Missoula Housing Authority Board
Regular Board Meeting
Wednesday, Aug 28th, 2013

-MINUTES-

Members Present:	Jamie Hoffmann, Collin Bangs, Betty Zander, Emily Bentley, Sheila Lund, David Warren, Fred Simpson
Members Absent:	
Staff Present:	Adam Ragsdale, Gloria Fortier, Mary Melton, Lori Davidson, Jim McGrath, James Weir, Debbie Hibbitts, Karl Pare, Harlan Wells
Guests Present:	Jonathan McEntire, Leisha Harrison, Jake Terzo, Mary Fox, Keithi Worthington, Monique Casbeer, Darwin Hamit

I. Call to Order: The meeting was called to order at 5:35 pm.

II. Attendance: See Above.

III. Intro:

- Davidson introduces Jonathan McEntire, Leisha Harrison, Jake Terzo and Mary Fox of Johnson Controls Inc (JCI). JCI will be giving a presentation on the second phase of the energy performance contract. We started putting this into place before the vantage villa fire. With the building in need of the necessary repairs due to fire, gives us an opportunity to do upgrades to the building MHA would not've been able to incorporate otherwise and also incorporate upgrades at the 4th street property. P7

Leisha Harrison of JCI starts with a brief explanation of what energy performance contract is about using a projection slide show. Harrison states MHA is in year 2 of its original phase 1 energy performance contract. Harrison states HUD funds MHA with a Utility Budget for its public housing units. After the phase 1 EPC upgrades were completed, the utility demands were decreased but HUD has still been funding MHA at the original utility budget prior to the EPC upgrades. A portion of the savings goes to pay for the debt service from the EPC upgrades. After utility costs and debt service, there is a portion of savings left over from the overall utility budget funded through HUD. Phase 2 would allow MHA to do additional upgrades to its public housing units, using this excess savings to cover debt service. This excess savings, if not leveraged, would otherwise be returned to HUD. Harrison recaps on the original upgrades of the EPC phase 1: Lighting retro fit, water conservation, weatherization, HVAC upgrades and systems controls for tenants, limiting thermostats and stove safety elements in common spaces.

Wells adds that the Phase 1 touched almost all public housing units with upgrades of one kind or another. Harrison agrees.

Harrison states HUD has approved a 20 year project term. MHA has only financed for a 17 year term, of which, MHA is in year 2 leaving just over 14 years remaining. JCI has proposed an extension to incorporate the full 20 years and leverage the extent of upgrades that can be done by lengthening the term for debt. The current interest for the EPC loan is at 5.59%. JCI has suggested refinancing with a local bank that may provide a lower interest rate closer to 4% to garner more saving. The original cost of the EPC phase 1 loan was $1.4M. Harrison invites Mary Fox to provide more of an explanation of what can be done for a Phase 2 with this excess savings.

Fox states during the first phase, JCI approached HUD with a very conservative plan for upgrades. Fox states that limiting the financial risk imposed on the Housing Authority it the top priority. The original plan incorporated roughly $116K in savings incentives. After two years of implementation, what has actually occurred from these upgrades has been close to $250K in overall savings per year. This is more than double the original projections on savings. What we are looking at is if the addition $134K per year in savings is not leveraged for further upgrades, that money would have to be returned to HUD. Over the next 18 years this would be a total of close to $4M of debt service leverage. This will allow MHA to borrow more money and be cash-neutral as no addition out of pocket expenses should be incurred. This also means the second phase of upgrades can actually be greater than the first phase. Because there's two years history of actual savings performance, Fox feels comfortable in says there will continue to be additional savings without risk to MHA over the life of this second phase. If MHA were not to take advantage of this savings over the next 14 years, MHA would be giving back to HUD over $1.7M in utility budget savings. Fox asks the board if there are any questions regarding the savings numbers in the proforma provided in the slide show. P8

Davidson adds that most of the excess savings MHA has seen is due to the upgrades in water flow metering. In phase 1, many of the water systems were converted from a flat rate billing to a metered rate billing system. Fortier adds that changing the water from flat rate to metered billing has also changed MHA's sewer billing from flat rate to metered thereby adding savings from the sewer costs. Fox states that HUD freezes the consumption rate when budgeting for the upgrades. In this case, flat rate was paying for 4K gal in water consumption and HUD budgeted for 5k gal in usage for this conversion. With adding low flow showerheads and toilets, MHA not only found that the water flow was less than the 5k gal budgeted, but the low flow additions equated to 2K gal in overall usage. This equals a 60% savings in the overall budgeted usage for water and sewer.

Harrison recaps the benefits stating the overall 17 year overall term would be extended to the full 20 year term approved by HUD 2 years ago. Terzo adds that without extending the term to 20 years, during the final three years approved MHA would lose just under $600K in savings. Davidson agrees stating MHA would rather take advantage of these final three years worth of savings as opposed to losing them. Harrison states another advantage of phase 2 would be the opportunity to work with a local bank and garner additional savings in interest. Harrison states the upgrades in air conditioning to Vantage Villa would provide another benefit. This would help keep tenants more comfortable in there environments. Another benefit would be to combine a work schedule alongside the reconstruction of vantage villa. This would allow for upgrading the building while tenants are not.

occupying these units and disrupting their day to day living. This also allows for savings in the upgrades themselves as access to these systems will be done congruent to the reconstruction schedule.

