

PROVEN FINANCING STRATEGIES FROM THREE DIOCESES

a panel discussion with case studies

DIOCESAN FINANCIAL PARTNERS

in collaboration with

DIOCESE OF AUSTIN

DIOCESE OF PHOENIX

DIOCESE OF FORT WORTH
ADVANCEMENT FOUNDATION

PRESENTED BY



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OVERVIEW

- **Dioceses want financing structures that are cost effective, flexible, and easy to administer and “re-use” for multiple financings.**
- **Especially for large projects, virtually every Diocese will want to obtain the best rates and terms for third-party financing (e.g., bank or bond debt).**
- **Every Diocese has substantial untapped friendly lending capacity within its own *Catholic Financial Ecosystem (CFE)* (e.g., its D&L, Foundation, Self-Insurance Funds, Large Donors)**
- **The *Unified Credit Facility (UCF)* enables Dioceses to combine bank/institutional financing with internal CFE-funded financing, under a single credit facility, in order to create the ideal financing solution.**
- **Our 3 Diocesan panelists will show you how they utilized their own Diocesan UCF to create customized funding solutions to 3 different funding challenges.**

DIOCESAN FINANCIAL PARTNERS

We Help Dioceses obtain funding using the *Unified Credit Facility (UCF)* from:

1. Banks/Investors
2. Your Catholic Financial Ecosystem (CFE)
3. Your Donors (Balance Sheet Philanthropy)



Financial Design & Modeling
Balance Sheet Philanthropy



Bond Counsel
Credit Facility Design



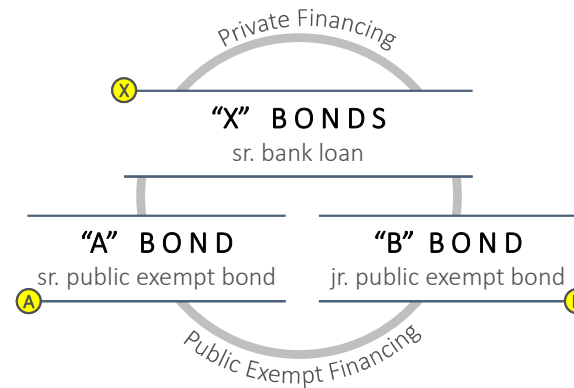
Bond & Loan Placement

WHAT IS THE UNIFIED CREDIT FACILITY (UCF)?

BENEFITS

- **Flexible** | Optimal mix of public and private debt customized to each financing.
- **Borrower-Friendly Terms** | Use your papers and terms... not your lender's.
- **Lender Competition** | Request-for-Proposal ensures best terms.
- **Organized** | Master Facility with separate Supplements for each Financing providing easy monitoring, accounting and compliance.
- **Evergreen** | Ongoing financing, refinancing opportunities.
- **Philanthropy Integration** | Create donor-friendly bond options.

One Credit Facility for All of Your Financing Needs



X | Bank Lender, Taxable or Tax-Exempt, **5 to 15** year term, **2 – 3 %** fixed

+

A | Foundation/investor/donor, Taxable, **10 to 20** year term, **3 – 4 %** fixed

+

B | Foundation/investor/donor, Taxable, **10 to 30** year term, **5+ %** fixed

WHAT IS BALANCE SHEET PHILANTHROPY (BSP)?

- 1 | BSP is a catch-all term for funding solutions that provide donors and foundations with **options to invest** in a charity
 - Donor Capacity to “give from assets” is **10x greater** than capacity to “give from income”
- 2 | BSP **complements** (does not a replace) traditional cash fundraising
 - New Mindset: Transform your cash-based “**No**” into an asset-based “**Yes**” gift

BSP Examples – A few of many possibilities

- **For a Donor** | purchase a charity’s Bond, increase current income during your lifetime, then “donate back” bond principal upon your passing
- **For a Foundation** | lower your grantee’s borrowing cost AND increase your portfolio yield by purchasing charity’s higher-yielding Jr. Bond

THE THREE CASES

case one **MANY FINANCING NEEDS – ONE FLEXIBLE SOLUTION**
DIOCESE OF AUSTIN

case two **MONETIZING AN UNDERUTILIZED CHURCH ASSET**
DIOCESE OF PHOENIX

case three **PARTNER WITH YOUR CATHOLIC FOUNDATION**
DIOCESE OF FORT WORTH | ADVANCEMENT FOUNDATION

conclusion

| case one

MANY FINANCING NEEDS – ONE FLEXIBLE SOLUTION

DIOCESE OF AUSTIN

DIOCESE OF AUSTIN

BACKGROUND

- **\$ 84.5 M** tax-exempt bond in '05 (refinanced in '10) at approx. 5 – 6 % interest, not callable until April '21
- D&L accumulated a large amount of cash due to pre-payments by parishes and schools, but unable to pre-pay '10 Bond until April '21
- Diocese has large amount of Cash in Insurance Funds earning low yields in current bond market.
- Diocese has cash tied up in large debt service reserve for '10 Bond.

