

RESOLUTION NO. 2015-26

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARINA PROVIDING DIRECTION TO THE CITY MANAGER REGARDING LOAN OPTIONS AND ALTERNATIVES RELATIVE TO THE PLANNED FINANCING AND PURCHASING OF PRESTON PARK.

WHEREAS, the City of Marina has been engaged in litigation with the Fort Ord Reuse Authority (FORA) regarding the ownership of Preston Park. The City and FORA have reached agreement on the terms of a settlement and expect to enter into a Settlement Agreement and Purchase and Sale Agreement whereby the City would purchase Preston Park from FORA, and;

WHEREAS, the proposed settlement will include the City of Marina buying out FORA's one-half interest in Preston Park. In order to meet loan closing deadlines associated with buying out FORA's interest, the City Council needs to provide direction regarding loan financing options. The City's buyout of FORA's one-half interest in Preston park is proposed to be \$35 million dollars, and;

WHEREAS, to purchase FORA's one-half interest in Preston Park will first require establishing a new Preston Park Non-Profit Corporation, and then the Preston Park Non-Profit Corporation will need to secure a \$35 million dollar loan to purchase FORA's interest in the property, and;

WHEREAS, financing options and alternatives that we are considering would allow the annual payments for the \$35 million dollar loan to be made from new rent monies which the City will receive from FORA's interest in the property. These new annual rent revenues are estimated to be \$1,743,933, and;

WHEREAS, the attached exhibit prepared by Keyser Marston shows three loan options we are requesting the City Council consider:

- Option 1 - 10 year fixed rate loan
- Option 2 - 30 year fixed rate loan
- Option 3 - 10 year interest only loan.

NOW, THEREFORE IT BE RESOLVED that the City Council of the City of Marina as follows:

1. Keep our two major preferences, the two ten year interest only and the fixed rate (options 1 and option 3) on the table for further evaluation and eliminate the thirty year (option 2).

PASSED AND ADOPTED by the City Council of the City of Marina at a regular meeting duly held on the 3rd day of March 2015 by the following vote:

AYES, COUNCIL MEMBERS: Amadeo, Brown, Morton, O'Connell, Delgado

NOES, COUNCIL MEMBERS: None

ABSTAIN, COUNCIL MEMBERS: None

ABSENT, COUNCIL MEMBERS: None

Frank O'Connell, Mayor Pro-Tem

ATTEST:

Anita Sharp, Deputy City Clerk

EXHIBIT A

Table 1
 Comparative Analysis - February 25, 2015
 Preston Park
 Marina, CA

	\$35 million, 10- Yr. Fixed Rate Loan	\$35 million, 30- Year Fixed Rate Loan	\$35 million, 10 Yr. Interest Only Loan
10-yr. Treasury	1.9900%	1.9900%	1.9900%
Spread	1.5500%	2.6300%	1.6500%
Interest Rate	3.54%	4.62%	3.64%
Est. 2013/14 Income - Per City			
I. Staff			
Estimated Monthly NOI	\$290,656	\$290,656	\$290,656
50% of NOI	\$145,328	\$145,328	\$145,328
II. Debt and Payment to FORA			
Monthly Debt Service	\$159,528	\$181,643	\$107,228
Interest Rate	3.54%	4.62%	3.64%
Amortization Term	30	30	0
Origination Fees	1.00%	1.00%	1.00%
Gross Debt	\$35,350,000	\$35,350,000	\$35,350,000
(less) Financing Costs	(\$353,500)	(\$353,500)	(\$353,500)
Net Proceeds/Payment to FORA	\$35,000,000	\$35,000,000	\$35,000,000
III. Payment to FORA			
Total Payment to FORA	\$35,000,000	\$35,000,000	\$35,000,000
Less Estimated Balance of Rabobank Loan	\$18,000,000	\$18,000,000	\$18,000,000
Net Cash to FORA	\$17,000,000	\$17,000,000	\$17,000,000
IV. Revenues to Marina			
100% of NOI	\$3,487,866	\$3,487,866	\$3,487,866
Less Debt Service Payment	-\$1,914,332	-\$2,179,711	-\$1,286,740
Net Annual Cash Flow	\$1,573,534	\$1,308,155	\$2,201,126
V. Marginal Impact on Marina's Annual CF			
Current Annual Revenues to Marina	\$1,743,933	\$1,743,933	\$1,743,933
Net Annual CF after Proposed Pmt to FORA	\$1,573,534	\$1,308,155	\$2,201,126
Net Marginal Impact on Marina's CF	-\$170,399	-\$435,778	\$457,193
Rounded	-\$170,000	-\$436,000	\$457,000

