



Adjusting to New Realities: Write Your Own Story

On November 8, 2007, the staff of CFC made a presentation to the Association of Parish Business Administrators of the Archdiocese of St. Paul and Minneapolis. The theme of the presentation was *Fiscal Planning in a Time of Change: Adjusting to New Realities*. The basis for the presentation was historical financial data for 37 parishes in the Archdiocese that CFC had gathered over the past five years.

Some of the trends that emerged out of our analysis were interesting. For instance, of the parishes in our study, the average annual increase in Sunday contributions over the past five years was 2.6%. This hides the fact that a number of the parishes actually experienced a decrease in giving over this time period. The average growth in operating expenses (not including school subsidies) over the same period was 1.73%. This indicates an extremely tight operating margin for most parishes, particularly if they also needed to spend additional funds to support a school. Many parishes in our study bridged that gap by attempting to keep a tight rein on the growth of major expenses (the average increase in salary and benefits was kept to 1.19%) or by attempting to increase the amount of non-Sunday contribution revenue. The general inflation rate during this time period was about 3% annually meaning that parish staff is bearing the burden of this tight operating margin.

Of the 37 parishes in our study, 20 of them supported an elementary school. Over the past five years, enrollment at these schools declined by 10.68%. This is very close to the total decline in enrollment in all Archdiocese elementary schools during the same period of 8.07%. The average annual tuition revenue increase for the schools in our study was 4.39%. The average increase in total school revenues was 4.5%. This was offset by an average increase in school costs of 3.74%. Salaries and benefits for most schools in our study accounted for approximately 85% of total costs. In no case did any of the schools collect enough dollars in tuition to cover salary and benefits; an item of interest to us. The yearly gap between revenues and expenses in these schools was covered by a transfer from the operating funds of their sponsoring parish.

We found that these trends were similar to those of secular human service agencies. Many organizations are experiencing yearly operational deficits. These deficits are becoming chronic and structural in nature. This is due primarily to downward pressure on contributions, greater demand for services, and rapidly rising benefit, healthcare and utility costs. Deficits are now persisting in good economic times and are being magnified during challenging times.

In our opinion, the best way to adjust to these new realities is to en-

gage in Strategic Planning and link that process to a solid Long-Term Financial Plan. Some of the key elements of a successful long-term financial plan are:

- Gathering and using accurate data
- Honestly assessing the parish's current reality
- Building consensus in the parish regarding Mission and Ministry priorities
- Setting realistic and attainable benchmarks

Parish leaders must be able and willing to adjust the plan as reality changes. This involves a shift away from a reactive to a proactive mindset, and reviewing the plan at least yearly.

Producing and using a successful long-term financial plan is not "rocket science", but, it does involve significant hard work and dedication to an on-going process for those engaged in developing and managing the plan. Those willing to do this will be rewarded by seeing their major ministry and mission initiatives grow and flourish over the years. In the words of management guru Peter Drucker, "The best way to predict the future is to create it."

For those interested in seeing the power point of our November 8th presentation, go to our web site at www.catholicfinance.org and look for the link near the bottom of our home page.

You Put Your Left Foot In; You Put Your Left Foot Out...

Recent gyrations in the financial markets have made many of our clients worry that they will have to do a Wall Street version of the Hokie-Pokie some time soon. “Where are rates headed?” and “Should we be doing something different in our budget planning?” are two questions we frequently hear. Unfortunately, our crystal ball is no clearer and no more accurate than any other you might look into. Some of the things we know are: The December 2007 unemployment report was not good and the market is betting that the Federal Reserve will reduce rates at their next meeting (perhaps as much as 1/2 %). Oil has advanced to \$100 per barrel on the spot market, driving up prices at the pump. The cost of other necessary commodities such as electricity, natural gas, and food also are continuing to rise. Lenders

are concerned about inflationary trends in the economy. Rumors persist that lenders will be resistant to loaning funds to those without “stellar” credit histories.

What does this mean to you as you head into your budget process? We believe that to the extent you are able, plan to give yourself as much flexibility as you can in your budget. As the new calendar year unfolds those that are able to be flexible will likely fare better than their counterparts. Rising costs of commodities, possible lower contribution levels brought about by a lack of consumer confidence or parishioners in an employment transition, or the truly random chaotic event can all cause you fiscal stress. By having sufficient operating reserves on hand, being flexible in program-

ming efforts and keeping an eye on the future you will be able to better withstand any short term fluctuations that the economy throws at you.

As for interest rates, we are often reminded of what Will Rogers once said and we have included his thoughts at the end of this article. Our feeling is that short term rates will follow the lead of the Federal Reserve, but that mortgage rates (longer term) will not necessarily follow due to the worries of lenders regarding inflation and credit concerns.

“An economist is someone who can tell you everything that is going to happen given any set of circumstances. And, his guess is just about as good as yours or mine.”

Will Rogers

Leasing

The United States Conference of Catholic Bishops implemented a new norm that went into effect August 15, 2007. The norm requires parishes to obtain the consent of their diocesan bishop should they wish to lease parish goods with a market value of \$100,000 or the term of the lease will be for one year or longer. This norm may especially impact parishes that are leasing a school facility to a charter school. Many dioceses have yet to implement a process to review such leases so we encourage our readers to contact the chief financial officer for their diocese in advance of renewing or entering a lease that meets these criteria.

Congratulations to St. John the Evangelist, Little Canada, Minnesota

Catholic Finance Corporation was privileged to assist St. John’s in Little Canada, Minnesota as they sought to refinance an existing loan. Acting as St. John’s financial advisor, CFC was able to search the market, recommend a lender, and negotiate terms that were in the best interest of the parish. In addition, since a portion of the loan was originally for the construction of a new school facility, a majority of the new loan was able to be completed on a tax-exempt basis at a very favorable interest rate. Due to the combination of this financing package, and the very generous contributions of parishioners that were used to reduce the amount of the loan prior to refinancing, the parish now is making monthly debt payments that are less than half of those contemplated under their previous lending arrangement. CFC would like to congratulate Pastor, Fr. David Kohner, Business Administrator, Jeanne Messersmith and the entire parish at St. John’s for this successful endeavor.

Catholic Finance Corporation
5826 Blackshire Path
Inver Grove Heights, MN 55076
Phone: (651) 389-1070
Fax: (651) 389-1071
Email: info@catholicfinance.org
www.catholicfinance.org