



HAWAII
CONFERENCE FOUNDATION

UNITED CHURCH OF CHRIST

Hawaii Conference Foundation

Introduction & Update

2020 Aha Pae'aina

Hawaii Conference of the United Church of
Christ

October 5, 2020

Overview



Introduction & Update from the Hawaii Conference Foundation

Purposes & Why it was Created

Power & Authority

How HCF Holds Land

Current Assets & Holdings

Expenses & Draw on Investments

Questions

What is the Foundation?



Asset and Property Management

“arm” of the Hawaii Conference

Hawaii non-profit corporation

Tax Exempt Charity

pursuant to Section 501(c)(3) of the Internal Revenue Code

Purposes of the Foundation



1. Be a **foundation and depository of property for investment and use** of the Hawaii Conference of the United Church of Christ, its member churches, and affiliates.
2. **Promote the interests and welfare** of the churches and ministers of the Hawaii Conference, and of the General Synod and other instrumentalities of the United Church of Christ and affiliated institutions, insofar as their interest are within the area of concern for the Conference.
3. **To advance the cause of Christian religion.**

Why was the Foundation Created?



The Foundation grew out of a desire to separate the fiduciary role of money management from the money spending function (the “program v. purse”).

In the 50’s and 60’s there was concern that spending decisions were being influenced too much by specific program needs, especially on Oahu.

Desired to ensure that assets were stewarded for wider consideration, including the needs of the Associations and other churches, especially neighbor island churches, and invested for future needs.

It was hoped this change would restore confidence among traditional and potential donors and would lead to a resumption of giving towards endowment for the Conference.

Why was the Foundation Created?

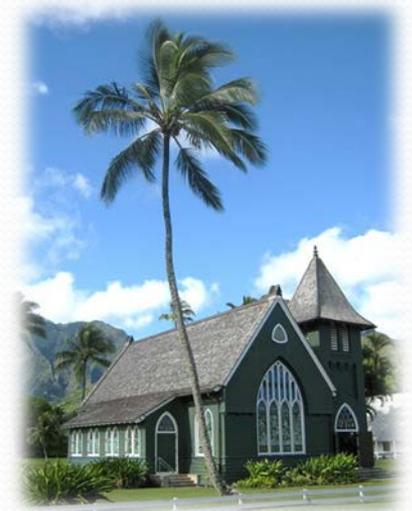


At the 1968 Aha Pae` aina, creation of the Hawaii Conference Foundation was supported for the following expressed reasons:

1. refinement & improvement of the investment function,
2. maximum protection of assets from the “operations” function (i.e. various departments of the Conference),
3. more autonomous service to churches in a trust capacity, and
4. a facility more attractive to donors who wish to create endowments for flexibility and safety from erosion.

What Powers Does the Hawaii Conference Foundation have to Carry Out Its Purpose?

- To **receive and administer funds**, securities and other property *exclusively for religious and charitable purposes*.
- To **take and hold** by deed, bequest, gift, purchase, lease or other transfer, either absolute or in trust, **any property** without limitation.
(Where a gift prescribes the use or the beneficiaries, it shall be used in accordance with the intention of the person who made the gift or bequest.)
- To **sell, convey or otherwise dispose of any property** and **to invest and reinvest** the proceeds or income from any property including bonds, stocks and securities.
- To **develop, improve and generally deal with such property** and **expend or distribute the income and principal** in such manner as in the judgment of its Trustees *will promote the objects and purposes of the Hawaii Conference Foundation*.



What Powers Does the Hawaii Conference Foundation have to Carry Out Its Purpose?

- To **enter into, make and perform contracts** of every kind, including contracts for agency, borrowing of money, employment of staff and counsel.
- To **make any gifts or grants** to any other organizations operated *exclusively for religious or charitable purposes*.
- To **receive, hold, invest, reinvest and deal with any properties owned by or received in behalf of any member church** of the Conference.

All other powers accorded to a **Hawaii non-profit corporation** that is recognized as a **tax exempt charitable organization** under Section 501(c)(3) under the Internal Revenue Code.



How did Land Come to the Foundation/Hawaii Conference?



Much of Foundation's property was received from the Conference after the Foundation was created in 1968.

