Tapestry Special Congregational Meeting
Background Material for 5-Year Financial Projections for New Facility
November 19, 2006

This meeting has two purposes:
1) To present financial projections for a $2 million facility purchase
2) To vote on whether to approve the cost for UUA consultant, Larry Wheeler, to conduct a Financial Feasibility Study that will help us determine if we should proceed with a Capital Campaign to purchase a permanent home for Tapestry.

There are several questions for the congregation to review and think about:
1) What do we mean by buying a permanent home?
2) What time frame are we talking about?
3) How much money do we need and what will our expenses be?
4) What are our options to deal with a funding shortfall?
5) What is a Financial Feasibility Study and what will it tell us?
6) How much will it cost to do the Financial Feasibility Study and how will we pay for it?
7) Should Tapestry approve conducting the Financial Feasibility Study to help us determine if we should proceed with a Capital Campaign to purchase a permanent home for Tapestry?

Background
Tapestry has rented its current facility for the past 11 years. The rent is currently $100,000 per year. We have been working with Unitarian Universalist Association (UUA) financial consultant Larry Wheeler for the last 18 months to learn and implement best practices for congregation finances based on his experience with over 20 UU congregations who have purchased new religious homes.

Questions to Ask
1) What do we mean by buying a permanent home?
We mean purchasing real estate and becoming owners of a piece of property. The options are:
1. Buy an existing church building. This means a structure and land that is already zoned for a religious institution.
2. Buy an existing building that does not currently house a religious institution. This would include commercial property such as we rent now
3. Buy land for future development.

2) What time frame are we talking about?
This depends on how much money we raise, in what period of time, and on the cost of real estate. The less expensive the property or the more generous the gifts, the sooner we can purchase it. The options are:

1. Conduct a 1-year capital campaign, raising money for a down payment in FY 2007-08. Based on Larry Wheeler's experience and our congregation's current annual giving level, he estimates that we could raise a minimum of $800,000 (most congregations, even those smaller than ours, raise much more).

2. Conduct a 3-year capital campaign, raising funds for a down payment by the third year, FY 2009-10. In a 3-year campaign, we would raise a more than $800,000, but the full amount would only be available at the end of the campaign.
3. Conduct two capital campaigns. The first would be to raise money for a down payment; the second campaign three years (or more) later would raise funds to purchase a facility outright or to increase the down payment so we could get local commercial financing. A variation on this scenario would be to raise funds to purchase land in the first campaign and for a facility in the second campaign.

3) How much money do we need and what will our expenses look like?
Attached are 5-year financial projections for the following scenario: A capital campaign in which we raise $800,000 in one year and purchase a property for $2 million dollars. We realize that $2 million is at the lowest end of the scale which ranges to $5 million and higher for suitable properties for us. The assumptions for this scenario are:

- A debt-to-service ratio of 25%. This means that the cost of servicing the loan (principal and interest) does not exceed 25% of our income. This is a conservative number required by many lenders including the UUA, and we may be willing and able to raise the ratio to 30% or even 35%. Doing so would allow us to qualify for a larger mortgage. We would need to find a lender who would agree to these terms as well as feel comfortable with this risk.
- An interest rate of 8%. Commercial rates for our situation are quoted at 8 – 10%. Until we actually get a loan approved, the rate is not set.
- A 20 year amortization. The loan would come due earlier (maybe 5 – 10 years) but the payments are calculated over the amortization period. At the end of the loan period, the loan comes due and we would refinance.
- If we assume Tapestry income of $301,960 (which is our current FY06-07 budget), our monthly allowable expense for principal and interest would be $6,291 (at 25%) reflecting a mortgage of $752,096. (This is about $2000 less per month than we currently pay in rent, although our expenses will be higher if we own.)
- If we purchase a property instead of renting, our financial prospects in future years get better. Although in the short term our expenses will be higher, we will be building equity. Eventually, we will be spending a smaller portion of our income on facility costs, allowing us to focus on and invest in other areas such as social action, religious exploration programs for youth and adults, music, staff, and so on. These projections (and any revisions) will become part of the annual update to our rolling Five-Year Comprehensive Plan which the congregation will vote on at our annual meeting in June 2007.

- In summary, with these projections, and a facility that costs $2 million, we would be approximately $450,000 short of the amount needed for a purchase.

