



MRA Project Summary

February 13, 2023

Urban Renewal District: North Reserve/Scott Street URD

City Council Ward: 1

Neighborhood: Northside

Name of Project: City Shops Air Exchange Unit – Request for Funding

Project Location: City Shops, 1305 Scott Street

TIF Investment: \$ 760,199

Project Description: The exhaust and make-up air system at the City Shops building is in need of replacement. Part of the cost can be financed through energy savings. MRA has been asked to provide TIF funds to supplement the costs that exceed the energy savings capacity.

Cost Breakdown of TIF/CCP/CRLP Funds:

TIF Funds	\$ 760,199
Financed Through Energy Cost Savings	\$ 580,667
Total Project Cost (inc. 10% contingency)	\$1,340,866

Unique Public Purpose or Benefit: The use of TIF funds allows the City to proceed with this air exchange upgrade immediately and take advantage of the McKinstry contract which allows \$580,000 to be financed through the energy savings, saving the City over \$500K in capital outlay.

Tax Increment Investment: MRA will pledge \$150,000/year in TIF revenues spread over a five year period from the NRSS URD resulting \$150,000 in FY23 – FY26 and \$160,199 in FY27.

District Sunset Date: Currently 2045



MEMORANDUM

TO: MRA Board of Commissioners

FROM: Ellen Buchanan, Director *EB*

DATE: February 9, 2023

SUBJECT: City Shops Air Exchange Unit – Request for Funding
(North Reserve/Scott Street URD/Ward 1)

The MRA staff brought a request from the City's Chief Operating Officer to the Board at the January 2023 meeting requesting TIF assistance for the replacement of the air handling unit in the City Shops building. The proposal was to fund \$760,199 through the use of TIF funds and \$580,667 through an energy cost savings program. The staff recommendation was to fund the \$760,199 with unobligated cash in the District and fold that into the bonds that would be sold to finance the infrastructure needed for the Ravara project. The Board was not comfortable obligating such a large amount of the available funds, particularly since the City Council had not yet approved issuing TIF revenue bonds. The request was tabled until the February Board meeting with a request that staff come back to the Board with other funding options. I have attached a copy of the memo from the January 19th Board meeting as background for the request.

Staff has looked at scenarios that address the Board's concerns and would like to recommend that we approach this like we have some other large requests to invest in public buildings and spread our contribution over a number of years. This is how we invested in the acquisition of the police evidence building in URD II and funded a \$500,000 contribution to the new Public Library in the Front Street URD. Jil and I have looked at the revenue trends in the NRSS URD and believe that we can stretch this out over the next 5 years without stressing the District. I would like to propose that we reimburse the City for the \$760,199 by transferring \$150,000 in TIF funds annually for 4 years and \$160,199 in year 5. The current annual revenue in NRSS URD is \$1,861,367 based on the FY23 Certified Taxable Value of the District. With the projects that are currently underway and the development potential in that area, this revenue stream will only continue to grow. We do not believe that there is any significant opportunity cost to encumbering \$150,000 in the budgets for FY23 – FY26 and \$160,199 in FY27.

Recommendation: Staff recommends that the MRA Board approve TIF funds from the North Reserve/Scott Street URD in the amount of \$150,000/year for FY23 – FY26 and \$160,199 in FY27 to assist in the replacement of the air exchange unit in the City Shops building and authorize the Director to enter into a Memorandum of Understanding with the City memorializing the agreement.



Memorandum

TO: Ellen Buchanan, Director, MRA

FROM: Eric Hallstrom, Chief Operations Officer

SUBJECT: City Shops Request for Funding

DATE: January 11, 2023

In 2020, the City of Missoula entered into an energy performance contract with McKinstry to identify facility improvement projects that will improve energy efficiency throughout City-owned and operated buildings. Many of these projects will pay for themselves through conservation savings, as well as utility and maintenance cost savings.

On December 12th, 2022, the Missoula City Council approved a master contract with McKinstry to allow for departments to move forward with specific projects. McKinstry ultimately guarantees the forecasted energy savings on projects pursued through this contract. In many cases, the forecasted energy savings will be sufficient to pay for the full cost of the project over a 20-year period.

As part of this process, the City identified an important project at the City Shops that will significantly improve health and safety for City employees, but does not reap sufficient reductions in energy usage to pay for the full cost of the project.

Specific System and Project Details:

- The existing exhaust and make-up air system does not work effectively and is not regularly used.
- The existing system consist of two constant volume heat recovery units which provide ventilation and exhaust air throughout the shop area. The air distribution system supplies and returns the air high in the shop space. Around the perimeter of the building, exhaust air fans remove the air from the upper portion of the building. The large make-up air units run for a very short duration and the exhaust air fans do not run consistently. The existing ventilation units are old, oversized, can only run at one speed and are past their useful life and in need of replacement. The perimeter exhaust fans operate intermittently, and they only operate under an alarm condition from the nitrogen dioxide sensors.
- The current system results in levels of carbon monoxide and/or nitrogen dioxide that rise to unsafe levels from time to time because the automatic detection system has been known to start the system to evacuate the space.

