

MISSOULA REDEVELOPMENT AGENCY

CONDENSED BOARD MEETING MINUTES

July 9, 2015

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 10:00 AM. Those in attendance were as follows:

Board: Karl Englund, Nancy Moe, Daniel Kemmis, Melanie Brock, Ruth Reineking

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

Public: Peter Lambros, Southgate Mall Associates; Jeremy Keene, WGM Group; Kate Dinsmore, WGM Group; Martin Kidston, Missoulian; Joe Easton, Jackson Contractor Group; Jeff Maphis, JCM Architecture; Julie Armstrong, Ward 5 resident; Jessica Morriss, City of Missoula Development Services; Kate Whittle, Independent; Robbie Reynold, KPAX News

CALL TO ORDER

12:00 p.m.

APPROVAL OF MINUTES - None

PUBLIC COMMENTS & ANNOUNCEMENTS - None

Hal's Walk Dedication is tomorrow at Silver Park at 10 a.m.

ACTION ITEMS

Southgate Mall – TIF Request (*Buchanan*)

Buchanan introduced the project being proposed by Southgate Mall Associates (SMA). This initial phase that involves MRA has three sub-phases, 1A, 1B, and 2. Most of the presentation about the project occurred at the April 22, 2015 Board Meeting. Most of the request to MRA is for the extension of a street from Brooks to Reserve through Mary Avenue. Buchanan pointed out that the Mall property is currently outside of the District III, but State law allows tax increment to be used to extend infrastructure to the benefit of districts. The initial request is for just under \$13 million in public funds, and the private

investment is over \$69 million which includes recent acquisition and investment in the Mall and \$44 million of new investment. This is a higher public to private ratio than is typical. A 1:10 is more typical and this is closer to 1:5. The infrastructure investment will lay the groundwork for subsequent phases so the ratio gets better as future phases get built. Buchanan said this is one of those projects that is front end loaded with improvements that are needed for it to be successful.

The TIF request is as follows:

• Demolition	\$ 1,311,502
• Utility Relocation	\$ 1,133,063
• Public Right of Way Improvements	\$ 5,242,868
• Right of Way Acquisition	<u>\$ 5,265,234</u>
	\$12,952,667

A fairly expensive piece of this is right-of-way (ROW) acquisition for the new street. Buchanan said there have been several discussions with Development Services and the Mayor's office on the ownership of the street. The options are a publicly owned street or a privately owned street with a public easement across it. The City feels very strongly, and Buchanan agrees, that it should be a public street if we are going to fund it with public money and it should be subject to public regulation. The traffic signal will need to be relocated on Brooks to facilitate a bicycle and pedestrian crossing in that area. Currently it is pretty difficult to get across Brooks Street.

Façade improvement is also being considered for the renovation of the Sears building and a portion of Paxson Plaza but those applications are not ready and the Sears property is not currently in the district.

Moe asked about the demolition of Paxson Plaza. Buchanan said that area is planned to be used for parking to support the new buildings to be constructed by the Mall.

Buchanan said the history of what is happening to malls across the country was explained at the April 2015 meeting. Buchanan said the prediction is that 15% of the malls that are still viable across the United States will fail. This project is an effort to stop that trend by creating a sense of place with streets that serve pedestrians, bicycles, cars and deliveries and are comfortable places to be. The goal is to change the focus to a more external experience instead of strictly an internal orientation.

Two of the primary highlights are:

- Over 900 temporary construction jobs and over 300 long-term retail, office, theater and market jobs
- Prevention of blight by turning focus of mall outward to neighborhood design

Staff is recommending approval with conditions:

Recommendation: Staff recommends that the MRA Board approve the TIF request for \$12,952,667, with the following contingencies:

1. The URD III boundary must be adjusted to include Southgate Mall.

Buchanan said this is a fairness issue; it doesn't seem equitable to pull money out of the district and not get the benefit [tax increment] of the investment in this project coming back to the district.

2. An analysis of the capacity of URD III to service this and the other debt proposed for the District after new taxable values are received must demonstrate that there is adequate carrying capacity in the District.

Buchanan said MRA has not received taxable values of the districts from the Department of Revenue yet. Other projects MRA is working on include the South Reserve Trail Crossing and the Brooks Street improvements so all of these have to be considered and the size of a potential bond would be determined by the capacity of the district to amortize it.

3. A value for the right of way acquisition must be established.

The value of the right of way needs to be established with an appraisal. They estimated fair market value in their request.

