THE ROMAN CATHOLIC
ARCHDIOCESE OF ATLANTA

MEMO

Date: May 21, 2021

To: Pastors and School Principals

From: Brad Wilson, CFO

Re: Capital Project Financing – Guidelines

Capital expenditures for land, buildings, equipment, and renovations are required for the health and growth of the parishes and schools of the Archdiocese. In the best case, a parish or school raises the funds required to complete a project prior to construction. In other cases, not all the funds required have been raised prior to construction and a loan is needed.

The loan approval process evaluates whether a parish or school will be able to repay the loan without jeopardizing its other obligations, mission, and ministry. In evaluating the ability of a parish or school to repay a loan, we consider the sources of funds pledged for loan repayment. Generally, the two sources of funds used for loan repayment are generated from:

1. **Capital Campaigns**, and
2. **Annual Cash Flow** – offertory/tuition is greater than expenses

Loans Based on Capital Campaigns:

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

Loans Based on Annual Cash Flow:

Parishes and schools that 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 reasonable. However, a parish that has a history of operating without a surplus would not be a candidate for a loan based on future cash flows from operations.

Loans based on cash flow will require the parish or school to demonstrate that reserve accounts will be maintained at appropriate levels and that debt service is not competing with the parish's or school's mission and ministry.

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

The term of a loan based on annual cash flow should be 5 year or less but may stretch as long as 10 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. This 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 project 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 time table for full completion.

Final Approval:

The Project Review Committee of the Finance Council recommends loans for approval to the Archbishop. All loans are approved by the Archbishop. The loans are administered through the AoA Deposit and Loan Fund LCC. A Promissory Note details the terms and conditions of the loan.