SECTION 700 Managing Deferred Maintenance

Deferred maintenance is one of the most critical risks the Archdiocese and its parishes and schools face. Being the oldest diocese in the United States also means having older facilities. Unfortunately, the oldest structures, requiring the most work, tend to be in areas where the Catholic population has moved away. With few resources, these parishes lack the ability to keep up with proper maintenance. Over the years, this has resulted in deteriorating and unsafe facilities. The risks are ever increasing as property damage due to failing infrastructure has resulted in increased property costs and at times created an emergency situation where buildings were closed due to unsafe conditions.

This section of policy will introduce standards, tools and processes to address the need to stay current on proper maintenance, establish adequate recommendations for savings and financial resources and provide guidance on how to manage older facilities that are no longer feasible for use. A critical component needed to manage older facilities is the commitment of funds dedicated for this purpose. This policy also establishes the Deferred Maintenance Fund to assist with the management of these older facilities under certain circumstances.

700.1. Policy ***Creation and Funding of Deferred Maintenance Fund*** – The Deferred Maintenance Fund (DMF) is not an endowment. However, it shall be managed in such a way to preserve the fund for long-term use.

Procedures:

- The DMF is a designated asset approved by the College of Consultors and Board of Financial Administration (BOFA) and may only be used for its intended purpose (*see section 700.1.1 below*).
- The DMF will initially be funded by the Archdiocese in the amount of approximately $4 million.
- The fund will consist of two accounts:
    - (i.) **Grant Account** held within the cash management fund of Central Services and
    - (ii.) **Trust account** managed by the Archdiocesan Investment Committee. The Trust account will provide annual funding to the Grant Account each summer in an amount that will not exceed 10% of the Trust's market value at calendar year end.
- Distributions from the DMF may not exceed 15% of its annual market value in any one twelve month fiscal period.
- Operating surplus from parish based centralized programs in Risk and IPLF Inc. will be made available to add to the corpus of the DMF with the appropriate approvals from the respective Boards.
- Income from the sale of properties as described in *section 700.1.1 below*.
- Special fund raising through the Archdiocesan Advancement department will be considered to increase the monies available to the fund.

700.1.1 Policy ***Purposes and Distribution of DMF Funds:*** The Deferred Maintenance Fund (DMF) is created to help Archdiocesan parishes and schools address deferred maintenance issues. The use of the fund is restricted to parishes/schools with **grave** financial need, that otherwise could not address the problem on their own. The funds use will be limited to the following area:

1. Provide funding towards facility condition assessments to financially challenged locations, as later described in this policy.

2. The removal of unsafe structures.

3. To provide a bridge loan to help prepare a site for sale or demolition that the parish/school could not otherwise afford.

Procedures:

- The grants from this fund will be from a cumulative assessment of need utilizing standards established within the deferred maintenance policy with the collaboration of parish/school and Archdiocesan staff as they confirm certain needs and priorities for locations.
- Deferred Maintenance Program Manager who will work with parishes and schools to develop viable plans on addressing issues.
    - If the parish/school/pastorate has other properties in use with life-safety issues, it cannot use the DMF until the life safety issues are addressed.
- The Deferred Maintenance Program Manager will make recommendations to the Capitol Projects Leadership Team (*see section 700.4 below*) on use of the fund.
    - Any bridge loans to help property be ready for sale will be paid back by the parish.
    - Additionally 5% of the gross sale proceeds of such sales will be added to the DMF when the sale is completed.
    - These proceeds can be added to the Grant Account or Trust account as necessary to meet grant commitments.

700.2 Policy ***Facility Condition Assessment (FCA):*** All parishes and schools in the Archdiocese will have a facility condition assessment every five years. This does not include independent Catholic schools. This requirement applies to all buildings owned by a parish or mission. Shrines owned and operated by religious orders are exempt from this mandate.

Procedures: Each parish will schedule an assessment through a vendor designated by the Archdiocese of Baltimore. At this time, the designated vendor is Bureau Veritas an independent consulting firm. The Archdiocese will pre-negotiate a contract with the designated vendor to allow discounts to be given for the benefit of each parish and school. Locations will address the costs of FCA as described below:

- For larger locations, typically with operating budgets of $800,000 or greater, or with a school, the cost of the assessment for the entire campus will be part of their annual operating budget planning. If a school is present on the parish campus, the cost of the assessment should be shared and included in cost sharing arrangements between the parish and school.
- Medium sized locations with operating budgets between $400,000 and $800,000 may request a grant from the Deferred Maintenance Fund for up to half of the cost of the assessment. The grants will be provided only for locations that have a clear financial need.

- Small locations with operating budgets below $400,000 generally will have the cost of the assessments paid from the Deferred Maintenance Fund unless the parish has financial means to pay these charges.
    - FCA will be scheduled through Central Services and paid directly by the Archdiocese.

700.3 Policy ***Facility Condition Index (FCI):*** Each completed Facility Condition Assessment will include a numerical measure called the Facility Condition Index for each structure owned by the parish/school.

The FCI is relative indicator of condition and it is calculated as follows:

FCI = Total Maintenance, Repairs and Replacement Deficiencies / Replacement Value

Archdiocesan parishes and schools will utilize the FCI to help determine if each building is being appropriately maintained and/or identify structures that may pose a potential risk.