Conference/Foundation acquired properties a number of ways:

1. Purchase from third parties (for investment or mission purposes)
2. Local Churches directly, desiring the property to be held for safe keeping (a trust arrangement)
3. Gifts or grants from third party individuals or entities wanting assurance that the property would continue to be use for church purposes or in support of church purposes within the fellowship of our churches (HEA/HCUCC) (a trust or endowment arrangement)

from individuals (like Rev. Titus Coan)

from the sovereign (the Ali'i at the time of the Mahele, or the Territory of Hawaii in later years)

How Foundation Holds Title



Fee Simple

(outright ownership with no “strings” attached – e.g. Craigside Tower III).

Leasehold

(HCF leases property from another party – e.g. Hokuhoa Church)

Leased Fee

(HCF owns the fee subject to long term ground lease – e.g. Craigside Towers I and II)

Trust

(HCF owns the property subject to the terms of a trust agreement for the benefit of a third party)

Explicit (its in the granting instrument – e.g. Campbell Park); or

Implied (it's the understanding or policy at the time – e.g. Hau`ula)

What Does it Mean to Hold a Property in Trust for a Church?

Foundation holds legal title to the property,
for the benefit of the local church.

The local church retains the continued right (and expectation) of use
of the property.

The Foundation is there to ensure the title is not lost to the church as a
result of financial insolvency,

judgment creditors, or
third party takings.



Why Hold Property in Trust?



From the HCUCC Board Policy Manual (1972):

“Let us point out some of the advantages when titles to church properties are held by the Hawaii Conference of the United Church of Christ:

- “1. Our main purpose for existence is **to strengthen the churches.**
- “2. The property becomes part of the **assets of the whole Conference:**
 - (a) thus it helps give the Conference strong financial standing;
 - (b) thus enhancing our credit and borrowing power for the good of the churches;
 - (c) thus making funds available to churches for building needs;
 - (d) thus consolidating our property resources for the greatest good of all; and
 - (e) thus giving the churches the benefit of counsel by our Trustees and staff.

Why Hold Property in Trust?

From the HCUCC Board Policy Manual (1972):

- “3. **Stops dissident groups** within the church from perverting the property to their use.
- “4. **Titles and legal papers are deposited** in a central fireproof file:
 - (a) thus giving churches a safeguard against loss of valuable papers;
 - (b) thus protecting churches from carelessness and unbusiness-like care of their legal documents;
 - (c) thus assuring churches that the death of trustees or dis-continuance of a church organization will not mean loss of deeds and other important documents and possibly loss of the property to the fellowship.
- “5. Churches are given **full responsibility and freedom in the care and use** of their properties including:
 - (a) Covering the property and facilities with adequate insurance;
 - (b) Repairing and maintaining buildings and grounds;
 - (c) Improvements to facilities for more adequate use;
 - (d) Purchase of additional land in which our staff will assist as desired,
 - (e) Covering taxes on any part of their property that might be so assessed.



Why Hold Property in Trust?

From the HCUCC Board Policy Manual (1972):

- “6. **Properties are watched by the Conference** for such things as inadequate insurance, possibility of encroachment, assessments, claims for exemptions and other developments, including condemnation.
- “7. The Trustees assure the churches that any action involving the disposition of a church property in which they are concerned shall be undertaken **only after consultation with the authorities of the church.**
- “8. If **churches wish to get title to their property**, the Trustees would be willing to consider selling at a fair appraisal value, transferring the title with the usual reversionary clause. *[Note: This last point is modified by “**Guidelines A**” – adopted by the Aha Pae’aina, allowing return of land to a beneficiary church, if local church has the financial strength and commitment to steward the property for church and denomination.]*
- “The holding of the titles to church properties in this way is in line with the commonly accepted democratic idea of mutual assistance and the use of our assets for the greatest good of all. It gives the churches freedom of use and development of their property and facilities without interference. It puts the strength of our total resources behind all the churches and it makes it possible for us to help the churches when they need assistance within the limits of our ability.”



