

**CITY OF SALINA**  
REQUEST FOR CITY COMMISSION ACTION

DATE                      TIME  
01/17/2017              6:00 P.M.

AGENDA SECTION NO:                      3	ORIGINATING DEPARTMENT:  City Manager's Office Mike Schrage, Deputy City Mgr	FISCAL APPROVAL:  BY:
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**ITEM:**

**Ordinance No. 16-10856 adopting a STAR Bond Project Plan for the Downtown Star Bond District.**

**Ordinance No. 17-10873 approving a Development Agreement with Salina2020, Inc.**

**Resolution No. 17-7429 determining the intent of the City of Salina, Kansas to issue Industrial Revenue Bonds.**

**Ordinance No. 16-10857 adopting a redevelopment project plan for the Salina Downtown Redevelopment District.**

**Ordinance No. 16-10863 authorizing the creation of the Downtown Community Improvement District in the city of Salina, Kansas.**

**Ordinance No. 16-10864 authorizing the creation of the Alley Community Improvement District in the city of Salina, Kansas.**

**Ordinance No. 16-10865 authorizing the creation of the Downtown Hotel Community Improvement District in the city of Salina, Kansas.**

**BACKGROUND:**

**1. Introductory Narrative:**

The City of Salina was initially approached by private citizens who proposed the construction of a public/private funded downtown Field House project. The City and various stakeholders ultimately agreed to contribute \$4.5 million each towards a \$9 million Field House. As project costs increased, New Markets Tax Credit financing was secured to fund the gap between the original pledge of \$9 million and the final construction cost of \$11.7 million.

After the Field House project was committed to and prior to commencement of construction, the City was approached by a second group of private citizens and business people about the possibility of combining additional private investments, local & State economic development incentives and City of Salina funding to pursue a \$150 million downtown redevelopment plan. Salina2020 was formed and funded as an independent corporate entity to serve as the Master Developer of the proposed downtown redevelopment project, and negotiations were initiated with the City of Salina.

In order to pursue the project, Salina2020 has retained legal counsel, feasibility consultants and land planners to help them assess the viability of the project as well as submit the necessary petitions and applications for economic development incentives and negotiate a development agreement with the City of Salina.

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This proposed project involves numerous projects and economic development incentives and the development agreement is very detailed, and the various projects and funding sources overlap in multiple ways. This staff report attempts to provide an overview discussion of the various aspects of the project financing and development agreement, below. Considerable additional detail can be found in the STAR Bond Project Plan and attachments as well as the proposed Development Agreement and attachments.

## **2. Project List:**

The following downtown redevelopment projects were either identified in Salina2020's initial proposal to the City of Salina and State of Kansas or have been added to the discussions as they have progressed.

- Alley Entertainment Complex
- Car Museum
- City Public Improvements (Streetscape)
- Downtown Maintenance, Security & Programming
- Existing Retail Improvements
- Field House
- Field House Parking
- Hotel
- Hotel Restaurant
- Lee Buildings (Low-Income Housing)
- Medical Student Housing (Apartments)
- Old Chicago Restaurant
- Save-A-Lot Grocery Store
- Stiefel Theatre Renovations
- University of Kansas Medical School
- Vacant Space / New Construction Acquisition

Notably, the Field House and University of Kansas Medical School projects are already underway, but they can be useful contributors to some of the forms of economic development incentives being considered. The Field House project is fully funded and under construction, but a significant portion of the project may be eligible for reimbursement with STAR Bond proceeds essentially making the STAR Bond reimbursement proceeds available to fund other downtown improvements.

## **3. Financing Sources & Economic Development Incentives Overview:**

Sources of funding being considered to facilitate the proposed downtown redevelopment project include:

- City General Funds
- City Temporary Notes



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## H. STAR Bonds:

Similar to Tax Increment Financing, creation of a STAR Bond District, pursuant to applicable statutory requirements, thereby authorizing the capture and redirection of State sales tax increment (in addition to local sales tax increment captured in a T.I.F. District) for use on eligible project expenses. Bond financing involves debt financing of eligible project expenses based upon bonds issued and to be repaid with increment to be generated by the project and captured, in the future.

## **4. Documents, Applications & Actions:**

### A. Applications Received:

The following applications have been previously received by the City:

- Downtown STAR Bond Project
- Downtown C.I.D. District
- Hotel C.I.D. District
- Alley C.I.D. District
- Downtown Tax Increment Financing District

### B. Actions Previously Taken:

The City Commission has previously taken the following actions:

- Downtown STAR Bond District Public Hearing
- Applied for and Received Secretary of Commerce Eligibility Determination
- Creation of the Downtown STAR Bond District
- Downtown T.I.F. District Public Hearing
- Creation of the Downtown T.I.F. District
- Downtown C.I.D. District Public Hearing
- Hotel C.I.D. District Public Hearing
- Alley C.I.D. District Public Hearing
- STAR Bond Plan Public Hearing

At the request of the Department of Commerce, a copy of the proposed STAR Bond Plan and Development Agreement were forwarded to the Secretary of Commerce prior to public consideration of the Plan and Development Agreement by the City Commission. The attached letter indicating the Secretary's conditional approval was received Friday, January 6.



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Components.

4. Development schedules for the Project Components other than the Field House & Streetscape shall be as agreed upon by the parties upon assignment of this agreement by Transferee Agreement.

