CITY OF STOUGHTON
FINANCE DEPARTMENT
207 S. Forrest St, Stoughton, WI 53589

(608) 873-6677 www.ci.stoughton.wi.us

To: City of Stoughton Finance Committee
Housing Authority of the City of Stoughton
Mayor Tim Swadley
City of Stoughton Common Council members
From: Dave Ehlinger
Re: Funding of legal expenditure
Option to purchase Stoughton Housing Authority property at 924 Jackson St.
Date: February 1, 2023

As you are probably aware, the Housing Authority of the City of Stoughton entered into an offer to purchase contract with Crown Point Properties on January 27, 2023 for the Greenspire buildings located at the above address. The purpose of this contract is to invest about $7.5 million in the property for the purpose of rehabilitating 73 of the apartment units as well as common areas.

As indicated in the offer to purchase, the Housing Authority has until March 15, 2023 to complete its due diligence in negotiating details of the contract. Matt Dregne with Stafford Rosenbaum has recommended that the Housing Authority contract with Carlson Black for their legal presentation. Carlson Black has prior experience with tax credit funding projects similar to what is being proposed by Crown Point Properties for the rehabilitation of these buildings. The Housing Authority has signed that contract with Carlson Black as of January 31, 2023.

As anticipated, the Stoughton Housing Authority has indicated they do not have cash available to pay for the anticipated large legal expenditures in relation to this offer to purchase contract. In addition, they have indicated that the USDA (United States Department of Agriculture) Rural Development would probably not allow for legal expenditures to come from their reserve funds.

As such, we need to determine the funding sources for these legal expenditures as well as amending the budgets as appropriate.

2022 budget

Stafford Rosenbaum billed the City of Stoughton for legal services related to the potential Greenspire properties for $1,474 for work performed on December 30, 2022 (6.70 hours). That invoice has been charged to Fund 253 Affordable Housing.

Option A – As a reminder, the Affordable Housing Fund received $517,638 with the closure of TID #3 Business Park North during calendar year 2021. The 2022 adopted budget included $250,000 for renovations of four (4) apartments. My understanding is that the

remaining funds are targeted for down-payment assistance home loans. At the present time, there are no budgeted expenditures in the adopted budget for Fund 253 Affordable Housing.

During calendar year 2022, the Affordable Housing fund received $2,664 in interest earnings, thus will have more revenues than expenditures during the year.

It is proposed that the legal expenditures remain in Fund 253 Affordable Housing and that that the 2022 adopted budget be amended to account for the increased expenditures. The related budget amendment resolution will be done as part of the year-end resolution for all funds.

Option B – The invoice for Stafford Rosenbaum for December 2022 services be charged to Dept 51300 City Attorney in the General Fund rather than the Affordable Housing Fund. The City Attorney's departmental is already over budget for calendar year 2022. As such, the departmental deficit for calendar year 2022 will be adjusted for as part of the year-end resolution for all funds.

2023 budget

As of yet, we do not know the billable hours for each of our legal firms who have worked on this offer to purchase contract, but I would estimate **at least** $40,000 in legal fees. I recommend the 2023 adopted budget be amended in June 2023 no matter which option below is chosen. *(The June 2023 date was chosen so that the amendment would be shown when the draft budget for 2024 is prepared.)*

Option C – Continue to have the expenditures charged to the Affordable Housing Fund with the intent that the assigned fund balance for that fund will offset the expenditures. This would reduce the available fund balance that is targeted for down-payment assistance home loans.

Option D – Assuming Option C above is chosen, the Common Council could also potentially transfer money from the unassigned fund balance within the General Fund to the Affordable Housing Fund, thus essentially maintaining the amount targeted for these down-payment assistance loans.

Option E – Charge the expenditures to Dept 51300 City Attorney in the General Fund with the intent that the unassigned fund balance in the General Fund will offset the expenditures.

POTENTIAL recapture of legal fees

My understanding is that it **may** be possible for the Stoughton Housing Authority to recapture legal fees as part of the tax credit process. In the event of recapture, I would recommend that we have the Stoughton Housing Authority reimburse the City of Stoughton for legal fees paid on their behalf.

Attached documents – For additional information, I have attached a number of related documents:

1. Option to purchase contract (executed) with Crown Point Properties
2. Contract with Carlson Black for legal services dated 01/31/2023

3. Memo from Matt Dregne dated 01/18/2023 related to the option to purchase
4. White paper developed by Sunny Side Development to describe tax credit deals with housing authorities
5. December 2022 Stafford Rosenbaum invoice regarding Greenspire sale
6. Revenue/expenditure report for Fund 253 Affordable Housing for calendar year 2022 as of 01/31/2023
7. Revenue/expenditure report for Dept 51300 City Attorney for calendar year 2022 as of 01/31/2023.

