



Community Development Division

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To: City Council
From: John Adams, Brownfields Administrator
Date: June 17, 2021
Re: Acquisition of the Missoula Federal Building

The historic Missoula Federal Building, 200 East Broadway, is one of Missoula's most important landmarks and a critical part of Missoula's Downtown. The property has been declared surplus to federal requirements, and will go to auction unless acquired by the City of Missoula and Missoula County. The City and County propose to:

- 1) Acquire the building at no cost;
- 2) Rehabilitate the building to house City Hall and County central services;
- 3) Protect the building in perpetuity.

As authorized by City Council on July 20, 2020, for the past year the City of Missoula and Missoula County have conducted due diligence on the Missoula Federal Building. The results support that the City should, jointly with Missoula County, acquire and redevelop the Federal Building for use as City Hall and County central services. The two recommended motions discussed in this memorandum would together:

- a) Authorize the Mayor to submit to the National Park Service an Application for Obtaining Real Property for Historic Monument Purposes;
- b) Approve a resolution committing to the acceptance of the Federal Building through the National Park Service conveyance process;
- c) Memorialize that the City is the interim applicant to receive the Federal Building, but that the City and County intend to create a legal entity that permits the City and County to jointly own, rehabilitate, and manage the Federal Building.

The City urgently needs additional space to better provide public service and for Municipal Court. Acquiring the Federal Building would allow the City to address this need more cost effectively than any available alternative; improve public service through the co-location of City and County services and City and County staff currently located in scattered satellite offices; and permanently protect one of the most important historic buildings in Missoula. Staff strongly recommends adoption of the resolutions.

Federal Building Acquisition Process

The Federal Building is administered on behalf of the United States by the General Services Administration (GSA). On July 7, 2020, GSA published a Notice of Surplus Determination announcing its intention to dispose of the Missoula Federal Building. Acquisition of the building was not pursued by any homeless assistance organizations (42 U.S.C. 11411) nor any other units of government; the City and County submitted a joint letter of interest in acquiring the property under 40 U.S.C. 550(h), the [Historic Surplus Property Program](#).

The Historic Surplus Property Program allows state, county, and local governments to acquire federal historic properties at no cost. In exchange, the recipient demonstrates that it has the capacity to manage the property to protect its historic aspects and attests that it will do so in perpetuity. A “Program of Preservation and Utilization” agreed upon between the recipient and the National Park Service (NPS) (which leads federal efforts to preserve historic sites) governs use and modification of the building. The Program can be amended over time with mutual agreement of the NPS and local owner.

The City and County have developed a Program of Preservation and Utilization for submission to the NPS as part of its Application (attached and available on [the City website](#)). The Program establishes that the City and County will utilize the building to provide government offices and services, and proposes most historically significant elements of the building for preservation, some for restoration, and some for modification as necessary to make the building functional, safe, and accessible. The resolution authorizing the mayor to submit the Application, and committing the City to accept the property upon NPS and GSA approval, is principally comprised of language required by NPS.

At this point potential outcomes for the Federal Building are binary: (1) the City and County acquire the building, or (2) the building goes to public auction where GSA will accept the high bid. Should NPS approve the Application and recommend conveyance, and should GSA accept that recommendation, GSA estimates that conveyance to local government would occur in September 2022.

City Space Needs Crisis

The City of Missoula has experienced steady population growth over the past 50 years. When City Hall was last expanded, in 1989, the City had a population of only 43,000. As of 2019, the U.S. Census Bureau estimates that the City serves a population of 75,000. In other words, the City is approaching having doubled in size while having kept the size of City Hall constant (caveat: Council Chambers/MRA (nee the Blue Heron) was acquired in 2004). Despite every effort to achieve efficiencies, with increases in population come proportional increases in demand for services: fire and police protection for more people in a larger area; more linear feet of streets and sewer to maintain; more parks to maintain and manage; more building permits applied for; more vulnerable citizens in need of help; more court cases. The result has been diminished work space quality, hampered public service, and the ad hoc accretion of owned and rented spaces to house City offices.

A 2018 Space Needs Assessment by MMW Architects confirmed that the City desperately needed additional space and space improvements. The Space Needs Assessment found substantial deficiencies in both immediate and long-term space needs at the City, including:

- Immediate needs at City Hall for an additional 17,000 square feet (a 50% increase in usable space).
- An immediate need for substantial improvements in security.
- An immediate need for more meeting spaces for both employees and the public.
- An organizational need to co-locate more departments and personnel to limit siloing, encourage collaboration, and create facility efficiencies.

