

## Adoption of the FY2023 Budget for the Diocese of Vermont

SPONSOR: Diocesan Council (adopted September 21, 2022)

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RESOLVED, That the 189<sup>th</sup> Convention of the Diocese of Vermont adopt a balanced diocesan operating budget for 2023 in the amount of \$1,122,000, and a balanced non-operating budget of \$265,700; and be it further

RESOLVED, That a congregation's contribution be based on 2021 Operating Income reportable on Line A of the Parochial Report applied to a 4 tier percentage. The tier percentage applied to Operating Income will be 11% (\$1 - \$39,999); 13% (\$40,000 - \$99,999); 15% (\$100,000 - \$199,999); and 16% (\$200,000 or more); and be it further

RESOLVED, That a congregation may appeal its assessment to the Commission on Finance. The Commission on Finance would recommend any action to be approved by the Standing Committee and the Bishop.

### EXPLANATION:

#### **2022 Budget Overview**

The Report of the Treasurer to Diocesan Council by Paul R. Horn offered the following overview of 2022:

In mid-2021 a consultant report disclosed governance, decision making and financial sustainability challenges. The THRIVE Task force was formed and has created a plan for a new way forward addressing missional vitality, governance, and collaboration, and financial sustainability.

Since that time, the projected early 2023 "financial cliff" for the Diocesan Office budget has been addressed. An in-depth review of financial management has been performed and funding alternatives identified which have resulted in the operation budget being in much better shape, although some longer-term financial sustainability concerns continue. One of the THRIVE Task Force recommendations was to repurpose selected unrestricted funds to support diocesan operations. The Board of Trustees and Diocesan Council formally approved this action in their September meetings. The new fund is entitled the McClure Butterfield Diocesan Operating Fund.

A minor operational surplus is forecasted for 2022! The primary positive drivers of this improved performance have been congregational support (assessment levels) returning to pre-pandemic levels, increased level of Diocesan Unit Trust dividends, and reduction in The Episcopal Church (TEC) assessment.

The diocese also engaged a financial consultant, recommended by TEC and with approval of the Diocesan Council, Standing Committee, and Board of Trustees. The consultant is assisting the diocese with assessing and prioritizing the financial accounting and reporting

needs, and the governance model. A new accounting and administrative support system will be implemented during the fourth quarter of 2022. The goal is to improve efficiency and have transparency with all diocesan entities.

The reduction in the diocese's assessment paid to the Episcopal Church is temporary and is a direct result of the bishop's request for relief to facilitate the diocese's financial reorganization.

Until 2022, all dioceses in the Episcopal Church were required to pay a 15% assessment on reported diocesan income for two years prior, less an exemption of \$140,000. Beginning in 2023, the exemption will increase to \$200,000. Earlier this year, the Diocese of Vermont asked the Episcopal Church's Executive Council for a temporary exemption, which was granted. As a result, in 2022, Vermont will pay just 10% on its 2020 diocesan income (less the exemption); in 2023, it will pay 12% on its 2021 income, and in 2024, it will pay 14% on its 2022 income. By 2025, the diocese needs to return to the regular 15% rate.

In addition, during 2022, the diocese received a \$40,000 relief grant from the Executive Council. These grants were available to any diocese that applied.

### **2023 Operating Budget Assumptions**

The treasurer reports that the 2023 balanced operating budget was developed to support ongoing diocesan programs as well as expand some THRIVE initiatives. Key assumptions include:

- Overall revenue is projected to be flat compared to 2022. The new McClure Butterfield Diocesan Operating Fund dividend income will offset a decrease in a one-time grant of \$40,000 from The Episcopal Church. The treasurer believes projecting revenue to be flat is prudent given the stock market's recent performance.
- The budget includes a 4% increase in staff salaries. Compensation and benefits composed just over 50% of the annual operating expense in 2022; in 2023, compensation and benefits will represent 54% of operating expenses. This increase reflects the rising inflation rate and the resulting need for higher salary increases compared to 2022.
- TEC assessment (about 9% of annual operating expenses) will increase, as noted above, to 12% of 2021 income.
- The budget includes \$27,000 in formation-related items such as clergy support, mentoring, training and education, and parish programs.
- The net increase in other administrative expenses reflects returning to pre-pandemic levels for travel, conferences, etc. as well as an increase in the new business system software cost.

The **2023 balanced non-operating budget** was developed projecting non-core operational areas. The most significant item in this category project grants and loans to be awarded at a level similar to recent experience.

