

Chapter 5: Financial Administration

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Any diocese can give to the People of God only what the People of God can pay for.

Msgr. Benjamin G. Hawkes.

While money isn't everything, it's probably better than holy pictures for paying people's salaries.
Archbishop O'Meara.

Without financial resources, the church, like any other organization, cannot do very much. Money buys food, clothing, shelter, and office supplies. It pays salaries, rent, telephone, and energy bills. Money cannot buy everything, especially the supernatural goals the church holds dear. But efficient and effective use of financial resources make the achievement of these goals a possibility.

Every archdiocese is a multimillion dollar operation. The smallest archdiocese, Anchorage, has a budget of \$1.5 million for its central offices. The revenues of the New York archdiocese, including parishes, exceeded \$264 million in fiscal year 1983. The endowment and deposit and loan funds of the archdiocese totaled more than \$172 million. The plant facilities, evaluated at cost, were more than \$811 million. Across the Hudson River in the poorer archdiocese of Newark the figures are still big. At replacement value, the 250 parishes plus schools are evaluated at over \$1 billion. The annual operating budget is close to \$100 million with 10,000 employees.

With operations of this size, financial administration is important and takes professional expertise. Even smaller archdioceses require careful administration to husband limited resources. A single financial mistake can be devastating to a poor archdiocese. For example, in order to give the University of Albuquerque a chance to become self-sustaining, the archdiocese of Santa Fe took it over. When it eventually closed, the archdiocese was left with its \$6 million debt.

Most bishops have no training in financial administration. If they were lucky, they learned a little about church finances while working in the chancery before becoming a bishop. In addition, most archbishops got experience administering a smaller diocese before being put in charge of an archdiocese.

To help him in financial administration, the archbishop has a finance officer, who is usually one of the most influential persons in the archdiocese. In the past, these officials were usually priests, but now they are more often laypeople with training in financial administration. Frequently an accountant is hired away from the accounting firm that audits the archdiocese's books.

The finance office collects revenues, pays bills, manages the cash flow and investments, and negotiates contracts for construction, insurance, and salaries. The finance officer is also the principal financial advisor of the bishop. "I am in charge of everything that has a dollar sign in front of it," explained the late Msgr. Benjamin G. Hawkes, vicar for finances in Los Angeles.

The degree of professionalization and the size of the finance staff varies from archdiocese to archdiocese. In general, large archdioceses usually have larger and more professional staffs than small archdioceses. In a large archdiocese, economies of scale may permit specialists to handle real estate transactions, investments, fund raising, insurance (health, property, and liability), pensions, accounting, purchasing, cemeteries, etc. In a small archdiocese, the finance officer may be the only professional on a staff that includes bookkeepers and secretaries.

Besides size, the financial condition of the archdiocese has an impact on the size and professional character of the finance office. An indebted archdiocese, like Newark, is more likely to improve its financial administration than a financially stable archdiocese that feels no pressure to clean up its finances. The Newark director of finances recalls that when he arrived "some of the more rudimentary controls or rudimentary business techniques were nonexistent."

Finally, the retirement or death of an old archbishop or finance officer may bring about changes in financial administration. While these experienced men may have carried the financial and administrative history of the archdiocese in their heads, their successors must build a professional system to understand and control finances.

Parish Finances

In examining archdiocesan finances, it is important to distinguish between the parishes and the other archdiocesan administrative units. Parishes are supported almost entirely by revenues collected from their parishioners. The average Catholic contributes \$320 to the church each year, or 1.1 percent of his or her annual income.¹ This money is used to maintain the parish plant and to support parish personnel. In the New York archdiocese, 97 percent of the revenues collected in a parish stay there for parish programs, including the parish school.

Dioceses are organized under civil law in different ways depending on state laws. Over half the dioceses in the United States, including many archdioceses (like Atlanta, Chicago, Louisville, Los Angeles, Miami, Mobile, San Francisco, St. Louis, and Washington) are organized as a corporation sole, without a board of directors, where the bishop is the legal owner of all the parish and diocesan assets.² Other dioceses are organized as a corporation aggregate. In these archdioceses (like Hartford, Minneapolis, New York, St. Paul), each parish is a separately incorporated nonprofit corporation with the bishop and/or his appointees as trustees or members of the board of directors. For example, the bishop might be the head of the parish corporation with his vicar general, the pastor, and a couple of laypersons as trustees. Other parts of the archdiocese are also separately incorporated: high schools, seminaries, hospitals, cemeteries, Catholic Charities, chancery, and other institutions and agencies. Ordinarily, the archbishop would be the president of all these corporations.

