

BUILDING PROJECT FINANCIAL PLAN

**Laurence Kirsch, Dan Hill, Larry Ross, & Andrew Wright
The Building Project Financial Task Force**

November 9, 2016

BACKGROUND

The Community Church of Chapel Hill needs new and improved spaces for the Religious Education program for both children and adults, for regular meetings by twenty-three ministries and committees and six different choirs, for irregular meetings by an additional twenty-eight ministries and committees, and to accommodate substantial growth in various programs. Since 2013, our space needs and ways of addressing them have been identified by a Space Assessment Team (later evolving into the Space Exploration Team) and most recently by a Space Reassessment Task Force. The Space Reassessment Task Force held eight group listening sessions in July and August 2016 involving seventy-two members representing all the constituencies of our church community. Following the reassessment members of the team met with the architect to develop design options to meet our needs.

The results of the space reassessment and the design options were presented to the congregation in October 2016. In December, the congregation will meet to consider our options and whether we should move forward with a capital campaign. The Space Reassessment Team's final report and the presentation made to the congregation are available on the church's website under the Our Space Our Future section.

A building renovation and expansion will be funded by a capital campaign that may also pay off all or part of the existing commercial loan, which we refer to as the "legacy mortgage." Although the capital campaign has not yet been initiated, the Board of Trustees has established a Capital Fund that has a present balance of about \$50,000.

The building campaign raises some financial issues, including how the church will determine the reasonableness of construction expenditures, pay construction bills in a timely fashion, manage debt, account for transactions, and involve the congregation in decisions and outcomes. Because funds from the capital campaign will likely be received by the church over a period that partly occurs after the expenditure of funds for construction, there will likely be temporary funding shortfalls that require the church to obtain a construction (bridge) loan in addition to the legacy mortgage.

PURPOSE

The purpose of the financial plan is to facilitate the building project and its associated decisions by providing two things: a) a list of the nuts-and-bolts activities that are needed to implement project financing; and b) financial information that will assist the congregation and the Board of

Trustees in making their decisions. This plan is a living document that will evolve over time with improving information, advancing ideas, congregational decisions, and other events.

FINANCIAL FEASIBILITY AND PRUDENCE

The Building Project Financial Task Force (FTF), which reports to the Board of Trustees, is concerned with the financial feasibility and prudence of the manner in which the building project's finances are handled. We have two sets of concerns.

First, the receipts of the capital campaign need to be large enough to pay for the costs of the building project as well as any for any concurrent reduction in the principal of the legacy mortgage.

Second, the church's operating budget should be held harmless from the financial impacts of the building project. Otherwise, there would be some risk that the church's programs and staff compensation could be adversely affected by the financial impacts.

ROLE OF THE CONGREGATION

The congregation will decide whether to proceed with a capital campaign. If the decision is affirmative, then the congregation will decide, through individual donations, how much money will be raised by the campaign.

When the results of the capital campaign are known, the congregation will make two key interrelated decisions:

- It will decide the scope of the building project, particularly including its design and cost; and
- It will decide the extent to which capital campaign funds will be applied to payment of the legacy mortgage.

To accommodate differences between the timing of when capital campaign pledges are received and construction expenses must be paid, the congregation will need to formally grant to the Board authority to secure new debt for the purpose of bridge financing consistent with its decisions on the scope of the building project and payment of the legacy mortgage.

DETAILS OF THE FINANCIAL PLAN

Appendix A describes the steps that the FTF and others will take to enable the church to handle receipts and disbursements associated with the building project. These include establishing a project budget, contracting policy, a dedicated bank account, a construction loan line of credit, and accounting procedures; working with the Communications Task Force; and obtaining congregational support.

When the congregation makes its decisions on the scope and cost of the building project and on the handling of the legacy mortgage, we will easily be able to reasonably analyze and forecast

the flows of money over time through the Capital Fund and the operating budget. Prior to these decisions, however, we do have the following information and expectations concerning some key aspects of these flows:

- When the preschool leaves, the church will lose about \$54,000 per year in net rental income.¹ For a building project that expands our building space, this loss of rental income can be partly offset by rental income from the Manse. The remainder of the loss of preschool rental income will need to be addressed either through increased operating budget pledges or reduced operating budget expenditures.²
- The legacy mortgage payments are \$47,784 per year. The principal balance owned at 12/31/2016 will be \$484,039. A balloon payment of \$428,480 will be due when the loan matures on 12/25/2018.³
- A construction loan, in addition to the legacy mortgage, will be needed to cover any amount by which construction costs exceed capital campaign funds received by the time of construction.
- Our legacy mortgage cannot prudently be paid down until such time that capital campaign receipts exceed total expected construction costs.