Monthly Amortization Schedule, 10-year fixed rate loan
 Preston Park

3.54% Interest rate

Month	Beginning Balance	Debt Service	Interest	Principal	Remaining Balance
1	\$35,350,000	\$159,528	\$104,283	\$55,245	\$35,294,755
2	\$35,294,755	\$159,528	\$104,120	\$55,408	\$35,239,347
3	\$35,239,347	\$159,528	\$103,956	\$55,572	\$35,183,775
4	\$35,183,775	\$159,528	\$103,792	\$55,736	\$35,128,040
5	\$35,128,040	\$159,528	\$103,628	\$55,900	\$35,072,140
6	\$35,072,140	\$159,528	\$103,463	\$56,065	\$35,016,075
7	\$35,016,075	\$159,528	\$103,297	\$56,230	\$34,959,845
8	\$34,959,845	\$159,528	\$103,132	\$56,396	\$34,903,448
9	\$34,903,448	\$159,528	\$102,965	\$56,562	\$34,846,886
10	\$34,846,886	\$159,528	\$102,798	\$56,729	\$34,790,157
11	\$34,790,157	\$159,528	\$102,631	\$56,897	\$34,733,260
12	\$34,733,260	\$159,528	\$102,463	\$57,065	\$34,676,195
13	\$34,676,195	\$159,528	\$102,295	\$57,233	\$34,618,963
14	\$34,618,963	\$159,528	\$102,126	\$57,402	\$34,561,561
15	\$34,561,561	\$159,528	\$101,957	\$57,571	\$34,503,990
16	\$34,503,990	\$159,528	\$101,787	\$57,741	\$34,446,249
17	\$34,446,249	\$159,528	\$101,616	\$57,911	\$34,388,338
18	\$34,388,338	\$159,528	\$101,446	\$58,082	\$34,330,256
19	\$34,330,256	\$159,528	\$101,274	\$58,253	\$34,272,002
20	\$34,272,002	\$159,528	\$101,102	\$58,425	\$34,213,577
21	\$34,213,577	\$159,528	\$100,930	\$58,598	\$34,154,979
22	\$34,154,979	\$159,528	\$100,757	\$58,770	\$34,096,209
23	\$34,096,209	\$159,528	\$100,584	\$58,944	\$34,037,265
24	\$34,037,265	\$159,528	\$100,410	\$59,118	\$33,978,147
25	\$33,978,147	\$159,528	\$100,236	\$59,292	\$33,918,855
26	\$33,918,855	\$159,528	\$100,061	\$59,467	\$33,859,388
27	\$33,859,388	\$159,528	\$99,885	\$59,642	\$33,799,746
28	\$33,799,746	\$159,528	\$99,709	\$59,818	\$33,739,927
29	\$33,739,927	\$159,528	\$99,533	\$59,995	\$33,679,932
30	\$33,679,932	\$159,528	\$99,356	\$60,172	\$33,619,761
