Sale and Investment Fact Sheet from Session and Presbytery

Session recognizes that if the Congregation votes to sell the property at 110 Tarry Road on February 4, church members may have questions regarding what happens next. The material below provides helpful information.

Q: What happens after a church votes to sell property?

A: Following a vote to sell:

1. Session informs the Church Mission Finance Committee (CMF) of the Presbytery of the Redwoods of the outcome of the congregational vote. Session sends two commissioners to the Presbytery meeting on February 9, 2018 (Dennis Latta, Clerk, and Doug Eisinger, Finance Elder). At that meeting, CMF, which approved the sale to permit the congregational vote, asks for approval of the sale by the Presbytery.
2. Session selects a real estate professional to assist with the sale, puts the property on the market, and makes it available for prospective buyers to visit, after the current tenants move out (February 28) and some cleaning and repairs make it ready.
3. Session brings a discernment process to the congregation with *Let's Talk(s*) (educational discussion) and likely a survey of preferences to discern whether or not the congregation feels called to locate, purchase, and manage affordable real property.

Financial Management

Q: Following a sale, what would our relationship be with the Synod of the Pacific? (For those who may not know, the Synod represents the next larger geographical jurisdiction of the Presbyterian Church above the area covered by the Presbytery. Our Presbytery, Presbytery of the Redwoods, serves the 48 churches in our region of California. There are more than a dozen Synods covering the nation; our Synod covers 5 states, 11 Presbyteries, and approximately 400 churches.)

A: The Synod holds (is the lender for) all four of the SHPC loans, including the mortgage on 110 Tarry. After a sale, the following would apply:

1. If the Congregation chooses to sell, SHPC would pay off the three interest-bearing loans we have with the Synod.
2. SHPC has no obligation to invest sale proceeds with the Synod.
3. The Synod has a savings and loan program, which SHPC may choose to use; it includes a money market fund and CD options (called "Mission Development Certificates, or MDCs"):
    a. A custodial "Demand" account (i.e., a money market account); this has a $2000 minimum opening requirement, is liquid, and yields 1%.
    b. 4 CDs (MDCs):

i. 6 month: 1.5% (minimum is $10,000)
ii. 1 year: 1.75% (minimum is $20,000)
iii. 2 year: 1.95% (minimum is $20,000)
iv. 3 year: 2.15% (minimum is $20,000)

4. After a sale, the Synod has no decision-making authority over what SHPC does with sale proceeds.
5. Synod accounts are not FDIC insured. Payment of principle and interest is funded by loans made to churches.

Q: What happens to proceeds received from the sale of property?

A: Session plans to:

1. Pay off the balance on our interest-bearing debt (approximately $360,000 as of 2017 year-end).
2. Deposit remaining proceeds in one or more short-term CDs or bank savings accounts, while Session brings a discernment process to the congregation to discern whether or not the congregation feels called to re-invest in affordable real property. Funds would likely remain in short-term CDs or cash accounts for several months, sufficient to develop a longer-term implementation plan.
3. If the congregation feels called to re-invest in affordable real property, begin the process of locating real estate to purchase, and complete the purchase with congregational and Presbytery approvals.
4. As needed and determined by Session to be part of the longer-term implementation plan, use a portion of the proceeds to meet important capital needs of the church. Session has preliminarily identified $100,000-$200,000 of immediate capital needs.
5. Once a longer-term plan is in place that accounts for (a) any affordable real estate purchase, and (b) addressing important capital needs, then (c) Session will identify and work with a financial advisor(s) to place remaining money in investment accounts. Any rental income, and interest income from accounts can be used to support the ongoing life of the church.

Q: Is SHPC required to deposit its funds with the Synod of the Pacific?

A: No. As advised by the Presbytery, it is preferred but not required to set up accounts with the Synod. If the Session makes other investment arrangements, CMF might request an annual accounting of the investments and expenditures.

Other Questions and Policy Guidance

Given the importance of this decision, Session has asked the Presbytery to respond to questions of interest to the Congregation and is sharing that information verbatim below, as

well as the text of the one-page "Policy and Guidelines" document published by the Presbytery with respect to the use of funds from the sale of church property.

