MISSOULA REDEVELOPMENT AGENCY

CONDENSED SPECIAL BOARD MEETING MINUTES

March 26, 2024

FINAL

A Special meeting of the Board of Commissioners of the Missoula Redevelopment Agency was held on Tuesday, March 26, 2024 in the Hal Fraser Conference Room, 140 W. Pine St., and via Microsoft Teams at 12:00 p.m. Those in attendance were as follows:

Board: Karl Englund, Tasha Jones, Melanie Brock, Jack Lawson

Staff: Ellen Buchanan, Annie Gorski, Annette Marchesseault, Jilayne Dunn, Maci MacPherson, Lesley Pugh

Public: Developers: Matt Sullivan, Caroline McCauley; Sirius Construction: Eric Burns, Mark Umile; City of Missoula: Sandra Vasecka, Dave DeGrandpre, Emily Harris-Shears, Mayor Davis; Julie Lacey, Missoula Economic Partnership; Cliff Evans, Farmers State Bank; Martin Kidston, Missoula Current; Ian Alvano, ABC Fox; Bowen West, Derek Goldman, MCAT

CALL TO ORDER
12:00 pm.

INTRODUCTIONS

APPROVAL OF MINUTES

PUBLIC COMMENTS AND ANNOUNCEMENTS

ACTION ITEMS
Front Street Apartments – 333-401 East Front Street (Front Street URD / Ward 1) – Workforce Housing Program (WHP) Request *(Gorski)* **|** **Power Point** **No action taken**
Click here for link to meeting video.

Gorski said this is the second application MRA has received for its newly adopted Workforce Housing Program (WHP). The MRA Board previously approved $250,924 for public infrastructure improvements in the right-of-way and building deconstruction to support a 26-unit market rate project at 333-401 East Front Street. Matt Sullivan and Caroline McCauley, MC Real Estate Development, are the developers of this project. The project has been on hold since the initial approval due to rising construction and financing costs. The developers applied for the WHP in December 2023 requesting $1.3 million to support 13 income-restricted units in the project. They have indicated that without MRA funding approval for this project, the project is not feasible to proceed at this time.

For background, Gorski said in 2021 "workforce housing" was added to the definition of infrastructure in the Tax Increment Financing (TIF) section of state statute. In 2022 the MRA Board directed formation of a working group to develop some recommendations related to workforce housing. The working group met eight times over several months. In 2023, Montana House Bill 819 was signed by the Governor defining workforce housing as serving households earning between 60 – 140% Area Median Income (AMI). In September 2023, the MRA Board approved a new Workforce Housing Pilot Program adopting that AMI range as the focus for the program. The WHP allows for TIF to help fill a construction funding gap on income restricted "for sale" and "for rent" projects that serve that AMI range.

Gorski said the parcel on East Front Street is just over 1/3 acre in Downtown Missoula. It is close to the Missoula Public Library, ROAM student housing development and Kiwanis Park with Riverfront Trail System access. There is a bus stop in front of the site. The project will be 26 units and all rents are currently modeled at or below 120% AMI. It will included 13 units modeled between 90 – 100% AMI that are unrestricted, and 13 income-restricted units with rents averaging 85% AMI. Under the WHP, the developers would agree to a 30-year affordability period that would have a use restriction that would run with the land and the units would remain affordable over that period of time. The City's Community, Planning, Development & Innovation (CPDI) Department would monitor those units and provide annual income and rent data to the developers to ensure the units are being marketed to individuals within the income range. Included in the 26 unit apartment mix will be two ADA accessible units. One of those could be included in the income-restricted mix. Additionally, the developers are proposing a fully electric project and planning solar power on the rooftop to serve common areas of the building. Gorski said the project meets Design Excellence guidelines for the City and renderings are included in the memo.

Matt Sullivan & Caroline McCauley, developers, have been developing housing in Missoula since 2013. Sullivan said they currently house about 120 people in the community. Currently, 88% of their rents qualify as workforce housing. He said they wouldn't be making this request if construction and financing costs hadn't changed, but they have radically increased. When they first starting looking at this project they were forecasting $4.4 million for total build costs with a 4.5% interest rate. Today, it is very hard to get an interest rate below 7.5%. They purchased the site in 2015 and have always had the plan to develop it. They initially looked at putting $4-$5 million condominiums on the site. They decided not to do that and want to do what they do best which is provide Missoulians with workforce housing. They would like to provide housing to a minimum of 26 people here, with a max of about 50 people including university staff, vet technicians, nurses, police officers, etc.. It will expand housing that is safe, clean and semi-affordable to folks in the community. Sullivan said the project also aligns with climate goals with the inclusion of solar panels and other energy efficient materials. It is infill development that is central to downtown using local entities like themselves, Farmers State Bank and Sirius Construction to make the project happen.