Guidelines A

Used to determine when a HCUCC/HCF may convey a property to beneficiary church using the property. The church should demonstrate:

- a. Incorporated in the State of Hawaii.
- b. Active membership with potential in the community, with members having property stewardship skills.
- c. Potential for effective ministry in community and a track record of doing so for least five years.
- d. 3 years of financial reasonability with an annual budget subject to audit.
- c. Agrees to bear a share of the legal and court costs.
- f. Agrees to comply with any restrictions of original grantor;
- g. Property will revert to UCUC/HCF, if:
 1. Dissolution;
 2. Not viable (meets less than 3 times a year);
 3. Property not used for church work; or
 4. Church withdraws from the Association.

GUIDELINES A

Guidelines A are as follows:

The guidelines shown below should be used in determining when to seek court approval to end the trust relationship and transfer title to property held in fee simple by HCUCC/HCF or their predecessor organizations to the beneficiary church. These guidelines shall apply in those cases where the property historically has been used for, or is restricted to use for a church sanctuary or worship building, Christian education, Sunday School, pre-school or similar education use, parsonage or similar living quarters, and cemetery or burial place, all characterized as church use and not producing income. In the aforementioned cases, these guidelines are to be applied when the congregation utilizing the property:

- a. possesses a charter of incorporation on file with the State of Hawaii, Department of Commerce and Consumer Affairs;
- b. has an active church membership commensurate with the potential in the community in which it is located, and among those members have persons with skills, talents and experience as they apply to the management of property;
- c. shows a potential for an effective ministry that reflects the needs and characteristics of the community, and lists what it considers to be its concerns or spiritual problems in the community during the past five years, and what it has done and is doing to meet these concerns and spiritual problems;
- d. demonstrates for at least 3 years that it is financially responsible and has an annual budget which is subject to an annual audit;
- e. agrees to bear an appropriate share of the legal and court costs for ending the trust relationship and the costs of transferring title to the property;
- f. agrees to comply with the original grantor's restrictions, i.e., most grants require church or school use only.
- g. recognizes that, in order to obtain a Charter of Incorporation from the Department of Commerce and Consumer Affairs, the resulting corporation, upon dissolution, among other things, shall be required to transfer all of its assets, after payment of its just debts, to an

Assets of the Foundation

As of 06/30/20, the end of the last fiscal year, Foundation is roughly a \$60 million institution, *including* custodial accounts (net assets at about \$44 million).



Liquid Assets:

At fiscal year end 06/30/20, investment holdings of the Foundation totaled roughly \$45,000,000:

30% (\approx \$14 million) are HCF unrestricted funds (funds that can be used for any operational purpose);

7% (\approx \$3.1 million) are custodial and restricted funds (restricted for specific use, like the Education Fund) held for HCUCC;

3% (\approx \$1.5 million) are restricted funds held for other churches, scholarships, or other purposes;

31% (\approx \$14.2 million) endowment funds (funds where the corpus cannot be spent, and income is restricted for certain donor specified purposes)

28% (\approx \$13.1 million) in non-HCUCC custodial funds



Liquid Assets:

Funds are invested in a *balanced* portfolio. At 06/30/20, the asset allocation was:

52% Equities (31.8% large cap, 6% mid, 4.5% small, 5.8% int'l, 4% mix)

24% US Fixed Income (bonds, annuities, etc.)

24% in Alternative Investments (structured notes)

