

# Eight tips for addressing inflation creep

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How does a church make a mid-course adjustment to the vision, facility drawings, funding and timeline of a project when costs have increased significantly? Believe it or not, this is a very real scenario that occurs regularly all over the U.S. Many ministries are seeing project costs escalate, a disheartening reality considering that facility expansion takes years to plan, with many hours invested in planning, praying, working on committees and consulting with professionals. If your church is in this situation, we hope the following tips can help you manage this challenging time.



## 1 Don't panic

Inflationary pressures are common and not something you can control. Focus on what you can control: budget, project scope, cash.

## 2 Scale to reality

When prices increase, it forces more intentional consideration. Do I focus on absolute needs, wants or both? Extend financially, recalibrate or delay?

## 3 Raise more cash

If scaling the project to make it affordable isn't an option, consider raising additional cash to offset costs. Financing inflation is a costly matter.

#### 4 Consider borrowing more money

In most construction projects, churches are maximizing their borrowing, so taking on additional debt to offset costs is not realistic. But if your ministry has additional borrowing capacity, this may be an option for you. Your lender can quickly identify if additional debt is a reasonable strategy. If borrowing more is not an option, additional cash contributions will be needed, assuming there is no change to project scope.

#### 5 Don't overpay

When costs climb and exceed the original project budget, it's tempting to finance that gap. Before you take on debt, take a pause. When faced with having to pare back their project to stay within budget, it's common for many churches to focus on their desire rather than their vision. Additional debt may impact your operational budget for years to come, so plan carefully to ensure your level of long-term debt is sustainable.

#### 6 Communicate clearly

You can't control economic factors such as inflation, but you can control how you communicate the ways your project is affected by these factors. Building a new facility is a dynamic situation with many moving parts and requires clear and frequent communication. Several years ago, we worked with a church that ran a capital campaign to fund a project. The church set a goal of reaching \$15 million in pledges and stated that if they didn't reach this number, they wouldn't proceed with the project. The church only received \$14.5 million in pledges. It didn't meet their objectives, so the elders honored their original commitment and released everyone from their pledges. The church then adjusted the budget for the project, communicated the changes to the congregation, and was able to successfully complete the project.

#### 7 Consider the long-term impact

Have you ever remembered a situation that you thought was very important at the time, only to realize as you look back that it wasn't as critical as you originally thought? Although the reality of any expansion project may result in temporary challenges such as delays, they'll pale in comparison to the pains of financing something for years to come that your church can't afford or leads the congregation to a sense of false hope.

#### 8 Connect faith with the realities of financing

How do you underwrite faith? In reality, you don't. Lenders base their decisions on a ministry's historical financial condition. Even lenders specializing in church financing base their loans on a church's borrowing capacity. Your expansion plans should reflect the current financial reality of the ministry.

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