

## PROCEDURES FOR CONSTRUCTION, EXPANSION, OR MAJOR RENOVATION OF FACILITIES

### **Policy**

The intent of the Diocesan 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. 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 has already had consultation with the parish pastoral council and finance council and other parish ministries and organizations to determine and prioritize the building and/or renovation needs of the parish. It is also presumed that the Pastor 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 Bishop**. To do so could cause serious misunderstanding between the parish leadership, parishioners and the Bishop's Office.
3. It may be necessary for the Pastor, 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 will consult with his finance council to determine if the projected cost is within the **financial ability of the parish** and how the parish is to raise the funds for the project in accordance with Diocesan Guidelines.
  - B. If the parish leadership determines the project is financially feasible, a written **financial plan** for the project must be prepared.

1. Description of the project
2. Preliminary estimated cost of the project
3. Sources of all funds necessary for the completion of the project
4. Projected operating cost for the project once completed
5. A detailed plan for repayment of amount borrowed and payment of additional operating costs.
6. A list and description of pledges and an evaluation of the collectibility of pledges obtained.

The parish 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 Bishop. 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 parish 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 architect feel most comfortable working with.**

See **Checklist** in addenda for forms and information needed for proposed project.

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.**

- C. If needed, pastors 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 should send the written financial plan to the **CFO for review**. The CFO's 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.

### ***Preliminary Approval by the Bishop***

4. Once the above analysis has taken place, the Pastor is then to write the Bishop informing him of the overall plans, clearly stating the reasons the project is necessary and requesting **permission to proceed** with the project. The Pastor 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 Bishop agrees that the preliminary analysis and estimated costs are reasonable, he will send a letter to the pastor describing his approval and outlining the subsequent steps in the process.

### ***Projects Not Requiring Diocesan Financing***

- Projects costing **less than \$25,000** may be handled by the Pastor. The Facilities/Risk Management office should be notified.
- Projects costing **more than \$25,000 but less than \$100,000** must receive the permission of the Bishop, who consults with the Diocesan CFO and the Facilities Risk Management Director.
- Projects costing **\$100,000.00 or more** (prior to receiving the Bishop's permission), require the review of the Banking, Credit and Facilities Committee and the Diocesan Building and Property Commission.

### ***Projects Requiring Diocesan Financing***

- Projects costing **between \$25,000 and \$100,000** must receive approval of the Bishop who will consult with Diocesan CFO and the Facilities/Risk Management Director.
- Projects costing **more than \$100,000** have the following additional requirements.

### ***Approval for Financing***

5. After the Bishop grants **preliminary approval** of the project, the Pastor may proceed with any planned capital campaign to raise the needed cash and pledges

for the project. The diocesan guidelines for projects costing more than \$100,000 and requiring financing are as follows:

- The parish must be **current in all obligations** to the diocese, i.e. Cathedraticum, high school assessment, or 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 Bishop.

**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 Bishop in consultation with the **Banking, Credit, Facilities Committee**, a committee of the Diocesan Finance Council.

Once the Pastor determines that the project will meet the Diocesan Guidelines, the architect plans should proceed to the **design and development stage**. The written financial plan for the project should be updated to reflect the then current estimated cost of the project and the results of any capital campaign conducted by the parish. The updated written financial plan shall be submitted to the diocesan **Building and Property Commission** and the diocesan **Banking, Credit, Facilities Committee**. The Pastor with his advisors and the architect shall meet with the **Banking, Credit, Facilities Committee** and the Building and Property Commission and to discuss the project and the written financial plan.

- 6 As soon as practical after meeting with the Pastor and his advisors, the **Banking, Credit, Facilities Committee** will make its **recommendation to the Bishop** and, if approved, the project is ready for the architect to prepare final plans and specifications.

## **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.

1. 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 and parish 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 must inform the CFO and obtain the approval of the Bishop before a contract is negotiated. The Bishop shall seek the advice and recommendation of the **Banking, Credit, 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, and 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 Bishop, 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 parish supervises construction, the parish will select the architect and a member of the parish 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 parish committees have determined the time is right to proceed with the building or renovation of a church, the Bishop'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 parish 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 Bishop, 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 Bishop must be informed immediately. He will seek the 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 to **meet debt service** (principal and interest) and **increased costs of operations**. However, if the parish does encounter difficulty in making required payments, the parish should contact the CFO immediately for assistance. The **parish should be kept informed** about the progress of debt reduction.

### ***Addenda:***

1. Forms for financial plan
2. Checklist of steps.