

SALINA HOUSING ECONOMIC INCENTIVE POLICY



INTRODUCTION AND NEED

Salina in 2021 is presented with unusual opportunities, created by both the prospect of substantial employment growth and major investments that the city has made to enhance its quality and improve its competitive position. Its downtown initiative has created a renewed city center that is both visually attractive and economically strong. Continued public and private investment has also strengthened its previously strong foundation of community assets and institutions. Finally, its strong and diverse base of major industries and other employers is conservatively expected to generate nearly 1,000 new positions during the next five years. However, one major issue has remained a constant and unresolved community priority – the creation of a self-sustaining housing market that serves the needs of all people and parts of the community. Ultimately, the resolution of this issue is a critical need for the city to capitalize fully on its investments and potential.

The persistence of the housing problem is certainly not because of lack of community or City Commission interest, and the housing affordability and production are priority issues throughout the State of Kansas and in most parts of the nation. In 2016, the city commissioned the Live Salina study, which included a detailed analysis of housing and neighborhood characteristics in Salina and provided policy recommendations for addressing specific housing issues. Major issues included:

- The perceived competition between “greenfield” versus infill development, and the appropriate use of financing tools such as special assessments; and
- A neighborhood development strategy based on building and sustaining neighborhood and housing values necessary to create a self-sustaining market for infill housing and rehabilitation.

The city has made significant progress on these issues since 2016. Special assessment financing, paused during 2016 because of the greenfield versus infill debate, was resolved and that technique is again in use. The Salina Community Housing Development Organization (CHDO), a nonprofit corporation with development capability that was dormant in 2016, has been reactivated and is positioning itself to increase the scale of its work. The city’s extensive downtown renovation will inevitably increase the attractiveness and economic value of adjacent neighborhoods, and the adaptive residential reuse of the historic Lee Building introduced major residential development into the downtown core. The city has also gained greater familiarity with housing production incentive tools available in Kansas. These include Rural Housing Incentive Districts (RHIDs), Moderate Income Housing (MIH), Neighborhood Revitalization Program (NRP), and Industrial revenue Bonds (IRBs).

Despite these advances, new housing construction lags demand; has focused on conventional single-family development outside of the price range of much of the potential market; and has generated relatively little new rental development. In existing neighborhoods, replacement costs continue to exceed market value of homes, discouraging infill development or redevelopment of distressed areas and properties. Consequently, Salina has very little availability of contemporary rental housing and, in common with much of the country, a very limited supply of new ownership housing affordable to its potential workforce. A complicating factor is the increasing cost of new construction caused at least in the short run by material shortages and supply chain problems.

A housing strategy, with implementing policies, for Salina in 2021 addresses the following basic goals:

- Providing housing in the immediate term to accommodate both pent-up demand and new households attracted by employment growth.
- Creating and encouraging greater housing variety and affordability across income ranges for both the rental and ownership sectors.
- Expanding housing development and conservation of existing residential inventory in established city neighborhoods.
- The strategy further recognizes that both housing and neighborhood development require a certain degree of patience and a long-term view. In this light, a policy framework is adapted to the following time frames:
 - Immediate-term (within the next three years), addressing critical short-term needs created by existing demand and likely community growth, with a probable but not exclusive focus new rental development and some greenfield development for owner occupied units.
 - Medium-term (three to eight years), achieving steady housing production consistent with market demand, with growing components of ownership and infill development.
 - Long-term (eight years and over), achieving a substantially sound and secure inventory of existing housing in established neighborhoods and eliminating the gap between replacement and market value in these neighborhoods.

Detailed descriptions of overall strategies are provided in the Live Salina Plan – 2021 Supplement. The policies and process below focus on the immediate need to implement a systematic evaluation system for housing incentives using Rural Housing Incentive Districts (RHIDs) and Industrial Revenue Bonds (IRBs). As additional incentives are developed, it is the intent of this document to be amended in order to encapsulate additional or modified housing incentive policies.

This policy is subject to annual review.