I realize this is a lot of information all at once. If you have questions, please feel free to contact me.

Respectfully submitted,

David P. Ehlinger, CPA
Stoughton Housing Authority – Treasurer
City of Stoughton – Director of Finance/Comptroller

January 26, 2023

VIA EMAIL: cmcglynn@ci.stoughton.wi.us

Stoughton Housing Authority of the City of
Stoughton, Wisconsin
Attn: Cindy McGlynn, Chair
c/o Stoughton City Hall
207 S. Forrest Street
Stoughton, WI 53589

RE: Greenspire Apartments (92-Unit Affordable Housing Apartment Project) located at 924 Jackson Street, City of Stoughton, Wisconsin ("Property")

Dear Ms. McGlynn:

The purpose of this letter is to document an agreement between the Stoughton Housing Authority of the City of Stoughton, Wisconsin ("Housing Authority") and Crown Court Properties, Ltd. ("CCP"). The Housing Authority grants CCP an option to purchase the buildings and the related infrastructure located on the Property, which includes the leases, security deposits and Property reserves (collectively, the "Buildings") and the option to lease the land upon which the Buildings are situated (the "Land"). The terms of the options are as follows:

1. The option fee shall be $500.00, payable by CCP within three (3) business days following the Housing Authority's agreement and acceptance of this Letter.

2. The terms of the options begin on the date of Housing Authority's agreement and acceptance of this Letter and end 18 months thereafter ("Option Period").

3. For purposes of this letter, the term "Closing" means the event during which the Housing Authority would convey the Buildings and lease the land to CCP, CCP would pay the purchase price to the Housing Authority, and the parties would take the other actions necessary to effectuate the transaction described in this letter.

4. The purchase price for the Buildings shall be $5,120,000.00 United States Dollars.

5. The purchase price shall be paid at Closing as follows:

(a) CCP and all other necessary parties (including lenders) will, at Closing, execute all documents necessary for CCP to assume all existing debt encumbering the

Property and to be bound by all related financing documents and regulatory agreements, and in so doing CCP shall be given a credit against the purchase price in the amount of $2,082,167.00.

(b) At CCP's sole option, $3,037,833.00 may be paid in one of the following ways:

i. By a wire transfer of $3,037,833.00 in United State Dollars; or

ii. The Housing Authority conditionally commits to providing a Seller loan in the principal amount of $3,037,833.00 (the "Seller Loan") that will be repaid over a 35-year period from the Property's available cash flow, require interest to accrue at the applicable federal rate determined as of the closing date, and contain such other terms and conditions as the Housing Authority may require in its sole and complete discretion. Notwithstanding the foregoing, the Housing Authority's obligation to provide the Seller Loan is conditioned upon the Housing Authority Board approving the terms of the Seller Loan to be set forth in a promissory note by March 15, 2023 (the "Final Approval Decision"), or such later date as the parties may agree in writing. The Housing Authority retains the sole and complete discretion to make the Final Approval Decision. The Housing Authority's Final Approval Decision, whatever it may be, shall not be deemed to violate any obligation under this Agreement, including any obligation of good faith and fair dealing. If the Housing Authority authorizes final approval of the Seller Loan, CCP may elect to use the Seller Loan, or to pay $3,037,833.00 in United States Dollars by wire transfer at Closing.

6. The ground lease shall be in writing, shall be for a term of 55 years, shall require rent in the amount of $1,000.00 per year, and shall be otherwise commercially reasonable and acceptable to the Housing Authority. CCP will pay all costs and expenses associated with the Land during the term of the ground lease.

7. The option to purchase the Buildings and the option to lease the Land must be exercised together or not at all, and the ground lease shall be executed at Closing.

8. CCP will invest approximately $7,500,000.00 in the Property for the purpose of rehabilitating 73 of the apartment units, all generally in accordance with the Capital Needs Assessment Report prepared by Hirsch Group Architecture dated March 22, 2022 and March 28, 2022 ("CNA").

9. The Property will continue to be affordable housing for not less than 30 years, with tax credit tenants having income levels not greater than 60% of the average median income. The Housing Authority will cooperate with CCP regarding all regulatory matters to ensure this requirement.

