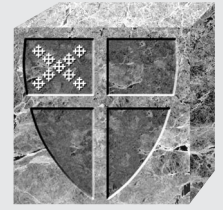


VESTRY PAPERS

To Encourage and Guide Those Called by God to Lead Episcopal Congregations



CORNERSTONE

IS A MINISTRY OF

THE EPISCOPAL CHURCH

FOUNDATION

Finances: Leading by Example

by Bill Nolan

Like pruning a vineyard in a drought, how a parish spends its money during tough times is critical — and like it or not, sends a strong message to parishioners about their own spending.

Outreach: Fixed or variable?

Many years ago I served as a commercial loan officer for a major bank. My area of expertise was lending money to churches.

As bankers, we did not want to ever foreclose on a church. We had to be completely confident that the cash flow was available to pay back the loan.

When we analyzed the profit and loss statement of a church to find the source of repayment, we always heard the same story: "If money ever gets tight, we can always divert the allocation for missions and out-

reach to debt service." Missions and outreach was often a rainy day account that could be used elsewhere, as circumstances warranted.

Tough times

The last two or three years have been tough on stewardship. Major economic indicators are down, personal income is stagnant, and the boom years of the '90's are long over.

If your annual stewardship is suffering, are you tempted to reach into the line item entitled "missions" in order to meet other expenses? Isn't it more important to keep the church doors open than it is to send money to Africa or somewhere else? Someone else will do that. Besides, it is only for a year or two...

Consider this analogy. Families in your congregation have income and expenses, just

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TIGHT TIMES, HARD DECISIONS Authentic Tough Talk

by Dick Kurth

Who would disagree that authentic, honest talk about money is one of the very toughest things a vestry has to do? It is particularly hard in tough economic times, when it is most necessary.

Every time we present a budget to the community, we are asking for something. How then, to communicate in such a way that people believe what we are saying? Whatever the hard choices we have made — to maintain one program at the expense of another, to defer badly needed repairs, to lay off staff, or even to run a deficit — have been made after much debate and prayer and in good faith. Will the community support us?

Believing it ourselves

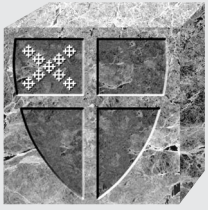
The first thing we need to be sure of is that we have actually done all of those hard things we think we have done. In other words, to be believed we must believe it ourselves.

A few years back our vestry went through a discernment process exploring who we were and who we wanted to be. This followed a period in the early '90's when recession, clergy turnover, interim ministry, less than crystal clear accounting, deficits and staff layoffs led to real pain and distrust in the

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When the economy turns south, pledges may drop, plate contributions may lessen, and often, endowment income shrinks. How then, to keep the faith — and keep the boilers running as well? Here four church leaders explore a range of possibilities.

*This Issue:
Church Budgets
in a Bear Market*



Authentic Tough Talk

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parish. To help heal, a vestry pledge had been made to balance the books every year come what may. There would be no surprises. That promise was kept. After six or seven years of stability, we sensed that trust had been restored. Now it was time to dream a little. Things felt good in the parish. We were ready for the next level.

Under the leadership of three very capable senior wardens over two years, dream we did: What would the church look like if we glorify God in a way commensurate with our underlying resources? Moreover, what if we went beyond the basics and were able to raise whatever funds we needed? We took our time; there was real depth and enthusiasm. After costing our dreams, we came up with an annual budget roughly \$300,000 at a minimum and \$500,000 at a maximum over where we were (approximately \$900,000 total).

Successive treasurers wanted to hustle through the routine; other members did not want to look stupid.

By and by stewardship season arrived. The senior warden asked all vestry members to significantly increase their own pledges in order to lead the parish in this fresh beginning. Our vestry goal was an increase of 33% over a couple of years.

As I remember it, pledges from the vestry went up a paltry 2%.

I was junior warden at the time, shortly to be senior warden. I was terrified. I knew that this vestry really wanted the things it had dreamed. I knew that times were relatively good. I knew that the parish was not on the warpath.

The rector and I started asking each other questions. What was it we didn't know about ourselves? Our tradition is to find our treasurer, stewardship, and finance committee chairs from among the bankers, traders and investment managers in our community. They had, over the years, done a great job of ensuring that we stayed within our limits. But, we asked ourselves, what do our budget discussions feel like? Not particularly good. We know what is said, but what is the relational tone? Maybe the non-financial people running programs were intimidated?

Not trusting the budget

We developed a hunch that there wasn't a collective understanding of the budget we already had. Not trusting the budget, the vestry was not equipped to field questions from the parish about it.

Rarely were there any serious financial questions at vestry meetings and when there were, the answers were often defensive. Successive treasurers wanted to hustle through the routine; other members did not want to look stupid. And of course, things were in good shape. We hadn't run a deficit in years. We were stuck without being aware that we were stuck.

