

## Narrative Budget for 2018

**Date:** October 30, 2017

**From:** The Diocese of New York Budget Committee

**To:** Secretaries and Delegates of the 241<sup>st</sup> Convention of the Diocese of New York; The Right Reverend Andrew M L Dietsche, Bishop of New York; The Right Reverend Allen K. Shin, Bishop Suffragan; The Right Reverend Mary D. Glasspool, Bishop Assistant

**CC:** The Rev. Canon Wm. Blake Rider, Canon to the Ordinary; Ms. Esslie W. Hughes, Chief of Finance and Operations; Mr. George Wade, Chancellor; Ms. Masiel Jordan, Controller; Ms. Karin Almquist, Accounting Manager; Bishop's Staff; Trustees of the Diocese; Council of the Diocese.

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Dear Delegates of the 241<sup>st</sup> Convention of the Diocese of New York,

This Narrative accompanies the 2018 Proposed Budget and is divided into seven parts.

- 1) Background on the 2018 Budget process
- 2) Income for 2018
- 3) Disbursements for 2018
- 4) Below the line transfer from reserves that balances the budget in the event of deficit
- 5) Conclusion
- 6) Committee Organization & Timeline
- 7) Resolutions

### **Part 1 – Background**

As you know, the Budget Committee was unable to include a budget narrative and spreadsheet in the Calendar of Convention. The reasons for this are twofold.

First, we did not have final 2016 numbers. This meant that our projections for 2017 were incomplete. Our projections for 2017 are still incomplete and for that reason we do not enumerate them in the Proposed Budget. Parts 2 and 3 of this memorandum identify changes to lines from the 2017 Budget; where applicable we note that a budgeted change is based on our working projections.

Second, our working projections indicate sizable deficits for 2017 and 2018.

The Proposed Budget included in the 2016 Calendar of Convention projected a deficit of \$280,000. You may recall that the budget presented at Convention included a correction to the Assessment of the National Church. This correction increased the projected deficit for 2017 to about \$355,000. This increase eliminated the \$100,000 contingency built into the original budget.

The \$355,000 deficit was to be covered by a budgeted transfer from our cash reserves. At the time, we indicated that transfers of that sort were unsustainable in the long term, but necessary as we

began to live into the canonical and systemic changes recommended by the Strategic Plan Advisory Committee and adopted by the 2016 Convention. As 2017 has unfolded the projected deficit has increased to between \$400,000 and \$500,000.

Based on our working projections and on the requests from Commissions, Committees, and the Bishop's Staff, our mid-August draft of the 2018 budget projected a deficit of about \$1,200,000. Some of the deficit was increased expenses and requests. The bulk of the problem, however, is income.

By mid-August 33 congregations had not paid any of their canonically agreed upon and required Apportioned Share for 2017. 59 congregations were paying adjusted Apportioned Shares in 2017.

The Budget Committee believed that presenting a deficit of that sort would be unwise. We also believed that a budget based on numbers which we were not confident were accurate would be less than transparent. We immediately informed the Bishop, Diocesan Council, and the Trustees. Together we determined that the best course of action was to present to Convention a budget based on the best numbers we had that would temporarily cut back in every area possible without affecting our current employees, contractual obligations, or substantively undermining any of our ministries. We assumed, correctly, that we would not be able to reduce the deficit to a sustainable level. We were able to reduce the deficit from \$1,200,000 to about \$400,000.

The 2018 Proposed Budget is balanced by a substantial and unsustainable transfer from cash reserves. We expect and recommend that the 2018 Budget, once passed by Convention, will be materially adjusted by the Trustees in accordance with Canon 17.1.6 to limit the size of that transfer as much as possible. We envision that the 2019 Budget will have a smaller, but still unsustainable, transfer from cash reserves. We intend to move to a zero-deficit budget by 2020.