31	\$33,619,761	\$159,528	\$99,178	\$60,349	\$33,559,411
32	\$33,559,411	\$159,528	\$99,000	\$60,527	\$33,498,884
33	\$33,498,884	\$159,528	\$98,822	\$60,706	\$33,438,178
34	\$33,438,178	\$159,528	\$98,643	\$60,885	\$33,377,293
35	\$33,377,293	\$159,528	\$98,463	\$61,065	\$33,316,228
36	\$33,316,228	\$159,528	\$98,283	\$61,245	\$33,254,983
37	\$33,254,983	\$159,528	\$98,102	\$61,425	\$33,193,558
38	\$33,193,558	\$159,528	\$97,921	\$61,607	\$33,131,951
39	\$33,131,951	\$159,528	\$97,739	\$61,788	\$33,070,163
40	\$33,070,163	\$159,528	\$97,557	\$61,971	\$33,008,192
41	\$33,008,192	\$159,528	\$97,374	\$62,153	\$32,946,039
42	\$32,946,039	\$159,528	\$97,191	\$62,337	\$32,883,702
43	\$32,883,702	\$159,528	\$97,007	\$62,521	\$32,821,181
44	\$32,821,181	\$159,528	\$96,822	\$62,705	\$32,758,476
45	\$32,758,476	\$159,528	\$96,638	\$62,890	\$32,695,586
46	\$32,695,586	\$159,528	\$96,452	\$63,076	\$32,632,510
47	\$32,632,510	\$159,528	\$96,266	\$63,262	\$32,569,248
48	\$32,569,248	\$159,528	\$96,079	\$63,448	\$32,505,800
49	\$32,505,800	\$159,528	\$95,892	\$63,636	\$32,442,164
50	\$32,442,164	\$159,528	\$95,704	\$63,823	\$32,378,341
51	\$32,378,341	\$159,528	\$95,516	\$64,012	\$32,314,330
52	\$32,314,330	\$159,528	\$95,327	\$64,200	\$32,250,129
53	\$32,250,129	\$159,528	\$95,138	\$64,390	\$32,185,739
54	\$32,185,739	\$159,528	\$94,948	\$64,580	\$32,121,160
55	\$32,121,160	\$159,528	\$94,757	\$64,770	\$32,056,389
56	\$32,056,389	\$159,528	\$94,566	\$64,961	\$31,991,428
57	\$31,991,428	\$159,528	\$94,375	\$65,153	\$31,926,275
58	\$31,926,275	\$159,528	\$94,183	\$65,345	\$31,860,930
59	\$31,860,930	\$159,528	\$93,990	\$65,538	\$31,795,392
60	\$31,795,392	\$159,528	\$93,796	\$65,731	\$31,729,661
61	\$31,729,661	\$159,528	\$93,602	\$65,925	\$31,663,736
62	\$31,663,736	\$159,528	\$93,408	\$66,120	\$31,597,616
63	\$31,597,616	\$159,528	\$93,213	\$66,315	\$31,531,301
64	\$31,531,301	\$159,528	\$93,017	\$66,510	\$31,464,791

