

Grace Lutheran Church and Grace Christian School
Additional Frequently Asked Questions and Information Regarding the “Promised Land”

Introduction:

Grace Administrative Council, Elders and Senior Staff are dealing with an issue involving the property Grace owns immediately east of our primary facilities. This property, nicknamed the ‘Promised Land’ has been owned by Grace Congregation for over twenty years and has been leased for a number of years, most recently to AT&T for an operations facility. The current lease will expire on May 31, and will not be renewed by the current tenant. Actions regarding land purchase, sale or lease require action of the Voters’ Assembly. A Voters’ meeting was held on January 28 providing for the first detailed briefing for the Voters on this issue. A number of questions were raised; this FAQ sheet is attempting to address the questions and comments arising from that previous meeting.

What Occurred at the Voters’ Meeting on January 28, 2018?

This meeting was the first effort to engage and inform the Voters’ on this important issue. A large number of attendees participated in the meeting; actually one of the larger turnouts for a Voters’ meeting in recent memory. Representatives attended from both the Anglo and Latino congregations... A real gift from our Lord, proclaiming the Unity in the Body of Christ at this church and school!

Voters’ Meeting and Worship Schedule on February 11, 2018:

A Voters’ meeting will be held on Sunday February 11 at 9:40 AM in the sanctuary. This meeting will follow a combined worship service at 8:30 AM. The timing and location of this meeting is planned to allow the maximum participation by all of Grace’s members, from both the Anglo and Latino services, without disrupting other ministry programs that take place on our campus on Sunday mornings (new member and confirmation classes to name a few).

The meeting schedule will include only the one topic, the disposition (sale or retention) of the ‘Promised Land.’

Only voting members (confirmed members over 18 years of age) of Grace Congregation are eligible to vote on this measure. Action by the Voters’ will require a 2/3 majority vote, and the ballot will offer two options; an action to retain the property or an action to proceed with the sale of the land.

Why Does the Decision on the Property Need to be Made at this Time?

Grace received notice from AT&T in November that they would not renew their lease upon its expiration on May 31, 2018; this action was not anticipated by the Administrative Council nor the staff. Our immediate response was to contract with a broker to attempt to find a new tenant or other options as to the disposition of the property.

Subsequent to the listing, very little interest has been shown in a lease opportunity, however a purchase offer has been received for greater than the asking price (\$1,685,000). In order to appropriately respond to an offer, action is required from the Voters’ to authorize action on the property offer. Additionally, the Administrative Council has an obligation, under our constitution to prepare an annual budget for consideration by the Voters’ in May of each year. A key part of budget preparation is development of a spending plan with anticipated sources of revenue and planned expenditures to meet the ministry’s needs. If the property is not leased, and no revenue is specifically anticipated, a budget must be developed without the revenue from the lease source. If the property is sold, the proceeds can be anticipated for use as directed by the Council and its Budget Committee.

What are the Possible Future Uses of the ‘Promised’ Land Property?

As stated at the previous Voter's meeting, anticipated uses included a Children's Ministry Facility to accommodate a new preschool. Other possible uses included a new worship center or perhaps some other outreach ministry facility. A key aspect of any new capital facility for ministry support is a stable financial position such that a capital campaign can be undertaken.

How does the Use of this Property Impact God's Calling for our Ministries at Grace?

When the Elders, Council and Congregation consider this question, we must seek God's plans for us through His Word. The following Scripture passages guide us in our vision for ministry:

The Great Commission: Matthew 28:18-20;

18 And Jesus came and said to them, "All authority in heaven and on earth has been given to me.

19 Go therefore and make disciples of all nations, baptizing them in the name of the Father and of the Son and of the Holy Spirit, **20** teaching them to observe all that I have commanded you.

And behold, I am with you always, to the end of the age."

Assurance of God's purpose in our lives and in our ministries: Romans 8:28;

And we know that for those who love God all things work together for good, for those who are called according to his purpose.

Assurance of God's steadfast support for all we do in His Name: Hebrews 13:8;

Jesus Christ is the same yesterday and today and forever.

As we consider God's calling for Grace Lutheran Church and Christian School, we must evaluate the physical facilities needed to accomplish our ministry vision and the ways in which our ministries can impact a changing culture in the broad geographical community we serve. As we participated in the Transforming for Mission process in early 2017, we learned about the changing role of the church in the twenty-first century culture; not all of our ministries can be effective in a large, facility-based ministry.

How has Grace Used Debt in the Past to Support her Ministries?

Grace has used debt for capital expenses to include: Building His Vision I to construct the Multipurpose Room and related Facility; Building His Vision II to construct the two-story classroom building; For the purchase of the 'Promised Land', it has been repaid and the property is debt free; Debt was used to purchase the solar electric system with the plan to use the savings from reduced energy costs to re-pay the debt; finally, to support a budget that was not meeting revenue needs, funds were borrowed from the Endowment Fund.

We currently have approximately \$1,935,700 of total debt, with a repayment schedule of \$12,138 per month of principle and interest. The annual debt payment (principle & interest) of \$145,656 includes interest of approximately \$68,000. We are meeting all debt obligations, however that level of obligation will continue to be a drag on our ability to expand ministries.

A suggestion was made at the January 28th Voters' meeting that perhaps the Council should engage the services of an institutional financial planner to assess our circumstances and provide some guidance in our financial planning and budgeting process. We have received preliminary information that such services are available from the Pacific Southwest District of the LCMS to assist congregations. Their services are not to audit our finances, but rather to assess and guide; there is a charge for such support.

What is the Value of the 'Promised Land' Property, Including the Cost of its Debt?

