

**TOWARD A HEALTHY CHURCH**  
*BACKGROUND FOR THE OFFICERS OF  
THE HOUSE OF HOPE PRESBYTERIAN CHURCH*  
*September 14, 2021*

During the last two years we endured the pandemic, made changes in our pastoral leadership, and renewed the church's vision with the 1-7-75-175 Strategic Planning Initiative. Amidst these challenges the Co Pastors/Heads of Staff, in consultation with Session and the Trustees, formed three time-limited work groups during the summer of 2021.

These summer groups drew from members of the earlier "7 Objectives" work groups, especially those which addressed church facility and finance, as well as church officers (coming and going). These teams focused on three topics: 1) How to potentially finance our HVAC project, 2) Identify how to potentially sell church property, namely the Summit parking lot; 3) Investigate a potential Capital Campaign. The following report is a summary of their work along with recommendations for consideration by the Church leadership.

***Executive Summary***

Our church has a utility infrastructure (heating, ventilating, air conditioning, electric) dating back to 1958. It must be replaced to serve our congregation and mission into the future.

The approximate cost will be in the vicinity of \$10 million dollars. This amount is challenging, and it occurs at a time when our congregation is smaller, older, and valued donors have died or moved away since our successful Capital Campaign in 2010-2014.

The pandemic also exacerbates uncertainties regarding our congregational finances and vitality particularly if in-person contact continues to be limited. Nonetheless, we have significant assets which are physical, financial, human, and spiritual and we are thankful for them.

After several months of examining options, the three work groups recommend we move forward to replace these systems using a combination of resources including a draw from the Endowment, sale of property, and a Capital Campaign. If funds become available, we will work towards a new kitchen, a Great Hall renovation, and a new entrance (for example on Portland Avenue). To successfully meet this challenge will require us to fully participate as faithful owners and stewards of the gifts which God has given us.

## Historical Context

Let's go back in time. Our current church building was built in 1914. In 1958 during the baby boom there was a significant remodeling and expansion of the church facilities, at which time the heating, ventilating, air conditioning, and electric system (HVAC) was installed. This is the same system we are using today, in 2021.

Until this century, asking for money to fix issues with our facility or to add to the building was a hidden subject in our congregation. When there was a need, the Pastor went to a few high-capacity donors and asked them to "fund the need." Those days are gone. These faithful supporters have died or moved away from the area. In 2010, for the first time the church ran a Capital Campaign which invited church-wide participation in preparation for the 100<sup>th</sup> anniversary of the building. We completed many projects: rebuilding the bell tower, increasing handicap accessibility, installing a new elevator, updating bathrooms, tuck pointing and cleaning the facades, and replacing the roof and gutters. We have all benefitted from those efforts. Unfortunately, an unexpected increase in cost for the bell tower hampered the completion of additional projects.

Below is the chronology of how we ended up with an estimated \$10 million HVAC project.

2006	A thorough evaluation of the church building reveals an HVAC system replacement would be between \$1.7 million - \$3,136,000. Remember, this system was installed in 1958.
2008-9	Discussion begins to launch a \$20 million comprehensive <i>Our Hope for Years to Come</i> campaign. This is the first real Capital Campaign in our church history. Benefactors' Group is commissioned to engage in a study and estimates we can raise between \$8-10 million.
2010-14	Overcoming the challenges of the 2008 financial crisis, we raise \$7 million. Unforeseen work on the bell tower sidelines the kitchen project and others. Our HVAC issues remain unaddressed.
2014-17	The list of unaddressed projects remains a concern and the Trustees initiate several projects during this time using the church's Building Contingency Fund - a limited draw from the church's Endowment. The HVAC system surfaces more and more as a concern, but it is considered too early to do another Capital Campaign. Meanwhile, the church becomes increasingly dependent on its Endowment draw to operate the church. And our Pastor retires.
2018	Discussion begins to replace the HVAC system.

