

PROCEDURES FOR CAPITAL EXPENDITURES WHICH INCLUDES CONSTRUCTION, EXPANSION, OR MAJOR RENOVATION OF FACILITIES

Policy

In general, capital expenditures, regardless of purpose, must be fully funded with unrestricted parish/schools funds (e.g. no known specific use restrictions such as endowment funds). As a general rule, spending more than \$10,000 or restricting funds and alienating parish/school goods require consultation with or consent by the Parish/School Finance Council. The provision listed below were general guidelines as to when the pastor must consult with or receive consent from the Parish/School Finance Council.

Provisions

- a) For capital project or major expenditure may be undertaken, the following approval and amount limits must be compiled with:

*	Amounts less than \$10,000	Maybe approved independently by approving authority e.i., Pastor or School Principal/President or Administrator
*	Greater than \$10,000 but less than \$25,000	Maybe approved independently by approving authority e.i., Pastor or School Principal/President or Administrator on the recommendation by parish/school finance council with record the consultation through meeting minutes.
*	\$25,000 and more but less than \$100,000	Pastor/School Administrator must consult with the Parish/School Finance Council, record the consultation in the meeting minutes, report the transaction to the Chancery Accounting Office/Finance Officer for review and approval by submitting an Expenditure Approval Request form along with a copy of the meeting minutes documenting the consultation and be sent to Archdiocesan Finance Council (AFC) for review and Approval
*	\$100,000 and over	Pastor/School Administrator must consult with the Parish/School Finance Council, record the consultation in the meeting minutes, report the transaction to the Chancellor for review and approval by submitting an Expenditure Approval Request form along with a copy of the meeting minutes documenting the consultation and be sent to Archdiocesan Finance Council for review and Approval. Upon approval by AFC, a written approval from Archbishop based on advisement by the College of Consultors.

The intent of the Archdiocesan procedures for capital projects, which are projects for the construction, expansion, or major renovation of facilities, is to insure that projects are financially sound and meet the needs of the Parish/School. Capital projects do not include normal operating expenses or emergency repairs. Planning and execution of the financial plan for the project are key ingredients to the success of the project.

Pre-Construction

1. This document presumes that the Pastor/School Principal or President has already had consultation with the parish/school pastoral council and finance council and other parish/school ministries and organizations to determine and prioritize the building and/or renovation needs of the parish/school. It is also presumed that the Pastor/School Principal or School President has or will appoint a building or planning committee to assist throughout the course of the project.

2. In the preliminary planning stage, it is essential that all understand there can be no presumption that any project can commence without consultation with and permission of the Archbishop. To do so could cause serious misunderstanding between the Pastor/School leadership, and the Archbishop's Office.

3. It may be necessary for the Pastor/School Principal or President, pastoral council and finance council to seek general advice from an architect and/or contractor in order to obtain an idea of what the future project could cost. However, in doing so, caution must be taken to assure all that this first step is merely preliminary and not an indication that the project has or will receive approval. Preliminary cost incurred for advice should be minimal in case the project is not completed.

A. It is presumed that the Pastor/School Principal or President will consult with his finance council to determine if the projected cost is within the financial ability of the Pastor/School and how the Pastor/School is to raise the funds for the project in accordance with Archdiocesan Guidelines.

B. If the Pastor/School leadership determines the project is financially feasible, a written financial plan for the project must be prepared.

