BUILDING PROJECT FINANCIAL PLAN

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

November 6, 2017

BACKGROUND

The Community Church of Chapel Hill needs new and improved spaces for its Religious Education programs 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 those needs 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.

A building renovation and expansion will be funded by a capital campaign that is intended to also pay off the existing commercial loan, which we refer to as the "existing loan." Although the capital campaign has not yet been initiated, the Board of Trustees has established a Capital Fund that had a present balance of $27,562 at June 27, 2017.

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.

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 Finance 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 existing loan.

Second, the church's operating budget should continue to be related to the ongoing operations of the church, and not bear a burden from the financial impacts of the building project itself. Otherwise, there would be some risk that the church's programs and staff compensation could be adversely affected by the financial impacts. Once the building project is complete, some change in the operating budget is expected.

ROLE OF THE CONGREGATION

The Board of Trustees in a Resolution dated February 6, 2017, called for a Capital Campaign beginning in April 2017, to be completed in April 2018. 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
- In accordance with our Bylaws, it will decide whether to "approve any new debt secured by the real property of the congregation" necessary to complete the building project and deal with the existing Loan. Such debt will surely include a temporary construction loan and may include a new longer-term loan.

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 disposition of the existing loan, 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 preschool rental income will need to be addressed either through increased operating budget pledges or reduced operating budget expenditures.[2]
- The existing loan payments are $47,784 per year. The principal balance owned at June 30, 2017 was $220,571. In the absence of any early payment of this principal, a balloon payment of approximately $164,500 will be due when the loan matures on December 25, 2018.
- A construction loan will be needed to cover any amount by which construction costs exceed capital campaign funds received by the time of construction.

[1] The preschool's lease expires on August 31, 2018. 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 existing loan are part of the operating budget expenditures through FY 2018. Donations of $250,000 to pay down the existing loan were received in June 2017 and substantially reduced the existing loan to the $220,571 figure mentioned in the text.

APPENDIX A
STEPS FOR HANDLING RECEIPTS AND DISBURSEMENTS

This appendix describes the steps that the Building Project Finance Task Force (FTF) 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, the Capital Campaign Task Force, and the Communications Task Force in developing a project budget, which will be subject to Board review and approval. The budget will evolve over time. It will initially depend upon the projected costs of the task forces associated with the building project. It will eventually include construction costs, including the soft costs associated with construction, as consistent with plans approved by the congregation. The FTF will present proposed budgets to the Board for approval.

2. OBTAIN CONGREGATIONAL SUPPORT FOR THE PLAN

Section 2 of the church's Bylaws 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 June 2018, 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 existing loan; 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, the FTF has established a Capital Fund Bank Account that is separate from the main church bank accounts. All funds associated with the building project will run through the Capital Fund Bank 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 are 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.

The signers shall sign checks and authorize other disbursements only when such disbursements are consistent with the Board-approved project budget as per Section 1, the contracting policy of Section 3, and the disbursement procedures of Section 4.3.

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

The Capital Fund Bank Account was established on December 16, 2016, with funds, from the main church bank accounts, in an amount equal to the balance of the Capital Fund in the church's accounting records.

The Congregational Administrator or her designee(s) is authorized to deposit funds into the Capital Fund Bank Account. 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 thereafter, 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

In each of the first two quarters 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 existing loan during the quarter just ending.[3]

For the building project's non-construction tasks, an appropriate member of the Building Project Task Force must approve each invoice submitted for payment, on the basis the invoice's consistency with the Board-approved project budget as per Section 1, the contracting policy of Section 3, and the vendor's completion of the invoiced task(s).

For construction tasks, 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 invoice's consistency with the Board-approved project budget as per Section 1, the contracting policy of Section 3, and the contractor's completion of the invoiced task(s). 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 lender 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. If construction expenditures and the outstanding balance of the existing loan exceed capital campaign receipts, a new loan could be undertaken, subject to a formal vote of the members of the congregation.

[3] The intention of this policy was: 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 existing loan balance of $484,039 at 12/31/2016 can be paid by capital campaign receipts. Because of the lengthy delay in the preschool's departure and other developments, this policy was suspended after June 30, 2017.

To provide us with a construction loan, the lender will require evidence of the church's ability to meet its financial obligations in the absence of income from the preschool, and evidence of pledges related to the building project.

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:[4]

[4] A $10,000 disbursement from pledges is recorded as $10,000 reductions in the Capital Fund equity account and the Capital Fund Bank Account, and as $10,000 increases in Real Estate and Illiquid Equity. Payments of construction loan are handled similarly.

Transaction	Debit	Credit
Initial transfer	Capital Fund Bank Account	BB&T Checking or BB&T Investors
Receipts from pledges	Capital Fund Bank Account	Capital Fund equity account
Disbursements from pledges	Capital Fund equity account Real Estate – Church	Illiquid Equity Capital Fund Bank Account
Disbursements from lender	Real Estate – Church	Construction Loan
Payment of construction loan	Capital Fund equity account Construction Loan	Illiquid Equity Capital Fund Bank Account

Note that no project transactions affect income or expense accounts.

The Congregational Administrator shall inform the FTF of building project transactions on a monthly basis.

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.

8. TREATMENT OF EARLY DONATIONS AND EXISTING DEBT

In the fall of 2017 the Finance Task Force drafted the following guidelines for treatment of early donations to the Capital Fund

1. Any amounts by which the balance of the Capital Fund exceeds $50,000 shall be used to pay down loan principal, to the extent that the principal balance of the existing loan is positive. Otherwise, funds shall remain within the Capital Fund until needed by the building project.

2. Through the later of December 2018 or the departure of the preschool, the operating budget shall continue to include $3,982 per month that will go to either:

    a. paying the existing loan as long as the existing loan has a positive balance; or

    b. the Capital Fund if the existing loan has a zero balance.

The purpose of the first provision is gain an effective return of 4.37% per annum on some capital campaign pledge receipts, while leaving a substantial amount ($50,000) in the Capital Fund for the building project. The purpose of the second provision is to assure that the Capital Fund is not implicitly used to subsidize the operating budget.