Hawaii Conference Foundation
Consolidated Portfolio

As of July 31, 2020

Consolidated Portfolio Performance												
	Market Value (\$)	% of Portfolio	1 Mo (%)	2020 Q2 (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date
Consolidated Portfolio	47,446,239	100.00	3.75	15.56	-0.54	5.13	6.15	7.03	7.11	8.28	8.24	Dec-85
Policy Index			3.06	12.80	1.05	6.89	6.99	7.02	7.67	8.79	8.93	
Equity	25,397,409	53.53										
UCF Domestic Core Equity Fund	15,389,811	32.44	5.32	20.54	-0.88	7.59	9.94	9.85	10.93	--	11.24	Apr-11
S&P 500			5.64	20.54	2.38	11.96	12.01	11.49	12.21	--	12.24	
Parnassus Mid Cap Institutional	2,872,190	6.05	6.66	19.97	-2.13	3.06	--	--	--	--	3.06	Aug-19
Russell MidCap			5.87	24.61	-3.79	2.04	--	--	--	--	2.04	
JPMorgan Small Cap Core I	2,133,773	4.50	2.67	26.08	-15.64	-8.19	--	--	--	--	-8.19	Aug-19
Russell 2000			2.77	25.42	-10.57	-4.59	--	--	--	--	-4.59	
UCF Beyond Fossil Fuels Fund	2,198,834	4.63	6.43	20.52	-0.91	6.66	4.54	7.25	--	--	7.22	Mar-15
Blended Index - BFFF			5.20	19.83	-2.23	6.11	6.38	7.92	--	--	7.88	
UCF International Equity Fund	2,802,801	5.91	5.10	20.18	-4.76	4.71	2.11	4.36	4.00	--	4.89	Jan-12
70% MSCI EAFE/30% MSCI Emerging Markets			4.31	15.87	-6.68	0.86	1.37	3.39	3.85	--	4.77	
Fixed Income	10,845,543	22.86										
Calvert Bond I	1,506,274	3.17	1.86	5.16	5.25	6.77	--	--	--	--	6.77	Aug-19
BbbyBarc US Aggregate 7R			1.49	2.90	7.72	10.12	--	--	--	--	10.12	
Morgan Stanley Inst Core PlsFidnc Inst	1,519,027	3.20	1.99	6.42	6.09	8.13	--	--	--	--	8.13	Aug-19
BbbyBarc US Aggregate 7R			1.49	2.90	7.72	10.12	--	--	--	--	10.12	
Transamerica Bond I	1,505,887	3.17	2.34	6.95	4.90	6.71	--	--	--	--	6.71	Aug-19
BbbyBarc US Aggregate 7R			1.49	2.90	7.72	10.12	--	--	--	--	10.12	
Hartford Strategic Income I	1,519,013	3.20	2.40	12.52	6.03	8.18	--	--	--	--	8.18	Aug-19
BbbyBarc US Aggregate 7R			1.49	2.90	7.72	10.12	--	--	--	--	10.12	
Neuberger Berman Strategic Income I	1,482,725	3.13	2.91	11.07	2.16	4.56	--	--	--	--	4.56	Aug-19
BbbyBarc US Aggregate 7R			1.49	2.90	7.72	10.12	--	--	--	--	10.12	

RAYMOND JAMES®



Real Estate

Almost 175 parcels owned, leased or managed (measured by TMK, including Craigside).

60 church properties (by institutional count): 36 active, 24 inactive.

Approx. 3,900 acres statewide

Book value of all real estate
is carried at about \$17 million.

2018 real property tax assessed
value approx. \$300 million

but

- most properties exempt; and
- church use restrictions are a significant limitation on value.



Real Estate



Of the non-Craigside properties, approx.

25% held in trust for churches

(another 20% in implied trust),

Only 6% of the holdings are income producing

94% is non-income producing.

Therein lies one of the great challenges for the Foundation.

Real Estate



Church at Puunene Maui (photo by Historic Hawaii Foundation)

Real Estate

WHAT ABOUT CRAIGSIDE III?

- Craigside was intended to be both an investment property and a missional property. The Kokua Program was instituted to provide below-market housing for the elderly, especially those retired from or still in Christian service, by providing rent concessions.
- The original target of the Kokua Program was that rent concessions would be **25%** of net income.
- Net income has decreased substantially over the years. For the fiscal year ended 06/30/19, there was a net loss. If you exclude non-cash expenses, net cash was \$71,655 for Craigside III, and concessions for six kokua program participants were **62%** of net cash. As the building ages, net income/cash will continue to decrease.



Real Estate

WHAT ABOUT CRAIGSIDE I & II?

- The fee interest had been offered for sale, and many unit owners had purchased their fee interest. Currently HCF has fee interest in the land under 19 units of Craigsides I & II.
- The lease rent was to be renegotiated for ten years from January 1, 2017 to December 31, 2026. The unit owners did not agree with the proposed rent, so the agreement of rent had to be settled through formal arbitration.
- Most unit owners do not want a leasehold unit. The building is aging, with deferred maintenance, and the differing interests of the many owners of the units within the buildings is a looming problem.
- For decades, the entire amount of the net income from Craigsides I & II has been transferred to a custodial fund that the Conference accesses to meet budget needs.



