

CITY OF NOVATO

MARIN VALLEY MOBILE COUNTRY CLUB
PARK ACQUISITION CORPORATION MEETING



JUNE 19, 2023

NHA | ADVISORS
Financial & Policy Strategies.
Delivered.

MVMCC History

- ▶ Originally built during the late-1960's and early 1970's
 - ▶ 315 spaces, 63 acres, 400+ residents
- ▶ Privately owned until March of 1997, when it was acquired by the Novato Finance Authority (City/Redevelopment Agency JPA)
- ▶ NFA acquired MVMCC through bond financing (~\$17M)
- ▶ NFA transferred title to the City of Novato in 2011, with the state's dissolution of redevelopment agencies
- ▶ With the City's purchase, the PAC was formed and entered into a Delegation Agreement with the City to outline the control and management of the park



PAC Delegation Agreement

- PAC must contract with property manager and other experts experienced with providing management, advice, and other duties with respect to mobile home parks.
- The park is to be operated in the best interest of the City
- An annual budget must be prepared by the PAC and submitted for approval by the City
- PAC is required to ensure that the property manager maintains the books and records of the park on an accrual basis with annual audits.
- PAC must ensure that low-income requirements are met



Loan Agreement and DSCR Requirements

- ▶ City refinanced MVMCC in 2013 with a Bank of Marin loan to repay all outstanding bond debt
- ▶ MVMCC bond and loan debt service payments have been paid out of mobile home space rental revenues
- ▶ Remaining loan balance is approximately **\$2.2M**
- ▶ Annual Debt Service: **\$651,172**
- ▶ Loan Maturity: **12/01/2027**
- ▶ $DSCR (>2.0) = \frac{\text{Total Revenue} - \text{Operation \& Maintenance Expenses}}{\text{Loan Debt Service}}$



City Use of MVMCC Funds

- Aside from state & local rent controls and bank loan agreement requirements, the City can set rental rates regardless of actual costs to operate the park (not legally an enterprise fund)
- MVMCC rents are not subject to Prop 218 and are exempt from Prop 26 requirements (fees charged for use of government property)
- The city can reimburse itself from park revenues for administrative costs or any other lawful purpose after paying operation/maintenance expenses and bank loan payments as long as there is \$180,000 in the MVMCC account