Terzo states that before the vantage villa fire, phase 2 discussions first touched on air condition upgrades to the building. Pre-fire upgrades included individual heat pumps, duct splits and keeping electric resistant base board heat as a backup heating source. Without this reconstruction, MHA would not've been able to do anything about domestic hot water heating, which at present is all electric. As a side note, all of vantage villa is electric based as natural gas lines were not available to the property at the time it was constructed. Now that there is exposed framing, JCI can look at doing centralized heating and cooling using natural gas that is available to the property from nearby gas lines. Distributed fan coils and hydronic baseboards can be installed. A central chilled water plant to provide cooling and the domestic hot water can be converted to a natural gas powered system as well. Terzo states there's roughly a 4x difference in energy cost with converting systems from electric to gas based on the electric rate being paid at the property. And by centralizing these domestic systems, maintenance savings can be found by only having to service one location as opposed to each individual unit. Separate thermostats in the living rooms and bedrooms will also allow tenants to control their living spaces while the system itself is centralized. McEntire adds that high and low limits can be set so that overall control of the energy consumption can be budgeted for. Hoffmann states that what is being described is the Cadillac of HVAC systems. Terzo states that most of these types of systems are typically value engineered out of construction plans as the upfront cost can be prohibitive without looking at the overall savings. Davidson states that with $1.8M in excess savings MHA can do such an upgrade with vantage villa.

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Bentley asks if MHA would have to collect private bids from contractors for these upgrades. Terzo states that MHA has retained Encompass Architecture for the vantage villa reconstruction along with their electrical and mechanical engineers. JCI will coordinate with them to design an ideal system that allows for the necessary savings yet fits with the cashflow model. Davidson adds that this will go out for bid. Fox states the phase 2 would actually be sent to HUD as a change order under the original EPC Phase I contract. HUD requires all change orders to undergo what they define as Cost Reasonableness which requires these upgrades go out for bid with prevailing wage standards. Fox adds that even though HUD has provided relief for the reconstruction due to fire, there are more stringent standards that JCI must comply with as part of the original phase 1 contract with HUD. Terzo states they are looking redoing the central air controlling system that will allow fresh air for the common areas. Energy Star efficient appliances. Hoffmann asks if there will be all new exterior windows and doors. Terzo is not sure if these will be upgraded as the existing windows and doors are fairly efficient already. Fire damaged doors will certainly be replaced. McEntire states the EPC is based on the cost versus the savings and when then payback is. McEntire points the board to look at the proforma provided as to the payback period for the suggested upgrades for phase 2. McEntire states that their goal is to create a bunch of upgrades that would cost roughly 125% of the $1.8M in additional upgrades so that they have options to work with in the event that one of the upgrades cannot be carried out. Davidson adds that HAI insurance company will require bids to be made for the reconstruction estimates. This means EPC upgrades from the second phase of the contract will be bid separately.

Fortier asks Fox if she will touch on how the repayment of the debt service works as there are new board members present since the first phase was done. Fox agrees.

Bentley asks if vantage villa was MHA's top priority for the EPC phase 2 prior to the fire. Davidson agrees stating MHA was looking to improve cooling and upgrade the air handling systems.

McEntire goes over a brief overview of the proforma on HUD budget, anticipated savings, total debt service needed from the package and 17 year loan repayment provided on paper handout on financials.

Davidson states the figures column 11 is part of a requirement by HUD that a portion of the savings be put into a reserve. Column 12 shows the amount paid to JCI for ongoing monitoring and evaluating the amount of savings received by the upgrades each year. They also prepare the reports required by HUD. Fortier adds that this service is worth every penny. Fox states that 'savings' is not the proper term as this is actually an incentive provided by HUD. On its own, if MHA were to do its own energy conservation, HUD would actually lower its utility subsidy based on the reduction in energy costs incurred by the housing authority. HUD has found that over the years, capital improvements did not incorporate energy upgrades as housing authorities were subsidized dollar for dollar for its historical usage. This would lower subsidies for utilities and thereby forcing housing authorities to instead use their annual capital funds for other improvements such as sidewalks or siding. Fox goes on to say that in 1987 HUD came up with a program known as performance contracting that separated its utility budget from the overall budget. HUD then allowed housing authorities to borrow money for these energy upgrades. As part of P10
the performance contracting measure, HUD informed the housing authorities that it would not lower their subsidy according to the historical budget so long as this difference in usage costs and subsidy is used to pay the debt service on the upgrades. One of the stipulations of this policy is that the housing authority implementing these measures cannot become cash rich as a result of these upgrades. Since MHA is receiving higher than anticipated savings as a result of the Phase 1 upgrades, HUD would require that MHA pay back any excess savings. This provides the incentive to do a phase 2 before losing out on the excess savings that HUD would otherwise recapture. Phase 2 would allow MHA to upgrade vantage villa to more marketable standard. There are also other limitations. Such as, the Phase 2 upgrades can only be done on units that were acknowledged under the original contract must be energy related and provide a positive cashflow.

Bangs asks whether the payments referred to as Lease Payments under item 10 in the proforma are actually mortgage payments. Fox states that these are actually lease payments. Davidson further clarifies as with the original loan through Municipal Leasing, this will be a non-recourse loan where none of the actually properties are to be held as collateral against the debt but the improvements that are being leased. Davidson states the local bank MHA and JCI are working are looking at a similarly structured loan. Davidson adds that she has not had a chance to personally speak with the financial institution about all of the exact terms. MHA is looking to work out a loan with First Security Bank. Bangs asks if this will be a fixed rate on the 17 year loan. Davidson agrees.

Fox states that while the budget is essentially freezing its costs of the consumption, the actually dollar amounts of utility costs are not. As the cost of utilities goes up, the benefits continue. This will provide more savings that can later be used for later upgrades on the properties over the 17 year period. Fortier states that JCI is very conservative and meticulous on the analysis of this upgrade. This is because over the life of the loan, if MHA is in a position where the savings in energy costs does not provide enough to cover the debt service, JCI guarantees they will pay the difference needed for the debt service.

