

Initial Recommendations & Progress Report 2016 Strategic Plan Of The Diocese Of New York Task Force C – Financial Matters

Introduction

This report is divided into four parts.

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 - a. Membership of the Task Force
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 - c. Background on Assessments & some ongoing questions
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Task Force C was instructed to make recommendations covering the following topics:

- **Budget**
- **Assessment formula & CSP payments**
- **Other Sources of Income & Resources**

This report covers the preliminary findings of Task Force C on Financial Matters of the Diocese of New York. Some of the findings are based on work we were able to complete by ourselves and are close to their final form. Much of the work is still in front of us as we wrestle with financial issues that depend upon the outcome of the other task force reports.

The following questions are some (but not all) of the things that our Task Force is considering.

- Is diocesan support for congregations and ministries underfunded?
- Would diocesan support for congregations and ministries be underfunded if every congregation paid its assessment/adjusted assessment?
- Is our assessment model fair for every congregation?
- Is our assessment model Biblically based?
- Would a different assessment model benefit our diocese?
- What assessment models are used in other comparable dioceses and how well do they work?
- Should every congregation contribute to the assessment budget, even if that congregation is a mission or church plant?
- Should congregations that do not pay their assessment/adjusted assessment be penalized?
- Does our current assessment canon have appropriate incentives and consequences?
- Is it right or fair that a single congregation contributes more than 25% of the total budget income?

- Is it right or fair that two congregations support about 40% of the total budget?
- Are the largest congregations, regardless of how wealthy they are, represented fairly in diocesan decision making bodies (for example no congregation is allowed more than 5 lay delegates at the Convention of the Diocese of New York)?
- What is the financial relationship between the Diocese of New York and the Cathedral of Saint John the Divine?
- Are the budget and budget process clear and transparent?
- Are diocesan financial reports readily available and accurate?
- Can we tell from reports whether spending is in line with the budget?
- Are all income sources, including endowments and restricted funds that are controlled by the Diocese of New York disclosed in a transparent way?
- Does/should the Diocese of New York require that all income sources, including endowments and restricted funds that are controlled by our congregations, be disclosed in a transparent way?
- Should the full list of congregations, their assessments, adjustments, and amounts paid be published?
- Should such a list include other parochial report numbers (i.e. members or average Sunday attendance numbers, endowments and other assets)?
- What does it mean that we hold our assets “in trust” for the larger church?
- Do we trust the leadership (lay and ordained, appointed and elected) of the Diocese of New York to be good stewards of our assets?
- Do we trust the leadership (lay and ordained, appointed and elected) of our congregations to be good stewards of our assets?

PART 1: Summary Report on the Current State of Financial Matters in the Diocese of New York

About Our Current Assessment Model

Canon 18 of the Canons of the Diocese of New York details the funding program of the Diocese of New York. In its current form, Canon 18 dates from 2009. Canon 18 describes:

- the budget process
- the definition of and formula determining each Congregation’s Apportioned Share (aka assessment) which is based on a congregation’s Normal Operating Income and how payment of an assessment is to be made
- the assessment adjustment and appeal process
- the Congregational Support Plan
- Remedies for nonpayment of an assessment.

Our current assessment formula is tiered so that congregations with smaller Normal Operating Incomes pay a significantly smaller percentage of their Normal Operating Income to the Diocese of New York. The formula is:

4% of income from \$1 to \$50,000, plus
10% of income from \$50,000 to \$200,000, plus
15% of income from \$200,000 to \$500,000, plus
20% of all income above \$500,000

Thus, if Saint Swithin's in the Swamp had a Normal Operating Income (NOI) of **\$1,500,000** its assessment would be **\$262,000** or **17.5%** of NOI. Broken out according to the tiers above that would be: **\$2000** (which is 4% of \$50,000) + **\$15,000** (which is 10% of \$150,000) + **\$45,000** (which is 15% of \$300,000) + **\$200,000** (which is 20% of \$1,000,000).

Again, if Saint Penny's on the Plain had a normal operating income of **\$250,000** its assessment would be **\$24,500** or **9.8%** of NOI. Broken out according to the tiers above that would be: **\$2000** (which is 4% of \$50,000) + **\$15,000** (which is 10% of \$150,000) + **\$7,500** (which is 15% of \$50,000) + **\$0** (which is 20% of \$0).

