

2021 Budget Explanation

Attached is our proposed 2021 budget for both the Tennessee Conference (TNUMC) and the Memphis Conference. While this budget was in part jointly developed by both conferences, each annual conference meeting will vote on their respective budget. I am providing some commentary below to help explain items that are significant to the budget that that will help members of the annual conferences prepare.

TREASURER'S OFFICE/OFFICE OF ADMINISTRATIVE SERVICES ALIGNMENT

- In June, Jim Allen, the treasurer for the TNUMC announced his intention to retire effective after annual conference, which would be September 20, 2020. We need to thank Jim for his years of service to the Tennessee Conference and wish him well in his retirement.
- Both the *Book of Discipline* and practical reality require that the Tennessee Conference have a treasurer the day after Jim retires.
- The intent of both the Memphis and Tennessee annual conferences is to combine into a new Tennessee-Western Kentucky (TWK) Conference as of January 1, 2022.
- The *Book of Discipline* requires that the annual conference, on nomination of its Council on Finance and Administration (CFA) elect a treasurer, which needs to occur on September 19, 2020.
- The Tennessee Conference Standing Rules defer this process to the conference Personnel Policies and Procedures.
- Those personnel policies provide guidelines that include the involvement of the Conference Pension Committee and the executive committees of both Pensions and CFA as well as advertising the position, interviewing qualified applicants, background checks, etc.
- We followed those guidelines and held meetings of the Pension Committee, CFA, and the executive committees of each, and we are recommending what we believe is most helpful to our local churches in both conferences to better accomplish their mission.
- Each of these groups, consistently agreed that in light of the plan to unify our two conferences within 15 months of this vacancy and the need to have one person with experience and knowledge of both conferences to lead our efforts to consolidate the Treasurer's Office and Office of Administrative Services (OAS) into one office, we would defer until next year the process of advertising the position and interviewing qualified applicants. At this year's Tennessee Annual Conference, we would nominate—with the permission of the Memphis Conference's CFA—Larry Davis, the current treasurer of the Memphis conference to jointly serve as the treasurer of the Tennessee Conference from September 20, 2020, through December 31, 2021.
- It is our expectation that our two conferences will work together on a process to advertise, interview, and nominate a person to be the treasurer of the TWK Conference sometime during 2021. The first joint annual conference, expected to occur in December 2021, will likely be asked to elect this new treasurer.
- Our two CFA's have asked Larry to lead the effort to consolidate our Treasurer's Office/OAS during 2021, ensure that the financial responsibilities of each office are properly carried out, organize the staff in an appropriate manner, provide customer service to all churches in each conference, implement our

proposed new health benefit plan, and create systems and processes that would provide for a seamless transition to one TWK Conference in 2022.

- To be clear, while we are hoping that this consolidation will create some efficiencies and cost savings, it does not mean that the current employees of either conference will change or remain the same, nor does it require that the office would be fully contained in one single physical location. Those are issues that need to be worked out over time as we all search for best solutions to an ever-changing environment.
- It is our expectation for both conferences that this will be a non-event to our local churches and that their pastors who need the help or interaction with the conference office will receive excellent care.
- Accordingly, the TNUMC CFA will put forth a resolution to the Tennessee Annual Conference that outlines the rules, meetings, and factual situation. It concludes as follows: “Therefore, the Tennessee Conference CFA in consideration of the above facts and actions, and in compliance with the rules set forth in the UMC *Book of Discipline* paragraph 619, does hereby nominate to the Tennessee Annual Conference meeting in session in September 2020 Larry Davis to be elected as the treasurer, statistician and director of Administrative Services of the Tennessee Conference, effective September 20, 2020, (the retirement date of Jim Allen) until December 31, 2021, while serving this same role within the Memphis Conference.”

BUDGET A HYBRID EXPERIENCE

- Our 2021 budgets were completed the week of August 17th by each conference CFA.
- The TWK 2021 Budget Task Force, comprised of persons from each conference, asked that each CFA work together to create a 2021 budget that is part separate conference budget and part joint/area budget that is split between the two conferences.
- Several hundred people have been involved in the 2021 budget process that included teams from both conferences working as one in some cases and separately in other cases.
- The two legacy conference CFAs performed their normal duties of evaluating each budget request and even met together to hear the report of the TWK Transition Team on the proposal for Connectional Ministries budgets. Over 100 persons from both conferences evaluated how we are in ministry together and what financial resources were needed.
- Melinda Britt, who co-chaired the Transition Team with Richard Clark, shared an overview of how that process worked. She said a lot of people worked really hard to answer some challenging, strategic questions about why they needed financial resources and how they would use them to further the ministry of the local church in our conferences together.
- REVENUE: You will recall that at each annual conference session last summer, we approved a revenue-based funding model that asks each church to pay 11 percent of their income as reflected on line 52(t) of their 2019 statistical report. We called it a Connectional Commitment.

