11/1/2017

Final verbal/written report

While I know that your main interest is to know and understand the financial terms that were presented to El Montecito Presbyterian Church, I believe it is important to bring you onto the field so to speak to understand our perspective as members of the PRT and why we believe the terms we are presenting today are very appropriate.

First, and most importantly, we established a couple of principles upon which the agreement would be measured. And, those two principles were acceptability and defensibility. Regarding, the principle of acceptability, we desired to establish terms that would help the Presbytery sustain its ministry obligations and goals after the loss of another church and pass the reasonableness test when compared to the net worth of the church and prior dismissals of churches in our Presbytery and across the denomination. And, secondly, regarding the principle of defensibility, it had to be terms that could be defended if challenged by representatives of PC(USA) or members of the El Montecito congregation. To that end, we needed to "consider" ALL of the property (both real and personal) and assets of the church, consider other potential uses of the property for Presbytery ministry purposes, and also consider precedent that was established by other dismissals throughout the denomination.

Based on those principles, here are the terms that were previously presented to and agreed by Council at its October 4th meeting. These terms were also presented to the members of El Montecito Presbyterian church during a called congregational meeting on October 22nd.

The terms include:

Original Appraised Value: $8.2 million; net worth approximately $10.4 million (including assets of "liquid and investment" assets of $2,290,107 of which $1,395,365 is the endowment fund which came from a bequest for the mission of the church).

- **A total cash payment of $1,522,594.**
- **Down payment of $350,000 due and payable to Presbytery when the settlement is approved by Presbytery (prayerfully at the Feb 10, 2018 presbytery meeting).**
- **Balance of payments payable over 10 years according to the attached payment schedule with the first annual payment at $65,000 due on 1/1/18 and increasing at a 10% rate annually for the first five years and 15% rate annually thereafter, each payment with a 60 day grace period.**
- **Pay off of the PILP loan showing a current balance of $404,000, at time of dismissal.**
- **Beginning in the third year (1/2021) there is a prepayment discount that is determined by calculating the present value of the remaining payments using a 10% discount factor. Note: in each year that a pre-payment is allowed, the payoff amount assumes that the current year annual payment will also be made.**
- **In exchange for the total cash payment, the Presbytery and PC(USA) will release their interest in all of the property (real and personal) as provided by the Trust Clause.**

El Montecito Presbyterian Church has an Endowment Fund in the amount of approximately $1.4 million. This fund is included in the above stated net worth of $10.4 million. And, as stated above, the Presbytery is releasing its trust interest in this asset as well as all other church assets as part of the agreement. Prior dismissals from the Presbytery did not explicitly state that, however, we believe it should be disclosed in this (the first) dismissal after the policy was revised. It is important to know, however, that with all previous dismissals, the liquid assets as well as any endowments that may have been in place were transferred to the church as part of the agreement.

The dismissal amount of $1,522,594 will definitely "stretch" the congregation. They will need to be innovative in their fund raising, growth plans, and pledging efforts. None of the endowment will be utilized in any payback of the dismissal terms.

Presbytery committee chairs have suggested that the property could be sold and if it was, it would bring in funds for the Front Porch ministry. While that is true, it is not clear or certain that the property (given the land use restrictions and the fact that is has been a "consecrated sanctuary for Presbyterian Christian worship" since 1888) would sell for an amount greater than the amount in our settlement. And, the funds from this settlement can and should certainly be designated to Front Porch and other current Presbytery ministries.

Others have suggested that the property be converted to a counseling center. While on the surface that is a wonderful thought, this property is zoned for one use and one use only, as a church, a worshiping community, and non-profit. The restrictions from a land use perspective are very strict and very clear. So to try to change zoning would be a challenge.

If the Presbytery would have the opportunity to use the property for other ministries, It will also inherit the expenses and responsibilities of ownership including maintaining, operating, and staffing of a piece of real estate that can only be used as a church or related ministries. That, together with the issues of maintaining, operating, staffing – all of which we feel is beyond the scope of what SBP foreseeably could do.

