



Agenda Item #: IV B: Action Item

Date: May 26, 2022

To: Magnolia Educational & Research Foundation dba Magnolia Public Schools ("MPS")  
Board of Directors (the "Board")

From: Alfredo Rubalcava, CEO & Superintendent

Staff Lead: Patrick Ontiveros, General Counsel & Director of Facilities  
Mustafa Sahin, Project Manager

RE: Approval of Waiver of Contingencies for the Purchase of 18242 Sherman Way in  
Reseda (aka the "JAM Building")

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## I. Proposed Recommendation(s)

Staff recommends and moves that the MPS Board approve (1) the waiver of the contingencies for the purchase of the property located at 18242 Sherman Way in Reseda (commonly referred to as the "JAM Building")(the "Property"), located at the west side of and immediately adjacent to the Magnolia Science Academy –1 middle school campus, 18238 Sherman Way (2) the financing of the purchase of the Property pursuant to the terms and conditions set forth in that certain term sheet dated May 29, 2022 the by CLI Capital, (3) the assignment of the purchase and sale agreement for the Property to a wholly owned limited liability company subsidiary of Magnolia Properties Management, Inc., and (4) the execution by the MPS CEO and Superintendent, or his designees, of such documents and instruments as may be necessary to undertake and complete the foregoing actions.

## II. Background

At its November 18, 2021 meeting, the MPS Board approved MPS signing a purchase and sale agreement for the purchase of the Property and making a good faith, refundable, escrow deposit of Fifty Thousand Dollars (\$50,000). Portions of the "Background" section of the November 18<sup>th</sup> report is excerpted below.

*MPS, for the benefit of Magnolia Science Academy –1 ("MSA-1"), leases the property located at 18220 and 18238 Sherman Way from MPM Sherman Way LLC, a California limited liability company and wholly owned subsidiary of Magnolia Properties Management, Inc., a California non-profit public benefit corporation and 501(c)(3) tax exempt organization. MSA-1 operates a middle school and high school on the leased premises. ...*

*The Property at 18242-1844 Sherman Way is immediately adjacent to the MSA-1 premises on the westerly side of the premises. ... It consists of a 7,729 square foot building, which fronts Sherman Way, and a surface parking lot of approximately 17,140 square feet. The Property is presently leased to another tenant and must delivered free of all tenancies by the close of escrow.*



The location of the Property is shown on **Exhibit A**. Escrow for the purchase and sale of the Property was opened on January 28, 2022. The principal terms of the agreement (the “**PSA**”) are as follows:

Price	\$4,000,000*
Due Diligence Period	90 Days with option to extend by 30 days for \$10,000
Good Faith Deposit	\$50,000
Closing Period	30 days. Owner has the option to extend for an additional 120 days in order to vacate tenant.

<p>* The purchase price is \$4,000,000 in the PSA. MPS is responsible for its own broker’s fee of 4%, or \$160,000. The acquisition loan contemplates accruing interest for one year before payments of interest and principal commence. Thus, the loan is sized accordingly.</p>
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At its April 7, 2022 meeting the MPS Board approved Staff to exercise the option to extend the due diligence period by thirty (30) days. Staff exercised the option and, consequently, the due diligence period expires on May 30th. Under the terms of the PSA, by such date Staff must give escrow notice that it waives its contingencies and elects to proceed with the closing. Otherwise, the transaction terminates automatically. Upon giving notice that it waives its contingencies, MPS’s good faith deposit will be non-refundable but credited against the purchase price at closing. The seller has the option of extending the closing up to 120 days in order to vacate the existing tenant.

