



Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL
FROM: Julia H. Cooper
 Leslye Krutko
SUBJECT: SEE BELOW
DATE: April 24, 2008

Approved

Date

4-25-08

COUNCIL DISTRICT: 7
SNI AREA: N/A

SUBJECT: APPROVAL OF THE ISSUANCE OF BONDS, LOAN OF BOND PROCEEDS, AND RELATED DOCUMENTS FOR THE FAIRGROUNDS SENIOR HOUSING APARTMENTS

SUPPLEMENTAL MEMORANDUM

REASON FOR SUPPLEMENTAL MEMORANDUM

The purpose of this Supplemental Memorandum is to update the City Council on information contained in the April 1, 2008 Council Memorandum (the "Council Memorandum"). The primary changes are (1) updates in Project costs as provided by the Borrower; and (2) an additional Bond document as required by Citicorp Municipal Mortgage Corporation, the permanent lender and tax-exempt bond purchaser.

UPDATES TO APRIL 1, 2008 COUNCIL MEMORANDUM

Background

The Borrower has updated the estimated Project costs and revised the estimated funding sources, including the initial Bond amount, as shown in the table below. The Construction cost has been reduced to \$45,978,099 compared to \$47,307,412 per the Council Memorandum. The Permanent loan amount remains approximately the same at \$47,210,142 compared to \$47,307,412 per the Council Memorandum. The difference in Construction vs. Permanent loan amount is due to postponement of the funding for the operating reserves to after construction.

April 24, 2008

Subject: Fairgrounds Senior Housing Apartments – Supplemental

Page 2

<u>Source</u>	<u>Construction</u>	<u>Permanent</u>
Bond Proceeds	\$26,000,000	\$13,900,000
City Loan	12,300,000	12,300,000
County of Santa Clara Loan	1,475,000	1,475,000
Tax Credit Equity	3,000,000	17,292,010
Interest Income	806,310	806,310
Income from Operations	556,789	1,436,822
Deferred Developer Fee	1,840,000	0
Total	\$45,978,099	\$47,210,142

The Closing date for the Bonds is now expected to be May 7, 2008, compared with April 28, 2008, per the Council Memorandum. As anticipated per the Council Memorandum, CDLAC has confirmed in writing an extension of the closing deadline to May 12, 2008.

Bond Financing Structure

Private Placement Structure: The Bonds will be non-rated and not credit-enhanced and will be structured as a private placement with Citicorp Municipal Mortgage, Inc., a Delaware statutory trust, or an affiliated entity (“Private Placement Purchaser”) as the initial private placement purchaser. Pursuant to the City’s policies regarding non-credit enhanced bonds, the Private Placement Purchaser will sign an Investor’s Letter acknowledging that it is a “qualified institutional buyer” or an “accredited investor”; a large institutional investor which understands and accepts the risks associated with unrated bonds secured by a first priority lien on the Project. If the Private Placement Purchaser wishes to transfer the Bonds, the new bondholder must sign and deliver a similar Investor Letter to the Bond Trustee.

The Investor Letter to be signed by the Private Placement Purchaser and subsequent transferees incorporates the key provisions of the City’s form of Investor Letter but uses the language typically contained in the Private Placement Purchaser’s form of Investor Letter.

Principal Amount and Term: The initial Bond amount is now expected to be \$26,000,000 rather than \$28,000,000. The Bonds are expected to be structured as a single maturity rather than two maturities. Bond amortization will not change. The final maturity is now expected to be May 1, 2041 rather than November 1, 2040. Following construction and lease-up, the Bonds are still expected to be paid down with tax credit equity funds to \$13,900,000. The final dates, amounts, and other financial terms are subject to change based on final pricing information.

Bond Financing Documents

The following is a brief description of an additional document the City Council is being asked to approve and authorize its execution.

April 24, 2008

Subject: Fairgrounds Senior Housing Apartments – Supplemental

Page 3

Multifamily Note (Floating Rate Converting to Fixed Rate): The Loan under the Loan Agreement is evidenced by a promissory note to be executed by the Borrower (the “Note”). As required by the Indenture, the City Manager or other authorized officer on behalf of the City is to endorse the Note, without recourse, to the Trustee.

Financing Schedule

The current financing schedule is as follows:

- Council Approval of Bond Documents April 29, 2008
- Pre-Close and Close Bonds May 5, 2008 and May 7, 2008
- CDLAC Deadline for Bond Closing May 12, 2008

COST IMPLICATIONS

On the basis of a lower Bond size of \$26,000,000, the City is expected to collect the following fees: (1) a \$90,000 issuance fee; and, (2) a \$32,500 annual fee. There are no other ongoing cost implications for this bond issuance.

DOCUMENTS RELATED TO THE FINANCING

The following documents described in the Council Memorandum are on file in the City Clerk’s Office:

- Indenture
- Loan Agreement
- Regulatory Agreement and Declaration of Restrictive Covenants
- Bond Purchase Agreement
- Assignment of Deed of Trust and Other Loan Documents
- Multifamily Note

These documents are presented for City Council approval in substantially final form.


JULIA H. COOPER
Deputy Director of Finance


LESLYE KRUTKO
Director, Housing Department

For questions, please contact Julia H. Cooper, Deputy Director, at (408) 535-7011.