



# **Locating the Episcopal Church Center For Missional Strategy**

**A Report and Proposal from DFMS Management  
For The Episcopal Church**

**February 2013**

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## EXECUTIVE SUMMARY

A team of the Executive Oversight Group (Appendix A) has been involved in a study of the location of the Episcopal Church Center over the last year. As indicated in its minutes from the April 2012 meeting, the Joint Standing Committee on Finances for Mission requested the Chief Operating Officer to conduct that study with the assistance of an outside consultant in real estate and report back with findings. Cushman & Wakefield was retained as the outside consultant through a gift from the Diocese of Los Angeles, and worked collaboratively with the Executive Oversight Group in preparing this report, which is offered to the committee, the Executive Council, and the Church for consideration.

The results of the study are extremely complex and are explained in some detail below. We have considered issues of both mission and finance and reached the following conclusions and recommendations, which are endorsed unanimously by the Executive Oversight Group and presented to the Executive Council:

- **The Unity of the Church**—Unity is most strengthened when the Church’s home office is accessible to its members. New York best serves that goal because it is located more nearly proximate to a majority of Episcopalians in the United States and most conveniently reached by air by Episcopalians outside the United States.
- **Missional Partnerships**—Important missional partnerships, some of which are crucial to the Church’s missional functioning, would be negatively impacted by moving the Church Center to another city because such a move would lead to greater separation between the Domestic and Foreign Missionary Society and others integral to the fulfillment of our common mission.
- **Continuation of Services**—A move from New York would have a very negative impact on providing services because of the anticipated loss of a large percentage of the churchwide staff. Some ministries, like Episcopal Migration Ministries, might even have to be discontinued. The impairment of the churchwide staff to be able to support local mission would be particularly regrettable at precisely the moment when the General Convention has inaugurated new mission initiatives in the Marks of Mission Budget.

- Promoting Justice—Relocating the Church Center poses justice concerns in two ways. First, it would potentially and unfairly impose an excessive burden and responsibility on staff for the Church’s continued operations because it would result in substituting lower-paid replacements for a large part of the staff, a two-tiered salary structure for some time, and quite possibly a particular burden on married couples of the same sex forced to choose between their jobs and moving to a jurisdiction that did not recognize their marriages. Second, a number of the cities that might potentially host the Church Center are in states with regressive immigration laws, laws banning marriage equality, and laws that encourage gun violence.
  
- Maximizing Financial Resources for Mission—Several points need to be made about finances:
  - The existing debt from the 2003 renovation of the Church Center is irrelevant to the analysis. We pay interest of 3.69% on the loan, and we historically earn an annual return on our investments of 8%. Should the Church Center be sold, net proceeds would be more prudently invested than used to reduce debt. Therefore, whether we sell or keep the Church Center, we should retain the debt.
  - There is no doubt that remaining in New York, consolidating operations at 815 Second Avenue, and leasing additional space, contrary to uninformed speculation, would have a more positive effect on the budget than relocating to another city.
  - Retaining 815 Second Avenue has greater potential for asset appreciation than the investment of net proceeds after a sale and the use of some the annual return to fund on-going operations through our endowment draw.
  - The net present value of selling and relocating is nevertheless greater than the net present value of retaining the Church Center because of the principle that a smaller amount of cash on hand is more valuable than a greater amount of cash at a later date, *i.e.*, a bird in the hand is worth two in the bush.
  - There is a risk associated with depending on renting space to produce revenue, but there are possibilities for mitigating that risk by allocating it more rationally among the various occupants of the Church Center. There is also a risk associated with investing cash in the stock market. In fact, the risk of a decline in the rental market tends to coincide with similar declines in the stock market.
  - It is possible to mitigate the risk of retaining ownership of 815 Second Avenue by partnering with those affiliated agencies that share in the building’s benefits to also share in its costs.

## RECOMMENDATION

We have balanced missional concerns with financial concerns in an attempt to answer what is fundamentally a question of stewardship, theology, and spirituality. We believe that God's mission of reconciliation is best furthered if the Episcopal Church Center is located in New York. We also believe that our financial assets are best stewarded by consolidating the DFMS offices at the Church Center and leasing additional space to outside tenants. Therefore, the Executive Oversight Group of the Domestic and Foreign Missionary Society unanimously recommends that the Church Center remain at 815 Second Avenue and that plans for consolidation and leasing proceed. We also recommend that agreements be negotiated with all of our affiliated agencies to deepen partnerships, more fairly allocate costs and risks, and encourage transparency. Negotiated agreements should be completed before the end of the current triennium. Finally, we recommend a change in how we report our arrangements with affiliated agencies so that market rent is charged and then correspondingly offset by a grant, the amount of the grant depending on circumstances and the purposes of the partnership.

In many ways, we believe the real underlying energy in examining the location of the Church Center is less about its location and more about how it actually functions. Though we do not agree with relocation, we could not be in greater agreement about the need to reform how the Domestic and Foreign Missionary Society functions and serves the needs of the Church, particularly as to fostering, encouraging, and supporting mission at the local level in partnership with local leadership. We believe this was the real message of Resolution D016 of the 2012 General Convention (*See Appendix B*).

Relocation, though, is only a mask for the real reform needed and called for. How long, we wonder, would it be before complaints about the isolation of the Church Center in New York

would become complaints about the isolation of the Church Center in some other city? Perhaps rather than shifting the locus of our communal anxiety from one site to another, we would be better served in the long run to use our best judgment to make a rational and strategic decision in the best interests of the Church's engagement of God's mission and then clearly articulate that decision to the Church.

We believe the real answer is not in relocation but in reorientation of the DFMS staff to supporting mission at the local level, regardless of where the Church Center itself is located. The Executive Oversight Group has already begun grappling with this challenge and hopes to have more definite plans in this regard soon. Still, we believe there will remain a need to have a home office located somewhere, and there will likely always be questions about whether all parts of so diverse a Church as ours are being equally cared for. New York remains the best possibility for that.

## **REPORT TO EXECUTIVE COUNCIL**

### **Introduction**

On the one hand, we have before us a question of real estate, whether to retain or sell a building in midtown Manhattan located at 815 Second Avenue. The real estate question is one of balancing operating costs, operating revenues, the appreciation of assets, and the assumption of risk, all of which are quantifiable. The firm of Cushman & Wakefield was retained to assist in this analysis through a generous grant from the Diocese of Los Angeles, for which we are most grateful. In particular, we are grateful to John Cushman, Jeff Cushman, Nat Rockett, and Brian Szczapa for their tireless work, frequent consultation, and analytical minds. Portions of the Cushman & Wakefield report not containing proprietary information are attached as Appendix C.

On the other hand, as our colleague Dan Kasle, the Chief Financial Officer of the Church Pension Group, has recently reminded us as management, the question before us is also one of the location of the Church’s home office.<sup>1</sup> Having just made the decision to remain in New York as well as purchase a larger building for their expanding needs while retaining their existing building as a rental property, Dan and the Pension Group know from recent experience that the home office dynamic presents other issues, some of which are more difficult, perhaps impossible, to quantify. They involve identity, which means they are intimately related to our mission “to restore all people to unity with God and each other in Christ.”<sup>2</sup> The decision we have to make bears on our thinking about mission as much as about real estate. This, we believe, is the very essence of what we mean by *stewardship*—material resources deployed wisely for mission. In our estimation, mission should drive the real estate question, not the other way around.