Monthly Amortization Schedule, 10-year fixed rate loan
 Preston Park

3.54% Interest rate

	Beginning Balance	Debt Service	Interest	Principal	Remaining Balance
65	\$31,464,791	\$159,528	\$92,821	\$66,707	\$31,398,085
66	\$31,398,085	\$159,528	\$92,624	\$66,903	\$31,331,181
67	\$31,331,181	\$159,528	\$92,427	\$67,101	\$31,264,081
68	\$31,264,081	\$159,528	\$92,229	\$67,299	\$31,196,782
69	\$31,196,782	\$159,528	\$92,031	\$67,497	\$31,129,285
70	\$31,129,285	\$159,528	\$91,831	\$67,696	\$31,061,589
71	\$31,061,589	\$159,528	\$91,632	\$67,896	\$30,993,693
72	\$30,993,693	\$159,528	\$91,431	\$68,096	\$30,925,596
73	\$30,925,596	\$159,528	\$91,231	\$68,297	\$30,857,299
74	\$30,857,299	\$159,528	\$91,029	\$68,499	\$30,788,801
75	\$30,788,801	\$159,528	\$90,827	\$68,701	\$30,720,100
76	\$30,720,100	\$159,528	\$90,624	\$68,903	\$30,651,197
77	\$30,651,197	\$159,528	\$90,421	\$69,107	\$30,582,090
78	\$30,582,090	\$159,528	\$90,217	\$69,310	\$30,512,779
79	\$30,512,779	\$159,528	\$90,013	\$69,515	\$30,443,264
80	\$30,443,264	\$159,528	\$89,808	\$69,720	\$30,373,544
81	\$30,373,544	\$159,528	\$89,602	\$69,926	\$30,303,619
82	\$30,303,619	\$159,528	\$89,396	\$70,132	\$30,233,487
83	\$30,233,487	\$159,528	\$89,189	\$70,339	\$30,163,148
84	\$30,163,148	\$159,528	\$88,981	\$70,546	\$30,092,601
85	\$30,092,601	\$159,528	\$88,773	\$70,754	\$30,021,847
86	\$30,021,847	\$159,528	\$88,564	\$70,963	\$29,950,884
87	\$29,950,884	\$159,528	\$88,355	\$71,173	\$29,879,711
88	\$29,879,711	\$159,528	\$88,145	\$71,383	\$29,808,329
89	\$29,808,329	\$159,528	\$87,935	\$71,593	\$29,736,736
90	\$29,736,736	\$159,528	\$87,723	\$71,804	\$29,664,931
91	\$29,664,931	\$159,528	\$87,512	\$72,016	\$29,592,915
92	\$29,592,915	\$159,528	\$87,299	\$72,229	\$29,520,687
93	\$29,520,687	\$159,528	\$87,086	\$72,442	\$29,448,245
94	\$29,448,245	\$159,528	\$86,872	\$72,655	\$29,375,590
95	\$29,375,590	\$159,528	\$86,658	\$72,870	\$29,302,720
96	\$29,302,720	\$159,528	\$86,443	\$73,085	\$29,229,635
97	\$29,229,635	\$159,528	\$86,227	\$73,300	\$29,156,335
98	\$29,156,335	\$159,528	\$86,011	\$73,516	\$29,082,819
99	\$29,082,819	\$159,528	\$85,794	\$73,733	\$29,009,085
100	\$29,009,085	\$159,528	\$85,577	\$73,951	\$28,935,135
101	\$28,935,135	\$159,528	\$85,359	\$74,169	\$28,860,966
102	\$28,860,966	\$159,528	\$85,140	\$74,388	\$28,786,578
103	\$28,786,578	\$159,528	\$84,920	\$74,607	\$28,711,970
104	\$28,711,970	\$159,528	\$84,700	\$74,827	\$28,637,143
105	\$28,637,143	\$159,528	\$84,480	\$75,048	\$28,562,095
106	\$28,562,095	\$159,528	\$84,258	\$75,269	\$28,486,826
107	\$28,486,826	\$159,528	\$84,036	\$75,492	\$28,411,334
108	\$28,411,334	\$159,528	\$83,813	\$75,714	\$28,335,620
109	\$28,335,620	\$159,528	\$83,590	\$75,938	\$28,259,682
110	\$28,259,682	\$159,528	\$83,366	\$76,162	\$28,183,521
111	\$28,183,521	\$159,528	\$83,141	\$76,386	\$28,107,134
112	\$28,107,134	\$159,528	\$82,916	\$76,612	\$28,030,523
113	\$28,030,523	\$159,528	\$82,690	\$76,838	\$27,953,685
114	\$27,953,685	\$159,528	\$82,463	\$77,064	\$27,876,621
115	\$27,876,621	\$159,528	\$82,236	\$77,292	\$27,799,329
116	\$27,799,329	\$159,528	\$82,008	\$77,520	\$27,721,810
117	\$27,721,810	\$159,528	\$81,779	\$77,748	\$27,644,061
118	\$27,644,061	\$159,528	\$81,550	\$77,976	\$27,566,084
119	\$27,566,084	\$159,528	\$81,320	\$78,208	\$27,487,876
120	\$27,487,876	\$159,528	\$81,089	\$78,438	\$27,409,437

10 years

Honorable Mayor and Members
of the Marina City Council

City Council Meeting
of March 3, 2015

**CITY COUNCIL CONSIDER ADOPTING RESOLUTION NO. 2015-,
PROVIDING DIRECTION TO THE CITY MANAGER REGARDING
LOAN OPTIONS AND ALTERNATIVES RELATIVE TO THE PLANNED
FINANCING AND PURCHASING OF PRESTON PARK.**

REQUEST: City Council consider:

1. Consider adopting Resolution No. 2015-, providing direction to the City Manager regarding loan options and alternatives relative to the planned financing and purchasing of Preston Park.

