

**The Parish Reconfiguration Fund Oversight Committee's
Final Report**

Respectfully Submitted

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Copies to the following:

**Cardinal Sean P. O'Malley, O.F.M. Cap.
Archbishop of the Roman Catholic Archdiocese of Boston**

**Reverend Richard Erikson, Vicar General
Roman Catholic Archdiocese of Boston**

**James P. McDonough, Chancellor
Roman Catholic Archdiocese of Boston**

The Parish Reconfiguration Fund Oversight Committee (PRFOC), under a three-year charter negotiated by PRFOC Chair David Castaldi and the former Vicar General, Bishop Richard G. Lennon, D.D., began work in September 2004 to conduct an independent review of the financial aspects of parish reconfiguration. Each of the five geographic regions encompassing the Boston Archdiocese as well as the Archdiocesan Finance Council was represented. PRFOC members were drawn from both open and closed parishes.

The PRFOC's mission was advisory in nature and included assessing and making recommendations regarding the integrity of the process used to handle and dispose reconfiguration assets and liabilities, the financial reporting of this information to Catholics in the Archdiocese, and operational improvements. This report concludes the PRFOC's mission. The PRFOC's complete charter can be found on the web at <http://www.rcab.org/Pilot/2004/ps041203/charterofreconfiguration.html>.

The PRFOC embarked upon its responsibilities with several assumptions:

- Proceeds from the reconfiguration process would be used to support the past, present, and future obligations and programs of the remaining parishes in the Boston Archdiocese.
- The archdiocese had severe financial problems that necessitated the use of funds generated by parish closures.
- Chancery officials informed the PRFOC that assets of the closed parishes belonged to the "Central Fund" (loosely defined by the PRFOC as chancery operations) rather than the parishes of the archdiocese.

During the initial monthly meetings, PRFOC members discovered that reconfiguration funds would be used to solve widespread financial problems of the Boston Archdiocese. Proceeds were contemplated to be applied to areas such as:

- Ensuring the solvency of the lay and clergy pension funds.
- Restoring the equity of the Revolving Loan Fund. In 2000, the Jubilee Year, former Boston Archbishop, Cardinal Bernard F. Law, forgave many parish debts, most prominently those due to the Revolving Loan Fund. The Fund functions as a savings and loan for the parishes, as well as other archdiocesan entities. The debt forgiveness created a significant negative net worth in the Revolving Loan Fund requiring a considerable infusion of cash to cover the combined deposits of the parishes.
- Covering "ongoing support services for parishes" that amounted to covering operating deficits in the Central Fund. The archdiocese borrowed a substantial sum from the Knights of Columbus to cover its operating costs because donations were reduced by half following reports of the sex abuse crisis. These borrowings were not, however, sufficient to cover planned operating deficits in the Central Fund.

The PRFOC's efforts to comprehend the full extent of the archdiocese's bleak financial picture required a broader view of the archdiocesan structure and related financial statements. As PRFOC members discovered, the Reconfiguration Fund was only one part of the entire Central Fund. The PRFOC believed that an examination of aspects of the Central Fund that related to the Reconfiguration Fund was necessary to complete its mission that included making recommendations concerning operational improvements.

The PRFOC requested additional information concerning finances relevant to the Reconfiguration Fund. The former Vicar General rebuffed the requests, preferring to interpret the PRFOC's charter in a way that significantly narrowed its scope. Other requests over subsequent months received the same response. At one point in the process, the PRFOC's oversight became so limited that it was being denied access to information that had previously been provided for review. It became apparent to the PRFOC that the former operating officers of the archdiocese were being protective and defensive in not sharing financial information relevant to the Reconfiguration Fund. The frustration that resulted only served to create suspicion on the part of the PRFOC members who were experiencing first-hand a culture with excessive concern that outsiders not be permitted knowledge of church policies and business affairs. The lack of transparency in the corporate affairs of the church appeared intentional.

Periodically the archdiocese made financial disclosures to the PRFOC concerning the distribution of reconfiguration funds. Members became concerned when it was revealed that to cover an ongoing operating budget deficit of the Central Fund, reconfiguration funds were used to support the ordinary operating expenses of the archdiocese. The use of the funds for this purpose is displayed in Exhibit 2 on the line entitled "Fund ongoing support services for parishes". This \$12,015,000 entry was a direct transfer of cash to the central operations of the Archdiocese. Since cash is fungible, or capable of being interchanged with other cash, it became impossible for members to verify its actual use. Exhibit 1 is a schedule of revenues received by the Reconfiguration Fund in its first three years.

