



# Staff Report

## City of Manhattan Beach

**TO:** Honorable Mayor Montgomery and Members of the City Council

**FROM:** Nick Tell, Mayor Pro Tem  
Mitch Ward, Councilmember

**DATE:** January 18, 2011

**SUBJECT:** Consideration of Home Loan and Equity Sharing Agreements with the City Manager for the Purchase of a Residence in Manhattan Beach, Including a Housing Assistance Agreement, Secured Promissory Note and Tenancy In Common Agreement, and Appropriation of \$974,685 from the General Fund

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### **RECOMMENDATION:**

The City Manager Transition Team (Mayor Pro Tem Nick Tell and Councilmember Mitch Ward) recommends that the City Council: a) approve a home loan and equity sharing arrangement with the City Manager; b) approve relevant documents including the Housing Assistance Agreement, the Secured Promissory Note, and the Tenancy In Common Agreement; c) authorize the Mayor to execute the Escrow Instructions (including Buyer's Estimated Closing Costs statement) and all related documents to the purchase of the property; and d) appropriate \$974,685 from the General Fund.

### **FISCAL IMPLICATION:**

The agreement, which is explained in further detail below, will provide a home loan and equity sharing arrangement with the City Manager. The City will act as the lender for the home loan to the City Manager for his half of the property, as well as co-owner of half of the property. In order to execute this arrangement, the City will fund \$974,685 to escrow (\$540,000 as the City's 50% interest in the property and \$432,000 as the lender on the City Manager's portion (this results in an 80% loan to value on the City Manager's portion), and \$2,685 for the City's share of the estimated closing costs. Those funds will need to be appropriated from the General Fund.

### **BACKGROUND:**

The contract with recently hired City Manager David Carmany provides for housing assistance in order to allow the City Manager to live in our community. This is a common practice in cities where the cost of housing is high. In fact, the prior City Manager and prior Police Chief were provided home loans by the City.

### **DISCUSSION:**

The City Manager recently made an offer on a home located at 2913 Pacific Avenue in Manhattan Beach. The offer was accepted and escrow has been opened. In order to complete the sale the City's home loan agreement needs to be approved by the Council. The loan will be based on the City and

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Mr. Carmany sharing ownership and equity on a 50% each basis. The structure of the arrangement is as follows:

Purchase Price	\$ 1,080,000.00
10% Down Payment - David Carmany	\$ (108,000.00)
10% Down Payment - City	\$ (108,000.00)
Loan Amount (City as Lender)	\$ 864,000.00
Amount to be funded by City as Lender	\$ 864,000.00
D. Carmany Loan	\$ 432,000.00
City Equity (cash funded by City)	\$ 432,000.00
Interest Only Loan Rate	5.000%
Annual Interest (D.Carmany)	\$21,600.00
<b>Monthly Interest Only Payment (Months 1-60) (D.Carmany)</b>	<b>\$1,800.00</b>

Loan to be Interest Only for first five years then full amortized for remaining 25 years at 5% fixed, as follows:

Loan Principal	\$ 432,000.00
Interest Rate (Fixed)	5.00%
Term (Months) (25 years)	300
<b>Payment (Months 61-360 Fixed)</b>	<b>\$2,525.43</b>

The City will act as co-owner and lender, with the City cash funding our equity share (50%) of the property (\$108,000 down payment plus \$432,000 balance for a total of \$540,000) and lending \$432,000 to Mr. Carmany after his down payment of \$108,000. The loan will be an interest only for the first 5 years (60 months) and then will convert to a fully amortized loan for the remaining twenty-five years (300 months). The interest rate (5%) is a current market rate as of January 3, 2011.

The purchase agreement for the property includes a credit to the buyers from the seller of \$65,000 for renovations to the property. These funds will be distributed through escrow to the City, which in turn will distribute them to the City Manager as the renovations are performed.

The City Manager will be required to maintain the home, pay for utilities and his share of applicable property taxes. The loan is due and payable within six months of City Manager's separation from the City. Upon such separation, the City Manager has the option to purchase the City's share of the property. In the event he declines to do so, the City retains the right to purchase the City Manager's share. In either case, the value will be determined through an independent appraisal process described in the loan documents. Upon sale, the City will share on a 50-50 basis any net proceeds (or losses) from the sale.

The pertinent agreements for the home loan and equity sharing arrangements are attached. they have been prepared by the law firm of Richards, Watson & Gershon.

In order to complete the sale, the City as co-owner and lender will need to fund escrow for a total of \$974,685. Those funds are available in the General Fund, and must be appropriated for this purpose. As a result, staff recommends that the City Council appropriate \$974,685 from the General Fund as part of the approval process of the purchase and loan.

Escrow is expected to close by the end of January.

- Attachments:
- A. Housing Assistance Agreement
  - B. Secured Promissory Note (with Deed of Trust and Fixture Filing)
  - C. Tenancy in Common Agreement
  - D. Escrow Instructions (Brighton Escrow)
  - E. Buyer's Estimated Closing Costs

cc: David Carmany, City Manager