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September 13, 2018

The Cathedral of St. John the Baptist
Parish Advisory Council
1900 Carlton Road
Parma, Ohio 44134

Re: Sharing of Expenses at 1900 Carlton Road

Dear Council Members:

I write to you in response to your letter to Bishop Milan Lach dated August 27, 2018, in which you outline a proposal by which the parish of St. John the Baptist would lease the property at 1900 Carlton Road from the Eparchy and endeavor to operate the property so that the revenue it generates would exceed the costs of operation. As you may know, the Bishop is traveling out of the country for the next few weeks, and he asked that I reply to your letter so as to not delay a resolution of the open issues.

After considering your proposal, the Bishop asked that I advise you that he is declining it.

As you know, certainly better than I, the property located at 1900 Carlton Road has been put to multiple uses since its acquisition. Over the past several years, the property has served two primary functions: as a location for the activities of the Parish of St. John the Baptist (the "Parish") and as the location for the activities of the Chancery Offices for the Eparchy of Parma. The Chancery Offices have now been relocated, so the property is currently serving one function: as a location for Parish activities.

As you note in your letter, the current expenses for the 1900 Carlton Road property outweigh revenues, even though efforts have been made to reduce expenses over the past several years. In fact, the current expenses far exceeded what could be justified to maintain the Carlton Road property for the purpose of both the Chancery and the Parish. This is one of the principle reasons the Bishop decided to relocate the Chancery.

The Bishop appreciates your belief that the Parish could generate sufficient income from the property to cover all of the expenses of operating the entire property and even generate a profit for the Parish. Your proposal, however, provided no details. You have requested that the Bishop give exclusive control of one of the Eparchy's most valuable assets to a single parish for at least the next ten years without offering any indication of how much rent you would pay to the Eparchy. Is it your expectation that you would have the entire property rent free? In view of the Eparchy's current financial challenges, do you believe that the Bishop should allow this valuable asset to solely benefit one of the smaller parishes in the Eparchy?

Have you considered how much a market-based rent would be? Have you prepared any pro forma financial projections to determine what the total costs would be if the Parish agreed to a market-based, triple net lease? Have you prepared any pro forma financial projections to determine whether the Parish can actually make a profit from the property?

Your proposal provided inadequate details for how you would operate the property so as to generate the revenue necessary to operate and maintain it. Your proposal suggests that you intend to generate revenue by renting the old high school facility to third parties. Have you conducted a market study to determine with whom you compete in the area for rental hall business? Have you evaluated the rents you can charge? Have you determined the amount of money it will take to make the facility more competitive? From where will that money come? How much money will you need to invest into the facility over the next ten years to keep it competitive? From where will that money come?

Historically, the Parish has relied on Michael Caithml to market and manage the events, but his salary has been subsidized by the Eparchy. If you significantly increase the number and size of events, how much additional cost will you incur? How many employees will you need to market the property and manage the events? Who will do the payroll for those employees? If you operate a full-scale rental hall and catering business, who will do the bookkeeping and who will prepare the financial statements for the business? Who will make sure that all of the proper permits have been acquired and that all of the proper taxes are paid?

Historically, the cost of insuring the 1900 Carlton Road property has been included with the Eparchy's overall insurance policy. If you intend to operate this as a separate business, have you priced the insurance that the Parish will need to carry?

The Parish and the Eparchy are non-profit entities, but have you considered whether the income that would be generated by your new venture is subject to income tax? Are you aware that an exempt organization that regularly carries on a trade or business not substantially related to its exempt purpose, is subject to income tax on the income from that unrelated trade or

business? This is true even if all of the income is devoted to carrying out the Parish's non-profit mission.

These are some of the questions that the Bishop would ask in evaluating a proposal such as yours, but your proposal offers no answers to any of these questions.

On a going forward basis, even though the Chancery has relocated, the Bishop believes that it would be unfair to expect the Parish to bear all the costs associated with the 1900 Carlton Road property. The property needs to be maintained while the Bishop explores all options for making the best use of the property. Obviously, the property will continue to serve as a location for Parish activities. The Bishop has also agreed that the Parish may honor all of its rental hall commitments until the end of 2018. Consequently, the old high school building cannot be "mothballed" until after those commitments have been honored. As the owner of the property, the Bishop believes that the Eparchy should bear some of the cost of the ongoing maintenance and utilities, even after the property is mothballed.

The expenses for the property can be categorized as (1) Utilities, (2) Supplies, (3) Salaries, (4) Maintenance and Repairs and (5) property taxes. Because the Chancery has vacated the premises, most of the utility expense will be attributable to the Parish and its activities. Similarly, any Supplies and Salaries will be mostly for the Parish activities. The Maintenance and Repairs are less focused on the Parish and more focused on the property as a whole. The Bishop suggests that effective September 1, 2018, the costs be allocated as follows:

	<u>Parish</u>	<u>Eparchy</u>
Utilities	80%	20%
Supplies	90%	10%
Salaries	80%	20%
Maintenance and Repairs	50%	50%
Taxes	20%	80%

If you believe different percentages are appropriate, please respond with an explanation as to why you think the Bishop should agree to a different allocation.

The Bishop would like these allocations to remain in place until the end of the year. At that time, either the Parish or the Bishop can ask to revisit the allocations and adjust them as appropriate based on actual experience over the last few months of the year.

I am also happy to meet with you or have a discussion by phone to try to reach a mutually beneficial outcome.

Sincerely,

James B. Niehaus

James B. Niehaus

JBN/smm

cc: Bishop Milan Lach, S.J (via email)