The PRFOC publicly objected to the manner and use of this portion of the reconfiguration funds. It recommended that reconfiguration funds be used for a more enduring purpose, such as the longstanding deferred maintenance of remaining parish buildings in the archdiocese. The PRFOC's recommendation was not accepted, and being limited to "advisory in nature," the PRFOC could not prevent the use of reconfiguration funds to cover the operating budget deficits of the Central Fund.

Through 2005 committee members persevered to grasp the mechanics of parish closings and the application of reconfiguration funds. Additionally, changes in reconfiguration and the Finance Council unfolded including:

- Some parishes slated for closing initiated vigils and/or appeals to the Holy See.
- The archdiocese accepted and implemented changes in reconfiguration that were recommended by the Meade-Eisner Committee.

- The combined actions both slowed and significantly reduced the number of parishes slated for closure and the expected proceeds from sale of their properties. At the outset it was estimated that sale of closed parish properties might reach \$200 million. Through June 30, 2007, such sales (gross) have totaled \$66.1 million. Exhibit 2 contains a summary of receipts in the Reconfiguration Fund.
- The Archdiocesan Finance Council changed its membership and moved towards a committee structure. New groups were formed to examine the full financial situation and were charged with creating a strategic financial plan.

In late 2005, the PRFOC published a report in *The Pilot* on the prior year's activities and goals through 2007. The PRFOC noted that the chancery staff had provided a significant amount of information for review. Lacking full disclosure of archdiocesan finances however, PRFOC members were unable to qualify its significance and the defensive attitude toward the PRFOC persisted.

In October 2005, *The Pilot* published a PRFOC report concerning the appeals by certain closed parishes to the Congregation for the Clergy in the Holy See. Soon after, the Congregation's ruling on how the property of closed and appealing parishes should be handled was announced. It indicated that property of those closed geographic parishes did not belong to the Central Fund of the archdiocese. Instead, the Congregation directed that those funds follow the parishioners to their receiving parishes.

Prior to the Congregation's response becoming public, chancery staff met with pastors of the receiving parishes and, in many cases, members of parish finance and pastoral councils. The archdiocese requested that the receiving parishes donate the property of the closed and appealing parishes to the Central Fund. None of the results of these negotiations was disclosed to the PRFOC at the time.

Following these meetings, all but one pastor agreed to donate most or all of the assets of the closed parishes to the archdiocesan Central Fund. Most pastors decided to retain certain assets of the closed parishes, largely to cover the cost of integrating new parishioners into their parishes. One pastor decided his parish would keep all of the assets of the closed parish that it received.

Upon review of the actions and procedures connected with the church closures and the decision of the Congregation for the Clergy, the PRFOC believes there was inequity in the process. Ultimately, parishes that did not formally contest their closures, and obediently surrendered their churches and assets, did not enjoy the same benefits as contesting parishes. The Congregation's ruling on applicable provisions of Canon Law did not require that the ruling be applied to those closed but non-appealing geographic parishes slated for closure in 2004. The PRFOC, however, made a verbal recommendation to the archdiocese to restore equity in the closure process by voluntarily applying the Congregation's ruling to the non-appealing parishes that were slated for closure in the same time period. The archdiocese did not accept the PRFOC's recommendation.

During the PRFOC's tenure it received reports indicating that Cardinal Sean P. O'Malley assured both clergy and laity that the PRFOC was monitoring the reconfiguration process to insure that no reconfiguration funds were used for abuse settlements. The PRFOC reminded the chancery that since cash is fungible and the committee was not given access to review transactions of the Central Fund, members were unable to attest to the Reconfiguration Fund's use. Furthermore, the PRFOC registered an objection that the archdiocese was publicly using the PRFOC as a shield while privately denying it access to pertinent financial information.

When an archdiocesan executive stated that the archdiocesan Finance Council had primary responsibility for oversight of Reconfiguration Fund assets and collaboration in the decision-making process, the PRFOC recommended that it become a subcommittee of the Finance Council. In the church's organization the diocesan Finance Council is the canonically-empowered body with the power of "consent and consult" in matters of finance, law and property and in our archdiocese is composed primarily of lay people. The PRFOC's recommendation, which was an attempt to reposition its advisory role in the archdiocesan decision-making process, was ultimately rejected in the summer of 2006.

In April 2006 and again in 2007, the Boston Archdiocese published the most complete financial disclosure of any diocese in the United States. Included in the report was information concerning the funding source for sex abuse settlements and associated costs. The PRFOC commended Cardinal O'Malley for this outstanding initiative.

In addition, Cardinal O'Malley appointed a new Vicar General and Chancellor for the Boston Archdiocese. The collective message of the new archdiocesan leadership was to create a culture of service to parish communities and to increase transparency in archdiocesan business dealings. Following these changes in leadership, the defensive posture toward the PRFOC's requests for additional information abated. The PRFOC began to receive more extensive information, including that which had been previously denied. The PRFOC appreciated this new policy of openness.

