Finance and Philanthropy: Putting the Pieces Together

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Presentation Overview – By Section

1. **The DFP Funding <u>Principles</u>:** Proven Principles to Help You Achieve “Full-Vision” Funding for Your Priority Projects
2. **The DFP Funding <u>Process Steps</u>**: Overview of the 4-Steps
3. **Case Study Overview:** Introduce a Priority Project with a Funding Challenge
4. **Case Study Step-by-Step**: Solve the Funding Gap Together
5. **More on C-Pace Financing**: A <u>New</u> Source of Funding

Section 1
The DFP Funding Principles

The DFP Funding Principles

Principle One: Adopt a Five Loaf/Two Fish Funding Mentality

Find a Way to Say "Yes" to Your Most <u>Worthy</u> Projects

Principle Two: Integrate Finance and Philanthropy

Offer a <u>Full Range</u> of Lending and Giving Options

Principle Three: Offer <u>All</u> Funding Opportunities to your <u>Entire</u> Catholic Financial Ecosystem (CFE)

It's Much Deeper and Broader than You can Imagine

Your Donors/Catholic Orgs Can Also be Your Lenders

DFP Funding Principle One:
Adopt a Five Loaf/Two Fish Funding Mentality

Case Study – Feeding the Five Thousand
Funding Lessons for Today's World

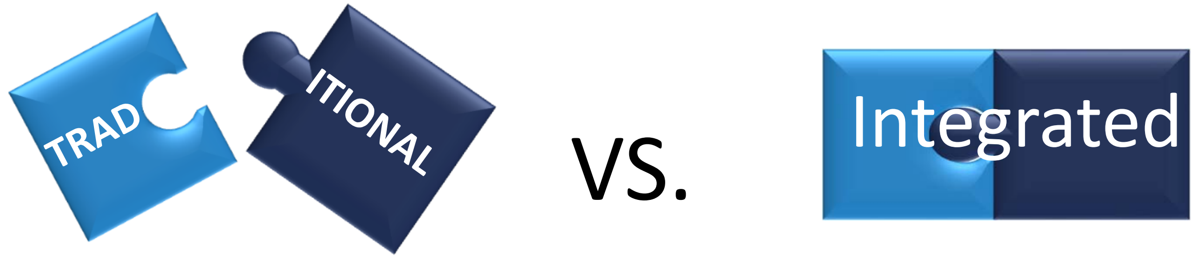
1. **Pick an <u>Important</u> Project / Create a Funding Deadline**
   - Disciples: Send the Crowd Away
   - Jesus: You Give Them Something to Eat (Tonight!)

2. **Know Your Full-Vision Project Cost <u>Before</u> Seeking Funds / Get Organized**
   - Jesus: Make Them <u>Sit Down in Groups of 50</u>
   - How Much Funding (How Big of a Miracle) Do We Need Here, Anyway?

3. **Offer a <u>Full Range</u> of Funding Options**
   - Cash Only?
   - Five Loaves/Two Fish … What's Your Five and Two?

4. **Get Some <u>Help</u> / Open up the Funding Puzzle to Your <u>Entire</u> Catholic Financial Ecosystem (CFE)**
   - Jesus blessed and broke the Five Loaves/Two Fish
   - Jesus gave to his disciples to <u>Set Before the Crowd</u>
   - All ate and Were Satisfied / 12 Baskets Left Over

DFP Funding Principle Two: Integrate Finance and Philanthropy



Approach	Separate, Limits Total Funding	Integrated, Maximizes Total Funding
Funding Mentality	Scarcity	Abundance
Financing Options	Loan OR Bond	Loan AND Bonds
Potential Lenders	D&L OR Banks OR Bond Investors	D&L, Banks, Foundations, Bond Investors, Parishioners AND Donors
Philanthropy Focus	Donor Cash	Donor Cash AND Donor Assets
Energy/Older Buildings	Limited Options	C-PACE Financing
Result	Half-Vision Funding	Full-Vision Funding

DFP Funding Principle Three:
Offer Your Debt Instruments to Your CFE

Your Catholic Financial Ecosystem (CFE) includes all of your relationships within your diocese as potential sources of funding. Your relationships include both Local Lenders and Donors/Foundations.

