

Standing Committee on Administration & Finance

Portland, Oregon

March 1, 2007

Present: Kurt Barnes, Jon Bruno, Tom Gossen, Bettye Jo Harris, Josephine Hicks, Linda Watt, Ted Yumoto; from the staff Lori Ionntiu and Nancy Caparulo. From the press: Steve Waring; Kendall Harmon and Dick Snyder. Many of the committee members were delayed in travel. Absent with notification: Dennis Stark.

Josephine brought the meeting to order at about 7:08 PST with prayer and welcomed Linda Watt to her first Executive Council (EC) meeting since her arrival as the new COO at the Episcopal Church Center (ECC). Brief self-introductions were made around the table.

A review was made of the November 2006 minutes. It was **moved** to approve them as presented (Jon), **seconded** (Ted) and **carried without opposition**. The minutes from the January 16, 2007 conference call were addressed. It was **moved** (Ted), **seconded** (Jon) and **approved** to accept them as presented with **2 abstaining** since they had not participated in the call.

Josephine introduced AF- 20 and explained the intent to include more people from EC to have input and contribute policy guidance in the budget process earlier in the process. The resolution proposes a task force of members from each EC standing committee to discuss ways to improve the process, making it more meaningful and smoother for EC and management. The task force will report at the fall 2007 EC meeting. This work is focused on the 2010-12 triennial budget, hopefully one that doesn't "preserve the past." It was **moved** (Jon) and **seconded** to accept AF-20's proposal. **Motion carried.**

By consensus of those gathered, AF-13, 15, 16, 17, 18 and 19 (copies to be distributed and discussed with greater numbers) would be placed on the consent calendar. AF-11, 12 and 14 would go to plenary.

COO's Report

Linda Watt reported about her work over the five weeks she has been at the ECC. She described her mission as one that will ensure that the church center's work focuses on the priorities of the church and that the work is carried out by a motivated and fairly compensated work force. She has initiated a working group called "Organizational Effectiveness of the ECC" and has called upon a diversity of experience, including enlisting Diane Pollard to work with that group. Their question is, "What should the ECC be doing and how?" What is the structure necessary to accomplish the work that reflects the priorities of the church? A questionnaire will be directed to EC and HOB to get those views. She feels that the bishops need to express their concerns and identify what they need from the ECC. Bob Nelson is heading the group on behalf of the PB.

Another working group will be talking about the work force, specifically performance measures and motivation - what motivates people to do outstanding work and what de-motivates them? The issue of compensation is a significant one and there is a sense that ECC staff are underpaid.

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They will explore how to reward outstanding performance, look at providing incentives and rewards; the effectiveness of cost of living raises, etc. Linda continued that communication both inside and outside of the church is critical at the moment. A high priority is to develop strategies for the PB and other senior staff in terms of what Linda calls "in-reach" to the church and outreach to the world and how those communications can be most effective. She is also looking at communication between 815 and the wider church.

The renovation work is nearing an end with the PB's residence due to be done on March 23 when she returns to New York. The Bookstore cafe is open and lease negotiations with a tenant for the ECC rentable space are almost finished.

Tom, applauding the communication efforts, opined that the church doesn't tell well what we do that is good and inquired as to the status of the tenant. The short answer was that the terms and conditions were extremely detailed and that income is anticipated to begin January 1, 2008. Noted: the build-out can't begin until the lease is signed and that should happen soon.

Treasurer's Report

Kurt provided a short account of changes that have been made in the accounting system that will allow departments to get real time budget reports whenever they want them.

Auditors are arriving in mid-March; it is anticipated that the audit will be completed at the end of April or beginning of May. An assistant controller resigned in November, a position that is still open. For cost savings, cross-training within the finance office will allow the elimination of one or two fulltime positions, expanding the work and job content of those who remain. When the GC budget was presented in June 2006, management committed to identifying \$275K per year in staff reductions. Most departments have identified a reconfiguration of activities to achieve that.

A summary was circulated illustrating ECC commitments made to the MDGs. The staff agreed to direct \$52K in support of the MDGs and the list shows the variety of direction for the money. Discussion followed about departments further reducing their budgets by a percentage and it was agreed that some clarity is needed about the request for the commitment to the MDGs.

