Special Vestry Meeting Minutes, 7/2/24, on Zoom

Those present: Anne Baker, Kathy Butler, Tom Butler, Elaine Chapman, Nelson Crandall, Win Fernald, Liz Lindsley, Amma Eliza Linley, Vibeke Orsini, Joanna Phillips, Susan von Schmacht, Jon Showalter
Those absent: Antonette Wood

MINUTES:
4:42pm Amma Eliza opened the meeting with prayer.

Purpose of Meeting: This meeting was scheduled so that the Vestry could hear about the progress of the St. John's House Project and review the latest project plans and a draft of a funding request. The stated purpose of the meeting was to reflect on "how the St. John's House project fits with our sense of direction as a congregation?" Specifically, any and all concerns about moving forward with committing the Northeast corner of our property to a 50-year lease on which housing with 10 small units will be constructed, should be voiced at the meeting. People's Housing of Santa Cruz will be our partner and manage the operations and maintenance of this housing. The Operating Agreement between St. John's Episcopal Church and People's Housing LLC to form St. John's Housing LLC is still in draft form and is being developed by the Core Group with Nelson Crandall's support. This is the first agreement we need to sign, and the agreement can be signed when the Vestry has voiced its approval.

At some point, we will need to sign the property lease agreement. But before that agreement can be signed, we need to present the St. John's Housing project to the Bishop, Standing Committee and Board of Trustees (BOT). Each must approve, in writing, any long-term lease a church in the Diocese wishes to make with any organization before that agreement can be signed. A brief review of this project was previously held with Joe Head, BOT member, and Steve Kottmeier, Chancellor of the Diocese, in February 2024. We should allow three to four months to get on their calendar and receive their formal approval.

Nelson Crandall of Enterprise Law Group, Inc. is representing St. John’s Church as an attorney in connection with the negotiation of the LLC’s charter documents. Nelson gave the Vestry confidential legal advice concerning the structure of the LLC. Nelson recommended that, to preserve St. John’s Church’s attorney-client privilege, the following paragraph about his comments be redacted from versions of the minutes circulated to persons other than Vestry members.

Limited Liability Company (LLC): Nelson discussed the proposed LLC we will form so that St. John’s Church will not be liable for any debts the housing project incurs. Losses

can be passed through to the investors. The LLC can be held liable, but if St. John's Church is held liable, the LLC will defend us unless we are reckless in our actions. The LLC Agreement is formed by filing with the Secretary of State and adopting an Operating Agreement (similar to a partnership agreement). Still to be worked out is how the LLC will be managed and the order in which funds will be shared.

1. The LLC Agreement will be one of 3 or 4 major agreements. The agreement is between St. John's Church, the Developer (Micah from People's Housing), and investors. We have applied for a grant which would take the place of investors, if awarded, or we could potentially have a smaller bank loan with investors. After all the different priorities are settled, People's Housing will get back 20% and St. John's Church will get back between 20% and 80% of the LLC's profits depending on whether there are investors and how much the investors get. Investors would decrease the percentage of St. John's investment/payback until their investment is paid back. Nelson is involved in developing this agreement.
2. The Development Agreement will be between the LLC and the Developer. Nelson is not confident in this agreement, but Joanna says she has a good contract we can use for this purpose.
3. The Lease Agreement will be between St. John's Church and the LLC. This will state the LLC has exclusive use of the designated corner of our property for 50 years. Nelson is not confident in developing a lease agreement and has asked a colleague who is familiar with them to help us out. This will be the primary document that will detail how the LLC will maintain the property and building in accordance with St. John's direction as to modifications, cleanliness, upkeep of the building and grounds, and the conduct of the tenants, etc. The Vestry will negotiate this document directly with the LLC.

Amma Eliza is arranging for an appraiser to get the fair market value of the site lease, so we can use this value to justify why St. John's share will be 80%.

New Way Homes is mentoring Micah at People's Housing. This organization will help open up funds. They are currently working with Peace United Church and another group in Oakland to do the same as we are doing here.

