

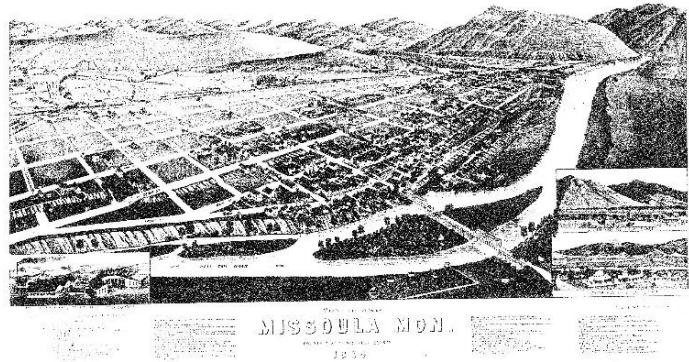


Fox Site Background Paper 2019

The intent of the paper is to provide historical and geographical information and some of the current conversations regarding the Fox Site. It also provides some background for some of recent Fox Site discussions and actions including the Hotel Fox approval process and the current development agreement process.

Site History:

Prior to Montana's becoming a state, the north bank of the Clark Fork River was about 25 feet south of the current Front Street sidewalk and Front Street itself may have been part of the original route from Fort Benton to Washington, the Mullan Road. Starting around 1895, as the core of Missoula developed a few hundred feet to the east along Higgins Avenue, the land that eventually became the Fox Site was used as the general city garbage dump. By the 1920s, the site began to be used as a designated landfill for household and road construction waste as well as the depository of the remnants of several large buildings that had been destroyed by fire were hauled such as the top several floors of the Hammond Building and first two iterations of the Florence Hotel.



During the late the 1920s, the City began formally filling in the riverfront area for construction of a civic center. Last recorded references of the civic center were in the mid-1930s when the State of Montana built the Orange Street Bridge splitting the area of the hoped for center. The filled area of the Fox Site south of the platted lots along Front Street (130 feet from Front Street R-O-W) was donated to the City by the McCormick family in 1938. During the late 1930s a vehicle repair and fuel station was constructed on the corner of Front and Orange that would become a convenience store with fuel in the 1960s (SuperAmerica then Holiday Station in the 1990s). The Fox Theater building opened in December 1949, as a 1,050 seat motion picture venue. The building that would become the original Mustard



Seed Restaurant was built immediately after the theater using two of the theater walls as its primary structural support.



The Fox Theater Company's successor, Mann Corporation, consolidated some remaining disputed land adjacent to the theater parcel and donated the theater and its other land holdings to the City in 1984. As the property was within the relatively new downtown urban renewal district the City Council asked MRA to market the property for re-use or new development. In 1990, after finding no viable developer with two nationally advertised request for proposals, major roof damage, and increasing vandalism (including two arson fires) the City Council directed MRA to

demolish the theater structure while preserving the Mustard Seed building.

Nearly a decade and two additional RFP marketing campaigns later, it was apparent that even developers with the best intentions and history of obtaining development financing could not redevelop the parcels offered by the City while retaining the riverfront area for the public. This was due to the presence of the former landfill, poor access to and visibility of the parcels from Front Street, City and public expectation of the impact the development should have, and the high cost of underground parking to make the site viable.

To make the site more financially attractive to developers by alleviating access and parcel configuration problems, the City, through MRA, negotiated purchase agreements with the Holiday Store and Mustard Seed Restaurant owners while they were both contemplating moves to other areas of town. After acquisition in 2000, both structures were removed by MRA. Over the next few years, several more developers, including a proposed public performing arts center, were ultimately unable to affordably overcome the other issues.

