



THE EPISCOPAL DIOCESE
OF MASSACHUSETTS

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***REAL ESTATE
TRANSACTION
GUIDE
For Congregations***

Approved By Standing Committee:

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February 9, 2017

FOREWORD FROM THE STANDING COMMITTEE

In the New Testament, the most common word for “church” (*ekklesia*) had nothing whatsoever to do with buildings. It simply meant a gathering of faithful people. However, in the 21st century life of our Diocese, nearly all our congregations and worshipping communities find that the use, care, maintenance, mortgaging, renting, and developing of their real estate and physical assets is a key element of their mission and ministry. Because real estate assets for ministry are long-term core assets for congregations, our canons give the Standing Committee and Bishop a role in consenting to various kinds of real estate transactions.

For almost a decade now, the Standing Committee has relied upon the Real Estate Advisory Committee (REAC) to work with congregations to plan for, develop, vet, and analyze proposed real estate transactions, and then make recommendations for consent to the Standing Committee and Bishop. REAC is not a governance body; it is an advisory group charged with helping congregations in their development of real-estate related projects that they can then recommend for consent as having been diligently planned for, feasible to execute, and financially prudent.

At its core, REAC is designed to be a resource to our entire Diocese community. REAC is composed mostly of lay persons with professional expertise in the areas of real estate development, architecture, project management, church consulting, and real estate law. Their professional skill is surpassed only by their love for The Episcopal Church and our Diocese, and their desire to use their particular gifts in the service of building up this corner of God’s church. As a Standing Committee, we are grateful for their faithful willingness to offer their experience and wisdom to all our congregations.

This Real Estate Guide, developed with care and diligence over many months by REAC, offers professional guidance and process advice on nearly every kind of real estate project or transaction we’ve encountered recently in our Diocese—from steeples to boiler rooms, solar panels to scatter gardens, rental leases to diocesan loans. This Guide also lays out details about the necessary steps to obtaining the required canonical consents. Our hope is that every clergy person, warden, and vestry person in our diocese will consult it early on whenever considering some kind of project or transaction that involves the real estate assets of a congregation.

Most of all, we pray that the Guide will help you and your congregation to feel empowered to continually discern how God is calling you to use the real estate assets that are entrusted to your care. Please know that others are ready and waiting to guide and advise you in living out this aspect of your mission in service to Jesus Christ.

Faithfully,

The Standing Committee of the Diocese of Massachusetts
February 2017

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Fact Sheet as of 01/24/17

CONTACT PERSON:

The contact person for real estate is:

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The contact person for Diocesan and Green Loan Applications:

Charlie Jordan, Comptroller
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LOANS: DIOCESAN LOANS AND GREEN LOAN INFORMATION:

Diocesan Loans maximum is \$100,000, but not more than the amount of the annual operating budget, 15 year term (fully amortized)

Green Loans maximum is \$100,000, but not more than the amount of the annual operating budget, 15 year term (fully amortized)

Total combined Diocesan and Green Loan balance maximum is \$150,000, but not more than the amount of the annual operating budget

Interest Rates

Diocesan Loan 3.75 % Annual Percentage Rate (APR)

Diocesan Loan with Automated Clearing House (ACH) direct payment 3.5 % APR

Green Loan 2.75 % APR

Green Loan with ACH direct payment 2.5 % APR

Both loans require a security agreement on the appropriate congregation owned property with the Diocese named as the lien holder.

INTRODUCTION

A congregation holds real estate in trust for the people of that congregation and for the Bishop, clergy, and people of the Diocese. Canon 18 of the Canons of the Episcopal Diocese of Massachusetts requires prior approval of the Bishop and the Standing Committee for any transaction involving an acquisition, “alienation” (transfer/sale), or “encumbrance” (burdening) of real estate.

Property is a long-term, illiquid capital asset. It contributes to a congregation when it supports its core mission and maintains and grows in value over time. When there is a change to that property through the placing of a lien/encumbrance, a sale of, or a development of that property, the Diocese must understand the specifics of the proposal and its implications for the mission strategy of the congregation and the Diocese and the value of the property.

The Bishop and the Standing Committee have established a Real Estate Advisory Committee (REAC) which is comprised of professionals with expertise in the legal, architectural, financial, and business aspects of real estate. REAC’s review of proposals is restricted to those aspects of the transaction. The Bishop and the Standing Committee will have broader concerns, of which REAC’s due diligence review of the transaction will be a part. This Guide, developed by REAC and approved by the Bishop and the Standing Committee, sets forth the process through which the due diligence review of real estate transactions occurs, and offers some general guidelines on developing a comprehensive presentation. The REAC Coordinator (a Diocesan staff member), members of the Committee, and the Diocesan consultants stand ready to help congregations considering a real estate transaction, and to that end, congregations are encouraged to contact the REAC Coordinator early in their planning process (see Page 6 for contact information).

COMMON TRANSACTIONS AFFECTED

Transactions that require Diocesan approval include the following, but not limited to:

Loans secured by congregation owned real estate	Leases longer than 12 months
Proposed sale of a church, rectory, vicarage, or any property adjacent to the church.	Proposed agreement for a communication antenna
Proposed acquisition of any new property	Grants from a government entity or an organization that require a deed restriction
Redevelopment of available church-owned land	Establishment of memorial gardens, columbaria, and cemeteries
Grant of easement over church property	Designation of historical status
Solar leases	Power Purchase Agreements (PPAs)

OVERVIEW OF THE PROCESS

The Bishop and The Standing Committee, which advises the Bishop, need both time and information to review a proposal to acquire, alienate, or encumber congregation-owned real estate. Checklists for the more common transactions requiring approval are included in the Appendix.

Time. Churches should be in touch with the REAC Coordinator as soon as any real estate transaction is seriously contemplated, and at least 60 days before Standing Committee approval is desired. The REAC Coordinator and REAC members can advise the parish on the process and the development of a complete package of information needed for the due diligence process to proceed. REAC generally meets one week in advance of the Standing Committee, though it does not typically meet in July or August. A complete application must be received no less than 30 days in advance of the scheduled Standing Committee meeting. Contact information may be found on Page 6

Information. The level of detail required will depend on the size and scope of the proposed transaction. At a minimum, the applicant church should be prepared to provide a one to two page narrative describing the proposed transaction and its consistency with the long-term mission of the congregation. See the Appendix for a checklist for the type of transaction contemplated. The REAC Coordinator can also advise the congregation concerning necessary documentation.

DIOCESAN REVIEW OF REAL ESTATE TRANSACTIONS

1. Canon 18

The Canons (church law; there are 21 Diocesan Canons) of The Episcopal Church and of our Diocese expressly provide for the advice and consent of the Bishop and the Standing Committee over significant transactions involving real estate. Diocesan Canon 18 reads as follows:

Episcopal Diocese of
Massachusetts

*Canon 18: Alienation or Encumbrance of
Real Estate*

Sec. 1: Restrictions Applicable to Certain Property

No consecrated church or chapel, nor any church or chapel which has been used solely for divine service, nor property which is being used as a congregation house or rectory, nor any land incidental to or regularly used in connection with any of the foregoing, shall be alienated or encumbered without the previous written consent of the Bishop, acting with the advice and consent of the Standing Committee; provided, that this restriction shall not apply to the transfer to or from the Diocese or to the Bishop and Trustees of the Episcopal Church in the Diocese of Massachusetts, or to the Trustees of Donations of the Episcopal Church, of property other than a consecrated church or chapel, or a church or chapel which has been used solely for divine service.

Sec. 2: Alienation or Encumbrance Generally

Subject to the previous Sec. 1. above and to any other applicable restrictions and conditions, any property held by or for the Diocese or any congregation, mission or other organization or institution within the Diocese may be alienated or encumbered for such consideration and on such terms and conditions as the person, body or group holding it may determine, without consent of the Bishop or Standing Committee.

Sec. 3: Certification of Status

A certificate to the effect that designated property is not of a kind the alienation or encumbrance of which requires the consent of the Bishop or Standing Committee, executed by the person, or by the Treasurer or Secretary of the body or group, holding such property or for whose benefit it is held shall be conclusive proof that no such consent is required by this canon.

2. Standing Committee Review Principles

The following three principles will guide all Canon 18 reviews of real estate transactions that require Standing Committee review and approval.

- a. Consistency With Mission of the Congregation. The transaction should be consistent with and supportive of the demonstrated mission of the congregation. A strong proposal will articulate an understanding of its congregational mission and how the transaction is consistent with it.