Davidson adds that Helena Housing Authority has just implemented a Phase 2 on their original EPC contract that began about the same time MHA did a Phase 1. Davidson states that JCI has a great track record in implementing these measures across the nation and she feels comfortable with this second phase upgrade.

Harrison redirects to the slide show for an overview of the timeline and milestones of the proposed Phase 2. Harrison states one of the big milestones is to allow the residents to move back into vantage villa according to the reconstruction schedule. Harrison states that the resolution before the board is for the project development agreement. There will be another touch point later on for a board resolution proposal on the financing options pertaining to financing with a local bank at a 4% interest rate. McEntire states there is a milestone not included on the slide with regard to a resolution needed for the September board meeting for an equipment addition. Harrison agrees and states Helena Housing Authority was also required to do such a resolution for adding the upgraded the air conditioning systems to the existing EPC contract. Davidson adds that this policy would allow vantage villa to add air conditioning to the building.

Hoffmann asks if Bristlecone can be allowed to bid on these upgrades. Davidson states that Bristlecone is already doing work on the project. Hoffmann states he was under assumption that Bristlecone would have to competitively bid. Davidson states they would have to competitively bid on the mechanical systems and other EPC related jobs. Davidson goes on to say Bristlecone is the general contractor and is taking on subcontractors through competitive bidding. Davidson states MHA is relieved of the usual HUD procurement measures. Terzo states that JCI will be working under Sam Oliver during the construction. McEntire states that JCI will be working in lock step with the design team on the reconstruction. P11

Hoffmann asks if there are any HUD restrictions on Bristlecone. Davidson responds no. Hoffmann asks if Davis-Bacon wage rates apply. Davidson agrees prevailing wage laws apply and adds that HUD approved contracts will be used. Davidson states that contractor's liability insurance for Bristlecone is already in place.

Harrison asks the board if there are any questions. Hoffmann asks if there will be any cash reserve or collateral requirements similar to the Palace reconstruction. Davidson states there is not as these requirements during the Palace reconstruction are set by the investors and not by HUD. In this reconstruction there are no investors requiring such reserves or collateral.

Simpson asks for confirmation that there was not air conditioning in the building before the fire and asks how the energy usage has been estimated. Fox states JCI models the building using information from the existing structure and uses computer models to simulate the energy usage. Fox adds that HUD accepts these types of estimates. Up until a year ago, HUD did not allow for air conditioning to be part of the energy upgrading process. With recent law suits due to mold in elderly units, HUD is not allowing air conditioning to be implemented through the EPC upgrades.

Fox states that the annual submission for subsidies is due to HUD in October. Fox will be working with Fortier prior to this deadline to make sure the baseline adjustments can be made to allow for air conditioning. These additional subsidies will then be scene starting January 1st 2014 thereby covering the upgrades in air conditioning later when implemented in the later part of 2014.

Bentley asks when the anticipated completion of reconstruction will be. Davidson states the architects estimates are proposing late April of 2014. Davidson feels this is optimistic and that MHA should see this project completed sometime between late April and June of 2014. Until subcontractors are on board it will be hard for Oliver to get a good grasp on a construction schedule. Hoffmann asks Oliver if he does critical path scheduling. Oliver responds stating he does as much that he can. Oliver goes on to say that critical path works well in theory but the reality of the job site-rain, holidays, and etc.-does not account for this. So critical path scheduling can be a little misleading. As time goes on, Oliver feels he can provide a schedule for the board.

Hoffmann asks Oliver if Bristlecone will be managing the contract for construction. Terzo states JCI will manage the components that fall directly under the energy performance contract. JCI will subcontract the bulk of the mechanical systems and be reporting to Oliver on an overall schedule. Hoffmann asks where the engineers who design the systems fall into the work flow. Davidson states they will work with Terzo. Terzo states JCI will serve as a consultant to the design side. P12

Hoffmann asks for questions from the board. Simpson responds noting the agreement states "the formal agreement shall be subject to final review and final approval by the MHA attorney". Simpson asks if Worthington has had the opportunity to review the document. Worthington states this is the agreement where JCI will begin their investigation and study which will turn into a more refined proposal on how to go about implementing the second phase. The concern Worthington has is with the price and terms. Worthington states it is $75K which will be rolled into the project. If the investigation shows there will not be enough savings then MHA does not owe JCI anything and we do not proceed. Davidson adds that this fee can be covered by the excess energy savings and would therefore not come from MHA's cash reserves or other income sources for payment. Worthington agrees and recaps by saying this agreement would only allow for JCI to move forward with their investigation on a phase 2 of the EPC contract.

Hoffmann calls for vote on Resolution 979- Development agreement with Johnson Controls for expansion of EPC. Bangs motions to approve resolution 979. Zander seconds. None opposed.

Davidson states they have been passing around loan documents. In the loan documents are 3 resolutions that need approval, each one separately. Resolution 980 will allow for

