

RESOLUTION NO. 2015-124

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARINA AUTHORIZING THE CITY MANAGER TO EXECUTE A RATE LOCK WITH BERKELEY POINT CAPITAL FOR A 10-YEAR, FIXED RATE, INTEREST ONLY LOAN FOR PRESTON PARK SUSTAINABLE COMMUNITY NON-PROFIT CORPORATION; PROVIDE DIRECTION TO THE CITY MANAGER REGARDING RATE LOCK OPTIONS; AUTHORIZE THE CITY MANAGER TO PROVIDE 30 DAY WRITTEN NOTICE TO WESTERN ALLIANCE TO CANCEL THE LOAN WITH THEM FOR PRESTON PARK SUSTAINABLE COMMUNITY NON-PROFIT CORPORATION

WHEREAS, In January 2015 the City of Marina began evaluating various loan and bond options for financing the purchase of Preston Park from the Fort Ord Reuse Authority (FORA), and;

WHEREAS, In March 2015 the City executed an application for a Fannie Mae secured loan with Berkeley Point Capital with a ten year term with a fixed rate and permitted "interest only" payments during the entire 10-year term with an interest rate in the range of 4%, and;

WHEREAS, Fannie Mae conditioned closing the loan upon the completion of repairs to the siding of the buildings and the repairs could not be completed in sufficient time before the September 15, 2015 deadline for the acquisition of the property.

WHEREAS, after exploring options, a loan of \$35,350,000 was secured from Western Alliance (WA) with a loan term of ten (10) years, interest only payments permitted during the first five years of the loan, but starting in the sixth year, both principal and interest payments will be due, based on a 25-year amortization schedule, and;

WHEREAS, the City has received an updated offer from Berkeley Point Capital as well as a general quote from another Fannie Mae lender. The terms being offered by Berkeley Point are preferable to the terms of its competitor, and;

WHEREAS, the application letter provided by Berkeley Point estimated an all-in interest rate of 4.10% as of October 6th. Since that time, rates have declined and, if the loan were to close today, the rate would approximate 3.99%. Given the volatility of the market, Berkeley Point is trying to expedite the completion of the underwriting process and is recommending that the City be in the position to "lock" the interest rate when interest rates reach an attractive point, such as the current 3.99%.

WHEREAS, to provide the Council with information about the implications of refinancing with the Berkeley Point loan, Keyser Marston Associates evaluated the additional closing costs that would be associated with refinancing and cash flow to the City under various assumptions about future interest rates. This analysis is summarized in the attached **Exhibit 1**, and;

WHEREAS, The Berkeley Point loan provides the City with an option to "lock" the interest rate prior to loan closing. In order to lock/freeze the interest rate, a rate lock deposit equal to 2% of the loan amount must be funded no later than 1 day prior to the rate lock. The deposit will be returned to the borrower at closing of the loan.

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

- (1) Adopts Resolution No. 2015-, authorizing the City Manager to execute a rate lock with Berkeley Point Capital for a 10-year, fixed rate, interest only loan for Preston Park Sustainable Community Non-Profit Corporation and that the lock would be for 4.25% at the top or less; and
- (2) Provide direction to the City Manager regarding rate lock options; authorizing the City Manager to provide 30 day written notice to Western Alliance to cancel the loan with them for Preston Park Sustainable Community Non-Profit Corporation.

PASSED AND ADOPTED by the City Council of the City of Marina at a regular meeting duly held on this 20th day of October, 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, C. Delgado, Mayor

ATTEST:

Anita Sharp, Deputy City Clerk

October 16, 2015

Item No. **11a**

Honorable Mayor and Members
of the Marina City Council

City Council Meeting
of October 20, 2015

**CITY COUNCIL CONSIDER ADOPTING RESOLUTION NO. 2015-,
AUTHORIZING THE CITY MANAGER TO EXECUTE A RATE LOCK
WITH BERKELEY POINT CAPITAL FOR A 10-YEAR, FIXED RATE,
INTEREST ONLY LOAN FOR PRESTON PARK SUSTAINABLE
COMMUNITY NON-PROFIT CORPORATION; PROVIDE DIRECTION
TO THE CITY MANAGER REGARDING RATE LOCK OPTIONS;
AUTHORIZE THE CITY MANAGER TO PROVIDE 30 DAY WRITTEN
NOTICE TO WESTERN ALLIANCE TO CANCEL THE LOAN WITH
THEM FOR PRESTON PARK SUSTAINABLE COMMUNITY NON-
PROFIT CORPORATION.**

REQUEST: City Council consider:

1. Consider adopting Resolution No. 2015-, authorizing the City Manager to execute a rate lock with Berkeley Point Capital for a 10-year, fixed rate, interest only loan for Preston Park Sustainable Community Non-Profit Corporation; provide direction to the City Manager regarding rate lock options; authorizing the City Manager to provide 30 day written notice to Western Alliance to cancel the loan with them for Preston Park Sustainable Community Non-Profit Corporation.

