

DIOCESE OF PENNSYLVANIA FINANCE COMMITTEE

MONDAY, FEBRUARY 17, 2014, 6:30 p.m., CHURCH OF THE REDEEMER, BRYN MAWR

Committee members present: Eric Rabe, Chair, Nora Adelman, The Rev. Kirk Berlenbach, Ann Booth-Barbarin, Elise Bowers, The Rev. Carolyn Huff, Jo Ann Jones, The Rev. Adam Kradel, John Loftus, The Rev. George Master

Ex officio members present: Norman McClave, Treasurer; James Pope, Church Foundation; Rob Rogers, Canon for Finance

Guests: Alan Lindsay, Executive Director, Church Foundation (part of meeting); Sean McCauley, Diocesan Property Manager (part of meeting)

Committee members not present: The Rev. Dr. Charles Flood,

Ex officio not present: Rt. Rev. Clifton Daniel, Bishop; Margaret Ullman, Commission on Clergy Compensation and Employee Benefits

1. Opening Prayer – The Rev. Kirk Berlenbach
2. Report from Alan Lindsay, Executive Director, Church Foundation

Alan Lindsay noted that Canon 19.3.2 requires quarterly reporting from Church Foundation to the Diocesan Finance Committee.

2013 was a strong year for the Consolidated Fund, in which most Church Foundation funds are invested. The Diocese is 50% of the portfolio, and parishes are the other 50%. Income was distributed at a rate of 4.5% for 2013. The yield was 19.23% for 2013 (one-year yield). The Church Foundation is satisfied with the performance of the manager and the fund. The same manager has functioned since 2006, and has provided education as well as sound advice. The manager is paid 62 basis points based on the assets. The Investment Committee of the Foundation has a number of investment professionals, and each time the committee meets it explores the manager's performance. The distribution rate is based on a three-year rolling average – and will continue at 4.5% for 2014. It is a prudent rate for the long-term to provide investors with a reasonable level of income and preserve/increase capital over time. The Church Foundation Investment Committee wishes to smooth out the distribution over time, so it is predictable, steady, and not reliant on market variations. The rate is tied to the spending plan. A parish could choose to receive the actual earned income, and could choose to use revocable trusts – neither of which is recommended by Church Foundation. Church Foundation's investment policy sets ranges for different asset classes – and T. Rowe Price recalculates monthly, and rebalances accordingly. This is reported to the Investment Committee monthly.

Assets are allocated as follows: real assets equity 2.6%, fixed income 32.8%, U.S. Equity 44.6%, and non U.S. equity 20.0%. Finance Committee members asked about the proportions of the various assets.

Committee members asked about socially responsible investments and about the history of distribution rates.

The written report showed market performance (3 months and one year), return attribution analysis, asset allocation, return attribution selection effect, target asset allocation history, as well as 2013 (management prepared) and 2012 audited results. There are investments on the books of Church Foundation, resulting from bequests to Church Foundation (separate from and in addition to Diocesan and parish funds). The Investment Committee report will be shared with the Finance Committee regularly in the future.

The former Finance and Property Committee was concerned at the change in net assets – which was a loss of \$31,000 for 2013. That is under exploration.

Church Foundation was chartered in 1926 when it was merged with the Trustees of the Protestant Episcopal Church of the Diocese of Pennsylvania (founded in 1853). There are two paid employees. T. Rowe Price is the investment manager; NRS (formerly called Northeast Retirement System) is the Investor Record Keeper; State Street Bank is the Custodian; Countryside Consulting, Inc. does Finance and Accounting; and BBD, LLC are auditors. There are sixteen directors, including the Bishop of the Diocese of PA, three clergy and 12 lay members. Church Foundation Directors are nominated at Diocesan Convention, and the Church Foundation Board selects the Directors. A list of the current Directors was distributed to the Finance Committee.

The current Investment Policy was revised and approved in 2013 (copies were distributed to the Finance Committee). The Church Foundation Investment Committee monitors T. Rowe Price's conformance with the Investment Policy. In 2014, the management fee will be converted from a percentage of income to the industry standard percentage of assets, based on a three-year rolling average. The Directors looked at a method of remuneration and the future of the Foundation, and determined that switching to an asset based fee, still resulting in a reasonable charge to investors, would enable the Foundation to thrive. This will be communicated to the investors.

3. Trial Balloon re: capital campaign for the Diocese – discussion led by The Rev. Kirk Berlenbach, reporting on a conversation with Jack Henn several weeks before Jack died – Jack's idea was to ask the Finance Committee to consider launching a modest capital campaign for the Diocese. In recent history, capital campaign experience has been largely negative. Jack felt the Diocese is entering into a new phase, and that it is important to get used to the idea of a capital campaign again, to help to move the Diocese forward and beyond past negative experiences. He noted that a campaign centered on congregational development and advancement would be positively received, perhaps for \$500,000. He did not have a firm idea of the use of such a fund, whether it be for staff/consultants or distributed to parishes. This will be on a future Finance Committee agenda for additional discussion.