[From Staff Memo: Staff further recommends that the MRA Board forward a recommendation to the City Council to issue bonds secured by URD III to service the debt if the above contingencies are satisfied. If the boundary is not adjusted, the request will need to be reevaluated to determine which costs are eligible for assistance and whether the burden on URD III is too great to absorb with little return in the form of direct tax increment from this project.]

Peter Lambros, Southgate Mall Associates (SMA), thanked the board and community for allowing such dialogue and opportunity to take place. Lambros said development at the Mall is tenant driven and Missoula is the smallest market to soon have an H&M and an Athleta. The more critical mass interest that develops the more promising the development.

Lambros spoke to the size of the request. He felt TIF was created to help make developments of this size possible. Lambros said MRA's investment is part of making this happen, it's not icing on the cake. Any MRA contribution is meaningful and will make the project go forward.

Lambros said the site was previously a lumber site. This worked well for the original Mall design; malls are essentially islands that don't conform to city street grids. He said now they are looking to adjust that model and bring the neighborhood feeling back, the connectivity back. Lambros said we have let the railroad, out of necessity, be a dividing line between neighborhoods. Lambros said he believes neighborhood connectivity is what causes circulation; what allows for services and residents to interact. He believes there is a benefit beyond the project in that it sets up this area of Missoula to future success.

Lambros said he is well aware of the magnitude of the request and the degree to which it would draw down the district's capacity. He said they are well-intended as developers. The entire project with all of the phases is bigger than the group he represents alone but he hopes it plants a seed for future development. Lambros said he believes the project is worthwhile, will be the commercial cornerstone to URD III, and will plant the seed for future development. He encouraged the Board to consider the request as a whole in order to maximize the benefit back to the district.

Keene continued the presentation showing digital renderings of the project's phases. He said the Mall is the retail anchor for Midtown Missoula and is the reason other businesses often locate in that area. Keene said if you look at the project from a cost revenue basis it simply will create this much value and then return an amount of tax revenue. If you look at it from a cost benefit basis, it's not just the anchor tenants but all of the auxiliary tenants that come in that would be factored into such an analysis. Keene said the project redefines and strengthens the Southgate Mall as the center piece of Urban Renewal District III. Keene addressed the following goals of the project: diversify, extend, improve, establish, attract, address, prevent, preserve and expand.

Keene said the Mall's vitality is at risk, which puts the district at risk and to a certain extent the neighborhoods around it. A large blighted property such as the Mall would have a significant negative impact on the neighborhood. Keene said they identified six conditions that currently exist that are defined as blight in State law: age obsolescence, inadequate street layout, configuration of lots, land coverage, diversity of ownership, and obsolete platting. These have become an encumbrance to reinventing the Mall and the surrounding area.

Keene said in addition there are long identified neighborhood needs such as connectivity, transportation, infrastructure for bikes and sidewalks, landscaping, beautification, parks, affordable housing, and vacant and blighted properties. The SMA project tries to address the above by incorporating the reasons that people go places, for example for food, entertainment, prescriptions, etc.

Keene reviewed the project phases in more detail:

Phase 1A is the theater. \$20.6 million total cost including \$2.9 million in public infrastructure and demolition. The new street would wrap around the Mall to the Mustard Seed restaurant and really turn the focus outside.

Phase 1B is the redevelopment of the Sears building. \$21.3 million total cost including \$5.4 million in public infrastructure.

Phase 2 is the public infrastructure for the street including Mary Avenue crossing the tracks and breaking up the "sea of asphalt" parking. \$14.9 million total cost including \$4.7 million in public infrastructure.

Phase 3 is the completion of Mary Avenue to Reserve Street and eventually a traffic signal put in. \$2.2 million total cost (all public infrastructure).

Phase 4 is the infrastructure for the residential complex. Estimated \$64 million total cost including an estimated \$6.1 million in public infrastructure.

Total cost for all phases is \$136 million; \$21.4 million in public infrastructure (16%)

Project Benefits:

- Maintain neighborhood character and amenities
- Transportation connections & walkability
- Stabilized and improved tax base
- Proactive investment to prevent future blight
- Compliments and supports other community investments

Keene gave examples of other important investments and proposed investments that are being made in the community already, i.e. Fort Missoula Regional Park & Trails, South Reserve Crossing, Missoula College, Missoula Library, etc. Keene said this project has a large public component and large role for MRA to play but it also brings the private investment side to the table.

Keene said the infrastructure improvements would also address the issue of kids getting to school safely. Kids in the neighborhood that live too close to Russell school for bus service have to cross Brooks street, which is a real barrier to walking to school.

