

LIVE SALINA:
A STRATEGIC HOUSING PLAN

2021 supplement



LIVE SALINA 2021: A SUPPLEMENT

Live Salina: A Strategic Housing Plan, published in March, 2016, presented a detailed analysis of Salina's housing characteristics, markets, and opportunities and included specific recommendations and strategies for addressing key housing and neighborhood development issues. The 2016 document included an extensive community engagement process that included open houses, public surveys, and small group listening sessions and discussions. Its opening chapter, summarizing this process, distilled community housing concerns in three statements:

- "We need to take care of our older housing and clean up our existing neighborhoods."
- "The cost of housing is too high. We need more affordable options."
- "A wide range of housing products of new housing products are needed in Salina today, especially two and three-bedroom houses, independent senior living, townhouses, and apartments."

Now, five years later, these statements remain highly relevant and even more urgent. 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. Most importantly, its strong and diverse base of major industries and other employers is conservatively expected to generate a estimated 1,000 new positions during the next five years, with the prospect of even more new jobs. 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.

Among other considerations, the 2016 plan addressed two major matters of strategy: the perceived competition between "greenfield" and infill development, and the appropriate use of financing tools such as special

assessments; and a neighborhood development strategy to help create a self-sustaining housing market for infill development and reinvestment. Since then, Salina has made significant progress. 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).

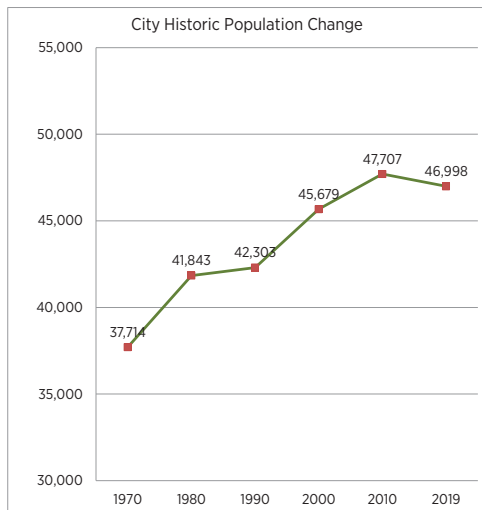
Despite this progress, new housing construction lags demand; has focused on conventional single-family development outside of the price range of much of the potential market; and has generated relatively little new rental development. In existing neighborhoods, replacement costs continue to exceed market 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.

This document is intended as a supplement rather than replacement of the Live Salina document. It includes key variables the most recent available data, based on the Bureau of the Census' 2019 American Community Survey, adds new analysis based on Salina's current position, and presents a housing policy framework to take advantage of the city's opportunities for growth and development. Parts of this document are based on a series of City Commission workshop sessions led by RDG Planning & Design between March and May, 2021. We would especially like to thank the Mayor Melissa Rose Hodges and the City Commission City Commission for their thoughtful participation in this process, City Manager Michael Schrage for his insight and challenging questions, and Community & Development Services Director Lauren Driscoll for her collaboration and indispensable assistance throughout this project.

FIGURE 1: Population Comparison

City	2010	2019	% Change
Salina	47,707	46,998	-1.5%
Emporia	24,916	24,607	-1.2%
Lawrence	87,643	96,369	10.0%
Leavenworth	35,251	36,064	2.3%
Manhattan	52,281	55,290	5.8%
Topeka	127,473	126,397	-0.8%

Source: U.S. Census Bureau

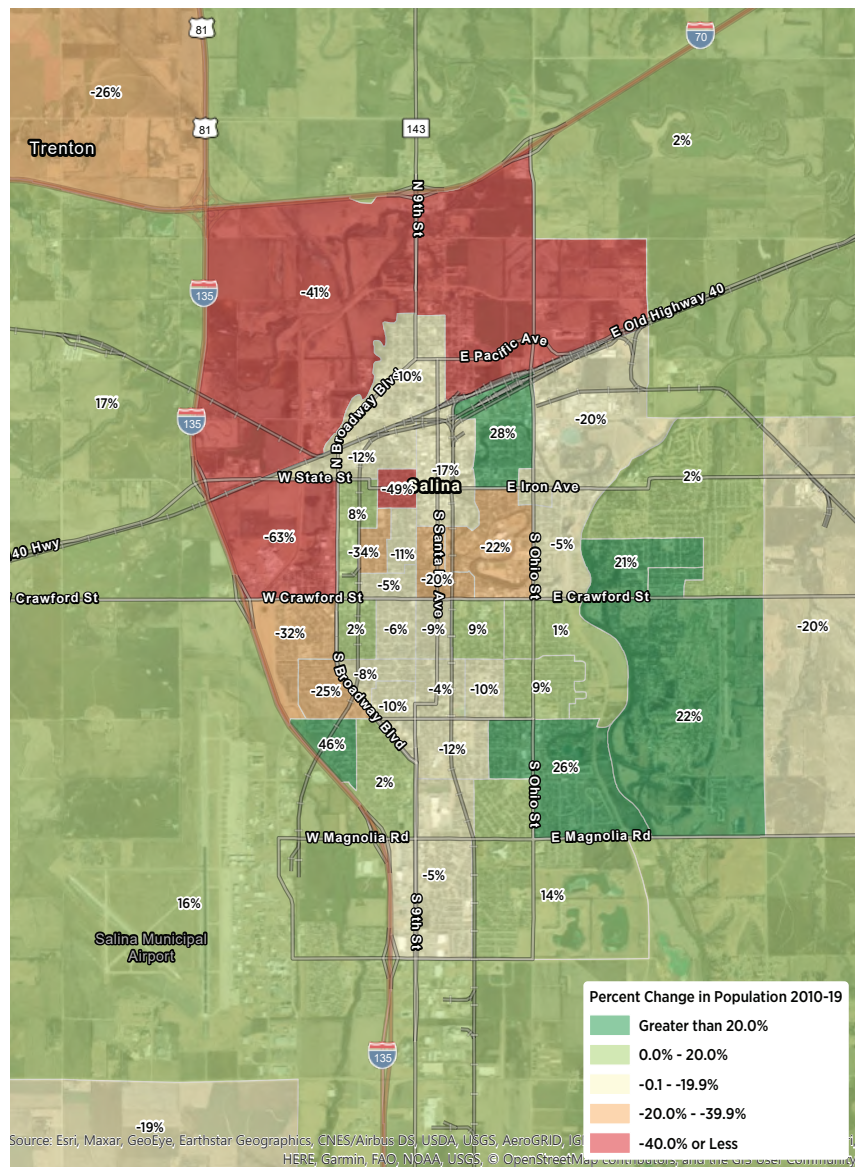


POPULATION CHARACTERISTICS

Figure 1 displays estimated population change in Salina compared to a sample of peer cities in the state. According to the 2019 American Community Survey (ACS), Salina’s population declined slightly from its 2010 historic peak of 47,707 to about 47,000. It is important to note that the 2010 number is based on a hard count, while the 2019 population is based on a sample with a margin of error. Nevertheless, the cities that exhibited growth in this sample have dominant university influence or are located within the larger Kansas City metropolitan area. Salina, Emporia, and Topeka all displayed a similar pattern of a small reduction.

Figure 2 below maps the geographic component of population change in the city. It indicates substantial population growth in the eastern and southeastern part of the city, stability to moderate decline in the central built-up corridor; and significant population loss in the western and northern areas primarily west of Broadway. This does not vary substantially from the findings of the 2016 study.

FIGURE 2: Population Change by Census Tract



POPULATION PROJECTION

Figure 3 below displays Salina’s projected population to 2030, based on past trends and current employment growth projections. This calculation differs significantly from the 2016 study because of new jobs created by industrial expansion. This projection is based on the following, relatively conservative assumptions:

- A basic annual growth rate of 0.36% for the next ten years. The basic growth rate excludes projected population gain from new employment. It is based on the average annual growth rate of the past 30 years. Despite the estimated decline since 2010, this potential growth is further justified by the presence of about 1,100 currently open jobs in the city.
- Addition of about 900 new jobs in major industries during the next five years, with an additional 200 jobs projected between 2025 and 2030. The population projection estimates that 40% of these new households will produce households new to Salina, with the balance in surrounding regional communities or representing people already in the city and surrounding area taking new jobs in expanding industries.
- Population per household will remain at the current level of 2.38 for the next ten years, and the percentage of people living in households (rather than group quarters) will remain at the current level of 97%. Households are the critical number in projecting new housing unit

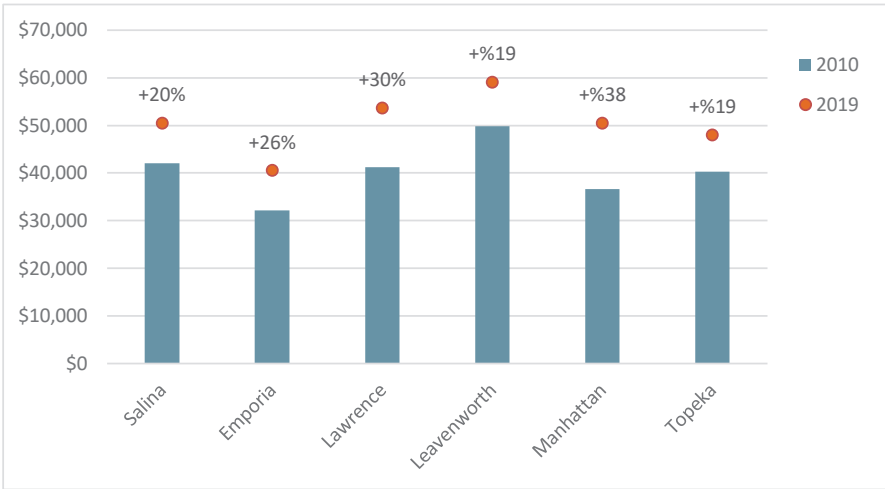
FIGURE 3: Salina Projected Population, 2020-2030

	2020 Base	2025	2030
Population with Basic Growth Rate	47,167	48,974	50,053
Growth Attributed to Industrial Expansion		952	191
Population in Households	45,752	47,505	48,551
People per Household	2.38	2.38	2.38
Number of Households	19,193	19,960	20,400

INCOME DISTRIBUTION

Figure 4 updates data available for the 2016 study using 2019 estimates. These data naturally do not account for the economic impact of the COVID pandemic. While Salina remains a moderate income market, it has experienced significant income growth of about 20% between 2010 and 2019. This level of growth (slightly higher than inflation) is generally consistent with the group of peer cities in the study and produces a median household income also approximately equal to them with the exception of Leavenworth (higher) and Emporia (lower). Figure 5 describes the geography of incomes in the city, again displaying highest median incomes in the east and southeast parts of the city. Figure 6, updating information on poverty rates, displays poverty rates by census tract. Highest rates exist in the triangle defined by State/Iron Avenue and the railroad/Old Highway 40 corridor, followed by the broader area north of Crawford Street. The actual income distribution and its relationship to housing affordability are discussed below.

