

April 18, 2017

Mary Ellen Wiederwohl
Chief, Louisville Forward
Metro Louisville Government
City Hall
527 West Jefferson Street
Louisville, KY 40202

Re: Establishment of Workforce Rent Abatement Program

Dear Ms. Wiederwohl:

As you know, Flournoy Development Company, a Georgia limited liability company, and its subsidiary, The Local Kentucky, LLC, a Delaware limited liability company (collectively, "Flournoy"), intend to construct and operate a multi-family, mixed-use residential space on certain property located at 700 East Main Street and 121 S. Clay Street in the Nulu neighborhood (the "Property"), consisting of approximately 270 studio, 1- and 2-bedroom units, 11,550 square feet of retail/fitness/flex space, and a five story parking garage consisting of approximately 430 spaces (the "Project"). Flournoy has extensive experience with similar developments, including tax increment financing and workforce housing issues and requirements, and fully appreciates that having a neighborhood with residents of various income levels benefits the entire community.

In an effort to obtain certain approvals, including certain Tax Increment Financing incentives (the "TIF"), for the Project, Flournoy engaged in negotiations with Metro Louisville officials and Councilmembers, resulting in a proposal that 18 units of the Project be designated as Workforce Housing Units (the "Proposed Concession"). However, due to the significant impact of the Proposed Concession on the Project's return on investment, the expectations of the Project's equity investors are not met, which will result in the Project becoming financially infeasible. In an effort and desire to make the deal feasible, Flournoy is proposing to provide a single cash donation in lieu of the Proposed Concession. This donation would be made to an appropriate entity designated by Metro Louisville so that the funds can be administered by that entity to address the need for financial diversity in housing.

I. Background

The land purchase price negotiated between Flournoy and the land seller was directly influenced by the Bristol transaction across Main and Clay, which received TIF incentives with no requirement to include workforce housing units. The unofficial goal of Louisville-Jefferson County Metro Council ("Metro Council"), which requires a project seeking a TIF to designate 10% of its available units as workforce housing, was not in existence at the time of the land

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purchase agreement. Indeed, Flournoy would not have agreed to the current land purchase price had the workforce housing requirement been clearly imposed at the time of negotiation. Throughout this Project, Flournoy has encountered, and has incurred costs related to, numerous site and community demands. In response to the Proposed Concession, Flournoy has made extensive efforts to convince the land seller to reduce the purchase price enough to offset the impact of the lost revenue these 18 units create. However, because this has not occurred, Flournoy cannot agree to the Proposed Concession.

II. **Proposed Program and Parameters**

Under the proposed program, the developer would work with Louisville Forward to determine the amount of workforce housing units or other housing concessions which are financially sustainable by the project, similarly to current TIF negotiations. The developer will submit to Louisville Forward required relevant data to aid in their determinations. Louisville Forward, subsequent to these discussions and based on any financial information provided, will make a final determination and recommendation concerning the number of workforce housing units or other housing concessions for the project. The Developer can then either (i) undertake the current TIF route of providing for these units or other concession, or (ii) work with Louisville Forward to calculate the net present value of the gap of the lost revenue to the Developer with the current workforce housing plan.

If the Developer chooses to make a payment in lieu of the housing, prior to renting any unit or activating the TIF, Developer will deliver the full net present value, as determined in conjunction with Louisville Forward, in immediately available funds to the appropriate entity who will hold the funds in trust. The selected entity could then choose to do one of the following:

- Have individuals apply for the Program by submitting to the selected agency sufficient evidence demonstrating eligibility for rents at 80% AMI (for workforce housing), and provide the donated amount as vouchers for rent in the donating development to pay the gap between the workforce rate of the donating development and the market level rate of the donating development.
- Leverage the donated amount to create workforce housing units in a strategic location of the agency's choosing.
- Use the donated amount in any manner the city desires that will create mixed-income diversity where it is most needed.

Flournoy will gladly welcome workforce-qualified residents into their proposed development. Flournoy also understands the potential need and desire of the City for flexibility in

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this program. As Rebecca Matheny has stated on the record, the Nulu area is not in need of workforce housing the way many other areas of Louisville are. Flournoy believes this proposal allows for much needed market-level rental units downtown, while also giving the City the unique opportunity to create income-diverse housing where it is actually needed.

III. **Benefits of the Proposed Program**

This Program will allow developments in Louisville to obtain traditional financing, encourage mixed-income residential communities, accelerate market-rate development in the downtown area, and actually create the desired community result by providing for (1) verification of an individual's income in what would be designated as the "workforce" housing units under current plans, and (2) high quality living opportunities for those individuals. Ultimately, this Program will likely accelerate investment and provide more opportunities to live in true mixed-income communities in the downtown area.

The current system does not require multi-family owners to verify income of the applicants. The result is that any applicant can be given the lower cost apartment *regardless of their income or suitability for the program*. Under the Proposed Program, the selected agency could require application and regular certification of individuals prior to allowing them to use housing funds for rent abatement. Further, the Proposed Program will not incentivize developers to build and designate micro-units for "workforce housing" rates, and will likely actually increase the quality of these units.

IV. **Conclusion**

The purpose of the current TIF program is to encourage residential development in areas, such as Nulu, that would otherwise suffer from stagnation due to conditions making construction and development uninteresting and economically impractical. It should be noted that failure to incentivize Flournoy or other potential developers in the downtown area, a purpose explicitly contemplated by the TIF legislation, will mean a failure to attract much-needed population density to the downtown area.

In delivering this letter, Flournoy seeks to (a) reaffirm its commitment to this Project and the inclusion of workforce-qualified residents within its Project; and (b) support Metro Council's commitment to mixed-income housing in the Louisville Metro area by proposing a more practical solution that will encourage housing development in downtown Louisville. For the reasons described above, and to proceed with its Project, Flournoy now seeks agreement from the City

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Council that in lieu of the Proposed Concession, Flournoy may instead proceed by delivering the cash amount of \$500,000 pursuant to the terms of the Proposal described above.

We sincerely appreciate the efforts of Louisville Forward, and hope that the City Council will agree to the merits of the Proposed Program. However, if the cash payment in lieu of the Proposed Concession is not acceptable to the City Council, this letter will serve as notice that Flournoy will not proceed with the Project due to economic constraints.

Sincerely,

A handwritten signature in black ink, appearing to read 'JAM', with a long horizontal flourish extending to the right.

Jeffrey A. McKenzie
Partner
JAM/kem

CC: Councilwoman Barbara Sexton Smith
Councilwoman Cheri Bryant Hamilton