

Guidelines for Local Church Building/Renovation/Leasing Programs

**Psalm 127:1 “Unless the Lord builds the house,
its builders will have toiled in vain.”**

This package has been compiled to assist churches through the process of investigating and initiating a building/leasing program. Perhaps the most important guidance that can be offered is that shared by the psalmist in Psalm 127, as indicated above. Building projects need to be spiritually based and done to further the work of the church; to serve as a launching pad for new mission and ministry. We encourage churches to remember that God is glorified by the work done *within and through* a building. It is only through prayer and study that we can discern God’s calling for our church and building programs are best initiated with those disciplines.

Guidelines for Church Building/Renovation/Leasing Programs

This package is not all-inclusive of the issues a church will face in a building/renovation/leasing program but hopefully provides some direction and insight around a number of highly important decisions. In particular the information strives to provide an outline of the steps and approval points required by the Book of Discipline (all references are to the *2000 Book of Discipline*).

Churches face many different types of building, renovation and maintenance projects. (Throughout this document the term building is used to include both renovation and new construction projects.) Some will require multiple levels of approval, some will require no approval outside the local church. Churches who lease space will also need to follow these procedures, with some adjustments particular to the leasing process. As a guide to determine the path your church may be looking toward please consider the following:

1. Local church projects that are maintenance in nature, as defined by the charge conference, having a cost of less than 10% of the value of the church properties and not requiring the church to borrow funds to complete do not require any approval beyond the local church. In fact these projects may not require any approval beyond the local Board of Trustees, if granted such authority by the Charge Conference. As such, you do not need to contact your District Superintendent or the District Board of Church Location and Building. (*Sec. 2543*)
2. All new construction or purchase of land, regardless of whether or not borrowing is required, must be approved by the District Superintendent and the District Board of Church Location and Building. You will need to follow the enclosed guidelines in order to obtain that approval. (*Sec. 2543*)
3. Any leasing of space for a church to use must be approved by the District Superintendent and the District Board of Church Location and Building. Lease agreements will also need to be reviewed by legal counsel.
4. Any project requiring the church to borrow funds, whether on a secured or unsecured basis, must be approved by the District Superintendent and the District Board of Church Location and Building. You will need to follow the enclosed guidelines in order to obtain that approval. (*Sec. 2539 or 2540*)
5. Any renovation or maintenance with a project cost greater than 10% of the value of the church properties must be approved by the District Superintendent and District Board of Church Location and Building, regardless of whether or not the church anticipates borrowing funds to complete the project. You will need to follow the enclosed guidelines in order to obtain that approval. (*Sec. 2543(c)*)

While more relevant to church's falling in categories 2, 3, or 4 above, all churches undertaking building programs are encouraged to obtain two publications from the Office of the Architect (General Board of Global Ministries). Those publications are *Church Building Space (An Architectural Planning Guide)* and *Manual of Procedures for Church Building Programs*. Both guides are inexpensive and full of helpful suggestions.

Steps/Guidelines for Church Building/Renovation/Leasing Programs

Step 1: Establishing Goals and Objectives

In determining whether or not it is appropriate to building new facilities, renovate facilities or lease facilities, the local church must first establish a study committee or team. The purpose of this team is to analyze the overall demographics of the church and its community and to clearly establish the needs/objectives that the church is trying to meet. Part of the analysis includes understanding the growth patterns of the community and of the church, looking at historical growth and projecting potential growth. In terms of the needs and/or objectives the church is trying to meet, the current ministry programs should be outlined in addition to potential new ministry programs developed as a result of the study of community and church demographics. In short, how will this building project help make disciples of Jesus Christ? As a result of this report the study committee should make broad recommendations as to how the physical structure of the church may or may not assist the church in meeting its needs and objectives. (Sec. 2543)

Approval Point: This report must be approved by the pastor, the District Superintendent and the District Committee on Church Location and Building. Note that it is not required to be approved by Charge Conference at this point but it would be good practice to bring this report to Charge Conference for discussion prior to sending it to the District Superintendent. (Sec. 2543.1)

Step 2: First meeting with Charge Conference

After the study committee has reviewed and incorporated the comments of the District Superintendent and the District Committee and has received approval from both, the report is then presented to Charge Conference for formal action. At this point the Charge Conference can choose to approve the formation of a Building Committee to continue the work of the Study Committee; table the report for further review; or reject the proposal altogether. If Charge Conference decides to continue moving forward with the project they must then establish and elect the members of the building committee. (Sec. 2543.3)