10. At Closing, the Housing Authority shall be provided the option to purchase the Property and assume the ground lease of the Land approximately 15 years from the date of closing, in a manner that is commercially reasonable and reasonably satisfactory to the Housing Authority.

11. CCP will pay all costs necessary for its due diligence and to submit a WHEDA application by January 27, 2023 for affordable housing tax credits to partially finance the improvements to the Property described in the CNA. To exercise the options, CCP shall provide the Housing Authority written notice within the Option Period. The parties will close within 90 days (or such other time frame as is mutually agreed upon) of the Housing Authority's receipt of such notice. The Housing Authority will sell the Buildings and lease the Land to CCP "as-is, with all faults." The Housing Authority will provide access to the Property so CCP may perform its due diligence activities, provided all access times and due diligence activities are first approved by the Housing Authority. CCP may assign the options to an entity owned or controlled by CCP, and that is reasonably acceptable to the Housing Authority.

12. This Agreement and CCP's obligations under this Agreement shall survive the Closing and shall continue in effect until all of CPP's obligations have been fully performed.

Very truly yours,

Crown Court Properties, Ltd.

By:_____
Menachem Rapoport, Vice President

Agreed and accepted this 27th day of January, 2023, by:

Stoughton Housing Authority of the City of Stoughton, Wisconsin

By:_____
Cindy McGlynn, Chair

28625044.4

CARLSON BLACK

CARLSON BLACK O'CALLAGHAN & BATTENBERG LLP

Daniel M. LaFrenz
222 W. Washington Ave., Ste. 360
Madison, WI 53703-27485
direct: 414.344.8598
daniel.lafrenz@carlsonblack.com

January 30, 2023

VIA EMAIL (cmcglynn@ci.stoughton.wi.us and dehlinger@ci.stoughton.wi.us)

Stoughton Housing Authority of the City of Stoughton, Wisconsin
Attn: Cindy McGlynn and Dave Ehlinger
c/o Stoughton City Hall
207 S. Forrest Street
Stoughton, WI 53589

Re: Confirmation of Engagement

Dear Ms. McGlynn and Mr.Ehlinger:

The purpose of this letter is to confirm your request that Carlson Black O'Callaghan & Battenberg LLP ("Carlson Black") represent Stoughton Housing Authority of the City of Stoughton, Wisconsin (the "Housing Authority") in connection with an analysis of an option to sell buildings and the related infrastructure located at 924 Jackson Street, City of Stoughton, Wisconsin, and an option to lease the land upon which the buildings are situated for the purpose of a proposed rehabilitation of such buildings into affordable housing units using tax credit financing and our recommendations regarding the same (the "Engagement"). On behalf of Carlson Black, thank you for placing your trust in us. The remainder of this letter summarizes the basic terms of our representation, including procedures for billing and payment. If you have any questions, please do not hesitate to contact me.

Scope of Representation. You have asked us to represent the Housing Authority with respect to the Engagement described above. If you would like us to represent the Housing Authority on other matters, such representation should be the subject of additional discussions and conflicts of interest review.

Identification of Client. As lawyers, we owe certain professional obligations to our clients. With respect to the Engagement, the Housing Authority is our client and we will be seeking to foster and protect its interest as best we can. If there are individuals or other entities that are related to the Housing Authority in some way and who also require legal representation, representation of those interests should be the subject of a separate engagement.

Conflicts of Interest. Lawyers are bound by rules of professional responsibility that include, among other things, strict rules governing conflicts of interest. We have checked our conflict management database and confirmed that we have no conflict of interest that would prevent us from accepting the Engagement based on the information provided to us. If additional adverse parties become involved in the Engagement or in any new proposed engagement, we will need to conduct additional conflicts of interest review.

Fees. We will bill you for legal services on an hourly basis for each attorney or legal assistant who performs services on your behalf. My hourly billing rate for this matter will be $370. Other

attorneys in the firm are billed in the range of $275 to $395 per hour, paralegal support will be billed at an hourly rate of $225, and legal assistants will be billed at $100 per hour. We will provide you with advance notice of any adjustment to hourly rates that may be made by our firm time to time.

Deposit. None required.

