

District Finance Committee Meeting Minutes
Wednesday, June 1, 2022
District Office

Present: Aaron Chan, Tami Cooke, Mark Hutchinson – Chair, Erin Knott, Nicholas Lai, Wes Drewlo, Mark Peters – District Superintendent

Mark H. opened the meeting in prayer at 8:55am.

Approval of Agenda

Moved (Mark Peters) and seconded that the meeting agenda be approved.
CARRIED

Conflict of Interest

Mark Hutchinson expressed a conflict of interest with Westbow as he is an investor.

Approval of Minutes

Moved (Nicholas Lai) and seconded that the minutes of the virtual meeting on March 17, 2022 and the email minutes from May 19, 2022 be approved.
CARRIED

Action Items from the March 17, 2022 Meeting

Action Item – The committee to evaluate the impact of the increased benefits premium rates and expenses at the fall meeting to determine if a second increase is required.

District staff did not receive any expressions of concern or questions regarding the benefits premium increase, and it was noted that this action item will be addressed at the fall meeting.

Investment Opportunities

Western Canadian District (WCD)

Steven John, WCD Development Consultant, joined the meeting via Zoom at 9:05am.

Steven shared an overview of his background in global commercial property development and his current volunteer role of 10-20 hours per week with the WCD. He noted that at any given time he is working with approximately 25 out of 142 churches regarding land and property development, asset management, construction, and property maintenance.

Steven recommended that the Finance Committee read the book, *The Coming Revolution in Church Economics: Why Tithes and Offerings Are No Longer Enough, and What You Can Do About it* by Mark DeYMaz and Harry Li. He noted that this book speaks to the concern around the sustainability of the previous church building model in today's reality. Church buildings don't have a high utilization rate outside of weekend services and the question is how these facilities could be used to impact the surrounding community.

Additionally, there are signs in broader society of increasingly intolerant views toward charitable donations and property tax exemptions being given to churches and it is believed that these benefits may be diminished or removed over time. If churches were unable to issue tax receipts or would be required to pay commercial tax rates, it would present a significant challenge to ministry funding. As such, there is movement towards a much more integrated church facility that could include parachurch organizations, community services, and options to rent space at low cost for community gatherings or other desirable services.

Steven shared that approximately 12 years ago, the WCD owned property in downtown Calgary where the District Office was located. When property value skyrocketed, the WCD sold the property for future development use and relocated to the southwest suburbs adjacent to Ambrose University. They partnered with a local land developer and entered into a joint venture to develop an 80,000 ft² business plaza of retail/food services on the first floor and professional offices on the upper two floors. The value of the existing WCD building has doubled in the last 10 years and this has gone back in disbursements to the district.

Steven stated that the right partnership is essential, and a high level of confidence and trust is needed for this to work well. The WCD works well with their partner but does rely heavily on them for their expertise. While the WCD came in with cash and land, which was hard to find, it was also important to find the right incentives for the partnership.

The WCD created an organizational structure with a for-profit trust company where profits go into a trust, and the trust disburses declared dividends into the ministry of the district. The WCD essentially rents from themselves for their 6,000-7,000 ft² of space. Taxes are paid on the for-profit side. Currently, annual disbursements of \$400-500K per year are returned to the district to fund ministry.

The WCD has also been working with three churches that have surplus property that could be developed for commercial purposes using a joint venture model. In this model, the church received an annual distribution of profits and longer-term appreciation of their assets, and the church property owner remains the district. The first church, in NE Calgary, is nearing completion of its commercial building and is 70-80% leased and projected annual disbursements are \$100K/year shared between partners in this project. The WCD is hoping to work with up to an additional 10 churches in the next 5-10 years.

The WCD formed four different organizations:

- Joint Venture Partnership (WCD pays a management fee to 50% partner and is a silent partner)
- General Partnership (for profit)
- Limited Partnership (for profit)
- Trust Company (sits above the general and limited partnerships that disburse dividends)

A question was asked about the relationship with local churches and how the partnership was discussed. Steven responded that the project was first proposed to a small church that was not strong financially with discussion of this being a way to be good stewards of what God has given them. It also will provide diversification from only relying on donations moving forward. While the land very underutilized, enough land was left for the church for future expansion as well. It took a long time for the local church to be supportive, however, they were able to see that selling property was a short-term solution and it was better to be patient for a longer-term solution.