The most critical and immediate space need the City faces is to add two courtrooms. Currently Municipal Court functions with one elected judge and two part time judges, but only two courtrooms. Because of new statutory requirements, the City will have three elected Municipal Court judges in January, 2022, and will potentially require a fourth judge soon as well.

While the City has implemented some of the most urgent security measures recommended in 2018, the only Downtown office space additions have been 6,000 square feet of leases on Ryman Street. While the leases are a useful interim tool, they are a suboptimal long-term solution to space needs insofar as they encourage siloing; they complicate security; they disincentivize sensible investments (e.g., in energy efficiency); and they are costly—the City pays \$180,000 annually for the current Ryman Street leases.

Due diligence on the Federal Building has included further analysis of the City’s Downtown office space needs. That analysis indicates that the City requires 55,000 square feet of dedicated space downtown to provide public facing services such as Municipal Court and Community Planning, Development & Innovation, as well as to house the majority of City office staff, and to accommodate anticipated growth through 2034. Such a facility would house:

- Central Services
- City Clerk
- City Attorney’s office
- City Council
- Community Planning, Development & Innovation
- Facility Maintenance
- Human Resources
- Information Technology
- Mayor’s office
- Missoula Parking Commission
- Missoula Redevelopment Agency
- Municipal Court (including 4 courtrooms)
- Public Works & Mobility (administrative staff)

Notably, this estimate does not include the Missoula Fire Department and Missoula Art Museum, both of which have substantially different needs than general office staff; Parks and Recreation, which is headquartered at McCormick Park; divisions with substantial physical infrastructure needs, such as Street Maintenance; or the Missoula Police Department. The Police Department suffers from an acute space shortage in its own right, and is currently completing a separate space needs assessment to evaluate its long-term needs as Missoula grows in both population and extent.

The upshot is that doing nothing is not an option:

- 1) The City faces an immediate need to add two courtrooms to City Hall;
- 2) The City requires approximately 12,000 to 18,000 additional square feet of Downtown office space to accommodate public services and its Downtown workforce through 2034;
- 3) The City has deferred acquisition of new space as long as possible, but the costs of continued deferral are substantial in terms of hampered quality of public service; workforce efficiency; and the cumulative inefficiencies of leasing.

Recognizing these issues, the City's 2020-2023 Strategic Plan, as one of its four goals for improving organizational excellence, calls for the City to "solve space needs across departments to better serve residents" and to "work with federal partners to explore the acquisition of Missoula's Federal Building to meet current and future space needs." A substantial investment in additional office space is unavoidable over next decade. Below, after discussion of the Federal Building, we outline alternative solutions to this space needs crisis.

Protection and Preservation of the Federal Building

The Federal Building was long a keystone of Downtown Missoula. In addition to housing a Post Office and, for many decades, Federal Court, until 2015 it continuously housed the Region One headquarters for the USDA Forest Service, bringing hundreds of employees to the heart of the city. The loss of those Downtown jobs still resonates, and, not surprisingly, the [Downtown Master Plan](#) (2019) calls for the City and County to pursue reuse of the Federal Building as a government center (page 1.35), and to subsequently consider redevelopment of existing City properties (page 2.9).

Staff believe the future of the Federal Building, if not acquired and rehabilitated by the City and County, is precarious. If the building goes to public auction GSA will accept the high bid, regardless of the intentions or location of the putative ownership group. Staff fear that no local entity or individual has the capacity to bid for and rehabilitate the building. While the design of the building provides great utility as office space for a large entity, it is ill-suited for most other uses due to circulation patterns, entrances, the placement of bathrooms, etc. A change in use, e.g., for housing, would be extraordinarily expensive given the way the building is structured, plumbed, etc.

GSA has recorded restrictive covenants that give the building limited protection from demolition or alteration of historically significant features. However, Ellen Buchanan, Director of the Missoula Redevelopment Agency, advises that if the covenants are ironclad they will inhibit redevelopment by limiting options and increasing costs; if they are not ironclad they will be broken.