Therefore, we have first considered the Church’s engagement of God’s mission as the necessary prerequisite to faithful decisions about using assets to pursue that mission. We must, after all, know what we’re pursuing. The decision we have to make is more complex than the calculation of cash flows and net present values. It is a spiritual question, a question of the most faithful use of the gifts with which God has entrusted us to further God’s mission of reconciliation in the world.

We believe a strategic and missional discernment of the best location of the Episcopal Church Center must consider the following goals:

- The Unity of the Church
- Missional Partnerships

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<sup>1</sup> “We . . . moved away from looking at our new offices as an investment per se much in the same way as many of us do not look at our principal residence as an ‘investment.’” Email of January 6, 2013, from Daniel Kasle to Stacy Sauls.

<sup>2</sup> BCP, p. 855.

- Continuation of Services Provided
- Promoting Justice
- Maximizing Financial Resources for Mission

### **The Unity of the Church**

A principle guiding our thinking is that accessibility for interaction is more conducive to reconciliation, and inaccessibility, to separation. Furthermore, reorienting the staff to local needs depends on accessibility. A significant majority of Episcopalians (58%) live within the Eastern Time Zone of the United States, and 80% live within the Eastern and Central Time Zones together.

<u>U.S. Time Zone</u>	<u>Average Sunday Attendance (2011)<sup>3</sup></u>	<u>Percentage</u>
Eastern	403,829	58
Central	153,064	22
Mountain	20,073	3
Pacific	76,147	11
Province IX <sup>4</sup>	19,900	3
Other <sup>5</sup>	24,363	4

Locating the Church Center within these time zones, therefore, contributes to accessibility for, and the connection of, most of us.

Growth trends in the Episcopal Church indicate a shift toward the southern part of both time zones. While the membership of the Episcopal Church as a whole remained steady from 2010 to 2011, an improvement over recent years, 48 of the 112 dioceses and regions of the

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<sup>3</sup> Derived from statistics available at [http://www.episcopalchurch.org/sites/default/files/average\\_sunday\\_attendance\\_by\\_province\\_and\\_diocese\\_2001-2011.pdf](http://www.episcopalchurch.org/sites/default/files/average_sunday_attendance_by_province_and_diocese_2001-2011.pdf) (accessed February 11, 2013). Dioceses existing in more than one time zone were counted in the time zone in which the diocesan headquarters is located.

<sup>4</sup> Although most Province IX dioceses share a time zone with dioceses in the United States, travel related to them poses issues beyond that of their respective time zone. They were accordingly treated together regardless of time zone.

<sup>5</sup> Alaska, Hawaii, Europe, Haiti, Virgin Islands, Micronesia, and Taiwan.

Church grew in Average Sunday Attendance from the previous year. Of those dioceses that grew, the total growth was 7,563, divided by province as follows:

<u>Province</u>	<u>Growing Dioceses</u>	<u>Total among Growing Dioceses</u>	<u>Percentage of Total</u>	<u>Total Growth of Province</u>
I	0 of 7	0	0	-2.3
II <sup>6</sup>	4 of 8	760	10	0.1
III	5 of 13	1,053	14	0.3
IV	14 of 20	2,308	31	1.4
V	1 of 15	32	0	-1.8
VI	4 of 8	527	7	1.0
VII	7 of 12	827	11	0.3
VIII <sup>7</sup>	7 of 17	440	6	-0.8
IX	3 of 7	412	5	-2.5
Other <sup>8</sup>	3 of 5	1,204	16	4.8

Average Sunday Attendance statistics suggest generally that the South is the most significant growth area for the Episcopal Church within the United States, primarily within Provinces III and IV, but also including Arkansas, another Southern state, in Province VII. The only U.S. dioceses outside the South to grow at a rate greater than 3% in 2011 were the Navajoland Area Mission (11.7%), Nevada (8.4%), North Dakota (6.2%), and Utah (5.2%). Outside the United States, significant growth occurred in Haiti, the Dominican Republic, and Ecuador Litoral. The Church Pension Fund has also demonstrated that the location of Episcopal clergy, and therefore our membership, is shifting southward.<sup>9</sup>

This is not to suggest that the Church's only growth is being experienced in the South, however. Both Provinces II and III, covering the Northeast and Mid-Atlantic states, showed overall growth in 2011. The Diocese of New York, in which the Church Center is currently located, showed a 2.7% growth rate in 2011. Other Northeastern dioceses experiencing growth

<sup>6</sup> Excluding Europe, Haiti, and the Virgin Islands.

<sup>7</sup> Excluding Micronesia and Taiwan.

<sup>8</sup> Europe, Haiti, Micronesia, Taiwan, and the Virgin Islands.

<sup>9</sup> <https://www.cpg.org/linkservid/DC3EE5A8-F95C-2278-107475F87BFDB2AA/showMeta/0/?label=State%20of%20the%20Clergy%202012> (accessed February 14, 2013).

were Albany (2%), Western New York (2%), and Long Island (0.3%). Along the Mid-Atlantic, Pittsburgh (3.4%), Washington (1.3%), and Maryland (1%) also grew, although the general trend in the Northeast and non-South Mid-Atlantic was downward. However, the data suggests that some parts of the Northeast and Mid-Atlantic, which have been traditional strongholds of the Episcopal Church, are likely to remain so.

Overall, this would suggest the Church Center needs to be located so as to be particularly more attentive to the South across Provinces III, IV, and VII. At the same time, we are concerned about trading one set of problems for another in terms of Church Center attentiveness. How long, we wonder, would it be before complaints about the isolation of the Church Center in New York would become complaints about the isolation of the Church Center in Atlanta? Perhaps rather than shifting the locus of our communal anxiety, we would be better served in the long run to use our best judgment to make a rational and strategic decision in the best interests of the Church's engagement of God's mission and then clearly articulate that decision to the Church. We also suspect that the real answer involves a reorientation of the DFMS staff to supporting mission at the local level, regardless of where the Church Center itself is located. The Executive Oversight Group has already begun grappling with this challenge and hope to have more definite plans in this regard soon. Still, we believe there will remain a need to have a home office located somewhere and there will likely always be questions about whether all parts of so diverse a Church as ours are being equally cared for.

Particularly in an international Church located in 16 countries on four continents, the availability of convenient and low-cost transportation is of great importance for acting on our intention to care for the Church in its diversity equally and foster accessibility, connection, and reconciliation.

We have analyzed major hub airports (defined by the United States Government as handling at least 1% of domestic air traffic) within the Eastern and Central time zones accordingly.<sup>10</sup> We limited the consideration to airports boarding over 10 million passengers annually. Our primary interest was in the availability of nonstop destinations to facilitate ease of access for others, particularly with respect to the 11 dioceses or regions located outside the United States (Colombia, the Dominican Republic, Ecuador Central, Ecuador Litoral, Europe, Haiti, Honduras, Micronesia, Taiwan, the Virgin Islands,<sup>11</sup> and Venezuela) because of the increased importance of air service in connecting these dioceses to the rest of the Church.

<u>City</u> <sup>12</sup>	<u>U.S. Destinations</u>	<u>Average Fare</u> <sup>13</sup>	<u>Non-U.S. Dioceses</u>
New York (LGA/JFK/EWR) <sup>14</sup>	112	\$398	10 <sup>15</sup>
Chicago (ORD/MDW)	148	379	3 <sup>16</sup>
Atlanta	165	348	8 <sup>17</sup>
Washington (DCA/BWI/IAD)	102	391	1 <sup>18</sup>
Dallas/Ft. Worth (DFW/DAL)	132	419	2 <sup>19</sup>
Houston (IAH/HOU)	111	503	5 <sup>20</sup>
Minneapolis/St. Paul	151	421	2 <sup>21</sup>
Detroit	130	393	1 <sup>22</sup>

<sup>10</sup> <http://www.nsflight.com> (accessed February 11, 2013).