Filing Fees, Costs and Expenses. Major filing fees, charges for outside services, regulatory filing fees, overnight and courier expenses and the like will be forwarded to you for direct payment or may be paid by the firm and included on monthly invoices for reimbursement. Alternatively, we may ask that funds be deposited in our trust account in advance to cover such fees and expenses. Out of area transportation costs and expenses such as automobile mileage (at the per-mile rate established by the Internal Revenue Service from time to time), airfare, hotel and similar will only be charged if you authorize them in advance, provided, however, we may elect to charge for travel time to out-of-area attendance at meetings. We will not charge for minor out-of-pocket costs and expenses such as routine office printing, copying and postage, minor filing fees, area/regional vehicle transportation costs.

Monthly Statements. We will provide you with a monthly statement of any fees, costs, and expenses due, which will be reviewed and approved by me before it is sent out. Payment is due upon receipt. After the monthly statement is sent, we will apply funds on deposit, if any. We reserve the right to withdraw from representation if the full balance due is not received within 30 days of billing.

Coordination. I will have primary responsibility for our firm's handling of the Engagement and I will coordinate the use of other attorneys and legal assistants on this matter in the exercise of my reasonable professional judgment. Any questions or concerns about our bills or the services that we are providing to you should be directed to me.

Termination of Representation. The Housing Authority will at all times have the right to terminate our services upon prior written notice. We too will at all times have the right to terminate our professional relationship with the Housing Authority within the bounds of our ethical obligations as attorneys. Generally, we do not terminate client relationships except for cause, such as actual or philosophical conflicts of interest, failure on a client's part to be truthful, circumstances that make our continued effective representation untenable, or non-payment of our invoices.

Firm's LLP Status. Carlson Black is a Wisconsin limited liability partnership. Under this structure, the individual partners do not have unlimited personal liability arising from the malpractice of the other attorneys on matters in which they had no involvement or supervisory role. The LLP structure will not, however, protect the firm or those partners whose own negligence, wrongful acts or misconduct (or that of any person working under their direct supervision and control) is the basis for the malpractice claim at issue. Furthermore, by Wisconsin Supreme Court Rule, a firm of our size is required to carry professional liability insurance providing for at least $500,000 in combined indemnity and defense cost coverage per claim, with at least $1 million aggregate combined indemnity and defense cost coverage amount per policy period. Our coverage exceeds the minimum requirement.

After carefully reviewing these terms, please acknowledge the Housing Authority's acceptance and consent to our representation with respect to the Engagement by signing a copy of this letter and returning it to me at your earliest convenience. If you have any questions, please do not hesitate to contact me.

Once again, on behalf of Carlson Black, we thank you for the opportunity to work with you.

Very truly yours,

CARLSON BLACK O'CALLAGHAN & BATTENBERG LLP

Daniel M. LaFrenz
Partner

ACKNOWLEDGED, AGREED AND CONSENTED:

STOUGHTON HOUSING AUTHORITY OF THE CITY OF STOUGHTON, WISCONSIN

By: _____
Name: David P Ehlinger
Title: Treasurer

StaffordRosenbaum LLP
Attorneys

Confidential Memorandum
Privileged Lawyer-Client Communication

To City of Stoughton Housing Authority

From Matt Dregne, City Attorney

Date January 18, 2023

Re Crown Properties Proposed Option to Purchase

Crown Court Properties, Ltd. ("Crown Court") proposes that the Housing Authority enter an agreement, by January 27, 2023, under which Crown Court would have the option to purchase the Greenspire Apartment buildings, and lease the underlying land, under the terms set forth in a two page letter.

This memo summarizes legal and policy considerations presented by Crown Court's proposal that we are presently able to identify, on short notice and without more complete information. There may be additional legal and policy issues that more time and information would allow us to identify.

1. *Written agreement vs. discussions and other information*. Crown Court initially provided a written offer to purchase. Crown Court now proposes a two page "option" agreement. In addition, Crown Court has provided information verbally and in a short memo describing how it contends the transaction would work and would benefit the Housing Authority. Although the additional information is helpful, only the written option agreement is legally enforceable.

2. *Nature of an Option*. An option gives a buyer the right, but not the obligation, to buy property on the terms described in the option.

3. *Title (ownership) Issues.* We started the process of evaluating title to the property, and it appears that party of the property is owned by the City and part is owned by the Housing Authority. The Housing Authority should not agree to sell property it does not own. The Option contains no information about how title issues would be addressed in this transaction.

4. *Financial issues*.

