Financing and Capital Planning Workshop

Workshop Topics

- Capital Planning
- Sources & Uses of Funds
- Critical Loan Factors
- Loan Process and Key Terms
- Construction Financing
- Community Bonds

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Review of Business Plan Concepts

- Organizational information (Strategy)
- Project information (Opportunity)
- Operational information (Feasibility)
- Financial information (Financing)

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Business Plan Components

Capital Planning

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Capital Planning

- Built off your Project Budget
  - Be sure to include the costs of financing:
    - loan fees
    - interest costs during construction
    - appraisal costs
    - legal costs of doing security and loan documents

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Project Budget Template

Organization Name

Project Budget

Building Condition Report Fee	
Construction Costs	
Structural repairs	
Exterior repairs	
Interior building system upgrades	
Interior finishing	
Total Construction Costs	
Design & Engineering	
General Site Costs	
Construction contingency (10%)	
Financing Costs	
Total Project Budget	

Capital Planning

- Considers the total amount of money needed to complete the project
- Needs to identify where the funding will come from
- What you will spend the money on and how you will pay it back
- Sources and Uses of Capital chart (template from Business Planning Workshop)

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Sources & Uses of Capital

Organization Name

Sources & Uses of Capital

Sources of Funds		Uses of Funds	
Society savings account		Building condition assessement	
Building reserve account		Construction Costs	
Project donations		Design, Engineering and Admin	
Grant - City of Vancouver		General site costs	
Grant - other		Contingency	
Bank Mortgage			
Community Bond			
Total Sources of Funds		**Total Uses of Funds**	

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Possible Sources of Capital

- Organization savings or reserve account
- Fundraising activities
- Government grants
- Private donations

(refer to the first part of this Workshop)

- Mortgage or long term loan
- Construction Financing
- Community Bond

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Mortgage Financing

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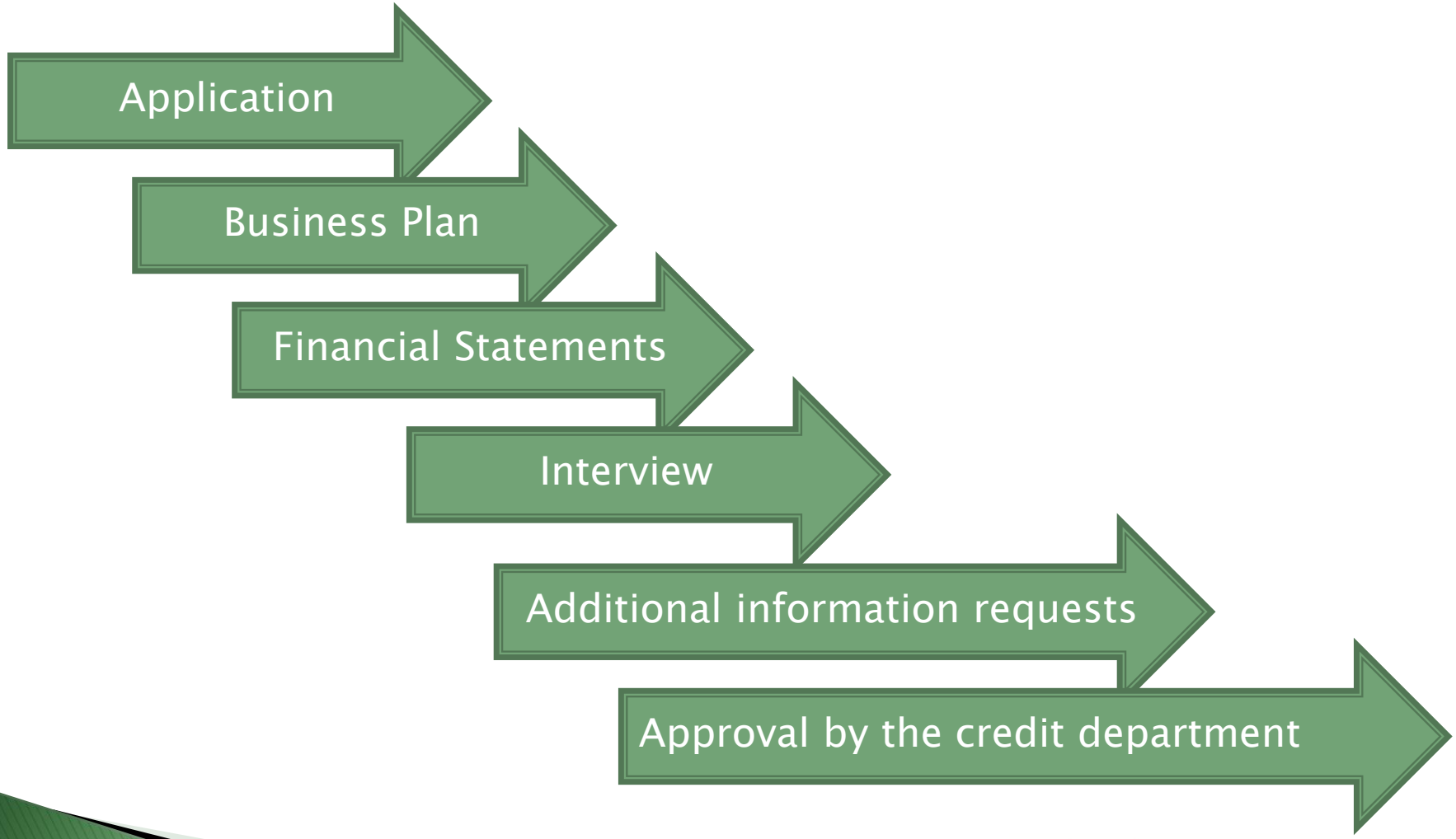
Loan Application Process