The Chair raised the issue of the GC 2006 resolution (C010) requiring that the site for the 2012 GC should not be in a state that doesn't allow domestic partnerships. Lori has begun the process to explore Charlotte, New Orleans, Kansas City and Indianapolis. C010 applies only to Texas and Ohio currently. It was agreed that A&F will revisit C010 to re-discuss it as it might apply to the future.

Josephine recessed the meeting shortly after 8 PM PST and reconvened it on March 2 at 1:30 PM with Jon Bruno offering prayer. In addition to those present the prior evening were: Vicky Garvey, Del Glover, Gay Jennings; from the staff, Alpha Conteh, Margareth Crosnier de Bellaistre, Tony Jewiss, Kim Tucker (Assistant to the President of the House of Deputies); Holly McAlpen, representing PB&F for Chair, Pan Adams-McCaslin; Archivist, Mark Duffy. Absent: David Alvarez. Two press members were present.

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Josephine provided a brief review of last evening's meeting for those who missed it because of travel difficulties.

AF-19 was briefly discussed, the restated certificate of incorporation of the Episcopal Church Building Fund, and approved for presentation in plenary.

AF-20, EC's role in the triennial budget process, was explained. This group will come back before fall EC with recommendation for what the process would look like. This was moved (Jon), seconded (Bettye Jo) and carried without opposition (a re-vote to insure the mind of the committee).

Financial Report

Kurt began by explaining the income shortfall occasioned by the unexpected non-payment of 2006 commitments by several dioceses in the amount of approximately \$800K. This was somewhat offset by improved market performance and increased income from invested funds and more revenue than anticipated from General Convention (GC) registrations. The budgetary income statement was reviewed and explanations provided. There were unusual expenses in the Canonical portion of the budget, the House of Bishops and Communications. (Beginning in 2007, reserve accounts have been established for PB's transition and installation expenses.) Ultimately, there was a budgetary loss of \$2.1 million compared with the \$1.2 million budgeted. Request was made to have staff in future number the lines in the budget presentations.

Suzanne Baillie joined the meeting.

The causes for income shortfall were examined in some detail. The issue was raised that, although the Canons provide for twelve monthly payments from dioceses against their commitments to the Budget, there is no system in place to see that it happens. Some dioceses pay their commitments once a year.

Inquiry was made about what obligation A&F might have with respect to diocesan pledge payments that do not meet their full asking. There is nothing in the canons to deal with this issue. PB&F took a position to not hold their meetings in dioceses that are not meeting their asking. After some examination of this issue, it was agreed that Jon, Gay and Vicky would work together to make recommendations to address it. Linda described it as two matters: 1) not attempting to commit at the 21% asking and 2) not actually sending in what has been committed.

Tom has been participating on the Budgetary Funding Task Force chaired by Bishop Jim Waggoner that, among other things, is looking at the 21% asking. Margareth's staff is contacting every diocese to inquire about their budgets to provide the treasurer's office with the information. The treasurer's office would like to do a survey of dioceses to learn about the assessment methods used in each to help inform the task force.

A request was made for clarification of the role of A&F's subcommittee in order to avoid cross purposes with the budgetary funding task force. Josephine suggested that A&F's group will propose consequences appropriate for dioceses failing to submit in a timely way the financial information they are supposed to submit and for those who fail to meet their commitments. Jon

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and Gay will talk with Stacy Sauls (also on the Budgetary Funding Task Force) and Jim Waggoner. The treasurer's office staff will work with them. After conversation, if they feel the work is duplicative, there won't be an A&F task force on this.

Del pointed out that EC has the responsibility to talk with the dioceses and that there are also provincial representatives on EC, affording the body a number of ways to approach information gathering. Del will join Jon, Gay and Vicky on that task force.

Investments Report

Margareth reported 17% performance for invested funds in 2006. Overall for past 5 years it is 8.7%. This will be better when 2002 is not included in the 5-year rolling average. It was noted that the DFMS endowment is invested for the long term. Eight of nine investment managers outperformed the benchmarks. There was a request for greater clarity in the presentation of trust fund income so that everyone can understand it. DFMS continues to invest 80/20 equities to bonds.