4. For Action:

- a. Consent Agenda (these items will be approved in one action, unless any committee member wishes to have discussion of any of the items, in which case the item will be moved from the consent agenda)
 - o **Minutes of November 26, 2013 – The Rev. Kirk Berlenbach made a motion, seconded by Norman Mc Clave, to approve the minutes as distributed (all in favor, none opposed or abstaining).**
- b. Property Issues Management – Recommendation from Property Committee (Eric Rabe, The Rev. George Master) – From Property Committee minutes of February 6, 2014 – If the term of an arrangement is less than one year, no Diocesan approval would be needed. For terms longer than one year, the Finance Committee, Standing Committee, and Bishop would need to approve. There needs to be a clear process for parishes with various needs for assistance, some of which are working with the DCT. **The Rev. Kirk Berlenbach moved that the Property Committee’s recommendations be referred to bishop and Standing Committee for approval – seconded by The Rev. Adam Kradel, all in favor, none opposed or abstaining.**

There was an inquiry from a realtor near the Maryland property – a formal proposal has been requested.

- c. Proposal for Purchase of All Saints Collingdale (Eric Rabe and Sean McCauley) – As a church, the building and site is appraised at \$450,000. As a commercial property, the price could be as high as the offer recently, and develops for several different organizations, all of which have looked at the property. Other developers have looked at the site as well. Development would involve combining with other adjacent properties. The offer includes a 60-day due diligence period that includes testing and environmental studies, storm water management assessment, and other approvals. The cost to maintain a closed church is around \$75,000/year – insurance, low level heat, snow removal, and grass cutting. **The Rev. Kirk Berlenbach made a motion, seconded by The Rev. George Master, to recommend accepting the offer to the Bishop and Standing Committee, contingent on working with the Chancellor to make further adjustments to the advantage of the Diocese – all in favor, none opposed or abstaining.**
- d. Recommendation re: proceeds from sale of Church House – segregate from other funds and reserve for future purchase or lease of Diocesan office space (Eric Rabe) – The sale prices was \$4 million, less the cost of repairing damage resulting from moving (\$150,000). \$1.6 million has been used to pay the Diocesan loan from Republic Bank (funding for the Diocesan investment in the apartment building in the Cathedral project). The remainder was put into the fund for the Episcopate held by Church Foundation. **The Property Subcommittee recommends that the funds be clearly delineated to be used for rental of office space or future real estate purchase for office space for the Bishop and Diocesan staff. The Rev. Adam Kradel made a motion, seconded by Norman McClave, to designate the proceeds to offset the cost of office space and operations – all in favor, none opposed or abstaining.**

5. Discussion of Written Reports/Updates:
 - a. Treasurer – Norman McClave, Treasurer – report distributed
 - b. Financial Statements – Rob Rogers, Canon for Finance – Since the budget for 2014 is differently composed from the budgets in previous years, additional programming is required for presentation of financials. Snow and the move and computer glitches combined to delay completion of the financial statements. The report will be distributed to the Finance Committee when it is completed. Rob noted a concern about use of the Property Fund to pay current expenses without replenishing the fund.
 - c. Standing Committee- The Rev. Kirk Berlenbach/Jo Ann Jones – Standing Committee has been discussing the ongoing situation at St. Philip’s. It has been the responsibility of the Diocese for several years. While there has been a tenant, he is unreliable, and a sizeable amount of money has been spent on repairs and maintenance. Initially, Standing Committee felt strongly about maintaining a church in that part of Philadelphia, but now is looking at other options for ministry presence in that location.
 - d. Diocesan Council - Elise Bowers/The Rev. Carolyn Huff – The January meeting was organizational and included a presentation by the Diocesan Transition Team.
 - e. Church Foundation- James Pope – report earlier in meeting
 - f. Subcommittees and Other Diocesan Groups:
 - a. Budget – The Revs. Kirk Berlenbach and Adam Kradel – meets Thursday
 - b. Diocesan Audit – Rob Rogers – audit to begin early March
 - c. Investment – Elise Bowers – has not yet met – volunteers sought
 - d. Parochial Relations – Carolyn Huff – met last week, strategizing how to proceed
 - e. Property – The Rev. George Master/Eric Rabe – minutes sent with meeting materials
 - f. Gathering of Diocesan Leaders – Jack Henn reported on the Diocesan Transition Team at the January session of the group
 - g. Diocesan Consultation Team – Nora Adelman – Following up on the Bishop’s charge to articulate a process for working with challenged churches, the Diocesan Consultation Team had a “blue sky” session on January 18 to identify characteristics of churches that are vibrant/thriving/healthy, signs that churches are beginning to be challenged, and what resources are needed and available in the Diocese and the wider church (communication and use of resources were identified as key).
 - h. Diocesan Transition Team History Timeline workshops – Nora Adelman – The Finance Committee will be invited and encouraged to take part a history timeline exercise, facilitated by newly-trained diocesan volunteers, to help identify past challenges/struggles and identify ways to move forward.

6. Other business – none

7. Closing Prayer (8:30 pm)

Eric Rabe
Chair

Nora Adelman
Secretary