FIGURE 4: Annual Median Household Income, 2010 and 2019 - Salina and Comparison Communities



Source: U.S. Census Bureau

FIGURE 5: Median Household Income by Census Tract, 2019 ACS

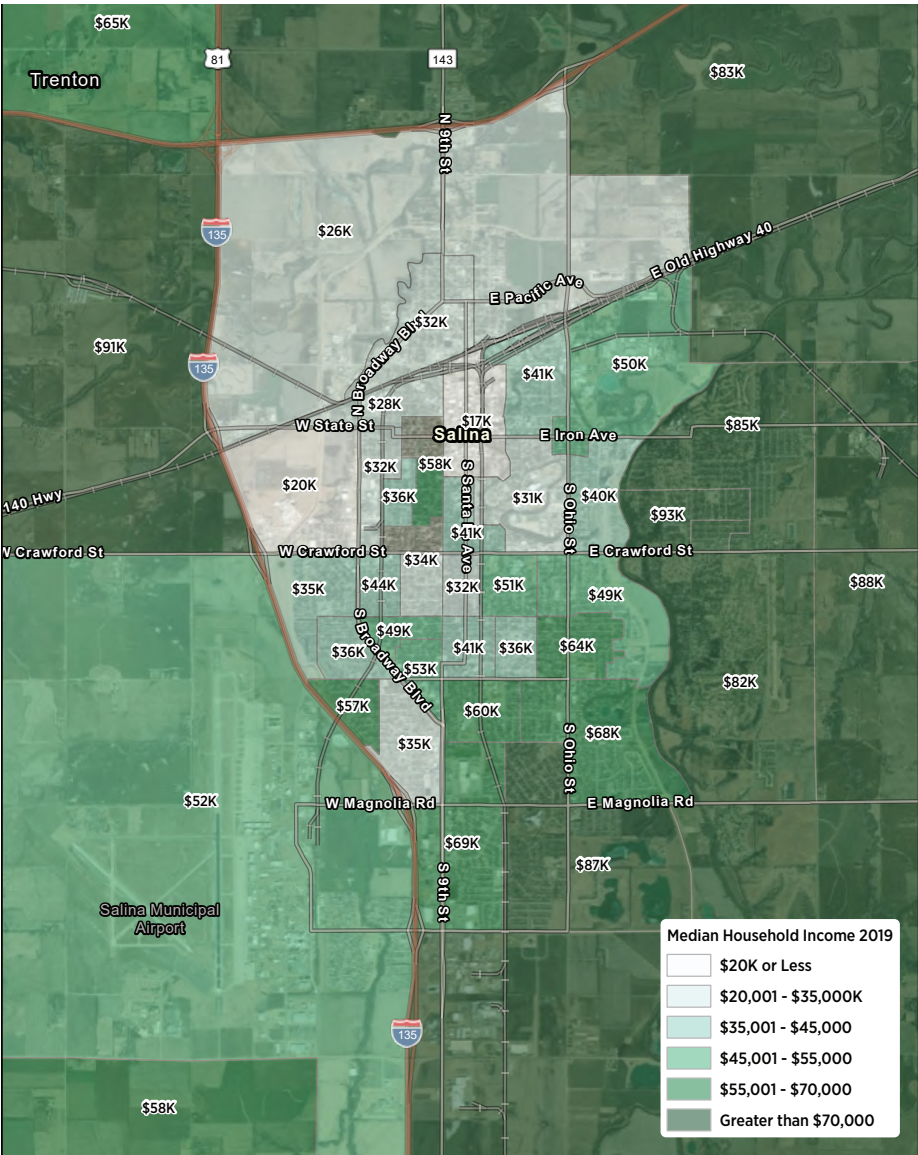
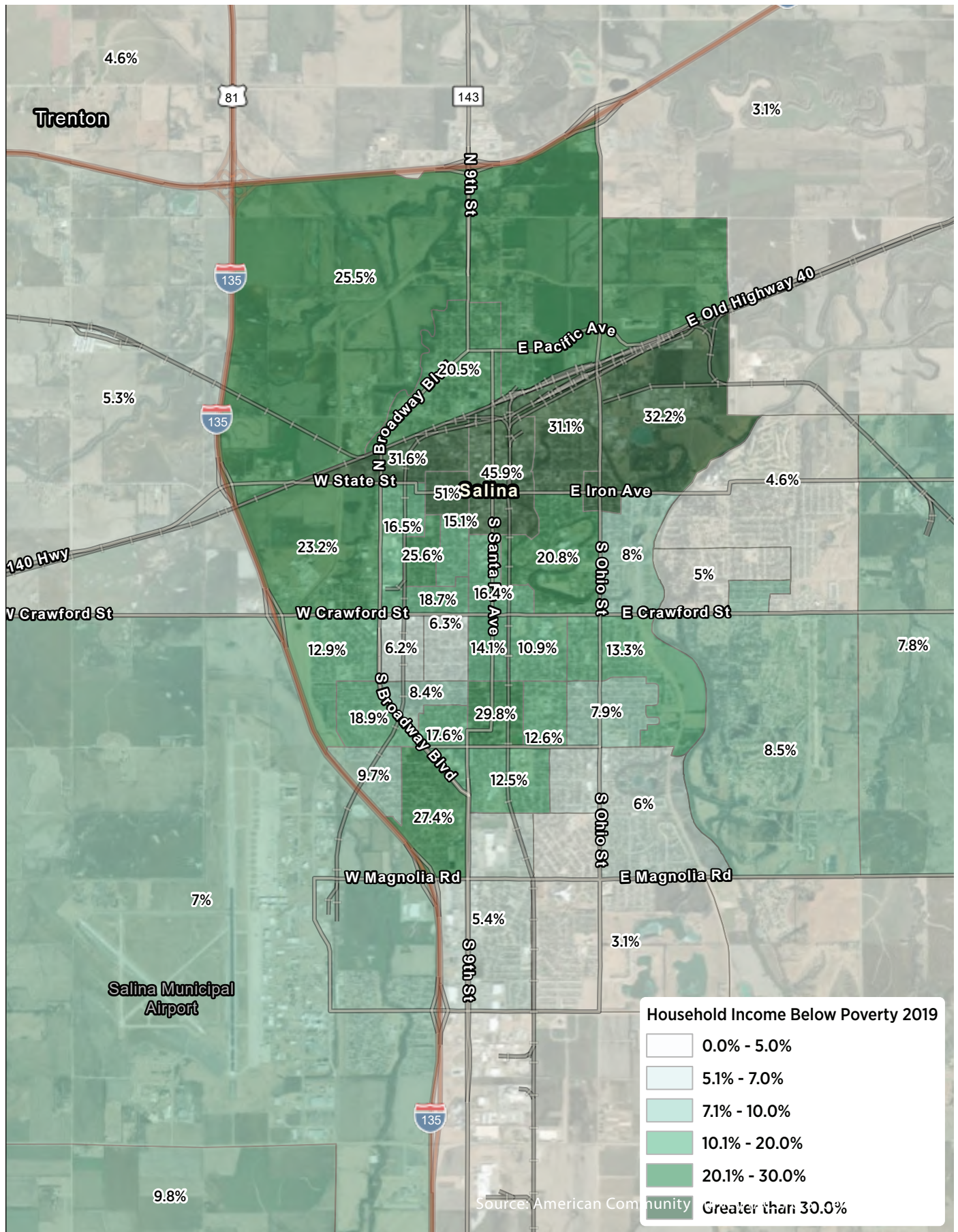


FIGURE 6: Household Income Below Poverty



HOUSING TENURE AND COMPARATIVE COST

The 2016 document used comparative data from actual census counts from 2000 and 2010. Table 7 below shows estimates of tenure from the 2019 ACS. Salina currently has an owner/renter occupancy split of about 63% owner to 37% renter. The ACS estimates indicate a vacancy rate of 9.7%, which seems to have little relationship to actual vacancy on the ground. To get a truer sense of the market, we have subtracted the “other vacancy” category from the actual number of vacancies. These represent housing units that are not in the market because they are being withheld for personal reasons, are uninhabitable, in estates, or off the market for a number of other reasons. In addition, the margin of error for vacancy counts is plus or minus 20%, an extremely unreliable sample. Our opinion is that for planning purposes, the 6.2% vacancy rate used here is more accurate.