Gorski said the internal working group also discussed that the developers are not taking a developer fee. MRA may see applications where that is standard and necessary, but that is not the case on this project. She also highlighted density of the project. There were previously two aging buildings on the site that have since been deconstructed. They were providing housing for five individuals and this project will house 26-50 individuals with a higher density per acre.

Gorski reviewed AMI ranges the WHP allows for, 60%-140%. The data comes from US Housing and Urban Development (HUD). They provide the information annually in May or June. Their 2023 model is being used right now to model the rents. CPDI will monitor that and review it annually with the developers. The targeted rate for the 13 income restricted units on this project is around 85% AMI, or one person earning about $51,000 annually and $58,000 for a two-person household. All 26 units on this project will be 1 bed/1 bath with a small commercial space planned on the ground floor. The building will be three stories facing Front Street or Kiwanis Park. Each unit will have a private balcony.

Gorski said given this is the first rental housing request under the new WHP, there are some program decisions related to the guidelines that are in her memo. The first relates to the gap calculation. The WHP guidelines allow TIF to be available to help bridge a funding gap created by including income restricted units. The maximum TIF for vertical construction will be calculated on a case by case basis at the sole discretion of MRA by evaluating the cost to build minus the revenue generated by selling or renting units. Gorski said that calculation is much more simple and straight forward on “for sale” projects versus rental projects where they’re projecting rents over a 30-year period. For this project and continuing through the pilot phase of the WHP, Gorski recommends the use of the project sources and uses and understanding those in depth and digging into proforma details with the team to determine the maximum TIF calculation. The other data point to look at is the difference between the affordable/attainable workforce rental rate and the income over the 30-year period and the market rate over a period of 30 years.

Englund asked what “project sources and uses” is referring to. Gorski said sources and uses is on page 4 of her memo. She said there is a commitment letter from the lender that verifies what sources they are bringing to the project to pay for land, design and engineering, and what the gap is to service that loan and cover the construction costs. The developers have a construction loan that will cover the two years for construction and then transition to a permanent loan over the life of the affordability period. Englund asked if the source number is fixed based on the amount of income the bank thinks it is going to receive. Gorski said it’s based on the bank’s loan to value requirement and how much equity the team can bring to the table. Right now the developers are bringing roughly $1.9 million in equity and in having many conversations with the development team, that is the maximum amount of equity they can bring to this project to make it feasible. There is a gap between what the bank can loan and what the developers can provide, so that is the WHP TIF request for $1.3 million. It represents that gap between developer equity and total project costs.

Jones asked Cliff Evans, Farmers State Bank, if the loan to value ratio is built on proformas. Evans said they look at loan to value and construction costs. The final component for them is does the debt service coverage ratio (DSCR) work loaning a higher amount or does it only work when there is an additional $1.3 million injection. Because of costs and financing costs they need to finance a lower amount to make the project work. The numbers with the

$1.3 million makes sense to Farmers State Bank that the project can service its own debt using the restrictions. Lawson asked if it is more loan to cost than loan to value. Evans concurred. Lawson asked what the DSCR target is. Evans said it is 1:2 or 1:25. Englund asked if the number would increase if there is no restriction on the rents. Evans said if the developers could project higher rents then Farmers State Bank could afford to finance more. Buchanan said in the simplest of terms, MRA would become an investor in the project.

Jones referred to the developer's statement saying this project would not go forward without MRA investment, and asked if that is because of their business model which is to keep their development in a workforce housing band. McCauley said because of the market, project size and location, lack of parking, etc., and while it is desirable, there are certain limitations to the parcel. It isn't going to be 200 units, it's 26 and this is what they think those rents can get. Englund wondered what the alternative would be. McCauley said the parcel is incredibly difficult to do anything else with, minus building million dollar condominiums. Sullivan said they could do that, but it is still very expensive to build those right now. McCauley said part of the reason they aren't asking for all of the units to be income restricted is because the other 13 units are having to subsidize, to a certain extent, the other 13 units. Sullivan said the units will all be the same material and finish and are virtually identical.