The civil and canonical legislation covering church finances is complex. The laws ensure that the bishop maintains control over church funds. The laws also require that money given for a specific purpose generally be used for that purpose. The bishop is ultimately responsible for seeing that the funds of the parish are used wisely and for the good of the church. On the other hand, if someone donates \$1 million to a parish for a new church, the bishop can not use it to help build a new high school.

How much autonomy parishes have over their funds varies from archdiocese to archdiocese. In most archdioceses the parishes are very independent; in others the archdiocesan finance office holds a tight reign. In some archdioceses, such as Los Angeles, the finances are highly centralized, while in others, like St. Paul, they are decentralized.

Parish Budgets and Annual Reports

All archdioceses require that a pastor submit a financial report to the chancery at least once a year. These reports allow a minimal form of financial control and provide statistics for an unaudited financial report. In addition, they are used to calculate assessments paid by parishes to the archdiocese.

Typically, the reports show the income and expenditures of the parish for the concluded fiscal year, but the sophistication of these reports varies. Most would give a breakdown by major categories: income from collections, tuition, bingo, and other fund raising events; expenditures for salaries, utilities, insurance, repairs, etc. All of this would usually be on a cash rather than accrual basis.

Some archdioceses have developed more sophisticated parish accounting systems that aid in the control and management of expenses. Most reports would try to separate the income and expenses of the school from other parish income and expenses. This would be useful in deciding tuition charges. But such accounting "is subject to the pitfalls of bookkeepers estimating what goes where," according to the archdiocesan controller in Louisville. Direct expenses for the school, such as salaries and supplies, are easily separated. Joint expenses, like maintenance and utilities, are sometimes difficult to allocate, especially for multiple-use buildings.

Many archdioceses also require that the parish draw up a budget projecting the income and expenses for the coming year. Most archdiocesan finance officers admit that these budgets and annual reports are not closely examined unless a parish wants to borrow money or unless it is receiving a subsidy from the archdiocese. The Chicago director of administrative services confesses that, with limited staff, "the ones that are reviewed are the ones that need the financial help from us. Those that don't, get away with murder because you concentrate on what is draining your cash. We can have rich places that are very sloppily run."

Besides looking at parishes that need money from the archdiocese, the finance office examines the budgets and reports to find parishes with financial problems. The finance office of Hartford explains what he looks for:

If the parish is operating at a deficit, that is a problem. We look at it to see why. That is the number one red flag.

Another might be that the subsidy to the school is growing and their reserves are getting down to zero. We would probably let them know that the day of reckoning is coming. Those reserves are not going to last. They had better anticipate the school problem.

We might see a parish has borrowed money, and if we haven't given permission for that we would want to know what that was all about. It might have been an expenditure that we hadn't given permission for.

Most of our annual reports do not present problems. On the contrary, a number of them call for a letter of commendation for the pastors who did a great job making ends meet.

More and more archdioceses are requiring that the financial report and the budget be reviewed by the parish finance council. Archdiocesan finance officers hope that these councils will give the budgets and reports the kind of scrutiny that the finance office does not have time for.

Sophisticated Oversight

With the advent of computerized accounting programs, a few archdioceses attempt to give greater scrutiny to parish budgets and reports. For example, the budget projections can be compared with the financial figures from previous years to pick out large increases or decreases. A parish budget can also be compared with budgets from similar parishes so that unusual expenditures can be found. In St. Louis, the director of finance hopes to use a new accounting system to compare heating bills. "If it is out of whack, look at it," he says. "Find out where the leak is."

Newark developed an accounting system to oversee parish finances. The director of finances explains the system he set up:

First we had to make sure that the information being submitted by the pastors had financial credibility. Some pastors had been known to "forget" to report something now and then, whether it be the candle money or something. We developed a uniform set of financial reporting standards so that we could compare all parishes on the same basis.

We then began to accumulate data bases in the computer on all the parishes so we can compare your last year's actual figures with this year's budget. [We would tell a pastor,] "It is totally unrealistic that you are going to lose 50 percent of your Sunday collections in one year. So let's correct the numbers and look at it realistically."

As a result, we are able to establish the reputation that no one is pulling any wool over our eyes, and we start to get good data.

Archdiocesan review is easier if the parish accounts are computerized in a format that is compatible with the archdiocesan accounts. The Washington archdiocese, for between \$8,000 and \$10,000, will provide a system to a parish that includes hardware and software for word processing, envelope accounting, financial accounting, and census data. These are all compatible with the archdiocesan system so that the parish can send in a diskette rather than a written report.

