

# Requirements for Standing Committee Approval of Indebtedness

2012

As soon as a church begins to consider a project which may require approval of indebtedness by the Standing Committee, the church is expected to contact the President of the Standing Committee, asking him / her to appoint a person to serve as liaison to the church through the process of seeking approval and repaying the debt. The church must have a plan of development in place at least six months before breaking ground. This is generally understood to be architectural and landscaping plans filed with a local authority.

As outlined in the Constitution and Canons of the Episcopal Church (2009) Title 1, Canon 7, Section 3 and the Constitution and Canons of the Diocese of Virginia (2011) Canon 14, "Creation of Church Debt," the Standing Committee must give its approval to the creation of any major indebtedness (as defined in the diocesan canon noted above). The Standing Committee requires the following as tangible evidence of a church's readiness to incur such debt, before its approval can be given. These items are outlined in the worksheet of items provided as a format for submitting requests:

1. A concise statement of the purpose of the project for which debt will be incurred (the "mission statement") and the place of this project in the total ministry of the parish, region, and Diocese.
2. A description of the project and how it meets the requirements of the "mission statement."
3. A description of the approval process for this project within the parish. Please include a statement as to who holds title to the property in trust for The Diocese of Virginia. For example: "Property is held in trust for The Diocese of Virginia in the name of the
  - a. Trustees of applicant church, being (insert all current Trustee names)
  - b. Bishop of The Diocese of Virginia, being Shannon Sherwood Johnston
  - c. Trustees of The Diocese of Virginia, being (insert all current Trustee names)
4. Architectural plans, if planning to build or renovate. Please note all external considerations and a list of governmental approvals necessary for the project. If the parish is an historic building, in an historic area, or adjacent to either, contact with a local government and/or historical society is especially necessary to judge extraneous or hidden costs of the project.
5. History and projected growth rate of church membership and area population.
  - a. Calculate membership and area population at +/- 10% to show possible range
  - b. What does the range mean to church's ability to bear debt load?
  - c. Census data obtained from county / city.
  - d. Are any Episcopal churches nearby or planned for the area?
  - e. Over the last three years, what has been the average Sunday attendance?
  - f. Why are the growth numbers justified?

6. A stewardship history, including history and projected growth rate of pledges to operating budget and any prior special appeals (i.e. Capital Campaigns). The pledge to the diocesan operating budget is important as the Standing Committee will consider the minimum pledge which is expected of the particular church according to current diocesan policy at the time of the request. Include the following data for the prior three years:
  - a. Number of pledges and the amount of pledges made
  - b. Number of pledges honored in full
  - c. Dollar amount actually received on pledges
  - d. Percentage *not* received on pledges
  - e. Average pledge
  - f. History of pledging to the Diocese for the current year and the past four years including an indication of percentage of unrestricted and total income and total amount paid in each year.
7. Operating budgets of the church for the three-year period immediately preceding application.
8. A complete copy of the currently required annual parish audit, as well as current year-to-date income statement and balance sheets.
9. Report of fund-raising efforts and results.
  - a. When is the money coming in?
  - b. Pledge assumptions should be discounted two percent for pledges to be received within 12 months, five percent for those to be received in a period 12-24 months out, and at least 10% for all pledges payable beyond 24 months.
10. A proposed borrowing plan for the project, including a clear statement of the total amount of debt to be incurred from all sources and a schedule for repayment of loans.
  - a. When is the borrowed money coming in to church accounts?
  - b. Where is the loan to come from and what are the terms? Pay attention to pre-payment penalties or expenses to “unwind” a loan. **A copy of the actual loan commitment documents or pre-qualification documentation is to be included.**
  - c. The Standing Committee will generally not allow debt amortization of more than 25 years. 30-year amortizations will be discussed on a case-by-case basis.
  - d. Interest assumptions should trend higher than at time of application (i.e.: +.50%). Judgment should be based on current market conditions.
  - e. If using a variable rate, request a “cap” on the periodic adjustments allowed by the lender.
11. If the Diocesan Missionary Society has been contacted for assistance and has agreed to provide the loan, please send the Standing Committee a copy of the DMS letter of approval. If DMS was asked, but has **not** agreed to assist the project, please state why not.

12. If the requesting Church is a Mission Church and/or Church under the supervision of the Bishop, a representative of the Commission on Congregational Missions **must** review the proposal. A letter of approval from the Chair of the Commission on Congregational Missions, or any successor entity, to the Standing Committee is required for approval. In the case of a simple refinancing of previously approved debt that does not involve additional debt of any kind, these steps are not required.

13. A proposed spending plan for the project phases and costs of each phase, including allowance for cost overruns.

14. Projected financial *pro forma* statements for the parish for the first five years after the commencement of the repayment of the debt.

15. If approved, the Standing Committee, or the Treasurer of the Diocese of Virginia at the direction of the Standing Committee, will notify the Senior Warden of the requesting church. This letter may be required by a lender to make certain denominational approval has been received by the church. This letter may be required by the Circuit Court with jurisdiction for the location of the requesting church.

Formal application to the Standing Committee is to be made in person by a delegation from the congregation, including the Rector or Vicar, the Wardens and others (the Treasurer, Chair of the Building Committee or Building Finance Committee, etc.) as deemed necessary by the applicant church.

The church, through its assigned liaison, is to contact the President of the Standing Committee to schedule such a meeting. All written materials for review must be delivered to **each** member of the Standing Committee not less than two weeks prior to the meeting at which application will be made. If the Standing Committee does not receive the materials two weeks prior to its meeting, the application will not be considered at that time. The final materials may be best sent electronically depending on the size of the documents.

For those churches meeting such thresholds, an annual reporting form must be submitted to the President of the Standing Committee. This report is to be submitted no later than April 30<sup>th</sup> of each year. This report is required to be submitted **each year** until the total outstanding debt of the church is less than 80% of a three-year average of the church's unrestricted income. If a church reaches that level, they should ask their assigned liaison or the Treasurer of the Diocese of Virginia for the current process to request official termination of the need to file an annual report.

The Standing Committee will maintain a record of all applications. This record will include all subsequent related documents such as the annual debt status reports, or addenda to the application.