Reasons for the Budget Deficit

Introduction

Following the announcement of the budget deficit in October 2014, the First Presidency asked the Presiding Bishopric to review the factors and decisions that contributed to it. After that evaluation, the First Presidency and Presiding Bishopric developed the following statement:

Statement

In October 2014, the First Presidency and the Presiding Bishopric announced the church needed to reduce its annual budget by almost $7 million. To be exact, it was $6.7 million. How did that shortfall accumulate?

First, tithing and endowment income did not grow as planned. Second, expenses increased significantly more than projected. The combination resulted in the projected deficit.

Why did this occur? In 2011 the World Church Leadership Council and World Church Finance Board approved a recommended plan to grow world mission tithes by 10 percent in fiscal year 2012 and 5 percent annually after that. The five Mission Initiatives were introduced during this time with ways to contribute to particular initiatives.

World mission tithes increased $1 million in fiscal year 2012. That was encouraging! Then world mission tithes did not meet the annual projected 5-percent increases the next two years. However, as efforts continued to increase tithing, recommended budgets were approved that remained at the 5-percent tithing-increase projection instead of reduced expenses to match the actual income.

The annual budgets during that period (fiscal years 2012–14) included deficits. The deficits were covered through other revenue sources such as reserves and real estate sales. This was acceptable because long-term projections (five-10 years) showed short-term deficits being eliminated, resulting in a balanced budget.

During the years the tithing-growth budget model was in place, all budget deficits were recorded appropriately on a consolidated basis for the annual audit.

However, since the plan was to follow the approved budget model for three years, there were not updates to adjust endowment and reserve balances for the accumulated deficits to determine the effect on spending amounts. The total of deficits was approximately $8 million. Using the spending rate of 6 percent this drop in balances reduced the spending amount available for the budget by $480,000.

Church endowments and reserves are invested in marketable securities and the church's real estate holdings. Projected earnings are based on long-term market performance. Annual income comes to the world ministries budget from these investments, using a spending rate of 6 percent and a five-year-rolling average of the investment portfolio.

A five-year-rolling average means the balance of the investment for the last five years is averaged, and the spending rate is applied to that average. Therefore, market performance five years ago and in following years (not just this year) impacts calculations of how much income can be provided to the budget.

The church's investments include a significantly larger amount of real estate than securities. This real estate was donated to or bought by the church over many years. The development and sale of real estate such as the "Harmony Project" (Eastern Jackson County, Missouri, USA) has been delayed for over 10 years.

This delay was caused by several factors, including the real estate market downturn that began in 2008 as part of the Great Recession. This delay resulted in returns that have not yet met expectations. The actual average "blended earnings rate" was 2.8 percent for fiscal years 2011–2014. An adjustment to income projections based on actual returns reduced income available to the budget by $940,000.

What caused increased expenses? A major cause was the need to increase the annual amount budgeted to fund employee retirement obligations. On a regular basis the Presiding Bishopric conducts studies to determine how much money should be set aside to fund retirement obligations now and in the future. Recent projections based on longer average life expectancies and higher medical costs revealed a need to significantly increase the annual amount budgeted.

In 2014 the World Church Leadership Council engaged in budget planning. The council discussed the need to move from a budget model based on the long-term growth of certain investments to a model based on annual net income. With the information available, the council agreed on a plan to reduce expenses in stages over several fiscal years.

The goal was to bridge to fiscal year 2017 by using reserves from the Atherton, Missouri, net sales proceeds so expense reductions could be achieved through planned retirements beginning that year rather than involuntary downsizing. Another goal was to allow time for the Council of Twelve to develop field organization and staff-deployment strategies based on lower numbers of paid ministerial personnel.

What led to the decision to reduce the entire deficit in fiscal year 2016? In early fiscal year 2015, the Presiding Bishopric evaluated the various assumptions used to develop the annual world ministries budget to actual income and expenses. The Presiding Bishopric concluded the current budget model, based on long-term assumptions (10 years), was not the best model to use given current realities. Also, while the total number of world mission tithes contributors was increasing internationally, the contributors from economically developed nations who are able to give larger amounts regularly had continued to decline.

It became apparent that the decision to bridge to fiscal year 2017 to achieve reductions through retirements was no longer viable. Expenses would be much higher than expected, and reserves from the sale of assets would not be enough to fund the plan.

In September 2014, the World Church Leadership Council received a "Five-year Strategic Financial Plan" developed by the Presiding Bishopric. The plan identified steps to balance the budget by the beginning of fiscal year 2017 (July 1, 2016). The World Church Leadership Council supported the plan. That decision means the entire budget deficit will be eliminated in fiscal year 2016 so we can begin fiscal year 2017 with a balanced budget.

As a result of increased world mission tithing to date in fiscal year 2015 and use of additional reserves, the amount by which the annual budget must be reduced declined $1.3 million from the earlier projection of $6.7 million to $5.4 million.

Early retirements in calendar year 2015 and other expense reductions already achieved total $1.5 million of the $5.4 million needed reduction. This leaves $3.9 million as the budget reduction (or increase in income) needed to balance the fiscal year 2017 budget.

What ensures we will not be in this situation again? The decision to use a different budget model ensures we will have annual balanced budgets. We will not have annual budgets that include deficits.

What is the impact of the decision to have annual balanced budgets on church mission? This decision means the church's capacity to fund mission will grow if annual income grows and will decrease if annual income decreases. We must remember that the largest source of annual income is world mission tithes (58 percent). With that in mind, the following words of counsel are particularly relevant:

> *Let my word be preached to the bruised and brokenhearted as well as those who are enmeshed in sin, longing to repent and follow me. Let the truths of my gospel be proclaimed as widely and as far as the dedication of the Saints, especially through the exercise of their temporal stewardship, will allow.*
>
> *—Doctrine and Covenants 153:9*

Glossary

Actual returns: Actual income rather than projected income.

Blended-earnings rate: Annual earnings rate for endowments and reserves based on a combination of investments in securities and real estate.

Budget model: A method used to forecast revenue and expenses over time to determine a financially sustainable budget level.

Deficit: Higher expenses than income.

Endowment: A fund composed of gifts and bequests that are invested to provide annual income to an organization. Typically, the annual income is calculated by using a spending rate that provides part of the earnings as income and returns part of the income to the fund.

Expected return: The expected value, or mean, of all the likely returns of investments in a portfolio.

Investment portfolio: All investments (stocks, bonds, real estate, etc.).

Fiscal year: The financial accounting year of an organization. The church's fiscal year is July 1 to June 30. For example, fiscal year 2017 is July 1, 2016 to June 30, 2017.

Five-year rolling average: Average, as of a specific date, of the endowment earning asset balances for the previous five years.

Marketable securities: Investments in equity securities (stocks) and fixed-income securities (bonds) on behalf of endowment funds, reserve funds, and funds held for affiliates.

Market performance: How investment markets actually do instead of how they are projected to do.

Reserves: Money accumulated over time and held to cover budget shortfalls.

Spending rate: A specified percentage multiplied times the rolling-average balance to determine the amount that will be spent from an endowment for the next year.

World Church Finance Board: A 60-member representative board that approves annual World Church budgets on behalf of the World Conference. The board is composed of church leaders and members elected by the Order of Bishops and World Conference.

World Church Leadership Council: General officers of the church (First Presidency, Council of Twelve, Presiding Bishopric, presiding evangelist, president of High Priests Quorum, senior president of Seventy, World Church secretary) and directors of various church organizational functions.

World mission tithes: Contributions given to support the worldwide mission of the church as planned and approved in the World Church budget.