

### **Should the HVAC Loan from the Endowment be Cancelled**

On February 21, 2017, the Board approved a loan from the Endowment of up to \$1,300,000 to pay the cost of the new HVAC system. The approved motion read:

Pay the costs of the new HVAC system using a loan from the Endowment of up to \$1,300,000 (exact amount to be determined by the Executive Director upon completion of the project), to be repaid within ten years at 4% interest (the current prime rate plus .25%), compounded annually, using January 1, 2017 as the effective date of the loan.

The Board subsequently instructed the Endowment Committee not to include the amount of this loan in calculating annual disbursements.

The Board is now asked to consider whether or not this loan should be canceled and considered a payment.

The recent decision not to use funds raised by the Capital Campaign to repay the loan means that the loan is unlikely to be repaid within the ten years. This is because the Church's annual operational income has been so limited that the Church has been running deficits for several years. Even if this income increases significantly over the next 10 years, it is highly unlikely to exceed operational requirements by an amount needed to repay the loan, i.e., more than \$100,000 a year.

Also, interest on the loan would exceed \$50,000 a year, compounded annually. Paying the interest annually would simply increase the deficit, which would have to be covered by taking more funds out of the Endowment or other investment funds. And, ten years of accumulated interest would add more than \$500,000 to the final repayment amount.

Accordingly, the Financial Policy Committee recommends cancelling the loan and considering it a payment, and reducing the accounting of the amount in the Endowment Fund by the amount of the loan plus assumed interest.

Doing so will not reduce the basis for calculating annual disbursements, because even as a loan, the Board instructed that it cannot be counted in that calculation. Considering it as a payment would reduce the theoretical size of the Endowment\* to about \$1,900,000, only about \$100,000 above the amount (\$1,800,000) that cannot be invaded without a two-thirds vote of Church members present at a duly constituted meeting\*\*. But, given the loan is now unlikely to be repaid, continuing to count it in determining the size of the Endowment seems at best a convenient fiction.

*\*This would be the main Endowment fund and not include other funds such as the Memory Garden, Kiplinger, and Social Justice Funds.*

*\*\* Section III C 3 b of the Board Policy Manual: The principal of the Endowment Fund is defined as \$1 million plus the sum of the gifts received since the Fund reached that amount (February 28, 1998). Principal may not be invaded by the annual appropriation or by any additional amount without a two-thirds vote of Church members present at a duly constituted meeting.*

Making the HVAC payment a disbursement / appropriation rather than a loan and subtracting it along with interest from the Endowment would effectively exceed 5 percent of the Endowment. Therefore, in accordance with Board policy\*\*\*, doing so would require the approval of a majority of Church members present at a duly constituted meeting. The FPC recommends taking this step.

Accordingly, below is a suggested motion for the Board's use in considering the FPC's recommendation

Move that: the loan of \$1.3 million from the Endowment to pay for the new HVAC system be considered a payment disbursed from the main Endowment fund rather than a loan and that Church accounts be adjusted accordingly, and that this proposal be placed before the Congregation for a vote at its annual meeting.

*\*\*\* Section III C 3 a of the Board Policy Manual: The fixed annual rate of allowable appropriation will be 5 percent of a 13-quarter rolling average of asset values as of the close of the calendar year (December 31). The rate may be increased only with the approval of a majority of Church members present at a duly constituted meeting.*