

**FINANCE COMMITTEE
REPORT TO THE PRESBYTERY OF MIDDLE TENNESSEE
NOVEMBER 10, 2022**

INFORMATION

1. The Finance Committee would like to remind you that the General Assembly per capita rate will increase next year from \$8.98 to \$9.85 per active member. As a result, Presbytery's GA per capita expense will increase by nearly \$10,000—from \$139,450 to \$149,237. This is in addition to the \$60,301 we will owe in Synod per capita, assuming the current rate of \$3.98 remains unchanged. These expenses previously accounted for 35% of our annual operating budget. Next year that will increase to 38%. You can help reduce Presbytery's expenses by cleaning your rolls and removing inactive or departed members.

ADMIT TO RECORD

1. Financial reports and investment results as of September 2022 are attached.
2. A copy of the Independent Accountants' Review Report for the Presbytery of Middle Tennessee for 2021 from Clemmons, Mullins & Mayes is also attached.
3. The transfer of Presbytery's investment portfolio from Baird & Co. to Vanguard has been completed.
4. This year has been a difficult one for our investments. Since January the value of Presbytery's portfolio has dropped from \$1.933 M to \$1.631 M (including a \$50,000 transfer from reserves to the operating fund). This is not surprising, given that 2022 has been one of the most challenging capital market environments on record. In the last 100 years, there have been three years in which stocks and bonds both dropped in value together: 1931 (in the depths of the Great Depression), 1969 (during the Vietnam War), and 2022. Through the first nine months of this year, a typical 60/40 mix of stocks and bonds lost approximately 22% of its value. Because Presbytery's investment portfolio has been conservatively managed, with almost 40% in cash at the end of September, it has produced an above average return

of -13%, almost 10 percentage points better than expected. Over time, the Finance Committee and the Investment Task Force plan to dollar-cost average to the long-term target allocation of 60/40 stocks and bonds in Presbytery's investment policy; however, as long as the Federal Reserve continues to tighten monetary conditions in the U.S., we will be cautious and methodical in doing so.

5. At the August meeting, Presbytery authorized Hillsboro PC to apply for a \$350,000 construction loan from the Presbyterian Investment and Loan Program to cover a portion of currently ongoing renovations to the church building. Presbytery also agreed to guarantee the loan. Approval of the loan was contingent on the Finance Committee's review of the church's application and a vote of the congregation approving the essential terms of the loan. Both contingencies were satisfied, and the application was submitted to PILP, which has approved the loan. Loan documents are being prepared, and we expect the transaction to close shortly.
6. The sale of excess property by St. John PC in Fayetteville, which was approved several years ago, has been completed.
7. A proposed operating budget for 2023 is attached. This was compiled by the Finance Committee's budget working group, which projected operating income for the coming year and consulted with Presbytery's committees and staff to determine how that money can be best be used to support our mission. There are several changes worth highlighting:
 - a. Projected revenues are \$34,000 less than the 2022 budget. Most of this (\$24,000) reflects a drop in contributions from churches, which is our main source of funding. Although the Finance Committee is hopeful that some of the recent declines in giving can be reversed, we must base our planning on actual current trends.
 - b. One difficulty we face in projecting income for next year is the precipitous drop in the number of churches pledging. In 2019, 58 of our churches submitted pledges. In the years since, that number has steadily declined. In 2022 only eight churches (out of 80) submitted a pledge to Presbytery. These are the color-coded green entries in the pledge column on the Pledge Actual chart that is distributed at each meeting along with the other financials. We do project expected giving based on a church's contributions in prior years (the yellow entries in the pledge column), but that is of course far less reliable. Every year the Finance Committee sends each pastor and clerk of

session information about Presbytery's finances, along with a stewardship appeal and a pledge card, and we rely on them to ensure that the request is presented to the session and that pledge cards are returned. Please help us better project our operating income for the coming year by returning your pledge card. For your convenience, in case your copies have been misplaced, we have attached copies of this year's stewardship letter and pledge card.

- c. We have also reduced the expected amount of investment income by \$10,000 in light of the current market downturn. Although the "Investment Income" shown in the proposed budget includes capital gains that are realized during the year, the decline in the value of our portfolio affects both the cap on withdrawals that may be used to fund the operating budget (5% of a three-year rolling average of undesignated reserves) and the actual amount, subject to that cap, that the committee deems prudent to withdraw from reserves.
- d. On the expense side, the biggest increase is for per capita. The General Assembly per capita payment will increase by \$10,000 in 2023. The nearly \$210,000 that will go to pay GA and Synod per capita assessments represents approximately 38% of our expenses for the year.
- e. Presbytery significantly reduced its office expenses when it moved to a virtual office. However, it has become evident that some office space is needed on occasion for meetings and other tasks and events. We have therefore included a new \$7,000 line item for office space. The details are still being worked out, and the actual amount may end up being less, but this would cover any of the foreseeable options.
- f. The Committee on Mutual Support sought increases in our contribution to NaCoMe and the 3 UKirks. The Finance Committee agreed and was able to include increases of 5% for NaCoMe and 3% for each of the campus ministries in the proposed budget.
- g. The line item for MissionInsite, an online demographic research tool, was deleted from the Committee on Church Transformation's budget because it is not being used by the churches. The committee will be able to use designated funds to pay for MissionInsite or other demographic research services for use in connection with new church development or church revitalization efforts.

- h. By agreement with the Sudanese church, 2022 was the last year in which Presbytery would provide financial support, so that line item is no longer in the budget.
- i. The resignation of Robin Thomas as Co-Executive Presbyter, the move of Ray Thomas from 3/4 to full time as the sole Executive Presbyter, the retirement of Therese Howell and the restructuring of the Stated Clerk position, and the folding of the communications coordinator position into the new operations coordinator position will result in a \$34,000 net reduction in personnel costs.

RECOMMENDATION

1. The Finance Committee recommends adoption of the proposed budget for 2023.