

## MISSOULA REDEVELOPMENT AGENCY

### CONDENSED BOARD MEETING MINUTES

June 30, 2017

FINAL

A **Special** meeting of the Board of Commissioners of the Missoula Redevelopment Agency was held on Friday, June 30, 2017 at the Hal Fraser Conference Room, 140 W. Pine, at 12:00 p.m. Those in attendance were as follows:

**Board:** Karl Englund, Ruth Reineking, Nancy Moe, Melanie Brock

**Staff:** Ellen Buchanan, Chris Behan, Annette Marchesseault, Tod Gass, Jilayne Dunn, Lesley Pugh

**Public:** Trevor Iman, WGM Group; Mike Day, WGM Group; Bob Moore, citizen; David Erickson, Missoulian; Martin Kidston, Missoula Current; Emily Scherrer, Missoula Historic Preservation Officer; Clint Burson, Missoula Chamber of Commerce; Derek Brouwer, Missoula Independent; Tony Moretti, Gavin Hanks Architects; Andy Holloran, Mercantile Investors, LLC; Eric Clements, KPAX; Chris Anderson (teleconference), DJ&A

#### CALL TO ORDER

12:00 p.m.

#### APPROVAL OF MINUTES

May 18, 2017 Regular Board Meeting Minutes were approved as submitted.

#### PUBLIC COMMENTS & ANNOUNCEMENTS

#### ACTION ITEMS

##### McElmurry Homes – 1515 South Avenue (URD III) – TIF Request (Gass)

Gass said Blaine McElmurry, owner, plans to build two new buildings for housing and commercial use at 1515 South Avenue. The property is directly west of the Brooks/South/Russell intersection in Urban Renewal District (URD) III. Gass said the lot is currently an underutilized and unmaintained deteriorating asphalt parking lot. He said the proposal is for McElmurry Homes to construct a three-story building on the north side of the property oriented toward South Avenue with 12 residential and three commercial units. The second building will be on the south side of the property along the alley and will be a two-story building with six garage spaces on the ground floor and three residential units on the second floor. Gass said by orienting the buildings to the sides of the property the developer is creating an open space in the middle that will be landscaped with grass, shrubs and trees for recreational use by the occupants. He said the developer is also building an ADA accessible parking lot on the southeast quadrant of the site which will be accessible via the alley on the south side.

Gass said the Tax Increment Financing (TIF) request is for the right-of-way improvements to South Avenue consisting of new curb, sidewalk and landscaping between the sidewalk and the building. The amount of the TIF request is \$20,000 which is broken down in Gass' memo. Gass also provided in his memo an evaluation of the application using the established criteria for reviewing TIF requests. Of significant importance, Gass noted this project will redevelop what is essentially a vacant lot so the projected taxes generated as a result of this project will be about \$13,000 annually. This tax increment is projected to provide a two year payback on the original tax increment investment. He also said the public to private investment ratio calculates to be 1:93 which is well under MRA's established criteria of a general ratio of 1:10. Gass said the project also brings in mixed-use development with vertical construction along the South Avenue corridor which conforms well with the vision for the area and current redevelopment activity.

Moe asked if the property uses any of the Blackjack Pizza property on the corner and wanted to know what was happening with the billboards. Gass said the billboards stay and it will not affect the Blackjack Pizza property. Moe asked if the sidewalks being constructed are in line with other sidewalks MRA has constructed for residential areas. Gass replied yes and said the City is setting a good model with the seven foot wide sidewalk curbside which will allow for future development with buildings oriented up to the sidewalk.

Moe said if the City is considering access across South Avenue to get to this area if pedestrian traffic is increased. Gass pointed out nearby crosswalks and said he doesn't foresee adding more, but said it can be addressed in the future if there is an issue. Englund asked if the sidewalk ties in with the existing sidewalk to the east or if there will be a segment of missing sidewalk. Gass said to the east it will tie in with improvements that were put in during the Brooks/South/Russell intersection construction.

Reineking said she is glad to see that the building will be three stories and that density is starting to build upward.

#### **REINEKING: I MOVE THE STAFF RECOMMENDATION.**

**Staff recommendation:** Staff recommends the MRA Board approve TIF assistance in an amount not-to-exceed \$20,000 for eligible right-of-way improvements including sidewalk, curb and gutter, asphalt, and landscaping related to the McElmurry Homes Project in URD III, contingent upon the Developer submitting to MRA a Letter of Commitment from a commercial lender and with the understanding that the TIF assistance will be a reimbursement to the Developer upon successful completion of the project as evidenced by the issuance of a Certificate of Occupancy from the City of Missoula, and that the final TIF amount shall be determined by paid invoices submitted by the Developer to MRA for the eligible items described in the Staff report.