Jones said the developers are saying it is concerning on the higher side, but is also concerning on the lower side. She is cognizant of the public comment the Board received in writing from Derek Goldman and believes the point is that it would be nice to restrict them lower than 85%, but that would not be feasible either. Sullivan concurred. Lawson said it would seem, theoretically, that they could go lower if MRA were to increase it's investment, but MRA has limited resources in the Front Street URD. He said it is possible to go lower if the subsidy gets bigger, but it is a scarcity consideration.

Brock asked about the previous TIF approval on this project. Buchanan said it is the same project. Brock said the deconstruction piece did happen. Sullivan said it was done according to MRA requirements. Brock asked if staff anticipates projects that were previously approved to come back now that the WHP is in place. Buchanan said Casa Loma, the project in URD III across from the Fairgrounds, could come back. They are having a hard time making the numbers work and did get approval for infrastructure and deconstruction from MRA. Brock asked if public improvements and deconstruction would be a part of today's request if it were coming to MRA for the first time. Buchanan said yes.

Gorski said there are two other pieces in the staff recommendation that tie back to the guidelines that are unique and may come up in the future. The developers indicated their priority and preference is to rent at 85% AMI, they recognize this is a 30-year window and they are a small team with minimal return on this project. They are requesting MRA build into the Development Agreement some language that says if over the life of 30 years there is an instance where those rents are not exactly at 85% AMI, there is some flexibility for up to a 15% variation. If their rents increase to 100% AMI or above, they will need to make a payment to the Affordable Housing Trust Fund (AHTF) in that year. It will need to be evaluated on a predetermined timeframe. Similarly, the developers have asked for a credit if their average AMI rents are 15% below the target, and that credit can be carried forward into future years. McCauley said they have a target of rents and would like to be able to have some flexibility and are asking for that allowance. Sullivan said they don't want their apartments to sit vacant or have to turn people away because they don't meet the criteria.

Gorski said if economic conditions change and there is some economic event where the project simply cannot afford to keep the rents at 85% AMI within the 30 years, the developers want language in the Development Agreement that gives them the option to increase rents. If they do that, they will need to make a payment to the AHTF. Buchanan said MRA's subsidy is based on 85% AMI. If they end up at 100% AMI there would be a payment to the AHTF. Jones asked if they could end up with no restricted units. Buchanan said they will be income restricted and the focus is 85% AMI. If the average range is above that they would have to make a payment. It needs to be defined in the Development Agreement. Sullivan said they also proposed if the rent is under 85% AMI they would receive a credit.

Sullivan said in the last three years their operating expenses have increased considerably in the last three years. Last year their insurance bill was $19,000. They just paid a bill for $26,000 this year. Property taxes on some of their buildings have increased by 38% since the last taxation period. NorthWestern Energy bills have gone through the roof. Republic Services just added an extra $115/month to their bill. He said they need to build flexibility into the Development Agreement if their operating expenses continue to skyrocket.

Englund said the bottom line here is that MRA is basing subsidy that the developers will charge rent based on 85% AMI, but in actuality they can go all the way up to 100% AMI. He asked if at 101% AMI they would pay 16% at that point or 1% into the AHTF. Gorski said they would pay the difference between 85% and 101%. Englund said it becomes a policy question of is it worth the additional $1.3 million. Sullivan urged the Board to think about what the return on investment is for the developer on this project and future projects. He said this project barely beats current day inflation for cash on cash return. It's currently 3.69% right now with them putting in $1.9 million, MRA putting in $1.3 million and them getting a loan for the balance from the bank. Jones asked if that means there is no margin for error here. Sullivan said absolutely. McCauley said there is contingency built into their construction estimates.

Lawson said there are a lot of unknowns. He understands the rationale, but MRA can invest in projects where down the line developers could say they are in a much better place now, want to take it out of income restricted and pay back the subsidy. The WHP becomes "stay in it if you want to or get out if you want or need to". Also, he sees the administration of this as being really difficult with several projects, calculation of averages, market conditions, variances, subsidies, etc. Sullivan said it is an administrative burden for them as well.

Brock asked how the $9,000 to CPDI for administration was calculated. Gorski said CPDI provided to MRA what they would need as an annual fee for the amount of staff time to monitor this. They are currently monitoring rental projects so there would be some economies of scale. They also have new software to help with monitoring. Their annual fee is $200 to start and annual cost of living adjustments are built in as salaries increase over time. The request is for a one-time payment. Brock said she likes that the City has figured out a monitoring system.

