

RESOLUTION NO. 2015-49

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARINA
AUTHORIZING THE CITY MANAGER TO MAKE A RATE LOCK DEPOSIT ON BEHALF
OF THE PRESTON PARK SUSTAINABLE COMMUNITY NONPROFIT CORPORATION
SUBJECT TO APPROVAL OF THE MAYOR AND THE MAYOR PRO TEM, AMENDING
THE FISCAL YEAR 14-15 APPROPRIATIONS, AND AUTHORIZING THE FINANCE
DIRECTOR TO MAKE ANY NECESSARY BUDGET AND ACCOUNTING ENTRIES

WHEREAS, the City of Marina, California (the "City") expects to acquire certain ownership interests in a residential facility located in the City commonly known as the Preston Park Housing Project (the "Property") from the Fort Ord Reuse Authority;

WHEREAS, the City Council has determined that acquisition of Preston Park will further essential governmental functions by providing needed safe and sanitary housing as well as providing the City with revenues to fund governmental services; and

WHEREAS, in order acquire the Property the City will need to secure financing from a private financial institution which will require that the Property be used as security for the financing;

WHEREAS, the City Council has formed a California nonprofit public benefit corporation named Preston Park Sustainable Community Nonprofit Corporation to facilitate the financing necessary for the acquisition of the Property; and

WHEREAS, the Preston Park Sustainable Community Nonprofit Corporation is expected to lease the residential portions of the Preston Park property from the City; and

WHEREAS, the Preston Park Sustainable Community Nonprofit Corporation is expected to obtain a loan in the approximate amount of \$35,684,000 to pay the acquisition costs for the property, which loan will be secured by a leasehold deed of trust on the residential portions of Preston Park; and

WHEREAS, the City has determined that it is in the best interest of the City and the Preston Park Sustainable Community Nonprofit Corporation to obtain a loan with a ten year term at a fixed interest rate that requires interest only payments; and

WHEREAS, in order to obtain the most favorable loan terms including the lowest interest rate, the City has determined that it is in the best interest of the City and the Preston Park Sustainable Community Nonprofit Corporation it to lock the interest rate on the loan either prior to obtaining a final loan commitment or concurrently with executing the loan commitment; and

WHEREAS, the lender requires a rate lock deposit equal to 2% of the loan amount of \$713,680 ("Rate Lock Deposit") in order to lock the interest rate; and

WHEREAS, the City Council deems it to be in the best interest of the City and the Preston Park Sustainable Community Nonprofit Corporation to authorize the City Manager to make the Rate Lock Deposit after considering the benefits of the deposit in light of the risks of making the deposit and after conferring with and obtaining the consent of the Mayor and the Mayor Pro Tem; and

WHEREAS, the City Council deems it to be in the best interest of the City to amend the Fiscal Year 14-15 appropriation to authorize the Rate Lock Deposit to be made from the City General Fund and to authorize the Finance Director to make the appropriate budgetary and accounting entries.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Marina does hereby:

1. Authorize the City Manager to make a Rate Lock Deposit for the loan to be obtained by the Preston Park Sustainable Community Nonprofit Corporation for acquisition costs for Preston Park if the City Manager determines that the benefits of the Rate Lock outweigh the risks of the deposit and if the Mayor and the Mayor Pro Tem, after conferring with the City Manager, consent to the Rate Lock Deposit.
2. Authorize the City Manager to execute a commitment letter for a loan in an amount not to exceed \$35,684,000 with a ten year term at a fixed interest rate with debt service payments limited to interest only for the term of the loan.
3. Authorize amendment to the Fiscal Year 14-15 appropriations for the Rate Lock Deposit and authorizes the Finance Director to make the appropriate and necessary budgetary and accounting entries to make the Rate Lock Deposit upon approval of the Rate Lock Deposit by the City Manager.