Based upon the approach described above, it will be necessary to negotiate and enter in to Transferee Agreements for each of the identified core Downtown Redevelopment Projects as well as any other projects that receive STAR, T.I.F. or C.I.D. funds. Examples of additional parties to Transferee Agreements include:

- Hotel Developer
- Alley Developer
- Stiefel Theatre
- Car Museum
- Salina Downtown Inc - Downtown Maintenance, Security & Programming
- New Retail Developers
- Existing Retailer that Receive C.I.D. Funds

**C. Noteworthy Plan Documents:**

The various action items before the City Commission involve an exceptional number of detailed documents. Items particularly noteworthy of further review include, but are certainly not limited to, the following:

- STAR Bond Plan
  - Car Museum Conceptual Plans (STAR Bond Plan Exhibit F-2)
  - Downtown Streetscape Improvements Conceptual Plans (STAR Bond Plan Exhibit F-3)
  - Attraction-Specific Streetscape Improvements Conceptual Plans and Budget (STAR Bond Plan Exhibit F-4)
  - Revised Streetscape Exhibits (STAR Bond Plan Exhibits K-1 thru K-3)
  - Family Entertainment Center Conceptual Plans (STAR Bond Plan Exhibit F-5)
  - Hotel Conceptual Plans (STAR Bond Plan Exhibit F-6)
  - Allocation of Costs / Sources & Uses of Funds (STAR Bond Plan Exhibit G)
  - Canyon Research Report - STAR Bond Project Plan Feasibility, Market and Market Impact Study (STAR Bond Plan Exhibit H)
- Preliminary Kansas Department of Commerce Approval Letter
- Development Strategies Report
- Oshner, Hare & Hare Streetscape Concept (Note: We are not adopting the masterplan document, at this time)
- Development Agreement
- Transferee Agreement Template



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accounted for in both the Canyon Research & Development Strategies feasibility reports, but the STAR Bond Plan does not directly discuss or describe the Save-A-Lot grocery store project.

**Sales Tax Generator?** – Yes

**Percentage of Estimated New Taxable Sales** – 8.80%

**Percentage of STAR Bond Increment** – 12.68%

**Tourism Generator?** - No

**STAR Bond Plan Estimated Cost:** N/A

	Estimated Cost
Capital Investment	\$1,767,704
City General Fund	\$0
City Utility Fund	\$0
Sales Tax Reimb. Agreement	\$250,000
STAR Bonds	\$0
City STAR Bond Reimb. Funds	\$0
T.I.F.	\$0
Downtown C.I.D.	\$0
Hotel C.I.D.	\$0
Alley C.I.D.	\$0
<b>Total</b>	<b>\$2,017,704</b>

**Schedule:** Completed & Open

**B. Field House:**

**Responsible Party(ies):** City of Salina

**Project Description:** “The 67,000 square foot facility will include indoor venues for basketball, volleyball and batting cages. The program plan includes four permanent hardwood basketball courts that can be cross-lined to accommodate six volleyball courts, a turf field with drop down batting cages/pitching tunnels, and the necessary supporting amenities for local programming and regional events. The turf area will also be used to accommodate two temporary hardwood basketball / volleyball courts. These temporary courts will be utilized for event weekends and create the opportunity for the Salina Fieldhouse to feature six hardwood basketball courts and eight hardwood volleyball courts. Preliminary conceptual plans for the Fieldhouse are attached as Exhibit F-I. The basketball and volleyball courts will be complimented by such amenities as a lobby and welcoming area, ticket office, office area, concessions, cafe seating, flex/team rooms, mezzanine and restrooms.”

**Sales Tax Generator?** – No



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	Estimated Cost
Private Investment	\$7,000,000
City General Fund	\$0
City Utility Fund	\$0
STAR Bonds	\$0
City STAR Bond Reimb. Funds	\$0
T.I.F.	\$0
Downtown C.I.D.	\$0
Hotel C.I.D.	\$0
Alley C.I.D.	\$0
<b>Total</b>	<b>\$7,000,000</b>

**Schedule:** Demolition Underway

**Conditions Precedent:** None.

**D. Field House Parking:**

**Responsible Party(ies):** City of Salina

**Project Description:** No specific STAR Bond Plan narrative. This item relates to costs associated with purchase of the former Bank of America parking lot directly west of the Field House site as well as the Bennett lot located in the northeast quadrant of the intersection of Ash Street and the Union Pacific railroad tracks. Also includes improving and repaving the BOA lot and 2 adjoining City lots.

**Sales Tax Generator?** - No

**Tourism Generator?** - No

**STAR Bond Plan Estimated Cost:** \$1.625 million

	Estimated Cost
Public Investment	\$(812,500)
NMTC Proceeds	\$(812,500)
City Expense Reimb. (STAR)	\$1,625,000
City Utility Fund	\$0
STAR Bonds	\$0
City STAR Bond Reimb. Funds	\$0
T.I.F.	\$0
Downtown C.I.D.	\$0
Hotel C.I.D.	\$0
Alley C.I.D.	\$0
<b>Total</b>	<b>\$0</b>



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**STAR Bond Streetscape Commitment**” means that in the event STAR Bonds are issued in an amount sufficient to net \$2,000,000 of STAR Bond Proceeds for use in construction of the Streetscape and Public Infrastructure Improvements pursuant to Section 4.06, the City shall design and construct the Streetscape and Public Infrastructure Improvements in the geographic locations and pursuant to the aesthetic themes described and depicted in Exhibit K-1 and shall expend no less than \$12,165,360 in designing and constructing such Streetscape and Public Infrastructure Improvements.