Based on the report and findings of the Strategic Plan Task Force on Financial Matters that were provided to the 2016 Convention, this reality is not unexpected. 2016 and 2017 have seen the implementation of many of the recommendations from the Task Force on Financial Matters, including two principal changes. First, the Finance Office of the Diocese has undergone significant transition, including a new Chief of Finance and Operations, a new Controller, and a new Accounting Manager. Second, the Budget Committee and the Finance Committee are now formed so that the Treasurer, Chief of Finance and Operations, and the chair of each committee all serve on both committees. These are significant improvements, and they have allowed the Finance Office and financial committees to move toward more financial transparency and accountability. We have made much progress, and the work of the Finance Office has been exemplary.

## **Part 2 – Income**

The majority of our income comes from Apportioned Shares.

**Line 001: Gross Calculated Apportioned Shares** is the total calculated amount of Apportioned Shares before any adjustment. These project basically flat for 2018. We are concerned, based on available numbers and recent trends, that Gross Calculated Apportioned Shares may remain flat or even decrease in 2019. Many of our congregations have been reporting decreasing Normal

Operating Income for the past few years. This decrease translates into decreased Calculated Apportioned Shares.

**Line 002: Total Adjustments due to 12.5% Cap & Adjustment Board** is the total amount adjusted through the Adjustment Board and through the 12.5% year-over-year cap increase. The canonical changes made in 2016 have allowed the Adjustment Board to eliminate the loophole that allowed some congregations a 12.5% maximum annual increase on apportioned shares temporarily reduced by the Adjustment Board. In every case that resulted in a congregation's billed Apportioned Share increasing more than \$1000 from 2017 to 2018, the Adjustment Board has offered one of three options. Congregations with relatively small increases were offered a choice to reach full payment in 2 years or pay in full for 2018. Congregations with larger increases were offered a choice to reach full payment in 3 years or pay in full for 2018. Congregations with substantial increases were offered a choice to appeal in person to the Adjustment Board or pay in full for 2018. The work of the Adjustment Board has ensured that Line 002 has decreased and will continue to decrease in 2019 and 2020 as formerly adjusted apportioned shares are phased back to normal.

**Line 003: CSP Transition Apportioned Share Reductions** is the amount paid by CSP congregations in transition. This line is zeroed out for 2018. The amount due from those congregations still in transition is included in Line 001.

**Line 004: Projected Unpaid Apportioned Shares.** Payment history suggests that a certain amount of Apportioned Shares will be unpaid in 2018. This line includes: \$429,485 of phased in Adjustments that are unlikely to be paid and \$674,566 from congregations that have paid nothing in 2017. From a canonical standpoint, there is no reason for Line 004 to exist. From a budget standpoint we have to be honest that a significant number of congregations are either unable or unwilling to pay their Apportioned Share.

**Line 005: Net Income from Apportioned Shares** is projected to be increase about \$50,000 from 2017 to 2018.

**Line 006: Allocation from the General Endowment** is the amount of income from our Unrestricted Investments. It is projected to increase by \$90,000 in 2018.

**Line 007: Contribution to General Endowment (25% Cap)** is the so-called Trinity Cap. No one congregation can pay more than 25% of the total disbursements. The diocese still receives the money, but anything above 25% is transferred from income to the General Endowment. Because our disbursements for 2018 are projected to be significantly lower than 2017, the 25% Cap increases, about \$191,000. Every \$1 we cut from disbursements also means losing \$0.25 from our income. This reality complicates cutting expenses when building a budget. In the long run, the 25% Cap is a very good thing since it builds up the General Endowment and forces the diocese to rely on all of its congregations, rather than just the largest ones.

**Line 008: Trust Income** is the amount of income from Trusts generated by two of our congregations for support of the Episcopate. The amount is projected to decrease in 2018 by just under \$10,000.

**Line 009: Fee Income** is the amount of income from a variety of fees, including but not limited to payroll fees. This amount has not been changed from the 2017 Budget.