- b. Effect On Potential Future Congregation. The proposal should demonstrate how the transaction will expand the capabilities of the congregation to meet the discerned future call of the congregation. To that end, the proposal should describe how any proceeds of a sale or lease or purchase or capital improvements made with borrowed funds will be used to support that congregation and maintain the viability of the congregation.

- c. Consistency With Diocesan Mission and Commitments. The proposed transaction should further the congregation's ability to participate in the Diocese's mission and uphold stated Diocesan commitments, with particular attention to our shared commitments for financial compliance/transparency and environmental sustainability and the preservation of capital.

PART I: TYPES OF TRANSACTIONS

A. LOANS SECURED BY REAL ESTATE

Any lender making a sizable loan to a church, as with a private borrower, typically will require a promissory note and recorded mortgage to ensure repayment of the loan. A mortgage is an encumbrance on a property in that it must be discharged (paid) before a property can be sold, and it affects the net value of the property. A mortgage may also contain requirements that the owner meet certain obligations (e.g., carrying insurance of specific amounts and coverage) and that the owner must receive permission from the lender for certain actions (e.g., adding a second mortgage). Thus mortgages meet the definition of “encumbrance” as contained in Canon 18 and require Diocesan review. This is true for loans from the Diocese, church-related lenders, institutional, and private lenders.

1. Diocesan Loans.

Diocesan Loans, which come from the Stokes Fund Endowment, are loans to congregations for the repair or improvement of existing structures or fixtures, with a strong preference for basic renovations to maintain the habitability of churches and related buildings, to prevent facility degradation, to conserve energy, to create an accessible environment, or to modify facilities to meet congregation or congregation related uses. Loans are made to congregations which demonstrate the feasibility of the project for which the funds are being borrowed and the ability of the congregation to repay the loan.

Current Diocesan Loan terms may be found on the Fact Sheet, Page 6.

Application forms for a Diocesan Loan are available in Appendix I of the Guide, as well as contact information for the staff person assigned to the Diocesan Loan Committee (DLC). That staff person will coordinate the application process with the Committee’s schedule and ensure that the congregation’s application is complete. Key elements of the application are to provide a brief but thorough description of the work and how it will benefit the congregation, plans and specifications for the proposed work, three bids proposing comparable work, and the plan for paying back the loan. The congregation is advised not to sign contracts for the proposed work or begin the work before they receive approval of their loan request.

The application will be reviewed by the DLC which sends its recommendation to REAC; REAC then prepares their recommendation and draft motion for Standing Committee consideration; the loan must receive the advice and consent of the Bishop and the Standing Committee.

Each Diocesan Loan is evidenced by a promissory note. Except for the rare case where the applicant Church does not hold legal title to the real estate, each Diocesan Loan is secured by a mortgage. The mortgage is a recorded lien, which ensures that the Diocesan Loan Fund is repaid in the event of a sale of the property and includes other conditions that the Borrower must

maintain in order not to be in default. After the approval of the Bishop and Standing Committee, the promissory note and mortgage are prepared by counsel for the Diocese following a title search; funds are disbursed after the mortgage is recorded at the applicable Registry of Deeds.

Please see Appendix I for the loan application and more information.

2. Green Loans

A portion of the Together Now Campaign proceeds, launched in 2014, has been set aside to provide loans to congregations for energy efficient and other green improvements to their property. The Diocesan Loan Committee administers these loans for the Diocese in collaboration with the Diocesan Creation Care team. One significant aspect of the Green Loan program is that the interest rate on a Green Loan is often below the rate for a standard Diocesan Loan. In the case of energy savings projects, the goal of the Green Loan program is to have the annual savings on fossil fuel payments equal or exceed the annual payment on the loan. An analysis to show how far the project will go to meeting this goal is a requirement of the Green Loan application.

The DLC will consider extending “green” terms to congregations proposing green projects even after this special set aside of funds is exhausted and prior to its replenishment from loan repayments. The Green Loan maximum can also be combined with a traditional Diocesan loan, to a maximum borrowing of \$150,000. The particulars on Green Loans may be found in the Appendix as well as the contact information for the staff person working with the DLC. A congregation should use the Diocesan Loan Application described above to apply for a Green Loan.

There are other features and requirements of Green Loans involving data collection and education. Please see the Green Loan Addendum of the Diocesan Loan Application in Appendix II for further information.

3. Other Loans, i.e. bank and other lenders.

A congregation may desire to obtain financing from an institutional or private lender. Sometimes, these loans are chosen because the amount needed exceeds the Diocesan Loan limit of \$100,000. Such an arrangement will usually result in the financing institution requiring a lien on the church property. A church may only enter into this type of transaction and agreement with the advice and consent of the Bishop and the Standing Committee. All such proposals must first be reviewed and approved by the Diocesan Loan Committee and then REAC before consideration by the SC to provide its advice and consent to the Diocesan Bishop. A congregation must use the Diocesan Loan Application to apply for the required Diocesan approvals, which will follow the same process described above. For more information, reach out to the DLC staff person whose contact information can be found on Page 6. A copy of the Checklist for a Congregation Seeking a Bank Mortgage Loan may be found in Appendix III.

B. DEED RESTRICTIONS AND EASEMENTS ON PROPERTY

A deed restriction is a recorded instrument that prohibits or requires approval of a use, activity, sale or physical alteration to a building or property. Such restrictions are “encumbrances” that may affect the value or use of property, and require Canon 18 review. These are often used in connection with the historic preservation of buildings and other property, or a particular use of property such as affordable housing. An agency granting assistance to a Church may require a deed restriction which obliges the grantee to seek agency review and approval of physical changes in the property, and/or requires the continued use of the property to be consistent with the purpose of the grant.

Another type of restriction is where an owner grants an easement on their property to a utility company or an abutter to allow the utility’s or abutter’s use of a portion of their property. Examples of utility company easements are access to transformers or utility poles and wires that are on church property; another similar easement is for cell phone antennas or for towers that are owned by a company that leases to more than one cell phone provider. Examples of an abutter’s easement might be the granting of access over church property for fire egress or convenience purposes (e.g., a gate in a fence).

1. Deed Restrictions due to Grants

A. Historic Preservation Restrictions. At various times, federal, state and now local agencies have provided funds for the improvement of historic property. Both the National Park Service and the Massachusetts Historical Commission (MHC) have provided competitive grants for restoration projects of historic properties through the Save America’s Treasures Program and Massachusetts Preservation Projects Fund (MPPF), respectively. Several congregations have applied for and received this funding for exterior restoration of their historic churches. While both agencies require deed restrictions, MHC additionally requires that a commitment to enter into a preservation restriction be included in the application for funding. Such a restriction falls under Canon 18, requiring that the Bishop, acting with the advice and the consent of the Standing Committee, must first consent to the placing of this restriction on the property. It is important to note that this consent must be included in the application and so must be done prospectively and in a timely fashion.

Private foundations or donors interested in historic preservation may also require deed restrictions. Further, certain non-profit historic preservation organizations are uniquely qualified to negotiate, hold and enforce deed restrictions that may be required by a private donor or foundation who wishes to make a significant financial contribution to preservation work on an historic church property. Such a restriction requires the approval of the Bishop and Standing Committee and will be vetted by REAC. Again, any congregation that is considering accepting such a donation and accompanying restriction is advised to contact the REAC Coordinator as soon as possible to ensure that the due diligence process moves as quickly as possible.

B. Community Preservation Act and other programs which may require deed restrictions. Many Massachusetts communities have adopted the Community Preservation Act, which uses a surcharge on property taxes to create a fund to be used to promote affordable housing, historic preservation and open space preservation. Local funding through the Community Preservation Act may or may not require deed restrictions depending upon the municipality administering the funds. Congregations interested in developing affordable housing on their excess property may also want to take advantage of affordable housing bond programs, which can carry 30 and 50 year deed restrictions. Examples are the federal HOME program administered by large cities or consortiums of several municipalities and the Massachusetts Department of Housing and Community Development's Housing Innovation Fund. If a deed restriction is required, REAC review and Standing Committee approval will be required.

There may also be other opportunities for congregations to use government funding that require short or long term deed restrictions. If a congregation is using a portion of its property for a shelter, child care or other community benefit, programs such as the McKinney Vento HEARTH program and Community Development Block Grant funding may carry multi-year deed restrictions and require that the grant be paid back if the property does not continue in the designated use for the full period specified.

