

Report to the Bishop and Diocesan Council – Part One Assessment Review Task Force

Lent 2013

Introduction

In the Diocese of Olympia, we are people of God who proclaim boldly by word and action the reconciling Gospel of Jesus Christ. ...Our congregations cover a whole range of sizes and stages of development. Several affiliated institutions and numerous outreach and social justice ministries as well as a number of multicultural ministries are supported by the whole diocese....(Excerpt from the prelude to the Charge to the Assessment Review Task Force)

The mission of the Diocese of Olympia is supported in part by \$3.6M in assessments collected from more than 100 congregations throughout Western Washington. The Assessment Review Task Force was charged by the Bishop and Diocesan Council to evaluate the current system, identify other possible approaches and make recommendations for whatever changes the Task Force deems appropriate. The complete text of the charge to the Task Force can be found at [Assessments chg.doc](#).

In doing its work, the Task Force engaged in discussions with over 300 Diocesan Convention delegates at ten 2012 Winter Region meetings; interviewed ten vestries and Bishop's Committees in person; interviewed representatives of another 14 congregations at a meeting of the College of Congregational Development; and interviewed representatives of 28 Dioceses by phone, as well as leaders at 15 congregations from five of those dioceses. In addition, The Task Force studied financial analyses of the budget and assessment including the impact of various assessment strategies on the funding of the diocesan budget and the several congregations. This document summarizes what has been learned and includes the first of two recommendations.

The first recommendation suggests changes that will improve the assessment process under the current system of governance and mission strategy. The Task Force believes that such an approach is faithful to the spirit of its charge from Council, and is responsive to the many people who have participated in this review. This Task Force recommendation can be found on page 7 of this report.

The Bishop and Council also asked the Task Force to consider "new concepts." The Task Force found it difficult to pour new wine into old wineskins. As a result, a second recommendation has been shaped by working from a blank sheet of paper. This recommendation is based on looking at the relationship between the Diocese and its congregations from a different point of view and then developing an assessment process that would support this new approach.

Winter regional meetings -- 2012

Between March 11th and 26th, 2012, the Assessment Task Force conducted presentations at the ten Winter 2012 Region Meetings. Some 300 persons attended one of these meetings. A copy of the Power Point presentation and a collation of the discussion results can be found in the accompanying folder, [Supporting Documents](#).

The agenda for each meeting began with an introduction to the Task Force purpose and an explanation of the Diocesan budget and the assessment process. Participants were then asked to break into small groups and discuss the following questions. The results were recorded and collated.

- How does the Diocesan assessment help your congregation?
- How does the assessment hinder your congregation?
- How does the assessment affect relationships between your congregation and other congregations and between your congregation and the Diocese?

The discussions revealed that few of the Diocesan delegates are also members of their congregation's Bishop's Committee or vestry. As a result, they often are unaware of the effects of the assessment on parish budgets and programs. For this reason, one of their most consistent comments was the need for more information. What does the diocese do? What is in the Diocesan budget? What does the assessment do? How does the assessment affect congregations? What is available for congregations from the funds sent to the Diocese?

Participants seemed most aware of Diocesan programs that had directly affected their congregation. They recognized that the Diocesan budget pays for staff that can assist congregations and that congregations can receive grants to help in times of opportunity or need.

Participants spoke to the fact that each dollar sent from the congregation to the diocese was a dollar not available for local use. In part, participants identified the assessment as an instrument for the common mission that Episcopalians share in Western Washington. For some, that is positive, and a source of motivation. Others seemed more resigned identifying the assessment as an obligation -- to some, a tax.

The Outreach and Capital expenditures deductions were almost universally affirmed. The three greatest complaints were about the assessment rate (17%), the two year lag for establishing the revenue base and the assessment of diocesan grants provided to congregations. There was recognition that the assessment rate had decreased since the beginning of Bishop Rickel's tenure, and a hope that the trend would continue. Members of congregations with declining revenue reported that having to pay an assessment based on higher revenues from past years only exacerbated their problems.

