First Parish Unitarian Universalist Church of Arlington
Parsonage Study
May 15, 2007

The vacancy of the First Parish parsonage on July 1, 2007, presents the congregation with an important decision on the future use of the property. In the past, the property has represented a substantial real estate asset, a convenient home proximate to the church for our minister, and an easy means of fulfilling the housing portion of our minister's compensation. As we prepare to search for a new settled minister over the next 2 years, we need to evaluate the place of the parsonage in the future of the church, considering not only our potential need for minister housing, but also our current and ongoing financial challenges both in our operating budget and our capital needs.

The purpose of this study is to evaluate potential options for the use or disposition of the First Parish parsonage. The costs and benefits of three basic scenarios were investigated:

- Retain the parsonage for minister housing.
- Rent the parsonage and use rental income to partially offset the minister housing allowance.
- Sell the parsonage and invest the profit for long-term funding of the minister housing allowance.

Parsonage Background
Built in 1811, the Agnes Damon Wellington Parsonage is a federal-style home within the Pleasant Street Historic District. The home was donated to the church in 1958 by Miss Virginia Wellington, in memory of her mother. The assessed value at the time of transfer was $8,950.

The Value of a Parsonage for Minister Housing
Consultation with the UUA indicates that fewer and fewer congregations are retaining parsonages and that parsonages are not necessarily considered desirable by ministerial candidates. While some minister candidates might welcome a residence close to the church, especially in an expensive real estate market like Arlington, ministers have come to expect flexibility in where they will live and a housing allowance to help them enjoy that flexibility and build their own equity.

Further, it is becoming common and expected practice to pay ministers residing in a parsonage an equity allowance, realizing that living in a parsonage usually results in the minister foregoing acquisition of real estate equity. While there are multiple approaches for addressing this equity allowance, it represents a new annual cost to the church should we elect to have a minister reside in the parsonage.

Likewise, providing a reasonable minister housing allowance, particularly considering real estate rental or purchase prices in Arlington, presents us with a significant annual financial obligation that we would need to fulfill if we do not house our next minister in the parsonage.

Prior Parsonage Study – 2002
A study of the parsonage options was prepared by Lisa Davis, Julie Dunn, Andrea Jeffrey, Flip Sharff, Dawn Terkla in 2002. That study concluded:

- The parsonage should be fixed and retained for Barbara's housing, in accord with Barbara's preference at the time. Selling it would have added minister housing costs to the operating budget, as well as an $80,000 lump sum payment to Barbara for the equity that she was not able to accrue by living in a parsonage.
- Significant investment is required to repair the property and to create reserve funds for future ongoing maintenance.
- Holding onto the house longer would take advantage of a rising real estate market.
- The issue should be revisited in the event of a more appropriate time during Barbara's tenure or an eventual change in ministers.

Parsonage Condition and Maintenance Issues
Unfortunately, while the historic property remains very valuable real estate, like our church, it has suffered greatly from deferred maintenance and accumulated wear and tear. The 2002 parsonage study identified significant maintenance and repair needs ($130,000). As a result of that study, some major items, such as roof and gutter repairs, exterior painting, and drainage problems were addressed in 2003, paid for via a mortgage from the Trustees.

That study also identified the need for continuous maintenance and repairs to protect our investment and ensure the continued appreciation of the property and recommended a commitment of $15,000 per year in the operating budget to be held in escrow to cover these maintenance expenses. Because of the church's ongoing budget challenges, these maintenance dollars were never accrued, and maintenance has been largely unattended since 2003. Not surprisingly, we are again facing the burden of addressing deferred maintenance needs without the capital to fund them.

The independent property manager (retained to manage the house throughout Barbara's severance period) inspected the house in April 2007 and identified the following priority maintenance and repairs as necessary to prepare the property for the next occupant:

- Repair several broken window panes;
- Service the oil burner (not done since 2002);
- Repair and paint water-damaged (from pre-2003 roof repairs) ceiling and walls in upstairs rooms;
- Paint all interior walls, ceilings, and trim; and
- Refinish hardwood floors.

Other neglected routine maintenance that would be prudent to complete would include gutter cleaning to ensure proper drainage to protect the roof and pest control. Even with these improvements, however, the rental price we could expect would be limited by the condition of the outdated kitchen and baths.

Two well-respected Arlington realtors with extensive experience selling high-value, historic properties have counseled against putting any money into fixing the house for sale. Both indicated that a buyer would most likely reconfigure the entire interior space, whether for single-family use or multiple units, so repainting, floor refinishing, and any other improvements would be a waste of resources for the church.

Assumptions of the Current Parsonage Study
In identifying potential scenarios, the priority assumption is that we must meet our obligation for minister housing. Should we choose not to house the next settled minister in the parsonage, we must have a reliable means of generating the funds annually to cover the minister housing allowance. Thus, the two other options, rental or sale of the parsonage, must contribute income to cover or substantially offset the minister housing allowance.

Recognizing this financial obligation, we did not consider other potential uses of the parsonage, such as office or classroom space, as neither of these would yield any income at a time when income is paramount to a balanced budget (an issue we have struggled with for at least the last decade and project as a potential ongoing condition), especially as we assume the new financial obligation of a minister housing allowance.

