



MEMORANDUM

TO: MRA Board of Commissioners

FROM: Ellen Buchanan, Director *EB*

DATE: September 12, 2021

SUBJECT: Bridge Apartments Acquisition

This memo will build on my attached August 15 memo to the Board which discussed the City's request that the Bridge Apartments be purchased using TIF funds from URD II. That memo outlined the rationale for the purchase as well as the relationship of this acquisition to the City of Missoula Strategic Plan. Please refer to that memo as background as you review this request. While the August 15 memo was directly related to providing funds for the City to conduct due diligence around the purchase, it did advise the Board that a request to purchase the property using URD II increment would be on the September agenda unless the due diligence evaluation dictated otherwise. We have since received an appraisal that justifies the purchase price of \$2,195,000 and an inspection by a professional inspection company. The inspection pointed out three items that needed immediate correction, but aside from those items, most of the observations were related to minor deferred maintenance and conditions resulting from the age of the building. The three items that require immediate action are replacement of a boiler system, repair or replacement of an air conditioning unit serving a public area, as opposed to one of the apartments, and some discoloration which indicated contamination that needed to be remediated. The seller has set aside adequate funds to correct these deficiencies and equipment has been ordered and contracts for corrective action executed through our realtors. The amount escrowed by the seller is adequate to cover these expenses.

Staff has received a request from the Mayor's Office asking that MRA provide funding for the acquisition of the property for the purchase price of \$2,195,000 plus up to \$10,000 for project management. The City has already paid \$25,000 in earnest money toward the acquisition and would be reimbursed from TIF funds if this request is approved. Aside from any unexpected discoveries during our due diligence period, the most significant question that was not answered in the August memo or Board discussion was how the City would finance the \$2M+ acquisition since URD II does not have adequate capacity available to cover an amount that large. It is the City's stated goal to find a long-term operating partner or owner who would agree to maintain the building as permanently affordable units. The City is currently working with potential partners for a sale, transfer or management of the facility. It is the administrations intention that the proceeds of any sale or transfer would be returned to

URD II so that we can successfully carry out projects that need to be accomplished before 2031 when the District sunsets. Given this scenario and the possibility that the funds would not be tied up long-term, the City will cash flow the transaction with the understanding that TIF funds would be used to bridge any gap between our purchase price and the proceeds of resale of the property or for permanent financing if the City retains ownership. In the instance of long-term City ownership, the City would need to issue a TIF Revenue Bond to repay the \$2.195M purchase price.

Strategic Plan, Public Purpose, Financing

The following is excerpted from the attached August 15, 2021 MRA Board memo:

Strategic Plan Goals – The first goal of the City of Missoula's Strategic Plan is Safety and Wellness and it's first goal is to "Provide lifesaving services for Missoula's vulnerable populations" with the sub-goal of aspiring to make homelessness rare and brief. The purchase of the Bridge Apartments by the City assures that the tenants of this building will remain permanently housed. In the current housing market, it is almost certain that most or all the occupants of the building would be unable to find housing that is within their means and in a situation where their special needs can be addressed.

Public Purpose – A healthy and successful city strives to provide housing for all of its citizens and takes whatever measures are necessary to mitigate and reduce the number of individuals who are unhoused. The City's purchase of the Bridge Apartments assures that the residents of these 20 apartments will remain housed permanently; thus, reducing dependence on the public services necessary to support those without housing. The public pays for these services, whether they be calls for emergency medical services, police intervention, or Crisis Outreach Team interaction. Research has demonstrated over and over that housing people reduces the financial support needed from publicly funded services.

The Bridge Apartments were developed as affordable housing through the use of public funding, including TIF funds approved by the MRA. The purchase of these apartments by the City as opposed to a private purchaser assures that the intended purpose of the investment of those public funds will be preserved in perpetuity if at all feasible. The City can be intentional through operational partnerships and through the possible imposition of deed restrictions requiring that the units remain affordable for income qualified tenants if and when the building is sold.

Financing – Please see the discussion above in the body of this memo.

Recommendation: Staff recommends that the MRA Board make a recommendation to the City Council urging the acquisition of the Bridge Apartments and approves the use of TIF funds from URD II as follows: to bridge any gap between the City's purchase price and a resale of the property as permanently affordable apartments; reimbursement to the City of the purchase price if a subsequent purchaser cannot be found through the issuance of debt; to fund up to \$10,000 for project management and authorize the Board Chair to sign the appropriate agreements.