**Moe seconded the motion.**

**No further discussion. No public comment.**

**Motion passed unanimously. (4 ayes, 0 nays)**

### **Scott Street Village, Phases II & III (NRSS District) – TIF Request (Behan)**

Behan said Scott Street Village is located just north of White Pine & Sash at the old Clausen Manufacturing site in the North Reserve/Scott Street (NRSS) URD. The North Reserve/Scott Street Master Plan calls for housing in this area. Scott Street Village consists of three overall Phases. Phase I consists of 24 single-family homes and four townhomes and is currently under construction and near completion. In July 2015 the MRA Board approved TIF assistance up to \$518,320 for this Phase. Phase II is a smaller area with the same number of houses and includes the construction of 18 townhomes and six single-family homes. Phase III is the smallest lot and is anticipated to be a 50-60 unit apartment complex that will be constructed about three years from now.

Behan said because of the age of the NRSS District, it doesn't have the money to help with a project of this size; therefore, MRA will have to sell bonds to support the project. He said smaller bonds around \$500,000 create an efficiency issue because the costs of issuance are the same for a \$500,000 bond as they are a \$4 million bond. Also, Behan said staff recognizes that Phase III is coming and MRA will be asked for assistance. However, the builder, Edgell Building, Inc., is uncertain right now about what the market will be for apartments in two or three years. Behan said the Edgell's are unwilling to take the risk and commit to building apartments at a date certain without knowing what the market will be at that time. Behan said the infrastructure needs to be put in regardless, which is good for the entire area and complies with the Master Plan. Behan said adding the Phase III request amount to the bond gives it more economy of scale with minimal impact to the District in terms of finances.

Behan reviewed the costs laid out in his memo and said the total cost of improvements for Phase II is \$524,868 and \$162,028 for Phase III. The total TIF eligible items for both Phases is \$686,896. Behan said the bond would be an obligation of the entire NRSS District and there is room in the District to be able to handle the bond. Behan reviewed the economic development potential from the project as outlined in his memo.

Englund asked what happens if Edgell Building, Inc. doesn't build Phase III. Behan said it would not be a very sound business decision and Mr. Edgell has not been known for not being a good business person. Behan said right now Edgell has preliminary plans and costs and has been accepted for funding, in a preliminary fashion, through First Security Bank for Phase III up to \$6 million. Behan said at this point, something will happen on the site. He said if it does not happen, the water, sewer, sidewalks, etc. will be in place by Edgell and ready for whatever development happens there. It will also augment the completion of the Master Plan's recommendations for that area. Englund asked if MRA is being asked to spend \$162,028 now in anticipation of Mr. Edgell building Phase III. Behan replied yes, MRA will pay the Phase III amount at the same time Phase II upon completion of Phase II (including Phase III public improvements). Buchanan added that MRA will spend it because it is building infrastructure that is needed for that area which is recommended in the Master Plan, much like Wyoming Street and Mary Avenue were built. Buchanan said if Edgell develops, great, and if not the City has a critical piece of infrastructure in place that needs to be there.

Moe asked where the figures for Phase III came from. Behan said they came from Edgell and his engineer. Moe asked if staff has reviewed them and deemed them all reasonable. Behan replied yes. He said there are cost savings in doing Phases II and III together.

Englund said going forward MRA needs to decide if it's going to include land costs or not when looking at ratios. Englund said if MRA is going to look at a ratio as a way of measuring how much MRA would be investing, then it should have a consistent equation and if the land costs require a footnote then the memo should state that. Buchanan said a different standard may be needed for residential development and commercial development because of the way they're taxed. Reineking said she'd like to see both, whether it's a footnote or in the body, because she thinks it does make a difference and shows commitment, motivation, etc.

## **MOE: I MOVE THE STAFF RECOMMENDATION.**

### **Staff recommendation:**

- **Approve up to \$524,868 in TIF assistance for eligible items within Edgell Building, Inc.'s Scott Street Village Phase II and up to \$162,028 for eligible items for Scott Street Village Phase III, subject to a final debt and payment arrangement negotiated with First Security Bank under the terms described in the Staff memorandum, and authorize the MRA Board Chairman's signature on all necessary documents.**
- **Recommend the City Council approve and authorize the sale of North Reserve/Scott Street Urban Renewal District TIF Revenue Bonds to reimburse agreed upon eligible activities related to Phases II and III of the Scott Street Village project.**
- **Direct Staff to engage Dorsey & Whitney as bond counsel and the City's financial advisor, Springsted, Inc., to assist in analyzing TIF financing terms with First Security Bank and to prepare related official documents.**

Reineking seconded the motion.

**No further discussion. No public comment.**

**Motion passed unanimously. (4 ayes, 0 nays)**

### **Mercantile Building (Front St. URD) – TIF Request (Buchanan)**

Buchanan said the funding request from Mercantile Investors, LLC (MI) is for TIF assistance of \$3,597,844. Part of this is taxable and part is tax exempt if it's approved. She said at MRA's insistence and request, and at the City Council's request, the building was deconstructed as opposed to demolished. She said they were able to salvage 70-80% of the materials in the building. Buchanan said deconstruction was done using state prevailing wage rates in the hopes that there would be TIF funding available. This did add about \$100,000 to the cost of deconstruction and demolition of the existing building and the amount being asked for reimbursement is \$1,502,689. She said another piece of the TIF request is for the Pharmacy building restoration. Per MI's agreement with the City Council that the Pharmacy be preserved, it has required extensive shoring and measures to keep it from collapsing. TIF reimbursement requested is \$335,746. Environmental remediation

done prior to the issuance of the partial demolition permit of \$151,500 is another part of the TIF request. All three of those items are taxable because it accrues to the benefit of the private developer. The fourth item in the request is for TIF assistance of \$1,607,909 for utility relocation and site work in the right-of-way (ROW). This work is tax exempt. Buchanan said if this project moves forward it will be much like other projects MRA has done where there are two bond issues, one taxable and one tax exempt.