Englund said the target is 85% AMI and if the developers can't find those people on a vacancy then they can go up, but the rents won't necessarily change. Sullivan concurred. Buchanan said if no one qualifies at 85% AMI, it lets someone at a higher range have the ability to rent and build equity to buy a home. McCauley said they see that a lot.

Lawson said the developers will somehow need to demonstrate to CPDI a good faith effort to market the properties and attract 85% AMI tenants in. They may not always be successful, so what that demonstration looks like is unknown. It is an important thing to work through and when they're not able to the provision gives the developer the ability to not sit with vacancy for months. He said the price is still being held down so the market impact is there on creating workforce housing and finding those tenants at those income levels. He asked what happens when a tenant gets above workforce housing percentages. Gorski said staff has talked with CPDI and the income verification will be at the time the unit is rented. There will be no penalty if the household's income increases after the initial income verification.

Sandra Vasecka, City Council, spoke to the AHTF payment. She said if the developer enters an economic hardship situation and needs to increase the rent to the subsidized housing and then had to pay into the AHTF it would put them in the same economic hardship they were originally in to have to increase the rent in the first place. She said they are still losing out on that money and doesn't understand the concept of it. She said if the developers have to raise the rent for the folks that are using the subsidized housing and the AHTF is for the folks that need subsidized housing, so increasing the rent for the folks that need it and then making a payment to the AHTF doesn't make much sense. She said it sounds like the renter and the developer are getting the bad end of the deal and the City is just getting more money. She said it is confusing and asked for a breakdown of it.

Englund said it doesn't make a lot of sense to do rents above 100% AMI. Sullivan said it doesn't make sense to even above the 85% AMI, or if you're going to go above 100% AMI as well, if you have to pay it back all the way to the 85%. Englund said it ends up being an insurance that the rates essentially won't go up above 85% AMI plus what is now proposed as a 15% cushion. The cushion would allow them to weather a potential hardship. Jones said the payment to the AHTF is available for a "pay it forward" use, so she made the point that it becomes not so much about the tenants and the developer, but instead where that money can be used somewhere else to address needs.

Englund asked how the tenant's income is calculated. Gorski said the rent will be structured based on the minimum occupancy for the unit. The minimum occupancy for a one-bedroom is one person. The rent will stay $1,300/month using that scenario, whether there are one or two people in the unit. Income verification will vary depending on the income. If it is a two-person household they will look at both incomes at 85% AMI, if it is one person they will look at the income for one.

Gorski said there is a gap for projects like this in terms of tools that are in the marketplace here in Montana and locally to build projects like this, as shown in her Powerpoint. MRA's WHP fills that gap on the rental side between 80%-140% AMI, and on the "for sale" side between 120%-140% AMI. She also highlighted data from CPDI for the City's Growth

Policy. CPDI estimates Missoula needs between 420-520 new multi-family units per year through 2034. In addition, they looked at the number of households in Missoula at different income ranges that are cost burdened (paying more than 30% of their income to housing). That data showed that 467-700 new units are needed to meet households in the 50%-80% AMI and between 176-264 new units to meet the need of 80%-100% AMI households. Gorski also spoke to the project's alignment with the Front Street Urban Renewal Plan and WHP.

The recommendation is that the MRA Board approve the request from MC Real Estate Development, LLC for Workforce Housing Program construction gap funding in the amount of up to $1,300,000, and in exchange, dedicate 13 income restricted units in the project for 30 years, renting at an average of 85 percent of AMI, and authorize the Board Chair to sign the Development Agreement. Further, staff recommends that the MRA Board approve a one-time payment of $9,000 to the City's Community Planning, Development, and Innovation Department for conducting annual monitoring of the project during the 30 year affordability period. Reimbursement for eligible costs will occur after a Certificate of Occupancy (COO) is issued and following receipt of proof of payment and lien waivers.

