

RESOLUTION NO. _____

**AUTHORIZATION TO ACCEPT PAYOFF OF STEPHEN FOSTER SENIOR
APARTMENTS LOAN**

Item No. 5D

WHEREAS, the Louisville Metro Housing Authority (LMHA) loaned \$1,160,000 in April 2006 to Stephen Foster Senior Apartments, LLC (Stephen Foster) for the development of Public Housing 18 units at 4020 S. Garland Ave; and

WHEREAS, Stephen Foster developed the Mixed-Finance development using Low Income Housing Tax Credit Equity (LIHTC), HOME Funds, a private mortgage and the LMHA Loan in the amount of \$1,160,000 with interest accruing at 4.79%; and

WHEREAS, approval of the buyer and its management team is subject to HUD approval; and

WHEREAS, the development has reached the end of its Initial 15-Year Compliance Period (LIHTC), enabling Stephen Foster's sale of the property. As part of the transaction, Stephen Foster has proposed that LMHA accept \$1,160,000 to fully satisfy the LMHA Loan.

NOW, THEREFORE, BE IT RESOLVED BY THE LOUISVILLE METRO HOUSING AUTHORITY BOARD OF COMMISSIONERS, that the Executive Director and Contracting Officer, Lisa Osanka, is hereby authorized to execute documents necessary to document the sale and accept the initial loan principal amount of \$1,160,000 in full satisfaction of the LMHA Loan.

RESOLUTION BACKGROUND STATEMENT

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I. STATEMENT OF FACTS:

Stephen Foster Senior Apartments (Stephen Foster) is an adaptive reuse of the old Stephen Foster Elementary School located on 4020 S. Garland Ave in Louisville. The property is a 59-unit Mixed-Finance development with renovations completed in 2005. The 59-units were developed at a total cost of \$6,067,434. Source of funding was a combination of private and public funds. It was placed in service the following year in 2006. The property serves elderly families aged 55 years and up according to Public Housing, LIHTC and HOME affordability requirements. The development includes 18 Public Housing units and 45 HOME restricted units, therefore four of the units must comply with both programs.

The \$1,160,000 LMHA loan has accrued \$899,693 of interest through June 2022, resulting in a total note receivable balance of \$2,059,693. As a response to the uncertainty of collecting the LMHA Loan, the Authority's Financial Auditors agreed that a \$1,718,065 Allowance for Collection Loss be established, resulting in a current net book value of \$341,627 (\$2,059,693 - \$1,718,065). If the \$1,160,000 is approved and subsequently received, LMHA will record a gain of \$818,373 (\$1,160,000 - \$341,627).

The Stephen Foster development also currently has the following indebtedness that must be satisfied within the proposed sales agreement: Citizens Union Bank \$270,653 (\$465,246 less project reserves of \$194,593) and Louisville Metro HOME \$574,000. The current market value of Stephen Foster is not sufficient to satisfy all the outstanding indebtedness, which will require the Louisville Metro HOME debt to remain with the Stephen Foster project.

Staff have reviewed the Stephen Foster financial statements and have performed a physical inspection of the development. Given the development's ability to generate net operating income along with the other Notes currently owed by Stephen Foster, staff believe that the proposed \$1,160,000 is a reasonable offer. The Declaration of Restrictive Covenants and the Regulatory and Operating Agreement will remain in place, protecting LMHA's and HUD's interest in Stephen Foster, allowing Public Housing tenants to continue to be housed.

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I. STATEMENT OF FACTS (cont'd):

Staff have also reviewed the proposed buyer's list of owned properties as well as its property manager's resume and believe that they have the ability to own and manage the site well, complying with Public Housing, HOME, and LIHTC restrictions.

II. ALTERNATIVES:

- A. Approve accepting \$1,160,000 in full satisfaction of the LMHA Loan.
- B. Do not approve accepting \$1,160,000 in full satisfaction of the LMHA Loan.

III. RECOMMENDATION:

Staff recommends Alternative "A".

IV. JUSTIFICATION:

- The \$1,160,000 is a fair proposal based on the Stephen Foster's current financial circumstances.
- Public Housing eligible tenants will continue to be housed at the site.
- The buyer has demonstrated an ability to own and manage the site well.
- It is uncertain that a better offer or workout plan for LMHA will be possible.

Submitted by: Jeff Ralph, Director
Strategic Initiatives Department
July 19, 2022