

TO: TRHS Foundation Board
FROM: Capital Campaign Finance Committee
DATE: December 6, 2021
RE: Request to Use Endowment Funds as Collateral for Capital Campaign

In conjunction with the ongoing Capital Campaign, and specifically with regards to funding the track and field project (estimated \$3.1m cost), the Capital Campaign Finance Committee is recommending that the TRHS Foundation Board should utilize the Foundation's Endowment Fund (up to approximately \$325k) as collateral for the construction bridge loan that will be obtained from Bankers Trust.

In order to fund the track and field project, the Foundation is required to show proof that it has the necessary funds available to fund the track and field project costs. The primary source of funding consists of donor commitments which we have, or will have, received by the time the project commences. This is expected to consist of approximately \$1.4m as shown in the table below. Additionally, DMPS has committed \$850k to the project. The remaining funding gap will primarily be funded through future pledge commitments, which won't be received until after the project commences and the several years after that. (E.g., donor commits \$100k ratably over a four-year period. We would only receive \$25k as of the date we would like the project to commence.) Given the potential extended period of these future donor collections, we have engaged Bankers Trust to provide a bridge loan that can be utilized to fund the project in February 2022, which will borrow against those future pledge commitments. Given the risk that these future pledge commitments may not actually be paid/donated, Bankers Trust will only provide a loan on these future pledge commitments at a 75% advance rate. As such, we're expecting to be able to borrow approximately \$605k against these future pledge commitments. As the table below shows, there would be a shortfall to fund the entire project cost (\$3.1m).

DMPS commitments - cash	\$850,000
Donor commitments - Donations received	\$1,410,839
Bankers Trust - Loan #1 proceeds (75% advance rate)	<u>\$605,132</u>
Total commitments and loans	\$2,865,972
Total project cost	\$3,100,000
Initial funding deficit	(\$234,028)

In order to fund the remaining project cost gap, the Finance Committee recommends utilizing some or all of the Foundation's Endowment Fund of approximately \$325k as collateral to increase the Bankers Trust loan amount. The general endowment funds are currently held in a marketable security (i.e. mutual fund). Bankers Trust can provide a 75% to 100% advance rate on the Endowment Fund's value. Utilizing some or all of the Endowment Fund the remaining project costs to be funded in February 2022, while we continue to collect future donations as they are scheduled to be contributed over the next few years. **In summary, being able to use the Foundation's Endowment Fund as collateral to obtain a larger loan up-front will allow the project to commence on time while we continue to collect pledges over the next few years per the donor's pledge forms.**

Assuming the Capital Campaign is able to collect these future pledge commitments, those commitments will be used to pay down the loan, including the portion that the Endowment Fund is backing (i.e., the \$325k), which means the Endowment Fund will never be used to actually provide funding for the project, only to create a larger up-front loan amount to borrow against. Note, while the loan is outstanding, the portion of the Endowment Fund that is utilized as collateral will be restricted and unable to be used for any other purposes until the loan is repaid. In the event that some of the future pledge commitments are not collected, there is a possibility that a portion of the Endowment Fund will need to be used to pay off any residual loan balance after all other future pledge commitments are made. As a way to mitigate this risk, there is the potential to raise additional donations during the construction phase that could be used towards the project costs instead of having to dip into the Endowment Fund balance as a repayment option.

The 'Analysis for BT meeting - 11.10.2021 vF.xlsx' file will be discussed during the December 6, 2021 Board meeting which provides the details behind the current state of our pledges, project costs, and sources of funds.