Cost of facility	$2,000,000
One-year capital campaign	- $800,000
Mortgage	- $752,096

Shortfall	($447,900)

4) What are our options to deal with a funding shortfall?

- Raise $1.25 million instead of the minimum estimate of $800,000 to eliminate the shortfall.
- Purchase a less expensive property – a property for $1.5 million instead of $2 million.
- Purchase a piece of land and build the structure(s) over time as we raise additional money. While this scenario sounds reasonable, the reality of the real estate market in our area may prohibit this approach because:
    - There is little land available
    - What is available is as expensive as land with an existing structure (based on informal Internet searches).
    - Competing for zoning changes with revenue-generating commercial uses will be difficult.
    - Construction costs are notoriously difficult to predict and control.
- Find a secondary source of financing such as second mortgage or bridge loan. Based on research, we have not located a commercial lender who would agree to these terms given this financial scenario.
- Extend the purchase date out to year 3 of the campaign – to FY 2009-10. This would only postpone the shortfall, which brings us to:
- Count this campaign as campaign one of two. That is, raise $800,000 in the first 3-year campaign and the remaining funds in a second campaign. The amount needed in a second campaign would depend on
    - Prices of real estate at a future time
    - Lending requirements and options
    - The size of the congregation at that time which affects building size, contributions, etc).

5) What will a Financial Feasibility Study tell us?

The Financial Feasibility Study will tell us how much financial support there is at Tapestry for purchasing a new home. At present, we can only guess at the funds we might raise in a capital campaign. If we conduct a campaign, we want to make sure that the time and effort volunteered by members to run it will be worthwhile. Larry Wheeler’s advice and standard practices helped us run a highly successful and well-organized annual stewardship campaign in spring 2006. Here is how the Financial Feasibility Study will be conducted. Dick Huddlestone and Melanie McCullough will schedule confidential interviews for a cross-section of approximately 30-40 members. These members (including partners or spouses) will meet with Larry Wheeler at Tapestry in January to discuss their level of interest in participating in a capital campaign and their potential contributions. Based on these interviews, we at Tapestry will learn how much financial support we have in the congregation to go forward with a capital campaign and in what timeframe. If there is not sufficient financial support for purchasing a permanent home at this time, we can focus on building our programs and strengthening our congregation and return to the topic in the future.

6) How much will the Financial Feasibility Study cost and how will we pay?
The approximate cost for the Financial Feasibility Study is $9,880[1]. Larry Wheeler will provide us a detailed written report, including estimated gift amounts and anonymous, unidentifiable comments from those who were interviewed. The Board will schedule another congregational meeting for February 2007 to review the results of the study and vote on whether we proceed with a capital campaign (combined with our annual stewardship campaign) in spring 2007. Typically, the fee for the Financial Feasibility Study and additional fees for assistance conducting the campaign are paid from the capital campaign funds that we raise. However, if we decide not to conduct a capital campaign in 2007, we are still responsible for paying the $9880 to the UUA. Since this expense is not included in our 2006-2007 budget, we would need to find the funds elsewhere in the budget (not likely), use funds from the cash management (checking) account, the unrestricted investment account, or the restricted investment account designated for costs related to acquiring a new facility. Or an "angel" could come forward and make an early gift to the campaign to cover the costs of the study, which is so critical in providing data on which we can base our decision whether to go forward or not with the capital campaign.

7) Should Tapestry approve conducting the Financial Feasibility Study to help us determine if we should proceed with a Capital Campaign to purchase a permanent home for Tapestry?
If the members approve conducting the Financial Feasibility Study, we will contract with the UUA for Larry Wheeler's services to conduct the study and provide the report. After we review the report, the Board will schedule another special congregational meeting to vote on conducting the capital campaign. If the members do not approve the Financial Feasibility Study, we will not approve a contract with the UUA for Larry Wheeler's services and will proceed with the normal Annual Stewardship Drive. We will defer a capital campaign to a future time.

1. This is based on Larry Wheeler's Proposed UUA Consulting Schedule dated 6/14/06. The FFS is estimated at 76 hours. This comes to 9.5 days which, at a rate of $1040/day is $9,880.00. This does include some other work for the Annual Campaign.