Lawson thanked Gorski for her presentation and the developers for digging in and working with Gorski. He said rental is a lot more complex and challenging than ownership. He likes the project and is in general supportive of what is being recommended. He has two concerns. One is that he is not convinced the payment to the AHTF is rational and workable with policy right now. He's not convinced the ability to exit income restricted, push the rents upward and pay money back into the AHTF is workable or good policy. Secondly, MRA's subsidy would essentially be into the permanent loan, post construction with the equity injection at that time. MRA isn't putting cash into the construction. He said he thinks they need to evaluate it again, at that time of injection, interest rates because if they climb 2% the project won't pencil. If they drop 2% than MRA is oversubsidizing. Sullivan said that is not necessarily true. Farmers State Bank has guaranteed them that at the end of the construction period their rate will still be 7.16%. Lawson said someone else could offer them 5% and they would go there. Sullivan said they would like to because it would dramatically change the math for them, but isn't sure that is oversubsidization. Lawson said it's a smaller subsidy to get to 85% AMI because their debt service coverage ratios change. Sullivan said that's fair, but at the same time if they change the return on investment they would expect, it would also change that math too. Englund said the point is that the Board make a decision based upon certain assumptions, and if the assumptions have changed they need to understand what happens or that something happens in order to continue with those assumptions. McCauley said they have to go with their best assumption today, just as the Board does. They can't forecast what interest rates are in the future. She said it is a risk they take and a risk the City takes.

Englund asked if there is an alternative to money going to the AHTF. Lawson said it's the 30-year income restriction. Gorski said the AHTF piece is another check and balance to have for the project. She is learning that by working with a small team with minimal return, if there was an economic event that caused them to no longer be able to afford to keep the rents at 85% AMI in year 15 or 20, the payment to the AHTF is a trigger they can pull that also provides some benefit to the City. It is a mechanism in place to account for if and when that event could occur. Lawson said he understands it as a penalty, but it is less clear to him how it is a release valve if the developer wants to raise rents by $200/month but has to pay $200/month into the AHTF and are no better off. Gorski said that is a penalty to the team and a disincentive for them to do that. Lawson added it is a mechanism to ensure a 30-year income restriction.

Buchanan asked what tools are out there to allow some flexibility with something that can't be anticipated that would put this project into default. She said this is an akward tool, but the best they've come up with so far. The rental piece of this is tough because you have to look out 30 years with no crystal ball and there is risk on both sides. She said staff felt like if the developer has the ability because of some occurrence to suddenly not be meeting that 85% AMI average income and go to 100% or other higher amount, there needs to be some mechanism to compensate for the fact that MRA oversubsidized. MRA based its subsidy on an assumption of the rents being 85% AMI. If suddenly they're at 110% AMI, MRA wouldn't put $1.3 million in, it would be something less. Englund said they can't go back and market that, so they just take away the incentive to get above the target number. Buchanan said or they run the risk of putting the project in default because all of the sudden insurance rates, or any other number of things, doubled because of the economy. She wondered if there was a better relief valve than the AHTF out there.

Brock asked what happens if the developers sell the property in five years. She asked if it goes with the next owner. Gorski said it runs with the land for 30 years. Mayor Davis asked if there was a way for the new owner to get out of the 30-year income restriction. Buchanan said the developer or any subsequent owner is tied to this over the 30 years. Brock asked if there is a shelf life to this offer so the project doesn't stall waiting on a more favorable market that completely changes the math. Buchanan said it is built into the Development Agreement that it can be modified if the Director approves the request. Gorski said the completion date of June/July 2025 is based on if the Board were to approve the request today and the contractor has indicated they can start construction in May 2024. Buchanan said the Development Agreement will probably have a completion date stated further out like September or December.

Lawson said his second concern is with the fact that MRA's subsidy doesn't get injected until project completion and the size of the subsidy is based on an interest rate assumption and the following debt service coverage ratio that gets the project penciled. He said that interest rate will not be the same. He said he assumes the developer will be coming back if the interest rate climbs. Sullivan said no, that is where they are safe. Evans said the rate from Farmers State Bank is the same rate for five years. He added that if the developers refinance, it would cost them roughtly $60,000 for origination fee, new title insurance, appraisal, etc. Lawson said his concern is what it looks like to MRA if the permanent loan comes in two percentage points lower because the market has changed in the next two years.

Jones said the developer's point is that they are already very thin on their return on investment and their hope is that if things improve they will improve their return on investment. She said Lawson's question is if that is okay with MRA, or if there is some middle ground, and should it be reevaluated at that point. Lawson said it feels to him like they should reevaluate at that point.

