

Each year every diocese files a report with the Domestic and Foreign Missionary Society (DFMS) known as the "Diocesan Report to the Executive Council of the Episcopal Church." Page four has the sub-title "Diocesan Report of Operating Income" and includes five sections:

- I. Pledge Payments from congregations
- II. Contributions from organizations
- III. Investments used for operations
- IV. Unrestricted gifts and bequests
- V. Other operating income

The bottom line, which is the total of sections I - V, is called "total adjusted operating income" (hereinafter referred to as taoi). When the DFMS calculates the assessment due from a diocese (now at the rate of 15%), it begins with the figure listed for the taoi. Then there is a fixed deduction, currently some \$140,000 for every diocese. This favors dioceses with a small taoi. So, the taoi listed on the report for 2017 and reported by 9/1/2018 will determine the DFMS assessment due for fiscal year 2019.

Province III does not use the taoi, but rather only line 1d from this report, which is the income (after adjustments) of the pledge payments from congregations. So, when we calculate the Provincial assessment, we do not include any of the Diocesan income in Sections II - V above. Using **only line 1d** in calculating the Province III assessment favors dioceses with significant income from an endowment fund or other income listed in II - V. This formula penalizes dioceses, large or small, which do not have much income in sections II – V because they end up bearing a larger burden (as a percentage of their taoi) when paying the Provincial assessment. Here is an exaggerated but simple example to illustrate this issue (does not include the fixed deduction):

Diocese A

Income from congregations, line 1d - \$800,000
All other income (II - V) - \$200,000
Total Adjusted Operating Income (taoi) - \$1,000,000
Provincial assessment at 0.25% of line 1d = **\$2,000**
Percentage of taoi sent to Province III: 0.20%

Diocese B

Income from congregations, line 1d - \$800,000
All other income from II - V - \$1,200,000
Total Adjusted Operating Income (taoi) - \$2,000,000
Provincial assessment at 0.25% of line 1d = **\$2,000**
Percentage of taoi sent to Province III: 0.10%

Note: both dioceses pay the exact same dollar amount to Province III. However, as a percentage of total adjusted operating income, ie the taoi, Diocese A is paying twice as much as Diocese B. I think we should emulate the DFMS calculation and henceforth (starting in 2020) use the taoi as reported to the DFMS. If we maintain the current rate of 0.25%, which Province III has been using, but apply it to the taoi, then in 2020:

Diocese A will pay 0.25% of its taoi = \$2,500, an increase of \$500
Diocese B will pay 0.25% of its taoi = \$5,000, an increase of \$3,000

Under this proposal each diocese would pay more to Province III but the current discount granted by Province III to dioceses like (B) would come to an end. It is also worth noting the impact of the reduction (from 19% to 15%) recently implemented by the DFMS on the diocesan assessments (again, excluding the fixed deduction):

Diocese A paid DFMS in 2014 @ 19%	\$190,000 (19% of \$1 million)
Diocese A will pay DFMS in 2019 @ 15%	\$150,000, a reduction of \$40,000
Diocese B paid to DFMS in 2014 @ 19%	\$380,000 (19% of \$2 million)
Diocese B will pay DFMS in 2019 @ 15%	\$300,000; a reduction of \$80,000

While the Provincial assessment for both dioceses will increase, that increase, when measured against the reduction implemented by the DFMS and its taoi, is modest:

Diocese A's increase of \$500 to Province III is	1.25% of the DFMS reduction. .05% of its total income
Diocese B's increase of \$3,000 to Province III is	3.75% of the DFMS reduction. 0.15% of its total income

I believe that shifting from using line 1(d) to taoi, *again the same figure used by DFMS*, will produce a significant increase of much needed income to Province III while at the same time preserving over 96% of the savings each diocese has received and will continue to receive as a result of the DFMS reduction.

Furthermore, using the taoi will be more equitable for everyone. Dioceses with a lower taoi should not continue to bear a larger portion (as a percentage of their total income) of the Province III budget. For me, it is a simple issue of fairness.

Proposed Motion:

Resolved, That the Provincial Council, meeting in Martinsburg, West Virginia, on October 22, 2018, recommend the following diocesan assessment formula to fund the work of Province III to the Provincial Synod for its approval, said formula to take effect on January 1, 2020: 0.25% of the "total adjusted operating income" as reported by each Diocese to the Executive Council, noting that this is also the figure used by the DFMS in calculating the DFMS annual assessment for each Diocese; and be it further

Resolved, That the Provincial Coordinator notify the constituent Dioceses of this **proposed assessment formula for FY 2020** by no later than November 30, 2018, noting that final approval by the meeting of the Provincial Synod in 2019 is required.

Nathaniel Pierce, Vice President