In its final year, the committee continued to review Reconfiguration Fund transactions as reported by chancery staff. Given reports in the press concerning the sale of St. Mary Star of the Sea (SMSS) real estate in East Boston, the PRFOC reviewed the transaction. . The SMSS property was sold by the archdiocese in November 2006 to an individual for \$850,000 and within three weeks sold by that individual to an evangelical Protestant church group for \$2.65 million. The bidding history on the property included the fact that another evangelical church group had offered \$2 million for a larger configuration of the SMSS property. Following its initial inquiry into the sale of SMSS property, the PRFOC, in accordance with its charter, elected to hire the Honorable Kevin M. Herlihy, a retired state court judge, to review all relevant documents and evidence and conduct interviews. Judge Herlihy's report is incorporated into the PRFOC's report but is published separately on *The Pilot's* web site at <http://www.thebostonpilot.com>.

Judge Herlihy's findings conclude that senior archdiocesan officials were responsible for failing to incorporate a "deed restriction" to prevent "flipping" (i.e., a quick re-sale) of the SMSS real estate. He identified a significant breakdown in internal controls when the archdiocesan Real Estate Advisory Committee did not receive the bidding history on the

SMSS property, thereby precluding the opportunity to obtain a recommendation to insert a restriction into the deed from this group of experienced lay real estate professionals. Overall, Judge Herlihy concludes that the failure to include a deed restriction was “unfathomable” because it was hard to imagine a more appropriate situation for a deed restriction.

Neither Judge Herlihy nor the PRFOC found evidence of criminal activity in the sale of the SMSS real estate. However, the PRFOC reports the transaction lacked transparency between chancery staff and members of the archdiocesan Finance Council because the Finance Council did not receive the bidding history on the real estate. This particular liquidation of Reconfiguration Fund assets reflected a serious absence of archdiocesan policies, practices and procedures relating to its business activities. The financial loss and grave embarrassment was the result of egregious error by the then chief operating officers of the archdiocese.

In response to the SMSS matter, James P. McDonough, the current chancellor of RCAB, drafted a policy statement designed to minimize the risk of future similar occurrences. The PRFOC agreed that this policy was sufficient.

Although a few remaining reconfiguration properties remain available for sale and additional properties may be offered for sale following resolution of all vigils, civil litigation and appeals to the Holy See, the PRFOC has fulfilled the three-year commitment of its charter. The Archdiocesan Finance Council must conduct oversight of the remaining Reconfiguration Fund assets.

Based on the past three years of extensive review, the PRFOC also reports that aside from the SMSS property sale, the Boston Archdiocese handled the sale of closed parish properties in an adequate manner. The PRFOC found no evidence of misappropriation of funds or any other criminal or unethical behavior in the transactions it reviewed.

Overall, however, the PRFOC was disappointed that acceptance of its advisory role in the archdiocesan decision-making process never really emerged because it was restricted to receiving information largely after the fact and because the Finance Council is the canonically-empowered body in financial matters. Its ability to make recommendations regarding operational improvements as contemplated by its charter was similarly limited. At best, the PRFOC’s purview was largely restricted to an after-the-fact audit function.

While major monetary troubles of the archdiocese predate the abuse crisis, the crisis turned these troubles into a financial emergency. Cardinal O’Malley made some very difficult decisions to sell major properties, such as archdiocesan, non-parish related real estate located in Brighton to Boston College. Sale proceeds and insurance provided the funds to cover abuse settlements and related costs to date without directly taking cash from parishes.

The transparency in church business affairs introduced by Cardinal O’Malley and his selection of a new archdiocesan leadership team offer hope that positive change can and will create opportunities for clergy, religious and laity to re-engage, re-commit and collaborate in the mission of the Roman Catholic Church of Greater Boston. As a lay group involved in financial oversight, the PRFOC hopes that Cardinal O’Malley will

increasingly draw upon the gifts and talents of the laity to assist in the financial and administrative affairs of the Church.

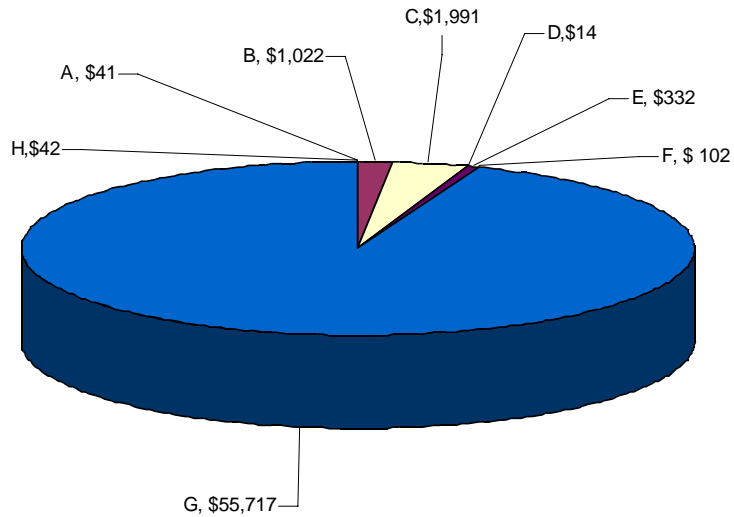
Respectfully submitted by the Parish Reconfiguration Fund Oversight Committee:

David Castaldi, Chair and Central Region
Maureen Corcoran, Central Region
Joseph Finn, Jr., Finance Council and West Region
Nan-Marie Jaeger, South Region
Kathleen Rabe, North Region
Norman Sabbey, West Region
Timothy Schiavoni, Merrimack Valley Region

November 1, 2007

Exhibit 1

Schedule of Revenue: July 1, 2004 – June 30, 2007

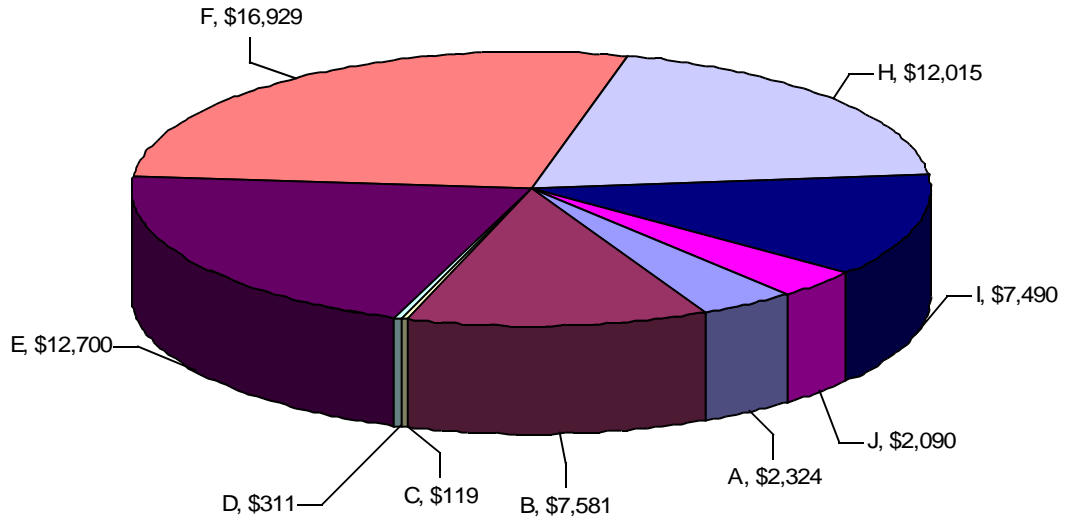


	(Value in Thousands)
A. Contributions, bequests and grants	\$ 41
B. Rental income closed parish property	\$ 1,022
C. Investment income	\$ 1,991
D. Common investment fund dividend	\$ 14
E. Miscellaneous income	\$ 332
F. Net realized and unrealized (loss) gain on investments and assets held in trust	\$ 102
G. Sale of land, buildings and equipment*	\$ 55,717
H. Sale of furniture	<u>\$ 42</u>
 Total	 <u><u>\$ 59,261</u></u>

* This number is net of the book value of the real estate assets sold (\$6.94 million), realtor commission fees (\$2.52 million) and other costs.

Exhibit 2

Schedule of Expenses: July 1, 2004 – June 30, 2007*



	(Value in Thousands)
A. Expenses related to parish closing process	\$ 2,324
B. Property management and expenses	\$ 7,581
C. Expenses related to valuation and sale of all real property	\$ 119
D. Repayment of debts of a suppressed parish	\$ 311
E. Payments for past pension service (active and suppressed parishes) for lay employees	\$ 12,700
F. Restore the equity to Revolving Loan Fund, et. al.	\$ 16,929
G. Establish a sinking fund to cover retirement of a line of credit	\$ 0
H. Fund ongoing support services for parishes	\$ 12,015
I. Direct operating aid to parishes	\$ 7,490
J. Direct construction aid to parishes and cemeteries	<u>\$ 2,090</u>
 Total:	 <u>\$ 61,559</u>

* The Schedule of Expenditures above reflects the contemplated transactions in the original committee charter.

** More extensive financial information on parish reconfiguration for fiscal years 2005 and 2006 can be found on the archdiocesan web site at http://www.rcab.org/Finance/Compendium/0605_cfpr.pdf and http://www.rcab.org/Finance/Compendium/0706_cfpr.pdf, respectively.