

Diocese of Pensacola-Tallahassee

Finance Commission Meeting

May 17, 2022

Minutes

The Diocesan Finance Commission met Tuesday, May 17, at 4 pm. In attendance and participation via conference call were: Mr. Robert Emmanuel, Msgr. Luke Hunt, Msgr. Michael Reed, Fr. Doug Halsema, Mr. Eric Nickelsen, Dr. William Simmons, Ms. Kathy Crowley, Mr. Ed Largaespada, Bishop William Wack, 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.

Recap of Activities: Mr. Largaespada provide a department update at the Pastoral Center. The Diocese was able to sustain the losses from hurricane Michael and Sally, which allowed for premiums savings from the Insurance Brokers when going to market. Mr. Largaespada also explained future growth ideas of the Diocese, which included New Programs & Parishes, with property ventures in the area of Navy Federal as a possible future site development. Mr. Nickelsen expanded on the property in regards to Sacred Heart selling portions of the property. Msgr. Reed stated it could be used as a possible retreat center for Pensacola. Bishop Wack clarified the property the Diocese is currently looking at could be used for parish development as expanding or moving Our Lady Queen of Martyrs or St Thomas Moore. The land reference by Mr. Nickelsen is already developed, and could be used for something else as Msgr. Reed stated- a retreat center, however the Diocese is not currently looking into that at this time.

Schools: Mr. Largaespada showed the school's financial performance as good. Enrollment is slightly down, however the schools have increased tuition to help offset the increase in salary expenses/ overall the schools are in a healthy position. Mr. Emmanuel asked if the increase in tuition has resulted in lower enrollment. Mr. Largaespada explained is hasn't been related as scholarships and step-up have increased assistance resulting in positive results.

Parishes: Parish Offertory is up 7-8% from last year. The overall cash balance of parishes is over \$50 million as a whole. CSA has increased 7-8% as well; however, it hasn't been enough to cover inflation. The pastoral center has operated with flat expense. There has been a slight increase year over year related to revenue, resulting in healthy net income year over year.

Property & Liability: Mr. Largaespada shared how Hurricane Michaels loss was reduced from an expected loss of \$47 million to only \$38 Million. The Diocese has been able to contain the losses related to Hurricane Sally and has been the "talk of the town" with London, in regards to claims and exposers. This has allowed the diocese to receive good rates.

Property values have increased 6.7%. Inflation rates haven't kicked in yet for majority of our property. Next year we could see a rise of 20-25% in values, related to replacement cost. Insurance companies are penalizing customers for having to low of values. However, we are able to avoid this by having our values appraised every five years. Workers Compensation premiums have been reduced by 11%.

Investment Committee Update: Ms. Crowley presented the investment committee report as herself as chair. The Investment committee met with Merrill Lynch April 26th, 2022. Merrill Lynch stated we are nowhere near a recession, possibly 2023-2024 at the earliest. Rates are beginning to get pulled back, however allocation is fine. The investment committee first met April 1st, 2022 with minutes to discuss scope of committee. Plans are to meet monthly, however information is 30 days old by the time it is presented.

Ms. Crowley requested to finalize the next four finance meetings so they could coincide with the investment committee meetings for presentation purposes. The dates finalized are August 16th, November 8th, February 21st, and May 16th. The audit presentation is presented every September late in the month. There will be a September Audit presentation meeting (possibly virtual) provided later for the committees approval of the audit, prior to it being submitted.

Ms. Crowley also provided the Finance committee with the scope of the Investment committee: Identify all diocesan investment assets. Identified the need for cash flow requirements for each tranche. Identify and Deposit & Loan plan design including rates. Determine the need for additional authorized personnel for account access. Identify any conflicts of interest. Review gifting policies and donor records.

The items that are not part of the committee involve Insurance and real estate. Ms. Crowley plans to have a call with the CFO to identify assets and with HR in regards to 401K. The investment committee wants to identify processes to get the best bang for your buck.

Ms. Crowley was just aware that Susan Davis resigned and would like some type of organization chart in regards to structure and roles. Dr. Simmons asked is the role of the investment committee to advise the finance committee on changes? Ms. Crowley confirmed and stated how they are looking for additional members. Bishop Wack passed along the invite to Mart O'Sullivan who accepted, and another individual who declined. Ms. Crowley asked to provide additional Investment Committee Materials to the Finance Committee minutes. Ms. Crowley also requested the following be approved: The IC Chair requested FC approval on the IC mission and scope – approved. The IC Chair requested the creation of an organization chart for the diocese- approved. The IC Chair requested the scheduling of the next 4 FC meetings- approved. The IC Chair requested additional members be added to the IC – approved. Ms. Crowley plans to give Mr. Bray Conflicts of Interest letter for board members to sign.

Financial Statements: Mr. Largaespada presented the financial statements with current fund being positive related to budget. Actual revenue represented higher than budget, and expenses lower than budget. Thus operating ahead of budget. Mr. Largaespada also showed improvements on cash and investments.

Deposit and Loans: The Deposit and Loan shown a decrease in deposits by \$6 million and a decrease in loans by \$3 million. Parishes and schools are doing well in paying off their loans. The Deposit and Loan revenue has decreased with loss in interest income, and an increase in expenses in relation to the Diocesan bank. Except for investments.