<sup>11</sup> The Virgin Islands is counted as a diocese outside the United States because it includes the British Virgin Islands as well as the American Virgin Islands and because the concern for keeping it connected to the rest of the Church is similar to other dioceses outside the United States.

<sup>12</sup> Listed in decreasing order of passenger traffic in 2004. <http://www.airportcodes.us/large-hubs.htm> (accessed February 12, 2013).

<sup>13</sup> <http://www.transtats.bts.gov/AverageFare/> (accessed February 12, 2013).

<sup>14</sup> In the case of cities with multiple airports, we averaged the average fares of each airport.

<sup>15</sup> [http://en.wikipedia.org/wiki/John\\_F.\\_Kennedy\\_International\\_Airport#Airlines\\_and\\_destinations](http://en.wikipedia.org/wiki/John_F._Kennedy_International_Airport#Airlines_and_destinations) (accessed February 11, 2013) and [http://en.wikipedia.org/wiki/Newark\\_International\\_Airport](http://en.wikipedia.org/wiki/Newark_International_Airport) (accessed February 11, 2013).

<sup>16</sup> [http://en.wikipedia.org/wiki/O%27Hare\\_International\\_Airport](http://en.wikipedia.org/wiki/O%27Hare_International_Airport) (accessed February 11, 2013) and

[http://en.wikipedia.org/wiki/Midway\\_International\\_Airport](http://en.wikipedia.org/wiki/Midway_International_Airport) (accessed February 11, 2013).

<sup>17</sup> [http://en.wikipedia.org/wiki/Hartsfield\\_Jackson\\_Atlanta\\_International\\_Airport](http://en.wikipedia.org/wiki/Hartsfield_Jackson_Atlanta_International_Airport) (accessed February 11, 2013).

<sup>18</sup> [http://en.wikipedia.org/wiki/Dulles\\_International\\_Airport](http://en.wikipedia.org/wiki/Dulles_International_Airport) (accessed February 11, 2013),

[http://en.wikipedia.org/wiki/Reagan\\_National\\_Airport](http://en.wikipedia.org/wiki/Reagan_National_Airport) (accessed February 11, 2013), and

[http://en.wikipedia.org/wiki/Baltimore-Washington\\_International\\_Thurgood-Marshall\\_Airport](http://en.wikipedia.org/wiki/Baltimore-Washington_International_Thurgood-Marshall_Airport) (accessed February 11, 2013).

<sup>19</sup> [http://en.wikipedia.org/wiki/Dallas-Ft.\\_Worth\\_International\\_Airport#Airlines\\_and\\_destinations](http://en.wikipedia.org/wiki/Dallas-Ft._Worth_International_Airport#Airlines_and_destinations) (accessed February 11, 2013) and [http://en.wikipedia.org/wiki/Dallas\\_Love\\_Field](http://en.wikipedia.org/wiki/Dallas_Love_Field) (accessed February 12, 2013).

<sup>20</sup> [http://en.wikipedia.org/wiki/Houston\\_Intercontinental\\_Airport](http://en.wikipedia.org/wiki/Houston_Intercontinental_Airport) (accessed February 12, 2013) and

[http://en.wikipedia.org/wiki/Houston\\_Hobby](http://en.wikipedia.org/wiki/Houston_Hobby) (accessed February 12, 2013).

<sup>21</sup> [http://en.wikipedia.org/wiki/Minneapolis%27Saint\\_Paul\\_International\\_Airport](http://en.wikipedia.org/wiki/Minneapolis%27Saint_Paul_International_Airport) (accessed February 11, 2013).

Miami	58	359	9 <sup>23</sup>
Philadelphia	96	391	3 <sup>24</sup>
Boston	77	364	3 <sup>25</sup>
Charlotte	110	401	2 <sup>26</sup>
Ft. Lauderdale	68	261	3 <sup>27</sup>
Cincinnati	89	519	1 <sup>28</sup>

The average domestic airfare is currently \$357.<sup>29</sup> Of the largest hubs, Atlanta, Miami, and Ft. Lauderdale enjoy airfares at or below this amount. Dallas/Ft. Worth, Houston, Minneapolis/St. Paul, and Cincinnati have fares that are more than 20% higher than the national average. Cincinnati has the highest airfares of those airports surveyed, 31% higher than average.

In conclusion, we believe New York best furthers the Church’s unity as a home office location for two reasons. (1) The location of Episcopalians and trends in growth potential make it well-suited to house the home office, especially if we successfully reorient the home office staff to local mission and ministry. (2) While any of the cities studied would provide a location in proximity to most Episcopalians and be relatively easily accessible by air travel to all, only New York combines both ease of accessibility for U.S. Episcopalians and non-U.S. Episcopalians in Latin America, Asia, and Europe. With the exceptions of Atlanta, Miami, and perhaps Houston, all other locations are distinctly inconvenient for those engaged in our important mission work in Latin America. Only New York, Miami, and Ft. Lauderdale offer direct service between the United States and Port-au-Prince, which is certainly an important focus for us missionally.

Paul urged that “there may be no dissension within the body, but the members may have the same care for one another” (1 Cor. 12:25). New York is the city most nearly able to

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<sup>22</sup> [http://en.wikipedia.org/wiki/Detroit\\_Metropolitan\\_Wayne\\_County\\_Airport](http://en.wikipedia.org/wiki/Detroit_Metropolitan_Wayne_County_Airport) (accessed February 11, 2013).

<sup>23</sup> [http://en.wikipedia.org/wiki/Miami\\_airport](http://en.wikipedia.org/wiki/Miami_airport) (accessed February 11, 2013).

<sup>24</sup> [http://en.wikipedia.org/wiki/Philadelphia\\_Airport](http://en.wikipedia.org/wiki/Philadelphia_Airport) (accessed February 14, 2013).

<sup>25</sup> [http://en.wikipedia.org/wiki/Boston\\_Logan\\_Airport](http://en.wikipedia.org/wiki/Boston_Logan_Airport) (accessed February 14, 2013).

<sup>26</sup> [http://en.wikipedia.org/wiki/Charlotte/Douglas\\_International\\_Airport](http://en.wikipedia.org/wiki/Charlotte/Douglas_International_Airport) (accessed February 11, 2013).

<sup>27</sup> [http://en.wikipedia.org/wiki/Ft.\\_Lauderdale\\_International\\_Airport](http://en.wikipedia.org/wiki/Ft._Lauderdale_International_Airport) (accessed February 14, 2013).

<sup>28</sup> [http://en.wikipedia.org/wiki/Cincinnati/Northern\\_Kentucky\\_International\\_Airport](http://en.wikipedia.org/wiki/Cincinnati/Northern_Kentucky_International_Airport) (accessed February 14, 2013).