Because of the change in the Jurisdictional Conference timeline, we will be asking for each annual conference to approve the study of the Connectional Commitment and its acceptance once again this year. This is a significant change for each conference.

For Memphis, it is asking their churches to increase from a self-calculated 10 percent tithe, to receiving a bill for 11 percent. For Tennessee, this moves away from an expense-based apportionment model to an income model that causes a few fluctuations in amounts for some churches.

In the Tennessee Conference some have asked if this new funding formula would decrease the resources available for ministry. You should know that 11 percent of revenue for 2021 is equal to 99.8 percent of our 2020 apportionment amount. So no, the funding model does not reduce our resources. This model based on over 85 percent of our revenue is more consistent among our churches than our prior model that considered only 61 percent of our expenses.

For TNUMC, about 82 percent of our churches will not notice a significant change. However, there are a few outliers that will see a significant change in increase or decrease. Therefore, the TNUMC CFA is proposing a 20 percent cap on increases or decreases for 2021 versus the amount a local church would have paid the prior year to help those outliers live into this new model over time.

So that is the funding model. But the biggest single financial issue we face this year and into the next several years is how much of this model will we actually receive. We have built into the model a ¼ percent per year reduction until we get to 10 percent. A recession and unemployment are hurting our local churches, COVID is preventing us from worshiping on Sundays in person, and we still have the global UM Church struggling with how to treat our LGBTQI brothers and sisters.

This year the Memphis Conference is expecting to lose contributions from two churches that represent about 20 percent of their 11 percent number and in Tennessee we have lost several smaller churches. The reality is this is not over and will get worse before we get to 2021. Our CFA's, with the help of Jim Allen and Larry Davis, have estimated our collectability factor to the best of our ability. Memphis projects they will collect about 65 percent and Tennessee projects about 80 percent. Let us all pray that those estimates actually happen.

- PENSION AND HEALTHCARE PLANS. Each conference is already on the same pension plans with WesPath and will see little change due to our unification. Deborah Suddarth and Jerry Wallace will explain the Benefits Task Team's recommendation which is to offer the same healthcare plan for each conference. This will accomplish several financial objectives: The cost to each church will be the same regardless of whether it has a pastor that is a single participant or has a pastor with a spouse and 10 children. The cost is the same regardless of which side of the river a pastor serves. Our participants can choose a no-extra-premium/high deductible plan or pay a monthly premium and have a low deductible, depending on their situation. And for the first time in decades, we are offering an affordably priced plan for TNUMC participant's spouse and family.

The Memphis Conference will continue to direct bill these costs to each local church based on the number of clergy at each church. The Tennessee Conference will continue to move toward full direct billing with 2021 being our second year on this journey.

TNUMC is expecting some residual reserves from our 2020 health plan; our pension plan reserves did well in 2019, earning \$1.6 million in the stock market and receiving a \$600K premium waiver from WesPath. So, TNUMC's CFA is recommending, with the approval of the Pension Committee, that we use some of those reserves in 2021 to help our local churches move along the path to full direct billing.

We will ask the TNUMC to move from paying 50 percent of healthcare in 2020 to 75 percent of healthcare in 2021 and from 25 percent of pension costs in 2020 to 50 percent of pension costs in 2021. TNUMC's CFA and Pension Committee are also recommending that we use these reserves to fully pay for the pension and healthcare costs of plan participants that are not appointed to local churches rather than charging the costs in 2021 to their budgets and asking local churches to pay for it via their Connectional Commitment. We estimate that after 2021 and the use of this level of reserves, we would move into our new conference with about \$11 million in pension reserves. Of course, the Memphis Conference has reserves that are proportional in amount.

- Regarding General UMC and SEJ apportionments, each of our conference's CFA's are recommending that we budget an amount equal to the reduced amount that GCFA recommended before General Conference was postponed. After the postponement and the resultant no approved budget, GCFA backtracked and suggested that while they still planned to recommend the lower amount to General Conference, each conference should plan to pay in 2021 the higher amount they were apportioned in 2020. We are recommending a budget of the lower amount which represents a savings of \$842,588 to our combined conferences.

PROCESS

- Melinda Britt, Richard Clark, B.J. Brack, and Sue Engle led a successful process used by our various ministry teams working together as one joint team to propose a budget for all the Connectional Ministries (CM). We organized the 2021 CM budget in a format consistent with our proposed new structure with strategy teams for Connect, Equip, Discover, and Send.

For many of our program areas like Campus Ministry, Covenant Entities, or New Church Development, the groups planned joint or similar ministry while at the same time creating separate budgets for each conference. In some situations, an actual joint/area budget was created. For those budgets, we let the accountants allocate the budget dollars between the two conferences and we are asking the ministry teams to move forward as one.