The analysis of the three scenarios included the following assumptions:

- Both retention scenarios (minister use or rental) are subject to the same immediate maintenance and repair needs.
- Both retention scenarios require an annual allocation ($12,000) in the operating budget for the maintenance and repair "escrow" account.
- Retention of the parsonage for minister housing requires a new annual allocation in the operating budget for a minister housing equity allowance, conservatively set at $4,000/year.
- Income from the rental or the sale of the parsonage must be used first to cover the annual minister housing allowance. For the purposes of this analysis, we considered two "ballpark" options - $2,000/month or $2,400 month for the housing allowance obligation.
- Expected rent for the parsonage would be in the range of $2,000 to $2,800 per month, based on the assessment of the current property manager. The condition of the home (kitchen and baths) would likely preclude higher rentals, even though the home has five bedrooms and over 3,000 square feet of living space.

Comparison of Scenarios
The accompanying spreadsheet provides the details of the analysis of each scenario, as well as information on the basis of the estimate for the annual maintenance escrow allocation and UUA guidance on parsonage use and minister housing equity allowance. The scenarios are summarized below:

Retain the Parsonage for Minister Housing – This scenario does not completely offset the cost of minister housing in the annual operating budget because of the new costs for:

- Maintenance and repairs to ready the house for the next settled minister - $11,100 estimated one-time expense
- Ongoing annual maintenance "escrow" account plus other associated expenses (insurance, water and sewer) - $13,100

- Minister housing equity allowance - $4,000/year

Thus, the total estimated cost to First Parish for keeping the parsonage for minister housing is $28,200 in the first year and $17,100/year in subsequent years.

Rent the Parsonage – If we were to provide a minister housing allowance of only $2,000/month ($24,000/year) and were able to rent the parsonage for $2,800/month ($33,600/year), we would still expect a deficit of about $6,600 per year. However, even this unlikely best-case scenario would cost us $17,700 in the first year because of the maintenance required to prepare the property for rental. In this case, while we have rental income of $33,600 for the year, we have the following costs:

- Minister housing allowance - $24,000 (least cost estimate, unlikely)
- Ongoing annual maintenance “escrow” account plus other associated expenses (insurance, water and sewer) - $16,200.
- Maintenance and repairs to ready the house for rental - $11,100 estimated one-time expense.

It is entirely likely, however, that we would have to provide a minister housing allowance of at least $2,400/month and would be able to rent the parsonage for only about $2,400/month, leaving us with a deficit of $15,200 per year and $26,300 in the first year.

Another critical issue to consider in rental of the parsonage is the effect it may have on our tax status should we eventually sell it. According to a CPA consulted by Jerry Halle, if we rent the parsonage to a tenant not engaged in service to the church, we could jeopardize the tax-exempt status of the sale in the future and be subject to capital gains tax on the sale proceeds.

Sell the Parsonage – This is the only income-producing scenario, providing enough capital to invest for low-risk returns that will cover the annual cost of the minister housing allocation and grow the principal to cover rising housing costs.

Note that the original gift of the parsonage from Miss Virginia Wellington in 1958 included a stipulation by the donor that: “should this church ever dispose of this property in the future, the net proceeds from such a sale be placed with the Trustees of Trust Funds of said church, to be known as the Agnes Whitman Damon Wellington Fund, the net income only to be used for the general expenses of the church.” Thus, the parsonage proceeds cannot be used outright for any capital or operating costs, but must be invested with the principal protected and only the income on this principal spent.

For this analysis, a sale price of $750,000 was assumed, based on the initial recommendation of the current property manager and an evaluation by two well-regarded realtors who handle high-value, historic properties in Arlington. These evaluations indicated that we could expect the parsonage to sell for $750,000 to $850,000.

A sale price of $750,000 will yield net proceeds of approximately $711,700. Three investment scenarios were modeled. In all scenarios, the minister's housing allowance starts at $24,000 ($2,000/month) and increases 3%/year, the rate of inflation:

- Scenario 1 - Proceeds from sale are invested in CDs at average annual return of 5%. No investment management fees are paid, which assumes that a trustee is willing to be responsible for rolling over the accounts as the CDs mature (and possibly shopping for best available rates). The fund covers the minister housing allowance for 34 years without diminishing the principal.

- Scenario 2 - Investment returns = 6%, with an annual investment management fee paid of 0.78% of balance (per the Trustees 2005 report). The fund covers the minister housing allowance for 39 years without diminishing the principal.

- Scenario 3 - Investment returns = 7%, with annual investment management fee of 0.78%. The fund covers the minister housing allowance for 98 years without diminishing the principal. In fact, under this scenario, at the end of year 98, we will still have over $1 million in assets, even after the escalating withdrawals for minister housing, and will have realized $13.7 million in net income from our investment of the principal.

Note that yields and the number of years of returns without diminishing the principal will vary depending on the actual net proceeds, rate of return, and minister's housing allowance. The scenarios are provided only to give the congregation models of what could be realized from the sale of the parsonage and a basis of comparison with the minister housing and rental alternatives.

Recommendation and Next Steps
Based on the analysis of the options, the Parish Committee recommends the sale of the parsonage is to produce an income stream that will cover the minister housing allocation for approximately 39 to 98 years, depending on investment decisions and returns, while still retaining the principal. Pursuing this option would require a congregational vote to proceed with the sale of the property. The Parish Committee's intention is to communicate the results of this study and set a special meeting of the congregation in June to seek congregational approval to proceed with the sale of the parsonage.