

DIOCESE OF PENNSYLVANIA FINANCE COMMITTEE
TUESDAY, JUNE 25, 2013, CHURCH OF THE REDEEMER, BRYN MAWR, 6:30 p.m.

Present: The Rev. Kirk Berlenbach, Chair, Nora Adelman, Ann Booth-Barbarin, The Rev. Dr. Charles Flood; Jo Ann Jones, The Rev. Adam Kradel, The Rev. George Master, Eric Rabe
Ex officio present: The Rt. Rev. Clifton Daniel, Bishop Provisional; Norman McClave, Treasurer; James Pope, Church Foundation; Robert Rogers, Canon for Finance

Not present: The Rev. Frank Allen; Bruce Givnish; George Vosburgh

Guests: The Very Rev. Judith Sullivan (Philadelphia Cathedral), David Yeager (Radnor Property Group)

1. Opening Prayer (6:30 pm) – The Rev. George Master
2. Reflection: How will what we are doing affect or involve people living in poverty? (6:32 pm)
3. For Action: (6:33 pm)
 - o Consent Agenda - **Minutes of May 28, 2013 – A motion was made by Norman McClave and seconded by Eric Rabe to accept the minutes as distributed – all in favor, none opposed or abstaining.**
4. Discussions/Decisions: (6:38 pm)
 - a. Proposed Investment in the Cathedral Office Building – The Rev. Judith Sullivan and David Yeager from Radnor Properties gave an overview of the development at 38th and Chestnut. There are two separate projects, independently owned and operated. The first is the development of the corner site, which will be a 25 story apartment building. The second, the subject of tonight’s discussion, is a 3-story office building with underground parking, including leased retail space on the first floor.. The request is to amend the letter of intent previously signed by the Diocese to lease office space (changes: increase the lease amount from \$23 to \$24/square foot, and to increase the lease term from 7 years to 29 years). There is a highly competitive tax credit program to incentivize development in certain census tracts. After the tax credit program is completed (7 years after completion of construction), the Diocese will be able to purchase the office building at a discount (less the \$1.1 million tax credit amount, which is 12% below what it would cost today). The 29 year lease term is to enhance the project’s likelihood of receiving the tax credit. The Diocese is being asked to invest \$2 million in the office building.

A year ago, the Cathedral project was presented to Standing Committee and the Committee on Finance and Property, and the letter of intent was signed showing the Diocese’s intention to lease a portion of the office building. A small group composed of the Bishop, Dean Sullivan, David Yeager, Fr. Ledlie Laughlin, Fr. Berlenbach and Canon Rogers met last week to discuss this proposed amendment to the letter of intent and what the possibilities might be for the Diocese to invest in the office building. The Finance Committee’s goal tonight is to make a recommendation to the Standing Committee

regarding the letter of intent. A group from the Finance Committee's Investment Subcommittee met with Judy and David earlier this week. The tax credit program allocates funds to fiscal intermediaries, which then give the tax credits to projects. The fiscal intermediaries received word in the last ten days that they have been awarded the credits. Tax credits are the linchpin of the project.

Diocesan Treasurer Norman McClave distributed several sets of projections showing operating expenses and maintenance expenses for Church House currently, possible sources of funds for the requested investment in the office building, and income/expenses to the Diocese over the next several years resulting from relocating Diocesan offices to the Cathedral site.

Points of the discussion included:

- The current 11 Diocesan employees and the Church House building are not a good fit.
- The Diocese is already committed via the Letter of Intent to lease approximately half of the new office building's space. Financial projections include insurance, tenant utilities (snow removal), and parking space rental in the underground garage.
- The Diocese has committed to a \$1.6 million investment in the apartment building which is separate from the office part of the project. The apartment building starts to pay out in year 2 of the project (interest on the investment). Except for year 2, the net outflow is less than what is being spent now on operating Church House (and that is not including the surprise expenses for Church House such as repointing and repairs to electrical and heating systems in the 1800s building).
- The sale of Church House will cover the investments in both parts of the project. There is a written offer of \$4 million for Church House. At the moment, the buyer wishes to close at the end of 2013.
- A Church House mortgage for \$1.6 from Republic Bank is underway, which could cover the investment in the apartment building. If the Church House sale does not close prior to mid-September, \$2 million would be needed, perhaps a bridge loan from Church Foundation.
- In year 7, the tax credits mature, and the Diocese would purchase the office building. The purchase price in year 7 has been set with the construction cost of the building.
- The apartment building will be sold – perhaps in year 5, certainly by year 7 – and the Diocesan investment in the apartment building will be returned at that point.
- The Diocese could also sublease office space and retail space in the office building since it would own the building, adding to its cash inflow. The cumulative cash to the Diocese in year 3 (\$41,000) through year 7 (\$2.7 million) could be added to reserves for future needs.
- The costs of a management agent for the office building leases should be included in projections. There is a cushion in the rental amounts projected.
- The University of Pennsylvania has approached the Cathedral about renting office space in the building.
- The lending commitments expire on July 30, so standing Committee would need to act in its July 16 meeting.

- Will there be implications on the Cathedral's 501(c)(3) status if the rentals are to for-profit organizations? It is possible there could be unrelated business income tax if the amounts exceed a specified percentage of income.
- The lending commitments are in place for July 30, and the construction start date with the tax credits is September 15.
- Is a religious institution exempt from transfer fees? The tax consultant is exploring this question, but it does not appear likely.
- The Cathedral's goals in this project are to take care of the Cathedral building, assure its continued presence in West Philadelphia, and expand its ministries to the local area and the Diocese.
- What risks does this project pose for the Cathedral and the Diocese? Landlords who own properties are at risk for costs being offset by rental income; and the project's rental rates are conservative even in today's market figures. Vacancies are low in the area. The retail rental rates are also conservatively projected. The University of Pennsylvania and Drexel University were approached before the project was started, and both have indicated interest in renting space. Other near neighbors have shown strong support for the project.
- Bishop Daniel responded to a question about his reaction to the project by noting that he has listened intently to various discussions about the project and believes it makes sense in terms of mission and the witness the Diocese makes in West Philadelphia. While there is always a bit of anxiety about an endeavor of this magnitude, this is a good way ahead for the Diocese.
- A committee member expressed concern that funds to help some churches that are on the edge (e.g., the closed church fund) should not be used for this project, and that care be taken to avoid additional assessments on churches that cannot afford such increases.
- Others are investing in the project (Radnor Property, the Cathedral, another investor).

The Rev. Adam Kradel made a motion, seconded by The Rev. Dr. Charles Flood, that the Finance Committee recommend to the Bishop and Standing Committee that the letter of intent be amended as presented (8 in favor, none opposed or abstaining, 2 recusals for conflict of interest – Norman McClave and Eric Rabe serve on the Cathedral Project Task Group).

JoAnn Jones made a motion, seconded by The Rev. Dr. Charles Flood, that the Finance Committee recommend to the Bishop and Standing Committee that the Diocese purchase of the office building under the terms and conditions outlined in the amended letter of intent dated June 2013 (8 in favor, none opposed or abstaining, 2 recusals for conflict of interest – Norman McClave and Eric Rabe serve on the Cathedral Project Task Group).

The Very Rev. Judith Sullivan and David Yeager were excused from the meeting with the Committee's thanks.

- b. 2014 Budget (7:08) – The Budget was distributed electronically in advance of the meeting. A few pieces of additional information will be added before distribution to the Diocese, specifically about the sources of funds for a two-year Diocesan position

to provide services to clergy and lay employees re: benefits and medical insurance. **The Rev. Adam Kradel made a motion, seconded by The Rev. George Master, to approve the 2014 budget and narrative as distributed (all in favor, none opposed or abstaining), with thanks to the Rev. Kirk Berlenbach and the Budget Subcommittee for this major step forward for the Diocese.**