I participated in the Transition Team meetings, led one of the evaluation teams, and heard the reports of all the teams. In my view, our CM teams did not propose much in the way of new or drastically changed programs for 2021 versus 2020, but they took some very significant steps. They reached out across the river, got to know what was happening in the other conference, and strategized as to how they could move forward in ministry together.

There are some great stories of how groups met together, learned from each other, and articulated their ministry objectives and needs. This Transition budgeting team reported moving from using language of Memphis and Tennessee conferences, to East and West regions of our area, to we and us as they made decisions about funding ministry together. It was transforming for those leaders involved.

- The Connectional Ministries teams also worked hard to understand and explain why they needed the financial resources they were asking for. In the end they proposed an amount of \$2.7million for the Tennessee Conference and over \$600K for the Memphis Conference which were consistent with 2020. The leaders of the Transition Team presented their proposal to the joint Memphis/TNUMC CFA meeting on August 12. The budgets that each CFA is recommending to annual conference includes the full amount requested by these ministry teams.
- Each conference has provided a significant amount of budget to assist local churches that are struggling to pay their clergy with equitable comp salary support.
- Larry Davis, with the help of Jim Allen, prepared a joint budget for our Treasurer's Office/OAS that reflects a savings to the combined conferences of \$70,000. Larry will be looking for further cost-saving opportunities during 2021 as that back-office function becomes one.
- We worked to achieve some alignment with our district budgets. Our nine district superintendents (DS) agreed to equalize their salaries since we were proposing a benefits plan that was now consistent for each conference. The Tennessee Conference DS's were paid more than the Memphis Conference DS's and they agreed to meet in the middle for all nine. This means that five Tennessee Conference DS's will be taking a pay cut in 2021 to move their pay down to the average amount and the four Memphis Conference DS's will receive a raise in an equal amount. So, when you see Scott, Chip, Donna, Alan, or Pat, thank them for

agreeing to take a pay cut to make this work. We also sharpened our pencils in the budget process for Tennessee Conference travel expenses by budgeting an amount for travel equal to the actual expense of 2019.

- In one of our joint CFA Executive Committee Zoom meetings, we proposed that each conference adopt a best practice of the other conference relative to our district budgets and our campus ministry budgets. Each CFA agreed to those proposals and have included them in our recommendation to our respective annual conferences.

In July 2019, the TNUMC districts moved all their payroll and bookkeeping duties out of their offices and into the Treasurer's Office. This has saved money, taken the DS's out of the bookkeeping business, provided more transparency and control over our expenses, and allowed the DS's to make executive decisions regarding the use of their budgets.

The Memphis Conference CFA is recommending in their report to annual conference that the Memphis districts make a similar change in 2021. Similarly, we learned that in the Memphis Conference the campus ministers are all on the conference payroll and the Treasurer's Office manages the funds included in the conference budget for each campus ministry.

The TNUMC CFA is including that plan for the TNUMC Wesley Foundations in their recommendation to the annual conference. We will meet with the campus ministers to talk about how this will work and how it will be helpful to them with their ministries.

- SALARIES. The TWK Structure Team has worked hard to create a new structure for ministry in the TWK Conference. Bethany Huffman led that team and will report on that new structure. We need to have approval from annual conference to adopt this new structure before specific employee and salary decisions can be made. The plan is to ask for annual conference approval for the structure and then live into that structure and make position and salary decisions later this fall or into the new calendar year.

Each CFA has included in their respective budgets a pool or bucket of money to be used for salaries that is equal to 2020 amounts. To be more specific, the Episcopal Office budget, the OFLD budget, campus ministry budgets, camping budgets, and the Treasurer's Office all have amounts included in their budget to pay salaries generally equal to 2020 amounts and people. For the CMT area, the Tennessee Conference budget has a pool of money to be used for salaries equal to the total amount included in the 2020 budget, and the Memphis Conference budget has a pool of money to be used for salaries equal to the 2020 amount for the one position that is still filled. As we live into this new structure, we have a fixed amount of salary money available.

- It is important that we work hard during 2021 to find ways to reduce spending for both conferences. We need to focus this effort on administrative-type items to protect ministry. Each conference is expecting a reduction in revenue after 2021 and each budget has used a significant amount of reserves to help pay for our expenses. Our ability to utilize reserves will be reduced in 2022 and future years. I am suggesting that while 2021 will be a year of aligning our conference operations and ministries, it also needs to be a year where we sharpen our pencils relative to how we spend money.

While there are always more details that could be shared, I will stop at this point. The recommended budget is attached. We will provide more information at annual conference.

John Pearce, President
Tennessee Conference Council on Finance and Administration