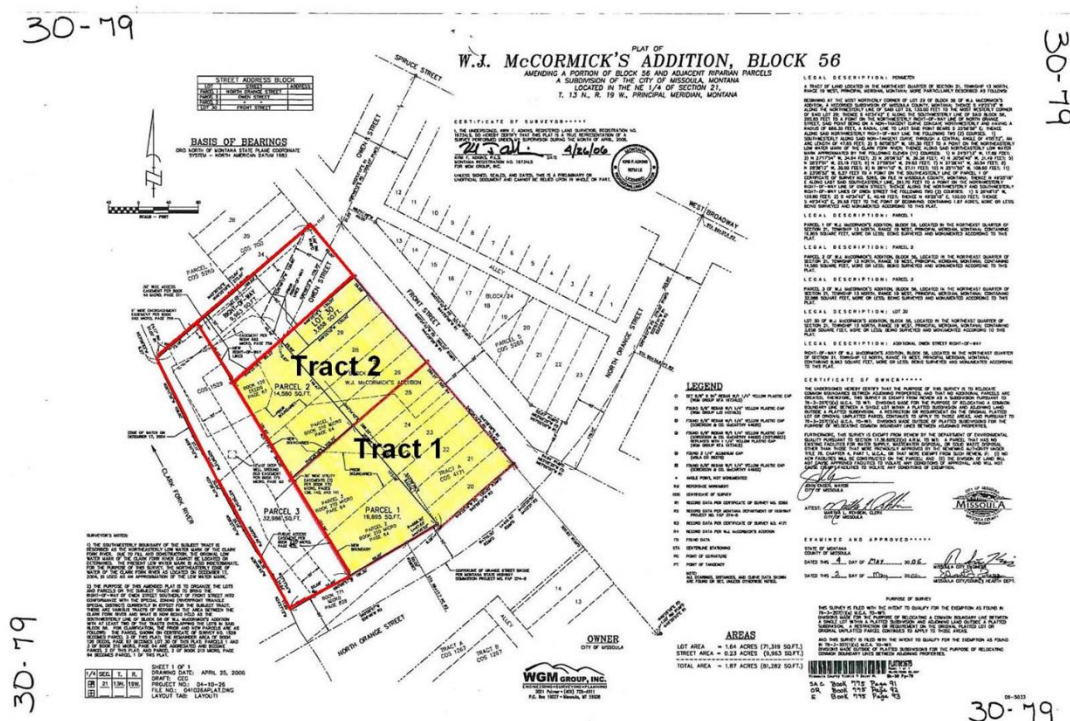


In 2005, with direction from the City Council, MRA removed all of the soil and former dump material to the depth of native soils then replaced it with clean soils that were compacted to densities consistent with construction of large buildings. No toxic or contaminant materials were found in removing the dump. Unfortunately, in part due to major national economic turmoil, two subsequent RFP efforts were unable to discover developments that, in the opinion of MRA and City Council, utilized the site to its potential given its location and importance to downtown and community.

The City-Owned Property:

The current Fox Site is made up of the four previous ownerships described above: The Fox Theater parcels, the 1938 McCormick property (riverfront and Owen Street), the former Holiday property, and the former Mustard Seed parcel. After removing the former City dump in 2005, the overall site was replatted. There are currently four basic tracts in the Fox Site (map attached). Two of them (Parcel 3 and Owens Street) are intended as utility corridors and to maintain some kind of permanent public access to and along the riverfront. The two developable tracts are each composed of one larger parcel and several lots. The lots represent the original platted lots along Front Street and the large parcels are divisions of previously unplatted, former landfill land closer to the river. The tracts were set up to allow some east-west alteration of the boundaries separating them to correlate with the development needs of each tract once they were known. For planning purposes the tract at the corner of Orange and West Front Streets is called "Tract 1" and the tract to the west that abuts Owen Street is "Tract 2". Tract 1 is approximately 43,285 square feet and Tract 2 is approximately 34,038 square feet.

The replatted area was the subject of a 2008 appraisal which found the value to be just under \$3 million. That appraisal was conducted at the peak of the real estate boom just before the "bubble" burst leading to the 2008-2011 recession. According to comments from several local appraisers, the value fell 30 – 50 percent during the "Great Recession". An appraisal conducted in 2016 by the original 2008 appraiser indicates a value of \$2,300,000.



Developer Interest:

Since 1984, the City's intent for the property has been for private, taxpaying redevelopment that meets a community need or market deficiency. Through MRA, the City has issued seven requests for proposals efforts for the various parcel configurations at the Fox Site. Over that time, literally dozens of private developers have tried to put together projects for the site that both made financial sense for themselves and met the City's design goals for the downtown riverfront and general hopes that the development would help address a community need in Missoula at the time. The ideas have been far-ranging and creative including a giant Ferris wheel, rest homes and assisted living for seniors to hotel complexes, a fully "off the grid" brewery using onsite chicken residue for power, office complexes, and public uses such as a performing arts center. Not including the performing arts proposal which ended up as a different kind of process, three potential developers (including the current Hotel Fox proposal) responding to RFPs have been granted the right to negotiate a development agreement for the site. Each of the previous ideas evaporated due to the interrelated issues laid out above: not meeting City goals that were stated in Requests for Proposals, problems in obtaining project financing, or the high cost of developing at that particular site due to many obstacles such as poor access and requirement for underground structured parking.