A congregation should understand all the obligations of these different programs, which often also have annual reporting requirements, and carefully weigh the advantages and disadvantages of accepting these funds before applying for them. REAC and Standing Committee will expect to see this rationale presented in any application for deed restriction approval.

2. Abutter/Utility Easements and Encroachments

a. Abutter Easements.

Abutters may request the ability to have sustained access to a portion of a congregation's property for occasional passage or other use through a recorded easement. As this could potentially restrict the use and/or value of the property, the easement language should be vetted by REAC to determine if Bishop and Standing Committee approval is required prior to recording.

b. Utility Easements.

Most utility easements involve utility-owned equipment being placed on the congregation's property, and the utility's right to enter the property for maintenance and repair. In most but not all cases, the equipment benefits the property owner and its initial cost may be borne by the property owner (e.g., a transformer or transmission pole for new service to the property). While it is unlikely that utility easements are a Canon 18 matter, the church should carefully review the physical location and the language of the easement to ensure the utility's use of the property does not interfere with the congregation's use. Since an easement is a recorded document, if there is any concern about it, please contact the REAC Coordinator for review and assistance.

c. Encroachments.

There are occasions when an abutter to a church encroaches on church property with an object or structure such as a fence or small building which limits the congregation's use of its property. Allowing the encroachment to occur without acknowledgement over a long period of time (in Massachusetts, 20 years) can create adverse possession and cloud the title to the property. If however, a church wishes to allow the abutter to use and/or possess a small portion of the property, they should seek advice from the REAC Coordinator who may advise them to (a) obtain legal counsel for the development of a document allowing the use and (b) prepare a request for REAC review to determine whether approval of the easement or sale by the Bishop and Standing Committee is required.

3. Use Restrictions, Reverters and Land Trusts

These three types of restrictions usually create an encumbrance which affects the congregation's full use of its property and which may diminish the market value of the property. From the other perspective, where a congregation is selling property, including a restriction as part of the sale could be helpful and wise. Examples are where a congregation sells property to the Diocese, or to a congregation of another denomination, or plans an outright sale or trade of a parcel with a town for a specific use, such as parking or a park. For example, if a congregation sells its sacred space to a congregation of another denomination, they may wish to place a restriction on the property so that it must always be used for worship, or in the event it is not, that the property would revert to the original congregation, or the Diocese. Similarly, if a congregation sells a parcel to a municipality for a community use, the congregation could insist on a deed restriction, or creation of a land trust, so that this use must continue or, for example, that the property cannot be sold to a private developer. These restrictions may likely reduce the market value of the property, but also memorialize the congregation's intent for the future use of the property.

Again, early contact with the REAC Coordinator is strongly encouraged (see Page 6) to determine whether a proposed restriction is a Canon 18 matter requiring review. A copy of the checklist outlining requirement to obtain Diocesan authorization may be found on Appendix VIII, Page 45.

C. SIGNIFICANT LEASES OF REAL ESTATE

The validity of a lease made by a congregation may come into question if there is not authorization by the Bishop, with the advice and consent of Standing Committee. A congregation contemplating a lease meeting one or more of the criteria listed below should contact REAC for a due diligence analysis and subsequent Standing Committee action for properties that are:

- ❖ Consecrated
- ❖ A church
- ❖ A chapel
- ❖ A Parish hall/house
- ❖ A rectory/vicarage
- ❖ Land contiguous to the Church

A lease of space meeting the criteria of Section 1 of Canon 18 is considered an encumbrance that requires REAC review and Standing Committee approval if it meets one of the following criteria:

- (a) The lease involves a significant (\$5,000 or more) commitment to capital improvement to accommodate the lessee; or
- (b) The term of the Lease is more than 12 months and involves the use of more than 400 square feet of space; or
- (c) The term of the Lease is more than 24 months.

The REAC Coordinator can provide guidance on negotiating lease transactions; a congregation contemplating leasing a portion of its property is encouraged to contact the REAC Coordinator even if the lease does not require Standing Committee approval.

Even when a lease does not meet the criteria above, there may be situations where Diocesan review is beneficial to a congregation. A congregation may request that a lease be reviewed when:

- a lessee requests that a lessor's congregation obtain the Standing Committee's approval to ensure that a lease is valid.
- where a lease is the subject of controversy, the congregation may wish to obtain the Standing Committee's approval to affirm the congregation's decision.

Examples where a congregation and its lessees will not need to protect the validity of their leases by obtaining approval from the Bishop and Standing Committee include:

- (a) Short term leases that contain a provision that the lessor can cancel the lease without cause upon 12 months' notice or less;
- (b) Short term leases that provide for termination should the congregation sell the property being leased;
- (c) Arrangements where use of space is nominal (e.g., single night a week for groups such as AA or other community service groups); [Note - such an arrangement is not a lease]
- (d) A lease to an organization of the congregation (e.g., ECW, a congregation thrift shop, or a congregation-run nursery school or day care center);
- (e) A lease involving space that is not contiguous to the church, is not the rectory or Parish house, and is not consecrated.

REAC strongly recommends that plans to enter into a long-term lease be reviewed by the REAC Coordinator (see Page 6 for contact information) well before a formal lease agreement is drafted.

In some cases, a congregation and a tenant may wish to formalize their relationship with a Memorandum of Agreement (MOA) or license. These other forms should be carefully crafted to protect the congregation, as in some cases, they can be considered to have the status of a lease, and therefore create an encumbrance that requires approval from the Bishop and Standing Committee. Congregations are urged to contact the REAC Coordinator (see Page 6 for contact information) to discuss these situations before formalizing the document and relationship.

A copy of the checklist outlining Diocesan requirements to obtain Diocesan authorization may be found in the Appendix IV, Page 41.

D. SALE OF CONGREGATION-OWNED REAL ESTATE

In carrying out the Canons, REAC and the Standing Committee review each proposal to sell church-owned property of any kind based on its own merits, its unique situation, and its congruence with the mission strategy of both the congregation and the Diocese. Diocesan review varies based on whether the proposed sale of congregation-owned property involves buildings and property originally used as a church, rectory or vicarage (if the congregation is a Mission), a parish hall, has been set-aside for some other purpose, or is a vacant building or unused land.

With regard to the proposed selling of church-owned property which is not a church, a rectory or a vicarage, REAC and the Standing Committee will especially want to know how this proposal enhances the mission strategy of both the congregation and the Diocese. In recent years, the Standing Committee has approved the use of proceeds from such a sale: (1) for capital improvements to remaining church owned property; (2) to establish an endowment fund whose income may be used for future capital improvements; or (3) to establish an endowment fund whose income may be used annually for church operating expenses. Use of capital proceeds for operations is unlikely to be approved.

When requesting the sale of a rectory or a vicarage, the congregation should document how the church will provide good housing for a rector (or vicar if a Mission) in an appropriate neighborhood in the community where she or he may be called. Because home prices in Massachusetts are some of the highest in the country, when there is an opening the pool of potential priests should not be limited only to those who can afford to buy a house in that community. Accordingly, the Standing Committee will approve the sale of a rectory or vicarage only under extraordinary circumstances and the congregation must demonstrate that it will be able, in the near and distant future, to provide suitable housing for whomever they may call as their priest.

The current practice of the Standing Committee has been that proceeds from a sale of a rectory/vicarage be used as follows: (1) to establish an endowment fund whose income may be used to support the rector's housing or housing allowance; (2) to establish an endowment fund

for future purchase of a new rectory; and (3) to establish an endowment fund for future capital improvements to church property. Use of capital proceeds for operations is unlikely to be approved.

The provisions of a restriction on the use of an endowment fund created by the sale of a rectory/vicarage generally should include use of principal only for clergy housing, unless otherwise authorized by the Bishop and the Standing Committee. Further, any regular draw from that fund, including that used to support clergy housing or housing allowance, should be set at a rate comparable to that used by the Diocesan Investment Trust

A copy of the checklist outlining requirements to obtain Diocesan authorization may be found in the Appendix V.

E. DEVELOPMENT OF CONGREGATION-OWNED REAL ESTATE

A congregation sometimes wishes to develop unused or underutilized property for congregational use, for mission purposes (e.g. affordable housing) or as a source of potential income or endowment capital. Property can be a tool for mission, and sometimes, vacant land and unused or underutilized buildings are assets that, in the right circumstances, can be beneficially utilized if redeveloped.

When a property owned by a congregation is being developed for non-congregational uses, its sale and/or development proceeds should also be put to work by being invested in another use that is expected to provide long-term income and value. The Standing Committee may place restrictions on the release of principal or income generated by the investment of funds derived from the sale or redevelopment of property.

