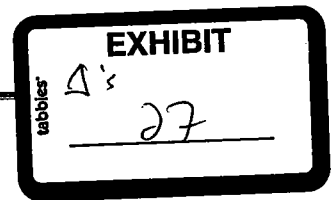


PP

Allen, Richard



From: Don Greenough [donald.greenough@verizon.net]
Sent: Friday, March 25, 2005 5:23 PM
To: Allen, Richard
Cc: Jim Foley; Peter Foote; Alex Mulholland; Don Whiston
Subject: Feoffees of the Grammar School in the Town of Ipswich

Dick:

As requested in our phone conference earlier today, I will attempt to briefly describe a few of the issues which have arisen due to the construction projects required by the DEP and the Ipswich Electric Department. If I am not clear on some points due to my attempt to get something to you this afternoon, please let me know and I will clarify or amplify as necessary.

I recognize that the two projects and the resulting financing and other issues couldn't be timed worse as far as the proposed changes in the Feoffees' governance. However, the circumstances have been beyond the control of the Feoffees. The DEP showed great patience while the town discussed extending the municipal sewer system to the Neck, however it has been extremely aggressive on the performance dates for a centralized system or, in the alternative, 148 new tight tanks. The Feoffees can't wait until the Probate Court action is complete without risking either (a) at best, \$1,000 per day fine for non-compliance with the Consent Order, or (b) worst case, a cease and desist from DEP denying occupancy of the cottages during the summer of 2005 which would result in no income for the schools.

I will attempt to first address your questions concerning the electric project and then summarize the Feoffee's preliminary plans to recover the cost of the wastewater project, including the need for the adoption of written leases for the tenancies.

The electric project financing is relatively straightforward. The Feoffees have sufficient cash flow to pay the \$535,000 for the work in full during FY2006. Of course, this would substantially reduce the funds available for distribution to the schools. Estimated rent and interest income which accrues on the funds prior to distribution to the schools for FY2006 will be about \$860,000. The typical annual operating expenses of the property are \$80,000. If no funds were held for capital reserves, this would leave \$780,000 available for distribution to the schools.

Based upon discussions between Rock Korb and Don Whiston, the Feoffees have planned to reduce the impact of the project by spreading the cost over four years through a term loan. The proposal from the two community banks -- The First National Bank of Ipswich (FNBI) and Ipswich Co-operative Bank -- is for a 4-year term with a fixed interest rate of 6.5%, with no prepayment penalty. If the schools would prefer that the term of the loan be reduced, the interest rate would probably be reduced by one half of one percent for each year taken off the term.

The Feoffees have banked at FNBI for over 100 years and is the only bank that has ever loaned to the Feoffees. In preliminary discussions with larger lenders outside of the community, it became clear that they would not lend to the Feoffees without sufficient collateral, i.e. a mortgage of the property. The Feoffees do not believe it's in the interest of the schools to grant a mortgage, as the sole source of income to pay the loan are the tenants, and they are also the most likely buyers at a foreclosure auction in the event that the Feoffees could not generate enough income to pay the note.

The interest rate is at a commercial rate, instead of a municipal or tax-exempt rate, because of the legal status of the Feoffees. A municipal rate would only be available if the Town of Ipswich, through the Board of Selectmen, participated in the loan structure. This would affect the Town's overall

lending capacity and as the sole source for repayment -- rent -- is outside of the municipal tax structure, the BOS has indicated that it's not interested in any involvement with the financing of either of the projects.

I understand that concerns have been expressed regarding any possible conflicts of interest with the two lenders. Don Whiston, a Feoffee, retired as president of FNBI, over 15 years ago and is not employed by the bank. As I believe the School Committee knows, Don has stepped down as chairman of the Feoffees. He has not been actively involved in negotiating the terms of the financing. Alex Mulholland, the chairman, and Peter Foote, the treasurer, have been the contacts for the banks. I am on the board of directors of Ipswich Co-op, but I have recused in any bank discussions regarding the loan. My sole contact on behalf of the Feoffees has been with Attorney James Sterio, counsel to the banks, and the lawyers do not negotiate the financial details of the loans.

