

Standing Committee on Administration & Finance

November 13, 2006

Chicago, IL

Minutes of the Meeting

Present from the committee: Jon Bruno, Victoria Garvey, Del Glover, Tom Gossen, Betty Jo Harris, Josephine Hicks, Gay Jennings, Dennis Stark; Kurt Barnes, Pat Mordecai; from the staff Suzanne Baillie, Nancy Caparulo, Tony Jewiss, Sandy Webb; Pan Adams, Chair of PB&F; David Beers, the Presiding Bishop's Chancellor; from the House of Deputies, Brian Prior and Byron Rushing, at the invitation of Bonnie Anderson, President of the House of Deputies.

The chair, Josephine Hicks, brought the meeting to order at about 10:50 AM with prayer and asked everyone for a brief self-introduction and answer to, "Why are you excited to be working on this committee?" This led to a short discussion about the workings of committees generally. Josephine encouraged the membership never to speak from assumed knowledge, to always be sure everyone is on the same page.

The agenda was reviewed and adjustments made to accommodate resolutions needing to be placed on the consent calendar later in the afternoon. All were asked to review AF-01, AF-02, AF03, AF-05 and AF-06 for that purpose.

Josephine provided history of the Vice Chairperson position for A&F and decision was made to elect this position the following day.

Review was made of the Minutes from January's meeting in Philadelphia; it was moved, seconded to approve them as presented. The motion carried but with abstentions from all new members: Bruno, Garvey, Harris, Stark, Jennings.

The proposed new Agreement between the Domestic & Foreign Missionary Society (DFMS) and Episcopal Relief and Development (ERD) was presented with David Beers and Suzanne Baillie on hand to discuss the issue. DBB presented the background, reconstituting ERD (from The Presiding Bishop's Fund for World Relief) as a separate 501(c)(3) organization, setting it apart so that it could develop a broader base of contributions. DFMS did not set the organization free. While it is a separate not-for-profit (NFP), the board members must still be approved by the Executive Council (EC). ERD is housed at The Episcopal Church Center (815) and provided space and a number of administrative resources. Originally a memorandum of understanding, ratified by EC, outlined the relationship between the DFMS and ERD and the physical arrangement at 815. Time has come to renegotiate the arrangement into a more formal contract to reflect the growth in both size and complexity. ERD now has two major foci, disaster relief and development, with EC still having oversight. DFMS has turned over a number of restricted funds to them and the new agreement provides that ERD will accept the designation on the funds and report annually that they have been appropriately carried out. The intent of the donors is still in force and monitored by the board.

Suzanne presented a comparison between the old and new agreements with five major changes: 1) employees will be employed by ERD itself rather than seconded from DFMS to ERD; 2) ERD is taking over responsibility for daily administration of contributions, which can be a particular burden for the Treasurer and Controller departments when there are disasters that prompt volume contributions; 3) ERD will secure its own insurance, having been covered under the DFMS policy until now; 4) if ERD's reliance on contributed services (HR, TRO, MIS, etc) become burdensome, ERD will pay for the additional services; 5) the term of the agreement is three years rather than one, which ERD requested. Both ERD and DFMS are amenable to a renegotiation of the agreement as necessity demands.

A review of the services DFMS provides illustrated that DFMS costs will not increase and, in some instances, will decrease. Rob Radke, President of ERD, joined the meeting but was excused to obviate awkwardness in the discussion. DFMS provides to ERD office space and building maintenance services, electricity; basic office services (phone, photocopy, fax, shipping and receiving); Human Resources has traditionally assisted with hiring and terminations. Discussion focused on the meaning of "too demanding" and who would make that call. Kurt Barnes explained that excess demand would be identified in comparison to other departments within the organization that are provided similar services. Kurt also explained the estimate of contributed services that is found in the budget book. He said that in the prior triennium EC formed a task force to evaluate whether or not rent should be charged to ERD and after careful examination recommended that none be charged. He noted that a current market rent for that space today might be close to \$2 million for ERD and all other agencies. We would expect some of the expenses (extra postage) will disappear.

