



MEMORANDUM

TO: MRA Board of Commissioners

FROM: Ellen Buchanan, Director *EB*

DATE: September 8, 2022

SUBJECT: 2022 URD II Bonds – 2006 Bond Refinancing & Bridge Apartment Acquisition Reimbursement

The City of Missoula purchased the Bridge Apartments, located at 1205 W. Broadway, from the Western Montana Mental Health Center (WMMH) in order to prevent the loss of 20 units of affordable housing which was and is currently serving low-income individuals with disabilities. On August 2nd, 2021, the City entered into a contingent buy/sell agreement with WMMH. It was the City's goal to find a purchaser for the property who would commit to preserving the affordability of the apartments long term. This was with the understanding that the property would likely need to be sold for less than the purchase price in order to cash flow. The City requested that the MRA fund the \$2,195,000 purchase price with the proceeds of a sale being returned to URD II. The MRA Board approved the request at the September 2021 Board meeting with the understanding that URD II did not have the capacity to fund the purchase with cash and that it would ultimately be necessary to issue TIF revenue bonds. The buy/sell did not allow enough time to issue bonds prior to the closing date; consequently, the City agreed to cash flow the purchase until bonds could be issued. The City has not been successful in selling the property to date. MRA reimbursed the City for the purchase price in late June just prior to the end of FY22, depleting URD II cash. Staff is now requesting that the MRA recommend that the City Council approve the issuance of bonds to replenish URD II funds in order to carry out the adopted 9 Year Strategic Exit Plan.

In anticipation of selling bonds in URD II, staff had the City's financial advisors, Baker Tilly, analyze our outstanding debt in that district to determine if it made sense to refinance any of the earlier bonds. The recommendation was that the City should refinance the 2006 URD II bonds that were sold to purchase the Idaho Timber lease on the Old Sawmill District property. We can get more favorable rates and save over \$40,000 a year in debt service. The 2006 bonds were sold publicly which triggered a requirement that we maintain a debt service reserve on those and subsequent URD II bonds issued on parity with the 2006 bond. These new bond issues will be a private placement with First Security Bank, the holder of other privately placed bonds in URD II. The bank has not required a debt service reserve for any of the other TIF bonds placed with them and is waiving that requirement for these new bonds and the 2013 bond that was used to construct Silver Park, Wyoming Street and the

railroad trestle over Cregg Lane. That bond is held by First Security and was issued on parity with the 2006 bond. This will free up \$674,645 that is currently required for the reserve and increase the available funding to be used for projects as we move toward closing out URD II in 2031.

With respect to the status of the Bridge Apartments, the only response to the RFP that the City issued for management and purchase of the property was from Blue Line Development and their proposal did not include an immediate purchase. The City has entered into a Memorandum of Agreement with Blue Line for property management and an exclusive five-year Development Option. The City will retain ownership during the term of the Development Option and if the condition of receiving Low Income Housing Tax Credits is met, the property will be purchased from the City and the proceeds returned to URD II. At this time, there is no way of determining what a purchase price might be or if the housing tax credits can be obtained due to the competitive nature of that program.

This financing will require that we issue two bonds with one being tax exempt and one taxable. The refinancing of the 2006 bonds will be a tax exempt issue. The taxable bonds will allow the sale of the Bridge Apartments property to a private entity like Blue Line Development. These bonds will be as follows: \$1,583,470.53 Tax Increment Urban Renewal Revenue Refunding Bond (Urban Renewal District II), Series 2022A (Urban Renewal District II) - Current Refunding of Series 2006 and \$2,231,535.90 Tax Increment Urban Renewal Revenue Bond (Urban Renewal District II), Taxable Series 2022B – Bridge apartments. As is our typical practice, we have included the Cost of Issuance in the bond totals. The terms of the bonds are both for 9 years and the respective interest rates are 3.5% for the Series 2022A and 4.5% for Series 2022B with a 1.25 additional bonds test required. You will see on the attached debt service coverage analysis that URD II exceeds the coverage requirement by a significant margin. Baker Tilly has advised us that these are competitive interest rates and requirements in today's market.

In addition to the coverage analysis, I have attached a copy of the bond structure prepared by Baker Tilly for each issue. Please feel free to contact me at 406 552-6156 or buchanane@ci.missoula.mt.us if you have any questions prior to the Board meeting.

Recommendation: Staff recommends that the MRA Board forward a recommendation to the City Council that they approve the sale of Series 2022A and Series 2022B Tax Increment Urban Renewal Revenue Bonds to First Security Bank through approval of the required Bond Resolution and direct staff to make the referral to City Council for consideration.