

THE ARCHIVES OF THE EPISCOPAL CHURCH

Research Report: Effects of the 1987 Financial Downturn on The Episcopal Church Budget October 10, 2008

Summary

The disruption in the financial markets following the "Black Monday" stock market crash of October 19, 1987 did not have an immediate effect on the budget of The Episcopal Church. The effect of the economic downturn was experienced as a critical budget shortfall that began in 1990 and continued through two triennial budget cycles. The system of funding in place at the time (the "quota system") was based on a percentage of parish income derived from an assessment on income three years old. Thus, while there was some impact in 1988 and 1989 on income, the full budgetary impact was delayed. The greatest impact on budget began in 1990 with a decline of approximately \$1.25 million, and an additional drop of \$3 million in 1992.¹ Despite annual budget amendments that calculated income downward, receipts from parishes continued to decline below the projected asking and pledge. Economic conditions were exacerbated by emerging polity issues. An unrelenting slide in income eventually led Executive Council and General Convention in 1994 to adopt the "unified budget" process that restored stability and predictability to the budget process.

The Funding Process Before 1995

The single largest portion of the Executive Council budget was the Apportionment contributed by dioceses and parishes. The General Convention in 1976 fixed the calculation of the apportionment under a system known as the Net Disposable Budget Income or NDBI. Each budget year's NDBI quota was calculated on the basis of the three year's previous income taken from the parochial and diocesan reports. For instance, the 1977 apportionment would use figures from 1974, and the 1978 apportionment was calculated from 1975 information. By 1979, the Assessment for the canonical/corporate budget used the same NDBI formula with a different percentage of calculation.

The triennial budget years 1986-1988 saw a steady average annual increase of approximately 5½% in both the apportionment and diocesan pledges, which reflected the more active economy of the base years 1983 to 1985. The "Black Monday" stock market event of October 1987 and the subsequent national recession would not be fully factored into the budget planning until the next triennium years of 1989 to 1991.

Effects of the Economic Downturn

In October 1990, the treasurer reported to the Executive Council that, "By 1989 and 1990 the slowdown in the US economy, which is reflected in the current fiscal year and our base revenue years of 1986 and 1987, began to appear in pledges to Apportionment."² This was critical because at the time Apportionment (and smaller revenue streams such as Episcopal Life) constituted up to 88% of the budget, while revenue from endowment income and investment was only 12%. This compares with today, in which endowment and short-term investment income contribute 21% of the budget revenue.

¹Report of Administration and Finance, Executive Council Minutes, AF-1, pp. 7-9

²Treasurer's Memo to The Executive Council, Report of the Treasurer and the Administration, Budget, & Finance Committee, October 22, 1990.

In the late 1980s and early 1990s, reduced income at the parish level had a more dramatic impact on the Budget of the Church than the drop in endowment income. The Finance office announced to Council that they could no longer support the predictable 3% increase in budget appropriation and income. By January 1991, Council was told that diocesan pledge responses to the 1991 apportionment had dropped from a previous year of 96% to 93% of the total, or \$29,100,000 of the mission/program budget of \$31,312,000 for 1991. Budget estimates for 1992 were further amended.

The Presiding Bishop took several actions in response to the budgetary conditions, including a 5% hold back of non-salary ECC budget line items, and a freeze on compensation increases.³ By the end of 1991, as receipts failed to meet diocesan pledges, reductions in staff took place, eliminating 52 positions at Episcopal Church Center.

During these years, the rate of return reported to the Church on the endowment was volatile, but its effect was much less than the effect of the bad economy on parish income.⁴

<u>Year</u>	<u>ROR</u>
1987	5.7
1988	11.3
1989	28.8
1990	-2.1
1991	28.2
1992	7.9

A Confluence of Economic Downturn and Controversy

The 1990s continued to be a period of difficult transition for The Episcopal Church. The continuing economic recession greatly affected support for both dioceses and the Budget of the Episcopal Church. In most instances, dioceses were not receiving income from parochial commitments. It was at this time, however, that some dioceses began to fund local program and mission by diverting funds from their assigned Apportionment quota, while still funding their full Assessment asking.⁵ In 1993, 60 of 117 dioceses of the Episcopal Church did not contribute their full Apportionment, resulting in a projected shortfall of five-million dollars for the 1995 national church budgets.

An important note in the history is that the budget crisis coincided with a marked increase in tensions within the church as women's ordination became a reality and the human sexuality debate rose to prominence. As a form of protest, parishes and dioceses began to withhold their assigned

³The Treasurer and the Administration/Budget/Finance Committee, A/B/F - 1, Memo to the Executive Council, April 19, 1991. Included with the Treasurer's Report Docket for the April, 1991 meeting of the Executive Council. The report notes that, "Twenty-six dioceses were unable to meet the 1991 asking, in comparison to 14 dioceses in 1990."

⁴Executive Council Minutes, 1989-1992, *passim*. For a complete history of the endowment fund rate of return and dividend, see Treasurer's Office, Endowment Fund Dividend Payout Rate History, October 2008.

⁵This pattern of giving to support the old Assessment or canonical budget is the historical precedent for some dioceses today, e.g. the Diocese of Texas.

apportionment. In response, the Presiding Bishop and Executive Council initiated a “listening process” to help direct the Program of the Church during this period of financial crisis.⁶ In October 1993 the Program, Budget and Finance Committee of the General Convention held an open hearing in Chicago for DFMS and diocesan staff to consider the system of funding the Budget of the Church. Consensus emerged on the need to make fundamental changes to the General Convention’s practice of maintaining a dual funding process for program and canonical functions.

In 1994 the Executive Council recommended significant changes to the budgetary funding and General Convention accepted these with the adoption of a “unified budget.” The new funding formula was more equitable for small parishes and dioceses by measuring all parochial income including unrestricted endowments and investments. The slight shift away from parochial pledge and plate revenue to unrestricted endowment enabled the Church in the mid-1990s to calculate the apportionment on the basis of greater income generated by the stronger performance of the stock market.

⁶David Skidmore, Episcopal News Service, “Diocesan Administrators Call for Reform of National Apportionment,” October 22, 1993.