<sup>29</sup> <http://www.airlines.org/Pages/Annual-Round-Trip-Fares-and-Fees-Domestic.aspx> (accessed February 11, 2013).

demonstrate the same care for all in both culture and accessibility, and therefore, represents the best location for the Church Center to be a force for unity. As has been amply demonstrated in recent years by various disasters, including the earthquake in Haiti, it is also the city most suited to facilitate the carrying out of mission across long distances, again in the spirit of Paul, who arranged his journeys so as to facilitate the sharing of resources among distant brothers and sisters in need (*see, e.g.*, Rom 15:24-26 and 1 Cor. 16:1-4). New York, the world's crossroads, serves a similar and updated missional purpose.

### **Missional Partnerships**

The staff of the Domestic and Foreign Missionary Society (DFMS) does not exist in isolation. In addition to the importance of connectional partnerships with dioceses across the Episcopal Church, and indeed throughout the world, we work regularly with important agencies, especially Episcopal agencies, also pursuing the mission of the Gospel.

*Episcopal Relief & Development.* This relationship with Episcopal Relief & Development (ERD) is considered especially important to us. It is crucial that the churchwide staff and the ERD staff work in partnership to further mission across the Church. For example, the Presiding Bishop, the Chief Operating Officer, and the President of ERD meet monthly to review various initiatives and projects as well as to think strategically about opportunities and challenges. Senior ERD staff members participate in regular meetings of the Haiti Team and the Africa Partnerships Team. The Finance Office provides the banking services for ERD and the accounting necessary for consolidating its accounts with those of DFMS. ERD is working with the Global Partnerships Team to experiment with Young Adult Service Corps placements at ERD project sites. On-going work in Haiti will require increased collaboration, not less. Staff members frequently consult each other on projects. Budget planning requires collaboration.

Fundraising requires coordination. Some of our mutual goals might be accomplished by technological connections, but we doubt most would. We would regard it spiritually as a serious impediment to mission were DFMS to become separated from ERD, the latter having been a part of the former as the Presiding Bishop's Fund for World Relief until it became an independent agency in 2002.

The risk of such a separation is heightened by the likelihood that ERD would not move from New York even if DFMS did. ERD management has estimated that of 31 staff members based in New York, most would be unlikely to choose to move to another city should ERD relocate. Furthermore, ERD estimates the cost of losing or relocating staff would be \$550,000-625,000, and does not expect to realize significant labor savings in another city.<sup>30</sup> While any decision would rest with the ERD Board, we believe that the operational impairment anticipated by ERD management would make a move highly unlikely. Separation of DFMS and ERD would have a detrimental impact on mission in many places.

***Church Pension Group.*** We are pleased to enjoy a very collaborative and useful relationship with the Church Pension Group (CPG). Staff members regularly work together, particularly in furthering international mission. The President of CPG meets regularly with both the Presiding Bishop and the Chief Operating Officer. Research on the Episcopal Church and its trends is a joint effort of DFMS and CPG. The Chief Operating Officer regularly speaks to the Episcopal Business Administrators Conference sponsored by CPG. The Finance Office and CPG participate in one another's monthly meetings on social responsibility and economic justice, for which we share a joint consultant. CPG frequently consults DFMS leadership on how best to serve the Church, and DFMS frequently consults CPG leadership on a variety of questions, particularly those related to business and financial management. The executive groups of both

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<sup>30</sup> DFMS believes in its own case that some personnel savings would be realized.

organizations meet together on occasion. This partnership is highly productive and valuable. It would be much more difficult were DFMS to move its home office from New York, to which CPG has just deepened its commitment.

***Resettlement Agencies.*** Episcopal Migration Ministries (EMM) works closely with other religious resettlement agencies. Many are in New York. Those include Church World Service, Hebrew Immigrant Aid Society, and the International Rescue Committee. Other major resettlement agencies are located in the Washington area. These include Ethiopian Community Development Council, United States Committee for Refugees and Resettlement, Lutheran Immigration and Refugee Services, the United States Conference of Catholic Bishops, and World Relief Corporation.

***Trinity Church Wall Street.*** Mission, particularly in Africa, frequently calls for consultation with Trinity Church with its extensive grants program on the continent. Senior leadership from Trinity also meets periodically with the Chief Operating Officer and the Director of Mission. Trinity's work in advancing the sustainability of mission in Africa, the expertise it has gained in doing so, and its increasing interest in Latin American mission sustainability make it a potentially invaluable partner as we seek to implement the Marks of Mission Budget priority on Province IX sustainability (Mark of Mission 2). Various other matters of mutual concern bring us together frequently. These have included public relations concerns and, recently, efforts to address gun violence.

***United Nations.*** We are pleased to host the office of the Anglican United Nations Observer (AUNO). We ourselves are an active presence at the United Nations as a part of our ministry of advocacy and of hospitality. Our particular location, a block from the United Nations, is especially advantageous in this regard.

The Episcopal Church maintains an official presence as a non-governmental organization, which allows Church representatives and their guests to access the U.N. premises to attend U.N. meetings and briefings, share resources, network, and advocate with diplomatic representatives of 193 member states and representatives of 27,000 non-governmental organizations. In 2012, the Church applied for consultative status at the Economic and Social Council, which will allow its representatives to participate in and advocate at special annual Commissions on sustainable development, the status of women, social development, indigenous issues, human rights, population, and development, among others. The U.N. representative offices of major non-governmental organizations such as the United Nations Development Programme, UNICEF, the U.N. Office on Drugs and Crime, and the Permanent Missions of member states present important opportunities for collaboration. The Permanent Mission of Haiti is located within the Church Center.

Our proximity to the U.N. also allows the Episcopal Church to make a significant statement of good will to the U.N. community by offering space for meetings and hosting meetings of NGO working groups and permanent missions. Since 2011, we have extended hospitality to the Presbyterian U.N. ministry, the Lutheran World Federation U.N. office, the NGO Food and Hunger Working Group, the Global Policy Forum, the Rural Development Leadership Network, Ecumenical Women, Religions for Peace, and the United States Permanent Mission. This is deeply appreciated by our guests.

Finally, the Episcopal Church Center has offered hospitality and financial support to Anglicans and Episcopalians who come to the U.N. to attend meetings and advocate. For at least ten years, this has included an annual presence at the United Nations Commission on the Status of

Women, which this year will gather over 80 Anglican delegates from 19 countries for two weeks of participation, advocacy, and fellowship in late February and March.

It also needs to be said that the location of DFMS, ERD, CPG, Trinity, and the United Nations in the same city proves to be advantageous on a very regular basis because of the various visitors, especially international visitors, who come to New York because of one or more of these entities, which in turn enables the others to have access to them as well and to work together to meet needs around the world. This results in many visits to DFMS and one or more of these partners by Anglicans from around the world. These visitors have recently included:

Archbishop Henri Insigoma of the Congo  
Bishop Daniel Allotey of Cape Coast  
Archbishop Paul Kim of Korea  
SARA (Chinese government office for religious affairs)  
Bishop Mdimi Mhogolo of Central Tanganyika  
Bishop Roger Bird of Sao Paolo  
The Rev. Arthur Cavalcante of the Diocese of Sao Paolo  
Archbishop Bernard Ntahutori of Burundi  
Bishop Martin Barahona of El Salvador  
Bishops of the IARCA  
Bishop Anthony Pogo of Kajo Keji  
The Rev. Alejandro Manzoni of the Diocese of Uruguay  
The Rev. Peter Koon, Provincial Secretary of Hong Kong  
Bishop Carlos Touché Porter, Primate of Mexico  
The Rev. Canon Habacuc Ramos-Huerta, General Secretary of Mexico  
Mr. Edgar Gomez Gonzalez, Treasurer of Mexico  
Bishop William Mchombo of Zambia, Provincial Secretary of the Province of Central Africa  
Bishop Julio Murray of Panama  
Bishop Suheil Dawani of Jerusalem  
Bishop Mark Niassa, Bishop of Northern Mozambique  
Compass Rose Society

***Episcopal Church Foundation.*** We frequently have the opportunity to work with the Episcopal Church Foundation (ECF). We work together on financial management, fundraising, communications, and leadership development at the local level. In addition, the COO meets on occasion with the President, Board, and staff of ECF for consultation. The Treasurer serves as an

advisor to the Finance Committee of ECF. Being in two different cities would be a significant impediment.