**Alternative Streetscape Commitment**” means that in the event STAR Bonds are not issued in an amount sufficient to net \$2,000,000 of STAR Bond Proceeds for use in construction of the Streetscape and Public Infrastructure Improvements pursuant to Section 4.06, the City and Master Developer shall confer regarding the design of the Streetscape and Public Infrastructure Improvements and the City Commission’s adaptation of Exhibit K-1, as necessary, to reflect the geographic locations and aesthetic theme to be constructed for the Streetscape and Public Infrastructure Improvements based upon input from the Master Developer, the City’s design consultants, City staff, and public comment; and that in such event, the City shall expend no less than \$10,165,360 in designing and constructing such Streetscape and Public Infrastructure Improvements.

**Phase I Streetscape Improvements**” means the portion of Streetscape and Public Infrastructure Improvements described in Exhibit K-2.

**Phase II Streetscape Improvements**” means the portion of Streetscape and Public Infrastructure Improvements described in Exhibit K-3.

**Sales Tax Generator?** - No

**Tourism Generator?** - No

**STAR Bond Plan Estimated Cost:** \$12,165,360

	Estimated Cost
<b>Public Investment</b>	\$0
<b>City General Fund Debt</b>	\$3,540,360
<b>City Utility Fund</b>	\$0
<b>STAR Bonds</b>	\$2,000,000
<b>City STAR Bond Reimb. Funds</b>	\$6,625,000
<b>T.I.F.</b>	\$0
<b>Downtown C.I.D.</b>	\$0
<b>Hotel C.I.D.</b>	\$0
<b>Alley C.I.D.</b>	\$0
<b>Total</b>	<b>\$12,165,360</b>



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**STAR Bond Plan Estimated Cost:** \$2.8 million

	Estimated Cost
Private Investment	\$0
City General Fund	\$0
City Utility Fund	\$0
STAR Bonds	\$0
City STAR Bond Reimb. Funds	\$0
T.I.F.	\$0
Downtown C.I.D.	\$2,800,000
Hotel C.I.D.	\$0
Alley C.I.D.	\$0
<b>Total</b>	<b>\$2,800,000</b>

**Schedule:** Funding is provided Pay-As-You-Go (PAYGO). Consequently, the transferee's ability to perform services and the corresponding timing is dependent upon the performance of the Downtown C.I.D. District.

**Conditions Precedent:** None.

**G. Hotel:**

**Responsible Party(ies):** Third Party Developer

**Likely Transferee:** Lighthouse Properties

**Project Description:** "To accommodate the anticipated increase in out-of-town visitation a \$17.9 million, 114-room Homewood Suites by Hilton hotel is planned at the intersection of Santa Fe Avenue and Mulberry Street. The all-suites hotel will also include meeting space and a full-service restaurant. Preliminary conceptual plans for the Hotel are attached hereto as Exhibit F-5.

The hotel will be developed by Lighthouse Properties, LLC, which owns, operates and has developed numerous successful and award-winning hotel properties in Kansas and Missouri. For example, Lighthouse Properties owns and operates the Raphael Hotel on the Country Club Plaza in Kansas City, Missouri and the Homewood Suites by Hilton at the the Waterfront in Wichita, Kansas."

**Sales Tax Generator?** – Yes

**Percentage of Estimated New Taxable Sales** – 25.42%

**Percentage of STAR Bond Increment** – 36.61%

**Tourism Generator?** - No

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**STAR Bond Plan Estimated Cost:** \$19.005 million (Hotel, Restaurant, Conference Center & Parking)

	<b>Estimated Cost</b>
<b>Private Investment</b>	\$16,757,517
<b>City General Fund</b>	\$0
<b>City Utility Fund</b>	\$250,000
<b>STAR Bonds</b>	\$442,274
<b>City STAR Bond Reimb. Funds</b>	\$1,000,000
<b>T.I.F.</b>	\$800,000
<b>Downtown C.I.D.</b>	\$0
<b>Hotel C.I.D.</b>	\$1,006,029
<b>Alley C.I.D.</b>	\$0
<b>Total</b>	<b>\$19,255,820</b>

Total exceeds STAR Bond Plan estimate due to inclusion of utility relocation expenses.

**Schedule:** TBD

**Conditions Precedent:**

- City Commencement of Phase I streetscape construction
- Alley Transferee Agreement executed
- Old Chicago Transferee Agreement executed
- Community Improvement Districts have been established

**H. Hotel Restaurant:**

**Responsible Party(ies):** Third Party Developer

**Likely Transferee:** Lighthouse Properties

**Project Description:** The narrative description of the hotel project, above, includes a reference to a full-service restaurant. The STAR Bond Plan does not provide additional detail.

**Sales Tax Generator?** - Yes

**Percentage of Estimated New Taxable Sales** – 7.11%

**Percentage of STAR Bond Increment** – 10.25%

**Tourism Generator?** - No

**STAR Bond Plan Estimated Cost:** \$19.005 million (Hotel, Restaurant, Conference Center & Parking)

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NOTE: Project Costs & Incentives included in Hotel table, above.

