Judea Reform
Congregation

Loan Summary and Payback Plan

Prepared by Shawn dos Santos (Treasurer) and the Finance Committee

Motion to be voted on by Judea Reform's Board of Trustees:

1) Authorize Judea Reform to take out a loan of UP TO $1 million with a term of UP TO 15 years for repair of the back patio to be paid back in accordance with the presented Payback Plan.

2) Approve creation of the Sacred Spaces fee which will fully replace the current Capital Maintenance fee. The Sacred Spaces fee will be assessed at $360 per member unit beginning the second year of membership. All monies collected by the Sacred Spaces fee not used to pay down the construction loan will be deposited into the Capital Maintenance fund. This fee has no expiration.

Contents:

1) Summary:

The Payback Plan as proposed by the Finance Committee has the following goals:

1) Develop a plan to pay for several large capital expenses that will be incurred within a short timeframe.
2) Put the Capital Maintenance Fund on a path towards long-term sustainability, leaving it able to fund any large or small capital expense as needed.

In order to meet these goals the Finance Committee has proposed a plan laid out in the following pages. The Finance Committee and the Executive Committee recognize that it may take up to two years to complete these capital projects and more years beyond that to build up the Capital Maintenance Fund to levels that can independently cover large capital expenses. In order to manage the plan when positive or negative changes occur, this plan requires periodic review by the Finance Committee and sets balance sheet thresholds to ensure Judea always maintains a significant financial buffer.

This Payback Plan provides a path forward for the following expenses:

- Between $750,000 and $1 million to repair the foundation for our back patio
- Up to $350,000 to replace our HVAC units
- COVID upgrades for our building's eventual reopening not expected to exceed $150,000

An assessment of Judea's balance sheet was done to determine what resources we have readily available to cover these expenses. A historic assessment of Judea's unrestricted cash reserve was done to set some parameters around how we expect cash levels to change throughout the year. Lastly a recommendation is made regarding the establishment of a Sacred Spaces fee in order to pay off the loan and rebuild the Capital Maintenance Fund.

Key determinations:

- These expenses taken all together exceed our ability to fund them from our balance sheet
- The HVAC replacement and COVID upgrades can likely be funded in full from a combination of the Capital Maintenance Fund and a limited draw on our unrestricted cash reserve
- The patio repair will require taking out a loan
- Timing of the loan will be in line with when we begin repairs
- A Sacred Spaces fee is the ideal way to cover loan payments and replenish the Capital Maintenance Fund
- Constant monitoring of the unrestricted cash reserve will be key to ensuring that Judea maintains a strong financial position going forward

2) Description of what is covered in the payback plan:

a) Patio foundation repairs

Issues with the back patio were detailed in our (Judea Reform's) 2013 arbitration with the architectural firm that designed our building in the early 2000's. An excerpt (lightly edited for clarity) from the July 7, 2013 arbitration letter gives more detail about a portion of the work that will be needed:

< *The patio area at the back of the building behind the Community Court also has a drainage problem. The retaining wall was built too high and rain water cannot drain off the patio. The concrete in the patio area will have to be removed and re-poured so the water can properly flow off the patio or a drainage system will have to be installed to collect the water so it will not pool and freeze during the winter.*

To compound the problem, the patio does not properly slope toward the retaining wall and there is not a gutter system to collect the water. As a result, water accumulates and drains very slowly off the patio. In the winter, the patio area becomes a large and hazardous sheet of ice. >

Even before 2013 we have been doing regular assessments of our building with engineering firm ECS. This firm has identified a critical item related to the patio. A retaining wall supports the patio. That retaining wall is also what keeps our building from sliding into the ravine below. In their assessment, having taken core samples in 2019 and 2020, ECS has found that fill in the foundation is too loosely packed. Further issues include the retaining wall not being as wide as it should be and the previously mentioned lack of drainage.

In prior years the patio foundation was not deemed an immediate critical risk to the building but it was noted that repairs would be needed eventually. These assessments have pointed towards 2021 or 2022 as a timeframe when repairs should be initiated. We are now at that time.

Should the repairs not be done at all there is a significant risk of damage to the foundation and the building itself. Beyond the patio, the Sanctuary and other indoor areas would be at considerable risk of sustaining meaningful damage. It is thus the view of ECS and Judea's lay leadership that repairing the patio foundation is not a discretionary item.