For these reasons—the likelihood of an outside buyer without connection or duty to the community, the challenge of rehabilitation, and concern that covenants will not be enough to protect the building—staff believes that letting the Federal Building go to auction risks future demolition. Demolition, whether by design or neglect, would be a disaster for the community as a whole and for Downtown. Our community's ability to protect the Federal Building will be profoundly compromised should we eschew ownership.

Building Condition and Rehabilitation Estimates

The Missoula Federal Building is located at 200 East Broadway Street. The building was first constructed in 1913 to house the U.S. Postal Service and the USDA Forest Service, then enlarged with annexes in 1929 and 1937, and a small addition in 1952. The building served for decades as a federal courthouse, a U.S. Post Office, and the headquarters of USDA Forest Service Region One. The three-story building retains its Italian Renaissance Revival integrity on the outside, while many historic interior elements are also intact, most notably the Post Office lobby, and was listed in the National Register of Historic Places in 1979. In 2015, the Forest Service departed the building and it currently hosts only the Post Office and a handful of other federal employees. The building encompasses roughly 120,000 square feet of potential office space.

In August of 2020, the City and County commissioned A&E Design to conduct due diligence on the Federal Building, and to report on the feasibility and costs of redeveloping the building for local government. A&E has determined that the building is structurally sound and well maintained, and with rehabilitation would admirably host local government offices for the foreseeable future. However, the building:

- hosts archaic mechanical and electrical systems;
- lacks modern data infrastructure;
- requires repair relative to leaks in the basement;
- requires ADA-compliant bathrooms;
- requires ADA-compliant entrances;
- requires restoration of basement windows;
- requires abatement of asbestos-containing materials;
- lacks the internal divisions that would be necessary to create useful office space;
- lacks a space adequate to host City Council and BCC meetings;
- etc.

A&E Design's suggests that rehabilitation would be phased over roughly ten years and would include:

... environmental mitigation and remediation, IT improvements to coordinate with departments, wayfinding and building directories, mechanical system and infrastructure improvements for energy conservation and comfort, electrical system upgrades to coordinate with department and corridor improvements, development of new public circulation corridors otherwise non-existent in the building, ADA compliant upgrades to building entrances and access and security controls, development of four Municipal Court courtrooms and related office areas, development of a 3,000 square foot joint County Commissioners Hearing Room and City Council Chambers, development of wheelchair accessible and ADA compliant restrooms on each floor, and removal and replacement of deteriorated and non-historic interior wall, floor and ceiling finishes to coordinate with new public circulation corridors and designated department areas. In addition, exterior site improvements include mitigation of water infiltrating into basement areas, exterior window repair and painting, compliant wheelchair access ramps, handrails and guardrails, parking and trash access improvements within the courtyard, parking lot and approach improvements on the east side of the building, and removal and replacement of the

existing aged roof system to coordinate with energy conservation and structural upgrades to the historic building. The scope of work and building improvements include structural, mechanical, plumbing, fire and life-safety, electrical, site improvements, and code/ANSI/ADA improvements.

The building is sound and well suited to municipal use, but substantial renovation would be necessary if it were to host local government. Additional information on the scope of necessary work is available in the Preservation Plan that is part of the application to the National Park Service, and in the Alternatives Analysis available on [the City website](#).

Alternatives Analysis

As noted above, the City faces immediate and urgent space shortages. The City currently seeks a space solution through the year 2034 accommodating all public-facing services, four courtrooms, and all Downtown employees (exclusive of the Art Museum, Fire Department, Police Department, and Parks Department). The City and A&E Design estimate that this requires 55,000 usable square feet to accommodate work spaces, meeting space, circulation, etc.

As part of due diligence on the Federal Building the City requested that A&E Design estimate the costs of alternative solutions to the City's space needs. We considered one alternative that utilizes owned and leased satellite spaces, existing and yet-to-be identified; this alternative functions as the null hypothesis – what is the least we can do given the immediate need to add two courtrooms to our portfolio. We also considered three alternatives that co-locate all downtown City offices in a single location, so the four alternatives considered were:

- 1) Increased ad hoc lease of downtown space and renovation of City Hall to accommodate the immediate need for two new courtrooms.
- 2) Rehabilitation and expansion of the existing City Hall.
- 3) Construction of a new City Hall.
- 4) Rehabilitation of the Federal Building and joint ownership and occupancy with Missoula County.