In a comparative analysis of six cities, Salina has the highest owner-occupancy rate, noting that college communities typically have high rental occupancy rates. Values and rents in Salina fall within the middle range, substantially below Lawrence and Manhattan, but above Emporia and Topeka. However, existing rents are on the low side of the sample.

The ratio of median home value to median household income is a useful measure of relative burden that housing costs place on the local population.

FIGURE 7: Occupancy Change in Salina, 2010-2019

	2019	% of Total Available Units	% of Occupied Units
Owner-Occupied	12,118	58.4%	63.4%
Renter-Occupied	7,002	34.4%	36.6%
Total Vacant	1,255*	6.2%	
Total	20,375	100.0	

* Excludes vacancies identified as “other vacancy”

FIGURE 8: 2019 Housing Characteristics - Salina and Comparison Communities

	Salina	Emporia	Lawrence	Leavenworth	Manhattan	Topeka
Total Units	21,174	11,274	41,341	13,952	23,778	60,454
% Owner of occupied units	63%	51%	45%	48%	39%	56%
% Renter of occupied units	37%	49%	55%	52%	61%	44%
Median Value (Owner-Occupied)	\$129,300	\$88,900	\$195,500	\$123,800	\$209,700	\$103,200
Median Rent (Gross)	\$758	\$668	\$924	\$958	\$910	\$816
Median Year Structure Built	1965	1967	1987	1969	1982	1965
Average Household Size	2.39	2.33	2.31	2.63	2.43	2.27
Median Value-to-Income Ratio*	2.6	2.2	3.6	2.1	4.1	2.2

A ratio between 2.5 and 3.0 suggests housing costs generally affordable to existing residents on a citywide level while still sustaining reasonable market values. A ratio above 3 borders on higher burdens. Salina’s ratio of 2.6 falls within this relative comfort zone. On the other hand, new construction for both owner and renter occupied units will require substantially higher costs and rents above these median levels.

Figure 10, updates the geographic distribution of vacancy, median home value, and median block value with 2019 ACS data. The basic findings of the 2016 study have not changed. Highest vacancy rates and lowest home values are located in the north and northeast parts of the city.

AFFORDABILITY ANALYSIS

The affordability analysis included in the 2016 document pairs the number of households within specific income ranges with the number of units that fall within the 30% of income affordability standard for that specific range. A negative balance shows a relative deficit for that range, but this deficit means different things for different groups. At the lower end of the income scale, it displays a shortage of affordable units. But at the upper end, it suggests that a large number of people are paying less for housing than they can afford, partially the result of natural preference but also partly related to undersupply of higher priced owner and rental units. Table 9 below displays this analysis using 2019 ACS data, with some adjustments to affordable cost ranges to align more consistently with current housing costs and the 30% standard. Compared with the 2016 analysis, the deficit has decreased somewhat for the lowest income group and grown at the upper end of the income scale. This indicates that higher income households are occupying some of the city’s more affordable stock and that housing in the city may also be somewhat undervalued. The largest deficits above \$200,000 for owner-occupied housing and above \$1,000 a month for renters. We draw the following conclusions from these data:

- Significant opportunities for move-up housing, in turn opening lower-cost existing units for new or moderate-income households.
- In general, housing in the city is relatively undervalued, an important finding of the original Live Salina study.
- Production, even of market-rate units, is a significant challenge.

FIGURE 9: Affordability Analysis for Salina Housing Stock

Income Range	# of Households in Each Range	Affordable Range for Owner Units	# of Owner Units	Affordable Range for Renter Units	# of Renter Units	Total Affordable Units	Balance
\$0 - \$25,000	4,263	>\$60,000	1,094	\$0-499	2,133	3,227	-1,036
\$25,000 - \$49,999	5,160	\$60,000-124,999	4,681	\$500-999	4,308	8,989	3,829
\$50,000 - \$74,999	3,833	\$125,000-199,999	3,834	\$1,000-1,499	332	4,166	333
\$75,000 - \$99,999	2,415	\$200,000-249,999	1,315	\$1,500-1,999	153	1,468	-947
\$100,000 - \$150,000	2,388	\$250,000-399,999	876	\$2,000-2,999	26	902	-1,486
\$150,000 +	1,061	\$400,000+	318	\$3000+	50	368	-693

CONSTRUCTION ACTIVITY

Figure 11 displays construction activity in Salina during the last decade. Residential construction was overwhelmingly in single-family detached residential, accounting for about 80% of all new housing units. This runs counter to trends in most other cities, where single-family and other forms were roughly in parity. This is now manifesting itself in Salina's current shortage of contemporary rental housing. Also counter to trends in much of the country after the 2008 financial crisis, Salina's single-family production remained relatively strong at the beginning of the decade. It has tailed off since 2016, possibly because rising costs for detached housing are affordable to a smaller slice of the potential market. Multi-family development has focused on the occasional large project, rather than proceeding at a steady annual rate.

Table 12 elaborates on this shortage by providing an inventory focused on relatively large multi-family projects. Most large, relatively contemporary developments have nearly no vacancy. Additionally, most recent projects were developed with Low Income Housing Tax Credits, with income constraints on at least a large percentage of units. Typical new Salina development appears to rent in the range of \$1.00-\$1.10 per square foot. We will discuss the implications of this for development later in this document.

FIGURE 11: Construction and Demolition Activity, 2010-2020

Type	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
SFD	85	48	65	66	54	57	39	34	25	36	30	539
SFA						2		3		4	6	15
DUP							4	8				12
MF		32				16		19			53	120
Total	85	80	65	66	54	75	43	64	25	40	99	686
DEMO				13	28	20	10	31	44	19	10	175
NET	85	80	65	53	26	55	33	33	(19)	21	89	511

SOURCE: City of Salina

KEY

SFD: Single-family detached

SFA: Single-family attached

DUP: Duplex

MF: Multi-family

DEMO: Demolitions

NET: Net annual change

FIGURE 12: Apartment Complex Inventory

Project	Number of Units	Unit Breakdown	Vacancy	Rent Range	Rent/SF	Financial Notes	Density du/A	Year of Construction
Heritage at Hawthorn Village	48	24-2BR, 24-3BR	0			LIHTC	13.6	2011
Market Place Apts	43	10-S,32-1BR, 1-2BR	0			202	12.9	1990
Ridges of Salina	296		<2%	\$700-1,100	\$0.75-1.05	LIHTC	19.4	1997
Lee Lofts	53	Under Construction	Leasing	\$416-1,200	\$0.93-\$1.00	LIHTC, HTC, NRA, City	40.2	2020
Oakdale Plaza	46	46-1BR	0			Section 8	44.5	1979
Reserves at Prairie Glen	96	64-2BR, 32-3BR	0	\$720-895	\$0.75-.80	LIHTC	13.6	2004
Saline Apartments	34	34-1BR	0			202	11.1	1990
Pioneer Presidents Place	61	49-1BR, 12-2BR	0			LIHTC, HTC, NRA	48.8	2004

KEY

LIHTC: Low-income Housing Tax Credit

202: Section 202 Low-Interest Loan

HTC: Historic Tax Credit

NRA: Neighborhood Revitalization Area Tax Abatement

HOUSING DEMAND PROGRAM

Figure 13 uses the population and household projections and affordability analysis to develop an updated demand projection for the next ten years in Salina. Basic assumptions used to calculate demand include:

A constant vacancy rate

- ACS indicates a current 6.2% vacancy rate, excluding the “other vacancy” rate which involves housing units not in the market but includes both owner and rental housing.
- The large number of “other vacancy” and high margin of error in the survey raise reliability questions. Observations suggests a lower real vacancy rate in habitable housing.
- In any case, a 6% vacancy rate is a reasonable target in a healthy market, and the calculation holds this rate constant.

Replacement rate of 15 units/year

- Replacement is generated by demolition, conversion of housing to other uses
- Average annual residential demolition permits since 2010 at 16 units
- Forecast model assumes annual replacement need of 15 unit

Owner/Renter tenure split

- During the first five years of rapid employment growth, immediate demand is likely to be for quality rentals. This is especially true given the shortage of contemporary rentals
- During the following five years, demand may level out somewhat and people, becoming vested in the city, are likely to increase demand for ownership housing.
- Given this reasoning, the program includes a 50/50 split through 2025 and a more typical 60/40 owner/renter split between 2025 and 2030.

The calculation indicates a potential need for over 1,600 new housing units

over the next ten years, assuming projected growth in employment occurs. This compares with new production of about 700 units over the past five years. It is important to note that this is not a prediction, but a projection of potential if the market responds and Salina competes successfully in attracting new households.

DEMAND BY PRICE POINT

Figure 14 distributes this demand by price point, based on the current relative distribution of household incomes in Salina. We believe this calculation improves on the 2016 calculation by assuming that the lower income ranges of the income distribution will be served by existing housing, a much more realistic assumption given development costs. The majority of new demand for owner occupied units will be in the \$200,000 to \$300,000 range in current dollars; and in rents up to \$1,000 per month, or about \$1.10 to \$1.25 per square foot, assuming average apartments between 800 and 900 square feet.

While Salina is likely to remain a moderate cost market, a significant demand for higher cost units will remain. The projections suggest an annual demand for about 33 owner-occupied units over \$300,000, very similar to the city's single-family production since 2016. The projections also suggest a ten-year potential for about 180 rental units with monthly rents about the \$1,000 mark.