***National Association of Episcopal Schools.*** We host the National Association of Episcopal Schools (NAES) by providing office space at the Church Center and occasionally work with them on issues of mutual interest. We continue to think the presence of NAES in proximity to DFMS offers potential for joint work, particularly in terms of bringing educational expertise from within the Church to important initiatives, particularly around domestic poverty.

***Colleges and Universities of the Anglican Communion.*** The office of Colleges and Universities of the Anglican Communion (CUAC) is hosted at the Church Center. In addition to supporting the work of CUAC by providing an office, we have also benefitted from CUAC's involvement in mission within the Episcopal Church. This has particularly been manifest recently in strengthening the relationship between historically black Episcopal colleges, both overseas—Cuttington College (Liberia)—and in the United States—St. Paul's College (Lawrenceville, Virginia), Voorhees College (Denmark, South Carolina), and St. Augustine's University (Raleigh, North Carolina).

***Other Associated Agencies.*** We also provide office space to the Bible and Common Prayer Book Society (BCPBS) and the Church Periodical Club (CPC). Increasing opportunities for collaboration are arising with these small, and unfortunately little-known, agencies. That would not likely be the case were we separated by distance.

***The Evangelical Lutheran Church in America.*** A deepening partnership with the Evangelical Lutheran Church in America (ELCA) remains an aspiration. The Chief Operating Officer and the Director of Mission meet with some regularity with their ELCA counterparts, and both are pursuing various opportunities. We have also found ourselves working more

intentionally to include ELCA staff in various conversations on both a staff and governance level. Furthering this effort would be an important priority, but we are unconvinced that there would be a significant advantage to be gained in furthering that objective by moving to Chicago at this time. Ways to deepen this relationship, however, must continue to be explored. One idea worth pursuing is a joint conference and meeting center to lower the cost of meetings by combining resources and diminishing risk. Not only do we believe this would encourage interaction both at the governance and staff levels, we believe it could produce significant savings in the budget. This idea, however, has not been discussed with any of our Lutheran counterparts at this time.

*The Anglican Church of Canada.* Ties between our Church and the Anglican Church of Canada grow increasingly important. We work together on important projects, such as Cuba, and are investigating further joint ministries, including shared personnel. The accessibility of convenient air service between the Church Center and Toronto, the headquarters of the Canadian Church exist from all cities studied. All of the cities considered above have direct service to Toronto.

It is, of course, not surprising that so many key Episcopal institutions and agencies would be in New York, which has been our communal center of gravity for so long. Becoming disconnected from these by moving DFMS would present numerous difficulties, indeed barriers, to pursuing the ministry of the Church. This reality also argues for the Church Center remaining in New York.

### **Continuation of Services**

Just as ERD management anticipates that a move would cause significant operational impairment, DFMS management expects a similar operational disruption impacting services for some time. We would expect most members of senior management to relocate in the event of a

move, but few others to choose to move. Overall, we estimate losing 73% of our New York staff, and personnel costs related to severance and moving staff to be \$2.6 million. We do estimate some savings in labor costs would eventually be realized, which would offset the initial costs over time. We have assumed that salaries would be reduced to 83% of New York salaries based on national averages for purposes of the Scenario analysis. Salary rates in individual cities in comparison to New York (in descending order) are:<sup>31</sup>

<u>City</u>	<u>Percentage of New York Salaries</u>
Boston	96.5
Washington	92.3
Chicago	90.0
St. Paul	89.3
Minneapolis	88.9
Philadelphia	88.5
Detroit	87.6
Houston	86.0
Dallas	85.3
Ft. Lauderdale	83.3
Atlanta	83.0
Charlotte	82.8
Miami	82.6
Cincinnati	82.0
Ft. Worth	81.0

One area that would likely be particularly affected adversely is EMM. Due to the plenteousness of resettlement jobs in New York and other factors, it is likely that few of the EMM staff would make the move to another city. Should our capacity decline for a prolonged period, the grants and contracts awarded to EMM by governmental agencies would likely decline as well. It is conceivable that this ministry would have to be discontinued, thus eliminating this mission opportunity in the lives of most of our current congregational partners.

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<sup>31</sup> Geographic Assessor/Economic Research Institute, Redmond, WA ([www.eri.com](http://www.eri.com)), (accessed February 19, 2013).

We are aware that benefitting from reduced labor costs will require bringing existing salaries into line with rates in a new city in some way. We anticipate accomplishing a salary transition over time by freezing the salaries of New York staff moving to the new location until local levels at the new location caught up, while hiring replacement employees at prevailing and lower rates. This would create a two-tiered salary structure for some period. We do have some concern about a negative effect on staff morale, with a corresponding negative effect on productivity, due to such an arrangement.

While we have every confidence that the DFMS staff is more than ready to make sacrifices for the well-being of the Church when needed to do so, and has, we do not believe a need can be demonstrated in this case. Combined with the effect of multiple staff reorganizations and reductions in force in recent years, we have a serious concern about a negative impact on morale due to what will be experienced as an arbitrary exercise of power and could also have a negative impact on functioning as well as our ability to recruit new staff.

Finally, we question the prudence of such a disruption at precisely the time when the Church is reforming itself to have an increasingly missional focus and the staff is most needed to facilitate, encourage, and lead the initiatives being implemented as part of the Marks of Mission Budget as adopted at the 2012 General Convention.

### **Promoting Justice**

One of our strongest traditions of the Episcopal Church is its prophetic voice on the issues facing the society in which it exists, sometimes at great cost. Those have included, and still include, both racial and gender equality for all, the equal dignity and rights of gay, lesbian, bisexual, and transgendered persons, human trafficking, immigration reform, and most recently,

gun violence. Some of those issues are raised by a contemplated move of the Church’s home office—what does where we locate our home office say about what we believe?

We believe the issues we have chosen to speak on, again often at a cost including in terms of lives, must be considered in any decision. For our part, we have looked at the Martin Luther King Holiday, marriage equality, gun violence, and immigration in the locations surveyed because of their potential for connecting the Church across great distances because of the availability of cost-effective and convenient air transportation (*see*, pp. 11-12). All of the cities considered are in jurisdictions observing the Martin Luther King, Jr. Holiday; indeed, one, Atlanta, is the birthplace of Dr. King and the location of the King Center. At the same time, Atlanta is also the only city considered above with an Arizona-style immigration law. Stand your ground laws, in addition to encouraging violence, also raise issues of racism, as the Trayvon Marin case demonstrated so poignantly just one year ago this week.

