

**SALINA CITY CORPORATION
WORK MEETING
September 25, 2024**

COUNCIL AND STAFF PRESENT:

Mayor Jed Maxwell
Earl Taylor
Jon Maxwell, excused
Kevin Mickelsen
Randy Christiansen
Allen Tietjen

Ashlee Larsen, City Recorder
Kathy Maxwell, City Treasurer, excused

Visitors:

Ross McClintock
Jeff Southerland
Jenna Draper

Mayor Maxwell welcomed everyone present to the work meeting.

Ross McClintock and Jeff Southerland are here to discuss the South Haven Homes.

McClintock stated Mr. Southerland, and I have been clients for about, five years.

Jeff Southerland was president of the Utah Valley Home Builders Association.

Southerland and McClintock worked on a project in Payson Utah at South Haven Farms. It's a big project with 104 townhomes, 210 apartments, with room for a shopping center and a medical office building in the future. Hopefully you'll get a chance to tour it.

McClintock said, I apologize for the last builder's proposal with the low-income housing that didn't work out. **McClintock** was visiting with Southerland about this issue, and he agreed to look at the project. Southerland was in Salina City originally back in 2021.

Southerland stated he's here to answer questions Mayor and Council members may have. **Southerland** presented copies of a very basic site plan.

Southerland stated his company built 300 apartments. and it's been a great project.

Southerland said McClintock spoke to him about, Salina City needing housing here. **Southerland** stated his company doesn't do the low-income housing tax credit apartments.

Southerland stated I'm sure you're all familiar with, Jeff Neese and can remember him helping last time.

Southerland said he tried to get a copy of the site plan from the old developers, they couldn't get a hold of them and so a new study was approved.

Southerland asked if Mayor Maxwell and Council had a chance to review the study, he emailed them.

Southerland stated he already spoke with Mayor Maxwell about this project, and they are willing to reimburse Salina City for the study.

Southerland said Jeff Neese did the study. We designed the product exactly based on what he said. Neese has done a couple more appraisals on it because we've had to refinance it, and we're right at the end of being able to do a HUD refinance on it. This is similar to obtaining an FHA loan on a house. It has nothing to do with affordability, but it's a government-sponsored loan with a lower interest rate.

Southerland said he suggested Neese use the study to mimic like the one in Payson as an example of what can be done in Salina.

The rent would be about 9 percent, lower than the rent we get in Payson. Which makes sense, for a smaller community, like Salina City.

9 percent isn't a huge deal. But when we look at our construction costs, and the project in Payson was built, three and a half years ago, it was contracted before all the costs went up.

Southerland stated costs have started to come down a little bit this year, but he's estimating it's going to cost Salina City the same amount to build it today, that he built in Payson three and a half years ago. The costs are going to be about the same or maybe a little bit higher than what he built in Payson.

Southerland couldn't quite get the numbers to work so he visited with Mr. McClintock and Mayor Maxwell.

Southerland said I'm sure that's why the other developers proposed the LIHTC, because it could help make the numbers work.

McClintock managed to get with Inland Port Authority and received approval for help and Jenna Draper is here tonight to present the Inland Port Authority how they can receive bond money which will make the project financially feasible.

Southerland stated to make the deal work, rather than partnering with you, I think there's a way with the Inland Port Authority that we can pay the city for the water and the ground and the development. But it will get financed and bonded through them, which allows the project needs to make the numbers work.

Earl Taylor stated when Salina City first started talking about this project, it was set up that Salina City would recover some of the money back. Is that still the case?

Southerland stated instead of being equity partners in the deal, Salina City would be reimbursed at the beginning of the project. The project will be financed through the Inland Port Authority.

Mayor Maxwell said the problem with bringing Salina City in as equal partners, they can't make the numbers work, there's not enough equity.

Southerland has been working with investors and bankers on this project. They have a good relationship with their investors and the bankers.

Allen Tietjen asked what returns he is thinking?

Southerland stated typically, the way we calculate an IRR, they need to be in a 22% range to get people to invest. That's on a three-year deal.