¹ The preschool's lease expires on September 30, 2017; but it has asked if it might stay longer due to its own construction delays. The \$54,000 figure, which is in 2016 dollars, approximates our annual receipts of \$64,045 from the preschool minus our payments of \$10,200 for cleaning up after the preschool.

² Note that payments on the legacy mortgage are part of the operating budget expenditures.

³ Over the past decade, the church has financed the balloon payments through rollover financing, that is, through new loans. Depending upon the timing of capital campaign receipts, this may happen again in whole or in part.

APPENDIX A STEPS FOR HANDLING RECEIPTS AND DISBURSEMENTS

This appendix describes the steps that the Building Project Financial Task Force and others will take to enable the church to handle receipts and disbursements associated with the building project.

1. ESTABLISH A PROJECT BUDGET

The FTF will collaborate with the architect, the Building Construction Task Force, and the Capital Campaign Task Force in developing a project budget, which will be subject to Board review and approval.

1.1. Develop Initial Project Budget

The initial budget will depend upon plans approved by the congregation, developed before the outset of the capital campaign. The budget will consist primarily of construction costs, including the soft costs associated with construction; but may also include the projected costs of the four task forces associated with the building project.

1.2. Revise Project Budget

The initial budget will be revised, perhaps more than once, in light of developments such as the capital campaign results.

2. OBTAIN CONGREGATIONAL SUPPORT FOR THE PLAN

Bylaws Section 2 states, “The congregation must approve any new debt secured by the real property of the congregation. The congregation cedes to the Board the authority to manage the financing of such approved debt.”

The Board of Trustees intends to involve the congregation in decision steps beyond the requirement of the Bylaws. In December, the congregation will be asked to approve a design option for going forward with the project. In February, in light of the results of a Financial Feasibility Study, the congregation will be asked whether or not to launch a capital campaign. In June, after the capital campaign is completed and before detailed planning or construction is initiated, the congregation will be asked to reconcile their design priorities with the amount of money raised, as well as to choose from among the financing options.

2.1. Develop Communication Materials

The FTF will work with the other three task forces to develop materials that inform the congregation of both the physical and financial aspects of the building project.

2.2. Obtain Formal Congregational Approval

The FTF will participate in the process by which the congregation will formally approve, revise, or reject:

- a. the scope of the building project, particularly including design and dollars;
- b. the application of funds to repayment of the legacy mortgage; and
- c. authority for the Board to secure new debt for the purpose of bridge financing.

3. ESTABLISH CONTRACTING POLICY

Consistent with Section 4.3.10 of the Board Policy Book, all construction contracts that have values greater than or equal to five thousand dollars (\$5,000) must be specifically approved by the Board. Contracts with values less than five thousand dollars (\$5,000) may also be specifically approved by the Board, but may also be authorized by the Board through its approval of a general resolution covering smaller contracts.

All contracts must be signed by an officer of the church, namely the Board President, Vice President, Past President, or Board Member at Large. All signed contracts must be consistent with Board approvals and the architect's plans.

4. ESTABLISH A CAPITAL FUND BANK ACCOUNT

To separate building project funds from other church funds, all funds associated with the building project will run through a Capital Fund Bank Account that is separate from the main church account, except for such funds as may be directly paid by a lender to building contractors. The FTF will work with the Congregational Administrator in establishing the deposit and disbursement procedures associated with this account, and will monitor the implementation of those procedures.

4.1. Establish Signatory Requirements

The persons who are authorized to sign checks disbursing money from the Capital Fund Bank Account shall be Dan Hill, Laurence Kirsch, Larry Ross, and Andrew Wright. For checks in amounts less than ten thousand dollars (\$10,000), any one signature of the foregoing persons shall be sufficient. For checks in amounts greater than or equal to ten thousand dollars (\$10,000), two signatures of the foregoing persons shall be required.

4.2. Establish Procedures for Depositing Funds into the Capital Fund Bank Account

The Congregational Administrator, or anyone acting on the Congregational Administrator's behalf, is authorized to deposit funds into the Capital Fund Bank Account.