Participation at these meetings was lively. There were many expressions of appreciation for the fact that the Bishop and Council are addressing the assessment issue and for being asked to share their insights. Delegates are looking forward to hearing the results of this study at a future regional meeting.

Bishop's Committee and Vestry interviews

In the fall and winter of 2012-13, the Assessment Review Task Force conducted in-person interviews with the leaders of 10 congregations and a group interview with leaders from an additional 14 congregations and the Cursillo community at a College of Congregational Development meeting. In addition to lay leaders, twenty clergy were part of those interviews. Included were congregations of various sizes from different regions. Notes from these meetings can be found in [Supporting Documents](#).

These discussions were organized around the following questions.

- What is the role of the assessment in the life of your Church?
- When the assessment is playing its proper role in the life of your church, what are its attributes/characteristics/features?
- In what ways should the assessment take note of:
 - declining or increasing parish revenue
 - congregation staffing expenses
 - outreach expenditures
 - capital expenditures
- What is the impact on your congregation of the current assessment system?
- What about the present system would you like to retain?
- What services are best provided at the diocesan level and paid for through the diocesan budget?
- What other comments or concerns do you have?

As was true with the Winter Regional Meetings, a constant theme with congregation leaders was the need for better, more frequent communication. The question was sometimes framed as “what does the Diocese do with the money?” There was a recognition that parish budgets are directly affected by the size of the assessment and a strong desire for the Diocese to be efficient and respectful with the money it receives. It is generally recognized that congregation members, other than leaders, have little understanding of the Diocese and the role of Diocesan services in the life of the congregation.

Some of the congregations interviewed had been the recipient of Diocesan assistance at some point and the leaders were quick to point out how helpful that had been. They also understood that the diocese can best provide some services such as clergy deployment and discipline, legal, financial, etc. In fact, some were interested in exploring whether the diocese might find new ways to leverage economies of scale to lower individual congregation expenses.

There were several concerns about the way assessments are calculated, especially the two year time lag and levying assessments on grants. There was strong support for exemptions for Outreach and Capital Improvements and various suggestions for other exemptions that might be helpful. One congregation thought the first clergy salary in any congregation should be exempt. Another wondered whether clergy search expenses could be exempt. Understandably, there was a tension between wanting existing services, and even more services, and wanting assessment rates decreased.

While there was a general understanding that the assessment is a tool for common mission across the Diocese, it was often referred to as a tax or as a cost of business that couldn't be avoided. Congregation leaders have a hierarchical, linear view of the assessment. *It is imposed on us by a larger, more powerful entity. We pay because we have no choice. We understand that others may benefit and at times we ourselves have benefitted from Diocesan programs and support. Still, the assessment is imposed we can probably do more with the money at the parish level.* Larger congregations recognize that they are paying for services that they don't need and don't use. At least one smaller congregation wondered how it could learn more about available Diocesan services and how they can be accessed.

Diocese Interviews

In order to learn from the experience of others around the church, phone interviews were conducted with officials of 28 dioceses representing all regions of the country. In addition, a total of 15 congregation leaders from five of those dioceses were interviewed. The purpose of these interviews

was to learn what assessment system is used by the diocese, whether or not it is tied to the Diocesan mission and how it affects congregations. Not one person interviewed in the dioceses or congregations could identify how their Diocesan assessment and mission were related. A table with the results of the Diocesan interviews can be found in Supplemental Documents.

Through the process of these interviews, the Task Force identified five characteristics of every assessment system. There are listed below, along with their strengths and weaknesses.