1. Letter from Pastor/School Principal or President requesting the approval of the project addressed to the Archdiocese of Agana
2. Description and justification of the project.
3. Letter from the Parish/School finance council in support of the project
4. Letter from the Parish/School council or school advisory board in support of the project
5. Copy of the Plans, specifications, drawings, etc. of the project.
6. Preliminary estimated cost of the project (based on bids, quotation, etc.)
7. Most recent financial statement of the Parish/School which includes as specified on a monthly financial report requirements.
8. Sources of all necessary funds or the completion of the project (identify whether to be paid from the available cash of the Parish/School, fund raising, donation or from borrowed funds) Include explanation of how the required funding will be raised.
9. Projected operating cost for the project once completed

10. Projected cash flow statement for the next 2 to 5 years to show ability to support funding or borrowings and other operational expenditure as a result of the project proposed in no. 2. Include a detailed plan for repayment of amount borrowed and payment of additional operating costs
11. Letter of commitment from lender (bank, etc.) to fund the loan to pay for the project or list and description of pledges and an evaluation of the collectability of pledged amounts obtained.

The Pastor/School Principal or President should decide if they wish to work with a contractor from the inception of the project or wait for bid submission after project is approved by the Archbishop. The Pastor should consider that the design-build practice of using a contractor from the beginning of a project is sometimes preferred by the architect. If the Pastor/School decides to use design-build, they should interview three or four contractors to see what they will charge for their services and to determine which one the Pastor, Committee, and the architect feel most comfortable working with.

If financing is required to complete the project, the debt service detailed in the written financial plan should be on terms no longer than a 15 year amortization of principal and interest with a 10 year balloon and at the prevailing rate of interest. The written financial plan should include a 3-year historical cash flow statement and a cash flow projection for the next five years. The cash flow statement and projections should be based on reconciled bank accounts, current financial statements, and include all operating costs of the new facility.

If needed, pastors/school principals or president are encouraged to seek the assistance of the diocesan Chief Financial Officer (CFO) in the development and preparation of the written financial plan for the project. At a minimum, the Pastor/School Principal or President should send the written financial plan to the CFO for review. The CFO review should focus on whether the financial plan for the project meets Diocesan Guidelines, whether the financial plan is based on current financial statements and current bank reconciliations, and whether the proposed project will have any adverse effects on the economic viability of the Parish/School .

Preliminary Approval by the Archbishop

Once the above analysis has taken place, the Pastor/School Principal or President is then to write the Archbishop informing him of the overall plans, clearly stating the reasons the project is necessary and requesting permission to proceed with the project. The Pastor/School Principal or President must submit the written financial plan for the project and request permission to undertake a capital campaign, if required, to raise the needed cash and pledges for the project.

If the Archbishop agrees that the preliminary analysis and estimated costs are reasonable, he will send a letter to the pastor/school principal or president describing his approval and outlining the subsequent steps in the process.

Projects Not Requiring Archbishop and Archdiocesan Finance Council Approval

- Projects costing less than \$25,000 may be handled by the Pastor/Principal. The Chancery Office – Accounting office should be notified in writing.

Approval for Financing

After the Archbishop grants preliminary approval of the project, the Pastor/School Principal or President may proceed with any planned capital campaign to raise the needed cash and pledges for the project. The Archdiocesan guidelines for projects costing more than \$100,000 and requiring financing are as follows:

- The Pastor/School must be current in all obligations to the Archdiocese, i.e. parish and school assessment, or existing loans
- 50% of the project cost must be in cash and on deposit at the diocese.
- 25% of the project cost must be in collectible short-term (3-year) pledges • 25% of the project cost may be borrowed through the diocese. Borrowing from a third party must be approved by the Archbishop

Pledges are a commitment to pay towards the project and are subject to confirmation during the financial audit.

Any exceptions to these guidelines must be supported by compelling reasons as determined by the Archbishop in consultation with the Banking, Credit, Facilities Committee, and committee of the Archdiocesan Finance Council.

Once the pastor/school administrator determines that the project will meet the Archdiocesan Guidelines, the architect should proceed to the design and development stage. The written financial plan for the project should be updated to reflect the current estimated cost for the project and the results of any capital campaign conducted by the Parish/School. The updated written financial plan shall be submitted to the Archdiocesan Finance Council. The Pastor/School Principal or Administrator with his advisors and the architect shall meet with the Banking, Credit, Facilities Committee and the Building and Property Commission to discuss the project and the written financial plan.