Davidson to be authorized to sign the loan documents. Davidson states there are 3 other resolutions. The first resolution is for first interstate bank include corporate resolution to guarantee the loan. There is second resolution for the corporate LLC member. Davidson states this second resolution allows MHA Holdings, the same entity used to purchase the Palace Apartments, to be used as the holding company to secure River Ridge until permanent financing can be put in place. Davidson states the third resolution is to allow MHA to borrow and grant collateral. If approved, First Interstate will then be transferring the use of the Rattlesnake property as collateral from the Palace Project to be used for this loan. Simpson asks if a mortgage will be taken against River Ridge. Davidson agrees. Worthington adds that the bank will require both. Davidson states the bank will take an assignment of leases and rents. Wells states that the appraisal for River Ridge came in at 2.2M which, in this case, is the value of the loan. Wells states if there is a foreclosure, which since the property is owned by a housing authority and cannot be foreclosed upon, the bank would not be allowed to take on the property. Hoffmann asks if the property must be included as an ACC property in order to be protected under a foreclosure. Davidson believes that any MHA owned property would not be allowed to be foreclosed upon but admits she is not sure and would have to do more research on the stipulations. Hoffmann looks to Bangs for guidance on the terms of the property. Bangs asks Davidson to bring the board up to speed on the terms and conditions. Davidson states the purchase price is $2.2M. The loan is $2.106M. The $106K is a line of credit that can be drawn upon as needed for immediate repairs as needed. Davidson states that $18K has already been spent to purchase new washers and dryers as the original laundry appliances were leased. Davidson states that because the original lease owners of the original washers and dryers cannot be determined, MHA concluded it was not safe to take on the risk of not knowing who the owner is and to proceed with the sale. New washers and dryers have been purchased and the original appliances have been removed. Bentley asks Davidson where the appliances have been taken. Davidson responds that the owners of River Ridge, Steadfast, have removed them. P13

Davidson continues stating it is a 2 year bridge loan with a one year option. Harlan corrects stating it will be a 3 year bridge loan at 3.5% interest-only. This equates to roughly $6000 per month with the rents covering the debt service. This payment is significantly less than what the payment will be once the permanent financing is in place allowing MHA to start banking some reserves. No prepayment penalty if MHA finds other financing or secures tax credits before the expiration of the bridge loan. Wells states FIB really stepped up in providing MHA favorable financing on this deal. Hoffmann agrees as this allows MHA 2-3 rounds at applying for tax credits. Simpson asks who the loan officer is. Davidson states MHA is working with Leslie Jensen at FIB. Wells believes the origination fee is half of a percent of the loan. Worthington states she was able to review the loan documents and negotiate some of the terms.

Davidson states the full loan package is available should any board members wish to review it, though MHA is looking to close on the loan tomorrow. Davidson states she is please with Worthington and Wells review of the loan documents and is very comfortable with moving forward with the close.

Worthington states the bank has set these documents up as resolutions, which by its nature, must be approved by the board. The chair cannot sign the documents without voting

Warren moves to approve resolution 980. Bangs seconds. All in favor. None opposed. Motion passed with all in favor.

Hoffmann looks to Limited Liability Resolution to Borrow and calls for any questions. None. Hoffmann looks to entertain a motion. Bangs motions to approve. Lund seconds. None opposed. Motion passed with all in favor.

Hoffmann looks to Resolution of Corporate LLC Member. Warren motions to approve. Lund seconds. None opposed. Motion passed with all in favor.

Hoffmann looks to Corporate Resolution to Guarantee. Davidson states that this is MHA's guarantee on this loan. On behalf of MHA Holdings, MHA is backing it with a guarantee. Bangs motions to approve. Warren seconds. All in favor. None opposed. Motion passed with all in favor.

Davidson informs the board that the property manager at River Ridge died unexpectedly approximately three weeks ago. Davidson states MHA has hired another property manager to take this position. Steadfast has brought on another manager to serve in the interim month. Davidson states Connie Toney has been hired as the new MHA property manager. Toney worked as an MHA employee at the Palace through the reconstruction of the Palace. Toney already is familiar with the LIHTC program and will move in to this position with a firm grasp of the requirements. Davidson states Steadfast's 1 ½ FTE maintenance employees at River Ridge will be hired on as MHA employees as of Aug 30th. There will be a tenant meeting next Tuesday to discuss the change over and hold introductions. Wells invites the board to attend this meeting Tuesday at 1pm if any members wish to see the property. P14

Hoffmann asks how many units are at this project. Davidson states there are 70 units. Hoffmann does the math stating at $2M, this equates to roughly $30K per unit. Hoffmann shares his delight that this is a great deal for the housing authority. Hoffmann states the staff has done a great job in finding such a tremendous deal in a great location. Hoffmann asks how long the compliance period is. Wells states another 15 years for the Land Use Restriction Agreement (LURA), though, the IRS compliance period has expired. This would change if MHA secures a new round of tax credits for the property. Wells asks the board if they wish to segue into this topic. Board agrees

Wells states that MHA has put in a preapplication. MHA attended a meeting by MBOH on feedback for the preapplications. Wells states there was not much feedback given on MHA's preapplicaiton at the meeting. The two things raised were 1- that Missoula has a highly disproportionate amount of tax credit awards than other parts of the state and 2- there is concern that there would be money already going into a project at year 16. Wells spoke with Mary Bear after the meeting and determined that according to the scoring criteria, this project should score close to perfect. This would put the board of housing in a strange predicament to choose not to fund the project. The board of housing does reserve the right to select projects outside of their rank in scoring. Davidson states with the recent lawsuit regarding this issue, the board of housing will be more cautious with doing this. Hoffmann asks what has happened with this law suit. Wells states it is still pending.

Simpson adds that the court has asked to have the project rescored and it has come back with the same score. Worthington states the district court was very critical of MBOH and found about 5 different scenarios in which they found the scoring was very vague. $500K has been set aside in tax credits, MBOH has been ask to rescore the project involved in the suit and Worthington has yet to hear the determination.

Wells states there is proposal to change the scoring spread for 2015. So next year, River Ridge as a project may not score as well as in 2014. Wells states that at the September board meeting will be a resolution to move forward with the full tax credit application for the 2014 round of funding. At the same time, Wells will work with Syndicators to see if he can make a 4% application work for the same project.

Wells states that with the 9% credits, MHA would be able to fully renovate the building inside and out. With the 4% award, MHA would on be able to do a few improvements such as items in the capital needs assessment, newer insulation and few small things. There would not be as good of credit pricing on the 4% credits. There may also be HOME funds or other financial instruments needed to fill a gap in funding.