Question and Answer correspondence with the Rev. Dr. Robert Conover, Mission Presbyter/Stated Clerk, Presbytery of the Redwoods (from email communications January 24, 2018)

Opening Statement by Dr. Conover

I think there may be a few thoughts that might be helpful in your process in working with the congregation/session, and I will try to enumerate them and then respond specifically to the questions you have asked.

1. The ultimate authority over the sale or purchase of church property rests with the presbytery, that is, the collective decision of 48 sister congregations. The Committee on Mission Finance makes recommendations to the presbytery, but does not have the authority to make such decisions on its own. However, it would be unusual for the presbytery not to follow the recommendation of the committee. I have no authority in such matters.
2. The presbytery and denomination view all of our congregations as long-term, living organizations and organisms. That said, we see congregations comprised not only of present members, but also consider those who have gone before and who will come in the future.
3. The presbytery assumes good faith on the part of the session to follow the policy of the presbytery [*note, the text of this is attached at the end of this document*]. The presbytery has no interest in trying to micro manage the use of funds after property is sold. We trust the session to follow the policy, especially, since experience has repeatedly shown us that it is in the congregation's long-term interest to do so.

Questions from Session and Answers from Dr. Conover (in italics, indented)

Q1. What restrictions does Presbytery impose on the use of any proceeds from the sale of our manse, should that occur?

> *A1. Funds from the sale of property are to be used for the relief of debt on other real property, for the purchase of new property, or the improvement of existing property.*

Q2. Does SHPC need to get permission from Presbytery before we invest sales proceeds in an income generating fund? If so, who do we seek that permission from, you, or a finance committee? How often would such permission need to be sought, only once, or on an ongoing basis?

A2. Ultimately, the presbytery would need to officially approve the purchase of new property, but it has effectively already given advanced permission to do so. You do not need the presbytery's permission to invest funds (see policy).

Q3. Does Presbytery have any say over how the funds are invested? In other words, are we free to select our own financial advisor(s) and to select the form of the investment we make (real estate, stocks, bonds, etc.)?

A3. As noted above, the presbytery has no interest in micro management. What the presbytery asks is for the session to invest with financial prudence and social responsibility, keeping the long-term well being of the congregation in mind. The policy states that it is preferred to set up accounts with the Synod. If the session makes other investment arrangements, it may be that the presbytery's Finance Committee will request an annual accounting of the investments and expenditures. This would have to be discussed with the Finance Committee.

Q4. Does Presbytery impose any restrictions on SHPC's direct access to the funds that become available from the sale of a manse?

A4. There is no restriction on direct access to the funds, only that they be used as stipulated in the policy. [*note, the text of this is attached at the end of this document*]

Q5. Does Presbytery have access to funds we generate from a manse sale, and can Presbytery use those funds without SHPC authorization?

A5. The presbytery has ***no*** *access to the funds. There is the assumption that the session will follow the presbytery's policy, see No. 4 above. The only way the presbytery would have access to the funds would be if the congregation were to dissolve. Should that occur, all church property and funds would be assumed by the presbytery. Should dissolution occur, the presbytery's policy/practice is that all capital funds would still be used only for capital purposes and* ***not*** *for presbytery operating expenses.*

Q6. Who retains control over the funds generated from a sale? Is it SHPC, or Presbytery, or some combination?

A6. The church retains control, with the dissolution proviso noted in No. 5 above.

Q7. If the funds are to be used only for certain purposes, such as capital improvements or expenditures, or pastor housing-related support (either via a real estate purchase, housing allowance, or other support), are there written guidelines from Presbytery that define these uses?