Bishop Wack asked this is good for the parishes, but how does it affect us? Mr. Largaespada stated although operations are negative, the Diocesan bank is still in a good position. The parishes and schools owe \$52 million in loans and the Diocese owes \$55 million in savings. If loans goes bad and they can't make the payments, then money can get tight, especially if investments go down. Mr. Emmanuel asked

if any loans to parishes are non-performing. Mr. Largaespada responded with none at this time. Dr. Simmons asked if there are any loans in the pipeline. Bishop Wack mentioned St Dominic, St Jude, St Rita, and Pensacola Catholic High are all viable options establishing future loans.

Self-Insurance Fund: Mr. Largaespada reviewed the self-Insurance fund, and it has a good amount of investments and Cash. \$16mm is owed to insurance companies related to Hurricane invoices that hasn't been incurred at this time. These are advances for claims that plan to be accounted for at the time of improvement/repair.

Plant Fund: The Plant fund represents property at the Diocese. Mr. Largaespada explained there are two types- pastoral Property, and property related for growth/rent. He pointed out the negative intercompany in the plant fund. Mr. Largaespada explained how the plant fund doesn't produce enough cash to support itself and Current Fund loans money. He would like to cancel the current model and transfers funds from current fund directly to Plant fund via rent to allow plant fund to operate independently. The pastoral center also plans to begin to track all revenue and expenses in that fund including Bishops house and other related expenses.

Mr. Emmanuel asked if we charge them rent, like Catholic Charities, or just account for it. Mr. Largaespada stated we began to charge Catholic Charities nominal rent, but it's really just replacement cost revenue in regards to maintenance. He explained there are really two parts- John Paul !! High school for instance uses facilities amounting to \$120K without any rent being charged, and in-kind related charges, which are customarily normal for non-profits.

Budget: Mr. Largaespada presented the Pastoral Center budget for Fiscal Year 2023. He stated how the Diocese had a really good year last year. This year's budget is a little different and tighter. The budget has an increase of 9% in relation to revenues and expenses. Salaries are expected to increase 6%. Budget used 3.5% in regards to investment withdrawals. The market is volatile right now so it's hard to predict exactly what the withdrawal rate will be. The Diocesan current assessment rate is competitive to size. The Diocese would like to keep assessment values low and utilize more prudent amount of investments.

Bishop Wack understands using 3.5%-4% of investments is a little high, compared to the regular 3%, however he feels 20.5% of Parish funds as assessment is high as well. The Diocese of Austin Assessment rate he believed to be around 11%. Bishop Wack would like to keep the assessment low, however doesn't want to keep withdrawing investment funds at this higher rate and is looking for options.

Mr. Largaespada reiterated how the budget is tight and it's a balancing act. Ms. Crowley questioned if the Diocese should be buying property with such a tight budget. She added should the Diocese be withdrawing additional funds from the investments, just to purchase land given the current times. She also asked Mr. Largaespada where he got his inflation amounts. Mr. Largaespada responded with salaries are significant lower than market. A 6% salary increase is to accommodate market. He asked Mr. Nickelsen, who recently reviewed the HR office with the Diocese, if he could elaborate and report his findings. Mr. Nickelsen simply stated a 6% increase should be granted given the market.

Dr. Simmons referenced how Catholic Charities subsidy remained unchanged year over year. With significant amount of obstacles with losses to grants and no revenue for Fox Trace to Barnabas House, should we be giving more to Catholic Charities or a onetime gift to Barnabas House? Mr. Largaespada

proposed a two-part contribution- \$250K distribution to be unrestricted, and \$50K distribution to be restricted for improvements. Dr. Simmons asked isn't that why they pay rent, to offset repairs? Mr. Largaespada confirmed rent offsets repairs; however, he was looking over the next 5 years towards replacement cost. The market value of the property is \$100K in free rent. Dr. Simmons Proposed we refer to the green check mark on a prior slide that showed the Diocese operating under budget this Fiscal Year-2022, and give a one-time donation to Catholic Charities/Barnabas House.

Mr. Largaespada then went to explain seminarian expenses. The current budget contains cost associated with 15 seminarians. However, he just got news that we could possibly have 20. Bishop Wack said this was great news, however we are possibly looking at more funding/expenses. The Diocese is very generous when it comes to our seminarians. The Diocese pays everything and are looking at a budget of almost \$1mm. in comparison, Diocese like Miami only pay 3 quarters of expenses, while others will make the seminarians take out a loan, with repayment if they leave early. Mr. Emmanuel asked if there are any scholarship offers for seminarians. Bishops Wack was unaware, but stated he liked our current model.

Mr. Emmanuel asked about real-estate bequest, and if those funds are utilized or could be utilized to cover, specific cost put forth by the finance committee. Specifically unidentified or excess real-estate. Mr. Largaespada stated excess property currently is sold to cover deficit in plant fund, which he is currently trying to adjust going forward by having parties pay rent, compared to intercompany transactions. He mentioned the Diocese could be a bit more aggressive in sales going forward. The board asked about creating a discretionary fund to hold land sales to be used for one-time gifts to entities such as Catholic Charities or Pregnancy Resource Centers. Mr. Largaespada indicated from an accounting standard property is recognized at the time of sale, but will look into options for reserves.

Mr. Largaespada asked for approval of the budget. Mr. Emmanuel clarified the budget will be approved, with Catholic Charities receiving \$300K-all being unrestricted, with a one-time gift sent this year as the Diocese is currently under budget for Barnabas House.

No new business.

Msgr. Reed closed in Prayer.

Meeting was adjourned.