The treasurer concludes his report by noting that, "The upcoming year will be demanding as we continue to build the financial health of diocesan finances." Initiatives that include the establishment of the Commission on Finance, new accounting software, and improved financial governance will, he says, "also result in improved transparency with the other diocesan entities."

## 2023 Budget Summary

	2021	2022	2023	
	<u>Actual</u>	<u>Forecast</u>	<u>Budget</u>	
<b>Operating Income Summary</b>				
<u>Operating Income</u>				
Mission Congregational Support	777,303	830,800	824,600	Congregational fair share assessments; similar level as pre-pandemic
Restricted & Unrestricted Income	179,433	183,460	232,400	Endowment income strictly for benefit of diocesan operations
Miscellaneous Income	19,612	23,000	20,000	Mainly EDOV egiving and Green Mountain Abbey income
DFMS Covid Relief Grant	-	40,000	-	One time grant from TEC
Hunt Fund	27,799	45,000	45,000	Portion of Hunt Fund grant designated to operations
<b>Subtotal Operating Income</b>	<b>1,004,147</b>	<b>1,122,260</b>	<b>1,122,000</b>	
<u>Operating Expense</u>				
Employee & Non-Employee Comp & Ben	592,507	550,752	609,427	4% increase in employee compensation & benefits costs; contracted labor for transition minister & outsourced benefit administration
Professional Development - Bishop & Staff	8,936	12,500	12,500	Professional development, workshops
Wider Church Support	146,284	83,262	107,448	Principally TEC assessment; Province 1 cost share
Administrative Expenses	40,141	47,668	49,225	Principally audit and liability insurance expense
Bishop Travel	4,218	11,500	14,000	Bishop travel within Vermont, attendance at conferences
Bishop's House	23,331	38,434	37,600	Bishop's house maintenance, utilities, security
Office & Admin Travel	3,720	19,200	21,900	Canons and diocesan staff travel
Office Expense	75,876	68,000	80,850	Mainly RPC rental (\$40), ACS and other software, office supplies
Communications	61,680	65,000	67,400	Canticle Communications; IT support & security
Formation, Mission Support, Council	5,029	8,000	35,000	Clergy retreats; ordinations, training
Reserve Expense	49,300	43,150	56,650	Accruals for actual future events including Lambeth, General Convention, accrual for Bishop search, EYE event, etc.
Other Operating Expense	2,415	150,000	30,000	Financial restructuring
<b>Subtotal Operating Expense</b>	<b>1,013,437</b>	<b>1,097,466</b>	<b>1,122,000</b>	
<b>Net Operating Income (Expense)</b>	<b>(9,290)</b>	<b>24,794</b>	<b>0</b>	

	2021	2022	2023	
	<u>Actual</u>	<u>Forecast</u>	<u>Budget</u>	
<b>Non-Operating Income Summary</b>				
<u>Non-Operating Income</u>				
Bishop's Appeal	70,210	2,725	30,000	No appeal in 2022; planned for 2023
Grants & Loans	102,564	131,200	102,500	Endowment income designated for diocesan grants
Bishop's Discretionary Income	26,963	20,080	20,100	Mainly endowment income designated for Bishop's Discretionary Fund
Unit Fund Investment Income	33,758	33,100	33,100	
Hunt Fund Grant Used For Non-Operating	87,201	80,000	80,000	Portion of Hunt Fund grant designated to operations
<b>Subtotal Non-Operating Income</b>	<b>320,696</b>	<b>267,105</b>	<b>265,700</b>	
<u>Non-Operating Expense</u>				
Bishop's Appeal	750	5,000	5,000	Expenses associated with Bishop's Appeal canvass
Grants & Loans	84,583	100,000	100,000	Grant disbursements
Paid With Reserve Funds	12,161	63,819	30,000	Actual expense for previous accruals; 2022 included Lambeth and General Convention costs
Bishop's Discretionary Expense	627	7,000	7,000	
Paid with Unit Fund Investment Funds	24,339	24,600	24,600	Costs unrelated to core operations
THRIVE Related Expense	2,100	5,000	1,000	THRIVE meetings and consultants
Other Non-Operating Expense	-	6,000	8,100	Other non-core expense
Hunt Fund Grant Used For Non-Operating	81,394	-	-	
Mission Farm Support	-	48,000	50,000	
Rock Point Commons Support	40,000	40,000	40,000	
<b>Subtotal Non-Operating Expense</b>	<b>245,954</b>	<b>299,419</b>	<b>265,700</b>	
<b>Net Non-Operating Income (Expense)</b>	<b>74,742</b>	<b>(32,314)</b>	<b>-</b>	