MISSOULA REDEVELOPMENT AGENCY

CONDENSED BOARD MEETING MINUTES

November 3, 2011

FINAL

A **special** meeting of the Board of Commissioners of the Missoula Redevelopment Agency was held at the MRA Conference Room, 140 West Pine, Missoula, MT 59802 at 12:00 PM. Those in attendance were as follows:

Board: Nancy Moe, Daniel Kemmis, Karl Englund, Rosalie Cates, Ruth Reineking

Staff: Ellen Buchanan, Chris Behan, Jilayne Lee, Tod Gass

Public: Kevin Mytty, Millsite Revitalization Project; John Adams, OPG; Michael Tree, Mountain Line

CALL TO ORDER

Meeting called to order at approximately 12:00 p.m.

APPROVAL OF MINUTES

none

PUBLIC COMMENTS & ANNOUNCEMENTS

Englund welcomed Ruth Reineking to the Board.

ACTION ITEMS

none

NON-ACTION ITEMS

Old Sawmill District – Project History and Review *(Buchanan)*

Moe commented that the Board usually gets materials ahead of time, which is preferable in order to have a good understanding and make comments. Buchanan apologized and felt Staff was overly ambitious in trying to get this meeting done so quickly.

Buchanan outlined how she did the project review and how it is summarized in the documents she handed out.

Millsite discussions started in 2003. In September 2004 a Brownfields assessment grant was awarded to Maxim for environmental assessment.

In 2004, the property was owned by the Silver Foundation and was being leased by Idaho Timber. At that time Ed Wetherbee and Kevin Mytty had an option to buy the property and the lease. Morris Silver established the lease in the 1950s with a timber company. The lease was for 80 years and expires in 2033. The lease included the payment amount, an escalator for cost of living, and a provision that at the end of the lease, the holder of the lease could buy the property for 10 times the annual lease amount. Buchanan said in 2004, they calculated the buyout amount to be $650,000 for the 45 acres. Essentially the lease allowed whoever held the lease to do whatever they wanted on the property that was permissible by law.

The original lease was with Intermountain Lumber, which was then absorbed by Hoerner Waldorf, which was then absorbed by Champion. Champion then sold the lease to Idaho Timber. Buchanan said by 2004, Idaho Timber didn't have any intention of using the property for timber production. Kemmis added that Idaho Timber did consider the property to be very valuable and had no intention of letting go of the lease.

Mike Kadas was Mayor when Buchanan was hired at MRA and at that time Idaho Timber was holding the lease, an asset they thought was worth a fair amount of money. Then Wetherbee and Mytty as Millsite Revitalization Project (MRP) were able to negotiate the option to buy the lease from Idaho Timber at the same time they were working on securing an option to purchase the property from the Silver Foundation.

Mytty said MRP paid around $650,000 in lease option extensions during this negotiating period. Buchanan said the Series 2006 $3.6 million tax increment bonds paid for the lease buy out from Idaho Timber. The lease option was $3.2 million and the additional $400,000 was required for bond expenses and costs of issuance. Mytty said MRP paid for lease option extensions for about a year but the purchase deadline was before the environmental assessment was completed so MRA tax increment was used to buyout Idaho Timber on MRP's behalf.

MRP then became the lease holder of the property and began paying rent to the Silver Foundation and the property taxes. Combined this amounts to about $100,000 per year.

MRP has a buy-sell agreement with Silver for the property. Mytty said they are on the 15th amendment to extend the deadline on the buy-sell to February 2012. MRP currently doesn't make any payments to Silver Foundation to extend the buy-sell deadline. Mytty said their attorney Helena McClay is working on the buy-sell with the Silver Foundation. Mytty said there have been some discussions about the Silver Foundation offering seller financing versus MRP just buying them out. He said that is much more complicated.

Mytty said the buyout price is $2.5 million, which is what it has been from the beginning when they first approached the Silver Foundation.

Buchanan said some of the things that make this a very challenging project are that the cost of the property is $2.5 million to buy, the overriding lease was $3.2 million to buy and there is environmental cleanup that entails a great deal of uncertainty as to the cost; and all of this is before any real development can happen out there.

Englund clarified the ownership status: Silver Foundation owns the property subject to the buy-sell with MRP and lease with MRP. Buchanan added the City has a sublease with MRP for the 14.5 acres that is Silver Park.

Kemmis asked about the Agreement with MRP when MRA issued the bonds to buy the lease; what are the conditions if MRP is not able to buy the property. Buchanan said MRP retains the position of lease holder and the City retains the position of sublease holder of the park land until 2033. Then a provision states that if MRP chooses not to purchase the property, then the City can purchase the property, or it can be purchased jointly with a 40%=City / 60%=MRP split on the money.

Buchanan said there are also special conditions in the Agreement, such as zoning and plat requirements, and environmental clean-up signoff, which allow the City (or it's assigned) to purchase the property and then MRP has the option to purchase it back from the City within 12 months at whatever amount the City has invested in it. Buchanan said one of the complications was the City was insisting on evidence of MRP's ability to assign their purchase option to the City. Buchanan said back in 2006, the Silver Foundation would not agree to this so the City had to walk away from that condition.

Mytty said another special provision was if the economy goes bad. Back in 2005 and 2006 no one expected this recession.

