



## Parting Reflections

By Archbishop Harry J. Flynn

Reflecting upon the achievements of our lives is not a regular activity for most of us, but occasionally an event causes us to pause and consider life's events.

This past fall, I attended a dinner with the Board of Catholic Finance Corporation (CFC). After the dinner, I found myself pondering the changes I have observed in the Archdiocese since I authorized the formation of CFC in 1999.

My mission as Archbishop has been "to make the name of Jesus Christ known and loved." One of the ways we fulfill this mission is through the careful administration of the "temporal" or material goods of the Church. Careful management of these temporal goods enables the Archdiocese and each individual parish and school to fulfill its mission and deliver its ministries.

In the mid-1990s, a task force was formed to study and then advise me on how to handle the growing level of loan guarantees on the Central Corporation's balance sheet, a result of the long-standing Archdiocesan practice of guaranteeing the debt of individual parishes. My advisors told me that we were in danger of overusing a limited resource that was very important to us. Recognizing our fiduciary responsibility, further empha-

sized by the \$300 million in building projects that parishes and schools had in their plans at that time, it was concluded that it would be best to improve our practices.

The initial plan was to grow the level of Archdiocesan reserves. Beyond this first thought, the task force suggested we teach leaders in the parishes and schools to implement "best practices" that would allow them to borrow money on the strength of their own credit. At the time that I accepted this recommendation, only about 10% of all parishes were borrowing money without an Archdiocesan guarantee. CFC staff began working with the staff of our parishes and schools and with their countless volunteers to identify and implement best practices.

Today, parishes and schools throughout the Archdiocese are able to borrow money without an Archdiocesan guarantee. Eight years ago, few lenders would loan to our parishes or schools without such a guarantee; now lenders compete for our business. In addition, many of our schools now borrow on a *tax-exempt* basis to finance facilities for core curriculum (non-religious purposes). This approach reduces borrowing costs by as much as two percentage points, saving our schools hundreds of thousands of dollars each year. Upon

reflection, we can say that all of this has been a remarkable accomplishment in just eight short years.

I have observed the collaborative efforts of CFC staff and our parishes in other ways as well. Projects coming before the Archdiocesan Building Commission for review today show greater concern about how proposed debt levels will impact the individual parish's mission and the implementation of its ministries. Through the combined effort of CFC and a growing number of parishes, greater attention is being focused on the link between the parish or school budgets and the fulfillment of mission and the delivery of ministries. To better assist parishes and schools in fulfilling their missions, CFC has developed a financial planning model capable of illustrating alternative future financial possibilities.

I am grateful for all the people who have chosen to work together in our Archdiocese to build this legacy of careful fiscal management for ministry, and who faithfully join together to make the name of Jesus Christ known and loved.

*On May 2, 2008, Pope Benedict XVI accepted Archbishop Harry J. Flynn's request to be permitted to retire.*

## Monitoring Tax-Exempt Financing

Many Catholic schools and other eligible institutions have used tax-exempt financing for new construction or to refinance taxable financing for new construction. The lure of tax-exempt financing is clearly understandable – interest rates often approach two full percentage points below conventional financing (e.g, 4.25% rather than 6.25%). To avail themselves of tax-exempt financing, borrowers have to agree to certain tax covenants for as long as the tax-exempt debt is outstanding.

Recently, the Internal Revenue Service has stepped up its monitoring efforts to ensure that tax-exempt borrowers are complying with the tax covenants. Last year, the IRS sent hundreds of non-profit organizations, both large and small, detailed voluntary questionnaires requesting extensive information as to outstanding tax-exempt bonds, compliance with post-issuance requirements under federal tax law, and the status of the implementation of the organization's post-issuance compliance

program. Compliance failure can result in the outstanding debt being deemed taxable from its initial issuance. The borrower would be obligated to pay the incremental rate differential for the period of time the loan had been outstanding plus penalties. This could be a sizeable sum of money which would become immediately due and payable to the lender. It is also clear that the IRS is looking for the borrower to undertake very specific actions after the bonds have been issued until the bonds are paid off. Failure to do so could result in the inability of an organization to meet the burden of proof with the IRS that they are in compliance.

In anticipation of potential IRS regulations, and given the IRS's heightened scrutiny of post-issuance compliance, a whole new industry to monitor covenant compliance for hospitals and other non-profit organizations that have utilized tax-exempt loans has developed. The IRS requirements for non-profit organizations with

tax-exempt bonds outstanding include (i) having a written post-issuance compliance program, (ii) designating a specific individual as the post-issuance compliance officer and establishing specific duties and responsibilities for such officer, (iii) maintaining records as to all private use of the bond-financed facilities throughout the life of the bonds, and (iv) complying with other record-keeping requirements until the bonds are retired. In the case of parishes, records as to religious use, if any, of bond-financed facilities should also be maintained. CFC is working with the Chancellor of Civil Affairs and bond counsel to develop a diocese-wide program for the Archdiocese of St. Paul and Minneapolis designed to satisfy the anticipated IRS regulations. If you have tax-exempt debt outstanding, we suggest you review your loan covenants annually, especially your tax covenants. Please call a CFC professional if you need further assistance.

## Local Parishes Complete Tax-Exempt Financings

Congratulations to the following parishes, all of whom have successfully completed tax-exempt debt transactions for their schools during the past three months. Catholic Finance Corporation served as Financial Advisor to each of the parishes on these issues. We are proud to have been of service.

All Saints, Lakeville, Minnesota  
Holy Spirit, St. Paul, Minnesota  
St. Joseph, Waconia, Minnesota  
Transfiguration, Oakdale, Minnesota

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