

MAXWELL DEVELOPMENT, LLC
3011 Sierra Court SW
Iowa City, Iowa 52240

June 6, 2011

Mayor and City Council
City of University Heights, Iowa
1004 Melrose Avenue
University Heights, Iowa 52246

**Re: City of University Heights – One University Place Project
Tax Increment Financing Proposal**

Dear Mayor From and City Councilors,

I wish to submit a proposal for tax increment financing for the *One University Place* project. The real estate for the parcels comprising the project site is described on the attached Exhibit A. The real estate, before sales, will be submitted to a horizontal property regime (condominium) in accordance with Iowa Law, so that the taxable improvements will ultimately be condominium units (likely six (6) commercial units and twenty-one (21) residential units in the south building; and fifty-eight (58) residential units in the north building).

One University Place provides a unique opportunity for the City to insure long term growth in its property tax base. The market value of the project is projected to be in excess of \$55,000,000, resulting in a tax base increase of approximately 50%. Because the project will be located on a single infill site and principally make use of existing City infrastructure, it minimizes both infrastructure expense and increases in the operating costs of the City arising from the project. The rebate structure of the proposed TIF request further benefits the City by limiting financial risks that might be associated with support if in the form of grants or City installed infrastructure.

Due to the significant up-front costs and associated financial risk incurred in developments of this kind, most projects like *One University Place* require some form of governmental financial support. From the start of this project it has been consistently represented to the Mayor and the Council that TIF support is material to the feasibility of the project. *One University Place* is the type of project the Iowa legislature envisioned when it approved TIF as a tool for municipalities to use for local economic development. This TIF proposal is intended to be in line with the level of support provided by other area municipalities to TIF projects that have resulted in long term positive benefits for those communities.

The following proposal includes the potential conveyance of 4,000 sq. ft. of commercial space to the City for municipal uses (Section 12). This feature of the proposal is based on a desire to have the City be part of the project and to provide new facilities that the entire community can benefit from and take pride in.

319-354-5858 (voice)
319-354-0759 (fax)

An additional proposal has also been included as a result of input received from community members desiring a neighborhood market to be conveniently available within the City (Section 11).

The following constitutes the key elements that are proposed to be incorporated into a TIF agreement to be entered into between me (or a development entity to be formed) and the City of University Heights in connection with the proposed *One University Place* project.

Proposed TIF Components

It is requested that a TIF Agreement be entered into containing the following basic elements and such other terms and conditions as are required by statute:

1. Urban Renewal Designation

The City Council will act to include all parcels of the project in a designated Urban Renewal District.

2. Type of Payment to Developer

TIF assistance to help defray the developer's project costs will be through reimbursement from the City of incremental tax revenue collected from the project (tax rebate). This form of TIF support leaves solely on the developer, not on the City, the risk of insufficient incremental tax revenue to satisfy the maximum reimbursement commitment.

3. Maximum Reimbursement Cap

The maximum reimbursement requested over the life of the TIF agreement is \$8,000,000. (\$8,500,000 if including the Additional Proposal set out below in Section 11.)

4. Segregation of Residential and Commercial Components

The developer anticipates the maximum TIF reimbursement requested will exceed the costs of the commercial component of the project. If that is the case, the developer proposes that the TIF obligation be divided into two parts. The incremental taxes collected from the commercial and residential condominium units located within the south building, and a portion of the residential condominium units located within the north building, will be designated to fund the portion of the TIF commitment calculated to reimburse the developer for costs associated with the commercial portion of the project. The incremental taxes collected from the remaining residential condominium units located within the north building will be designated to fund (i) the remainder of the TIF commitment for reimbursement of some of the developers costs associated with the residential portion of the project, plus (ii) the low and moderate income housing set aside fund as required by Iowa statute. Costs associated with the commercial component of the project, and the designation of the specific condominium units allocated to each of the commercial and residential components, will be proposed by the developer after the final costs associated with the project have been determined, to be reviewed with City staff and legal counsel to assure compliance with Iowa statutory requirements.