Kemmis said his recollection was the reason the Silver Foundation didn't want to grant the City an option to buy was that Morris Silver didn't want the City to own the property. Buchanan said that was MRA's understanding. Buchanan said that sentiment has moderated over the last eight years since the City now basically owns the rights to develop Silver Park. Buchanan said she didn't know what the Silver Foundation's position would be now if MRP decided to walk away from the project.

Buchanan reviewed her chronology handout to the Board. In 2005, MRA entered into an interim Development Agreement with MRP. MRA and MRP undertakings were summarized.

When discussions first started, the Millsite property was not part of the City because industrial property cannot be annexed unless there is a petition by the owner. Once it was annexed, there was a revenue stream to MRA. There was an appraisal done on the property to try and determine what the revenue stream might be if the area was cleaned up. It was known that several years earlier Idaho Timber had gone to the Department of

Revenue (DOR) and asked for the value of the property to be reduced because it was contaminated. MRA anticipated it could at least get the 25% reduction back upon cleanup and reassessment by DOR .

The terms of the Brownfields RLF loan were reviewed. The loan has been increased twice. The original amount in 2006 was $1 million, then $125,000 was added and then $400,000 was added in December 2009. The Brownfields loan is serviced by the increment from the Millsite property only, not the entire district.

MRP had to get the Voluntary Cleanup Plan (VCP) approved through the State of Montana, which they did. Mytty said they are nearly done with the cleanup, and are dealing with some methane abatement now. The deadline is next year so they hope to get confirmation in the spring from the Department of Environmental Quality (DEQ) that the VCP has been satisfied.

Another condition of the interim Agreement was that MRA gave $150,000 for planning, surveying and site design. That process was completed and zoning is approved. The preliminary plat is approved and the final plat cannot be approved until conditions are met, such as the cleanup being finalized.

MRP provided land for Silver Park, which MRA has been developing incrementally.

Discussion ensued about MRA's current obligations to the Brownfields loan and the change in management from Missoula Area Economic Development Corporation (MAEDC) to Montana Community Development Corporation (MCDC).

Changing Tape – tape 1, side 2

Buchanan said MRP recently requested another $250,000 from the Brownfields program. The program has enough to grant the request if the Brownfields Committee agrees. The method of repaying that loan has not been determined. Buchanan felt MRA doesn't have the capacity to amortize any additional amount. Mytty said MRP has been in discussions with John Adams, OPG Brownfields Grant Coordinator, and MCDC regarding the repayment of the loan. Mytty said when the remediation first started it was anticipated to cost around $1 million to get it done. To date there has been$125,000 (assessment grant) + $1,525,000 (loan) + $833,000 (grant) = $2.483 million of EPA funds plus MRP has invested about $1 million of their own cash into the cleanup.

Cates asked Mytty if the cleanup completion was subject to the receipt of additional funds. Mytty said yes, the methane portion of the remediation took a long time to identify and plan so it cost more than was anticipated. Mytty said the cleanup needs to get done before the deadline but MRP feels they've exhausted their cash flow so they've applied for an additional $250,000 from the Brownfields program.

Cleanup only costs summarized again as $1,525,000 (EPA) + $833,000 (EPA) + $1,000,000 (MRP) + $800,000 in legal, design and related fees that MRP is paying + 250,000 (additoinal EPA request) = $4.4 million for cleanup

Englund asked if MRA has any way of verifying the investment made by MRP. Buchanan said no unless MRP provides an accounting of it. Mytty distributed a Balance Sheet as of 8/31/11 summarizing what MRP has invested to date.

Overview of chronology continued with discussion of the City resolutions related to the project.

Other pieces of the various Agreements were reviewed by Buchanan.

- The breakout of the 45 acres was 14.5 for Silver Park, 4.5 for streets and the remaining 26 acres for development.
- The $7 million Project Bond that was anticipated to be issued to finance a portion of project was not done.
- SIDs, Impact fees, etc. were looked at because there wasn't going to be enough tax increment to service the debt on a bond large enough to build the entire infrastructure needed.
- Originally a 1/3 – 2/3 split was anticipated for the 2006 URD II Bonds with MRP's share coming from the Project Bonds to help develop the park.
- Civic stadium parking obligation issue
- Silver Park purchase price $663,500
- MRP lease payments; Silver buyout stipulation, City option to buy in 2033.

Reineking asked if the City had to buy or had the option to buy the property. Buchanan said the City would have the option and would probably do it for that price. Buchanan wasn't sure if the City could just buy a portion of it, i.e. the Park. Buchanan said URD II sunsets in 2031 and that provision comes in 2033.

Kemmis asked Buchanan to send the Board the Resolution, Lease Purchase, Sub-lease, and any other Agreement executed when MRA issued the $3.6 million bond.

Reineking asked if anyone else could purchase the property if MRP walked away. Buchanan said it's at the discretion of the property owner. Discussion ensued.

Englund asked what would happen if MRP defaulted on the lease. Mytty said the City could take over the lease payments.

Buchanan said a Millsite working group was formed back in 2006. Kemmis and Cates sat on this group from the Board. Childers and occasionally Rye attended as City Council members.

Buchanan said after going through all of the documentation, the issues are still the same:

1. Project Bonds can't be publicly sold without guarantee so MRP would need to buy the bonds.
2. State law requires a sound financial plan for the project in order to issue debt.
3. MRP could develop as subdividers and sellers or could develop it themselves.
4. MRP's position has been "we are not the developers, so we can't guarantee development."
5. How to issue bonds to be serviced by increment when there is no guarantee of increment.