FIGURE 13: Salina Housing Projections, 2021 - 2030

	2020 Base	2025	2030	Total 2021-2030
Household Demand at End of Period	19,193	19,960	20,400	
Projected Vacancy Rate	6.2%	6.2%	6.2%	
Unit Needs at End of Period	20,490	21,454	22,079	
Annual Replacement Need		75	75	
Total Need with Replacement	502	21,529	22,154	
Cumulative Need During Period	100	1,039	625	1,664
Average Annual Production Need		207	125	166
Owner Occupied Units		519	375	894
Average Annual Owner Production		103	75	89
Renter Occupied Units		520	250	770
Average Annual Rental Production		104	50	77

Source: RDG Planning & Design

FIGURE 14: Ten Year Development Program by Price Point

	2021 - 2025	2026-2030	Total
Total Need	1,039	625	1,664
Total Owner Occupied	519	375	894
<225,000	206	149	355
\$225,000-300,000	129	93	222
\$300,000-400,000	128	92	220
>\$400,000	57	41	98
Total Renter Occupied	520	250	770
<\$625	213	102	315
\$625-1,000	181	87	269
\$1,000-1,500	77	37	115
>\$1,500	49	23	72

Source: RDG Planning & Design

DEMAND BY HOUSING TYPE

The analysis illustrated in Figures 13 and 14 has important implications for the types of housing products built in the Salina market. Most of the city's housing production to date has been in conventional single-family detached homes on relatively large lots, typically of 8,000 square feet and more; and multi-family development in either new construction or adaptive reuse in projects like Lee Hardware Lofts and Pioneer Presidents Place. Nationally, a significant amount of attention has been given to the "missing middle" – moderate and medium density housing forms that are more efficient and affordable to family households entering the ownership market. These products include single-family attached, duplexes (including owner-occupied duplexes where a household rents out the attached unit), townhouses and rowhouses, and small footprint apartments. These products are scarce in the Salina market, and builders are not familiar with developing and marketing them.

Figure 15 distributes the housing demand by price point over different housing forms, assuming that single-family detached homes will continue to dominate higher-end markets, but other solutions like attached units will be needed to deliver family-friendly, affordable products. This model shows the percent of specific price points accommodated by various housing types. Figure 16 then distributes the unit demand according to these percentages. Together they illustrate an affordable model and help project the potential yield of different development areas. This model generates a net residential density of about 6.2 units per acre and a gross density of about 5 units per acre.

FIGURE 15: Housing Type Percent Distribution by Price Point Model

	Total Demand	Conventional 1-Family	Small Lot 1-Family, 1-Family Attached, Duplex	Duplex, Low-Density Townhomes and Rowhouses	High-Density Townhomes and Multifamily
Typical Density (units/acre)	<4	<4	4-8	8-12	>12
OWNERSHIP					
<225,000	355	0%	40%	40%	20%
\$225,000-300,000	222	20%	40%	30%	10%
\$300,000-400,000	220	60%	15%	15%	10%
>\$400,000	98	70%	10%	10%	10%
RENTAL					
<\$625	315	0%	20%	30%	50%
\$625-1,000	269	0%	20%	30%	50%
\$1,000-1,500	115	0%	30%	35%	35%
>\$1,500	72	0%	35%	35%	30%

FIGURE 16: Housing Type Distribution by Price Point Model

	Total Demand	Conventional 1-Family	Small Lot 1-Family, 1-Family Attached, Duplex	Duplex, Low-Density Townhomes and Rowhouses	High-Density Townhomes and Multifamily
Typical Density (units/net acre)		<4	4-8	8-12	>12
OWNERSHIP					
<225,000	355	0	142	142	71
\$225,000-300,000	222	44	89	67	22
\$300,000-400,000	220	132	33	33	22
>\$400,000	98	67	10	10	10
RENTAL					
<\$625	315	0	63	95	158
\$625-1,000	269	0	54	81	135
\$1,000-1,500	115	0	35	40	40
>\$1,500	72	0	25	25	22
TOTAL BY TYPE	1,664	244	450	492	479

FIGURE 17: Alternative Housing Forms



Small lot single-family



Townhouses



Owner-occupied duplexes



Rowhouses



Single-family attached



Small footprint apartments

AN EXERCISE IN DEVELOPMENT ECONOMICS

Salina in 2021 needs to ramp up housing production substantially and quickly to take full advantage of the opportunity presented by industrial expansions. As these opportunities emerge, development interest in Salina has also begun to accelerate. In the face of this several major policy questions present themselves – do developers need incentives to build needed housing? If so, how should these tools be used to create maximum benefit for the city? This section is designed to help answer the first question. The next will address the second.

The previous discussion leads to several significant conclusions that affect future policy:

- **Salina has a very low vacancy rate, especially in good quality, multifamily housing.** Many properties have no vacancies, and new residents have few options in the city.
- **Existing rents in Salina are at relatively modest levels.** The top of the market is in the \$1.00 to \$1.10/square foot range. Some rents in quality developments are as low as \$0.75/square foot.
- **Rental development has been very limited during the last ten years.** The only two major projects during the decade were The Heritage in 2011 and Lee Hardware Lofts in 2020. A significant amount of the multifamily inventory is limited to older adults.
- **Very little “missing middle” housing forms have been developed in Salina.** Most new development has been conventional lot single-family detached homes and a relatively small number of rental units.
- **Typical apartment density is about 13 to 14 units per acre, with the exception of downtown area adaptive reuse projects.**

The Economics of New Rentals: A Hypothetical Case

A financial analysis built around a hypothetical 50 unit apartment project in Salina can help test the need for and effectiveness of development incentives. Figure 18 below presents the basic parameters of this face study, built around typical project character in the city.

FIGURE 18: Key Variables for Hypothetical Project

Variable	Units	Assumptions
Dwelling Units	50 units	
Site Area (Acres)	3.85 acres	13 units/acre
Site Area (SF)	167,500 SF	
Gross Residential Area (SF)	52,941 SF	
Net Residential Area (SF)	45,000 SF	85% efficiency
Average Unit Size	900 SF	
On-Site Parking	88 Stalls	1.75 stalls/unit

Figure 19 below summarizes development costs for this theoretical project, again based on local land and construction cost and Figure 20 lists typical financing assumptions for a project of this scale. Figure 21 on the following page displays a simplified proforma for our hypothetical and concludes with the amount of rent necessary per square foot to “make the numbers work” on this typical development. The calculation indicates that a project developed along these relatively typical lines requires about \$1.83/SF/month. This is well above Salina’s current top of the market of about \$1.10/SF., a gap that can be very difficult to fill.

FIGURE 19: Hypothetical Development Cost

Component	Cost	Assumptions
Land Cost	\$670,154	\$4/SF for improved land
Building Construction	7,941,176	\$150/SF
Parking	153,125	\$5/SF, 350 SF per stall
Other Site Development Cost	335,077	\$2/SF
Contingency	454,976	5%
Hard Cost	9,554,509	
Soft Cost	2,388,627	25% of hard cost
Total Development Cost	\$11,943,136	

FIGURE 20: Hypothetical Sources of Funds

Component	Assumption	Notes
Equity	30%	\$3,583,000
Debt	70%	\$8,360,200
Mortgage Loan Rate	4.5%	
Permanent Loan Term	25 years	
Permanent Loan Take-Out Year	Year 2	
Construction Loan Cost	4.25%	
Construction Loan Fee	0.75%	
Expected Cash on Cash Return	5%	Note: 5% annual cash on equity may seem like a low rate of return. It is important to remember though that many equity investors realize their return from tax advantages rather than annual cash return. In Low Income Housing Tax Credit (LIHTC) projects, an investor may receive a tax credit up to 9% annually (a direct reduction of income tax liability) for ten years plus the residual value of their capital investment and depreciation.

FIGURE 21: Simplified Typical Year Proforma

FIXED COST ITEM	Cost	Assumptions
Annual Debt Service	\$557,624	4.5%, 25 year amortization
Annual Operation and Maintenance	132,353	\$2.50/SF annualized
Property Taxes	117,807	1.37% Saline County rate
Annual Cash on Equity Return	179,147	5%
Total Annual Fixed Cost	\$986,931	
REQUIRED REVENUE YIELD		
Leasable Area (SF)	45,000	
Necessary Annual Revenue/SF	\$21.93	
Necessary Monthly Revenue/SF	\$1.83	
Rent for Typical 900 SF Unit	\$1,647	

Filling the Gap

A variety of financial tools and incentives are available to reduce this financing gap. Since this hypothetical project is designed as a market rate development, the Low Income Housing Tax Credit is not included in this analysis. The techniques evaluated here include:

- Tax Incentives, including Rural Housing Incentive Districts and tax abatements through Industrial Revenue Bonds (IRB's) or the Neighborhood Revitalization Program. RHIDs are a tax increment device, allocating added taxes created by the project to financing eligible project-related improvements. IRB's offer sales tax exemptions and a ten year abatement of property taxes.
- Interest rate subsidy.
- Land contributed without cost to a project.
- Increasing the density yield on the site to achieve higher revenues. In this example, an increase in density from 13 to 20 units/acre would increase the density yield from 50 to 77 units.
- Deferral of annual cash on equity return. If the project is sold to limited partners (equity investors) who are in the project for tax benefits and residual value at the end of a given period rather than annual cash return, the required yield drops substantially
- Grant through the State of Kansas Moderate Income Housing program, with a maximum grant of \$400,000.
- Lengthening the loan term from 25 to 30 years.
- Reducing construction cost from \$150 to \$125/SF.

Figure 22 on the following page displays the impact of each of these incentives or variations have on the base \$1.83/SF rent requirement.