FUNDING CHALLENGES

- Need to Re-fi **\$ 69.7 M** of remaining '10 debt
- Need \$10MM low-cost, revolving line of credit
- Need \$19MM for Catholic High School Project
- Need reasonable returns on Cash and Fixed Income investments.
- Need a better Banking Relationship
- Uncertainty related to COVID-19 pandemic driving Fixed Income investment yields near 0% ... credit markets seizing up.

DIOCESE OF AUSTIN

FUNDING SOLUTION 1

- Overall Facility: under **3.0%** blended rate
- **\$18.0 M** of Jr. Bonds purchased by Diocesan insurance/benefit portfolios
- **\$12.4 M** Bridge Loan from Bank refinanced D&L Loan to High School.
- Refi accomplished with **\$57.9 M** total cash generated from within Diocesan CFE.

FUNDING SOLUTION 2

- **\$ 10.0 M** Revolver with no fees

FUNDING SOLUTION 3

- Overall Facility: **2.0%** blended rate (Debt Service Savings of \$3.9M/yr) (rate reduction and reduced debt)
- **\$4.8 M** of authorized but unissued Jr. B-Bonds can be used by High School as “donor bond inventory” for follow-on Campaign.

1 UNIFIED CREDIT FACILITY (initial refinancing)

APRIL 1, 2020

\$ 12.4 M Bridge Loan
+
\$ 18.0 M Jr. Bonds | **2.20 – 3.4%** fixed, serially maturities **6 – 25** years
+
\$39.9 M Cash | partial debt re-payment

2 REVOLVING LINE OF CREDIT (for D&L liquidity)

APRIL 10, 2020

\$ 10.0 M Revolver | **Libor + 1.0%**, no lender or non-use fee

3 UNIFIED CREDIT FACILITY (permanent high school financing)

JUNE 1, 2020

\$ 19.0 M Tax-Exempt Loan | **1.97%** fixed
+
\$ 200 K Jr. Bonds | **3.25 – 3.50 %** fixed, serial maturities **16 – 25** years

TAKEAWAYS

UCF Flexible and Re-Useable Documents

- Multiple Financings accomplished Quickly under a Single Master Credit Facility.

UCF offered Diocese-Proposed standard terms (not the Banks) as starting point

- E.g., No Pre-Payment Penalties

Competitive RFP Process Produced

- Extremely competitive Bank Rates (1.97% Fixed Rate on Tax-Exempt School Loan)
- \$10.0MM Revolving LOC (no upfront or non-use fee)

CFE Funding / BYOB (Be Your Own Bank)

- Diocese obtained \$18.0MM of investment from its own Insurance Funds

Liquidity / Balance Sheet Philanthropy Opportunities

- Diocese-Held Bonds can be re-sold to third parties as needed

| case two

MONETIZING AN UNDERUTILIZED CHURCH ASSET — THE SKIN-IN-THE-GAME GUARANTY

DIOCESE OF PHOENIX

FLAGSTAFF SENIOR HOUSING DEVELOPMENT

BACKGROUND

- Flagstaff is a quickly growing tourism/regional hub located 150 miles north of Phoenix
- Foundation for Senior Living (FSL): Catholic Charities agency that is a senior housing provider and developer in the Diocese of Phoenix
- Diocese of Phoenix: owned underutilized church asset (vacant school building and historical residential home on 2.06 acres plot of land)
- Proposed redevelopment: demolish the school, sell the historical home, and build senior/workforce housing which takes many years to complete in full
- FSL was the preferred purchaser but did not have the financial wherewithal that other potential purchasers had

FUNDING CHALLENGES

- Diocese wanted payment for land before multi-year development plan could be completed
- FSL needed land ownership to implement multiple senior living, affordable housing and parking projects
- Support for the transaction from the Diocese was highly desirable to third party lenders
- The Diocese wanted FSL to provide “skin in the game” support



FLAGSTAFF SENIOR HOUSING DEVELOPMENT

FUNDING SOLUTION

- **Asset Purchase** | Property purchased from Diocese for **\$5.495 M**
- **Diocesan “Take-Back” Paper** | **\$ 1.8 M** in Jr. B-Bonds purchased by Diocese
- **“Skin-in-the-Game”** | Diocese required FSL to purchase **\$250 K** Unsecured Note as incentive

DIOCESAN BENEFITS

- **Cash Inflow** | **\$5.495 M** inflow of cash previously tied up in illiquid, poorly performing asset
- **6% Annual Returns** | Re-invested **\$1.8 M** from cash inflow into redevelopment generating strong returns for D&L
- **Repurposed & Monetized Asset** | Underutilized Church asset becomes source of cashflows and FSL project(s)

