NOTICE OF VOLUNTARY DISCLOSURE

ALBION COLLEGE

Relating to the following issues:

$48,895,000 Michigan Finance Authority Higher Education Facilities Limited Obligation Revenue and Revenue Refunding Bonds (Albion College), Series 2022, dated January 12, 2022

CUSIPs: 594479GZ4, 594479HA8, 594479HB6, 594479HC4, 594479HD2, 594479HE0, 594479HF7, 594479HG5, 594479HH3, 594479HJ9, 594479HK6, and 594479HL4

The following information is being provided on a voluntary basis to address questions submitted by bondholders following the College's March 29, 2024 voluntary disclosure.

Questions regarding information contained in this Notice should be directed to: Michael Fox, Interim Chief Financial Officer, Albion College, 611 E. Porter Street, Albion, Michigan 49224; telephone: (517) 629-0289.

Dated: April 10, 2024

Albion College

1. **Use of Proposed Endowment Borrowings**

Requested borrowings will be used first for operating needs for the College through the three-year plan period. Once an appropriate volume of funds has been secured, the College will use the next set of available funds, if available, to refinance the PNC debt. The refinancing, if executed, will in essence replace a debt that is on par with bondholders with a subordinated debt to the endowment. The terms of the endowment loan are anticipated to be more favorable and free up resources to pursue the Pathway Forward plan designed to fix the College's structural deficit. The College believes this is in the best interest of the College and bondholders.

Funds are needed for liquidity over the three-year period because the College no longer has savings or quasi endowed College funds to provide needed liquidity. The College also cannot borrow more. While the College is actively improving its financial situation annually over the next three years, the College still anticipates operational losses in the next couple of years and will need cash liquidity to fill in where revenues are not supporting operating expenses. So in general, funds are needed for operations in the two slow periods of the academic cycle and until the College fixes the structural deficit in its budget.

Since the PNC loan is contemplated to be refinanced, and not simply paid off, interest on the PNC loan (or refinanced obligation, should it occur) is included (and needs to be included) in the three-year projection tool previously discussed. It is a use of operating cash as these loans are repaid.

2. **Repayment of Proposed Endowment Borrowings**

The College is proposing two types of borrowing from the endowment – with different repayment terms. First, the College proposes borrowings from donor-approved restricted market value within the endowment, which will be repaid over three years. Interest only is proposed to be paid annually. Principal will all be repaid July 31, 2027. The College has three such loans identified and approved by donors that in aggregate total $7.4M.

Second, an independent, expert, financial analyst has been engaged to review the conditions set by UPMIFA in determining prudence regarding what portion of the endowment may be invested into College operations during this time of financial stress. If it is deemed prudent to do so up to a dollar amount no greater than $25M, the College would borrow as needed to support liquidity needs for operations. The loans are reflected on the projection tool to be repaid at 6%, with principal and interest to be paid over ten years.

At this time, the College is anticipating that a total borrowing amount of $25M to $30M from these two sources could be needed, depending on how much is deemed prudent to borrow from the second source. Any other sources of funding from the endowment (including those sources discussed in the prior presentation that are not loans), operational improvements, or fundraising successes could reduce this overall borrowing need for liquidity purposes. Further, and to confirm, the College is only seeking bondholder approval for the initial $7.4M borrowing from donor approved endowments at this time.

The College does anticipate requesting bondholder approval shortly to ask for approval for two additional subordinated financings: (i) the general loan from the endowment that the College noted previously; and (ii) an eight-year extension of the College's food service contract with Metz. In connection with the food service contract, the College has $500K remaining on the current interest-free loan used for food service-related improvements. The College will add $100K for critical program upgrades in year one and another $600K in year three. The College's current $27,500 monthly payment will be reduced to $5,000 for two years, and then to

$11,250 for the remaining years. This will have a significant impact to improve cash flow and to improve some highly visible and often used space on our primarily residential campus.

3. **Enrollment Growth Targets**

Incoming classes (including transfers of 37 per year) are projected to be 445, 465, and 480 in Fall of 2024, '25, and '26, respectively. Overall enrollments are projected to be 1,359, 1,385, and 1,417 for the same three years. The College believes these are reasonable and achievable given the improvements in place and processes being implemented to improve yield from the increasing applicant pool. Incoming freshmen and transfers for fall 2023 were 398; total enrollment was 1,333.

	Actual	Three-Year Pathway Forward Projection for Fall		
	2023	2024	2025	2026
Total new students*	398	445	465	480
Total Enrollment	1,333	1,359	1,385	1,417

* Includes first year students and transfers.