Questions were asked regarding the thinking behind the changes. ERD pays for its own cell phones and Blackberries and, in the church center, ERD pays for the computers for each person. ERD is expanding and under the new agreement will control their employees (and training). Kurt observed that ERD will continue to be carried on the consolidated returns and accounting. They are to adopt financial policies consistent with those of the DFMS. Should they adopt some that are not consistent and would increase our audit costs, they will be responsible to cover those cost increases. If there is a material breach, the agreement can be terminated but the DFMS is still potentially liable for their activities. Additional discussion about the relationship aspects of the agreement yielded a request that there be a report provided that will show the cost comparison before and after the new agreement. There was concern expressed about ways the new agreement might impact ERD and its administrative expenses. At present, the low overhead allows a greater percentage of dollars contributed to go to programs.

Rob Radke was invited to rejoin the meeting. He talked about entering into a process over the summer of re-negotiation to enhance the partnership between DFMS and ERD, the natural agency of the Church to carry out international work. There was no desire to disturb the bond of affection between the two entities. The ERD Board feels good about the terms, since they reflect the realities of the working relationship between ERD and DFMS, and authorized Rob Radtke to sign the agreement. He noted that ERD has gone from 6 to 30 employees in about 18 months. In 2004 the books reflected 20,000 donors and there are now 90,000 donors. Contributions have increased enormously and ERD wants to take on their own responsibilities. Again, the question was raised about how the changes in the agreement will affect the administrative costs and,

despite the anticipation that increases will not be significant, request was made again for a cost comparison.

Additional discussion focused on Suzanne's availability to ERD and encouraging ERD to fully develop their own legal expertise from their own outside counsel.

Josephine recessed the session at noon for Eucharist and reconvened the next with an appeal for brevity in order to honor meeting time constraints. While waiting for Suzanne and David to join the session, it was **moved, seconded and carried without opposition** to place AF-01, 02, 03, 05 and 06 on the consent calendar.

Discussion returned to the ERD-DFMS relationship. ERD asked for a 1-year notification period of an intention to sever the agreement because they were concerned that DFMS would ask them to move out of the building and it would take time to plan such a move. AF-08 (approve the ERD/DFMS agreement) was **moved** - keeping ERD as additional insured until they have secured their own insurance - **seconded as presented and carried without opposition**. ERD will not be part of our D&O policy.

Josephine invited suggestions for EC meetings cost containment to stay within the 25% triennial budget cut. These included:

- meet by teleconferencing (if it is allowable by canon) for the 3rd meeting of 2007
- don't meet by teleconference - the role of EC between Conventions too critical to do the work remotely
- Lutherans meet at their own headquarters and stay at the hotel EC is meeting in – we might combine buying power in Chicago and use their conference center and this hotel
- meet in a hub city (Memphis meeting place is a great location)
- meet for 4 days and not in a different place every time
- meet for 3 days, start earlier, work longer
- find the place where the hub city is cheapest and lock in a hotel at that location
- Adjust the worship/work schedules to expand the number of work hours
- Have all groups prioritize what they are working on

What was the thinking behind cutting the EC budget at PB&F? Pan Adams, PB&F Chair, responded. It was believed that EC needed to model for the other CCABs that were cut. Pat added that there must be a better way for CCABs to meet more efficiently. Pan explained further that two significant additions to the budget made a huge impact: 1) the desire that a 0.7% line item be added for the MDGs; 2) a very significant expense for Information Technology (IT) upgrades to support all GC needs (meetings, GC planning, housing, registration) \$500,000. EC needs to model different ways of working.

More suggestions came:

- piggybacking on other meetings
- eliminate a hotel night - keep 4 meeting days but eliminate a night
- work more by conference call and CCAB listservs

Implicit in the discussion was that A&F would abide by this new budget.

Moved and seconded to go to a 3-day format. **Motion carried** with 6 aye, 3 nay and no abstentions.

Moved and seconded to reduce the number of different locations from nine to three over the triennium. **Motion failed** with 3 aye and 6 nay.

Moved and seconded to identify a single location to meet each time. **Motion failed** with 3 aye, 2 nay and 3 abstentions.

No agreement was reached about location but consensus was that there should be flexibility to use hotel or conference center. Josephine recessed the session at 3:45 PM.