\$5.925 M

UNIFIED CREDIT FACILITY

\$ 3.875 M Sr. Public A-Bonds | **5.0%** fixed, 7-year term, interest only
(Sold to Investors)

+

\$ 1.8 M Jr. Public B-Bonds | **6.0%** fixed, 9-year term, interest only
(Purchased by Diocese)

+

\$250 K Unsecured Note | **6.0%** fixed, 10-year term, interest only
(Contribution from FSL)



TAKEAWAYS

UCF Flexible and Re-Useable Documents

- Acquisition financed via Second Supplemental Indenture
- Development costs could be quickly financed via subsequent Supplemental Indenture

Diocese Monetized Underutilized Church Asset

- Cash inflow of ~\$5.5M from sale of property that was not generating income nor advancing the mission of the Church
- Net of investing in \$1.8M of B-Bonds, the Diocese unlocked ~\$3.7M in cash that could be used in other high-impact projects throughout the Diocese

Diocese Repurposed Ineffective Asset to Advance the Mission of the Church

- New development offers charitable works to the community
- Further advance mission of the Church by deploying Diocesan cash from property sale

Diocese Receiving High Return on Cash by Investing in High-Impact Church Project

- B-Bonds purchased by Diocese earn 6.0% annual rate of return

| case three

PARTNER WITH YOUR CATHOLIC FOUNDATION

DIOCESE OF FORT WORTH
ADVANCEMENT FOUNDATION

NOLAN CATHOLIC HIGH SCHOOL

BACKGROUND

- Existing Diocesan high school with need for new facilities and lower debt costs
- *Expand the Experience* campus improvement plan

\$ 27.0 M donations (\$ 25.5 M lead gift)
+ **\$ 7.0 M** remaining need

\$ 34.0 M total capital improvement project

+ **\$ 10.0 M** outstanding, high-cost D&L loan



FUNDING CHALLENGE

- Foundation | Employ cash, improve yield
- Diocese | Needs \$10.0 M loan repaid
- Lead donor | Prioritizes sustainable vision
- NCHS | Lower borrowing cost
- Other capital projects and needs still exist

NOLAN CATHOLIC HIGH SCHOOL

FUNDING SOLUTION

- Overall Facility: **4.0%** blended rate (Debt Service Savings **\$676,000/yr**)
- Foundation | purchased Sr. + Jr. Bonds to employ cash and improve yield
- Diocese | \$ 10.0 M D&L loan repaid
- Lead donor | integrated strategic plan
- Other capital projects | \$ 4.0 M of new funding for future projects

OTHER BENEFITS

- Set stage for follow-on \$8.0 - \$12.0 MM campaign with Balance Sheet Philanthropy Giving Options
- Fully funded a \$1.0 M debt service reserve

\$15.75 M

UNIFIED CREDIT FACILITY

\$ 9.0 M Tax-Exempt Loan | **1.94%** fixed, 10-year term

+

\$ 1.0 M Sr. Bonds | **3.6%** fixed, serial maturities (avg. 13 years), interest only

+

\$5.75 M Jr. Bonds | **5.25%** fixed, serial maturities (avg. 23 years), interest only



TAKEAWAYS

Expanded Role of Your Catholic Foundation

- Conduit Bond Issuer for Parishes & Schools
- Purchaser of Taxable Public Bonds (A-Bonds and B-Bonds)
- Consultant as to School Capital Campaigns & Balance Sheet Philanthropy

Liquidity for D&L; An attractive Investment for the Foundation

- Transaction re-financed a \$10.0MM D&L Loan to the High School
- Foundation purchased higher-yielding B-Bonds (which Foundation wants)

Competitive RFP Process

- Extremely competitive Bank Rates (1.94% Fixed Rate on Tax-Exempt School Loan)

CFE Funding / BYOB (Be Your Own Bank)

- High School obtained \$6.75 MM of Loan from its CFE Bond
- B-Bonds Purchased by Foundation earn 5.25% (vs. < 2.0% for its Secular Fixed Income Portfolio)

Balance Sheet Philanthropy Opportunities

- \$5.75MM of Donor-Friendly B-Bonds owned by Foundation available for School Campaign

