MINDING THE GAP

INTRODUCTION

The "gap" is defined as the shortfall between the estimated cost of the current building project ($1.3M) and the expected total money in the Capital Fund available for paying that cost ($1.1M). The gap is approximately $200,000. **We can't know the *exact* figures at this point, but we have confidence in these cost estimates, which are based on architect and builder projections and experience, and in our extrapolated current pledge data.**

- The project scope from last year was carefully adjusted to lower the cost to $1.3M, by focusing on maintaining the dimensions and features of the new building essential to meet priority program requirements and our standards of simple quality, accessibility, and environmental sensitivity, while postponing all but critical renovations to the existing building.

> The Board's draft Plan was shared with the congregation for comment through October. Of the 105 respondents to our October survey, 89% were supportive of this approach, even most of those who expressed concerns or regret about postponing renovations.

- **The Board is committed to supporting a multi-faceted strategy for resolving the remaining $200,000 Gap, without impinging on the church's annual operating budget**. We have been exploring ways to CLOSE THE GAP by raising earlier and additional funds through June 2021, and ways to AFFORD EXTENDED BORROWING, if necessary, by finding new fund sources to cover the cost of any debt service beyond June 2021.

- **To enable flexibly addressing the coming year's many unknowns, we have assembled a framework of promising strategies for further development**. This is the start of the discussion, not the conclusion. Strategies will depend on people's contributions of their time and talent for organizing and working on specific tasks in 2019-2020. Some are already stepping forward, wonderful! While the team is forming up, folks are asked to get in touch with ad hoc Team Contact Andy Hencke (andy.hencke@gmail.com) if they are interested in considering a role whether large or small.

SUMMARY (See following pages for further explanatory details)

- PLAN A: INCREASE CAPITAL FUNDS AVAILABLE BY 2021. Our goal is to raise the value of the capital fund by $200,000 via new and earlier revenues so that, once all pledges are fulfilled (June 2021), we will pay off the construction (aka "bridge") loan and have no further debt.

- PLAN B: EXTEND BORROWING BEYOND 2021. If we come up short on the fundraising goal, a reduced Gap amount would remain as of July 2021, that would require us to extend our borrowing. Contingency strategies will aim to develop alternative sources (extended pledge terms and rental income) to pay off any such interest and principal.

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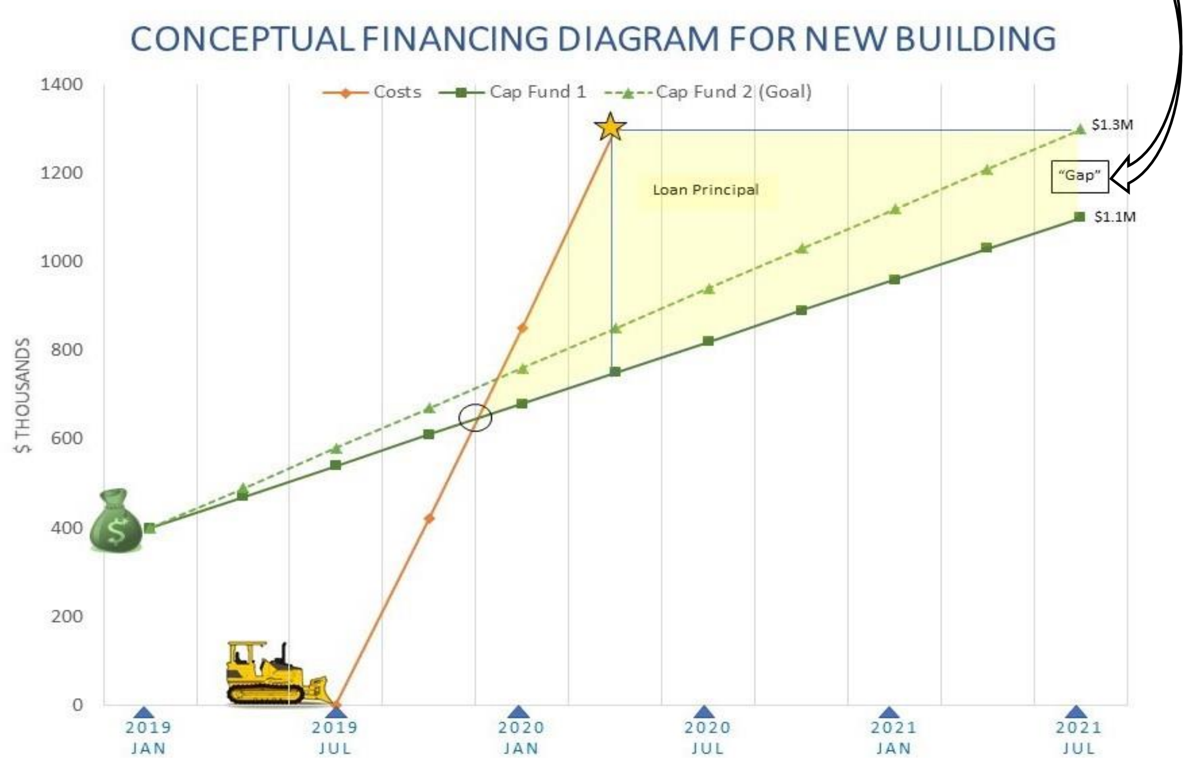
A. INCREASE CAPITAL FUNDS AVAILABLE BY 2021

