

## **The Joint Standing Committee on Finances for Mission**

**Linthicum Heights, Maryland**

**May 21, 2017**

### **Minutes of the Meeting**

Attending the meeting: Tess Judge, Nancy Koonce, Holli Powell, David Quittmeyer (PB&F for PHOD), Alexizendria Link, Mally Lloyd, Patrick Haizel (GCO), Patty Downing (PB&F), Barbara Miles (PB&F), Kurt Barnes, Joanne Brockway, and Nancy Caparulo. Regrets: Clifton Daniels. Delayed arrival: John Floberg.

Tess called the meeting to order at 6:56 PM with prayer. Self-introductions were made around the room and Patrick was thanked for meeting arrangements.

Mally reviewed the agenda and the goal for the meeting: FFM and PB&F are to become experts in specific areas of the budget, learn what work is covered in the treasurer's office, and become familiar with the ancillary financial pieces that are not included in the budget. The group will divide to look at different segments of the budget and formulate questions whose answers will facilitate the ongoing work.

Kurt presented the Finance 101 Power Point overview. He explained the \$1.1 million draw from the endowment that was authorized for growth of the Development Office and the \$2.8 million draw for Evangelism, making the total draw against trust fund income 5.7% for this triennium. The draw across the next triennium is budgeted to decrease gradually. Government funds for refugee resettlement, recently a significant addition to the budget, may undergo a major change. No more than 50,000 refugees annually are forecast to be resettled country-wide going forward cutting by 50% the number of refugees the EMM office would anticipate handling. The church does not pay income tax on the rental income at 815 Second Avenue. The Lyceum Kennedy School pays its own taxes. The loan taken in 2014 to refurbish the building is now an uncollateralized loan. It was never a mortgage.

Kurt reviewed current staffing with highlights, as follows:

- Some EMM (Episcopal Migration Ministries) staff members are serving in two capacities
- Essentially staff is filled with the exception of perhaps two spots.
- The Development Office is fully staffed.
- CPG (Church Pension Group) and DFMS are discussing sharing a staff member for parochial and diocesan reports. Kurt and CPF (Church Pension Fund) are looking into sharing a staff member for CCSR (Committee on Corporate Social Responsibility).
- St. John's School, Guam, and Episcopal Relief and Development (ERD) are included in the consolidated financial report. Executive Council (EC) approves the board of ERD. A consolidated balance sheet shows common control.
- 5-year trust fund performance historically has averaged 8.1% and has supported the 5% dividend draw. The importance of having a good explanation of this in the budget was noted. Dividend draws are based on the 5-year rolling average.

At the bottom of the monthly reports the money received for refugee resettling (6,000 last year) is noted. DFMS works with 30 affiliates and two of its own EMM programs Wichita and Miami (soon closing).

As a requirement of refugee resettlement, the DFMS is charged with collecting the \$1,100 loan that each refugee gets. DFMS collects the loan payments for which activity 25% is retained. The loan program costs now reside in *Mission Beyond the Church*. The collection income is projected to be \$2.6 million in the current triennium. The loan collectors work over a 7-year collection period. Loans are not on the books for at least six months after a family arrives.

The question was asked concerning the use of reserves. Some was used for loans to dioceses. Canada received a grant of \$250,000 in one triennium. Other entities received various grants over time. Kurt will footnote these items more fully.

#### WAIVERS

Kurt pointed out that if full waivers were given to every diocese not giving close to the 15% Assessment, it would mean a \$7 million reduction in revenue. Waivers for an entire assessment will not be provided. Province IX dioceses will definitely ask for waivers.

The EJLC (Economic Justice Loan Committee) loans are investment vehicles to community development agencies at generally below-market interest rates.

The Austin Project (Archives) is off the budget as it is not an operation of the church.

Discussion covered the management of the trust funds along with a look at active vs passive management. Kurt introduced socially responsible index funds as likely investments that could give the DFMS the social screens that the church wants to apply.

Kurt posted Nancy Koonce's sub-committee report on grants to the Extranet Page. Tess recommended that Kurt's type of report be used in orienting new EC and committee members.

Tess recessed the meeting at 9:03 PM.

On Monday the meeting was called to order at 8:59 AM. Nancy Koonce led prayers and a reflection.

Kurt steered a line-by-line examination of the budget with lines added for transparency. Committee members were to take annotation notes to add clarity to the line items. Among the items Kurt particularly pointed out were:

- income from dioceses – assumes all dioceses giving at 15%, annual diocesan income growth of ½% and a \$150K exemption\*
- the dividend draw is gradually reduced over three years from 5% to 4.5%
- the word “reserves” was changed to “assets”
- rental income: all spaces are rented except the bookstore. The Ad Council will use the Lesotho space when vacated this summer while Ad Council renovates.
- General Convention (GC) income was kept the same as the current budget

