

# MISSOULA REDEVELOPMENT AGENCY

## CONDENSED BOARD MEETING MINUTES

September 16, 2015

FINAL

A **Regular** 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:** Karl Englund, Nancy Moe, Daniel Kemmis, Melanie Brock, Ruth Reineking

**Staff:** Chris Behan, Jilayne Dunn, Tod Gass, Dee Andersen, Ellen Buchanan

**Public:** Mayor Engen, Martin Kidston, Don Fisher, Curtis Englestad, Mark Anderlik, Peter Lambros, Jeff Maphis, Robert Moore, Peter Lambros, Jeremy Keene, Martin Kidston, Paul Davis, Jeremy Keene, Heather McMilin

**CALL TO ORDER:** 12:00 p.m.

**APPROVAL OF MINUTES** – August 20, 2015 –Regular Board Meeting approved as submitted.

### **PUBLIC COMMENTS & ANNOUNCEMENTS**

Anderlik said he wanted to give an update on the Community Benefits Coalition Project and share some of the work they have been doing with their constituents to add value to the Fox Site project. He passed out a written update. They will be meeting with the developers soon.

### **ACTION ITEMS**

#### **Sweetgrass Commons URD II-TIF Request (Behan)**

Behan said McMilin introduced this project to the Board at their July 2015 meeting. It is located on the western edge of the Old Sawmill District on the corner of Montana and California Streets. Homewood is requesting that the City, through the MRA, provide a land cost subsidy for the Sweetgrass Commons development.

The proposed 26 unit housing project is a 34,000 square foot, three story building with 21 underground parking spaces. The target demographic is those who make 40%-60% of the area median income. MRA staff and Homewood feel this location will be ideal for potential residents as it will be constructed in an existing neighborhood that is close to

services, bus routes and trails. It will also provide the affordable housing component the developers had envisioned. It has community appeal and will be a benefit to the neighborhood.

Behan said the MRA staff and Board have not done a land cost subsidy before but state law specifically allows TIF to subsidize the cost of land for approvable housing projects. The City would purchase the property using TIF funds for the appraised value of \$488,775 and immediately sell it to Homeword for \$238,775 resulting in a \$250,000 subsidy. Sweetgrass Commons will be exempt from property tax. .

He said the staff recommendation is in three parts:

- 1) To approve the TIF assistance.
- 2) To recommend the City Council authorize the use of TIF funds to purchase the property.
- 3) To authorize the MRA Director to approve the closing costs up to \$5,000.

McMilin said since July, the State has awarded Sweetgrass Commons \$750,000 of its Federal HOME Funds of, which has put the project in a very good financial position. This request is key for the project to move forward and one of the last pieces in before they can break ground. The MRA assistance leverages the majority of project financing from outside of Montana. It also has made their grant application far more competitive in getting the attention of regional funders including the Federal Home Loan Bank of Seattle's Affordable Housing Program (AHP). Homeword will know in November 2015 if they are awarded the AHP grant.

McMilin stated that Homeword has been looking at property at the former Champion Millsite (Now Old Sawmill District) for 20 years. This partnership with MRA will be a policy setting opportunity as this money will be used to secure other funds and land for deed restricted affordable housing. Subsidizing the land cost helps this project come to fruition, and compete with market rate developers for land in good neighborhoods. She said the project is out to bid right now and if TIF funding is approved today and things continue smoothly, they will begin construction by the end of October. She reviewed a presentation of the proposed project and gave a brief review of the design features and location.

Englund asked if the AHP grant funding they have applied for is needed to complete the project. McMilin said if they don't get the grant funds they have a contingency plan they will be bridging the AHP final ask with internal funding.

Moe asked about the restrictions to maintain the income requirements and what is in place to maintain that for the 46 year period. McMilin said there is an actual declaration of restricted covenants on the land. Even if Homeword were to go away, the land can't be used for any other purpose for a minimum of 46 years. It's reflected in the appraisal.

Moe stated that in researching Missoula Revitalization Project (MRP) she could not find them registered as an L.L.C. with the Secretary of State's office. Behan said staff would follow up on that.

Moe asked if Homewood is satisfied with the price. McMilin said yes, they negotiated the price down and feel it is a reasonable amount.

Englund asked what the City Council needs to purchase the land. Behan stated that under urban renewal statutes, the price must be fair market value.

Moe said she appreciates the creativity that went into financing this project. She thanked Behan for including the statutes in his memo. She stated that it requires the transfer for multi-family housing actually be perpetual, so there does need to be a deed restriction. McMilin agreed, and stated that team of attorneys will be reviewing these documents.