As soon as practical after meeting with the Pastor/School Principal/President or Administrator and his advisors, the Banking, Credit, Facilities Committee will make its recommendation to the Archbishop and, if approved, the project is ready for the architect to prepare final plans and specifications.

3. CONSTRUCTION PROCEDURES

Note: Procedures #1,2,3, and 4 do not apply if a pre-selected contractor is used during the design and development phase.

Final plans, specifications, and bid documents are given to the Facilities/Risk Management Director. If everything is in order, the bid process begins.

2. The bid package (plans, specifications, and contract documents) are sent to appropriate contractors and a specific date and time are set.

3. At the appointed time and place bids are opened.

4. Immediately after bids are opened, a meeting is held with the pastor or school building committee to determine which contractor to use. If the selected contractor's bid exceeds the estimated project costs detailed in the written financial plan, the Pastor/School Principal/President/Administrator must inform the CFO and obtain the approval of the Archbishop before a contract is negotiated. The Archbishop shall seek the advice and recommendation of the Banking,

Credit, and Facilities Committee before approving a contract which is in excess of 110% of the estimated project cost detailed in the written financial plan for the project.

5. The selected contractor must present a contract to the Pastor to be reviewed by the Facilities/Risk Management Director. The selected contractor must present a surety bond to insure job completion. Frequently the bond requirement is waived if the contract provides for a retained amount and if the Banking, Credit, Facilities Committee agrees. If the architect approves the bond and the Facilities/Risk Management Director and diocesan attorney approve the contract, the contract is signed.

6. A notice to proceed is issued to the contractor by the architect.

7. During construction the architect will inspect the job to insure compliance with plans and specifications. The architect also reviews and approves draw requests made by the contractor. Also a representative from the Catholic Center must be present at the draw-request inspection.

8. The architect with the approval of the Pastor may approve change orders, but change orders aggregating more than \$25,000 must be approved by the AFC with the concurrence by the Archbishop, or his representative.

9. When construction is at the appropriate stage, the architect will issue a certificate of substantial completion and the building is ready for occupancy. Then the architect makes a list of items requiring completion or correction is given the contractor. At this point the pastor needs to secure property insurance for the project.

10. A final inspection is conducted by the architect and if the job is complete except for some minor punch-list items, final payment and the 10% retainage is released to the contractor.

11. If the Pastor/School supervises construction, the Pastor/School will select the architect and a member of the Pastor/School building committee will be the contact person for the architect. The other described procedures remain the same.

Special Additional Guidelines for Construction/Renovation of a Church

1. Once the Pastor and appropriate Pastor/School committees have determined the time is right to proceed with the building or renovation of a church, the Archbishop's permission is to be obtained to undertake the project. A liturgical specialist is to be engaged to insure the church will be built consistent with contemporary liturgical practices. The diocesan liturgy office can be of assistance in this stage.

It is essential that the architect and liturgical specialist work together in developing the plans for the church.

2. The architect and liturgical specialist are to work closely with the pastor and Pastor/School building committee to incorporate the proper building philosophy into the plans. The architect and liturgical specialist are to be informed of how much money is available for the total project. It is presumed that several meetings will be necessary before finalizing the plans and cost estimate.

3. Once the plans have been finalized and approved by the Archbishop, should there be a need or desire to make major changes in the planning or building stages that affect the financial cost of the project, the Archbishop must be informed immediately. He will seek advice and recommendation of the Banking, Credit, Facilities Committee before approving the changes and/or additional cost.

Post Construction

1. Once construction is complete, a loan amortization schedule is prepared based on the prevailing interest rate for a period of 15 years.
2. The financial analysis should foresee the ability of the parish/school to meet debt service (principal and interest) and increased costs of operations. However, if the parish/school does encounter difficulty in making required payments, the parish/school should contact the CFO immediately for assistance.