Some archdioceses have not developed sophisticated parish accounting procedures because they do not think that it is worth the effort. The Louisville archdiocesan controller notes that some people

want to set up all kinds of cost centers in a parish. That is a needless thing. Obviously, almost all of your cost centers in the parish are losing propositions, that is the nature of the game. You don't eliminate a CCD program because the fees aren't covering it.

You have to determine what apostolates and ministries the parish is going to be involved in on the basis of something other than money. Then the total picture has to deal with what resources are available.

Likewise in Cincinnati, the director of finances questioned the value of closely scrutinizing parish budgets.

Unless a parish gets into trouble and asks us for help, we don't normally require a budget from them. We would have to put on a lot more staff to look at their budgets. Even then, from our remote position, it is difficult to determine whether budgetary items are correct or not.

Church A may have very high ceilings, so the budget for utilities might be unbelievable. Church B may have low ceilings, only uses the church on certain days, and uses a convent chapel on other days. Their utility costs may be unbelievably low. Yet both may be accurate. It is impossible to know that from this remote location.

Sophisticated accounting systems are expensive and need a well-trained parish and archdiocesan staffs to implement them. These systems are usually opposed by pastors who see them as bureaucratic impositions on their time and energy. The bishop will have to expend political capital selling the system to the pastors, and many bishops conclude that the money saved by such a system would not be worth the cost in money, time, and popularity.

In some cases, because of long years in office, the bishop or the finance officer knows more about the parishes than could ever be put in a computer. The difficulty with this personalistic system is that the information disappears when the individual dies or retires. In Los Angeles, the finance officer, Monsignor Hawkes, was practically a one-man operation. After his retirement and death, he was replaced by about five professionals who had to build a system from scratch.

Archdiocesan Auditors

A few archdioceses (Baltimore, Detroit, New Orleans, Philadelphia, Washington) have internal auditors who check to make sure that the financial report reflects reality, but this normally happens only when a parish gets into financial trouble or after a new pastor is appointed. One auditor in Detroit says she found inadequately prepared bookkeepers, improperly prepared financial reports, and even embezzlements by unscrupulous bookkeepers.

After finding the problems, the main task of the auditor is to educate the pastor and the staff. She recalls, "It was a matter of working with the pastor, so that he was much more comfortable with the financial structure of his parish and the parish as it related to the diocese."

Auditing parish books goes against the grain in most dioceses. The St. Louis director of finances did not think auditing parishes was a good idea.

I will never have an auditor on the staff to go out and find something wrong in the parishes. That is an adversarial relationship, they are there to find something wrong. I don't think that is a good attitude.

Every pastor has his own little cookie jar, some money put away for the rainy day. Everybody knows it. Why have somebody go out and say, "Aha, we found the cookie jar." As long as it is within reason it is OK.

In Chicago, the director of administrative services began doing random audits of about 10 percent of the parishes each year. This did not last long.

A couple of the pastors who I know pretty well said, "I understand why you are doing it, but anyway you cut it, it comes across as an element of suspicion."

I found out that the young auditors would find that somebody hadn't checked a bank reconciliation or someone had presigned checks--venial sins at the most. They were never finding loose money or anything significant, so I abandoned it. All it did was create more work for the parishes, with also a little bit of the taste that they weren't trusted.

On the other hand, if there is a real problem or if the parishioners request an audit, he sends a public accounting firm to do the job rather than use his own staff. "I like it to be a dispassionate

third party," he says. Nor does he use a large firm. "They are full of young kids right out of college who can get eaten alive by a sophisticated pastor who knows where to hide things." He would use middle-size accounting firms with experience doing parish books. "They can't be fooled very much because they are used to doing the books."

The most useful time to look at parish finances is when a new pastor is appointed. "The new man has the certainty that he is starting out with a verifiable set of books," explains the controller in Philadelphia. The auditors can also help the new pastor who is not responsible for the problems in his parish. The Detroit director of finances, who has a staff of ten internal auditors to examine parish books, explains:

We say to the new pastor, "This is what is in your parish, and this is what should be. You did not cause this; you are being asked to turn it around." We return in six to eight weeks after the pastor has received the audit report to check where they are on compliance. Then we send a memo to the regional bishop.

Permission to Spend

A very common expenditure control mechanism is the requirement that a pastor get archdiocesan approval for any construction, renovation, or contracts costing over a specified amount, usually between \$3,000 and \$10,000. In some archdioceses, the archbishop must sign any contract over a specified amount, for example, \$10,000 in Washington.

