

MEMORANDUM

TO: COUNTY OF SANTA BARBARA

FROM: KUTAK ROCK LLP

DATE: FEBRUARY 21, 2020, UPDATED FEBRUARY 27, 2020

RE: TEFRA DOCUMENTS FOR THE TURNER FOUNDATION – SINCE 1958

At the request of the County's Debt Advisory Committee, we have requested certain information from The Turner Foundation – Since 1958 (the "Applicant") in connection with the TEFRA hearing to be held by the County on behalf of the Applicant.

1. Board Member Compensation. The Applicant has confirmed that no member of the board of directors is compensated for his/her service as a board member. Jonathan H. Wilson, serves as a member of the board of directors and the Executive Director of the Applicant. Mr. Wilson is compensated solely in his capacity as Executive Director.

2. Debt Service Coverage and Savings. The Applicant has prepared the enclosed Excel spreadsheet setting forth certain calculations of the current and projected debt service coverage. As reflected in the Excel spreadsheet, the refinancing is projected to generate savings of approximately \$443,000 per year for the first two years, and approximately \$35,000 per year thereafter.

3. Cash Out Financing. The financing is being undertaken by the Applicant for the sole purpose of reducing its debt service over the long-term and utilizing the debt service savings to expand its after school tutoring and music programs for residents of the housing projects. A small amount of the proceeds may be used for deferred maintenance at the projects. No proceeds can or will be utilized for any working capital purposes of the Applicant.

4. Loan to Value Ratio. The loan to value ratio will be not more than 65%. The appraisals are not completed yet, so we don't know the actual LTV at this time. The Borrower was able to locate copies of recent appraisals ordered by a financial institution, which reflected appraised values as follows:

The Village
Date of appraisal: April 18, 2019
Value: \$18,510,000

The Lighthouse
Date of appraisal: April 18, 2019
Value: \$13,025,000

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Using those values, and the maximum principal amount of the proposed loan of \$18,000,000, would yield a loan to value ratio of approximately 57%.

5. City TEFRA Approval. Although the project locations are located within the territorial limits of the City of Santa Barbara, the Applicant has requested the TEFRA approval from the County of Santa Barbara. The Applicant has chosen the California Enterprise Development Authority as the conduit issuer for the project due to the efficient process that CEDA offers and its experience with similar financings. The County is a member of CEDA, and the City is not. The Applicant believes that a TEFRA approval from the County would be more efficient and timely than undertaking the process of the City becoming a member of CEDA. Bond Counsel has confirmed that the TEFRA approval can be validly obtained from the County even if the project is within the City's territorial limits.

The enclosed Excel spreadsheet is accurate and supersedes all prior sources and uses schedules previously provided by the Applicant.

Enclosure

The Turner Foundation - Since 1958

| | Audit 12/31/2018 | Internal 12/31/2019 | |
|--|---------------------|------------------------|--------------------------------------|
| Net cash from operations | \$ 313,661 | \$ 393,239 | |
| Interest Expense | \$ 744,920 | \$ 629,375 | |
| Amortization of debt issuance costs (incl in interest) | \$ (30,243) | | |
| Principal reduction reported as expense on P&L | | \$ 90,702 | |
| <i>Net Business Cash Flow</i> | \$ 1,028,338 | \$ 1,113,316 | |
| Existing Debt | | | |
| MBT Loan (Village) | \$ 536,148 | \$ 536,148 | per 2019 Promissory Note, annualized |
| City of SB Loan (Village) | \$ 13,908 | \$ 13,908 | per audit |
| MBT Loan (Lighthouse) | \$ 441,888 | \$ 441,888 | per 2019 Promissory Note, annualized |
| City of SB Loan (Lighthouse) | \$ 13,908 | \$ 13,908 | per audit |
| <i>Total Debt</i> | \$ 1,005,852 | \$ 1,005,852 | |
| Excess Cash Flow | \$ 22,486 | \$ 107,464 | |
| DSCR | 1.02x | 1.11x | |
| Proposed Debt in accordance with term sheet | | | |
| FMB Loan bond financing 1st TD (Village, \$9.8MM, I/O, 3.125%) | \$ 307,386 | \$ 307,386 | |
| FMB Loan bond financing 1st TD (Lighthouse, \$8.1MM, I/O, 3.125%) | \$ 255,114 | \$ 255,114 | |
| <i>Total Debt</i> | \$ 562,500 | \$ 562,500 | |
| Excess Cash Flow | \$ 465,838 | \$ 550,816 | |
| DSCR | 1.83x | 1.98x | |
| Proposed Debt (Proforma Amortizing from date of issuance) | | | |
| FMB Loan bond financing 1st TD (Village, \$9.8MM, 28yr amo, 3.125%) | \$ 530,442 | \$ 530,442 | |
| FMB Loan bond financing 1st TD (Lighthouse, \$8.1MM, 28yr amo, 3.125%) | \$ 440,238 | \$ 440,238 | |
| <i>Total Debt</i> | \$ 970,680 | \$ 970,680 | |
| Excess Cash Flow | \$ 57,658 | \$ 142,636 | |
| DSCR | 1.06x | 1.15x | |

Loan Amount Village

| | | |
|-----------------------|---------------------|--|
| MBT Refi | \$ 9,075,783 | from 2019 balance sheet, will be slightly less |
| MBT prepay (3%) | \$ 272,273 | |
| City of SB refi | \$ 270,925 | from 2019 balance sheet |
| Proposed Improvements | \$ 25,000 | |
| Bond Issuance (2%) | \$ 192,380 | |
| Total Village | \$ 9,836,361 | |

Loan Amount Lighthouse

| | | |
|-------------------------|---------------------|--|
| MBT Refi | \$ 7,479,668 | from 2019 balance sheet, will be slightly less |
| MBT prepay (3%) | \$ 224,390 | |
| City of SB refi | \$ 275,000 | from 2019 balance sheet |
| Proposed Improvements | \$ 25,000 | |
| Bond Issuance (2%) | \$ 159,581 | |
| Total Lighthouse | \$ 8,163,639 | |

Total Proposed Debt **\$ 18,000,000**