

**Christ Congregational Church
Report of the Debt Reduction Task Force
November 2005**

Introduction

At the June 2005 Annual Meeting the congregation passed the following motion:

“The Moderator will appoint a task force for the purpose of designing a comprehensive strategy for debt management and retirement for Christ Congregational Church. This task force shall be instructed to complete its report and recommendations by no later than September 1, 2005. A plan will be presented to the congregation at a special meeting in early fall.”

The members of the Task Force are Bruce Esposito (Chair), Doug Griffin, Carolyn Hoskinson, Karen Lee, Jackie Walters and Tim White.

Following our recommendations, below, we discuss the past and current financial status of the church, some of our deliberations, and some background material on how and why we arrived at these recommendations.

It is our intent that this Report both inform and inspire those reading it and serve as a catalyst to move forward to the next step in the process. Our goal is to have the Executive Council review and forward our Report as a key element for discussion in the budget visioning process.

Recommendations of the Debt Reduction Task Force

- I. Negotiate an extension of the mortgage with the UCC Cornerstone Fund.
- II. Maintain the member loan program. Currently, member loans are scheduled to mature in 2007 – 2009.
- III. Institutionalize pledging to and funding of the Building Fund, which will have 3 major purposes: (1) meet mortgage payments due to the lender and provide a minimum reserve to meet unforeseen contingencies and calls on member loans; (2) fund major maintenance and repairs for the building; and (3) build resources for funding future projects, including investment in the Church’s Master Plan.
- IV. Engage a professional in church financial development to work with the Board for Stewardship and other entities (*e.g.*, Endowment Committee, Budget Visioning Committee, Special Gifts Committee, Trustees) to help develop a comprehensive, multi-year financial plan that will enhance CCC’s ability to implement its strategic vision, which includes managing the mortgage on the Master Plan’s Phase I renovation. The Executive Council should be directed to reactivate and empower the Special Gifts Committee to develop and sustain planned giving initiatives among CCC’s membership.

- V. Conduct a program to educate members as to CCC's financial position, particularly as it relates to strategic planning and financial development.

Financing Phase I

In connection with the building renovations and expansion undertaken as "Phase I" of the Master Plan, CCC secured funding of approximately \$4,630,000. This funding consisted of (all figures are approximate):

- i. \$2,300,000 raised through the three-year Keystone Campaign;
- ii. \$580,000 raised from loans provided by members of the congregation; and
- iii. \$1,750,000 from a loan provided by the Cornerstone Fund of the United Church of Christ (the Cornerstone mortgage).

Since February 2003, CCC has been making monthly payments on the Cornerstone mortgage and periodic payments on the member loans. For the Church's 2005 – 2006 fiscal year, these payments are expected to total approximately \$179,700, of which \$30,000 will be funded through the annual operating budget and \$149,700 will be funded from the Building Fund. (A restricted fund, designated as the "Building Fund", was established by the Church Treasurer, at the direction of the Board of Trustees, to track the amounts received and paid during the course of Phase I. Subsequent to completion of Phase I, the Building Fund continued to be utilized to track the net assets available to the Church for building designated purposes, including payments on the member loans and Cornerstone mortgage.) In the past three years, funding for the Building Fund has come primarily from proceeds of the Recommitment Campaign which raised, according to the Report of the Recommitment Campaign contained in the June 2004 Annual Report, \$715,259. The Recommitment Campaign ends in February 2006. At November 19, 2005, the Building Fund had a fund balance of \$112,385.

Current Financial Status of CCC

Much of the underpinnings of the Debt Reduction Task Force's deliberations focused on three points:

1. The unpaid balance on the Cornerstone mortgage, in the amount of \$1,483,079.54, is due on August 1, 2006. The Task Force concluded that it is neither practical nor feasible to consider paying off the unpaid balance on that date.
2. At a current annual rate of approximately \$149,700, the Building Fund will be depleted sometime during the 2nd half of 2006. Without additional funding to the Building Fund, each annual operating budget will need to bear this additional \$149,700. Given current operating budget considerations, the Task Force concluded this action would be undesirable.
3. In the wake of two multi-year capital campaigns (the Keystone and Recommitment Campaigns) over the past approximately six years, the Task Force questioned the effectiveness of another multi-year campaign at this time.

