

**Report to the Executive Board:  
Financial Situation of the BGCT  
April 8, 2008  
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The Baptist General Convention of Texas needs to manage its affairs in a manner that will sustain its financial health in times of both economic prosperity and challenge. Toward this end, an ad hoc committee of Executive Board members has studied the convention's use of investment income in recent years, particularly in light of a new regulatory environment. The result is a proposal for financial initiatives that will secure the convention's financial health into the foreseeable future.

### **Current Situation**

The vast majority of BGCT operating funds comes from two sources—Cooperative Program giving from BGCT churches and investment income from funds provided over the years by those who wish to sustain the ministry of the BGCT. Through March 2008, CP giving is down from last year and fewer dollars in investment income are available for use.

The 2008 BGCT budget anticipated higher levels of income than can reasonably be expected. It called for an increase in CP giving of about \$3.4 million, or 8.5 percent. Through March 31, 2008, actual CP Texas giving is running at 94.97 percent of budget and 94.22 percent compared to last year's giving.

On the investment side, the BGCT projected use of about \$6.8 million, which is \$1.9 million beyond the level recommended by the Baptist Foundation of Texas for 2008.

As a result, the BGCT's total CP Texas budget (CP and investments) anticipates income that is about \$5.3 million more than is prudent to now anticipate.

The current economic downturn is an important factor in this situation. The budget for 2008 was developed in mid-year 2007 before meaningful knowledge was available of the economic slowdown that has occurred in the past six months. Therefore, the BGCT's projection for income was much higher than is presently being realized, particularly as to gains on its investment assets.

### **Recent Past**

The BGCT's financial condition has undergone serious challenges during the past eight to 10 years as many churches left to start a new convention and as investment resources have been drawn down to sustain existing ministries and to start new ones. The ad hoc committee looked at the investment side of that equation, while recognizing that the CP giving aspect created financial pressures on the use of investment income.

On January 1, 2001, the BGCT had investment assets, including reserves, of about \$150 million. As of December 31, 2007, those assets were about \$124 million, despite a number of years of healthy investment gains. This came about because of higher than normal usage of such funds and changes in revenue due to the economic downturn during the early part of this period.

In the six years prior to 2006, the BGCT had expenditures that averaged 7.1 percent on its investment assets, while investment earnings for this period averaged 2.6 percent. In the past two years, the average rate of expenditures was 13.4 percent (15.5 percent in 2006 and 11.2 percent in 2007), while investment income for the two years averaged 11.8 percent.

The change in investment assets from January 1, 2001, to December 31, 2007, which was \$27 million, means that we will receive less income in the future on these decreased assets. If investment assets were still at the 2001 level and if the 12.5 percent rate of return experienced in the past five years continued into the future, then there would be \$3.4 million more available every year for use in BGCT missions and ministries. In other words, such a drawdown of assets negatively impacts our future by millions of dollars per year.

It should be noted that these expenditure levels were pursued with the best intent of sustaining important ministries to and on behalf of Texas Baptist churches. There was a genuine hope that CP giving would rebound in order to continue these efforts. That hope, however, has not been realized, at least not to the level that would be required.

## **Regulatory Environment**

In 2007, the Texas Legislature adopted new regulations that will help guide organizations in the appropriate use of funds available from endowment. These regulations, the "Uniform Prudent Management of Institutional Funds" (UPMIFA), have provisions related to prudent distribution and use from charitable funds and endowment spending.

These funds have been a tremendous asset in aiding the BGCT in accomplishing God's purpose in reaching out in ministry both in Texas and around the world. They have been built up over many years from wills and trusts established by men and women dedicated to maintaining the missions and ministries of the BGCT into perpetuity. They also include convention-mandated and other reserves that add significantly to investment assets.