Again, if Saint Terry's near the Train Station had a normal operating income of **\$55,000** its assessment would be **\$2,500** or **4.5%** of NOI. . Broken out according to the tiers above that would be: **\$2000** (which is 4% of \$50,000) + **\$500** (which is 10% of \$5000) + **\$0** (which is 15% of \$0) + **\$0** (which is 20% of \$0).

The remedies or consequences for non-payment listed in Canon 18 include the possibility of a parish being converted to mission status. However, since 2009 this has not occurred.

Four points about Canon 18 that everyone in the Diocese of New York needs to know:

1. It has been modified in very recent memory. Canon 18 was approved by Diocesan Convention in 2009. Certain sections of the Canon predate that, (e.g. the CSP portion dates from 1994), but a Task Force on Assessments presented a thorough revision in 2009 which was approved by Convention.
2. The assessment formula is tiered so that congregations with higher Normal Operating Incomes pay at a significantly higher percentage than congregations with smaller Normal Operating Incomes
3. There is 12.5% limit on the amount an assessment can increase year over year for any one congregation.
4. If the apportioned share of any one parish exceeds 25% of the total unified diocesan assessment budget, the excess amount above that 25% is collected by the Diocese of New York and applied to the Diocesan General Endowment Fund.

Assessment Budget Income

In 2016 the sum total of Net Assessments and Net Congregational Support Plan Contributions make up about 85% of the total projected Assessment Budget income. In both cases, "Net" takes into account the reality that the Diocese receives only about 80% - 85% of gross Assessments, and about 80% of gross Congregational Support Plan Contributions.

There are nearly 200 congregations in the Diocese of New York. In 2016 the ten congregations that are assessed the ten highest assessments are projected to pay about 55% of the total income of the total Assessment Budget. In 2016 the two congregations that are assessed the two highest assessments are projected to pay about 40% of the total income of the total Assessment Budget. In 2016 the

congregation that is assessed the highest assessment is projected to pay about 28% of the total income of the total Assessment Budget. As noted above, Canon 18 places a cap at 25% of total Assessment dollars a given congregation can pay to a given year's budget, so the extra 3% is transferred into the unrestricted endowment of the Diocese.

In addition to assessment income, the Diocese has a reserve fund of about \$4,500,000 that is used to cover end of year deficits – in 2016 that deficit draw is projected to be about \$280,000. The Diocese also has about \$29,000,000 in unrestricted endowment funds – in 2016 the Diocese is projected to draw about \$1,250,000 from those unrestricted endowments.

Assessment Budget Disbursements

The Assessment Budget supports the operating expenses of the Diocese of New York including the episcopate, diocesan staff, administration, Congregational Support Plan, convention and meeting costs, our Assessment to The Episcopal Church, and a wide array of grants and support for congregations and institutions.

Budget process

The current budget process follows the general procedure outlined in Canon 18. The Budget Committee is appointed each year by the Bishop of New York. The Budget Committee includes members of Council and the Trustees. The Committee receives input and requests from the Bishop, Council, Commissions, Committees, Staff, and Trustees of the Diocese and drafts a disbursement budget and accompanying disbursement narrative - that said, no standard budget request form or procedure has been used since 2009. By the end of July the end-of-year projections for income expected from assessments, endowment draws, etc. are reliable enough to begin reconciling disbursements to income – invariably there are more disbursement requests than income, and so the Budget Committee's work throughout August involves weighing priorities, finding ways to trim numerous lines, and crafting an Executive Summary of the narrative.

A final draft of the budget and accompanying narrative is sent to Diocesan Council at the end of August for review. The Chair of the Budget Committee presents the final draft budget and narrative to Council in September, and the draft budget is approved (with or without amendment) by Council – this approved draft budget is referred to as the “proposed budget”. The proposed budget and the Executive Summary of the narrative is included in the Calendar of Business of Convention and sent to every congregation and all delegates to Convention. The full narrative is made available online. The Chair of the Budget Committee presents the proposed budget to Convention in November, and the budget may be approved, amended or rejected by Convention.