Steven acknowledged that it can be difficult to navigate this with churches and trust needs to be built with the church and its leaders so they can relinquish the need to manage all aspects of the project. When advising churches on the element of risk involved, Steven noted that a conservative proforma is prepared and the element of risk is expressed to the board and membership. All assumptions are prepared on a very conservative basis.

A question was asked about the administrative structure for the various WCD entities. Steven noted that for the joint venture there are three directors (two from the WCD, one from their partner) and they hold monthly meetings on finances, planning, leasing, etc. There is a small board for the general and limited partnerships, and they meet quarterly to look at structure, not day-to-day operations. Steven volunteers 10-20 hours per week and estimated that there are approximately typically 25 church projects ongoing, with 1/3 active at any given time between DEXCOM approvals and in-process projects. Projects may include development, renovation, or planning.

The WCD currently has approximately two dozen land banks throughout the district. Over the last 5+ years, the WCD has requested mixed-use zoning rather than community service zoning to prepare for churches to build in the future with flexibility for their facility and usage. The cost of building, even in Alberta where it is less than \$400/ft² to build is prohibitive if a church is only zoned for community service. Steven noted that when he meets with churches and building committees that it is universally accepted that this shift is needed. Nicholas commented that it is time to start thinking about churches being mixed-use rather than church use only.

A question was raised about the amount of seed money needed for such an investment, and Steven responded that the downtown property was the WCD's seed money, in the \$5-8M range at the time. He suggested that to approach a developer, some equity must be set aside to invest in a construction loan in the \$1-2M range.

It was asked if the WCD is actively working to acquire more property for the land bank, and Steven noted there has been accumulation over the last two years and the WCD is trying to be situated within geographic areas of growth. However, while the district has been actively looking for land, there hasn't been strategic acquisition in the past few years.

It was asked how cost-sharing and profit-sharing are determined with the churches, and Steven responded that the district can't guarantee any disbursements would go to church as that is up to the trustees. From a Canada Revenue Agency perspective, this can't be guaranteed for churches to preserve the for-profit and non-profit segregation. This is clearly explained to the church.

It was asked if when the trust was formed if the church has members on it. Steven responded that with the NE Calgary church that this offer was made. Typically, trustees are experienced lay leaders from various local churches, and the District Superintendent may also be a member of the trust. Steven also noted that the average life of a trust is 20 years and the WCD was strategically reviewing the trust structure as they are at the 15-year mark.

Gratitude was expressed to Steven, and he left the meeting at 9:55am. A short break was taken until 10:00am.

Westbow Capital

Nick Westeringh from Westbow Capital joined the meeting at 10:00am.

Westbow focuses on real estate and agricultural business ventures. Nick walked the committee through the circulated presentation. He noted that money supply and housing prices are closely correlated and Westbow believes real estate is a strong hedge against inflationary pressures. Vacancy rates in Canada are consistently low and Westbow believes that the country is chronically under-housed. They have a rental portfolio across western Canada.

Westbow employs four distinct strategies:

- Design-build strategy – can build for lower costs
- Renovate and reposition – light renovations and reposition in the market
- Reposition and refinance -
- New acquisitions – newer places that are well priced and well placed

Nick noted that operational improvements also allow vacancy rates to drop and rents to increase thereby increasing profits.

Westbow's return drivers:

- Equity growth
- Debt reduction
- Positive cash flow
- Asset appreciation

Nick noted that projected returns are 9-12% targeted annual return and 60 cents per unit targeted annual distribution paid monthly. Essentially, investors are buying shares in a company that owns real estate. The typical investor is putting assets in and having Westbow manage them.

It was asked if the 9-12% anticipates cash flow and appreciation, and Nick responded that it does with cash flow and also appreciation to the level that is possible considering factors like government strategies, inflation, etc. The population is continuing to climb, and Canada is chronically under-housed. Nick saw nearly no scenario in the next 10 years where the market could be fully housed and so he is confident that the residential market is a strong place to invest.

Nick walked through various investment scenarios and their potential returns. After three years, there is 100% redemption of current net asset value, but he recommended a five-year or greater investment to see significant returns. Westbow would engage in a charitable partnership, where for every \$1M invested in the fund, they would donate \$10K per year to Alliance Churches.

It was asked if similar investors like the CPD, and Nick noted that while Westbow has a couple of not-for-profit organizations that have invested, \$1M is the largest investment.

It was asked what a good cap rate on investments was, and Nick responded that it ranges from 4.8 and 5.8 to buy, and they end up at a real capitalization rate of 6.

