

**Missoula Housing Authority Board**  
Regular Board Meeting  
Wednesday, June 25<sup>th</sup>, 2014

-MINUTES-

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

Members Absent: None

Staff Present: Adam Ragsdale, Suzy Yancey, Lori Davidson, Jim McGrath, Harlan  
Wells, Karl Pare

Guests Present: Keithi Worthington, Christopher Stube, Thomas Hilley, John Barrett

- I. Call to Order: The meeting was called to order at 5:30 pm.
- II. Attendance: See Above.
- III. Minutes: Approval of minutes from the Regular Board meeting May 21<sup>st</sup>, 2014
  - 1<sup>st</sup>: Warren
  - 2<sup>nd</sup>: Casbeer
- IV. Commissioner Comments/ Conflict of Interest Disclosure:

None
- V. Public Comments on Items not on Agenda:

None
- VI. Action Items
  - a. Resolution 1001: Approval of FY2015 Annual Plan
    1. Addition to annual plan: RAD conversion of public housing to section 8.

Davidson: HUD just released implementation regulations for converting public housing to section 8. As of right now we don't qualify unless we get a waiver. We added to the annual plan that as the process continues to evolve with HUD we will continue to explore this possibility of converting.

McGrath: Second addition to plan - Congress adopted an Appropriations Act this year which authorizes funding. This will alter the way we do our housing inspections for Section 8, and would lead us to consider reliance on an alternative inspection standard. This may help us save money, and may also eliminate tenants having multiple inspections.

Approve:

1. Bangs
2. Warren

Resolution passed unanimously.

Re-arrange agenda: 7C

Davidson: We have guests John Barrett, the owner of the Maya Building, and Tom Hilley, his realtor.

Wells: Talks about tax credits with River Ridge. Russell Square tax credit syndicator would like to get out early. Both options for offices are significantly more expensive but long term would be a good asset for MHA.

**See handout**

Explains costs and debt service ratios for both buildings.

We do have an option of taking another apartment at Russell Square that would give us 600 sq ft, but that is short term growth. Both of the downtown options will be great for long term growth and are an excellent deal for downtown because of the disposition funds. If we bought Russell Square, there are two lots so we could subdivide this building and sell it off as market rate apartments and office space. We'll still have to do a full environmental review, which takes about 3 months. The building is almost completely move in ready, it's all ADA accessible with elevators to every floor. The owner of the Maya Building worked with the University for almost a year and they were going to sell it below appraised value because they can take the charitable contribution.

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Barrett: It can be built lot line to lot line, so the whole parking lot could be developed for commercial space.

Davidson: Parking spaces at the PayneWest building are in the paid lot and would not provide customer parking, it would only work for employees. Also there are some accessibility issues since there is no elevator between the two floors. And we would have to come up with \$100,000 in additional rent.

Wells: We're putting the 35 leased spaces for the PayneWest building in the pro forma for a cost. The Maya building has 46 spaces, but some of them are leased out, so we would have access to about 20 of them. There is also the library right there and the new parking garage is right across the street.

Simpson: Have you looked into filing a condo declaration?

Barrett: We have. The current tenants are all very stable. I don't think it will be a problem to keep it filled.

Wells: Expenses go up about 3% a year. In order to keep up with these expenses we have to plan for our rents to go up 1-2% a year. Currently, Russell Square absorbs some of our costs because we are a tenant here.

Hoffmann: If our income remains similar to what it is now, what is available to cover the extra cash demand on the new building?

Wells: We can try and sell the Stevensville property, we're asking \$250,000 and we owe \$135,000. We're paying between \$18-19,000 a year on it, so that money would be freed up. The Stone House tenants could be brought into the main building and we could rent that out for about \$600 a month.

Davidson: The Missoula Redevelopment Agency (MRA) has already invested \$140,000 into the Maya building, the majority of that for Spectrum.

Casbeer: What about leasing this building out?

Davidson: We would have to do that in order to move, but that rent would go towards Russell Square. If we purchase Russell Square from the investors than that rent would be an owner's draw that could help cash flow.

Wells: Right now we pay \$49,000 a year plus utilities, and we might be able to get more than that.

Davidson: We also have the development money which is about \$1.3-4 million of unrestricted funds, but \$500,000 of that is restricted by the LP agreement with the Palace investors.