MPS Staff has been working with its financial advisor, John Buck, and CLI Capital, a private lender, to arrange financing for the purchase of the Property. A copy of the term sheet agreed to by MPS Staff is attached as **Exhibit B**. Since MPS Staff has accepted the term sheet, CLI Capital and MPS will next negotiate loan documents. Once the documents have been negotiated and finalized, MPS Staff will return to the MPS Board for authorization to either close the purchase and financing or assign the PSA to a limited liability company (“**LLC**”) subsidiary of Magnolia Properties Management, Inc. (“**MPM**”), a 501(c)(3) support corporation for. When MPS assigns the PSA to an LLC of MPM, MPS will enter into a lease for the Property with the LLC.

MPS Staff has met with and discussed the transaction with MSA-1’s authorizer, the Los Angeles County Office of Education (“**LACOE**”) and shared the term sheet with them. LACOE was given an opportunity to voice any concerns regarding the transaction. They did not voice any concerns. LACOE informed MPS Staff that they can neither approve or disapprove of the transaction and it is up to MPS whether to move forward with it.

### III. Conclusion / Budget Impact

The projected acquisition cost of \$4,500,000 (that is, the purchase price, broker’s fee, and one year of accrued interest) will be financed over a period of 30 years. There will be no principal or interest payments during the 2022-23 fiscal year. The payment schedule will resume during the 2023-24 year at which time MSA-1 will begin making payments of approximately \$26,375 per month, which will be incorporated into the school’s financial projections.

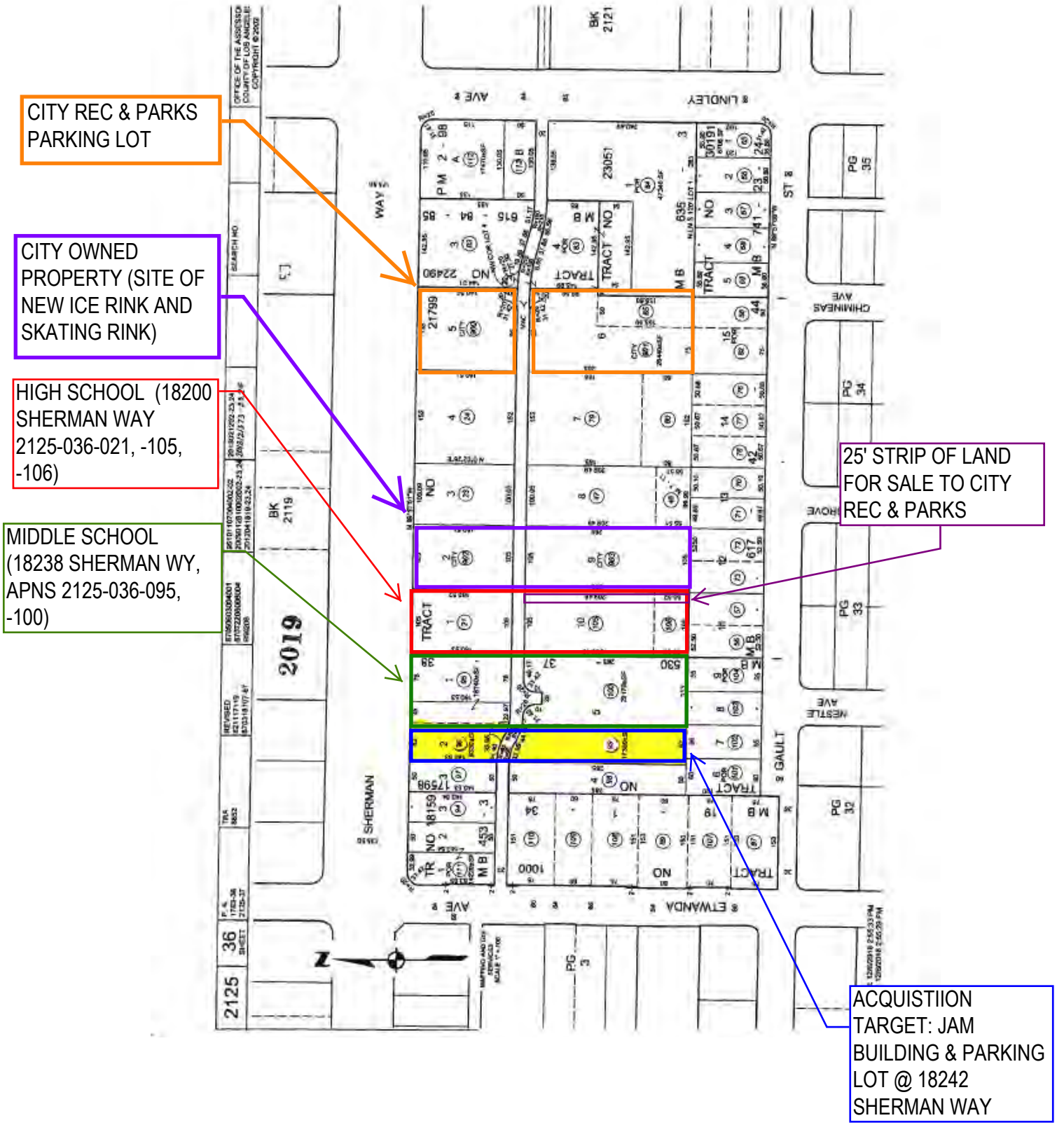
Exhibit A \_\_\_\_\_ Site Plan  
Exhibit B \_\_\_\_\_ CLI Capital Term Sheet