Approval Point: Charge Conference must vote to move forward with the creation of a Building Committee of no less than 3 members or assign the responsibility to the Board of Trustees. The members of the Building Committee should be nominated from the floor. Note that the creation of a building committee does not obligate the church to any course of action in the future - it is simply choosing to explore the options in more significant detail. Charge conference will have another opportunity to vote on detailed plans before construction begins. (Sec. 2543.3(a))

Step 3: Building Committee Determines Detailed Plans

Using the information developed by the Study Committee the Building Committee formulates different plans for use or development of the facilities in order to meet the goals and objectives set by the church. Specific ideas need to incorporate requirements for worship, education, fellowship, etc. both presently and in the future. It is highly recommended that the building committee review the materials prepared by the Office of the Architect (General Board of Global Ministries), particularly *Church Building Space (An Architectural Planning Guide)* and *Manual of Procedures for Church Building Programs*. These materials will not only discuss issues such as handicapped accessibility but also ideas for creating worship spaces and educational facilities. This process would ideally also include a thorough inventory of the space/facilities currently owned by the church. Churches that are considering purchasing land and building a new facility will also need to be considering location, traffic access and acreage requirements. (Sec. 2543.4)

Churches who are looking to lease facilities need to consider the above information and will also need to be considering location and availability of various rental properties in the area they want to serve. Please review the attached guidelines for leasing property for suggestions on locating properties and considering improvements to rented facilities. As churches identify potential lease spaces they should request lease agreements and inquire as to pricing. Churches should also retain legal counsel at this time (at their expense). It will be very important to have legal counsel working with the church through any negotiation processes regarding leased facilities. All lease agreements must also be reviewed by district/conference legal counsel prior to signing.

After several initial discussions among the Building Committee an architect or similar professional will need to be retained to provide expertise and help move the committee from discussion points to actual drawings. The goal of this stage is to develop preliminary architectural plans that comply with local building, fire and accessibility codes; clearly outline the location of the site of all proposed present and future construction; and provide adequate facilities for parking, entrance, seating, restrooms, and handicapped accessibility. Once the Building Committee has reached agreement on a preferred location and/or structure an estimate of the cost of the proposed construction and any land purchase should be obtained. For lease situations, estimates of rent, insurance and the cost of any necessary improvements must be compiled. (Sec. 2543.5)

Step 4: Develop a Financial Plan for Meeting the Project Costs

This step can occur concurrently with or following Step 3 and can be completed by the Building Committee or by a separate committee established by Charge Conference. (Sec. 2543.5(d))

A key part of a building program is understanding what your church can or can not afford. Determining how large of a project your church can afford requires estimating three pieces of data as follows:

Assets on hand (unrestricted)
+ Amount traditionally received in a capital campaign
+ Debt Capacity
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Size of Project Church Can Afford

Some churches may be able to raise funds from each of these three sources while some churches may have to rely only on increased weekly giving and/or ability to borrow funds. Obviously the ability to raise dollars from different sources will impact the size of project that can be undertaken.

Determining Assets on Hand

There are really two questions here: 1) does your church have assets in savings or in an endowment fund that are unrestricted as to their use and 2) does your church want to draw on them for this building project? Assets that have been previously given to the church with a designation (such as music, etc) can not be used for any purpose other than that specified unless re-designated by the donor or other proper authority. Assets in an endowment fund may or may not be usable for building, depending upon the terms of the endowment fund policy.

Amount Traditionally Received in a Capital Campaign

Many studies indicate that a church can, on average, expect to receive 1.5-3 times their operating budget (exclusive of any existing debt service) in a capital campaign over a 3 year period. Capital campaigns can be run from within the church or an outside firm can be brought in to assist. Regardless, it is very important for the campaign to clearly state the goals and objectives of the church and how they will be met by completing the building project. Architectural drawings, a "tour" of the construction or renovation area and other methods of helping members visualize the finished product will all assist in raising funds.

Determining Debt Capacity

The church's debt capacity should be determined using both ratio analysis and the mortgage payment table.

1. Ratio Analysis - enclosed with this document are a list of 6 ratios which can be calculated from your church's budget and giving history. These ratios will generate a range of borrowing amounts. No one ratio is exact however the two most important are that the church's total debt should not be more than 2 ½ times its anticipated annual income and no more than 33% of the annual expenses should go towards payment of principal and interest. Note: New church starts will probably not fall within these ratio guidelines and District Committees on Church Location and Building may place more weight on other factors when considering new church starts.

