2018 Budget Narrative

At the suggestion of the Treasurer and Assistant Treasurer of the Episcopal Church in Connecticut ("ECCT"), ECCT’s finance staff prepared a five-year outlook for ECCT’s operating budget during the past summer. This analytic exercise encompassed our recent budgets as a point of departure and incorporated longer term trends that we have quantified.

These trends can be summarized briefly:

- The Consumer Price Index in the New York and Boston metro areas, which has fluctuated around a 1 – 2% range in five of the last seven years, has risen to the top of that range in the last year. Given the Federal Reserve Board’s stated inflation targets, an inflation rate in the 2 – 2.5% range over the next five years is a reasonable assumption.

- ECCT’s health care insurance premiums, which increased by only 2.5% in 2015, have been increasing more rapidly in recent years (the premiums of our three plan offerings will increase by 5.0%, 6.5% and 8.9% for 2018). Planning for an average increase of 6.5% over the next five years is a reasonable assumption, particularly in light of current uncertainties in US health insurance markets.

- Reflecting a variety of societal dynamics, many vital statistics of ECCT parishes (as documented in Parochial Reports from over 160 parishes) show declines over the past 5 years
  - Membership, Average Sunday Attendance and Easter Attendance have declined at a compound annual rate of 2.5%, 3.9% and 3.5% respectively since 2011.
  - Similarly, marriages, baptisms, confirmations and burials have declined by 3.2%, 4.7%, 4.4% and 1.4% per year respectively
  - Pledge cards received, the dollar amount pledged, total parishioner contributions and total Operating Revenues have declined by 3.7%, 0.7%, 0.7% and 1.0% per year respectively.

Given these financial and demographic trends, it is reasonable to expect that that ECCT’s income from Parish Support (in theory 10% of parish’s trailing year Operating Revenues) will decline in future years even while staff salaries, ECCT’s office and
occupancy expenses and health insurance premium expenses are likely to increase. These factors were incorporated in our five year financial outlook, using a simple extrapolation of trends from prior years.

Offsetting some of the downward revenue trends from Parish Support was the expectation that income from Missionary Society investments should increase in future years even while maintaining a sustainable 4.5% annual draw. Several factors support this expectation:

- ECCT has recently completed a review of its 83 different investment funds and identified a number of additional funds that can be used to support operations in future years
- We expect to increase investment balances as a result of the sale of properties that ECCT is currently holding for sale
- We have been managing our bank balances more tightly than ever before, shifting excess cash into our investment accounts

The net result of this analysis is the expectation that ECCT’s operating revenues over the next five years will most likely hover near $6.2MM, with the increase in investment income offsetting the expected decline in Parish support.

If ECCT restricts its operating expenses in future years to an amount less than $6.2MM, it will need to make some budgeting choices given expected increases in salary, occupancy, office expenses and health care premiums. If ECCT maintains its current staffing model, it will need to reduce its Program spending to support ministries by roughly a third over the next five years, from $1.5MM to below $1MM.

ECCT’s finance staff shared this outlook with ECCT’s Bishops and Canons at the outset of the 2018 budget planning cycle, and requested that all budget managers scrutinize their prior years’ program spending and identify areas of potential saving for 2018. At the same time, ECCT’s finance staff reviewed actual spending over the prior 18 months in light of the budgeted spending for each line item. Finally, ECCT’s finance staff identified some additional savings from adjustments to health benefit coverage elections of ECCT staff members, including newly hired Region Missionaries.

Revenue projections in the proposed Budget of Convention reflect the trend line analysis discussed above:
• Parish Support revenue is projected to decline by $135K to $4.42MM
• Revenue from investments is projected to increase by $193K to $1.40MM
• Total revenue (including about $430K from other sources) is projected to increase by $56K to $6.52MM

Proposed expenses, which are projected to decline by $134K to $5.99MM in 2018, reflect the scrutiny of program spending by ECCT’s Bishops and Canons and by the finance staff’s “budget versus actual” line items analysis of office and occupancy expenses.

• ECCT’s “National and World Mission” expenses (in Schedule A) are budgeted for an increase of almost $180,000, reflecting
  o a $40,000 increase to cover General Convention travel expenses in 2018 and
  o an increase in ECCT’s operating revenues from 2015 to 2016 that results in an increase in its support obligation to the General Church (a trailing year payment obligation analogous to ECCT parishes’ Common Mission Support payment obligation).
• Other expense schedules in the proposed 2018 Budget of Convention show expense reductions from the 2017 Budget of Convention, reflecting the budgeting exercise described above. These reductions in budgeted expenses include
  o $101K reduction in Support Services and Operations (Schedule U)
  o $62K reduction in Bishop’s Ministry expenses (Schedule O)
  o $45K reduction in Pastoral Ministry expenses (Schedule S)
  o $35K reduction in Congregational Development expenses (Schedule C)
  o $34K reduction in Diocesan Convention and TREC CT expenses (Schedule M)
  o $33K reduction in all remaining expense schedules combined

The proposed Budget of Convention shows a $254K budget surplus, as well as a $273K expense contingency. Together, these provide a buffer against unexpected revenue shortfalls and capacity to withstand greater-than-expected operating expenses in the year to come.