BACKGROUND:

The City of Marina has been engaged in litigation with the Fort Ord Reuse Authority (FORA) regarding the ownership of Preston Park. The City and FORA have reached agreement on the terms of a settlement and expect to enter into a Settlement Agreement and Purchase and Sale Agreement whereby the City would purchase Preston Park from FORA.

The proposed settlement will include the City of Marina buying out FORA's one-half interest in Preston Park. In order to meet loan closing deadlines associated with buying out FORA's interest, the City Council needs to provide direction regarding loan financing options. The City's buyout of FORA's one-half interest in Preston park is proposed to be \$35 million dollars.

ANALYSIS:

To purchase FORA's one-half interest in Preston Park will first require establishing a new Preston Park Non-Profit Corporation, and then the Preston Park Non-Profit Corporation will need to secure a \$35 million dollar loan to purchase FORA's interest in the property.

Financing options and alternatives that we are considering would allow the annual payments for the \$35 million dollar loan to be made from new rent monies which the City will receive from FORA's interest in the property. These new annual rent revenues are estimated to be \$1,743,933.

The attached ("**EXHIBIT A**") prepared by Keyser Marston shows three loan options we are requesting the City Council consider:

- Option 1 - 10 year fixed rate loan
- Option 2 - 30 year fixed rate loan
- Option 3 - 10 year interest only loan.

As shown in the chart, given the current projected interest rates, option 1 will have a net negative impact on the City of Marina's cash flow of -\$170,399 annually. Option 2 will have a net negative impact on Marina's cash flow of -\$436,000 annually. Option 3 will have a net positive impact of \$457,000 annually on Marina's cash flow.

The FORA Board will be considering a 2.54% rent increase for Preston Park rentals at the March 13 FORA Board meeting. If this rent increase is passed, it is estimated that it will generate an additional annual cash flow of \$135,000.

Option 1- 10 year fixed rate loan

This loan will require that the City either sell the property in ten years, or refinance the loan. The attached amortization schedule for this loan shows the remaining loan amount at the end of ten years will be approximately \$27 million. This should make it easier to refinance this loan, especially if interest rates have increased, from revenue generated from Preston Park beyond the \$1.7 million of annual cash flow that the City currently receives.

This option has a net negative cash flow of -\$170,000. However, if the FORA Board adopts the anticipated 2.54% rent increase, this negative cash flow drops to approximately -\$100,000. The remaining negative cash flow could be made up with a reduction in the amount contributed annually to the capital improvement projects fund. Currently approximately \$2,000 is contributed annually per unit to the capital improvement fund. If this were reduced to approximately \$1,700 annually, the remaining negative cash flow would be covered given current assumptions.

Option 2 - 30 year fixed rate loan

This option will most likely require a subsidy from Marina's existing cash flow and is not recommended.

Option 3 - 10 year interest only

This option will generate a positive cash flow that can either be set aside in a reserve fund to pay down the principle at the end of the 10 year loan, or can be used to fund unfunded capital projects for Preston Park, subsidize future Preston Park rent increases, or provide additional revenue to the General Fund. At the end of the 10 year loan, if interest rates have increased and money has not been set aside to pay down the principle loan, there is a possibility that the City would either have to divert a portion of the cash flow that it currently receives from the property to fund the debt service on a new \$35 million loan, or the City would need to sell the property. Relative to municipal financing, best practices as recommended by Government Finance Officer Association (GFOA) and California State Municipal Finance Officers (CSMFO) would caution against interest only debt products, unless there are extraordinary circumstances to justify.

Staff requests guidance regarding these loans options or other financing alternatives council may suggest.

REVIEWED/CONCUR:

Layne P. Long
City Manager
City of Marina