2. Mortgage Payment Table - also enclosed is a table indicating the amount of monthly payment to be expected given different size mortgages and interest rates. Locate the line for the size of mortgage your church is anticipating and follow across the chart to the column representing current mortgage rates. (Current mortgage rates can be found in the newspaper or by calling a local bank.) This is the amount of monthly payment your church would need to absorb into its budget to support the borrowing. Does this amount seem feasible for your church? If not, consider a smaller borrowing amount.

Step 5: Reconcile Step 3 with Step 4

In Step 3 the Building Committee visualized the facility that best served the church's goals and objectives and estimated the cost of developing that facility. In Step 4 the amount the church could afford to spend based on existing funds, debt capacity and a capital campaign was

determined. It is not unlikely that the amounts do not agree with one another. Usually the project cost is some amount greater than the amount the church can afford, but not always. This step is very much a “reality check” for the committees involved in the planning. Do architectural plans need to be scaled down, achieved in steps instead of all at once, or can the church afford to be “thinking bigger” than it has been in meeting its goals and objectives?

Churches that are leasing facilities should have at this time a draft lease agreement that has been prepared by their legal counsel. The draft lease agreement will need to be submitted to the District Committee, who will have it reviewed by district/conference legal counsel.

Approval Point: Once the package of architectural plans and financing plans has been completed they must be submitted to the District Board of Church Location and Building for consideration, comment and preliminary approval. Specifically the following must be submitted (*Sec. 2543.5*):

- § A statement of need for the proposed facilities
- § The preliminary architectural plans
- § The preliminary cost estimate (including legal counsel and insurance costs)
- § The preliminary financial plan
- § A copy of the draft lease agreement.

Step 6: Feedback

The District Board of Church Location and Building may or may not have comments or suggestions to the church on the plans it has submitted. Any feedback should be seriously considered and incorporated into the plans. If approval was not initially granted, revised plans must be re-submitted to the District Board.

Approval Point: Formal approval from the District Board must be received. Following their approval the preliminary plans are sent to the District Superintendent and the Pastor for their written approval. (*Sec. 2543.5*)

Step 7: Plans Submitted to Church Conference

The next step is for the Building Committee (and Financing Committee, if appropriate) to present the approved plans to a church conference for discussion and vote. A Church Conference is open for any member of the church to attend and vote. In addition to the approved plans presented to the District Board of Church Location and Building the Building Committee should make a formal recommendation as to whether or not the church should move forward.

Approval Point: The documents listed in Step 5 must be approved by a majority vote of Church Conference for any work to continue on the project. (*Sec. 2543.6*)

Step 8: Final Plans, Expenses and Financing

After approval by Church Conference the Building Committee, in conjunction with the architect, finalizes the detailed construction plans and specifications. The plans are put out for bids and the

Building Committee interviews and selects a contractor or sub-contractors as necessary. A site supervisor or general contractor is highly recommended for any projects over \$200,000 in total cost. The relatively small extra cost of this professional will be well spent in terms of on-site coordination and expertise.

If the church is engaging in a capital campaign, a firm should be hired to run the campaign or the details of the plan the church will follow should be outlined including a description and a time line.

If the church will be borrowing funds, a mortgage application should be submitted and a final commitment letter from the lending institution received. A local bank or mortgage lender will typically require 3 years of financial statements, the current year's budget, the next year's proposed budget if available, membership statistics, the plan for repayment and an outline of any proposed capital campaign. The lender may also want to meet with key leaders such as the pastor, treasurer, chair of finance and chair of trustees. Many mortgage lenders can approve loans quickly but some will also require several weeks to make a decision. It is recommended that at least 3 financial institutions be contacted for comparing rates and structures available.

Approval Point: The final architectural, construction, cost and financing plans are submitted to the District Board of Church Location and Building for their approval. Following their approval the plans are submitted to Charge Conference for final approval. (Sec. 2543.7)

Step 9: Construction Begins!

Adequate funds must be secured prior to the start of construction. This would include any cash on-hand, a bridge loan or proceeds from a loan or mortgage. Any significant changes in structure, cost or financing package that occur during the construction process must be brought back to the Chair of the District Committee on Church Location and Building and the District Superintendent for discussion and approval. The understanding of what constitutes a "significant" change may be determined by the District Committee on a case by case basis. Generally it would refer to changes in total cost of the project that would increase the cost by more than 10% of the original estimate. Smaller variations may be set by the District Committee if financing availability is constrained or there are other relevant issues. The District Committee may also choose to assign a member of the committee to keep "up to date" with each church through their building program. (Sec. 2543.8 and 2543.12)

Churches who are leasing facilities may choose to undertake improvements to the facilities or, may be able to move in and begin immediate use of the facility.