On Tuesday, November 14, she reconvened the meeting at 9:15 AM with Mark Duffy, Archivist, and Byron Rushing, from the President of the House of Deputies Council of Advice, present. Margareth Crosnier de Bellaistre, Director of Investment Management and Banking, joined the meeting and Vicky opened with prayer.

Committee norms were briefly reviewed:

- Confidentiality is generally assumed since deliberations have to be honest and open and respected; the press (ours and outside) is occasionally excused
- In deliberation listen respectfully; raise hands to speak
- Need to be mindful of stewardship of time because of A&F's workload
- But keep Josephine from getting to the bottom line too quickly

The agenda was reviewed and rearranged. Byron Rushing said Bonnie Anderson wished to talk to A&F. A renovation update with AV will begin the 2PM session.

Finance

Kurt reviewed how the budget process was conducted with the staff. Assumptions were that there would be no income increase available. The process required making adjustments to reach a balanced budget, after requests totaled \$4 million more than funds available. The resulting budget was presented to A&F, who entered their own process with staff members adding to the pool of information. In January the budget was presented to EC, approved and handed to PB&F and all deputies for work at GC. PB&F, working in sections relating to sections of the budget, amended it after hearings on priorities, spending and funding. A change made in 2006 required any resolution with funding implications to be presented to PB&F on the 3rd legislative day so it could be considered for funding. Historically, some resolutions have not been concurred until after the budget went to print.

Kurt continued that each year of the triennium the budget is reviewed and modified as needed. The Treasurer's Office staff (TRO) reviews the upcoming budget specific to projected available income. An annual 2.5% or 3% income growth rate is assumed and estimates have been accurate for the past several years.

Each year, spending is in line with the budget overall, with a few exceptions. In the past, spending is under budget until the 28th of December, at which time every department rushes in with grant requests and invoices to be paid. The TRO asks that bills are in the controller's office by December 15th. If they are not, departments are asked for an idea of what will need to be paid

before the year end. Alpha closes the books on January 31st. Income has been consistently in line with projections. A review is made in February of late diocesan payments that are likely to be received and those are accrued as a receivable. In 2005 an un-collectible \$1.6 million account was reduced to \$300K since it was not necessary to retain such a large reserve for un-collectibles on the balance sheet.

Kurt explained various elements of the first nine months of 2006 involving the House of Bishops, General Board of Examining Chaplains, Anglican and Global Relations, Media Services and Title IV line items. He pointed out the overage for EC occasioned by the gathering in Nottingham and response to the Windsor Report.

Opinion was expressed that it would be great to build the budget based on the priorities instead of the way it has been done in the past, which was followed by the suggestion that A&F think about how the budget process might be done differently. By the time A&F receives the budget, there is no opportunity for EC to make meaningful input. Discussion followed, covering topics such as:

- Boards set policy, CEOs propose and present to the board, which then debates the proposal
- A&F doesn't need to be micromanaging line items in the budget
- staff needs to receive much earlier policy direction and the big picture of what the budget should look like
- maybe a task force with members from every standing committee would be helpful
- everything should be ready to go before the January meeting prior to GC
- support for a task force that could look at what prevents the process from happening the way we think we'd like it done
- staff has tried to use the priorities but they are too broad
- there needs to be a retooling for a major overhaul of the process
- CCABs need to have input earlier
- important to remember that we are not running the church like a business but we want to run it more businesslike
- we need to evaluate what we have done . . . do the programs of the church do what we said they would or
- could we suggest the notion of program accountability?
- tell the people who give us money about the good things we are doing
- Mission roundtable, a group that Jim Lemler assembles, would benefit from a finance person attending periodically
- just as EC requires reports from grants recipients, a similar report card should be developed for the departments – metrics to assess the effectiveness
- spending must be income based – know what the income is before the budget is set
- only give money based on justification for the spending

Finally, it was asked if A&F should put forth a resolution about having a budget task force, outlining what representatives should be on it. It was agreed that there should be a discussion at lunch with the other Chairs to share the idea and talk about the metrics of accountability and accomplishment. Josephine will talk with committee chairs and presiding officers.

Kurt concluded his overview by saying that the endowment is doing well and income from it is in line with that budgeted. The dividend looks secure.

