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Establishing a Rural Housing Incentive District within city limits frees up state funds

By ROBERT PIERCE • Leader & Times The Liberal City Commission took a possible step toward solving the community's housing problem Tuesday evening.

The board voted unanimously to approve a resolution stating the city is considering establishing a Rural Housing Incentive District within city limits.

Housing and community development director Karen LaFreniere said single and multi-family housing that is affordable is a need in Liberal. She said RHIDs were created by the Kansas Department of Commerce to allow developers to use money that would otherwise be used for pay increases in property taxes to apply towards the cost of an infrastructure project.

LaFreniere said developers could recapture incremental property taxes following development for up to 15 years. She said in order to take advantage of the incentive, properties must be located within a development district.

"We have six proposed districts that we want to just start off with," she said. "If there's applications for the project, they'll be looked at on a case by case basis. We can add additional down the road, but this is just to get us started on this."

LaFreniere, along with Liberal Economic Development Director Jeff Parsons, recently assessed Liberal's property, research LaFreniere said went into the city's housing assessment.

The housing director said with approval of the resolution, documents would then be submitted to the KDOC as the first step in creating a RHID.

Kim Bell, an attorney with Gilmore & Bell, clarified what a RHID is.

“A Rural Housing Incentive District is essentially a tax increment financing district,” she said. “The concept is that when you bring in new development to property, it captures the increase in the taxes for a set period of years. That increase in the tax base is then used to fund the infrastructure that is necessary to go into developing the project.”

Bell said when a RHID is created, the next step is installing streets, water, sewer and infrastructure.

“Those are going to be a set cost,” she said. “What you hope is they’re going to build houses and the houses are going to go on the tax rolls. The taxes that are paid for the assessed value of those houses are captured for up to 15 years, and those taxes are used to pay for the cost of the infrastructure that was put in in order to develop the property.”

At the end of the 15 years or when all infrastructure costs are paid, taxes that are being paid on those houses are then distributed among other taxing jurisdictions.

“They’re an incentive as a way to get people to come in and actually take the risk and build the development,” Bell said. “Instead of going in and doing these infrastructure developments with special assessments, which is a more typical way of doing it, those special assessments become taxes on the property. The ultimate owners of the property are paying that. It increases the cost of the house, and this is a way to decrease the cost of the house to the people that are coming in and purchasing those.”

Bell said passing Tuesday’s resolution was merely laying the groundwork for establishing RHIDs.

“You’re designating certain areas in the city that you feel are eligible for this kind of incentive,” she said. “This will go to the secretary of commerce, and it will be approved by the secretary of commerce.”

Bell said interested developers would then have to come back to the commission.

“At that point, we usually recommend that you negotiate a development agreement with that developer as to what the costs are going to be paid, how the increments are going to be captured, exactly what you expect them to do and what the city expects to do in return,” she said. “Then we can go actually go forward with creating that individual district.”

Concerning financing of RHIDs, Bell said any incurred debt on the infrastructure projects is paid only from the captured increment.

“There’s not a general obligation of the city by any means,” she said. “The only revenue stream

that's available to pay for that is the taxes from those houses."

Bell said Dodge City currently has a RHID in place, and two more are getting ready to be initiated in that community.

"Spearville is working on a district, and we understand Garden City is working on a few," she said. "It hasn't been widely used, but there are cities in your area that are using it."

Bell said RHIDs can be single or multi-family, but most of the ones she has seen are for single family. When creating a district, she said the commission must pass another resolution that the city intends to create a specific district.

"You have to publish notice in the paper," she said. "You have to provide notice to all the property owners. You hold a public hearing. You approve an ordinance creating that specific district."

The project next goes to the school district and the county, and a 30-day protest period takes effect. Bell said this is important because having a RHID would impact the tax levels of those entities as well.

"By statute, that is at least a 60-day process," she said. "Then you're in a position to actually go forward and begin the construction of the infrastructure."

Bell said there are two ways incentive districts are typically financed.

"You can issue bonds at the front end to finance this infrastructure, and it's going to be paid from the revenue from these houses," she said. "The problem with doing that at the front end is those revenues are not going to come in for a number of years. Very few investors are willing to take that risk."

Bell said what is more frequently done is having developers borrow money from banks through conventional financing and holding the bonds themselves.

"Once those houses get built and you get a regular stream of revenue, the bonds would be sold to an outside investor," she said.

Bell said some developers don't want to go through that process and simply get a conventional loan.

"We'll put in this infrastructure, and as the revenues come in, pursuant to the development agreement, we'll be reimbursed from those tax revenues over the designated period as they come in," she said.

Bell said getting a RHID is a multi-step process, but once the resolution is approved by the KDOC, the city will be in a position to begin negotiating with developers. She added just because a district is created does not mean every project will work, but rather, a door is opened.

“It lays out a policy and says we’re willing to consider this on a case by case basis and we’ll see if it works,” she said. “If it makes sense for the developer and makes sense for the city, you’re in a position to proceed.”

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