

TOWN OF GREENWICH
BOARD OF ESTIMATE AND TAXATION
PARSONAGE COTTAGE WORKING GROUP
MINUTES – Town Hall Meeting Room, 1st Floor, Town Hall

Tuesday, October 8, 2013

Committee: Marc V. Johnson, Mary Lee Kiernan, Leslie Tarkington,
Bill Finger

Board: Michael Mason, BET Chairman, Robert Brady, Randall Huffman

Others: Peter Mynarski, Comptroller; George Yankowich, Housing Authority
Chairman; Anthony Johnson, Housing Authority Executive Director;
Penny Lore, Director, Parsonage Cottage Senior Residence; Princess
Erfe, Community Development Administrator; Aamina Ahmad, Assistant
Town Attorney; Alma Rutgers, CDAC Chair; Christopher Von Keyserling,
CDAC Vice Chair; Ed Krumeich, former BET Member.

The meeting was called to order at 8:40 A.M.

**1. Review Questions about the Community Development Block Grant (CDBG)
loan forgiveness and related transaction**

Ms. Kiernan welcomed everyone and recounted the history of the Community Development Block Grant (CDBG) and Town Loans for the renovation of Parsonage Cottage, along with the tax credit partnership created to help finance the renovation, and the reasons for the request to forgive the CDBG Loan contained in the CD-3 application. Ms. Kiernan stated that around 1995 there was an effort put together financing to renovate the Parsonage Cottage, which was in disrepair. Ms. Kiernan said that there was a need to raise approximately \$4.6 million from different sources to renovate the building. The financing sources were a CDBG grant, a potential Town appropriation and private donations, all converted into three loans in order to create losses in a limited partnership vehicle. The CDBG Loan was principal and interest for \$675,000 at 4%, the Town Loan was principal and interest for \$1,148,324 at 6%, and the private donations "Fundraising Board" loan was interest only at \$1,000,000, with interest re-granted back each year. Additional funding of \$1.7 million in equity came from two investors interested in utilizing federal tax loss credits. In addition, these transactions were part of a 99 year leasing agreement in respect of the Parsonage Cottage building between the Town of Greenwich and the Parsonage Cottage Senior Residence Limited Partnership (the "Partnership"). Ms. Kiernan added that according to the Housing Authority, the tax credit financing arrangement had exceeded a fifteen-year compliance period and the investors have been expressing a desire to be bought out by the Housing Authority for an amount approximating \$170,000. Ms. Kiernan distributed a schematic of the 1995 financing and the set of transactions proposed in CD-3.

Ms. Kiernan then proceeded to explain the current process whereby the Housing Authority has been asking for forgiveness of the CDBG loan in an effort to clean up their balance sheet and to assist in obtaining additional financing from a banking institution to pay off the Town loan. Ms. Kiernan explained the process began with approvals by the Community Development Advisory Committee and the Board of Selectman to forgive the

CDBG loan to the Town. The item went before the BET Budget Committee and the item was approved 4 to 0, subject to release upon receipt by the Board of Estimate and Taxation of a letter from the Housing Authority stating their intent, that if they succeed in refinancing their debt, the proceeds go to repayment of the Town of Greenwich loan. When the item was presented to the full BET on September 24, 2013, a number of questions and requests for additional information arose. As a result, the BET voted 12 to 0 to defer the item and Chairman Michael Mason appointed a four person working group consisting of the members present today.

Ms. Kiernan stated that the question that underlies all the transactions in CD-3 is: what is the best way to finance new capital improvements to this important Town facility? She noted that the Housing Authority estimates that capital improvements over the next five years total somewhere in the range of \$600,000 to \$900,000. Ms. Kiernan laid out a variety of options and areas of further discussion before the Working Group, consisting of the following:

- Loan forgiveness – forgive the CDBG Loan, forgive the Parsonage Cottage Fund Raising Board Loan, refinance the Town Loan with a local commercial bank, which would take a senior security (leasehold mortgage) interest., and have the Housing Authority buy out the limited partners. This scenario is the CD-3 application.
- Loan modification – modify the CDBG loan and the Town loan to allow for a lower annual debt service and/or tie debt service to available cash flows or the ability to pay by the Parsonage Cottage operations.
- Town financing of capital projects performed by Parsonage Cottage or have the Town finance the capital projects through its own bonding program at a better rate than a commercial bank would offer.
- Use of capital reserves required in the Operating Agreement and by regulation.
- Obtain additional new capital through resyndication of an additional tax credit arrangement.

Ms. Erfe provided a compilation of all the questions and requests made in connection with this application since last spring.

Mr. Marc Johnson asked Housing Authority officials who would be driving the process through the Representative Town Meeting (RTM). Mr. Yankowich answered that the Housing Authority would drive the process in conjunction with the First Selectman, Peter Tesei.

Mr. Finger had a number of questions involving general expenses, forgiving Housing Authority management fees, benchmarking headcount with other similar operations and controlling operating expenses. Housing Authority officials explained how they reclassify expenses in order to get reimbursements, how the daily reimbursement rate was set when the renovation occurred, stated that their staffing was reasonable, stated that the state reviewed their expenses closely, and promised additional requested data on the allocation of HATG overhead to Parsonage.

Ms. Tarkington asked if the Parsonage Cottage workers were unionized. Ms. Lore said no.

Ms. Kiernan asked about the payor mix. Ms. Lore informed the Working Group that the payor mix was 20% private pay and 80% Medicaid reimbursements.

Mr. Mason told Housing Authority officials that in order for them to be successful with the RTM they would have to create an educational program to ensure passage of their item.