<p>Income or Expense base</p> <p><i>D of O is income based</i></p>	<p>Income based assessments begin with income recorded on Line A or B of the Parochial Report. That total revenue number is adjusted by exemptions and deductions to arrive at an assessment base.</p>	<p>Expenditure based systems add lines 12 and 14 of the Parochial Report to arrive at operating expenditures for a given period. Any deductions are then subtracted from that figure and the result becomes the base.</p>
<p>Base Period</p> <p><i>D of O uses a single year base with a two-year lag</i></p>	<p>A single year base uses the income or expense from some year in the past. Using actual figures requires using figures from two years past.</p> <p><i>Congregations with growing income benefit from a greater lag between the base year and the current budget year. Those with declining income are disadvantaged.</i></p>	<p>A multiple year base period is calculated by averaging the income or expenses for the past two or three years. Unless all of the data is at least two years old, some forecasting is required.</p> <p><i>An averaged base levels out wide swings up or down.</i></p>
<p>Exemptions and Deductions</p> <p><i>D of O allows deductions for Outreach and Capital Improvements</i></p>	<p>Most dioceses exempt expenditures for Outreach and Capital Improvements.</p> <p><i>These encourage congregations to invest in these areas.</i></p>	<p>Other deductions might include salary allowances either for one clergy position for each congregation or for additional staff for growing congregations.</p> <p><i>A deduction for Diocesan grant funds has been asked for by congregations in our diocese.</i></p>
<p>Assessment rate: Single or variable rate.</p> <p><i>D of O uses a single rate (currently 17%)</i></p>	<p>Every congregation pays the same rate.</p> <p><i>Small congregations may pay proportionately more if they are unable to take advantage of allowed exemptions and deductions.</i></p>	<p>A variable rate schedule sets different rates for different income levels much like the Federal Income Tax</p> <p><i>Smaller congregations are advantaged. Congregations with higher incomes pay higher rates.</i></p>
<p>Voluntary or Mandatory</p>	<p>In a voluntary system a range of choices is generally offered -- an assessment percentage is suggested. If a congregation doesn't meet the minimum, some intervention occurs to encourage participation.</p>	<p>Diocesan Convention establishes an assessment rate and all congregations are obligated for that assessment. One variation splits the budget into two segments, one administrative and the other mission or program. All congregations are</p>

<p><i>D of O is a mandatory system</i></p>	<p><i>This method requires good communication between the diocese and congregations and a greater accountability toward making diocesan programs relevant to the needs of congregations. It may lead to greater buy-in by congregations. It may also lead some congregations to choose not to pay their share, alienating other congregations and undermining the sense of community and common purpose.</i></p>	<p>responsible for their share of the administrative budget. The mission portion may be voluntary or may be mandatory.</p> <p><i>A mandatory system affirms the mutual accountability and responsibility of all the congregations for the mission of the whole.</i></p>
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Benchmarks of an effective system

From its research and experience the members of the Task Force identified a number of benchmarks important to an effective assessment system. The following items were deemed by the Task Force to be the most important.

Promotes connections

- Stimulates connectivity between congregations and diocese
- Fosters ownership by congregations

Understandable

- Makes the mission of the diocese understandable
- Easy to explain

Makes the best use of resources

- What do the dollars do?
- Raises enough money to fund the diocesan mission
- Reflects a balance between diocesan spending and congregation spending

Is Fair

- Each congregation pays its fair share
- Gaming the system is discouraged

Financial analysis

Contributions to the Diocesan Assessment by congregation size

Who pays what? Is each congregation being treated fairly? These are legitimate questions that were expressed in various ways by those interviewed. Some, from smaller congregation, thought larger congregations should pay more – perhaps a higher rate. Some from larger congregations noted that their congregation didn't use many of the diocesan services paid for through the assessment. The fact is, larger congregations contribute the most and account for the largest share of growth in assessment income. In addition, there is some evidence that when it comes to operating churches, the economies of scale are not in effect. It costs proportionately more to operate large congregations than it does small congregations. These charts illustrate these points. [Assessment Charts.docx](#)

Assessment Profiles/Scenarios for the Diocese of Olympia

The Bishop and Council asked the Task Force to identify a range of Assessment strategies. The charge from the Diocese, our interviews and the practices in other dioceses provided a number of possibilities for consideration. Of these, the Task Force has chosen to highlight fifteen. These are presented in a series of tables. [Assessment Profiles-Scenarios.docx](#) (Note: income below generally means operating revenues.)