Kemmis asked how widespread this financing mechanism is used in Montana and nationwide. McMilin said it has been done nationwide but not in Montana. Buchanan stated that Montana has fewer tools available than other most states. McMilin agreed and said that Montana is one of three states in the country that doesn't have a state housing trust fund. This partnership is a great resource for Homewood.

Kemmis asked about the closing costs. The memo states Homewood will pay all closing costs, but the third part of the motion asks for the MRA Board to authorize closing costs up to \$5,000. Behan said there may be two closings. Homewood will cover the closing costs for the City to Homewood portion. But there may closing costs from the MRP to the City transaction and he wanted to make sure there was funding approval if that was the case.

**KEMMIS: I MOVE TO APPROVE TIF ASSISTANCE IN THE AMOUNT OF \$250,000 TO HOMEWORD AND AUTHOURIZE THE APPROPRIATE SIGNATURES ON THE RELATED DEVELOPMENT AGREEMENT WITH THE UNDERSTANDING THAT THE \$250,000 IS INTENDED FOR THE PUPOSE OF PURCHASING OF THE LAND DESCRIBED IN THE MEMO FOR THE AMOUNT OF \$488,775 WITH THE INTENTION THAT THE CITY WILL IMMEDIATELY SELL [THE LAND] TO HOWEWORD FOR \$238,775 FOR USE AS PERMANENTLY DEED-RESTRICTED AFFORDABLE HOUSING.**

Reineking seconded the motion. No further discussion, no public comment.

Motion passed unanimously.

**KEMMIS: I MOVE THE STAFF RECOMMENDATION:**

**[Staff recommends the MRA Board recommend the City Council authorize the use of URD II TIF funds to purchase the parcel described as Lots 6 through 12 of Eddy Addition to the City of Missoula from the Millsite Revitalization Project, LLC in the amount of \$488,775 and immediately sell that parcel to Homewood, Inc. for the Sweetgrass Commons project for \$238,775 which will be constructed and used as presented to the MRA Board on September 16, 2015.]**

Moe asked to amend the motion to confirm the existence and status of Missoula Revitalization Project (MRP) is a registered L.L.C. with the Secretary of State.

**Reineking seconded the motion as amended. No further discussion, no public comment.**

**Motion passed unanimously.**

[Upon post adjournment discussion, it was determined that an error on the staff memo listed the L.L.C. as the Missoula Revitalization Project when is it actually the *Millsite* Revitalization Project, which is in fact registered and in good standing as an L.L.C. with the Montana Secretary of State's office.]

**KEMMIS: I MOVE THE STAFF RECOMMENDATION:**

**[Staff recommends if the City Council authorizes the purchase and sale of the Sweetgrass Commons parcel, the MRA Board authorizes the MRA Director to approve customary real estate transaction closing costs up to \$5,000.]**

**Brock seconded the motion. No further discussion, no public comment.**

**The motion passed unanimously.**

**Dairy Queen - 2515 Brooks Street (URD III) - FIP Request (Gass)**

Gass introduced Paul Davis of OZ architects and reviewed an aerial photograph. He said the owners of Dairy Queen are proposing changing the restaurant from a seasonal to a year-round establishment offering an expanded menu. A Façade Improvement Program Grant will supplement the owner's capital investment and without the MRA assistance this project would not happen.

Gass gave a brief overview of the proposed new façade and storefront design. Customers will still be served by walk-up or drive through windows. The order window, an additional pick-up window, drive through window; along with the employee restroom will be upgraded to current ADA standards. He said the interior improvements and façade materials will boost the insulation factor and a complete redesign for the exterior lighting will provide more even lighting throughout the property.

Gass said this project will add three full-time employees and offer year round employment. The total project costs are \$121,379 for the interior and exterior improvements to the building. The applicant is requesting \$30,345 in façade improvement assistance to the project, which is 25% of the total project costs.

Kemmis asked for the breakdown in project costs to ensure MRA is not providing more than the façade assistance. Gass said the complete breakdown was included in the application. He said the actual façade costs were actually over \$40,000.

The Board discussed the project costs and percentage of assistance requested.

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

**[Staff recommends the MRA Board move to approve a Façade Improvement Program grant to Peterson Group Montana, LLC in an amount not to exceed \$30,345 for the Dairy Queen renovation project, with the final amount of the grant to be based on paid contractor invoices provided by the applicant, and authorize the MRA Board Chairman to sign the FIP Participation Agreement.]**

**Reineking seconded. No further discussion. No public comment.**

**Motion passed unanimously.**

**Burlington Ave Fire Hydrant Relocation (URD III) -TIF Request (Gass)**

Gass said last month, the MRA Board approved the construction contract for the Burlington-Garfield Sidewalk Project in URD III. Staff advised the Board at that time, that a fire hydrant on the corner of Burlington and Regent Street would need to be relocated out of the path of the sidewalk. This work is not included in the construction contract. The low bid amount to complete the relocation is \$8,283, however, if Mountain Water Company can reuse some of the hydrant equipment there could be a \$1,900 reduction in costs. This work is eligible to be refunded back to MRA by Mountain Water Company over a 40 year period.