Environmental impacts of the project include better transportation choices, mixed use development, in-town development, better landscaping and storm water treatments, reducing impervious areas and heat effect of large asphalt areas.

Keene said this project is implementing some long range goals with respect to social impacts that have been identified over the past 15 years through several planning efforts.

Keene said tax generation for the first two phases is estimated at \$388,000 using a formula of 1.5% of construction value.

Moe asked several questions regarding the public infrastructure in phases 1A, 1B and 2. Mary Avenue is part of the request to annex into the district and Moe asked if there was a reason why the proposed boundary amendment didn't go out to Reserve Street considering the impact on Mary Avenue. Discussion ensued regarding the current condition of Mary Avenue from the railroad tracks to Reserve Street. Buchanan said if the Board moves forward with recommending the study of blight to amend the boundaries, including Mary Avenue all the way to Reserve Street makes a lot of sense considering the impact this project will have on that street.

Englund asked whether MRA could fund a traffic signal outside of a district. Buchanan said state law allows for funding of infrastructure outside of district boundaries if it proves beneficial for the district. \$350,000 is about what it costs to put in a traffic signal.

Keene said they did do some outreach to residents on Mary Avenue. It was generally favorable. Discussion ensued regarding improvements on Mary Avenue. Moe said she is concerned about the impacts on that neighborhood.

Brock asked where the bus stop would be located. Keene said the bus stop would remain where it has been relocated to, which is near Dillard's. He said there are opportunities to do more in the future; possibly a transfer station.

Kemmis said with respect to the ROW acquisition, his understanding is that the land for the street is currently owned by SMA and other tenants. Keene said there are three or four owners including SMA, JCPenney and Bob Wards. Keene said MRL will require an easement for the Mary Avenue crossing and he thought there was already an easement there for the trail crossing.

Kemmis asked if MRA were to get a question from a skeptical citizen or another property owner in the district with respect to using \$5 million to acquire ROW from SMA, who will be the chief beneficiary of the project, how would MRA respond. Keene said that is a good question. He said MRA would be creating a new street network. If the City were to build a new Reserve Street or Mullan Road, they would need to acquire the ROW and construct the improvements. He said these will be neighborhood and regional transportation improvements to create better circulation. These are public benefits; not just benefits to Southgate Mall. Making these connections at Johnson and Mary have been in the Transportation Plan for some time. For those reasons, Keene felt it was appropriate to use public funds to acquire the ROW and construct the road.

Kemmis said in a typical subdivision where new streets are required, the ROW is not usually acquired from the developer. Keene said subdivisions have to provide access to all of the properties; the developer is getting entitlements and creating the infrastructure to support those entitlements. In this case, Southgate Mall doesn't need to create a road. He would argue the road is a bigger benefit to the City and neighborhood than it is to the Mall. If this project was in its own box, the developer would probably just do circulating roads and a parking lot; similar to what it is today. The idea of creating a street, while it fits nicely with the concept behind the development, is largely to create the public benefit of circulation and access.

Kemmis said the request seems pretty fast considering the \$13 million request. He asked if it had something to do with the sunset of the district. Lambros said SMA has some anchor tenants who would like to break ground in the November 2015 if they can be given a predictable path.

Brock asked if acquisition of the ROW and that revenue into SMA helps the whole project pencil. Lambros said it is a huge component. They have a list of where the

project starts to come undone at the edges, economically. Acquisition of the ROW is one area that MRA can assist with, which helps the rest of the project be successful.

Reineking asked Buchanan to expand on the discussion of the merits between a public street versus a private street with a public easement. Buchanan said originally SMA wanted a private street. The City Engineer, Development Services Director, the Mayor and Buchanan all agreed that it should be a public street, particularly if public funds were going to be used to build it. Public ownership allows control of level of service, maintenance and uses.

Moe asked about the possibility of providing much needed park land. Keene said the development doesn't include a park as part of this phase but it does include a lot of public space, like the plaza. The street also creates a linear public feature and is designed to be like a linear park. Keene said without the full request, he didn't think these features could be done in the same way; the design would have to be scaled back to make it affordable.

Kemmis asked where the specificity of the projected costs of the ROW acquisition and improvements come from. Keene said WGM Group has done about 30% design for Phase 1. The land cost is estimated at \$18 per square foot. A formal appraisal would be done to determine fair market value.

Englund asked about the demolition costs. Kate Dinsmore, WGM Group, said it includes Curley's Broiler, a portion of Paxson Plaza and some parking lot and landscaping demolition.