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Critical Loan Application Factors

- Operating Budget worksheet
  - important for debt financing request
  - shows the ability to pay back the loan over time
  - proves to you and the lender that you will be able to make loan payments

- Debt Service Ratio – ability to make annual loan payments

Debt Service Ratio Calculated as:

$$\frac{\text{Annual Surplus}}{\text{Total Annual Financial Payments}}$$

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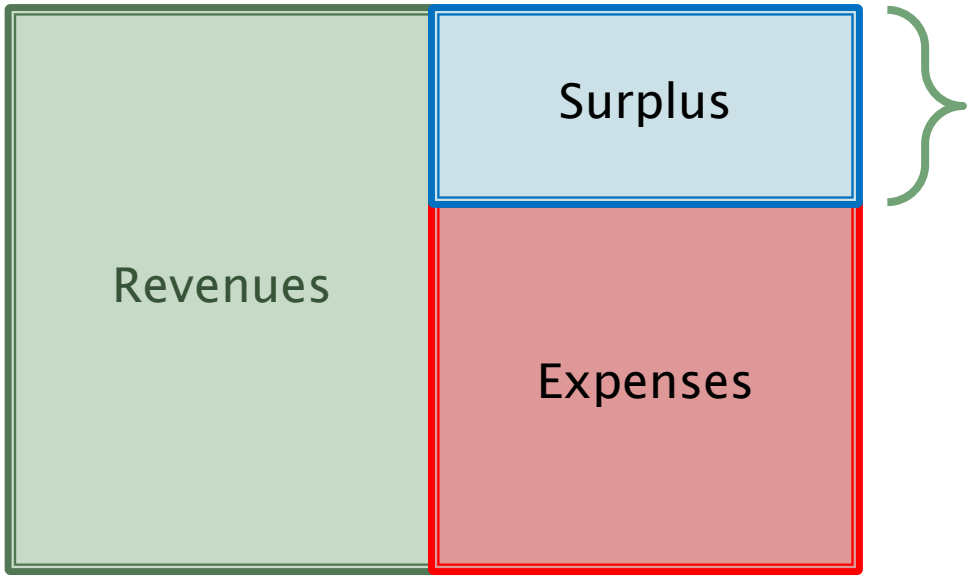
Operating Budget

- Establish the sources of revenue
- Determine the costs of operating the building
- Set out any staffing or management costs to operate the building
- Demonstrate that there will be sufficient cash flow to make required loan payments
- Clearly state your assumptions