**BROCK: I MOVE THE STAFF RECOMMENDATION:**

**[Staff recommends the Board authorize MRA to enter into a contract with Mountain Water Company in an amount not to exceed \$8,283 for the relocation of the Burlington/Regent fire hydrant, with the final cost being determined by the actual contractor invoice for the relocation work.]**

**Kemmis seconded the motion. No further discussion. No public comment.**

**The motion passed unanimously.**

**Southgate Mall (URD III) –TIF Request – (Buchanan)**

Buchanan gave a brief history of the project and reviewed concerns the Board had expressed in July 2015. Since that discussion, MRA staff has received a revised application with significant reductions to the TIF request that now only concerns constructing a street which is currently on private property. The third parties who own the property that will need to be acquired in order to build the street are; JC Penney and Bob Ward & Sons. An easement from MRL will also need to be purchased to cross the railroad tracks and make the connection to Mary Avenue.

Buchanan said at the July meeting staff discussed the trends of shopping malls nationally and the changes in shopping preferences. Internally facing, enclosed malls are in decline. Building this piece of infrastructure would enhance the ability for Southgate Mall to externalize. It would also make an important connection from Brooks to Reserve Street

and provide the surrounding neighborhoods access to a very different place from what Southgate Mall is today.

Buchanan said MRA staff has completed the detailed financial capacity analysis of the district, and have the taxable values and revenue data. Debt service scenarios have been reviewed; specifically in relation to the South Reserve Pedestrian Crossing and the Brooks Street Improvements. A local bank with a keen interest in purchasing tax increment revenue bonds has offered terms. Those two projects combined have resulted in \$7.1 million bond issue. With the terms offered from the bank, it would be debt serviced between \$610,000 and \$650,000 per year. It would take \$1.2 to \$1.3 million capacity out of the district if we bond for all three projects. She said the revenue projections of \$1.7 million are based on new taxable values and we have all of the South Crossing project coming on the tax rolls next year. With a \$500,000 cash carry over, that leaves MRA a million dollars in cash to entertain any projects that come forward in that district. At this point, she has not heard of any half million dollar projects coming along in the future.

Mayor Engen said he is happy to shed some light on the staff recommendation and a misunderstanding that may have occurred. He said MRA staff and members of the City Administration sat down with the applicants and spent hours trying to figure this out. He said they may not have all been speaking the same language in regards to "right of way acquisition". He said from the City's perspective; speaking on behalf of MRA, and the City Council, we are not in the business of purchasing right-of-way and building streets. This is a unique situation that may require some unbundling of private property. If we don't act on it now, we may not have the opportunity again. He discussed building a roadway grid system in this area and redeveloping it in a modern urban way. He said this area has existed like an island long before the mall. Everything located there before the mall was created, did not anticipate a road there. Everything that happens from here forward, should anticipate a road there. Engen said if nothing else, it can offer a new connection between Reserve and Brooks Street. He believes this proposal is worth careful consideration. It is exactly the type of project the MRA was created to do; fix things that are outdated.

Lambros thanked the MRA staff and Board for another chance to further articulate the message they brought in July. He and his colleagues took the Board's concerns to heart. He said they have some different perspectives on the way they were considering right-of-way, so they worked hard to make those less of an issue. They also looked at the public benefit and tried to choose a strategy that benefits the community regardless of the how retail unfolds. He said it is still a big number to ask, but he hopes the MRA Board sees the wisdom of what tax increment financing exists for. He says most of these ideas came out of the Urban Land Institute's Study. Although it was created in 2003, it is still relevant today. The study referred to this project as *Southgate Commons*, and stated it was the center piece of the redevelopment plan for this district. It cites connectivity and mixed-use as the keys to the plan to develop the south side of Missoula. He reviewed an aerial map of the project area and gave an overview of the upgrades currently being finished. He said H&M is nearly ready to open and Red Robin is facing outward.

Lambros said he realizes this project will have to be done in phases. He reviewed some of the proposed changes to the exterior of the mall and discussed the addition of an entertainment center. He said over time, the mall will come apart and face outward. He discussed how these updates and the new road connection can connect and begin engaging the surrounding neighborhoods with the mall.