Real estate development not for direct congregational use can provide a long term income stream from rental income to a sponsoring developer-congregation. Sale after the redevelopment can provide a one-time financial benefit. Either a long term or one-time financial gain should be carefully integrated into a congregation's finances and administration. Both involve substantial financial risk and investment of time and professional resources, and will also likely have an impact on the community and community relations. Simply put, this type of real estate development is not part of a church's core mission and is not a typical role for a congregation or its staff; it should not be undertaken without substantial discussion and analysis. Further, such transactions will likely require approval by the Bishop acting with the advice and consent of the Standing Committee under Canon 18, Section 1, especially if the project will involve a sale of or a debt secured by the congregation's real estate.

Church real estate development usually follows one of three control models. All three models have potential impact on the community and how a congregation is seen in its community.

1. The congregation sells property to a developer. While this is very often the simplest path, such sales are often subject to significant contingencies, such as zoning approvals, due diligence studies, and receipt of financing. In addition to the time needed for these contingencies to be realized, the congregation may be asked to become involved in one or more of these processes. Financial risk sharing may also be on the table. The congregation should understand that proposed sales sometimes simply fall through; the time, energy and perhaps the investment (e.g. in legal and other professional costs) may be lost.

2. The congregation enters into a partnership with a developer. This format usually involves shared risks and financial rewards, where the full value of the congregation's contribution/return on investment is not realized until the developer reaches certain profit making goals. Substantial development expertise on the part of the congregation (or engaged by the congregation) will be required to create a partnership with an experienced developer, which may not be equal. Such partnerships should be formalized in a legal document such as a contract, or in a corporate format such as a Limited Liability Company (LLC).

3. Lastly, a congregation could become the developer of its property. Substantial professional expertise within the congregation (or engaged by the congregation) would be needed in order to prepare a credible financial package, select and manage professionals such as architects, development teams, engineers and attorneys, negotiate with lenders and contractors and oversee the project. This model places all of the risk of delays, cost overruns, and community relations on the congregation. On the other hand, this model allows the congregation to maintain ownership and control of the property, its development, and its use.

It is important to reiterate that property development can be controversial. Any project, no matter how small or related to a congregation's mission, can result in political, neighborhood, and community disputes. As mentioned above, community relations should be part of the risk/reward assessment conducted by the congregation when contemplating real estate development.

Any congregation contemplating this type of development should contact the REAC Coordinator (see Page 6 for contact information) long before this work is to commence so a Diocesan consultant can be designated to provide assistance. It is crucial that a Diocesan consultant be part of the conversation and any deliberations as early in the process as possible. That consultant will discuss the implications of the proposed development and will outline the steps to obtaining any necessary Diocesan approvals. As outlined above, such transactions may require approval by the Bishop acting with the advice and consent of the Standing Committee under Canon 18, Section 1, especially if the project will involve a sale of or a debt secured by the congregation's real estate.

For further information, please consult with the REAC Coordinator per the contact information found on Page 6. A copy of the checklist is found on Page 43, Appendix VI.

F. ACQUISITION OF REAL PROPERTY BY CONGREGATIONS

In December of 2007, the Diocesan Council established the following Diocesan policy:

A congregation shall obtain the prior approval of the Bishop, through the Standing Committee, of any acquisition of real property.

Any church seeking approval to acquire real estate by purchase or any other means such as a bequest should submit a completed checklist (see Appendix VII) and attachments at least 45 days before the scheduled Standing Committee meeting to provide adequate review of the proposed transaction by REAC.

Any bequest or donation of property must be accepted via a vote at a duly called meeting of the congregation's vestry, subject to the advice and consent of the Bishop and Standing Committee.

Whenever a congregation is purchasing property or receiving a gift of property, the congregation should conduct a review of the title and an inspection concerning any environmental and/or and hazardous materials. Any such restrictions found or concerns raised should be carefully evaluated by the purchasing/receiving congregation so that it can consider its effect on the market value of the property and on the congregation's potential use of the property over time.

For further information, please consult with the REAC Coordinator whose contact information may be found on Page 6. Also, see the Appendix VII, Page 44, for a copy of the needed checklist.

G. COMMUNICATIONS EQUIPMENT

Some churches earn income by offering available space to telecommunications companies as locations for equipment, especially antenna and related gear. These agreements are significant undertakings, are generally long term leases that are either recorded as such or involve an easement that is recorded, and they usually will require approval by the Diocese. The best practice is to consult with the Diocese when such a transaction is first contemplated.

These are generally very long term leases and involve easements for access to the equipment and construction of the tower or in the case of equipment in a steeple, provision of power to the equipment that could alter sacred spaces. At a minimum, any telecommunications occupancy agreement should contain appropriate terms limiting the telecommunications company's right to access to the equipment for repairs or maintenance to times and under circumstances that will not interfere with worship or other services or the use of the property by the congregation. As such, these leases require Canon 18 review.

Even if the telecommunications company assures the congregation that it will handle local approvals, the congregation is still responsible to ensure that the erection of any such antenna installation is done in conformity with local zoning by-laws. A congregation should also be aware that a lease of a portion of the land or a building may affect the church's tax exempt status; best practice is to be clear in the lease agreement that the communications equipment company is responsible for any real or personal property taxes that result from their occupancy. The congregation should also check with its property insurance company to make sure they are carrying appropriate coverage, and for advice on the insurance coverage the telecommunications company should carry to protect the congregation (as Additional Insured).

Any congregation preparing to enter into a telecommunications contract is advised to provide notification of its intent to the Standing Committee, through REAC. Further, several members of the REAC have experience with communications equipment leases that may be useful to congregations. Contact information for the REAC Coordinator is found on Page 6.

Please see Appendix IV, Page 41, for a copy of a checklist to submit the request for communications equipment.

H. SOLAR PANEL INSTALLATIONS

Solar (or photo-voltaic [PV]) panel projects involve the installation of solar panels, usually on the roof of the church, rectory, or other church building. These can have real benefits for a congregation as they will reduce the carbon used in supplying energy to the church and the congregation may derive a financial benefit from a combination of reduced energy costs and possible sale of solar power tax credits sold to investors and even the sale of excess electric power sold to others. Financial benefits are usually quite modest, especially in the first few years.

There are three usual ways of structuring such projects:

1. The congregation owns and operates the solar panel installation. The congregation assumes the risks of ownership, maintenance, and operation, as well as the cost of the installation. Bishop and Standing Committee approval is not required for outright cash purchases. It is recommended that the REAC Coordinator be contacted before entering into such an agreement. Any loan needed for this purchase would require the usual canonical approvals as outlined elsewhere in this Guide.
2. The congregation leases space (for example, an area of the roof of the church) to a third party, which installs, maintains, and operates the project. The congregation receives a benefit by purchasing the power generated from the solar array from the third party at a reduced cost. Bishop and Standing Committee approval is typically required for these types of agreements.

3. The congregation enters into a Power Purchase Agreement (PPA) with a provider who in turns installs the solar panels on the building and operates a system. Because of the long-term encumbrance on the property, these sorts of arrangements will almost certainly require canonical approval as outlined elsewhere in this Guide.

Such projects can become quite complex, and changes in the tax credit programs are both frequent and confusing, even to those in the industry. Congregations which have successfully completed such projects report that they have invested substantial time in analyzing alternatives and feasibility. An installation may require major work on the roof of the building where the panels will be installed and may require significant upgrading of that building's electrical system. If the roof has an existing warranty, the roofing materials supplier should be consulted to make sure the warranty can be maintained after the installation of the solar panels. The congregation should also consult its property insurance company when contemplating such projects to ensure that the congregation is carrying appropriate coverage and to assist the congregation in determining what coverage they should require of the panel installer/owner to protect the congregation as Additional Insured.

Permitting can be a significant issue, particularly if the building where the panels will be installed is located in an historic or other special district, where they may be prohibited.

Diocesan approval is likely to be required under Canon 18; even if these arrangements are not structured as leases, they are most often a long term encumbrance on the property. Please also note that if a loan is involved, it will also likely need approval of the Diocesan Loan Committee and then REAC before forwarding to the Standing Committee. Please reach out to the REAC Coordinator per the contact information found on Page 6.

Please see Appendix IV, Page 41, for a copy of a checklist to submit the request for solar panel installations.