Mytty said MRP hasn't gone down that road because in the last few years the economy has been bad. Mytty said even if we had done a bond to put the infrastructure in, most likely there wouldn't have been any development anyway. MRP has been waiting for the economy to come around. MRP still intends to do what Buchanan said and what was outlined in the Resolution but instead of doing it all at once, they want to break it up and do it incrementally. MRP wants to keep going as long as the vertical development can sustain the bonds.

Moe asked if there is an actual plan to do this. Mytty said yes, there is a plan. He said they do have a few interested clients. He said there has been more interest in the last six months than in the last four years. Basically the multi-family demographic is what is needed; for example student, market rate and senior housing. Mytty added that maybe an office building could happen along with that.

Reineking said developing the area in phases doesn't seem to work with the bonding.

Changing tape – tape 2, side 1

Buchanan said what has changed from 2006 is that instead of one big bond issue there would be several smaller bonds. But the fundamental issue is still there; that there needs to be adequate tax increment generated to service the debt. Buchanan said even before the economic down turn, this was the core issue that MRA and MRP struggled with.

Englund asked about what has to be done to get the development underway. Buchanan said the infrastructure has to be there and the final plat has to be recorded before you can sell lots for development. In order to get final plat approval, the access issue has to be resolved and the railroad trestle has to be repaired or replaced. Buchanan said the cost to replace it permanently is about $1 million. Kemmis asked if it would be less if Montana Rail Link (MRL) abandoned the line. Buchanan said the last she heard was that MRL was not going to abandon the line; and they are running trains between the rail yard and Buckhouse Bridge. They are not running trains down the Bitterroot anymore.

Discussion ensued regarding what MRL is transporting and the demand for their services. Vann's products, lumber, fertilizer, agricultural projects were among those mentioned. Mytty said the demand was minimal before, three cars twice a week maybe. Kemmis said the idea of investing that much for infrastructure when there is minimal use of the line is hard to imagine. Buchanan outlined the deal that has been negotiated with MRL if all parties agree: the City would only have to pay to shore up the trestle and add a debris catcher until traffic volumes reach 6000 vehicles per day or by December 31, 2017, then the City would be required to rebuild the trestle for MRL. Complete rebuild is estimated at $1 million.

Buchanan said the latest infrastructure cost estimates are $1.53 million to build the Cregg/Wyoming connection.

Englund summarized that it's about $2.5 million to provide legal and permanent access to the property and stadium. Buchanan said the road cost would depend on if it's a basic road or a road like North Higgins. Kemmis asked if any of that was meant to come from MRA. Buchanan said it has always been understood the trestle repair or replacement would be paid for by tax increment, whether now or in 2017. The Cregg/Wyoming connection was to be built with project bonds paid for by tax increment generated from the project, not from URD II.

Kemmis said he is concerned about investing in the trestle without a clear commitment for development, especially if the City is entering into an agreement to rebuild the trestle in 2017 when the future of the line is unknown.

Moe asked if the $1 million would be enough to shore up the trestle if it's future use was a commuter line. Buchanan said the trestle redo as designed would handle cargo or passenger travel. Discussion ensued regarding rebuilding the trestle and when that would need to be done. Englund asked if MRA had $1 million now to rebuild the trestle. Buchanan said MRA would have to bond for it. Mytty felt MRA should do what MRL agrees to now and not spend the money to rebuild the trestle until the agreement specifies. Buchanan agreed because what has been negotiated gives the City legal access under the trestle so the plat can filed and access to the stadium is ensured.

Cates asked for the top issues that are still unresolved. Buchanan reviewed the unresolved issues in her handout.

- Assurance that there is a sound and adequate financial program for financing the project if MRP cannot guarantee the construction of buildings
- What costs will be covered in the issuance of project bonds
- Appropriate size of bond issues relative to increment generated and if all increment is committed to debt service or if some is put back into the district. **Discussion:** Buchanan said a lot of money for this project has come on the back of URD II as a whole. It's a philosophical question, particularly if MRA decides to build the trestle, the park and Cregg/Wyoming on the back of URD II and not use revenues generated by the Millsite.

Mytty said all of those expenses except for the trestle were in the original planned project bonds so if MRA does it that way those would be bonds MRP would not buy. Mytty said bonds would still need to be issued for the rest of the infrastructure as needed, what MRP has termed as "pay as you go" bonds. These will be bonds based on something coming out of the ground before the infrastructure is put in. Mytty said he understands MRA's position but said it diminishes MRP's appetite for project bonds if the increment is put into existing cash flows. Mytty said as MRP does the project bonds, hopefully there is a point at which they will only need to absorb so much of the increment and the rest could go back to URD II.

- Source of MRP's return on investment – bond structure or development of the project
- Terms of subsequent bonds
- Determination of guarantees needed if SID Bonds are issued
- Design controls or covenants to assure quality of development is appropriate to support financial structure.
- Finalization of outstanding agreements relating to parking, the park and encroachments
- Agreement on the terms of a Development Agreement between MRP, MRA and the City

Mytty said MRP's covenants maintain full architectural control. Buchanan said maybe an agreement can be reached in that respect then.

Englund asked about the total public money invested to date. Buchanan referred to her Financing Summary and said it's about $8.2 million. There are additional funds anticipated to be spent per the 2006 agreements, such as reconstruction of the trestle and finishing Silver Park. Buchanan said MRA has spent nearly $1.8 million on Silver Park so far and anticipate spending another $2.3 million to build out the master plan as it was envisioned. She said MRA could spend less if the Park's planned entry features and plaza were omitted.