Renovation of the Church Center

Kurt said that \$32.9 million has been paid out to date of the approved \$34 million for the renovation project. He explained the current status, discussed the frustrations of arriving at a lease agreement with the tenant, and maintenance expenses associated with the new sophisticated HVAC system. Suzanne explained the difficulties with the engineers and the costs involved with the oversights they caused. In the next 2 weeks the project will be done and we will make a final payout to the contractor.

Bonnie Anderson joined the meeting.

2007 Budget Report Summary

Kurt reviewed the revisions made to the 2007 budget from that passed at GC in June. Jon recommended a sinking fund in the budget as well as a contingency line. There is insufficient income at present to support those needs. While the budget passed at GC showed deficits for the first two years of the triennium, the third year anticipated increased income to make up the difference. The proposal to meet the deficit in 2007: increase the payout from trust fund income to 5.5% from 5% and access the short term reserve (now at \$11.6 million) in the amount of \$2 million. Originally, the triennium budget had been built on the assumption that rental income from a tenant would be realized in 2007. Kurt explained the difficulties in finding a tenant.

There was comprehensive discussion concerning the 0.5% raise in the payout rate and in using \$2 million of the short-term reserves. Further concern was raised about de-capitalizing the trust funds by raising the payout; by raising it in the past, DFMS capital was decreased by about \$3 million. It was noted that drawing from endowment could result in de-capitalizing, but at the same time, the amount set aside for legal expenses to protect property may not be sufficient to deal with the reality. Kurt suggested that taking an increased temporary draw or drastically cutting spending were the options available at present. Some felt that by pulling \$2 million from the reserves hard decisions about reducing expenses would be avoided in 2007, but that 2008 and 2009 budgets need to be items of concern. Kurt said that under current uncertainties in church politics, making reasonable forecasts of revenue beyond three months is difficult.

Bonnie pointed out that AF-75 (EC 2005) provided that the rise in the payout approved by GC would be temporary. Kurt responded that the corpus of the endowment funds has not been invaded. He added that the inflation adjusted return is greater than the amount of removal proposed. This generated additional discussion and the suggestion that it is necessary to decide what the church is supposed to be doing, put the priorities where they need to be and do what is right for the church. Linda said that one group at 815 is figuring out how to make the ECC more effective, which shouldn't be driven by money but by what the Church wants to do in the world.

It was agreed that a 3-year plan to increase revenue would be in order as well as decreasing expenditures and that this was not going to be a quick fix.

After additional discussion it was **moved** (Jon) to 1) approve the plan set by Kurt (including raising to 5.5% for 2007 only); 2) that the presiding officers establish a task force from across EC to look at the means necessary to avoid this exercise for the 2008 budget; 3) provide plans for the development consultant we are hiring to set expectations for performance quotas and goals for fund-raising; 4) that contacts/discussions be held with dioceses that are not paying (the A&F task force of 4). **Seconded** (Bettye Jo). Discussion followed, leading to the **withdrawal of #3 of the motion with the seconder's consent**. A further discussion of the nature of the short-term reserve, its size and how it is carried on the DFMS books. Eventually, it was suggested that the resolution be crafted and returned to the committee for its approval.

Josephine recapped a bit, asking if everything not included in the GC approved budget was now being considered. Potential cuts and additions were considered. The Title IV task force request for \$36K was passed at GC after the budget passed as a supplemental money bill, which EC is asked to consider. The GC never got a chance to do that. It was agreed that the General Board of Examining Chaplains would be expected to live within the budget allotted to them and encouraged to increase their fees at the next GC so that they would cover the costs of same. Preferably, they would increase the fees before 2009.

The pressing need of the Archives to mount a feasibility study for major fund-raising was raised and agreement reached that \$150K per year of the triennium should be added to the budget.

Josephine related that GC resolution C-010 had been taken for consideration by National Concerns and recessed the session at 5:50 PM.

The meeting was reconvened on Saturday, March 3 at 9:00 AM with Del offering prayer. Dennis Stark was present at the meeting as was Jim Lemler and two members of the press.