**Line 010: Diocesan Convention Fee Income** is the amount of income from fees for Convention. These are budgeted at the same level as 2017. Since 2016 convention expenses and fees have been set up in such a way that the fees are basically the same regardless of whether Convention is one day or two days.

**Line 011: Trinity Grant in Support of Liaison for Global Mission** is the amount of income from a Grant from Trinity Church Wall Street to the Diocese that supports half of the position of Liaison for Global Mission.

**Line 012: Matching Transfer of Trinity Grant (from other funds available to the Bishop)** is the amount of income from one of the Bishop's Discretionary Funds to support half of the position of Liaison for Global Mission. Matching support for this position from the Bishop's Discretionary Funds was temporary and intended for 2017 only.

**Line 013: Total Other Income** is projected to be down about \$200,000. This is due mostly to the \$25% Cap, which increased because Disbursements were cut.

**Line 014: Contingency** is budgeted at \$500,000 which is about 5% of the budget. The Budget Committee routinely budgets in contingency amounts (in past years this has been built into Unpaid/Adjusted Apportioned Shares. We broke it out this year for clarity. In 2017 we built in a \$100,000 contingency which was about 1% and it proved completely inadequate.

**Line 015: Total Income**, including the contingency, is projected to be down by about \$550,000.

### **Part 3 – Disbursements**

The Income & Summary page shows Summaries for Disbursements. Details are on the next page(s).

#### **101 Assessment to The Episcopal Church**

Our Assessment to the National Church has increased by \$44,886.

#### **102 Assessment to Province II**

#### **103 Reserve for Deputies to General Convention**

#### **104 Reserve for Delegates to Provincial Synod**

#### **105 Reserve for Future Episcopal Elections**

#### **106 Reserve for Lambeth**

These lines remain at 2017 levels. Line 105: Reserve for Future Episcopal Elections has been depleted and needs to be rebuilt.

#### **201 Bishop of New York**

#### **202 Bishop Suffragan**

#### **203 Bishop Assistant**

These lines remain at levels projected for 2017. Any increases were based on decisions made in 2016 and approved by Convention. All three lines saw normal increases in benefits. The Bishop Assistant line also included salary parity with the Bishop Suffragan.

**204 Bishops' Office Expenses (TOTAL)**

This line is budgeted based on our working projections. It seems that we overbudgeted for 2017.

**205 Reserve for Discretionary Fund-Hospitality**

This line remains at 2017 levels.

**206 Bishops' Shared Travel**

This line is reduced by \$20,000 for 2018.

**207 Canon to the Ordinary (Expenses & Compensation)**

**208 Canon for Pastoral Care (Expenses & Compensation)**

**302 CSP Coordinator / Director of Strategic Planning (Expenses & Compensation)**

**303 Canon for Ministry (Expenses & Compensation)**

**304 Canon for Transition Ministry (Expenses & Compensation)**

**305 Canon for Congregational Vitality (Expenses & Compensation)**

**306 Liaison for Global Mission (Expenses & Compensation)**

**307 Property Support Director (Expenses & Compensation)**

**308 Mid Hudson Region (Expenses & Compensation)**

These lines include compensation and all expenses necessary to each office. Each line is budgeted based on our working projections.

**401 CSP Transition Clergy Compensation**

This line is decreased per agreements reached in 2016.

**402 Harlem Initiative**

**403 South Bronx Initiative**

**404 Regional Pastorate Initiative**

**405 Growth & Transitional Clergy Compensation**

These lines are decreased from 2017 budgeted amounts, but each still covers all current contractual commitments.

**406 Hispanic Clergy Compensation**

This line is increased \$20,000 to cover all current contractual commitments.

**407 Congregations in Strategic Settings Clergy Compensation**

This line is decreased from the 2017 budget amount, but it still covers all current contractual commitments.

**408 Campus Ministry Clergy (Expenses & Compensation)**

This line is increased \$71,000 from the 2017 budget amount, but it still covers all current contractual commitments. The major increase is a new position for Canterbury Uptown that was planned for in 2016 and finalized in 2017.