Jan 2019	Our Trustees receive an estimate from <i>Horowitz</i> for \$3,129,000. This quote excludes design/build costs, electrical, permits, asbestos removal, etc., while a second contractor, <i>Yale</i> , submits an estimate of \$2,300,000, excluding same items.
Nov 2019	Our Trustees hire <i>Pegasus</i> to represent them in this process. This company is charged with evaluating the property and creating an accurate estimate for replacing the HVAC system.
June 2020	Initial estimate from <i>Pegasus</i> is \$4.5-6 million. This is a preliminary number and excludes critical infrastructure required to bring our property up to the current St. Paul City codes. Those items include asbestos removal, updating the fire alert system and electrical infrastructure upgrades.
August 2020	Final report indicates the cost will be \$9-10 million. Pandemic continues. New Co Pastors/Heads of Staff arrive.

### **How Can We Address This Need?**

To successfully tackle this challenge, we need to recognize three facts about ourselves as a congregation and how they may affect our ability to raise funds.

1. Since the 2014 Capital Campaign, our church has attracted only 28 new pledges toward our annual operating budget.
2. Financial support for our church has contracted from 470 active pledges in 2013-14 to 315 pledges in 2021-22, a decrease of 155. Members over the age of 65 now contribute 75% of our annual pledge income. Those over 80 contribute 26%.
3. We are Endowment dependent with about half of our budget relying upon revenue from its various funds.

Every 10 - 15 years most churches embark on a Capital Campaign to address infrastructure issues (like HVAC) that have arisen in the preceding years. We are being asked to face this problem head-on at a time when both financial and pandemic issues are influencing the lives of our members and consequently our church.

If we agree to live into this challenge, our three work groups believe we can create a vibrant and “healthy building” with good air flow, and an updated infrastructure that will

sustain our congregation and the mission of our church. We can thrive now and into the future.

Let's now look at the specific recommendations of the three work groups, with the following anticipated timeline:

Fall/Winter 2021 – Session, Trustees, and congregation vote on specific options regarding a draw from the endowment, sale of property, and Capital Campaign.

2022 – Execute funding options for HVAC and launch Capital Campaign

2023 – Winter/Spring - Work begins on HVAC

2024 – Work completed on HVAC!

# Capital Financing Work Group Report

## ***Campaign Financing Work Group members:***

*Bonnie Alton*

*Chris McHugh*

*David Phillips*

*Kathleen Schubert*

*Carol Stack*

*John Tulloch*

*Lisa Yost*

*Rev. Lynn Barger Elliott*

*Rev. Mark Barger Elliott*

## **How to Finance a Healthy Church Building**

As a congregation, we are in the enviable position of having a superb Gothic sanctuary and supporting auxiliary spaces, long term financial support for our program and mission from a permanent Endowment, and annual revenues from a group of other dedicated funds. Our resources as a congregation are inclusive of physical (the church building) and financial assets. We are the stewards of our assets including physical, financial, human, programmatic, leadership and other resources with which we are blessed. The beautiful Ralph Adams Cram building, rich in symbolism, creates an inspired setting for worship, reflection and as a base for our community outreach.

Our Endowment and other funds create the ability to move beyond “just getting by” to the formation and support of a robust series of programs and outreach activities that fulfill our mission.

The draw from our Endowment funds is 4.5% of a total value calculated by taking the average of the Endowment value over 20 calendar quarters. The endowment draw includes restricted endowments for specific programs of the church such as music, education and housing. A 0.5% draw is allowed for the Building Contingency Fund. The draw for 2021 included calendar quarters that began in 2016. This level of draw keeps the Endowment as a permanent fund available now and to future generations.

The average value of our Endowment over the past 20 calendar quarters is approximately \$27 million. In recent years, the Endowment has grown to \$32 million, inclusive of gifts, growth in the securities and equities markets, and sale of real property.

**Recommendation: Draw \$5 million from the Endowment to support this investment in infrastructure. As you will hear from others, we could combine this \$5 million draw with the potential sale of the Summit parking lot – rough estimate of \$3 million – alongside a Capital Campaign of \$1.5-2 million.  $5 + 3 + 2 = 10$ .**

Good stewardship of our Endowment includes consideration of replenishment of a significant amount of the \$5 million. Officers are working on this and have found some avenues with potential. Replenishment maintains our endowment as a perpetual fund, and its ability to support our church. Some sacrifice will be needed. More practically, removing this amount of money from the Endowment begins to lower the draw upon which the operational budget is dependent.

