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JEFFREY D. CAWDREY (SBN: 120488) MEGAN M. ADEYEMO (TX BN: 24099595)(PRO HAC VICE PENDING) KATHRYN M.S. CATHERWOOD (SBN: 149170) KATHLEEN M. PATRICK (NY BN: 5638572)(PRO HAC VICE PENDING) ANNIE C. MATTHEWS (TXBN: 24115058) (PRO HAC VICE PENDING) GORDON REES SCULLY MANSUKHANI, LLP 101 W. Broadway, Ste. 2000 San Diego, CA 92101 Telephone: (619) 696-6700 Facsimile: (619) 696-7124 jcawdrey@grsm.com madeyemo@grsm.com kcatherwood@grsm.com kpatrick@grsm.com amatthews@grsm.com Proposed Counsel for The Roman Catholic Bishop of San Diego 10 UNITED STATES BANKRUPTCY COURT 11 FOR THE SOUTHERN DISTRICT OF CALIFORNIA 12 In re: 13 THE ROMAN CATHOLIC BISHOP Case No. 24-OF SAN DIEGO, a California Corporation Sole, Chapter 11 15 Debtor.

Judge: Hon Christopher B. Latham

Dept.: 1

DECLARATION OF RODRIGO

DEBTOR'S FIRST DAY MOTIONS

VALDIVIA IN SUPPORT OF

- I, Rodrigo Valdivia, hereby declare:
- 1. I am the Vice-Moderator of the Curia of The Roman Catholic Bishop of San Diego ("Debtor" or RCBSD"). I graduated from the University of San Diego with a bachelors in philosophy. I then attended Katholieke Universiteit Leuven and obtained a Bachelor of Sacred Theology. I also have a Licentiate of Canon Law (Juris Canonici Licentiatus) from The Catholic University of America.
  - 2. I have been active in the administration of Debtor for over thirty (30) years during

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which I have overseen the following departments: (i) Stewardship/Annual Appeal, (ii) Information Technology, (iii) Permanent Diaconate, (iv) Cultural Diversity, (v) Child and Youth Protection, (vi) Office for the Missions/Propagation of the Faith, and (vii) Safe Environments and Youth Protection. I have been the Vice-Moderator of the Curia since 2018.

- 3. I am authorized to provide this declaration (this "Declaration"). All facts set forth in this Declaration are based on my personal knowledge, upon information and supplied to me by people who report to me, upon information supplied to me by Debtor's professionals and consultants, upon my review of relevant documents, or upon my opinion based on my experience and knowledge regarding Debtor's operations, financial condition, and related business issues. The documents submitted herewith, referenced herein or otherwise relied upon by me for purposes of this Declaration are the business records of Debtor, prepared and maintained in the ordinary and regularly conducted business activity of Debtor, and used by me for those purposes. If I were called upon as a witness, I could and would testify competently to the facts set forth herein.
- 4. On June 17, 2024 (the "Petition Date"), Debtor filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. Debtor remains in possession of its property and is managing its business as a debtor in possession pursuant to §§ 1107(a) and 1108 of the Bankruptcy Code. No trustee has been appointed and no official committee has been appointed in this case (this "Chapter 11 Case").
- 5. Debtor provides spiritual leadership, charitable programs, education, resources, and other services to the faithful. Debtor does not operate as a for-profit business. Debtor is largely funded by donations, the Annual Catholic Appeal, an annual tax paid by affiliated parishes of the Diocese of San Diego, and fees for services provided to other entities.
- Debtor filed this bankruptcy case in order to provide a pathway for ensuring that Debtor's assets will be used to equitably compensate victims of sexual abuse, while continuing Debtor's mission of education, pastoral services, and outreach to the poor and marginalized. As of the Petition Date, four hundred fifty-seven (457) sexual abuse claims have been filed against Debtor.