**409 Wisdom Year Seminarian for Canterbury Downtown**

This is zeroed out for 2018.

**501 Congregational Development Commission Programs**

This line is decreased from \$30,000 to \$10,000.

**502 First Step Grants**

This line is decreased from \$20,000 to \$10,000.

**503 Next Step Grants**

This is zeroed out for 2018.

**504 Christian Formation Commission Programs / Young Adult Ministry**

This line is decreased from \$80,000 to \$70,000.

**505 Property Support Committee Grants & Loans**

This line is decreased from \$375,000 to \$350,000

**506 Hispanic Ministries Grants**

This line is decreased from \$75,000 to \$50,000

**507 Operational Support for Strategic Hispanic Congregation**

This line are budgeted based on our working projections.

**508 Multicultural Ministries (New Community)**

This line is decreased from \$15,000 to \$12,500

**601 Commission on Ministry Programs**

This is zeroed out for 2018.

**602 Ecumenical and Multi-Faith Councils Contribution**

**603 Ecumenical & Interfaith Commission**

**604 Global Mission Commission**

These lines are budgeted at 2017 levels.

**605 Sustainable Development Goal Grants**

This is zeroed out for 2018. The Episcopal Church has resolved that every diocese move toward providing 0.7 of its disbursements to Sustainable Development Goal Grants. We are moving in the wrong direction, but this is a temporary reduction for 2018.

**606 Rural and Migrant Ministry**

**607 Social Concerns Commission**

These lines are budgeted at 2017 levels.

**608 Support for Episcopal Charities**

This line is decreased from \$120,000 to \$100,000

**701 Cathedral Cost Sharing and Rent**

This line is budgeted at 2017 levels.

**702 Office Services (Expenses & Compensation)**

**703 Administration (Expenses & Compensation)**

These lines are budgeted based on our working projections. There is a decrease of \$275,000 in line 703 Administration (Expenses & Compensation) which is due to overlaps during staff transitions.

**704 IT Expenses**

This line is budgeted at 2017 levels.

**705 Overhead and Fixed Obligations**

This line is budgeted based on our working projections. There is a temporary increase of \$194,000 which covers increased projections for auditing and severance.

**801 Public Affairs & Archives (Expenses & Compensation)**

**802 Episcopal New Yorker**

**803 Web Management**

These lines are budgeted at 2017 projections.

**901 Journal and Directory**

**902 Diocesan Convention Reserve**

**903 Council/Convention Meetings**

These lines are budgeted at 2017 levels.

Line 1000 through 1300 are on the summary page of the budget.

**Line 1000: Provision for Salary & Benefit Increase**

This is budgeted to include medical and other benefit increases. The 2017 budget included an increase to cover a 4% cost of living increase for clergy who are not on the Bishop's Staff but are paid by the Diocese of New York (See Schedule 400) and a 2% cost of living increase for all other personnel paid by the budget.

**1100: Total Disbursements** are projected to be down about \$500,000.

**1200: SURPLUS (DEFICIT):** We are projecting a deficit for 2018 of just under \$400,000.

**Part 4 – Below the Line Transfer from Reserves**

**1300: Transfers from Reserves** is the amount required to “balance the budget” if there is a deficit. As noted above, this was budgeted for 2017 at about \$350,000. Current projections put this number at about \$500,000 for 2017. For 2018 this number is budgeted at about \$400,000 since we are canonically required to pass a balanced budget. A transfer of this magnitude is unsustainable.

## Part 5 – Conclusion

As noted, we face two problems. First, when building this budget we did not have confidence in 2016 or 2017 numbers. Second, the numbers we do have project sizable deficits for 2017 and 2018. Based on the report and findings of the Strategic Plan Task Force on Financial Matters that were provided to the 2016 Convention, this reality is not unexpected. Our strategic plan has allowed us to take a very close look at our finances and financial systems and make necessary updates.