The budget crafting process begins again at the start of the year, and a new committee is appointed by the Bishop of New York.

When in the course of their duties in managing the finances of the Diocese, the Trustees determine that the diocesan budget needs to be materially adjusted between Conventions, they present the adjustment to the Budget & Finance Committee of Council. The committee reviews the proposed

adjustment and presents its recommendation to the Council and, unless the Council objects at its next meeting, the adjustment takes place.

Ministries supported by Restricted Funds outside of the Assessment Budget

Other ministries are also supported by the Diocese of New York through restricted endowment funds which are outside the canonical purview of the Budget Committee and are not part of the Assessment Budget. These funds are designated for a variety of purposes, including discretionary funds for the Bishop of New York, funds designated for property support, funds designated for clergy critical needs or continuing education, etc. These restricted funds are not part of the Assessment Budget and are administered by the Bishop of New York and/or designated committees and commissions of the Diocese of New York. Income and disbursements from all restricted funds are overseen by the Trustees of the Diocese of New York.

Available Financial Reports

The Trustees receive periodic financial statements and an annual report from the Audit Committee related to all diocesan income and spending, including that related to the Assessment Budget and all restricted and unrestricted accounts. The Budget Committee publishes a budget spreadsheet and a detailed budget narrative each year for Diocesan Convention which offers significant detail on the finances of the Diocese of New York. The budget, budget narrative, and audited financial reports are available on the diocesan website. The audited financial reports combine assessment budget income and disbursements with income and disbursements from restricted funds that are not part of the Assessment Budget. Based on the documents available it is difficult to reconcile the budget with the audited financials. The Assessment Budget accounted for about \$10,000,000 in disbursements in 2015. Disbursements from restricted funds accounted for about \$1,500,000.

PART 2: Summary of Mid-Point Recommendations

Budget, Financial Statements, and Audited Reports

1. The Assessment Budget of the Diocese of New York is well organized and clearly presented. The Task Force recommends additional clarity, as noted in *Addendum D* of this report.
2. The Task Force recommends that the Trustees receive accurate, quarterly financial statements that reflect all income and disbursements, and those statements clearly denote whether income and disbursements relate to Restricted Funds or to the Assessment Budget.
3. The Task Force recognizes that audited financial reports are published online which include all income and disbursements from the Assessment Budget and all Restricted Funds. The Task Force recommends that those audited financial reports, or supplemental financial reports, clearly differentiate Assessment Budget income and disbursements from Restricted Fund income and disbursements.

Assessment formula & CSP payments

1. The Task Force aims to recommend an assessment model that is fair to parishes, fair as among parishes, and fair to the Diocese by raising enough Diocesan income toward the expenses necessary to carry out the mission of the Diocese and the structure that enables that mission as it will be expressed in the Strategic Plan.
2. The Task Force believes we have adequately studied Assessment models from other comparable Dioceses and recommends continued study examining Assessments in the following ways:
 - a. The Task Force prepares a variety of working models, using 2015 numbers, to determine the effect different models might have on our congregations' expenses and the income of the Diocese of New York.
 - b. The Task Force prepares a new/modified Assessment Canon for possible adoption in 2016 or 2017.
 - i. The new canon should include viable assessment formulas for all congregations, former CSP congregations, missions, and new church plants.
 - ii. The new canon should include incentives for payment and realistic consequences for nonpayment that are easily acted upon and serve the purpose of ensuring that every congregation is fully participating in the funding of the diocesan Assessment Budget.
 - iii. The Task Force working with the other Task Forces should present their findings and any new canons in a series of public forums around the Diocese in September/October 2016 or in the beginning of 2017.