Lambros discussed the timing of this request. He said they recognize the magnitude of the request and the short time frame available. They have had this project in the planning stage on paper for a long time. Now they are at the point where they have to take action and pull all the threads together for construction to start next spring.

Lambros said this development has remained in the same ownership for 35 years. He said he and his family care about this community and they are trying to participate in creating the fabric of a community where people will want to be. He asked the Board to support their project.

Keene said the vision is to reinvent the mall. One of the concerns raised was how this benefits the public. One important way, is by improving the street grid. It will connect Reserve with Brooks Street and open up opportunities for other modes of transportation. There will be an east-west multi-use trail that will establish an important connection for walking and biking. There are children in the surrounding area who will be able to walk to school though the mall trail. He said this \$64 million private investment will generate \$320,000 per year in new taxes. It will create 700 construction jobs and 375 new, permanent jobs. He discussed the property values in the area and said there are properties in the district at risk and that have declined in value. He said this project could stabilize property values. It's the kind of project that compliments other projects in our community.

Brock asked what happens if MRA doesn't do the street. Lambros said the new buildings will become independent developments on a separate parcel and they would not try and pull this together as a master plan. It will have a different impact as far as who the mall can attract as tenants. We would keep the existing mall roads.

Moe said her understanding is that the applicants wants these to be City streets. She commented that she didn't see a call for public comment or have knowledge that this followed the public process. She thought the Transportation Department or Missoula in Motion would be involved and offer information and she hasn't received any. She also suggested a priority list and figures from Buchanan for the other projects coming forward like the South Reserve Street Pedestrian Bridge, Brooks Street improvements or the Mary Avenue improvements. She doesn't feel like she has all the information she needs to make a decision. She looked at the demolition costs which have increased by \$400,000 and the utility relocation, which has been decreased by \$700,000. She said the breakdown shows the amounts but no explanation as to the reason for the cost differences from the first proposal. Engen said once approved, this road would go through the entire design process which is a public process. He said the same process was used for Wyoming Street.

Discussion ensued regarding the Wyoming Street project and the process it followed.

Moe stated the Board doesn't have the final costs for the bond. Buchanan said we are basically doing a \$7.5 million dollar bond plus issuance costs.

Keene said they have done a 30% design. He said there is a large contingency included because we are only at 30%. There is still an ability to make tweaks to that road design to accommodate the City and public input. He said they are comfortable with the costs.

Englund stated that it is a 25% contingency and asked if that was standard. Buchanan said that was pretty typical. In this situation, if they have underestimated their costs they have to come up with any over runs.

Engen said he would do what he could to get the Boards questions answered so they could make a decision today.

The Board discussed the demolition costs and façade improvements. Moe asked about the costs from the railroad for the road easement. Keene said the cost is included in their estimate. He said they have a letter from the railroad saying that they will allow a road crossing there. Because of decreased train traffic, the crossing may be reduced in cost.

Reineking stated that she appreciated the effort that was put into showing the public benefit of this project. The safety factor shouldn't be minimized especially for the neighborhood children walking to school. She asked about the discussions with the residents who live on Mary Avenue. This will definitely impact them. Keene said they reached out to the property owners about a year ago and the initial feedback was positive. There has been no formal outreach lately. Keen said it's been well publicized in the paper, but there is still some outreach to do.

Brock asked about the costs for the phases of demolition and what was changed. Keene said they did a lot of work on the estimates and moved things around. He would have to go through the details. He said for every store front they want to add a window to, they are going to have to deal with asbestos abatement. There is also a fairly large cost for site and parking lot demolition, which includes removal of asphalt, trees and irrigation systems.

Englund asked for the breakdown in the \$64 million in private investment. Keene said in phase's 1a-1c there will be \$22.8 million in landlord improvements, which includes the exterior shell and site work. Nine million dollars was spent on the H&M addition. The land acquisition of Sears, Curley's, Paxson Plaza and the Value Inn was \$18 million.

The Board discussed the cost breakdown of the construction phases located on page 23 of the application.

Englund asked how far the street extension would go without the MRA assistance. Lambros said they wouldn't be doing anything with the street without the TIF assistance, because they don't have the parties on board. So they would just use the existing mall ring road without improvements.

The Board discussed each phase and what the costs were related to each.

Englund asked how staff proposes to deal with Sears.

Buchanan suggested taking Sears out of the request until such time as the City approves an URD III boundary amendment. She said MRA cannot consider non-infrastructure related requests that aren't in the Urban Renewal District. Sears can be discussed when it's legally in the district.