A. The purchase price is to be paid in two ways. I have a number of comments and questions about the purchase price.

(1) Promissory note. Part of the purchase price would be paid with a $2,953,578 "promissory note" (a loan agreement), in which the Housing Authority would make a loan to Crown Court. As summarized in the enclosed "white paper" provided by Paul Schechter, the parties have an incentive to maximize the purchase price of the property in order to maximize the tax credits that will be awarded. The purchase price is supported by an appraisal. Crown Court would avoid having to pay actual money toward part of the purchase price by simply signing a promissory note. The white paper appears to acknowledge that although Crown Court would technically be obligated to make payments on the promissory note out of funds that are available after paying other expenses, there is no expectation that there will be any funds available. Interest would accrue on the unpaid principal at the "applicable federal rate." The promissory note raises at least the following issues:

a. Is it lawful to use the proposed promissory note to pay part of the purchase price in order to increase the tax credit award, or would the United States or WHEDA consider such a structure dishonest (and fraudulent), given that there seems to be an expectation that the loan will never be paid? I don't know the answer to this question. The attorney representing Crown Court told me that he didn't consider it fraudulent because there is a legal obligation to make payments on the promissory note. My concern is that the legal obligation may be meaningless if the parties expect that there will never be funds available to make payments, and indeed the note is structured with that result in mind. A lawyer who is well-versed in this type of transaction may be able to provide guidance on this issue.

b. Would the owner of the buildings be subject to a tax liability at some future date, if the Housing Authority does not require payment of the promissory note? The option says that the Housing Authority will be provided its own option to purchase the property and assume the ground lease in about 15 years. In our meeting, Crown Court said that in fact, the Housing

Authority would be given the option to become the sole member (and owner) of the corporation that that owns the buildings at that time. That corporation would be the obligor on the promissory note. So, the Housing Authority would own a corporation that owns the buildings and holds the ground lease, and owes the Housing Authority the remaining unpaid principal and interest on the promissory note. If the Housing Authority does not require payment of the note, it is possible that the corporation would have an obligation to report that to taxing authorities as income, and would be subject to a tax liability. I don't know the answer to this question. Again, a lawyer who is well-versed in this type of transaction may be able to provide guidance on this issue.

c. Crown Court has not provided a description of the actual promissory note, beyond three sentences in the Option agreement. That means that the terms of the promissory note would need to be negotiated later. I think the form of the promissory note should be known to and acceptable to the Housing Authority, and made an exhibit to the Option Agreement, before the Option agreement is approved. Proceeding otherwise could result in numerous disagreements and even litigation later.

(2) Assumption of existing debt. The Option states that part of the purchase price would be paid by the Buyer assuming all existing debt. We began the process of assembling documentation regarding existing debt, but that process has not been completed. I have at least the following questions about this aspect of the financing.

a. Would the existing debt continue to be secured by mortgages against the land? If so, what are the possible legal and financial implications? Shouldn't the Option Agreement provide more detail about this?

b. I think I heard Menachem say that the existing debt would be restructured as part of this transaction. How would it be restructured? Shouldn't the Option Agreement provide more detail about this?

(3) Debt capacity. The impact of this transaction on the City and the Housing Authority should be evaluated, in terms of its possible impact on debt capacity. We have not evaluated that issue yet.

(4) Housing Authority Option and Financial condition in 15 years. It is my understanding that an important part of the transaction, from the Housing Authority's perspective, is that full ownership and control of the land and buildings will be returned to the Housing Authority in about 15 years. The Option Agreement states that "CCP will ensure the Housing Authority is provided the option to purchase the Property and assume the ground lease of the Land approximately 15 years from the date of closing." I have a number of questions and concerns about this.

a. How will Crown Point satisfy this obligation? When? Why haven't they provided the form of the option agreement that will be provided to the Housing Authority? If this is a typical deal that they have done before, they should be able to provide the form of the option and make it an exhibit to the agreement. What if the Housing Authority is not satisfied with the terms of the option agreement provided later?

b. How will the Housing Authority's interests be protected between the time it sells the buildings to Crown Point, and the time ownership is restored?

(1) Will the buildings be insured? What happens to the insurance proceeds if the buildings are destroyed in a fire or other event?

(2) What if Crown Point defaults on the existing debt that it would assume? Remember that the loans may still be secured by the underlying real estate.

c. What will the financial and physical condition of the property be in 15 years? How can this be determined, and how can the result be contractually assured?

(5) PILOT Payments. There is nothing in the Option Agreement about PILOT payments.

(6) Single purpose LLC. The Option gives Crown Point the right to assign the Option Agreement to another entity owned or controlled by Crown Point. It is likely that Crown Point would form an LLC prior to closing. The LLC would likely own nothing other than the

buildings and the ground lease. What are the implications of this fact if the LLC fails to perform any of its obligations?