Should the project would pencil out using 4% tax credits, Wells feels MHA should be ready to hand in the application immediately upon notice of not being awarded 9% credits. The 4% application would require board approval before moving forward.

Hoffmann asks Wells what MHA's chances are for either award. Wells is not sure. Hoffmann asks if the 9% are not awarded and the 4% application is denied what Plan C would be. Wells states the project would look to traditional financing. MHA would have to put between 20-25% down, roughly, $400-$500K worth of development funds. MHA would then cashflow the property and use reserves to take care of the minimal upkeep on the property. Then hold onto it until year 15 and sell the property to another investor for, say, $6M. Hoffmann asks what condition the property is in and what will be needed on the project. Wells states that the roof will need replacement in 3 to 4 years. Wells states that a basic repair on the roof should cost around $100K which can be built up in reserves over the 3 year time frame. Wells states the useful life of the major systems is around 9-15 years out if they perform as promised. In the next 10 years there will be anywhere from $600K to $1M in repairs needed. Hoffmann asks what kind of heating is at the property. Wells responds that there is a boiler system with radiant floor heat. There are in-wall A/C units and gas water heaters. P15

Wells states that the extra $100K in the bridge loan after purchase may be used to do some immediate upgrades in energy efficiency that reduce overall operating costs. Wells looks to have insulation blown into the ceiling and surround the hot water piping. Wells is also looking into whether the property is on flat or metered water billing. If it's on flat rate billing, Wells will look into changing to a metered system to see if similar gains to Vantage Villa can be found.

Harlan requests permission from the board to go ahead with the application process on 9% tax credits for River Ridge. Harlan states there are some upfront costs such as a $3000.00 market study, staff time with public meetings and obtaining letters of support from the community. All of these expenses are things that can be used for the 4% application process should 9% credits not be awarded to MHA.

Hoffmann calls for questions regarding this issue. None. Bangs motions to grant permission on moving forward with the application process in pursuit of 9% tax credits for river ridge. Zander seconds. None opposed. Motion passed with all in favor.

Wells provides update on other projects.

California streets: MHA has had meetings with the city. There have been some expectations for MHA to put skin in the game without any subsidies to do a homeless housing project. Patty Kent has stepped forward to use funds from elsewhere in providing her own housing development in the same area. MHA is not moving forward with a homeless development at this point. MHA is currently in discussions with both the state and the city for providing a low-home rent, 1 bedroom, 6-unit project. MHA is currently in the process of a feasibility study for such a project. This should not be in direct competition with Kent's project as there are enough funds for two developments. The application will be due in October for city and state HOME funds.

Hoffmann asks if Lokens adjacent lots are out of the picture at this point. Wells agrees it is still an option, though Loken has yet to provide a purchase price for his lots. Bentley asks if MHA needs an Environmental Assessment on Lokens lots as they are right next to a brown field. Wells agrees there is a question on this.

Hoffmann urges Wells to be on the mission to maximize the potential of a project in this area as it is one of the most delicious areas in town. Bentley adds that Loyola school is interested in cleaning up the brown field to incorporate it as part of their athletic area. P16

Wells informs the board that MHA has been doing a joint partnership with Neighborworks Great Falls as part of the Rural Development Self Help Project over the past year. Wells is currently working on getting the grant transferred into MHA's name. Wells states the grant must be transferred as Rural Development is not awarding any new grantees. Wells informs the board that next meeting there will be a resolution authorizing MHA to have the grant transferred into MHA's name.

Wells thanks the board and concludes his update by asking for any questions the board has at this time. No questions asked.

IV. Minutes:

-Jul 24th, 2013

Warren motions to approve minutes as corrected. Zander seconds. All in favor. None opposed. Motion passed with all in favor.

a) Vantage Villa Update/EPC Update

Davidson states she has not further updates. Bentley asks if there has been any follow up from the last meetings comments. Davidson looks to Pare for further clarification no this. Pare asks for a refresher on the comments that were given at the July board mtg. Davidson states that many of the comments given were in response to Serve Pro and removal and return of tenant belongings. Pare states a letter was drafted with a contractor list. Pare states that tenants have been directed to contact these vendors regarding any missing belongings. Pare adds that this has not been a project wide issue. Pare states this appears to be an isolated issue surrounding only a handful of tenants from Vantage Villa. Davidsons asks Pare if any other issues have arisen since the July meeting. Pare states there is not and that the first month with MHA paying subsidy to their new landlords has been going quite well considering the complexity of this relocation.

b) River Ridge

Done

c) City Surplus Lots & Homeless Housing Update

Davidson invites Sam Oliver to speak to this discussion item. Oliver states there are two duplexes under construction on California St. The relocated duplex from third street had carpentry and demolition started. Oliver feels there should be 6-week duration before we can turn around the actual house unit. The contractor that was awarded the Phase 1 environmental contract has been hurrying to get the site work done. Oliver hopes to speak with James Weir on getting a landscaping contract signed and whether to get it completed this fall or delay some things until spring. Oliver hopes to have this duplex completed and wrapped up by November 1st. P17

The College of Technology duplex, they should be digging on this next week. His class is ready to go. Oliver has 3-bids for items that the COT cannot do- Roofing, Mechanical, Electrical and Plumbing. Sam also has procured bids for the lumber packages for windows, doors, trim, etc. This project will be getting off the ground but will also move slowly as this is a class-room setting for the COT. Oliver states this may even go into next year's school year.

Davidson states these 4 units will go back under the ACC. Monica Aragon and Diana Kiles will be stopping by MHA tomorrow as a courtesy visit. Aragon and Kiles have been in Montana visiting new executive directors in Whitefish and Ronan.

Davidson invites Worthington to share anything she has for updates.

