Introduction to Financial Projections / Holman Parish House Considerations

At the November all-church meeting to report on our financial status, the message was clear that we needed to take action, to have a plan for stabilizing our finances and funding our ongoing preservation and maintenance programs, while also realizing our vision, particularly the part of our vision that calls for us to become a fully accessible church.

At the February Annual Financial Meeting we reviewed our annual budget, which reflects a deficit of $15,000, and we voted unanimously to move forward with a capital campaign to raise money for the accessibility project, for some needed preservation work at the church, for code compliance projects at the Holman Parish House, and for refunding the $65,000 that was taken from the endowment to purchase and install the pellet boiler system.

Since then we have had a few Our Turn gatherings to consider how our space supports our vision.

Financial projections now indicate that we face quickly increasing deficits. Such deficits, if not covered by considerable pledge increases, must be covered by additional withdrawals from the endowment. The current endowment withdrawal rate is already more than what is recommended as sustainable, especially in this market climate. Additional withdrawals result in further erosion of the endowment value, which in turn results in decreased annual withdrawal allowances, thus producing even larger deficits. This cycle of accelerating deficits would be best to address and reset now, while we still have viable options.

There is good news: we *do* have options. Some of the options are not popular, or are not the most desirable, but they need to be considered.

What follows are four projection/option scenarios for consideration.

Assumptions/background:

Pledges have been flat for several years, in spite of various pledge drive efforts and strategies. Without further guidance, consultation, and education, it is unrealistic to expect that anything other than modest increases will occur in the coming years. The current flat pledging patterns are largely due to a changing financial demographic in the church. **In the first two projection scenarios**, pledging is calculated with no increases; in the third and fourth scenarios, a modest rate of increase is assumed.

Other giving, aside from pledges and endowment/trust income (*e.g.*, the Sunday collection basket), is calculated, optimistically, as increasing 2% per year.

Endowment and Holman Trust gains have been moderate, however the gains have not been sufficient to offset our current withdrawal rate of 5.6% of a 5-year rolling average of market value. The recommended sustainable withdrawal rate is about 4.8%. **In all four projection scenarios**, endowment/trust income is calculated as flat (no growth), minus the previous year's deficit withdrawal.

Expenses are calculated at a 2% across-the-board annual increase, realizing that some expenses will have greater increases while others will have smaller increases.

Deficits are calculated as withdrawals from the endowment, and therefore factor into the next year's rolling average with increasing impact.

Rental income from HPH is assumed to rise by $750 per year with every new three-year lease, for an effective increase rate of $250 per year -- which is somewhat higher than we have seen in the past. **Electrical reimbursement** for the use of HPH is assumed to rise by $25 per year.

The 2016 capital campaign, which is now being planned, is being factored into our projections in two ways. First, in 2017 we will put $65,000 back into the endowment, thus repaying the funds withdrawn for the pellet boiler. Second, in 2017 we will improve the insulation in the church building and Newman Wing, thus saving an estimated $3000 per year in heating costs.

The endowment has not benefitted from any significant **planned giving** for several years, as gifts and bequests have been earmarked for special projects. An active planned giving program might improve this in future years, but no increases in the endowment through gifts or bequests are factored into these four projection scenarios.

Although the following pages list budget projections only through 2021, the spreadsheets used to generate these projections extend through 2030, so we have considered the longer-term trends and have checked that they do not contradict the short-term trends presented here. Projections through 2030 will be shown in graphical form during the Our Turn meeting on April 10.

Projections are just that . . . best guesses, based on history, current information, and forecasting. In the world system of finances, things could change somewhat, or could change significantly. Miraculously significant gifts could appear! Unforeseen expenses or market drops could occur. Hope is a good thing to hold onto as we prayerfully consider our options and plan to be faithful stewards of our resources.

May God guide us in God's Way.

Scenario #1: Status Quo (mostly)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Pledges	127707	121207	120697	121000	121000	121000	121000	121000	121000
Other Giving		15221	23855	15500	15810	16126	16449	16778	17113
Prior Yr. Surplus		48	1833	1928	0	0	0	0	0
Misc. Inc.		300	400	735	500	500	500	500	500
Endowment Inc.	64820	61860	61740	60437	59757	58227	55776	54447	53927
Holman Trust Income	19922	16680	16860	16821	16998	16784	16543	16217	16240
Rental Income		11200	11648	11650	11650	12400	12400	12400	13150
Elect Reimb.		1150	830	850	875	900	925	950	975
Fundraising		5000	5000	5000	5000	5000	5000	5000	5000
Total Income	**247206**	**232666**	**242863**	**233921**	**231589**	**230936**	**228593**	**227292**	**227905**
Church Expenses		212642	220136	228626	230199	232802	237459	242208	247052
HPH Expenses		18387	20799	20415	20823	21240	21665	22098	22540
Total Expenses	**247158**	**231029**	**240935**	**249041**	**251022**	**254042**	**259123**	**264306**	**269592**
Annual Deficit	48	1637	1928	-15120	-19432	-23106	-30530	-37014	-41687