The management of the LLC will be People's Housing's responsibility. St. John's church is a passive investor. The four main jobs of People's Housing are:

1. Find investors
2. Develop the property
3. Once the property is developed and the units are occupied, manage the property (or could subcontract out to a property management company)

4. In 50 years will need to wind up the agreement. Then the property reverts back to St. John's Church. If the church wants to continue running it, then St. John's Church will take over management and can then receive 100% of the rents.

Investors can be bought out by the church (typically 5-10 years) and even People's Housing.

Of the 10 units, we may have 9 units funded by government vouchers and the 10th unit be an on-site manager. The on-site manager can provide case management, collect the rents, and report to the property management company (People's Housing or subcontractor) when the property needs repair.

In the LLC, we can state that if the parties don't agree, we can go to mediation then to court to enforce the agreement or remove People's Housing as LLC manager or dissolve the LLC. Associated Faith Communities (AFC) will be involved in case work and will help especially in the first 6 months. We are close to signing the LLC. As soon as it is signed, we need to start working with the Diocese in order to get the Lease Agreement approved.

Architectural Design: Anne walked us through the design layout again. There are 4 one-bedroom units intended for families and 6 studios for singles. There are stairs to the second floor, no elevator, so handicapped persons will need a ground floor unit. All common areas are downstairs, including the outside patio. The architect is still completing the designs, so we haven't gone to the County for approvals yet. Joanna brought up that people may have multiple cars and will take up a lot of parking spaces, maybe we should limit their vehicles in the lease. Susan asked if solar would be planned for this project. Anne responded no and all the utilities will be separate from the church.

Grant Application: Jon had previously sent the Vestry members the Grant Application. There is $17M available, we are asking for $1.094M. The Alliance offering grants is the Central California Alliance for Health, administering funds in this area through Medicare/Medicaid. We would plan to rent out the units to individuals already getting Medicaid or those who have housing vouchers. If we receive the grant from the government, our perceived risk goes down considerably and investors might be more inclined to invest.

The sources of money to complete this project will be investors, donors, a construction loan, and grants. The Grant Application was submitted last Friday (6/28/24), we should hear back by the end of July.

Jon reviewed the Operating Projection worksheet. Sarah Simms put this together with Micah, she is a low income housing analyst. We would expect to pay the investors off first at 6%, then we would split the proceeds 80%/20% St. John's Church and People's Housing. Starting Year 1 we will get 10% of the bottom line cash flow after debt service. In Year 15, investors will be paid off, so then St. John's Church will receive 80% of the cash flow and People's Housing will get 20%, then loans are paid off, ever increasing the income from the property until the lease expires in 50 years when the LLC dissolves and St. John's owns the entire operation. (Later noted that 50 years is approximate, we have been using 55 years in our calculations.) We are still negotiating the 80%/20% split. We estimate a development cost of $3.1M, $185K in financing, $155K for the developer, with a grand total of $3.44M. There is factored in an 8% contingency. Traditionally it should be 10%, but we needed to make it 8% to get the numbers to work out. The Debt Service Coverage Ratio (DSCR) needs to be at least 1.2 to make the bank happy. We should expect to pay the investors 6% return.

Summary: Amma Eliza, Anne, Jon, Nelson, and Sarah are all working very hard to get us to this point. Win polled the Vestry members with these 3 questions:

- How do I feel about the St. John's House project?
- What concerns do I have?
- Are there any reasons, if any, not to move forward?

The Vestry members individually responded positively. Specific comments were not captured, but will be added to the minutes if the Vestry members forward them to Kathy.

From Tom: "I feel that it is a ministry that we are called by God as St. John's to do. I have just minor concerns about the paperwork and applications and how long the project will take to complete. There are no reasons not to do this."
From Nelson: "I feel good about the idea. I wonder if there will be a housing shortage in 50 years. Nothing material."

Joanna mentioned before she had to leave that she wants people doing this that have experience.

Next steps include finishing the negotiating of the LLC Agreement. Jon will send out the Project Plan and LLC Agreement before signing. The Diocese wants to see the lease before it is signed. Win stated that the Diocese is behind this project.

The meeting was adjourned at 5:53pm.

Respectfully submitted,
Kathy Butler, Clerk of the Vestry