

A FACT FINDING REPORT CONCERNING THE EXISTING CHURCH BUILDING

I. Purpose and Introduction

Two years ago the UUCLV Board of Directors proposed a fact finding study to examine options with respect to the existing church building. There were several factors that contributed to the proposal including a significant decline in real estate values following the economic downturn of 2008, declining interest rates, the closing of a number of Catholic churches in the Allentown Diocese, and the prospect of having to continue to make significant investments in our existing building. One of the proposal's considerations was whether there was merit in considering a move to a new location given potentially favorable market conditions. The congregation approved the proposal at the 2009 annual meeting and a fact finding committee was established. In 2010 the Long Range Planning (LRP) Committee assumed the fact finding charge after the Fact Finding Committee's term expired.

The LRP's approach concerning future church options involved conducting interviews with church leadership, collecting relevant data about the church building and membership, and an examination of the real estate market. The LRP's findings are summarized in the next section.

II. Findings

1. Church membership stands at 200 in 2011, down from 229 the previous year. The growth anticipated with the move to the Center Street church has not materialized and membership growth can be characterized as static at best. A new minister and other membership initiatives will hopefully result in an increase, but there is no quantifiable basis for projecting significant growth in membership in the near future.

2. Church revenues have exceeded expenses since 2004/05 and have created a financial stability which has improved the church's ability to finance at least one major capital project, i.e. sanctuary roof renovation. However, operating income has not shown any growth during the period 2004-2010 and had declined to \$301,300 (budgeted) from a high of \$327,000 in 2005-06.
3. Both the membership and financial trends suggest significant challenges for any near term capital campaigns.
4. A significant portion of the church's operating budget supports the church building. \$137,700 (46%) of the proposed 2010-11 operating budget is allocated for building and related staff costs. However, the cost of supporting the building enables a significant amount of programs related to the church's mission including the emergency shelter program, fellowship events, hosting community programs, the RE program, etc.
5. Based on 2009 data, the current church population is skewed towards an aging demographic. 61% of the congregation is over 50 and 40% are over 60.
6. Church participants are roughly evenly divided between Lehigh and Northampton counties. Approximately 2% of church attendees are from outside these counties.
7. Interviews with various committee chairs and other church leadership revealed the following attitudes concerning the church:

Positive Characteristics

-Meets current space needs -Central Location/attractive neighborhood -High Utilization of Community Room -Many highly positive feelings about building -Available off street parking

Negative Characteristics

-Will continue to be expensive to own and operate -Future needs likely to include expensive capital items including masonry work on building and church grounds, air conditioning for sanctuary, RE and community room, handicapped access to sanctuary and RE building -Current heating system troublesome-banging pipes -Community Room unwelcoming in appearance -Appearance a significant issue in ability to rent space -Gym Kitchen requires work

-Limited Handicapped Parking -3rd floor of RE building underutilized for RE purposes, I.e. rented to other users

8. In a congregational survey undertaken by the Search Committee in 2009, one open ended question asked respondents to list their major concern(s) about the church. 41 of 93 responses indicated the church building and related finances as a major concern.
9. The appraised value of the church (\$720,000 in 2010) appears to overstate the market value of the church in today's market. A more realistic figure is probably in the range of \$540, 000 or less.
10. Construction of a similarly sized new church would cost \$4.2 million to \$5.5 million, exclusive of land costs. Buying or building a new church would appear to be beyond the current financial capabilities of the church.
11. Preliminary discussions with a developer suggest that the 'highest and best use' of the church could be for multi-family purposed, I.e. conversion to high end townhouses. Significant work in terms of engineering and financial studies would be required to determine actual economic feasibility. In addition, acquiring appropriate zoning and historic review approvals would pose significant challenges.

12. Remaining in the existing building will entail significant additional investment as detailed in the long range plan updates. In the short term, however, the church building is basically sound and has benefited from the ongoing maintenance and capital improvement investments. The condition of the property and building is significantly improved since it's acquisition in 1994.

III. Background

A. Some Information about the Congregation and Church

1. Membership: 1990-current (selected years)

1990: 257 members 1997: 264 members 1999: 274 members 2009: 262 members 2010: 220 members 2011: 200 members Source: 2009 Congregational Packet

The above data, suggesting a significant drop in membership over the last several, are a little misleading. Since 2009, the Membership Committee and Finance Committee have been working to cull the membership roles of inactive members.