MEMORANDUM

TO: MRA Board of Commissioners

FROM: Ellen Buchanan, Director *EB*

DATE: August 15, 2021

SUBJECT: Bridge Apartments Acquisition Due Diligence Funding

Earlier this year, Western Montana Mental Health announced their intention to sell two of their residential properties which house low income individuals with disabilities. The Bridge Apartments located at 1205 W. Broadway was one of those properties. It consists of 20 units that were ideally permanently affordable and were built with public money including TIF funding through this Agency. The City attempted to secure a purchase agreement for the Bridge Apartments; however, WMMH chose to enter into a Buy-Sell with an undisclosed private purchaser. There was no information about the possible reuse of the building or the disposition of the current tenants and, with a private owner, the most likely outcome would be that the property occupancy would be modified to whatever the market would support. It is unlikely that this would result in even workforce priced housing given the current Missoula rental market.

That relationship did not result in a sale of the property and when the City learned that the apartment building was once again available, the administration and staff saw an opportunity to keep these individuals housed and receiving the services that they need while adding 20 units to Missoula's permanently affordable housing inventory. A major challenge is that we had to move very quickly in order to advance from simply having a back-up offer on the property into the primary position as the purchaser. As a result of quick and deliberate action by the Mayor and City staff, we are now in primary position as of August 2. \$25,000 in earnest money was placed in escrow by August 6, as required by the purchase agreement. The City must continue to move swiftly in order to meet all of the deadlines in the agreements. Some of those due diligence items are completion of an appraisal, an environmental assessment and property inspection. All are underway at this time and will meet the deadline of August 16, after which the earnest money becomes non-refundable.

It is the City's request that the property be purchased using TIF funds from URD II. The goal is to find an operating partner for the facility short term and either a long-term operating partner or purchaser for the property. The City's housing staff is working with the current tenants and appropriate agencies to secure housing vouchers for all of the tenants who do not currently have one, thus allowing the development of a sustainable operating pro forma.

A further goal is to create a capital plan to address maintenance needs, both short and long-term.

The purchase price is \$2,195,000, which is beyond the capacity of URD II to fund using unobligated cash in the District. There are several options to address purchase funding and staff will continue to explore those before bringing a request to the MRA Board. The Board is only being asked to approve funding for due diligence costs at this time. We have identified \$13,700 in costs for the appraisal, inspection and Phase I Environmental Assessment. We believe that there may be some additional inspection that could be identified as a result of the current inspections and assessments; consequently, staff is recommending that the Board approve up to \$25,000 to be used for the due diligence necessary for the City Council to decide whether to move forward with this purchase. As with the purchase of the MRL property on Johnson, we will only use what is needed, which we believe will be less than the \$25,000 being requested. Staff and the City Administration will bring the Board a request to purchase the property through the use of TIF funds at the September Board meeting if the investigation currently underway indicates that a purchase is warranted. We will also bring recommendations as to how to best handle the financing as well as reimbursement of the \$25,000 in earnest money.

As the city of Missoula continues to see our housing inventory stressed on every level and in every price category, rental or for sale, the purchase of the Bridge Apartments presents a unique opportunity to retain 20 apartments currently housing some of our most vulnerable citizens and insure that they remain housed and that the apartments become affordable permanently. MRA is in a position to be a key partner in addressing housing needs in our community and there may not be more important work for us to undertake than using our resources to facilitate permanently affordable and workforce housing and the amenities that are needed to support the density that is necessary to be effective.

Strategic Plan, Public Purpose, Financing

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City as opposed to a private purchaser assures that the intended purpose of the investment of those public funds will be preserved in perpetuity if at all feasible. The City can be intentional through operational partnerships and through the possible imposition of deed restrictions requiring that the units remain affordable for income qualified tenants if and when the building is sold.

Financing - URD II has in excess of \$1.2M in unobligated funds per the FY22 Preliminary MRA Budget; consequently, the obligation of up to \$25,000 for due diligence expenditures will not adversely impact any planned or unknown projects moving forward. Purchase of the property will require an in-depth evaluation of how best to accomplish a purchase in excess of \$2M. There are several variables that will need more clarity around possible scenarios by the time that decision would need to be made. That said, the District does have adequate bonding capacity based on a 2020 bonding capacity analysis performed by our financial advisors.

Recommendation: Staff recommends that the MRA Board approve an allocation of TIF funds from URD II of up to \$25,000 to fund the due diligence necessary for the City to consider a purchase of the Bridge Apartments located at 1205 West Broadway with the understanding that only those funds that are needed will be expended.

1205 W. Broadway St - Bridge Apartments



Location Plan