Bangs: I'm concerned about how much of the development fund we want to spend on the down payment. And what kind of risks are in a 5 year fixed loan on a building where we depend on the renters to be there. Do we want to put this much down, when in 5 years the interest rates are going to be much higher.

Davidson: We are still eligible for tax exempt financing, so the increase in interest might not be as high as you'd expect.

Bangs: Are we eligible for tax reductions?

Wells: The Front street building would be zero property tax if we didn't lease any of it out, because we are 100% tax exempt. The Maya building would be about \$41,250 on our tax exempt portion. We can look into SpectrUM and the Butterfly house being tax exempt too.

Barrett: They don't pay taxes now. Spectrum has the triple net which includes taxes for the building built into the lease. With the rest of the tenants, when utilities, taxes, and insurance go up they pay more.

Wells: If we wanted to do a buy-sell we'd have a due diligence period for us to find out some of that tax information. There's a chance we could use some CDBG funds in the acquisition.

Davidson: One thing we should be focusing on is finding ways to reduce the amount of debt we will carry through bringing in additional sources of capital.

Wells: Well the property in Stevensville isn't an asset it's a liability.

Davidson: It's an option to pay off that debt with the development fund.

Hoffmann: I would be inclined to sell the Stevensville property, even if it's for a reduced price.  
Bangs: I would like to spend some time look at the pro forma and leases

Discussion on different types of funding available for downtown properties

Hoffmann: By spending our development fund to make purchasing this more comfortable now, it just means we won't get to develop anything for a while.

Wells: We have to be careful about timing of the bridge loan for River Ridge. If we haven't gotten a tax credit deal, we may have to put 15-20% of the appraised value for a long term 223F. As a sidebar, we have an option at River Ridge to do a full bond deal with all 60% units. We can ask the Board of Housing to get all 60% rents, which would be hard on the tenants, but might be the only way to keep the building going.

Davidson: Since there is no perm debt at River Ridge, it's cash flowing very well right now. We have about \$100,000 in the checking account that could go towards that 15-20% down.

Wells: We also have Parkside coming up next year where we have a right of first refusal. If MBOH doesn't want to give any tax credits out, we have to decide if this is an asset that we want to acquire.

Further discussion about acquiring Parkside

Davidson: I would never recommend putting the entire development fund into the building. The new thing is that when the investor's asset manager was here last month inspecting Russell Square, they said they would be willing to sell it to us after 10 years, instead of 15. This building cash flows really well right now and it could be a real asset that we would own in full.

Wells: What kind of due diligence time would you give us?

Barrett: There is a benefit to selling it to you guys because of your non-profit status. I would like to give you the amount of time you need to have. I am comfortable taking it off the market for 90 days, not so much for 180.

Hilley: I think releases that we can structure in the Buy/Sell would be helpful, so we can know what's been done as far as environmental reviews and the other required steps.

Barrett: We bought the building out of bankruptcy and it was in very bad shape, so we decided that the best thing to do would be to gut it. We put in the most energy efficient systems, and the office space is about as nice as you can get for downtown Missoula. The parking lot is also a very valuable space, and we have been approached by several people that are interested in developing on it. The only reason we're leaving the building is because we've outgrown the space. The basement has a lot of potential. The building across the parking lot is also a very desirable space, and you would have no problems leasing it out.

The only pressing issue is that SpectrUM wants that 900 square foot space you want for your maintenance team. I'm not leasing it to them because you've expressed interest, so right now it's sitting empty.

Wells: How long can you give us with limited to no holding costs if you know we are moving along seriously and taking all the steps with HUD? Realistically in 90 days we'll know if we have the funding in line. In that time we should also have something from the city on the environmental report. It's not going to cost a bunch of money to do the due diligence like it would in a tax credit deal, it's mainly just going to be our time.

Pare: How important is it for the maintenance to go in the 900 square foot space? What about the 1500 square feet in the basement? I'd really like to be able to tell John to let SpectrUM rent that space.

Davidson: That 900 square feet has its own entrance and would be extremely convenient for the maintenance team. We really want that space.

Barrett: Maybe after 90 days some of this money goes hard, if you know that the only thing holding you back is the timeline of the bureaucracy.

Hoffmann: What is the sense of the board at this moment?

Lund: At what point would you order the appraisal?

Wells: Almost immediately, we'd have to do it before the 90 day period, and that cost would fall through to us. So we would know within probably a month if this would work.