We pushed and pried in private with some vestry members. What were their real attitudes toward "the numbers?" We learned that there was a widespread assumption that there was a lot of slush in the budget, only that it was going to some program other than their own.

We scheduled a series of non-mandatory meetings over the summer to completely and thoroughly shine light on the budget. A lot of work went into these; no question was too small, and frankly, no question was too dumb. Since it put the responsibility and the opportunity on each of us personally, every vestry member came to every meeting. We had a lot of fun. When we were finished, we had an absolutely solid foundational budget, and we proved what we had been saying all along. There was no slack at all in the budget, only now we knew that for certain. Our treasurer was vindicated. But now he knew how to talk a community talk. He knew that people were with him step by step.

Maybe best of all, we eliminated a lot of tangential conversation that was really about money, but didn't come right out and say so. And the vestry's own pledges went up — from 2% to 36%!

Authenticity flows from knowledge and belief. It creates genuine movement and unsticks the stuck. We should always question our assumptions to be sure to learn what we don't know. And like all true knowledge, we come by it personally, firsthand. Don't we owe that to ourselves and to the communities we lead?

The former senior warden at St. Luke's in Darien, Connecticut, Dick Kurth is principal of Richard Kurth Associates, a leadership development firm in New York City.

Completed parochial reports for 2002 (6,835 out of 7,289 parishes have reported to date) indicate the median investment portfolio for Episcopal churches is \$125,710; the median total revenue is \$149,489; and the median operating expense is \$121,392.

Source: C. Kirk Hadaway, director of research, the Episcopal Church Center.

When the Nest Egg Shrinks

by Fred Osborn

People die. They don't take anything with them. They leave everything they own behind. Through their estate plans (if they have any), they give what they own to other people, the government, charity — and hopefully their churches.

Since Episcopal churches have existed in the United States, endowments have been created by generous people who have left property and money through bequests.

How should those endowments be used? Should parishes have an endowment at all? How should they be managed? *And how do you manage your parish's operations when the value of the endowment shrinks?*

Using endowments

The way endowments are used is often predetermined by the donor and generally support five categories of church life: building maintenance, Christian education, music, youth and outreach/mission work. Exciting, creative uses of endowments in these categories enhance outreach and service.

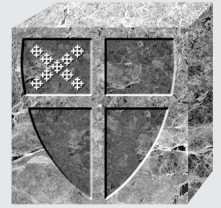
Sometimes endowments are used in less exciting ways, like supporting the church's operating budget. If that is the case, a certain complacency often becomes ingrained in the vestry and clergy, for relying on the income from dead people's money can yield a dead church. I know of one parish where the endowment income is sufficient to pay the clergy, maintain the building and pay a full choir. They don't even need a congregation! And they do virtually nothing beyond their buildings and music (which are lovely, by the way).

Should you have an endowment?

How an endowment is used is at the heart of this question. If everyone would tithe, we wouldn't need endowments. Perhaps so. But everyone doesn't tithe, and endowments can be a strong force for mission.

Here at the Episcopal Church Foundation, *we believe that parishes of all sizes, small and large, should have endowments and that*

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*Hot off the press:
Restoring the Ties that
Bind: The Grassroots
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Facing Financial Adversity

by Mary Sulerud

"Therefore I tell you, do not be anxious about your life; what you shall eat or what you shall drink, nor about your body, what you shall put on...." (Matthew 6:25)

In this passage from the Sermon on the Mount, Jesus addresses our very human anxieties about having enough of the basics: food and water, shelter and clothing. As I explore this passage with vestries, I watch them struggle with what it means to listen to God and to be faithful stewards of resources in their care.

As a former rector in the mid '90's, I know what it is like to have a congregation that is the happy recipient of substantial increases in pledge and collection plate income, because the parish is in a growing neighborhood and basically affluent times.

Fearful people

But the consequences for congregations when such a cycle turns, and investment and

interest income plummets, can be equally adverse. And what then? For then the phone lines of folks like me began ringing with very fearful people on the other end wondering what to do.

My response is to try to help vestries put this in the perspective of our faith — to help people to put aside their "money anxieties" — by focusing on discussion of passages such as the above, instead of "What do we cut?" and "How much do we cut?"

Biblical reflection makes it clear that we are not alone in facing financial adversity. It also helps people to be accountable for what didn't go well in an annual commitment program, including a possible over-reliance on endowment income instead of stewardship. And it can help in developing a budget that reflects the real mission and ministry of the congregation.

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Facing Financial Adversity

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Stewardship: The bread and butter issue

So what might a parish look like that is doing well in financially challenging times? In June of 2003 a letter crossed my desk from the rector of the Church of Our Saviour in Silver Spring, Maryland, the Rev. Mark Pendleton. In it he congratulated the members of his congregation for their best stewardship campaign. Giving had even exceeded expectations, allowing the parish to undertake new ministries.