The purchase price of the property was approximately \$525,000. The administrative staff is in the process of locating the loan documents by which we could calculate the actual cost (purchase and accrued interest over the term of the loan) of the land to Grace. Although that number would give us the total cost of the land and its net value to us today, it is important to understand the value to our ministry as a resource for

future uses (if the land is retained), or the value to re-setting our financial picture to gain stability for current and future ministry growth.

The property was listed with an asking price of \$1,685,000 (the broker's estimate of value); a purchase offer has been received in excess of the asking price. We have sought the opinion of a CPA as to any tax liability that Grace would incur due to the increased value of the land while we have owned it; we have been told there would be no tax liability. We also researched any tax liability Grace may incur as some of our income is from leases and not our primary ministry uses; according to our research, we have no such liability.

What are the Financial Implications if the Voters' Decide to Retain the Property?

The Voters' may decide to retain the property for a future ministry use or sale in the future. That decision has financial implications both in relation to the land and its value and to Grace's ministry funding.

The property can be retained with an effort to lease the property. The current lease with AT&T is a triple-net lease with periodic cost escalation. If we were to lease for a shorter term or on a less than triple net basis, Grace would be responsible for actively managing the property as the landlord. If we used a broker, there would be regular costs for broker services; if we actively managed a lease ourselves, we would have costs for insurance, maintenance, repairs, and etc. creating an additional demand on our budget. Also, such demands and their related costs, would distract our administrative and maintenance staff from ministry-serving uses of our ministries and our campus.

Retaining the property at this time will allow us the option of placing the land for sale again in the future; in such a situation, there is no guarantee as to property values, or a willing buyer at some future time.

Additionally, the City of Escondido will consider a Specific Plan overlay for the South Escondido Boulevard corridor in which Grace's property is included. That plan has some restrictions on land uses in the plan area; the prospective buyer's use is an approved use within the proposed plan.

If the property is retained at this time, there is insufficient time to secure a new tenant and a prospective income stream from a new lease, to enable our 2018-19 budget to have reliable income prospects from that lease. Thus, we need to prepare a budget without the \$111,000 annual lease payment that we have experienced with the AT&T lease. Such a revenue impact will require the Council to develop a budget with comparably reduced expenditures for consideration by the Voters' in May, 2018.

What are the Financial Implications of Selling the Property at this Time?

As discussed at the Voters' meeting on January 28, the Council would recommend reducing our debt by a large percentage, using some of the proceeds to strengthen our cash flow situation and to establish a larger savings/reserve account for deferred maintenance and emergencies. Our current budget of approximately \$3.3 million has a savings account that is generally less than \$1,000.

Some funds could also be set aside for a particular ministry focus that is identified in our Transforming for Mission Prescriptions that is currently unfunded.

What Efforts Will Grace Undertake to Build into our Ministry a Plan of Stewardship Growth?

As reported at the Voters' meeting on January 28, Elders are actively building a stewardship effort for 2018 as we respond to the Transforming for Mission prescriptions. In addition to that process, the Congregational Survey that was taken in mid-2017, showed a strong interest by our members that Stewardship of God's gifts is critical to our ministries at Grace.

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Previously Shared and Asked Questions Relating to the "Promised Land" (1-28-18)

When did Grace acquire the property, and what was the purchase price?

Grace purchased the land in September, 1999. The purchase price was \$525,000.

What is the size of the parcel, and what is it's current zoning?

The parcel is 1.42 acres in size and zoned General Commercial. The current use of the land (operations yard for AT&T) is a permitted use under this zoning.

What are the intended uses for the property by Grace Church and Christian School?

No specific plan has been approved by the Church for the property. Discussions have taken place since it was purchased for use as a children's center (preschool, etc.) or possibly as a site for a new worship center. In 2006-07 preliminary plans were prepared for a preschool, with a very preliminary cost estimate of \$2-3 million. No plans have been considered since that time.

What is the current tenancy status of the property?

AT&T is the current lessee, their lease term expires June 1, 2018; they have decided not to renew their lease.

What is the current annual lease revenue benefitting Grace's operating budget?

The current lease generates a total of \$111,000 annually (lease payment & property tax). This equates to a monthly income of \$9,200; an amount critical to support Grace's unified budget.

What is the current status of offers with the commercial broker that is under contract to Grace?

The property is listed for lease/sale with CDC Commercial (Broker is Don Zech); the property is listed at \$1,685,000. There has been very little interest in leasing; there is a purchase offer above the listed asking price for use as an operations yard for a traffic safety services company (similar use as AT&T)

If the property were to be sold, how might the sale proceeds be used to best benefit Grace's Church and School ministries?

The Administrative Council considers debt reduction and enhanced cash flow to be critical needs of our ministry support. If a suitable tenant were to lease under similar terms as currently in place, our financial situation would remain as is.

If the property were to be sold, the Council recommends reducing our current debt to offset the loss of lease revenue, thus reducing monthly debt payments.

Additionally, proceeds would be used to strengthen our monthly cash flow enabling us to meet our cash obligations during reduced revenue periods. Finally, Council recommends placing a portion of sale proceeds into savings, enabling us to have 'rainy day' funds in reserve for emergency needs.

Should a decision of this magnitude be deferred until we have a new Senior Pastor?

Under most circumstances, it would make sense to wait for a new Senior Pastor. Our financial situation, with its current level of debt exists on a very thin margin; without the revenue from the property (lease or sale), significant reductions may have to be made in ministry spending. Our leadership, holding this situation up to God's direction, is also following our Strategic Plan and our Transforming for Mission guidance as we consider our ministries and their financial needs. God's timing is only His, both in sending us a new Senior Pastor and in placing a decision before us that will honor His ministries at this place with a higher level of financial stability.