PASSED AND ADOPTED by the City Council of the City of Marina at a regular meeting duly held on the 5th day of May 2015 by the following vote:

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

NOES, COUNCIL MEMBERS: None

ABSENT, COUNCIL MEMBERS: None

ABSTAIN, COUNCIL MEMBERS: None

Bruce Delgado Mayor

ATTEST:

Anita Sharp, Deputy City Clerk

Table 1
Comparative Analysis - April 29, 2015
Preston Park
Marina, CA

	\$35 million, 10- Yr. Fixed Rate Loan	\$35 million, 10 Yr. Interest Only Loan
10-yr. Treasury	2.04%	2.04%
Spread	1.82%	1.92%
Interest Rate	3.86%	3.96%
I. Est. 2013/14 Income - Per City Staff		
Estimated Monthly NOI	\$290,656	\$290,656
50% of NOI	\$145,328	\$145,328
II. Debt and Payment to FORA		
Monthly Debt Service	\$165,926	\$116,655
Interest Rate	3.86%	3.96%
Amortization Term	30	0
Est. Origination Fees	1.00%	1.00%
Gross Debt	\$35,350,000	\$35,350,000
(less) Financing Costs	(\$353,500)	(\$353,500)
Net Proceeds/Payment to FORA	\$35,000,000	\$35,000,000
III. Payment to FORA		
Total Payment to FORA	\$35,000,000	\$35,000,000
Less Estimated Balance of Rabobank Loan	\$18,000,000	\$18,000,000
Net Cash to FORA	\$17,000,000	\$17,000,000
IV. Revenues to Marina		
100% of NOI	\$3,487,866	\$3,487,866
Less Debt Service Payment	-\$1,991,108	-\$1,399,860
Net Annual Cash Flow	\$1,496,758	\$2,088,006
V. Marginal Impact on Marina's Annual CF		
Current Annual Revenues to Marina	\$1,743,933	\$1,743,933
Net Annual CF after Proposed Pmt to FORA	\$1,496,758	\$2,088,006
Net Marginal Impact on Marina's CF	-\$247,175	\$344,073
Rounded	-\$247,000	\$344,000
VI. Balloon Pmt. Due at End of 10-yrs	\$27,718,000	\$35,350,000

May 4, 2015

Item No. **11a**

Honorable Mayor and Members
of the Marina City Council

City Council Meeting
of May 5, 2015

RECOMMENDATION TO CONSIDER ADOPTING RESOLUTION NO. 2015-, OF THE CITY COUNCIL OF THE CITY OF MARINA AUTHORIZING THE CITY MANAGER TO MAKE A RATE LOCK DEPOSIT ON BEHALF OF PRESTON PARK SUSTAINABLE COMMUNITY NONPROFIT CORPORATION SUBJECT TO APPROVAL OF THE MAYOR AND THE MAYOR PRO TEM, AUTHORIZING THE EXECUTION OF A LOAN COMMITMENT LETTER, AMENDING THE FISCAL YEAR 14-15 APPROPRIATIONS AND AUTHORIZING THE FINANCE DIRECTOR TO MAKE ANY NECESSARY BUDGET AND ACCOUNTING ENTRIES

RECOMMENDATION:

It is recommended that the City Council:

1. Consider adopting Resolution No. 2015-, authorizing the City Manager to make a Rate Lock Deposit on behalf of the Preston Park Sustainable Community Nonprofit Corporation subject to approval of the Mayor and the Mayor Pro Tem, authorizing the City Manager to sign a loan commitment for an interest only acquisition loan for Preston Park, amending the Fiscal Year 14-15 appropriations and authorizing the Finance Director to make any necessary budgetary and accounting entries.

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 have entered into a Purchase and Sale Agreement whereby the City will purchase Preston Park from FORA. Upon acquisition of Preston Park the City expects to lease the residential portions of the Preston Park property to the newly formed Preston Park Sustainable Community Nonprofit Corporation. Acquisition costs for the property are expected to be financed with a Fannie Mae loan to Preston Park Sustainable Community Nonprofit Corporation in the amount of approximately \$35,684,000. City staff and consultants have been working with the lender to obtain a loan commitment on the most favorable terms possible. In order to ensure that the lowest interest rate can be obtained, the City may need to deposit with the lender a Rate Lock deposit equal to 2% of the total loan amount or \$713,680 on short notice. The deposit would be refunded at loan closing, but if for any reason the loan did not close the deposit would be forfeited. The City is expecting to obtain a loan commitment within the time required by the Purchase and Sale Agreement and will need to be prepared to accept the loan commitment within seven days of receipt of the commitment. Given the current loan pricing a ten year loan with interest only payments appears to be the best option for the City.