Buchanan said staff is currently working with Stockman Bank on terms for the debt. Stockman Bank is doing the major financing for the project. Buchanan said initially it looked like there would not be capacity in this project to cover the entire ask, however numbers that she got from Stockman Bank after her memo went out show that there is adequate revenue to meet the coverage requirements that Stockman Bank would be asking for and meet the debt service with the rates they are quoting. She said staff needs to run the numbers by Springsted, Inc. and bond counsel. There is a lot of work to do between now and when a bond is issued. She said the desire today is to see whether the MRA Board has an appetite for funding this project and making a recommendation to City Council for bonding.

Buchanan said one of the big concerns surrounding this project is around design of the building. She said it has gone through quite an evolution from the very first drawings to where it is today. Buchanan said the Development Agreement between City Council and MI, which was finalized in August 2016, makes reference to an "Attachment C" to the Development Agreement which is the renderings that were presented to Land, Use and Planning (LUP) in July 2016. Buchanan said the renderings are very similar to the renderings that were submitted to MRA in MI's application. She said Emily Scherer, Historic Preservation Officer, had some comments relative to a list of recommendations the City Council created for MRA to consider if a TIF request was made and granted. Those are addressed in a summary that Buchanan included with her memo.

Buchanan said the other issue with the design is the use of Exterior Insulation Finish System (EIFS). Buchanan said she has had a lot of concern about EIFS over the years. She said historically it has not been a very permanent product with millions of dollars in lawsuits, particularly for a product called Dryvit. Buchanan handed out a summary from architect Tobias Strohe, Johnson Nathan Strohe, which compares EIFS to stucco. She said Tony Moretti, Gavin-Hanks Architects, was present to speak to the advantages of using the EIFS system and the strides that have been made to make it a more permanent material than it used to be. She said its historical issues were the basis for staff's recommendation to the Board that it not be approved as part of the Façade Improvement Program (FIP). In light of where the product is today, the Board may want to rethink that moving forward with that particular program.

Buchanan said the staff recommendation is for approval with a number of conditions including an acceptable competitive financing proposal, bonds sized based on the capacity of the TIF revenue, no reimbursement made until the project is complete and Certificate of Occupancy is received, final TIF reimbursement based on bond sizing and paid invoices submitted, and the design must ultimately comply with the plans presented to LUP on July 27, 2016 as shown in the "Attachment C" to the Development Agreement between City Council and MI.

Andy Holloran, MI, thanked the Board for its consideration. He said they are thrilled with the project and it has increased a bit in scope and magnitude. They now have 177 rooms, more ground-level retail, and their budget is just over \$37 million. Holloran said when they came to the Board a few months ago, Council member Gwen Jones asked if MI could put together slides of all the design iterations. He said the process of design has been collaborative and said Missoula is a great place to develop because there's an incredible City Council, Mayor, staff, etc. He said they think the project is better because of the process. They are getting their structural permit next week and will start the new Mercantile on July 10<sup>th</sup>. The schedule is to open before Christmas 2018. Holloran reviewed slides of the design iterations the Mercantile has gone through from September 2015 to present.

Scherer said overall she thinks MI is doing a really good job working on incorporating the design recommendations from City Council. She said MI has worked really hard on the "Mews" area as well as repurposing and reusing materials. She said the one design recommendation from Council to "incorporate into the design of at least the second story of the new building elements from the Mercantile's design, such as pilasters, cornices, lintels/hood moldings, window treatments and window styling that are evocative of the historic building but not mimicking these historic features" is definitely being done on the pedestrian scale on the first floor. Scherer said she doesn't necessarily agree that they should just mimic the Mercantile, but said her interpretation of it is that they are all wanting to construct a building that will be a part of Downtown for generations to come. Scherer asked MI to talk a little more about how they are integrating the design elements outside of the first floor. Holloran said when they look at where they are today, as the images demonstrate, they were originally geared toward a contemporary building. As they have evolved it has become more traditional. He said MI feels they have addressed a lot of the City Council's feedback in keeping a traditional building, keeping a current design yet also redesigning a project that will stand the test of time. He said the windows are inset to create beautiful shadow lines, and said it's a nod to contemporary but at the same time is very traditional in the sense that the Mercantile was. Scherer said it's less about an actual nod to the Mercantile and more a nod to the downtown core and the design elements that are recurring themes in the downtown core that have been timeless in integrating this building into what is existing in a sensitive way. She said she would like to see some sort of detail on the roof, but said she appreciates that they are thinking about it. Holloran said MI will continue to explore that and they love the feedback.

