



CITY OF CORPUS CHRISTI

AGENDA MEMORANDUM

Action Item for the Corpus Christi Housing Finance Corporation
Special Meeting on December 9, 2025

DATE: November 21, 2025

TO: Peter Zaroni, General Manager, Corpus Christi Housing Finance Corporation

FROM: Daniel McGinn, AICP, Interim Assistant City Manager
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<p>Resolutions concerning the sale of the Costa Tarragona I and Costa Tarragona II Apartments at 2240 and 3302 N. Padre Island Dr. to an Entity Formed by HKSK Corp.</p>

CAPTION:

Resolutions concerning the sale of the Costa Tarragona I and Costa Tarragona II Apartments at 2240 and 3302 N. Padre Island Dr. to HKSK Corp.:

(a) Resolution Authorizing Participation as a Managing Member in Costa Tarragona Apts LLC, an Entity Formed by HKSK Corp. in Connection with its Acquisition of the Costa Tarragona I and Costa Tarragona II Apartments, and Approving an Amended and Restated Ground Lease Covering Both Apartment Projects Combined; and

(b) Resolution Authorizing the Early Payment and Redemption of the 2005 Corpus Christi Housing Finance Corporation Multifamily Revenue Bonds (Costa Tarragona I Project) and Matters Pertaining Thereto.

SUMMARY:

The Corpus Christi Housing Finance Corporation (CCHFC) is considering approval of the terms of the sale of the Costa Tarragona Apartments Phase I and Phase II to HKSK Corp. for a total sales price of \$17.1 million. Approval will authorize participation in the new ownership structure and authorize the prepayment of the Multifamily Revenue Bonds issued by CCHFC at the time of property development. The project will maintain the affordability of 346 units for households at 60 percent of the Area Median Income (AMI).

BACKGROUND AND FINDINGS:

On July 29, 2025, the Board approved the sale of both the Costa Tarragona I Apartments and the Costa Tarragona II Apartments to HKSK Corp. (or its permitted assigns) for a combined sales price of \$17.1 million. The sales price will pay off all the existing indebtedness of both apartment projects, and the purchaser is refinancing the purchase with a single lender without the use of any multifamily revenue bonds by the CCHFC. A subsequent property inspection during the due diligence period resulted in an \$80,000 sales price reduction in order to sell

the properties "as is". The sales price reduction is .47 percent (less than 1 percent) of the originally agreed upon sales price for the 346 units.

In connection with the original development of the apartments, the CCHFC formed subsidiary entities to act as the general partner of Costa Tarragona I, Ltd. and Costa Tarragona II, Ltd., which owned and operated the apartment projects with the tax credit investors and NRP Group acting as the property managers. The land on which the apartments were constructed is owned by the CCHFC with separate Ground Leases to each entity, providing for the construction and development of the apartment projects. This structure was designed to obtain an exemption from property taxes for the properties so that they could cash flow with the reduced rentals due to the limitations on leasing to tenants with incomes below 60 percent of the AMI.

Although the tax credits compliance period for each project is expiring, both projects will remain subject to the 60 percent AMI limitation during an "Extended Use Period" of an additional 15 years. As a result, the properties will be unable to cash flow without continued assistance through the exemption of property taxes. At the July 29, 2025, Board meeting, the ground lease assignments were approved and the terms and conditions of the CCHFC's continued participation in the project were set with the understanding that final approval for participation would be necessary at a future board meeting after the purchaser finalized its structure for the purchasing entity of the apartments.

The CCHFC additionally issued \$10.8 million in multifamily revenue bonds in connection with the financing for the Costa Tarragona I Apartments. Those bonds have a maturity date of May 1, 2048, but will need to be redeemed in connection with the sale and refinancing of the apartments.

Participation in Purchaser Entity. HSK Corp. has organized Costa Tarragona Apts LLC, a Texas limited liability company, (the "Purchaser") as its permitted assignee of the purchase agreement. HSK Corp. has requested the participation of the CCHFC as a managing member of this new entity in order to preserve the existing property tax exemption of the apartments with the Nueces County Appraisal District similar to the way the CCHFC has participated in the past with Costa Tarragona I, Ltd. and Costa Tarragona II, Ltd. For each of those entities, the CCHFC formed a single-purpose subsidiary to serve as the general partner of the limited partnership.

