraging utility incentive programs to cover costs

Your utility provider may offer sizeable incentives for energy efficiency measures. These incentives programs also cover a sizeable portion of energy modeling and design/engineer team time.

For example, MidAmerican Energy offers incentives for energy efficiencies that result in system-wide savings of 15% or 40% better than the Iowa Energy Code. You must apply to participate. If your application is accepted, you will receive a customized detailed report from which you can pick measures that offer 100% return on investment within a short time-frame.

In addition, the Federal Energy-Efficient Commercial Buildings Tax Deductions provide additional savings of \$.30-\$1.80 per square foot, depending on technology used and energy reduction levels.

¹ "The Cost for LEED: Silver for Free If..." (PowerPoint). The Brendle Group.

May 30, 2017

To: Iowa City Council Economic Development Committee

From: Iowa City Area Chamber of Commerce

RE: TIF Policy Changes

Mayor Throgmorton and Council Members Mims and Cole,

On behalf of the members of the Iowa City Area Chamber of Commerce and the business community, we respectfully ask that you consider the following suggestions and comments before moving discussion on TIF to the entire city council.

It is the mission of the Iowa City Area Chamber of Commerce to actively foster a better business environment and we strive to do this in a fashion that not only serves our business owners but also the community at-large. It is important to our members that incentives for smart, sustainable development throughout downtown are available to encourage a livable community for employees and customers alike. To that end, we agree with much of the desired improvements to the City's TIF policy.

- LEED standards are an acceptable way to incentivize sustainable development within the downtown area.
- Affordable housing requirements are helpful for workforce development and encourage a diverse population of residents within the downtown.
- Support through TIF of Arts and Cultural improvements adds value to adjacent property and can improve quality of place downtown.

This list is not exhaustive but represents the Chamber's support for many goals discussed throughout this process. However, there are areas of concern that have the potential to harm development and opportunity in the future, if enacted as written today.

- Although the idea requiring a LEED standard is feasible, **we agree with staff's** recommendation to require only LEED silver certification. Amendments to a nationally recognized standard on a city level makes it difficult to ensure standards are indeed met. The process for doing so will raise costs, the burden of which will ultimately fall on the taxpayers of Iowa City.
- It is the position of the Chamber that building height should rely heavily on the underlying zoning code, with subjective measures of "rhythm" or "sensitive and complementary" be used only in extreme cases that may be specifically defined.
 - On this same note, Johnson County's population is expected to grow by nearly 50% or more than 60,000 residents by 2040. As a community, we should be supporting

innovative infill development as much as possible in order to curtail urban sprawl in the city's fringe area and to ensure housing stock can keep up with demand.

- With regard to quality job standards required for TIF projects, we are concerned about the specificity of the regulation. We support the intent of the legislation but would recommend clarifying when TIF use would require compliance and when it would not.
 - Considering it mirrors the High Quality Jobs Tax Credit available at the state, our suggestion would be to implement the rule when projects undertake similar activities (namely a single business looking to expand current facilities or a single business looking to relocate within the area). Tenants (renters) of a TIF'd building's retail or commercial space should not be required to comply with the HQJTC standards.
- Lastly, we support the Iowa City Downtown District's request for a listening post in which business owners and the public have an opportunity to express their opinion and take part in an open dialogue with the committee.

We appreciate the Economic Development Committee's interest in our thoughts and willingness to listen to our various concerns about the proposed changes to TIF policy in Iowa City.

Sincerely,

Kim Casko
President & CEO
Iowa City Area Chamber of Commerce

Ryan Sempf
Public Policy Assistant
Iowa City Area Chamber of Commerce

325 E. Washington Street
Suite 100
Iowa City, IA 52240
Telephone: (319) 337-9637
Fax: (319) 338-9958
www.iowacityarea.com