Land Cost and Equity Financing: The most difficult problem any private, public, or non-profit developer encounters in trying to put together a project budget is land cost. This is because there is an exponential net reduction in financing capacity as paying for land upfront uses money that can be used as equity. Land can be used as equity but as the value of land and price come closer, the less value it has for equity accumulation. In the current financing market, especially with large developments considered risky in any way (particularly in markets like downtown Missoula), equity becomes even more important (equity in the current economy for a hospitality project may be 40% or more). The general offset for land costs is to make the project much smaller recalling the multiplier effect of traditional equity financing. Recognizing this, State urban renewal statutes allow more ways to delineate public benefit (described below). However, there are several ways the land cost/initial equity issue can be dealt with and the Hotel Fox partners understand that those discussions will occur during the early part of the development agreement negotiations and are willing to find solutions.

Master Plans: Both the Riverfront Triangle Master Plan (not formally adopted in 2003 but is the basis for the current special zoning district) and adopted Downtown Master Plan describe the general amenities and constraints of each tract from a marketing perspective including access to the site; proximity to amenities including the river, parks, trails, shopping; views; nearby arterial streets and Interstate; neighborhood employment generators; etc. Constraints impacting the cost of development of the Fox Site include: topography, zoning and parking requirements, needed utilities, poor access to the interior of the site, etc. Both plans call for dense, multi-use developments that recognize the amenities through superior design and construction materials. It is likely that zoning will have to be adjusted to meet Downtown Master Plan recommended densities and building heights but a must be found to maintain design standards and other specific requirements found in the current zoning



Law on Process: There are several laws that guide disposal of municipal property in an urban renewal area and include 7-15 4262 – 4264 M.C.A. The section of urban renewal law most relevant to the beginning of the development agreement negotiation process is probably 7-15-4262 shown below. Others governing items eligible for TIF assistance and the manner which those dollars can be spent will be given to the Working Group as those subjects come up.

7-15-4262. Disposal of municipal property in urban renewal areas. (1) A municipality may:

(a) sell, lease, or otherwise transfer real property in an urban renewal area or any interest therein acquired by it for an urban renewal project for residential, recreational, commercial, industrial, or other uses or for public use and enter into contracts with respect thereto; or

(b) retain such property or interest only for parks and recreation, education, public transportation, public safety, health, highways, streets and alleys, administrative buildings, or civic centers, in accordance with the urban renewal project plan and subject to such covenants, conditions, and restrictions, including covenants running with the land, as it may deem to be necessary or desirable to assist in preventing the development or spread of blighted areas or otherwise to carry out the purposes of this part.

(2) Such sale, lease, other transfer, or retention and any agreement relating thereto may be made only after the approval of the urban renewal plan by the local governing body.

(3) Such real property or interest shall be sold, leased, otherwise transferred, or retained at not less than its fair value for uses in accordance with the urban renewal plan. In determining the

fair value of real property for uses in accordance with the urban renewal plan, a municipality shall take into account and give consideration to the uses provided in such plan; the restrictions upon and the covenants, conditions, and obligations assumed by the purchaser or lessee or by the municipality retaining the property; and the objectives of such plan for the prevention of the recurrence of blighted areas. [Emphasis added - CB]

(4) Real property acquired by a municipality which, in accordance with the provisions of the urban renewal plan, is to be transferred shall be transferred as rapidly as feasible, in the public interest, consistent with the carrying out of the provisions of the urban renewal plan.

Hotel Fox Project:

The 2011 RFP process in which the Hotel Fox concept was accepted focused more on respondents' development history, ability, vision, and understanding of the site and community rather than emphasizing site and building designs typical of the previous RFPs for the site. The 2011 RFP set out a process that sought to find a "partner" for the MRA and City to work with for a specified time, to form a development agreement that defines site and building design as the selected respondent conducts more in-depth market studies to refine uses and design needs, finds capital investors and lenders, and works through other required processes such as zoning and needs such as upgrading infrastructure and provision of parking.