Buchanan said there is still the issue of the additional $250,000 in Brownfields that has been requested. She said MRP sent a letter to the City in May 2011 discussing using tax increment to build the Cregg/Wyoming connection and issuing a tax increment bond to be purchased by MRP to reimburse MRP for some costs of $1 million. Buchanan said once again the question is what pays it off. Regardless of who purchases the bonds, the City Council has to make a finding that there is a sound financial plan in place to repay the debt. Buchanan restated that she feels URD II is out of capacity to handle additional debt; MRA has to keep its coverage ratios healthy for reporting to Standard & Poor's on the existing bonds. MRA is also tying up $500,000 of funding annually for four years for purchase of the Stadium. Because of all of these reasons, Buchanan wants to defer rebuilding the trestle and minimize any bond issues in the near term or until MRA completes the Stadium purchase.

Englund added up the public funds that have been spent and public funds anticipated to be spent or requested and it totaled about $25 million. He said if you back out the $4 million estimated for Silver Park since it's a public investment it's still $21 million. Using MRA's 1:10 public to private investment ratio guide, he asked if the Millsite is a $220 million project. Buchanan said no, MRA has never seen numbers that high. Buchanan said the projected total project cost from the market study done in 2006 was $150 million. Discussion ensued. Cates felt a fundamental question is whether MRA can do this on the "lot building" model. Cates felt the working group has a good relationship with the Developers but this is a fundamental question that needs to be figured out.

Mytty felt it's probably a good time to get the working group back together and drill down on these expenses. He said MRA has to defend a lot of things and a lot of this has come from City coffers via increment. He felt there are a lot of ways to break the money out; some of which really doesn't come from tax payers in the City. Mytty said a lot of the environmental work was paid for by Federal EPA money coming through the City. Mytty said the $8-10 million tax increment estimated to build project infrastructure would be increment generated off MRP's project. He said if you carved it up a bit, it's still a big number for all parties, but it's a big development. Mytty said this is the eighth year since they signed the first agreement. He said in a way MRP is lucky they weren't further down the line with the economy the way it is. He felt MRP is in a really good spot; they've invested $4-4.5 million in cash into the development in addition to what MRA and EPA have invested. He said MRP has no debt against the Millsite. He felt the City and MRA have funding mechanism in place to pay for what's been done already. Mytty said it always looks like MRP is in here begging MRA for money to get this done; and we have but he felt the City, Mayor and MRA understand the project pretty well. Mytty said the whole request regarding Cregg/Wyoming, the Park and the trestle came from John (Engen). Engen said "Hey, what can we do to get this thing going? What if we built Wyoming and the Park and figured out the trestle and traded that off with things down the road to get this thing going?" Mytty said MRP was excited when Engen asked about that and then the Stadium project came up. Mytty felt without having to take care of the $2 million on the Stadium, this would have been an easy thing to get done. Mytty said MRP understands the need to preserve the Stadium and it's important to them and their project.

Kemmis said this was a very useful exercise. This discussion really puts in sharp focus the question of can we make this work on a "lot by lot" basis. He said he's much more dubious about that. Kemmis asked if MRP would consider entering into an agreement with a developer versus a subdivider.

Changing tape – tape 2, side 2

Mytty said originally they had considered themselves as the vertical developer. MRP has always figured they would have to do some of it themselves. He said MRP is probably more in a position to facilitate a developer now than before. For one, the Millsite has been approved for the EB5 program through Arnie Sherman's group at the Trade Center so potentially MRP will have access to that. Mytty passed around a

rendering of a project they are working on through the EB5 program. Mytty felt they could do some of the vertical and find land buyers to develop the rest of it. Mytty thought MRA would still be involved through architectural control and building sizing, etc.
Moe asked if Mytty could provide copies of the design covenants to Buchanan. Mytty said Buchanan has them since they were part of the plat. Buchanan said MRA felt those didn't go as far as they should. She said it comes back to the same issue; if you base your revenue projections on build out "X" and you don't have covenants and deed restrictions that require "X", or you allow purchase of the lots speculatively, then we don't have any guarantees for "X" and the revenue needed to pay off the debt.

Moe asked what obligation MRA has to provide infrastructure. Buchanan said none. Using tax increment to build infrastructure was one of the possible financing tools identified in the Resolution for the Series 2006 Bond issuance that bought out the lease. It was not a statement of commitment but one of speculation; SID bonds were also identified.

Moe asked who got the nearly $1,000,000 in management fees on the MRP Balance Sheet. Mytty said the management fees were put in as $10,000 per month from the time the project started for Shelter West and Boulder Partners for their time and expenses. It was going to be part of the original project bond as a reimbursable item. Mytty said they spend a lot of time driving and flying around that they pay for themselves; it doesn't come out of MRP because there isn't any money there. He said a good part of it is for their time managing the project.

Moe asked what MRP's "sunk" costs were on Buchanan's financial summary. Buchanan said that amount comes from the May 2011 request MRP sent to the City. Mytty said the Resolution passed by City Council for the last bonds included "sunk" costs as a repayment item under the anticipated project bonds. He said the number wasn't as big back then. Buchanan said these soft costs have been one of the subjects of controversy, as to whether they should be an eligible expense within the bond issue.