The Task Force concluded that CCC should institutionalize annual pledging to and funding of the existing Building Fund rather than conduct another multi-year campaign. This annual

undertaking, which we recommend be done concurrently with the annual stewardship campaign, provides the foundation for the other recommendations put forth by the Task Force.

An essential assumption underlying the Task Force's recommendations is that CCC's understanding of and approach to the Cornerstone debt needs revision. Technically, the Cornerstone loan secured in connection with Phase I is not a mortgage. However, since most of the membership is familiar with home mortgages, and most homeowners normally carry a mortgage, treating CCC's building loan as a mortgage can be a helpful metaphor. A mortgage is a debt. But the investment value of a mortgaged property usually substantially exceeds the debt. Similarly with CCC's "home"; we own our property. Each generation of members that contributes to the Church's "mortgage" is contributing to a substantial investment in the future of CCC's worship, ministry and mission.

During the process of reaching our conclusions, the Task Force became aware that there are needs of the Church that have not been provided for through the annual operating budget. Funding for visioning, mission efforts, Y-GELI, Retreat House renovations and remaining portions of the Master Plan are all desirable undertakings of the Church. Any strategy to manage and retire CCC's mortgage needs to be balanced with the available financial resources of the Church in the context of these competing interests. We recognize the desire to fund these multiple needs that cannot currently be managed within the resources available in the annual operating budget. The Task Force concluded that funding of these needs was beyond the charge to the Task Force and notes that its recommendations include engaging a professional in church financial development to work with the Board for Stewardship and other entities (*e.g.*, Endowment Committee, Budget Visioning Committee, Special Gifts Committee, Trustees) to help develop a comprehensive, multi-year financial plan that will enhance CCC's ability to implement its strategic vision.

Background Information for Debt Reduction Task Force Recommendations

Rationale Underlying Task Force Recommendations

- *Incorporate debt into a strategic plan for future planning and growth.* As CCC develops a sound, comprehensive, multi-year strategy for implementing its vision, a mortgage is a reasonable tool if it is managed wisely and in the context of overall mission and program. The Task Force suggests that carrying a mortgage for a longer period of time (*i.e.*, beyond the Cornerstone loan coming due 8/1/06 and the current terms of the member loans) frees up resources to undertake the mission and program of the Church.
- *The building has been gifted to current members by previous generations.* Carrying a mortgage engages all members of the Church, including new members who are benefiting from the leadership and vision of those who undertook the risks of going ahead with implementing Phase I of the Master Plan.
- *The building is a witness to and enabler of important components of CCC's mission.* It provides, among other things, accessibility for all; a safe, attractive place for children, youth and adults to meet, worship, play, learn, and do God's work; a convenient, attractive, and inexpensive place for educational, support, civic and other non-profit groups to meet and carry out their missions; and hosts a diverse, low-cost, full-time child care center that has been in Silver Spring since its founding at CCC in 1971.
- *A church may choose how it handles a mortgage.* It could set a goal for paying off the mortgage in a specified number of years and institute a plan for meeting that goal (*e.g.*, capital campaign(s)), or it could decide to carry a mortgage as long as it needs to by incorporating the mortgage into a long-term, strategic plan.
- *Churches with a future incorporate a five-component "giving family" into their strategic plan.* The five components of church giving are:
 1. **Annual Giving** – an annual pledge to fund ongoing costs of church operations;
 2. **Capital Gifts** – gifts for special purposes (*e.g.*, new or renovation building construction, special missions, staff additions, new programs, debt reduction, and endowment);
 3. **Planned Giving** – Gifts from personal assets;
 4. **Special Offerings** – typically annual denomination-sponsored offerings; CCC participates in all 5 UCC special offerings; and
 5. **Memorial Giving** – Gifts made in memory of family members and friends upon their death, often designated for a particular purpose or fund.