Sullivan asked what the rate of return is that the WHP allows for. Gorski said it is up to 10%. Sullivan said right now they are at 3%. So even with a 2% reduction they are probably not even scratching 10%. McCauley said they're talking about the viability of the project. The truth is, and why they've asked for some of these allowances and variances, is because of that risk they are taking that they are not at 10%. They aren't even at 5% on return. She said they probably wouldn't be asking for the variances if there was a larger margin. They'd still be asking for the $1.3 million because that is what is needed in order to get the project done. Lawson said he is sympathetic to the arguments and the Board is trying to work this through. Jones said the developers are using today's market and the problem is that the next deal will be in tomorrow's market. When the Board sets policy, it does so thinking what the next deal down the road may look like. She said all of the arguments the developer is using right now are the same arguments that would be available to them if MRA builds in an opportunity to have another discussion down the road. She asked if they need to constrain MRA now as policy to not be able to have that conversation. Englund asked if it would affect what the bank is willing to do if they were to adopt something saying they will reevaluate the final number if there is a significant change in interest rates. Evans said the developers obviously have the option to go anywhere they want at any time if they can get it done. Farmers State Bank's commitment to them is that for 60 months they are committing to one rate and it will not change in that time. If the developers decide to leave they always have that option, but the expense to them would be significant for the reasons mentioned earlier and a prepayment penalty. It's upwards of a $100,000 cost for the developer when those are all added up.

Buchanan said the WHP guidelines allow for a rate of return up to 10% for the developer. She suggested a stipulation that at the time of project completion, if there are any variables there like changed interest rates, they reevaluate based on that and if the rate of return is still within the 10% cap they call it good. Jones said MRA is making policy based on the developer's loan and current market rates, saying it is very unlikely there is going to be an appreciable difference that would matter. In this situation they say they're not going to require that so long as they don't go over 10%, which she thinks is already implied. Buchanan said that implies MRA is going to do a reconciliation at the end of every project. Jones said the proposed recommendation says that reimbursement for eligible costs will occur after the COO is issued and following receipt of proof of payment and lien waivers. She said while that language matches other MRA projects, she doesn't think it matches what is being done here and needs to be modified. It does say to her that there is going to be a reconciliation of some nature at the time of payment. Buchanan said that is fair.

Sullivan asked what happens if nothing changes when they get their COO, but one day after or three years later the rates drop by 3%. He said he doesn't think there is a way around this. Lawson said that is a fair point, the only difference in the feeling is that MRA is not cutting the check today, it is being cut in a year and a half. Sullivan said the fact still remains that the day after MRA cuts the check they could refinance for 2% lower.

Englund asked if MRA would be willing to do this at 100% AMI. Buchanan said this is a guinea pig project, MRA hasn't done this before and neither has anyone in the state. Englund said there is a commitment to keep the rates at 85% AMI with the flexibility to go to 100% AMI. Sullivan said 100% AMI solves a lot of problems and is what they originally asked for. He said it keeps things clean and relieves the administrative burden on both sides. Englund said if they are basing subsidy on 85% AMI then there should be at least some period of time where they are assured it is going to be at 85% AMI. He understands no one knows what will happen years from now and understands the need for flexibility, but they are basing funding on 85% AMI and so maybe 15% over doesn't kick in until 10 or 15 years. Mayor Davis said the concept is income averaging and is something that was allowable in the affordable world by the Internal Revenue Service (IRS) in recent years because of the need to expand beyond what the original low income housing tax credit income tiers were, which was 50%-60% AMI. She said income averaging is incredibly complex. Trinity is one of only a couple of projects that have been funded that way. It would behoove them as a community to pay attention to how that compliance works. She said this will take some compliance oversight to monitor what is being proposed. The idea is that it gives a range of rents with an average of 85% AMI. She said 26 units is a small project, so having some flexibility does make sense. It is basically keeping the rents at 85% AMI but not changing the incomes assumes that somebody is going to be coming in at 85% AMI rent but likely making more money. The developer isn't making more money because they're still charging the same rent. On the other side, if they expand the incomes allowable under household income, she asked how 85% AMI is achieved. Gorski said the developer will provide a marketing plan that CPDI reviews. They will need to provide some evidence they are making all the attempts they can to meet and find those 85% AMI tenants and rent to them. If the developer can't find those tenants, rather than leaving the units vacant, they have the ability to rent to individuals within the workforce housing range and expand the pool of tenants. It has to be documented in the Development Agreement and will start with a marketing plan that says this is how they will reach those potential tenants and if they can't find them within a certain period of time they can expand the pool. Mayor Davis said the tenant pool will be expanded regardless in order to have an average of 85% because they can already rent to people at 60%-140% AMI in order to get to 85% AMI. Gorski said the provision will allow the developer to rent to individuals that are paying less than 30% of their income towards rent.