This calculation shows that the most effective strategies are tax related tools

FIGURE 22: Impact of Selected Actions to Reduce Rental Gap

STRATEGY	Savings on Monthly Rent per SF/month
Tax Abatement or RHID Increment	\$0.22
Interest Subsidy to 2%	\$0.23
Free Land	\$0.06
Increase in Density to 20 du/A on Full Site	\$0.29
Increase in Density Reducing Site Size	\$0.03
Deferral of Annual Cash Return	\$0.33
Maximum Moderate Income Housing Grant	\$0.05
Increase in Loan Term to 30 years	\$0.09
Reduced Construction Cost to \$125/SF	\$0.13

such as RHIDs or tax abatements; deferral or elimination of annual cash on equity payments that are at least partially a tax driven policy as well; and promoting higher density development on a given site to increase revenues and reduce marginal cost per unit.

Approaches Taken by Other Cities

Salina's issues are by no means unique and experiences and programs in other cities can provide significant guidance. The next page briefly describes some concepts being used to address housing finance gaps and development issues.

Grand Rapids, Michigan



- Goal of 30% of housing inventory in "affordable" range
- Affordable Housing Fund capitalized by:
 - City appropriations from tax growth
 - Private contributions
 - General operating fund
 - Directed annual service fee on rental property
- Nonprofit and for-profit developers, housing authority
- Targets: mixed use projects, small-scale development
- Homeownership incentives: downpayment grants
- Regulatory changes for missing middle housing

Omaha, Nebraska



- TIF on most central city rental and ownership projects
- Extensive use of blended mortgages on homeownership in redevelopment area
- Substantial use of nonprofit developers for development projects
- Omaha 100 Lenders Consortium
- Significant philanthropic support
- Sanitary and Improvement Districts for suburban development (GO bonding entities)

Lincoln, Nebraska



- Goal to produce 5,000 affordable units during next 10 years
- Lincoln Affordable and Workforce Housing Consortium
- Targets: Rents at 40-80% AMI, Ownership for 80-120% AMI
- Focus on funding gaps: typical \$10-20K for \$200K unit, \$5-25K for rental units, operating cost shortfalls
- Lending (direct loans through CDFI) and pipeline (gap financing)
- \$10 million capitalization target

Minneapolis, Minnesota



- Minimum requirements to include affordable housing in new rental projects. Option for payment into an affordable housing fund.
- Property tax reductions for agreement to keep 20% or more of units affordable to <60% AMI incomes for 10 years. Energy retrofit incentives.

RHIDs

Rural Housing Incentive Districts

A “Tax Increment Financing” variation.

Allocates added taxes created by a housing development project to debt retirement or reimbursement for eligible costs related to the project.

- Includes all taxing jurisdictions with a base exclusion from school levies.
- Front-end financing by the developer as a loan reimbursed by added taxes; or the sale of special revenue (not general obligation) bonds, retired by added taxes and/or special assessments.
- Maximum 25 year term tax allocation term.
- Eligible uses include:
 - Property acquisition. Eminent domain acquisitions are prohibited.
 - Relocation assistance
 - Site preparation
 - Infrastructure: sewers, lift stations, stormwater, streets, lighting, utilities, sidewalks, water distribution
 - Associated activities must be within designated district

Advantages:

- Reduces risk on the most speculative elements of many projects: front-end costs and infrastructure
- Generates development without direct capital outlays by the city
- Does not legally obligate the city
- Requires planning and thoughtful development

Disadvantages:

- Long Process
- Defers growth in tax revenue
- Requires consensus among jurisdictions
- Not always well understood by public

TOWARD A HOUSING POLICY FOR SALINA

A housing policy for Salina now, as in 2016, is founded on understanding and moderating private sector risk. While developers are often characterized as being risk takers, they often stick to products they know and markets they can rely on. In our analysis, housing priorities for the city’s next ten years will take some requirements that entail risk, specifically:

- *New kinds of projects.* To build for a major segment of the coming market, builders and developers may have to build housing types that they are not familiar or comfortable with. RISK
- *Prices above current comfort levels.* Housing values and rents in Salina tend to be on somewhat low. Highest home values are in the central-east areas, generally in the \$350,000 range. Many sectors have values in the \$100-200,000 range. As we have seen, typical rents are too low for projects to be feasible without some form of assistance.
- *Uncertainty over size of the market.* Beyond “steady state” production, the two factors most at work to increase housing need are pent-up demand and the prospect of major employment growth. It is easier for a market to react to employment growth than to build in advance.

Tools and Techniques

A number of potential tools are available to Salina in addressing the issues of opening new markets and reducing risk. These tools fall into three broad categories: producer, operational, and resident.

Producer Tools

Producer tools are focused on reducing obstacles and risks to housing development. They fill gaps in revenues or financing, addressing feasibility problems illustrated in our previous hypothetical. They may include direct monetary or tax incentives geared to bringing about community housing goals and priorities. Producer tools and techniques further fall into several types:

Tax-based. These use tax policy to provide significant capital assistance for projects. They include:

- Rural Housing Incentive Districts (RHID’s), a tax increment financing tool for land acquisition, site preparation, and infrastructure development.
- Low Income Housing Tax Credits, providing federal income tax credits to investors in rental housing developments that serve low-income residents.
- Historic Tax Credits, providing federal income tax credits to qualified investors in projects involving buildings listed on or eligible for listing on the National register of Historic Places and rehabilitated in compliance with the Secretary of the Interior’s standards for rehabilitation.
- Depreciation, allowing an income tax deduction for theoretical diminishing of a building’s value through aging.
- Neighborhood Housing Investment Act, a legislative proposal in the Senate to provide tax credits to investors filling a gap between market value and actual cost of owner-occupied homes in target neighborhoods.

NRP

Neighborhood Revitalization Program

A Tax Rebate. Rebate of property tax increases attributed to a residential improvement project in a designated district.

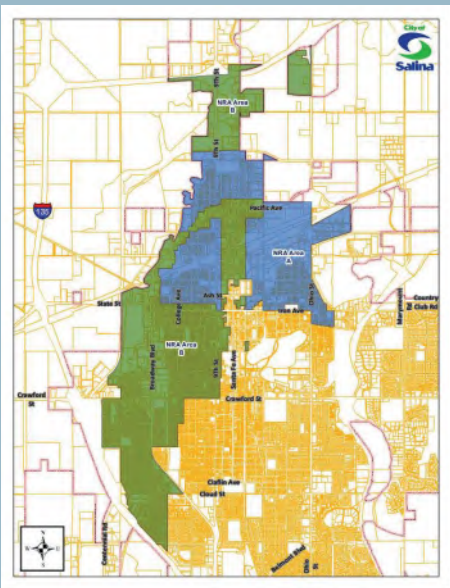
- Requires specific district designation.
- Provides 50-100% rebate for added taxers for first five years, 25-50% for next five years.
- Applies to both relatively small (minimum of \$10K) and large residential projects.

Advantages:

- An incentive (or “disincentive remover”) rather than risk abatement program.
- Rewards reinvestment
- Relatively simple process in approved districts
- Applies to projects of all sizes

Disadvantages:

- Requires the improvement to be completed before benefits kick-in
- Does not address front-end risks



- Industrial Revenue Bonds (IRBs), in Salina providing a property tax abatement for up to ten years and a sales tax exemption for labor and materials for new facilities.
- Neighborhood Revitalization Program, tax rebate on added value created by property improvements in designated NRP areas.

Development. Development tools include direct funding or cost reduction for construction or creation of development entities to execute projects. Examples include:

- Reduction or waiver of permit fees.
- Direct production subsidies, including grants (such as the Moderate Income Housing program) or subordinated loans.
- Real estate acquisition and reductions of sales price to a developer.
- Direct employer assistance or investment in new housing.
- Creation of a development entity, including nonprofit community housing development organizations like the Salina CHDO, nonprofit community development corporations, and limited dividend or for-profit development companies. These entities can carry out a variety of special programs, from acquisition/rehabilitation/resale of existing structures to new developments and subdivisions.

Infrastructure. Infrastructure tools develop public improvements to support new development projects. Public infrastructure development might be designed to open larger areas for development consistent with the city’s comprehensive plan. RHIDs are also largely an infrastructure development program, using the tax increment tool to finance public improvements. Other examples include:

- Special assessment districts (including CIDs or Community Improvement Districts), using special assessments on property to retire revenue bonds that provide front-end financing. The use of special assessments, which reduce a developer’s front-end risk, was a major source of controversy during the 2016 process, but has been resolved.
- Joint public/private financing, including a possible mechanism that provides some level of return to the city based on its percentage of contribution to public infrastructure.
- Pioneer public financing, using bond funds or other general fund sources to build infrastructure to key areas in advance of anticipated development.

Legislative. Legislative tools provide statutory incentives or requirements to reach desirable housing goals. Examples include:

- Zoning incentives and bonuses. These address entitlements and will typically involve higher density or other modifications of development regulations to encourage certain kinds of development. In some places, these incentives may include expedited process, code relief, or other “accelerants.” However, this implies a level of favoritism that could well be unacceptable, in addition to implying that normal processes are substandard.
- Zoning changes to permit higher density or different forms of development like auxiliary dwelling units and duplexes on residential lots.

IRB

Industrial Revenue Bonds

A Financing Pass-Through with substantial tax advantages. City issues bonds to finance commercial projects (including multifamily residential) but does not advance capital or incur obligations or debt. I

- Originally used to establish tax-exempt status to economic development projects. Availability of tax exemptions were sharply limited by federal tax reforms in 1980s.
- Bonds are placed with developer's lender or other private placement.
- City offers sales tax exemption and property tax abatement for up to 10 years

CROWN

Rent to Own Program

Renters in CROWN units are offered homeownership/financial educational assistance to prepare for a transition to homeownership.

