

MISSOULA REDEVELOPMENT AGENCY

CONDENSED BOARD MEETING MINUTES

May 7, 2019

FINAL

A **Special** meeting of the Board of Commissioners of the Missoula Redevelopment Agency was held on Tuesday, May 7, 2019 at the Hal Fraser Conference Room, 140 W. Pine, at 12:00 p.m. Those in attendance were as follows:

Board: Karl Englund, Nancy Moe, Melanie Brock, Tasha Jones

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

Public: Jim McLeod, Hotel Fox Partners; Forrest Senterfeit, Dick Anderson Construction (DAC); Steve Miller, DAC; Martin Kidston, Missoula Current; David Erickson, Missoulian; Dennis Bragg, KPAX TV

CALL TO ORDER

12:00 p.m.

APPROVAL OF MINUTES

PUBLIC COMMENTS AND ANNOUNCEMENTS

ACTION ITEMS

Hotel Fox (Riverfront Triangle URD) – Request to Approve First Amendment to the Conference Center and Parking Facility Development Agreement and Recommend to City Council for Approval (Behan)

Behan said after three decades of planning for the Riverfront Triangle property, the City ended up with a relationship with Hotel Fox Partners. The City has been working with them for several years to put together a project that has become much larger in magnitude than Hotel Fox Partners anticipated at this site. The project includes a hotel, residential units, and a large conference center and parking. All of those negotiations ended up with a Master Development Agreement approved by MRA and City Council in February 2017. The Master Development Agreement dictated a series of other agreements called Collateral Agreements that would address specific issues raised with the project. Behan said in November 2017 the City Council and MRA approved six Collateral Agreements.

Behan said the Collateral Agreements include a Conference Center and Parking Facility Development Agreement (Development Agreement), which is the one being discussed today. This Agreement looks at the whole project and gets it to the point where it is developed and built. The project includes the hotel, potential for residential (not required), 405 private and public parking spaces and a conference center. He said after the conference center is developed, the City will purchase it and lease it back to the hotel, which is outlined in the Conference Center Lease/Management Agreement. The Land Disposition Agreement is the buy/sell and includes a few other items that are related in terms of when, how and how much the land is purchased for. The City will end up doing parking revenue bonds and the Parking Facility Lease Agreement is between the City and the Parking Commission for management of the parking. The Collateral Agreements also include a Condominium Agreement for ownership of the housing and a Land Use Agreement. The Land Use Agreement includes new zoning for the site that fits with this kind of development, as well as the Downtown Master Plan and Design Standards (superseded by the Design Excellence Standards). It also includes the public property adjacent to the development for trails, riverfront usage, etc. The Development Agreement is the only one with deadlines and everything else is built off of those deadlines. Behan said if one deadline is changed it ripples through all of the agreements.

Behan said the basic deal of the development includes a 195-room hotel with the associated amenities you would find in a Class A hotel. Attached will be a 60,000 square foot conference center. It will be much larger than anything in Montana and a regional draw. It will also have all of the amenities you would find in a modern facility. He said after it is constructed the City will purchase it and lease it back to the hotel for a long period of time. Behan said the important part about the lease is that all maintenance, repair and replacement responsibilities will be that of the lessee, Hotel Fox Partners, or their management company. He said that is a unique deal that is hard to find across the country because typically the city purchases and runs the facility, usually in the red. Behan said Hotel Fox Partners are confident they can handle it and make sure it works.

Behan said the conference center will be financed with Tax Increment Financing (TIF) revenue bonds and the parking with parking revenue bonds. Neither one of those are general obligations of the City or its residents. It does not raise taxes on anyone. It uses the parking revenue to pay for parking and uses the future new taxes generated by the hotel and residential above it to pay for the conference center.

Behan said all of the agreements were executed in late 2017, anticipating an 18-month period to complete design and be able to submit those for review (May 22, 2019). An additional six months was given to obtain building permits (November 22, 2019). The agreements included 30 months to construct the facilities. He said currently the time period is different than what was hoped for in the beginning.