Holloran reviewed images for the interior design. He said Marriott has agreed that all of their signage can be "The Mercantile" and doesn't have to be the brand standard Residence Inn by Marriott. On the first floor there will be a breakfast area, indoor saltwater pool with deck area for fire pits and seating and barbeques, fitness center, turf area for yoga and other activities, bar, back of house area, retail and restaurant space, and a 3,000 square foot meeting room that bleeds out into the Mews, which stretches from Pattee Street to Higgins Avenue. He said the detailing is very warm with a Montana/Missoula feel. Holloran said they set up a committee that has been involved in the Mews.

Moretti addressed the EIFS concerns. He said Strohe's letter really hits on the same points he would bring up. He said the biggest thing to remember about the misconception with EIFS versus stucco is the exterior finish is really about the same and it's more about what is underneath. He referred to Strohe's letter and said for energy code requirements you get a

continuous layer of insulation with the EIFS system and it makes the building more efficient. He said with a traditional stucco system a lathe is attached to the waterproofing membrane and every time the mesh is attached it compromises the membrane. EIFS systems have a less intrusive attachment so a better envelope of the building is created. Moe asked what less intrusive meant. Moretti said every time a hole is punched in the wall it's another place for water to get in. The EIFS system minimizes that and is less intrusive than stucco because of the way it's attached to the building.

Englund asked what EIFS is. Moretti said EIFS is 1 ½-2" of rigid insulation (foam) on the exterior surface of the building. He said the stucco finish is applied to the foam. If it's a traditional application there is metal mesh and the finish is applied directly to the metal mesh. He said the insulation is one of the benefits because there's more insulation value for the exterior envelope. Englund asked why EIFS got a bad rap. Moretti said the troubles were fairly regional in the southeast. Buchanan said it did have troubles in terms of mold and discoloration and Dryvit, in its early days, allowed one to put their fist through it because there was nothing rigid backing it. Moretti said Dryvit is a brand. EIFS is a system. Buchanan said EIFS as a system has evolved as well as Dryvit.

Reineking said she talked to a builder she knows who said that a lot of the problems were in the Florida area and from installation or application errors. She said the current systems with synthetic stucco have multiple ways to do installation as some are two ply, some are three ply, etc., and if the first ply has Portland Cement in it that's good, but the finish coat should have some elastomers. She said the contractor said they do last for decades. She said he worked on a building downtown about 30 years ago with synthetic stucco that doesn't show any cracks. Behan said there are some examples in the downtown where the early systems were used where someone can push their finger through it and it tended to collect dirt so it looked dirty almost immediately. He said those are the red flags, combined with the mold, that cause concern. Buchanan said the concern is permanence. She said that was the concern MRA had when it wrote the Façade Improvement Program and if that's been solved then great. She said it's also been the concern with this building, it has been represented to City Council and in other public meetings that they're building a building for the generations, just like the one that was torn down. Buchanan said this is not a thirty year building or disposable architecture. She said if the Board is comfortable that EIFS has the permanence that it wants to see in an investment like this then that's fine. She said the City Council and MRA expect permanence with this kind of investment. Holloran concurred and said MI does as well.

Englund said it seemed to him that MI doesn't want to build a hotel where someone can put their finger through the wall. Holloran said MI certainly would not select a product they had any concerns about; they can't afford to do that. He said the biggest risk is water and they really have to be conscientious about selecting the right roof membrane, walls, etc. and with the EIFS they will have a liquid applied barrier that's like dipping the building in a bathtub of waterproofing. Holloran said that gives them a very sound building and the EIFS doesn't show cracking. He said they feel the EIFS gives them the longevity they are looking for and are very comfortable with the product and have had great success with it. Moretti said cosmetically speaking there is no perceived difference, the stucco and EIFS look exactly the same when they're done.

Buchanan said she raised this issue when it was in front of Design Review Team (DRT) and they had enough detail to understand the amount of EIFS that was going on the building. She said what was represented previously was a color and a finish. Materials had not been identified at that point. She said she challenged the architect to demonstrate that EIFS was a permanent, desirable material on a building of this nature and she thinks he's done that. Moe asked if any additional assurance was needed. Buchanan said she wasn't sure what form that would come in. She said the analysis by Strohe is thorough and the benefits outlined are compelling. Holloran said from an economic perspective the two materials are the same price so money is not the issue; from their perspective its the best application for the project.

Reineking said she does have some questions about the design which goes back to what Scherer was saying about taking some of the elements that exist throughout the downtown, like the second story roof molding, and the City Council's desire that it be taken to the second floor. She said she wants to hear how MI has extended some of the traditional Mercantile design up to the second floor. Holloran said he doesn't know that they really have. He said their focus has been on the ground level pedestrian and above becomes a beautiful traditional building that fits in the downtown. He said they were also careful not to just put something on the building for the sake of putting something on the building that may have no relevance to it. He said they continue to be open to ideas and want it to be the best project it can be so if that means looking at the roof detail or something else they absolutely will challenge themselves to do that. Moretti added that he thinks there is a lot of detail that is not being seen from the renderings. He said as they get closer and closer to detailing there will be minute little details that are going to be picked up on too.