Elaboration of Our Recommendations for a Comprehensive Strategic Plan To Build Financial Security in Support of CCC's Mission and Vision

I. Negotiate an extension of the mortgage with the UCC Cornerstone Fund.

The Cornerstone loan is due on August 1, 2006. It is neither practical nor feasible to consider paying off the entire balance of \$1,483,079.54 due on that date. Given current information, the Building Fund is projected to be substantially depleted in the July-December 2006 time-frame. The Cornerstone Fund has indicated its willingness to negotiate new terms.

II. Maintain the member loan program.

This program was an essential component of the financial plan for the 2001-02 renovation. Currently, member loans are scheduled to mature in 2007-09.

III. Institutionalize pledging to and funding of the Building Fund which will have 3 major purposes: (1) meet mortgage payments due to the lender and provide a minimum reserve to meet unforeseen contingencies and calls on member loans; (2) fund major maintenance and repairs for the building; and (3) build resources for funding future projects, including investment in the Church's Master Plan.

The Task Force proposes that pledging to the Building Fund be incorporated into the annual stewardship campaign. As important as annual pledging to the vitality of the Building Fund will be Church-sponsored efforts to encourage multiple sources of funding for this Fund. To that end, the Task Force urges the Executive Council to reactivate and empower the Special Gifts Committee to develop intentional and sustained planned giving. The Task Force recognizes that giving is a spiritual act of faith unconfined by a formal annual campaign and, as such, should be encouraged throughout the year with opportunities such as fundraisers, an invitation for an end-of-calendar-year special pledge, planned giving instruments, and other ideas that may from time to time be put forward by members and implemented within the governance structure of CCC.

The entire amount of the annual principal and interest payments due on the Cornerstone and member loans should be funded from the Building Fund. The \$30,000 previously reflected in the operating budget for "Debt service" should be removed starting with the Church fiscal year commencing July 1, 2006.

IV. Engage a professional in church financial development to work with the Board for Stewardship and other entities (*e.g.*, Endowment Committee, Budget Visioning Committee, Special Gifts Committee) to help develop a comprehensive, multi-year financial plan that will enhance CCC's ability to implement its strategic vision, which includes managing the mortgage on the Master Plan's Phase I renovation. The Executive Council should be directed to reactivate and empower the Special Gifts Committee to develop and sustain planned giving initiatives among CCC's membership.

The United Church of Christ has materials and consultants for its member churches to draw on. CCC is in the midst of and still facing major transitional issues as a result of its

courageous decisions in 1998-2000 to remain in Silver Spring, to develop a Master Plan, and to undertake a major modernization of its facility as Phase I of that Plan. More than ever, the Church is perceived as a resource by and for the local community. We are poised for growth in program and mission, which has implications for staffing and facilities management. New members are infusing new energy and ideas into the life of the Church. It is time to draw on resources specific to church financial management and development to safeguard the heritage provided to us by the foresight, courage and generosity of previous generations.

V. Conduct a program to educate members as to CCC's financial position.

The Task Force envisions this program as ongoing and as conducted by those groups and activities established within the Church from time to time (*e.g.*, currently, Budget Visioning and the annual stewardship campaign) for specific purposes related to strategic planning and financial development. Specifically, during the current fiscal year:

1. The Executive Council and the Board of Trustees should start a congregational discussion about church finances, including exploring what the unified budget concept means to members. The discussion should include all options open to churches for sound financial management, and should be undertaken in a free and open manner. The Budget Visioning process is one place where this discussion could start.
2. Trustees and Stewardship should cooperate in developing materials that help members understand the role of the building in CCC's program and mission and putting operating costs into perspective (*e.g.*, many community groups could not afford to meet in Silver Spring were it not for CCC's support through low-cost or free meeting space).