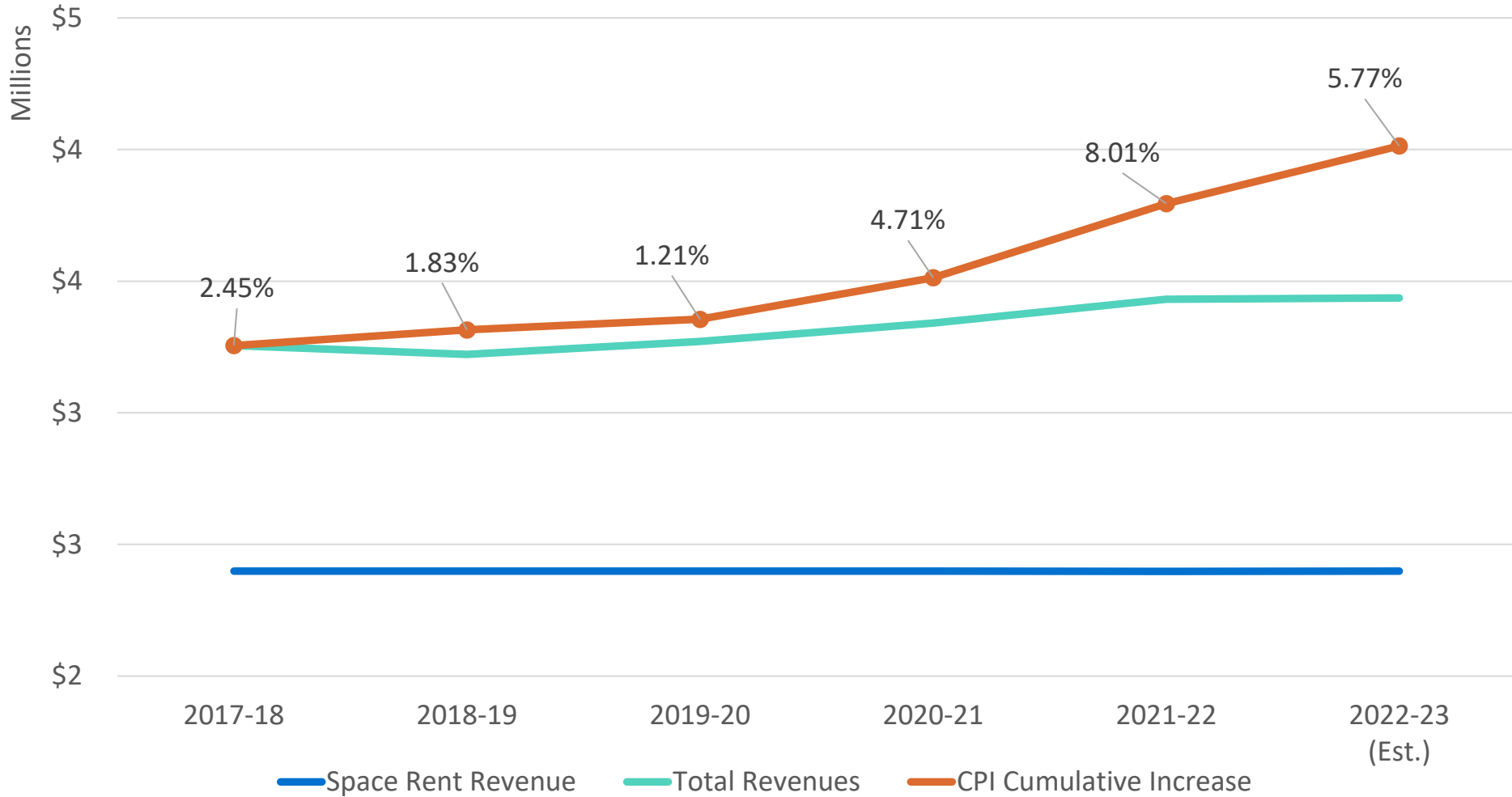
CURRENT FINANCES

Proposed FY23/24 Budget

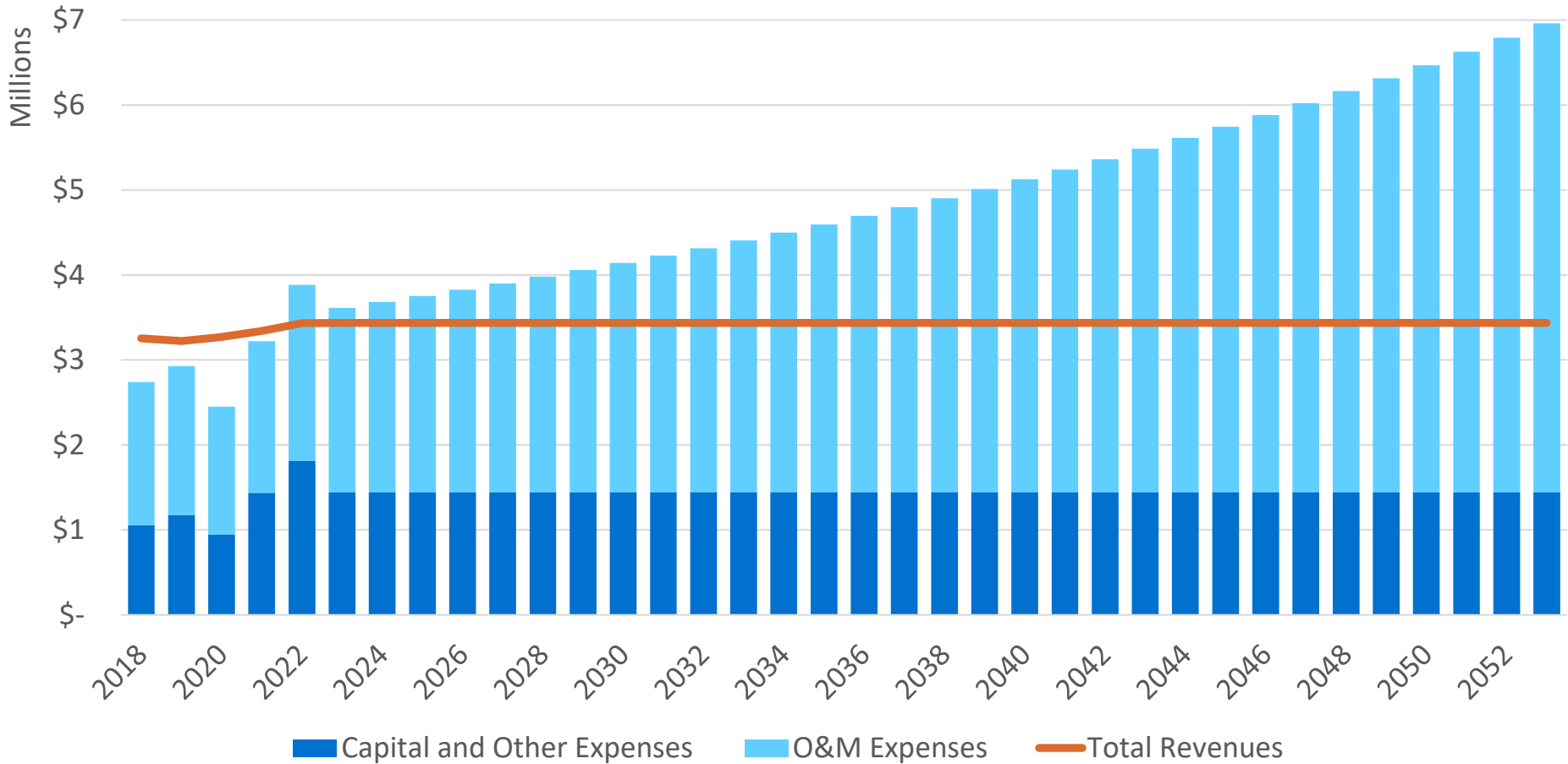
- ▶ FY23/24 Total Revenue = \$3,749,314 (includes 5% rent increase)
- ▶ Operation & Maintenance Expenses = \$2,443,412
- ▶ Loan Debt Service = \$651,172
- ▶ DSCR (2.0) =
$$\frac{\$3,749,314 - \$2,443,412}{\$651,000}$$
- ▶ Remaining Revenue = \$654,902
- ▶ Capital & Other Expenses = \$737,150
- ▶ **Reserves Needed to Balance Budget = \$82,248**