The most recent assessment was done in early 2021 by ECS. They estimate $750,000 to do full repairs of the patio foundation and about 3-4 months of work. This figure is unchanged from several years ago. Their assessment sees it as possible but unlikely that expenses will exceed the estimated amount. Ultimately the extent of damage will not be fully known until work begins. Given those unknowns we consider the risk of potentially higher costs of up to $1 million in our full plan.

b) HVAC replacement

There has been substantial discussion over many years regarding the eventual need for HVAC replacement. The current HVAC units are the ones originally installed in the building and all are well past their life expectancy. For the past several years we have done repairs as needed and remained ready to replace units if needed. Repair expenses have been modest, ranging from $5000 to $15,000/year, representing only a fraction of replacement cost. The benefit of this approach has been deferring a significant expense while also taking advantage of advances in HVAC technology. New units today are superior in energy efficiency and durability to those on the market when we started discussions around HVAC replacement.

The Building and Grounds committee has determined that now is the time to replace our HVAC units. Indeed if the building were open it would have happened already. There was some discussion around a phased approach that only replaced the most precarious units. Ultimately it was decided that since all units are beyond their life expectancy, because of fixed-costs relating to installing new units, and in order to get all units on the same maintenance schedule, it makes the most sense to replace all units at once.

The most significant benefit to this timing relates to our reopening. We have the opportunity to install new HVAC units that can contribute positively to our COVID mitigation efforts. Total estimate for replacing all HVAC units and having them installed is $350,000.

c) COVID Upgrades

Judea has contracted with The EI Group – an environmental consulting firm based out of Morrisville – to prepare a set of recommendations to better prevent the spread of disease in our buildings. Though we contracted this firm some time ago, a high demand for such services means that as of this writing the assessment is not complete. However the assessment has been ongoing. While the exact recommendations are not finalized, the outlines are well known by those at Judea who have worked with The EI Group on the assessment.

Ventilation is a key concern regarding the spread of COVID. Judea's lay leadership recognize that the planned replacement of our HVAC system is an opportunity to improve ventilation. The EI Group does not have a recommended brand or configuration of HVAC units. Their role around ventilation includes (but is not limited to) taking measurements of airflow in closed spaces and making recommendations for room/building capacity.

The Building and Grounds Committee has been in constant contact with The EI Group regarding our plans to replace the HVAC units. No flags have been raised that our plans might lack some key features or technology. Rather the impending upgrade is a part of The EI Group's assessment. There is expected to be some duct work along with the HVAC upgrade to address air flow recommendations.

As a result, the COVID assessment will not include any additional recommended expenditures on our HVAC system beyond what was detailed in the previous section.

The largest expected expense in the assessment will be upgrades to the bathrooms adjacent to the Levin Social Hall. As has been widely documented bathrooms can be ready vectors for disease. The cost of implementing recommended upgrades is not yet known but is not expected to exceed $50,000.

Additional upgrades – which again have been discussed but not yet formally written up – are not expected to exceed an additional $100,000. As such, while we do not have the EI Group's report in hand, the high end expectation for cost of COVID upgrades is $150,000.

3) Review of resources on Judea's balance sheet:

Through the hard work of Judea's congregation and planning by staff and lay leadership, there are substantial resources at hand for upcoming capital projects. After assessing the magnitude of upcoming capital projects we looked to how much could be funded internally – meaning using existing resources on our balance sheet (see appendix for more detail). Below is a high-level assessment of resources available:

Judea Balance Sheet 1/31/2021		
Building & Land	5,841,584	Not desirable to sell fixed assets, but could be used as collateral
Endowment	1,452,528	Not going to draw from principal
Other Assets	279,546	Restricted in how it can be spent
Capital Maintenance Fund	431,237	Available but not in its entirety
Unrestricted Reserve	1,135,802	Available but not in its entirety
Total Assets	**9,140,697**	

While some elements of the discussion below may seem obvious, it is worthwhile to explain the thought process in full. First the **building and land**. It is possible but not at all desirable to sell land in order to fund our capital needs. That portion of the balance sheet can be used, but only as potential collateral and not as an expendable asset.