I. MEMORIAL GARDENS (SOMETIMES CALLED CHURCHYARDS), COLUMBARIA, OR CEMETERIES.

A Memorial Garden, Columbarium, Cemetery or any resting place for human remains creates an encumbrance on the property set aside for that purpose. There are significant legal, regulatory, pastoral, strategic and financial dimensions to such uses, which require careful planning and consultation. Please consult with the REAC Coordinator before proceeding with any attempt to create a memorial garden, columbarium or cemetery. Contact information for this person may be found on Page 6. In most cases, congregations are discouraged from using their property in this way.

For congregations that nonetheless desire to establish a final resting place for human remains on their property, review by REAC, and upon their recommendation, approval of the

Bishop and the Standing Committee is necessary before implementation. We also strongly encourage that an attorney be engaged to assist in the legal dimensions of the establishment process.

There are several different kinds of final resting places:

- A Memorial Garden contains the ashes of deceased members or relatives of members of a congregation. There are generally two types of such gardens: (1) where remains are scattered on a designated site on the congregation property or (2) where remains are buried in receptacles. There may be specific rules developed on size and material of permanent receptacles, such as a requirement for biodegradable containers. Local zoning and health codes (which vary by municipality) often specify appropriate procedures and the necessary municipal permissions required.
- A Cemetery contains the embalmed and/or cremated remains of deceased congregants. A Cemetery must be in compliance with Zoning and Health Codes (administered by the municipality). For specifics, please see Massachusetts General Laws Chapter 114 (Cemeteries & Burials) and also consult with the municipality. Each city/town will have its own cemetery commission which will be conversant with local ordinances.
- A Columbarium is usually a building or portion of a building, most often in a church, in which urns containing cremated human remains are placed in such a way that they are identifiable and can be visited. Persons or families wishing to have their remains so preserved generally pay a fee, which obligates the congregation to maintain those remains in that Columbarium in perpetuity. An example of a Columbarium can be seen at Christ Church (Old North) in the North End of Boston.

A written agreement with the family of the deceased, describing not only what is permitted on initial internment but also describing the care of the property, the fees for this service and what happens to the remains if the property is sold or repurposed is critical to the success of the establishment of a final resting place. A plan for the financial and physical maintenance of the space is also needed.

Before recommending an encumbrance for any of these kinds of final resting places to the Bishop and Standing Committee, REAC's review of any proposal to establish a final resting place will include:

- Evidence of compliance with all local zoning, health and other relevant ordinances and laws. Typical evidence would be permits from the granting authorities; letters from local officials setting out the permitting process may be offered where conditional approval from the Bishop and Standing Committee is being sought.
- Establishment of a restricted account to provide for the upkeep and maintenance of the property being used in this way
- A financial plan for ensuring an appropriate level of funding in the restricted account to meet the anticipated maintenance needs.
- A maintenance plan designating the physical space and specifying how it will be landscaped and maintained.

- A sketch of the property which includes the designated area being considered; final approval will be conditioned on the receipt of an on the ground survey.
- A vestry-approved application form that has the effect of a legal contract to be completed and signed by every person (or legal representative) whose remains will be cared for. This application form should include provisions that in the event that the parish closes or merges, and/or the land is ever sold or redeveloped, the applicant understands and accepts:
 - that the parish reserves the right to remove any permanent receptacles interred in the Garden or soil that has been permeated with remains, and
 - that after 90 days' notice via first class mail to the last known mailing address, the remains (i.e., receptacles or soil) become the sole custody of the Church and may be moved, re-interred, or disposed of in a manner solely of the Church's choosing and
 - that while the parish office may attempt to contact any relatives or descendants in such an event, such notice is not required.

Early consultation is strongly encouraged before congregations invest the time and resources needed to establish a final resting place.

Further information will be provided by contacting the REAC Coordinator (contact information may be found on Page 6).

PART II: PROCESS

A. PARTICIPANTS IN THE DIOCESAN REVIEW and APPROVAL PROCESS

1. The Bishop.

The Canons grant the Diocesan Bishop the authority, ultimately, to provide or withhold assent to any transaction covered by Canon 18, which is described and quoted in section A.1.

2. The Standing Committee.

The Standing Committee is an elected body of the Diocese, consisting of equal numbers of ordained and lay members, which meets 10 times per year. Consent of the Standing Committee, acting independently of the Bishop, is also required for Canon 18 approvals. Under Canon 18, the Standing Committee works with the Bishop to review requests for consent to the acquisition, alienation, or encumbrance of church real estate.

3. Real Estate Advisory Committee (REAC).

(a) Purpose

The Standing Committee has established a Real Estate Advisory Committee to perform due diligence reviews and analyses of all Canon 18 proposals, for the purpose of advising the Standing Committee.

(b) Membership

The Real Estate Advisory Committee is comprised of between three and seven members, appointed by the Standing Committee. Advisory Committee members have expertise in law, finance, design and the development of real estate. Certain Diocesan staff members and other Diocesan leaders participate regularly in REAC meetings, at the invitation of its Chair.

(c) Conflict of Interest

Members of the Real Estate Advisory Committee who have worked on behalf of an applicant for that specific project under review, either on a paid or volunteer basis, will recuse themselves from Canon 18 review of that project.

4. Other Proposal Reviewers: Diocesan Loan Committee (DLC)

Certain transactions that require Canon 18 approval may involve another Diocesan committee. For example, Diocesan Loans (formerly named Stokes Fund Loans), Green Loans, and even certain institutional or private loans secured by church-owned property are reviewed by the Diocesan Loan Committee (DLC) which provides its due diligence review to REAC and the Standing Committee (see Section D below).

B. STEPS IN THE PROCESS FOR DIOCESAN REVIEW AND APPROVAL

1. General Description.

Any property within the scope of Canon 18 held by or for the Diocese or any congregation or other organization or institution within the Diocese may not be sold, mortgaged, or otherwise encumbered by a lien or claim without the consent of the Bishop and Standing Committee.

The Standing Committee is assisted in carrying out the canonical approval process by several additional committees, most commonly the Diocesan Loan Committee (DLC) and the Real Estate Advisory Committee (REAC). The Standing Committee reserves the right to consult with other Diocesan bodies or staff on any proposed transaction.

We encourage an initial contact with the REAC Coordinator for any potential Canon 18 request, usually at least 60 days before the date at which the Standing Committee would consider the request. The REAC Coordinator can help to determine whether a congregation's request can be considered by REAC or if it must first be reviewed by the DLC.

2. Initiating a Request

A congregation is well served to make contact with REAC Coordinator when a project is in its early formative stages. A formal proposal need not have been developed. An email is enough to begin a conversation. Contact information may be found on Page 6. Early consultation with the REAC Coordinator is extremely helpful in crafting a proposal which provides critical information and a well-developed rationale for the action the congregation seeks to take. Diocesan resources, through the DLC, REAC, Diocesan congregational consultants, and congregational development staff may be available to help the congregation through the entire project, including the Diocesan approval process.

In particular, any congregation initiating a planning process that may lead to a purchase, sale or redevelopment of a portion of its property is advised to make contact with REAC as soon as that process is underway. Periodic reports on the progress of the planning process will help REAC monitor progress and provide critical input to the planning process

as it continues. REAC will work with the congregation to determine when the application is ready for formal consideration.

A congregation seeking consent for acquisition, alienation or encumbrance of real estate should follow the instructions in this Guide and follow the guidance of REAC and Diocesan staff in developing its request. The initial narrative should clearly state the nature and purpose of the proposed acquisition, alienation or encumbrance, how the proposal is consistent with the congregation's own strategy for financial viability and its mission, and should enclose further descriptive material or documentation. Examples of helpful descriptive material and documentation include (but are by no means limited to): site plans, floor plans, appraisals and basic statistics such as square footage and age of property.

3. Process Overview.

- Diocesan Loan Committee Review

The Diocesan Loan Committee (DLC) is responsible for reviewing all Canon 18 matters regarding loans which would place a lien on congregation-owned property, including Diocesan Loans, Green Loans, and Private Loans. The DLC will assign a member of its committee to review the request in detail once the complete loan package has been received. The DLC member will contact the congregation in preparing its report to the DLC; very often, a congregation representative is asked to be available (by phone) at the time of the DLC meeting where the request is to be considered in case there are any questions or concerns. The DLC then reviews the application and the assigned member's analysis and votes on the request. The results are summarized in a loan narrative and a recommendation is then forwarded to REAC. REAC reviews that recommendation and drafts any needed vote(s) for the Standing Committee.