Worthington states the county finally came through with their budget. United Way is doing the hiring. The period for application submission for this position has closed. Worthington is not sure where they are at with this hiring process. Worthington states the committee should be in the next month or two, hiring that coordinator.

Davidson adds that this will be a United Way employee. It was originally thought, that this position would be a city or county employee. Worthington states it will be paid half by the city and half by the county. Worthington believes this is make it a neutral position as there are many issues that that city and county weigh in on.

d) Palace Project

Davidson reports she is working on getting down to the wire on the permanent loan conversion. Davidson is hoping to close on this by the end of October. Davidson is working on the final cost certification. Davidson states the contractors are fully paid and PNC has released the retainage. Davidson is working on getting the 8609's from the state.

Oliver states they are waiting on the expedited part 3 with State Historic Preservation Office (SHPO). Senator Max Baucus would like to make the Palace part of one his examples of a successful historic tax credit project. The SHPO approached Oliver to see if he can gather the materials needed and fast track this through the state and then on to national. This is so that it can be completed before Baucus' speech at the Economic Summit in Butte on the 16th and 17th. Oliver agreed to do so without hesitation.

e) IDC Update

No update. Davidson noticed today that there are curbs along Milwaukee way. They have until November to pay the $209K on the remaining lot.

f) Rural Development Self-Help Program P18

Davidson is working on the transfer of the grant. The first 10 families have moved in. Kayla at the Missoulian was interested in doing a story with Kristy Milburn, one of the original 10 families. Davidson had informed Milburn, but has not heard from her yet.

Oliver is busy, along with Wells, learning the way Great Falls has been running his program and trying to learn from all of their mistakes and trying to set the tone for future builds in Missoula. Hoffmann asks if MHA has identified the next 10 lots. Oliver states he has not.

g) Stevensville Property

Davidson states there is no update. Davidson is not sure where they are at with their due diligence. Northwestern Energy is in compliance with the buy/sell and has released their $2500 for deposit.

h) Discussion of draft for 2014 FY Budget

[*Handouts provided for board on fiscal year budget review]

Gloria states the pink colored handout is the draft 2014 budget. Fortier reminds the board that HUD programs have a fiscal year of Oct-Sept. And the LIHTC properties have fiscal years of Jan-Dec. Fortier states the yellow handout is a revised 2013 fiscal year budget. Fortier states she needs board approval on the revised 2013 fiscal year budget and the draft 2014 fiscal year budget to submit to HUD.

Fortier reviews funding cuts that have been witnessed in the Housing Choice Voucher program. Hoffmann asks if the sequester has had negative impacts on the budget. Fortier agrees. Hoffmann asks where this shows up in the reporting. Fortier looks to Jim McGrath for a better explanation

McGrath states MHA went into this year on a continuing resolution that was funding the voucher program at a discount. HUD has since kept the funding at this discounted rate and cut an additional 5% off of the top. This impacts the program in two ways. First, it impacts the reserves for housing assistance payments. MHA started the year with some reserves that were later committed to this deficit in funding. The revenues coming in were less than the cost of leasing the vouchers that are already in place with tenants. MHA needed to reduce the number of vouchers leased under 774 vouchers per month. This number must now drop to 735 for FY 2014 in order to maintain this program with the current revenues. MHA has been attempting to accomplish this by natural attrition in the program without having to terminate any vouchers currently in place. This means at the end of the year, MHA will have extinguished all of its section 8 reserves, but will have successfully not had to terminate vouchers early and can operate moving forward.

McGrath states that on the administrative side, the cuts were even deeper. HUD is providing only 75 cents on the dollar to operate the program. There have been administrative reserves and are currently using them. McGrath does not anticipate having to extinguish all administrative funds during this loss in funding. McGrath states that housing assistance payments cannot be used to operate the program with administrative costs. McGrath states that with proper budgeting, MHA's section 8 program has been able to end the last few fiscal years with less of a deficit than anticipated. McGrath hopes to have the similar results going forward despite circumstances. McGrath states the biggest challenges is avoiding what he deems the "death spiral", in that, as funding gets cut, the number of vouchers gets reduced. Administrative costs are only funded per the number of vouchers leased. This reduces the amount of administrative funds. They give you money based on the amount of money used the last year. P19

Davidson states that on the public housing side, MHA is only receiving 82% of the subsidy that MHA qualifies for. Plus the 5% sequester. The public housing program is somewhat insulated to the funding cuts, largely due to the Energy Performance Contract (EPC) and its cost savings. Davidson states that without the EPC, the public housing program would be suffering greatly.

Fortier states that she has started to track the income separately between operating and utility allowance. Fortier states public housing bringing in the same about of utility allowance subsidies even though the utility costs have been significantly reduced. Fortier informs the board that these are shown as separate line-items in the handouts

Davidson asks Pare to provide the board with an update at a future meeting on the work that has been performed on the public housing units using capital funds.

Fortier states for the revised budget the loss in voucher is something that has been forecasted and that MHA wouldn't know the exact impact until the end of the fiscal year.

Fortier informs the board that for Development, there is a loss in the program, even on the revised budget. Fortier states while Development has been growing, they've been paying out costs that directly affect the income statement with money that came in from the sale of IDC that went on MHA's balance sheet. This was a liability that was reduced and cash came in but it does not affect the income statement. Fortier states that it looks as though Development is in the red but it is simply because of where the cash was booked that came in.

Davidson states that as this happens over time, as development is funded more so in one-time, lump-sum payments. Some years, there may be an overall loss, knowing that there is a payoff in the coming fiscal year. Davidson states that in 2013, it appears to be an overall loss for Development, but the primary part of the developer's fee for the Palace will come in at the later part of 2014.