The project in Payson's, interest rates were less than 3%, and when the construction was finished, based on their projections and where the interest rates were, they should have had about an \$80,000 a month interest carry until they could refinance the construction loan. In the middle of construction, interest rates went up, and at the end of the construction, the interest carry was \$240,000.

Which was three times the interest rate.

Southerland stated Salina City will need to be at least five to seven points higher than they typically are in Utah County. Because this is the first project the numbers need to be high 20s, basically on the IRR.

Kevin Mickelsen asked if there are limitations on the HUD loan. Where its government funded?

Allen Tietjen said when you receive HUD money, there are several challenges.

Southerland said basically HUD guarantees a portion of the loan to whoever lends the money. It's at a lower interest rate because HUD, Housing and Urban Development, wants to promote housing for people.

If this is a green certified project, the mortgage insurance premium is lower. The rate we're looking at today is about 5.2%, "which is great". At least a half a point lower than Fannie and Freddie.

The government doesn't lend the money, but they're guaranteeing a certain portion of it, so the lender is willing to do it for less risk, which makes the interest rates lower. If you qualify you can receive more proceeds.

Mayor and Council reviewed the project which should consist of a small pool in the middle. 100 units of townhomes, 120 units of apartments. Consisting of 220 total mixes of three-story walk-up apartments and townhomes with garages.

This is phase one and then you can see we're planning around five or six more buildings.

Southerland said maybe Salina City can be an equity partner in phase two. I'm not promising that currently.

They could renegotiate what, works best for all of us and make everybody happy. The first one is always the hardest to figure out.

Southerland introduced Jenna Draper from Inland Port Authority saying she is the expert on how the credits and the bonding will work. Phase one is a \$52 million project. The cost per unit is around \$237,000.

Jenna Draper asked if Salina City has an existing CRA in the industrial park, **Mayor Maxwell** stated, yes. **Draper** said part of that CRA requires you to set aside 10% for affordable housing.

Mayor Maxwell stated Salina City currently has 10% affordable housing.

Mayor and Council reviewed CRA housing in Salina City and said Salina City has about 5 years remaining.

Draper stated assuming that's been depleted, the option with the inland port is based on development of the parcels that we put in the project area, which has not included anything in the CRA. We won't be able to do any bond capacity projections or anything like that until we have a business coming in. Then we project on the square footage that they're going to be building and developing. If we don't have somebody going into those specific parcels, we won't have bonding capacity yet. But if we have an employer who agrees to come in because we're doing this project, all we need from them is their schedule of what their building per square foot.

Draper said when we have somebody coming into those specific parcels, we can project it and do the bonding. If we've got somebody that's willing to come in, we'd be able to bond against that.

This development would generate X amount of property tax that we could then bond against.

Southerland stated how the bond and taxes will work, is to pay the bond back, the \$12 million, 6 1/2 of it would go to the city for the land, the water, the permits.

The other, 5 1/2 would go to whatever subcontractors were putting in other infrastructure.

Draper stated it's hard understanding before the bonding capacity came into place, there's a 3% loan or something to gap it.

Draper said bonds can take six to nine months to set up. In the meantime, the Inland Port has an infrastructure bank that you would be able to apply for a loan for and get the cash up front.

You'd save receipts and reimburse yourself or pay back the loan when that bond goes through.

Southerland asked If Salina City would go for that loan? **Draper** said yes, they've got three years to pay the AIB loan back.

Southerland said if my bankers borrow the \$12 million to pay Inland Port Authority half and the other half is going to other infrastructure, in the three years, nobody comes to the Inland Port Authority to help increase the bonding capacity what happens in three years?

Draper said Inland Port Authority would issue the bond. They wouldn't be able to do the AIB loan for more than the projections income from this.

your loan would be at the max, whatever they're projected to do over the next 25 years for this project, assuming you still do it, that increased sales tax would go towards paying that bond.

Allen Tietjen asked if Mrs. Draper if she could please explain the project more in detail.

Draper said South Haven would do the loan for the \$6 million and then the bond proceeds would go to pay back the loan. Salina City's income is from the inland port area which is based on the increase in property taxes.