Assuming the figures for 2010 and 2011 are more accurate than prior years, it still suggests a drop in membership for that period.

One of the reasons for moving from the Fountain hill location in the mid-90's was that the church seemed on the verge of significant growth and that a larger facility was needed to accommodate that growth. Clearly that growth has not materialized and the congregation's membership growth can be characterized as stagnant at best. A new minister and other membership initiatives will hopefully result in an increase, but there is no quantifiable basis for projecting significant growth in membership in the near future.

2. Church Finances: 2004-current

ACTUAL				
	Income			Expense
Fiscal Year	Pledges \$	Other \$	Total \$	Total \$
2005-06	208,000	119,000	327,000	313,000
2006-07	222,000	100,000	322,000	320,000
2007-08	203,000	94,000	297,000	295,000
2008-09	213,000	96,000	309,000	304,000
2009-10	204,000	97,000	301,000	285,000
2010-11 (budgeted)	202,600	98,700	301,300	301,300

The above data suggest several trends. Significantly, church revenue has exceeded expenses for every year listed. This financial stability has improved the church's standing among commercial lenders and allowed the recent refinancing of the church's mortgage at favorable rates. Secondly, operating income trends have been erratic with little overall growth. Similarly, pledge income has not grown significantly and in fact has declined to a projected level of \$202,600 in 2011 after reaching a high of \$220,000 in 2006-07. One encouraging trend is a slight increase in average pledge. Average pledge in 2009-10 was \$1325 compared to \$1480 in 2010-11.

a. Where Does the Money Go, i.e. how is it allocated?

2010-11 Operating Budget (Expense)		
Building and Related Staff	\$137,700	46.00%
Staffing (inc Minister)	\$127,300	42
Programs	\$18,300	6
Denominational Affairs	\$18,000	6
Total	\$301,300	100

It should be noted that the above breakdown captures expense items by line items as reflected in the church's official budget and may be somewhat artificial in terms of distinguishing how the church building supports various church programs. The large amount of space we have allows us to:

- participate in the Bethlehem emergency shelter program;
- have a vigorous and diverse RE program
- provide service to the community by hosting many events, such as the ACLU meeting --- often we are a venue for events that are not welcome elsewhere;
- hold many events such as the concert series, line dancing group, Buddhists etc. that have a significant aspect of community service;
- hold fellowship events like the Spaghetti Dinner, the Cinco de Mayo party, etc.

In short, the cost of supporting the building enables a significant amount of programs related to the church's mission.

Furthermore, the Volunteer Coordinator wages and much of the minister's salary, could be considered as "program", even that's not the way they are presently reflected in the budget.

2010-11 Building
Budget Breakdown
(Expenses)

Operating (oil, electricity, etc.)	\$66,100.00
Debt	
Member Loans (Interest)	7200
Mortgage (Principal & Interest)	23000

Insurance		5400
	Subtotal	101700
Building Staff		36000
Total		\$137,700.00

The above data clearly indicate the significance of our building as a component of the budget. Given the age and condition of the church building, it may not be unusual to have so much of our operating funds applied to the building. In the last 10 years, the church financed two large capital projects (new roofs for the RE building and sanctuary). Projected capital improvements (additional masonry work, handicapped access, air conditioning, etc.) will also require additional funds to be raised through financing and/or a capital campaign.

3. Rental of Church Space

The church has available space that has contributed significant revenue over the years. There are currently 8 renters of church space, five of whom are long term (monthly) renters:

- ▲ Ashgen
- ▲ Heitman Massage
- ▲ Gateway
- ▲ Karate Group
- ▲ HeadStart
- ▲ Lehigh Valley Folk Dance
- ▲ Embrace Your Dreams
- ▲ Contra Dance

The revenues generated over last several years from these sources are significant and relatively constant, exhibiting some growth over the past several years. They cover a significant portion of the church's operating expenses:

RENTAL INCOME	
<u>YEAR</u>	<u>AMOUNT</u>
2006	\$43,766.00
2007	\$41,620.00
2008	\$43,653.00
2009	\$47,660.00
2010	\$49,234.00

Source: UUCLV Year End Financial Reports

4. Assets/Liabilities

The Church's current assets as of March 31, 2011, are \$785,230. Most of these assets are represented by our church building, \$642,577. The balance consists of reserves (\$33,220), endowment fund (\$62,017), and various cash accounts (\$47,416).