Pledges flat
Other giving increases 2% per year
Endowment income and Holman trust income flat, less previous year's deficits
Expenses increase 2% per year
HPH rental income increases $750 every three years, HPH electrical reimbursement increases $25 per year
Our pledge to the Pilgrim Lodge capital campaign -- $2000 per year for three years -- will no longer be an expense after 2017

In short, Scenario #1 assumes the status quo *except* that capital campaign funds are used in 2017 to

a) repay endowment $65,000 for pellet boiler
b) add insulation for $3000/yr savings on heating bill (increasing at 2% per year afterwards)

Aside #1: Can We Address Those Deficits Via Increased Pledging Alone?

In order to balance the projected budget through increased pledges alone, otherwise making all of the same assumptions as in Scenario #1, pledges would have to increase substantially. For example, to address the $15,120 deficit for 2016, we would have to *revise* the pledges we have already made and increase them by 12.5%.

Supposing instead that 2016 pledges are left unchanged, the following table shows how rapidly pledges must increase in 2017 and beyond in order to zero out the Scenario #1 annual deficit by a given year:

Eliminate deficit by year . . .	2017	2018	2019	2020	2021
Scenario #1 deficit ($)	19432	23106	30530	37014	41687
Annual pledge increase rate	16.1%	9.1%	7.7%	6.7%	5.9%
Cumulative increase through that year	16.1%	19.0%	24.9%	29.8%	33.1%

Aside #2: Does HPH Pay For Itself?

This question has sometimes come up at congregational meetings, so it is worth setting out the numbers. As shown below, the answer is: yes, HPH more than pays for itself, currently yielding almost $9000 per year after expenses -- but selling the building and investing the proceeds could earn even more.

To understand the second half of that statement, note that putting $200,000 from a 2017 HPH sale into our endowment would increase the five-year rolling average for 2018 by one-fifth of that investment, or $40,000. This would increase our 2018 endowment income by 5.6% of $40,000, or $2240. If we also assume that moving offices to the Newman Wing would increase expenses in the church / Newman Wing complex by $5000 per year, we obtain the following comparison:

Current (2016) HPH Income/Expenses		**2018 Income After HPH Sale**	
Holman trust income	16821	Holman trust income	16784
SAPARS rental income	11650	Increased endowment income	2240
SAPARS elect. reimb.	850		
Total Income	29321	Total Income	19024
HPH expenses	-20415	Increased church expenses	-5000
Net Income	8906	Net Income	14024

Beyond 2018 the increased endowment income resulting from a sale would steadily grow, peaking at $11,200 per year in 2022 when the $200,000 investment would finally be factored into all five years of the rolling average.

Scenario #2: Sell Holman Parish House

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Pledges	127707	121207	120697	121000	121000	121000	121000	121000	121000
Other Giving		15221	23855	15500	15810	16126	16449	16778	17113
Prior Yr. Surplus		48	1833	1928	0	0	0	0	0
Misc. Inc.		300	400	735	500	500	500	500	500
Endowment Inc.	64820	61860	61740	60437	59757	60467	60314	61370	63352
Holman Trust Income	19922	16680	16860	16821	16998	16784	16543	16217	16240
Rental Income		11200	11648	11650	11650	0	0	0	0
Elect Reimb.		1150	830	850	875	0	0	0	0
Fundraising		5000	5000	5000	5000	5000	5000	5000	5000
Total Income	**247206**	**232666**	**242863**	**233921**	**231589**	**219876**	**219806**	**220865**	**223205**
Church Expenses		212642	220136	228626	230199	237802	242559	247410	252358
HPH Expenses		18387	20799	20415	20823	0	0	0	0
Total Expenses	**247158**	**231029**	**240935**	**249041**	**251022**	**237802**	**242559**	**247410**	**252358**
Annual Deficit	48	1637	1928	-15120	-19432	-17926	-22753	-26545	-29152

Based on the estimate offered to the space feasibility study committee, we could net about $275,000 to $300,000 from a sale of HPH. Of this sum $75,000 to $100,000 could be used for additions/renovations needed to move the church offices, restructure parking, etc. Thus Scenario #2 assumes that $200,000 is invested in the endowment by September 30, 2017. (The five-year rolling average that determines the following year's endowment income is computed at the end of September, not at the end of the calendar year.)