Available to pay mortgage

Note: should be 1.20 times the monthly mortgage payment

Operating Budget

Debt Service Ratio Calculated as:

$$\frac{\text{Annual Surplus}}{\text{Total Annual Financial Payments}}$$

Organization Name
Cash Flow Worksheet

	Opening	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Budget						
Revenue						
Residential rent						
Commercial rent						
deduct Vacancy Allowance		0	0	0	0	0
Operating cost recovery (commercial)						
Grants						
Other revenues						
Total Revenue	0	0	0	0	0	0
Expenses						
Salaries & Wages						
General & Administration						
Marketing costs						
Building Expenses						
Property Management expense						
Utilities						
Insurance						
Property Taxes						
Maintenance & Repairs						
Cleaning/Janitorial						
Security						
Garbage/Recycling						
Fire Safety system/inspections						
Other building expenses						
Replacement Reserve						
Total Expenses	0	0	0	0	0	0
Excess of Revenue over Expenses	0	0	0	0	0	0
Financing costs						
Mortgage Payments	5.00%	0	0	0	0	0
Community Bond Interest						
Community Bond Principal						
Total Financing costs	0	0	0	0	0	0
Increase (decrease) in net cash flow	-0	0	0	0	0	0
Opening cash position	-0	-0	-0	-0	-0	-0
Closing cash position	-0	-0	-0	-0	-0	-0
Debt Service Coverage Ratio:		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Cash Flow Worksheet (example)

	Opening	Year 1	Year 2	Year 3	Year 4	Year 5
Excess of Revenue over Expenses	0	23,000	35,000	18,000	28,000	21,000
Capital Budget						
Financing Proceeds						
Bank Mortgage	280,000					
Community Bond	150,000					
Total Financing Proceeds	430,000	0	0	0	0	0
Financing costs						
Mortgage Payments	5.00%	19,642	19,642	19,642	19,642	19,642
Community Bond Interest	3.00%	4,500	4,500	4,500	4,500	4,500
Community Bond Principal		0	0	0	0	0
Total Financing costs	0	24,142	24,142	24,142	24,142	24,142
Increase (decrease) in net cash flow	5,000	-1,142	[illegible]858	-6,142	3,858	-3,142
Opening cash position	0	5,000	[illegible]8	14,715	8,573	12,431
Closing cash position	5,000	3,858	[illegible]15	8,573	12,431	9,288
Debt Service Coverage Ratio:		0.95	1.45	0.75	1.16	0.87

Critical Loan Application Factors

- Key Financial Ratios
  - Debt Service Ratio – ability to make annual loan payments
  - Loan to Value Ratio – strength of the loan security to collect on default

Loan to Value Ratio Calculated as:

$$\frac{\text{Total Loan Approved}}{\text{Appraised Value of the Building}}$$

  - Maximum is in the range of 60% – 65%
- All lenders are not the same

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Terms of Financing

- Total loan authorization
- How it will be advanced
- Interest rate
- Regular repayment terms
- Amortization
- Security
- Outside guarantees
- Annual reporting

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Construction Financing

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Construction Financing

- Total authorization
- As money is spent on construction more of the loan is available (progress draw)
- Cash flow needed to move through construction
- Reporting as construction progresses
- Holdbacks
- Final advance of the loan

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Community Bonds

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Community Bond – Definition

- Community Bond provides **aligned supporters** another way to provide financial support to the work of the organization
- Money is **paid back** to the investor in the future
- Modest **financial return** can be provided
- Capital is available to the non-profit to expand their **work in community**
- Connected to a defined community project – the ultimate **"buy-local" investment strategy**
- Similar to the way money was raised to buy your building in the beginning