Most of the Church's liabilities are also related to the building. Long term debt (member loans and current mortgage) is \$404,871. There is an additional \$3786 in short term liabilities.

5. Attendance

Unfortunately, there is not a history of attendance figures for the church. There are recent data for the current church year which indicate that average Sunday attendance is 107.

It should be noted that the attendance data does not include Breakfast Forum attendees which consistently attracts 30-40 participants weekly, not all of whom are church attendees.

RE enrollment data is similarly spotty but suggest RE enrollment is also down. Available data indicates 79 RE enrollees for the current church year compared to 112 enrolled last year. The data

for 2008/09 indicates 44 enrollees but the data may be incomplete. No other data is available.

5. Demographics

a. Age Distribution

The following data is not based on historical data but instead reflects a 'snapshot' based on responses to the Search Committees 2009 Congregational Survey.

<u>Age Category</u>	<u>%</u>
Less than 18	3
19-29	1
30-39	12
40-49	23
50-59	19
60-69	27
70-79	12
80 and over	3

Source: 2009 Congregational Packet The data suggests an older congregation; 61% of the congregation is over 50 and 40% are over 60. These data may have implications for developing new lay leadership in the church community as well as sustaining the overall community.

b. Geographic Distribution

By Postal Address

Warren Co., NJ	1	0.4%	
Bucks Co., PA	1	0.4%	
Lehigh Co – Atwn	46	20.2%	
Lehigh Co – Beth	5	2.2%	
Lehigh Co – Other	51	22.4%	
<i>Lehigh Co. Total</i>			102 44.7%
Montgomery Co	3	1.3%	

Northampton Co – Beth	74	32.5%	
Northampton Co – Easton	29	12.7%	
Northampton Co – Other	18	7.9%	
<i>Northampton Co. Total</i>			121 53.1%
UUCLV Total (2009 data)	228		

Source: Bill Thompson

Not surprisingly, church participants are somewhat evenly divided between Lehigh and Northampton counties. Historically, there has been greater representation from locations in western New Jersey and the Stroudsburg area. Newer startup UU churches in New Jersey and Stroudsburg have reduced attendance from these areas at the UUCLV.

B. Current Attitudes about Church Building

1. Interview Highlights

In order to assess how members and friends felt about our church building. The process involved interviews with various leadership positions in the church including the chairs or members of Finance, Worship, Membership, RE, Property, Breakfast Forum, Building Use, the Minister, and others. The interviews were not intended to represent a formal database and it is recognized that the results may not be representative of the church community as a whole. The results of the interviews are summarized below:

Positive Characteristics

-Meets current space needs -Central Location/attractive neighborhood -High Utilization of Community Room -Many highly positive feelings about building -Available off street parking

Negative Characteristics

-Will continue to be expensive to own and operate -Future needs likely to include expensive capital items including masonry work on building and church grounds, air conditioning for sanctuary, RE and community room, handicapped access to sanctuary and RE building -Current heating system troublesome-banging pipes -Community Room unwelcoming in appearance -Appearance a significant issue in ability to rent space -Gym Kitchen requires work
-Limited Handicapped Parking -3rd floor of RE building underutilized

The responses reflected very positive feelings about the church but also suggested church leadership was realistic about the building's needs. Another data point is captured by the congregational survey undertaken by the Search Committee in 2008/09 and included in the congregational packet. Although most of the questions required an objective response, there was one open ended question that asked respondents to list their major concern(s) about the church. 41 of 93 open ended responses to that question indicated the church building and related finances as 'major concern'.

C. Long Term Plan Update

The Appendix to this report contains an updated version of the Long Range Planning's list of projects compiled from input from the church's standing committees. Total cost for all activities is \$378,500-490,500. The project listing also reflects a suggested prioritization. \$140,000 of the above total is in Priority 3 (lower priority). Ability to proceed with any of the listed projects depends on available funding.

D. Real Estate Market Data

1. Appraisal of Church Building

In the course of refinancing the church's mortgage in 2010, a professional real estate appraisal company was engaged to

conduct a fair market value appraisal of the building and grounds. The method used by the appraisers was to examine comparable sold properties in the region, calculate a price per square foot, and develop and average square foot price for all properties.

