

RESOLUTION NO. _____

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

Item No. 5D

WHEREAS, the Clarksdale Rental II Limited Partnership (Partnership) completed its initial 15-year Low Income Housing Tax Credit (LIHTC) Compliance Period on December 31, 2022 and the Investment Limited Partner, The Wentwood Companies (Wentwood), desires to exit the transaction; and

WHEREAS, the transfer of Wentwood's 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 Wentwood's interest in the Partnership to LMHA will require LMHA funds go towards the purchase price payment of \$100; and

WHEREAS, the Clarksdale II, 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 Wentwood's interest to LMHA will also require the Partnership to pay fees incurred by Wentwood in an amount not to exceed \$5,500. Source of funds for the fees will be paid from Partnership funds; and

WHEREAS, the required Kentucky Housing Corporation approval of the transition of Wentwood's partnership interest to LMHA has been received 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 II Limited Partnership Limited Partner's (Wentwood) 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 \$100 and the Partnership's payment of fees to Wentwood in an amount not to exceed \$5,500 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

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I. STATEMENT OF FACTS:

The Clarksdale Rental II, LP completed its initial 15-year tax credit compliance period requirements on December 31, 2022 and has entered its 15-year extended use period, which ends December 31st, 2037. 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, 42 units are to be maintained as public housing/tax credit units through the ensuing 15-year extended use period commencing on January 1, 2023. 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 Wentwood's interest in the Partnership in preparation for acquiring the General Partner's interest in the Partnership at a future date. LMHA will acquire Wentwood's 99.99% Limited Partner interests in the Partnership on or before December 31, 2023.

Clarksdale Rental II was constructed in 2007 consisting of a total of 76 residential rental units. Of the 76 units, 42 are public housing rental units (all of which are also low-income housing tax credit units), 25 are tax credit only units, and 9 are market rate units. The development was financed using \$6,402,226 in Public Housing funds, a \$76,000 Ground Lease Loan, \$1,091,871 in CDBG funds, and \$6,932,567 of equity, for a total of \$14,502,664. LMHA currently holds a Note Receivable of \$8,050,303 (\$4,043,488 principal plus \$4,006,815 interest at 5.31%), plus an additional Note Receivable that funded the Ground Lease that totals \$171,415 (\$76,000 principal plus \$95,415 interest at 4.9%), bringing the total Notes Receivable to \$8,221,718, as of June 30, 2023. Notes Receivable will remain an obligation of the Partnership until the maturity date of November 15, 2046, 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 Wentwood, the following costs are expected to be associated with Wentwood's partnership interest transition to LMHA. The amounts listed below also include the funding source for each cost:

\$ 100.00	The Wentwood Companies (LMHA)
<u>\$5,500.00</u>	The Wentwood Companies (Partnership)
\$5,600.00	Projected Total Transition Costs (or \$ 73.68 Per Unit)

The transition of Wentwood'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 II Limited Partnership transition of Investment Limited Partnership interest of The Wentwood Companies to LMHA within the terms and conditions noted above.
- B. Do not transition the Clarksdale Rental II Limited Partnership's Investment Limited Partner's partnership interest (Wentwood) to LMHA, which would result in the Wentwood partnership interest being sold to an investor or to continue to be held by Wentwood.

III. RECOMMENDATION:

Staff recommends Alternative "A"

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IV. JUSTIFICATION:

- The transition of Wentwood'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. LMHA has continued this process when acquiring the Investment Limited Partnership interests in the 148-unit Clarksdale Rental I in 2022, 146-unit Clarksdale Rental III in 2022, and the 73-unit Clarksdale Rental IV in 2022.
- It is LMHA's intent to use LMHA Program Income to fund the \$100 purchase price and to use Partnership operating funds to fund the \$5,500 disposition fees. The average cost of \$73.68 per unit within the transition is significantly less than the cost to acquire other similar off-site units.
- Acquiring Wentwood's interest in the Partnership will facilitate the planned transition of the Partnership, to include the General Partner's interest, to LMHA, adding a total of 76 units to the Authority's housing portfolio.
- The process for transitioning Wentwood's partnership interest 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.

Jeffrey Ralph, Director of Finance

Date

Submitted By: Kathleen O'Neil
Director of Strategic Initiatives
August 15, 2023