The Finance Office has been working to correct the first issue, and in 2018 we will make regular and accurate financial reports to the Trustees. The Budget Committee and Finance Committee have worked with the Bishop to map out a plan to reduce and contain the deficit for 2018. We anticipate that we will have a truly balanced budget in 2020. We have also taken steps to update our budget process so that we will be working after summer vacations have ended, at a time when more informed decisions can be made about the coming year, and with full midyear financial information.

A quick solution to our 2018 budget problems would have been to eliminate the contingency of \$500,000. Eliminating the contingency would balance the budget on paper, but it would be very unwise and would almost certainly ensure that 2019 becomes about retrenchment rather than strategic growth and planning.

The true solution to our budget problems is addressing Projected Unpaid Apportioned Shares itemized in Line 004. Our assessment/apportioned share model is consistent with the models we find in other dioceses. We believe that it is fair, and, most importantly, it has been approved by Convention, most recently in 2016 and unanimously.

We believe we have built a prudent and transparent budget for 2018. We are confident that we have maintained support for all of our current ministries. We recognize that we are recommending that a number of ministries receive less financial support than previous years. These decisions were not made lightly but in an attempt to support all of our ministries while being mindful that our current income levels cannot support them at the levels we would prefer.

We invite your questions about any of the lines and changes we have suggested. We ask that you support this budget. The Bishops and members of the Budget Committee and Finance Committee unanimously support this Budget and Narrative.

In Christ and on behalf of the Budget Committee,

The Rev. Matthew Hoxsie Mead,  
Chair of the Budget Committee of the Diocese of New York  
matthew@christchurchpelham.org  
914-738-5515 (office)  
914-471-0260 (cell)

## Part 6 – Committee Organization & Timeline

According to Canon 17 of the Canons of the Diocese of New York: “The Budget Committee shall consist of: a Chair of this Committee appointed by the Bishop, the Treasurer of the Diocese (ex officio), the Chief of Finance and Operations of the Diocese (ex officio), the Chair of the Finance Committee of the Trustees (ex officio), three (3) members of the Council of the Diocese appointed by the Bishop, two (2) members of the Trustees appointed by the Bishop, and others as appointed annually by the Bishop to this Committee.”

The Right Reverend Andrew M. L. Dietsche appointed the following to the 2018 Budget Committee:

The Rev. Matthew Hoxsie Mead, *Chair of the Budget Committee*  
Sister Faith Margaret, CHS, *Treasurer of the Diocese of New York*  
Ms. Esslie Hughes, *Chief of Finance and Operations*  
Mr. William Wright II, *Trustee & Chair of the Finance Committee*  
Ms. Wendy Canas, *Trustee*  
The Rev. Jennifer Redall, *Trustee*  
Ms. Marsha Ra, *Council*  
Mr. Peter Saros, *Council*  
The Rev. Margaret Sullivan, *Council*  
The Rev. Matthew Moretz

Staff assigned to support the Committee:

Ms. Masiel Jordan, *Controller*

The full Budget Committee met on May 30, June 6, June 28, July 12, July 26, August 9, August 16, August 22, August 30, and October 19. Between meetings the Committee corresponded by email. Additionally, the Chairs of the Budget Committee and Finance Committee, Treasurer, Chief of Finance and Operations, and the Controller meet regularly throughout the year.

On August 22 we determined that we would not be able to present a budget to Council by the canonically mandated date of August 30. The Budget Committee came up with a plan to address this reality. The Chairs of the Budget Committee and Finance Committee, the Treasurer, the Chief of Finance and Operations, the Controller, and the Chancellor met with Bishop Dietsche for extended meetings on August 29 and September 7. The Trustees met on September 7 and Council met on September 12, and a presentation of our finances and the budget was made at each meeting. The Trustees and Council approved of our plan to submit a memorandum in the Calendar of Convention in lieu of a budget spreadsheet. Throughout September and October work continued. The Chairs of the Budget Committee and Finance Committee, the Treasurer, the Chief of Finance and Operations, the Controller, and the Chancellor met again with Bishop Dietsche for extended meetings on October 3 and October 13. The full Committee met again October 19 to finalize and approve the Proposed Budget.

