

Right Reverend, clergy, delegates, and virtual guests; good morning.

As most of you are well-aware, this has been a year of transitions. Following last year's convention, Tom Hedrick, after dutifully serving as Diocesan Treasurer for 11 years, announced his intention to resign. Tom's steady hand and wise counsel has left the Diocese in a financially strong position, with a history of balanced budgets and a strong investment foundation for the uncertain times ahead. I greeted this news with great sadness, as Tom leaves very big shoes to fill, but his respite from the duties with the Diocese is well-earned indeed.

During the interlude following the tender of Tom's resignation, Bishop Johnson called me to step in as interim treasurer for the Diocese, pending full confirmation at convention in the fall. I also greeted this news with great sadness, in no small part because I am not an accountant by training. After much discernment and discussion with Tom, who assured me that I could find the skills needed for this role, I agreed to take it on with the stipulation that I would need professional help; specifically, in the form of a qualified accountant to assist. I was relieved when Bishop Johnson told me that Elizabeth Yount, a skilled and experienced accountant with knowledge of Diocesan finances, had agreed to step into the unfortunately-titled role of "Assistant to the Treasurer" (so-called due to the fact that there is, as yet, no canonically-authorized position of "Assistant Treasurer"). I am fortunate to have had a wonderful working relationship with Liz for several years in other roles within the Diocese, and I was and continue to be thrilled with her willingness to help.

Since that time, I have come to appreciate that the endless process of completing the cavalcade of tasks within the purview of the Treasurer, some mundane and some profound, has been made infinitely easier through Tom's legacy of organization and the invaluable guidance of Canon Desirée Brattin, on whom I have leaned heavily over this past

year. Desirée in particular deserves all the praise that I am capable of giving and a great deal of the credit for the continued financial health of the Diocese this past year.

As I step into this role, I have viewed my charge this year in relatively simple terms: to learn the ins and outs of the system, and if it's not broken, don't fix it. There is very little I would characterize as "broken" at this point. With that in mind, a few things did need to be done. This summer, Canon Desirée completed the application for the forgiveness of our PPP loan of over \$240,000, which was subsequently granted. This put the 2021 projected year-end budget significantly "into the black" as we are now project approximately \$300,000 in surplus for the year. This more than offsets the one-time operating deficit of approximately \$20,000 in 2020 attributable to the COVID-19 pandemic, which was itself a remarkable improvement over the \$100,000 deficit that was originally projected for 2020 on the back of \$150,000 in unbudgeted emergency support to congregations. This is also in part due to the fact of reduced costs in several areas due to the pandemic as well (which costs are expected to reoccur in 2022), but it is in any case a welcome change from last year's unexpected deficit.

I am also pleased to report that, while assessment income remains down for a number of reasons, we have seen the commitment of many parishes and missions to the Diocese remain steady or even increase in recent months as the economic situation has stabilized. As a result, we are projecting to exceed the budgeted expectation for assessment income by approximately \$45,000. Truly, without this commitment from our missions and parishes, the work of the Diocese could not continue in the same scope. In light of some hard choices that we all faced in the last year I want to thank all of the organizations in the Diocese for their faithful stewardship in this regard.

With all that said, these remain uncertain times, and that uncertainty may well be the new “normal” for the foreseeable future. As Tom has wisely said in the past, “financial sustainability, similar to environmental sustainability, requires responsible budgeting and prudent stewardship of our resources.” While our financial condition remains fundamentally stable, we do not have the luxury of irrational exuberance. The long-term projected rate of return on our investments continues to trend lower than it has in recent years. Even in the best case there are worrying indications that the existing model – which has served us well for many years – may not be sustainable. In this vein, I am heartened by the good work being conducted by the Strategic Visioning Committee to create new initiatives for the revitalization of the Diocese. In addition to those initiatives, I intend to coordinate with the Bishop some new strategies to increase transparency as to how our use of investment funds interacts with our operating budget in future years. At this stage, barring unforeseen exigencies, I do not envision a radical transformation in the short term; rather, I expect the next few years will involve incremental adjustments to position our finances for the future.

Ultimately, the item on our agenda for today is the approval of the proposed 2022 general operating budget. As many of you are aware, the budgeting process is outlined and governed by our Canon III.7. That process started in July with the solicitation of requests from interested parties. From there:

1. Diocesan financial staff, in particular Canon Desirée, met with the Bishop to get his guidance and input;
2. The Finance Committee, which consists of the Lynette Ballard, Brooke Forsyth, Scott Ferguson, Liz and me, conducted an in-depth review before sending our recommendation to Council;

3. Council then reviewed that recommendation and made comments, before sending to our convocations for a third level of review and commentary.

4. Finally, Council considered the comments from our convocations and made a final approval of the budget that you see before you today.

It is important to recall this process, because it involves several levels of input from multiple constituencies in the Diocese at various stages. This process holds us accountable and requires us to pressure-test our thinking in crafting the proposed budget prior to its presentation to you today for your consideration.

Moving to the details, first on the revenue side:

1. Assessments are based on 2020 Parochial Report income. While we have seen renewed commitments to assessments, given the attendance and budgetary issues of our parishes and missions through the COVID-19 pandemic, including a decline in total assessed income of over \$675,000, we are projecting a further reduction in parish and mission assessments of approximately \$50,000 from the 2021 budgeted amount.

2. Our endowment and investment income are calculated based on spending policy formulas utilizing the fair market value of investments, and the Thompson Trust component is included based on the Bishop's commitment. Due to a change in our return policy in the Ministries on Campus Fund, increased income from the White Fund and an increased contribution from the Bishop's Thompson Fund contribution, we expect to be able to offset the anticipated decrease in assessment income.

On the expense side:

1. We continue with 100% of our National Church assessment;

2. The Bureau of Labor Statistic Midwest Urban Consumers CPI is used to calculate the cost of living adjustment (COLA). This year that COLA factors to 4%. This is the most significant increase we have seen in many years. This 4% increase has been applied to all Diocesan staff with the exception of Bishop Johnson, who is choosing to take only a 1% increase (notably, Bishop Johnson forwent any increase in 2020);

3. We include 3.5% increase for health insurance; and

5. We include various levels of support for our financially distressed congregations. This historically has been an area of great focus and time, as we review and consider relevant facts regarding their respective needs, financial statements, sources of revenue support, and the existence, if any, of endowments. I am pleased to report that this year the hard choices involved the selection of those congregations that would receive increased support, as opposed to having to decide which congregations would receive a decrease.

As is tradition, I trust that you will find this budget balanced, both in the numbers and in spirit. Thank you for your time and considered discernment in this matter. While these remain transitional and uncertain times, I have confidence that the Diocese will continue to be flexible and in a position to react as needs arrive.

Submitted by Al Ludwig,
Interim Treasurer