5. Phasing

The project will most likely be developed in two phases, one each for all the units within each building of the project. As such, the TIF arrangement will need to provide for separate

reimbursement schedules for each of the south and north buildings; and also, for the north building, provide separate reimbursement schedules for the commercial and residential allocations of the incremental tax reimbursements. Each such reimbursement schedule will comply with the statutory reimbursement time limits. The City's TIF counsel will need to recommend whether it is most appropriate to reflect these arrangements through separate TIF agreements or separate payment provisions and schedules within a single TIF Agreement.

6. Low and Moderate Housing Fund

Because the developer anticipates a portion of the TIF reimbursement will be attributed to costs associated with the residential component of the project, the City will be required to set aside a portion of the incremental taxes collected for the residential component to be used for low and moderate housing assistance. This Set Aside is in addition to the requested reimbursement to the Developer, but each is funded proportionately as the incremental taxes are distributed. The Set Aside allocation will be available for the City Council to direct, other than to the project, towards low and moderate income housing opportunities such as financial assistance to first time home owners or other housing priorities of the City or County.

7. Property Tax Base for Measuring Incremental Increase/Commencement of Reimbursement Schedule

The on-site development activity will commence after the developer of the *One University Place* project acquires possession and ownership of the St. Andrew Church portion of the property. It is proposed that the base property taxes for measuring incremental increases for all parcels included in the project be based on the assessed values and actual uses of the respective properties immediately preceding the date of transfer of possession and ownership of the St. Andrew property to the developer. The schedule of tax increment rebates/reimbursements for each building would begin with the first fiscal year taxes are payable based on the full assessment of the substantially completed building.

8. TIF Reimbursement Period and Percentage of Tax Reimbursement

It is requested the TIF agreement provide that 80% of the incremental property taxes collected from the portion of the project allocable to commercial costs be reimbursed to the developer for the statutory period of twenty (20) years, subject to sooner reaching the maximum reimbursement cap for such commercial costs. Similarly, it is requested the TIF agreement provide that 80% of incremental property taxes collected from the portion of the project allocable to residential costs be reimbursed to the developer for the statutory period of eleven (11) years, subject to sooner reaching the maximum specified reimbursement cap for such residential costs. (The 80% allocation to developer reimbursements is based upon a favorable resolution of the debt limit issue addressed in the Debt Ceiling section below. Otherwise, if that issue is not satisfactorily resolved, then the request will be for 100% of the incremental tax to be applied until the reimbursements have been fully satisfied or the reimbursement time frames have sooner expired.)

9. Payment Schedule

It is proposed that the rebate payment, once the incremental tax collections have commenced, be on a semi-annual basis payable within a reasonable time after each tax collection date.

10. Abatement of Property Taxes during Construction

The developer requests, to the extent permitted by Iowa law, that the City agree for each building of the project to abate real estate taxes on all units within such building during the two year period commencing with the start of its construction.

11. Additional Proposal

As an additional proposal, the developer would agree to offer a subsidized rental arrangement for a prospective commercial tenant agreeing to operate a neighborhood market/deli in the commercial space within the project. If the City desires such a commitment, developer will use its best efforts to secure an appropriate tenant, and to the extent developer is successful in securing such a tenant, the amount of the reimbursement to the developer under the TIF agreement would be increased from \$8,000,000 to \$8,500,000, with all other terms remaining the same. The subsidized rental arrangement would directly allocate the benefit of the additional \$500,000 reimbursement towards the preferred Tenant's occupancy by offsetting the expense of fixturing, rental and/or other occupancy costs.

12. City Space

A commitment of the City to implementing the proposed TIF plan will permit the developer to convey to the City 4,000 sq. ft. of project commercial space constructed to a "white envelope" level of finish. The use of this City space will be restricted to municipal offices and/or other municipal use, which could include City offices, Council chambers, one or more community meeting rooms, or other possible City managed public/community uses that are reasonably compatible with the commercial uses permitted in the approved PUD Plan for the project. The property would be deeded to the City subject to a reversionary interest should the City ever stop using the property for municipal purposes. The City, whether a tenant or owner, would need to abide by the condominium declaration and bear the costs of occupying the space including, but not limited to, fixturing, condominium assessments, utilities, repairs, maintenance, replacements, and insurance. (Under section 13 below, this arrangement will be initially offered to the City as a lease until the full TIF reimbursement amount can be committed within the City's debt ceiling limit.)