Englund stated that the commitments that this Board has already made in regards to Brooks Street and the South Reserve Street Crossing are at \$7.1 million.

Buchanan said, yes, conservatively it will be a \$7 million bond issue. She suspects it may be even less than that. She had Springsted run numbers on a \$7 million bond issue and with the cost of the issuance it came to a little over \$7.1 million. The debt service schedule over 25 years, with the terms we were given by the bank, resulted in a debt service payment of between \$608,000 and \$612,000 per year.

The board discussed the bond debt. Buchanan stated that if the Board feels we are using too much of the districts revenue her recommendation would be to build this connector street and delay the Brooks Street Improvements.

Kemmis said if we did go forward with this proposal, and the bond repayment costs are at the same level as the other two projects, that would require taking another \$600,000 out of revenue.

Buchanan said that with the cash carry over they have \$1 million in cash for any projects that come in. She said all of South Crossing projects will be coming on the tax rolls and possibly anything that has been built at the mall prior to January 1, 2016 as well.

Bob Moore said he has enjoyed learning about this process and appreciates everyone's hard work, but he feels this request should be denied. He said these applicants stated this project is going forward with or without the TIF assistance. He said at the last meeting he asked the Board if they look at determining the need for this assistance. He stated that there are three sections in the MRA criteria that require the Board to determine the need. Today he has not heard anything regarding determining the need. He said his assumption is that this [Lambros] family and the mall do not need the financial assistance, so the Board can't approve this. He asked why the Board would spend \$7 million of tax payer money that is not needed. He spoke of the tax generation of this project, the length of time to pay off the debt and the ratio of private versus public contribution. He said the project is not in the boundaries of the district, which is allowed in state law but not in the MRA by-laws. He said the state TIF law and the MRA by-laws are at odds. He said the applicants have not met the burden to prove that this is a good use of public funds.

Kemmis said he appreciates the comments from Mr. Moore. He has received a lot of public comments regarding this project. He appreciates the time the Board has taken to

discuss this project carefully. In terms of need, he said the Board has addressed the issue. The Board recognizes the decline of malls is a national trend that could happen here if the Board stands by and does nothing. If that were to happen, the public cost would be a lot higher. He said he believes the Board is where they often find themselves; in a public and private partnership that will result in a much better outcome. Kemmis said he believes the project would go forward without TIF assistance, but doing it together will produce a much better result. He is glad the number has come down and the Southgate Mall applicants have made that happen. He said his big concern is with other landowners who are essentially in the same position. He does not want to give away any leverage the MRA or Southgate Mall may have, in terms of negotiating with the other land owners.

Englund asked how the Board would do that. Kemmis said the Board can make it clear that any resources made available are a maximum and MRA will not spend it all on right of way acquisition. Unlike most communities who are in this position, MRA is very fortunate to be dealing with a long standing Missoula family who has demonstrated their commitment to the well-being of the community.

Lambros said there may be more that they need to do on their end to offset the choice pieces of land. He hopes the Board would find that \$8 per square foot is a reasonable number for public versus private investment. Buchanan suggested that staff change the language in the motion to say *capped at \$8 per square foot*. Lambros said they could live with that.

Buchanan said she suggests backing Sears out at this time. She said the staff and Board can address Sears when it's in a position to be dealt with it. With respect to the bonds, when cash is needed for reimbursement, Buchanan said the lending institution may offer MRA the ability to do a draw, which would reduce interest costs. Depending on the need for reimbursement on the construction of the street MRA may delay issuing the debt and then we can size the bond.

**BROCK: I MOVE THE STAFF RECOMMENDATION AS AMENDED.**

**[Staff recommends the MRA Board approve the TIF request for \$6,992,119 and forward a recommendation to the City Council to issue bonds secured by URD III revenues to service the debt with the following contingencies:**

- **A value for the right of way acquisition must be capped at \$8 per square foot**
- **Subject to a development agreement that must be approved by the MRA Board**
- **The City Council must approve the issuance of bonds to fund the improvements.]**

**Kemmis seconded motion. No further discussion. No public comment.**

**Motion passed unanimously.**

**NON ACTION ITEMS**

- MRA Workshop – Determine date/time (Oct 5<sup>th</sup> or 7<sup>th</sup>)

**STAFF REPORTS**

Director's Report

Budget Status Reports: URD II, URD III, Front Street URD, Riverfront Triangle URD, FY16 Expenditures.

**ADJOURNMENT**

Adjourned at 3:10 p.m.

Respectfully Submitted,

A handwritten signature in black ink that reads "Dee Andersen". The signature is fluid and cursive, with "Dee" on the top line and "Andersen" on the bottom line.