Behan said there are two main underlying reasons for things not being ready. The primary one is that finding equity investors for this project proved to be more difficult than even the very experienced members of the Hotel Fox partnership anticipated. To address that they have engaged national investment brokers to be able to find consortiums and individuals that are looking for this kind of investment. Behan said there is a hot real estate market in the west in terms of developments of this size in places like Seattle, Portland and Denver

that are a more known and proven quantity for equity investors. Convincing them that investing that kind of money in Missoula, MT is a learning curve. Additionally, Behan said Hotel Fox Partners have changed their financing model to be able to split the project apart and obtain equity investors focused on the types of things they would normally finance: hotels, conference centers, residential. The second reason for things not being ready is that one of the members of Hotel Fox Partners, Barry Fisher, passed away this winter. He carried with him an enormous amount of knowledge and experience from projects all over the world. Behan said that is being addressed by expanding the role of another Canadian Company out of Toronto, SW10, that was already involved in other areas of this project. Richard Tucker of SW10 has assumed Fisher's role.

Behan said it is important to note that there have been lots of changes inside the building to figure out how to bring the costs down. He said the vision and overall sizing and how it all works has not changed. He said they are trying to figure out how to pay for everything and still maintain the vision.

Behan said the current deadline to submit design is May 22, 2019. The additional six months ends November 22, 2019. Hotel Fox Partners have requested a one-year extension of both deadlines to be able to meet those. An amendment to the Development Agreement has been prepared and reviewed by both Jim Nugent, City Attorney, and Dorsey & Whitney LLP who wrote the Development Agreement in the first place. Behan said they have also reviewed the other documents to make sure that no changes are needed. The Fox Working Group met last week and forwarded a recommendation to move forward with the extension. Behan said this is a project of great importance to the City if they can make it happen. If it doesn't happen they can say they tried their best. He said there is no one waiting in the wings to build something like this, so Hotel Fox Partners can build on the progress they have made and get it to a point where it can be developed. Behan said giving them an additional year is not something that will cause any problems.

Jim McLeod, Hotel Fox Partners, said it is important to note that from a programming standpoint (identifying spaces and layouts) they are 100% there. He said developers are typically optimistic people and 18 months has gone by fast, but there has been a lot of movement. He said the team is committed to seeing this project completed and hope to start the drawings within the next several months.

Behan said one other thing that the Fox Working Group recommended is that if Hotel Fox Partners brought evidence of significant progress in completing the design and/or the permitting, the MRA Board should be able to grant an additional extension of up to six months for each of the deadlines and have it written into the amendment to the Development Agreement. He said members of the City Council that were at the meeting felt that was a reasonable amount of time that didn't need a whole new action by City Council, which can be time consuming and unnecessary if they're almost there and running up against a deadline. Behan said if approved, that would have to be added onto his recommendation.

Jones confirmed that McLeod said he was optimistic they could start drawings in a couple of months. McLeod said they anticipate to start drawings this fall. He said those will take them six to nine months to complete. Jones asked if the 12 months for the extension is

necessary because Hotel Fox Partners need additional time for the drawings after they get some investors in place. McLeod said yes. Jones asked McLeod if he thinks they need more time than that. McLeod said having the six month extension is a positive for Hotel Fox Partners and will be plenty of time. He said if they come back next year and are at 60% on the drawings it will be an easy conversation to have. If they come back a year from now and are in the same spot as today then it is telling them there isn't a market out there for an investment group that is willing to come to Missoula.

McLeod said this project is very complex and is not easy. He said Fisher had done a lot of work with Dick Anderson Construction (DAC) and they are comfortable with where the costs are. He said after Fisher passed away they talked about redesigning the building and taking the condominium units and making them their own separate building. They decided not to do that because they don't want to compromise what they presented to the MRA Board and the City with their initial plans. He said the integrity of the building is still the same. McLeod said they are now on a clear path by looking at it as four separate projects instead of one: condominium units, hotel, conference center, parking. They went back and redid all of their financial models and it has made it easier for them to talk to investors and have them grasp the idea of the project. He said not having Fisher threw them off for a couple of months, but Tucker is very capable and has extensive experience in developing hotel and conference centers. McLeod said that, along with Dieter Huckestein's background, gives them a good story to tell to investors.

Jones asked McLeod where Hotel Fox Partners expects to be six months from now. McLeod said they expect to be in the drawings stage. Buchanan said the thing that makes this difficult is that turning loose the architects and engineers to do the drawings is a multi-million dollar decision. Englund asked if that means that six months from now Hotel Fox Partners think they will have a sufficient amount of commitments to the capital to be able to turn the architects and engineers loose. McLeod said yes. Englund asked how the funding works. McLeod said it has to be 100%. An investor isn't going to come in and pay for the upfront costs of the construction drawings not knowing if the other money has been raised. Hotel Fox Partners has to raise the equity 100% before they can turn everyone loose on the drawings. McLeod said there is a lot of activity in Missoula and it is on the map. There are a lot of businesses that have located to Missoula and/or are looking to relocate to Missoula because of our lifestyles and the environment we live in. He said there are some real positives for them to tell investors about why this is a good project.

