

**DIOCESE OF EL CAMINO REAL  
NARRATIVE FOR THE  
PROPOSED DIOCESAN 2014 BUDGET**

**I. Purpose**

This narrative is intended to increase the reader's understanding of the thinking behind the 2014 diocesan budget.

**II. Budget Process and Overview**

The Budget Advisory Committee (BAC) is responsible for creating a diocesan operating budget. When the BAC completes its task, the proposed budget is submitted to the Board of Trustees for review and input. The Board of Trustees then recommends a final version of the budget to the Diocesan Convention for its adoption.

This spring, we on the Budget Advisory Committee received budget requests for 2014 totaling \$1,561,000. At the same time, working with input from the diocesan Canon for Finance and Administration, the Finance Committee, and the diocesan Treasurer, we developed an income projection for 2014 of \$1,471,000. Thus at our first run-through, the funding requests of 2014 exceeded the projected income by \$90,000.

Since the BAC is mandated to create a balanced budget, this deficit meant some funding requests had to be cut. Following due consideration, we arrived at the enclosed balanced budget. In August and September, the budget will be presented for comment and input at three deanery meetings, after which, the budget will be posted on the diocesan website.

The BAC also considered the \$200,000 projected revenues to be raised in the first year of the Bishop's Annual Appeal. This money will be used to hire a part-time Communications Director at \$75,000 and a part-time Development Officer at \$50,000. The remaining \$75,000 will be allocated to Department Of Mission's budget (DOM), restoring the +/- \$68,000 removed from DOM's budget in 2012 and fully funding DOM's request for 2014. The Bishop's Appeal will continue into 2015 and 2016, raising an additional \$200,000 for each of those two years.

We concluded that the revenues from the 2014 Bishop's Appeal and the associated expenses would be dealt with off-budget until the money and/or commitments are in hand. As of this writing, the prospects for raising the full \$200,000 this year look very good. Once the money and/or commitments are in hand, the income and expenses will be recorded on the diocesan books and administered in the usual fashion.

**III. Projected Income**

The major source of diocesan income (not including the Bishop's Annual Appeal) comes from Fair Share receipts (line item 40000 on the first page of the proposed budget). Fair Share

receipts in 2014 are projected to be \$1,285,000. The 2014 figure represents an increase of \$40,000 (+3.2%) over this year's currently estimated Fair Share income of \$1,245,000 and an increase of \$50,000 over 2013's budget.

The current 2013 Fair Share income estimate is \$10,000 more than the budgeted Fair Share income for 2013. This \$10,000 Fair Share increase, small though it is, marks the first time in the past five years that our estimated Fair Share income has been higher than our budgeted Fair Share income. In addition, our 2013 true-up income is \$10,000 higher than our budget. The July Fair Share true-ups resulted in one church lowering its 2013 estimate by \$17,000. On the plus side, expenses are coming in lower than budget. As of this writing, we are projecting a small surplus for 2013. However, it is important to remember that we are in the late summer, with a large portion of the year remaining and a possibility that this surplus could disappear by year's end.

The BAC increased the projected 2014 Fair Share income because of the promising 2013 Fair Share revenues and because the general economy appears to be modestly on the mend. However, as 2014 unfolds, there is a possibility our Fair Share income will fall short of our estimate. Should that happen, the Finance Committee will develop options to maintain a balanced 2014 budget. In past years, the principal balancing option has been to freeze portions of the budget.

*"True Up" income* (Fair Share income received in the following year; line item 40010) was increased in 2014 by \$5,000 to \$55,000. This is \$10,000 less than we received in 2013, but is the same level we realized in 2011 and 2012.

*Interest income* (line item 81000) is projected at \$4,000 for 2014, an increase of \$1,000 over that budgeted in 2013, but reflecting the actual interest income received this year to date.

Line item 41100 is the *pass-through compensation* paid by Monterey County to the Rev. Cynthia Montague for her services as their jail chaplain. The off-setting expense is captured in line item 54020 found in the operating section of the 2014 budget. These two line items are a wash and have no impact on the diocesan operating budget.

Line item 96110 is titled *Designated Funding* and totals \$50,000. This represents a decrease of \$30,000 compared to 2013. \$40,000 comes from *endowment funds* and \$10,000 comes from *operating reserves*.

The *endowment fund income* is income realized on the underlying corpus funds. It is not money taken from the corpus. Some of you will recall our recent endowment rationalization project establishing the provenance of the endowment funds we received when our diocese was carved out of the Diocese of California. With the completion of this rationalization project, we were able for the first time to determine the corpus and the earned income of each endowment fund.

Because of the age of these endowment funds (some dating back to the early 20<sup>th</sup> century), we

discovered that in many cases the total income earned from the inception of the fund exceeded the underlying corpus.

Consequently, our auditors advised us that we should spend the income portion of these funds as they were intended on an orderly basis, hence their use in this budget. The endowment income is allocated to specific budget line items that are, as much as possible, in keeping with the original donor's intent. As has been true during the past two years, we have budgeted less endowment money in 2014 than in previous years because we believe these funds are best parceled out judiciously over time. At this time, we have approximately \$200,000 remaining of our immediately spendable endowment fund income.