AN EVALUATION SYSTEM FOR PROJECT ASSISTANCE APPLICATIONS

The City’s use of incentives for housing is about meeting the identified and documented need for housing. If through the use of incentives and natural market demand the City’s identified housing needs are met, then the use of housing incentives will be reflective of that reduced need. Once identified housing threshold are met, applications for housing incentives may still be made but an additional step will be required in the process. Those applications submitted after the housing thresholds have been met will be required go in front of the commission seek permission to apply.

The use of any economic incentive within this policy must be consistent with all local, Federal, and State of Kansas statutes and program regulations.

RURAL HOUSING INCENTIVE DISTRICT (RHID):

The RHID is a tax increment instrument that allocates the added property tax revenues created by the project to retire the cost of eligible project-related costs. These include site acquisition, preparation, public improvements, and infrastructure. RHID proceeds cannot be used for actual construction of the project, and may be allocated for a term up to a maximum of 25 years. RHIDs apply to both ownership and rental development or combinations thereof, and a variety of housing forms. RHIDs are most effective for projects with substantial front-end costs for land and site development.

APPLICATION EVALUATION

1. BASIC CRITERIA FOR CONSIDERATION

Objectives:

- To ensure that projects are of sufficient size and completed in time to address immediate housing needs.
- To provide special flexibility for projects in infill development areas
- To be eligible for RHID/IRB assistance a project must meet the following criteria:
- Be operational within three years of the date of application approval.
- Front end financing should be provided by the applicant through privately placement or another financing arrangement. In unusual circumstances, other financing tools such as publicly issued revenue bonds, may be used at the sole discretion of the City.
- Return on investment reviewed and acceptable to the City.
- 20 unit minimum size for projects within the Neighborhood Revitalization Program (NRP) eligible area
- 50 unit minimum for all other projects

2. UNIT PRICE AND RENT ELIGIBILITY GUIDELINES

Objectives:

- To ensure that housing costs in projects are reasonable affordable to new households and the existing market
- To provide special flexibility for projects in infill development areas
- Ownership Units
- Outside of NRP Eligible Area: Median price of units of \$250,000 or less for RHID eligibility; or 30% of all units priced below \$225,000.
- Within the NRP Eligible Area: No maximum
- Rental Units
- Outside of NRP Eligible Area: Median monthly contract rent at or below \$1.25/square foot for RHID eligibility; no maximum for IRB eligibility
- Within the NRP Eligible Area: No maximum

3. DESIRABLE PROJECT CRITERIA

Objectives:

- To identify desirable project goals, features, and innovations
- To encourage projects to include these features by using length of tax allocation as an incentive

The third stage of evaluation assesses whether proposed projects achieve certain desirable performance or design criteria, based on public policy goals. Different criteria are weighted based on their relative importance and points are awarded based on this weighting. The weighted value of each applicable criteria should be totaled. That total weighted number identifies the length and terms appropriate for that application.

OWNER-OCCUPIED PROPERTIES: PROJECT CRITERIA			
Criterion	Weighting	Inclusion	Points Awarded
Location in Locally Designated Neighborhood Revitalization Program (NRP) Area ¹	3		
Gross Density above 4 units/acre	2		
New to Market Product such as small lot single-family, attached housing, owner-occupied duplex, townhome, rowhouse, or condominium	1		
Immediately available water and sewer service	1		
Unusual design quality or innovation (applicant to document innovation)	1		
40% or more units priced below \$225,000	2		
Provides desirable pioneer infrastructure or street improvement	1		
Includes walkable/bikeable design features (applicant to document)	1		
Includes rehabilitation or reuse of existing structures	2		
Proximity to parks and community services	1		
Mixes densities and housing types including rentals	2		
For subdivisions, having at least 50% of all proposed lots with full public improvements available for construction within 18 months of final project approval; for building projects, completing at least 50% of all units within 18 months of final project approval.	2		
Total Points			
Note 1- An area designated by the City of Salina eligible for tax abatements under the Neighborhood Revitalization Program. The boundaries of these areas may change from time to time. A current map of NRP designated areas is maintained by the Department of Community and Development Services.			
ACCUMULATED POINTS FOR OWNER-OCCUPIED DEVELOPMENT:			
<ul style="list-style-type: none"> • 8 points or more: Up to 25 year tax allocation • 6-7 points: 20 year maximum tax allocation period • 4-5 points: 15 year maximum tax allocation period • 0-3 points: 10 year maximum tax allocation period 			