**Schedule:** TBD

**Conditions Precedent:**

- City Commencement of Phase I streetscape construction
- Alley Transferee Agreement executed
- Old Chicago Transferee Agreement executed
- Community Improvement Districts have been established

**I. Alley Entertainment Complex:**

**Responsible Party(ies):** Third Party Developer

**Likely Transferee:** The Alley

**Project Description:** "Also located at the intersection of 5th Street and Ash Street will be a 47,000 square foot family entertainment center that offers a diverse array of indoor entertainment including a bowling center with 24 standard bowling lanes and an 8-lane "boutique" specialty bowling facility, game room and video arcade, laser tag, concessions and a full service bar and restaurant and meeting space. The 24 lane bowling facility is qualified to host state and regional college and high school bowling tournaments and is anticipated to draw such tournaments to the District. Bowling tournaments, meetings, events, special occasions and local entertainment traffic will be principal drivers of business with a trade area that extends north into Nebraska and to the east and west up to a two hour drive. Preliminary conceptual plans for The Alley are attached hereto as Exhibit F-4."

**Sales Tax Generator?** - Yes

**Percentage of Estimated New Taxable Sales** – 14.23%

**Percentage of STAR Bond Increment** – 20.50%

**Tourism Generator?** - Yes

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**STAR Bond Plan Estimated Cost:** \$6.1 million

	<b>Estimated Cost</b>
<b>Private Investment</b>	\$3,829,931
<b>City General Fund</b>	\$0
<b>City Utility Fund</b>	\$175,000
<b>STAR Bonds</b>	\$1,642,726
<b>City STAR Bond Reimb. Funds</b>	\$0
<b>T.I.F.</b>	\$0
<b>Downtown C.I.D.</b>	\$0
<b>Hotel C.I.D.</b>	\$0
<b>Alley C.I.D.</b>	\$628,676
<b>Total</b>	<b>\$6,275,333</b>

Total exceeds STAR Bond Plan estimate due to inclusion of utility relocation expenses.

**Schedule:** TBD

**Conditions Precedent:**

- City Commencement of Phase I streetscape construction
- Hotel Transferee Agreement executed
- Old Chicago Transferee Agreement executed
- Community Improvement Districts have been established

**J. Old Chicago Restaurant:**

**Responsible Party(ies):** Third Party Developer

**Likely Transferee:** Samy Amro, Franchisee

**Project Description:** No specific STAR Bond Plan narrative. The addition of specialty retailers and restaurants were generally discussed in the STAR Bond Plan. The specific prospect of an Old Chicago restaurant is a recent development that has been accounted for within the Development Agreement provisions regarding the use of T.I.F. & C.I.D. funds.

**Sales Tax Generator?** - Yes

**Percentage of Estimated New Taxable Sales** – 12.45%

**Percentage of STAR Bond Increment** – 17.93%

**Tourism Generator?** - No

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**STAR Bond Plan Estimated Cost:** \$3.0 million

	Estimated Cost
Private Investment	\$2,650,000
City General Fund	\$0
City Utility Fund	\$0
STAR Bonds	\$0
City STAR Bond Reimb. Funds	\$0
T.I.F.	\$300,000
Downtown C.I.D.	\$50,000
Hotel C.I.D.	\$0
Alley C.I.D.	\$0
<b>Total</b>	<b>\$3,000,000</b>

**Schedule:** TBD

**Conditions Precedent:** None specified. Transferee Agreement to be negotiated.

**K. Stiefel Theatre Renovations:**

**Responsible Party(ies):** Third Party Developer

**Likely Transferee:** Stiefel Theatre Board of Directors

**Project Description:** "The Stiefel Theatre for the Performing Arts has been the anchor of Salina's tourism industry for decades, but requires reinvestment if it is to remain competitive, accommodate a wider selection of performers, and increase attendance and revenues. An estimated \$2.2 million in planned improvements to the theatre include addition of an additional stage, LED exterior marquee signage and a video event billboard, a permanent sound system, acoustical improvements, improved lighting above the stage and modernized rigging equipment, enhancement to performers' staging/dressing area, addition of a new bar, enhancement of exterior facade and other improvements to the interior and exterior spaces. The improvements are anticipated to be funded entirely from private donations. These improvements are anticipated to drive higher revenues from additional events, greater revenue per event from the increased number of food and beverage outlets, new revenue from the enhanced, expanded meeting area, and revenue from the implementation of an additional stage. Further, increased customer visitation is expected to drive overall revenue growth as a result of an improved patron experience and additional acts that will be drawn to play the Stiefel as a result of the modernized equipment and facility."

**Sales Tax Generator?** - Yes

**Percentage of Estimated New Taxable Sales** – 1.12%

**Percentage of STAR Bond Increment** – 1.61%



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European automobiles to racing automobiles and motorcycles, the museum has the ability to design rotating exhibits around decades, manufacturers, and regions. This also allows the museum to host special events around the rotating exhibits.”

