

MISSOULA REDEVELOPMENT AGENCY

CONDENSED BOARD MEETING MINUTES

September 30, 2011

FINAL

A 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

Staff: Chris Behan, Jilayne Lee, Tod Gass, Juli Devlin

Public: Jim McLeod, The Farran Group; Pat Corrick, The Farran Group; Devin Houry, Lambros Real Estate; Sean Averill, Hotel Fox, LLC; Scott Ringer, Lodge at Whitefish Lake; Dieter Huckestein, HPS, LLC; Geoff Badenoch, citizen

PUBLIC COMMENTS & ANNOUNCEMENTS

Behan announced there would be an opening of Silver Park Phase III Trail. Formal invitations will be going out soon via email for the Ribbon Cutting scheduled for Wednesday, October 12th at 3:30.

ACTION ITEMS

Fox Site RFP – Discussion and Recommendation to City Council (Behan)

Behan reviewed the RFP process. The MRA received five responses for the Fox Site RFP and the Initial Review Team found that two were fully complete. The two finalists were interviewed and a recommendation was made by the Initial Review Team for the Hotel Fox, LLC.

Moe asked how this RFP process was different from the past processes. Behan responded that the RFP did not ask for plans and pictures but did ask for a vision statement, financial capabilities, etc. It also requested information on what the respondents had done in the past, why it worked, what the financial and design stand point was, whether it fit the surroundings, etc.

Behan said overall the Hotel Fox partners envision a 200-250 room full service hotel. There could be add-ons including full-time residential use, restaurants, large conference center, and a health club. They anticipate parking under the building to include 300 spaces. Behan said the total estimated cost at this point in time is right around \$37-\$38

million. The most important financing items listed in their response included obtaining new market tax credits, commercial debts, equity, etc. The estimated tax increment investment is approximately \$3.5 million. Hotel Fox also wants to look at the Federal EB5 program for clarification in February but this is not a high priority. Behan said some of the questions that the Initial Review Team asked were about obtaining a hotel flag and why, how does Hotel Fox want the public to feel when they are on the riverfront trail and how will Hotel Fox address parking. Hotel Fox is working with the City as well as St. Patrick Hospital on a larger parking needs study. Hotel Fox has also been in contact with the Missoula Parking Commission. Hotel Fox's response did not include a cost for the land. Behan said State Law says you must evaluate all aspects of the proposal; how the project may affect or not affect the district. The Initial Review Team also discussed with Hotel Fox what the deal breakers could be and primarily focused on financing. During the initial interview, it was understood that Hotel Fox's vision is to produce a landmark for themselves and the community for several generations. They want an architectural design and site design that the public would be proud of.

Sean Averill explained the history his family has operating resorts and lodging in Montana. Averill's family owns and operates Flathead Lake Lodge and the Lodge at Whitefish Lake. Averill said after getting the Whitefish project up and running they've been looking for other projects, which got them to where they are now. They want to make a landmark for Missoula and set the tone and feel for future lodging in Missoula. Averill said they would like to bring some sophistication to the project but still be able to incorporate the natural elements such as the river. They envision a park area that the public will be able to utilize. Averill felt the biggest part of this deal is having a partnership with the City. He said they can't develop this parcel without the partnership of the City and without working together. This is a private/public partnership and Averill felt the benefits to the City are tremendous.

Jim McLeod stated that they've known Averill and his family for ten years. McLeod said The Farran Group did a project in Whitefish in 2004 called the Monterra. McLeod said they enjoyed watching the Lodge at Whitefish Lake being built and he believes as partners, Hotel Fox has a beautiful, successful product. They will take the same approach with the Missoula project and believe it will be something that will compliment the Missoula area.

Dieter Huckestein said he is excited about the project and is eager to understand the Missoula community. He has been talking with leading firms and assured the Board Hotel Fox can move forward and accommodate the Missoula area. He looks forward to meeting everyone and working on the project.

Englund asked if anyone had comments or questions.

Moe had a question about the timeline. In the presentation, November was the month given in which they would start the negotiation with the City. Moe asked: What is the commitment that you're willing to make to the development agreement and what do you expect from the City?

Averill said they needed to look into the finances. Hotel Fox needs to do a market study, figure out land costs, what the value is, etc. Discussion issued. There could be some zoning variance issues even though they're not anticipating that.

McLeod said the commitment they would be making is completing the market study which is estimated at \$25,000. This will allow them to see what the market is and will provide more specific information. The market study will tell them whether they have a project or not. In conclusion, their commitment is to spend cash for the market study but they don't want to do this unless they have a guarantee of exclusive development rights.