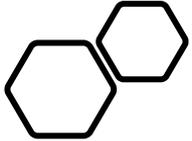
Real Estate

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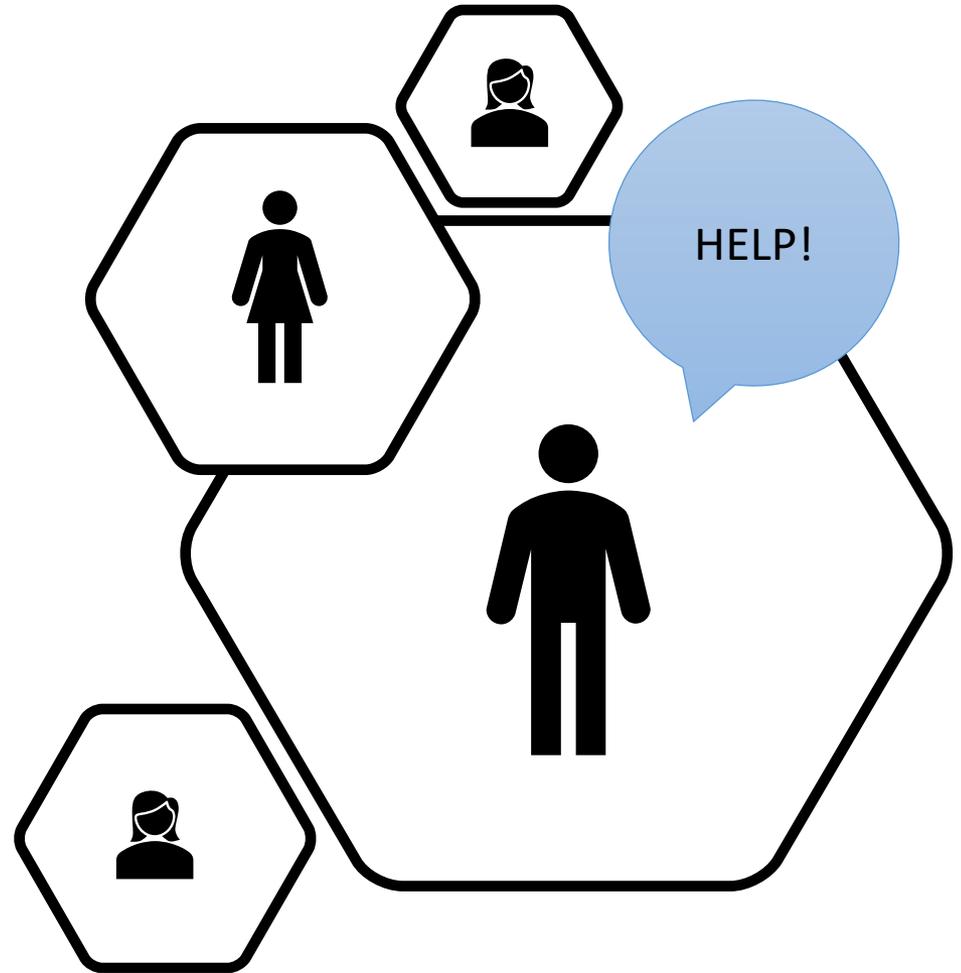


Expenses



WHAT ARE THE EXPENSES OF THE HCF?

- **Staff:** HCF has only 3 full time employees: the Executive Director, the Executive Assistant, and two half-time accounting employees, the Controller and the Accountant. That staffing is inadequate to manage the number of properties the HCF owns, as well as handle the investment pool.



Expenses

Other Expenses

- Other major expenses are the property taxes, insurance and repairs and maintenance for the properties, as well as the monthly transfers to the Conference.



