

THREE FOUNTAINS CORPORATION

President: Jeff Rickard
Treasurer: Kathy Mehlmann
Member at Large: Cassandra Rocha

Vice President: Barbara Florey
Secretary: Barbara Griswold

BOARD OF MANAGERS AND FINANCE COMMITTEE MEETING September 12, 2017

Finance Committee members present: Mimi Karsh, Irene Carlow, Becky Richmond and Bill Scholten, Cassandra Rocha. Abby Marsh was unable to attend.

This was a meeting called between the Board and the Finance Committee which began at 4:38PM. The meeting was called to present UMB Banks proposal for Three Fountains to explore other monetary ways to be able to do more roofs in 2018. The estimated proposed budget for 2018 allows \$268,549 for this purpose. Nate Farley, Vice President of UMB Bank presented his proposal as requested by Jeff and the Finance Committee. The key elements of his proposal will be included in total at the end of the minutes.

Kathy Mehlmann stated that Three Fountains has 32 more buildings to roof including the Maintenance office and Library. The cost, today, to complete the roofs would be \$1,414,000. In the long range proposal, if Three Fountains continues to do 5-6 buildings a year, the roofs would be completed in 2024 with the Maintenance office being completed in 2026. In 2016 and 2017 11 buildings were completed at a cost of approximately \$500,000. B&M Roofing has told Chris Fox, the Property Manager, that they will try to hold the price on new roofs to what it has been for the last two years once Chris sends a list of the new buildings that are to be done. This verbal agreement is only good for 1 more year as our by-laws require new bids every 3 years.

When the reroofing began, there was an incredible need to complete the roofs as soon as possible. Three Fountains had been insured with American Family for years and they reduced the premiums as Three Fountains completed the removal of the wooden shingles and replaced them with asphalt. American Family did not have true guaranteed replacement cost coverage on all of the roofs including the wood roofs. In the by-laws for Three Fountains it states that full replacement cost coverage needs to be in effect. Last winter, the Board voted to change insurance carriers to Farmers and that immediately gave us true guaranteed replacement cost coverage on all of the roofs, completed or not so there is no incentive to do more roofs based on insurance coverage. The need to hurry the process to complete more roofs was discussed versus the cost of borrowing money or withdrawing money from investment accounts and paying capital gains on that money or using Three Fountains \$400,000 line of credit. Using any of these options, it was hoped that the roofs would be completed sooner than 2024.

At this time, there is only one roof which needs immediate service. The Board voted unanimously to borrow money from the line of credit to reroof the entire building this fall. Chris is getting the cost from B&M Roofing.

The next two pages have been submitted by Mimi Karsh and Irene Carlow on behalf of the Finance Committee explaining in detail Nate's proposal and the conversation that followed.

Submitted by Barbara Griswold, Secretary

Finance Committee Recap:

Nate Farley, UMB Vice President, presented a loan package to finance the roof replacement project:

1. \$600,000 Draw Note @ 4.25% interest for 12 months (interest-only payments, 5-year balloon)
Amounts could be drawn as needed/desired (similar to a construction loan)

Monthly interest payment (on full amount):	\$ 2,125
Balloon payment (estimated):	\$350,000

2. \$600,000 Term Note for 5 years, interest rate would be then-current 5-year Treasury rate + 2.75% (currently 4.44%)

Estimated monthly payments (full amount amortized over 5 years)	\$ 6,000
Total repayment amount (rough estimate)	\$800,000

3F's \$925,000 reserve account, which is invested at UMB, will be fully collateralized for these loans: 70% margin, 30% equity to cover margin calls if the account value drops during a market decline. This means that 3F cannot access any of the funds in the investment account. If an emergency arises during the term of these loans, 3F would have to take out a second loan against our line of credit. Line of credit loans must be repaid within 10 months.