The **Endowment** has grown considerably in just the past several years. In 2014 the balance was under $100,000 and now approaches $1.5 million. Judea takes pride in this growth. The Endowment contributes to Judea's finances through an annual disbursement. This disbursement is calculated as up to 5% of a rolling 12-quarter average of the Endowment balance. This practice of calculating the draw based on past quarters allows for more conservative disbursements and insulation from market fluctuations.

Judea's triumph with the growth of our Endowment through challenges of the past decade make it a source of pride and stability. While annual disbursements as noted above will continue to support Judea's annual budget, the Endowment is not considered part of the resources we can draw on to fund our upcoming capital expenditures.

Judea has a multitude of **Standing Funds and Special Purpose Funds** (noted above as "Other Assets"). Some of these were funded with bequests and others are tied to specific committees. All are limited in how they can be spent by a specific agreement or instructions. As such this portion of the balance sheet is not considered as part of the resources we can draw on to fund our upcoming capital expenditures.

The **Capital Maintenance Fund** was established to pay for capital projects. It is therefore purpose made for the projects discussed under this payback plan. The key decision is how much of this fund to use. This was discussed amongst the Building & Grounds Committee, Finance Committee and Executive Committee. The recommendation is to preserve $50,000 in the Capital Maintenance Fund with the remainder to be expended as needed to cover HVAC replacement and COVID upgrades. The $50,000 figure was arrived at from a top-down and bottom-up consideration. Looking from the top-down there was a desire to not draw the balance down to zero. The fund should be used for its stated purpose but we want to preserve a foundation to build on rather than start over from scratch. The bottom-up approach looked at a comprehensive list of capital maintenance needs that includes cost and useful life for each item. Beyond the capital needs discussed in this payback plan, $50,000 is enough to cover a range of emergency repairs should they come up in the next fiscal year.

Our **Unrestricted Cash Reserve** is a closely monitored figure. While the total dollar amount has fluctuated considerably over the years our cash reserve has remained consistent in terms of a common measure amongst nonprofits: months of expenses covered by the balance. Future references to months of expenses will mean the Unrestricted Cash Reserve balance divided by annual expenses (defined in more detail below).

Cash builds as members pay dues and cash is drawn down in between the cyclical membership renewal process. We commonly have around 10 months of expenses at the peak and 4 months expenses at the trough (see appendix for more detail). We have a desire to preserve a buffer for a number of reasons. It is the best practice in nonprofits to maintain a cash reserve. In the event of an emergency this allows funds on-hand to be used rather than having to scramble for revenue or worse being forced to default on payments. It is a great sign of our congregation's resilience that our Unrestricted Cash Reserve has maintained its historical range during COVID.

As the name indicates, the Unrestricted Cash Reserve can be spent on any of Judea's needs. That makes it ideally suited as a resource for our significant capital expenditures. However we do not want to draw it down so low that it can no longer serve as a source of emergency funds in time of need. The Executive Committee and Finance Committee – drawing upon extensive experience in the nonprofit sector and reviewing past finances for Judea – identified two key thresholds.

Spending on the Unrestricted Cash Reserve would not meaningfully impact our ability to maintain a reserve for emergencies if we spent down to 5 months of expenses. An additional threshold will be set at 3.2 months of expenses. That will be considered a critical level where we do not want the Unrestricted Cash Reserve to fall below. Given the several moving pieces involved a more detailed explanation of the terms, thresholds and triggers follows below.

Months of expenses:
The numerator will be the Unrestricted Cash Reserve balance in the given month that the number is being calculated. Projected monthly expenses determined in the annual budget process will serve as the denominator. If there is a revision in projected expenses within the fiscal year then that number will be used as the denominator. The symbol "/" here means "divided by."

Unrestricted Cash Reserve / (Projected Annual Expenses / 12) = Months of expenses

5 months of expenses:
In any given month where months of expenses exceed 5, the balance above that mark will be available for use on the major capital projects noted in this plan so long as the projected Unrestricted Cash Reserve does not go below 3.2 months.

Projected Unrestricted Cash Reserve:
Due to the cyclical nature of money into and out of the Unrestricted Cash Reserve, there are predictable annual peaks and troughs. The Executive Director and Business Manager make regular projections of revenues, expenditures, and cash levels. A requested draw on the Unrestricted Cash Reserve will be predicated on an updated projection that shows the draw will likely not take the cash levels below 3.2 months.