Englund asked if Fisher had worked on any other projects MRA was involved in. Behan said he was based out of Calgary and had worked with Huckestein on different kinds of hotel projects all over the world. This was his first project in Missoula. Englund said the Fox Working Group had the opportunity to work with him and he was very impressive and it is not easy to replace someone like him.

Englund said through his work on the State Board of Investments, he understands the idea of talking about it as four different projects. He said the additional six months was an idea that got generated during the Working Group. Hotel Fox Partners did not ask for it. Englund said if Hotel Fox Partners are going full steam ahead and it comes to be May 2020, but the bidding timing is bad or they have a few pieces that aren't complete, a short delay may make some sense. Englund said the City Council members thought it was a good idea and

something the MRA Board can do without the full process of having City Council involved. Moe agreed. He said the other piece of this is that there be a meeting approximately six months from now where the MRA Board gets a full report from Hotel Fox Partners on where things are going.

Jones said in her litigation world, deadlines are both annoying and helpful. She said a judge will say that if he gives the parties one month to try a case it will take one month. If the judge gives them four days it will take four days. Therefore, she said she is concerned about the idea of an automatic extension or the ability to extend it to 18 months because then it will just take 18 months. She said there might be utility in leaving a realistic deadline that fits within Hotel Fox Group's educated feelings about the project right now, with the idea that everyone is driving towards that. Then, if there has to be another extension at that point to come back to a process where the Board is engaged and educated about why that would be necessary, Jones said it seems like there would be utility in that as well. She said she does think having some measurable goals and a report at six months would be very important. This project has a lot of public interest and its very important to the community and exciting. She said the City recognizes how creative Hotel Fox Partners have been in the approach to get it this far and it's a commendable effort by everybody. Jones said perhaps the reason there aren't people waiting in the wings to do something else is because the property is tied up in this process. She said she thinks they owe it to the community to keep things on a timely track and also that the successes are reported in getting there. Jones said she would like to see a firm commitment at the six month mark and then leave the extension at one year.

Behan said he agrees that the deadlines are both irritating and handy. In this case, he said it is also true that each day that goes by is costing Hotel Fox Partners a lot of money, so there is a slight difference in the need to push forward and not go to deadlines, but actually meet deadlines. He said however it works out is fine. Also, he said one of the things this project has done is raise the community expectations about what can happen there. He said if Dieter Huckestein can't find \$100 million of capital for Missoula, MT then it's pretty tough to find that kind of capital. Jones asked McLeod if they will have a sense of that at the six month mark. McLeod said they will. Jones said if there needs to be a change in focus, Hotel Fox Partners will be able to report on that as well. McLeod said that was correct.

Moe asked the folks present from DAC if they will be involved in the design phase as well as construction, and if they have comments about the timing being suitable and realistic. Steve Miller responded that from DAC's perspective it is very realistic. He said they have been working with Hotel Fox Partners for the last year, and he has worked a lot with Fisher on the budgeting. He said DAC's main focus is to get going into design to work on the budgets and make sure that when it does all come together that the proper amounts are involved in the job to do it. Miller reiterated that DAC is very comfortable with the timing. Moe asked if they are able to schedule personnel to take on the project in the timelines being talked about. Miller said upfront it would mostly involve office personnel which would not be an issue. He said DAC has a lot of projects going on in Missoula. They have a lot of labor force and are growing. McLeod said typically what they will do is have a pre-design meeting. They will go to 60% and then bring the contractor in. In this case they are bringing the contractor in at 25%, 50%, 75% and then 100% so they are there at every step. A lot of time it is just a two or three day meeting where all of the consultants are in the room (structural engineers, mechanical, electrical, plumbing, civil engineers, architects, designers, etc.) and they are going through