Englund asked if the ROW acquisition is in the district. Buchanan said the majority of it is outside the district. Englund asked Keene's comfort level of the estimate of \$5.24 million to build the street. Keene said the estimates are conservative and there are contingencies built in. The project would need to go through a bidding process for actual costs. Buchanan said MRA saw substantial savings on the South Crossing project.

Englund reiterated the project costs: \$69.7 million is the private investment for Phases 1 & 2. Phase 3 is Mary Avenue so there is no private investment but \$2.2 million in public investment. Phase 4 is \$58 million private investment and \$6 million in public investment.

Englund asked what a "lifestyle" retail center was. Lambros said they are typically outward facing retail centers made up of tenants that require a certain design component, e.g. Pottery Barn, J.Jill, Ann Taylor, etc. These tenants require a more design-savvy context in order to be motivated to come to a location.

Moe asked about the theater component. Lambros said it would be a Carmike Theater but more event driven with bars, restaurants, reserved seating, etc.

Moe said the application said Phases 1 & 2 are supposed to generate \$388,000 in new taxes. Where do they come from? Lambros said H&M, the market and the theater are set to be completed by the end of 2016. The smaller retail area would be used for staging the theater construction so would be completed by the end of 2017. Moe asked what amount of bonding \$388,000 could support. Buchanan said her rule of thumb, which is probably conservative, is \$100,000 in debt service per year gets you about \$1 million in a bond. South Reserve Crossing is going to be about \$5 million. Buchanan said she would propose any bond sale be debt serviced with the entire district's revenue. She anticipates an increase in taxable values with all of the new development going on in URD III.

Discussion ensued regarding the infrastructure requests for phases 3 & 4. Keene said the total public request for phases 1-4 is about \$21 million.

Englund asked what the next big hurdle might be after the completion of phases 1-4. Buchanan said if the investment is going to be as big as projected, Johnson Street is going to be an issue. Discussion ensued regarding future development in the area south and west of the Mall property. Beyond five years the discussion becomes very speculative.

Reineking asked about the affordable housing component mentioned in the memo. Lambros said they have looked at taking a portion of the 250-300 units proposed and making them affordable. For example, if there are six buildings, then one building would be affordable.

Kemmis asked if just the annexation of the Mall into the district would create new increment immediately. Buchanan said no because it would become part of the new base.

Moe asked about the Mary Avenue improvements. She said she is concerned about the impact on the residents. Reineking echoed that thought but said she is excited about the new connectivity from that neighborhood to the Mall and schools.

Lambros said he wanted to be clear about Phase 4 and how that plan could still change. The 10 acre property is almost equally owned by the Beach family and SMA.

Moe asked about the park areas included in the project. Lambros spoke about the two acre park planned in Phase 4, which would be considered a neighborhood park. Moe asked if there are other developments planned for the area that would not include a request for tax increment assistance but would increase the value of the Mall property. Lambros said they have maximized their parking capacity at this time so until structured parking is considered, additional development couldn't take place. A hotel could be considered in the future but it would require additional property and parking. Buchanan said there could be some additional development inside the mall that could increase taxable value without an additional request to fund infrastructure.

Kemmis said he was concerned with the following:

- The staff's third contingency that still requires MRA to do an analysis of the capacity of the district. Currently, bonding capacity is still unknown.
- The magnitude of the request, which is 18-19% and above the normal public to private ratio of 1:10. If the ROW acquisition is removed the request is about 11%, which is more in line with MRA's standard guideline.

Englund reiterated what he thought the process would be moving forward: approval of project and study of blight by MRA board, recommendation to City Council, final bond amount and resolution comes back to MRA board for approval, then recommendation to City Council to approve final bond resolution.

Buchanan said the ratio is higher with this project but when you do big projects, sometimes the ratios are higher. She said the project is front-end loaded so the more phases that are built the better the ratio. She said regardless of the amount of assistance approved; she strongly recommends the Mall property be annexed into the district.

Kemmis said he hoped the MRA would be involved in a major way in assisting with the repositioning of the Mall. He said the argument for preventing blight is a strong argument. Kemmis said he thought the board should take the first step and recommend the study of blight for potential boundary modification. He hoped that would give the signal that MRA is strongly supportive of this project. Kemmis said considering the request for nearly \$13 million, he would like to wait for the taxable values and more information and analysis on the ROW acquisition request. Kemmis said his recollection of projects of this magnitude is that they involve some give and take about what is a reasonable investment. He would like the Board to be involved in further discussions on that. He is concerned with the speed of the process. Moe concurred and thought action on the TIF request should wait until there is analysis of URD III's bonding capacity and the Board has had further discussion on the ROW acquisition.