Guidelines for Leasing Property

In addition to following the Guidelines for Local Church Building, Renovation and Leasing Programs, it is very important for those Local Churches considering the option of leasing property to fully understand the terms of the lease agreement. Moreover, before entering into a lease, a Local Church should be clear about their needs, goals and their ability to pay based on the term of the lease.

The following concerns relating to leasing property should be considered:

1. All terms of the lease should be in writing. Leases can be very one-sided, and legal counsel should review the contract before signing. Make sure that the attorney is aware of the needs and the limitations of the church, so that he/she can protect the church's interest from the outset.
2. Terms of a "Standard" commercial lease are negotiable. The church attorney can eliminate those parts of the lease that do not pertain to the operation of the church. It is advisable to remove all clauses that are not applicable and focus on those terms that really matter to both sides.
3. The length of the lease should depend on the purpose for which the church is leasing the property. Make sure that any option to get out of the lease early is negotiated early in the process.
4. Strike any "continuous operation" clause, or "acceleration of rent" clause from the contract. This avoids the danger of all the rent for the entire term being due and payable if the tenant violates or defaults on these clauses for any reason.
5. Make certain the lease has a subordination and "non-disturbance" clause that protects the tenant if the landlord sells the property to another party. This clause requires the new owner to honor the lease agreement.
6. Check to make certain that the church's insurance policy will cover the church for claims under a lease when the church is the tenant.
7. Attempt to negotiate the best possible terms for payment of repair and maintenance on the property. Be sure that the landlord has responsibility for the structural integrity of the building.
8. Lease payments should not exceed 33% of the church's operating budget.
9. If improvements and renovation are made to the property, make sure that the lease spells out who pays for the repairs and improvements initially, and what are the rights of the landlord/tenant in relation to these improvements and repairs at the end of the lease.
10. Be prepared to make a security deposit when signing the lease. This amount is typically the first and the last month's rent.
11. Compare the lease price with comparable property. A local Real Estate Broker can provide information on actual leases in your area.

Ratios for Estimating Building/Project Amounts

$\frac{\text{Total Debt}}{\text{Anticipated Income}}$	Should not be greater than 2.4 times
$\frac{\text{Anticipated Income}}{\text{Income Units}}$	No more than \$1500 per person (less id good – looking for broadness of support)
$\frac{\text{Loan Amount}}{\text{Anticipated Income}}$	Should be about three years
$\frac{\text{Monthly Loan Payment}}{\text{Income Units}}$	Should be about \$50/unit
$\frac{\text{Total Proposed Loan}}{\text{Income Units}}$	Should be less than \$2,500/unit (less id good – looking for broadness of support)
$\frac{\text{Annual Debt Service}}{\text{Anticipated Income}}$	Should be less than 33% (what the church is paying in interest and principal should be no more than 1/3 rd of their total income)

Glossary of Terms

Anticipated Income	Should reflect how much income the church expects to have in one year. It may not be equal to budgeted expenses.
Income Units	Number of people who regularly give. Using commitment units (number of people who have committed to give) will generate a more conservative value.
Annual Debt Service	Total of all payments of principal and interest in a given year.
Broadness of Support	Payment amount per person should not be so large that any one person's leaving will be difficult to make-up.

Note: Ratios will generate a range of amounts that can be borrowed. No one ratio is exact. Borrowing amounts must also be measured against monthly principal and interest payment and the church's ability to absorb that into the budget. See attached schedule of estimated monthly payments for various loan amounts.

**Indicative Monthly Mortgage Payments
Principal and Interest Only
15 Year Mortgage**

Loan Amount	Rate Amount					
	7.00%	8.00%	9.00%	10.00%	11.00%	12.00%
50,000	460	490	520	550	580	610
100,000	920	980	1,040	1,100	1,160	1,230
200,000	1,830	1,950	2,070	2,200	2,320	2,450
300,000	2,750	2,920	3,100	3,290	3,480	3,670
400,000	3,660	3,900	4,140	4,390	4,640	4,900
500,000	4,580	4,870	5,170	5,480	5,800	6,120
600,000	5,500	5,850	6,210	6,580	6,960	7,350
700,000	6,420	6,820	7,240	7,670	8,120	8,570
800,000	7,340	7,790	8,270	8,770	9,280	9,790
900,000	8,260	8,770	9,310	9,860	10,430	11,020
1,000,000	9,180	9,740	10,340	10,960	11,590	12,240
1,500,000	13,730	14,610	15,510	16,440	17,390	18,360
2,000,000	18,300	19,480	20,680	21,920	23,180	24,480
2,500,000	22,880	24,340	25,850	27,400	28,980	30,590