### BACKGROUND

## The Diocese of San Diego

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- 7. The Catholic faith was first established in California through California's first mission, Mission San Diego de Alcala, in 1769. In 1869, The Diocese of Monterey-Los Angeles was formed, which included the San Diego area. In 1922, The Diocese of Monterey-Los Angeles was divided into two portions. The southern portion was named The Diocese of Los Angeles-San Diego.
- On July 11, 1936, The Diocese of San Diego ("Diocese")<sup>1</sup> was canonically established by Pope Pius XI and formed from The Diocese of Los Angeles-San Diego. The Diocese of San Diego included eighty-seven parishes in Imperial, Riverside, San Bernardino and San Diego counties.
- 9. On March 29, 1937, Debtor filed its Articles of Incorporation with the California Secretary of State, through which Debtor became a religious corporation sole. Debtor amended its Articles of Incorporation on January 4, 1967, February 24, 1976, and December 19, 2005.
- 10. Bishop Robert Cardinal McElroy became Bishop in 2015 and is the current Bishop. Robert Cardinal McElroy was appointed to the College of Cardinals in 2022.
- Debtor's religious mission covers Imperial and San Diego Counties, consists of 11. ninety-six (96) parishes and fourteen (14) missions, with approximately 1,400,000 Catholics. In addition, there are thirty-three (33) preschools, forty-two (42) elementary schools, seven (7) high schools and three (3) higher education schools within the Diocese of San Diego (the "Diocese"). There are currently two hundred and four (204) active priests in the Diocese. A true and correct organizational chart for Debtor is attached hereto and incorporated herein as Exhibit A.
- 12. Debtor provides spiritual leadership, charitable programs, education, resources, and other services to the faithful and provides outreach to the poor and marginalized. Debtor does not operate as a for-profit business. Debtor is largely funded by donations, the Annual

<sup>&</sup>lt;sup>1</sup> The term Diocese is used to refer to the geographic territory under the jurisdiction of Debtor.

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Catholic Appeal, an annual tax paid by affiliated parishes of the Diocese, and fees for services provided to other entities.

# Parishes and Other Entities within the Diocese

- Parishes and the Parish Support Corps.
- 13. The parishes within the Diocese have, canonically, been separate entities since formation of the Diocese and Debtor's incorporation. The operation and administration of each parish is governed by the Code of Canon Law, the statutes of the State of California and the law of the United States, and the policies and procedures promulgated by Debtor. The pastor is responsible for the administration of the parish in accordance with Canon Law.
- 14. In order to harmonize the parishes' canonical position with civil law, each parish was incorporated as a corporation sole under California law in 2010. In addition, on October 18, 2012, Debtor executed a Master Irrevocable Trust dated October 18, 2012 (the "Trust"). The 13 Trust states that Debtor holds certain identified real property for each of the respective beneficiaries identified therein. With limited exception, each parish and its associated real 15 property is set forth in the Trust (the "Parish Real Property"). The identified purpose of the Trust 16 is to: (1) to comply with the canon law of the Catholic Church by implementing a civil means to provide the Roman Catholic Bishop of San Diego with the prerogatives he enjoys under canon law with regard to the acts of extraordinary administration over the patrimony of the Roman Catholic Church in the territory of the Diocese of San Diego, (2) to ensure prudent stewardship of the patrimony of the Catholic Church in San Diego, and (3) to provide ease of administration with regard to real property assets dedicated to the ministry of the Catholic Church and to provide support services and management assistance to parish pastors and administrators.
  - 15. On October 1, 2013, the Diocese recorded the Trust in the Official Records of the San Diego County Recorder's Office as Doc. # 2013-0596429. The Initial Trust Property (the Parish Real Property) was never formally transferred to the Trust because of certain tax issues, including concern about whether the Trust would be able to obtain tax exempt status. At the time, the Archdiocese of San Francisco was engaged in a heavily contested dispute with the City of San Francisco about real property transfer taxes.