The Church of Our Saviour is a multi-cultural, multi-racial, program-size congregation in a suburban middle class area of Montgomery County, Maryland. Its members are government employees, teachers, social workers, nurses and other health care professionals. Many parishioners come from West African or Caribbean countries.

When asked what his congregation and its leadership did to have such a good annual commitment campaign and such a stable budget in trying times, Mark pointed to three things.

First, the leadership of Our Saviour decided that stewardship was the “bread and butter” spiritual issue of the parish, with all households pledging as the goal.

Second, they were clear about their mission and ministry and the relationship of the budget to accomplishing this God-given purpose.

And third, the rector and wardens were committed to teaching members what

stewardship means and what it means to pledge, using leaders of the various African and Caribbean communities to do this teaching. The work also assumed that new people might not have a clue as to how the church functions financially.

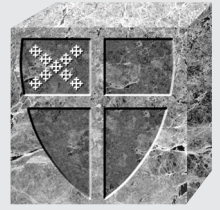
It is quite a success story. Every year at Our Saviour, 98% of the pledges made are paid and, in a parish of 380 household units, 262 pledge. As more new people have become members they have also become pledging members. A fear among the long-time members that the new people wouldn't care like the old people did has dissipated.

Relationships are key

The emphasis at the Church of Our Saviour is not on the dollars. Rather, the focus is on the development of significant relationships with God and one another.

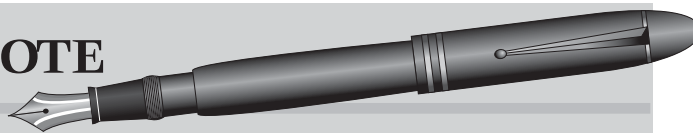
In sum, the problem may be presented as not enough money, but is rarely that. And the rush to cut, reduce, and cross this unpleasant task off the vestry agenda can rob the leadership of the deeper examination of a congregation's stewardship, mission and place in its own community. There is no substitute for this good work.

The Reverend Mary Sulerud is canon for ministry and resource development in the Diocese of Washington.



According to Ernie Petrey, treasurer of the Consortium of Endowed Parishes, a minimum of 1,000 Episcopal congregations have more than \$500,000 in “investable funds.” About 760 have more than \$1 million.

EDITOR'S NOTE



2003 has been a key year for the Episcopal Church, both in terms of economic pressures and the actions of General Convention. Tensions abound, and yet, thankfully, the basics of good stewardship, preaching the Gospel, and forming disciples go on. It is our privilege to offer thoughtful tools for vestries, especially during these somewhat turbulent times.

As you read this issue, know that the Episcopal Church Foundation has a range of dynamic resources to help with philanthropic and planned giving programs in your parish. Call the Foundation at (800) 697-2858 or visit our website at www.EpiscopalFoundation.org to learn more.

—Lindsay Hardin Freeman

*Upcoming Issues:
January — Leadership
in Uncertain Times.
March — Planned
Giving for Parishes.*

When the Nest Egg Shrinks

continued from page 3

they should be used in ways that support the mission of the parish.

Managing endowments

Vestries, because they are responsible for all material assets of the parish, are responsible for receiving, managing and using endowments. In larger churches this responsibility is often delegated to a finance or investment committee. Vision, policies and marketing need to be tight, focused and in writing:

- ✦ **Vision:** What is your vision of how endowment funds will be used? Is it available to potential donors? Trouble arises when this vision is unclear or nonexistent.
- ✦ **Policies:** Potential donors want clear policies to assure them the money will be managed well and for the purpose they have stipulated. Guidelines should address the kinds of gifts that are acceptable (types of assets, minimum size); how the funds will be managed (investment policies, risk tolerance, asset allocation, total return expectations); and how the funds will be used (spending rules or how much “draw down” is authorized).
- ✦ **Marketing:** engage and educate. Get the word out about long-term gift planning. Help parishioners understand the benefits for both congregation and donor.

Dealing with shrinking assets

Many churches use the total return method of calculating how much they will draw from their endowment each year. They measure performance by adding together capital growth and income — and draw down a consistent percentage of the total asset value each year — some use 5% based on a three year rolling average of asset value.

For those who calculate their draw down on a rolling average, the impact of a bear market is softened, or “smoothed,” and its effect on income should be minimal.

For those suffering from more severe drops in income, consider changing the formula temporarily. After all, endowments are often considered insurance for a rainy day, and the investment markets have had pretty crummy weather in the last three years! Reduce activity, fire staff, and close down programs only as a last resort.

Indeed, abundance and scarcity issues are in sharp relief when our net worth falls.

