

Diocese of Pensacola-Tallahassee

Finance Commission Meeting

May 16th, 2023

Minutes

The Diocesan Finance Commission met Tuesday, May 16th, at 4 pm. In attendance and participation via conference call were: Mr. Robert Emmanuel, Msgr. Michael Reed, Fr. Doug Halsema, Mr. Eric Nickelsen, Dr. William Simmons, Ms. Kathy Crowley, Mr. Ed Largaespada, Bishop William Wack, Mr. David Ell, and Mr. Nicolas Bray.

The Meeting began at 4 PM with a prayer from Bishop Wack.

The agenda was approved.

The minutes from previous meeting were approved.

CFO Update- Recap of Activities: Mr. Largaespada provide the Pastoral Center updates. The Diocese has secured the playground certification for safety standards. Risk management has 18 roofs under review/expiring. Hurricane Sally has claims closing for St Joseph, Pensacola. Accounting is undergoing training and configuration of Business Central. Human Resources is currently under a transition from an HR & Payroll perspective.

Schools are currently operating at breakeven/slightly positive. A few in the negative- JP II/St John's in Panama City. Three Pre-schools showed a deficit as well. Schools financial position is fully breakeven with \$13.6mm in cash. Mr. Emmanuel brought up the school's legislation voucher program being positive for school's financials. Mr. Largaespada stated its more school specific. Schools who charge less will increase their tuition levels. Some have expiring discounts that were given in the past. Some are raising tuition closer to cost of education. It won't increase enrollment, just the payer will change.

Parish revenue is operating with positive results. Liquid assets remain healthy. \$50.2mm in cash, \$3.8mm higher than a year ago. Dr. Simmons asked if there are any interest changes to savings with Interest rates increasing in the market. Mr. Largaespada responded with no. Rates stay the same in good years & bad years. Some entities pay better rates on savings, but don't have loans of 5.5%. Positive or negative, we currently have a fixed model, but are open to suggestions.

Property & Liability Insurance: Mr. Largaespada showed estimates of the market going to go up by \$5mm to \$10mm, but could possibly be worse. The last 5 years the Diocese has received \$50mm in insurance proceeds. The loss history is not good. Catastrophe losses without any claims have increased rates across the board by 30%; losses with claims have showed an increase in rates by 50% to 100%.

The Diocese of Pensacola-Tallahassee is now self-insured for windstorm for the first \$25mm. Mr. Emmanuel asked if that was per storm or Per Year. Mr. Largaespada clarified, per storm. The 2nd layer of \$26mm to \$60mm will be covered by the carriers. We requested more, but couldn't find insurers. Anything over \$60mm is back to self-insured by the Diocese.

Mr. Largaespada explained that coverage for only \$35mm is risky. A CAT 5 hurricane that hit the Diocese could represent \$125mm in damages and only to have \$35mm could be an issue. Mr. Emmanuel asked

is we are seeing the same for Diocese inland? Mr. Largaespada explained the risk profile are all different as part of the EPM. All Diocese in the EPM are responsible for the \$25mm, however how they elect to fund it is different. Risk profiles drive it, in determining funding the first layer. Some had enough in reserve already.

Current premiums have changed from \$3.3mm to \$8.4mm, or 160%. The plan fully needs to be funded for reserves at \$5mm per year, for the next 5 years. Last year rates made up 4% of total income. This year is 10% of total income. Once fully funded rates should be at 8% of total income. Bishop Wack brought up parishes asking about not carrying insurance, and keeping funds at the parish for future discussion.

Investment Committee Report: Mrs. Crowley provided an updated from Blackrock. The current recession is shallow. Most of the meeting was discussion related to the catholic screen. It has been a trouble benchmarking against the Diocese current custom screen. They're currently 3 screens provided by Merrill Lynch- Full Catholic Screen, Catholic Light, and custom-formed by the prior CFO.

The Full Catholic screen will knockout 28% of investments, and 11% of American companies. The committee doesn't want to use the Diocesan custom screen anymore, and wants to go to Catholic light for better benchmarking. The committee believes the full Catholic screen is too tight. There are no clear rules, as it's really subjective and the committee is looking for guidance for performance and morals.

Bishop Wack stated he was more conservative and like the Diocesan custom screen. Shows we are serious in evaluating each stock. Ms. Crowley stated there must be changes to each document every time a stock is added or taken off. Mr. Emmanuel felt it is unfair to put on the investment committee to vet. Fr. Halsema brought up how it's difficult to track and get results if the target is constantly moving. Mr. Ell recommended using the framework of an Ave Maria and choosing 1 entity to invest in. Ms. Crowley recommended picking Catholic or Catholic Light screen, compared to investing in 1 entity. Mr. Emmanuel asked if a reliably organization that doesn't screen would be the best option. Ms. Crowley stated she would research other 3rd parties, and find out who's Merrill Lynch 3rd party, and present next meeting.

Financial statements: Mr. Largaespada presented the financial statements. Current Fund financials look good. Current Fund operating ahead of budget. Revenues are higher by \$400K and expenses lower by \$200K than budget. The higher revenue is from the gain/loss of the market & interest income, not reoccurring. Contracted services are over budget from the unexpected program of Amen Generosity, that happened after the budget was approved. Cash is stable on the balance sheet.

Deposit and Loan interest income is down, while savings interest expense is up. D&L operated in the negative last year. This year it is positive with investment income. Cash increased \$5mm, as the D&L is in good shape.

The Self Insurance Fund is still holding a good amount of funds. The funds have been getting disbursed to St Dominic's and St Joseph's for Hurricane repairs/rebuilding. There has been a reduction in cash, but also liabilities, as the cash doesn't below to the Pastoral Center. The Hurricane account has disbursed \$7.3mm this Fiscal year, with a correlation between expense and revenues. The medical premiums have been adjusted to break even.

The plant fund reports property owned by the Pastoral Center. The fund owes money to Deposit & Loan and Current Fund. We have been working on bringing the outstanding balance down. Cash is a little stable with external & internal rental leases, as well as in-kind.

Overall with cash decreasing, the Diocese is still healthy. Net assets are down from \$86mm to \$82mm. Total liquid assets are down from \$66mm to \$62mm.

Budget: Mr. Largaespada presented the Pastoral Center budget. The budget includes some projections, but tighter more prudent use of funds. With school's breakeven, still receiving EANS money, offertory only showing an increase of 6%- just under the reported inflation market, and insurance premiums increase we are required to assess the business model.

The assessment is only 58% of budget, compared to 77% back in 2020. The Pastoral Center is using other sources of revenue like investments. Investment use is 3.5% of reserve, being prudent to cover ministries and operations. Restricted income includes grants from Foundation, Extension Society, and Black & Indian.

The Priest Retirement draw of \$850K to cover benefits and Priest Pension disbursements, still should allow the fund to remain funded.

Total expenses have increased \$782K, however no change to Catholic Charities. The big increase is related to subsidy to school and parishes for Property & Liability support. However, it may not be enough. Maintenance to the pastoral Center has been reduced, as we see no major repairs this coming fiscal year. The benefits and contracted services expenses have increased this coming budget due to the Hispanic Sisters ministry outreach in Tallahassee. The contracted services of Amen Generosity plans to go on another year, is included in this year's budget. We have included a 3% increase in salaries and added a few positions.

Mr. Largaespada doesn't like to present a deficit budget, and knows it's a deficit budget, but asking for approval.

Motion by Mr. Nickelsen to approve.

Budget approved.

No new business.

Msgr. Reed closed in Prayer.

Meeting was adjourned.