Moe asked if the time period for the market study was feasible. Averill felt a couple of months should be feasible.

Discussion ensued about the process and the role of City Council. Behan said if the Board approves of Hotel Fox, their action would be to recommend to City Council to grant Hotel Fox exclusive development rights to the property and ask MRA to negotiate a development agreement with them. Behan said after the market study, the process of negotiating a development agreement could begin.

Moe asked if the initial agreement was a short term agreement. Behan responded yes. Moe confirmed that the City's initial commitment is to grant exclusive rights to negotiate a development agreement. Behan said yes.

Kemmis commented that he hasn't been able to spend as much time on this project as he would like but so far he is very intrigued by the proposal. He glad to see so much involvement from Montana. He said one piece he doesn't understand is the roll of The Farran Group.

Pat Corrick responded that The Farran Group's function is to primarily be the "boots on the ground". Corrick said neither he nor Jim McLeod is in the hospitality business. The Farran Group would help oversee the project and participate in the design process. They are providing equity and will manage the construction.

Kemmis said he was concerned about the project having a local prospective. He understood the desire to give whatever hotel chain is selected the role of design but he was concerned about working with an architect that doesn't know in Missoula. Kemmis asked what is Hotel Fox's experience or plan with respect to the architect getting to know the community.

Dieter Huckestein said if he were the City he would be concerned too. He said Hotel Fox would hold a competition with probably three architectural firms and would like to work with a local architectural firm too to bring a sense of place to the design. Huckestein said it's important to bring the senses (water, birds, etc.) into the design. He assured the Board that sufficient time (through research and talking to residents) would be spent to understand what it means to have a hotel in Missoula. He wants the

community to say "wow, that's a beautiful hotel". It's important to know what can be blended into the design both internally and externally. It's equally important to not just build a lodge; you want to bring in some contemporary elements so you are building a hotel for the future. Huckestein said he and Averill have discussed the design at length and will have the criteria established from the outset.

Kemmis asked about the conference center aspect. He was involved in a conference last week with an organization based in Seattle. They wanted to have their annual conference in Missoula and it was very enjoyable. Kemmis felt the key to making this success is to figure out how to fashion a conference center that really works in Missoula. He felt it will have to be different than a conference center or convention center that might work in Houston or San Diego. Kemmis wanted to know how Hotel Fox will size and shape the project to take full advantage of whatever Missoula's draw is.

Huckestein said they've preliminarily designed a compact but adequately spaced conference center of about 12,500 square feet. However, he felt to really make it an effective conference center they would need another 12,500 sq ft. Huckestein said the analysis they need will come out in the market study. This will tell them what the demand is for regional and national conventions and will help address some of these questions.

Averill added that in Whitefish, their conference visits are typically during the shoulder seasons (fall and spring). He said they've had a lot of success bringing new conferences to the Flathead valley that used to go to Spokane or Couer d'Alene or Boise. All of the hotels benefit so they've been really supportive of the conferences the Lodge at Whitefish Lake has brought in.

Moe asked if her understanding was accurate that part of the market study will tell Hotel Fox what to do to not necessarily be in competition but more in coordination with other hospitality facilities Averill said yes.

Englund asked for more information on the market study. He assumed Hotel Fox will find out the demand for rooms and conferences, but wanted to know what is it based on and what comes first.

Averill said it's a national group that specializes in this type of market study. They help determine if the demand is 250 rooms or 300 rooms, which equates to how big your conference space is, and they also look at what the conference demand is.

Scott Ringer, CFO of Lodge at Whitefish Lake, said there are a number of firms that do these types of studies. They have access to information from all of the major hotel chains.

Changing Tape – tape 1, side 2

The market study firms have historical occupancy information, i.e. what the group and transient demand has been. They can build a model, adding each hotel as it came online, and fairly accurately predict what the future holds. In the modeling process, they can tell Hotel Fox how many rooms are needed, the square footage, etc., or that the market is saturated and it's not wise to build another hotel at this time.

Ringer felt the study wasn't going to come back that way. He felt this is going to be a bold step for the Hotel Fox partners and the City of Missoula. He felt together, they will be able to show that Missoula is the premier location to hold conferences. Ringer said this project, as discussed for quite some time, will clearly be a landmark, a focal point and a statement of the future of Missoula.