The first step involves the formation of CCHFC Costa Tarragona Apts, LLC, a Texas limited liability company, as a wholly owned subsidiary of the CCHFC (the "Subsidiary") to become the managing member of the Purchaser. It is structured in the same manner as was done in 2005 and 2011 for the existing projects with Costa Tarragona I, Ltd. and Costa Tarragona II, Ltd. The CCHFC will be the sole member of this new LLC, and all actions concerning it will be subject to approval by the CCHFC Board of Directors and signature by the CCHFC officers.

The next step involves the Subsidiary joining in the Operating Agreement for the Purchaser as the managing member of that entity. The terms and conditions of the Operating Agreement provide for the payment of annual fees and a termination fee to the Corporation when the Extended Use Period is concluded and the participation by the CCHFC no longer will be required. These items are approved in the first Resolution of item 6.

Amended and Restated Ground Lease. The CCHFC previously authorized the assignment of the respective Ground Leases for the Costa Tarragona I Apartments and the Costa Tarragona II Apartments to HSK Corp. which has designated the Purchaser as its permitted assignee. Since both projects will continue to be managed and operated as a single apartment project

with one mortgage loan, the best practice would be for the amendment and restatement of the existing Ground Leases into an Amended and Restated Ground Lease covering the Apartments combined. The existing Ground Lease for Costa Tarragona I began in 2005 for a 75-year term. In order to provide sufficient collateral for the mortgage lender on the leasehold estate, the term will be extended to a similar term ending December 31, 2100, subject to earlier termination as provided in the Lease and in the Operating Agreement. Typically, the Apartments will be refinanced or sold and the ground lease structure eliminated when the Apartments cease to be low-income restricted units. This action also is covered in the first Resolution of item 6.

Early Payment of Revenue Bonds. The 2005 CCHFC Multifamily Revenue Bonds will need to be redeemed prior to maturity in connection with the sale and refinancing of the apartments. Sufficient funds for the redemption will be provided to the Bond Trustee, The Bank of New York Mellon Trust Company, N.A., to pay the bonds in full pursuant to the Trust Indenture and an Escrow Agreement providing for such. The second Resolution of item 6 has been provided by bond counsel to address the issues concerning the early payment and redemption.

Closing. The transaction currently is scheduled to close on or about December 29, 2025, subject to obtaining all necessary approvals from TDHCA and the completion of the financing terms.

TIMELINE:

Costa Tarragona I Developed – 250 units	2008
Costa Tarragona II Developed – 96 units	2012
Special Limited Partner Requires Sale	July 1, 2024
CCHFC Sets Terms of Future Participation for Offering	January 28, 2025
CCHFC Approves Letter of Intent, Purchase and Sale Agreements, and Assignment of Ground Leases	July 29, 2025
CCHFC Approves Participation in Ownership & Prepayment of Bonds	December 9, 2025
Closing of Sale	December 29, 2025
Payment of Multifamily Revenue Bonds	January 2, 2026

ALTERNATIVES:

The CCHFC can reject the terms of the sale, disagree with the early payment and redemption of the Multifamily Revenue Bonds, and chose not to participate in the new ownership entity causing the purchaser to rescind the offer and the property partners to move forward with disposition without CCHFC participation.

FISCAL IMPACT:

Through the sales proceeds waterfall, the CCHFC is estimated to receive approximately \$1.2 million less closing costs. After the sale, under the new ownership structure, the CCHFC is to receive 15 percent of the property tax savings in year one, increasing by 2 percent per year. Over 10 years, this amount is estimated to be \$406,000. At a subsequent resale, the CCHFC will receive 2 percent of the sale proceeds. Sales proceeds and income from the property are required by the Texas Government Code to be used for affordable housing for low- and moderate-income households.

In addition to the sales proceeds to the CCHFC, the HOME Investment Partnership Program (HOME) loans will be repaid to the City. HOME funds will be receipted as program income and

are required by the U.S. Department of Housing and Urban Development to be used for HOME eligible projects and expenses.

	Costa Tarragona I	Costa Tarragona II
Principal Balance	\$550,000	\$715,789
2024 Accrued Balance	\$422,097	\$356,394
Estimated 2025 Interest	\$37,639	\$28,130
Total HOME Loan Payoff	\$1,009,736	\$1,100,310

RECOMMENDATION:

Staff recommends approval of the Resolutions Authorizing Participation and Prepayment.

LIST OF SUPPORTING DOCUMENTS:

Resolution Authorizing Participation
Resolution Authorizing Prepayment