**Sales Tax Generator?** - Yes

**Percentage of Estimated New Taxable Sales** – .28%

**Percentage of STAR Bond Increment** - .41%

**Tourism Generator?** - Yes

**STAR Bond Plan Estimated Cost:** \$4.695 million

	Estimated Cost
Private Investment	\$0
City General Fund	\$0
City Utility Fund	\$0
STAR Bonds	\$4,695,000
City STAR Bond Reimb. Funds	\$0
T.I.F.	\$0
Downtown C.I.D.	\$0
Hotel C.I.D.	\$0
Alley C.I.D.	\$0
<b>Total</b>	<b>\$4,695,000</b>

**Schedule:** TBD

**Conditions Precedent:** None specified. Transferee Agreement to be negotiated.

**M. Vacant Space / New Construction Acquisition:**

**Responsible Party(ies):** Multiple Third Party Developers

**Likely Transferees:** Individual Property Owners

**Project Description:** The District's Project Plan also envisions the renovation of vacant commercial space and construction of new commercial space designed to house specialty retailers, restaurants, office and residential uses. Transformation of the District into a vibrant mixed-use environment will generate increased visitation and retail sales.

The Downtown Salina Revitalization Project will offer a critical mass of mixed-use attractions capable of attracting visitors throughout the Midwest. The variety and complementary nature of the attractions will create a synergy within the District that will engage a broad base of tourists and local consumers.



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of attracting visitors throughout the Midwest. The variety and complementary nature of the attractions will create a synergy within the District that will engage a broad base of tourists and local consumers. Salina's unique location as the premier city of north-central Kansas, positioned at the nexus of 1-135 and 1-70, provides a distinctive opportunity to draw tourism both regionally and from within the State of Kansas.

**Sales Tax Generator?** - Yes

**Percentage of Estimated New Taxable Sales** – 21.86% (Future Retail & Restaurants in New & Existing spaces combined)

**Percentage of STAR Bond Increment** - Not Utilized to Support STAR Bond Issuance.

**Tourism Generator?** - Yes (critical mass of mixed use attractions discussed as generating tourism)

**STAR Bond Plan Estimated Cost:** \$2.0 million

	Estimated Cost
Private Investment	\$700,000
City General Fund	\$0
City Utility Fund	\$0
STAR Bonds	\$0
City STAR Bond Reimb. Funds	\$0
T.I.F.	\$0
Downtown C.I.D.	\$1,300,000
Hotel C.I.D.	\$0
Alley C.I.D.	\$0
<b>Total</b>	<b>\$2,000,000</b>

**Schedule:** Unknown

**Conditions Precedent:** None specified in the Development Agreement.

**O. Lee Buildings (Low-Income Housing):**

**Responsible Party(ies):** Third Party Developer

**Likely Transferee:** Unidentified Developer

**Project Description:** “As part of this downtown build out, the Project Plan features a residential component that includes conversion of the Lee buildings at the north end of the District into low-income housing apartments. . .”

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**Sales Tax Generator?** - No

**Tourism Generator?** - No

**STAR Bond Plan Estimated Cost:** \$17.560 million

	<b>Estimated Cost</b>
<b>Private Investment</b>	\$17,560,034
<b>City General Fund</b>	\$0
<b>City Utility Fund</b>	\$0
<b>STAR Bonds</b>	\$0
<b>City STAR Bond Reimb. Funds</b>	\$0
<b>T.I.F.</b>	\$0
<b>Downtown C.I.D.</b>	\$0
<b>Hotel C.I.D.</b>	\$0
<b>Alley C.I.D.</b>	\$0
<b>Total</b>	\$17,560,034

**Schedule:** Unknown

**Conditions Precedent:** None specified in the Development Agreement.

**P. Medical Student Housing (Apartments):**

**Responsible Party(ies):** Third Party Developer

**Likely Transferee:** Unidentified Developer

**Project Description:** "As part of this downtown build out, the Project Plan features a residential component that includes conversion of the Lee buildings at the north end of the District into low-income housing apartments as well as a new 32-unit market-rate apartment community located near the planned hotel."

**Sales Tax Generator?** - No

**Tourism Generator?** - No

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**STAR Bond Plan Estimated Cost:** \$3.485 million

	Estimated Cost
Private Investment	\$2,565,600
City General Fund	\$0
City Utility Fund	\$0
STAR Bonds	\$0
City STAR Bond Reimb. Funds	\$0
T.I.F.	\$920,000
Downtown C.I.D.	\$0
Hotel C.I.D.	\$0
Alley C.I.D.	\$0
<b>Total</b>	<b>\$3,485,600</b>

**Schedule:** Unknown

**Conditions Precedent:** None specified in the Development Agreement.

**8. Other Cost Categories:**

The following cost categories total \$33.3 million of the total project expenses. \$28.6 million is privately funded; \$4.3 million is funded by the Downtown C.I.D.; \$695K is funded by STAR Bonds; and \$500K is funded by T.I.F. See Exhibit M of the STAR Bond Plan for additional details.

**A. Master Developer Expenses:**

- Geotechnical / Environmental Services
- Special Inspections
- Land Planning Services
- Other Project Components Design Costs
- Financing Fees
- Construction Interest
- Master Developer Legal / Accounting
- Project Management
- Developer Fee
- Leasing / Sales Commissions

**B. City Expenses:**

- Bond / Permit Fees
- City Legal / Accounting



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located at 108 and 132 South 4<sup>th</sup> Street with the resulting Car Museum being a combination of the two renovated existing buildings as well as the newly constructed section in the middle.

The City's Bond Counsel and the Master Developer's legal counsel have been in communication about this question, and the Department of Commerce has requested an Attorney General's opinion which is forthcoming. In the event, that the A.G. opinion is unfavorable, it may be necessary to consider alternate approaches.

