Debt Retirement Plan: Capacity to Pay and Intent to Refinance

We have planned to repay debts according to their terms, and to refinance total debt prior to the ten year maturities. The debt retirement plan has three parts:

- Construction: Absorb the risk to SHHA operating performance while the facility is under construction.
- Breakeven Cash Flow: Achieve breakeven cash flow after all expenses, reserves, and debt service, considering both the SHCF and the SHHA performance.
- Stabilized Operating Performance: Generate excess cash for debt prepayment and refinancing.

Key cash flow variables in a range of projections are:

- Increasing the number of memberships, based especially on interest in and engagement with the new community center, including a range of activities of interest to residents.
- Keeping the SHHA dues as low as possible, while striving for more members.
- Maintaining a discount for senior residents 65 and over.
- Maintaining an active pool membership of residents, seniors, and non-residents.
- Monitoring rates for comparable family pool memberships.

Key variables in addition to our cash flow that will affect the timing of refinancing debt:

- Lenders' appraised value of the new facility.
- Conditions of the real estate market and property values generally.
- Economic conditions and interest rates.

No operating projection is offered with certainty, so we have tested a range of possibilities and have concluded that we can weather the strain of the construction year, achieve breakeven within the first 18 to 24 months after construction, and generate excess cash flow to make refinancing feasible in 4 to 7 years. In this discussion 2019 is the year of construction, 2021 is the year of breakeven cash flow after debt service, and 2022 is the first year of stabilized operating performance generating surplus cash.

Construction

During construction, the SHHA could experience a decline in Net Operating Income as expenses of maintaining traditional and valued activities increase, especially if pool membership revenues decrease and are not offset by more memberships in the SHHA. The pool will be open and safely accessible, and there will be portable bathrooms as the locker rooms will be demolished.

Mitigating the risk of declining revenue are the $100,000 reserve for debt service during construction, and the strong cash position of the SHHA, up to $200,000 available to meet cash needs outside of normal operations.

Revenue and expense projected for 2019 performance are with 410 SHHA and Senior SHHA members (up from 368 in the current year) with annual dues at $270/$235 for the calendar year, shown here with comparison to actual FY 2018 ended 3/31/18 and the current 9-month year ending 12/31/18:

	2019 Projected	Actual FY2018	Current 9 Mos. FY
Revenue	268,210	283,275	291,501
Expense	-217,647	-210,053	219,480
Net Operating Income	50,563	73,222	72,021
Replacements Reserve	-15,146		

Available for Debt Svc.	35,417	
Debt Service	-102,000	(mortgage + est. 6 months private financing)
Surplus (Deficit)	(67,075)	(could be met from SHHA cash surplus $200,000)
Applied Project Reserves	67,075	(provided from project sources and uses of funds up to $100,000)
Net surplus (Deficit)	-0-	

- A higher number of SHHA memberships from renewed interest in the new community center would further offset the possible decline in pool revenues, improving 2019 performance.
- SHHA and pool membership strategies for the construction year are planned to implement in January, energizing and incenting pool membership to the fullest extent possible.
- Timing of construction payments, proceeds of the private financing, and funds from donations will affect the cash flows and any burden on the SHHA.

Breakeven Cash Flow

From a range of projections achieving breakeven cash flow on revenue as low as $510,000, we are not planning for breakeven performance in 2020, with revenues of approximately $438,555. We will achieve breakeven in 2021 with revenues of $530,400. Revenues will increase with the lease from the SHFPD and the lease from the SHSL Swim Team, but some expenses of operating and actively using the new community center will also increase. Revenue, especially from higher numbers of members, need to ramp up when the doors of the new community center open to reach breakeven cash flow within 12 to 18 months of opening. Growth will come from higher numbers of memberships, modestly increased dues, potential subscription revenue from an exercise space, and will be supplemented by ongoing event style fundraising.

We will meet 2020 deficits first from any remaining reserves for debt service and then from the SHHA cash surplus. SHHA may need to spend up to $100,000 of its $200,000 cash reserve to contribute to debt service before breakeven, mostly in calendar year 2020.

The sooner we reach breakeven, the stronger the SHHA balance sheet remains.

	$2020	**$2021**
Prior Year Revenue	268,210	438,355
Recapt. Pre-Constr. Pool Memberships	25,027	
New Membership Revenue	36,118	67,745
Subscription Fitness Revenue		24,300
SHFPD lease	99,000	in above
Other increases in rents	10,000	in above
Total Revenue	**438,355**	**530,400**
Total expenses	363,290	363,959
NOI	75,065	166,441
Reserve for Replacements	15,146	15,146
Debt Service	135,492	135,492
Cash surplus (deficit)	**(75,573)**	**15,803**

Stabilized Operating Performance (SOP)
The sooner we reach SOP, generating cash flow above the breakeven levels, the sooner we are able to prepay debts, make other desirable improvements in services and facilities, and refinance debt. We project SOP in 2022.

We are planning for 2022 revenue of $572,575 which would generate $57,520 in cash flows for prepayment and refinance and build reserves to meet other community needs. Our goal is to build membership levels to historic levels of 500+ families and regular annual dues at about $360 with a discount for seniors 65+. If memberships continue below that range, we would need to supplement with periodic event fundraising, focus on more subscription revenue increases such as exercise space, and increase dues. The more residents paying dues, the lower the dues. (We tested a range of projections at different membership and dues levels, with revenue between $544,000 and $597,000 annually, and have determined to work for more members, allowing lower dues).

Please refer to the projection of stabilized operating performance on the following page for detail of revenue, expenses for full operation of the Community Center, and $585,000 cash accumulating for debt prepayment and refinancing opportunities by 2028.

A note about statement dates, membership year, and the relationship of the SHHA and the SHCF.

Effective 1/1/19, the SHHA will begin a new fiscal year so that its fiscal year will be the same as the calendar year. The SHHA will close its books 12/13/18 with a short year of 9 months since 4/1/18. The SHCF already operates on a calendar year. SHHA membership year will continue to be April 1 – March 31, and may be adjusted to calendar year in the future.

The SHCF and the SHHA are separate organizations. Effective the earlier of 1/1/19 or the signing of a contract for the construction of the new community center, the SHCF will be the owner of the facility via a 30-year ground lease from the SHHA and the SHHA will continue to own the land at 1317 Butterfield Road. The SHCF will be responsible for the taxes, insurance, and operation of the Community Center, and will be the landlord for all tenants. SHHA will lease space and use of the facilities from the SHCF to conduct the family swim memberships and activities of the SHHA for the Sleepy Hollow community.

Today we are looking at budgets and projections as if the SHHA were still responsible for operating the facilities, and we will continue to look at the debt retirement on a combined basis of the two organizations. The SHCF is the borrower and SHHA is the guarantor on the mortgage loan and the private financing.

2019 financial statements of the SHCF and the SHHA will reflect the assets, expenses and revenues of the new ownership framework. Current projections present a combined picture of revenue, expense, and debt repayment, consistent with the intended use of the center.