- REAC Review of all Canon 18 matters

For proposals that do not include a loan application, the review process begins with REAC. Please see the preceding chapters in this Guide for a description on each specific type of transaction and the requirements for a successful application. REAC may have specific additional questions on the transaction for the congregation, and may consult Diocesan staff members for information as needed to complete its review. REAC may assign a member of its Committee to serve as a liaison to the congregation. Once an application is complete and ready, REAC will schedule a final review of the request to make its formal recommendation to the Standing Committee.

- Standing Committee Review

All requests for Canon 18 approvals come to the Standing Committee through REAC

with its recommendations. The Bishop and the Standing Committee review REAC's analysis and recommendations before acting on the request. The Standing Committee usually does not require congregational representatives to attend its meetings, but may at times request additional information before taking final action.

- Documentation, Timing and Scheduling Considerations

Because the approval process involves several committees reviewing significant amounts of documentation, it is very important that the congregation provide a concise, descriptive summary of the proposed action and all required documents well in advance of each committee's meeting. These three committees schedule their meetings sequentially to expedite consideration of requests as much as possible: the Diocesan Loan Committee (DLC) normally meets in the second or third week of the month; REAC meets in the last week of the month or the first week of the next month; and the Standing Committee meeting is usually scheduled during the second week of month. The Standing Committee does not meet in July and August, and rarely considers real estate matters at its January retreat.

APPENDICES

Loan Applications

&

Checklists

Please submit the completed application/checklist with supporting documentation to the REAC Coordinator as listed on Page 6, including any request for exceptions to these requirements.

APPENDIX I

Diocesan Loans and Diocesan Green Loans: Application Package



THE EPISCOPAL DIOCESE OF MASSACHUSETTS

138 TREMONT STREET

BOSTON, MA 02111

617-482-5800

March 19, 2014

Church ID: _____

Dear Applicant:

Enclosed please find a Diocesan (formerly known as Stokes Fund) Loan Fund/Green Loan Fund Common Application, as requested and some additional information including:

- Forms for reporting the vestry vote and the submittal to the local Deanery

The purpose of the Diocesan Loan Fund is to make available money (presently up to \$100,000) to congregations of the Episcopal Diocese of Massachusetts for the repair or improvement of existing structures or fixtures, with a strong preference for basic renovations to maintain the habitability of churches and related buildings, to prevent deterioration, to conserve energy, to facilitate handicapped access or to modify facilities to meet requirements for weekday community use. Loans will be made to vital congregations or those with a plan to become vital.

The interest rate is set at X.XX% (see Fact Sheet on Page 6 for current rates) for Diocesan Loans with the term of the loan not to exceed 15 years.

Please see attached **Green** Loan Addendum for information on Green Loan purposes and terms.

We request that a representative of the parish be available in person or by phone at the Diocesan Loan Committee meeting to answer any questions about the application and parish activities. You will be notified after the meeting of the approval status and any requirements to complete the loan. Since the loan will involve an encumbrance on parish property, your application and the recommendation of the Diocesan Loan Committee will also be reviewed by the Diocesan Real Estate Advisory Committee (REAC). The application must be approved by the Standing Committee before the loan can be disbursed.

If you have any questions, please do not hesitate to contact the Diocesan Controller at (617) 482-5800 ext 553, (see Fact Sheet on Page 6 for particulars)

Sincerely,

Controller

The Episcopal Diocese of Massachusetts

Enclosures

DIOCESAN LOAN FUND / GREEN LOAN FUND COMMON APPLICATION

DATE OF APPLICATION: _____

Church ID#: _____

Contact Person Name: _____

Church Name: _____
 Street Address _____
 City/Town/Zip _____
 Phone: _____

Address: _____
 Phone _____
 Email Address: _____

Senior Warden Name: _____
 Address: _____
 Phone: _____
 Email Address: _____

Treasurer Name: _____
 Address: _____
 Phone: _____
 Email Address: _____

PROJECT BUDGET (est.)	
DIOCESAN LOAN FUND REQUEST *Term Requested: _ mo _____	
GREEN LOAN REQUEST *Term Requested: _	\$
OTHER SOURCES	\$
TOTAL PROJECT FUNDING SOURCES	

**Loans may be requested for terms up to 15 years*

LOAN PURPOSE: Describe the purpose of this loan and scope of work to be done. Also, do you believe the project is eligible for a Green Loan? (Attach separate page if needed)

PLEASE ANSWER THE FOLLOWING QUESTIONS

- ___ Yes ___ No 1. Does parish have a Diocesan/Green loan? Amount _____ Term _____
- ___ Yes ___ No 2. Is Diocese guarantor of any financial obligations? Amount _____
- ___ Yes ___ No 3. Are Assessments paid in full to date? If not, % paid? _____

- Yes No4. Has the Parish Vestry approved this application?
 Yes No5. Has the request been submitted to the Deanery?
 Yes No6: Has the Parish completed a financial audit for the most recent year ended?

If further explanation is needed, please add comments below. (Attach separate page if needed)

REQUIRED INFORMATION WITH THIS APPLICATION:

Please attach to this Application and label.

- 1) Current year -to-date and prior 2 years financial statements (Statements of Income & Expense and Balance Sheet)
- 2) Projected parish budget [for what period?]
- 3) Project budget including fees and contingencies (please use template attached)
- 4) Contractor bids (at least two required)
- 5) Plot plan or a sketch of parish property
- 6) A vote of the Vestry authorizing this request.

Additional Information Required Prior to Close / Funding of a New Loan:

Not required as part of the Application for a loan.

- 1) Provide a copy of the most recent Financial Audit including the Statement of Income & Expense and a Balance Sheet identifying any restriction on assets.
- 2) Provide copies of Parochial Reports for the past two years.
- 3) Comprehensive Property Insurance: Provide a copy of the binder or declarations page\
- 4) Provide a copy of the Deed and Plot Plan
- 5) Certification from the local Deanery that they have been notified of the loan application.

Completed application packet should be forwarded to:

Diocesan Loan, Treasurers' Office, 138 Tremont Street, Boston, MA 02111

SAMPLE FORM

(Please submit this Vote on Church Letterhead)

CERTIFICATE OF VOTE

I, _____ of _____, _____ County, Massachusetts, certify that (i) I am the duly elected and qualified Clerk of _____, (the "Parish"), located at _____, Massachusetts, and (ii) at a meeting of the Vestry of the Parish, duly called and held on _____, at which a quorum was present, voting and acting throughout, the following vote was passed, and is still in full force and effect:

VOTED: That, _____, Senior Warden, and _____, Treasurer, be and hereby are authorized and directed on behalf of the Parish to borrow up to \$_____ from the Protestant Episcopal Diocese of Massachusetts (the "Diocese") and execute and deliver to the Diocese (a) a promissory note evidencing such borrowing; (b) a mortgage covering the premises situated at _____, _____ County, Massachusetts, securing said note; and (c) any and all other documents necessary to accomplishing the foregoing.

Clerk

COMMONWEALTH OF MASSACHUSETTS
COUNTY OF _____

Before me, the undersigned notary public, on this _____ day of _____, 20__, personally appeared _____, who is personally known to me or was proved to me through a current document issued by a federal or state government agency bearing a photographic image of the signatory's face and signature, to be the person whose name is signed on the foregoing instrument and acknowledged to me that he/she signed it as his/her free act and deed and the free act and deed of _____, as Clerk of the Parish, for its stated purpose.

[Notary Seal]

Address of Premises is: _____

SAMPLE FORM

***The Episcopal Diocese of Massachusetts
Deanery Notification Letter***

Name of Deanery: _____

Date: _____

Diocesan Loan Committee Chair
Treasurer's Office
Episcopal Diocese of MA
138 Tremont Street
Boston, MA 02111

This letter certifies that the _____ Deanery, at its meeting on _____,
20__ was notified of the application of _____,
Massachusetts for a Diocesan Loan Fund and/or **Green** Loan up to \$_____ for 15 years
for the purpose of

Sincerely,

Co-Convener

Co-Convener

The Episcopal Diocese of Massachusetts

**DIOCESAN LOAN FUND
PRINCIPLES, GUIDELINES AND PROCEDURES**

STATEMENT OF PRINCIPLES

1. Parishes/missions should make a commitment to contribute part of the cost of a given project. Due consideration will be given to small parishes for whom this may be a hardship or restriction.
2. The Bishop, with the Council's approval, maintains the right to change or modify the rules and procedures of the Diocesan Loan Fund at any time.
3. It is expected that Parochial Reports will be filed annually and in a timely manner.
4. An interest rate discount of .25% is available to parishes making their monthly payments electronically (see Fact Sheet Page 6 for current rate).

