



## Memo

**Date:** November 25, 2009  
**To:** Pastors and School Principals  
**From:** Brad Wilson  
**Re:** Capital Projects Financing – Guidelines

Capital expenditures for land, buildings, equipment, and renovations are required for the health and growth of the parishes and schools in the Archdiocese. Securing Financing is the fourth step in the process for Large Capital Projects described on the Archdiocesan web site: <http://www.archatl.com/offices/construction/>

### **Overview:**

In the best case, the parish or school raises the funds required to complete the project prior to construction. In other cases, not all the funds required for the project have been raised prior to construction, and a loan is needed.

The loan approval process is in place to evaluate the risk a parish or school will struggle to repay the loan. In evaluating the ability of the parish or school to repay a loan, we consider the sources of funds pledged for repayment. Generally, the two sources of funds used for repayment of loans are those funds generated from:

1. Annual Cash Flow - offertory/tuition is greater than expenses
2. Capital Campaigns

### **Loans based on Cash Flow:**

Parishes (and schools) which have positive annual operating cash flow can use those funds as collateral for a loan. For instance, if a parish has a history of, and is projected to have, positive cash flow of \$100,000 per year for the next 5 years, then having a \$500,000 loan approved is not difficult. Likewise, a parish that has a history of breaking even would not be a candidate for a loan based on future cash flows from operations.

### **Loans based on Capital Campaign:**

Parishes (and schools) can qualify for a loan based on funds anticipated from a Capital Campaign. The unpaid pledges act as the collateral for the loan. For instance, if a parish has a Capital Campaign which has unpaid pledges of

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\$1,000,000, it can request a loan of roughly \$900,000. We do discount the unpaid pledges based on overall history and sometimes specific history of pledge fulfillment.

## **Term of Loans**

The term of the loan should be short as to not interfere with the financial needs of the parish or school in the future.

The term for a loan based on cash flow should be 10 year or less. The term can be extended up to 15 years if a school is adjacent to the parish.

The term of a loan based on a Capital Campaign should coincide with the length of the Capital Campaign, generally 3 years.

## **Minimum Cash Requirement:**

At a minimum, one-third of the total cost of the project must be in cash prior to the start of the project. While this implies that two-thirds of a project can be financed, the wise pastor or school principal will use caution when borrowing funds.

## **Financial Application**

The Financial Application is required for all capital projects. This document is used to capture the recent financial history of the parish or school and to forecast the financial results into the future. The forecast is used to determine the financial risk of a project.

## **Multi-Phase Projects:**

A Master Plan may have multiple projects spread over many years. The establishment of a new parish is a good example of a multi-phase project. For example, the new parish would need to acquire land, then build a worship space, and later build classrooms, build or purchase a rectory, etc. Multi-phase projects require additional financial diligence to minimize risks. For instance, we may require a financial application that extends 10 or 15 years to ensure that all parties have a common understanding of the timetable for full completion.

## **Final Approval**

The Project Review Committee of the Finance Council recommends loans for approval to the Archbishop or Administrator of the Archdiocese of Atlanta. All loans are approved by the Archbishop or by the Administrator