Reineking referred to the slides of the presentation to City Council from July 2016 of the east side of the building and the rendering in the Board packet. She said there's more brick and windows in the July 2016 rendering than the rendering in the packet. She said personally she likes the one with more windows better and is thinking of the people viewing it from the area of the Elks or from Front Street. Holloran said the only replacement of the brick was the curtain wall system above the entrance. He said there's no less or more, the break line for the EIFS is the same. Reineking said she likes that there is curtain wall on the east and west sides of the building, but she likes having more windows like the earlier rendition shows. She said she thinks it looks friendlier than the one with fewer windows. Reineking said she has not seen any renderings of the north side of the building along the alley and her concern with that is when you're at Pattee and Main Streets looking south you see First Interstate Bank's glass wall and said she'd like to think there will be a lot of brick on the north side. Holloran said there will be no brick. He said it's going to be block on the ground level and glazing, metal and EIFS on the upper floors of the north façade. Reineking asked what the percentage of EIFS is on the exterior. Holloran said about 30% is EIFS, 40% brick and 30% glazing. Reineking asked Scherer if she felt like that satisfies the City Council's concern that it be primarily brick. Scherer said she thinks it does because the public interface is primarily brick. Buchanan said the two main corners of Front Street and the alley on Higgins Avenue are brick. Holloran said on the alley side as they wrap the Pharmacy building back that section of the building is all brick. He said there is a good transition there.

Brock asked how far along MI is with the leasing of the commercial spaces. Holloran said they are just now settled in on the floor plans. They just received their first letter of intent from a group that wants to have a 4,000 square foot restaurant and bar on the corner of Pattee and Front Streets. They have had a handful of inquiries and in the next week or two they will be out talking to people and marketing. Brock asked what the percentages are for food and beverage and retail. Holloran said the industry is changing so rapidly and they hope to have a good combination of both but his sense is they will have three to four food and beverage and a couple of retailers.

Englund asked if the \$335,746 for Pharmacy Building Restoration is what's been spent or if there's still money to be spent on that. Holloran said that is everything and it is current. He said what MI has applied for is everything that has been spent and will be spent. They will not come back and ask for anything additional. Englund asked if Buchanan had a breakdown on the \$1,607,909 for the Utility Relocation & Site Work in the ROW. Buchanan said she doesn't have as detailed of breakdown as they will eventually want, but most of it is NorthWestern Energy and what staff has from them is very detailed.

Englund said if the deal with Stockman Bank is that MRA can fund, hypothetically speaking, \$2.8 million then what happens. Buchanan said MRA funds \$2.8 million. She said MRA will want to fund everything that is tax exempt because it can get the most bang for its buck on that with a lower interest rate and then fund however much is left with taxable bond. Holloran said if that's all that can be funded then that's it. He said MI believes the estimates it got from the Department of Revenue are low because their project costs \$5 million more and that doesn't include the tenant improvement buildouts which will be another \$2 million. He said as Buchanan has described the process, MI will not come back and ask for additional dollars and if the financing can't support their entire request they have a risk and they understand that. Buchanan said the Front Street URD has no capacity for additional debt beyond what this project will generate. Buchanan said with the numbers she currently has from Stockman Bank, it appears that it covers it but she does want confirmation from Springsted, Inc.

Englund asked Buchanan to recite the fifth part of her staff recommendation. She said it is that the design must comply in substance with the plans presented to Land, Use and Planning on July 27, 2016 as shown in "Attachment C" on the Development Agreement between City Council and Mercantile Investors, LLC dated August 22, 2016. Holloran said MI hasn't heard anything differently and that's what they agreed to. Englund said as the final design starts to happen then that will involve some sort of process of communication between MI and staff. Buchanan said there's already a committee that includes City Council members that have been monitoring this project and that's the route it will go. She said it is pretty much laid out in the Development Agreement with City Council. She said now that the partial demolition permit has been issued and executed, the real leverage to keep MI on the path they're on is MRA money. She said they don't get funds from MRA until the project is done and if it isn't done in accordance with the Agreements with the City Council and MRA then there are consequences. Englund asked what the process is between MRA approval today and that point where MI is assured that what they're doing meets the expectations of City Council and City Council is assured that MI is doing what they said. Buchanan said there is a committee and Council Liaison along with staff to monitor it. She said a lot of it will go back to the language crafted in the Development Agreement between

MRA and MI. There will be a path laid out that is clearer than what is in their Development Agreement with City Council. Buchanan added that this project will have to be bonded and what traditionally happens is MRA staff will bring the Development Agreement and the Bond Resolution back to the MRA Board for a recommendation to the City Council. She said today's discussion is more about whether or not MRA is willing to think about supporting the project financially. Moe said the recommendation does talk about sizing the bond. She said for the Scott Street Village there is a point where staff is directed to engage bond counsel and Springsted, Inc. to assist in analyzing the TIF financing terms with the lender and to prepare related official documents. Moe asked if that language needed to be in the motion. Buchanan said the Board can include that. Behan said it's kind of a given, but it can be added.