<u>City</u>	<u>Marriage Equality</u> <sup>32</sup>	<u>Stand Your Ground Law</u> <sup>33</sup>
New York	Yes	No
Chicago	No by statute; civil partnerships	Yes
Atlanta	No by constitution	Yes
Washington	Yes	No
Dallas/Ft. Worth	No by constitution	Yes
Houston	No by constitution	Yes
Minneapolis	No by statute	No
Detroit	No by constitution	Yes
Miami	No by constitution	Yes
Philadelphia	No by statute	No
Boston	Yes	No
Charlotte	No by constitution	Yes
Ft. Lauderdale	No by constitution	Yes
Cincinnati	No by constitution	No

<sup>32</sup> <http://www.marriageequality.org/sites/default/files/National%20Map%20%2307%20%2807-Nov-2012%29.pdf> (accessed February 12, 2013).

<sup>33</sup> <http://www.propublica.org/article/the-23-states-that-have-sweeping-self-defense-laws-just-like-floridas> (accessed February 15, 2013).

New York, Washington, and Boston pose no public policy concerns. All other potential locations examined pose public policy issues that would have to be taken into account.

One other matter related to the Church's public witness deserves attention. We wish to be clear that we, as management, will implement whatever needs to be done to serve the Church, and further, that we believe the entire staff of the Church will exercise its best efforts to the same end. However, we do wonder about the effect on our prophetic voice of the indiscriminate dismissal of staff in order to replace them with cheaper labor absent some persuasive, if not compelling reason, to do so. As leaders in the Church, we have a particular concern about the effect on our witness on the issue of marriage equality when some married persons employed by us would be forced to make a choice between keeping their jobs and having their marriages recognized.

### **Maximizing Financial Resources for Mission**

In the final analysis, with mission properly in perspective, the issue comes down to how best to maximize financial assets for that purpose.

#### ***The Concern of Debt***

Much of the interest in relocating the Church Center came originally from a desire to eliminate debt service from our budget. In addition to our normal operating line of credit (carries no outstanding balance at this time, as is normally the case), we have two additional loans. The first was used to purchase a lot in Austin, Texas as a possible site for the Archives. We continue to hold the lot for this purpose and to service the interest on the debt with revenue from a parking lot that is on it. The revenue has been sufficient to cover the interest completely and pay off some

principal. Consequently, the parking lot loan is not relevant to the decision about the location of the Church Center.<sup>34</sup>

A second loan was taken in 2004 to finance the renovation of the Church Center following Executive Council's decision to do so rather than relocate in 2003, the last time this issue was considered. That loan was renegotiated in 2010, and is scheduled to be renegotiated again in 2016.

Original Loan Amount	\$37,000,000
Balance as of 12/31/12	32,642,800
Annual Debt Service	2,684,519
Interest Rate	3.69%
Collateral:	Unrestricted Securities (not a mortgage)

The most important point is the low interest rate, 3.69%. Based on our historical experience, we expect to make 8% per year on investments.<sup>35</sup> Therefore, if the Church Center were sold, the net proceeds realized would be more prudently invested in our portfolio at 8% rather than used to pay off debt with an interest rate of 3.69%. Our recommendation, therefore, regardless of a sale of the Church Center, is that the second loan not be repaid at this time. Thus, we believe the second loan is also irrelevant to the decision before us.

We note that our current debt-to-asset ratio is 14.2%, which would be enviable in the corporate environment. In the last 12 months, our assets rose from \$233.6 million to \$253.3 million, 8.5%. During the same period, our debt was reduced from \$43.5 million to \$41.8 million, 4%. We believe this indicates a continuing strengthening of the DFMS's long-term financial health.

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<sup>34</sup> Though not relevant to the subject of this report, we believe the Austin lot should be held for the time being until a decision on the location of the archives is made, but that authority be granted to management, in consultation with the Executive Committee of Executive Council, to sell the lot at an appropriate time.

<sup>35</sup> Our experience over the last 10 years is a return of 7.9%, and over the last 3 years, 8.6%, both after deducting fees.

Our overall view is that Executive Council has made effective decisions about the use of credit to serve our mission, the Treasurer's Office has effectively managed our credit and our assets, and those decisions and management should continue to be honored now.

***Understanding the Effect on the Bottom Line***

Particularly with the help of Cushman & Wakefield and the Treasurer's Office, we have carefully analyzed the financial impact on the Church over 15 years of four different scenarios:

1. Current Situation—Rent 3.5 floors to outside tenants, affiliated agencies occupy 1.5 floors, DFMS retains remainder, including underground storage and the Residence.
2. Consolidate at 815 Second Avenue. Consolidate DFMS operations so as to make 1.5 additional floors and the former bookstore space available for rental. DFMS would retain underground storage and the Residence.
3. Sell 815 and Relocate in New York. Relocate the entire operation, including affiliated agencies, to other New York space rented at market rates, relocate storage to rented facility, rent a residence for the Presiding Bishop.
4. Sell 815 and Relocate to Another City. Relocate DFMS to another city, affiliated agencies would remain in New York and rent at market rates, relocate storage to rented facility in new city, and rent a residence for the Presiding Bishop in the new city.

Information related to our opinion of the market rent for available space at 815 Second Avenue and of the value of the building in the event of a sale has been shared with Executive Council. We are not making such proprietary information public, which would not be in the Church's financial interests. We can nevertheless report our conclusions.

If the Executive Oversight Group's recommendation to consolidate operations at 815 Second Avenue and lease newly available unneeded space were accepted, DFMS would generate

a positive operating result for the building even after accounting for capital improvements and leasing expenses, thus producing a little over \$2 million for mission over 15 years (a difference of \$9,328,000 more available for mission than Scenario 1 and \$5,367,000 more for mission than Scenario 4).

Asset value represents the appreciated value of a capital asset (real estate in the case of Scenarios 1 and 2, and cash from the proceeds of the sale of real estate with accumulated interest earned on investing the cash in the case of Scenarios 3 and 4 less the interest used for operating purposes in accordance with existing endowment draw policies). Retaining 815 is likely to result in the greatest appreciation of assets, 7% greater than Scenario 3 and 24% greater than Scenario 4.

Net present value is a calculation of what a future amount of money would be worth in the present. For example, the net present value of two birds in the bush is one in the hand. The net present value calculation suggests what that the sum of net operating effect and asset value over 15 years (total economic effect) would be equivalent to having the indicated amount of money now instead.

Of course, the calculation, lacking the ability to foresee the future, makes certain assumptions about market performance that are believed to be reasonable but that cannot be guaranteed. Assuming an 8% return on investment, Scenarios 3 and 4 have net present values greater than either Scenarios 1 (by almost \$10 million) or 2 (by \$3.5 million). Assuming a 6% investment return, Scenario 2 has a slightly higher net present value than Scenario 3 and a net present value only \$1.25 million less than Scenario 4. Similarly, adding renovation and information technology costs necessary for Scenario 3 will change net present values significantly. We have assumed no such costs in the present value. If \$2 million were required, the net present values of Scenarios 2 and 3 would be approximately equal at the 8% investment

return level. If labor savings were removed from Scenario 4, its net present value would be \$5,006,281 less, making its net present value less than either Scenarios 2 or 3. If the Church Center were relocated to Boston or Washington, for example, labor savings would be much smaller when compared to New York than the national average or cities such as Atlanta, Charlotte Ft. Lauderdale, and Miami. In no event are unquantifiable issues of justice, disruption, or impairment of partnerships taken into account in any of the net present value calculations.

### *Understanding the Risks*

As the Cushman & Wakefield analysis points out, Scenario 2 is not without risk. Our performance would be subject to real estate market performance beyond our control and assumes that current rental rates will prevail over 15 years. If rents dropped 20% from current rates throughout the 15-year period, those earnings could be reduced to \$31,601,000. That would still be \$1.5 million better than Scenario 1 (the present reality). It would be \$3 million worse over 15 years than having moved to another city, or an average of \$200,000 per year. We believe circumstances would have to get much worse, far beyond 20%, before the Church was materially affected adversely in its mission.