Hoffmann: I'm persuaded to think this is possible and I like the deal.

Bangs: I think it's a great opportunity but we don't have all the answers yet.

Worthington: You could direct a couple staff to do a week or two of investigation. We've looked at other properties, but never one where we'd be the commercial landlord, and I don't know if I have a good understanding of what those risks entail with different leases, and what the benefits would be.

Barrett: Right now I don't have a property manager because everything is so new and things aren't breaking.

Wells: Would you be comfortable with a 90 day no cost due diligence period if we were to go at it 100%? And then in the next couple weeks we'd negotiate what it would cost us to go past that point.

Hilley: You'd be entering into a buy-sell with the contingencies to get out of it in the first 90 days.

Bangs: I would prefer to spend the next week doing some analysis with Hoffmann, and probably the staff, and then make the final decision as to whether to enter a buy-sell or not. I don't want to write a buy-sell until I'm comfortable spending \$10-15,000 in exploratory costs, and I'm a week away from that.

Worthington: I think it's a better idea in terms of approval to have something to put in front of the board that they can approve, and that whoever wants to can take the next week looking further into this.

Hilley: I'm fine with that.

Worthington: My recommendation is to make a motion to set an exploratory committee and then set a special board meeting to reconvene and make a decision.

Bangs: I'll make the motion to set up an exploratory committee to explore the possibility of writing a buy-sell and have a meeting next Wednesday at noon.

Casbeer: I second it.

Intermission 6:57 for 5 minutes

Return to Action items 6

b. Resolution 1002: Write off Resolution for Public Housing

Davidson: This is the standard quarterly write off for the public housing properties.

Pare: It was \$970 in move out charges and damages, the tenant wasn't paying rent.

Warren: Make a motion

Casbeer: I second it.

Passed unanimously.

c. 1003: Adoption of Flat Rent Policy per HUD regulations

Davidson: This is one of HUD's policies that you must adopt immediately. It's a part of the Appropriations Act and they require all housing authorities to set the flat rent at no less than 80% of the Fair Market Rent, so we have to change our policy. Annually, all public housing residents

have the option of choosing flat rent, now set at 80% of FMR, or using 30% of their adjusted gross income for rent.

Bangs: I move to approve the motion

Casbeer: I second it

Passed with all in favor.

## VII. Staff Reports

### a) REAC Scores

Davidson: REAC, or Real Estate Assessment Center, which is the third party inspection that HUD requires every Housing Authority to have. We received 93 and 95 for AMP 1 and AMP 2 respectively, so we are considered a high performer, and the credit goes to Karl and his staff.

### b) Report from Deadwood Conference

Davidson: We're definitely going in the right direction by not building more public housing. There is a lot of turnover at HUD right now, and there are doubts if RAD will continue. It sounds like they're trying to reduce the number of Public Housing Authorities so that administration becomes regional, which would not be good for Montana.

### c) MHA office space

Covered Previously

### d) Cooperation Agreement with City (final draft)

Davidson: In your packet you have the final changes from the meeting that Emily Bentley and I had with the mayor. One of the main changes was to run by council doing away with the payment in lieu of taxes on the public housing units. He suggested that the \$11,000 was not extremely significant. This cooperation agreement also says any surplus land the city has is offered to us first, we don't have to accept it.

McGrath: I'm uncomfortable with there being a city appointed liaison, especially if it's a city council member. It can be a great thing if you have a great one, and it could also not be. I don't think there's a need for one, it's a public meeting and any council member can attend and follow up as much as they'd like.

Davidson: The mayor also suggested that the city council and the MHA board meet once a year and touch base.

Bangs: My understanding is that having that liaison would require having some heavy sideboards around it so they knew exactly what their role was.

Worthington: From a legal standpoint I can't tell you if this would be beneficial or not. Emily is thinking of this in very beneficial terms of educating the council members and creating that link so that MHA is the housing arm for the city. The wording changed from shall to may. They wouldn't be a board member and would have no authority to make decisions. They can however provide public comment, and how that would look is up to you guys. This doesn't have to be done under the cooperation agreement, it can be an internal policy

Bangs: I think we want to define it, like a job description.

Davidson: So it sounds like we want to develop an internal administrative policy that defines what that liaison's role is.

McGrath: I think the city is going to define it because it's their liaison, there may be a bit of a sharing, but I don't think we'll be able to say that unless it's formalized.