Discussion

32 buildings remain to be re-roofed at a total estimated cost of \$1.415 million. The Capital Improvement Reserve Account was created to finance shake roof replacement but funds have not been withdrawn to pay for the project. Each year's roofing project is financed from the revenues (assessments) received that year. The most recent roof replacement costs:

2016	6 buildings	\$268,056 (range \$38K-\$59K)	Average cost: \$44,676
2017	5 buildings	\$230,000 budget (range \$38K-\$53K)	Average cost: \$46,000

Based on the 2017 average cost of \$46,000 per building, the proposed \$600,000 loan would pay for 13 buildings with a (rough estimate) total repayment amount of \$800,000.

Earnings on 3F investment account:	2%	\$18,000 per year
Interest on the Draw Note:	4.25%	\$25,000 per year

Some FC members offered an alternative debt-free proposal that would utilize reserve account funds while continuing to cash-flow additional roof replacement from current revenues. 3F would at all times have full access to all remaining balances in the reserve account for potential emergencies, with the additional option of borrowing against the line of credit. Asset liquidation would be done in consultation with UMB investment officers to ensure an orderly liquidation with the most advantageous estimated capital gains tax.

This example is based on the 2017 average per-building cost of \$46,000; this is a straight-line projection with no inflationary costs built in. Under this basic scenario, 22 of the 32 remaining buildings could be completed by the end of 2019.

8/2017	UMB Investment account balance	\$925,700
12/2017	Liquidate \$275,000 to fund Spring 2018 roof project Potentially 6 buildings; pay capital gains in 2018	<u>(275,000)</u> \$650,700
2018	Transfer minimum of \$235,000 to capital reserve account; fund Fall 2018 project – Potentially 5 buildings	
12/2018	Liquidate \$275,000 to fund Spring 2019 roof project Potentially 6 buildings; pay capital gains in 2019	<u>(275,000)</u>
	UMB Investment account balance	\$375,700
2019	Transfer minimum of \$235,000 to capital reserves; fund Fall 2019 project – Potentially 5 buildings	
Remaining 8 buildings:		
2020	Transfer minimum \$235,000 to capital reserves Potentially 5 buildings Either secure a loan to complete remaining 3 buildings or postpone until 2021	

COST: Capital gains tax

Funds in the reserve account are available at all times and no debt is incurred.

Nate Farley will prepare a capital analysis and develop models that will show the costs and financial impact of debt financing compared to cash financing.

Submitted by Mimi Karsh and Irene Carlow as representatives of the Finance Committee

Excerpts from UMB Document:

UMB

September 6, 2017
Mr. Jeff Rickard
Three Fountains

RE: Credit Facility

Dear Jeff:

UMB Bank n.a. (“UMB”) is pleased to make available to Three Fountains (“Borrower”) The following credit facilities in response to our recent discussions. The terms presented below are subject to UMB’s conduct of acceptable final due diligence and execution of a business loan agreement and all other loan, collateral, and related documents by Borrower in form acceptable to UMB.

Loan Amount:

- 1.) \$600,000 Draw Note
- 2.) \$600,000 Term Note

**Interest Rate
per annum for
each Loan:**

- 1.) 4.25%
- 2.) 5-year Treasury + 2.75%, fixed at term out (currently 4.44%)

Term:

- 1.) 12 months
- 2.) 60 months

Repayment:

- 1.) Monthly interest payments
- 2.) Monthly interest payments, in addition to monthly principal payments based on 120 month amortization

Collateral:

- First security interest in UMBFS brokerage account DCX-004596 margined at 70%
- Loan to be cross-collateralized and cross-defaulted with all other loans

Guarantor:

None

Insurance:

Insurance acceptable to UMB

Origination Fee:

\$1,000

Other fees and Expenses:

Borrower's to pay all fees incurred by UMB to close the credit facilities including but not limited to legal fees, and other fees.

Prepayment Penalty:

None

Financial and Reporting:

- 1.) Company prepared financial statements quarterly
- 2.) CPA audited financial statements annually
- 3.) UMBFS brokerage statements

Documentation:

All documentation and financial reporting must be acceptable to UMB and to its attorneys.