Wes noted that most real estate investments were not in BC. Nick responded that Alberta and Saskatchewan have no rent controls of any kind, and Manitoba has a unique rent control system where Westbow uses new builds or buys older products and renovates them as it is more advantageous for owners to do that. BC is fairly restrictive with its rental control and so a low cap rate resulted. In BC, the model typically is to build new and rent at that point because five years in, the market has moved enough that rents are behind. Westbow then will dispose of the product. Nick believes that the BC system is broken as it is de-incentivizing.

It was asked how Westbow handled low points and their investors who invested during those times? Nick responded that Westbow would take advantage of lower times by understanding the market cycle and determining how best to respond. Risk mitigation measures are in place including a positive cash flow strategy and a focus on fundamentals and the evaluation of risk. He was confident that over the long run that method will bring strong returns.

It was noted that this investment is similar to a GIC where the district would invest and then receive returns. This wouldn't require a complex structure as in the WCD model. The income would be a return of capital, and therefore tax-exempt until cashed in. Capital gains tax would need to be paid when the investment is cashed out. The investment is passive income, which has a different tax rate.

It was asked if, given the district's non-profit status, dividends would be taxable. Mark Hutchinson replied that funds would be paid to the district, which could distribute funds to the church. This would be passive income as the district is not dealing directly with real estate investments.

It was noted that churches that own their property could directly invest with Westbow, but the majority of churches could not do so as the district owns the property. Either way, DEXCOM approval would be required.

Nick left the meeting at 11:05am and a short break was taken until 11:15am.

Debrief of Presentations

Mark Hutchinson commented that he has been a Westbow investor for six years and is getting 9% in one of his investments. He further noted that he pays zero tax and will only pay tax when he cashes in. The other investment is the same model as described by Nick where it is a 6% return. Mark likes Westbow because of the give-back component of the business and believes they have kept their word on the investments promised.

Wes commented that he processes with pros and cons lists, and he agreed to compile such a list for the committee on both options presented.

It was noted that investing with Westbow would involve a lot less work for the district. If the WCD model were utilized, the district would potentially need to hire someone to manage it.

The issue of who would be investing would need to be addressed – either the district borrowing using its assets (ex. cash and building), a partnership with churches, or engaging individuals as donors.

A comment was made that districts don't fundraise but are funding others. Individuals who gave money would allow the district to do so much more. With District Operating Budget (DOB) as the only income source, the district can continue to do what it is currently doing, but not much more.

Aaron noted that while donations haven't been actively sought, there have been donations from estates or to the Loan Development Fund (LDF) and believes there are people who would be willing to donate funds. Nicholas commented that when people know there is a reason or cause, they donate, and vision makes the difference.

It was agreed that it is likely that churches may no longer receive tax exemption or charitable receipting in the future and there is a need to proactively and strategically address this. Churches need to be acutely aware of additional sources of funds and increase community usage of their facilities.

It was agreed that both presentations had value. While Westbow's proposal was simpler in structure and work, several committee members liked the WCD approach as it represented a paradigm shift in how churches think about their property. While there was greater complexity in the WCD model, there was more ability to govern strategically. There would need to be strong trust and partnership with a developer. There appeared to be great potential for mixed-use zoning, and it was acknowledged that more work and time were needed to change the minds of churches.

Mark Peters commented that if a straight investment model is chosen, the district would make money, but physical land would still remain un-stewarded. The answer may not be one option or the other, but both-and. He saw the potential need for multiple approaches to address income needs as well as land stewardship.

It was agreed that this work requires someone in the district to cast vision, help churches own the vision, and manage this work. Some churches may be engaged in these conversations already.

The committee agreed that it desires to be good stewards and that more discussion and thought are needed.

Action Item – Committee members to send thoughts and input from the discussion and presentations to Wes Drewlo by June 30, 2022.

Action Item – Wes to prepare a list of pros and cons on both presentation options by August 8, 2022 to be discussed at the August Finance Committee meeting.

Mark Peters proposed having a 30–45-minute blue-sky conversation with DEXCOM at the October meeting to make them aware of the discussions the Finance Committee is engaging in. There was consensus that asking other Finance Committee members to attend for this time would be helpful. Potentially, by the April 2023 meeting, the committee could bring either a discussion or decision profile to DEXCOM.

A lunch break was taken at 11:48pm and the meeting resumed at noon.