ANALYSIS:

The City of Marina has been engaged in litigation with FORA regarding the ownership of Preston Park since 2013. The City and FORA recently settled the litigation and entered into a Purchase and Sale Agreement. The terms of the Settlement Agreement with FORA require that the City obtain a loan commitment no later than May 31, 2015 and must close on the purchase of the property no later than July 15, 2015. Under the terms of the Purchase and Sale Agreement, the City is to acquire FORA’s interest in Preston Park for \$35,000,000.

In order to pay the required purchase price the City expects to obtain financing and is working with a lender to obtain a Fannie Mae loan. The lender will require the loan to be secured by a deed of trust on the property. Because of limitations on the City's ability to enter into debt obligations, the financing of the property acquisition will be accomplished by the City leasing to the Preston Park Sustainable Community Nonprofit Corporation the residential portions of the Preston Park property. The City will retain the park and the major roads which will become public streets. The Preston Park Sustainable Community Nonprofit Corporation will give the lender a leasehold deed of trust to secure the acquisition loan. After payment of the loan debt service and operating costs, the Preston Park Sustainable Community Nonprofit Corporation will pay to the City all net revenues as rent for the property.

The City has submitted a loan application to obtain Fannie Mae financing for the acquisition and has been working with the lender to obtain a loan commitment. As a condition of the loan, the City will be required by the lender to provide a rate lock deposit equal to 2% of the total loan amount or \$713,680. The rate lock deposit would be returned upon closing of the loan. Generally the rate lock deposit is required shortly before the loan closing, however, the City may under certain conditions want to make the rate lock deposit earlier than previously expected in order to secure the lowest interest rate possible on the loan.

In order to ensure that the City can respond to changing interest rates rapidly, the City Manager is requesting authorization to make the rate lock deposit if doing so is determined to be in the best interest of the City. Prior to making the rate lock deposit pursuant to the attached resolution, the City Manager would be required to consult with and obtain the consent of the Mayor and the Mayor Pro Tem. The authorization requested would allow the City to obtain the most favorable financing terms if to do so requires providing the rate lock deposit on short notice. The City Manager, prior to authorizing the rate lock would evaluate the benefits of the rate lock as well as the risks. The primary risk of making the rate lock deposit is that if the loan does not close for any reason, the deposit is forfeited. Situations that could cause the loan not to close would include that the lender's title conditions for the leasehold deed of trust securing the loan could not be met or the City is unable to make the reserve deposits required by the lender for repairs to the property. The lender is currently working through its underwriting process so additional issues could arise. Prior to accepting a commitment for the loan, staff will return to the Council for approval of the final loan terms.

The City Manager is also asking for authorization to execute a loan commitment for the loan. Current interest rates for the loan are expected to be in the range of 4%. The loan term would be for 10 years at a fixed interest rate. The City will have the option of an interest only loan which carries an interest rate that is approximately 10 basis points higher than an amortizing loan. The amortizing loan would amortize over a thirty year period but all interest and principal would be due in full in ten years. Using the current interest rates, the annual debt service for the interest only loan would mean that the City of Marina would continue to receive the same amount it receives from Preston Park net operating revenues currently plus an additional \$340,000 annually ("**EXHIBIT A**"). The amortizing loan would require that the City use some portion of the revenues if currently receives to make debt service payments or stated another way, the City's annual revenue from Preston Park would be reduced by approximately \$240,000 annually. The interest only loan provides the City with additional revenues which may be necessary to address capital improvements or other issues that may come up regarding the property. The above numbers are approximations based on current interest rates and are subject to change based on interest rate changes.

The attached resolution also amends the Fiscal year 14-15 appropriations to allow for the rate lock deposit and authorizes the Finance Director to make the necessary budgetary and accounting entries for the deposit.

FISCAL IMPACT:

The Rate Lock Deposit is \$713,680. These funds would be paid from the City's general fund. Upon close of the loan, the deposit would be returned to the general fund, however, if the loan does not close, the funds would be forfeited.

CONCLUSION:

This request is submitted for City Council consideration and possible action.

Respectfully submitted,

REVIEWED/CONCUR:

Layne Long
City Manager
City of Marina