5. *Rehabilitation Issues*. It is my understanding that the fundamental purpose of this transaction, from the Housing Authority's perspective, is the opportunity to use tax credits to fund the rehabilitation of the apartments. The only thing the Option Agreement says about this is the following: "CCP will invest approximately $7,500,000 in the Property for the purpose of rehabilitating 73 of the apartment units, all generally in accordance with the Capital Needs Assessment Report prepared by Hirsch Group Architecture dated March 22, 2022 and March 28, 2022 ("CNA")." I have the following questions and concerns about the rehabilitation work:

   A. Last week the Housing Authority appeared to conclude that the CNA does not provide adequate specifications for the rehabilitation work.

   B. The Option Agreement says nothing about how the Housing Authority would be able to verify that the work is being properly completed, and says nothing about what remedy the Housing Authority would have in there is a failure to perform.

   C. The one sentence in the Option Agreement seems grossly inadequate to address the parties' rights and obligation associated with a contractual obligation to undertake $7,500,000 in renovation work.

   D. Public contracts for this kind of work typically require the contractor to provide performance and payment bonds. Should that be required here?

   E. This agreement looks something like a turn-key public construction contract. Such contracts violate Wisconsin laws governing public construction. Without seeing the entire picture (including the agreement that would give the Housing Authority the "option" to re-acquire the property), it is difficult if not impossible to evaluate this issue.

6. *Affordability*. The Option Agreement states that "the Property will continue to be affordable housing for not less than 30 years, with tax credit tenants having income levels not greater than 60% of the average median income. The Housing Authority will cooperate with CCP regarding all regulatory matters to ensure this requirement."

   A. The language in the Option Agreement does not fully explain how the affordability issues will be addressed. During our recent meeting with Crown Point, I heard that the property would continue to be subject to

existing affordability requirements, and that there may be additional affordability requirements that the Housing Authority would not be a party to (from an enforcement perspective).

B. We simply do not know enough about this transaction to know exactly what the affordability requirements will be, for how long, and how they would be enforced.

7. *Ground Lease*. The Option Agreement contains only two-sentences about the ground lease. We think the ground lease should be fully known and acceptable to both parties and attached as an exhibit to the agreement.

White Paper on Tax Credit Deals with Housing Authorities

Introduction

Tax credit deals are complicated, especially for existing properties owned by Housing Authorities that were originally financed with subsidized debt and currently receive revenue from HUD/RD project-based vouchers. Despite this, tax credit deals are one of the most common methods for Housing Authorities to do large-scale rehabilitation of their aging properties. In almost all cases, the Housing Authority wants to resume ownership after the tax credit compliance period is over—and therefore exercise their "Right of First Refusal", per IRS statute, to re-purchase the property for $1 + existing debt.

To understand the details of a Housing Authority tax credit deal, it is easiest to compare motivations in a standard real estate transaction. The below table compares the motivations of the Buyer and Seller in each scenario:

	Stakeholder Desires			
	Normal Real Estate Sale		**Housing Authority Tax Credit Sale**	
Phase	**Buyer**	**Seller**	**Buyer (Tax credit investor)**	**Seller (Housing Authority)**
Original Purchase	Buy low	Sell high	Obtain tax benefits	Rehab property
15 Year compliance period	Maximize rental income	N/A	Stay compliant (i.e. affordable) for compliance period so no tax credit recapture	Provide quality housing to low-income tenants
Final sale	Sell high	N/A	N/A (selling for $1)	Gain back full ownership

Purchase Price and Seller Note

Sources for a tax credit deal come in two main forms: a). equity from tax credits and b). normal bank debt. Because the tax credits need to be converted into equity, a large for-profit 'investor' is needed to purchase the tax credits in exchange for cash. However, because tax credits only transfer via ownership, the investor needs to become a 99.9% owner of the property; in other words, as much ownership as possible to receive as much tax benefit as possible. Unlike standard real estate sales (shown above), the initial transfer of ownership has no real economic purpose other than to align the entity that generates that tax benefits—the property, with the one that will receive the tax benefits—the investor. Therefore, the sales price itself is somewhat arbitrary. The real objective of both the Buyer and Seller is to maximize tax credits. From the Housing Authority's perspective, the more tax credits received, the more that can be sold, which puts more cash into the project to do rehab. From the Investor's perspective, the more tax credits received, the more tax benefits it can get. One way to indirectly increase tax credits for both Buyer and Seller is to increase the purchase price to the maximum allowed, which is the appraised value. This is because tax credits are generated based on the sale's price of the property. However, there is a catch. If the purchase price is high, this must get paid for with valuable funding resources that would otherwise be spent on rehabilitation. To avoid this, Housing Authorities often provide Seller-financed notes equal to the amount of equity they have in the property. This equity is

determined by the same appraisal that determined the purchase price. The Seller-note has no payments, and no interest[1] because such payments would siphon money out of the project, which would otherwise be used to cover normal operating costs.

