



Published April 4th, 2018

A complex financing arrangement for MOFD Fire Station 43

By Nick Marnell

To pay for the construction of Fire Station 43, the Moraga-Orinda Fire District considered various funding mechanisms, including direct placement and a public offering. San Francisco-based investment bank Brandis Tallman provided direction to the district for the fire station financing, and recommended a direct placement.

In order to facilitate the financing, the district created the Moraga-Orinda Fire District Public Facilities Financing Corporation, with whom the district entered into a lease-purchase agreement for fire stations 42 and 44. The PFFC agreed to advance the district the total rental payment of \$4 million, which would pay for the station construction and which the district would pay back over 15 years. The finance company then assigned its lease payments to a lender, J. P. Morgan Chase, in exchange for the total rental payment. The two fire stations, which MOFD owns outright, have a market value well in excess of \$4 million. But the loan between Chase and PFFC was made based upon the insurable value of the property, not the appraised market value. Fire Station 42 carries an insurable value of \$2.4 million with Fire Station 44 at \$2.1 million. "I was astounded at J.P. Morgan's rates," said Steve Anderson, MOFD president at the time of the loan agreement. And though the collateral pledged to secure the loan seemed high, the effective interest rate of 2.14 percent, fixed for 15 years, proved too hard to pass up.

The district could not simply take out a \$4 million mortgage on one of its owned fire stations to pay for Station 43 because the district is not allowed to mortgage its real property, according to Nicole Tallman of Brandis Tallman. She said the financing method used by MOFD was a standard and customary way for public agencies to encumber real property.

In its recent long-range financial plan, MOFD looks to rebuild Fire Station 41 and upgrade the administration offices in 2019. But the Chase loan may not be prepaid until 2020, during which time three district fire stations will be pledged.

According to terms of the loan agreement, the district may substitute alternate real property as collateral with the consent of the lender - in this case, the alternate real property could be Station 43, which the district expects to complete by early 2019.

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