Missoula Housing Authority Board

Special Board Meeting
Wednesday, July 2, 2014

-MINUTES-

Members Present: Collin Bangs, Sheila Lund, Fred Simpson, Monique Casbeer, Jamie Hoffmann, Betty Zander

Members Absent: David Warren

Staff Present: Lori Davidson, Jim McGrath, Adam Ragsdale

Guests Present: Keithi Worthington, John Barrett, Thomas Hilley

I. Call to Order: 12:05

II. Attendance: See Above

III. Conflict of Interest Disclosure:

None

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IV. Commissioner Comments:

None.

V. Public Comments on Items not on Agenda:

None.

VI. Discussion Item

a. Proposed offer to purchase the Maya Building :

Hoffmann: Collin and I met with Harlan and reviewed the information available about the building and our potential to purchase it.

Davidson: I spoke with Ellen Buchanan this morning and she said after looking at the funds in the district she thinks that the MRA can do $50,000 a year for the next 10 years. They need to first get it through their board as well as city council. That is really good news for us.

Wells:
References pro forma handout.
We need to come up with a 1.25 debt service coverage ratio, a 5% vacancy and a 5-6% management fee. Even with the $50,000 MRA contribution for the first 10 years, we still need to come up with $36,000 more a year in rent than what we're paying now. If you plug in the manager's

fee of $22,000 and the vacancy fee of $23,000 a year it works out to be about right. Because of the extra space in the building that we're required to lease up, I recommend a large operating reserve account which would come out of our development fund. Since the MRA's $50,000 contribution is only for 10 years we're going to have to show the bank how at 10 years it still cash flows, which it does barely. We'll probably have to do a 10 year balloon payment, so that in 10 years we'll refinance the building.

We go from about 7,000 square feet in our current space, to about 14,000 square feet here. However 6,000 of that is unfinished in the basement and is not currently office space, but could be used for overflow or storage.

All of the calculations from the pro forma are counting on the fact that HUD is going to let us use the full $1.4 million in disposition funds. If the board is favorable on the numbers that have been shown then we would be looking to go into a buy-sell with the seller. The contingencies that I recommend are:

-Contingent on the MRA's contribution making it through their board and city council
-HUD's approval to use the $1.4 million in disposition funds
-Bank financing,
-We will need to get a city environmental to use the HUD funds, which takes 2-3 months.
-3rd party appraisal because we're going to be using some of the charitable contribution to balance the $1.4 million.

The best case is 90 days, worst would be 180. By entering into this buy-sell and having the owner take it off the market, we are saying that we want to be in the building, and the only reason we wouldn't is if one of our sources of funding didn't come through. P16

Simpson: What did Jamie and Collin decide after the further investigation?

Hoffmann: After reviewing everything I've concluded that we couldn't do this without the $50,000 from MRA. My conclusion is to pursue a buy-sell with the sellers.

Bangs: We have to know that there are still risks, such as the longevity of the current tenants. It might be a good idea to do some due diligence with the tenants and find out what their future intentions are. I would want to go into this with the idea that if we're going to use that much of the disposition funds to buy this building, then at some point we'd use the vacant parking lot to provide some affordable housing, or that we'd sell some of the property off and use that money to build affordable housing elsewhere.

Wells: There are four lots, so we wouldn't have to subdivide to separate those off. Since we are using different chunks of funding there is the possibility of re-amortizing. Another due diligence item is that I'd like to interview the existing tenants, and perhaps look at their financials.

Barrett: All of the tenants pay their rent on time every month and have never missed a payment, they may not feel obligated to show you their financials with no prior issues.

Hoffmann: Since the university is no longer buying the building does that change their plan with SpectrUM?

Barrett: They've invested a lot of money into the space and they've recently received another grant that should take them through another 4 year lease.

Wells: In order for HUD to be comfortable with the $1.4 million not subsidizing LIHTC and 3rd party management, we'll have to be careful about taking less of the building than the 14,000 square feet without being able to show that those rents are benefiting Section 8 and Section 9. We need to make sure we're not using that money to benefit the tenants in the other parts of the building.

Hoffmann: Is there a possibility of discussing with the bank that in the event that we get cash flow pinched we could condo the building and sell portions of it off?

Wells: One of the things we could look at internally is buying the smaller building separately and in full with the housing authority's funds, so that if we did run into an issue we could sell that off without HUD strings. The other thing I would like to put in the buy-sell is the purchase price at $5.1 million, I'd like that to include the furniture and file cabinets.

Simpson: I think we would want it to be a final purchase price of $5,950,000 with a part of that being contributed to us.