The \$10,000 budgeted from our *operating reserves* is a reduction of \$10,000 from 2013 to reflect our belief that it is prudent to maintain an operating reserve of approximately \$250,000, about two months of our projected spending. In 2012, we finished the year in good enough financial shape that we did not have to tap the operating reserve money. Thus far in 2013, our operating reserves have averaged about \$250,000.

The final item in the income section (43200) is the *IRS Refund* based on the provisions of Obama Care. In 2012 the diocese received a refund of monies paid in 2010. In 2013, the diocese will receive another refund of about \$16,000 from insurance premiums paid in 2011. A similar refund will likely be available in 2014 and so is included in our budget.

#### **IV. Projected Expenses**

The first expense item in the budget is the *Department of Mission (DOM)*. DOM continues to be funded via a block grant, reflecting the belief that DOM can better allocate the components of its budget than can the BAC. As noted above, for 2014 the DOM budget will receive \$75,000 from the Bishop's Appeal bringing its funding total to about \$268,000, thus fully funding its request.

*Education Ministries* are being decreased by about \$4,000 compared to 2013. The reduction is caused by CERT's lower request for 2014, reduced from 2013 after they factored in fees they received for their various events. The major component of this budget category continues to be the Conference Education Resource Team (CERT), which funds in part or in whole: two major diocesan conferences (January and May), broad-based organizational training, seed funding for The Episcopal Network for Stewardship (TENS), a clergy conference, and various other trainings.

*Ministry to Congregations and Clergy* was increased by about \$1,500 compared to 2013. The increase comes from additions to internet related expenditures.

*Miscellaneous Expenses and Fees* were increased slightly over 2013 and match the 2014 budget requests. *Risk Management Fees* are the largest component of this section at \$22,500 and represent the expense of having outside management handle the clergy health and workman's compensation insurance. It is generally recognized that this expense is off-set by more favorable

insurance rates than the diocese could negotiate on its own.

Five items in this category (line items 99007, 99005, 99000, 99008, and 99010) are sinking funds that are funded every year, thus spreading their expense over several years and making the cash outlays more manageable when they occur. Since the funding for these items is included in the TEC assessable income in the year the transfer is made, when we spend them in the future, even though they are part of our operating budget, we will not include them in our TEC calculation for that year.

*Mission Beyond the Diocese* is primarily made up of our giving to The National Church (TEC). As many of you know, in 2007 we submitted a Diocesan Restoration Plan to TEC. In our Plan we temporarily reduced our giving to TEC. In 2013, we "graduated" from restoration status and paid the full asking from TEC, which was 19% of our adjusted diocesan income. For 2014, we will give TEC approximate \$8,000 more than in 2013. The \$200,000 income projected from the Bishop's Appeal has been deemed "special project" income and thus is not included in our income base for the 2014 TEC asking.

The *Province VIII Mission Program* expense has been held at the 2013 level of \$500, this on the advice of Canon Brian Nordwick, former treasurer of the Province.

*Office and Operation Expenses* have been increased \$9,000 or 6.8% over the 2013 level. No single item was increased significantly and the increases were generally scattered across the twenty-three budget categories within the administrative budget.

*Companion Diocese Mission* (50020) expense represents our support to our sister diocese in Africa and represents an increase of \$5,000 over 2013

*Special Ministries* funding remains the same in 2014. Within that category, the *Higher Education* line item funds a portion of the compensation for clergy persons on the campuses at Cal Poly University (Canterbury) in San Luis Obispo, San José State University in San José, Cal State University at Monterey Bay in Monterey, and the University of California (UCCM) at Santa Cruz.

The *Santa Maria Urban Mission* line item funds expenses associated with running the mission in San José. Diocesan support of \$30,000 in 2014 remains constant from 2013 and covers approximately 15% of Santa Maria's total expense budget for 2014.

Again as noted earlier, line item 54020, the contract for *Rev. Montague* and Monterey County, is a pass-through item offset by line item 41100 in the income portion and so has no impact on the diocesan operating budget.

*Support to Mission and Ministry* increased \$8,000, or 1.1% over 2014. This small increase follows more significant salary adjustments made in 2013 when we adjusted Bishop Mary's salary 6.4% , reflecting an ongoing commitment dating from her arrival in the diocese to

gradually bring her compensation up to that of the median salary paid to bishops in comparably sized dioceses in this province.

## **V. Further Issues**

The BAC concluded that at this time it was unable to produce draft budgets for the future because of the possible budget impacts of the ongoing strategic planning process, the Bishop's Appeal, and uncertainty over the Fair Share formula.

Addressing the Fair Share question directly, at the 2012 Diocesan Convention, the Fair Share cost of living adjustment was frozen for two years. This means the 10% level of the congregational Fair Share calculation will be held at \$206,000 in 2013 and 2014. At the same time, the Convention directed the Finance Committee to evaluate the current Fair Share formula including the freeze and report its findings and recommendations to the 2013 Diocesan Convention. It is possible that the 10% Fair Share level as well as the other components of the Fair Share formula, could be changed by the Convention and used in 2014.

## **VI. In Conclusion**

Hopefully, this narrative has addressed the key issues associated with the creation of the 2014 diocesan budget and assists the reader in understanding how and why we got to where we are. If the reader has additional questions, he or she should feel free to contact a member of the Budget Advisory Committee or email any questions or comments to Brian Nordwick at the diocesan office.

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