RENTAL PROPERTIES: PROJECT CRITERIA			
Criterion	Weighting	Inclusion	Points Awarded
Location in an NRP Eligible Area ¹	3		
Gross Density above 16 units/acre	1		
50% or more of units with rent below \$1.00/square foot	2		
20% or units have 3 or more bedrooms	1		
Mixes densities and building types and footprints	2		
Immediately available water and sewer service	1		
Unusual design quality or innovation (applicant to document innovation)	1		
Presence of resident amenities including useful open space	2		

Provides desirable pioneer infrastructure or street improvement	1		
Includes walkable/bikeable design features (applicant to document)	1		
Proximity to parks and community services	2		
Includes possibility of transition to ownership	2		
Located on infill development site generally surrounded by existing development	2		
Completion of and availability for occupancy of at least 50% of all units within 18 months of final project approval.	2		
Total Points			
Note 1- An area designated by the City of Salina eligible for tax abatements under the Neighborhood Revitalization Program. The boundaries of these areas may change from time to time. A current map of NRP designated areas is maintained by the Department of Community and Development Services.			
ACCUMULATED POINTS FOR RENTAL DEVELOPMENT:			
<ul style="list-style-type: none"> • 8 points or more: Up to 25 year tax allocation • 6-7 points: 20 year maximum tax allocation period • 4-5 points: 15 year maximum tax allocation period • 0-3 points: 10 year maximum tax allocation period 			

RHID REVIEW AND APPROVAL PROCESS

1. DEFINING THE DISTRICT

A. Applicant completes a preliminary screening application that establishes the boundaries of the proposed district and documents compliance with the eligibility criteria of the evaluative steps 1 and 2 above.

B. City staff will review the preliminary application for compliance and will refer for review to the Incentive Review Committee. The Incentive Review Committee's membership will include the City Manager or his/her designee; the Director of the Department of Community and Development Services; the Saline County Administrator or his/her designee; and the Superintendent of USD 305 or his/her designee. The Committee will review and evaluate any housing incentive application that will require consideration by its Governing Body because of its impact on property taxes. The Committee has the ability to request additional information and conduct preliminary discussions with the project applicant or advocate and engage the outside professional consultants if necessary to assist it in its work. Committee records, including proposal submissions, may be maintained without public disclosure if allowed under the Kansas Open Records Act. If there is no objection, staff will prepare a resolution finding the area eligible for designation as an RHID.

C. After publication in the official newspaper of the City of Salina, the Commission approves the resolution and supporting material and submits it to the State Department of Commerce for approval.

D. The Secretary of Commerce reviews and acts on the resolution.

2. DEVELOPMENT PLAN

A. Following approval by the Secretary of Commerce, the City and the Developer/Applicant will prepare a Development Plan and Development Agreement package.

B. The Developer will submit the following information for the Development Plan:

- Legal description and map of the proposed district.
- Names and addresses of the owners of record.
- Names, addresses, and specific real estate interests in the district of the Developers.
- Detailed description of the proposed project, including preliminary plans, a development program, and narrative sufficient in detail to permit evaluation of the project according to the factors displayed in Evaluation Step Three. This will help determine the permitted duration of allocation of incremental taxes.
- If the project requires a subdivision, preliminary plat drawings; if rezoning is required, appropriate applications.
- Existing assessed valuation of land and improvements within the RHID and estimated taxable value of the project after development.
- A financial analysis and feasibility study that includes development budget, sources of funding, and a project proforma. The financial analysis must show that value and resultant rebates are sufficient to fund the estimated RHID-eligible costs of the project and demonstrate that the project is not financially feasible without that level of RHID assistance.