- A portion of monthly rent is placed in an equity fund that can be used to purchase a home.
- May be used in combination with LIHTC.
- Participants build equity and receive education on sustaining homeownership



- Mandates or minimum requirements for affordable housing. This would follow the Minneapolis model of requiring a certain percentage of units in a project to fall within affordability guidelines.

Operational Tools

Operational tools focus on reducing the annual operating cost of rental development, thereby reducing the required income necessary to support the project. Examples of these tools include:

- Tax abatements and rebates. In terms of tax policies, RHIDs have greatest impact on the front-end, or development aspects of the project -- buying and preparing land, developing infrastructure, building parks and public facilities, and similar elements. IRBs and NRP rebates have their greatest impact on annual operating costs.
- Fee reductions and waivers.
- Financing incentives or participation that reduces annual costs by reducing debt service.
- Utility cost reductions.
- Energy conservation grants and tax credits.

Resident Tools

Resident tools provide direct assistance to residents of a development or home to make that unit more affordable to them. While these tools indirectly benefit developers by broadening their markets, their primary benefits flow to the owner or renter of an affordable unit.

Renter-Oriented Tools

- Rent Subsidies (Section 8), providing payments that fill the gap between 30% of a renter's adjusted gross household income and fair market rents established for the area. The program is administered through the Salina Housing Authority.
- Employer Assistance, providing direct assistance through downpayment assistance or other financial incentives to employees who buy or rent units in the city.
- Indirect Assistance through tax credits.
- Shared Equity/CROWN. These programs put aside a portion of rent or use some other methods to enable renters to accumulate equity. In rent to own developments, this equity can then be used to buy the unit or another parallel unit in the city. Many of the best shared equity programs are executed by nonprofit development corporations.

Owner-Oriented Tools

- Incentive Payments, often including a cash incentive to qualified buyers purchasing a unit in the city or in a specific project.
- Blended/Subordinated Loans, combining a privately-originated mortgage with a zero- or low-interest subordinated mortgage to reduce overall mortgage cost to the buyer. Sources of the subordinated mortgages are often CDBG or HOME funds,
- Lenders Consortium (Public Interest Lending), pooling lenders' resources to make mortgage loans to higher risk buyers who have the income to support a mortgage. Consortia also can be important in providing

EMPLOYER ASSISTED HOUSING

Saint Louis University

- Provides housing information and referrals to staff.
- Preferred rates and reduced closing costs on mortgage and refinancing costs through participating institutions
- Forgivable loans for eligible staff buying homes in designated neighborhoods



construction period financing or funding innovative projects that are penetrating new markets or introducing new products to the area. They become a method of lender involvement but reducing individual exposure

- Loan Guarantees, the primary historical FHA instrument used to expand the homeownership market in the country.
- Employer assistance through some form of cost reduction and technical assistance to employees.

A STRATEGIC FRAMEWORK

A framework for housing strategy in Salina must take both short and long views – meeting immediate housing demands created by employment growth while building toward a sound, self-sustaining housing market in all parts of the city. From a variety of tools, the program will select those that are most relevant to the task at hand, but the most immediate priority will be using existing tools such as RHIDs and IRBs to their best advantage for the community. This section introduces a framework to guide city housing policy during the next ten years.

A Three-Phased Strategy

The framework anticipates three phases, addressing immediate, intermediate, and longer-term perspectives. The tasks of the first phase, for the next three years are to:

- Meet the immediate demand, primarily focusing on rental housing, by both encouraging development through incentives and ensuring that projects meet the city’s overall housing goals.
- While doing that, build the organizational and financial capacity to revitalize the city’s core and its existing, older housing stock.
- Demonstrate the market for more diverse and affordable housing types in a well-designed, planned development.
- Make infrastructure investments where necessary to direct new development in areas that take advantage of community assets and provide highly attractive and competitive living environments.

During the next period of over about five years, the policy framework pivots to address an increasing demand for owner-occupied development as new residents attracted to Salina settle down and invest in the city. This type of equity development occurs in both new or “greenfield” areas and in the established city. These “infill” investments are reinforced by the engagement of the reinvestment structure created during the next three years. We call this process “neighborhood fortification,” completion of substantial projects that have clear market appeal and the ability to lift property values and increase the security of individual investment and home purchases.

FIGURE 23: A three-phase strategy framework

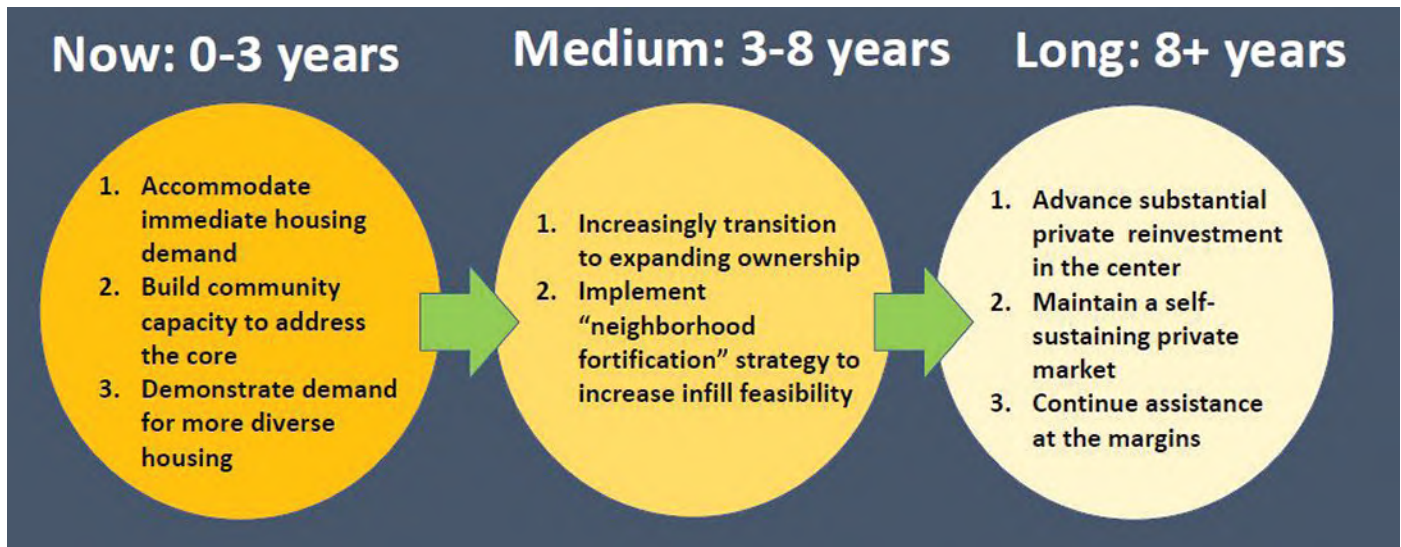




FIGURE 24: Phases with Overall Policies

In the third phase, development and reinvestment will continue consistent with markets in all parts of the city, with both infill and continued residential rehabilitation in the city north of Magnolia and quality new development in other areas. The reinvestment partnership will continue to operate effectively, concentrating on affordable developing and filling gaps that the private sector alone does not fill. But it is no longer acting alone as a pioneering agency, but joined by a variety of partners.

MAJOR IMPLEMENTATION ELEMENTS: THE “NOW” PHASE

This section explores key elements of the “Now” Phase form the next three years, meeting both immediate needs and establishing a foundation for the future.

1. Incentive Policy

In the face of potential multifamily developers seeking assistance through the use of Salina’s available incentives – RHID’s and IRBs – the city needs a systematic method to evaluate applications and provides appropriate levels of assistance. We suggest a three step evaluation process for both reviewing and approving projects and determining factors like the duration of tax allocations under the RHID program. The steps include:

1. A basic screening process that identifies basic qualifiers for further consideration. These include a rapid enough completion date to address immediate housing needs; sufficient scale to provide a significant contribution to the housing inventory; and ability to arrange front-end financing or bond plement.
2. A commitment to maintain median prices and rents at a specific maximum, ensuring that at least 50% of the units will be priced at or below that level.
3. For projects that clear the second step, scoring qualifying projects on their ability to fulfill a series of design and performance criteria that

