

RESOLUTION NO. _____

**APPROVAL OF CLARKSDALE RENTAL III LIMITED PARTNERSHIP
TRANSITION OF INVESTMENT LIMITED PARTNER'S INTEREST TO
LOUISVILLE METRO HOUSING AUTHORITY**

Item No. 5e

WHEREAS, the Clarksdale Rental III Limited Partnership (Partnership) will complete its initial 15-year Low Income Housing Tax Credit (LIHTC) Compliance Period on December 31, 2023 and the Investment Limited Partner, New Hope Housing Tax Credit Fund VIII, LLC (New Hope), desires to exit the transaction early on December 31, 2021; and

WHEREAS, the transfer of New Hope's partnership interest in the Partnership to the Louisville Metro Housing Authority (LMHA) is in conformity with LMHA's goal to acquire all Mixed-Finance transactions sponsored and/or developed by LMHA where a Right of First Refusal or Option to purchase exists; and

WHEREAS, the transition of New Hope's partnership interest to LMHA will require LMHA funds go towards the purchase price payment of \$10; and

WHEREAS, the Clarksdale III, Inc will remain as General Partner with .01% ownership and LMHA will become the Investment Limited Partner with 99.99% ownership; and

WHEREAS, the transition of New Hope's partnership interest to LMHA will also require the Partnership to pay fees incurred by New Hope in an amount not to exceed \$5,000. Source of funds for the fees will be paid from Partnership funds; and

WHEREAS, the required Kentucky Housing Corporation approval of the transition of New Hope's partnership interest to LMHA will be obtained prior to the closing date in order to satisfy a condition to close.

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NOW, THEREFORE, BE IT RESOLVED BY THE LOUISVILLE METRO HOUSING AUTHORITY BOARD OF COMMISSIONERS that the transition of the Clarksdale Rental III Limited Partnership Limited Partner's (New Hope) interest to the Louisville Metro Housing Authority is approved. Also, that as required within the transition process, the use of LMHA funds to pay the purchase price in the amount not to exceed \$10 and the Partnership's payment of fees to New Hope in an amount not to exceed \$5,000 are also approved.

BE IT FURTHER RESOLVED, that, the Executive Director of LMHA is hereby authorized, empowered and directed to take any and all such related or ancillary actions necessary and appropriate to achieve the foregoing purposes including refinements to the terms and documents set forth in this resolution as may be reasonably determined by the Executive Director.

RESOLUTION BACKGROUND STATEMENT

APPROVAL OF CLARKSDALE RENTAL III LIMITED PARTNERSHIP TRANSITION OF INVESTMENT LIMITED PARTNER'S INTEREST TO LOUISVILLE METRO HOUSING AUTHORITY

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I. STATEMENT OF FACTS:

The Clarksdale Rental III, LLC will complete its initial 15-year tax credit compliance period requirements on December 31, 2023 and will begin its 15-year extended use period, which ends December 31st, 2038. The general structure of the asset must remain in order to be within compliance with IRC §42 Low-Income Housing Credit Program, the land use restriction requirements as administered by the Kentucky Housing Corporation, and the Regulatory and Operating Agreement. As such, 120 units are to be maintained as public housing/tax credit units through the ensuing 15-year extended use period commencing on January 1, 2024. Although there are other approaches to acquiring assets, in this context the best method for acquiring the Partnership's assets is the transfer of partner interests. It provides the simplest, least prohibitive, and most cost-effective method concerning this type of transaction. In order to facilitate this transition and preserve the Partnership's transactional structure, which is necessary for the initial transfer of assets, it is the intent and desire of LMHA to acquire New Hope's partnership interest in the Partnership in preparation for acquiring the General Partner's interest in the Partnership at the end of the Compliance Period (December 31, 2023). LMHA will acquire New Hope's 99.99% Limited Partner interests in the Partnership on or before December 31, 2021.

Clarksdale Rental III was constructed in 2008 consisting of a total of 146 residential rental units. Of the 146 units, 127 are public housing rental units (120 of which are also low-income housing tax credit units), and 19 units are market rate units. The development was funded with \$14,548,355 of Public Housing funds and \$7,458,517 of equity, totaling \$22,196,197. LMHA currently holds a Note Receivable of \$14,025,401 (principal only at zero percent interest) plus an additional Note Receivable that funded the Ground Lease that totals \$168,418 (\$146,000 principal plus \$22,418 accrued interest), bringing the total Notes Receivable to \$14,193,819 as of December 31, 2021. Notes Receivable will remain an obligation of the Partnership until the maturity date (9/20/2047) or such time that LMHA gains control of the partnership, at which time the note will be written off.

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I. STATEMENT OF FACTS (cont'd):

As a result of discussions with New Hope, the following costs are expected to be associated with New Hope's partnership interest transition to LMHA. The amounts listed below also list each transition cost's funding source:

\$ 10.00	New Hope Housing Tax Credit Fund VIII, LLC (LMHA)
<u>5,000.00</u>	New Hope Housing Tax Credit Fund VIII, LLC (Partnership)
5,010.00	Projected Total Transition Costs
\$ 34.32	Per Unit Transition Cost

The transition of New Hope's partnership interest in the Partnership to LMHA is in conformity with LMHA's goal to acquire all Mixed-Finance transactions sponsored and/or developed by LMHA where a Right of First Refusal or Option to purchase exists. Furthermore, Reno & Cavanaugh law firm, located in Washington, DC, is assisting LMHA with the formal transition process and navigating any required HUD approvals.

II. ALTERNATIVES:

- A. Complete the Clarksdale Rental III Limited Partnership transition of Investment Limited Partnership interest of New Hope Housing Tax Credit Fund VIII, LLC to LMHA within the terms and conditions noted above.
- B. Do not transition the Clarksdale Rental III Limited Partnership's Investment Limited Partner's partnership interest (New Hope) to LMHA, which would result in the New Hope partnership interest being sold to an affiliate of The Community Builders.

III. RECOMMENDATION:

Staff recommends Alternative "A"

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IV. JUSTIFICATION FOR THIS RECOMMENDATION:

- The transition of New Hope's partnership interest in the Partnership to LMHA is consistent with the transition process that was initiated for the 100-unit Park DuValle I (Oaks) project in 2012, and the 213-unit Park DuValle II property in 2016, and 108-unit Park DuValle III in 2018 and the 192-unit Park DuValle IV in 2020.
- It is LMHA's intent to use LMHA Program Income to fund the \$10 purchase price and to use Partnership operating funds to fund the \$5,000 disposition fees. The average cost per unit within the transition of \$34.32 is significantly less than the acquisition cost of any other similar off-site unit acquisitions.
- Acquiring New Hope's partnership interest in the Partnership will facilitate the planned transition of the Partnership, to include the General Partner's partnership interest, to LMHA in 2024 and will add a total of 146 units to the LMHA's housing unit portfolio.
- The process for New Hope's partnership interest transition to LMHA will be overseen by Reno & Cavanaugh law firm.

V. BUDGET APPROVAL:

Funding for this project will be provided within the Authority's Program Income funds and the Partnership.

Angela Larsson, Director of Finance

Date

Submitted By: Jeff Ralph
Director of Strategic Initiatives
December 21, 2021