The 3-year capital pledge payment period concludes June 2021. Between January 2019 and then, the capital fund ("Cap Fund 1") will have accumulated $1.1M in collections, will have disbursed it all to pay for construction, and will be about $200,000 short (i.e. the "Gap") *unless we have augmented the capital fund ("Cap Fund 2") in the meantime.*



Timing is an important factor because invoices for the new project will come due during the construction period June 2019 - April 2020, *before* all the pledges are collected. We will use up our current capital fund balance paying invoices sometime in late 2019 in the above example (see circled area in diagram above). At that point, we will resort to a standard, short-term bridge loan, to continue paying subsequent invoices. **The bridge loan will shrink as it is paid off with the remaining pledge collections and other gap-filling additions to the capital fund, as they come in.**

On the graph, the vertical line connecting the starred top of the "Cost" curve to the Cap Fund 1 curve represents the approximately $550K loan maximum which this straight-line example illustrates. Different trajectories (if proceeds lag or costs come in higher or quicker) could produce different maximum estimates. **Our Church Treasurer stipulates a ceiling of $700K to cover such contingencies**.

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<u>How would earlier payment of pledges help?</u> (Refer to graph on page 2)

- To the extent that pledges could be paid early, the balance in the capital fund (whether Cap Fund 1 or the augmented Cap Fund 2), instead of growing at a straight-line rate, would arch upward sooner before ultimately leveling off. That dynamic would help defer our need to start borrowing "bridge" money to a later date – reducing the total cost of the loan.
- Early payment of pledges could save several thousand dollars in interest, letting more of our dollars pay for construction instead.

<u>How, in addition to helping fill the gap, would raising additional money in 2019 help?</u>

- For one thing, the more we increase the capital fund before we start paying invoices, the more interest our funds will earn before construction costs gobble them up.
- Beyond that, the more we can add to the capital fund before all the invoices come in, the less money we will have to borrow, meaning less interest to pay.

The following fundraising initiatives would each potentially contribute a yet-to-be-determined amount, over the next two fiscal years. The benefit would come partly from the money raised, and partly from the fulfillment of coming together for this church-wide goal of closing the gap.

We know there are people who would like to donate more, and who may find it possible to do so in the near term.

- ➢ We will readily accept new pledges and pledge additions.
- ➢ We will encourage early payment of existing capital pledges.

We know there are multiple church fundraisers which raise funds for particular church purposes, and which often have overages beyond the income specified in the church budget.

- ➢ We will offer help toward boosting revenues in exchange for designating that overages will go to the capital fund.
- ➢ We may also sponsor pop-up benefits such as events featuring talented performers and experienced organizers in our midst.

We know the Endowment Fund is interested in helping meet needs for the new building.

- ➢ We will request grants for key features such as water fountains and room furnishings and playground facilities which are embedded in the total building cost estimate.

Nearly half the survey respondents offered comments about ways to close the gap. Most of the suggestions were ways to **raise money**, particularly: ask for more pledges; get help from the Endowment Fund; and tap into existing church fundraisers or have special fundraisers. The creative optimism of these comments has inspired the Board to explore a multi-faceted approach to closing the gap.

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B. EXTEND BORROWING BEYOND 2021 (Convert to extended conventional loan)

Of the 50 survey respondents offering comments about ways to close the gap, a few voiced opposition to encumbering the church with a loan beyond the usual, short-term construction loan. On the other hand, several commented that they have no objection to a reasonable loan and trust we'll refrain from burdening the church's budget.

We want to ensure that, if our fundraising goal falls short as of June 2021, there would be a way to pay the debt service for an extended, conventional loan without tapping into the church's annual operating budget.

The annual cost for a ten-year $200K loan would be about $27K, a small percentage of the church's annual budget of $560K but nonetheless an important factor in program activities. Over ten years, the interest cost of this loan would be $70K, a strong incentive for making the loan as much smaller and shorter as possible.

How could we ensure that extended debt service would not burden the church budget?

- The possibility of new rental income from our facilities is being explored, being mindful of rental costs and hassles and trade-offs with our own potential uses. In particular, short-term rentals might offer acceptable flexibility and feasibility. For example:
    - Airbnb rentals of the manse (e.g. for UNC alumni on sports weekends, families for commencement or wedding weekends, or for professional retreats) could be compatible with sanctuary use.
    - Occasional weekday or Saturday rentals of our new and newly-available Jones Building spaces could be accommodated within our calendar of program meetings and activities.

- A complementary approach under consideration is an "additional fourth year" offered to those congregants for whom an additional capital pledge or donation in 2021-2022 would be possible without cutting back on their annual operating fund pledges. If we had those additional proceeds in the year July 2021 – June 2022, we would be able to retire some or all of the extended loan at that time.

ACTION ITEM: A congregational authorization vote is needed for the church to borrow up to $700K in a short-term bridge loan, to ensure we can make invoice payments throughout the construction period, before all the pledges are paid (see explanation on page 2). **A vote will be requested at the Congregational Meeting on January 13, 2019.** All members are asked to discuss any remaining questions with Task Force leaders by then and come to the meeting (or send a proxy) with your vote.