

Report to TICA Board of Directors

Capital Plan

1. Background

The Thetis Island Community Association (TICA) Board of Directors approved the Terms of Reference (TOR) for the Fund Development Committee (FDC). The FDC assists the Board in the research, planning and implementation of all capital and operational funding initiatives for the expansion and operation of Forbes Hall (the Hall). Funding in this context includes loans from commercial institutions and individuals, program and operational grants, and donations.

The FDC will,

- Develop a Capital Plan for the Board that includes financial goals and sources of revenue to complete the Forbes Hall expansion.
- Present the Capital Plan to the Board and recommend approval with any changes.
- Work with Board to obtain membership approval for a Borrowing Resolution for any shortfall in the Capital Plan.
- Implement the Capital Plan by engaging with potential lenders and other organizations, and by making grant applications.
- Regularly monitor and evaluate the Capital Plan.
- Work in partnership with the Communication and Engagement Committee

This is the Capital Plan.

Paul Duncan, a volunteer, has evaluated the responses from Coastal Community Credit Union (CCCU), Vancity Credit Union (Vancity), and email response from the Royal Bank of Canada (RBC). Paul Duncan was the Chief Financial Officer at CCCU from 2006 to 2010. Paul Duncan has reviewed the three responses. Carolyn Askew (TICA Board Member) has provided a recommendation to the TICA Board based on the lowest cost to TICA.

Paul Duncan and Carolyn Askew will maintain confidentiality over the personal information of all potential Local Lenders except to disclose necessary personal information to the President and one other Board member when legal documents are signed. No personal information will be disclosed for a lender wishing anonymity.

TICA's Board is accountable for assessing the Capital Plan. TICA's Board is accountable for all communication to TICA members and the community. TICA's Board is accountable for all decisions regarding the financing of the Hall expansion. The Board is accountable for executing all legal agreements according to TICA's By-Laws.

2. History of Giving

The major expansion and renovation of Forbes Hall were long overdue to accommodate the ever-growing needs of the community, and a broadened use of the facility. Including the initial contribution in October 2016 that led to the early development of the project, \$1,372,569 has been raised by events, merchandising, donations, and grants. While the events and merchandising could not raise the funds alone, they are the tools used to engage the community's participation and financial support of the project. The sustained generosity and willingness of an involved community have done remarkable things for life on Thetis Island.

Today, Forbes Hall is one of only two community halls in BC that are not supported with property taxes. Donations and grants will continue to be its foundation.

3. Identifying Capital Requirements

The Total Funding/Project Estimate is \$1,967,569 at July 28, 2020. This is based on a detailed review of the remaining work phases to complete. The amount left to be raised is \$595,000. This is the capital requirement.

As has been our heritage, the most important source of capital is donor donations and grants. There is no cost to TICA and donations and grants increases TICA's equity which facilitates future borrowings.

Funds from operations are not a significant source of capital at this stage because TICA operates as a non-profit society and researching additional revenues has been deferred in the interests of completing the Hall. This has been disclosed to all lenders.

Any donor shortfall from the capital requirement of \$595,000 will require interim financing to complete the Hall and long-term borrowing to amortize the repayment.

After donations, the priority has been the Local Lenders Program because it targets large donors within the Thetis Island community. A Local Lenders Proposal offered 3 alternatives - a donation of \$50,000, an interest free loan for \$50,000 and a 2% interest loan of \$50,000. The Proposal also disclosed the risks to the lenders and encouraged them to seek their own independent advice. Paul Duncan and Carolyn Askew met in person with those who responded and again disclosed the risks of lending. There were follow-up phone calls and letters to those who did not respond.

The True Impact Investors program which targeted smaller balance loans was deferred pending an assessment of the Local Lenders program.

If the capital requirement is not met from donors and Local Lenders, the third priority is a financing from a financial institution with higher costs. The borrowing authorization requested from the Commercial Lenders is \$600,000.

3.. Estimate of Donations, Pledges, and Grants

Planning for the Forbes Hall expansion dates back to 2016 although active fundraising did not start until February 2018. 2020 donations are Year-To-Date (YTD) to June 30/20. Pledges are a new fundraising initiative started in 2020. \$6,000 has been pledge from 2021 to 2024. There are classification differences between the following table which provides more detail than the 2018 and 2019 Year-End Income Statement. For instance, in 2019 there were 85 donors that raised \$62,000 for an average donation of \$700. (\$-000 & Number of donors).

	2016	2017	2018	2019	June 2020
Donations < \$5,000	\$0	\$0	\$65/183	\$62/85	\$5/18
Donations > \$5,000	\$105/1	\$300/2	\$198/1	\$100/1	\$0
Fundraising/merchandise	\$0	\$0	\$22	\$10	\$0
Grants	\$125/2	\$0	\$310/3	\$5/1	\$2/1
Pledges	\$0	\$0	\$0	\$0	\$3
Total	\$230	\$300	\$595	\$177	\$10

Note the consistency in 2018 and 2019 donations less than \$5,000 of about \$60,000. This provides some comfort that about \$60,000 in loan repayments will be funded from donations and takes away from the need for a long repayment amortization.

During the first half of 2020 volunteer activity was focused on building the Hall. On July 28/20, TICA started a fundraising campaign. From July 1/20 to Aug. 22/20, TICA raised \$87,512, \$58,672 from direct donations, and \$28,840 pledged, either monthly or annually from 1 to 5 years. This does not include the Local Lenders Program with \$200,000 verbally committed as of Aug. 24/20.

The Board of TICA intends to seek the approval of the TICA membership to borrow to complete the Hall. This capital borrowing authorization is a separate authorization from any operating line of credit TICA may have in the future with its day-to-day banker. There currently is no operating line of credit.

