Policy Resolution Number P-17-03

Subject: Debt Policy and Principles

WHEREAS, ARTICLE VII, SECTION 6, of the Declaration of Covenants and Restrictions of the Kiawah Island Community Association, Inc. (the "covenants") authorizes all actions of the association if approved by the Board of Directors of the Association (the "board") in a manner provided for in the By-laws; and

WHEREAS, ARTICLE IV, Section 1, SUB-SECTION C of the By-Laws of the Kiawah Island Community Association, Inc. empowers the board to exercise for the Corporation all powers, duties and authorities vested in or delegated to the Corporation; and

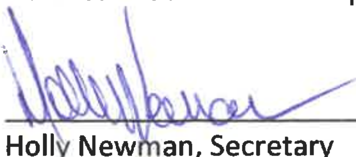
WHEREAS, the Board determined a policy is prudent in managing debt of the association;

NOW THEREFORE BE IT RESOLVED THAT the following policy shall guide the association until such time as a majority of Directors determine otherwise:

KICA's debt policy will comply with the following principles, whether money is borrowed from Reserve funds, from members or from private lenders:

a) KICA may use debt for four main purposes: (i) to fund seasonal cash flow needs; (ii) to fund projects that KICA fully insures against natural disasters; (iii) to fund projects that cannot be insured against natural disasters: (iv) uninsured cleanup and major repairs and replacements following a natural disaster.
b) Type (i) loans must be repaid within one year; type (ii) loans must be repaid in equal installments over the shorter of the useful life of the project or 15 years; type (iii) and type (iv) loans must be repaid in equal installments over no more than 5 years
c) Before drawing down any type (ii), (iii), and (iv) loans, the COO must provide the board a schedule which includes the source of funds for repayment, showing that sufficient funds will be available from this source to repay the loans as required by the repayment schedule.
d) Type (i) loans may be executed without notifying the members, but any type (ii), (iii), or (iv) loan will require an advance communication to all members, including the purpose, the amount, the funding source, the key terms, the primary sources of funds for repayment, and the repayment schedule.
e) With the exception of unplanned borrowings for type (iv) loans, the maximum outstanding total debt will not exceed the prior year's revenue derived from Annual Assessments.

ADOPTED: At the Board of Directors meeting held September 22, 2017 as follows: Townsend Clarkson moved approval of the Debt Policy. Cathy Pumphrey seconded the motion. All were in favor, the vote carried. Members present: Morgenstern, Cheatham, Govindan, Clarkson, Pumphrey



Holly Newman, Secretary

Date

Corporate Seal

Facts and perspectives that provide the foundation and rationale for the policy

The debt principles are geared to provide KICA with the tools to fund its operations and projects, while maintaining sufficient borrowing capacity to fund uninsured storm damage, and provide reasonable borrowing limitations and accountability to members.

KICA has a $2,500,000 line of credit to provide liquidity if needed, though it has never been advanced.

The KICA board's borrowing authority is limited only by the policies of organizations that would consider making loans to KICA. This limitation is generally a function of excess cash generated by KICA after collecting current revenues and covering current costs. Based on 2017 annual cash flows, KICA's current borrowing capacity is amount is probably less than $5 Million.

KICA can increase its borrowing capacity without a member vote by increasing the annual KICA assessments to the maximum available under our existing restrictions. This would currently deliver about $300/year per KICA member (approximately $1.25MM/year) adding almost $9Million to our borrowing capacity.

Borrowing capacity can be increased further if members vote to allow a dues increase beyond the current maximum. For example, the board could generate approximately
$30 Million of total borrowing capacity if members voted to allow an additional $1,000/year in KICA annual assessment.

KICA's debt capacity is limited by its cash flow, which is limited by its ability to raise annual fees more than about $300 more per year without a member vote. Because Kiawah is a barrier island with the constant risk of uninsured storm damage, we remain at risk of an unexpected funding need that exceeds our ability to fund via a one-time assessment of members. It is important to limit borrowings to provide sufficient unused borrowing capacity for storm damage. This will allow us to borrow to fund the uninsured repair and replacement costs and allow us to collect from homeowners over several years to minimize the burden to our members.

Explanations of Financial Terms and Concepts

Type (i) loans are to cover needs related to seasonal spending and income patterns. This type of need could occur because most revenue comes all at once when annual dues are paid, while many expenses are spread evenly through the year, and others may come in large, sometime unpredictable chunks at different points during the year.

KICA can obtain cost effective insurance for some assets, like buildings, but cannot for other assets, like the beach boardwalks or docks at Rhett's Bluff. If we borrow money to pay for uninsurable assets (type iii loans), it is important to repay these loans relatively quickly, to limit the risk of having to borrow to replace the asset while the original loan remains outstanding. Repayment for loans for insurable assets (type ii loans) can be stretched longer. This is because the cost of storm damage would be covered by insurance, thus we would never have the situation where the debt exceeded the value of the asset.

If a major storm does serious damage to KICA's uninsured assets (roads, bike paths, docks, boardwalks, etc.) we need to be able to borrow money to replace the assets - type (iv) loans. The amount of these loans should not be limited, as we need to have flexibility to replace whatever is damaged. However, these loans must be repaid relatively quickly, as another storm could damage these assets. The goal of these loans is to spread the cost of a storm over a few years, if the board decides this is better than an assessment to cover the damage all in one year.