3.2 months of expenses:
This is the key threshold in this discussion. If the Executive Director and Business Manager project that the Unrestricted Cash Reserve will drop below this level then a couple things follow. First no further draws on the Unrestricted Cash Reserve for the capital projects noted in this plan can go forward. Second there will be an assessment of the expenses done by the Executive Director and Business manager. This review will lead to recommendations in how to reduce expenses in order to preserve the Unrestricted Cash Reserve for emergency purposes.

Summary of AVAILABLE Resources on Judea's Balance Sheet:

Judea Balance Sheet 1/31/2021		
Building & Land	-	Collateral for Possible Loan
Endowment	-	Not going to draw from principal
Other Assets	-	Restricted in how it can be spent
Capital Maintenance Fund	381,237	Amount available leaving $50,000 balance
Unrestricted Reserve	115,000	Amount available at projected calendar 2021 cash trough, retaining 3.2 months of expenses
Total Assets	**496,237**	Amount available for large capital projects

NOTE: Just because we show what is available if the unrestricted cash reserve drops to 3.2 months of expenses does not mean we INTEND to reduce cash to that level.

As can be seen above we have significant resources on our balance sheet to fund our large capital expenses. It demonstrates the success of our congregation's efforts to build up resources in this regard since the amount exceeds any single capital expense in Judea's history. However it is not enough to cover all our urgent capital needs.

* Both the HVAC replacement and COVID upgrades can be covered by the resources on our balance sheet. *

The Executive Committee, Finance Committee and Board of Trustees has determined that a loan will be necessary to fund the remaining expenses. If expenses for the HVAC replacement and COVID upgrades come in below our expectations, that will leave additional resources available in our unrestricted reserve. In the event that total expenses for HVAC replacement and COVID upgrades leaves more than $50k in the Capital Maintenance Fund, the excess amount will be used to reduce the loan amount needed for the patio foundation repair.

4) Loan

In seeking a loan our primary goal was for the lowest total cost. This included not only the key considerations of how much we might pay in interest but also what other requirements a bank might put on us that would represent intangible costs. As a key point we also considered what level of annual payments our finances can support.

At the request of the Treasurer and Finance Committee the Business Manager queried a multitude of banks on whether they were interested in extending a loan to Judea Reform. Out of seven institutions contacted we ultimately received term sheets from two, BB&T/Truist and United Community Banks. The final recommendation is to work with BB&T on a fixed-rate loan of UP TO $1 million for a term of UP TO 15 years when we are ready. An explanation for that recommendation is below.

How we arrived at the loan parameters:

A key first consideration recommended by the Finance Committee was to make the loan as small and targeted as possible. This is meant to cover what major capital expenditures we cannot fund from our balance sheet and nothing more. The next recommendation was to pay as little interest as possible over the life of the loan (as distinguished from the lowest absolute interest rate).

In preliminary discussions with banks we received feedback that the upper limit of what we could borrow is tied to the value of our collateral. Assessed with a value of about $5 million, our building could serve as collateral for a loan of that size. Our balance sheet assessment was the key driver in narrowing down how much we would seek. At present the resources on our balance sheet seem adequate for HVAC replacement and COVID upgrades. That leaves the patio repair to be funded by a loan. With an estimated $750,000 cost, that also became the target for our loan.

The next key piece related to the rate structure for the loan. Variable interest rates offer a tradeoff whereby one can get a below-market rate for a short period of time and then the interest rate “floats” to the market rate plus some predetermined amount. If interest rates remain low for the life of the loan this could result in savings. If interest rates increase then it could lead to significant unforeseen costs. Interest rates at present are at historic lows. That consideration along with our desire for a predictable payment schedule pointed us towards a fixed-rate loan.

The last piece relates to the term of the loan. A longer term means lower monthly payments but also higher interest payments over the life of the loan. A shorter term means higher monthly payments but lower interest payments. The key to finding the right term is then working backwards and starting with identifying a manageable amount for the monthly payments. The Executive Director, Business Manager, and Finance Committee determined that about $7,000/month ($84,000/year) is feasible without overwhelming other critical expenses. This figure represents about 5% of our total annual expenses.