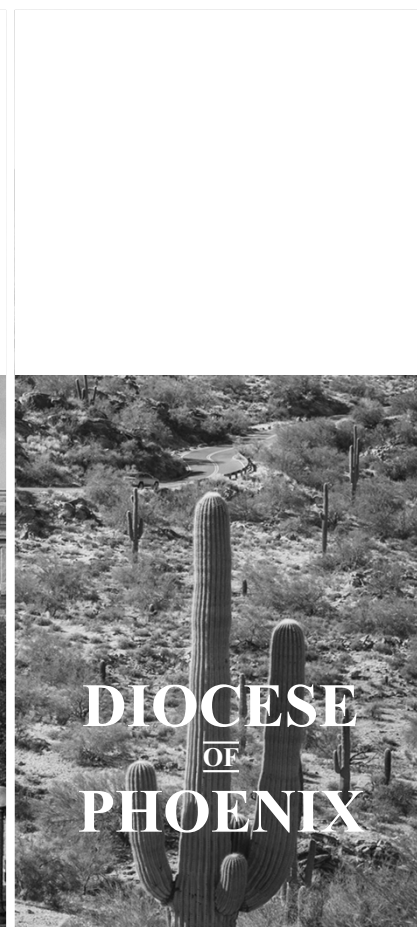
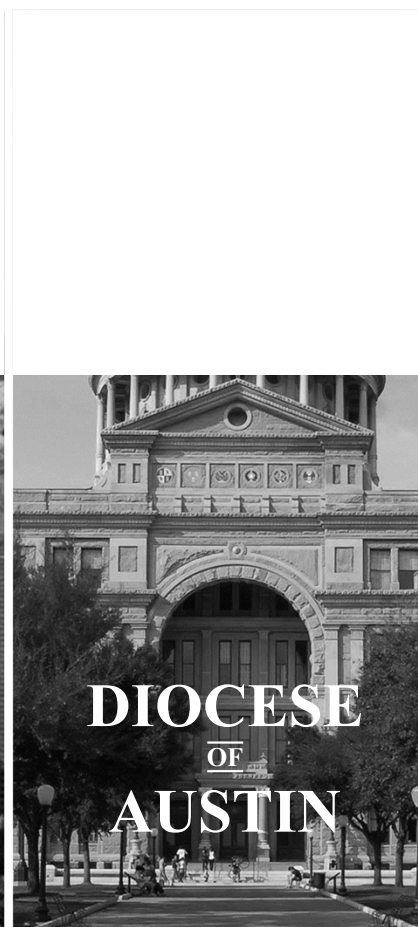
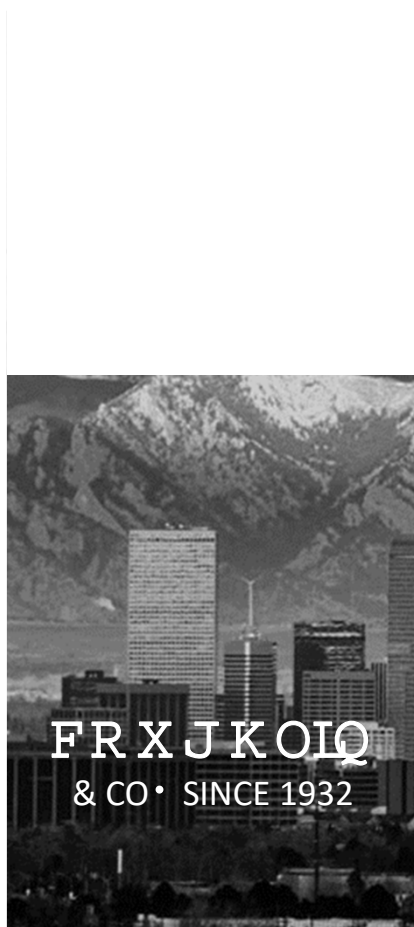
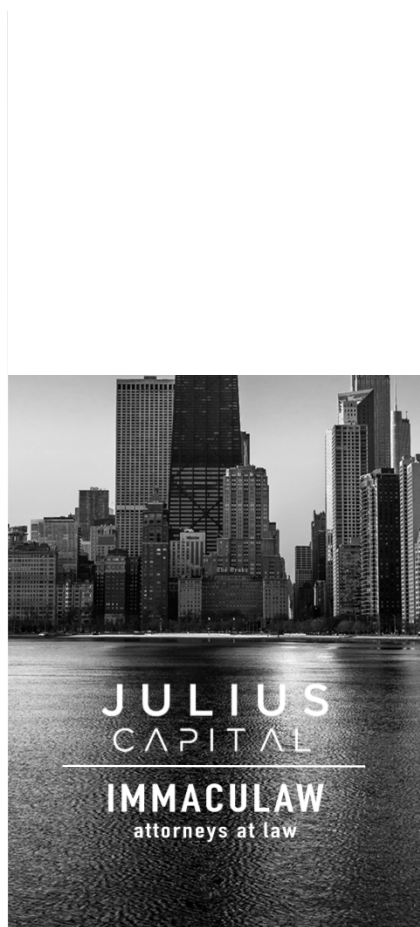
| conclusion

FUTURE AND EXPANDING OPTIONS

DIOCESAN FINANCIAL PARTNERS

Q & A

** slides available on conference website or upon request **



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