In summary, because Buyer and Seller interests are aligned—namely to generate as much tax credits as possible, and they don't have secondary interests such as making profit off the sale or from rental income, the natural solution is to sell the property for as high a price as possible, to generate as much tax credits as possible. However, because we don't want the high sale price to be an added burden on the project, the Housing Authority provides a seller-financed note with no interest/payments, to cover the full cost of the purchase, other than existing debt. After year 15, the same transaction occurs in reverse: the investor sells the property back to the Housing Authority. However, this time because there is no need to generate tax credits, the sales price remains low and is equal to $1 + existing debt.

Increased Rental Subsidy

As referenced above, other than tax credit equity, the other main source of funding for tax credit deals is new bank debt. No tax credit deal is ever 100% financed with tax credit equity alone, so some new debt is required to cover the millions of dollars of rehab going into the property. The only way to pay this increased debt service is from rental revenue. We don't want to increase rent on the low-income tenants, so the other method is to increase the amount paid by government vouchers. For LIHTC projects specifically, there is a special "Chapter 15" rental increase that HUD allows, which raises the voucher amount up to the market rent of comparable units. This amount is determined by an independent study called a "Rent Comparability Study". When WHEDA reviews all LIHTC applications in a given year, they do careful analysis to ensure that the new increased voucher revenue is more than sufficient to cover all of the new debt service. The last thing WHEDA wants is to provide millions of dollars' worth of tax credits to a project, only to have the project go belly-up in a few years because it doesn't have enough rental income to cover the new debt it has taken on. It is true that in year 15, when the Housing Authority takes back the property for $1 + existing debt, that debt includes the new debt that was required to do the deal in the first place. However, the Housing Authority also receives the higher voucher revenue, which is more than sufficient to pay for the new debt (as well as a 15-year track record of on time monthly payments). Therefore, the Housing Authority receives all the benefits of property improvements without taking on any new debt that it can't pay for. This is why Housing Authorities across the country have used the tax credit financing model thousands of times since its inception in 1986.

[1] The seller note does technically accrue interest, but it is not collected until it transfers back to the Housing Authority, at which point the HA erases all obligations it owes itself.

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Client Ref: 005649 - City of Stoughton
Invoice No. 1277229

January 27, 2023

Re: 005649-003342
Greenspire Sale

Professional Services

Date		Services	Rate	Hours	Amount
12/30/22	MPD	Calls with Mayor Swadley and Mr. Ehlinger; work on reviewing offer and related documents; email to Mr. Ehlinger ad Mayor Swadley.	220.00	6.70	1,474.00

Summary of Services

		Rate	Hours	Amount
MPD	Matthew P. Dregne	220.00	6.70	1,474.00
Matter Total			**6.70**	**$1,474.00**

Total This Matter **$1,474.00**

We accept credit card payments online at www.staffordlaw.com.

NOTICE REGARDING PAYMENT FROM CLIENT TRUST FUNDS ACCOUNT:
Please note that if a client advance is being applied from the trust funds account, the advance funds will be withdrawn from the trust account and applied on the date the invoice is transmitted to you.

TERMS: Total balance is due upon receipt. A 1% finance charge per month (12% annually) may be charged on balances older than 30 days.

REVENUE AND EXPENDITURE REPORT FOR STOUGHTON CITY
PERIOD ENDING 12/31/2022
% Fiscal Year Completed: 100.00