Local Lenders
Local Banks / Credit Unions
Deposit and Loan

Best terms thru Competition / Unified Credit Facility
Combine Local Bank Loan + Public Bond Debt.
D&L can buy a "skin-in-game" Junior Bond.

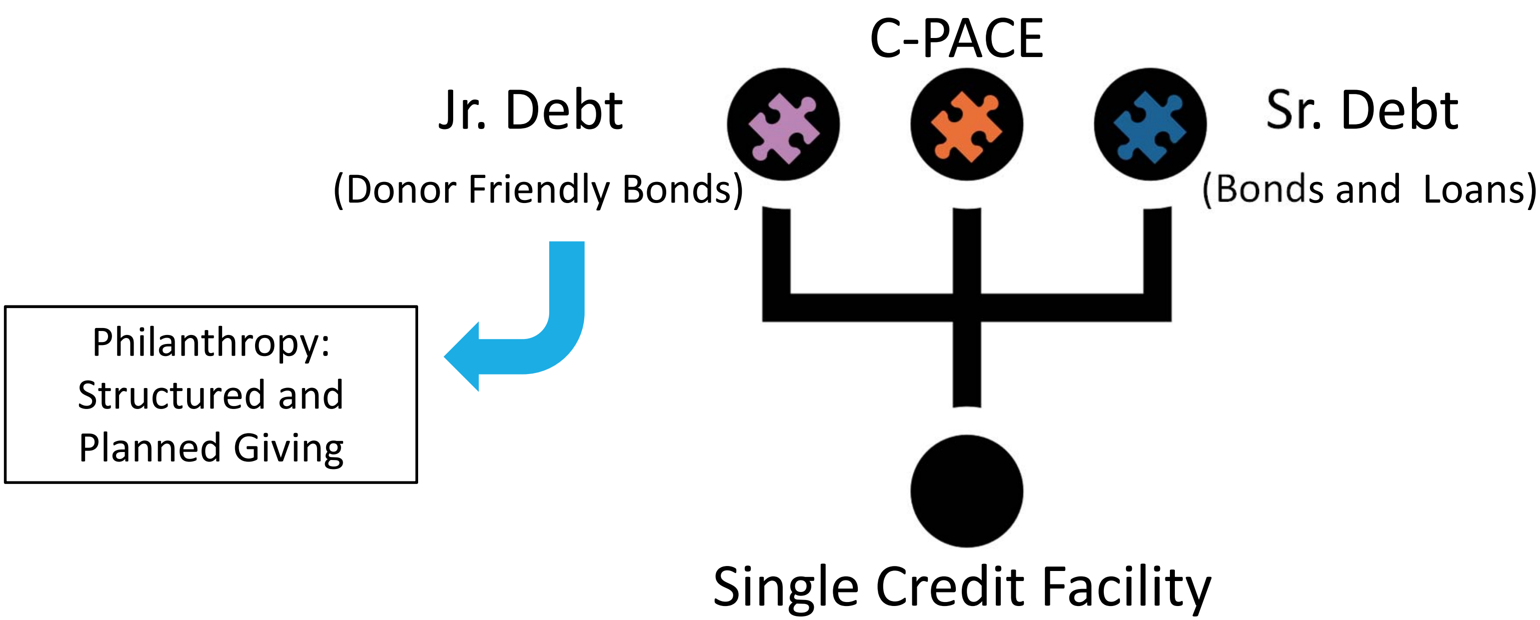
Diocesan and Parish Relationships

Donors
Lead Givers / Parishioners
Foundations

Donors can purchase "Public Bonds" to provide
(i) bridge or pledge receivable financing and/or
(ii) "donate back" principal or interest.

The "Unified Credit Facility"

All forms of taxable or tax-exempt debt (bank loans, senior bonds, junior bonds, C-PACE financing) can be housed under a single credit facility for simplified payments and re-usable financing papers. Competition among lenders leads to obtaining the best terms.