Englund asked if it made sense to say the developer doesn't get the 15% variation until year xxx. Jones said the point Buchanan made is that this stays on the default, which a default can occur in any year and hurts everybody. The purpose of this is that, which isn't time dependent, and the need is greater in the first 15 years than the last. Mayor Davis said over time buildings do end up costing more because of maintenance. Lawson asked if there is room for a mechanism to give consent from MRA staff to go above the 85% AMI. Buchanan said that could be delegated. It could be averaged out over a period of a certain number of years as well. Mayor Davis said having the ability to evaluate this on five year increments makes sense because you just don't know what the horizon is going to be and it allows you to come back and reassess the economics of the deal with the original intention and then understand what that might look like.

Jones said they need to address the question of whether to allow up to 100% AMI. She said having the five year check-in seems like something they should do anyway. The corollary is they attach that five year average to the use of up to 100% AMI. Englund said it seems like they're basing everything off of 85% AMI, but the reality is the Development Agreement allows 100% AMI. Lawson asked if it is reasonable to say they lock at 85% AMI, evaluate on five year increments with the development team and MRA staff to assess market need at that time and financial performance of the buildings, vacancy rates, etc., and create in that five year review period the ability for staff to then move in increments of 10-15%. They can determine at that time if 85% AMI is working or it's time to move the target.

McCauley said someone telling them they can make this or that amount on their money doesn't feel like the spirit of the program. She said the spirit of the program feels like they need this amount to make their project viable, this is what they know today, so do they want to do it or not and keep rents affordable to the community. If the City wants to get into the nitty gritty of what it looks like in five years and have a sit down it is a recipe for disaster. She doesn't want to do that nor would many other developers. Mayor Davis said that concept is based on a lot more constraints and no variability at all. McCauley said there is so much risk involved in it for them, and now they have to get other people involved saying they don't deserve a 3% or 5% return and it doesn't feel worth it. Sullivan concurred. McCauley said if they were making a 10% return that might change their feelings, but on 3% it's not worth their headache. Jones said policy-wise, MRA has stated their hope for the developers is that they make more than 3% and up to 10%. She feels like they're mixing concerns. The one concern is if market conditions change at the time of MRA's payment to the developer. This concern is a different issue of allowing the flexibility of going to 100% AMI or as a policy is that unwise for MRA. Jones said she thinks MRA could reserve discretion to say based on these market conditions they are going to approve without making permanent policy that under no circumstances would they implement additional restrictions.

Lawson said the argument is about starting a projection that has a low rate of return and allowing that as rates move favorably for the developer it increases the rate of return but not more than the 10% cap. Englund said that makes sense because they have the cap and are comfortable with it. Lawson said if he is understanding it correctly, there is no reimbursement to MRA or the AHTF unless the average is north of 100% AMI. Englund said that is correct. Lawson said trying to figure out how to give developers the ability to make the argument that they're being constrained to the point they say the project isn't worth it is the trick. Jones said MRA wants this project to move forward and some of these issues have been discussed when the working group was developing the WHP. She said MRA needs to be working to encourage developers to the table, which means they have to have the ability to get a rate of return that makes sense for the developer otherwise no one will ever use the program. Sullivan said if they asked MRA for the money to get to a 10% return it would be $3.3 million on this project.

McCauley said they can satisfy 100% AMI with an aspirational 85% AMI. Brock said she would like to start with 85% AMI. She said creating rent restricted apartments on a park is the unicorn dream of every renter. Aspirational would be them starting at 85% AMI and knowing as a renter there is 100% AMI. Jones said there is no way for MRA to enforce that. The developers have pointed out that most of their units are within that range and that is their intent, but MRA doesn't have a way to monitor or enforce that. Brock said the other alternative would be to say 86% and above the average would have the release valve of the contribution to the AHTF. Englund said he gets the idea that for a 30-year period they need to understand that there has to be some flexibility. Gorski asked if there could be a provision that says at the annual monitoring level there is a conversation based on what the developer is seeing in terms of demand for the units, or every five years there is a check-in based on what the developer is seeing for demand. Englund said his concern is that MRA is making this decision based on 85% AMI, but the Development Agreement won't say that. He understands why it won't say that and wonders how they get to a point where they are comfortable with the idea that the Development Agreement doesn't say that.