- refugee loan collection income will drop after 2020 if the number of refugees admitted is reduced
- mission technology income is eliminated; this came from agencies in the building for IT services
- other income is not budgeted owing to its unpredictability (EYE, insurance settlements, etc)
- Line 361b is a \$3,000,000 place holder
- \$400K is added to fund a full-time Director of Evangelism
- There may be some duplication in ethnic ministers in the Jesus Pillar Reconciliation and Justice. To be discovered: church planting appears in the Ethnic Ministries budgets in the the Reconciliation pillar. Are they not included among the churches being planted or redeveloped in the Evangelism pillar?
- The UTO request was not including staff costs.
- It is necessary to ascertain how much recovery could be expected from EYE fees.
- The projection assumes a 9% medical insurance increase each year of the triennium
- Block grants stay essentially the same with two exceptions; review of grants recommended an affirmative contact for the next budget – missionaries should have these conversations. Grant recipients should be asked whether they need less or need more. The budget committee should ask the responsible missionary the reason to continue at a requested level and what it represents of the recipient's total budget.
- The Pastoral Development line is related only to bishops and will be annotated as such and located in the PB's budget section.
- CCSR has asked for a staff person to support them

Discussion looked at catching Cuba pension contributions up to an acceptable level. The total requested amount was \$410K to support the church over the triennium. Glenda McQueen clarified the numbers. There is nearly \$1 million owed to clergy pension plan. They hoped to be invited to GC and to become part of TEC again immediately. There is no budget allocation to allow them to attend GC and it is anticipated that they will go to EC to ask for funding for that. There are 23 clergy and 2-3 people wanting to attend GC.

Kurt was asked to bold or color code the total lines in the next iteration of the budget. A further request was made for a list of staff that are included in the various budget lines.

A break for lunch was taken at 12:35 PM and the meeting resumed at 1:18 PM.

Recommendation from the Task Force on Leadership and Compensation may recommend a stipend for the PHOD at \$225K per year plus benefits. It was thought that the item needs additional exploration and that it might be appropriate to explore the compensation level further with Professionals for Not-for-Profits.

The operations of the General Ordination Examinations reports to the PB and will be moved into that segment of the budget. Staff costs in that area represent one person doing two jobs part-time.

It was observed that the annual campaign expense of \$88K should have an offset in the income section of the budget. Expenses for property litigation are anticipated to decrease over time.

Information Technology (IT) requests two additional staff members. Concern exists about making sure funding is provided in the IT area only when a specific project is presented.

The line item review was concluded at 2:05 and small groups were formed to scrutinize evangelism & mission inside the church; beyond TEC, creation care and staff; racial reconciliation; governance, legal and finance. Mally identified the need to locate possible overlaps in areas of the budget. Each committee member must talk to the committee where he/she is assigned: GAM – John Floberg and Mally; LMM – Tess and Dan; World Mission – Zena; ANM – Holli and Nancy. The goal of small groups is to develop expertise and understanding in specific areas so that when the time comes to make cuts, the foundation of information is solid. Small groups met roughly from 3:00 to 4:35 when the plenary reconvened.

At Mally's suggestion, reports back were done on a department-by-department basis with an eye toward identifying areas where clarification is needed. John and David reviewed Evangelism inside the church and encountered difficulties understanding the details around the \$2.8 million approved by a GC motion from the floor. Discussion covered various questions and sharing of information about programs in process.

Communications was also reviewed by John and David. The \$11 million asked is one of the largest areas in the budget. Currently a great deal of money is being expended on website development and the same amount of money has been requested. The question arose as to how effective this current work is. Michael Hunn is the contact to respond to such questions and the over-arching question: what are we getting for the money?

Holli and Zena looked at ministry beyond the church, creation care and staff. There is no knowledge currently in the committee about the success of the existing program(s). Staff costs increased in the asking (121e) raised questions about the number of people served by the programs and who is doing the work. Concerns were raised about hiring additional staff, requests for those assume that existing staff functions at capacity. Other questions involved costs of having staff dispersed and travel costs for same. A significant increase was requested to enable support of the evangelism and reconciliation initiatives.

It was pointed out that the "why" questions concerning the budget at General Convention will have to be answered. This was the first time that vision input be made to the budget. While the incoming information provided the how it didn't provide the vision. It was thought that staff should be engaged about what the programmatic vision is, what they expect to accomplish over the triennium.

In other areas, the word 'grants' should be dropped in favor of using the word 'dues.' Dues provide for participation in ecumenical groups and is a net decrease. It is important for the DFMS to keep in touch with the other denominations.

Presiding Bishop's office lines should be next to one another. Title IV numbers are dispersed and the desire is to have those pulled together. Haiti expenses should all appear in the same page in the COO or Treasurer section.

Clarification was requested about the front-loaded request for PB travel and the \$113K accrual for PB Nomination, election, transition, installation, specifically where it appears in the budget. Answer: Governance line 281a

A line was created for the Standing Committee on Liturgy and Music requests in pursuing finishing the book of occasional services and translation. There was discussion about timing and quality of translation. The Lakota language translation has not yet happened. Book of Occasional Services needs to be part of the translation discussion. Funds could be available to meet possible costs of prayer book revision and a salary for the PHOD. Open questions exist about legal expenses for a chancellor.

A break was taken for dinner at 6:35 and the meeting was reconvened at 7:30.