Current Rent and Total Revenues vs Increases in CPI



Revenues and Expenses Projection





RESTRICTIONS AND PROTECTIONS

Rent Control Restrictions

- ▶ General rent increases limited to 100% of increase in CPI for the previous 12-month period
- ▶ Rental increases must be applied equally to all residents
- ▶ Space rent cannot increase when home ownership changes
- ▶ Utilities can be directly passed through to residents
- ▶ Park owners can apply for a rent increase above CPI for capital improvements or to ensure fair rate of return
- ▶ Other state laws govern mobile home leases, utilities, transfers, common areas, etc. and some rent controls, including limiting rent increases to CPI + 5% or 10% total, whichever is less





FUTURE CAPITAL NEEDS

MVMCC Infrastructure

- ▶ The City-owned utilities within the park include:
 - ▶ Water distribution
 - ▶ Sewer collection
 - ▶ Storm drains, culverts, and V-ditches
 - ▶ Natural gas
 - ▶ Electrical lines, transformers, and distribution panels
- ▶ Most of the park infrastructure is about 50 years old
- ▶ Management Agreement required the City to prepare a ‘Physical Needs Report’ to be used as the basis for the preparation of capital expenditure plans



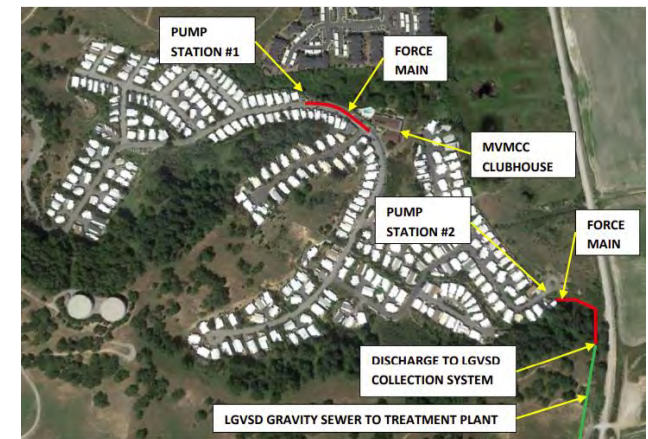
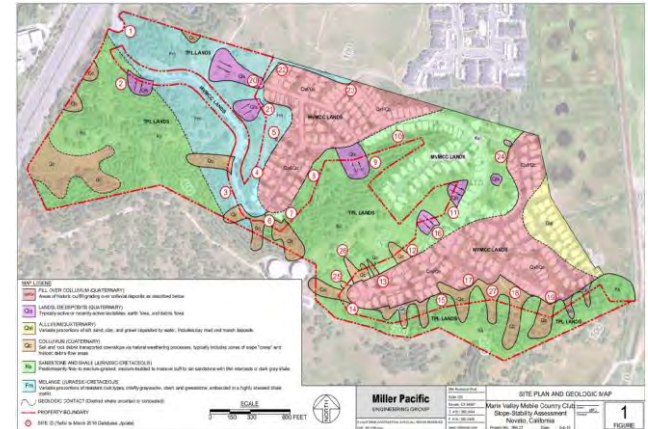
Deferred Capital Needs as Identified by City and Park Management