When the Capital Fund Bank Account is first established, the Congregational Administrator shall transfer funds to the Capital Fund Bank Account from the BB&T Checking account or the BB&T Investors account as appropriate.

As capital campaign or other contributions to the building project are received, the Congregational Administrator shall deposit these contributions to the Capital Fund Bank Account. If funds are received for multiple purposes, such as a check that the donor intends will partly go the church operating budget and partly to the building project, the Congregational Administrator shall deposit the check to the BB&T Checking account and then, generally within a period of no more than five (5) business days, shall transfer the building project portion from the BB&T Checking account to the Capital Fund Bank Account.

4.3. Establish Procedures for Disbursing Funds from the Capital Fund Bank Account

Beginning with the first quarter of calendar 2017, a check shall be drawn, before the end of each calendar quarter, to transfer from the Capital Fund Bank Account to the BB&T Checking account an amount equal to the church's payments of principal on the legacy mortgage during the quarter just ending.⁴

We will work with our architect's numbering system for construction tasks. A co-chair of the Building Construction Task Force must approve each invoice submitted for payment, on the basis of the contractor's completion of the invoiced task. When the Capital Fund Bank Account has sufficient funds to pay invoices, it will be used for this purpose. When the Capital Fund Bank account does not have sufficient funds, it will be paid by the bank through a construction loan.

5. ESTABLISH A CONSTRUCTION LOAN LINE OF CREDIT

The purpose of the line of credit is to fund the likely temporary shortfalls in capital campaign receipts relative to building project expenditures.

5.1. Establish a Construction Loan Line of Credit

We wish to establish a construction loan line of credit that includes the following characteristics:

- The lender will determine the maximum loan amount as a percentage of the revised project budget as established in Section 1.2 above. The remaining percentage must be provided by capital campaign funds that are received before the start of construction. Authority for the maximum loan amount must be approved by formal vote of the congregation.
- The construction loan could have an interest-only repayment structure for two to three years to allow for disbursement of construction funds and reductions from capital campaign proceeds. On the other hand, any amount remaining after 12/25/2018 could

⁴ The effects of this policy are: a) to insulate the church's operating budgets for fiscal year (FY) 2018 and FY 2019 from financial impacts of the building project; and b) to leave open the *possibility* that the entire legacy mortgage balance of \$484,039 at 12/31/2016 can be paid by capital campaign receipts.

be combined into the rollover of the legacy mortgage, over a term consistent with the receipt of remaining capital campaign pledges.

To provide us with a construction loan, the bank will require evidence of the church’s ability to meet its financial obligations in the absence of income from the preschool.

Consistent with Section 4.3.10 of the Board Policy Book, the documents establishing the line of credit must be signed by an officer of the church.

5.2. Establish Procedures for Direct Disbursements of Funds from the Lender to Contractors

When the Capital Fund Bank Account does not have sufficient funds to pay invoices, payment shall be made through a draw on the construction loan. The architect must approve each invoice for payment, on the basis of the contractor’s completion of the invoiced task. The lender (or its disbursement agent) will also have approval procedures. The FTF will act as liaison between the lending institution and the architect.

6. ESTABLISH ACCOUNTING PROCEDURES

The FTF will work with the Congregational Administrator to establish disbursement and accounting procedures, and to monitor the implementation of those procedures.

6.1. Establish or Continue Ledger Accounts

The Congregational Administrator shall:

- establish a new asset account for the Capital Fund Bank Account;
- establish a new Construction Loan liability account; and
- continue the use of the Capital Fund temporarily restricted fund equity account.

6.2. Record Transactions

The Congregational Administrator shall record building project transactions relevant to accounts as follows:

Transaction	Debit	Credit
Initial transfer	Capital Fund Bank Account	BB&T Checking or BB&T Investors
Receipts	Capital Fund Bank Account	Capital Fund
Disbursements from pledges	Real Estate – Church	Capital Fund Bank Account
Disbursements from lender	Real Estate – Church	Construction Loan
Legacy mortgage principal	BB&T Checking	Capital Fund Bank Account

The Congregational Administrator shall inform the FTF of building project transactions on a monthly basis, beginning after the first month of the capital campaign.

7. WORK WITH THE COMMUNICATIONS TASK FORCE

The FTF will work with the Building Project Communications Task Force to provide timely financial information to the congregation. This will include supporting documentation for the Capital Campaign, and information on receipts and expenditures and the project progresses.