Pan Adams, Chair of the Joint Standing Committee on Program, Budget & Finance (PB&F) and present at A&F's invitation, talked about the interplay between A&F and PB&F. The budget process has benefited from years of collaboration and communication between these committees. Canonically, PB&F presents the budget to GC. In years past, the entire process happened at GC. Pan cited the important work of the staff. She had heard that PB&F is useless at GC because "staff has already set the budget" and described her own experience about what really happens. There was concern expressed that deputies should have a voice. In June 2006 PB&F added a hearing on priorities at GC and 75 people came. Out of that hearing came the priorities for the budget and the work at GC. PB&F also held hearings on funding and spending. Pan suggested that if any A&F members ever get a chance to sit in on the spending hearings, they should do so. PB&F works on the budget after the hearings and offers it to the GC, who can accept or modify it. After GC PB&F takes what was learned and writes a 'management letter' to A&F giving recommendations for the triennium. Communication, collaboration and cooperation were the big reminders in the recent management letter. Be as transparent as possible.

Pan thanked the finance office for prompt statements and for making the financials available on the Church's web site. She advocated for the need to keep educating and not assuming anyone knows anything. It is important to ask questions.

Review of the Management Letter

Pan continued with a review of how the budget/mission priorities were developed over several triennia. In this triennium EC decided to use the priorities from the previous triennium with a small addition. After testimony on the first day of GC, PB&F moved Justice and Peace to #1 and added "children" to the youth priority based on what was heard at the hearings. She recapped how, in the past, resolutions with funding implications were passed at GC after the budget had been approved, leaving EC to wrestle with funding decisions. A change made to the Joint Rules of Order now states that resolutions with funding implications passed after the budget passes will be unfunded. Any resolutions approved by GC calling for money or implied funding won't have any special claim coming forward to EC. There is a great need to communicate with the CCABs about communicating with the church center since there was a major disconnect about budget requests they believed were funded. PB&F asked that this be dealt with going forward.

Many faithful dioceses paying 21% feel – appropriately – they are carrying the weight of the church program. PB&F looked at adjusting the asking but after thorough discussion kept it at 21%. Pan observed that the church is trying to do things differently and more effectively to be better stewards of time and money. She went on to say that, based on recommendations of the Investment Committee (IC) the draw on trust funds was kept at 5%. There was great concern that the decision to increase the draw to 5.5% in the last triennium resulted in a decrease in capital of \$3 million. She also explained that in drawing a financial question with the Episcopal Church Building Fund (ECBF) to a close, \$90,000 less income per year is available. Approval was given for an office to develop major gifts. The work of the task force has moved things along, the office is funded and PB&F hopes the work of that office will move quickly now that

the new PB is in place. It is believed that the office will not work unless the PB is involved directly with major appeals.

The budgetary funding task force proposed by Stacy Sauls got off the ground mid way through the triennium. Their task is to look at patterns, realities and ways in which we can deal with funding the budget; to come up with new forms of regular funding on a regular basis for the mission of the church. Jim Waggoner Chairs that Committee, two members of PB&F are on it and it is considered necessary that an A&F member be included. Josephine will recommend to the presiding officers who will serve on that group from A&F. The committee is working primarily by teleconference and e-mail and there is great hope for major recommendations at the next GC.

Because of time constraints at GC, the Archives relocation and General Ordination Exam fees were not addressed. The MIS request that was aired for the first time at GC was a huge amount of money. PB&F felt it was important to have the infrastructure necessary to carry through with the charge to CCABs and dioceses to be more efficient.

Ultimately, the Budget balanced because the Church Center staff made a commitment to save \$875,000 by attrition and non-hiring. PB&F was concerned that the 2% annual cost of living increases for Church Center employees are below the inflation rate and recommended that be addressed. Pan cited miscommunications with partnership and covenant groups as a big difficulty. Not everyone works on American time and there needs to be sensitivity about cultural time. PB&F asks that communication with covenant and partnership groups make clear the accountabilities on both sides of those partnerships.

The MDGs became a major issue in the budget process at GC. Kurt worked hard on the front end to show that the proposed budget already addressed the MDGs on an 8% level. The hearings helped generate a designated line of 0.7% specific to the MDGs. ERD, Jubilee and EC are to work together to spend those funds. There was a resounding request from the Church that our budget focus not only overseas but on how Jubilee works here at home.

