UNITED METHODIST
FOUNDATION
of Louisiana
"Where Faith and Money Come Together"

Building Concept Is Great! Can You Afford It?

When a congregation needs to build, or undertake significant renovation, church leaders will invest a lot of time and energy in developing a building concept, a picture of the future church building or renovation. Significant dollars also will be invested in blueprints that are used for competitive bidding, or for a design-build process. Hopefully adequate time, attention and money will be allocated to producing a funding plan that will fully support the building or renovation project.

What are the questions that should be asked in order for a congregation to determine if they can afford to build or renovate without cutting back on ministry?

1. Does your congregation exhibit consensus regarding the mission and overall direction of congregational ministry?

Belief in the mission of the congregation is one of the most important factors for successful campaigns to raise money for new construction and major renovation. Members and participants must feel that the congregation is being successful in carrying out its various ministries that work together to fulfill its mission. If consensus is not apparent, then some "mission work" is necessary before moving forward on the project.

2. Does your congregation believe that giving has been adequate to successfully fund annual ministry and missions?

Donors in general and church members in particular are encouraged when their giving is part of a positive experience in funding annual ministry. Members will be concerned about entering a capital campaign to raise money if in recent years there was not enough giving to fund all the church had planned to do in annual ministry. If the congregation cannot give enough to fund annual ministry, how will it give enough to build or renovate? If annual giving is not strong, then attention to raise annual giving will be necessary before moving forward.

3. Does your congregation have confidence in the senior minister, staff ministers and key lay leaders?

Ministers and key church leaders should be well known, trusted and have experience in the congregation with major initiatives. They should be intimately familiar with the building or renovation plans and they can easily explain the necessity of the various features of the plans. They can also naturally champion the project under consideration because of the benefits that will be gained by building or renovating. If confidence in leaders is lacking, then leaders should consider how to improve their communication, transparency and consistency in leading.

4. Is your building or renovation project the right project?

A good project has integrity, meaning that the project naturally aids the congregation in fulfilling its mission. A good project is done with excellence: the project, while not ostentatious, provides more than a band aid to address existing space deficiencies. It provides permanent benefits. A good project has a sense of urgency in that many members feel it should already have been done since the need is now!

5. Is your new construction project the right size?

The recent demographic trends that were used to size your project were probably assumed to continue for a long time. However, demographic trends will not extend in a linear progression forever. This is so because 1) the church's local neighborhood or area will ultimately be "built out" with new construction, and 2) because families will eventually "age out". That young couple with an older child and a young teen will in a relatively few years be empty nesters. What size of permanent space will your congregation really need in 20 years? 30 years? What type of flexible or semi-permanent space should be designed for use between now and 2035 when the demographic trends stall or begin to reverse? According to Bill Wilson of the Center for Healthy Churches, about one-third of the nation's congregations are challenged with needing to downsize from their current facilities because of plateaued or declining demographic trends.

6. What are the projected operating costs for your new construction project?

Over the useful life of a new building, operations, maintenance and repairs will total about the same amount as the original price of the building. This does not include costs for major renovations necessary after 40 to 60 years. What additional costs in utilities, cleaning, insurance, etc. will have to be absorbed by the annual ministry budget? If your project is major renovation, then newer HVAC equipment can provide increased energy efficiency and lower costs for heating and cooling.

7. How much money is on hand and available for your project?

Some churches have building or capital funds that they grow over time. These funds make for a down payment on a project. Other churches have a building or property that they intend to sell in order to help pay for new construction or major renovation. This is especially so with relocation projects. Still other churches anticipate paying off debt service that will free up money.

8. How much money can you raise in a capital campaign?

The standard ratio used to be (before 2008) that a congregation had the capacity to raise twice its annual giving in a capital campaign. Any amount raised beyond that figure was due to major gifts / pledges, usually $100,000+. Since 2008, the ratio of funds that can be raised from the congregation is nearer one and a half times annual giving, plus major gifts / pledges. Major gifts have a large impact on the total that can be raised.

9. What is the expected cash flow for campaign pledges?

In the first 12 months of a three-year campaign giving period, the congregation will give about 40% of the total amount pledged in the campaign. During the next two years, the congregation will give approximately 30% each of the years, a little more the second year than the third and final year. A congregation should expect to receive 90% or more of the total amount pledged if they are using a professional consultant.