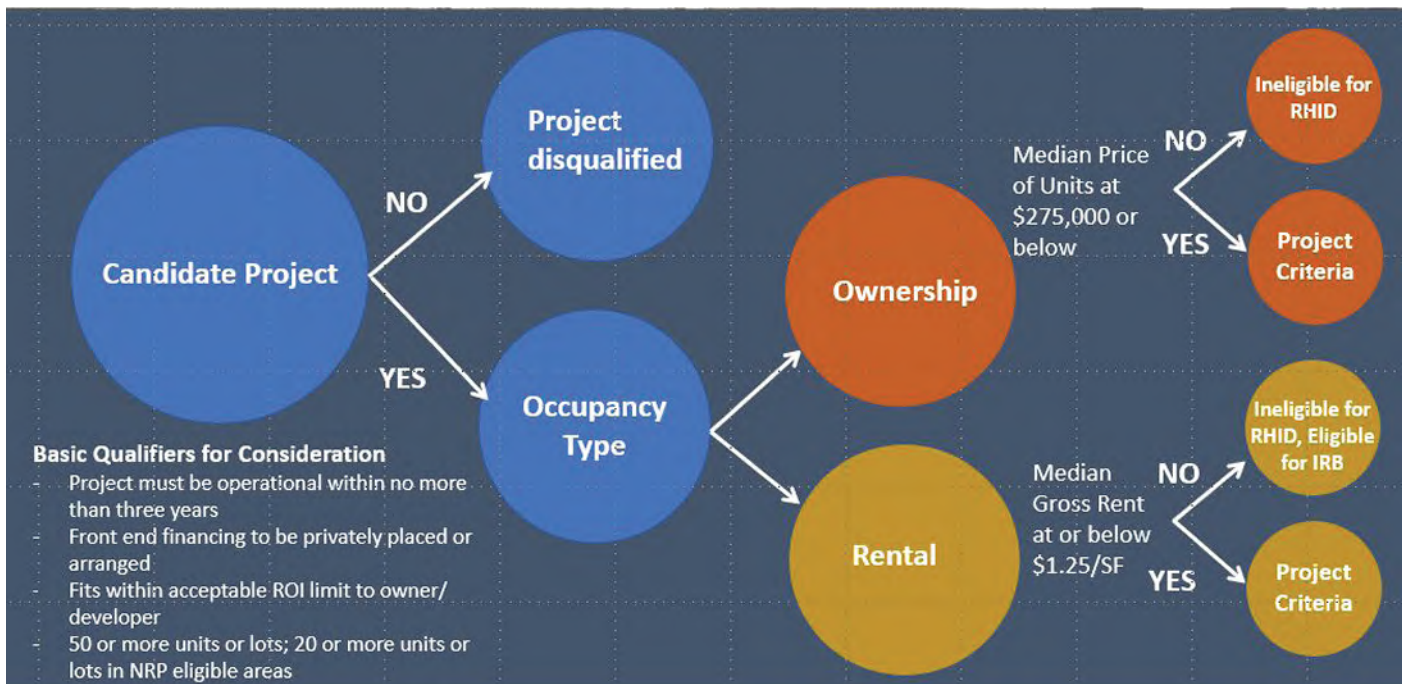
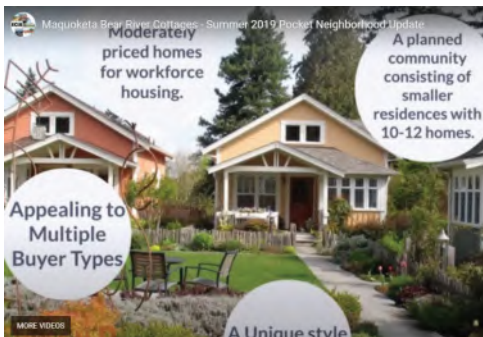


FIGURE 25: Evaluation Process Diagram



include density, innovation, walkability, proximity to services, location, available infrastructure, and others. The length of time that the district remains in place is linked to the project's score on these performance criteria.

Figure 25 diagrams this evaluation process.

2. "Quick Win" Project

This project would be designed to incorporate a variety of housing types, integrating both ownership and rental housing at moderate price points. Its characteristics include:

- A phased plan with completion of a project at meaningful scale
- A demonstration of market acceptance, economic feasibility, and design quality and innovation.
- Integration of multiple housing types that fill gaps not addressed by the current private market
- A targeting toward "missing middle" income and household groups

Requirements for successful development include:

- A desirable site with good access to services: schools, parks, and commercial assets in an area that is generally considered highly marketable. Lessons will be learned here that can then be exported to somewhat more difficult development areas. . . but it is important not to try to do everything with one project.
- A developer with risk tolerance. This is likely to be the Salina CHDO.
- A means of financing. This may be an initial opportunity to test the reinvestment consortium discussed below (and in the 2016 plan)
- A market-based program and development plan

3. Reinvestment Partnership

The recommendation of the 2016 Live Salina plan for a housing partnership remains a critical and highly relevant element of the housing program, especially in phases one and two. The partnership has three major private sector components in partnership with the city:

- A development entity, now available with the rebirth of the Salina CHDO,
- A finance and support consortium that includes lenders, major employers, and private philanthropy that can include program related investment, and
- The private development and building community.

Development Entity

Aspects of the development entity include:

- Focus on the Salina CHDO, which will also need permanent staff. At present the CHDO is operating with expert but volunteer leadership. However, permanent, paid staff will be necessary as the scope of the CHDO increases.
- Ability to expand and potentially generate other development corporations that may be more specialized..
- Capacity to form partnerships with private developers, and act as a general partner with limited partnerships of equity investors
- Access to LIHTC, MIH, CDBG/HOME, and other programs
- A Focus on unusual programs – “plowing the road” for private developers
- A gradual shift of focus toward infill and redevelopment as resources and experience grow

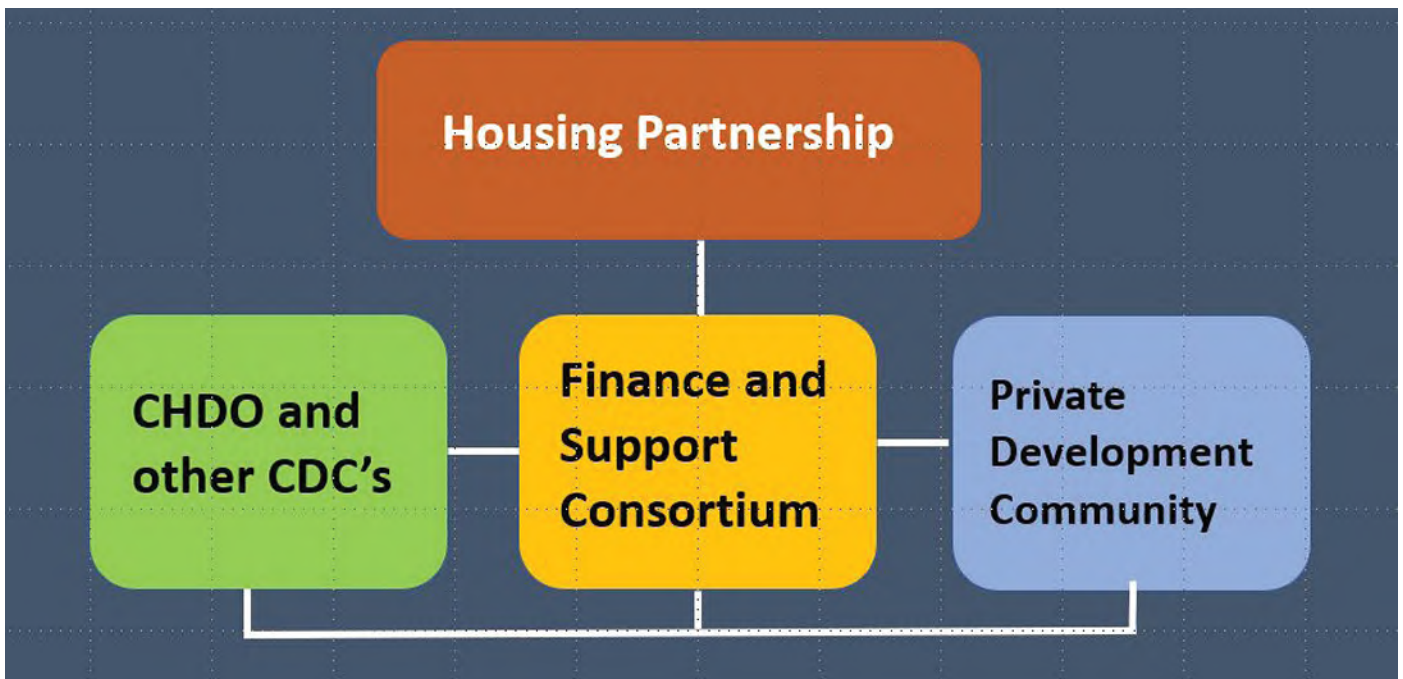


FIGURE 26: Organizational Diagram

Finance and Support Consortium

Aspects of the consortium include:

- Capital participation by financial institutions, philanthropy, employers and corporations, the economic development corporation, and the public sector
- Direct or “leveraged” financing for Salina CHDO or other nonprofit development corporation
- Interim financing for private developers of higher risk or exposure projects
- Gap financing to broaden income range of market
- A public spirited but not necessarily “charitable” organization –Intended for growth of initial capitalization
- Significant focus on infill as resources grow and during the second phase of the program

Employer Participation

Employers have a significant role to play in the consortium and in the overall housing market. Employee recruitment, a challenging problem as America emerges from the pandemic year and labor shortages are widespread, demands good housing solutions. It is clearly in the interest of Salina’s major industries to participate, and employers have both short and long-term roles to play. Short-term roles include:

- Meeting employment projections
- Commitment to a certain number of units/revenue stream to the developer, abating some of the risk faced by rental housing developers.
- Housing counseling and referrals following the Saint Louis University model
- Participation as equity investors through limited partnerships with ongoing projects

In the long term, employers can:

- Participate in a financing consortium
- Form a cooperative local development company. Such a company can be organized as a for-profit entity.
- Bring equity with expectation of return to development projects of interest

4. Pioneer Infrastructure in Strategic Areas

The prospect of COVID recovery funds to Salina opens the possibility of making highly strategic investments in pioneer infrastructure and road projects that can open new areas for development. This process begins with evaluating the potential yield and return on investment of extensions to future development areas. Figure 27 identifies vacant sites in the immediate Salina urban area, including infill sites and city-owned properties. Figure 28 groups the larger acreages into potential development clusters that can be evaluated for development potential and the cost of necessary infrastructure. This provides the basis for a decision-making process that concentrates investments in directions that create the maximum relative benefit.

