

**ADMINISTRATION AND FINANCE COMMITTEE
CITY COUNCIL CHAMBERS
140 WEST PINE STREET
MISSOULA MONTANA
January 25, 2012 8:05 am**

Members present: Cynthia Wolken Chair; Bob Jaffe, Alex Taft, Jason Wiener, Ed Childers, Jon Wilkins, Dave Strohmaier, Adam Hertz, Dick Haines, Caitlin Copple.

Members absent: Mike O'Herron.

Others present: Bob Oaks, Jerry Petasek, Lori Davidson, Dee Andersen. K.D. Dickenson.

I. Administrative Business

A. Approve committee minutes dated: [January 4, 2012](#)

B. **Public Comment on items not listed on the agenda-None**

II. Consent Agenda

A. Approve claims (accounts payable). -Consent Agenda (Brentt Ramharter)

Motion: The committee recommends the City Council approve [claims](#) totaling \$1,228,309.98 ([Detailed claims](#)) 1/31/12

Motion: The committee recommends the City Council approve [claims](#) totaling \$637,467.67 ([Detailed claims](#)) 1/24/12 already acted upon 1/23/12

Motion: The committee recommends the City Council approve [claims](#) totaling \$388,173.03 ([Detailed claims](#)) 1/17/12 already acted upon 1/12/12

Regular Agenda

A. Consider a request to convert all or part of the North Missoula Community Development Corporation (NMCDC) loan to a grant. ([memo](#))—Regular Agenda (Bob Jaffe) (Referred to committee: 01/09/12)
HELD FOR FURTHER DISCUSSION 2/1/12

Bob Jaffe explained that this is a subsidized housing project with a land trust. When properties become part of the land trust they become permanent affordable housing units. There are deed restrictions that limit the amount of equity gained on these units, so when a tenant moves on and sells the unit, it will remain affordable for the new owner.

He said since the project was completed in 2008, the following factors have affected the ability to sell these units and may have been underestimated:

- The real estate collapse caused housing prices to drop so that single family residences became competitive with these affordable housing units.
- The limited gain in equity means the units need to sell below market value.
- The demographic that these units have been marketed to have become financially unstable, making homeownership extremely difficult.
- These units were designed to revitalize the neighborhood and since that hasn't happened yet, the surrounding area can be considered undesirable.

In summary, the original loans were paid off with a grant from the City of Missoula for \$400,000 and a loan from NeighborWorks. The last four units were going to pay off the City, but after three years of marketing they have only sold 8 of the 17 units. He feels that by forgiving all or a portion of the loan, the unit prices can be reduced to sell.

Jason Wiener said he wants to recognize NMCDC for all the good work they do. They are the only organization that constructs affordable housing for sale in this community. He said he doesn't want to see it go into foreclosure as it would have a negative impact on all who invested in it. He would like to discuss the consequences of what will happen if we don't forgive the loan and how that would unfold.

Bob Oaks, Executive Director, NMCDC said we have almost exhausted our \$100,000 allocation for interest payments. As we exhaust that, we will have to dip into operating funds. We have some of the units rented, but that does not cover staff costs. If we are unable to pay the interest we would go into foreclosure.

Mr. Wiener asked if it goes to foreclosure, who the units will go to.

Mr. Oaks said NeighborWorks is first, then HRDC, then the City. He then explained the very complicated background as to how they came to be in this situation.

The committee discussed the units available and the costs of each one. They also discussed appraisal prices.

Alex Taft said he would like to see the Council solve this problem. The same way the nation solved the banking industry problems. He said Burns Street properties are a community resource as is NMCDC. He asked if they can continue to pay the NeighborWorks loan can they insure the City that is where the money is going.

Mr. Oaks said we can't carry it for long unless we sell the houses. Even when they are fully rented they don't bring in enough to make the loan payments. Because of the nature of this project, we also pay the homeowners association fees and a portion of the heat. We would like to mark them down sufficiently.

Jerry Petasek said another cost added to the price of the homes is the closing costs and realtor fees. He said they are partnered with Portico Realty.