4. **Proposed Sale of Equestrian Center**

A December 2022 appraisal for the equestrian center and 125 associated acres identified an estimated value of $2.7M. Each acre was valued at $5,800. The College is proposing to sell a 61-acre portion of this property, including the equestrian center. Removing the approximately $370K of value for the 64 acres excluded in what the College is selling, the value including the building and property is over $2.3M. The College runs two programs currently through the equestrian center, both of which are run by College coaches and would continue to do so. If the center is sold, the College would lease back horses and space at the equestrian center as those two ongoing programs are financially viable and value-additive to the College. There is no broker involved in this sale. The College is working with counsel who has experience in negotiating contracts of this nature.

Albion has sold 20 properties in two years to net approximately $1.85M. Five additional properties, including a bank and 65 acres of land, have been listed for sale. The College is being careful not to sell property that could possibly serve the core academic purpose of the College as the College grows and moves forward with majors and programs designed for the future. A local real estate broker has been involved with most of these sales.

5. **Proposed Green Hydrogen Project**

There are five parcels of approximately 500 acres that make up the property proposed as the solar field component for the green hydrogen production and distribution project. Green hydrogen production involves solar energy that powers electrolyzers that create the hydrogen. It is called "green" because fossil fuel is not used as part of the electrolysis process. This hydrogen fuel can be burned as fuel for heating and cooling needs so hydrogen fuel created at Albion College can be used for on-campus purposes and/or distributed locally, depending on use needs and pricing. The Equestrian Center at Albion College (61 acres) is part of that 500 acres but will remain intact and is not part of the proposed solar field.

A firm called EIS-H2 has been developing the project and prepared the proposals that resulted in invitation to the MACH-H2 Hub for potential U.S. Department of Energy ("DOE") funding and State of Michigan matching grant consideration. DOE and the State of Michigan have stated strong public interest in promoting green hydrogen production and providing large economic support for projects like the one under development by EIS-H2. The

College’s project is on the Michigan Office of Infrastructure website with notes of State support and is part of MACH-H2 Hub that was selected for further negotiation with DOE that is currently ongoing.

The hydrogen project as proposed would contribute significantly to update the heating and cooling energy infrastructure at the College while dramatically reducing its carbon footprint. As part of the State’s publication of its Hydrogen Roadmap for Michigan, the College is already garnering recognition for its forward thinking about sustainable energy generation, use and community impact. EIS-H2 has a memorandum of understanding with a large local entity to acquire all the green hydrogen that can be produced at the College site.

The lease payment value to Albion College for the property has not been settled, as it is dependent on potential DOE and state funds awarded, but is estimated to be at least equal to market payments made to other local landowners for hosting solar projects that are connected to the grid. Using this model, the College anticipates exceeding a million dollars a year in lease revenue, along with no-costs improvements to upgrade our energy infrastructure.

6. **<u>External Advisors</u>**

Blue Rose Capital Advisors joins the College along with two other highly reputed higher education consulting firms. Blue Rose provides expert advice and direction for issues of debt and capital structure for the College. Human Capital provides high end data, analytics, and advice for recruiting and aid award strategies. Credo is providing direction and expertise in matters of student retention.

7. **<u>Endowment Balances</u>**

The $103.8M Total Temporary Restricted Endowment Funds at June 30, 2021 was comprised of Endowment Accumulated Earnings of $84.4M and Board Designated Funds of $19.4M. As of June 30, 2023, the Endowment Accumulated Earnings were $55.6M and the Board Designated Funds were $0. The Endowment Accumulated Earnings are available to the College through endowment draws based on its endowment spending policy and are subject to UPMIFA guidelines for endowment management. The College has recently increased its endowment draw to 7.5%.

The $84M in undistributed restricted endowed funds is releasable over time but is still restricted as to their use based on donor restrictions. As the College access this pool of funds through annual spending rule distributions approved by the Board under our investment policy guidelines, the College has an immediate infusion of cash. College financial records maintain fiduciary responsibility over the subsequent use of these dollars based on how the donors have restricted them.

The loss in overall endowment value of approx. $57M from June 30, 2021 to December 31, 2023 is mainly attributable to a loss of $19.7M in endowment investments in 2022 and a loss of $6.8M in endowment investments in 2023. Additionally, the College took distributions from endowment of approximately $24.1M (7.5%) in 2022 and $18.8M (7.5%) in 2023. These reductions total over $69M. The $142M amount for the end of December 2023 does not include deferred gift instruments while the June 2021 endowment total does. There were also additional contributions that were made to the endowment over this period of time.