Bangs: I did want to bring up that we heard back from the PayneWest building and the realtors are very willing to work with us now. We just wouldn't be able to use the MRA money there.

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Davidson: Also with the PayneWest building, we may be able to lease some of the space, but the rent payments would still be more than double that we're paying now.

I wanted to mention the first step is to get an amendment of our disposition proceeds plan that goes through HUD Denver and the Special Application Center in Chicago. This amendment normally takes 4-6 weeks, however it could be longer because there is a second part where HUD has to approve making this part of a package deal where we're using other types of financing.

Wells: I also want to make sure the board is aware that we have to lease our current offices, which cost us roughly $49,000 a year. There's an opportunity that we may be able to buy this property as early as the end of this year. If that happens the city has shown interest in using the HOME and CDBG funds to turn those offices into apartments. Those funds wouldn't be available until May of next year, and if we can't find a short term tenant we would have to leave those vacant which could be a $20-30,000 expense

Hilley: Just confirming that the HUD process will start at the same time as the MRA process and the city process.-correct- And how soon will MRA rule on this?

Davidson: Ellen indicated it will take a minimum of 60 days because it has to go through city council as well. And we will still need to get some indication from HUD that we will be able to use these funds.

Tom: So we can structure the buy-sell so that we can close within two weeks from when we get the approval?

Barrett: I'm comfortable with 90 days, I'm a lot less comfortable with 180 days.

Wells: In 90 days we may have a lot of indication that it's going to work, but we'll still have to wait for it to get approved in DC, and that's where we may need to structure some extension payments or burn off some of the contingencies.

Simpson: Collin, how big a risk do you think we're taking with renting out our current office space?

Bangs: I think our current office space will be difficult to rent out, and that we will have to make the price right.

Wells: Of that 7000 square foot space in our current offices, 1200 of that can immediately be turned back into apartments. We can rent it at a fairly discounted rate to market and still break even. Also the possibility of turning the space into HOME units in the next year is strong. Another option is that when we buy Russell Square, since there will be no rent restrictions on the office building, it could theoretically be sold off at market rate. It's on two lots, but we could do a lot line adjustment.

Davidson: We also have to keep in mind moving costs, which could be as high as $50,000.

Wells: After doing a very conservative pro forma, I feel secure with the numbers and I think this is the best option we've looked at. P18

Hoffmann: We are entertaining a motion to instruct staff to formalize an offer based on the pro forma presented today.

Worthington: I'd like Harlan to summarize all the specific contingencies and time frames.

Wells: Contingencies:
1) Final approval of MRA contribution,
2) Final HUD approval of the use of the $1.4 million in disposition funds,
3) The conventional bank financing,
4) The environmental review
5) The 3rd party appraisal
6) Cooperative discussion with the sellers and the tenants.
7) Preliminary title commitment that's acceptable.
8) $5,950,000 million dollars with 850,000 contributions

Timeline: 90 day minimum with a full refund of all funds and monthly extensions that would be contingent on the financing portion for 180 days, and after 180 days knowing that we'd have to put down some serious money.

Worthington: I think there should be some parameters on what amounts of money you're talking about after 180 days.

Wells: the board can either give us an upper limit, or they can authorize us to negotiate and then they get final approval.

Hoffmann: I like the idea of not setting a limit

Wells: Would be willing to take $5000 after 90 days and $10,000 after 180 days?

John: My concern is that I've taken it off the market for 6 months and the deal didn't go through. I'm wondering what part of the deal is going to take 180 Days?

Davidson: HUD. We should know everything else within 90 days and then we'll just be waiting on the approval of the disposition funds. Without that money we can't afford to buy the building. Another thing we need to consider is attorney's fees. On a mixed finance project these could be between $20-40,000. These would be paid out of the development funds.

Hoffmann: John, Harlan made an offer to go hard with a nominal amount of money at certain points in this agreement. Would you find that agreeable?

John: Yes

Discussion about price.

Bangs: So the buy-sell needs to say $5,950,000, with an 850,000 contribution.

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Worthington: Let me summarize:
We're going to make an offer for the $5,950,000 with an $850,000 contribution. Approximately $10,000 can go hard after 180 days, but that is negotiable.
The contingencies are:
1) The MRA approval of the $50,000
2) HUD approval
3) Bank financing
4) Environmental
5) Appraisal
6) Due diligence with tenants
7) Preliminary title report

Bangs: We need to make a motion to give our approval for the staff to write a buy-sell and give the authority to execute the buy-sell. I am making this motion

Casbeer: I second it. Motion passes unanimously.

VII. Adjournment: The meeting was adjourned at 1:07 pm

Jamie Hoffmann, Board Chair

Lori Davidson

Lori Davidson, Executive Director