Financial Statements

Aaron reviewed the Summary Income Statement and noted that year-to-date net income before Legacy Stewardship Initiative & Operating Reserve is \$8K, due to strong DOB income in January which was \$28K above budget. Canadian Ministries income is weaker and was \$5K under budget. Travel is \$5K over budget and money has not been spent on regional partnerships as they are not yet in place. Overall, the district is in a healthy position.

The employee benefits plan reserve fund has had a deficit of \$130K for the last four months in contrast to the reserve being at \$276K at the end of 2021. Premiums were increased in May and the hope is that the deficit will decrease moving forward.

Aaron reviewed the Balance Sheet Summary and noted that there is \$4.7M in cash, however, Burnaby Alliance Church has asked to draw their approved loan of \$2.5M by September 2022. Aaron noted that \$2M was a safe amount, but he let the church know he could not guarantee \$2.5M. A second draw by Fraser Lands Church of \$900K was also expected within the next week. There should still be \$1.5M in the LDF after these draws.

Aaron reviewed the loans to churches as of the end of April and no concerns were noted. The Global Advance Fund (GAF) monthly report was received without comment.

Moved (Mark Peters) and seconded that the financial statements are accepted and recommended to DEXCOM.

CARRIED

Mountainview Alliance Church Property Development

Mark Peter shared the email he received from Mountainview (MVAC) last week and noted that they are fairly far into the process. The church's primary objective is to build a new building without taking on any debt. Mark expressed concerns with the lack of clarity on whether vision is driving this project as the church is looking to sell land to deal with their current financial needs, including high property taxes.

MVAC also asked for direction on the process before this sale can come to DEXCOM for approval. The committee agreed that there isn't a standard process, but rather each project is dealt with on a case-by-case business.

The minimum steps in the process were agreed upon:

- Evaluation of the project – vision behind the project and practical aspects
- Valuation
- Finance Committee approval and/or recommendation to DEXCOM
- Approval by church members with a 2/3 majority
- DEXCOM approval

It was agreed that the committee desires to understand why the church desires to sell its property. It was also agreed to request that MVAC express the vision behind the project, and present rationales to the committee for their decision to sell the property, the developer chosen, and the proposal presented. The committee can then determine the appropriateness of the project.

Action Item – Mark Peters to communicate the project process to Mountainview Alliance Church.

Action Item – Mark Peters to ask Mountainview Alliance Church for a written response outlining the vision behind the proposed development project, as well as rationales for their decision to sell the property, the developer chosen, and the proposal presented, to be received by the Finance Committee by August 8, 2022.

Action Item – Mark Peters to request that representatives from Mountainview Alliance Church meet with the Finance Committee at the District Office on August 18, 2022 at 9:15am to discuss the development project.

DEXCOM Action Items

Investigate Two-Tiered District Benefits Plan

It was noted that no pushback has been received regarding the increase in benefits premiums.

A discussion of the background for DEXCOM's action item was held, and the committee believed that there is potential for division and disparity with allowing for two tiers in the employee benefits plan. There was also concern that additional administrative costs to administrate the plan may be incurred, and that a two-tiered plan may require extra work for churches and district staff.

There was consensus to leave the benefits plan at status quo, but that the option for a two-tier plan should be investigated as tasked.

Action Item – District staff to investigate a two-tier benefits plan option with the district insurance broker and bring back costs and recommendations to the August Finance Committee meeting.

Interpretation of *Model Church Bylaws* Clause 5.3

Erin reviewed the DEXCOM action item and explained the proposed change to clause 5.3. It was noted that the Bylaws Committee will also be providing input on this clause to DEXCOM.

Action Item – Erin Knott to circulate the *Model Church Bylaws* and related materials to the Finance Committee, with committee members to review in advance of the August meeting.

Review of DEXCOM Policy Governance Manual Section 4.4.12

Erin reviewed the DEXCOM action item assigned to the committee and suggested that with limited time in the meeting a review in August would allow for more time.

Action Item – Erin Knott to circulate the *DEXCOM Policy Governance Manual* and related materials to the Finance Committee for their review, with committee members to bring suggested amendments to the August meeting.

Next Meeting

The next meeting is on August 18, 2022 from 9:00am-1:00pm at the District Office.

The following items are to be included on the next meeting agenda:

- Impact of Benefits Premium Increase
- Mountainview Alliance Church Property Development
- DEXCOM Action Items:
 - *Model Church Bylaws Clause 5.3*
 - *Review of DEXCOM Policy Governance Manual Section 4.4.12*

Mark Peters prayed to adjourn the meeting at 1:05pm.