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# MEMORANDUM

**TO:** Supervisors of the University Park Recreation District

**FROM:** Hank Fishkind, Ph.D., Municipal Advisor

**SUBJECT:** Analysis of the Conventional Loan Plan

**DATE:** January 16, 2019

**VIA:** Email only

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## 1.0 Summary of Opinion

The residents of 8423 Grosvenor Court submitted their Conventional Loan Plan ("Plan") as an alternative to the District's financing plan. This conventional loan plan has a number of limitations making it an inferior option for purchasing the land, amenities, and recreational facilities of University Park ("RF").

## 2.0 The Plan

The Plan is attached as Appendix #1. The Plan envisions that "University Park" would obtain a $22,000,000 loan at 5%, payable monthly, with a 22-year term. The monthly debt service amounts would be allocated to homeowners using the 50/50 assessment methodology adopted by UPRD. Monthly debt service payments would be billed and collected along with the monthly homeowner's association fee.

From this description I have concluded that it is the University Park Homeowner's Association ("HOA") that is the borrower. This also implies that the HOA will become the purchaser of the RF and become the owner and operator of the country club.

## 3.0 Analysis of the Plan

### 3.1 Overview

It is certainly possible for the HOA to purchase the RF and to own and operate the country club. However, unlike UPRD the HOA is not a government, and it lacks assessment powers. Therefore, the cost of capital to the HOA is much higher and for UPRD.

3.2 Structure and Cost of the Loan Plan

The Plan does not reflect market reality for this type of loan. I have investigated the financing options for an HOA purchase of the RF. Banks have stated that an HOA loan would require a mortgage on all the RF including the country club and land. Reserves would also be encumbered. Rates range from 5.5% to 6.5% with a 20-year term.

In contrast, the UPRD bond plan does not require a mortgage on the RF nor does it encumber the HOA reserves. The rate is expected to be 4% and the term is 30-years.

3.3 UPRD Ownership is Superior to HOA Ownership

UPRD ownership of the RF has significant advantages compared to HOA ownership. UPRD is not subject to property taxes, but the HOA is required to pay these taxes. If the RF is in UPRD ownership, approximately $90,000 in annual property taxes would be avoided. This increases the net operating income of the club facilities.

The HOA is a private not-for-profit corporation. Its assets would be at risk if it owns the RF. UPRD is a special district and benefits from governmental limitations on liability and is covered by the State's sovereign immunity shield limiting liability to $250,000.

3.4 HOA Does Not Want to Purchase the RF and Operate the Country Club

The HOA has stated that it does not want to purchase the RF and does not want to operate the club facilities. The HOA is unwilling to put its reserves at risk nor does it want the liability risk associated with owning the RF and club facilities.

## Appendix #1 – Conventional Loan Plan

PROPOSAL

As an alternative to both the RD Bond Plan or
the Better Than Bond Plan

This Proposal for a conventional loan approach (CL Plan) is submitted by Patricia Fitzgerald and Richard Spillane, residents of 8423 Grosvenor Court, for consideration by both sides of the RD bond issue.

In essence, University Park would obtain a $22,000,000 loan from a Bank, Insurance Company, or any other proper lender at 5% per annum, payable monthly over a 22 year period ( perhaps with the balance due and payable at the end of the 11th year). The responsibility for making the $137,561.71 monthly loan payment would rest with University Park but, by assessing each of the 1,124 homes an average of $19,572.95, the total assessments would equal $22,000,000. The average homeowner's share of the monthly loan payment would be $122.39 per month.

To Summarize:

| | RD Bond Plan | CL Plan (above) |
|---|---|---|
| Total Proceeds | $23,310,000 | $22,000,000 |
| Purchase Price paid to Neal | $16,750,000 | $16,750,000 |
| Costs incurred in acquiring those proceeds | 3,147,432 | 1,500,000 |
| Available for improvements, operating capital, replacements and reserves | 3,412,568 | 3,612,438 |
| 1st month's loan payment | 0 | 137,562 |
| Total | $23,310,000 | $22,000,000 |
| Duration of payments in years | 30 | 22 |
| Annual cost per homeowner | $1,300 | $1,469 |
| Total cost per home over time period | $39,000 | $32,318 |

Notes:

Allocation of assessments would be in the same proportions as in the previously adopted 50/50 method. Charges for assessments would appear on each homeowner's monthly statement.

Any homeowner would have the right to pay their assessment in full at the outset, which, if paid, would reduce the amount of the original $22,000,000 loan.

If the hypothetical lender is legally entitled to make such a loan, advantages to the lender lie in the simplicity and lower administrative costs, as well as a greatly reduced risk of loss compared to incurring 1,124 individual loans. Advantages to the homeowners include immediate ownership after the close and not being subject to all the bureaucratic restrictions and related costs of an RD.