As previously noted, the Department of Commerce requested that the STAR Bond Plan and Development Agreement be provided to them for their advance review prior to City Commission formal action on them. The Secretary of Commerce's response was received on Friday, January 6<sup>th</sup>, and it has been attached to this report. The letter communicated 3 main findings.

- 1.) Determination that the Salina STAR Bond Project District is a major commercial entertainment and tourism area and a museum facility and is an "eligible area"
- 2.) Approve & designate the Salina STAR Bond Project District as a "STAR Bond project" within the meaning of the law
- 3.) Approve the issuance of up to \$19,100,000 (exclusive of approved financing costs) in STAR Bond financing for the Salina STAR Bond Project.

The Secretary's letter also included 8 detailed conditions placed on how to proceed with the STAR Bond project. They can be found on Page 2 of his letter.

The Secretary's approval is an indication that the project as proposed is compliant and eligible for STAR Bond funding. It will still be necessary for the City Commission to review and approve the STAR Bond Plan, the Development Agreement, the bond financing and all of the associated agreements necessary to implement the plan. The Secretary's approval in no way binds the City or the City Commission to proceed with the Star Bond Project.

**10. Feasibility / Revenue Study – Development Strategies:**

A feasibility study / revenue study is a required element of a STAR Bond application. The City of Salina hired Development Strategies to prepare a Revenue Study for the proposed project. They were intentionally hired to serve as an objective third party and to provide the feasibility study required by the Department of Commerce in conjunction with a STAR Bond application.

The report that has been provided is very notably and intentionally a DRAFT report. In addition to inclusion with the STAR Bond application, it will be utilized at the time of STAR Bond issuance. It will be attached to the bond prospectus, made available to prospective bond buyers and it will contribute to the bond market's receptivity to the bonds being offered which could impact the ultimate bond sizing. Approaching bond issuance, the Revenue Study will be updated to reflect any additional known conditions related to the STAR Bond Project.



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- 1.) City Field House Reimbursement - \$9.625 million
- 2.) Alley Project - \$1,642,726
- 3.) Master Developer Land Planning Costs - \$200,000
- 4.) Hotel Project - \$442,274
- 5.) Car Museum - \$4,695,000
- 6.) Attraction Specific Streetscape Improvements - \$2,000,000

Items 1-6 plus \$495,000 of contingency total \$17.1 million. Consequently, a minimum issuance in the amount of \$17.1 million has the net effect of decreasing the funding for the streetscape project by \$2 million.

**C. Minimum Streetscape Commitment:**

The Development Agreement was also negotiated accounting for the impacts of final bond sizing on the streetscape budget, as well. The full budget for the streetscape, including \$2 million of STAR Bond funding) is \$12,165,360. The alternate budget without the STAR Bond funding is \$10,165,360.

The Development Agreement includes an Alternative Street Commitment that provides that “. . . in the event STAR Bonds are not issued in an amount sufficient to net \$2,000,000 of STAR Bond Proceeds. . . the City shall expend no less than \$10,165,360 in designing and constructing such Streetscape and Public Infrastructure Improvements”.

The Development Agreement also provides that “the City and Master Developer shall confer regarding the design of the Streetscape and Public Infrastructure Improvements and the City Commission’s adaptation of **Exhibit K-1**, as necessary, to reflect the geographic locations and aesthetic theme to be constructed for the Streetscape and Public Infrastructure Improvements based upon input from the Master Developer, the City’s design consultants, City staff, and public comment”.

Assuming that an acceptable streetscape project can be designed and constructed for \$10.1M, the City will have met its minimum streetscape funding commitment. In the event that project costs exceed the available funds (\$10.1 million or \$12.1 million, respectively), the City Commission may need to consider funding the exceedance at a future date.

It should be noted that the City’s net costs associated with the streetscape project are mitigated by the possible reuse of STAR Bond proceeds received as reimbursement for Field House expenses previously incurred by the City. See Field House Reimbursement, below, for additional details.

**D. Field House Reimbursement:**

Costs associated with construction of the Field House as well as off-site Field House parking are eligible STAR Bond project expenses. The Field House project is fully funded and currently under construction. However, reimbursement of \$9,625,000 of the Field House expenses is provided for in the STAR Bond Plan and Development Agreement. The Development Agreement also specifies the



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weather permitting

- Hotel commencement & completion shall be identified in the Transferee Agreement
- Hotel will not commence until:
  - o City has commenced Phase I of streetscape
  - o Alley & Old Chicago Transferee Agreements have been executed
  - o The C.I.D. districts have been established
- Alley commencement & completion shall be identified in the Transferee Agreement
- Alley will not commence until:
  - o City has commenced Phase I of streetscape
  - o Hotel & Old Chicago Transferee Agreements have been executed
  - o The C.I.D. districts have been established

**F. Tax Increment Financing Provisions:**

The Development Agreement provides that use of Tax Increment Financing shall be on a Pay-As-You-Go basis meaning that actual property tax increment generated and realized shall be held on deposit and made available for eligible project expense, as follows:

18.30% - Hotel T.I.F. Fund (\$892,794)  
 21.00% - Apartment T.I.F. Fund (\$1,024,518)  
 6.90% - Old Chicago T.I.F. Fund (\$336,627)  
 53.80% - New Business T.I.F. Fund (\$2,624,719)

Eligible Hotel costs are defined as “land acquisition and site preparation/infrastructure costs, including but not limited to for purposes of providing parking for the Hotel Project, up to a maximum of \$800,000 plus simple interest on such outstanding amount at a rate of 5% per annum”. Any excess funds shall be redirected to the New Business T.I.F. Fund.