Mr. Anthony Johnson addressed one of the options presented by Ms. Kiernan. He offered that the requested financing would be too small to attract new tax credit investors and make the deal work. He said that the financing would have to be at least \$20 million and that their needs are too small.

Mr. Yankowich explained that the repayment of the Town loan was a carrot to encourage forgiveness of the CDBG loan.

Ms. Tarkington asked if Housing Authority officials could provide the original Title Policy. Mr. Anthony Johnson responded that he would look for it. Ms. Tarkington noted that according to the Assessor, the fair market value of the property was \$9.6 million. Mrs. Tarkington also asked whether the parcel was divided between Nathaniel Witherell and Parsonage Cottage, and who pays the Parsonage sewer taxes.

Mr. Finger and Ms. Tarkington asked questions about insurance maintained on Parsonage. Ms. Erfe noted that CDBG recipients delivered insurance certificates each year, but the Housing Authority should still deliver insurance certificates to the Town Treasurer in respect of Parsonage on an ongoing basis, even if there is no CDBG grant in a particular program year. Mr. Anthony Johnson stated that the Town was not named on the property insurance and the Town is named on the liability insurance. The members agreed that there is an outstanding question about whether all insurance levels are adequate today.

Ms. Kiernan asked if the Lease Purchase Option to move the lease from the Partnership to the general partner, Town Hall Annex Corporation, was ever exercised. Mr. Anthony Johnson said that the answer was no.

Ms. Ahmad advised the Working Group that the options need to be narrowed down and she informed Housing Authority officials that the Partnership Agreement is still missing and was required for the Town's review to move forward.

Mr. Finger presented a number of options. He stated that we need to address the original request to forgive the CDBG Loan. In addition, he presented options to modify the CDBG and Town Loans. Mr. Yankowich stated that the loan modifications would have to be reduced to approximately \$50,000 of debt service annually to work.

Mr. Anthony Johnson stated that the Housing Authority had already used leasehold mortgage financing on a town 99 year lease property as security for a commercial bank loan in connection with the Town Hall Annex entity.

Ms. Kiernan asked Ms. Ahmad what is required of the Town to modify the loans. Ms. Ahmad answered that they would need something in writing with the newly structured loan repayments. Ms. Kiernan mentioned the need for standard covenants to be included in these loan modification documents as suggested by the HUD representative.

Mr. Mynarski asked about the reserves noted in the Housing Authority's audit. Mr. Yankowich explained that these could not be used for capital improvements and they did not have the capital reserves required in the Operating Agreement.

At this point, Mr. Mynarski advised the Working Group, that he felt the best avenue was to restructure both of the loans internally to avoid third party lending fees. The Working Group collectively agreed to look at this alternative and instructed Mr. Mynarski to work with the Town's Financial Advisor with several scenarios to get the annual debt service on the loans payments down to \$50,000 annually. Ms. Ahmad stated that this approach was simpler, but would still require RTM approval. Ms. Ahmad further stated that the loan forgiveness or modifications could not be separated from the rest of the contemplated transactions. Ms. Tarkington asked Ms. Ahmad if this should be reviewed by tax counsel.

Ms. Kiernan stated that BET members, including the Budget Committee, had remaining questions about the buyout of the limited partners and the valuation of their interests. In order to answer these questions, both the Partnership Agreement and the Partnership's tax return with K-1 schedules were needed, and these can be requested under the Operating Agreement.

Ms. Kiernan asked Ms. Ahmad if there were any regulatory issues to be resolved. Ms. Ahmad said she would review the Certificate of Need in light of the proposed transactions. Mr. Yankowich stated that the State DSS opined that the proposed transactions would have no effect on reimbursements. Ms. Ahmad stated that there would need to be a representation by DSS or counsel saying that all regulatory requirements were met and that the transactions would have no adverse impact on reimbursement rates.

Mr. Brady asked whether a term sheet from the commercial bank was provided and the answer was no, just a letter of interest. Mr. Brady expressed concern with the use of the leasehold on a Town property as collateral and preferred internal refinancing of the loans by the Town. Mr. Brady asked a further question about the MI status of this lease and whether changing the use of this lease to collateral would require Planning and Zoning approval. Ms. Ahmad stated that this would need to be reviewed.

2. Review Document Requests

Based on the overall discussions held between the Working Group, Housing Authority officials and BET members, the following documents and information requests remain outstanding:

- Partnership Agreement and amendments or side letters
- Partnership tax returns with K-1 Schedules
- The answer to Bill Finger's question about allocation of the Housing Authority Town of Greenwich overhead to Parsonage Cottage
- Audited financials of the Town Hall Annex Corporation required by paragraph 6, page 4 of the Operating Agreement
- Leslie Tarkington's requests relating to the title insurance policy required at closing and sewer taxes.

3. Review process and timeline

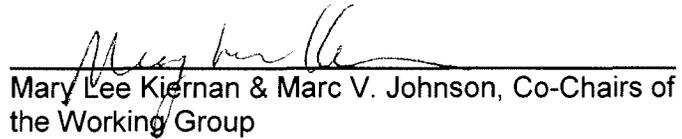
Ms. Kiernan explained the requested materials listed above be forwarded to Mr. Mynarski. Upon adequate receipt, the Working Group will reconvene at a date to be determined.

4. Adjournment

The meeting adjourned at 10:53 A.M.



Peter Mynarski, Recording Secretary



Mary Lee Kiernan & Marc V. Johnson, Co-Chairs of
the Working Group