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- 16. The intent of the Trust was to ensure that non-Debtor property is properly characterized under civil law. It became apparent, in part due to the dispute between The Archdiocese of San Francisco and the City of San Francisco, that the Trust was not the appropriate mechanism to ensure that parish property is adequately characterized.
- 17. As a result, in February and March, 2018 a religious non-profit corporation was created for each parish to hold the parish's real property and provide support to the parish (collectively, the "Parish Support Corps"). Thereafter, the Diocese sought and obtained tax exempt status for the Parish Support Corps from the IRS and the California Franchise Tax Board. After obtaining tax exempt status for the Parish Support Corps, the Parish Real Property was transferred from the Diocese to the applicable Parish Support Corps. These transfers occurred from September 1, 2019 to September 13, 2020.
- 18. The Parish Support Corps and parishes are not governed by Debtor. Instead, they are subject to their own governance under Canon Law and civil law. Debtor provides pastoral and administrative services to the parishes. In 2011, administrative services agreements were 15|| formed between the Debtor and each parish that covered both types of services. Currently, 16 pastoral services continue to be provided by Debtor to parishes directly under those 2011 agreements. In 2018, administrative services to parishes and schools began to be provided by The Roman Catholic Services Corporation for Parishes and Schools of San Diego and Imperial Counties ("RCSC"). A portion of these administrative services provided by the RCSC was then subcontracted to Debtor via an Administrative Services Agreement between Debtor and RCSC. Administrative services provided to parishes by Debtor via RCSC include assistance with (i) obtaining and administering insurance programs, such as general liability, auto liability, special events liability, health and dental insurance, and workers' compensation insurance, (ii) the appointment of priests, (iii) human resource issues such as payroll, benefits, recruiting, training and conflict resolution, (iv) parish temporalities such as legal issues, finance and accounting, and general business operations, and (v) pastoral services. For its services, Debtor invoices RCSC, which pays for these services through its receipt of a portion of the annual tax paid by parishes. In addition, each parish pays Debtor for its portion of costs provided by third parties, such as

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pooled insurance programs.

- ii. CAPS Inc.
- 19. Sometime after its incorporation, Debtor created a deposit and loan fund referred to as the Diocesan Bank. Funds deposited into the Diocesan Bank were separately accounted for by each depositor, such as parish or school.
- 20. In March, 2007, Debtor established the Parishes and Schools Deposit and Loan Trust Funds (the "PSDL Trust") as a separate fund. The PSDL Trust was created to separate itself from the Diocesan Bank and more clearly reflect the intent that funds held in the PSDL Trust belong to the depositors. Subsequently, Debtor, in order to further reconcile civil law with canon law and the intent of Debtor and the parishes, changed the name of the PSDL Trust to the Catholic Account for Parishes and Schools of the Roman Catholic Diocese of San Diego ("CAPS Account").
- 21. On August 16, 2018, in furtherance of the restructuring of CAPS, the San Diego Catholic Account for Parishes and Schools, Incorporated ("CAPS, Inc.") filed its Articles of 15 Incorporation with the California Secretary of State. CAPS, Inc. is managed by a board that consists of six Pastors and three Lay members.
- 22. On September 24, 2019, CAPS, Inc. opened its own, separate bank account under its own tax id number. On September 25, 2019, funds from the segregated account of CAPS with the Diocese were transferred to CAPS, Inc.'s account in the amount of approximately \$19 million. An additional approximately \$14 million was transferred from a segregated money market account on September 29, 2019 into a newly setup money market under CAPS Inc.. Additionally, \$26 million investments which were part of the Diocesan pooled investment fund 23 which were in a segregated account for CAPS were transferred into a separate account setup under CAPS Inc. in December 2019. The remaining balance of approximately \$700,000 in the checking account was left to cover pending checks and withdrawals.
  - 23. Parishes are required to deposit all of their cash in excess of 2 months of operating cash in CAPS, Inc. In January 2020, a new account at Merrill Lynch was setup for CAPS, Inc. to help with the stock donation program and hold the CAPS investment account.

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Funds (approximately \$165,000) from the CAPS Account were transferred into this account to fund the account.