URD III Boundary Modification – Request for Approval (Buchanan)

MOE: I MOVE THE RECOMMENDED MOTION REGARDING POTENTIAL ANNEXATION INTO THE DISTRICT BUT ASK THE STAFF TO EXTEND THE BOUNDARY OF THE STUDY TO INCLUDE MARY AVENUE.

[MOTION: Staff recommends that the Board approve a recommendation to the City Council to direct staff to conduct a study to determine if findings of the existence or prevention of blight per Montana Urban Renewal Law exist at Southgate Mall and in the five blocks west of Eaton Street between Livingston and Agnes Avenues and bring those findings back to the MRA Board for additional recommendations to City Council.]

Kemmis clarified the motion is to recommend to City Council to direct the staff to conduct a study and that the study area include Mary Avenue to Reserve Street.

Behan said the difference between this project being added into the district and the Consumer Direct project being added into the district is the proximity of when the study of blight was done for the North Reserve / Scott Street URD.

Brock seconded the motion as clarified by Kemmis.

Discussion ensued.

Joe Easton, Jackson Contractor Group, said there is not a relationship between SMA and Jackson Contractor Group, but having been personally involved in redevelopment for 15 years and with Jackson as the construction manager and general contractor for two of the large community projects that Keene mentioned earlier, he wanted to show his support of the vision that has been presented and encouraged the Board to support it and continue to do its due diligence with respect to development in this area and in the community.

Moe said she hoped this motion is taken as a show of support for what SMA is planning.

Motion passed unanimously. (5 ayes, 0 nays)

Southgate Mall – TIF Request discussion resumed

Reineking said she felt SMA would benefit from the new streets but so would the neighborhoods. She asked if the recommended motion was approved, would there be future points of approval of clearer numbers. Buchanan said the Board could embellish the proposed contingencies regarding ROW acquisition, or approve an amount without acquisition and ask for further information on that item. She said there are a couple of options for moving forward if the Board wanted to take some action today.

Discussion ensued about the Board's comfort level regarding the \$5.2 million request for ROW acquisition and the unknown bonding capacity of the district. Englund said he supports the project and sending that signal to the developers.

Lambros said SMA can't do anything without the approval of the other landowners, which are the major tenants. Lambros said he understands and appreciates the stewardship the board is displaying with the disbursement of public funds. SMA has spent \$18 million over the past few months. The ROW acquisition is an important piece because it allows the developer to do a better job and support the larger project. He said any positive signal that can be given is meaningful.

Julie Armstrong, Ward 5 resident, said she attended a neighborhood meeting with other residents last night and they are unanimously in support of this project. She lives south

of the Mall and has to call 911 a lot with respect to incidents at the Brooks Street Motor Inn. She said the attendees of the meeting look forward to the improved traffic flow and hopefully reduced crime in the area. She said they had a discussion that even if their taxes were to go up because of the project, they were in full support of it and the positive change it will bring.

Moe and Kemmis were in favor of waiting until more information is available. Kemmis said he hoped that directing the staff to do the study of blight to potentially add the Mall property to the district was enough of a signal to the developer of MRA's support of the project.

Buchanan said as soon as the taxable values are known, the analysis of the district's capacity to issue bonds will be done. She said with respect to the ROW costs, she wanted some direction from the Board.

Kemmis said he liked the analysis Buchanan suggested with an amount of benefit for the public and an amount of benefit for the developer. Englund said he anticipates a level of discomfort at City Council so he would prefer to wait and do some additional analysis to review at the next meeting.

Keene asked if there was additional information WGM Group could provide. Kemmis said some apportionment of benefits of ROW acquisition would make him more comfortable. Kemmis said he needs the numbers in front of him to determine his comfort level with respect to the district capacity.

Buchanan said she would like to move along as fast as possible so there is not opportunity lost. Englund said he wants everyone to understand there is strong support for this project among the staff and Board.

Buchanan said there are two issues that are outstanding:

1. district bonding capacity
2. cost of the public right-of-way acquisition

No action was taken on the TIF request. More information from the staff and WGM was requested.

NON-ACTION ITEMS

STAFF REPORTS

Behan said they are moving forward with the North Reserve/Scott Street Master Plan. He said if there are board members interested in serving on the committee, please let him know.

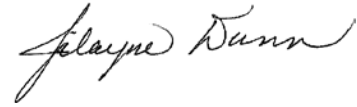
Budget Reports

Director's Report

ADJOURNMENT

Adjourned at 2:24 p.m.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Jilayne Dunn".

Jilayne Dunn