Section 2
The DFP Funding Process Steps

Overview: The DFP Funding Process Steps

- Step One – Maximize “Creative Equity”/Philanthropy
- Step Two – Optimize Junior Debt
- Step Three – Add “Supportable” Senior Debt
- Step Four – Utilize Prudent C-PACE financing

DFP Funding Process Steps Explained

Step One - Creative Equity: <u>All</u> contributions, philanthropy, credit support or other cashflow that will not be receiving a return. Creative Equity can include: In-Process Capital Campaigns, Land Donations, Project Cash Flows, Letters of Credit and Other Non-Traditional Credit Enhancements.

Step Two - Junior Debt: Debt that is secured by a "second position" in the mortgage/collateral and generally has a longer maturity and a higher interest rate. You can use "Donor Friendly" Jr. Debt for a structured giving campaign.

Step Three - Senior Debt: Debt that is secured by a "first position" in the mortgage/collateral. Senior debt generally has a shorter maturity and lower interest rate . Senior Debt can be a combination of loans or bonds.

Step Four - C-PACE: A new source of funding for energy and water capital improvements. Available for new construction or older facility upgrades.

Section3
Case Study Overview

Case Study Overview: Catholic Sr. Living Community (What's Your Bishop's Priority?)

Catholic Diocese identified Senior Living Community as a *priority project* with a fully-loaded cost of $90MM

(Note: "Hypothetical" Diocesan Financing based on Actual In-Process Transactions)

Timing: break ground by Spring of 2020

The Diocese had never financed a project near this size or operated a market rate senior living facility

What the Diocese Had to Offer
(What's Your Five Loaves and Two Fish?)

Could contribute land but not cash equity

A Deposit and Loan with substantial investments in secular bonds

Good relationships with local banks

A 15 parish Deanery with interest in the project and capacity for a $10MM capital campaign

$10MM capacity for a limited guaranty

Section 4
Case Study Step-by-Step: Solving the Funding Gap Together

The First Piece of the Puzzle:
Maximize Your "Creative Equity"/Philanthropy

- The Diocese had no cash equity to contribute
- Land as an "in-kind" donation of $2.5MM
- Include the capital campaign of $10MM (5Yrs)
- Include the projected $17.5MM of cashflow from garden home sales (Yrs.1-4)
- Includes a $10MM ltd. guaranty that burns off

Solving for the “Funding Gap” with Equity

Donated Land $2.5MM + Capital Campaign $10MM + Cash Flow $17.5MM = Total “Equity” $30.0MM

Total Cost $90.0MM - Total “Equity” $30.0MM = Remaining “Funding Gap” $60.0MM

The Second Piece of the Puzzle:
Optimize Jr. Debt

- The D&L has investments it needs a return on: why not invest in the project?
- The D&L agreed to purchase $10MM of Junior bonds (public bonds) with 5% yield
- A second mortgage is provided to Junior Bond holders
- Other sources of Junior Debt may include foundations and lead donors

Solving for the "Funding Gap" with Jr. Debt

D&L Purchased Jr. B-Bond $10.0MM = Total "Jr. Debt" $10.0MM

Total Cost $90.0MM - Total "Equity" $30.0MM - Total "Jr. Debt" $10.0MM = Remaining "Funding Gap" $50MM

The Third Piece of the Puzzle:
Add “Supportable Sr. Debt”

- DFP sent a $50MM Request for Proposal to a local bank network (from the diocesan CFE) and national institutions and received several responses (opening a competition)

- A local network of banks won and agreed to purchase up to $50MM Senior “X-bonds” with favorable terms
  - 4.875% Taxable Rate converted to
  - 3.400% Tax-Exempt Rate for 10 Years
- DFP will also place a $2.5MM Senior “A-Bond”
- Total Senior Debt “capped” at $45.0MM due to Loan-to-Value Covenant

Solving for the "Funding Gap" with Sr. Debt

Bank Purchased Sr. "X-Bond" $42.5MM + DFP Placed Sr. "A-Bond" $2.5MM = Total "Sr. Debt" $45.0MM

Total Cost $90.0MM - Total "Equity" $30.0MM - Total "Jr. Debt" $10.0MM - Total "Sr. Debt" $45.0MM = Remaining "Funding Gap" $5.0MM