Consensus was reached that AF-19 would go on the consent calendar.

Discussion returned to the proposed change in the payout rate from 5% to 5.5%. Kurt introduced the necessity for doing this to the Investment Committee (IC), which talked about it further. Kurt had worked up some figures to show the amount that could have been available using a 10-yr rolling average (7.3% annually without de-capitalizing the trust) or a 5-year rolling average (6.1% annually without de-capitalizing the trust). Even if the trust experiences a 17% loss in

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2007 it would be possible to increase the dividend payout for 2007 without de-capitalizing the trust. Hence, the trust payout can manage 5.5% with a minimum of risk. A short discussion about alternative investments ensued.

AF-11 (changing the trust funds payout rate to 5.5%) was **moved** (Tom), **seconded** (Del) and **passed unanimously**.

AF-12 (approve the budget for 2007) was **moved** (Del), **seconded** (Tom) and **passed unanimously**.

AF-21 (budgetary funding), after the language was perfected, was **moved** (Gay), **seconded** (Vicky) and **carried unanimously**. Linda asked to be included on the A&F task force and the task force that the presiding officers will appoint.

AF-14 (Gerdau Trust), after the numbers were corrected to reflect the change in the pay-out rate, was **moved** (Del), **seconded** (Ted) and **carried unanimously**. Jim explained that these are budget categories that exist – congruent with the purposes and statement of the trust – building the capacity of ordained leadership in the church.

Archives

Dennis reported the conversation held in the IC that led to appointing a 3-person subcommittee charged to look into the possibility of purchasing a parcel of land for the Archives. Wesley Williams is heading that committee. While the IC has begun to discuss alternative investments, it has not done this kind of thing before. Investments of the Episcopal Church are in traditional instruments. Buying land would require a very big bite and while that remains a possibility the timing is not ideal. Long discussion followed about potential partnerships in a real estate venture specific to the relocation of the Archives.

One scenario is buying one commercial property, then using three quarters of it to defray the expense of the Archives. Changes in the situations of two other possible sites require that additional conversations take place to see if there are implications for the Archives proposal. Mark will make these calls.

Mark made an appeal that A&F consider the same criteria that the Archives Strategy Committee subcommittee on site selection previously used to evaluate sites and plans for the Archives. He noted that the conversation was not about a storage facility but on a mission opportunity, a way to focus on future mission; the three groups submitting formal proposals were on board with the Archives' presentation/mission. Jim discussed this a little further in terms of fund-raising and philanthropic buy-in.

Next steps are: 1) proceed with the advice and consent of EC to do a feasibility study and establish a fund-raising campaign within a mission context; 2) form a new task force to explore broader partnership. The Archives' lease with the Seminary of the SW ends 12/2009 and if the Archives stays after that date the rent will triple to \$90,000 annually. The seminary needs the library space as well. The need for a bridge loan was apparent. A&F will continue to work with this and hold a conference call after more information is gathered. This work is seen as a piece of mission funding activities and, for purposes of communication, the focus needs to be on mission vitality across the church and its ties to church planting, clergy education and mission

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work. It was agreed that a subcommittee should make the final recommendation after additional due diligence is done on the three sites from whom proposals have been received.

AF22 (Archives strategy & relocation) was then **moved, seconded and approved** unanimously.

Josephine brought up A110 from the last GC. Every EC committee has been asked to look at it and Josephine suggested that A&F wait a bit. Gay, who is on the SC on Structure, said that committee is in process of looking at external EC committees (there are 10). They will meet in May, and Gay will report in June with the progress of their deliberations.

The session concluded with a discussion about A042 (church planting) and it was agreed that the issue has already been handled. Jon suggested that Jim's presentation include talking about replants along with new plants, particularly in the inner city. Jim talked about new urban starts and re-starts. There was some question about the mission funding effort having a continuing relationship with A&F. Jim identified a need for an advisory group about mission funding work that would include members from A&F, the SC on Stewardship & Development and those having experience in fund raising. Specifically, any ongoing relationship with the "board" needs to be through A&F.

Having no further business, Josephine adjourned the meeting at 11:45 AM PST.

Respectfully submitted,

Nancy Caparulo
Staff support to the Committee