Buchanan said she has summed up the numbers on her financials:
$8,163,000 – Spent to date
$15,132,000 – Spent to date + Anticipated expenditures (all URD II or federal funds)
$8-10 million – More to be requested in the form of "pay as you go" project bonds

Buchanan said from her perspective, Cregg/Wyoming is not only important to the Millsite but it's another east/west connector for the City. She also felt that the Board and City Council will want some assurances that something will happen out there as a result of that additional investment.

Moe asked if the Cregg/Wyoming connection is built, whether the trestle work is necessary since there will be access from the west. Buchanan said yes, one of the conditions of the subdivision plat is that there be two points of legal access.

Kemmis felt concerned that negotiations with MRL are proceeding with an assumption that MRA is going to invest the trestle, especially in light of the changed circumstances with regard to the use of the line. Kemmis said he would need more information before he would be willing to commit using MRA funds for the trestle at this point. Kemmis said with the change in the use of the line, any investment MRA makes should be part of a broader transportation planning effort that looks at alternative uses of the line. Making a stop-gap investment in the trestle is not very appealing to Kemmis.

Buchanan said the trestle deal is something the City would be committing to do; but they would be looking to MRA for funding.

Cates said every time we make a forward looking, “if this, then that”, we leave a mess for other people to solve.

Reineking asked what the next steps are; how to get beyond the impasse, what are the deadlines, and whether to commit to getting the working group back together.

Englund said anything concrete will have to be done at a future meeting. He said this meeting was good to get the board up to date so in the future, important decisions could be made.

Buchanan said the only deadline is the Voluntary Cleanup Plan (VCP) has to be completed by August. MRA is not involved in that unless MRP asks, and MRA decides to find a way to service the debt on another $250,000 of Brownfields RLF money. Buchanan said MRA does not have that request and MRA does not have the capacity to service the debt unless it’s on the back of the entire district.

Buchanan said she’s reluctant to pull the working group back together, unless there is a clear path we are all trying to go down. She said it’s hard work and time consuming. Mytty felt the working group should get back together and start tackling some pieces. Mytty said if the City doesn’t build Cregg/Wyoming, then MRP would have to go secure the two projects they are looking at subject to that infrastructure going in. He said it’s a yin and yang thing.

Behan asked if Mytty could get the developers to say, “If the road is there, we will build.” Mytty said yes, he thought so. Moe liked this idea within a timeline. Mytty said they were never trying to put the road in right now, but were just waiting. He said now things are starting to happen and if there is a will to put the road in, it will get more than just these two buildings built; it will bring a lot of traffic immediately through the project. Mytty said in addition, Silver Park is already being used. Thirdly, the Stadium still needs baseball parking and it was thought that Wyoming Street would carry some of that capacity until total build out.

Englund suggested MRP put something together and work with the Staff to get something before the Board for the December meeting. Englund said Behan has hit on some things that could be looked at.

Buchanan said if MRA is going to go in a different direction, then we all need to understand the circumstances.

Moe said she is grateful for those serving on the working group. She felt one area that needs to be tightened up is the covenants; to ensure a quality development.

Kemmis said as a former member of the working group, he would be willing to get together again if there is something really concrete to discuss. Englund preferred to look at any proposals more officially, so to the entire Board.

Buchanan apologized again for the lateness of the material. Moe said she thinks the Board understands the difficulty of going through all this material and making it easy to understand and read.

Mytty said they would hopefully see the Board in December or January. He said MRP would work with MRA Staff and hopefully come up with a plan.

Reineking thanked Buchanan for her work and the Board for their time and questions.

STAFF REPORTS

none

OTHER ITEMS

none

ADJOURNMENT

Meeting adjourned at approximately 2:00 p.m.

Respectfully Submitted,

Jilayne Lee

Jilayne Lee

OLD SAWMILL DISTRICT
CHRONOLOGY AND TERMS

Approved and/or Executed Actions and Agreements – 2004 - 2010

9/13/04 Resolution #6840 - City awards a $125,000 Brownfields Assessment Grant to Maxim Technologies for environmental assessment of the Sawmill Property for the benefit of MRP as the holder of an option to purchase the property.

8/25/05 MRA Board approves an interim Development Agreement between MRP and MRA as follows:

MRA undertakings:

- Provide staff assistance to secure RLF funding for remediation, for preparation of necessary resolutions declaring the remediation and demolition as Urban Renewal Projects, to help facilitate the public planning process leading to zoning and plat approval and for consideration of a tax increment grant to assist with planning and engineering.
- Upon annexation of the property, recommend City Council approval of remediation and demolition as Urban Renewal Projects and agree to issue up to $1M in tax increment bonds payable from URD II tax increment revenues to fund remediation if the RLF funds are not sufficient; assist with the issuance of tax increment bonds for remediation if approved by council; request that the City pledge tax increment resulting from annexation as collateral for the RLF loan; work with MRP to identify project elements eligible for tax increment assistance.

MRP undertakings:

- Coordinate with Silver Foundation and Idaho Timber to complete annexation.
- Maintain options to purchase the property from Silver and Idaho Timber.
- Provide MRA evidence that the options to purchase are assignable.
- Submit documentation to DEQ required for them to grant approval of a Voluntary Cleanup Plan, VCP, for the property.
- Provide MAEDC with an application for up to $1M in RLF funds and make the necessary commitments to obtain the loan.
- Upon annexation and approval of the RLF loan and no later than 1/1/06, request that MRA recommend to the City Council that the tax increment bonds for remediation be issued.
- Upon approval of the VCP, the RLF loan commitment and authorization to issue tax increment bonds, seek and obtain all approvals necessary and enter into contracts for remediation and demolition.
- Engage design professionals to create a development plan, conduct the necessary public process and work with OPG to gain approval of zoning and subdivision plat.
- Provide approximately 15 acres in the master plan for park land with a minimum of 10 acres adjacent to the river to be publically owned.
- Work with MRA to design and develop the park land.
- Take reasonable steps to complete those elements necessary to exercise the option to purchase the land.
- If MRP is unable to undertake the remediation and demolition after receipt of RLF proceeds and tax increment remediation bond proceeds, assign the option to purchase to the City or its designee.