The appraisers examined the data for seven church properties that were sold between November, 2007, and March, 2010. Property locations included Allentown, Bethlehem, Easton, and Reading. The results of their analysis are included below:

No.	Location	Sale Date	Sale Price	Size (SF)	Price/SF
1.	301 North Fifth Street	11/16/2007	\$325,000	16,352	\$19.88
2.	South 10 th Street	03/20/2008	\$251,000	19,345	\$12.97
3.	225 Porter Street	04/01/2008	\$360,000	16,960	\$21.23
4.	15 West 4 th Street	04/07/2008	\$450,000	13,878	\$32.43
5.	24 South 5 th Street	04/21/2008	\$450,000	23,850	\$18.87
6.	1201 North Ulster Street	09/03/2009	\$350,000	6,869	\$50.95
7.	54 North Eighth Street	03/24/2010	\$190,000	10,000	\$19.00

Their analysis reflects an adjusted average sales price of \$26/SF. Applied to the approximately 27,000 SF of our church, their resultant fair market estimate for our property was \$720,000. The church was purchased in 1995 for \$470,000.

Although the appraiser's methodology is consistent, one could question the result based on the appraiser's own data. Of the seven locations, only two are higher than the \$26/SF average applied to our property. The remaining properties are significantly below the average figure. Eliminating the 6th property (on the grounds that it may not be a comparable property), the resulting price/SF figure is \$20, or \$540,000.

A more recent examination of listing/sales for church properties suggests that price/SF is widely variable, but for older, larger buildings, the price is below the \$26/SF appraisal figure.

<u>CHURCH #</u>	<u>SQ. FT</u>	<u>LOCATION</u>	<u>PARKING</u>	<u>SALES/ LIST PRICE</u>		<u>COST PER SQ. FT.</u>
1	4604	Bethlehem	no	\$40,000	sold	\$6.00
2	5039	Center Valley	yes	\$600,000	sold	\$119.23
3	15,168	Allentown	no	\$350,000	list	\$23.10
4	26,735		yes	\$350,000	list	\$13.09
5	7592		no	\$199,000	list	\$26.22
6	5612	Wind Gap	yes	\$375,000	list	\$66.82
7	14,584		no	\$90,000	list	\$6.17

Source: Liza Gerstenblitz

2. Cost of a New Church

A comparable facility (approximately 27000 SF) at an estimated SF cost for new commercial construction of \$150-200 SF would range from \$4.2 to 5.5 million, exclusive of land costs.

IV. Observations on Future Building Use

A. Building Re-Use

Situated as it is in the heart of Bethlehem's Historic District, the church building offers an attractive location for alternative uses other than a church. Under the City's proposed zoning ordinance, permitted non-residential uses include bed and breakfast, assisted living, museum, and adult day care. In addition, multi-family uses are permitted, subject to an approved variance. Based on proposed regulations, multi-family use would be permitted based on one unit for every 2300 SF of building lot area. Based on this guideline, approximately seven uses could be permitted.

The church's past experience with construction (exterior) projects demonstrated that there are significant challenges associated with these activities requiring the retention of design and construction expertise, compliance with the requirements of local codes and the Historic Architectural Review Board, and construction oversight/administration responsibilities. In addition, our current site is significantly constrained by the absence of off-street parking.

In April, the Long Range Planning Committee met with a local developer, Mr. Lou Pector, with experience in the redevelopment of existing structures for re-use. He was asked to give an opinion on the reuse potential of our building for a multi-family dwelling. Based on a preliminary walk through, his opinion was that the church had a number of positive qualities that lent themselves to re-use including numerous windows (good natural light conditions, good interior circulation easy to get around), and high ceilings.

He further indicated that a true appraisal of the church's actual redevelopment potential required the development of more specific data on redevelopment costs. He indicated a willingness to look more closely at these costs through a detailed inspection.

B. Build/Buy New Church

There appears to be no compelling reason at the current time to pursue this option. As indicated earlier, the church is not

experiencing membership growth that taxes either worship services or programming. Similarly, adequate classroom space is available to meet current RE needs. The cost of building a new church is beyond our current financial capabilities. Additionally, it is not clear what proceeds would result from the sale of our church that could be applied to a new facility.

C. Remain in Existing Building

Remaining in the existing building will entail significant additional investment as detailed in the long range plan updates, close to \$.5 million. In the short term, however, the church building is basically sound and has benefited from the ongoing maintenance and capital improvement investments. The condition of the property and building is significantly improved since it was acquired in 1994.

Submitted by the Long Range Planning Committee:

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