A&E Design considered direct design and construction costs and the cost of space leased through 2034. A&E concluded that, of these options, rehabilitation of the Federal Building is no more costly than any other alternative, including making do with ad hoc space leasing and the integration of new courtrooms into City Hall:

Table 1 Cost Estimates for Alternative Space Solutions

Option	City Cost through 2034
Ad Hoc Leasing	\$20 million
City Hall Addition & Renovation	\$28 million
New City Hall	\$31 million
Redevelop Missoula Federal Building	\$20 million

A&E Design’s alternatives analysis is available on [the City’s website](#). Overall, A&E concluded:

The Missoula Federal Building retains both structural and architectural integrity. As a result, rehabilitation of the building offers most, if not all, of the advantages that would accrue to new construction, while communicating and fulfilling important community values through preservation of the historic resource. This alternative is an opportunity to explore co-locating City and County departments in a single downtown facility where each entity retains their autonomy while providing integrated departmental efficiencies to the public.

Aside from addressing growing City and County space needs deficiencies, this alternative preserves the historic resource and stewards its preservation in downtown. The alternative addresses immediate space deficiencies for Municipal Court courtrooms, water and energy conservation, mechanical and electrical infrastructure improvements, coordinated IT/Technology and infrastructure, shared public meeting space, and problem solves staff security, access controls, and emergency egress issues. Mechanical and electrical improvements will directly impact water and energy costs by replacing out-of-date and aging plumbing, mechanical, and electrical systems with high-efficiency systems that free up floor space otherwise dedicated to equipment needs. While the MFB is an older facility aging in range from 1913 to 1938, the building’s upkeep, structural system, and historic finishes are durable materials that continue to extend the building’s serviceable life into the foreseeable future.

To facilitate consideration, staff has evaluated the alternatives against other important criteria in the table below.

Table 2 Evaluation of Alternative Space Solutions Against Select Criteria

Alternative	Direct Cost	Quality of Public Service	Workforce Efficiency	Preservation of Federal Building	Durability of Solution	Overall Evaluation
1. Ad Hoc Leasing	\$ 20,000,000	Standard	Inadequate	Precarious	Inadequate	The Ad Hoc alternative provides the lowest quality of public service and workforce efficiency due to the deficiencies of the existing City Hall. It also provides the least durable solution due to its dependence on leased space and a deficient building with a limited lifespan.
2. City Hall Addition & Rehabilitation	\$ 28,000,000	Standard	Adequate	Precarious	Adequate	Excluding preservation of the Federal Building, the Addition alternative is acceptable but unexceptional in every dimension. Given that its cost exceeds or approaches that of better value alternatives this alternative is not recommended.
3. New City Hall	\$ 31,000,000	High	High	Precarious	High	Construction of a new City Hall is excellent in many dimensions. It places preservation of the Federal Building in a precarious position, and it foregoes the acquisition of a substantial asset. Overall, this is a reasonable alternative. However, there is no dimension, including cost, in which it is better than rehabilitation of the Federal Building.
4. Federal Office Building Rehabilitation	\$ 20,000,000	High	High	High	High	Rehabilitation of the Federal Building scores highly against all criteria. This alternative would provide for excellent public service and workforce efficiency; it achieves and enables central goals of the Downtown Master Plan; it obtains a public asset with a substantial remaining lifespan; and it preserves the historic Federal Building. Additionally, this is substantially less expensive than comparable alternatives.

It is also important to note that acquisition of the Federal Building obtains a substantial asset for the citizens of Missoula. City staff estimate that we would become the half-owner of a building valued at \$14 to \$17.5 million. For reference, and because disposition of these structures would then become an open question, the City obtained a broker opinion of value that estimated City Hall to be worth \$7.9 million, and Council Chambers/MRA to be worth \$1.2 million.

It is evident that rehabilitation of the Federal Building is the most cost-effective option available to the City. Additionally, acquisition of the Federal Building:

- Preserves in perpetuity one of the most important historic structures in Missoula;
- Results in the addition to the City portfolio of 55,000 square feet of office space;
- Delivers high quality service to the public by co-locating currently balkanized City and County offices in a modern space;
- Improves workforce efficiency;
- Provides a durable solution rather than investing in lease space or a building with a limited lifespan;
- Enables the sale or redevelopment of other properties (City Hall, Chambers/MRA).