Exhibit A

Site Plan

# EXHIBIT A





**SUBJECT PHOTOGRAPHS**



Subject front



ACQUISITION TARGET  
PROPERTY

Subject rear



## Exhibit B

### CLI Capital Term Sheet



May 19, 2022

*Via e-mail*

Magnolia Educational & Research Foundation  
Board of Directors  
% John Buck, Buck Financial Advisors, LLC

RE: Property acquisition loan - "Sherman Project"

This will constitute the commitment of CLI Capital ("CLI") to loan to Magnolia Property Management, Inc. or a wholly owned single asset entity ("Borrower"), the sum of up to Four Million Five Hundred Thousand Dollars (\$4,500,000), less any title insurance, appraisal costs, mortgage registration tax, origination fees and all other closing costs and expense that may be incurred by CLI in connection with the funding and collection of the loan. This is a commitment to provide financing based on the contingencies located within this letter. This letter is not intended to be an all-encompassing document but a formal communication of approval, commitment of terms, and identification of contingencies and other requirements to facilitate closing in a reasonable time frame. The actual loan documents supersede all terms and conditions of this letter.

The acceptance of this commitment must be indicated by Borrower's signing and returning this letter no later than 5:00 pm Central time on May 26, 2022. If this commitment is not accepted within the specified time frame, CLI may extend the commitment (required to be in writing), allow the commitment to terminate, or issue a revised commitment (required to be in writing). The acceptance of this commitment will be the Borrower's authorization for CLI to withhold from the proceeds of the loan any closing costs or expenses associated with making the loan.

I. Loan Structure and Pricing

The loan will be structured as an advancing note for the purchase of the property located at 18242-1844 Sherman Way, Reseda, California and related improvements.

- 1) It is anticipated that the transaction will close in the fall of 2022. If an earlier closing is desired, closing may occur within 10 business days of CLI's receipt of all Contingencies and Requirements listed below.
- 2) The note will have a maturity date of June 1, 2027. On that date all unpaid principal, accrued interest, and other charges allowed under the note will be due.
- 3) The interest rate will be a floating rate based on the Wall Street Journal Prime rate plus a margin of 1.50%. The interest rate will have a 5.75% floor. Interest will accrue daily on the outstanding unpaid principal balance.
- 4) In June 2023 all accrued interest will be capitalized and added to the outstanding principal balance of the loan. Beginning July 1, 2023, monthly principal and interest payments based on a 30 year amortization will be required.