GL NUMBER	DESCRIPTION	2022 ORIGINAL BUDGET	2022 AMENDED BUDGET	YTD BALANCE 12/31/2022 NORM (ABNORM)	ACTIVITY FOR MONTH 12/31/22 INCR (DECR)	AVAILABLE BALANCE NORM (ABNORM)	% BDGT USED
Fund 253 - AFFORDABLE HOUSING FUND							
Dept 00000 - REVENUE							
Account Type: Revenue							
253-00000-48110	INTEREST	5.00	0.00	0.00	0.00	0.00	0.00
Total Revenue:		5.00	0.00	0.00	0.00	0.00	0.00
Net - Dept 00000 - REVENUE		5.00	0.00	0.00	0.00	0.00	
Dept 55100 - COMMUNITY COMMITMENT							
Account Type: Expenditure							
253-55100-50340-25300001	OPERATING EXPENSES-STOUGHTON HOUSING	250,000.00	0.00	0.00	0.00	0.00	0.00
Total Expenditure:		250,000.00	0.00	0.00	0.00	0.00	0.00
Net - Dept 55100 - COMMUNITY COMMITMENT		(250,000.00)	0.00	0.00	0.00	0.00	
Dept 56500 - PUBLIC HOUSING							
Account Type: Revenue							
253-56500-48110	INTEREST	0.00	5.00	2,663.56	416.81	(2,658.56)	53,271.20
253-56500-49910	FUND BAL APPLIED - TAX LEVY	0.00	249,995.00	0.00	0.00	249,995.00	0.00
Total Revenue:		0.00	250,000.00	2,663.56	416.81	247,336.44	1.07
Account Type: Expenditure							
253-56500-50350	REPAIRS/MAINTENANCE	0.00	250,000.00	250,000.00	37,742.45	0.00	100.00
Total Expenditure:		0.00	250,000.00	250,000.00	37,742.45	0.00	100.00
Net - Dept 56500 - PUBLIC HOUSING		0.00	0.00	(247,336.44)	(37,325.64)	247,336.44	
Fund 253 - AFFORDABLE HOUSING FUND:							
TOTAL REVENUES		5.00	250,000.00	2,663.56	416.81	247,336.44	1.07
TOTAL EXPENDITURES		250,000.00	250,000.00	250,000.00	37,742.45	0.00	100.00
NET OF REVENUES & EXPENDITURES		(249,995.00)	0.00	(247,336.44)	(37,325.64)	247,336.44	100.00

REVENUE AND EXPENDITURE REPORT FOR STOUGHTON CITY
PERIOD ENDING 12/31/2022
% Fiscal Year Completed: 100.00

GL NUMBER	DESCRIPTION	2022 ORIGINAL BUDGET	2022 AMENDED BUDGET	YTD BALANCE 12/31/2022 NORM (ABNORM)	ACTIVITY FOR MONTH 12/31/22 INCR (DECR)	AVAILABLE BALANCE NORM (ABNORM)	% BDGT USED
Fund 100 - GENERAL FUND							
Dept 51300 - CITY ATTORNEY							
Account Type: Revenue							
100-51300-41110	PROPERTY TAX - OPERATIONS	0.00	157,000.00	157,000.00	0.00	0.00	100.00
100-51300-46900	OTHER PUBLIC CHARGES FOR SERVICES	0.00	0.00	3,472.00	0.00	(3,472.00)	100.00
Total Revenue:		0.00	157,000.00	160,472.00	0.00	(3,472.00)	102.21
Account Type: Expenditure							
100-51300-50215	OUTSIDE SERVICES/CONTRACTS	150,000.00	0.00	0.00	0.00	0.00	0.00
100-51300-50216	OUTSIDE SERVICES/CONTRACTS-2	7,000.00	(7,000.00)	0.00	0.00	(7,000.00)	0.00
100-51300-50216-40900000	OUTSIDE SERVICES/CONTRACTS-2	0.00	7,000.00	0.00	0.00	7,000.00	0.00
100-51300-50400	OUTSIDE LEGAL SERVICES	0.00	150,000.00	148,371.99	25,102.82	1,628.01	98.91
100-51300-50419	OUTSIDE LEGAL - PERSONNEL	0.00	7,000.00	7,121.61	1,350.00	(121.61)	101.74
Total Expenditure:		157,000.00	157,000.00	155,493.60	26,452.82	1,506.40	99.04
Net - Dept 51300 - CITY ATTORNEY		(157,000.00)	0.00	4,978.40	(26,452.82)	(4,978.40)	
Fund 100 - GENERAL FUND:							
TOTAL REVENUES		0.00	157,000.00	160,472.00	0.00	(3,472.00)	102.21
TOTAL EXPENDITURES		157,000.00	157,000.00	155,493.60	26,452.82	1,506.40	99.04
NET OF REVENUES & EXPENDITURES		(157,000.00)	0.00	4,978.40	(26,452.82)	(4,978.40)	100.00

The December invoice for $8,929 has NOT been posted yet.