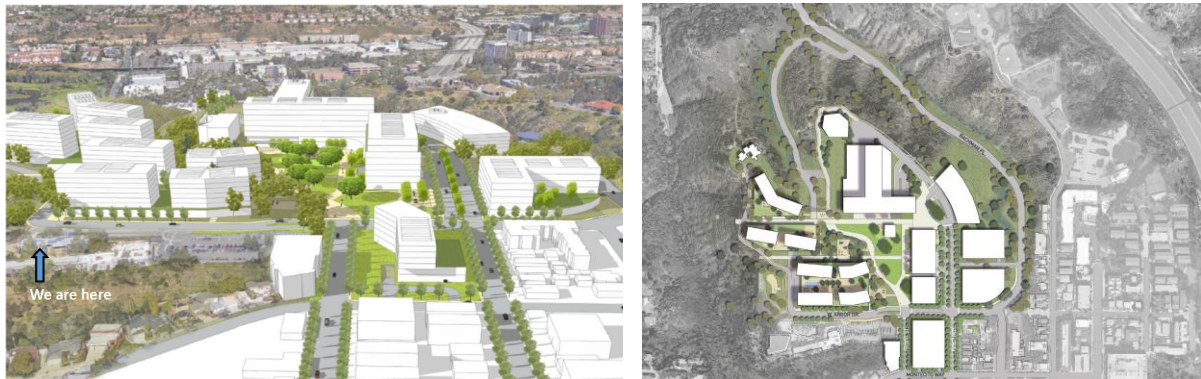


The Purpose of “Visioning for the Future” (VTF) October 2019

The VTF was created in response to several things coming together: the plan of UCSD to redevelop its Hillcrest Medical Center, the likelihood that parking revenue will sharply decline in the future because of that plan and because of further use of ride-share services, the offer by UCSD to buy part or all of our campus, and the need to imagine possibilities for the future that respond to these realities but build toward our goals. This document discusses these aspects in brief and lays out some of the options we need to consider.

I. UCSD’s master plan for its Hillcrest campus

In order to comply with strengthened earthquake regulations, UCSD must replace their existing Hillcrest hospital by 2030. As a result, they are redeveloping their entire Hillcrest medical campus. Those plans may seriously diminish the prospects for parking lot income, which currently constitutes over 25% of our budget.



Two sketches of UCSD’s plan for how things will look in 2030 are shown above.

Current UCSD plans begin with construction in 2020 of an out-patient Pavilion at the end of First Street and building a large parking structure on the far side of the Pavilion with direct access from Bachman Place. They intend to discourage access to the complex from First St. although it will continue to be possible.

Once this new parking is available in about late 2022, they will demolish the parking structure at the end of Arbor, i.e., the one next to the church that we use for overflow on Sunday. They plan to then start building tall apartment buildings in that area.

Around 2025, they will start on the new hospital building just north of the existing structure. The existing hospital will continue in use until the opening of the new one in

about 2029, at which point the existing hospital will be demolished and the area turned into a public, three-acre park-like open space.

II. Implications for our budget

In the latest First Church budget, for the fiscal year ending June 2020, the parking lot is expected to bring in about \$400,000. That revenue would support 26% of our total expenditures of \$1.5 million.

What will the UCSD plans mean for this situation? In the short run, the news may be good. There may be strong demand for parking by the construction trades once construction begins. Also, during the period that the Arbor parking structure is demolished and the old hospital continues to function (2023-2029) there may also be even more demand by both patients and construction trades, despite the existence of the new parking lots provided by UCSD.

But after the new configuration is settled, in about 2030, the new hospital will be located at a significant distance from our parking lot and parking demand will probably be much lower than it is today. It may not disappear entirely. Some patients at the Outpatient Pavilion may prefer our street level parking over the underground parking. In addition, visitors to the new apartment towers and service providers may use our parking lot. However, the current trend towards greater use of ride-sharing services may mean declining demand for parking in all contexts and scenarios.

Bottom Line: after 2030, it is very possible that there will be little income from the parking lot. That would create a hole of at least 20% in our budget, which is already impacted by declining parking revenue. Without cuts in programs or increased income from other sources, the total budget would be about 30% lower than in 2017. The fact is that First Church has relied on major parking revenue ever since the 1970s, and its decline or disappearance would require major adjustments in our programs.

III. General options for the future

What are our options if First Church cannot expect to maintain the current configuration of its budget indefinitely into the future?

1. Stay where we are and increase pledge income/reduce expenses

It is possible the construction starting sometime in the current fiscal year will provide a big boost to parking lot income. That surge in income may persist throughout the entire

construction period (2020 to 2028), but it is equally likely that it will decline as new UCSD lots become available. This will depend on their parking rates and if they can accommodate the oversized trucks of construction contractors.

One possible response is to try to increase pledging enough to compensate. We already have budget shortfalls due to the *existing* decline in parking lot income and, in the absence of more parking income, pledge income would need to increase by 15%-20%. Eventually, a significant influx of members after the planned apartments are built next to our campus could result in additional pledge income. But if parking lot income declines towards zero, total pledging would have to be 50% higher than currently to maintain existing programs.