There are, of course, worse possibilities. The worst would be that we lost existing tenants and were unable to rent any excess space whatsoever. Were this to occur, however, we believe we would be facing a near-cataclysmic circumstance that would have an equally devastating or worse effect on the stock market. Indeed, the Cushman & Wakefield report suggests that dramatic downturns in the rental market are likely to correspond to dramatic downturns in the stock market. That would mean that we are not likely to be in a much less risky situation in another location where operating costs would be offset by investment income rather than rental income. Such an outcome is, of course, possible. We do not believe it is likely, however, and

certainly not probable. All we can do is base our decisions on reasonable assumptions. Anything else is, as investors have always found, and as people of faith have always maintained, simply beyond our control.

***Miniumizing the Risks***

The risks being what they are, we believe DFMS is in a unique position among landlords to minimize those risks through more thoughtful engagement with our partners, known as associated agencies, to which we have given office space over the years free of charge. We also provide certain services to those agencies, such as accounting and banking services, benefits administration, mail, telephone, and information infrastructure at no charge. This practice has grown over the years to include seven different agencies, some for reasons now lost in history. What we have never done before is consciously take into account, and fully inform the Church, that these arrangements have a real cost—an actual operating cost and a cost in terms of lost revenue from otherwise rentable space. We now suggest leveraging those partnerships so as to share the risk among our partners.

The following affiliated agencies receive rent-free office space at the Church Center:

<u>Agency</u>	<u>Square Footage</u>	<u>Share of Operating Costs</u>	<u>Annual Market Rent</u>
ERD	8,367	\$1,060,218	\$292,845
ECF	4,530	145,383	158,564
NAES	1,950	62,583	68,257
CUAC	1,200	71,344	42,000
AUNO	911	30,433	31,899
BCPB	219	7,031	7,699
CPC	<u>219</u>	<u>7,031</u>	<u>7,699</u>
TOTAL	17,397	\$1,384,022	\$608,903

As we worked on the present analysis, we realized that at least some of our associated agencies (ERD, ECF, CUAC, and AUNO) would probably not leave New York if DFMS sold the building and moved to another city. In that event, each of them would be forced to find

alternative office space and pay market rents in New York.<sup>36</sup> This led us to a simple question: If our affiliated agencies would be willing to pay market rates to a third party, might they be willing to share in costs with the entity that has hosted them at no charge over many years? This seems particularly appropriate when some of the associated agencies (ECF, for example) charge Episcopal congregations, dioceses, and institutions for their services. Indeed, Executive Council resolved in October, 2008 that any new agency housed at the Church Center “shall pay rent, on fair terms to be negotiated, unless there are compelling reasons not to charge rent to that new agency.”<sup>37</sup>

Any amount the associated agencies paid for rent could mitigate any unexpected downturn in the rental market. If the market rate were paid, rental rates would have to decline 41% before Scenario 2 left us no better off than Scenario 4. To the extent no drastic downturn in the rental market occurred, the size of offsetting grants to partners could increase or mission efforts in poverty alleviation might be increased, thus creating an opportunity to share the wealth as well as the risk. Obviously, any such adjustment in our current practice would need extensive consultation with our partners. The present situation offers a unique opportunity to have those very conversations.

At the very least, this analysis has led us to believe that our current method of accounting for DFMS support for the affiliates as in-kind contributions does not make the reality of our financial support for them easily understood by the larger Church, and sometimes by the agencies themselves. Accordingly, we suggest that charging the agencies for the space and making a grant in some amount to offset this charge, in whole or in part, would make the reality that the current arrangement has actual costs being borne by DFMS more clear to all and help all parties

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<sup>36</sup> Though not a cost to DFMS, this would still be a cost to the Church, and we accounted for it in that way to get an accurate comparison between the four scenarios above.

<sup>37</sup> A&F 076 (October, 2008).

understand the actual costs of their ministries and plan accordingly. Executive Council indicated its preference for such a presentation along with its mandate for charging rent to new agency occupants of the Church Center.<sup>38</sup> For the current triennium, we would suggest such grants be in an amount equal to the rent charged. Going forward, we believe the amount of the grant should be determined so as best to further partnership, accountability, and transparency. We think it possible that the percentage of rent of the offsetting grant could be different for the individual affiliates depending on differences in circumstances and the goals of the partnership.<sup>39</sup> We acknowledge that one of the potential outcomes is that some affiliated agencies may come to the realization that their ministries are no longer sustainable in the current model and, for the good of the Church, must be rethought and new models considered.

We do note that we currently have no written agreements with any of the agencies except ERD. The ERD agreement is set to expire on December 31, 2015. Should the decision be made to keep the Church Center in New York, we propose seeing this as an opportunity to negotiate appropriate agreements with each associated agency to promote the partnership in a way that more transparently recognizes what the agencies receive and the cost to the Church in providing it.

Part of the benefit of doing so is the opportunity to share the risks of market downturn with our partners more fairly, as those who benefit from risk-taking should be expected to share some of the risk itself. Should market conditions worsen, DFMS would be shielded from the worst case scenario by having built-in tenants prepared to shoulder some of the burden, a significant advantage over the typical commercial landlord. Should market conditions improve,

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<sup>38</sup> See n. 37.

<sup>39</sup> For example, the work of ERD is so directly related and closely aligned to Mark of Mission 4, and could conceivably be a key part of implementing Mark of Mission 3 through missionary partnerships, that we could foresee the grant equaling the total amount of rent charged.

our partners might benefit, too. Passing along some or all of the cost of the space in terms that furthers the overall mission of the Church would distribute the risk of owning the Church Center among several entities instead of concentrating it only in DFMS. We believe this would help DFMS transform itself to being seen as a willing and able partner instead of merely a source of funding. We are convinced that this transformation is absolutely crucial to the reformation in which we are all engaged.

### ***A Missional Concern***

We should also say that there is a missional concern that, in our opinion, is an even more important consideration. In the event of a truly cataclysmic circumstance sufficient to cause such an extreme effect in both the real estate and stock markets in the nation's largest city, it would seem that is precisely where the Church would want to be most present. We are not advocating imprudent investing. We are advocating keeping in mind what our business is, the importance of using resources to further it instead adjusting our mission so as to most protect the resources, and the dynamics of what a home office and base of the Church's Presiding Bishop mean. The Church abandoning the city to avoid the city's greatest need, we think, is not the witness the Episcopal Church would want to make and would be quite counterproductive to our mission spiritually, and at best, only minimally helpful financially. The cost to mission in our estimation is simply not worth the minimal financial advantage, especially when the minimal financial advantage is not reasonably considered likely.

### ***Asset Appreciation***

It also is important to consider the long-term investment decision in addition to the budgetary effect, again based on reasonable expectations. All reasonable expectations are that the potential appreciation of real estate over 15 years could be expected to be 24% greater based on

assumptions standard in the industry than moving to another city, selling, and investing the net proceeds, even at an 8% return. On the other hand, selling the real estate and investing the proceeds might well be desirable if we had a need for capital for some missional purpose. As it is, however, we have no plan other than to invest such proceeds in our trust portfolio. Were we to have such a need in 15 years, reasonable expectations are that we would have a greater asset to access by continuing our investment in real estate at 815 Second Avenue.

