

CAMBRIA COMMUNITY SERVICES DISTRICT

TO: Board of Directors

AGENDA NO. 7.E.

FROM: Jerry Gruber, General Manager  
Patrick O'Reilly, Finance Manager

Meeting Date: October 26, 2017

Subject: DISCUSSION AND CONSIDERATION OF  
ADOPTION OF RESOLUTION 41-2017  
APPROVING LEASE-LEASEBACK  
AGREEMENTS WITH MUNICIPAL  
FINANCE CORPORATION AND ITS  
AFFILIATES FOR 900 MAIN STREET,  
CAMBRIA

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**RECOMMENDATIONS:**

Staff recommends that the Board of Directors discuss and consider adoption of Resolution 41-2017 approving Lease-Leaseback Agreements (a Lease Agreement and a Site Lease) with Municipal Finance Corporation for the lease-leaseback of the property located at 900 Main Street, Cambria to be used as the new District administration offices.

**FISCAL IMPACT:**

Municipal Finance Corporation (MFC) has agreed to loan the District \$570,000 for fifteen years at an annual interest rate of 3.94%. The annual payment on the MFC loan will be \$51,058.58. The remaining \$395,027 needed to fund the purchase and renovation of the building will be provided from General Fund reserves. This is an increase of \$147,492 over the original staff estimate of the cash that would be required during construction.

The budget approved for Fiscal Year 2017/18 includes \$70,732 as an expense for the purchase of subject property. The \$70,732 represents the projected cost of the loan (\$49,887) and the amount required to recover the funds borrowed from the General Fund reserve over fifteen years (\$20,845). Each year for the next fifteen years, this expense will be distributed to the other departments in the General Fund and to the Water and Wastewater Funds. That budget amount will need to be increased to \$77,394 (\$51,059 for the loan and \$26,335 for the funds borrowed from the General Fund reserves) and will be included in the mid-year budget adjustment.

**DISCUSSION:**

On July 27, 2017, the CCSD Board approved the purchase of the former Cambria Library building located at 900 Main Street, Cambria, California for use as the CCSD administration offices. At that meeting, the Board approved the attached Real Property Purchase Agreement (the "Agreement") prepared by the County. Staff estimates that the total cost to purchase and improve the library building will be \$957,527. Staff originally estimated that the approximately \$140,000 of that cost earmarked for ADA improvements could be deferred, but the District does not qualify for the ADA transition plan, so all costs must be incurred during initial construction.

The purchase price for the property is \$405,000. The Agreement includes a 45-day financing contingency, a \$15,000 fee waiver for ADA improvements completed within 24 months.

Municipal Finance Corporation has proposed a loan in the form of a lease/leaseback to cover \$562,500 of the total cost of the building. A copy of the proposed Lease Agreement and Site Lease is attached. The actual loan amount of \$570,000 includes \$7,500 for the document fee associated with the loan. The loan will bear interest at 3.94% for 15 years with annual payments of \$51,058.58 and total interest payments of \$195,773.70. The Lease Agreement allows for prepayment without penalty starting in year 5.

A lease/leaseback arrangement is the standard approach that cities, counties and school districts use to finance the acquisition and improvement of real property, because the general fund is the source of repayment of the financing.

In the case of a special district that operates a water or sewer enterprise, it is possible to document a financing in the form of a loan or installment sale agreement, where the security is not an interest in the real property being financed, rather a pledge of the revenues of the water/sewer system. In the past Municipal Finance Corporation has arranged loan or installment sale agreements for the CCSD in this fashion.

Since the administration building will be providing benefit to both the activities of the CCSD paid by its General Fund as well as the activities of its enterprises, namely water and sewer, it is appropriate for the financing to be a general fund lease financing, where the CCSD can allocate a portion of the lease payments from its enterprise funds if it chooses to do so.

Attachments: Resolution 41-2017  
Real Property Purchase Agreement  
Lease Agreement  
Site Lease  
Assignment of Lease and Site Lease  
Addendum 2 Library Financing Analysis 10/24/2017  
Addendum 2 CCSD Cash Flow Projection 10/1/17 through 6/30/18

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BOARD ACTION:    Date \_\_\_\_\_ Approved: \_\_\_\_\_ Denied: \_\_\_\_\_

UNANIMOUS:    \_\_\_ RICE \_\_\_ SANDERS \_\_\_ BAHRINGER \_\_\_ FARMER \_\_\_ WHARTON \_\_\_\_\_