Foothills Unitarian
LOVE UNITES US ALL

Foothills Board of Trustees
Approved Regular Meeting Minutes
4 pm, Jan. 23, 2022

Board Members Present on Zoom: Sue Sullivan, Walter Nash, Andrea Delorey, Doug Powell, Linda Kothera, Richie Nelsen, Mary Klecan, Gretchen Haley, ex-officio. Also present: Katie Watkins, Foothills director of finance and operations.

Agenda: A special meeting to discuss a recent development affecting approximately $1.65 million in capital campaign contributions that had been invested in a laddered series of Certificates of Deposit, to earn interest while the church was waiting to use the monies in our building expansion project.

Background:

The brokered CDs were recommended in Sept. 2020 by Foothills' long-standing financial advisor as a reasonable holding place for $1.9 million of the more than $4 million the church had received in capital campaign pledges, at a point in time when predictions were the federal funds rate might go into negative territory, and there were few options for earning any rate of return.

The monies were divided equally in varying-length certificates of deposit, most of which were to mature between 2029 and 2035 and would earn 1 percent interest annually. (One CD matured already, reducing the total remaining invested amount to $1.65 million.)

Because these CDs were offered by a brokerage rather than a bank, there was full flexibility to sell them early on a secondary market, and this seemed well-suited to the church's needs.

However, in recent weeks, inflationary signals have strengthened greatly and treasury yields have surged in anticipation of the Fed raising its overnight lending rate from practically 0, which it has been at since the pandemic began in March 2020. (Market analysts are predicting multiple quarter-point increases in the coming months.)

This has caused a sudden drop in the value of these CDs on the secondary market, where our broker had always been planning to sell them early, and the firm recommends we consider taking action now, if we want to limit our potential loss (that loss is fluctuating with market conditions but could be as much as 10 percent of the $1.65 million.*)

To avoid our having to realize a loss in value, Raymond James is offering to loan us up to 90% of the current market value of the CDs as a line of credit, with a 1.5% net interest rate. (They would actually charge us 2.5%, but because the CDs generate 1% a year the net rate to us is 1.5%)

That would cost us roughly $18,000 a year, were we to take the full 90% out, which we do need to do to fund the construction.

If we held these CDs to maturity (to receive the guaranteed face value of them) and paid that annual interest rate each year, we'd pay more in interest than we would currently lose by selling the CDs early on the secondary market.

Our brokers are suggesting that we pay the line of credit off early, in 5 years, presumably with a fundraising campaign after the new building is finished. This is also the time when we need to be paying off the long-term mortgage so this fundraising would compete with any fundraising we would do to pay down the mortgage, not to mention the fundraising we need to do for the next stage of our campus expansion project.

Our investment advisors' thinking is, if we can pay off the line of credit in 5 years (keeping our interest payments under $100,000) we could then simply hold the bonds to maturity. However, if inflation is higher than the 1 percent interest these CDS earn, as seems likely, the monies in the CDs are effectively losing value the longer we hold them. We could also hope that the bond market changes behavior and we would be able to sell the CDs before they mature as we originally intended to without any loss of their value.

After discussing the various risks and benefits of selling the CDs early or holding them and borrowing via a line of credit against them, the board came to the conclusion that the current needs and the unpredictability of future interest rates, inflation, and bond markets, call for us to sell the CDs now and realize fixed losses.

Andrea Delorey motioned to direct the ministry to liquidate CD investments of all remaining invested capital campaign monies. Doug Powell seconded. Motion passes.

The meeting was adjourned at 5:09 pm

Minutes written and presented by Sue Sullivan, Board President

*Realized loss after the sale was approximately $149,000. Total loss on the investment, after interest previously earned, was $137,000.