- ▶ Water Distribution System
- ▶ Sewer Collection System
- ▶ Storm Drain System
- ▶ Electrical Upgrades
- ▶ Natural Gas Distribution
- ▶ Pavement Reconstruction
- ▶ Slope Stabilization
- ▶ Facility Repairs



Long Term Infrastructure Needs

- ▶ Reconstruct water system: \$4.9M
- ▶ Rehab sanitary sewers: \$9.1M
- ▶ Replace storm drain system: \$4.1M
- ▶ Repave streets (2.3 miles): \$1.7M
- ▶ Slope Stabilization: \$2.4M
- ▶ Pool/spa repairs: \$250K
- ▶ Replace clubhouse roof: \$350K





CAPITAL RESERVE ANALYSIS

Capital Reserve Analysis

- ▶ Capital Reserve Analysis was prepared based on current condition and expected service life of the park infrastructure.
- ▶ Infrastructure replacement projects spread out over 30 years.
- ▶ Analysis indicates capital needs between \$40M- \$70M over the next 30 years.
- ▶ \$1M to \$2M per year average capital set aside for the next 30 years to fund future infrastructure projects.
 - \$250-\$525/month/space



Funding Options

- ▶ Reserves – Draw from Capital Reserves to pay for Project
 - ▶ Current Capital Reserve Balance is approximately \$3.5M
- ▶ Pay-As-You-Go – Incorporate Project into budget
 - ▶ Only do Projects that “fit” in budget
- ▶ Capital Financing
 - ▶ To spread out the cost of Project over the useful life
 - ▶ Ensure Project benefits are paid by those who enjoy them over time



Potential Capital Costs to Residents

Example - \$3,000,000 Project Cost

<u>Payback Period (Years)</u>	<u>Cost/Unit/Month</u>
5	\$186.83
10	\$104.73
20	\$64.91
30	\$52.60





OTHER PARK MANAGEMENT CONSIDERATIONS

Rents and Rising Costs

- ▶ Rents need to keep up with rising costs
- ▶ Consider policy of automatic annual rent increases by CPI per rent control ordinance:
 - ▶ Allows park residents to plan for rent increases
 - ▶ Prevents large one-time “catch-up” increases
 - ▶ Potentially reduces conflict between park residents the PAC, City staff, and City Council during annual budget process
- ▶ Consider implementing options to eliminate water and clubhouse utility subsidies



Improve Accounting Practices

- ▶ Current accounting practices are overcomplicated/inefficient, lack financial controls, and are not transparent
- ▶ Park management is not accounting on an accrual basis
- ▶ Some expenses paid by City, others paid by park management
- ▶ City as owner is ultimately responsible for park financials
- ▶ Establish and document process, roles and responsibilities



Consider Updating Delegation Agreement

- ▶ Original intent was temporary until PAC acquired MVMCC
- ▶ What is the City's purpose in owning the park?
 - ▶ To maintain affordable housing supply?
 - ▶ As a revenue source to help fund City services?
 - ▶ Other reasons?
- ▶ Opportunity to simplify accounting by running all finances through the City



Can the City Sell the Park?

- ▶ Yes, but the sale of City property is governed by the Surplus Lands Act
- ▶ Recent offer cannot be accepted without going through Surplus Lands Act process
- ▶ Buyers are subject to rules of state Mobilehome Residency Law and city Rent Control Ordinance
- ▶ Buyers wishing to change the use of the park are subject to requirements of state law
- ▶ State law has provisions for conversion of park to resident ownership, but residents are responsible for coordinating any efforts to do so



Next Steps

- ▶ Feedback received during today's meeting will be considered in preparing options and recommendations
- ▶ City Council to meet later this year to evaluate options and provide direction





ANY QUESTIONS?