Alternatively, First Church could adjust our programs and services in ways that reduce expenses enough to carry on without much parking income, much as many other UU congregations do. Such possible adjustments will need to be outlined as part of the VTF.

The rest of this report explores options involving selling all or parts of our campus, and using those funds to maintain the current level of services.

2. Sell Our Entire Campus

UCSD has offered to purchase our entire campus, allowing them complete control of the south-east corner of their medical complex. They would pay whatever the appraised value is at that time. The reality is that UCSD has advantages over other buyers because they are exempt, even for joint projects with for-profit developers, from most of the review requirements and zoning restrictions that private developers would have to face.

UCSD had an appraisal done in August 2018 and the value was estimated at \$36.3 million. If we decide to sell, a new appraisal would need to be done and could result in a value higher or lower than this. UCSD is willing to wait a couple of years to take possession of the property, and would require a new appraisal at that time.

In any case, the full purchase price would not be available for acquiring a new campus. We would need to pay off the mortgage on the Welcome Center, currently at about \$1.8 million, and the outstanding amounts of the solar financing notes, currently about \$300,000. That would leave us with about \$34 million.

To maintain the full level of services that the church provides currently, we would need to use some of the \$34 million to generate about \$500,000 in income (\$500,000 to

replace parking revenues and \$100,000 to replace Pre-School income, but reduced by the need to service a mortgage). How can that be done? One way is to allocate some portion of the sale price to the Church's endowment fund and make withdrawals from that amount to cover these lost income sources. If those withdrawals were set at the same rate as we now withdraw for operational income, 4.5%, the capital amount required to fully cover this would be about \$11 million. Based upon a \$36M sale price and net of debt repayment of \$2 million, these deductions imply a remaining budget for buying and moving to a new campus of about \$23M.

3. Sell Only Our Parking Lot

We also received an appraisal for just our parking lot for approximately \$11 million. After paying off the Welcome Center mortgage of \$1.8 million, we would have about \$9 million to be invested in our endowment fund. At a 4.5% withdrawal rate, this amount would generate a cash flow of about \$400,000, about what we are expecting this year from the parking lot.

We would need to determine where will we park and how much that will cost. UCSD may offer to provide free parking in their underground facilities for Sundays, but it is not clear that they can guarantee doing so. In the short term after a sale to UCSD, they would probably just leave the existing parking lot alone (although make it a UCSD lot) in anticipation of using it during the construction phase. It would possibly remain fully available for Sunday parking for up to five years (but possibly at a cost). Members attending mid-week meetings and evening events would most likely be charged.

At some time in the future (perhaps only after 2029), when a structure may be put on the parking lot, members would have to walk further than they do now, which could be difficult for some of our members, especially for those with mobility problems.

4. Develop the Lot in Conjunction with a Private Developer

An alternative to selling the lot is to develop it into an income producing property. The main advantage of this option over the sale is that we can control the use of the property (perhaps seeking to use it for senior or affordable housing) and the design of the building.

There are also disadvantages. First, an effort to develop the property as densely as assumed in the appraisal (70 dwelling units in a 5-story structure) may generate

opposition from the residents on Albatross Dr. across the canyon. Building more affordable units would lower the net financial rewards to the church. A further concern is that, even with a third-party manager dealing with difficult or non-paying tenants, the reputation of the church as a benevolent actor could be compromised.

IV. Visioning the Future

The objective of **Visioning the Future** is to provide to the congregation one or more feasible recommendations with respect to the above options, including where and how we might move the congregation. To do this work, the Board has appointed a Central Core Committee and four Subcommittees. The Central Core Committee will, among other tasks, help ensure communication and the scheduling of forums, monitor the VTF page on our website and serve as points of contact for the congregation.

The Subcommittees are:

- Stay
- Go (when and how),
- Real Estate (where to go), and
- Negotiations

The Stay committee will develop a detailed vision of what remaining at the Hillcrest campus would entail including, but not limited to, membership, finances through 2030, including major repairs that are slated to be completed in the next one to two years, alternative revenue sources, staffing, parking and access, achieving the church's mission, strategic planning, implications for South Bay campus, and church preschool.

The Go (when and how) committee will develop a detailed vision of what moving the Hillcrest campus would entail including, but not limited to, new location, timing and process of moving, membership, finances through 2030, alternative revenue sources, staffing, parking and access, achieving the church's mission, strategic planning, implications for South Bay campus, and church preschool.

The Real Estate committee will:

- Develop criteria and requirements for a new campus location.
- Work with the church's real estate advisor (and others as appropriate) to locate one or more properties that meet the criteria.
- Give consideration to selecting a location that could include additional revenue generation such as apartments.

The Negotiations team will:

- Meet with church's real estate attorney and UCSD representatives, to develop a viable agreement.
- Give consideration to other potential buyers of the Hillcrest property should that become an alternate, viable option.
- Make an assessment as to whether acquisition of the Hillcrest property via an eminent domain process is a realistic threat.