Pan wrapped up her review by touching on

- ready availability of financial information for EC and CCABs
- accountability issues around the GBEC budget
- omission of a line for the GOE examiners board meeting
- new committee on Lifelong Christian Education and Formation has been funded (it was asked that that group be in close touch with Thom Chu's department to determine what materials are already available
- Standing Committee on Health was created in 2003 but not funded; it is now funded.

The decision about spending the MDG line item is to be a collaborative process. PB&F put that line in the budget and the money had to come from somewhere. The recommendation that \$600k of administrative funding for ERD be eliminated was made with the understanding that ERD's work responds to the MDGs. There was a desire to increase Jubilee funding but the money wasn't there. There is lively conversation about whether or not MDGs should support domestic mission. The collaborative group will wrestle with that.

Pan explained the use(s) of budgetary surplus. If there is a surplus, funds will first be used to repay the endowment; 25% of the remaining surplus is to go to new mission initiatives that come to EC during the triennium. It is recommended that a committee comprised of 2 members from each EC committee recommend to EC how to spend a surplus, just as a task force dealt with the issue of extra-budgetary requests resulting in the change to the Joint Rules.

The 2007-2009 Budget

Kurt went over the modifications to the triennium budget to address certain items not funded by GC. These changes will be considered in March for the 2007 budget:

- Title IV task force
- SC on Health will have to cover the costs incurred by a very physically challenged committee member with costly special needs
- Special Representatives to CCABs from the President of the House of Deputies
- EC liaisons to CCABs mandated by GC change in the canons
- Media services for the PB's installation should be funded through an annual \$12K reserve to provide for the next one.
- Historically there was never funding set aside for the nominating committee or the installation of a new PB. Now we accrue those funds.
- A 3% annual salary increase instead of 2% for staff would add \$533,215 in spending for the triennium.

Kurt allowed as how the finance office is doing pro-active reasonable planning. When it was learned that there is no contingency line in the budget, there was discussion about that.

Update on Guam

Kurt provided background on the property and mission issues on Guam, thoroughly documented on A&F minutes throughout the 2004-2006 triennium. He allowed as how Stacy Sauls now serves on the Guam task force. The work is ongoing to identify alternatives for recovering some of the purchase price of the St. John's soccer field property. At some point a decision will have to be made about who should have jurisdiction over Guam. The DFMS challenged the school to obtain a loan to repay at least \$1 million. Part of the Church's mission might be to accept repayment in part by awarding scholarships to needy Episcopalian students for their schooling. Part of the discussion on this issues was Jon's suggestion that the Province VIII bishops be approached about taking Guam on as a shared ministry of the province.

Archives

Mark Duffy, Archivist of the Episcopal Church, explained that the Archives is part of the DFMS and is an integral part of the administrative structure of the Church. Large part of the Archives' work is supporting the ongoing tasks involved with Title IV and research for CCABs. They also perform educational and communication roles with dioceses, mission and the program departments. The Archives Board oversees the professional responsibilities of the institution, which owns no assets aside from the collection, valued somewhere between \$3.5 and \$5 million. The immediate issue is the need to locate a new home before December 2009, when the Archives must move out of the Seminary of the Southwest. A Strategy Committee of EC and some members of the Archives Board have engaged in a site search, explored various fundraising

options and developed a case statement. Early in December it is hoped that a decision will be made among 2-3 possible locations that include Episcopal Divinity School in Cambridge, MA, a site adjacent to Trinity Church in Indianapolis and a third in downtown Austin next to St. David's Church. Mark's concerns are 1) the limitations and realities of each site; 2) a need to focus on what the Archives needs to do and where that needs to happen; 3) how to respond to the generous offers that have been made; 4) assistance for developing a fund-raising plan; 5) the need for financial guidance from the DFMS; 6) a three-year time crunch in which to get it all done. In all three sites the costs are going to be about the same, \$9-\$11 million. Gay said that as a member of the EDS Board, she might have to leave the conversation. Mark continued that the Strategy Committee is reluctant to make any decisions without hearing from the church's leadership. There needs to be an answer to the question, "what is the purpose of the Archives?" After a decision about the move is made and finances in place, the next goal will be that of building endowment to support the Archives thereafter.