Eligible Apartment costs are defined as “land acquisition and site work for the Market Rate Apartments, up to a maximum of \$920,000 plus simple interest on such outstanding amount at a rate of 5% per annum”. Any excess funds shall be redirected to the New Business T.I.F. Fund.

Eligible Old Chicago costs are defined as “land acquisition and site work for the Old Chicago Project, up to a maximum of \$300,000 plus simple interest on such outstanding amount at a rate of 5% per annum”. Any excess funds shall be redirected to the New Business T.I.F. Fund.

The Development Agreement also provides that “the administration of the New Business T.I.F. Fund shall be described in a supplemental agreement between the City and the Master Developer, to be executed prior to execution of a Transferee Agreement for the Hotel”.



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1.00% of the remainder, estimated to be 73,890, for payment of Old Chicago C.I.D. Costs which are defined as "costs for signage and/or façade improvements incurred in development of the Old Chicago Project including interest on such costs at a rate of 5% per annum and which will be reimbursed through Downtown C.I.D. Proceeds" "up to a maximum of \$50,000 plus simple interest on such outstanding amount at a rate of 5% per annum". Any excess funds shall be redirected to the New Retail Improvements C.I.D. Fund.

39.5% of the remainder, estimated to be \$2,918,679, for payment of New Retail C.I.D. Costs which are defined as "costs for building, site work, land acquisition and tenant improvements and may include other C.I.D. Eligible Costs for purposes facilitating the location of New Businesses within the Downtown C.I.D. District including interest on such costs at a rate of 5% per annum". and which will be reimbursed through Downtown C.I.D. Proceeds reimbursement of costs for signage and/or façade improvements, up to a maximum of \$50,000 plus simple interest on such outstanding amount at a rate of 5% per annum

18.9% of the remainder, estimated to be \$1,396,533, for payment of Existing Retail C.I.D. Costs which are defined as "costs for building, site work and tenant improvements and may include other C.I.D. Eligible Costs for purposes of improving the property of Existing Retail within the Downtown C.I.D. District including interest on such costs at a rate of 5% per annum".

**I. Industrial Revenue Bond Financing Provisions:**

The Development Agreement provides that "the Third Party Developer of each of the Hotel Project, Car Museum, Alley Project, and any other Project Component for which I.R.B. financing is agreed upon by the City and the Master Developer may use I.R.B. financing to obtain an exemption on sales taxes . . . for labor, construction materials, equipment and furnishings. . .However,. . . the I.R.B.'s shall not be used for abatement of ad valorem taxes. . ."

**12. STAR Bond Sizing:**

The City of Salina hired Stifel Public Finance as specialized bond underwriters for the proposed STAR Bond financing. They have provided considerable counsel regarding how to proceed to a STAR Bond issuance for this project.

They have expressed considerable reluctance to opine about the amount of bonds that could be issued for this project due to the evolving nature of this project as well as the amount of time that will unavoidably lapse between the date of their estimated and the date that bonds will be actually be issued.

There has been considerable discussion about the differences between backed and unbacked (enhanced and unenhanced) bonds and the possible use of both types of bonds on this project.



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shortfall would have to come from the City's other sales tax receipts.

- The City's ability to fulfill the appropriation pledge would be a function of the City's available funds and its ability to reprioritize other budget expenditures such as the capital improvement program and/or operational expenditures.

Nature of Legal commitment:

- City must make a commitment each year (in the budget) to fund any shortfall up to the maximum amount of the commitment.
- This is a contingent liability because it is called upon only to the extent a shortfall actually occurs.
- Because this is a contractual commitment which must be approved each year, it is not binding on a future Commission.
- At some point, a future commission could refuse to make the appropriation.
- Even though a future commission could refuse to appropriate, investors believe City issuers have high ethical standards and will honor such commitments.
- Therefore, these commitments are often described as "moral obligations."
- Investors are willing to buy the appropriation bonds "in good faith" because they understand that failure to make an appropriation for P&I could impact the support the City enjoys from its bond purchasers which may be important in future issues.
- These commitments are often used by Cities to make long term commitments which may be associated with a bond or security offering but do not constitute general obligation debt and are not part of the City's statutory debt limit.

Stifel has also noted that the project risks associated with STAR Bond projects, in general as well as this project in particular, will likely result in a higher debt service coverage ratio in the range of 1.30 – 1.50 for unbacked bonds. A simple explanation of a debt coverage ratio is that it is a requirement that the projected revenues to be collected exceed the debt service payments by a specified factor in order to provide a buffer in case a project does not perform as might have been hoped. For example, a project that wishes to commit to a debt service payment of \$1 million/yr would need to project annual revenues of \$1.5 million/yr to satisfy a 1.50 debt coverage ratio.

Stifel has modeled a couple of scenarios to provide the City a frame of reference regarding possible bond sizing. They did so with the assurance that any concerns or caveats that they wished to convey would be sufficiently communicated along with their bond sizing estimate. Please, see the attached



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Staff did not direct Stifel regarding the assumptions to be utilized in their scenarios and it is difficult to predict what the ultimate bond sizing will be due to variations in a number of the variables associated with a bond issuance that could occur as much as 18 months to 2 years from now. As previously mentioned, please, see the attached Stifel Memorandum regarding factors that will likely influence the ultimate bonds sizing and concerns about relying upon the scenario that has been provided.