Ringer said he is very confident about this project. He's been in Montana for five years and prior to that was with Marriott Hotels for 31 years. He said the Lodge at Whitefish Lake has been extremely successful, as an independent hotel in Whitefish, in attracting new business and new groups to the area. Three years ago, Volvo did their new car launch at the Lodge. It was a huge for the City of Whitefish and the Flathead valley. Ringer said the market study will tell them how large this property should be, what the components should be, etc. Based on the Lodge's operating experience, Hotel Fox is confident it will be able to attract the business to Missoula that otherwise might not have been there. Ringer said their competition will not be the Hilton Garden Inn or the Double Tree; it will be cities like Spokane and Boise.

Huckestein added that if we build a quality conference center then people will come and stay at our facility and the other hotels. He said the plan is to create additional demand for Missoula.

Ringer said after The Lodge at Whitefish Lake opened there was concern there would be competition with Grouse Mountain Lodge. He said resort tax is their barometer and taxes have continued to grow year after year with both facilities open. Working with the Convention and Visitor's Bureau, everyone is focusing the advertising to one goal, success of the destination, not the individual properties.

Englund asked as part of partnership with the City, will the City have access to Hotel Fox's market study. McLeod said yes.

Englund asked Averill to explain the partnership the Lodge at Whitefish Lake had with the City of Whitefish. Averill explained the Lodge has 65 rooms and they had a demand for more. They wanted to acquire some property across the street but it was a wetland area. Averill said they ended up donating 32 acres to a non-profit the City was in charge of to develop some of the wetland area. It was a highly controversial site and four other developers had tried to develop it over the years. Averill said it was a cooperative deal and a win-win for everyone. The area is now a park and will never be developed.

Corrick said in regards to sharing the market study, it is a fairly expensive document and Hotel Fox would consider it confidential. He understands there is a nuance between

sharing it with the folks who are directly involved with this project and not just giving it to the public. Opening it up for public review creates some competitive issues for Hotel Fox. Corrick felt Hotel Fox and the City need to be on the same page; whereas the market study doesn't become a public document until Hotel Fox has either elected to move forward or stepped away from the project.

Kemmis asked Behan, since he's been through a lot of Fox Site proposals, what is his overall sense of this proposal. Behan said he can only compare it to others and he feels Hotel Fox is the most prepared to begin work immediately and progress towards a project. He feels they have really thought out what they're going to do, have a good idea of what the outcome will be and have put together a team that can accomplish it.

Kemmis asked Behan what amount of staff time this project will absorb. Behan felt the staff needs to commit to whatever it takes to get it done. He has several other things going but he doesn't feel this would take anything away from them. Behan said there are others in the office that can pick up whatever is necessary. Behan felt after the development agreement is done, he will most likely just need to meet every once in a while to put in the City's perspective. The initial time commitment will be putting together the initial agreement and the development agreement.

Englund asked what's involved in financing hotels these days. Corrick said you need a lot of equity, 40-50% equity. Corrick said this is a great question because it ties back into the land cost or the City's contribution of the land in some way, shape or form. Corrick said Hotel Fox is trying to paint a realistic picture; this isn't going to be easy financing. He said they are focused on the big dollar items. In the commercial lending environment, lenders will maybe put 60% loan to cost leverage into this. Corrick said he didn't know if they wanted to go that high. That said, Corrick felt at 50%, with the operating group they have and a favorable market study, the financing is very achievable.

Englund asked if Hotel Fox would use commercial lending or private equity lending. Corrick said what they put in the RFP is 50% would come from a commercial loan, and 50% would be a combination of public equity, new market tax credits, tax increment financing and private equity (from partnership group and/or outside equity partners).

Englund asked if any of the private equity contributors have been identified. Corrick said they identified \$5 million in private equity contributions in the RFP and collectively, the Hotel Fox partners are a part of that. Corrick said the Hotel Fox partners recognize what it will take to get it done and there is consensus the private equity will either come from the partnership and or other outside equity partners.

McLeod wanted to emphasize that this is a tough deal and will take a lot of work to put together. He said they will have to spend a lot money to get there and Hotel Fox still feels they can get there but it's not going to be as easy as it was 4-5 years ago.

Moe said getting financing is tied to seeing a project concept. She asked how Hotel Fox envisions those to processes fitting together. Corrick said those processes will be done incrementally, i.e. market study, financial underwriting and design. The Hotel Fox partnership will fund what is needed at the beginning and when the design is done and the financing plan is developed, they will go out their equity partners. Hotel Fox has had "soft" conversations with a number of participants but there is a lot of work to do to put something concrete together. Corrick said Hotel Fox will fund that work internally.