Draper stated she has a graph that helps explain how the inland port works.

Earl Taylor asked when Salina City would recoup money from the property taxes.

Southerland said Salina City would get paid up front for their investment and asked Draper who is responsible for the bond. **Draper** stated the PID would be responsible for the bond, not Salina City or the Inland Port.

Draper stated it will be 25 years before Salina City would recoup property taxes.

Draper discussed the property taxes with Mayor and City Council Members stating how the property value will continue to increase which means it could be paid off sooner than the 25 years. **Draper** stated the tax revenue pays back the bond. Salina City doesn't have to pay back the bond, that's why they have the second layer of protection by creating the PID, so that nobody's on the hook for it except the PID.

Southerland stated they need to figure out what the bonding capacity is. because if we were hoping for \$12 million, over 25 years, that's a half a million dollars a year. There's no way it's going to generate that much in tax revenue.

Draper agreed and said they need to know what that number is based on your projections, if Salina City chooses to set up a bond against it, or a PID, then we could apply for the AIB loan if you wanted it sooner. Then the bond would pay back the AIB loan, and the tax revenue would pay back the bond.

South Haven would put it in their infrastructure. If you wanted to wait until the bond just sets up, you don't want to mess with the loan, we can do that too.

Southerland stated he worries they might only have a bonding capacity of a couple million. If that's the case, they said there was an opportunity to pull from the rest of the Inland Port.

Draper stated you would need some sort of commercial development to come to Salina City.

Ross McClintock stated he would like Salina City Mayor and Council Members to visit Payson and take a tour of the South Haven townhomes. The clubhouse is the only thing that won't be similar.

Kevin Mickelsen asked how much the Inland Port would receive from this project.

Draper stated Inland Port would receive 5% of the 75% for administrated fees.

Originally, the inland port was created to alleviate congestion at the seaports.

They were going to bring containers into Salt Lake City, Utah and distribute from there. Ben Hart came in a few years ago and decided they weren't doing that anymore. They figured these little communities needed more help.

The state legislature set it up this inland port to help provide these tools for financing mechanism.

Draper said she will work with Mr. McClintock to bring companies into Salina City as well.

Mayor Maxwell stated Salina City have several companies that want to come here, but because of the lack of the housing they don't.

Southerland reviewed the South Haven Farm townhomes with Mayor Maxwell and City Council. This will consist of a clubhouse, pool and dog park.

100 units of townhomes with garages. Southland said they would even like to use local contractors if possible.

Discuss State Alcohol Licensing: **Ross McClintock** stated he spoke with Blackhawk Arena Director Jake Van regarding the alcohol license for Salina City.

McClintock spoke about a piece of property located near the Blackhawk that is about 2.88 acres This is prime commercial ground, and they have a plan for it.

McClintock stated he spoke with a gentleman by the name of Robert Hanson who is the state director over the alcohol board. He emailed McClintock a copy of the

alcohol requirements Salina City is completely wrong on the requirements for having alcohol in restaurants.

Mr. Hanson asked McClintock if the Blackhawk Arena is a public or private school, Is it a church, is it a public library, is it a public playground.

Then the Blackhawk can have a liquor license. McClintock read the state ordinance reviewing 2A and 2B, those are the ones that tell you what the requirement is 200-feet one, it's front door, line of sight, or at the crow flies, it only must be 200 feet to the property line.

Mr. Hanson let McClintock know this is the state's minimum. Communities can be more restrictive.

McClintock suggested Salina City adopting the state alcohol ordinance.

Mayor and Council discussed the alcohol ordinance.

McClintock stated changing this ordinance can bring more tax revenue to Salina City. If Salina City doesn't offer this service, they will go elsewhere.

McClintock suggested having Salina City Attorney review the ordinance.

Mayor Maxwell stated if Salina City will just follow the state ordinance it should be fine. **Mayor Maxwell** thanked them for coming.

Earl Taylor motioned to adjourn the work meeting at 8:37 p.m. **Kevin Mickelsen** seconded. Motion carried 4 to 0.

Date 2-26-25 Mayor 

Date 2/26/25 City Recorder 