Derek Goldman, Citizen, asked if the proposed $1.3 million from MRA would not be a loan to be repaid at the end of the 30-year period when the rent restricted units go away, but that it is a grant. Englund said that was correct. Goldman asked if the 3% rate of return is calculated as an annual average over the 30-year period. Gorski said the rate of return right now that the developers are referencing is based on the current projected annual revenue that is built in using 13 units at 85% AMI over 30 years as well as a loan on the construction cost of just over $6 million. Goldman said the question he submitted in writing was more focused on whether the project was actually targeting the segment of the population that has the greatest percent of households that are actually cost burdened. After hearing today's discussion and doing more math, he is concerned whether they are even getting the bang for the buck on the MRA investment at all. In fact, he said he is not even sure they even get $1.3 million in total reduced rent on the 13 units over a 30-year period. By his calculations the market rate rent would need to be about $1,600/month for MRA to break even on that investment. He encouraged the Board to do more math on this and see if this is even worth $1.3 million for what the City gets in return. Goldman said he is appreciative of the developers willing to work with MRA on this and he appreciates MRA's willingness to dig in on this, but the math needs a harder look.

Buchanan suggested having a built-in interval, for example five years or at the time of an extraordinary event, where the developers can come to MRA and say they have xxx that's happened and cannot stay in business and make their payments at the 85% AMI and need to be able to increase it to 95% AMI for some period of time. She said it wouldn't just happen automatically, they would have to have approval from the MRA staff or Board to do that. It can be averaged over the life of the affordability and see if they achieve the 85% AMI over the average of 30 years, or we raise it, which the Board the prerogative to do, and it is reconciled at the end of 30 years. She said they don't just automatically go to 100% AMI for no reason, they have to have a reason they can't meet the 85% AMI threshold and have to get permission from MRA staff or Board to raise it. There has to be a trigger in there that makes the public comfortable about checks and balances, yet allows the developer to run their business. Buchanan said she thinks every one of the WHP projects will be different. They are not creating a cookie cutter policy here that is going to work for every project that walks in the door. It is a grand experiment in the state of Montana right now. Brock said she wants to set CPDI up with monitoring success as well.

Sullivan said they have been working on this project for three years. They are really starting to question whether they want to continue. Englund said this is a brand new program for MRA and the first rental request so there are questions that have to be answered. MRA can't just do a deal and the next one be completely different, there has to be some consistency. McCauley said they have been through delay after delay after delay as developers. They have had many hoops to get through before today. Sullivan said they wouldn't even be there today and the building would be built had they not had delays with easements and Design Excellence. Buchanan asked the developers if they would allow for more discussion and see if they can get there. She said everyone wants to see this project happen.

Sullivan asked if $1.3 million is the top level for MRA on this. If it's not, the thing they are concerned about is going out of business overall. It is personally guaranteed debt by them and the issue here is that the returns are so thin they will go out of business which isn't good for anybody. He said the issue is the protection they want in the 15% variance. They want that because they have seen their operating expenses dramatically increase out of the ordinary year after year. If they could get to a higher return, meaning more investment from MRA, it would give them more buffer and they could perhaps eliminate the 15% variance provision. Englund said there are a couple of issues, one being the capacity of the Front Street URD. Also, how much tolerance there is on the Board for funding a single project. He doesn't know the answer to that, but it might be another alternative to figure out this issue. Jones said there could be a contingency commitment included. Sullivan said they don't see any way to limit their risk exposure, either by having that flexibility or somehow improving the annual cash on cash return. He said one of those things has to be there for this to work – more public money infused in the project or flexibility. Sullivan said the spirit of the program is 60%-140% AMI. There are tons of people in the community that are in that bracket and they see it constantly. Sullivan suggested MRA get together and put together an offer they feel comfortable with because he and McCauley don't want to put anything more forward. Buchanan said part of what MRA is wrestling with is how complicated to make the flexibility. McCauley suggested the language say the target is 85% AMI and they can go up to 100% AMI.

Gorski will set up a working group meeting.

No action was taken on this item.

NON-ACTION ITEMS

STAFF REPORTS

COMMITTEE REPORTS

OTHER ITEMS

ADJOURNMENT
Adjourned at 2:20 p.m.

Respectfully Submitted,

Lesley Pugh

Lesley Pugh