- 1) The current formula with an additional deduction for Diocesan Grants
- 2) Three year average using the previous three years in three different configurations
 - Straight three years
 - Three year average or latest year, whichever is lower
 - Three year average or latest year, only if more than a 10% increase
- 3) Based solely on last year's income
- 4) Current formula with no deductions and a 16% rate
- 5) Reduce each congregation's income by \$50K in two configurations
 - The first \$50K of income is not assessed.
 - Income between \$100K and 150K is not assessed, all congregations under \$100k income pay a fixed amount--\$1000 up to \$50k income; \$5000 for all congregations with \$50k-\$100k income.
- 6) Different rates for different income levels -- two configurations
 - Progressive rates – rise as income rises with each congregation paying the appropriate rate for each segment of their income
 - Tiered rates – rates rise as incomes rise and each congregation pays one rate based on its last dollar of income
- 8) Present formula with lowered rates—15%, 12% and 10%.
- 9) Recommended solution. **This is the only scenario based on expenses rather than income.**

The first table describes the impact of the 15 various scenarios on the Diocese as a whole. Subsequent tables illustrate the impact of these scenarios on six different congregations. This final table illustrates what proportion of the total assessment is paid by congregations of various sizes. [Assessment methods comparisons by congregation size.docx](#)

Each congregation profile is based on 2011 Parochial/NDI information, showing what the 2013 assessment would be using our present assessment formula and a 17% rate. Following this are many different individual “what if” scenarios that could reasonably be implemented to calculate assessments and these are each compared to the “baseline/present method” 2013 assessment and the difference +/- is shown. Although different assessment rates were sometimes used, no attempt was made to make a given scenario revenue neutral with the present method.

The six congregations represent one each from the different grades A through E, plus a second one from grade E. As of the last review of the status of diocesan congregations, there were only 4 in Grade A, 12 in Grade B, 8 in Grade C, 21 in Grade D, and the rest, 52 (more than half) in Grade E.

Task Force Recommendation*

Expense base – Historically, the Assessment has been based on Net Disposable Income. One consequence is that congregations may be assessed on income received in a given year but not spent in that year. An assessment based on Net Operating Expenses (NOE) more closely reflects a congregation's activity during the assessment period. The attached form [Documents for Study.docx](#) using a fictitious congregation illustrates how the expense-based Assessment will be calculated. Diocesan grants will be deducted. Since Outreach and Capital Improvements are not part of the calculation of NOE they will not be assessed.

Three year average – Congregations with declining income are penalized under our current assessment system by paying an assessment in the current year based on higher income received two years previous. At the same time, congregations with rising income are advantaged by paying an assessment based on a lower base from two years previous. This inequity was mentioned frequently in interviews.

The closer the base year is to the assessment year, the more accurately an assessment reflects a congregation's present circumstances. In one diocese (Montana), congregations send 18% of their previous month's net operating income to the diocese. While this approach eliminates the issue noted above, it makes Diocesan budgeting less precise because the Diocese has less certainty about what funds will be available. It is likely that such a plan works best when a Diocese has a relatively small budget with little impact on the operations of congregations and special ministries. In a Diocese the size of Olympia, with the scope of commitments to congregations, and the necessity for being reliable in meeting those commitments, it is prudent to have a reliable income forecast on which to base the budget. A three-year rolling average can provide more budget certainty for the Diocese while smoothing out the peaks and valleys for congregations.

