

Seattle First Baptist Church

Financial Options for 2016

During 2015 we completed an extensive remodel and expansion of the Minor Hospital building. The cost for this work was \$1.5 million, which is substantially more than was originally estimated. Because of this, we as a congregation need to consider our financial options for the coming year. The decisions that we, the congregation, make will affect how much money we have available for our operating budget in the coming years.

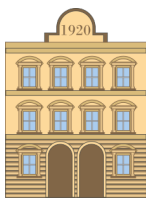
Two options are presented here. Each option includes an overall approach to this challenge and a proposed operating budget for 2016 that reflects the approach.

Background Information

Assets

In a business sense, SFBC has three major assets:

Our Buildings



Our Investments



Our Bank Accounts



Endowments

- We have four endowments whose purpose is to generate income to be used to operate the church while preserving the principle.
- We manage all of the endowments as a single set of investments.
- To date our endowments have been invested in stocks, bonds, and real estate loans to other organizations, and other types of investments.

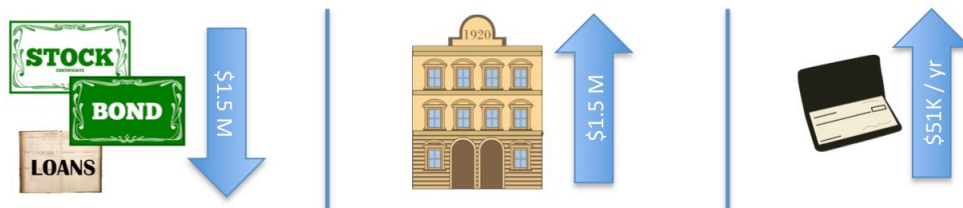
What happened financially when we remodeled/expanded the Minor Hospital building?

- The congregation authorized us to “borrow” \$750,000 from our endowments to fund the work.
- The actual work cost \$1.5 million.
- Money was taken from our investments to pay for the work as it was done.



What happened to our assets as a result of this work?

- The balance of our investments went down by \$1.5 million.
- The value of our buildings went up by approximately \$1.5 million.
 - We added 3,000 square feet of rentable space.
 - We increased our rental income by \$51,000 for 2016. This amount will increase as rents rise over the years.
 - The elevator adds value to the entire building.
- We increased our ability to use our buildings to support our mission:
 - We rent space to organizations we believe in at below market rates. For example, Companis pays about half the market rate for their new space.
- We did necessary maintenance to the Minor Hospital building.
 - New roof
 - Electrical upgrade
 - Fire alarm upgrade



An Important Point

This remodel was different from others we have done in the past. Most of our remodel work has improved space for our own use. This remodel increased our ability to generate income by giving us more usable building space and a better facility. This is an INVESTMENT. It is not like fixing up your house. It is like buying the house next door, fixing it up, and renting it out. It generates income.

Question on the Table

How do we account for all these changes? As a congregation, that is our decision to make. Why do we care?

- We want to protect the value/principle of our endowments.
- The decision we make determines what we do with the new rental income we are getting as a result of the remodel.
- This will impact the amount of income we have for our operating budget for the coming years.

Following are two options that answer the question on the table.

Option 1 – The Current Plan

This option maintains the approach that the congregation agreed to in recent years.

- We treat all the work as an expense.
- We account for the money used as follows:
 - We have a \$750K loan that must be repaid to our endowments.
 - We have an additional \$750K that must be dealt with. This is like an IOU to ourselves that we must decide how to handle.
 - The net income (rent less costs such as utilities for the new space) from the new space will be used to repay the loan:
 - If we just pay back the \$750K loan that will take about 16 years
 - If we choose to pay back the \$750K IOU as well, it will take about 32 years
- This option decreases our Investment Income for 2016 by \$60,000. Our Investment Income will gradually increase as the loan and IOU are repaid over a period of years.
- Under this option, expenses requested for the 2016 budget will need to be cut by \$43,500.
 - This will impact the programs that we can offer.
- The congregational actions required under this option are:
 - Approve the reduced budget for 2016.
 - Determine what to do with the \$750K IOU at some point.

Option 2 – A New Proposal

In this option, we treat the work on the Minor Hospital building as an Investment – something of value.

- We recognize that the additional rental space created and value added to our building is an Investment – part of our investment portfolio.
 - With an investment of \$1.5 million and annual income of \$51,000, this investment has an annual rate of return of 3.4%
- We account for the money as follows:
 - We eliminate the need for the \$750K loan.
 - We recognize the additional rental space as part of our investments.
 - The new rental income from that space becomes part of our Investment Income.
- As compared to Option 1, this increases our Investment Income by \$51,000 in 2016, and more in future years. This real estate investment replaces the loss in investment income from stocks, bonds and loans.
- This makes additional income available to the 2016 budget, which will be used to:
 - Restore some of the cuts proposed in Option 1
 - Create a contingency account that, along with other methods, will be used to ensure that our budget balances at the end of the year, with a goal of eliminating annual deficits from 2016 forward.
- The congregational actions required under this option are:
 - Formally accept Option 2.
 - Approve the budget as revised for Option 2.

Next Steps

This document is being distributed to members of SFBC in preparation for upcoming budget discussions and the Annual Meeting. You will have the opportunity to ask questions, provide feedback on, and discuss these options during two budget sessions:

Wednesday, Jan. 13 at 7 p.m.

Sunday, Jan. 17 after worship

The congregation will vote on these options and the budget for 2016 at the upcoming annual meeting:

Sunday, Jan. 24 after worship

You can also submit questions or comments to Bob Sittig via email:

bob@seattlefirstbaptist.org.

He will forward questions and comments to the appropriate parties.