GUIDELINES

1. The Diocesan Loan Committee will make an effort to process Diocesan Loan Fund applications within ninety (90) days of receipt.
2. The total amount lent by the Diocesan Loan Fund shall not exceed one year's Parish Revenues, reported as Total All Revenues, Line D of the Parochial Report. The total amount lent includes any unpaid principal on an existing loan, as well as any new loan granted. Current Diocesan Loans shall continue to be covered under the terms of the original agreement.
3. Loan payments (principal and interest) are to be made monthly in a fixed amount according to the amortization schedule that will accompany the note and be sent to the borrowing parish/mission.
4. Loans will be evidenced by a promissory note or suitable written agreement between the Diocese and the parish/mission. The promissory note or agreement will be secured by a mortgage on real estate of the borrowing parish/mission at least equal in current value to the principal of the loan. In unusual circumstances when this security is not available, the Bishop, with the approval of the Standing Committee, may at his discretion authorize a Diocesan Loan based on ability to pay.
5. Loan proceeds will be disbursed to the parish/mission upon execution and registration of all loan documents. Distribution of loan proceeds must be made within 12 calendar months of approval of the loan by the Standing Committee.

6. Parishes are expected to carry adequate and comprehensive insurance and to keep their payments current in accordance with Diocesan guidelines.
7. If the work to be completed is the result of storm damage, flooding or other insured cause, a claim should have been filed with an insurance company if possible.
8. Early repayment of a Diocesan loan in part or in full is permitted – in fact, encouraged. Should a parish make partial repayment on a loan, the Treasurer’s office will generate a new amortization schedule and forward it to the parish.

PROCEDURES

1. Information regarding the Diocesan Loan Fund may be obtained from the Treasurer’s Office, 138 Tremont Street, Boston, MA 02111. Completed applications should be sent to the Chair of the Diocesan Loan Committee c/o the Treasurer’s Office, who, after review, will assist in its progression to the Real Estate Advisory Committee (REAC), the Bishop and the Standing Committee.
2. Every application for a Diocesan Loan Fund loan must be accompanied by:
 - Current year -to-date and prior 2 years financial statements (Statements of Income & Expense and Balance Sheet)
 - Projected parish budget
 - Project budget including fees and contingencies (please use template attached)
 - Contractor bids (at least two required)
 - Plot plan or a sketch of parish property
 - A vote of the Vestry authorizing this request.

Please see the Application Form for additional information required prior to closing and funding the loan.

3. A representative of the parish should be available either by phone or in person at the loan committee meeting to answer any questions that the committee may have.
4. Completed applications will be considered and voted on by

- The Diocesan Loan Fund Committee
 - The Real Estate Advisory Committee (REAC)
 - The Standing Committee
5. Statements of outstanding loans and payments on principal, together with Diocesan Finance Committee recommendations on delinquent accounts, will be reviewed quarterly by the Diocesan Council.

APPENDIX II

Green Loan Addendum

Purpose of the Creation Care Initiative

The Creation Care Initiative, launched in 2010, exists to encourage, challenge and support congregations of the Diocese as they carry out their responsibility to care for God's creation, while reducing carbon footprint and energy consumption and cost. The Initiative is funded through a \$2 million tithe from the Episcopal Diocese of Massachusetts' Together Now Comprehensive Campaign, split equally between grants and loans. The \$1 million Green Loan program is meant to continue in perpetuity. For more information on the Creation Care Initiative, please go to <http://www.diomass.org/creation-care-initiative>.

The loan limit for a Green Loan is \$100,000 or the congregation's annual budget (whichever is smaller), or \$150,000 if combined with a Diocesan loan or outside loan. The term will be up to 15 years, and the interest rate will be **X.XX%**, **X.XX%** if using ACH/direct debit (see Fact Sheet, Page 6 for current rates), which is a full 1.0% lower than the Diocesan loan rate to incentivize green projects. In a majority of cases, the cost savings from a Green Loan-qualifying program will be equal to or greater than the debt service payments on the loan, making this a budget-neutral project. We encourage additional savings to be put towards further green projects at the congregation.

Qualifying Project Examples (*this list is not exhaustive*):

- Energy-efficient boilers and furnaces
- On-demand hot water units, or where appropriate, blanketing of older water heaters
- Energy-efficient windows, caulking, upgraded insulation, ceiling fans, temperature zoning
- LED lighting & fixtures
- Solar or geothermal systems

Additional Information Required for a Green Loan

To apply for a Green Loan, please include the following information *in addition to the information requested in the main loan application document*:

- 1) An energy audit (available free from your energy company), or an Environmental Stewardship Assessment (available for a cost from Mass Interfaith Power & Light), completed within three years of this application
- 2) Attach certificates of attendance at a Sustainable House of Worship (SHOW) presentation by at least two of your parishioners

- 3) Attach spreadsheets showing at least the last three years of utility use and cost tracking [*a template and instructions are available*]
- 4) Attach an outside organization's assessment of the estimated savings generated by the improvement (this can be done by the energy audit firm, the system installer such as solar electric, the engineering firm that provided project scope/plans, other similarly technically qualified persons/firms, or Mass Interfaith Power & Light)
- 5) Within the project budget, include confirming information on the projected energy company rebates

APPENDIX III
CHECKLIST FOR A CONGREGATION SEEKING A
BANK MORTGAGE LOAN

Any congregation seeking approval of a loan from a bank, other institutional or private lender should submit the following information, at least 45 days before the scheduled Standing Committee meeting:

1. A copy of the loan application, including all required exhibits.

2. If the loan application does not include the items requested below, please provide this information separately:
 - Description of the proposed project and loan transaction, including purpose of the project and the reasons for the loan transaction
 - Construction plans as appropriate
 - Description of the congregation's financial and professional resources that will be devoted to the project funded by the loan, including development team members, other equity or project fund raising
 - Date of vestry decision and copy of the vestry minutes (or executive committee if a mission)
 - Plan for repayment of the loan, including details of any capital campaign.
 - For a construction project, include a Sources and Uses of Funds (project budget including hard and soft costs (e.g. legal, engineering), contingency funds and the sources to be used to pay these)
 - Copy of the term sheet or commitment letter from the bank
 - A copy of the most recently completed fiscal year financial statements (Balance Sheet and Income & Expense) and financial statements and budget covering the current fiscal year
 - A three year cash flow (the congregation's operating budget) demonstrating the congregation's ability to service the loan payments

3. Confirmation that you have met the following canonical requirements and that such documentation is on file at the appropriate Diocesan offices:
 - A certificate of insurance (if not with Church Insurance Company)
 - That a copy your recently completed annual audit has been filed with the Treasurer's Office and it has met the Diocesan approved guidelines
 - That you have filed your most recently completed Parochial Report
 - That your Assessment payment is current
 - That any other financial obligations you may have are current, i.e. Diocesan Loan, clergy pension, health insurance, etc.

Please explain any exceptions to these requirements in your narrative.

APPENDIX IV

CHECKLIST FOR APPROVAL OF LONG-TERM LEASES

(including those for Telecommunications Equipment or Solar (Photo-Voltaic) Panels)

Any congregation seeking approval of a long term lease of church property should submit the following information, at least 45 days before the scheduled Standing Committee meeting:

1. A concise description of what is proposed, with such detail and form as to enable the Bishop and the Standing Committee to determine if it is of such a nature and location to require Canon 18 approval. This should include:

- A brief description of the property to be leased, preferably including a site plan or floor plan showing the relationship of the leased space to the remainder of congregation property
- The terms of the proposed lease including lease payment and duration, brief description of the obligations of the lessor and lessee and conditions under which the lease may be terminated by either party
- the expected benefit to the congregation and its congregation strategy over the term of the lease,
- the expected responsibilities and obligations of the congregation with respect to maintaining the lease including any property maintenance, renovations or alterations required, access, insurance coverage and expenses of the leased property (e.g., utilities, property taxes)
- an analysis of the gross and net (after expenses) income anticipated from the lease, and an estimate of the cost to restore the space to congregation or other use after the lease has ended and the source of funds for that restoration work (e.g., replacement reserve escrow)
- the manner in which the full congregation community has been involved in discussions regarding the transaction and the response of the congregation community to the decision

Helpful commentary on the effects of lease transactions can be found in the Real Estate Utilization Guide, available from the REAC Coordinator (Page 6)

2. A copy of the draft lease document.

3. Clerk's certificate of the minutes of the meeting or vote of the vestry authorizing the transaction.

4. A copy of the following is to be included in the packet:

- the most recently completed fiscal year and current year financial statements (Balance Sheet and Income & Expense)
- the most recently completed property audit (if one has been done)

5. Confirmation that you have met the following canonical requirements and that such documentation is on file at the appropriate Diocesan offices:

- That the most recent annual audit has been received and accepted by the Diocesan offices
- That the most recent Parochial Report been filed
- That your Assessment payment is current
- That all other financial obligations you may have are current, i.e. Stokes Loan, clergy pension, health insurance, etc.

