

PUBLIC RESOURCES ADVISORY GROUP

MEMORANDUM TO: Chuck Lane, *Assistant Director,*
Economic Development & Housing Department, City of Clearwater

FROM: Public Resources Advisory Group

SUBJECT: Palmetto Park Apartments Project

DATE: October 14, 2021

Public Resources Advisory Group ("PRAG") has reviewed the request made by Palmetto Preservation, LTD (the "Borrower") to revise the terms of three subordinate loans associated with the Palmetto Park Apartments ("Palmetto Park") (formerly known as Greenwood Apartments) to facilitate the acquisition and rehabilitation of Palmetto Park. The principal amount, interest rate and maturity of each of the three subordinate loans (the City SHIP Loan, the County Home Loan and the Pinellas HFA Loan, jointly the "Subordinate Loans") and the requested changes are summarized below.

	City of Clearwater Loan	Pinellas County Loan	HFA of Pinellas County
Principal Amount (as of May 2012)	\$1,209,062	\$900,000	\$265,945
Current Principal Amount	\$1,157,472	\$900,000	\$*254,587
Current Interest Rate	3.00%	0%	3.00%
Current Amortization	30 year (as of 2012)	None	None
Current Maturity	5/1/2042	8/1/2045	5/1/2042
Proposed Interest Rate	AFR†	0%	AFR
Proposed Amortization	none	none	none
Proposed Final Maturity	2066 (45 years)	2066	2066
Accrued Interest Payable (as of 12/31/2021) ‡§	\$140,011	0	\$26,340

The impact of the extension of the maturity date from 2042 to 2066 and the reduction of the interest rate to the AFR are mitigated by the extension of the affordability restrictions (89% of the units restricted to persons or families whose household income does not exceed 60% of the Area Median Income) being extended for an additional 45 years.

The 2012 Loan documents require the proceeds of a sale or refinance of the property be used as follows: (1) to satisfy the first mortgage, (2) to pay in full the City Loan and the HFA Loan, *pari passu*, (3) 25% of the remaining cash to pay the County Loan, (4) remaining cash to be distributed as

* Subject to verification (\$260,177.92)

† Applicable Federal Rate, (expected to be between 1.75% and 2.20%)

‡ Subject to recalculation based upon closing date

§ Accrued interest will not be added to principal but will be carried forward as payable due to City



set forth in the Operating Agreement. The Borrower has requested that this provision be waived, and that surplus cash flow be applied as shown below.

Current Allocation of Surplus Cash Flow (as of 2012)	Proposed Allocation of Surplus Cash Flow
Investor Member, in amount equal to credit deficiency, then Investor Services Fee	For the interest only period of the first mortgage (expected to be 36 months), 100% of cash flow to repay Seller Note
75% of remaining cash flow paid	After the 36th month
<ul style="list-style-type: none">• HFA Loan and City of Clearwater Loan paid pari passu	<ul style="list-style-type: none">• First to pay accrued, unpaid interest on the Seller Note
<ul style="list-style-type: none">• Sponsor Fee Note accrued interest and principal	<ul style="list-style-type: none">• Second to pay Deferred Developer fee, until paid in full
<ul style="list-style-type: none">• 40% of remaining cash flow paid to CNHS**	<ul style="list-style-type: none">• Third, 50% to the Seller Note, and 50% to the City SHIP Loan and the Pinellas HFA Loan
<ul style="list-style-type: none">• Class A Member payments per Operating Agreement	
<ul style="list-style-type: none">• Class A Member and Investor Member per Operating Agreement	

The prioritization of payments to the Seller Note is reasonable based on the prior capital contributions made to the project. Similarly, payment of the Deferred Developer Fee is reasonable as an incentive for the development team.

This property needs rehabilitation to assure its viability. The existing ownership team took control of the property in 2012 and caught up on significant deferred maintenance. The proposed rehabilitation will address mold and moisture problems that are critical for the health and safety of tenants. The proposed financing structure enables the Borrower to monetize tax credit equity of nearly \$12 million; this equity is necessary to pay for the required capital improvements.

The Borrower has applied to the Housing Finance Authority of Pinellas County (the "Authority") for financing to support the acquisition and rehabilitation. The proposed financing structure includes tax exempt bonds, a seller note, deferred developer fee, tax credit equity and continued subordination of the Subordinate Loans with the changes described above.

The Authority has engaged First Housing Development Corporation ("First Housing") to provide a credit underwriting report to evaluate the credit worthiness of the tax exempt bond issuance, and First Housing will also prepare a report for Florida Housing Finance Corporation ("FHFC") as part of the process for allocation of tax credits. Each of these reports (the "Credit Underwriting Reports" or the "CURS") assumes the subordination of the Subordinate Loans and looks at the ability to pay the first mortgage secured tax exempt bonds and factors that impact eligibility for tax credits. The sources and uses of funds are shown below.

** Clearwater Neighborhood Housing Services



Proposed Sources and Uses of Funds

(Assuming 89% of units are tax credit eligible)

Sources	Permanent	Uses	
Pinellas HFA Bonds	\$10,550,000	Acquisition	\$17,600,000
Seller Note	10,963,011	Direct Construction Budget	10,473,258
City Loan	1,225,847	Construction Contingency	1,047,326
HFA Loan	269,628	AE & E	707,897
County Loan	900,000	Financing Costs	1,349,502
Deferred Developer Fee	3,500,000	Developer Overhead and Fee	5,412,127
Tax Credit Equity	11,802,000	Legal and Professional	534,000
		Escrows	180,853
		Reserves	825,133
		Insurance and Bonding	236,152
		Other Soft Costs	844,243
Total Sources	\$39,210,486	Total Uses	\$39,210,491

Based on PRAG's understanding and evaluation of the project, proposed terms, market conditions and comparable transactions, PRAG confirms that the proposed changes to the Subordinate Loans, including the change in priority of payments, is reasonable given the scope of rehabilitation and the extension of affordability requirements. A summary of the agreed upon terms and provisions is provided below.

- Borrower has agreed that the principal amount outstanding of the City Loan is \$1,157,472 and accrued interest is \$140,011 as of 12/31/2021.
- The accrued interest will be added to the outstanding principal amount for a new principal amount of \$1,297,483.
- Borrower has agreed to extend affordability requirements for a 45 year term so that those requirements are coterminous with the maturity of the City Loan in 2066.
- City Loan interest rate will change from the current rate of 3.00% to the Applicable Federal Rate.
- County will extend the term of County Loan to match City Loan.
- Changes in HFA Loan will mirror those of the City Loan.

Cc: Sheri Harris, Pinellas County
Kathryn Driver, Housing finance Authority of Pinellas County
Taylor Arruda, First Housing development Corporation