A7. The written guidelines are the policy which is attached. Any purchase of property would have to be approved by the presbytery. See No. 3 above as it might relate to reporting of capital improvements. Again, this may need to be discussed with the Finance Committee. As to "pastor housing-related support," a housing allowance

*is **not** a capital expenditure; it is an operating expense. Should the church want to use some of the funds to enter into a shared equity agreement with a pastor, that would be considered a capital expense. When it comes to supporting housing for a pastor you have two choices for using the funds from the sale: purchase of a manse, or some form of a shared equity agreement. Both of these would require approval by the presbytery.*

Again, the presbytery's limits on the use of the funds are very clear: purchase of real property, capital improvements on existing property, or debt reduction on real property loans. The presbytery's Finance Committee and the presbytery both want to assume that the session will act in good faith with the policy and have no interest in micro management. While I cannot speak for the Finance Committee, I believe they would be completely open to the session investing funds from the sale of the property in ways such as you mentioned, which would generate more income than through a Synod account. The Finance Committee may (again, this is a may), ask you to provide an accounting of the funds and their usage.

Q8. If proceeds from the sale of church property are invested in a "Capital Funds" account, as noted in the policy paper, can the church use the earnings from that account (the interest, not the principle), to fund church operations? It is my understanding from your earlier email to Pastor Bev (see below) that we have already confirmed with you that we indeed have the authority to use the interest from such an account to support operating needs, but I would like to ask you to confirm that. As you recall from Pastor Bev's email, our intended motion to present to the congregation includes a closing statement that reads, "**Income from rental property and capital/investment funds are not restricted, and can support the operating budget of the church**." Apologies for the repetition, but I would just like to confirm that our statement is correct.

A8. While the policy does not specifically address the question you raised, the presbytery would support using income from investments or property rental for the operating budget. My recommendation would be that you use investment income in such a way that it still allows for annual growth in the principle (just as we would assume would occur with real property). This way, whether it be real estate or equities/bonds, the asset continues to grow. To that end, my suggestion is that the church draw from income at the rate of 4-5%. 5% has often been a common recommendation for universities and other not-for-profit organizations. However, figures I have seen in more recent years suggest that organizations have gotten a little more conservative with the draw at about 4%, even though the present market returns are considerably higher. One thing you might consider is using investment income at the rate of a few points lower than the annual return in any given year. So, if the income return is say 10% in a given year, only using 7% for operating expenses and allowing the other 3% to be added to the principle. This also means that when the present market growth turns south, the congregation would draw considerably less.

Presbytery of the Redwoods

USE OF FUNDS FROM SALE OF CHURCH PROPERTY

Policy and Guidelines

Prepared by Committee on Mission Finances (Revised 1/05)

I. **Purpose:** The sale of church property is an event that does not happen too often. It is the intent of these guidelines to advise sessions involved in a sale of what restrictions are placed on funds generated from the sale of real property.

II. **Procedure:** Per Section G-8.0201 of the book of order, all real property is to be held in trust for the use and benefit of the Presbyterian Church (U.S.A.), and not owned by a individual church. The sale of church property must be recommended by the Committee on Mission Finances (CMF) and approved by the Presbytery. For the purpose of these guidelines, real property is defined as any real estate including church structures, vacant land or other structures, whether held for church use or not. Real property is any asset that is not considered personal property.

III. **Policy:** Any excess funds generated from the sale of real property after selling expenses and mortgage debt have been paid are to be considered "Capital Funds". These funds are restricted in use for other capital expenditures and are not to be used for operating expenses of the church. In the past, CMF has allowed for exceptions but it is the general policy to use money from the sale of real property for other capital expenditures only. Another acceptable use of the funds would include paying down debt secured by other real property. Any use of capital funds must have the prior approval of CMF.
A separate bank account should be established for Capital Funds if such an account does not already exist. The proceeds from the sale of real property should not be co-mingled with operating fund bank accounts. It is preferable that an account be set up at the Synod for such purposes.

IV. **Equity Share Transactions:** When a congregation and a Pastor are involved in an equity-share situation and the property is disposed of, other guidelines may need to be followed. There are two types of funds in this situation; the funds the congregation used for the original purchase and the funds that were gained through the sale. In both instances it is strongly recommended that the money be used again as capital funds. If funds were raised for the initial equity share purchase with prior Presbytery approval that something different would be done with the proceeds when the property was sold, then those guidelines could be followed.

V. **Summary:** When a congregation sells real property the funds are to be treated with additional restrictions. These "Capital Funds" should only be used for other capital expenditures or debt retirement, but not for operating expenses.