

**UNITED CHURCH OF CHRIST BOARD
INVESTMENT & ENDOWMENT COMMITTEE
September 24, 2013 Conference Call**

Minutes

Members Present: Edward Bedrosian, Caroline Peters Belsom (Chair), Michael Downs, J. Bennett Guess, Linda Jaramillo, Dee Lundberg, Noah Tabor (Vice Chair), Bernard Wilson, Yvette Wynn

Members Absent: Linda Bigler, Geoffrey Black, Don Hart, Thea Mateu, Jim Moos, Mark Parthemer

Staff: Kathy Houston, Ann Kiernozek, Loey Powell

The meeting of the Investment & Endowment Committee was called to order at 12:05 p.m. by Caroline Peters Belsom (Chair).

The offering prayer was offered by Noah Tabor.

Kathy explained the documents sent regarding draw rates noting that she had summarized the information included in the two papers provided to the Committee. The first paper was issued by the Commonfund Institute (*Endowment Spending: Building a Stronger Policy Framework*) and the second paper was issued by Callan Associates (*Endowment Spending Policies Since the Passage of UPMIFA*).

Kathy Houston and Ann Kiernozek provided the Committee with background on the OGMP and Covenanted Ministries' investment partners:

United Church Funds

Both the United Church Board for Homeland Ministries (UCBHM) and the United Church Board for World Ministries (UCBWM) were invested with United Church Funds (UCF) prior to the 2000 restructure. One of the first actions taken by each of the new boards was to continue the partnership with UCF. Kathy noted that UCF will be making a presentation to the Committee at the October meeting.

SASCO Capital

Wider Church Ministries began its investment relationship with SASCO Capital (SASCO) in 2005. SASCO is a mid-cap value manager that looks at underperforming companies with potential for future growth. Ann noted that SASCO will be making a presentation to the Committee at the October meeting.

UCC Cornerstone Fund

The United Church of Christ Cornerstone Fund (the Fund) was established by the UCBHM through the transfer of prime mortgages from the Church Building & Loan Fund to meet the needs of churches that had been established for 25 years or more. Mortgages through the Fund are funds by investor deposits in either demand accounts or longer term notes. UCBHM's board believed that they could not ask other Ministries to invest in the Fund if they did not. LCM continued the relationship after restructure.

UCC Hotel Venture LLC

Originally funded by a bank loan, the UCBHM Board approved the transfer of unrestricted net assets to pay down the debt. This action was taken so as not to burden the new Ministries with debt at restructure. The percentage of ownership in the LLC was allocated to the Covenanted Ministries at restructure. Copies of votes taken by UCBHM were provided to the Committee and are included with these minutes.

700 Prospect Corporation

Both the UCBHM and the UCBWM provided funding for the purchase of the building through a negotiated participation agreement. If the building is ever sold, the proceeds, net of any outstanding liabilities will be allocated to the Covenanted Ministries. A copy of a memo regarding the negotiated participation is included with the minutes.

The Report on Investments as of June 30, 2013 was reviewed by the Committee. Kathy noted that Committee input regarding the format and what information the Committee would like to have presented would be appreciated.

Mike Downs asked if the Committee members would be updated on their role as fiduciaries related to the endowments and investment. More specifically on investment related recommendations.

Yvette Wynn inquired about what the Committee's primary objective is between now and year end. Kathy and Ann suggested that developing the spending model for draw rates is primary since the model adopted will inform the 2015 budget development process.

The meeting adjourned at 12:41 p.m.

United Church of Christ Hotel Venture, LLC

Radisson Inn at Gateway

The four Covenanted Ministries and 700 Prospect Corporation are the partners in the United Church of Christ Hotel Venture, LLC (LLC). This partnership resulted from the allocation of unrestricted assets of the United Church Board for Homeland Ministries (UCBHM) following the restructure of the national offices on July 1, 2000. Provided below is a timeline of key votes related to the development and construction of the hotel.

Time line:

- April, 1996 The Board of Directors of UCBHM voted to authorize the Executive Committee, after consultation with the UCBHM Investment Committee, to proceed toward the establishment and financing of a corporation for the purpose of building a hotel, the amount of involvement not to exceed \$5,000,000 without further authorization. **UCBHM-D96-31**
- January, 1997 The Executive Committee of the UCBHM Board of Directors, Committee voted to authorize the purchase at \$975,000 with a note that the hope was that the actual price would be close to \$800,000 with the remainder a tax write-off for the seller. **EXCOM(97)-3** (This vote relates to the purchase of the “Garrett Building” adjacent to hotel site)
- The Committee voted to secure with UCBHM invested assets, the borrowing of up to \$11,000,000 by the limited liability company for development of a hotel together with ancillary facilities and associated costs, subject to concurrence of the UCBHM Investment Committee. **EXCOM(97)-5**
- May, 1997 Via a telephone conference call, the Executive Committee of the UCBHM Board of Directors voted to increase funding by an additional \$1,000,000 for the construction of the hotel. **EXCOM(97)-34**
- October, 1997 Total project cost raised to \$11,950,000 for the hotel and \$1,000,000 for the UCC areas. UCBHM Executive Committee approved an additional borrowing of \$950,000 by the UCC Hotel Venture LLC and 700 Prospect Corporation beyond the previously approved amount for the construction of the hotel and the UCC meeting room. **EXCOM(97)-44**
- 1999 Under the original management agreement with Marathon & Associates, net income generated from the hotel operations was to be used to pay the debt service on the two loans. It became increasingly apparent that the income would not be sufficient to pay the debt service and the Board for Homeland Ministries assumed the responsibility of making the payments on behalf of the LLC as the majority investor in the LLC. Various options related to the financing of the loan were discussed with representatives from KeyBank, the investment committee of the UCBHM Board of Directors and George Doty, Chief Investment Office of the Pension Boards.
- January, 2000 The Executive Committee of the UCBHM authorized the conveyance to Local Church Ministries, as of July 1, 2000, the ownership of the framed reproduction pictures, the tapestry from Zimbabwe, and the plaque from Amistad America which are owned by the United Church Board for Homeland Ministries and which currently hang in various parts of the UCC Church House, namely: in the guest rooms, lobby and meeting rooms of the Radisson Hotel at Gateway, in the meeting rooms and adjacent lobby and corridor on the first floor of 700 Prospect; and in the Amistad Chapel. Note: UCBHM does not own the original, and is not hereby conveying any rights to reproduction of these pictures.
- May, 2000 The Executive Committee acted upon recommendation from the budget committee regarding

financing of the construction of the hotel. Provided below are the minutes from the meeting:

“The Budget Committee met on April 28th to review the financing of the construction of the hotel. The debt service on the KeyBank loan is currently in excess of \$1 million, which exceeds the cash flow available for debt service from operation of the hotel. Options of refinancing the hotel were calculated, using a combination of debt financing and capital contributions from the Board’s investment portfolio. One advantage of a capital contribution is that it would serve to minimize any tax liability to the Board for unrelated business income. It was discussed that if at some time in the future, it was possible for some or all of the LCM’s capital contribution to be converted into permanent financing which would be amortized over a period of several years that the net increase in the LCM’s assets could be greater. The Budget Committee recommended to the Executive Committee that the amount due on the two loans with KeyBank be liquidated on or about June 30, 2000, from the profit reserves of the investment portfolio in an amount adequate enough to pay the balances of two loans; payment to be recorded as a capital contribution to the LLC.”

Voted (EXCOM(00)-29)

To approve that the amount due on the two loans with KeyBank be liquidated on or about June 30, 2000, from the profit reserves of the investment portfolio in an amount adequate enough to pay the balances of the two loans; payment to be recorded as a capital contribution to the LLC; and

To recommend to Local Church Ministries that the amount of capital contributions be reviewed at least annually to determine whether it would be feasible and potentially more advantageous to replace some or all of the capital contribution with bank financing that would permit the liquidation of some of the cost of building the hotel.

“The LLC Board of Directors had previously voted that if the Board made a capital contribution, that a preferred distribution of 8% of the contribution will be made annually to the Board for Homeland Ministries/Local Church Ministries. Further, that a minimum preferred distribution of 5% would be paid to UCBHM/LCM in support of their budget and that any amounts less than the 8% will be accrued and paid as a preferred distribution in subsequent years.”

June, 2000

The Executive Committee of the UCBHM took the following actions:

To distribute the United Church Board for Homeland Ministries’ (UCBHM) Membership Interest in the United Church of Christ Hotel Venture, LLC (LLC) to the Covenanted Ministries in accordance with the formula of distribution that the UCBHM Board of Directors has approved for distribution of any UCBHM reserves that remain at the time of restructure after all legal obligations and commitments have been met and all mandates are funded. This action is to be effective at the later of July 1, 2000 or the approval of all necessary parties.

Further, to consent to the distribution of the UCBHM’s Membership Interests to the Covenanted Ministries as Substitute Members.