**13. Identified Project Risks and Mitigating Factors:**

**A. General overview of risk:**

In every incentivized development project, risk is at play both for the private and government entity. It is prudent for both entities to:

- identify risks;
- determine the probability of risk
- realistically weigh the risks; and
- mitigate significant risk or eliminate it whenever possible (most risk cannot be fully eliminated)

**B. Risk inventory:**

Many of these risks relate to private development entities in a similar way as to the City

Timing risks:

- Stranding streetscape design costs if Transferee Agreements are not executed (Note: Accelerating design is not required, but necessary to keep the private project construction timing on schedule.)
- Carrying additional streetscape construction cost if sufficient revenue producing projects are not constructed/opened.
- Timing of STAR Bond issuance to legislative changes
- Timing of STAR Bond issuance to market conditions and bond buying demand
- Delayed timing of primary, private project opening dates within 20-year STAR Bond increment collection window

General risks:

- Changes in state law that negatively affect bond issuance conditions or timing
- Full build out of all primary, private projects does not occur
- Underestimating actual costs of streetscape and private projects
- Project area cannot sustain 20-year sales and increment generation expectations
- Inability to execute critical, future agreements
- Inability to commence/complete core projects that relate to commencement of overall project
- The bond market requires backing a majority or all STAR Bonds with City sales tax



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- 18.) Begin Bond Sizing & Issuance
- 19.) Alley Construction Commences
- 20.) Unbacked & Backed Bond Issuance
- 21.) Establish STAR Bond Funds
- 22.) City STAR Bond Reimbursement (\$9.625M)
- 23.) Old Chicago Construction Commences
- 24.) Hotel Certificate of Completion & STAR Bond Reimbursement
- 25.) Alley Certificate of Completion & STAR Bond Reimbursement
- 26.) Old Chicago Certificate of Completion & STAR Bond Reimbursement
- 27.) T.I.F. Funds Administered on a Pay-As-You-Go Basis
- 28.) Downtown C.I.D. Funds Administered on a Pay-As-You-Go Basis
- 29.) Hotel C.I.D. Funds Administered on a Pay-As-You-Go Basis
- 30.) Alley C.I.D. Funds Administered on a Pay-As-You-Go Basis

**CONFORMANCE WITH THE STRATEGIC PLAN:**

The proposed action is consistent with the following components of the City's shared vision statement:

- Salina will be a city that is exciting to live in and thriving both economically and socially.
- Salina will be a place with a quality of life that not only appeals to residents, but also to visitors.
- The City Commission of Salina will have committed to providing the highest quality City services possible within available resources. The City Commission recognizes their role and responsibility to provide the needed policy direction and resources to its administration. At the same time, the City's administrative personnel are committed daily to transforming this direction and resources into the highest possible quality of municipal services, consistent with the expectations of both the City Commission and the citizens of Salina.
- Downtown Salina will be a thriving and vibrant place. It will include an artistic flair that complements diverse and successful business development, including: entertainment, professional services, restaurants and retail development. In addition, the downtown will include residential uses consistent with the desired, mixed-use activity.
- Salina will encourage and be supportive of industrial development, economic expansion, market-driven tax base growth, and home grown entrepreneurialism.

The proposed action is also consistent with the following goals contained in the City's strategic plan:

Goal #1: The city will create a community of mixed-use, quality development and redevelopment.

Goal #3: The city will provide the highest quality of services, consistent with governing body direction,



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Staff has attempted to negotiate financial and development agreement terms that minimize risks on the part of the City while making financial incentives available to encourage downtown development and redevelopment in as prudent a manner as possible.

Staff recommends approval of the following actions as presented. Options for the City Commission include:

- 1.) Approve each of the ordinances listed below on first reading.
- 2.) Postpone consideration of the Industrial Revenue Bond Resolution to January 23<sup>rd</sup> in order for it to be acted upon at the time that the above ordinances are considered on second reading.

In the alternative, the City Commission could either:

- 1.) Postpone consideration to a specified date to allow for additional consideration; or
- 2.) Postpone consideration to a specified date and provide direction to staff regarding additional information that the City Commission would like to be provided or request that alternate approaches or provisions be pursued for future consideration.

## Action items:

**Approve on first reading Ordinance No. 16-10856 adopting a STAR Bond Project Plan for the Downtown Star Bond District.**

**Approve on first reading Ordinance No. 17-10873 approving a Development Agreement with Salina2020, Inc.**

**Postpone consideration of Resolution No. 17-7429 determining the intent of the City of Salina, Kansas to issue its Industrial Revenue Bonds until the regular meeting on January 23, 2017.**

**Approve on first reading Ordinance No. 16-10857 adopting a redevelopment project plan for the Salina Downtown Redevelopment District.**

**Approve on first reading Ordinance No. 16-10863 authorizing the creation of the Downtown Community Improvement District in the city of Salina, Kansas.**

**Approve on first reading Ordinance No. 16-10864 authorizing the creation of the Alley Community Improvement District in the city of Salina, Kansas.**

**Approve on first reading Ordinance No. 16-10865 authorizing the creation of the Downtown Hotel Community Improvement District in the city of Salina, Kansas.**