Fortier states that this year all of the managers were involved with this budgeting process. Fortier states each manager was brought in to review their numbers before adding it to the fiscal year draft. P20

HUD has asked MHA to go to a private property asset-management model. This means that each project should be able to carry itself based on income and expenses. Staff wages have now been tied to the specific projects with which they work with in an attempt to tie these wages down to a more stable month by month expense for budgeting reviews.

This is going to be a lot more accurate. Fortier states that in the past, MHA has zeroed out the Central Office Cost Center (COCC) by the skin of its teeth. HUD mandates that the COCC must run in the black. While HUD says that they will not touch any of the excess funds that appear in the COCC, Fortier states that with Davidson's oversight, all excess funds have been moved to Development for safekeeping. To recap, the COCC typically zeroed out at the end of the fiscal year. At the end of this fiscal year, MHA will be leaving some money in the COCC. This is mostly for payroll.

Fortier states because MHA has used all of HCV's restricted reserves for FY2013, there are no reserves in the FY2014 budget. Fortier states that McGrath will be watching his budget closely over the next fiscal year. Fortier adds that McGrath's staff is short handed, but MHA is hoping this will not stay this way.

Fortier states that on the blue part, and as part of something the other two budgets do not show, is an overview of debt service coverage and to make sure the MHA can meet this demand.

Davidson states that this is typically in the reports presented and that she keeps careful watch to make sure there is ample cash in the operating accounts at all times. Especially due to the unpredictability of funding, cash is a vital part of MHA staying afloat in hard times.

Bentley asks if there will be summary on the financials as discussed in the financial training from Rector and Reeder. Davidson states that she's attempted to do this by cutting it up into several reports. Fortier states this in the financial statements every month. Fortier states she is required to do the unpaid claims reports as she does not have the individually signed checks. MHA does about +1000 checks per month.

Davidson states one of the things she would like to work on this year is getting balance sheet reports for the board that are more consolidated so they can get the big financial picture. It's hard to assess overall health of the actual programs if the board does not see the individual sheets. Davidson adds that many of the HUD programs do not allow housing authorities to co-mingle the funds; MHA cannot at-will transfer money from one project to another.

Davidson states it is hard for her to provide a budget where it does not see the individual grouping of funds. Davidson states she has spoken with Fortier about providing two separate consolidated reports comprised of HUD and non-HUD programs. P21

Davidson redirects to the final page stating that there is a debt coverage ratio (DCR) on the second to the last line. Lund asks what the minimum is for a DCR target. Davidson responds that she is looking for a 1.15 minimum for any of the LIHTC projects. Davidson would like to see 1.25. Lund responds that the Feds looks for 1.25 in her line of work. Davidson states many LIHTC properties are less than 1.25 because they do not have flexible rents. Minimum for MBOH is 1.15 and maximum for MBOH is 1.25. Davidson states investors are more comfortable at 1.2+. Davidson states that for public housing, PHA's receive 2 point for a DCR of 1.0+. Right now looking at this, MHA is doing well. Davidson states that silvertip's DCR is not in line and may have an error in this reporting. Davidson adds that this is still in draft form.

Davidson points out the total revenues of the agency at $11.8M. Bentley asks how accurate this figure is. Davidson feels this is number is quite accurate. Davidson does seem to think there may be a few formulary problems with the 2014 budget. Davidson will have Fortier review the budget formulas for next month's meeting. Davidson states the columns are completely unrestricted funds are Business, Development, Bristlecone and Central Office. These are discretionary entities with no HUD restrictions.

Davidson asks if there is a committee of board members that would like to get together with Gloria to discuss finances. Lund asks if there is already a finance committee for the MHA board. Davidson states there used to be a committee, though several members have since left the MHA board. All members state they are quite busy and will look to see what time is available in each member's schedule.

Hoffmann asks if there is any question before moving on.

McGrath states that included in the board packet is a graph based on HUD's forecasting tool that shows the leasing numbers being projected and the revenue for assistance coming in. The result is a nice illustration of what 2013 looks like for Section 8 funding.

Hoffmann asks if McGrath is the manager for the overall Section 8 budgeting. McGrath agrees. Davidson states that while McGrath has done an outstanding job over the years with budgeting, MHA managers agency-wide are having more responsibility placed upon them to be mindful of their operating budgets.

V. New Business

General Discussion of Bristlecone Development consulting projects:

Hoffmann asks if this item has already been addressed. Davidson states this is a general discussion to inform the board and get feedback on whether the board agrees to move forward. Davidson states that Sam Oliver has been approached by an architectural firm to do a walk-through of the property. Oliver has also been asked do a short report on the condition of the property for a potential purchaser of this property. Oliver adds that though this hasn't happened yet, there has been more than one request. Davidson states that Oliver has looked at his overall time commitments to Bristlecone and whether he has time to do it. Davidson goes on to say that this outside, third-party consulting, could be another way in which Bristlecone can earn fees for service. But because Bristlecone is an LLC that is controlled by the board, Davidson looks to get an idea of whether the board is or is not comfortable with Oliver taking on any outside consulting. Another opportunity is the silvertip owners have asked Oliver to manage the sound mitigation measures at the silvertip apartments. Davidson states that yesterday the silvertip owners asked if Oliver can oversee the construction of a maintenance shed. P22

Davidson asks the board for feedback on their comfort level with taking on these outside jobs. Davidson adds that the fees for services would not go directly to Sam but would go into the Bristlecone entity itself as income.

Lund asks Oliver if and when he performs a walk-through of a property if he would need to produce a written report of his findings similar to a home inspection. Oliver clarifies stating it would be more like a physical needs assessment (PNA). Oliver goes on to say the architect that approached him did not ask him to provide such a document. Though, Oliver states, there may be instances where an outside entity may require a report to be produced on his findings.