### **A Significant Concern to Keep Before the Congregation**

Aren't we fortunate that our founding mothers and fathers had the foresight to provide this substantial endowment by giving so generously in the past. This endowment has allowed us to stay strong and provides a tremendous resource for our current need. Still, a special draw from the Endowment has bottom line consequences for our church operations.

Because we currently rely on revenue from the Endowment to support our annual operating budget, any reduction in the overall Endowment will have repercussions for our budget.

If, for example, we draw \$5 million from the Endowment this action will impact and decrease our allowable draw over twenty quarters. The effect on our annual operating budget will be to reduce available revenues for church programs as noted below. This assumption is based on raising funds with a Capital Campaign in 2022 and successful sale of church property so we begin our work in 2023. For example, even assuming a 6% annual return from the endowment, the chart demonstrates increasing impact on our annual draw.

#### **Potential Decrease to Annual Draw at 6% return**

2024	(\$12,500)
2025	(\$64,381)
2026	(\$119,232)
2027	(\$176,722)
2028	(\$236,447)
2029	(\$285,455)
2030	(\$296,383)

These figures could be mitigated with replenishment of the \$5 million draw and/or growth of our endowment portfolio. A significant market decline, however, would affect the figures in the other direction. This leads us to the necessity of two other revenue sources as described below. At this time, I would like to invite the leads of the two work groups to describe their findings and recommendations.

# Parking Lot / Properties Work Group Report

## ***Parking Lot/Properties Work Group members:***

*Brian Alton*

*Dick Crone*

*Bill Geery*

*Ann Mack*

*David Phillips*

*Tom Radio*

*Jack Sjöholm*

*John Zwier*

*Rev. Lynn Barger Elliott*

*Rev. Mark Barger Elliott*

I. Conclusion: The value of the Summit Avenue Parking Lot ("Lot") is in the range of \$2.5 to \$3.0 million dollars.

II. Task Force. The Summit Avenue Parking Lot Task Force was made up of members of the Church who were given the task of assessing the present potential value of the Church's Summit Avenue Parking Lot.

III. Property information.

The work group met several times and gathered information to help evaluate the Summit Ave parking lot. The purpose for which the group was formed was to determine if the Lot could be sold and at what price if the decision was made to sell the property, whether to help the church to meet its capital improvement needs, or for another reason.

- Lot Area: 1.49 acres.
- Legal Description: Lots 1 through 6, Block 7, Summit Park Addition
- Platted as: One lot 60' x 250' and 5 lots 40' x 250'.
- Present use: Since 2000, the lot has been leased to Mitchell Hamline School of Law for use by students, faculty, staff, and visitors, and parking for employees of businesses located near the property. The property has a conditional use permit granted in 1992 from the City of the Saint Paul for the business parking in an institutional lot. The present extension of the lease expires on December 31, 2021. House of Hope does not generate revenue from the lease, but all expenses of maintenance are the responsibility of the tenant.
- Zoning: The property is zoned R2 One Family Residential.
- Taxes: The property is exempt from real estate taxes.

IV. Site considerations.

- The Lot is likely the largest developable parcel of property on Summit Ave.

- Summit Ave. is an historic street that enjoys a reputation as the largest stretch of Victorian-era homes in the United States.
- The first home on Summit Avenue was owned by Rev. Edward Duffield Neill.
- The governor's residence, the James J. Hill House, several homes designed by Cass Gilbert, the architect of the state Capitol building, and the home of F. Scott Fitzgerald are all on Summit Ave.
- Development of the property would require approval of the city's Heritage Preservation Commission.
- Development would also likely be subject to approval by the Planning Commission and perhaps the City Council.
- A developer of multi-family housing would need to re-zone the Lot. No commercial use of the property would likely be permitted.
- As a parking lot, the property is underutilized. As an asset of the Church it is not being used and managed in the best possible way.
- The City does not require the church to provide this parking lot for the operation of the church. The church has sufficient parking in the Portland lot and the Holly lot to accommodate parking needs (not taking into account the preferences and convenience of the church members).