Adam Hertz asked about the remaining units and the total amount of debt on them and asked what was stopping them from marking the units down now. He said they don't seem underwater.

Mr. Oaks said if we mark them down \$20,000, there would not be enough left to pay the City back the \$400,000.

Mr. Hertz said since we are not getting the \$400,000 back no matter what, why forgive the loan upfront and not at the end of the line.

Mr. Petasek said at the moment, he couldn't think of a reason.

Mr. Oaks said that he wanted to be upfront with everyone.

Mr. Hertz said he would support a motion to authorize them to lower the prices, rather than take a \$400,000 loss upfront.

Dave Strohmaier said the memo outlined several options. What would the downside be to a partial forgiveness?

Mr. Oaks said loan forgiveness is an investment in community, a 10-year investment.

Mr. Strohmaier thanked NMCDC for all their work over the years and said he would like to study this a bit more.

Dick Haines asked what the process would be if it went into foreclosure and NeighborWorks took them over.

Mr. Oaks said they would have the ability to mark them down until they sell and what ever remained would be the City's. They would be sold at whatever the market would bear and have no concern about income qualifying.

Jon Wilkins asked Ms. Davidson if the Housing Authority could help in anyway.

Lori Davidson, Missoula Housing Authority, said all we could so is purchase a few as subsidized public housing rentals. We do have money to repurchase 3 or 4 public housing units and that is something that we are investigating.

Ed Childers suggested making them available to City employees.

Caitlin Copple suggested carrying the discussion over as she has many questions to ask staff. She asked Mr. Oaks if they had done any risk planning when you started this process, what would happen if we forgive the debt and the properties still don't sell?

Mr. Oaks said all the steps we go through to get these projects started can't make up for the fact that the grant money we needed was not available. Then add the burden of the economic downfall on top of that. He said if they can mark them down to the extent of the loan forgiveness and they still didn't sell, then NeighborWorks would take a hit. We would have to find some subsidy somewhere.

Mr. Wiener asked if we took the \$400,000 and split it between the remaining 9 units as subsidy, you would have mortgages lower than market rents. Given the course of what has been given to us we need to get these units on the market as soon as possible.

Mr. Jaffe said the amount forgiven is directly equivalent to the amount reduced on each sale. The money spent here is not available for other projects. He feels this is the right path.

Mr. Wilkins said he doesn't have enough information and would like to extend the discussion one more week.

Mr. Jaffe said that would be fine.

The committee discussed the times for next week.

III. Held in committee

- A. Approve claims. (Ongoing) (Consent Agenda)
- B. Approve journal vouchers. (Ongoing) (Consent Agenda)
- C. Approve budget transfers. (Ongoing) (Consent Agenda)
- D. An ordinance amending the municipal code as it relates to bike licensing. ([A&F](#)) (Returned from council floor: 12/15/08) (Tabled 8/3/2011)
- E. Amend Council rules to change the Council's regular meeting schedule to two meetings per month ([memo](#)).—Regular Agenda (Marty Rehbein) (Referred to committee: 06/07/10)
- F. Discuss the disposition of surplus city land. ([memo](#))—Regular Agenda (John Newman) (Referred to committee: 10/25/10)
- G. Discuss outstanding third-party contracts. ([memo](#))—Regular Agenda (Lyn Hellegaard) (Referred to committee: 11/08/10)
- H. Review the city's current policy for charging the public for various city-produced documents ([memo](#))—Regular Agenda (Dave Strohmaier) (Referred to committee: 12/06/10)
- I. Review Missoula's insurance experience, particularly work comp; propose improvements if warranted. ([memo](#))—Regular Agenda (Ed Childers) (Referred to committee: 05/09/2011)
- J. **[Discussion Date: 02/01/12]** Approve a request for proposals for City surplus property and to approve funding up to \$2,100 to conduct title searches on the proposed properties. ([memo](#))—Regular Agenda (Nancy Harte) (Referred to committee: 01/23/12)

IV. Adjournment

The meeting was adjourned at 9:05 am

Respectfully submitted,

Dee Andersen
Administrative Secretary