Single rate – The 20% of congregations with the highest income account for 50% of assessment proceeds. And, they have accounted for 67% of Assessment growth over the past 10 years. Their continued economic vitality and capacity to grow is one foundation on which growth in the overall system will be achieved. For this reason, the Task Force chose not to increase the rate of Assessment on this group of congregations in order to lower it for smaller congregations. Small congregations might argue that they have more difficulty qualifying for exemptions for Outreach and Capital Improvements, and that a tiered-rate assessment would help compensate for that. But, larger congregations note that they are less dependent on Diocesan services than smaller congregations and, as a result, are often paying through their assessment for services they don't need and are not likely to use. The Task Force recommends that all congregations pay the same Assessment rate.

Mandatory – Recognizing that there can be a disconnect between congregation leaders and Diocesan programs and services, members of the Task Force wondered whether a voluntary assessment system would serve as impetus to improved communication between the two. In Task Force discussions it was noted that, with clergy salaries and allowances mandated, and the Assessment mandatory, congregation leaders have very little say about how the majority of congregation income is spent. Over time, this may breed resentment and resistance. Might a voluntary system give congregation leaders more say in how congregation funds are used? In the end, the Task Force decided that moving from a mandatory to voluntary system would require an intentional, sweeping, and carefully managed culture shift. Absent that, a voluntary system might become more about how to opt out than how to opt in. However, the Task Force would like to emphasize that the financial pressures caused by canonical and diocesan mandates are real and a source of frustration for congregation leaders.

*The Task Force has continued to work on the challenges to implementing the above recommendations. In the process, some unanticipated problems have been identified. These are described at [Addendum.docx](#)

What happens when congregations don't pay their assessment?

In the Diocese of Olympia, 95% of the congregations are current on their assessment. Not many years ago that number was 85%. What has made the difference? Two things: Diocesan responsiveness and a reduction in assessment rate. The two are intertwined. Congregation leaders appreciate the Bishop's presence and concern for them and their issues – financial, theological or other. One sign of the Bishop's responsiveness is the restructuring of the Diocesan staff and the reduction in expenses which has translated to a reduction in Assessments. In our interviews, there were a number of appreciative comments about the lower Assessment rate. A change in the canons which enforces the requirements for a Congregation in Good Standing may have contributed, as well.

The Bishop and his staff have demonstrated a willingness to work with congregations who are unable or unwilling to pay their assessment. A pastoral approach is best for the congregation and the Diocese as a whole. In the event that a pastoral response does not resolve the problem, the Bishop has the power to enforce the requirements for a Congregation in Good Standing.

Conclusion

Episcopalians prize the unity of the Church. Our respect and affection for our bishops is connected to understanding them as a sign of our unity across the Diocese, throughout the Church and down through the centuries. Our commitment to the Prayer Book is a symbol of our unity across the Anglican Communion. For those who attend, General Convention and the Diocesan Convention can be inspiring and energizing expressions of our unity and diversity.

Although we might not think of it this way, the Diocesan Assessment is also an instrument of our unity. It is the primary means through which we share our congregation resources for the larger mission of the church, not only in the Diocese but through the national church and international ministries, as well.

Our congregation leaders understand the unifying power of the Assessment. In most interviews undertaken by the Task Force, there was at least some mention of the larger good, including expressions of satisfaction that the assessment of a given congregation could make a difference in the life of other congregations. Congregations that need fewer diocesan services are pleased that those resources are available for those who do. Support for the Diocese and the assessment are reflected in the present high rate of compliance by congregations –at about 95% (up from 85% in 2005).

However, what is understood and what is experienced can be two different things. While congregation leaders understand the assessment as a unifying instrument, they experience it as hierarchical, linear and obligatory. They commonly referred to it as a tax, or like a tax. It is an obligation that must be met. When asked how the Diocesan Assessment contributed to a common purpose and common action between congregations, no leader could think of a single example.

The Task Force asked representatives of other Dioceses to describe how their assessment system was related to their mission. No one had an answer. It was a question that seemed not to have occurred to them. But, for the future of the church, it is the crucial question.