Further, to authorize the Executive Vice President and the Secretary of the Corporation to execute a document for each of the Covenanted Ministries which will, 1) effect the transfer for Membership Interest from the UCBHM to the Covenanted Ministry and 2) when signed by the Covenanted Ministry requires the Ministry to be bound by the terms of the LLC's Operating Agreements and,

Further, to approve the amendments to the Operating Agreement of the United Church of Christ Hotel Venture, LLC as noted in the attached copy marked "DRAFT." (EXCOM(00)-16)

June, 2000

UCBHM Board of Directors approved the liquidation of investments in order to pay off the loans and current interest associated with the Hotel (\$12,076,808.36) and the connecting corridor and meeting house. The distribution of funds to 700 Prospect (\$1,259,769.70) for their portion of the costs was treated as a partner distribution on the LLC's profit and loss statement at June 30, 2000. Total liquidation of investments and subsequent loan payoff(s) was \$13,336,578.06 (from unrestricted reserves - cumulative profit reserves on funds whose income was designated at unrestricted).

700 Prospect Corporation – Negotiated Participation Information

DATE: September 1, 2004

TO: Edith Guffey

FROM: Kathy Houston

RE: Purchase of 700 Prospect/Restructure Costs

Negotiated Participation

In 1991, the Board of Directors of both the United Church Board for World Ministries and the United Church Board for Homeland Ministries (predecessors of Wider Church Ministries and Local Church Ministries) agreed to help defray the cost of purchasing the 700 Prospect building. Both Ministries agreed to contribute \$2.65 million (\$5.3 million in total) under a Negotiated Participation Transfer. The transfer was contingent upon certain conditions, including but not limited to a reversionary clause in favor of the two Boards. Included in the wording of the vote, was a clause that effective January 1, 1992, future percentage allocations of National Basic Support to UCBHM and UCBWM would not be less than the 1990 percentage distributions. That agreement was subject to periodic review and could have been revised with the concurrence of both Ministries.

Restructure Costs/Other

In addition to the Negotiated Participation, both Boards offered to contribute \$3.9 million towards the cost of the restructure. This was split 75/25 between UCBHM and UCBWM. The vote included a request that these amounts be added to the distributions under the Negotiated Participation if there is a sale of the building at 700 Prospect. There was an additional contribution from UCBHM of \$350,000 for the meeting room construction off the lobby of the building.

The new Covenanted Ministries were also asked to help fund shortfalls resulting from the costs of restructure. Of the Ministries that helped fund the shortfall, the Board of Directors of Wider Church Ministries stipulated that their contribution of \$500,000 be added to the distributions under the Negotiated Participation agreement.

Effect on Covenanted Ministries

If the basic support allocation percentages are being reconsidered, it is important to review how the above contributions affected the earning power of the four Covenanted Ministries.

Since all of the above named support came from unrestricted reserves which were invested in income bearing securities, the ministries have essentially lost the earning power on those investments, which affects the annual income of any ministry.

Total reductions in unrestricted reserves are provided below:

	UCBWM/WCM	UCBHM	LCM	JWM	OGM
Negotiated Participation	\$2,650,000	\$2,650,000			
Restructure (Unrest Res)	1,475,000	2,925,000			
Salons (Unrest Res)		350,000			
Subtotal Unrest Res	\$4,125,000	\$5,925,000			
Savings 1 st Half 2000	200,000	281,475			
Savings 2 nd Half 2000			\$395,493	\$229,173	
MetLife Proceeds			270,890	161,843	\$216,855
Reserves				177,000	348,811
Totals	\$4,325,000	\$6,206,475	\$666,383	\$568,016	\$565,666

Excluding savings from budget, and the Met Life proceeds, the amounts of unrestricted reserves contributed towards restructure and the purchase of 700 Prospect total \$4,125,000 from UCBWM/WCM and \$5,925,000 from the former UCBHM. The preferential distribution of 700 Prospect has been changed to reflect the percentages of net assets allocated to the four covenanted ministries from UCBHM (See attachment A).

Generally, an investment balance would fluctuate through changes in market conditions, new contributions and withdrawals. In order to simplify the calculation of lost earnings for each of the covenanted ministries, 5% of the allocated investment is used. This is not an exact calculation but is used to give an approximate value to basic support dollars that need to be assured to each ministry due to the lost earnings for the dollars contributed to restructure/negotiated participation.

<u>Ministry</u>	<u>Investment</u>	<u>Annual 5% Income</u>
Office of General Ministries	\$ 450,300	\$ 22,515
Justice Witness Ministries	\$ 1,226,475	\$ 61,324
Local Church Ministries	\$ 4,040,850	\$ 202,042
Wider Church Ministries	\$ 4,332,375	\$ 216,619
Total (Unrest Res above)	\$10,050,000	\$ 502,500

The information provided above is for the preferential distribution for 700 Prospect should the building ever be sold. It does not represent the investments that were allocated from the former United Church Board for Homeland Ministries to the four new Covenanted Ministries.