Thus, acquisition of the Federal Building delivers the most benefits to the community in terms of service to the public, preservation of the historic structure, and enabling public or private redevelopment efforts on other City properties. Additionally, it provides the most cost-effective and durable solution to space needs. It is not obvious what the argument for choosing an alternative path would be.

Rehabilitation Funding

The City and County have identified multiple funding options to explore prior. These include: realized lease savings, sales of existing City properties and buildings, federal grants, expansion of urban renewal districts and other mechanisms. General fund revenues and property assessments will be considered among the suite of funding options.

Figure 1 Potential Federal Building Rehabilitation Funding



As noted above, City and County office space is already inadequate to serve the public. As a result, the City anticipates spending more than \$7 million on lease space between now and 2034 if alternative spaces are not acquired or constructed. So the choice before the City is, “Will we devote our space needs budget to restoring the Federal Building, or will we spend the same or more money on lease space and an aging City Hall structure?”

U.S. Postal Service

When GSA published its Notice of Surplus Determination in July 2020, the U.S. Postal Service initiated a process to consider a new home for the 59802 Post Office. The City and County are waiting for the Postal Service to learn more about alternative potential homes, and also to learn more from our design team as to the best possible allocation of space within the Federal Building. Both the City/County and Postal Service have expressed interest in discussing the potential for the Postal Service to remain in the Federal Building, but whether this will make the most sense for both parties is not yet clear.

The City and County believe it is critical to have a Downtown Post Office, and will work to retain a Post Office Downtown. The Program of Use and Preservation that we will agree to with the NPS commits the City and County to preserve the historic postal lobby space regardless of whether the Postal Service is our tenant.

Ownership Structure

Due to the statute enabling GSA to divest surplus property, and to facilitate accountability for the preservation of the historic property, GSA cannot transfer the Federal Building to the City and County as joint owners. Instead, GSA will only transfer title to a single entity. Accordingly, City and

County staff are now working to create a single entity that meets GSA's criteria for program eligibility and NPS's approval.

City and County staff believe the most likely path forward will be to create a joint Special District that encompasses entirely, but only, the lot of the Federal Building. We believe that this will best meet GSA's and NPS's requirements while also opening the window to funding mechanisms, such as bonding, that are accessible by Special Districts. However, substantial work needs to be done by the entities, working collaboratively, to: a) ensure that we fully understand the opportunities and limits attendant on potential ownership structures; b) develop the incorporation and governance mechanisms that will permit the two entities to co-own and co-manage the building in amity, in perpetuity; and c) obtain NPS and GSA approval for our resulting proposal.

Due to GSA's deadlines for continuing its disposal process the City and County need to submit, in July, an acquisition application to the National Park Service that comes from a single entity. In order to meet the GSA deadline, City and County staff, keeping the Mayor and the Board of County Commissioners (BCC) apprised of our intention, agreed that the City would submit the application. Simultaneously, we agreed to seek City Council and BCC approval for a Memorandum of Understanding that articulates our joint mutual commitment to co-owning and co-managing the Federal Building and to creating the joint entity that will hold title to the building prior to transfer in September 2022.

To summarize, under this proposal the City will apply now to receive the Federal Building. Simultaneously, the City commits to working with the County to create a joint entity that can, in lieu of the City, acquire the building in September 2022.

Conclusion

City staff believe the City and County should continue toward acquisition by authorizing the mayor to apply to NPS to acquire the building; resolving to accept the building should NPS approve; and working with the County to create a joint ownership structure. Our recommendation is based on these factors:

- 1) The need for increased public service and office space;
- 2) The high cost of alternative space needs solutions.
- 3) The opportunity to provide better service to Missoulians;
- 4) The opportunity to improve internal efficacy and collaboration with Missoula County;
- 5) Desire to protect and utilize this historic building that may, in the alternative, suffer demolition or other undesirable outcomes;

Current Decision

The two recommended motions would, collectively:

- a) Authorize the Mayor to submit to the National Park Service an Application for Obtaining Real Property for Historic Monument Purposes;
- b) Approve a resolution committing to the acceptance of the Federal Building through the National Park Service conveyance process;

- c) Memorialize that the City is the interim applicant to receive the Federal Building, but that the City and County intend to create a legal entity that permits the City and County to jointly own, rehabilitate, and manage the Federal Building.

~ End ~