10. What happens if the three year giving period ends and there is debt left?

Congregations have several options. First, if the debt is down to a manageable level, the debt service payments can be incorporated into the annual ministry budget. This works best if during the three years of campaign giving, a line item was inserted into the budget for debt service and amounts were added each year so that the full debt service payment was staged into the budget over two to three years.

Second, if the debt service payments cannot be easily absorbed into the budget, then the congregation can have a mini campaign for a fourth year of giving. This strategy is very simple and can be done in house without the need for a consultant. The schedule would be for the mini campaign to occur in month number 35 and number 36 of the original three year giving period.

Third, if the debt remaining is large, then a second campaign should be undertaken, primarily for debt reduction and perhaps also for some small and necessary capital need that has arisen since the last campaign. Consider using a professional consultant for this debt reduction full campaign in order to maximize results. The campaign schedule would be during the last three months of the original three year giving period.

11. How much money should your congregation borrow?

Most congregations will borrow short term and long term. The short term borrowing is to cover construction or renovation costs that come due before the completion of a campaign’s three-year giving period. Usually this short term borrowing is referred to as a bridge loan or a construction loan. After the project is completed, the short term loan is converted into long term financing. The interest costs of short term borrowing should be factored into the overall project cost.

Long term borrowing is a very important consideration. Churches can usually borrow up to 75 % of the appraised value of new construction or renovation, or up to two and a half times their annual giving amount, or with debt payments totaling no more than 25% of their annual giving amount. Loans or debt service beyond these amounts are feasible only if current growth trends indicate that future increases in members and annual giving will enable the congregation to better pay off the debt in the coming years.

12. Which sources make up your project’s funding plan?

Money on hand in a building or capital needs fund: $__________________

Anticipated proceeds from the sale of property or building: $_______________

Debt payments that will cease soon: $______________

90% of money and pledges raised in a capital campaign: $__________________

Money borrowed short term for a construction loan: $_________________

Money borrowed long term for mortgage repayment: $_______________

Money budgeted for increased operating costs: $________________

13. How much will new members give?

Follow up activity after a capital campaign targets two groups of members. Members who were present during the campaign are encouraged to fulfill their pledges and perhaps increase them if their future circumstances permit. New members who came after the campaign can be asked to make a campaign pledge, but this may not be the best course of action. First, many church leaders are fatigued after a campaign and have little to no interest in any further asking. Second, new members did not benefit from the full experience of a campaign and it is difficult for them to make a pledge. So, the best course of action is to work with new members on making generous pledges to the annual ministry budget that usually stalls from current member giving since they pledged to the campaign. New members' best help is to give generously to the annual ministry budget which will be probably be absorbing additional building operating costs.

14. Should you sell bonds to finance your project costs?

Church bonds have been used successfully in the past because of particular circumstances. First bonds were an alternative to bank borrowing because many churches could not obtain a bank loan for the amounts they were needing to borrow. Second, in the 1980's loan interest was very high and savings deposit interest was much lower. Members could earn more interest by buying a church bond and churches could pay less interest by selling church bonds. Today, church bonds are another form of debt financing and they are sold in the financial markets; many times members do not buy any bonds at all. With bonds, the congregation will have a repayment schedule similar to a mortgage. Be sure to have a capital campaign before using church bonds.

15. What else should you consider for funding your project?

Planned giving instruments can be helpful during a capital campaign, especially the charitable lead trust. A donor(s) places money or financial assets into the trust and receives a charitable donation deduction. For a specified number of years, the church will receive the "lead" from the trust, essentially the income. At the end of the specified time period, the beneficiaries of the trust will received the "remainder", what is left in the trust. The charitable lead trust is a useful instrument for capital campaigns and estate planning. Please be sure to refer donors to their own financial planning professionals. Do not be in the position of giving financial advice.

Following a capital campaign, a church should begin a regular ongoing program of promoting planned giving, bequests and estate planning. Even though one characteristic of people who make a planned gift is that they have longer life expectancies (verified by studies), eventually those gifts will come in and they can help with any remaining indebtedness or future capital need.

Source: The Generosity Letter, Ruben Swint, 2015