**MOE: I MOVE THE STAFF RECOMMENDATION WITH THE UNDERSTANDING THAT THE AMOUNT NOT TO EXCEED WILL BE ADJUSTED IF THE BONDS ARE DETERMINED NOT TO SUSTAIN THE AMOUNT OF \$3,597,844 AND ALSO WITH THE AMENDMENT TO SPECIFICALLY REFER TO BOND COUNSEL AND THE CITY'S FINANCIAL ADVISOR FOR ASSISTANCE IN MAKING THAT ANALYSIS AND PREPARING RELATED DOCUMENTS AND TO ADD THE CONDITION THAT THE DESIGN COMPLY WITH PLANS PRESENTED PREVIOUSLY TO THE CITY COUNCIL.**

**Staff recommendation:** Staff recommends that the MRA Board approve an amount not to exceed \$3,597,844 in TIF assistance for the Mercantile Residence Inn by Marriot as requested by Mercantile Investors, LLC and authorizes the Chair to sign a Development Agreement with the following conditions:

1. An acceptable competitive financing proposal has been negotiated with a private lender, presumably Stockman Bank.
2. The bonds will be sized based on the capacity of the TIF revenue generated only from the proposed hotel project.
3. No reimbursement will be made until the project is complete and has received a Certificate of Occupancy.
4. Final TIF reimbursement shall be determined based on the bond sizing and paid invoices accompanied by lien waivers submitted by Mercantile Investors, LLC for eligible items identified in this staff report.
5. Design complies in substance with plans submitted to Land, Use and Planning on July 27, 2016 as shown in "Attachment C" to the Development Agreement between City Council and Mercantile Investors, LLC dated August 22, 2016.

Reineking seconded the motion.

#### **Public Comment**

Bob Moore, citizen, asked Holloran what they will do if they don't get approval for funding from the MRA. Englund said public comment is allowed but he has said multiple times that public comment is not the right to cross examine. He told Holloran if he wanted to address the question he could, but it was not required. Holloran said it stresses the project for sure and it would involve a recapitalization. Moore asked if MI would finish the contract. Holloran said it would delay it.

**No further discussion.**

**Motion passed unanimously. (4 ayes, 0 nays)**

**Bitterroot Trail Connection – Pine to Spruce Streets (URD II) – Request to Approve Project Engineer and Services Agreement (Behan)**

Behan said this was discussed at the April 2017 meeting when the Board authorized staff to issue a Request for Proposals (RFP). Four proposals were received and all were excellent. He said three were a virtual tie and the group looking at this, including other MRA staff and Development Services, found when they reviewed them that WGM Group seemed to put a lot more thought and creativity into their response in terms of going out and looking at what might be done. Behan said WGM Group has an excellent team assembled to handle this project. He said the trail itself doesn't require a lot of creativity but the adjacent sidewalks will take some work.

Behan said the proposed costs are relatively high and in reviewing the Services Estimate there is no one area that seems particularly high. He said WGM Group will need to do survey work, figure out where the trail can be placed, and figure out how to accommodate the sidewalk and the drainage that goes through there. He said he's also asked WGM Group to put together a plan that can be approved by the Parks Department and everyone else in terms of design for lighting the area from Broadway Street to Toole Avenue.

Behan said the Staff recommendation is to approve WGM Group to be engaged and approve the scope of services at a cost up to \$52,942. Behan said that number will be based on hours worked and materials used.

Trevor Iman, WGM Group, said he thinks it's going to be a great project. He said there's a little bit of up front work they need to do to really define the project and get City Engineering, Parks and Recreation and MRA staff all on the same page. He said although they are doing a trail, they don't really know the extent of the Pine Street piece and what the sidewalk impacts will be. He said they are looking forward to doing this project.

Behan said he did have a call from someone in the neighborhood and they are very excited as a group to get the area cleaned up. The neighbor told Behan there are some scary things that have happened out there. Behan said this trail will not eliminate that, but lighting it and getting more traffic through there will help alleviate some of the conditions and make it feel safer so more people will use it. Behan said there are some underground forts and tunneling that's been going on out there that people live in according to the neighbor.

Moe asked if the City is aiming for something as open as what goes by Draught Works Brewery on the first part of the block so it will be a disincentive for folks who are living on the street in that area now to use it, so it becomes useful to the neighborhood. She asked if the work was just being done on the west side for the trail and nothing on the east side, but trying to do sidewalks on both sides. Behan said they will try to connect the trail in where it is now along the west side but they do need to address the sidewalks on both sides.

Englund asked about timing. Behan said if it looks like there are a lot of contractors available later this year staff could try to engage someone at that time. He said chances are

everyone is booked and they will look at it being planned by this fall with construction in 2018.

Moe said Behan's memo mentions a possible accessible sidewalk design, new to the City engineering staff. She asked how well thought out that was and what it was. Behan said that is the piece of creativity WGM Group introduced in their RFP. Behan said it wasn't a revelation, more just something that hadn't been thought about before.

Moe asked if the Construction Engineering and Services amount at 40% was reasonable. Behan said that is where most of the time will end up going. It includes meetings with Parks and Recreation and Development Services, final design and construction engineering services. He said it is also one of the areas they may see some savings. Moe said she likes that other City departments are involved.