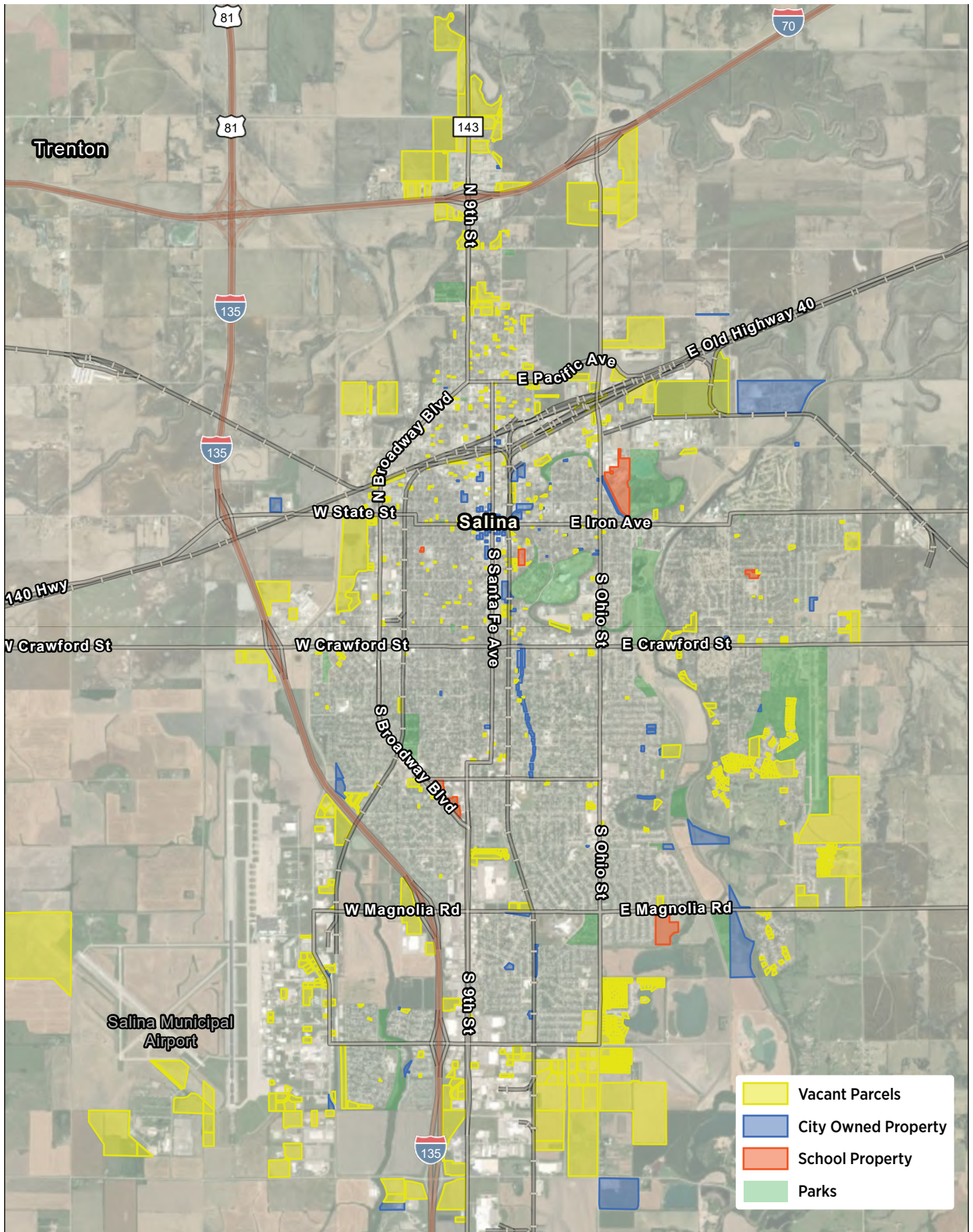


FIGURE 27: Vacant and City-Owned Parcels in the Immediate Salina Area

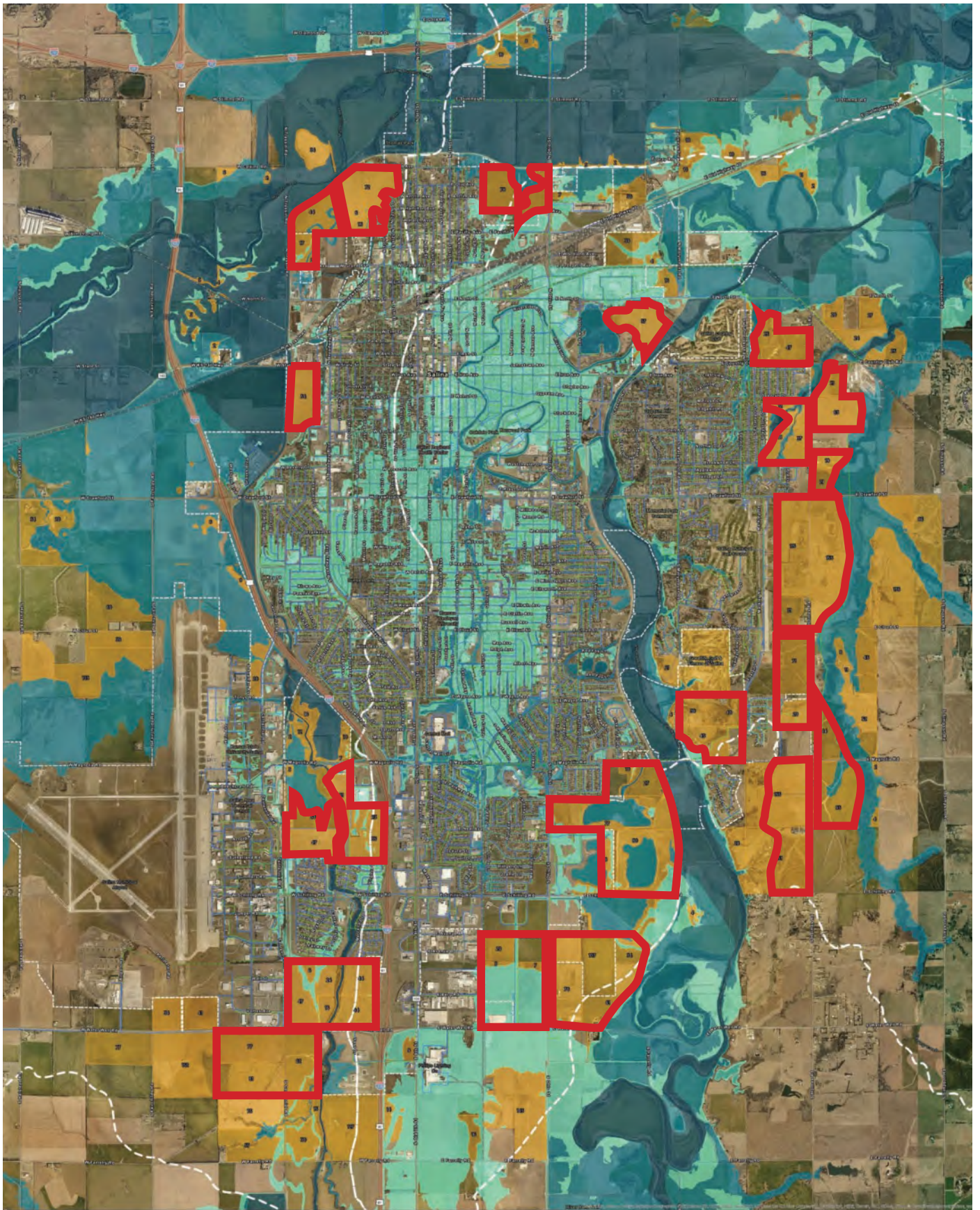


FIGURE 28: Development Cluster for Cost/Benefit Evaluation



MAJOR IMPLEMENTATION ELEMENTS: NEIGHBORHOOD FORTIFICATION

This section explores key elements of the Medium Phase estimated for years four through eight of the program. It anticipates full operation of the reinvestment partnership and turning its focus on established parts of the city. In addition, the medium phase envisions an increasing but not exclusive emphasis on owner-occupied housing. The evaluation process will require re-evaluation during this period to remain relevant to changing demands.

1. Ownership Focus

Development of products that provide affordable ownership opportunities will be especially important during this period. The city and the partnership will continue to work with the private sector, using available tools described above and diverse housing forms to deliver these products.

2. Neighborhood Fortification

This key concept will be a major transitional phase in the older parts of the city and concentrates on image and value building efforts to create an economically viable market in these neighborhoods. As a result, existing neighborhoods reinvigorated will provide a key resource for a new generation of younger households. Elements of this program will include:

- Building needed projects with demonstrated demand on infill sites to build value and credibility of established neighborhoods.
- Using the Housing Partnership as the main force advancing the concept, in collaboration with the city.
- Making city capital investments that support the fortification effort. These include street and curb rehabilitation, better street lighting, sidewalk repair, and placemaking features.
- Creating conditions for feasible private reinvestment, from individual homeowners to substantial developers.
- Revisiting past performance of the NRP effectiveness and making necessary program modifications to increase its ability to encourage private reinvestment. These include better marketing, adjustments to district borders, and possible modifications of abatement schedules.

Possible project types that respond to well-defined markets include:

- Affordable senior housing
- Equity-building programs, including shared equity and CROWN rent to own development
- Acquisition/rehab/resale of low-cost existing units
- Infill mini-subdivisions on new sites and clusters of lots
- Combinations of housing and support services, with a special emphasis on child care
- New housing forms unavailable elsewhere (townhomes, live/work, auxiliary units, owner/renter duplexes)
- Adaptive reuse and historic preservation.

CONCLUSION:

OBJECTIVES OF SALINA'S FUTURE HOUSING PROGRAM

- Build resources for strategic investment on both the “gap” and “pipeline” sides.
- Demonstrate demand to engage builders in more diverse areas.
- Reduce risk factors to the local residential industry.
- Engage industries who are generating demand and need to recruit employees.
- Diversify the products that Salina offers to residents, both old and new.
- Conserve and rehabilitate the existing sound inventory and sustains housing values.