### ***Conclusion***

Therefore, the Executive Oversight Group believes Scenario 2, consolidating operations at the existing Church Center and renting additional space in the building to outside tenants, is in the organization's best interests financially, both in terms of budget effect and for long-term investment purposes. We further recommend that written agreements be negotiated with all associated agencies to more equitably share costs, risks, and rewards, and most importantly, to enhance missional partnerships. We believe this course of action is not only in the interests of the Church financially, but very much more in our interests missionally.

## **Appendix A**

### The Executive Oversight Group

The Most Rev. Katharine Jefferts Schori, Presiding Bishop and Primate

\*The Rt. Rev. Stacy F. Sauls, Chief Operating Officer

\*Mr. Kurt Barnes, Treasurer and Chief Financial Officer

The Rev. Canon Michael Barlowe, Executive Officer of the General Convention

The Rev. Canon Charles Robertson, Canon to the Presiding Bishop and Primate

\*Mr. Sam McDonald, Deputy Chief Operating Officer and Director of Mission

Ms. Anne Rudig, Director of Communication

\*Mr. John Colon, Director of Human Resources

Ms. Su Hadden, Operations Manager and Executive Assistant to the Chief Operating Officer

\*Paul B. Nix, Esq., Legal Counsel

\*Member of Location Study Team

# Do16

TOPIC: EPISCOPAL CHURCH CENTER

## Church Center Location

PROPOSER

Coyne, The Ven. William

ENDORSED BY

Quittmeyer, Mr. David; Michell, The Rev. Canon  
Dr. Neal

SPONSORED BY

PAGE NUMBER(S) FOR REFERENCE

Blue Book: p. N/A; Constitution & Canons: p. N/A

HOUSE OF INITIAL ACTION / LEGISLATIVE COMMITTEE

HD / Structure

CURRENT FILING STATUS

Filed

REVIEW STATUS (PB&F, CONSTITUTION, CANONS)

currently not in proposed budget; N/A; N/A

RESOLUTION TEXT

- 1 *Resolved*, the House of Bishops concurring, That it is the will of this Convention
- 2 to move the Church Center headquarters away from the Church Center building
- 3 at 815 2nd Avenue, New York City.

EXPLANATION

The proposed amount to operate the Church Center building in New York City in the upcoming triennium is:

Debt Service	\$8,700,000
Facilities Management	\$6,443,156
Offset by Rental income	(\$4,050,000)
Net Cost	\$11,093,156

The Church needs to move away from a corporate headquarters in Manhattan to a more economic alternative that is more accessible to a broader spectrum of Episcopalians.

# Appendix C



## Cushman & Wakefield



815 Second Avenue – Hold vs. Sell  
Benefits & Costs



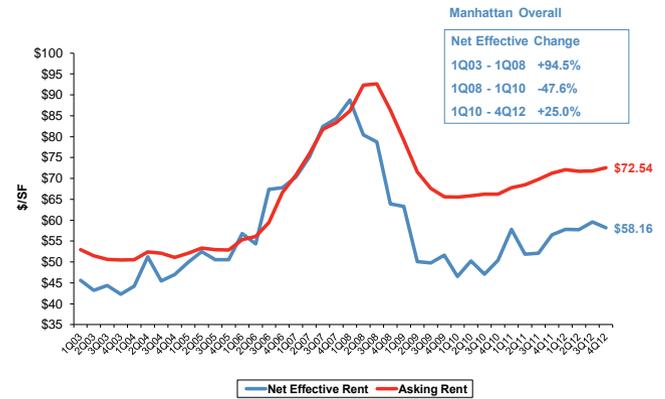
	Benefits	Costs
<b>Hold Strategy</b>	<ul style="list-style-type: none"> <li>Operational continuity</li> <li>Potential for long-term upside</li> <li>Proximity to infrastructure and aligned affiliates</li> <li>Centrally located within membership geography</li> </ul>	<ul style="list-style-type: none"> <li>Upfront capital requirements</li> <li>Capital calls for ongoing maintenance</li> <li>Real estate risk exposure</li> </ul>
<b>Sale Strategy</b>	<ul style="list-style-type: none"> <li>Upfront cash payment provides flexibility</li> <li>Ability to right size occupancy needs</li> <li>Potential to reduce administrative, employment &amp; housing costs</li> </ul>	<ul style="list-style-type: none"> <li>"Business" interruption</li> <li>More isolated from affiliated groups</li> </ul>

Sale strategy provides tangible benefits with conceptual costs

Hold strategy provides conceptual benefits with tangible costs

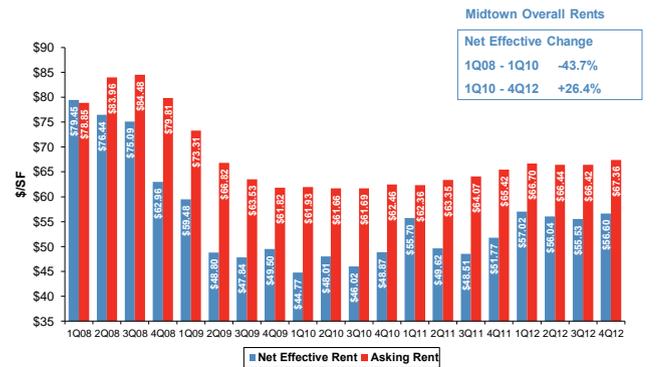
### RENTAL RATES:

Asking versus Net Effectives

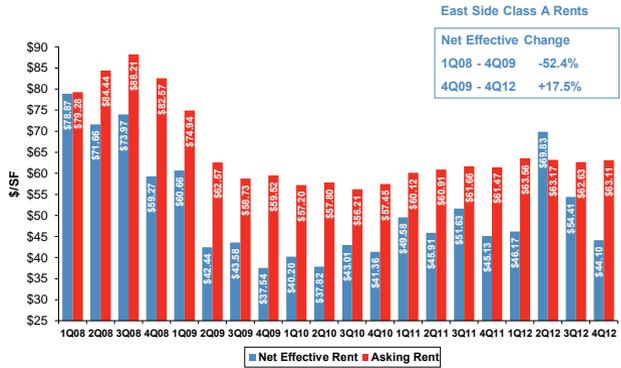


### RENTAL RATES:

Asking versus Net Effectives

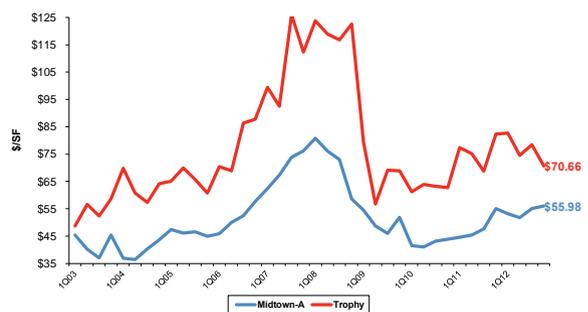


**RENTAL RATES:**  
Asking versus Net Effectives



CUSHMAN & WAKEFIELD 5

**Historical Net Effective Rents**  
Midtown Class A vs. Trophy Assets



- Net effective rents in trophy properties have increased considerably from the bottom, up 24.5% from second quarter 2009, however is down 14.1% in the past year.
- Net effective rents in non-trophy Midtown class A properties are also trending upward, increasing 8.3% in the past six months.

CUSHMAN & WAKEFIELD 6