Relative wealth comes to me with a bang when I’m reminded that 60% of the world’s population has never made a phone call!

And relative wealth from a parish perspective comes clear when I’m reminded that more than half of Episcopal churches have annual budgets less than \$100,000.

Get creative

If possible, get creative when things get tight. One vestry member told me, “with our endowment income down, there was talk about cutting our outreach programs. But we didn’t want to do that — they’re our whole reason for being! So we first asked parishioners to give a ‘13th month’ pledge, to make up the difference. If there still was a difference, we would draw a little more from our endowment than the formula allowed — as a strictly temporary measure.”

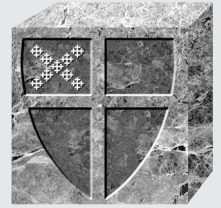
We believe that parishes of all sizes, small and large, should have endowments.

I’ve known that parish for years and been impressed by the frequency of their abundance thinking, the regularity with which they review their blessings and strengths and give thanks to God for them. It wasn’t a surprise that the parishioners gave almost enough, through the “13th month” extra pledge request, to balance the budget.

Many parishes will cut outreach first without reviewing their options. Remind yourself what is important — i.e. God’s work and the mission of your parish. Then review the purpose of your endowment. Does a reduction in the endowment’s asset value affect the income? Does a reduction in the income affect the programs? Can the reduction be made up temporarily by more draw down?

By combining clear vision with a sense of abundance about our church’s endowment, we can continue our good works and “ride out the storm” of declining market value.

Fred Osborn is the director of Philanthropic Services for the Episcopal Church Foundation. To learn about gift options available to support your church including the financial benefits, contact the Foundation at (800) 697-2858 or all@EpiscopalFoundation.org



Learn about capital campaigns and planned gifts at the The Academy for Episcopal Philanthropy in San Antonio, Texas, April 14th-17th, 2004. Sponsor: The Episcopal Church Foundation.

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Finances: Leading by Example

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like your parish. Some of those expenses are fixed and some are variable, just like your parish. Normally it is easier to control expenses rather than raise revenue, just like your parish. What expenses can be controlled? Ah, perhaps the family tithe. Isn't it more important to pay bills than it is to send money to the church? Someone else will do that, right? Besides, it is only for a year or two...

Sending the wrong message

When a vestry decides to cut or reduce its outreach budget in order to meet the normal operating expenses of a parish, it sends a message to parishioners: the tithe is variable, and is dependent upon circumstances. If times are tough, it is acceptable to reduce or eliminate what you give to God until things get better. As leaders, is that the message you want to send?

As a vestry, your parish tithe is basically what you decide to allocate to missions and outreach. It is no different than what a family allocates to charity. Obviously a family's annual pledge will be controlled somewhat by its annual income, but it should never be considered an expense that can be eliminated as needed. If one's car payment goes up by \$150 a month, does that mean the tithe should go down by that much? The pledge should be impacted by income, not by expense.

Consider these averages

According to the *Faith Communities Today* study (<http://fact.hartsem.edu/denom/denom-frame.htm>) the average Episcopal parish spends its money as follows:

Staff salaries/benefits	46%
Operating expenses	23%
Episcopal mission work	10.7%
Capital improvements	6.7%
Program support	5.5%
Other mission work	3.6%
Reserve or investments	2%
Other	2.5%
TOTAL	100%

How do your parish expenses compare? Of those expenses, which ones are variable and

which are fixed? Without getting into deep cuts, assume that "salaries and operating expenses" are fixed. That comprises 69% of your annual income. What of the remaining 31% is variable?

Missions work is almost half of what is remaining. It is easy to see why it is so tempting. Programs and capital improvements are for the members, whereas missions and outreach are for everyone else. Don't we need to care for our members first? Again, bring this down to the family level. Is a new television or couch or room addition a capital improvement for the family? Should that impact the tithe?

It can be a blessing

Tough economic times can be a blessing to a parish. When times are great, we often become reckless with what we support. Programs are funded without any accountability, and ministries are funded without a clear sense of whether it corresponds with our parish mission or vision.

Money actually allocated to missions doesn't always square with what's written in a parish's mission statement. The *Faith Communities Today* study found that "83% of Episcopal parishes have articulated their purpose and direction in a mission or vision statement. However, this same mission statement is only used to determine spending priorities in 13% to 26% of the parishes surveyed."

In tough times you have the opportunity to review programs and specific missions you support to see if they align with your mission statement. If they do, keep them. If they don't, consider them fair game.

An attorney and member of All Saints in Homewood, Alabama, Bill Nolan is the Episcopal Church Foundation's regional gift planning manager for the Southeastern states, comprising Province IV of the Episcopal Church. He works closely with vestries and individual Episcopalians, assisting them in understanding charitable estate planning and implementing their own planned giving ministries. Email: ecfwgn@bellsouth.net

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