An extra $5000/yr in 2018 church expenses, increasing at 2% per year afterwards, is assumed due to having offices in the Newman Wing

All other assumptions are the same as for Scenario #1

Scenario #3: Sell Holman Parish House and Increase Pledging

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Pledges	127707	121207	120697	121000	125235	129618	134155	138850	143710
Other Giving		15221	23855	15500	15810	16126	16449	16778	17113
Prior Yr. Surplus		48	1833	1928	0	0	0	0	0
Misc. Inc.		300	400	735	500	500	500	500	500
Endowment Inc.	64820	61860	61740	60437	59757	60514	60506	61856	64337
Holman Trust Income	19922	16680	16860	16821	16998	16784	16543	16217	16240
Rental Income		11200	11648	11650	11650	0	0	0	0
Elect Reimb.		1150	830	850	875	0	0	0	0
Fundraising		5000	5000	5000	5000	5000	5000	5000	5000
Total Income	**247206**	**232666**	**242863**	**233921**	**235824**	**228542**	**233153**	**239201**	**246901**
Church Expenses		212642	220136	228626	230199	237802	242559	247410	252358
HPH Expenses		18387	20799	20415	20823	0	0	0	0
Total Expenses	**247158**	**231029**	**240935**	**249041**	**251022**	**237802**	**242559**	**247410**	**252358**
Annual Deficit	48	1637	1928	-15120	-15197	-9260	-9406	-8209	-5457

Pledging increases at 3.5% per year -- a cumulative 19% increase by 2021 -- while all other assumptions are the same as for Scenario #2.

In this scenario the budget deficit is eliminated in 2029.

Also note that if HPH does not sell until 2018 or even 2019 the overall trend does not greatly change

As we balance our budget and focus on increasing our pledging patterns, we can look at reducing our rate of withdrawal from the endowment to a more sustainable rate, one that would actually help our endowment to grow and perhaps allow for reserve funds for sabbatical, preservation projects, or outreach.

Scenario #4: Increase Pledging Without Selling HPH

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Pledges	127707	121207	120697	121000	125235	129618	134155	138850	143710
Other Giving		15221	23855	15500	15810	16126	16449	16778	17113
Prior Yr. Surplus		48	1833	1928	0	0	0	0	0
Misc. Inc.		300	400	735	500	500	500	500	500
Endowment Inc.	64820	61860	61740	60437	59757	58274	55968	54933	54912
Holman Trust Income	19922	16680	16860	16821	16998	16784	16543	16217	16240
Rental Income		11200	11648	11650	11650	12400	12400	12400	13150
Elect Reimb.		1150	830	850	875	900	925	950	975
Fundraising		5000	5000	5000	5000	5000	5000	5000	5000
Total Income	**247206**	**232666**	**242863**	**233921**	**235824**	**239602**	**241940**	**245628**	**251600**
Church Expenses		212642	220136	228626	230199	232802	237459	242208	247052
HPH Expenses		18387	20799	20415	20823	21240	21665	22098	22540
Total Expenses	**247158**	**231029**	**240935**	**249041**	**251022**	**254042**	**259123**	**264306**	**269592**
Annual Deficit	48	1637	1928	-15120	-15197	-14440	-17183	-18678	-17992

All assumptions are the same as for Scenario #3 -- in particular, an annual pledging increase rate of 3.5% per year -- except that we do *not* sell the Holman Parish House.

In this scenario annual deficits increase very slowly, reaching roughly $18,000 in 2021 and $21,000 in 2030. The steady decrease in endowment income in the table above reflects a steady decrease in the endowment balance. This balance drops from $960,000 today to $942,000 in 2021 -- even after repaying $65,000 for the pellet boiler -- to $759,000 in 2030.

To obtain results similar to those in Scenario #3, with the budget deficit eliminated in 2029, one must assume a 4.25% pledging increase rate if HPH is not sold. This higher rate implies about $5000 in extra pledges in 2021 relative to a 3.5% rate ($149,000 vs. $144,000) and $21,000 in extra pledges in 2030. Given recent pledging patterns it is not clear that such an optimistic assumption is realistic.