- Agree that if tax increment bonds, other than those issued for remediation, are to be issued for the project, MRP must secure a purchaser of those bonds and be responsible for providing guarantees or other credit enhancements needed to assure that the bonds can be sold.
- Indemnify the City for environmental or civil liability resulting from the actions of MRP.

8/25/05 MRA Board approves a $150,000 tax increment grant to MRP for planning, surveying and site design.

9/12/05 Resolution #6971 setting forth:

- Environmental remediation and demolition as an Urban Renewal Project.
- City Council intention to finance a portion of the project through the issuance of up to $1M in tax increment bonds payable from URD II .
- Approved using tax increment from the property for debt service on Brownfields Revolving Loan Fund loan.

9/12/05 Resolution #6972 – City annexation of the Mill Site property.

10/3/05 Resolution #6978 – Modifying the Urban Renewal Plan to include the Millsite and approving the project as an Urban Renewal Project

11/28/05 Resolution #6993 – Resolution of Intention to declare a blighted area exists and to modify the boundaries of URD II to include the blighted area, the Champion Millsite.

12/12/05 Ordinance #3308 – Amended Ordinance #2803 by confirming that the Millsite area is blighted and adjusting the District boundaries to include the Millsite.

4/3/06 Resolution #7047 – Authorizing the issuance of a tax increment revenue note between the City and MAEDC as security for the $1M RLF loan and specifying the terms of the note as 3% interest with principal and interest being payable over 25 years.

6/12/06 Resolution #7080 – Revising the terms of the tax increment revenue note as security for the $1M RLF loan to 1.5% interest with interest only payments through the 16th anniversary of the note, after which the note would be amortized such that principal and interest is paid no later than the 25th year of the note. A further modification required that if Project Bonds had not been issued by January 1, 2009, the principal and interest would be due and payable only from available tax increment.

6/12/06 Resolution #7089 setting forth the intention to issue the 2006 URD II Tax Increment Bonds payable from the tax increment of URD II for the purchase of the Idaho Timber Lease, identifying components of the financing of the project and authorizing the negotiation and development of a Development Agreement between the City, MRA & MRP to be presented to the City Council for public hearing at a later date.

7/10/06 Resolution #7104 approving the financing of the purchase of the Idaho Timber lease through the issuance of tax increment revenue bonds payable from the tax increment of URD II and approving and identifying the components of the financing for the Millsite Project with the terms as follows:

2006 URD II Tax Increment Revenue Bonds Conditions

- Issuance of tax increment revenue bonds not to exceed $3.6M payable from URD II tax increment revenues for purchase of the Idaho Timber lease.
- MRP presenting a development plan to MRA and the City with the following elements:
  -Acquisition of the property and the I.T. lease
  -Installation of public infrastructure
  -Site development
  -Providing availability of 26 acres for mixed use development
  -Provision of approximately 14 acres for parkland and trails
  -A site plan which was filed with OPG on 6/9/06
- MRP and the City to enter into agreements to grant the City the right to approximately 14 acres for use as a park and grant MRP the right to control the remainder of the property for development in conjunction with issuance of the bonds.
- MRP is required to continue working with DEQ to complete the VCP and get a letter of no further action.

Other Financing Components

- Proposed that City issue additional tax increment bonds payable only from the revenue from the development of the project, the Project Bonds, estimated at just over $7M based on projections by MRP of timing of lot sales, value of proposed development and generation of tax increment revenues by the development with the following conditions:
  -Approval of a Development Agreement between MRP, MRA and the City
  -Execution of an agreement between the City, Silver Foundation and MRP as to purchase or assignability of the right to purchase the Millsite property
  -MRP providing any credit enhancements or guarantees necessary to make the bonds marketable or purchasing the bonds with mutually agreed upon terms
  - Upon closing of the Project Bonds, MRP will close on the purchase of the property and transfer ownership of the parkland to the City
- Proposed that the City will create a special improvement district within the Millsite property to pay the costs of eligible public infrastructure not covered by the Project Bonds in an estimated amount just in excess of $4M with the following conditions:
  -Approval of the subdivision plat
  -Receipt of construction bids for the infrastructure improvements
  -Evidence that all other sources of funds are available to complete the project
  -A reserve of 5% of the amount of the SID Bonds and a 5% deposit to the City Revolving Fund
  -A letter of credit from MRP equal to one year of principal and interest based on the assessments
- MRA to pay for the costs of designing the park and trails with construction being funded through the use of existing tax increment and a portion of the Project Bonds (due back to the City for MRP portion of the I.T. lease purchase).
- Silver Foundation agreed to contribute $500K of the land purchase to MRP for development of common space within the development, not the park.
- MRP to pay the cost of land purchase, $2.5M, and, in the event that costs of development exceed funding identified here, MRP is responsible for securing the

additional funding with proof that MRP has the ability to provide that funding required before the City will issue Project or SID Bonds.
- RLF funding of $1M already committed for remediation costs.
- Payment to MRP of $226,500 in tax increment funds previously committed to build parking for the Civic Stadium in exchange for MRP providing a minimum of 100 parking spaces within the development for use by the stadium and others.