Spending/Draw on Investments



In fiscal year 2020,

Operating Revenues (includes Craigside and other rents): \$1,696,548

Cash Transfers to Conference (293,442)

Cash Reserve (to replenish cash outlay) (89,285)

Operating Expenses : (\$2,168,135)

Deficit/Draw on Investment: (\$854,314)

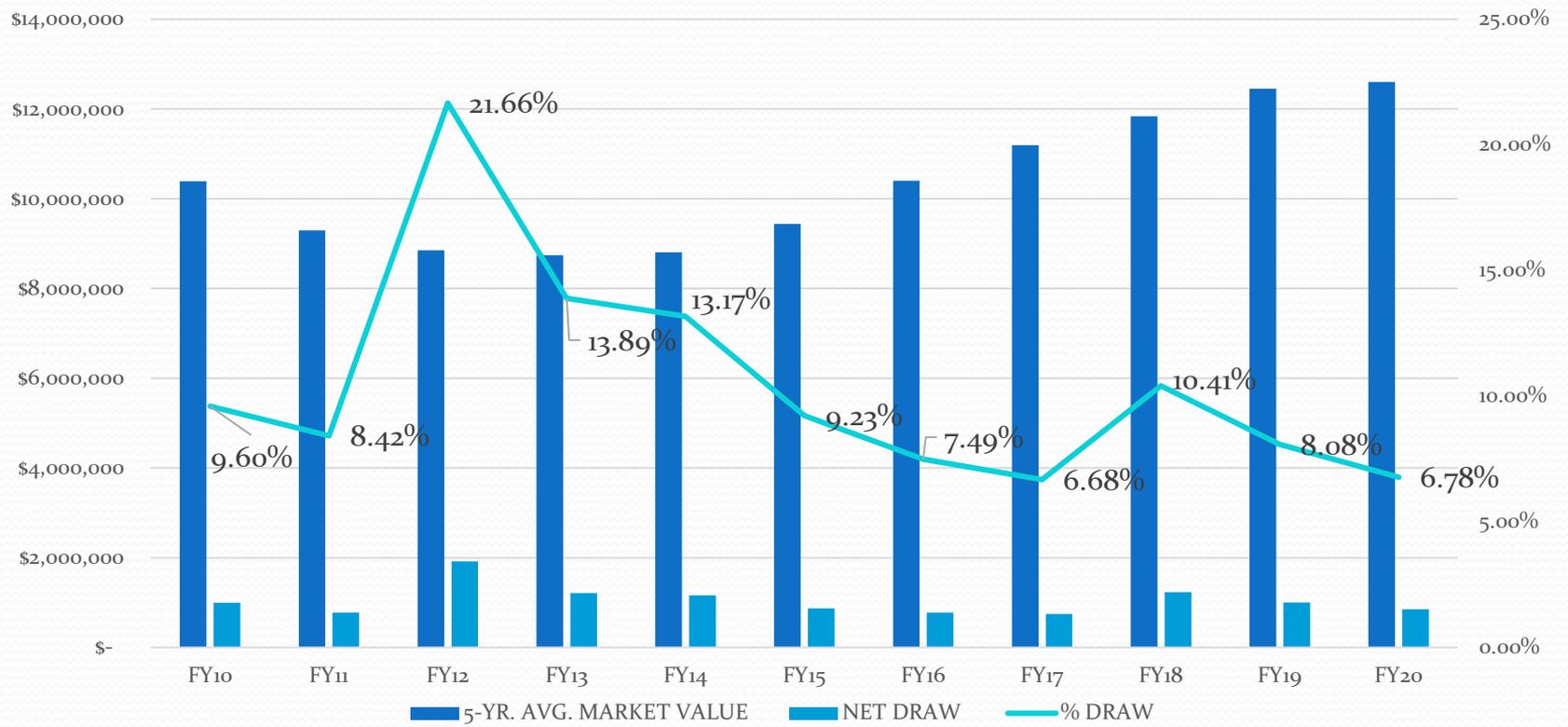
Operating expenses consist of salaries and benefits, travel for meetings, professional and consulting fees, materials and supplies, equipment leases, support to the mission of the HCF and the Hawai'i Conference, and rental operating expenses at Craigside Apartments.

Also included in the administrative budget of the HCF are the property expenses that support the Hawai'i Conference, the associations, and their respective churches.