Moe said she hopes the project will be done in one phase since all of the exclusions relate to it going more than one phase. Behan said staff would like that too. Moe asked what a second phase of construction could be. Behan said it could be three phases; phase one complete the trail, phase two complete the sidewalks and phase three complete the lighting. He said doing them all at once is preferred.

#### **REINEKING: I MOVE THE STAFF RECOMMENDATION.**

**Staff recommendation: Staff recommends the MRA Board authorize the Board Chairman to execute an agreement with WGM Group to complete the tasks described in the proposed scope of services for the Bitterroot Trail – Pine Street Link Project.**

**Brock seconded the motion.**

**No further discussion. No public comment.**

**Motion passed unanimously. (4 ayes, 0 nays)**

#### **S. Reserve Trail Crossing (Bitterroot Trail Bridge) (URD III) – Request to Approve Change Orders (Buchanan)**

*Chris Anderson, DJ&A, joined via teleconference.*

Englund said Buchanan's memo was very well written on such a complicated project.

Buchanan said staff has mentioned to the Board a couple of times throughout the project that there were some outstanding cost issues that were complex and significant and needed a fair amount of negotiation. She said thanks to Jackson Contractor Group, DJ&A and MRA staff they have worked their way through a gnarly situation. She said there were a lot of things that were simply beyond anybody's control and they have arrived at some compromises that make sense for the contractor and the City.

Englund asked why it is there were so many things out of control. Buchanan said there were a couple of fundamental reasons. One being traffic control. The engineering team, DJ&A, worked with the Montana Department of Transportation (MDT) on the front end to

define what the traffic control parameters would be for the project. The bid documents were created in accordance with those discussions and then MDT changed the parameters. She said that is out of Jackson's control and her take on it is that MDT's conditions for Reserve Street changed between point A and point B in the process. Anderson said the same individuals were involved with DJ&A and Jackson in determining the traffic control. For whatever reason, he said they simply changed their direction in what they wanted for Reserve Street traffic control. Anderson said he wasn't sure of the reason for that but they were given direction that they had documentation of and put that information in the bid documents. The contractor bid it based on that information and then during the preparation to implement the traffic control, MDT decided they wanted to have a different setup than what was originally proposed. Buchanan said part of it may go back to simply being one thing to sit and discuss what will be required and a very different thing to look at a traffic control plan submitted by a contractor and say it can't be done.

Another reason for the change orders was Century Link. DJ&A started working with Century Link to relocate their fiber optics that serve the whole Bitterroot Valley long before the project was bid. There simply was no response from Century Link and they needed to drive piles which would have disrupted service to the entire Bitterroot. She said Century Link had personnel changes over the course of this, and different assignments by engineers, but at the end of the day nobody could force them to move their utilities, which delayed the project and caused it to be sequenced in a different way which had a cost impact.

Buchanan said another thing that complicated it was sewer utilities that needed to be relocated as a result of where the deep foundations were being placed. Simultaneously the City had a force main project going from the pump station at the golf course down Reserve Street and Old Highway 93. With different design engineers and contractors the decision was made that it would be far more efficient and less dicey if the portion of the force main that came through the bridge project was done by Jackson. Jackson priced that and the contract was amended to add it with the City paying the bill. There were some issues with that because another sewer line was located and the elevation of it was uncertain and when they were getting ready to run the new force main, Wastewater Treatment Dept. came out and stopped work and said the location of the line needed to be located. Potholing was done, elevation was verified and in fact there was a conflict. They had to go back to the other engineering firm, HDR who was doing the work for the City, and have them redesign it. It was an eight day delay. She said when there's that much complexity in a project, a change order of the size this ended up being is almost miraculously small. Englund said MRA knew it was complex because they knew about all the utility corridors that surround Reserve Street as opposed to some sort of oversight on MRA's part or MDT's part. Discussion ensued.

Buchanan included a spreadsheet in her memo showing what impacts MRA had for change orders as well as DJ&A and the City for the sewer issue. The staff recommendation is to approve \$89,248.81 for Change Order No. 005.

Englund reiterated the clarity of Buchanan's memo and how well it was written and explained things. He said he didn't understand the hand rail portion. Buchanan said the hand rail that was quantified in the bid tabs was the hand rail on the ramp. The hand rail on

the ramps, from DJ&A's perspective, was quantified in the bid documents and was a unit price thing. The same handrail continues across the bridge but it was intended to be part of the assembly of the side of the bridge. It was supposed to come with it from DJ&A's perspective. Buchanan said there was enough ambiguity in the language in the documents and in the drawings that MRA agreed it should pay for the additional hand rail. Anderson said the thing that closed it for him was that DJ&A looked back at their unit price for the handrail and the total bid for the handrail, as well as the arch that was supposed to have a handrail, and it was clear that they had not included that steel handrail through the main span of the bridge and had planned on having a paid per unit price. Had it been clarified before, Anderson said it would have been included in Jackson's bid.

**BROCK: I MOVE TO APPROVE THE STAFF RECOMMENDATION.**

**Staff recommendation:** Staff recommends that the MRA Board approve Change Order No. 005 in the amount of \$89,248.81 with the condition that DJ&A credit \$5,868.35 to the MRA prior to close out of their engineering contract and authorize the director to sign the change order.