I believe that the bank presidents, Don Gill (FNBI) and Mike Jones (Ipswich Co-op), would be more than happy to meet with Rick Korb or Joan Arsenault to describe the banks' participation in the project. I believe that each would indicate that they are taking unusual risks in making the loans without the typical security, while charging a below-market interest rate for a loan of this nature, and also reducing the closing costs and monitoring costs for the complex wastewater construction loan because of their position as community lenders and their understanding of the critical importance of this project for both the schools and the tenants at Little Neck.

The banks are aware that the Feoffees are continuing to seek alternatives for the wastewater project through the Clean Water Trust Fund and other non-profit agencies who have lower cost loans available for environmentally significant projects. However, most such programs require that the funding run through the BOS as sewer commissioners and municipal ownership of the facility, which the Feoffees believe is not acceptable to the BOS. The current project is only the first phase and the second phase, connecting the system to the municipal line on Jeffrey's Neck Road, could be a municipal project. Due to the substantial environmental issues associated with that portion of the project, the Feoffees believe that it will be 3 or 4 years until the route and costs are better understood. This second phase, with a likely price of over \$3 million, will also be the responsibility of the tenants.

The long-term financing for the wastewater project is difficult to secure outside of the community because the Feoffees have no collateral to offer for loans other than the cash flow from the rents. And as I have previously indicated to Rick Korb in an earlier memo, the costs of this project will be paid solely by the 167 tenants. The Feoffees have discovered that lenders are very concerned that the tenants will balk at paying the substantial annual costs, which beginning in January, 2006, could be over \$14,000 for a seasonal lot -- \$5,500 (land rent), plus \$3,500 (r.e. tax), plus \$3,300 (wastewater "betterment"), plus \$1,800 (wastewater operating cost). The local banks have indicated a willingness to lend, without a mortgage, for a 20-year term on a 5-year adjustable basis with the initial interest rate at 6.75%. Any lowering of this interest rate by way of a Clean Waters loan or otherwise will not improve the income to the schools but would reduce the payments of the tenants, which presumably would help stabilize the income stream.

And now ... a general overview for the need for leases at Little Neck. The timely collection of the rents is equally critical for both the lenders and the schools. The lenders require as much assurance as possible that the Feoffees will have sufficient cash flow to make the monthly mortgage payments. For the schools, as long as all payments are received, the wastewater loan will not have any effect on the net income available for distribution to the schools. The Feoffees believe that as many as one-third of the tenants may elect to pay their betterments in full and therefore the remaining project loan could be about \$3.8 million instead of the \$5.6 million project cost. The lower the loan balance, the

lower the risk to the schools that the Feoffees would have to use rental income to make a loan payment while they attempt to recover betterment arrearages.

To provide the Feoffees with the maximum rights to collect the rents and seek the appropriate judicial action, including summary process, for slow or non-payment, the Feoffees believe that leases will be necessary to replace the current tenancies-at-will. The preliminary discussions among the Feoffees have favored 20-year leases, in which the rent would be fixed for five years and then adjusted every five years for changes in the CPI (Greater Boston - rental component). Leases would not be assumable by a new owner; instead a new lease, at the then current rent, would be required. Over time, as various cottages are sold, the adjustment dates for the 167 leases will be spread out and the income stream for the schools will be more predictable.

While providing the Feoffees with the most effective remedies for non-payment, the Feoffees believe that 20-year leases will also provide an important economic benefit to the tenants as they will be able to qualify for conventional FNMA/FHLMC 15-year loans. This ability to borrow against the equity in their cottages will increase the likelihood of prepayments of the betterment which the Feoffees believe is in the schools' interest. Leases will also further increase values at Little Neck, permitting both higher rents and increased r.e. tax assessments. The Feoffees also believe that leases will reduce, but not eliminate, any pressure by the tenants on the schools for the sale of the land.

The Feoffees do not plan to discuss leases with the tenants until the final costs of the wastewater system and the resulting betterments have been calculated. The Feoffees will provide a specimen lease in June or July to the School Committee and welcome comments and suggestions prior to discussion with the tenants. The wastewater system should be ready for January 1, 2006. The Feoffees hope to have leases available for review by the tenants in October.

I look forward to your questions and comments.

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