We can then say that a loan costing about $7,000/month also represents a loan with the lowest possible interest payments over the life of the loan. We just need to set the term of the loan to match those payments. A $750,000 loan with a term of 10 years at market interest rates would give a monthly payment of a little more than $7,000. Thus our primary goal for a loan is with these parameters. But what if we find that expenses to repair the patio foundation are higher than expected?

In that instance we would need to take out a higher loan. Since we have our maximum monthly payment that we’re comfortable with, we’d also need to extend the term of the loan if the principal is higher than $750,000. At market rates a loan of $1,000,000 for 15 years gives a monthly payment of about $7,000 (see appendix for more detail). Thus we arrive at the upper bound of a loan we are comfortable with.

Picking a bank:

Our review included some banks that ultimately weren’t interested in starting new business with a religious institution. We looked at a local black-owned bank as a way to keep our business in the community, but ultimately the rates there were not competitive with the other banks we considered and would not be in keeping with our mandate to keep total costs as low as possible.

We received term sheets (quotes for a loan) from BB&T/Truist and United Community Bank (see appendix for more detail). Our ultimate recommendation is to use BB&T because of lower total costs. While their interest rate is slightly higher, many of the steps required by United Community Bank would be waived for us should we use

BB&T because of the existing close relationship. This includes an appraisal of our building (the collateral) that would cost several thousand dollars. Another key consideration is the banking requirement. United Community Bank would require we move most - or all - of our deposit accounts to them and that they become our primary banking relationship. The administrative burden for such a move cannot be overstated. Additionally for in-person banking (something we must do periodically) it would require using a location in Raleigh. The burden on staff and lay leadership time in that instance would be considerable.

For those reasons it is the recommendation of the Finance Committee to use BB&T for a loan when the time arrives.

Paying the loan back:

As was done with Judea's previous loans, we expect an updated Payback Plan to be drafted in the coming years that will have projections that see the loan through to its final payoff. These future payback plans will include considerations like paying back the loan early should our finances support such a move. Judea has demonstrated a strong capacity to retire debt early through revenue growth and fundraising.

Every intention is to pay a loan back before its full term. However at this time – and under this Payback Plan – the goal is to secure a path to fund our annual payments and rebuild the Capital Maintenance Fund (see next section).

5) How loan payments will be covered:

Judea congregants currently pay a Capital Maintenance fee in years 2 – 7 of their membership. This has gone into the Capital Maintenance Fund which will be one of the key levers used to fund our capital projects. However there are challenges with how the fee is currently applied and existing resources from both are not sufficient to fund all our capital needs.

In recognition of that challenge and other challenges, a team of lay leadership began work in 2019 to look at not just Judea's membership dues and tiers but our fee structure. There has long been a recognition amongst the Building and Grounds Committee and Judea's lay leadership that we have been underfunding capital maintenance. This is in part a consequence of payments for the roof that ate into what would have been a far more robust Capital Maintenance Fund. But part of the challenge has also been the nature of the Capital Maintenance fee.

Congregants are currently on a schedule whereby the fee is paid only for several years and then stops. While this practice is in line with what other congregations elsewhere have done in the past, it does not fit our needs. After all, our facilities never stop needing maintenance.

There is the further challenge of Judea implementing fees or assessments relating to capital projects that are temporary in nature. While such approaches – for example the recently terminated Facilities Mortgage Fee – are in line with lay leadership's historic desire to limit fees to only *what* is absolutely necessary *when* absolutely necessary, it has come at the expense of long-term planning and vision.

A financial focus that rests solely on paying off the loan would leave our congregation with a depleted capital maintenance fund and no clear path to replenish the funds. In a few short years we would likely be faced with another capital need that would call for yet another purpose-made approach. Our goal is to end such cycles. Our goal is to implement a strategy that not only pays off a construction loan but sustainably funds Judea's ongoing capital maintenance needs.

To that end we propose the Sacred Spaces fee. This will replace the current Capital Maintenance fee. This will be assessed at a rate of $360 per member unit. This is both an auspicious Jewish number and as outlined below can put us on a solid path for the future.

Lay leadership stresses at every possible point that money should not limit someone's ability to enjoy a vibrant Jewish life at Judea. It is a point of pride for our congregation that, through the shared vision of a Jewish community, our congregation is able to support reduced rates where requested.