the directives of making sure that there aren't any conflicts and DAC will be making sure they are creating a lot of efficiencies in the design. Miller said it is kind of the norm now to get involved in these projects early on so there are no surprises at the end. Jones asked what the minimum amount of time, given that an investor steps up tomorrow, Hotel Fox Partners would need to finish that process. McLeod said if they were to start tomorrow it would be six to nine months. He said as he mentioned earlier, from a programming standpoint they are there. Englund asked what that means. McLeod said it's looking at spaces, layouts and things like columns that would go into the parking structure to support the hotel. He said they have all of that identified so the architects can start to put the drawings together. He said if they come back in six months and say they have the money, but just raised it yesterday, they may need to have a conversation. If May 22, 2020 is the new deadline, they would be ready to start but their architects are saying it will take nine months to do the drawings. McLeod said as he mentioned earlier he thinks that will be an easy conversation. Behan said at that time Hotel Fox Partners would have already committed millions of dollars to the design work. Jones said she thinks that a commitment to come back at six months and report on where things are is what is key for her. She said Hotel Fox Partners will know a lot at that time and if there needs to be a change they will know that too. She said that is what she is in favor of. McLeod agreed and said he likes that. He said it gives parameters to the folks raising the capital so Hotel Fox Partners can come back and say the capital has been raised and they are moving forward.

Jones said there are two deadlines being discussed that are dependent on the other. She said the motion can stay as is and drive towards those two goals, but there could be another request to make a change in six months rather than 12 months. She said she is comfortable proceeding along those lines. Buchanan said if after six months Hotel Fox Partners are ready to go, but there is not adequate time to meet the deadline with permissible drawings, it will take action of the MRA Board and the City Council to further amend the agreement. Jones said she thinks that is justified under these circumstances. Englund asked if that process could be made smoother if the City Council approves that it would only take an action by the MRA Board after the six months. He said what he was hearing from the City Council members on the Fox Working Group is that it would make the process smoother for everyone. Jones said she would reverse it and say rather than give MRA the flexibility to extend the deadline at the 12 month mark, they would consider it at the six month mark. She said that is really when they will know whether it is a go or not. Englund said that holds Hotel Fox Partners to the six month deadline which is the critical deadline. Jones concurred. McLeod said he thinks six months is more than reasonable.

Moe said if MRA approves this and the City Council approves it then MRA will be asking City Council to authorize MRA to consider the six month report and decide whether there should be any further extensions beyond the six months that is left in the initial time period. Jones said that was correct. Behan noted that Bill Vancanagan, Hotel Fox Partners' attorney, has been writing the amendment. He said if the motion passes, staff will give it to Vancanagan and he will write it up so there is a sample to give to City Council. It will be reviewed by Nugent and Dorsey & Whitney LLP as well.

JONES: I MOVE THE MRA BOARD APPROVE EXTENSION OF THE CONFERENCE CENTER AND PARKING FACILITY DEVELOPMENT AGREEMENT DESIGN SUBMITTAL DEADLINE ONE YEAR TO MAY 22, 2020 AND THE DEADLINE TO SUBMIT EVIDENCE OF FINANCING COMMITMENTS AND BUILDING PERMITS TO NOVEMBER 22, 2020. FURTHER, HOTEL FOX GROUP WILL REPORT TO THE MRA BOARD IN SIX MONTHS, AT WHICH TIME THE MRA BOARD COULD APPROVE UPON EVIDENCE OF SUFFICIENT PROGRESS TOWARDS FINANCING, A FURTHER EXTENSION OF SIX MONTHS, IF NECESSARY, TO THE DEADLINES WITHOUT FURTHER ACTION BY CITY COUNCIL, AND TO AUTHORIZE THE MRA CHAIR TO EXECUTE THE FIRST AMENDMENT TO THE CONFERENCE CENTER AND PARKING FACILITY AGREEMENT.

Brock seconded the motion.

McLeod asked if the wording could be changed from "...report to the MRA Board in six months..." to "...report to the MRA Board within six months...".

Jones agreed with the suggested change and amended her motion.

Brock seconded the amended motion.

Moe said she was going to vote for the motion and believes that the motion is supported by the foundation of time commitment and progress made to date on the project, and on the flexibility of the Hotel Fox Partners in recognizing the things that need to be addressed now, and with their restructuring of the components of the building for financing, and also with their engaging new management consulting teams to market the project. She said she believes all of those items support this motion. Englund said he agreed with Moe's statement and added that it goes back to this being a very original idea was built, and maybe it takes a little longer, particularly in the light of the passing of Barry Fisher. He said this is all completely understandable.

No further discussion. No public comment.

Motion passed unanimously (4 ayes, 0 nays).

NON-ACTION ITEMS

STAFF REPORTS

Director's Report

Buchanan said the Board was forwarded an email with an invitation to meet with the Downtown Master Plan Consultants when they are in town on May 21st. She asked the Board to please add it to their calendars.

Budget Reports

COMMITTEE REPORTS

OTHER ITEMS

ADJOURNMENT

Adjourned at 12:56 p.m.

Respectfully Submitted,



Lesley Pugh