Josephine recessed the meeting at 11:50 so that everyone could attend Eucharist at the Lutheran chapel. She reconvened the session at about 2 PM. Tom Gossen previewed his presentation about the 815 renovation for the next day.

Pat explained the budget overrun of \$160K reflects change orders, currently in progress, of \$215K. A few days ago she learned about an unbilled \$300K. Pat discussed how these things are being addressed. Much of the cost overruns was caused by errors and omissions of the mechanical engineers, over which there is potential litigation in process that may result in defraying some of these costs.

Bonnie Anderson, President of the House of Deputies, joined the meeting. She requested that A&F look at the budget to ascertain whether the line item for her work could be increased. The budget is insufficient for her to do her work in 2007. She noted that she inherited a significant deficit travel budget. Question was raised about why the needs weren't anticipated and discussion yielded the information that certain expenses couldn't be accurately anticipated. The issue will be addressed further in March 2007.

Josephine changed the focus of the discussion to A003, A042 and A110, General Convention resolutions that were referred to EC Committees. A110 went to all committees with A&F to take the lead. A144 and A107 had a final status of no action. It was agreed that there is nothing that can be done about A144 other than referring it back to the Archives Board. It's a canonical change. It was **moved, seconded and carried** unanimously to take no action on A144.

Jim Lemler, Director of Mission at the Church Center, joined the meeting and introduced himself. He gave an overview of the scope of his work. He was present to address the mission funding work that his department has been doing. He described the Mission Funding Task Force that was assembled to look at major funds development for mission. The last such church-wide initiative was Venture in Mission (VIM), many years ago. How to fund mission was the seminal question. Every other denomination can approach foundations for funding except the Episcopal Church. The Mission Strategy group did its work and made recommendations in areas of congregations, communications, advertising that we need to do as The Church and global mission (Fund for Future Leaders). Mission Funding reported to EC. The budget capacity to

raise funds was extremely limited. In January 2006 a decision was made to focus initially on collaborating with the post-Katrina fund-raising initiatives and work to identify funds for Darkness to Day. \$100K per year is provided to the Diocese of Louisiana for a very renewed approach to clergy leadership for new parish development.

It is now time to design what the mission funding/development effort is going to look like over the next triennium. In order to accomplish prospect preparation, a very part time consultant was hired in 2006 for about \$8,000 year plus considerable donated time. Work in cultivation and prospect identification is ongoing and congregations are being identified where philanthropists are members. One philanthropist is interested in a \$2 million proposal. There is now \$300K in the budget per year to do this work in the next triennium. Next steps will be the establishing a framework for a Development Director to do the specific job of building on donors who are already generous in their own parishes and refining an approach to interest them in contributing more widely. The Mission Department needs a person, a plan and a small group to help. Tom and Del will be most helpful on the small group.

Tom said that the task force drafted a charter in the last triennium that EC adopted, so the infrastructure is in place and platforms to build from. The budget process at GC allowed the Development Director position to begin to be realized. Del added that he is encouraged by the progress, observing that people of means want to be engaged with something where they have passion. The mission emphasis, the new vision that is emerging and beginning with the new PB create a focus for requests for serious contributions, which will engage the PB without wasting her time. There are a number of areas for which funds are sought.

To conclude A&F work, AF- 04 was **moved, seconded and carried** as presented.

AF-07 (Travel Guidelines) was **moved, seconded and carried** unanimously to adopt as proposed.

AF-09 (dissolve TF 903) was **moved, seconded, carried** without opposition.

Josephine raised the matter of the committee VP election. Jon Bruno was **nominated** and seconded. Motion was made to close nominations. Ayes carried the motion to close nominations with none opposed. Del Glover declined nomination. **It was moved to accept the nomination by acclamation. Seconded and carried.**

A brief discussion of agenda management was held to look at ways to work better as a committee and how phone calls might be handled. Using a diamond shaped table in future meeting rooms was considered a possibility. For future agenda, "off the record" might be called "brainstorming" so as not to create a wrong and unattractive impression.

Josephine adjourned the meeting with thanks at a bit before 5:30 PM.

Respectfully submitted,

Nancy Caparulo
Staff support to the committee