**Moe seconded the motion.**

**No further discussion. No public comment.**

**Motion passed unanimously. (4 ayes, 0 nays)**

**Brooks Corridor Transit-Oriented Development Infrastructure Study (URD III) – Request to Endorse Big Sky Trust Fund Grant Application (Marchesseault)**

Marchesseault said the MRA, along with the Midtown Mojo group, has been fundraising to get funding for the Brooks Corridor Transit-Oriented Development Infrastructure Study from multiple sources. MRA approved funding of \$50,000. To date they have \$130,000 in hand and 98% approval from Associated Students of the University of Montana (ASUM) for another \$10,000. As part of this effort, MRA staff has been working with the Big Sky Trust Fund to submit an application for a \$25,000 request. She said staff wanted to bring this to the Board's attention and ask for a recommendation from the Board to endorse the application to Big Sky Trust Fund.

**MOE: I MOVE THE STAFF RECOMMENDATION.**

**Staff recommendation:** Staff recommends that the MRA Board endorse the Missoula Economic Partnership's application for a \$25,000 grant from the Big Sky Trust Fund, which, if received, would contribute toward funding the Brooks Corridor Transit-Oriented Development Infrastructure Study.

**Brock seconded the motion.**

**No further discussion. No public comment.**

**Motion passed unanimously. (4 ayes, 0 nays)**

### **FY18 Budget – Request for Approval (Dunn)**

Dunn reviewed the Revenue Sources and Uses and Expenditure Detail included with her memo. She said MRA has 20 funds in the City's financial system. She also included the beginning Budget Status reports for FY18. Buchanan said Dunn has worked very hard and diligently to put it together and it has not been easy with all of the bond issues MRA has done. Dunn said MRA uses FY17 revenues because it doesn't receive the taxable values until the end of July/early August and the mill levies aren't set until the end of October. At that time the Budget Status reports will get updated with that new information. Dunn said staff is hoping with all the new construction, the revaluation completed by the Department of Revenue (DOR) will come back with higher taxable values. She said preliminary estimates from the DOR, minus centrally assessed property, were all higher values except for Front Street which was down. Buchanan said there is a lot of centrally assessed value in Front Street with the NorthWestern Energy substation. Dunn said she also included in the budget all the bond issues.

Englund asked if it concerns staff that the contingency in URD III is so small. Dunn said it is small because MRA has been busy and staff is anticipating that when the bond is closed out for the S. Reserve Crossing Bridge it will infuse more cash carryover. At this point in time staff hasn't done that because things are still moving. Buchanan said she thinks MRA will be able to recapture the entire \$900,000+ in engineering costs and there will be about \$200,000 left over for debt service payment. She said MRA will also be able to do reimbursement on Mary Avenue West for engineering costs.

Dunn reviewed the Budget Status reports for the Districts.

**BROCK: I MOVE TO APPROVE THE PRELIMINARY BUDGET.**

**Reineking seconded the motion.**

Moe said the lack of questions and everything is not an indication of lack of interest. She said Dunn's presentation was very thorough.

**No further discussion. No public comment.**

**Motion passed unanimously. (4 ayes, 0 nays)**

### **NON-ACTION ITEMS**

Reineking asked where the City was with the Housing Policy. Buchanan said they have made it through the transition from the County to the City. They made it through the U.S. Department of Housing and Urban Development (HUD) audit and tidied up some things. Now they are ready to embark on the policy. She said HUD is thrilled with the transition. Reineking said she appreciates the effort to develop the policy.

Reineking asked if there were any updates from the Riverfront Triangle Subcommittee. Behan said it's coming along. There will be a lot more for the MRA Board to do. He said the Lease Agreement and Purchase and Sale Agreement are hopefully in the last throes of going back and forth between attorneys. He said it's not so much disagreement, but trying to make sure that future things are taken into account and the interpretation of what those

things might be in the future. The design is much further than the Board has seen it. In the last six weeks CTA Architects and their partner architect from Houston, TX are at a point of being able to start to show where everything is inside the building on all the floors. Buchanan added that with the addition of residential on top of the hotel, the conference center can grow a lot and it puts Missoula into an even more competitive position.

Moe referred to the proposed City design guidelines and said they are really complicated because they are going to be broken up into different categories. For instance, McElmurry Homes addresses multiple residential construction and the Mercantile brings up some issues about design for the downtown area regarding incorporating designs that other buildings have. She said she thinks these are examples that can go into the design guidelines. She said it's a realization for her that the process of developing the design guidelines is becoming more complicated than she initially thought.

### **STAFF REPORTS**

Marchesseault said Midtown Mojo received three very good proposals from very strong teams for the Brooks Corridor Infrastructure Study and evaluated them last week. They have selected a preferred team and are negotiating fee with them. She said it will be on the July agenda for approval to select the team.

### **COMMITTEE REPORTS**

### **OTHER ITEMS**

### **ADJOURNMENT**

Adjourned at 2:17 p.m.

Respectfully Submitted,



Lesley Pugh