The property related expenses include insurance, repairs and maintenance, and real property taxes that are not reimbursed to the HCF

HCF UNRESTRICTED ACCOUNT WITHDRAWALS FY10 – FY20

("SAFE" WITHDRAWAL IS 4.5% - 5.0%)



Draw (withdrawal) on Investment Funds

Draw: Average draw over the last 10 years on combined unrestricted *and* endowment funds for the benefit of the Conference was **8%** (almost entire draw was from HCF unrestricted).

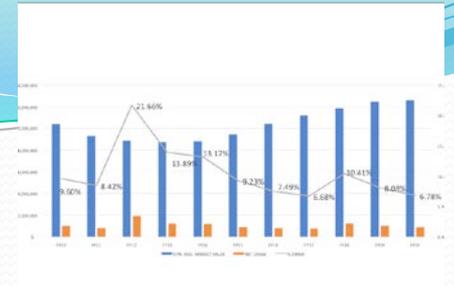
This was because of a prioritization of both Conference program need and the need to meet escalating property maintenance expenses.

This rate of draw is not sustainable over the long term.

Targeted Draw: 4.5% for “safe” draw
(Considered safe pursuant to HUPMIFA analysis).

The Foundation could probably spend all of that on property maintenance concerns, but obviously we need to continue our support of Conference program.

Draw on Investment Funds



Is it time to throw in the towel?

NO! We are still at a point where we can turn things around.

We need to pursue a multi-pronged approach to increase income and decrease expenses.

Some things we can do:

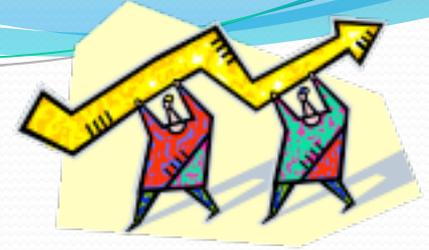
1. **Reduce Expenses:** Reduce expenses to a more reasonable draw %.
2. **Improve Income Generation:** Build up the corpus enough so that HCF operational expenses and transfers to HCUCC can be funded through income only.
 - a. Start selling underperforming assets and reinvest into better performing assets (investment account or higher yield real estate properties)
 - Craigside holdings and Conference Office Building currently under review
 - b. Look into making some of the non-income producing property income-producing



What is the ultimate goal?

To get the funding of HCF and HCUCC to a sustainable level, so that the good work of the Conference and the Churches can continue *in perpetuity*.

Who Runs the Foundation?



Board of Trustees with eleven (11) members (statutory Directors):

3 = elected by the Conference Council

Wryen Keoki Kiwaha, Linn Garcia, Warren Orikasa

4 = nominated by the Board of Trustees of the Foundation and elected by the Conference Council

Yvonne Leiser, Gloria Kobayashi, Roberta Jahrling, Aletha Kaohi

2 = nominated by the Conference Council and elected at the Aha Pae`aina
Joyclynn Costa, Rev. Kealahou Alike

1 = the Conference Minister
David Popham

1 = Chairperson of the Conference Council
Caroline Peters Belsom

Who Runs the Foundation?



Officers: The officers of the Foundation are elected by the Trustees:

Chairperson (Roberta Jahrling)

First Vice Chairperson (Aletha Kaohi)

Secretary (Rev. Kealahou Alike)

Treasurer (Gloria Kobayashi)

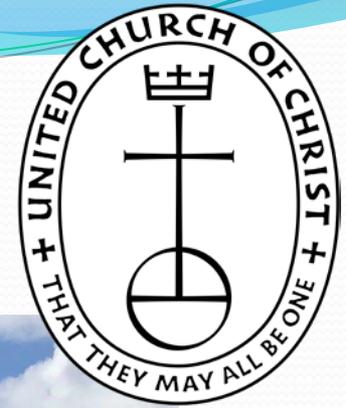
Staff: The Trustees hire and Executive Director (Andrew Bunn), who in turn hires and manages support staff:

Administrative Assistant (Lorene Arata),

½ Controller (Corinne Murashige),

½ Accountant (Ann Osalvo).

Final Thoughts & Reflections





HAWAI'I CONFERENCE FOUNDATION

UNITED CHURCH OF CHRIST



Mahalo!

Andy Bunn

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