C. The City will review and assemble the Development Plan. During this stage, the City will prepare a draft development agreement establishing the mutual responsibilities of the parties. The Development Plan and Agreement will be referred it to the Incentive Review Committee for approval.

D. Following positive review by the Committee, the City Council will act on a resolution setting a public hearing date for the Ordinance approving the RHID Development Plan and Agreement for not less than 30 days nor more than 70 days. The resolution and documents will be sent to all property tax funded entities for notification and review.

3. ADOPTION OF THE DEVELOPMENT PLAN

A. On the appointed date, the Commission will hold a public hearing and subsequently act on the Development Plan and Agreement.

B. After approval, the County and the Unified School District have a 30 day period during which they can protest the creation of the RHID. Approval of a protest by the governing body of either entity will prevent the RHID from allocating added taxes to project related expenses. Such a protest does not prevent the development from moving forward without RHID assistance, any subdivision or rezoning approval, or the use of other potential incentives by the City of Salina.

4. TERMS AND CONDITIONS

In granting an RHID, the City Commission may impose any terms or conditions as deemed necessary to fulfill the purpose and intent of this policy and the Live Salina Housing Plan.

5. INACCURACIES OR MISSTATEMENTS BY APPLICANTS DURING THE PROCESS

Any inaccuracy, misstatement of, or error in fact by the applicant or advocate during any part of the application, review, or approval process may render a project proposal null and void and may cause a repeal of any development assistance provided through any housing incentive granted by the City in reliance of such information.

EVALUATION

Only rental projects qualify for IRBs. IRBs exempt the new property taxes created by the development for a period up to ten years and can include all associated project costs, including vertical construction. They are also exempt from sales taxes on labor and material during the construction period. An IRB can use either or both property and sales tax exemption. They typically use the sales tax exemption in combination with other incentives.

1. BASIC CRITERIA FOR CONSIDERATION

Objectives:

- To ensure that projects are of sufficient size and completed in time to address immediate housing needs.
- To provide special flexibility for projects in infill development areas
- To be eligible for IRB assistance a project must meet the following criteria:
- Be operational within three years of the date of application approval.
- Return on investment reviewed and acceptable to the City.
- 20 unit minimum size for projects within the Neighborhood Revitalization Program (NRP) eligible area.
- 50 unit minimum for all other projects.

Use of Sales Tax Exemption Only:

If an applicant is seeking an IRB for the purpose of only using the sales tax exemption, eligibility requires meeting the Basic Criteria for Consideration. Desirable Project Criteria is not applicable.

2. DESIRABLE PROJECT CRITERIA

(Note: IRBs do not include a median rent criterion for approval)

Objectives:

- To identify desirable project goals, features, and innovations
- To encourage projects to include these features in order to determine the length of the IRB's term.

The second stage of evaluation assesses whether proposed projects achieve certain desirable performance or design criteria, based on public policy goals. Different criteria are weighted based on their relative importance and points are awarded based on this weighting. The weighted value of each applicable criteria should be totaled. That total weighted number identifies the length and terms appropriate for that application.

PROJECT CRITERIA FOR IRB PROJECTS USING PROPERTY TAX EXEMPTION

IRB PROJECT CRITERIA			
Criterion	Weighting	Inclusion	Points Awarded
Location in an NRP Eligible Area	3		
Gross Density above 16 units/acre	1		
50% or more of units with rent below \$1.00/square foot	2		
20% or units have 3 or more bedrooms	1		
Mixes densities and building types and footprints	2		
Immediately available water and sewer service	1		
Unusual design quality or innovation (applicant to document innovation)	1		
Presence of resident amenities including useful open space	2		
Provides desirable pioneer infrastructure or street improvement	1		
Includes walkable/bikeable design features (applicant to document)	1		
Proximity to parks and community services	2		
Includes possibility of transition to ownership	2		
Located on infill development site generally surrounded by existing development	2		
Completion of and availability for occupancy of at least 50% of all units within 18 months of final project approval.	2		
Total Points			
ACCUMULATED POINTS FOR IRB DEVELOPMENT:			
<ul style="list-style-type: none"> • 8 points or more: Full 10 year exemption at 100% of added tax liability • 4-7 points: 10 year exemption at 100% for first five years of operation and 50% for second ten years • 0-3 points: Choice of 50% exemption for full ten years or 100% exemption for first five years of operation 			