We are very grateful for the time and energy that Ms. Hughes and Ms. Jordan, the staff members who serve on and with the Committee, put in throughout the year. We are also grateful to Bishop Dietsche and Chancellor George Wade for their time and assistance.

## Part 7 – Proposed Resolutions by the Budget Committee

We recognize that the Calendar of Convention including all resolutions has already been published. The Bishop has assured us that he will mention the budget in his address at Convention, and so we offer the text of three resolutions we will be submitting at Convention.

### BUDGET COMMITTEE RESOLUTIONS 1 AND 2

**Proposer of Resolution:** The Rev. Matthew Hoxsie Mead, Chair of the Budget Committee

**Parish or Organization:** Budget Committee of the Diocese of New York

**Telephone and E-mail:** 914-738-5515; matthew@christchurchpelham.org

**Title of Resolution(s):** Adopting the Proposed Budget.

**Text of Resolution(s):**

*Resolved:* that Canon 17.1.3 be modified as follows:

[ 1 ] Resolved: That the 2018 Apportioned Share Budget presented herewith be adopted; and be it further

[ 2 ] Resolved: That the Controller shall apportion in accordance with Sec. 1(12) of Canon 18, each congregation's share of the 2018 budget of \$ 10,678,286. According to Canon 17, Sec. 5, this is to be paid by each congregation in four installments on the fifth day of January, April, July and October 2018.

### Commentary on Resolution

These are the standard resolutions that accompany the Proposed Budget in the Calendar of Convention each year.

### BUDGET COMMITTEE RESOLUTION 3

**Proposer of Resolution:** The Rev. Matthew Hoxsie Mead, Chair of the Budget Committee

**Parish or Organization:** Budget Committee of the Diocese of New York

**Telephone and E-mail:** 914-738-5515; matthew@christchurchpelham.org

**Title of Resolution(s):** Moving the canonical date the Proposed Budget is due to Council.

**Text of Resolution(s):**

[ 1 ] Resolved: that Canon 17 Sec. 1 (3) be modified as follows:

No later than **fifty (50)** ~~seventy (70)~~ days before annual Convention the Budget Committee shall submit to Council and to the Trustees a draft budget of Diocesan expenditures for the following year with an accompanying narrative. The budget shall be presented at the next meeting of the Council at which members of Trustees are invited to attend and given voice. The Council may approve, reject, or modify the budget or narrative, provided, however, that no budget may be approved in which projected receipts are less than projected expenses. The draft budget approved by the Council shall be the proposed budget.

### Commentary on Resolution

The requirement of seventy days was added to the Canons in 2016 to enshrine what was then current practice. Council and the Trustees traditionally meet at the *start* of September, and the

Proposed Budget and Narrative have been made available about two weeks before each meeting occurs.

This year's budget process has highlighted two flaws which have been long-standing challenges. First, the budget is being crafted during August when the Bishops, commission and committee chairs, and senior staff are on vacation. Second, the Finance Office is still finalizing mid-year numbers and full year projections during the bulk of our budget process. By adding an additional 20 days (essentially three weeks) the Finance Office can focus on getting end of year projections throughout August, and the decision-making part of the budget process is placed into September when the Bishops, commission and committee chairs, and senior staff are easily available.

Both Council and Trustees would need to move their September meetings back or add an additional meeting at the end of September or early October to approve and review, respectively, the Proposed Budget. The Calendar of Convention is now distributed electronically 30 days before Convention and so no extra time is needed, as in the past, for printing.

This would give a window of 20 days for the draft budget to be made available to Council and the Trustees, both bodies to meet and for Council to approve the Proposed Budget, and the Budget Committee to finalize the Proposed Budget and deliver it to the Secretary of Convention.