Corrick felt the construction plans are less important than the market study and the initial financial underwriting. Corrick felt the construction side of it is pretty stable right now with low interest costs and low construction costs. He felt what really drives investors is whether the deal makes sense economically and whether it is the right deal to execute. McLeod said they would have a concept. Averill said the basic plans will be drawn in conjunction with a local architect and you can get a pretty good idea of cost. He said Hotel Fox will need to have enough for a lender to look at.

Behan said the schedule of the concept drawings and preliminary drawings will be part of the development agreement. MRA will be involved in looking at and approving the official concept before they go out.

Englund confirmed that the action before MRA is to recommend to City Council that they grant exclusive development rights to Hotel Fox, LLC. Englund asked for how long should the exclusive right be granted. Behan said he envisioned a much longer development agreement process than Hotel Fox; he said it could take a year or longer. Englund reiterated that the City would grant them exclusive rights for a year to negotiate a development agreement. Averill said Hotel Fox had originally thought a year would be sufficient. It sounds like a long time but it will be tight to get all of it accomplished in a year. Averill suggested completing an initial agreement for the market study and starting the one year time period after that.

Behan said it's all dependent on what's included in the development agreement. He envisions an agreement with a series of goals for both sides and exchanges at certain times and how that could be amended if there are extenuating circumstances.

Kemmis asked a procedural question regarding MRA's involvement. Behan said City Council has to make a decision on the land per State Law. After that, he anticipates Council will want to be involved in the high points of the decision making process but not the day to day stuff. Behan believes they respect the work MRA has done and will defer to MRA to oversee the process. He envisions Council will be involved in the initial approval to move ahead and approval of the final development agreement.

Moe asked if the City Council has suggested any other scenario regarding the land than what Hotel Fox presented. Behan said no and he hoped MRA would propose any such alternatives as part of the negotiating process. For example, MRA might present some alternatives for Council to choose from. He said the Council may have specific concerns

or want to see some specific results in the end, but he hopes they will give MRA the flexibility to negotiate to get there.

Geoff Badenoch encouraged the Board to go ahead with Hotel Fox. He felt this was the path that was going to be most fruitful.

Englund said he thought the trades and labor group made an important point at the last meeting. Kemmis asked what their point was. Englund said it was that in light of the size of the public investment, they recommended that in this process, there be a discussion that the long term jobs be "good" jobs.

Englund said he really appreciated that, up front, Hotel Fox listed all of the possibilities of public expenditures. He said it was refreshing and personally, it mattered a lot to him. Discussion ensued regarding the form of the motion.

MOE: I MOVE THE MRA BOARD RECOMMEND TO CITY COUNCIL THAT THE CITY GRANT HOTEL FOX, LLC EXCLUSIVE RIGHTS TO NEGOTIATE A DEVELOPMENT AGREEMENT FOR THE REDEVELOPMENT OF THE FOX SITE.

FURTHER, THAT MRA NEGOTIATE AN INITIAL AGREEMENT, WHICH INCLUDES ACCEPTABLE SCHEDULES FOR NEGOTIATION AND COMPLETION OF A DEVELOPMENT AGREEMENT, WHICH AT MINIMUM INCLUDES ALL ITEMS LISTED IN THE RFP FOR INCLUSION IN THE DEVELOPMENT AND FULLY ADDRESSES LAND COSTS, AND FOR HOTEL FOX TO COMPLETE A MARKET STUDY AND ANY OTHER PRELIMINARY INVESTIGATORY WORK NECESSARY FOR HOTEL FOX AND THE CITY TO ENTER INTO A DEVELOPMENT AGREEMENT.

FURTHER, THAT THE CITY AUTHORIZE MRA TO REVIEW AND RECOMMEND ACCEPTANCE OF OR COMPLETION OF ANY AGREEMENT OR PERFORMANCE.

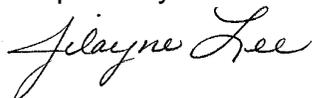
Kemmis asked to amend the motion to read "...OF THE FOX SITE. FURTHER, THAT THE CITY REQUEST MRA NEGOTIATE...." Moe approved of the amendment.

Kemmis seconded the amended motion. Motion passed unanimously.

ADJOURNMENT

Meeting adjourned at approximately 1:06 p.m.

Respectfully Submitted,



Juli Devlin & Jilayne Lee