Many questions arose regarding increases in staff and communications consultants. Tess suggested making a separate list where each request for new staff can be tracked along with the cost for each.

A comprehensive examination of the Development Office followed and many questions arose. The Director of Development will be engaged in the budget conversation.

There were questions about the increases in the requests from both the Treasurer's Office and for the Controller. Kurt will check but he believes these are increases in salaries and medical benefits. Answer: Base salary increases at 3% pa plus medical cost increases (which represent about 30% of base salaries) at 9% pa result in a total increase of approximately 13% over the entire triennium. Kurt answered a number of questions for clarity in the legal area. The Chief Legal Officer (CLO) committee determined that there should be a CLO and a paralegal. Currently Paul Nix is in house counsel and Romy Mancini is part time counsel. Mary Kostel has been added in a separate Title IV capacity. She reports to the PB but is included in the Legal Office costs.

Facilities/Maintenance revealed an additional guard was added because of requirements of landlords in the Grand Central neighborhood. Engineers, contracted professionals, keep the heat, lighting, and HVAC systems running as they should.

Many questions for education and clarity arose about:

- ABCD training
- Domestic Poverty/Jubilee
- YASC internships - what has this money done in the past
- State public policy network and it's connection to the public policy office
- The request of \$90K for regional poverty conferences
- The 8 sections that are part of *The Beloved Community* released by the officers a few weeks ago.

- How New Visions relates to Black Ministries and whether there is a mutual conversation with Evangelism.
- National Association of Episcopal Schools and the training of privileged leaders.

Michael Barlowe, Stephanie, Kurt, and Tara Holley would be sources to be consulted on the open questions.

With thanks to everyone, Tess recessed the meeting at 9:10 PM.

On Tuesday at 9:00 AM the meeting came to life again with prayer and reflection led by Mally.

Staff review was the focus of the discussion. Holli had created a spreadsheet to organize the budget requests for increases in staff. There were 15 new positions, filling of 17 positions for a budgetary impact of 24% or a \$14.5 million increase for staffing. Funding for the vacancies in 2016-18 budget is present. Some staffing increases have been included in the 2019-21 budget. It was noted that the cost of additional staff requests amount to the budgetary deficit. The committee believe that the canons need to learn what the staffing request are all about. In order to take care of the existing staff, what should be done and where does the money come from?

Questions to ask:

- What work do you have yet to do?
- What part of the work beyond meetings has budget implications?
- Why is it necessary?
- The budget is about 50% staff costs; how has that worked in the last several triennia?
- What would be the impact of deferred hiring?

Mally reported on the Assessment Review Committee's (ARC) work in trying to ascertain whether dioceses are going to ask for waivers to the Assessment. There is insufficient information to project an amount to cover waivers. The budget anticipates full Diocesan participation at 15%. Variables in revenue are promises not received. In the current budget year, all commitments were received except for the Diocese of Arizona. There are 12 dioceses identified out of 110 who may or will request a waiver. Some of Province IX have been in contact. Kurt and Mally will get together on this issue. At this point there is a budget deficit of \$25 million. Mally will pick up the ARC work before the June EC meeting.

A look was taken at the draw against trust fund income. In reality the draw will be significantly reduced from 5.7% to 4.5% over the next triennium. The explanation needs to illustrate this. Kurt will add text to make that clear.

Further discussion covered the needed education for FFM and PB&F concerning fiduciary responsibility for the trusts for the future as well as the means to use it for mission in the present.

Short Term Reserves: if the triennium ends with a surplus, 80% will be returned to the trust funds and 20% to short-term reserves, which were created by budgetary surpluses in past triennia. This committee wants to restore some of the invasions of the trusts that earn money for the budget. A resolution will go to EC about the use of money going into short-term reserves for

a certain period of time before it goes into the endowment. A dedicated line for annual campaign income should be added after getting an estimate from Tara Holley about the amount.

Steps Forward:

- Resolution to EC about short-term reserves
- Follow up with the canons about the budget questions (Tess and Barbara will call Stephanie, Mally, Patty & Nancy will call Michael Barlowe, Tara Holley, and GAM; David, Dan & John will contact Michael Hunn; Holli and Zena will cover World Mission, Stephanie, Spellers and Chuck Robertson).
- Update the joint standing committees and the committees of EC about the process.
  - John & David, Dan to LMM
  - Zena & Holli – to World Mission
  - Mally & Nancy to GAM
  - Tess & Barbara – ANM

Nancy and Holli will stay into the October PB&F meeting. In February 2018 PB&F meets to receive the budget from FFM. It goes out to the world for comment in October. PB&F decides how to deal with comments. There are pre-convention hearings for which Kurt will put together the slide show.

Discussion turned to staff calls. The goal is to have responses from the canons by the EC meeting in June to ascertain the overall strategy for DFMS staffing.

By the end of June FFM and EC review first draft in new format, decide how feedback will be obtained and form a committee to deal with feedback to present in October.

Business having been concluded, Tess adjourned the meeting at 11:37 AM. John offered a closing prayer.

Respectfully submitted,

Nancy Caparulo