Lund asks if he needs a formal license to conduct this type of inspection. Davidson interjects stating that this would not be a formal inspection being done by Oliver. Oliver states that his professional opinion would come underneath the umbrella of the architect he is providing the information for. Bentley clarifies stating the architect would carry the liability for this review.

Bangs worries that this may interfere with the open market. Bangs states that this does not quite tie into the agency's mission statement. Bangs feels that MHA should be caution to not lend its services to private market if it does not support affordable housing. Bangs feels that by supporting a LIHTC project such as Silvertip that this would be pursuing the agency's mission.

Hoffmann states having had a discussion in the past regarding MHA becoming its own General Contractor in which he was told MHA should not do this, that it is in direct competition and that MHA should be afraid.

Oliver states that he is busy enough already and is not looking to grow Bristlecone into a consulting arm of MHA.

Bentley states that she is not completely against the idea but would like to see discussion held on a case by case basis to see if it serves the mission of affordable housing.

Bangs states there has been a management policy drafted on what MHA would and would not manage. Bangs feels that perhaps Bristlecone should have similar policy created to give clarity to its mission as a sub-entity on what work it will and will not take on. P23

Bentley states this could be incorporated with the strategic plan.

Hoffmann asks for further questions. None. Davidson thanks the board for feedback on this issue

VI. <u>Old Business</u>

<u>Sound issue at Silvertip</u>

Hoffmann asks Oliver what the status is on the sound issue at Silvertip. Oliver reports that the sound expert and the architect have come up with a wall assembly. Hoffmann asks who the sound expert is. Oliver responds with Skip Haines. Hoffmann asks if the expert out of Bozeman was also hired on. Oliver states the expert out of Bozeman was hired to perform the testing. The local expert was cheaper and therefore hired to conduct the mitigation on this issue.

Oliver states they are looking to build a sample unit with the wall assembly to test the transfer of sound in the unit. Oliver states the wall assembly is rather complex with several non-industry-standard materials. Hoffmann asks what the cause of the sound problems is.

Oliver states there are a few causes. First, the suggested wall assembly drawn on the plans was not installed per the plan. There were also specification issues. They were supposed to use Quiet Rock. Quiet Rock manufacturer has been approached on this issue and it has been found that in very fine print for this product, the manufacturer advises this product to be installed on 24 inch on center studs. Silvertip is constructed with 16 inch on center studs and Quiet Rock states this will not work and takes no liability for it. Davidson adds that the same fine print also states that this is for marketing purposes only and not to rely on it for any architectural drawings.

Oliver states the architects went out on a limb to try some new technologies and due to lack of familiarity by the inspectors, instead of using tried-and-true materials seen in hotels and motels nationwide, they simply took a risk. In this case, this case the measures didn't work. Hoffmann concludes this is a design failure on the shoulders of the architect. Hoffmann adds that they may have been suckered by manufacturers in this case. Oliver agrees to some extent stating the architects were acting in good faith.

Oliver states a specialist will come in to construct the wall assemblies. A specialist will also have to template around the cabinets and countertops in the kitchen in the test unit. Hoffmann asks who's paying for all of this. Davidson states the architect is liable and an insurance claim is open and should pay for this outfitting.

Pare states the design team is Gavin Hanks and they are going to do the testing on the new units as the insurance company will not just write us a blank check. The insurance company wants to see that this is going to work. Pare foresees the living room and bedroom walls to be redone, but due to the cost prohibitiveness of the kitchen walls, this may be left out. Pare foresees there being a lot of tenant education on the back end. This is to inform tenants that the sound has been fixed as best as possible but that it is up to the tenants to be mindful of their own noise and now it affects their neighbors. P24

Lund asks how bad it is. Pare states that reports coming in are that the sound is as if the person is in the same room with you. Bentley asks if this is just wall to wall and not floor to ceiling. Oliver agrees.

Oliver states there are some other ancillary considerations. Oliver states this material cannot have a hole placed in it. Such as a nail to hang a picture. Oliver states this will be tricky to schedule having construction crews come in to move the cabinets and counters. It will be very intrusive on tenants and hard to coordinate.

Pare states RMDG is taking it easy on Gavin Hanks. Though they are liable for this issue, it appears that they were acting in good faith.

Strategic Plan-

Davidson states the first strategic planning session is on Sept 5th with Mayor John Engen. MHA is going to have a pre-planning session tomorrow. Davidson states there are board members, Hoffmann and Bentley that have agreed to meet with the Mayor on the 5th to discuss options.

Hoffmann asks if this is regarding legal services. McGrath states this is regarding the strategic plan. McGrath states there is a list of items from the strategic planning meeting held in June to present to stakeholders. Hoffmann asks McGrath to send him an email regarding this as it is the first he has heard about this meeting. McGrath agrees.

Davidson states she is looking to bring in an organizational person to work with the staff. MHA has changed in the way it's doing business with several off site employees not under the same roof, changes in maintenance and overall PTSD from the vantage villa fire efforts. Davidson has identified one such profession that could come in to run some meetings and get some overall feelings from the staff on what is working well, what changes can be made and to generally incorporate this into the strategic plan on how to organize as an agency and how it functions.

Legal Services-

Davidson states this is being incorporated into the strategic plan.

Davidson is hoping to discuss this with the mayor during the meeting on the 5th of Sept.

Bentley asks if Hoffmann could get an email about the pre-planning meeting on Friday for the upcoming strategic planning meeting with the mayor.

Hoffmann asks what time the meeting is at. Bentley responds, stating 1pm.

P25

a. Changes in Procurement and Personnel Policies

No updates

b. Board Training opportunities

None

VII. Adjournment: The regular meeting was adjourned at 8:12 pm

Jamie Hoffmann, Board Chair

Lori Davidson, Executive Director