- c. Report to Standing Committee and Council (7:23) – The report was distributed electronically in advance of the meeting; there were no additional questions or discussion.
 - d. Feedback for Canons (7:28) – The group discussed the possibility of inviting a representative from the Commission on Clergy Compensation and Employee Benefits to the Finance Committee meetings, including whether a Canonical change should be suggested to make membership ex-officio. The discussion included that CCCEB has a lot to do with budget formation, and its work addresses areas that give a tremendous amount of exposure to the Diocese. Finance and CCCEB need to be connected and in communication, and each has information that is needed by the other in their respective issue discussions. **The Rev. Dr. Charles Flood made a motion, seconded by Norman McClave, to invite a representative from CCCEB to attend Finance Committee meetings but not to make Canonical changes at this point (6 in favor, 4 opposed, none abstaining).** The Rev. Kirk Berlenbach will extend the invitation.
 - e. RCMA Update (7:33) – Meetings to discuss changes in the RCMA supplemental insurance coverage were sparsely attended, despite CCCEB calling all retired clergy to let them know about the sessions.
 - f. Conflict of Interest Disclosure Statement (7:38) – **A motion was made by the Rev. George Master, seconded by Eric Rabe, to adopt the conflict of interest disclosure statement and to recommend that other Diocesan bodies do the same (all in favor, none opposed or abstaining).** Thanks were expressed to Ann Booth-Barbarin and the Chancellor for their work on the document.
5. Discussion of Written Reports/Updates: (7:43 pm)
- a. Treasurer – Norman McClave, Treasurer – the written report is in the meeting package – no additional comments.
 - b. Financial Statements – Rob Rogers, Canon for Finance – Financial statements distributed electronically in advance of the meeting show that cash position continues to be strong. Most parishes received lower insurance premiums with the same or better coverage with a new insurer (Mercer). Funds have been sent for the Diocesan investment in the apartment project. The current Wapiti mortgage is \$418,579 and will be retired this year.
 - c. Standing Committee- Ms Jo Ann Jones – In its last meeting, Standing Committee approved a distribution from the Sayers Fund to support the 2014 budget and a distribution from the Property Fund to cover the Diocesan Property Manager’s work in selling closed churches. Standing Committee approved two church sales (St. James Aston sale to a developer, with most of the proceeds held by Church Foundation and

available only with agreement of Standing Committee and the Bishop, with the congregation leasing the building for up to 15 year; and Calvary Conshohocken's sale to a Presbyterian Church with which it has been worshipping in its space – proceeds from this sale will also be invested). Clarification is needed about the role of the Property Subcommittee and the Finance Committee in property sales – the Rev. Adam Kradel volunteered to explore the language in the Canons to provide education.

d. Diocesan Council- The Rev. George Master – Aided and DCMM congregations have been making presentations to Diocesan Council.

e. Church Foundation- Mr. James Pope – no meeting since the last Finance Committee

f. Subcommittees:

- Budget – reported earlier in the meeting
- Diocesan Audit – no report
- Insurance – in CFO's report
- Investment – no report
- Parochial Relations – written report in meeting materials
- Property – written report in meeting materials
- Gathering of Diocesan Leaders – no meeting since the last Finance Committee

6. Other business: (8:23 pm) – none

7. Reflection: How will what we are doing affect or involve people living in poverty? (8:25 pm)
Committee members' comments included:

-The Cathedral project includes jobs in construction (150) and in operations (40-50), as well as grants for children to attend the day care program. The project includes a working kitchen for the Cathedral to continue its feeding program that is currently done in the garden in the summer.

-The Cathedral project includes space for community activities, and the project will sustain the Cathedral and enhance its functioning into the future.

-DCMM and aided congregations that receive funding through the budget have programs similar to those planned for the Cathedral project.

-The Cathedral is a place where spiritual poverty can be addressed – it will continue to be a symbol in its neighborhood.

-The Property Subcommittee report noted that the rate of poverty in the suburbs has grown at a rate faster than the rate of poverty growth in the city of Philadelphia.

8. Closing Prayer (8:30 pm) – Rt. Rev. Clifton Daniel

Kirk Berlenbach
Chair, Finance Committee

Nora Adelman
Secretary