BACKGROUND:

In January 2015 the City of Marina began evaluating various loan and bond options for financing the purchase of Preston Park from the Fort Ord Reuse Authority (FORA). In March 2015 the City executed an application for a Fannie Mae secured loan with Berkeley Point Capital. The loan had a ten year term with a fixed rate and permitted “interest only” payments during the entire 10-year term. The offered interest rate was in the range of 4%. Unfortunately, Fannie Mae conditioned closing the loan upon the completion of repairs to the siding of the buildings and the repairs could not be completed in sufficient time before the September 15, 2015 deadline for the acquisition of the property. Therefore, an alternative source of financing needed to be secured to fund the acquisition.

After exploring options, a loan of \$35,350,000 was secured from Western Alliance (WA). The term of the loan is ten (10) years. Interest only payments are permitted during the first five years of the loan, but starting in the sixth year, both principal and interest payments will be due, based on a 25-year amortization schedule. The loan carries a variable interest rate based on the 30-day Libor rate plus a margin of 3.75%. The Libor is currently .2%, resulting in an all-in interest rate of 3.95%. If this interest rate and the property’s net operating income remain constant, the annual interest payment on the loan will approximate \$1.4 million, resulting in annual net cash flow to the City of approximately \$2.09 million. Prior to purchasing the property, the City received approximately \$1.7 million of cash flow from the property. Therefore, under current conditions, the WA loan has the potential of increasing the City’s annual net cash flow by approximately \$348,000 relative to the amount the City received prior to acquiring the property.

While the WA loan will generate a favorable cash flow if current interest rates hold, the City has anticipated refinancing the loan with a Fannie Mae loan in order to secure a fixed-rate loan with interest only payments permitted during the entire 10-year term. The WA loan does not have a prepayment penalty, so there would not be a financial penalty associated with paying-off the WA loan.

The City has received an updated offer from Berkeley Point Capital as well as a general quote from another Fannie Mae lender. The terms being offered by Berkeley Point are preferable to the terms of its competitor.

The application letter provided by Berkeley Point estimated an all-in interest rate of 4.10% as of October 6th. Since that time, rates have declined and, if the loan were to close today, the rate would approximate 3.99%. Given the volatility of the market, Berkeley Point is trying to expedite the completion of the underwriting process and is recommending that the City be in the position to “lock” the interest rate when interest rates reach an attractive point, such as the current 3.99%.

City staff is requesting the Council to set an interest rate benchmark for the Fannie Mae financing and provide the City Manager with the authority to execute an interest rate lock if the all-in interest rate falls below the benchmark.

ANALYSIS

To provide the Council with information about the implications of refinancing with the Berkeley Point loan, Keyser Marston Associates evaluated the additional closing costs that would be associated with refinancing and cash flow to the City under various assumptions about future interest rates. This analysis is summarized in the attached **Exhibit 1**.

As shown, it is estimated that closing costs associated with a new loan would approximate \$270,000. The largest component of this cost is a 5% loan origination fee. Additional closing costs include legal expenses and transaction review, the appraisal and other third party reports. These fees would be wrapped into the loan amount. Including closing costs, it is estimated that the loan would total \$35.62 million. The current balance is \$35.35 million.

The first four columns of the table present the cash flow to the City under a range of interest rates for the Berkeley Point loan, from 3.99% to 4.75%. While it is highly unlikely that interest rates could climb to 4.75% prior to closing the loan, even with a 4.75% rate, the City’s cash flow from the property would exceed the amount received by the City prior to the property’s purchase when the property’s cash flow was shared 50/50 with FORA. If interest rates climb to 4.25%, the City would still receive approximately \$230,000 of additional revenue from Preston relative to the amount it received prior to acquiring the property. And, if the closing rate is at the current rate of 3.99%, the marginal gain in cash flow would approximate \$323,000 per year relative to the City’s share prior to acquisition.

The cash flow under the Berkeley Point loan scenarios has also been compared to the cash flow under the existing Western Alliance (WA) loan. As shown, given that the current interest rate on the WA loan is lower than the anticipated BP rates, the WA loan is anticipated to generate more cash flow to the City *provided that the WA interest rate remains low*. If, however, over the coming five years, the Libor rate reaches its average rate over the preceding 10 years, *the WA loan would generate a marginal loss of \$186,000 of cash flow per year to the City relative to the cash flow preceding acquisition*.

The Berkeley Point loan provides the City with an option to “lock” the interest rate prior to loan closing. In order to lock/freeze the interest rate, a rate lock deposit equal to 2% of the loan amount must be funded no later than 1 day prior to the rate lock. The deposit will be returned to the borrower at closing of the loan.

Staff is recommending that the City Manager be given the authority to execute a rate lock with Berkeley Point for a 10-year, fixed rate, interest only loan, provided that the all-in fixed interest rate is less than or equal to 4.25% for Preston Park Sustainable Community Non-Profit Corporation. This authority will enable the City to act quickly to respond to changing market conditions and seize upon an opportunity to secure a favorable interest rate for the refinancing.

Staff is also recommending that the City Manager be given the authority to provide 30 day written notice to Western Alliance that we are cancelling our loan with them.

REVIEWED/CONCUR:

Layne P. Long
City Manager
City of Marina