- 24. Debtor has never deposited its own funds into CAPS or CAPS, Inc.
- iii. Catholic Schools in the Diocese
- 25. Within the Diocese of San Diego (the "Diocese"), there are forty-two (42) elementary schools, thirty two (32) preschools, and three (3) high schools.<sup>2</sup> The schools are located on property owned by parishes or separate corporations and are, with some limited exceptions, operated by the parishes or separate entities. For example, Mater Dei High School is owned and operated by Mater Dei Catholic High School of San Diego, Inc. Cathedral Catholic High School is owned and operated by Catholic Secondary Education – Diocese of San Diego, Incorporated. Vincent Memorial is operated by Diocese of San Diego Education and Welfare Corporation.
- 26. With the exception of two schools, the schools are run independently from Debtor. Debtor, through its Department of Schools, facilitates the operation of the schools by providing curriculum, recruiting teachers, and administration assistance.
- 27. Through a Memorandum of Understanding between Debtor, Blessed Sacrament Parish and Our Lady of Sacred Heart Parish dated February 24, 2020, effective July 1, 2019, Debtor took over the operation of the St. Katharine Drexel Academy. Likewise, through a Memorandum of Understanding, Debtor took over the operation of Saint Mary School Escondido effective July 1, 2016.
  - iv. Holy Cross Catholic Cemetery & Mausoleum
- 28. There is one Catholic cemetery within the Diocese, Holy Cross Catholic Cemetery & Mausoleum ("Holy Cross"). Holy Cross is an unincorporated association with its own operations separate from Debtor. Holy Cross operates a cemetery located at 4470 Hilltop Drive, San Diego, CA, which is owned by Debtor.
  - 29. Holy Cross has its own advisory board, financial systems and controls. Holy

<sup>&</sup>lt;sup>2</sup> Sacred Heart Brawley elementary school will be closing after the 2023-2024 school year.

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Cross maintains its own bank account(s). In accordance with California Health & Safety Code § 8726, Holy Cross maintains an account for the perpetual care of the cemetery. The perpetual care fund currently holds \$ \$17,889,789. According to a study of the perpetual care fund commissioned by Holy Cross, the perpetual care fund is underfunded by \$10,981,943.

- 30. Additional property has been purchased in North County that is in process of being developed for use as a cemetery.
  - Catholic Charities Diocese of San Diego ν.
- 31. Catholic Charities Diocese of San Diego ("Catholic Charities") provides social welfare programs and advocates for the poor and vulnerable within the Diocese through immigration, refugee, community and homeless services. Catholic Charities is a separate, incorporated entity that maintains its own books and records. Catholic Charities is governed by a board, of which I am a member/director.
  - vi. Catholic Community Foundation of San Diego (the "Foundation")
- 32. The Foundation is an independent, 501(c)(3) corporation established in 2015 to 15 assist the faithful in San Diego and Imperial Counties to give to charitable causes. It is governed 16 by a Board of Trustees. Debtor's leadership does not sit on the board of trustees overseeing the operations of the Foundation.
  - 33. The Foundation maintains its own books and records. The Foundation's accounts hold charitable donations to Debtor, the parishes and others.

#### C. **The Annual Catholic Appeal**

- 34. Each year, Debtor issues a call to its faithful to contribute to the Annual Catholic Appeal ("ACA") to raise funding for Debtor's pastoral activities. In December, each parish 23|| within the Diocese is given a target amount to raise during the ACA, which starts in February of the following year. Parishioners may submit their contributions online, via mail or via collections during Mass. Amounts raised during the ACA are attributed to individual parishes; any amounts in excess of the specified target amount to raise are returned later by Debtor to the contributing parish.
  - 35. Current solicitation materials prepared by Debtor and offered to parishioners

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during the ACA list the following categories of use for the ACA Funds (collectively, the "ACA Designated Uses"), as set forth in the ACA solicitation materials:

- Catholic Schools. Catholic schools provide a quality education in a nurturing, safe environment that treats each student as an individual. The schools continuously invest in staff development to be able to deliver innovative instructions and leadership.
- <u>Faith Formation</u>. In synodal consultations throughout the Diocese, thousands of Catholics expressed that celebrating the sacraments is a priority for them, as is participating in their parish community. Diocesan pastoral offices provide a wide range of bilingual trainings, conferences and workshops to support those priorities, working with our partners in our parishes, schools and ministries.
- Catholic Charities. Catholic Charities works to meet the basic needs of our region's most vulnerable. In 2023, the agency opened a day shelter in El Centro, providing services for the homeless struggling to survive the extreme conditions in the Imperial Valley. And the agency continued to help asylum-seekers legally in the U.S., mainly women and children, to reach their final destination.
- <u>Clergy Formation and Support</u>. The ACA supports priestly formation, enabling our seminarians to prepare for their vocation. The ACA funds the pastoral care of retired priests, who have dedicated their lives to ministering to our community members. And these funds support the preparation and ongoing formation of permanent deacons. Currently, we have 13 seminarians and 52 retired priests in our diocese.
- 36. ACA Funds are held in a restricted, segregated account that holds only ACA Funds. Accounting entries are maintained that carefully track amounts received from a particular parish, and any such funds in excess of that parish's ACA goal are remitted by Debtor to the 26 parish for use by the parish.
  - 37. The ACA goal for 2024 is \$3,500,000.

#### D. Safe in Our Diocese

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- 38. The prevention of the sexual abuse of minors and vulnerable adults is of utmost importance to Debtor. In 2002, the United States Conference of Catholic Bishops (the "USCCB") established the Charter for the Protection of Children and Young People in June 2002 (the "Charter") to address allegations of abuse of minors by clergy. The Charter includes guidelines for reconciliation, healing, accountability, and prevention of future acts of abuse. The Charter was revised in 2005, 2011, and 2018.
- 39. Among other things, the Charter required Debtor to establish a review board made up largely by lay persons not in the employ of Debtor to confidentially review current and past allegations of abuse and advise the Diocese regarding the board's findings.
- 40. In response, Debtor implemented programs intended to prevent abuse, furnish services and compensation to survivors of past abuse, and provide transparency regarding past allegations of abuse. These programs have resulted in a dramatic drop in new allegations of abuse. Any abuse is unacceptable and prevention and accountability is a priority.
- 41. Debtor requires all priests, deacons, Diocesan and parish staff, school personnel 15|| and volunteers that interact or may interact with minors to undergo a criminal background check and complete the Safe Environment Training program. Clergy and school personnel are monitored constantly using LiveScan. All other staff and volunteers are background-screened using Selection.com, whose records are updated quarterly.
  - 42. The Safe Environment Training program is provided by Catholic Mutual Group and consists of video segments, questions and a review of Diocesan policies on topics ranging from grooming of potential victims, signs of sexual abuse, boundaries, and reporting of abuse. In addition, Debtor requires all seminarians to undergo psychological tests that are reviewed by an independent board prior to their formation. The Safe Environment Training program must be done every five years.
  - 43. All reports of criminal activity are thoroughly investigated and any allegations of abuse require the immediate suspension of the individual involved.
  - 44. In addition, all clergy and adults engaging with minors must agree to abide by the "Code of Ethical Standards for Church Ministers" and the "Electronic Communications with

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Minors Policy," both of which require and mandate conduct for ministry with minors and communications with minors.

- 45. Debtor also enacted a Policy on Sexual Misconduct, which makes it clear that sexual misconduct is unacceptable and requires the reporting to the appropriate authority or law enforcement agency of any allegation of abuse.
- 46. As required by the Charter, Debtor established a review board (the "Review Board") to review Debtor's policies and programs for addressing abuse by Diocese personnel, to review procedures and performance of personnel implementing policies and programs, to advise the bishop regarding allegations of abuse, to advise Debtor regarding responses required in connection with abuse allegations, and to advise the bishop regarding someone's suitability for ministry. The current review board consists of two retired deputy district attorneys, a social 12 worker, a pastor, a retired US DOJ law enforcement officer, a director of student services from Franciscan School of Theology and a retired judge.
- 47. The independent review board reviewed past allegations of abuse and compiled a 15 list of priests and other clergy that are credibly accused. The list is readily available to the public on Debtor's website.
  - 48. Debtor further conducts a review of each parish and school to ensure compliance with policies and procedures regarding the prevention of abuse.
- Notably, the Voice of the Faithful report Measuring and Ranking Diocesan Safe 49. Environment Programs: 2023 (the "Voice of the Faithful Report"), which independently examines the adherence of dioceses in the United States to child protection standards, gave 22 Debtor a score of 87 out of 100 for its Safe in the Diocese programs and policies. Debtor is the 23 twelfth highest rated diocese in the United States.

