

RESOLUTION NO. _____

**APPROVAL OF CLARKSDALE RENTAL I LIMITED PARTNERSHIP TRANSITION
TO LOUISVILLE METRO HOUSING AUTHORITY**

Item No. 5H

WHEREAS, the Clarksdale Rental I Limited Partnership (Partnership) completed its initial 15-year Low Income Housing Tax Credit (LIHTC) Compliance Period on December 31, 2021, and is within its first year of the LIHTC Extended Use Period; and

WHEREAS, the Louisville Metro Housing Authority Development Corporation (LMHADC) desires to acquire .01% of the total Partnership's interest from the Partnership's General Partner (Clarksdale I, Inc.), with Louisville Metro Housing Authority acquiring the remaining 99.99% from the Investment Limited Partner (PNC Multifamily Capital Institution Fund XXIX Limited Partnership) and the Special Limited Partner (Columbia Housing SLP Corporation) upon satisfaction removing itself; and

WHEREAS, the transition of the Partnership's interest to LMHA and LMHADC will require LMHA funds go towards the payment of PNC Bank's Promissory Note in the amount not to exceed \$697,775; and

WHEREAS, LMHA will purchase the Investment Limited Partner's interest in the Partnership for \$10; and

WHEREAS, the transition of the Partnership's interest to LMHA and LMHADC will also require the Partnership to pay accrued expenses and fees owed to the Limited Partner in an amount not to exceed \$33,053. Source of funds for the fees noted will be paid from Partnership funds; and

WHEREAS, all required approvals for the transition of the Partnership's interest from the Kentucky Housing Corporation, Louisville Metro Government, and the

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Department of Housing and Urban Development will be obtained prior to the closing date in order to satisfy a condition to close.

NOW, THEREFORE, BE IT RESOLVED BY THE LOUISVILLE METRO HOUSING AUTHORITY BOARD OF COMMISSIONERS that the transition of the Clarksdale Rental I Limited Partnership's Investment Limited Partner interest to the Louisville Metro Housing Authority is approved.

BE IT FURTHER RESOLVED that, as required within the transition process, the use of LMHA funds to pay-off PNC Bank's Promissory Note and fund the \$10 Investment Limited Partner's purchase price in the amount not to exceed \$697,785 and the Partnership's payment of accrued fees and expenses owed to the Investment Limited Partner in an amount not to exceed \$33,053 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 I LIMITED PARTNERSHIP TRANSITION TO LOUISVILLE METRO HOUSING AUTHORITY

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I. STATEMENT OF FACTS:

The Clarksdale Rental I Limited Partnership (Partnership) completed its initial 15-year tax credit compliance period requirements on December 31, 2021. Currently, the Partnership is within its first year of the tax credit extended use period which ends December 31st, 2036. The general structure of the asset must remain in order to be within compliance of 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, 94 of the 148 units are to be maintained as public housing/tax credit units through the extended use period. Although there are other approaches to acquiring assets, in this context the best method for acquiring the Partnership 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 Clarksdale Rental I's transactional structure, which is necessary for the initial transfer of assets, it is the intent and desire of the Louisville Metro Housing Authority Development Corporation to acquire the .01% Partnership interest from the General Partner (Clarksdale I, Inc., which is an affiliate of The Community Builders) in conjunction with LMHA's acquisition of the remaining 99.99% Partnership interests from the Investment Limited Partner (PNC Multifamily Capital Institution Fund XXIX Limited Partnership) for a purchase price of \$10 on or before November 30, 2022.

Clarksdale Rental I was constructed in 2006 with a portion of the development costs funded with a First Mortgage loan. The loan was provided by PNC Bank in the amount of \$1,090,032 with a maturity date of April 1, 2038. As required within the transition process, LMHA MTW Section 8 funds will be used to retire the remaining debt on the First Mortgage loan. The pay-off balance of the First Mortgage Promissory Note shall be an amount not to exceed \$697,775. PNC has agreed not to charge a possible prepayment penalty. The development was also funded with a loan from Kentucky Housing Corporation (KHC) and a loan from Louisville Metro Government (LMG). Both loans will remain as obligations of the Partnership. Note Payable balances as of December 31, 2021, were \$2,018,854 and \$5,073,745 for the KHC and LMG Notes, respectively. No payments are required for the KHC

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I. STATEMENT OF FACTS (cont'd):

and LMG Notes until June 1, 2047, at which time both principal and accrued interest are due. In addition to the assumed debt, the Investment Limited Partner interest purchase price will be \$10. Upon satisfaction of the \$33,053 of accrued expenses and fees, the Partnership will have funding reserves in excess of \$2,077,819 which will remain with the Partnership after the transition.

A portion of the Partnership's original development cost was also funded by two LMHA loans. The land lease payment was financed through a \$148,000 note, which has accrued interest through June 30, 2022, of \$270,448. A \$9,630,001 note bearing no interest received a partial prepayment, bringing the current note balance down to \$8,710,023. Both of these notes, with LMHA Board approval, will be written-off by LMHA after the acquisition is complete.

As a result of discussions with the General Partner and the Limited Partner, the following costs are anticipated to be associated with the Partnership's interest transition to LMHA and LMHADC. The amounts listed below also includes the transition costs funding source:

\$ 697,775	PNC Promissory Note Pay Off (LMHA MTW Section 8 Reserves)
33,053	Limited Partner Investor Service Fees (Clarksdale Rental I LP)
<u>10</u>	Limited Partner Interest Purchase Price (LMHA MTW Section 8 Reserves)

\$ 730,838	Projected Total Transition Costs - Cash
4,938	Per Unit Transition Cost – Cash

\$2,018,854	KHC Loan
<u>\$5,073,745</u>	LMG Loan

\$7,823,437	Projected Total Transition Costs including assumed debt
52,861	Per Unit Transition Cost – including assumed debt

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I. STATEMENT OF FACTS (cont'd):

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 I Limited Partnership interest transition to LMHA within the terms and conditions noted above.
- B. Do not transition the Clarksdale Rental I Limited Partnership interest to LMHA which would result in the Partnership interest being sold publicly to retire the project's debt.

III. RECOMMENDATION:

Staff recommends Alternative "A"

IV. JUSTIFICATION FOR THIS RECOMMENDATION:

- The transition of the Clarksdale Rental I's general partner's interest to LMHADC and the limited partner's interest to LMHA is consistent with the transition process that was initiated for the four Park DuValle phases as well as CH6, LTD.
- It is LMHA's intent to use MTW Section 8 Reserves to retire the PNC Promissory Note which is consistent with LMHA's MTW Agreement and funding flexibility. The average cost per unit within the transition of \$4,938 is significantly less than the acquisition cost of any other similar off-site unit acquisitions.
- The ultimate successful transition of Clarksdale Rental I Limited Partnership interests to LMHA and LMHADC will add a total of 148 units to the LMHA's housing unit portfolio.
- The process for the Clarksdale Rental I Limited Partnership interest transition to LMHA will be overseen by Reno & Cavanaugh law firm.

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V. BUDGET APPROVAL:

Funding for this project will be provided within the Authority's Section 8 Program funds and the Clarksdale Rental I Limited Partnership reserves.

Aaron Dean, Director of Finance

Date

Prepared By: Jeff Ralph
Director of Strategic Initiatives
October 18, 2022