The new UPMIFA regulations provide guidelines for charitable institutions to manage the investment of and use of institutional funds. Generally, such funds are "to be invested for the long-term goals of achieving growth and maintaining purchasing power without adversely affecting the availability of funds for current expenditures." (excerpt from #163.003 Legislative Findings and Purpose, Paragraph (a) (3) -- partial quote ) There is the recognition that the effect of general financial market conditions, as well as inflation or deflation will be considered in either the accumulation or expenditure of investment funds. The legislative act creating the guidelines provides that "appropriation for expenditures in any year of an amount greater than seven percent of the fair market value of an endowment fund (based on specifics as to method of computation), creates a rebuttable presumption of imprudence." (excerpt from #163.005

Appropriation for Expenditure or Accumulation of Endowment Fund; Rules of Construction, Paragraph (d) -- partial quote)

In short, the new regulations recognize that organizations go through periods of economic upswing and downturn. They set forth that to expend more than 7 percent of investment assets in any given year would be imprudent. This should be the benchmark by which the BGCT operates in the future.

It should be noted that the Baptist Foundation of Texas, which manages the majority of BGCT investment funds, have recommended a regular distribution of approximately 5 percent of assets per year. Taking both UPMIFA regulations and BFT guidelines into consideration, the BGCT should generally be expending between 5 percent and 7 percent of its investment assets during any given year.

### **How We Arrived at This Point**

The BGCT has come to this point because we sought to sustain and even expand our ministry during a time of financial challenge. The desire to promote kingdom work exceeded the level of financial resources available at a prudent level.

In the newly reorganized Board it became evident that the process review and oversight of the budget and financial condition of the convention was inadequate. The subcommittee that reviewed investment spending considered several key principles that should be regularly questioned by the Board and its committees: “Are we properly balancing our expenditures with our income and the prudent use of resources generated from our investment assets?” and “Are the funds expended being used in the most effective way to accomplish the mission of the convention?”

These principles were recommended to the Finance Subcommittee and Administration Support Committee and accepted at the February 2008 board meeting as guidelines to begin implementing as soon as possible.

### **Initiatives to Pursue**

The BGCT Executive Board and its staff possess a commitment to their stewardship role of appropriately representing the broadly based constituents in the Baptist churches of Texas. This requires that the leaders of the Convention and the Executive Board move as quickly as possible to manage our financial resources within the economic parameters that are available to use at any given time.

The approach of the Convention is aimed at maximizing its mission and ministry opportunities within prudent financial guidelines. The executive management team is working to establish the critical strategic initiatives that have high priority and to develop the most effective methods to fund them, taking into consideration emerging financial limitations.

The Board's Subcommittee for Review of Investment Spending made six recommendations. Here they are stated in brief form:

- 1) The Finance Subcommittee of the Board will work with the financial management team of the BGCT to develop a system for the regular review of non-budgeted and allocated funds, as well as funds for capital uses.
- 2) The BGCT's financial management team will provide adequate and timely financial statements and applicable supporting schedules to the Finance Subcommittee for review at each of its meetings.
- 3) The Finance Subcommittee will monitor compliance with UPMIFA provisions.
- 4) The Finance Subcommittee will work with the financial management team and the Baptist Foundation to develop a plan for the use of BGCT investment assets.
- 5) The Finance Subcommittee will suggest appropriate guidelines and policies to confirm that the Annual Budget and related expenditures are appropriately justified and that no budget funds or any contingency fund will be carried forward from one year to the next unless approved through the Board process.
- 6) The Finance Subcommittee will form a group to review with the financial management team the use of clear and descriptive terms in the internal financial statements and related schedules for ease of interpretation by all members of the Executive Board.

It also should be noted that the BGCT's Leadership Council, made up of directors of the various organizational teams, is now included in a more substantive way in the decision-making process. This involvement will include bringing the current budget in line with anticipated income.

## **The Future**

Our financial future is bright if the BGCT makes appropriate adjustments to its processes of developing, adopting and managing the annual budget. What the BGCT needs more than anything on the financial front is a commitment to living within the resources God provides. This will require evaluating all that is currently being done and determining what we should be doing with available resources. In the short term, all funds available from investment assets in 2008 are being absorbed through the budget and, therefore, it would be unwise to further access those funds for special purposes.

In recent years, the BGCT has generally been involved in thinning its budget, making less and less dollars available to support a growing number of ministries. Future effectiveness of the convention depends on properly determining the appropriate efforts to fund and those that should be curtailed or limited.

*Elizabeth Hanna is chairperson of the Executive Board's Administration Support Committee. Fred Roach was chairperson of the ad hoc Subcommittee for the Review of Investment Spending and now is chairperson of the standing Finance Subcommittee.*