Worthington: If you're concerned about it, you need to put a proposal in front of city council as to what those parameters would be like. If you want it to be a policy that city council is bound by, and that you are bound by, it will need to be adopted by both entities. The reason that we didn't adopt this tonight is because it could be amended before it reaches council.

e) Bristlecone tenant improvement work at Palace

Davidson: We've discussed if Bristlecone should work for other entities as a contractor outside of the housing authority. There is an opportunity with a new restaurant in the Palace Building where Gavin Hanks proposed that we let Sam do the contract work there for the new tenants. I propose that we allow Sam to do that since we do own the Palace.

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The Board had to objection to allowing Bristlecone to contract for tenant improvements at the Palace if asked.

f) Rural Development Self-Help Program

Davidson: That grant has been transferred, but we don't have the money yet and we don't know how much money they're going to transfer. It sets us lose on the new two year grant that we'd be applying for. We're looking at new plans, we'd like to do slab on grade to eliminate the mold and water issues out there. Gavin Hanks said they would look in their plan archives and see if they have plans that might be suitable. We're also thinking about moving to 2 bedrooms that would be less expensive.

Bangs: Why aren't we considering basements?

Davison: Because of the water intrusion issues and it's on a slope.

Bangs: That would actually be an advantage if you control the water right. One of the things we're trying to do to keep costs down is come up with smaller floor plans, and the way to do that is by having basements and garages for storage areas. I think that if your concern is cost, then looking at full basements would be a good way to go.



Davidson: Mold is also an issue, and that's one of the reason Sam was thinking slab on grade might be better because we could leave them open all winter. We also considered a crawl space with a poured floor, which is the same as a basement.

Hoffmann: Conflict of interest disclosure. My prior firm that I sold 3 years ago has a large inventory of drawings. I'm saying that because I'm hoping that the board might entertain Hoffmann Morgan Plans for the next build.

Davidson: Depending on the feeling of the board on the conflict of interest we would entertain that. What we're really looking for is plans that are donated or that we can get for a very low cost.

Hoffmann: If it seems appropriate to solicit Hoffmann-Morgan, I think you need a program to describe what you want it these units as far as square footage, number of bedrooms, garage, basements, ect.

g) Russell Square post 10 year acquisition

Covered Previously

h) Stevensville loan payoff

Davidson: We've discussed it but we haven't made a decision. Is it the will of the board that we pursue selling it? Or that we pay it off?

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Hoffmann: I think if we can get \$150,000-160,000 we should sell it. Are there any on the board who don't want to sell it? None opposed.

Davidson: Alright we'll do it.

i) Vantage Villa update

Still waiting on the insurance.

j) Palace Project

Davidson: We have gotten them to agree on a 1.15 debt coverage ratio instead of 1.19 for 3 months after perm loan conversion, which actually makes this possible. Suzy got all the financials off to them today, so by around August 1st we may get our developers fee.

k) Silvertip Sound Mitigation

Davidson: The work was halted because they were making a second claim on the insurance company.

Pare: The owners had engaged me to do a survey on the remaining buildings to be worked on to see if those residents were indeed experiencing issues, maybe hoping to not have to do it. I can

see us being assigned the task of doing the sound continuation work at turnovers.

1) City Surplus lots

Davidson: Nothing new, still on hold, no word from the State on the HOME grant.

VIII. New Business

July Board Meeting date- move to July 23<sup>rd</sup>

IX. Old Business

a. Legal Services

Covered

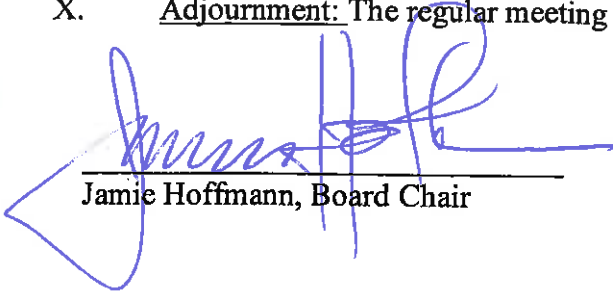
b. Changes in Procurement and Personnel Policies

None

c. Board Training opportunities

None

X. Adjournment: The regular meeting was adjourned at 7:42 pm



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Jamie Hoffmann, Board Chair



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Lori Davidson, Executive Director

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