



COUNCIL AGENDA: 08/23/05

ITEM: 4.3

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Corsiglia
Director of Housing

SUBJECT: SEE BELOW

DATE: August 3, 2005

Approved

Date

8/9/05

COUNCIL DISTRICT: 7

SNI AREA: N/A

SUBJECT: AUTHORIZATION TO CHANGE THE APPROVED BORROWER FOR CORDE TERRA FAMILY APARTMENTS, FORMERLY KNOWN AS FAIRGROUNDS FAMILY HOUSING, RESULTING IN A COMBINED PROJECT OF 300 UNITS AND COMBINED LOAN AMOUNT UP TO \$21,187,440

RECOMMENDATION

It is recommended that the City Council:

1. Adopt a resolution approving the change in authorized borrower from the Housing Authority of the County of Santa Clara to ROEM Development Corporation, or a designated affiliate, for the \$8,378,250 loan approved on April 13, 2004, for the 130-unit Corde Terra Family Apartments project (formerly known as Fairgrounds Family Housing) located at 350 Tully Road, resulting in a combined project of 300 units and a combined loan in an amount up to \$21,187,440.

BACKGROUND

On April 13, 2004, the City Council approved funding commitments in the amount of \$8,378,250 to the Housing Authority of the County of Santa Clara (HACSC) for the development of a 130-unit multi-family rental project, Fairgrounds Family Housing, and a loan in the amount of \$10,856,800 to ROEM Development Corporation for the development of a 170-unit multi-family rental project, Fairgrounds Family Apartments. Both projects are located at 350 Tully Road in San José, and were to be built on a single podium on adjacent parcels. ROEM Builders, Inc. was the proposed general contractor for the 170-unit project and L&D Construction, Inc. was the proposed general contractor for the 130-unit project.

Both project sponsors proposed to leverage the City's funds with a CalHFA permanent loan and with tax credit equity to be provided by Hudson Housing Capital.

August 3, 2005

Subject: Request to Approve the Combination of Two Projects into One and to Change Ownership Structure for Corde Terra Apartments

Page 2

ANALYSIS

On July 11, 2005, the Housing Authority of the County of Santa Clara requested that the City approve a proposal to terminate the HACSC's involvement as a developer for the 130 units, and transfer the City's loan commitment for the HACSC project to ROEM. Under the proposed project structure, both projects would be combined and ROEM, or its designated affiliate, would become the sole developer of their 170 units as well as the HACSC's 130 units. The project ("Corde Terra Family Apartments") would receive a single CalHFA construction loan, a single CalHFA permanent loan, and a single tax credit investment from Hudson Capital. The project would be owned by Fairgrounds Luxury Family Apartments, L.P., a tax credit partnership in which a ROEM affiliate would be the developer and administrative general partner. The HACSC, through its nonprofit affiliate, Pinmore HDC Inc., would remain as managing general partner.

The proposed, simplified project structure has several advantages. Both Hudson Capital and CalHFA prefer working with a single entity instead of two entities to lower their risk and to help to ensure that the project will remain as financially feasible as is now projected. The revised structure will eliminate potential construction risk from having two separate contractors working on a single podium, will eliminate the potential leasing risk of having two adjacent but separate projects with different designs that would lease up at the same time, and will promote smooth operations over the long-term.

From the City's perspective, working with a single developer is clearly preferable. It promotes simpler decision making during the construction period, it minimizes negotiations during construction, it greatly simplifies the construction draws process by minimizing any potential disagreements that could have occurred between two separate general contractors, and it reduces the potential for delays and resulting cost increases. The Office of Equality Assurance agrees that enforcement of wage rates is much simpler when overseeing one entity rather than two. Closing a single City loan also reduces time spent for negotiations on business terms and for documenting and closing of one loan instead of two.

The proposed simplified structure also has the potential for reduced costs as compared to the previous structure with two construction budgets and two City loans. Eliminating L&D Construction and using ROEM Builders for both parts will reduce construction overhead costs. Simplifying negotiations should result in lower costs for tax credit partnership formation, financing, and legal services. And, there is a net savings of \$420,000 in allowable developer fee given that there would now be one developer controlling the project instead of two.

Approval of the proposed streamlined structure will result in a combined loan amount up to \$21,187,440, which is the sum of the two previously-approved loan amounts for the separate projects, plus \$1,952,777 in capitalized interest. While the project's budget is still changing and some actual hard costs are coming in higher than originally projected to offset other cost savings, the anticipated paydown to the City of excess funds at the end of construction is currently

HONORABLE MAYOR AND CITY COUNCIL

August 3, 2005

Subject: Request to Approve the Combination of Two Projects into One and to Change Ownership Structure for Corde Terra Apartments

Page 3

projected to exceed \$300,000, which would therefore result in a reduction of the City's permanent loan amount.

OUTCOME

Approval of the proposed project structure would help to ensure timely project completion and to enhance the financial stability of the project, thereby reducing long-term risks to the City and to other lenders.

PUBLIC OUTREACH

ROEM Development Corporation and HACSC hosted a neighborhood meeting at Franklin Elementary School on the proposed project on May 23, 2002. Additionally, the PD Rezoning process included published notices of public hearings before the Planning Commission and City Council that neighboring residents could attend and provide testimony.

COORDINATION

Preparation of this memorandum was coordinated with the Office of the City Attorney.

COST IMPLICATIONS

None.

CEQA

CEQA Resolution No. 71359 (PDC 02-040).


LESLIE CORSIGLIA
Director of Housing