4.. Results

Contact with the Local Lenders and Commercial Lenders has been on-going from early 2020 to the present. The Request for Financing from Commercial Lenders was for \$600,000 to complete the Hall as we did not know at that time how much will be raised from donations. Donations have continued to grow so we no longer need to borrow \$600,000 to complete the Hall. However, the borrowing resolution remains at \$600,000 so that we have a back-up plan to pay back Local Lenders 3 years forward if future donations cannot cover the Local Lender loans.

The analysis of the results was completed in August 2020 before all of the donations were committed so some of the estimates have changed.

Local Lenders

The interest rate of 2% fixed for 3 years compensates for a savings rate foregone but does not compensate for the risks. If commercial lenders are charging a floating rate of up to Prime + 2.5%, as an example, $2.45\% + 2.5\% = 4.95\%$, the local lenders are subsidizing TICA by 2.95%.

The interest rate of 2% is not an issue to the Local Lenders that we have met as they are motivated by supporting their community, not a risk adjusted return on their investment. Their main concern is confidentiality.

The Local Lenders security interest will be subordinated to the Commercial Lenders.

Commercial Lenders

Coastal Community Credit Union (CCCU), Vancity Credit Union (Vancity) and Royal Bank of Canada (RBC) were provided Requests for Financing. Each have not-for-profit programs. CCCU is TICA's current day-to-day banker, Vancity has financed not-for-profits on the Gulf Islands, and RBC financed the Thetis Island Fire Hall.

CCCU and Vancity structured the interim financing to complete the Hall as a construction loan with draws based on project completion. RBC structured the interim financing as a line of credit. All will require first priority security interest in the land and building and other TICA assets. They will require Local Lenders to take a subordinated security interest to the commercial lenders. They will also require replacement cost property insurance coverage.

After completion of the Hall, the commercial lenders will convert their construction loan to an amortizing term loan to facilitate repayment. Assuming \$200,000 is raised from Local Lenders, TICA will initially draw down \$400,000 of the \$600,000 authorization. The term loan will increase to \$600,000 so the Local Lenders can be repaid.

There are one-time costs that TICA must pay regardless of the size of the loan or the financial institution used. If donations, grants, and the Local Lenders Program are close to meeting the \$595,000 capital requirement, TICA may be able to defer enough construction phases to save the following estimated one-time costs:

Appraisal fees	\$2,500
Legal fees	<u>2,500</u>
Total	5,000
Cost/Credit	$\$5,000/\$600,000 = .8\%$

Coastal Community Credit Union (CCCU)

CCCU will provide an Expression of Interest for \$300,000 Construction Draw Mortgage to complete the Hall limited to the lesser of 75% of the approved construction draw or 75% of the appraised value on completion. The rationale for \$300,000 instead of the \$600,000 requested is because the operating cash flow does not support repayment of \$600,000.

Terms of the loan are interest only at Prime + 2.0%, renewable 1-year term, and open to early repayment without penalties.

The CCCU Expression of Interest was rejected because it does not meet the capital requirement of \$595,000 to complete the Hall. Their fees were the highest. They are not willing to revolve the authorization so that the Local Lenders can be paid back at the end of 3 years. For example, if the Local Lenders lend \$200,000 for 3 years, TICA will borrow \$400,000 from a financial institution to complete the Hall and then increase the commercial loan to \$600,000 in 3 years to pay back the Local Lenders if there are not sufficient donations. This provides protection to the Local Lenders.

Vancity Credit Union (Vancity)

Vancity has provided a Letter of Interest (For Discussion) for a \$600,000 credit or 65% of the “as if complete” appraised value. Interest only at Prime + 2.5%, 1-year term renewable annually, open to early repayment without penalty.

The Vancity Letter of Interest was rejected. Vancity fees were similar to RBC but their interest rate was the highest. Vancity will not revolve the credit to provide protection to the Local Lenders. They did offer the longest amortization period.

Royal Bank Canada (RBC)

RBC has provided a series of emails and will only provide a written Expression of Interest after an appraisal is complete. RBC uses a loan/value of 50%, so even if the appraisal is less than the estimated completion cost of \$1,967,569, the appraisal would have to be a minimum of \$1.2 million to meet RBC’s requirement for a \$600,000 loan. It is therefore likely that a \$600,000 credit will be approved.

RBC will provide a line of credit at Prime +1%, 1-year term open to early repayment without penalty. The minimum annual reduction of principal will be equivalent to a 10-year amortization of the outstanding balance. For instance, if \$400,000 was used, the minimum annual payment would be \$40,000. This means Local Lenders will be repaid from donations after the first \$40,000 raised each year.

RBC is willing to revolve the line of credit.

5. Recommendations

Assuming donations, grants, and the Local Lenders program do not cover the capital requirement of \$595,000, TICA will have to borrow from a financial institution. TICA must start the process immediately by authorizing an appraisal to provide the necessary funding.

The TICA Board should not choose CCCU because they do not meet the capital requirement.

Vancity and RBC are both good alternatives but for different reasons. Both Vancity and RBC have similar fees. RBC's rate of Prime +1% is less than Vancity's Prime + 2.5% but Vancity will amortize over a longer period than RBC. However, TICA will pay more total interest cost over 25 years with Vancity than over 10 years with RBC.

RBC is an open mortgage which means it can be repaid within the one-year term and at the completion of the Hall with a long-term amortizing mortgage from another financial institution. However, there will be additional one-time fees from switching financial institutions.

RBC will revolve the credit so there is more protection for the Local Lenders.

We recommend proceeding with an RBC loan application and loan documentation to be signed by the TICA Board. We will request an increase in the amortization period from 10 to 15 years.

The TICA Board approved going forward to negotiate a \$600,000 line of credit with RBC.