REVIEW AND APPROVAL PROCESS FOR IRBS

1. PRELIMINARY SCREENING

A. Applicant completes a preliminary screening application that describes the project with appropriate exhibits and narratives and documents compliance with the eligibility criteria of step 1- Basic Criteria for Consideration.

Applicants must also indicate whether they are applying for use of both sales tax and property tax exemption or only a signal exemption type.

B. City staff will review the preliminary application for basic eligibility.

C. A pre-application meeting will be schedule with the City Mangers Office and the Director of Community and Development Services or their designees. If needed, the City’s legal counsel, bond counsel, and/or Financial Advisors may be present.

D. Based on the information provided by the preliminary application and the associated meeting, staff will review the information submitted and respond to the applicant regarding apparent eligibility. The response by City Staff shall in no way represent definitive findings or be seen as an expression of intent or obligation of the City Commission to favorable consideration or approval of a formal request for an IRB.

2. FORMAL APPLICATION

A. Funding Agreement

Completion and execution of a funding agreement is required in order for the formal application to be deemed complete and administered in accordance with this policy. The applicant is responsible for payment of other professional services to include, but not limited to bond counsel, financial advisors, and any fees of the City Attorney incurred in connection with the issuance of bonds.

B. Application Requirements

If the project meets minimum qualifications, the Developer will submit a detailed application with the following information:

- Legal description and map of the proposed site.
- Names and addresses of the owners of record.
- Names, addresses, and interests of the Developers.
- Detailed description of the proposed project, including preliminary plans, a development program, and narrative sufficient in detail to permit evaluation of the project according to the factors displayed in Evaluation Step Two. This will help determine the permitted duration and amount of the tax exemption.
- If the project requires a change in zoning, appropriate applications for a change of zoning classification.
- Existing assessed valuation of land and improvements on the site and estimated taxable value of the project after development.
- A financial analysis and feasibility study that includes development budget, sources of funding, and a project proforma.
- Any other information deemed necessary by the City.

3. ACTION ON APPLICATION

A. Cost Benefit Analysis and Development Agreement. As per Kansas State Statute and in determination of whether tax abatements should be granted, the Governing Body shall examine the cost benefit to the City as per the criteria outlined in this policy and in the Live Salina Housing Plan.

A development agreement shall be drafted by the City's Bond Counsel.

B. Public hearing. The governing body must conduct a hearing on the proposed tax exemption as required by state law.

Notice of the required public hearing must be published at least once seven days before the public hearing in the official City/County newspaper and shall indicate time, place, and purpose of the hearing. In addition, the City Clerk must notify, in writing, the governing body of the city, county, and applicable unified school district.

C. Commission Action. The City Commission shall review the analysis of the cost and benefits and receive comments from the applicant, affected taxing districts, and the general public. At the conclusion of the hearing, the City Commission will take formal action on the application. Approval shall be in the form of a resolution.

4. TERMS AND CONDITIONS

In granting an IRB, the City Commission may impose any terms or conditions as deemed necessary to fulfill the purpose and intent of this policy and the Live Salina Housing Plan.

5. INACCURACIES OR MISSTATEMENTS BY APPLICANTS DURING THE PROCESS

Any inaccuracy, misstatement of, or error in fact by the applicant or advocate during any part of the application, review, or approval process may render a project proposal null and void and may cause a repeal of any development assistance provided through any housing incentive granted by the City in reliance of such information.

Policy Amendment and Adoption Record		
Date	Reso. #	Notes
7/19/2021	21-7971	Initial Adoption