Procedures: The following FCI standards and actions will be followed by parishes/schools

FCI Value	***Condition***	***Policy Action***
5% or lower	Excellent	Maintain as identified in FCA and save per FCA
5% to 10%	Good	Maintain as identified in FCA and save per FCA
10% to 30%	Fair	Actively improve then save per FCA
Greater than 30%	Poor/Bad	Actively improve, sell, or demolish

- As part of the FCA, each parish will have access to the full report that will provide the FCI and detail areas of maintenance by recommended year.
- Because projects will be completed that affect the FCI during the five years between official assessments, the Deferred Maintenance Project Manager in the Division of Facility and Real Estate will monitor parish progress and update AssetCalc (system used by Bureau Veritas) to reflect these actions.
- For reporting purposes, the FCI will be included on each locations Property and Liability invoice detail.
- The Risk system will be updated quarterly so the FCI values should be reflective of progress made by the each parish/school.

700.4 Policy ***Saving for Maintenance:*** The Annual Replacement Reserve number that is generated by the FCA will serve to help establish appropriate budget planning and saving goals for each location.

Parishes/Schools that desire to make additions to their facility may only do so if adequate savings, as defined below, are in place for the existing facilities.

The reality is that some parishes and/or schools may not be in a position to achieve adequate savings, as defined below. These standards as well as the deferred maintenance identified in FCA will help prioritize the use of the Deferred Maintenance Fund in the areas where it is most needed.

Procedures: The following priorities for parish savings shall be as follows:

- Each parish/location should be aware of the ***Annual Needs Per Year*** number included in the FCA report.
    - An understanding of this number should be part of the parish/school budget process. The annual needs number represents an average of the total estimated maintenance costs estimated in the FCA over a ten-year period.
    - In some years, this number may be greater, in other years it may be less since it is itemized by year within the report. Therefore, an understanding of suggested areas of maintenance and the status of these areas will help a parish understand if it is should add to savings, or use past savings to maintain their facilities during a specific budget year.
- Each parish/school will be asked to create a "Facility" sub fund in its IPLF deposits to help assess the parish's ability to meet ongoing future maintenance needs of their existing facility.
- A parish/school will reach an adequate savings level if they are able to achieve a savings amount of 2x the recommended yearly investment. For example, if the report recommended $200,000 average yearly investment, then the Facility IPLF sub fund for the parish should have at least $400,000.
- *There is no penalty if this balance is not met*. However, the parish's ability to reach an adequate savings level will impact the future approval of capital project requests if the project is not consistent with existing needs of the current facilities.
- *If a parish/school is unable to reach the 2x recommended yearly savings level, the parish may not add to any existing capital endowments or place money in investments that puts the principal at risk for market loss.*
- If the parish/school *does* meet the 2x recommended yearly investment. It may consider other investments that are available in the approved Parish/School Investment program.
    - It is recommended that at least another 2x the recommended yearly investment be available in the Parish/School Investment program before any savings are added to an endowment.
    - It is important that a parish maintain the ability to access funds when needed to address maintenance issues.
    - Generally, cash in an endowment is not considered available since an endowment, but definition, only allows access to the earnings of the endowment fund and not the principal.
- Parish Endowments (those to be established and maintained with parish funds) may be created for future general parish needs after proper consultation with the Archbishop, the Regional Vicar, Department of Management Services and the Department of Advancement if suitable conditions are met.

700.4 Policy* *Facilities that are in poor or bad condition: Facilities that have a FCI above 30% require immediate maintenance. The risk of loss in these facilities is high. The risk of catastrophic loss in these facilities ***cannot be overlooked or ignored***.

Procedures: Buildings with a FCI > 30% will be monitored by the Deferred Maintenance Project Manager in the Division of Facilities and Real Estate. The following actions will be pursued:

- The Deferred Maintenance Project Manager will contact each location that has a FCI >30 in writing and request that the parish develop a viable plan to correct the deficiencies.
    - The Deferred Maintenance Project Manager will assist the parish/school and its leadership in the development of the plan utilizing Central Service resources including Regional Controllers Advancement Directors, and Parish Renewal teams.
    - If the building is safe for occupancy, and there are no unaddressed life-safety issues, locations will be given a *two-year* correction period which could include a capital campaign if required by the plan.
- The Deferred Maintenance Project Manager will hold a quarterly meeting with the Capital Project Leadership team at the Archdiocese.
    - The Capital Project leadership team is made of representatives from each of the Archdiocesan Departments in order to review capital items from multiple perspectives before recommendation are made to the Archbishop.
    - The meeting will be dedicated to updating the committee of remediating actions that have taken place at each facility and if any facilities improved to the point where the current FCI is believed to be below 30%.
- Facilities in poor or bad condition will be classified into the following categories
    - Facility has been shut down and will be demolished when funds are available (replacement value for insurance purposes is reduced to cost of demolition)
    - Facility has been shut down and available for sale
    - Facility has been shut down and being stabilized
    - Facility is in use and actively addressing life safety issues
    - Facility is in use and is not actively addressing issues – there are no life safety issues
    - Facility is in use and is not actively addressing issues – there are life safety issues present