The generations motivated largely by duty and obligation are passing the baton to a new generation of leaders. This rising generation is demanding more accountability from institutions before offering their support. In terms of this report, if parish and diocesan leaders hope to motivate members of these future generations to support the mission of the church, the connection between the Diocesan Assessment and Diocesan and parish missions will have to be clearly presented and easily understood. Although Diocesan leaders do many things to communicate, and more information than anyone could want or use is available on the Diocesan web-site, many congregation leaders continue to complain that they are not well-informed about the Diocesan budget and Diocesan programs and mission. The Diocesan Council might want to begin a focused discussion with parish leaders about what information is wanted, how it can best be delivered and how it can be shared with members in the pews.

No matter what Assessment system is chosen, compliance is dependent on a sense of engagement by congregations and their members. *And, compliance is a very low bar.* For the church to thrive in the 21st century, the Diocese and its congregations will need much more than compliance – they will engagement, a relationship in which missional energy and passion flow to opportunity. The Assessment cannot simply be a means to fund the institution. It will need to be a strategy which leverages imagination, talent and collaboration in response to Gospel opportunity.

Part One of the Task Force report offers a solution to the challenges presented by the current Assessment system and addresses most of the major complaints expressed by congregation leaders. The Task Force understands this as an interim step. The real challenge, and the real opportunity, lies in rethinking the governance and mission process of the Diocese and adopting an Assessment system that will support that new model. Part Two of the Task Force report will offer an approach to that larger challenge.

Members of the Task Force

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Steve Faust	Immediate Past Treasurer, Diocese of Olympia Epiphany, Seattle
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Barbara Fox	Treasurer, Diocese of Olympia Church of the Resurrection, Bellevue
Jim Campbell	Standing Committee, Diocese of Olympia Budget & Finance Committee St. Mark, Montesano

Addendum

Task Force members have continued to work on various Assessment scenarios even after this report was drafted. In the process, some concerns have surfaced that Task Force members want to make known to the Bishop and Council. These concerns haven't yet been discussed by the entire Task Force. Full discussion might resolve the issues – or might lead to a revised Task Force recommendation.

Expense Base: The primary reasons for recommending a change from an income base to an expense base are ease of understanding for volunteer treasurers and congregation leaders and uniform practice across all congregations. Under the current system, congregation treasurers must determine what are legitimate outreach and capital expense deductions. Not every congregation understands these deductions the same way. An additional issue is the assessment in any given base year on income earned by not spent. Should that money be assessed in the year it is received, or in the year it is spent for operating purposes?

It had been hoped that working from an expense base would eliminate all of these problems. However, calculating NOE has proved difficult. There are still some issues with how given expenses are categorized. The Task Force is working with the Accounting Office on some of these issues. In addition, another issue has surfaced. What happens when a congregation fails to pay its assessment? Its' expenses are less by that amount. Is it assessed on the lesser amount or as if the assessment was paid? The Task Force will continue to work at refining this segment of its recommendation.

Three year average. The two year lag in establishing an assessment base unfairly advantages congregations with growing incomes while penalizing those whose incomes are declining. The solution is to establish a base as close to the current year as possible. But, the closer to the current year one gets, the more forecasting (estimating) is required. A three year average was chosen because it can include the immediate past year which is partially estimated (six months) while providing the security of actual figures for 2 ½ of the years. However, if congregation income is steadily increasing or declining, the effect of averaging is the same as having a two year lag (If income in year 1 is \$100, the next is \$90, and then \$80 the average is \$90). The result is what we currently have. And, it could be worse. Suppose the three years are \$100, \$70, \$60, total $230/3 = 76+$. In this scenario, a congregation would pay more in assessment than it would if things were just left as they are. The reverse is true, as well. If a congregation had incomes of \$100, 130, 140, total $370/3 = \$123$, it would have a lower assessment base than under the present system. In other words, the test for fairness would not be met.

One solution is to allow a congregation with declining income to choose as its base either the multi-year average or the immediate past year, whichever is lower. Another solution, or part of a solution, is to use a two-year average rather than three.