13. City's Debt Ceiling

The developer understands that the City's commitment to provide TIF reimbursement to the developer will be subject to the City's allowable debt ceiling, which because of the City's small tax base is currently less than the reimbursement requested. The developer requests that the City inquire with Johnson County as to a willingness to enter into a joint TIF agreement whereby the City could utilize a portion of the County's allowable debt ceiling to fully commit the requested reimbursement to the Developer.

If the County does not participate in a joint arrangement with the City, the developer's request is modified as follows:

- (i) The developer requests that the City initially commit an amount equal to 75% of its allowable debt ceiling, and that on an annual basis thereafter the City reaffirm its obligation under the TIF plan to an amount equal to 75% of the City's then allowable debt ceiling, until such time as the full reimbursement commitment (\$8,000,000 or \$8,500,000) has been paid or the reimbursement time frames have sooner expired.

(ii) Rather than reimbursing the developer 80% of the incremental property taxes collected from the project, the reimbursement would be 100% of the incremental taxes collected until the reaching the maximum reimbursement cap.

(iii) Title to the 4,000 square feet of commercial space will be retained by the developer. The developer instead will offer to lease the commercial condominium unit to the City for \$1.00 per year under the same conditions described in Section 12 above until the full TIF reimbursement amount has been committed by the City, within its debt ceiling limit, at which time the title to the property would be deeded to the City subject to the reversionary interest.

I am willing to work diligently with the City Council and its advisors to discuss, and reasonably adjust, specific terms of this proposal to reflect the needs of the City while helping to make this project feasible. If you have questions regarding the specifics of the proposal, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Maxwell". The signature is fluid and cursive, with the first name "Jeff" and last name "Maxwell" clearly distinguishable.

Jeff Maxwell

Copies to:

Steve Ballard, City Attorney
222 South Linn Street
P.O. Box 2447
Iowa City, Iowa 52244-2447

Mr. John P. Danos, Special TIF Legal Counsel
Dorsey & Whitney
801 Grand Avenue, Ste 3900
Des Moines IA 50309-2970

Exhibit A – Legal Description of Site for **One University Place Project**

Beginning at the Northeast Corner of Section 17, Township 79 North, Range 6 West of the 5th P.M.; thence North 89 degrees West along the North line of said Section 17, 402.6 feet, thence South 16 degrees East 490 feet to the Northerly line of Snook's Grove Road as now established; thence North 73 degrees East along the Northerly line of said road 291.3 feet; thence North 1 degree 40' West to the point of beginning, as shown by Plat recorded in Plat Book 4, Page 383.

and

That part of the northeast quarter of the northeast quarter of Section 17, Township 79 North, Range 6 West of the 5th P.M., described as Auditor's Parcel 96091 on plat of survey recorded in Book 38, Page 125, Plat Records of Johnson County, Iowa.

and

Auditor's Parcel 2005091 according to the Plat of Survey recorded in Book 49, Page 284, Plat Records of Johnson County, Iowa, being a portion of Outlot 1 and of Lot 238, University Heights, Second Subdivision, according to the plat thereof recorded in Book 2, Page 76, Plat Records of Johnson County, Iowa; EXCEPT beginning at the Southwest corner of Auditor's Parcel 2005091, thence North 0°00'00" East 19.48 feet along the West Line of said Auditor's Parcel (assumed bearing for this description only), thence North 74°40'39" East 8.58 feet to a point of intersection of the Westerly right-of-way line of Sunset Street, thence South 20°48'18" West 23.29 feet along said right-of-way to said point of beginning and containing 81 square feet more or less.