V. Sources of information.

- Ramsey County tax records.
- Comparison of recent vacant single family lot sales in the vicinity.
- Experienced local real estate professionals.
- Two well respected Twin Cities area real estate developers.
- A nearby property owner who submitted an unsolicited offer. Additional supporting information regarding value has been prepared as a separate document.

VI. Potential uses or options.

- Continue to operate as is and lease to the law school.
- Terminate the lease and continue to use as a parking lot.
- Partner with a developer who would develop multifamily housing.
- Subdivide, market and sell as single family lots.
- List the entire property for sale with a real estate broker.
- Negotiate a sale to the third party who presented an offer.

VII. Notes.

- Sale of the property will take some time and will require Congregational and Presbytery approval.
- Partnering with a developer could be controversial. Achieving the highest price for the property would also require rezoning and obtaining approval for a use that may be more dense (i.e. more housing units) than some interested parties would find acceptable.



- The site is not large enough for a senior housing facility.
- No commercial use will be allowed on the property.
- The task force did not obtain a professional appraisal by a licensed appraiser.
- The county valuation is probably less than fair market value as can be seen by the fact that the assessed value has not changed in at least five years.
- The task force did not devote much time to evaluation of the Holly Ave parking lot, the Portland Ave parking lot, or the Portland playground area. It was assumed that there is no interest in selling those parcels.

# Capital Campaign Planning Work Group Report

## ***Campaign Planning Work Group Members:***

*Jan Anderson*

*Liz Boyd*

*John Couchman*

*Sue Haigh*

*Elise Jamison*

*Tani Maruyama*

*Sherwood Pomeroy*

*Rev. Mark Barger Elliott*

## **Campaign Themes**

- Create a healthy and welcoming space for worship and mission
- Invest in a sustainable, green and energy efficient church
- Steward this historic and sacred space for future generations

## **History of our Hope for Years to Come Campaign 2010-2016**

Our previous campaign was led by Mary Westra and Ted Weyerhaeuser. During our previous campaign we raised \$6.9M. Our top ten donors contributed \$3.2 M to this goal:

- Two \$1M gifts
- One \$250K gift
- One \$200K gift
- Two \$150K gift
- Four gifts between \$100K-\$150K

In reviewing these top gifts some donors have passed away and others have moved; we learned that only three of the ten top donors are still active members. The church used a campaign consultant to establish a campaign plan and goal. The congregation enthusiastically embraced volunteer roles during this campaign with eighty congregation members involved in serving on campaign committees and soliciting gifts from congregation members.

## **New Capital Campaign**

Our Committee considered the following topics when discussing the feasibility of a new capital campaign:

### **Campaign Message & Communications**

To engage the congregation about the need for a capital campaign we need to answer these questions:

- WHY is a campaign needed for HOH?
- Why NOW?
- How will the campaign INSPIRE our members to grow in their faith?
- How will this campaign contribute to the HEALTH AND LIFE of our congregation?
- How will our **Community be served by this campaign?**

### **Timing of a Campaign**

- We recommend engaging with congregation members in the fall of 2021 through the spring of 2022 to determine the commitment for lead gifts.
- After listening to congregation members we can determine the fundraising goals for the campaign.

### **Scale of a Campaign**

We would recommend that the overall goal of the campaign include the contributions from the endowment, the revenue from the sale of the parking lots, and gifts from our members with a goal of 100% participation from our congregation.

Congregation members should be encouraged to give from their wealth, not just their income in making pledges to a campaign. Robust returns in the stock market have left many members positioned to make gifts from their wealth.

Campaign pledges should be made to encourage a steady growth in annual pledge revenue and should be above and beyond annual giving. We don't want to supplant annual giving to the church to achieve a campaign goal.

Since the endowment will be making significant contributions to this campaign, congregation members should also be encouraged to make planned gifts in their estate plans to insure a healthy future for our campaign.

The individual giving part of the campaign goal must be realistic and based on members enthusiasm for this campaign.

### **Campaign Consultant and Volunteers**

We would recommend engaging a campaign consultant during the planning stage of the campaign to establish realistic goals and create energy and momentum at the beginning of the campaign. We would also recommend that members fully engage in the campaign and solicit gifts from other members since this is our church. We have identified several potential campaign consultants.