

THE EPISCOPAL DIOCESES OF EASTERN & WESTERN MICHIGAN

Building Bridges

Stewardship of Resources Recommendations

Feedback Sessions - January 2024

Budget Recommendation

Summary of Current: our budgets are very similar; the ways we currently fund them are slightly different but complementary. Eastern uses more endowment income, while Western has more income through congregational apportionment. Eastern's budgeted revenue for 2024 is \$1,492,487, while Western's is \$ 1,411,485. Budgeted expenses for 2024 include: Eastern at \$1,498,000; Western at \$1,419,958 .The diocesan endowments that contribute to the budget are also very similar and can travel with us if we move together. Eastern has endowment funds totaling \$10,530,411 (3rd quarter 2023). Western has endowment funds, totaling \$9,069,394 (3rd quarter 2023)."

Currently, Eastern uses a tithe based on 10% of the average of the previous three years' operating income. Western uses the following graduated apportionment model, also based on average of the previous three years' operating income, but minus the apportionment amount of the previous year:

- 10% of the first \$75,000 (\$1 - \$75,000)
- 12% of the second \$75,000 (\$75,001 - \$150,000)
- 14% of the third \$75,000 (\$150,001 - \$225,000)
- 16% of any amount over \$225,000

Summary of Recommendations: If there is juncture, we will officially *become* a new diocese at the first diocesan convention in October 2024 with 2025 being the first year of operating as one. While transitions will begin in 2024 they will continue through 2025 and beyond. For that reason, **we recommend a Transitional Budget for 2025 that will keep parish apportionments at no more than their 2024 level. The Transitional Budget will not be finalized until the first convention of the new diocese in October should juncture be approved, but having a draft now allows us to show how budgeting as a new diocese would work.**

For 2025, each parish's apportionment will be run using the calculations of the current system and no parish's apportionment will increase. If a parish's calculated apportionment for 2025 comes out higher than their 2024 apportionment, the parish would be assessed at the 2024 level. If a

parish's apportionment would decrease for 2025, then the lower calculated amount would be assessed.

Before meeting with diocesan leadership on November 18, 2023, the Stewardship of Resources sub-team ran a budget model that included an apportionment formula for all congregations of a 10% tithe, minus the previous year's apportionment amount—which is the lowest apportionment amount that any parish currently contributes. However, the income generated in that model is not enough to fully fund the Transitional Budget given that that approach significantly decreases current income received from larger, more resourced parishes. For 2026, we would need to begin to implement a new model.

In addition to the draft Transitional Budget (for 2025), we will offer 1-2 models for how apportionment could work from 2026 forward. For the March pre-Convention meetings we will have a picture of what the apportionment model would look like in the new diocese, with aggregate impact upon the parishes and also including information on how the model would impact each parish, based upon their most recent parochial report data. The model will be structured to ensure there is not an increased burden on smaller churches and the graduated percentages are applied to medium and larger parishes equally across the new diocese.

The numbers available to us now are based on parishes' most recent parochial report data and the current staffing structure which we know will evolve. We have the expectation that as a new diocese, the staffing model will change as we integrate and simplify processes and become better able to resource and support congregations, diocesan ministries, and the mission and vision of the new diocese. Diocesan leadership will begin to provide the shape which that longer-term staffing model should take as we transition into being a new diocese. Eventually, a bishop diocesan will offer their leadership in identifying particular needs and vision for staffing.

A new apportionment model could be phased in over time so that the increases any parish might see would gradual in pace. The most likely apportionment needed to support a future staffing structure would be an adapted version of the graduated model that Western uses (a model that is also the most common across the dioceses of TEC), structured to ensure, as said above, that there is not an increased burden on smaller churches and the graduated percentages are applied to medium and larger parishes equally across the new diocese.

Endowment Recommendation

Current: Our endowments are also very similar and can travel with us if we move together. Eastern's funds are overseen by Trustees, while in Western an endowment committee, established by Diocesan Council, reviews the investment reports and makes recommendations to them.

Eastern has the following endowment funds, totaling \$10,530,411 (3rd quarter 2023):

- Gen. Operating Reserve \$850k Unrestricted - 5% for General Operating
- Episcopal Endowment \$5.1m Unrestricted - General Operating
- Loans & Grants \$479k Loans for bricks and mortar
- Cong. Development \$1m Cong. Devel - SC restriction

- Growth & Income \$787k 16 various restricted and unrestricted
- MBD \$418k
- Breaking New Ground \$1.2m Congregational Development
- Charitable Contribution \$441k Charitable work
- Feaster Fund \$119k Unrestricted for small congregations

They also use funds held by the Diocese of Michigan:

- Tretheway Downs \$37,309 *Unrestricted - General Operating
- Tannahill \$76,875 Unrestricted - General Operating
- McElroy* \$90,181 Study/Entry to Ordained Ministry

*This fund is held by its own trustees, not the Episcopal Diocese of Michigan

These are additional pass through funds held in the endowment:

- 1% Fund \$19k Third world humanitarian needs
- Indigenous Fund \$60k Inner City/Native American

Western has the following endowment funds, totaling \$9,069,394 (3rd quarter 2023):

- Association Investment \$3.1m 5% draw for General Operating
- Cong. Development \$684k Restricted by Diocesan Council
- Crean Cong. Develop. \$552k Restricted by Donor
- Campus & YA \$256k Restricted by Diocesan Council
- Youth Division \$110k Youth Activities restricted by DC
- Waddell Investment \$264k Education for Episc. ministry
- Resurrection Garden \$113k Garden @ Valley Family Church
- St. Michael's Mission \$387k Supports Canon Missioner positions
- Dom. Rep. Bldg. Fund \$ 71k Restricted by Donor
- ECW Investment \$ 24k Unrestricted for ECW
- Davidson Estate \$2.9m Restricted - General Operating
- Misc. Board Designated \$554k 8 funds
- Misc. Donor Restricted \$ 25k 2 funds w/Donor Restrictions

Recommended: Because Diocesan Council holds the fiduciary trust of the diocese, an advisory committee, consisting of people with expertise in finances, that serves under Diocesan Council is the appropriate structure for overseeing the investments of the endowment funds. Under juncture, we recommend an Endowment Committee, which would consist of five (5) members, plus a liaison from Diocesan Council, and the Treasurer and Assistant Treasurer of the Diocese, serving as ex officio members. Diocesan Council would ensure that all vacancies are filled.

The Canons would define term limits—four (4) years recommended—and additional, non-voting, members may be added to the Committee. The Endowment performance would be reported to Diocesan Council on a regular basis, preferably quarterly.. At-large members of the Endowment Committee would be appointed by Diocesan Council, and we recommend Including a canon to appoint with regional representation.

Endowment Management Recommendation

Current: Each diocese uses a different fund manager for their respective endowment funds. The Trustees for Eastern have worked with Merrill Lynch for a number of years, while Western's Diocesan Council, under advisement of their Investment Committee, more recently engaged Episcopal Church Foundation (ECF) as its manager. The fee amounts are similar, although they are structured differently.

Recommended: That a new diocese move to one Investment Manager—either Episcopal Church Foundation, Merrill-Lynch, or a new organization identified through a Request for Proposals (RFP) process. The Endowment Committee will consider and recommend the Investment Manager, as well as propose an Endowment Policy and Guidelines including an investment policy, to be approved by Diocesan Council.

Reasoning: Although both dioceses have been pleased with the management and performance of the two fund managers, for simplicity's sake, a new diocese should only work with one manager.