- The current system is mostly operated on-demand when fume levels become noticeable but haven't yet tripped the safety system.
- The proposed project will install a resized and redesigned exhaust and make-up air system that will effectively evacuate the area and provide the code required ventilation.
- The proposed system uses two heat recovery ventilators as well, but they are variable volume which allows them to move more or less air depending on the level of carbon monoxide and or nitrogen dioxide sensed in the space, or as selected by the operator. The air distribution system also supplies air high in the space, but uses low returns to provide better mixing and turnover of air at the occupied level. If an alarm condition exists, the perimeter exhaust fans and heat recovery units ramp to maximum speed for occupant safety. Energy savings are gained due to the flexibility of moving less air when conditions are favorable while still meeting code required ventilation.

Request:

The City intends to pursue this project primarily because of the impact to employee health and safety. The project cost is significantly lower, however, due to the value of the energy savings that we can obtain through the energy performance contract. This timing creates a unique opportunity for the City.

Because the new system will not generate adequate energy savings to cover the full cost of the project over the 20-year financing period, it is necessary to find additional funding to pursue the project.

Accordingly, the City requests MRA funding of \$760,199, to cover the portion of the project budget that is not paid for through the guaranteed energy savings. This request includes a 10% contingency to assure completion in this uncertain contracting environment.



MRA Project Summary

January 12, 2023

Urban Renewal District: North Reserve/Scott URD

City Council Ward: 1

Neighborhood: Northside

Name of Project: City Shops Air Exchange Unit – Request for Funding

Project Location: City Shops, 1305 Scott Street

TIF Investment: \$ 760,199

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District Sunset Date: Currently 2045

Tax Increment Revenue Bond Structure: To be determined



MEMORANDUM

TO: MRA Board of Commissioners

FROM: Ellen Buchanan, Director *EB*

DATE: January 12, 2023

SUBJECT: City Shops Air Exchange Unit - Request for Funding
(North Reserve/Scott Street URD/Ward 1)

The City of Missoula has been engaged in an energy performance audit with McKinstry Montana in an effort to improve energy efficiencies in our physical facilities city-wide. The consulting team has evaluated systems in City owned and occupied buildings in an effort to discover upgrades that will, in many cases, pay for themselves through energy cost savings. As a result of that investigation, the City discovered that the exhaust and air handling system at the City Shops building on Scott Street is deficient and could pose a health risk to employees working in the building. The cost of a new system that is needed to improve air quality and improve safety for our employees exceeds what can be financed through the energy savings. That said, the new system will finance a portion of the cost, reducing the amount of capital outlay by the City.

MRA has received a request from Eric Hallstrom, Missoula's Chief Operating Officer, asking MRA to provide funding for part of the cost of the installation of a new system. The total cost of the unit is \$1,340,866 (this number includes a 10% contingency); however, energy cost savings can be used to debt service part of that initial cost through the contract with McKinstry. This savings resulted in a request for \$760,199 in TIF funding. If the Board chooses to approve the funding request, staff recommends that we include that amount in the bonds that will need to be sold this spring to finance the infrastructure improvements for the Ravara development on Scott Street. There is only around \$1M in unobligated funds in that district and we do not believe that it is prudent to obligate such a large proportion of those funds to this project. The request is an appropriate use of TIF funding per MCA 7-15-4288. Costs that may be paid by tax increment financing. (4) "the acquisition, construction, and improvement of..... publicly owned buildings".

I have attached the memo from Eric Hallstrom requesting the appropriation of TIF funds. You will find a more robust explanation of the air exchange unit and its deficiencies as well as the proposed remedy. Eric will attend the Board meeting to answer any questions and provide any additional information that may be needed.

City of Missoula Strategic Plan

This investment in the City Shops building meets the strategic goals in the City of Missoula Strategic Plan as follows:

- Community Design and Livability – Identify and incentivize adaptive reuse and the maintenance of existing resources.
- Environmental Quality - Implement adopted Energy Conservation and Climate Action initiatives.
- Organizational Excellence – Address workplace safety concerns.

Recommendation: Staff recommends that the Board approve the request from the City for \$760,199 for a new exhaust and make-up air system for the City Shops building with the understanding that these costs will be included in a future NRSS Urban Renewal Revenue Bond to be issued later this spring and authorizes staff to formalize the best way to structure the partnership with the City and sign the appropriate documents.