Given this structure, we calculate income for the Sacred Spaces fee assuming not every member unit will meet the full amount. This adjustment is represented on the second line below.

Baseline Asumptions for Sacred Spaces fee		
Prepared by Treasurer in collaboration with Executive Director and Business Officer		
Using Membership figures from the end of Fiscal Year 2021		
start	560	Member Units
multiply	62%	Adjustment
multiply	$360	Fee Amount
result	$124,992	Total Fee Revenue
subtract	$85,000	Estimated Loan Amount
result	$39,992	Remainder for Capital Maintenance Fund (CMF)
multiply by 5	$199,960	Amount Collected for CMF After 5 Years

How to read this spreadsheet:

We start with 560 member units and multiply that number by 62%, which adjusts for those on reduced rates. This gives us the base from which we will project revenues from the Sacred Spaces fee. From an estimated $125k in revenue about $85k will be earmarked for annual payments towards our construction loan. The remaining estimated annual $40k will be used to rebuild the Capital Maintenance fund.

Impact on Capital Maintenance:

The $40k threshold is crucial for the Capital Maintenance fund. The Buildings and Grounds committee works from a master list of every conceivable capital expense for Judea's existing infrastructure. This list was prepared in a professional assessment done in 2014. Items range from kitchen equipment, carpet, doors, and paint - just to name a few. The majority of these items are several thousand dollars. Some items cost in excess of $40k but are not related to the building's functioning – for example repaving the parking lot. The only critical items in excess of $40k are the HVAC units already covered as part of this payback plan. Taken together our best assessment is that these contributions to the Capital Maintenance fund while we are paying down the loan will be sufficient to cover any emergency repairs that are needed.

Looking beyond the loan:

But we are not just trying to cover for emergencies. This Sacred Spaces fee would not serve its purpose without a vision for how it can serve future generations of Judea.

It is possible future leaders of Judea will want some form of endowed Capital Maintenance fund where expenses can be paid from earnings drawn off a large pool of money. However this is not our current vision. When the Capital Maintenance fund has been rebuilt to a comfortable enough level to serve as a buffer for emergencies and fund needed repairs, we see allocation of the Sacred Spaces fee to become part of the annual budget process.

With these funds we can begin proactively addressing repairs or upgrades. But more importantly we can begin to think creatively about ways our sacred spaces can be enhanced to serve our vibrant growing Jewish community. To use but one example, this pandemic has connected many of us to nature and outdoor spaces. We have not just a building but land around it with potential to become space for us to connect and reflect.

When the loan is paid off the Sacred Spaces fee will provide a considerable boost to our ability to fund Capital projects. That natural increase at the end of the loan means that resources for capital projects will increase even if the amount of the fee stays the same. This coupled with the fixed-rate nature of our loan means at this writing we have no plans to increase the Sacred Spaces fee over time.

Of course the past year has shown us that we cannot foresee every challenge that lies ahead. The world could change tomorrow in a way that significantly alters all the plans and intentions laid out in this document. But we believe that this is a plan that accounts for the risks we can see and more importantly lays the foundation for a more predictable future.

6) Appendix:

These are supplemental documents described below but saved separately.

January 31, 2021 Balance Sheet

Used in Section 3 to analyze what assets are currently available to Judea. This can be roughly understood as looking what we have saved in the bank and the various bank accounts we have with some having more restrictions than others.

Discretionary Cash February 2021

Used in Section 3 to review the cyclical nature of Judea’s unrestricted cash reserve. This summary of historic values of our unrestricted reserve also looks at the historic “months of expenses” figure. Taken all together this serves as a guide for what we would consider critical thresholds for the unrestricted reserve.

Term Sheet Comparison

Used in Section 4 this document is a summary of detailed quotes we got from two banks. Term sheet is another word for an official quote from a bank regarding terms for a loan. This sheet outlines the terms placed on a fixed-rate loan of $1 million from each institution.

Model Amortization Schedules for Payback Plan

No loan terms are final until the loan is actually taken out. This sheet uses parameters from the term sheets and discussions which were had with a range of banks to give what we consider to be the most likely loan parameters for two scenarios (taking out $1 million for 15 years or $750k for 10 years).