The Fourth Piece of the Puzzle: Utilize C-PACE Financing

- DFP secured the remaining $5.0MM of funding through C-PACE financing
- Covers the energy and water portions of the facility
- No mortgage or Diocesan Guarantee
- Solves the Senior Debt "Loan-to-Value Problem"

Section 5
More Information About C-PACE Financing

More On C-PACE Financing

C-PACE: Commercial Property Assessed Clean Energy

Characteristics

- Can be used for lighting, HVAC, roofs irrigation and other projects which relate to the energy or water use in a building
- Allows for 100%, 10 to 30-year fixed rate financing
- Requires no guarantee
- Requires no mortgage lien
- Can be prepaid

Requirements

- Repaid via voluntary tax assessment (like a property tax)
- Requires consent of existing mortgage lenders (if any)
- Tax Assessment ends when C-PACE loan is fully repaid
- C-PACE program elements differ from state to state

Presentation Takeaways

DFP Funding Process Steps

C-PACE Financing

- Energy or Water Financing
- New or Retro-Fit Project Financing
- Paid by Tax Assessment
- Requires No Mortgage Lien
- Requires No Guarantee
- Allows for 100% Financing
- Allows pre-payment

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Appendices

Presenter Information

Michael Schierl

Michael is the Founder of Julius Capital and Immaculata Law Firm. A graduate of Harvard Law School and the University of Notre Dame, Mr. Schierl has been designing and implementing innovative funding solutions for over 25 years. Michael is the developer of the "Catholic Financial Ecosystem" funding paradigm and a growing toolkit of funding mechanisms that integrate finance and philanthropy. Michael is a recognized leader in the nonprofit financial community for his work developing philanthropy-friendly credit facilities for nonprofit borrowers, ranging from simple loan agreements to more sophisticated bond structures which integrate construction draw, bank debt and taxable/tax-exempt public bond capabilities under a single "unified credit facility" structure first developed by Michael. Over the last decade, Julius Capital and Immaculata Law Firm have designed and implemented financing solutions for Catholic Organizations providing over $500,000,000 of funding.

Walt Coughlin

Walt is an Executive Vice President at Coughlin & Co., which is a third-generation family owned investment banking firm founded in 1932. In his 33-year career, Walt has completed taxable and tax-exempt financings for a nation-wide network of Diocesan and Catholic parish, school and apostolate clients with transactions raising well in excess of $1,000,000,000. Walt is a graduate of Stanford University and the Kellogg School of Management at Northwestern and an active participant in a wide variety of local and national Catholic boards.

Glossary

Diocesan Financial Partners (DFP) - a strategic network of firms (Julius Capital, Immaculata Law Firm and Coughlin & Company) focused on structuring and executing innovative, turnkey financing solutions for Catholic entities.

Catholic Financial Ecosystem (CFE) - all of your relationships within your diocese as potential sources of funding. Your relationships include parishioners, donors and philanthropists, your deposit and loan, affiliated foundations, and local banking relationships.

Creative Equity - All contributions, philanthropy, credit support or other cashflow that will not be receiving a return. Creative Equity can include: In-Process Capital Campaigns, Land Donations, Project Cash Flows, Letters of Credit and Other Non-Traditional Credit Enhancements.

Junior Debt - Debt that is secured by a “second position” in the mortgage/collateral and generally has a longer maturity and a higher interest rate. You can use “Donor Friendly” Jr. Debt for a structured giving campaign.

Senior Debt - Debt that is secured by a “first position” in the mortgage/collateral. Senior debt generally has a shorter maturity and lower interest rate. Senior Debt can be a combination of loans or bonds.

C-PACE (Commercial Property Assessed Clean Energy) Financing - A new source of funding for energy and water capital improvements. Available for new construction or older facility upgrades. C-PACE financing is secured by a senior tax lien on the property.

Fully Loaded Pro Forma – A model that provides fully-detailed total sources and uses of funding for a given project without sacrificing portions of the project or cutting the project in half. Adequate back-up for all assumptions made in the model should be provided.