### Ε. **Abuse Assistance Programs**

50. Debtor established programs and procedures to assist survivors of abuse with the 26 process of healing. Debtor provides counseling and support through its Victim Assistance Coordinator. The Victim Assistance Coordinator works with survivors and their families to provide ongoing therapy and other programs that promote emotional and spiritual healing.

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51. Debtor currently does not have anyone participating in any of its abuse assistance programs.

#### F. **Events Leading to Debtor's Bankruptcy Filing**

- 52. In 2003, a one-year window was opened in California for filing of childhood sexual abuse claims. Debtor filed a previous chapter 11 bankruptcy on February 27, 2007. Through a mediation, a global resolution was reached in November of 2007, in which Debtor, Catholic Mutual and other religious entities paid \$198,125,000 in settlement of all abuse claims. After reaching the settlement, Debtor moved to dismiss its bankruptcy. Debtor's prior case was dismissed on November 16, 2007.
- 53. Since its 2007 bankruptcy case, there has been substantial change. As noted above, the parishes are separately incorporated, real property was transferred to reconcile Canon Law, civil law, and the intent of Debtor and the parishes, and substantial revisions to Debtor's 13 practices and procedures for finances and account have been made. Parish Service Agreement have been prepared and entered into to memorialize the relationship between Debtor and the 15 parishes.
  - 54. In October 2019, Governor Newsom signed California Assembly Bill No. 218, which lifted the statute of limitations for individuals to file civil lawsuits for childhood sexual abuse. The bill allowed abuse survivors whose claim was time barred to bring claims against individuals and entities, including Debtor and the parishes, through and including December 31, 2022. During that time, four hundred and fifty-seven (457) plaintiffs asserted claims against Debtor and others arising from past allegations of abuse. The claims were consolidated into a consolidated proceeding in San Diego Superior Court (the "State Court").
  - 55. In the consolidated proceeding, the parties commenced mediation with retired Superior Court Judge William Pate. The Zalkin Law Firm, P.C. ("Zalkin") participated in the mediation as liaison counsel for the abuse claimants.
  - 56. Debtor, Debtor's insurer, Catholic Mutual Group, and Zalkin engaged in substantive and meaningful discussions and negotiations over the course of several months during the mediation with Judge Pate in an effort to reach a global resolution of all claims prior

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to Debtor's bankruptcy case. Although the mediation did not result in a global resolution prior to the filing of this chapter 11 case, Debtor believes that substantial progress was made and hopes that the cooperative nature of those discussions continues into Debtor's bankruptcy case. I am aware that it is the intention of all parties to promptly continue mediation in the context of the bankruptcy case. With the benefit of the pre-bankruptcy mediation and continuing mediation in the bankruptcy court, Debtor believes that it is well prepared to expeditiously reach resolution of all claims and propose and confirm its plan of reorganization.

#### G. **Debtor's Chapter 11 Case**

- 57. Debtor does not have the financial means to address each of these claims outside of the bankruptcy process. The settlement of claims in 2007 substantially depleted Debtor's assets. Debtor filed this bankruptcy case in an effort to resolve the approximately four hundred and fifty (450) abuse claims asserted now against Debtor.
- 58. The Diocese faces two compelling moral claims in approaching the settlement process: the need for just compensation for victims of sexual abuse and the need to continue the Church's mission of education, pastoral service and outreach to the poor and the marginalized. Debtor believes that its bankruptcy will provide a framework to justly compensate and achieve equity among the differing claims of survivors, establish a fund to provide compensation to victims of abuse who come forward in the future, provide Debtor with a definite conclusion to its legal liability for past abuse claims, and allow Debtor to continue its mission of education, pastoral service and outreach to the poor and marginalized.

I declare under penalty of perjury that the foregoing is true and correct. Executed on June 17, 2024 in San Diego, California.

Rodrigo Valdivia

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