8/23/06 Agreement to Purchase the Idaho Timber Lease and Sublease and Partition Agreement executed. Terms and conditions:
- URD II Bonds to be used to purchase the lease with interests in the lease being conveyed to MRP.
- MRP subleases park parcel to the City and the City has the right to purchase the park parcel as part of the lease option which gives MRP the right to purchase the property at the end of the lease in 2033.
- If neither MRP nor the City has purchased the property by 2033, either party may exercise the option to purchase with prescribed notice to the other party. There are also provisions for a joint purchase.
- If MRP purchases the property prior to the expiration of the lease, the following will occur:
  -MRP, the City and Play Ball will enter into a Parking Rights Agreement whereby MRP provides parking rights to the Civic Stadium and the City pays MRP $226,500 for those rights (this agreement has not been finalized to date)
  -The City pays MRP $662,500 for the park parcel, MRP conveys the park parcel to the City and the sublease is terminated
  -Establishment of a timeline and conditions for purchase
- Upon closing of the purchase of the lease, MRP grants the City an option to acquire MRP's interest in the lease with terms and conditions identified. Basically, if MRP elects not to purchase the property, they notify the City and the City may purchase; however, MRP has the right to repurchase for the City's actual costs for 1 year or until certain "Special Conditions" cease to exist.
- The City, MRP and Silver Foundation will agree upon restrictive covenants requiring the use of the parkland in perpetuity for parks and trails and setting forth permitted uses (this agreement is not finalized to date).
- MRP required to pay all lease payments and property and other taxes on the property.

2007-09 The RLF agreements and notes have been amended to add $125K and $400K to the loan amounts to be serviced by the tax increment currently being generated by the property and at the same terms as the original loan.

4/6/10 Silver Foundation was granted $833K of EPA stimulus funds for use by MRP for environmental remediation, specifically wood waste removal and methane abatement.

Process & Unresolved Issues – 2007 – 2011

3/06 The Millsite Working Group was formed to work through issues. It included MRP, MRA staff, MRA Board members, City Council members and consultants as needed. This group met from early 2006 – early 2008. At that point, progress slowed due to the economy and the continuing environmental remediation efforts. After the URD II

Bonds were sold in 2006, the working Group focused primarily on the creation of a Development Agreement. A key to this was developing a financing structure that could move the project forward. The key financing tools were the Project Bonds which MRP would purchase with the debt being serviced solely from the increment being created by development of the Old Sawmill District and SID Bonds that would be paid through assessments against the property. A major challenge continues to be that in order to issue the Project Bonds, there must be a sound and adequate financial program for financing the project, Montana Code 7-15-4217(4). That requires the creation of new tax increment through the construction of buildings. MRP was and continues to be acting as a developer that subdivides property as opposed to one that builds out the project. These are two very different development models. MRP has not been in a position to guarantee that buildings will be constructed even if bonds are sold and infrastructure is built.

Other issues that have not been resolved include:

- Degree and nature of commitment to create increment needed from MRP for the issuance of bonds payable from the development
- Whether bonds payable from the development can/should be sized to absorb 100% of the increment projected to be generated over the life of URD II
- Determination of what costs should be covered if Project Bonds are issued.
- The terms of the Project Bonds
- Source of MRP's return on investment – financial structure or development of the property
- Guarantees needed for the SID Bonds
- Finalization of the Parking Rights Agreement, Park Servitude Agreement and Exchange Agreement dealing with encroachments
- Means of guaranteeing that what is developed meets expectations for generating increment, ie. design controls, covenants.

Changes Since the 2006 Agreements

- The original plan to develop the site as one project is now phased and the preliminary plat has been amended to reflect two phases
- MRP would like to borrow an additional $250,000 in RLF funds. An acceptable plan for servicing the debt on that loan has not been agreed upon.
- MRP would like for the City to issue additional bonds payable from URD II revenues to build Cregg/Wyoming, rebuild the railroad trestle and build the remainder of Silver Park. In exchange, MRP will not require the City to pay $662,500 for purchase of the parkland or $226,500 for parking rights. It is unclear what happens to MRP's obligation to repay the City for 1/3 of the cost of the URD II Bonds that purchased the Idaho Timber lease.

OLD SAWMILL DISTRICT FINANCING

City Funds Committed or Expended to Date

$125,000	Environmental Assessment grant from City (EPA Funds)
$150,000	Planning grant from MRA (URD II TIF)
$1,525,000	RLF loan being debt serviced by tax increment from the property (EPA)
$3,600,000	2006 URD II Bonds debt serviced by URD II tax increment (URD II TIF)
$833,000	Brownfields grant to Silver Foundation (EPA)
$143,000	Professional services – legal & financial (URD II TIF)
$1,787,000	Design and construction of first 3 phases of Silver Park (URD II TIF and transportation enhancement funds)

City Funds Anticipated to be Spent per 2006 Agreements

$226,500	Parking Agreement – use of 100 spaces within the development (URD I TIF) (see notes)
$662,500	Parkland purchase after MRP buys the property. $331,250 to come from Project Bonds, if issued and $331,250 from existing increment in URD II (see notes)