- 5) Borrower will pay to Lender an origination fee of 1.0% of the loan amount in conjunction with the closing of the loan. Borrower may pay this and/or all of its closing costs with an advance on the loan.
- 6) The loan may be prepaid at any time without penalty.
- 7) The loan will be cross-pledged to the "MSA-5 Winnetka Project" loan which is referenced in a separate commitment letter.
- 8) Loan funding is subject to confirmation from Borrower's counsel that the proposed loan meets the terms of the Additional Indebtedness Test as specified in Borrower's existing bond documents.

## II. Contingencies and other Requirements

This commitment shall be subject to the following conditions:

- 1) Borrower shall return a signed copy of this commitment letter to CLI on or before the expiration date listed above.
- 2) The loan shall be secured by a first mortgage lien on the property purchased and an assignment of all rents, leases, contracts, etc. concerning the property. The lease between Borrower and the tenant must be reviewed and approved by CLI prior to closing. Said property shall be subject to no other liens or encumbrances unless otherwise approved by CLI in writing. Payments made to other related entities for management fees or other similar expenses may be restricted by the lender in the event of an uncured default under the loan documents.
- 3) The loan will be made pursuant to a loan agreement entered into by the Borrower and CLI consistent with the terms of this commitment and such other normal covenants of the Lender's loan agreement.
- 4) That a mortgage title insurance policy in the face amount of not less than the total amount of the loan be issued by a title insurance company acceptable to CLI, insuring CLI is the holder of a good and valid first lien mortgage upon the real estate securing the loan.
- 5) During the term of the loan Borrower agrees to periodically supply CLI with financial statements, reports, and any other pertinent financial or statistical data as reasonably requested by CLI.
- 6) The loan agreement will include a limitation on MERF/MPM borrowing additional debt without obtaining prior written approval by CLI, subject to a de-minimis aggregate amount of \$1,000,000.
- 7) Borrower will be required to furnish to CLI evidence of builder's risk coverage/hazard insurance in an amount not less than the amount of the note. The policy is to provide for customary builders risk coverages, fire, and extended coverage on the entire facility. CLI is to be listed as mortgagee and loss payee. Evidence of such coverage must be furnished prior to loan funding and approved by CLI.
- 8) Loan funding is subject to the receipt of an appraisal performed by a third party deemed acceptable to CLI. The final loan amount will be limited to the lesser of the following amounts: \$4,500,000, 100% of costs, or 100% of appraised value as improved.
- 9) Borrower agrees to pay all lender's costs associated with this loan, including legal fees for document preparation (estimated to be \$8,000), flood searches (estimated at \$16) and environmental assessment (estimated at \$500). If the environmental assessment indicates any potential environmental issues, a Phase 1 must be obtained and approved by CLI prior to closing. If Borrower has already obtained a Phase 1 on the property the \$500 environmental assessment charge will be waived.



- 10) CLI and Borrower must review and approve all legal documents prior to closing and CLI and or its legal counsel must review and approve the corporate documentation of the Borrower and other entities involved in the transaction prior to closing.
- 11) The parties represent and agree that CLI is a resident of Potter County, Texas and that Borrower has contacted CLI in Potter County, Texas and this contract has been negotiated, in whole or in part, in Potter County, Texas. The parties further represent and agree that all notices and all payments to CLI are to be made in Potter County, Texas.
- 12) Based on the foregoing representations, the parties agree that this contract is to be governed by the laws of the state of Texas, and that jurisdiction of any dispute over interpretation or enforcement of this contract is proper in a district court in the state of Texas, which location would not be unreasonably inconvenient, or unjust. The parties therefore designate that any suit brought to interpret or enforce this contract shall be brought in a district court in Potter County, Texas, or in the United States District Court for the Northern District of Texas, Amarillo Division.

We look forward to working with you in connection with this transaction.

Sincerely,



Travis David  
Senior Vice President and Chief Financial Officer  
CLI Capital

This commitment has been agreed to and accepted by the undersigned on behalf of Borrower

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*Signature*

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*Printed Name and Title / Date*

cc: Lender's Counsel