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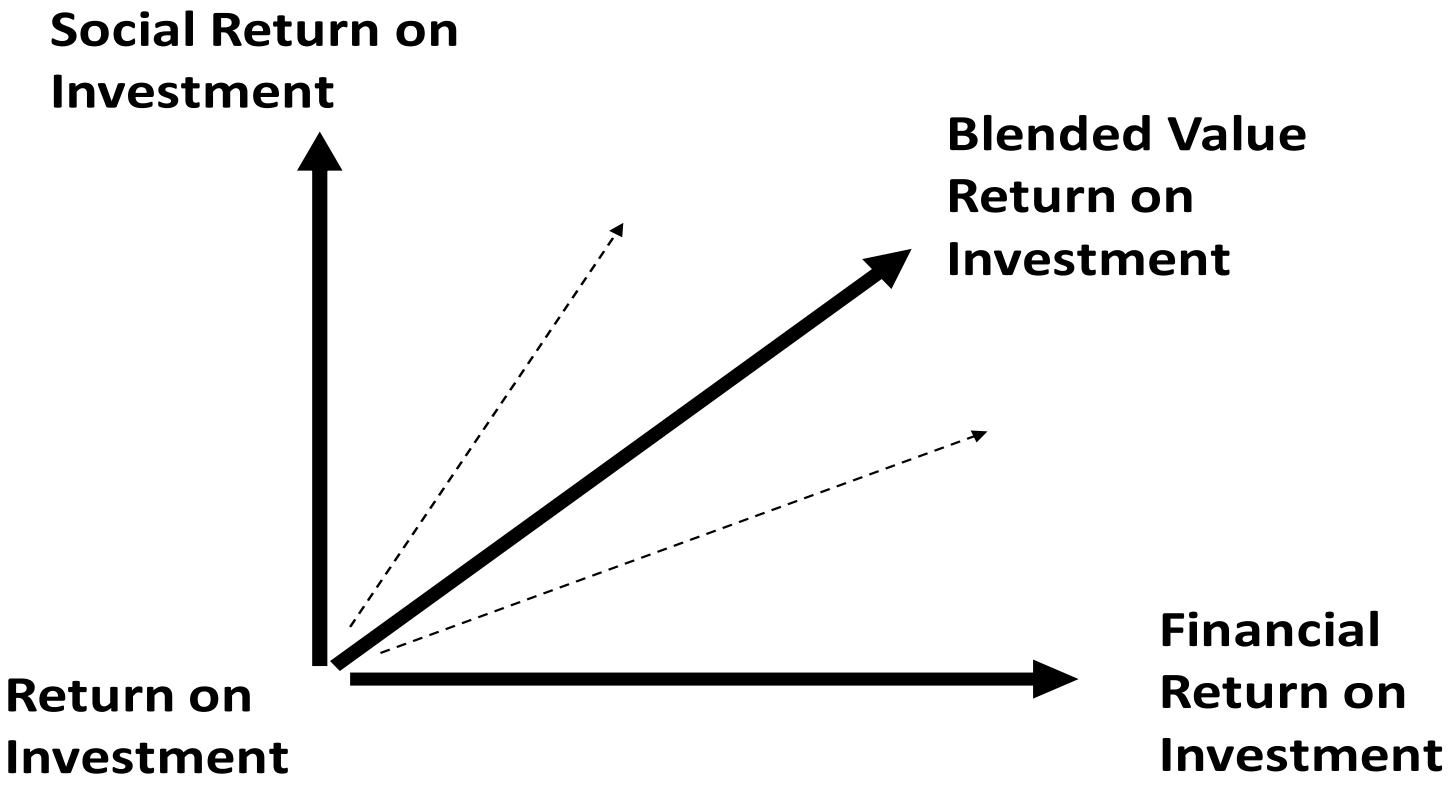
Community Bond Seeks a Blended Return on Investment