Other City Funds Anticipated to be Spent

$1,000,000	Estimated cost of reconstruction of the railroad trestle (URD II TIF)
$2,300,000	Estimated cost to complete Silver Park (URD II TIF)

City Funds that MRP Has or Plans to Request

$250,000	Additional RLF loan with terms and source of debt service unresolved
$1,000,000	TIF Bond purchased by MRP to reimburse MRP for sunk costs (5/11 memo)
$1,530,000	Estimated cost to build Cregg/Wyoming connection (5/11 memo) (URD II TIF)
$8 – $10M	Additional TIF funds to build infrastructure in future phases (5/11 memo)

MRP Expenditures as of 5/2/11

$4,271,930	Detail to be provided

Notes: The agreements surrounding the 2006 URD II Bonds included provisions that MRP would bear 1/3 of the cost of the bonds. This resulted in a provision in Ordinance #7104 that the estimated cost to build the park was $2M and that the City and MRA would commit $1,060,250 toward that cost with the balance of $939,750 coming from the Project Bonds. They further stipulated that the City would pay MRP $662,500 to purchase the property for Silver Park. It was agreed that $331,250 of that cost would come from existing URD II revenues on hand and that the other $331,250 would come from the URD II Bonds.

The $226,500 that was carried over from URD I to provide parking for the Civic Stadium has been spent to provide parking for the stadium in Silver Park and is no longer available. Options are to build an additional 100 spaces in Silver Park or use URD II revenues to pay for parking rights in the development.

OLD SAWMILL DISTRICT
AGREEMENTS, UNRESOLVED ISSUES & CHANGES
KEY ELEMENTS SUMMARY

Interim Development Agreement

- MRA to provide staff assistance - Done
- MRA to support use of tax increment for RLF loan - Done
- MRA to support a $1M bond issue for remediation and demolition – Plan Changed
- MRP to complete annexation - Done
- MRP to maintain option to purchase property - Done
- MRP to get approval from DEQ for VCP - Done
- MRP to apply for RLF loan funds - Done
- MRP to design the project and submit for zoning and subdivision approval - Done
- MRP to provide land for riverfront park - Done
- MRP to implement remediation plan - Ongoing

Brownfields RLF Loan

- Currently $1,525,000
- Payments are only from the tax increment being generated prior to development
- 25 year term at 1.5% interest
- Interest only payments until 16th year, then P & I are amortized over the next 9 years

2006 URD II Bonds, Lease Purchase Agreement & Sublease Agreement

- $3.6M payable from URD II revenues
- Development plan with 14 acres for a park and 26 acres to be developed
- MRP continued efforts to complete remediation and get letter of "no further action"
- Possibility of issuance of $7M in Project Bonds payable only from tax increment from the development of the property
- Possibility of a $4M SID Bond for remainder of infrastructure
- MRA to pay for design of the park with construction being paid for by MRA and a portion of the Project Bonds
- MRP to pay for the purchase of the land from Silver Foundation
- MRA to pay MRP $226,500 for parking rights for the stadium
- MRP to sublease park land to the City
- Sets out options for purchase of both the land and the lease
- MRP required to make lease payments and pay property taxes

Unresolved Issues

- Assurance that there is a sound and adequate financial program for financing the project if MRP cannot guarantee the construction of buildings
- Costs to be covered in the issuance of subsequent bonds
- Appropriate size of bond issues relative to putting increment back into URD II
- Source of MRP's return on investment – bond structure or development of the project
- Terms of subsequent bonds
- Determination of guarantees needed if SID Bonds are issued
- Design controls or covenants to assure that development is appropriate to support financial structure
- Finalization of outstanding agreements relating to parking, the park and encroachments
- Agreement on the terms of a Development Agreement between MRP, MRA and the City

Millsite Revitalization Project LLC

Balance Sheet
August 31, 2011

	Current	1 Year Ago
Assets		
Current Assets		
Cash in bank	$ 36,879	$ 21,350
Accounts receivable	14,896	87,880
Total current assets	$ 51,774	$ 109,230
Other Assets		
Planning - Police Dept Bldg	$ 49,807	$ 49,807
Planning - Multi Family Condo	15,532	15,532
Start-up costs	5,600	5,600
	$ 70,939	$ 70,939
Capitalized Development Costs		
A: Planning - legal	$ 226,230	$ 200,332
B: Planning - engineer/mkt feasibility	761,098	751,243
D: Financing & transaction costs	175,722	175,722
H: Insurance/Legal	141,139	141,139
I: Environmental costs not reimbursed	946,328	1,037,156
K: Demolition, site prep, flood plain	21,979	36,070
L: Land acquisition	10,272	10,245
M: Lease option payments	600,000	600,000
N: Lease acquisition	353,348	266,359
U: Insurance	25,830	20,425
	$ 3,261,945	$ 3,238,690
	$ 3,384,658	$ 3,418,859
Liabilities and Owners' Equity		
Current Liabilities		
Accounts payable	$ 188,866	$ 381,093
Total current liabilities	$ 188,866	$ 381,093
Long Term Liabilities		
Partners' Equity		
Capital contributions	$ 3,194,000	$ 3,036,000
Partners' equity	1,793	1,766
Net income		
	$ 3,195,793	$ 3,037,766
	$ 3,384,658	$ 3,418,859

Partner contributions
000
0·00 *

Cash 3,194,000·00*+
Hgmt fees 960,000·00 +
Int exp 250,000·00 +
003 on loans
4,404,000·00 *