As my final comments, this church has lost 50% of its members during the last three years. Most of them departed as a protest over a series of PC(USA) decisions with which they disagreed. A large majority of the remaining members have the same concerns but have remained faithful pending this dismissal. We explored the possibility of reconciliation and have concluded that that will not happen. The work of the PDT/PRT determined that the congregation has worked hard over these past three years to be a more vital body of Christ, following Jesus, loving, connecting caring and serving near and far; is doing better; and will continue to work to advance God's Kingdom. The need to separate from PC(USA) is evident. Thankfully, we believe that if dismissed, this will not be a church closure situation. God is well glorified there and you are welcome to read the separate PRT discernment report on this topic.

As a closing note, I would like to put this settlement in perspective and to know the information that we considered in recommending it. At $1,522,594, this agreement is 25% more than the sum total of all settlements for the previous ten churches that were dismissed by our Presbytery. While we all acknowledge that those dismissals occurred under a different set of rules, it is wise to consider that fact when striving to ensure the defensibility of this agreement. Second, it represents 16% of the churches net worth of $9.4 million. The range across the denomination for previous dismissals has been 2% to 15%. The per capita cost of this dismissal is $8,500 which we believe makes this the most expensive of any dismissal to date. And, finally, we have ordered a new appraisal and while the final report is not yet been produced, the appraiser whom our auditor recommended for this project has revealed that their estimate of the value of the real property is $5 million as compared to the original estimate of $8.2 million. With this figure, the net worth of the church is $6.2 million and the settlement is then 25% of that value. This would also likely be the largest settlement as a percent of net worth across the entire denomination. Menlo Park, whom many of you know paid nearly $9 million had a net worth estimated in the $80 million to $100 million range making their payment only 9 to 11 percent of their net worth.

This information is provided as background only because, according to the revised Gracious Dismissal Policy, the value of the property and other assets must only be ***considered***. There is no formula that can be applied and each dismissal is to be determined on a case by case basis.

(Sources of above information: Presbytery Layman and confirmed by Attorney Lloyd Lunceford {Taylor Porter Law Firm, Baton Rouge] who specializes in dismissals, and confirmed the data from court records and published settlements. He also states the average has been 9%-11%; San Francisco Presbytery has been consistent at 13-14%; SBP maximum dismissal was 10%.)

El Montecito Presbyterian Church

WORKSHEET ONLY -- PRT Dismissal Due Diligence FINANCIAL – WORKSHEET ONLY

This document is solely for the purposes to begin an analysis of the individual church situation. This is simply a worksheet for due diligence. It might not reflect the final agreed upon amounts or terms.

1. The Church's last verified congregational membership as of 10/17/2017 179
2. Presbytery-wide membership as of 12/31/2016 4642
3. El Montecito's percentage of presbytery membership (line 1 divided by line 2) 3.9%

PROPERTY DEBT CALCULATIONS

4.Current presbytery long-term debt liability = $2,335,945

5.Current presbytery long-term debt liability per person (line 4 div line 2) $503.22

6.Montecito share of presbytery long-term debt liability (line 5 x line 1) $90,037

Ministry Share

7. 2016 unpaid presbytery ministry share pd in full

8. 2017 unpaid presbytery ministry share pd in full

9. Presbytery ministry share $70 x 179 members as of 10/31/2017 $12,530

10. Total annual ministry share due $12,530

11. Future Annual ministry share x 5 years $62,650

Property Considerations

12. Current appraised Value $8,200,000
13. Current tax assessor value of property $8,200,000
14. Current Insurance replacement costs of buildings/contents = $7,103,907
15. Current value of all net cash position (not including endowments $776,269 $7,880,176
    a. Endowment amount is $1.4 mil and considered as part other bank accounts, HOWEVER being asked of Presbytery to waive as per previous dismissals.
16. Known original investment by denomination for this church development $1,000,000
    a. PILP or other loan(s) on subject property (stated above) - $404,000
    b. Other liabilities: Early School = - $252,224
17. Total based on debt reduction, property, other considerations $7,223,952
18. Presbytery processing costs (staff time, travel, legal, financial expense) $3,000

20. Total due from church on dismissal (lines 6+11+18) = $155,687 **Dismissal is $1,522,594**

NOTES: PILP Loan to be paid in full at time of Dismissal: $404,000 and Down Payment $$350,000. To reduce the mortgage balance and to secure funds for the required Down Payment, the church did fundraising called "Legacy", utilized funds in the Building Fund account, and a loan account with Montecito Bank and Trust (secured by personal accounts and management of the endowment fund).