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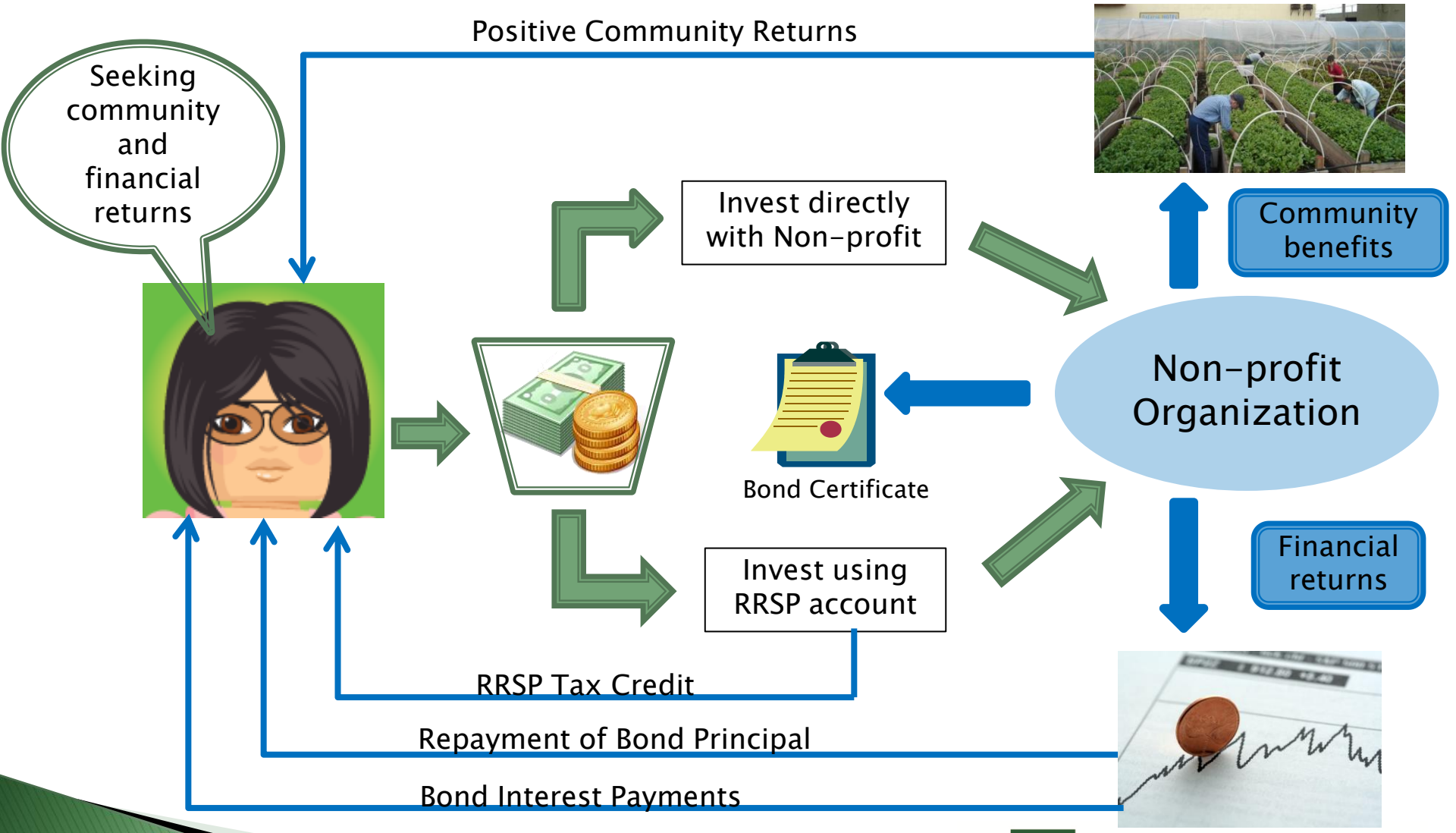
Investor Perspective on Community Bonds



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Community Bond Is Different than a Grant

- It is Debt – a loan (from members of the community)
- Requirement to repay principal
- Usually a modest financial return (may come later)
- Issuer of the Community Bond can decide how the funds will be used
- Expectation funds will create a source of cash flow
- Usually used to build financially self-supporting projects

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Community Bond Process

- Evaluate the need for financing
- Assess finances and cash flow scenarios
- Design Bond terms
- Create package of information for investment opportunity
- Develop specific documentation and partners
- Market the Bond to investors
- Receive proceeds and put them to use
- Follow up with interest and/or principal payments