At its December 5, 2011 meeting, the City Council granted the Hotel Fox Partners, LLC a one year exclusive right to negotiate a development agreement for the City-owned Fox Site at the corner of Orange and Front Streets in the Riverfront Triangle Urban Renewal District. Several weeks later, an Interim Agreement between Hotel Fox and MRA was executed which includes outcomes, schedules and responsibilities that the City Council and MRA Board indicated were important. Recognizing Hotel Fox's substantial progress and major expansion of the project and conference center (pursuant to a request by Mayor Engen), on January 14, 2013 and again on January 13, 2014, the City Council extended the term of the Agreement by one year. On June 8, 2015, the Council approved another extension (until 2017) with the understanding that a series of new tasks would be undertaken by the developer.



As mentioned above, the developer's planning efforts expanded by finding the owner of several acres of adjacent land would discuss selling for a larger development. The size of the proposed conference center plan more than doubled when Mayor Engen asked Hotel Fox to explore the feasibility and site location of a much larger conference and meeting center in

conjunction with the hotel development. The Mayor's goal for the larger conference center was to augment other local hotel businesses and create a significant new source of economic energy in the downtown and the community.

In 2013, an area-wide parking study sponsored by MRA, the Parking Commission, and Providence

Health and Services/St. Patrick Hospital was completed. Providence followed up with an expanded parking analyses focused on its properties along with an internal strategic land use planning process. Providence's efforts led to its allowing the Hotel Fox developer to present a variety of development scenarios that developed the Riverfront Triangle west of Orange Street including addressing future parking needs in the overall neighborhood.

In early 2014, the MRA, Downtown BID, Tourism BID, and Missoula Downtown Association partnered with Hotel Fox Partners to engage CSL International, a highly regarded conference and convention center marketing consultant, to conduct a focused study of Missoula and the surrounding region to determine the

feasibility and potential economic impact of a major conference center in downtown Missoula. After extensive research, CSL found that a regional conference center was both feasible and marketable but only if it were built adjacent to a large hotel and located in proximity to amenities such as the riverfront, trails and parks, shopping, additional hotels, and entertainment. The study also found that, like nearly all conference and convention centers in the United States, there it would likely endure annual operating loss or at best break even, while creating excellent benefits to downtown businesses and the community.



With purchase of the surrounding land owned by Providence in 2015, Hotel Fox had grown from the City hoping for a private project on the Fox Site that would act as a catalyst for additional redevelopment of the area to a potential major community resource in a regional-class conference center and a master planned commercial and residential development of much of the Riverfront Triangle area.

By mid-2019, it became apparent that the Hotel Fox Partners were finding it difficult to develop both the former Providence lands and the hotel project in the manner that they hoped. Mayor Engen introduced them to Nick Checota who has created music event production venues at the Top Hat Lounge, Wilma Building, and Kettlehouse amphitheater as well as producing occasional concerts at the Missoula Civic Stadium. Mr. Checota, under the business name of Stonefly, LLC, had been interested for some time in developing or participating in a venue that could have an audience of up to 6,000 had greater flexibility in events. Discussions between the two entities, MRA, and the Mayor's Office has resulted in an amended deal for the Fox Site that seems to be much more financially feasible, viable in the long term, and likely has even more economic impact to downtown and the entire community. Several of the Hotel Fox Partners will be developing the former Providence land under the name Riverfront Triangle Partners, LLC. That development will be a mix

of commercial office, retail, and a variety of housing options.

Stonefly's modification to the basic deal are to change the focus on large to include other events such as music concerts, lectures, trade shows, comedy, and other performing arts like traveling live plays, ballet, opera, etc. Changing the main hall to a 60,000 square foot facility (plus other ancillary uses) to accommodate an audience of up to 6,000 on the main floor and two balconies would be a significantly expand of the variety of possible events that would greatly improve the sustainability of both the center and hotel. Currently, during popular concerts held at the Wilma and the Amphitheater, most hotel rooms in downtown are full. Larger events should spread that success to other area hotels and services. The variety of events that the center will be designed to feature will include types which do not have an adequate venue in Missoula such as traveling Broadway shows and other performing arts which require a large, appropriately equipped stage. Art and trade shows would also be accommodated, filling part of a need identified and promoted by the Missoula Chamber of Commerce for years. Dinner seating for up to 1,000 people would also be possible as a single event or combined with large parties or events.