Other Sources of Income & Resources

1. The Task Force recommends that the Trustees publish an annual report of the restricted endowment funds that supplement mission expenses of the Diocese of New York.
 - a. This report should not in any way restrict the discretion that the Bishop or any Commissions or Committees have in distributing these funds.
 - b. We recommend a simple report that states:
 - i. The official name of the fund
 - ii. A brief description of the purpose of the fund
 - iii. The value of the fund on December 31 in Year A
 - iv. Additions to the fund in Year B
 - v. Disbursements from the fund in Year B
 - vi. Change in value of the fund in Year B
 - vii. The value of the fund on December 31 in Year B
 - c. This report should be made available along with the other financial materials which are on the Budget and Finance web page of the Diocese.
2. The Task Force recommends that the Trustees of the Cathedral and the Trustees of the Diocese of New York work together to clarify the relationship between the Cathedral and Diocese.
3. The Task Force recommends continued study of how financial, physical, and human resources of the congregations might be used to benefit the wider mission of the Diocese of New York and The Church.

Next Steps

1. The Task Force recommendations on the Budget are being implemented for 2016 by the Budget Committee.
2. The Task Force will continue working on Assessments with the intention of formulating a new / modified canon that can be adopted by Convention in 2016 or 2017
3. The Task Force recommends that the Trustees craft a report of restricted and unrestricted endowment funds that can be published before Convention in 2016.
4. The Task Force recommends a diocesan wide conversation on our financial, physical, and human resources.

Part 3: Theological Reflection

The Task Force recognizes that the recommendations found in this interim report are but small steps in a much longer journey. A faithful journey into our future invites ongoing vigilance about our relationship with money and how we hold it, use it, and share it.

We live with a certain tension between sustaining the financial stability of our congregations and our vocation to serve the wider Church. This tension can manifest itself in ways that hinder us from living more fully into the Gospel. We should not identify ourselves primarily as separate entities that make continual appeal to those many legal provisions that protect corporations; rather we are members of the Body of Christ who seek our security in relationships of ever deepening mutuality with one another and with Jesus Christ. This is at the heart of Bishop Dietsche's *Indaba* initiative. The resolution of this tension must always be driven by a call to realize that vision put forth in the Book of Acts, *"No one claimed that any of their possessions was their own, but they shared everything they had, such that no one was in need."*

What is the treasure that we hold in trust for the wider church? And do we understand what it really means *to hold it in trust*? What are the financial needs of the Diocese to carry out its mission? As we continue on this journey together, we must continue to ask, "What is the Spirit calling us to do?"

Addendum A: Members of the Task Force

Participants in the Strategic Plan self selected themselves for Task Force C. Task Force C members have extensive experience serving in churches throughout the Diocese of New York, have served for many years on numerous Commissions and Committees in the Diocese, and represent some of the diversity of the Diocese. Our Task Force members are:

The Rev. Frank Alagna
Mr. Wolcott Dunham
Ms. Esslie Hughes, Chief of Finance and Operations of the Diocese of New York
Sister Faith Margaret, Treasurer of the Diocese of New York
The Rev. Matthew Mead, Chair of the Task Force
Ms. Ursula Moran
Ms. Diane Pollard
The Rev. Nora Smith
Mr. Michael Wood

Regions/Congregations/Communities Represented

The Task Force Members have served serve at, regularly attended, or been affiliated with the following congregations and communities in the Diocese of New York over the past ten years:

Mid Hudson Region

Christ Church, Poughkeepsie
The Church of the Holy Cross/Santa Cruz, Kingston
The Church of the Regeneration, Pine Plains
St. Margaret's Church, Staatsburg
St. Andrew's Church, Beacon

Region 2

All Saints' Church, Briarcliff Manor
The Church of the Good Shepherd, Granite Springs
The Church of St. Barnabas, Irvington
The Community of the Holy Spirit, Brewster
The Parish of Christ the Redeemer, Pelham
St. Peter's Church, Peekskill

New York City

The Church of the Crucifixion, Manhattan
The Church of the Intercession, Manhattan
The Church of Saint Mary the Virgin, Manhattan
The Community of the Holy Spirit, Manhattan
Saint Bartholomew's Church, Manhattan
Saint James' Church, Manhattan
Saint Michael's Church, Manhattan
Trinity Church, Manhattan

Committees/Commissions/Organizations Represented

Task Force Members serve or have served on the following committees, commissions, and organizations in the Diocese of New York over the past ten years:

Adjustment Board
Audit Committees
Budget Committee
Committee to Elect a Bishop (2011)
Committee to Elect a Bishop (2014)
Committee on Canons
Commission on Ministry
Congregational Support Plan Committee
Council of the Diocese
Credit Union Task Force
Deans of the Diocese of New York
Deputation to General Convention
Diaconal Formation Committee
Ecclesiastical Trial Court
Ecumenical & Interfaith Commission
Episcopal Charities Board
Finance Committee
Hispanic Grants Committee
House of the Redeemer
Human Resources Committee
Indaba of the Diocese of New York
Investment Committee
Property Support Committee
Real Estate Committee
Special Committee on Diocesan Budget Process and Assessments
Standing Committee
Task Force on Socially and Environmentally Responsible Investments
Trustees and Board of Managers of the Diocese of New York
Trustees of the Cathedral of St. John the Divine
Urban Mission Committee
Venture Fund Board

Addendum B: Timeline of Task Force Work

Work was done by members of the Task Force who reported back regularly to the entire Task Force via email and regular phone conferences. The Chair of the Task Force met numerous times with the other Strategic Plan Coordinators, the Task Force Chairs, the Bishop, the CFO, and the Treasurer.

The Task Force members and Chair met over twenty times, either by phone or in person, for a total of more than forty-five hours between October 2015 and April 2016.

Addendum C: Background on Assessments (Questions asked of other comparable Dioceses)

Members of the Task Force contacted CFOs in the Dioceses of Chicago, Connecticut, Long Island, Los Angeles, Maryland, Massachusetts, New Jersey, and Texas. The following questions were asked in those conversations.

1. How are assessments calculated in your Diocese?
2. Are they based on a canon or a resolution voted at diocesan convention or a resolution of your Council or Trustees?
3. Is it an assessment or an asking?
4. Of the total formula-driven amount for all the congregations, how much is actually collected each year?
5. How do these collection figures affect the budget of the Diocese?
6. What kinds of parishes are not paying 100%?
7. What, if anything, happens to a congregation that has not paid its full assessment?
8. In addition to self-supporting parishes, how does the system apply to congregations that are financially supported by the Diocese?
9. Do any congregations pay the Diocese more than the formula dictates?
10. We assume that the assessment budget is funded by assessment payments and endowment income. Are there any programs sponsored by the Diocese that are funded outside the assessment budget, for example by voluntary contributions from parishes and the general public (like Episcopal Charities of the Diocese of New York, which funds programs located at parishes to meet human need)?
11. What changes have recently been discussed?
12. What is good about the system in your Diocese?
13. How would you change it?

Addendum D: Specific Budget Process Recommendations

1. Consider breaking out program expenses on Schedule C (Staff & Support for Ministries & Congregations), for example: “Canon for Ministry Office” and “Canon for Ministry Program expenses”
2. Clarity in the Budget Narrative on which Commission or Committee has oversight for the lines in Schedule D (Funding for Leadership in Missions & Congregations).
3. More detail in the Budget Narrative of all grants and moneys spent in Schedules E (Grants & Programs For Congregations) and F (Diocesan Ministry & Outreach Programs).
4. Schedule G (Diocesan Administration) represents ¼ of the total budget and is in need of more detailed information in the Budget Narrative and possibly more detailed lines in the Schedule.
5. A Reserve Fund could be set up for Diocesan Convention (Schedule I) to ensure that the Diocese spends the same amount each year, regardless of whether Convention is one day or two.
6. The Task Force recommends that the Budget Committee be expanded moderately (from 8 members in 2015 to perhaps 10 or 12) to better represent the diversity of the Diocese of New York – the Committee should continue to represent both Council and the Trustees.
7. The Task Force recommends that the Budget Process include a clearly communicated and uniform mechanism for Commissions, Committees, Staff, and members of the Diocese to submit requests to the Budget.
8. Task Force recommends the Budget Narrative should include a list of all requests and whether they were approved and not approved.
9. The Task Force recommends that the full Budget Narrative be printed in the Calendar of Convention rather than just the Executive Summary.
10. The Task Force recommends that the Pre-Convention Caucuses be revived so that a standard forum is provided before Convention so that a presentation of the Budget, introduction of nominees for elected offices, and other reports can be made in person, in advance, to Convention Delegates.