Please explain any exceptions to these requirements in your narrative.

APPENDIX V

CHECKLIST FOR SALE OF PROPERTY

Any congregation seeking approval to sell congregation owned real estate should submit the following information, at least 45 days before the scheduled Standing Committee meeting.

1. A narrative outlining the request, including:

- Description of the proposed transaction, including reasons for the transaction
- Adequate description of the property, including location, relation to other church property, and improvements/buildings on the property, preferably with a plan of the site and surrounding properties
- Plan for use of proceeds, including a description of implications over the next 10 years of the transaction on the church's congregation and mission strategy, including how the proceeds of the sale will be held and used
- Congregational resources, both professional and financial, that are available to be devoted to the pursuit of the sale.
- Draft or outline of the Purchase and Sale Agreement, if available, highlighting conditions and contingencies of the sale
- Proposed selling price or range of selling prices

2. The following documents related to the transaction:

- Copy of deed
- Date of vestry decision approving sale and copy of vestry minutes
- At least one independent, contemporaneous (not more than 6 months old) opinion of market value from a licensed real estate broker or qualified (e.g., MAI certified) real estate appraiser, on its letterhead.
- Plot plan, showing the involved land in a separate parcel, and an area plan, e.g., Assessor's Map
- Title run-down for fifty years or to the deed to the church, whichever is longer, and a copy of the deed(s) of the property into the church.

3. A copy of the following is to be included in the packet:

- the most recently completed fiscal year and current year financial statements (Balance Sheet and Income & Expense)
- the most recently completed property audit (if one has been done)

4. Confirmation that you have met the following canonical requirements and that such documentation is on file at the appropriate Diocesan offices:

- That the most recent annual audit has been received and accepted by the Diocesan offices
- That the most recent Parochial Report been filed
- That your Assessment payment is current
- That all other financial obligations you may have are current, i.e. Stokes Loan, clergy pension, health insurance, etc.

Please explain any exceptions to these requirements in your narrative.

APPENDIX VI

CHECKLIST FOR DEVELOPMENT OF CONGREGATION OWNED REAL ESTATE

Any congregation seeking approval to develop congregation owned real estate should submit the following information, at least 45 days before the scheduled Standing Committee meeting.

1. A Description of the Project and the nature of assets being developed, including:

- its proximity to church uses and structures.
- scope of construction or renovations being considered
- description of land or building to be devoted to the project, including square footage and topography; – a map or plot plan will be very helpful,
- evidence of Zoning Compatibility or Plan to achieve the required zoning variances
- what physical, financial and professional assets the congregation has to devote to the project
- how the project is compatible with church use and the congregation's mission
- how the project will be financed, a description of profit or non-profit partners, if any, and the development entity including a letter of intent to enter into a partnership or other entity to pursue the project
- a plan for use of proceeds from the development

2. A copy of the following is to be included in the packet:

- the most recently completed fiscal year and current year financial statements (Balance Sheet and Income & Expense)
- the most recently completed property audit (if one has been done)

Submit these items to the Diocesan offices for review and response. If an initial assent is provided, please provide an update and expansion of the information in 1, as well as the following:

3. Provision of Due Diligence Materials:

- Phase I Environmental Study of the site and if an existing building, a Hazardous Materials Survey (identifying lead paint, asbestos containing materials, PCBs, radon, etc.)
- A detailed description of any proposed partnership arrangement, if any, and information about the experience and financial resources of the partner organization
- Schematic design of the development
- Letter of intent, term sheet or commitment letter from lender(s) or other funders, if available.
- Other evidence that the congregation has the professional and financial capacity to undertake the project, including a description of the development team (architect, engineers, attorneys, etc.) as well as plans for contingency funds, funds for predevelopment costs and soft costs of the development
- Sources and Uses of Funds and proposed Operating Pro Forma once the project is operational
- A management plan for the property once occupied.

4. Confirmation that you have met the following canonical requirements and that such documentation is on file at the appropriate Diocesan offices:

- That the most recent annual audit has been received and accepted by the Diocesan offices
- That the most recent Parochial Report been filed
- That your Assessment payment is current
- That all other financial obligations you may have are current, i.e. Stokes Loan, clergy pension, health insurance, etc.

Please explain any exceptions to these requirements in your narrative.

APPENDIX VII

CHECKLIST

FOR ACQUISITION OF REAL PROPERTY BY CONGREGATIONS

Any congregation seeking approval to acquire real estate by purchase or any other means such as a bequest should submit the following information, at least 45 days before the scheduled Standing Committee meeting.

1. A description of the proposed transaction, including background rationale.
 - a description of the implications of the transaction for the mission strategy of the congregation,
 - the manner in which the full congregation community has been involved in discussions regarding the transaction and the response of the congregation community to the decision,
 - an analysis of the operational costs and capital costs of the new acquisition (to include, but not be limited to, the cost of utilities, additional insurance, any resulting real estate taxes, and the source of revenue to fund maintenance and capital repairs),
 - any hazardous material considerations (including, as appropriate, results of hazardous materials surveys)
 - the source of cash to fund the acquisition.
2. A brief description of the property to be acquired, including location, square footage, buildings, etc. and a site plan, if available..
3. An area plan (such as a town Assessors' Map) showing the location, dimensions, and configuration of the property and its abutting properties.
4. A commitment for title insurance.
5. Any marketing materials regarding the property, including Multiple Listing Service sheet and other listing sheets.
6. Clerk's certificate of the minutes of the meeting or vote of the vestry authorizing the transaction.
7. A copy of the following is to be included in the packet:
 - the most recently completed fiscal year and current year financial statements (Balance Sheet and Income & Expense)
 - the most recently completed property audit (if one has been done)
8. Confirmation that you have met the following canonical requirements and that such documentation is on file at the appropriate Diocesan offices:
 - that the most recent annual audit has been received and accepted by the Diocesan offices
 - that the most recent Parochial Report been filed
 - that your assessment payment is current
 - that all other financial obligations you may have are current, i.e. Stokes Loan, clergy pension, health insurance, etc.

NOTE: If the proposed acquisition is for residential property, e.g. a proposed rectory, other environmental reports may be required prior to purchase, i.e. lead, asbestos, radon, etc.

Please explain any exceptions to these requirements in your narrative.

APPENDIX VIII

CHECKLIST FOR DEED RESTRICTIONS, DESIGNATIONS, AND EASEMENTS ON PROPERTY

Any congregation proposing to accept a deed restriction, historical designation, or easement from a governmental agency, quasi-governmental agency, utility company, or abutter easements and/or encroachments should submit the following information, at least 60 days before the scheduled Standing Committee meeting.

1. Description of the proposed restriction, designation, easement, or encroachment
2. Description of monitoring agent and agreement and proposed legal document
3. Any necessary deadlines for such action
4. The duration of the restriction, designation or easement
5. Responsibilities of the parish with regard to such restriction, designation or easement, i.e. reporting, approval of future capital improvements, maintenance and repairs to the building, etc.
6. Impact, if any, on the ability of the parish to fundraise
7. Impact, if any, on the value or use of the property
8. A list of any current restrictions or designations, etc. on the property.
9. Additional information:
 - a description of the implications of the transaction for the mission strategy of the congregation
 - the manner in which the full congregation community has been involved in discussions regarding the transaction and the response of the congregation community to the decision
10. Clerk's certificate of the minutes of the meeting or vote of the vestry authorizing the restriction, designation or easement.
11. A copy of the following is to be included in the packet:
 - the most recently completed fiscal year and current year financial statements (Balance Sheet and Income & Expense)
 - the most recently completed property audit (if one has been done)
12. Confirmation that you have met the following canonical requirements and that such documentation is on file at the appropriate Diocesan offices:
 - That the most recent annual audit has been received and accepted by the Diocesan offices
 - That the most recent Parochial Report been filed
 - That your Assessment payment is current
 - That all other financial obligations you may have are current, i.e. Stokes Loan, clergy pension, health insurance, etc.

Please explain any exceptions to these requirements in your narrative.