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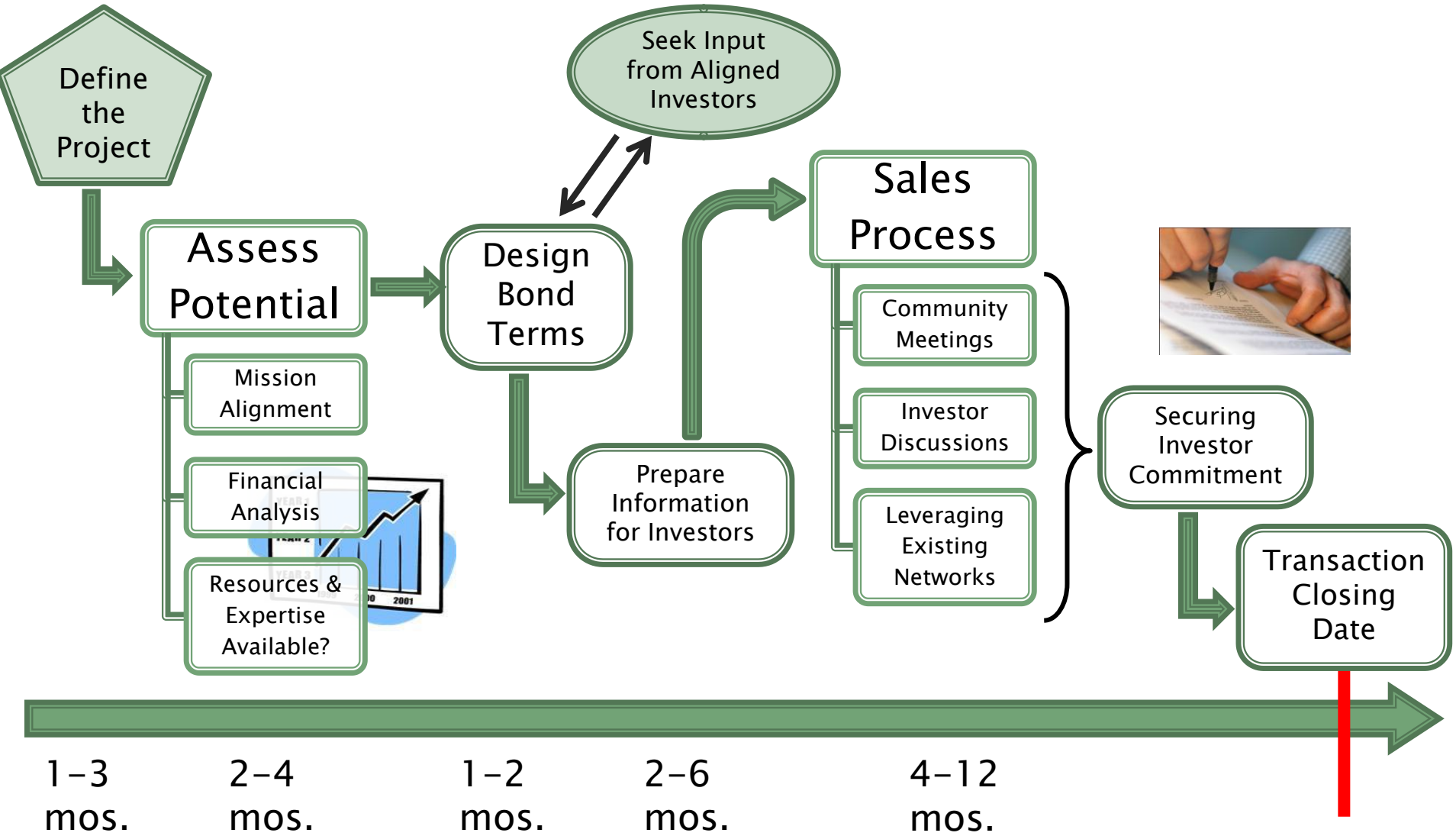
Community Bond Development Process



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Benefits of a Community Bond

- Larger pool of capital available than donations
- More flexible terms than a conventional mortgage
- A different way to engage with financial supporters – they don't give up their capital permanently
- Leverages your existing network of supporters
- Puts the value of the asset in the hands of community members

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