In many archdioceses, the expenditure limit applies only to capital improvements. Recurring costs of running a parish--salaries, utilities--are simply paid by the parish. "If they want to build or remodel, they have to come in for approval," explains the director of business affairs in Portland. "If they want to spend \$40,000 a year on religious education, or buy a new organ or a vehicle, there is no approval needed. If they've got the money, they do it." Requiring the pastor to get permission for capital expenditures not only controls expenses, it also controls permanent alterations to the parish plant.

Some archdioceses control not only how much is spent but how it is spent. In Los Angeles, if the pastor got permission to spend money on a particular project, he would be told what contractors or vendors he could use. In Dubuque, on the other hand, pastors would not have to pay attention to the recommendations of the archdiocesan finance office. "They are getting permission for the boiler, but we can't tell them the quality," complains the finance officer. "Only with the advent of local parish councils has there been any restraint on the local pastor who doesn't know a BTU from a carrot."

But the major failure of this control mechanism is that it gives no attention to one of the biggest expenses of parishes: salaries. Thus a pastor might have to get permission to buy a \$5,000 computer but not to hire a \$30,000 a year religious education director. As dioceses get more sophisticated in reviewing parish budgets, this control mechanism will become less important except for major parish projects.

Major Parish Projects

If a parish is planning a major construction project, such as a new building or renovation, it will have to get the approval of the archbishop. Approval is also necessary if the parish is going to borrow money either from the archdiocese or from a bank.

Every archdiocese has policies and procedures governing major building projects. In Oklahoma City, Kansas City (KS), and St. Louis, for example, the parish must have 50 percent of the funds necessary in hand before starting the project. The parish plans will usually have to be reviewed and approved by an archdiocesan building committee and by a liturgical committee if the construction involves a church. Their recommendation will then go to the archbishop.

Depending on the archdiocese, the preparatory work for the construction project would be done by the parish or by the finance office. In the centralized approach, the proposal is submitted to the chancery, and the finance office does most of the work in analyzing its merits and feasibility. The finance office personnel, which might include an architect and/or an engineer, draw up a plan to implement the proposal, including contracts for competitive bidding. If the request is approved, the finance office hires contractors for the parish and negotiates a loan if necessary. Once construction is started, the finance office may even have someone supervise the work.

In the decentralized system, most of this has to be done at the parish level, although archdiocesan approval will always be necessary. The finance office in St. Paul meets with the pastor, the architect, and the chair of the parish building and finance committees.

Prior to their coming, I ask that they have a basic floor plan, a sketch of the building, and a ten-year spread sheet on how they are going to be able to handle this additional debt and operating costs while at the same time maintaining their present programs.

This has two great advantages. Number one, it indicates to us whether or not that parish will be able to handle it. Number two, since they have gone through the process, it is their program, not one we have imposed on them. Therefore, they can get a great deal of ownership.

Our bottom line is, show us you can do what you propose then we will give the permission.

While I was visiting St. Paul, one parish dropped its church renovation plan because its ten-year spread sheet projected an unrealistically heavy burden for the parish. The finance director did not have to say no, his system forced the parish to face reality.

Cardinal John Krol in Philadelphia had a more direct approach. In twenty-six years as archbishop, one hundred new churches were built in Philadelphia, and he took an active role in their planning. He explained how he dealt with one pastor:

One of the professors from the seminary became a pastor, and he was like a little boy with a new toy. He had ideas. He had an idea for classroom space. He was going to monkey around with the old buildings, trying to make adjustments.

I said, "No. You want to do all kinds of things and put up some more chicken coops over here. Concentrate right now on one thing and have a fund drive. And what you are going to do is put up a beautiful church at street level.

"You see the level of the street? The ground falls, tapers down. So naturally the church will be at this level, so that underneath, without excavation you have a big hall. You want to have bingo, you want to have meetings, you want to have whatever. Concentrate on that. You live in that old farm house as a rectory; the people will appreciate that. But you do this.

"Now having done that, you have a lot of place to work. The old church is convertible into classrooms. You can tie this and you can tie that and what not. But now you have a solid permanent building.

"Having that, because of the inadequacy of that home of yours, when you pay off this or get into a manageable financial condition, the rectory is the next project. And by that time, you may have to replace some of those old buildings and classrooms. So you put up nice new buildings."

Under a centralized system, the archdiocese can encourage a pastor to do more, as in the above case, or less. In the Los Angeles parish where I grew up, the chancery chopped one of the church's towers out of the pastor's plan. Monsignor Hawkes of Los Angeles explained, "We believe that the have's should help the have-not's. We do not believe that a suburban parish should have sixteen classrooms when an inner-city parish cannot afford or cannot have eight."

Often the archdiocese has a building commission, composed of pastors and laypeople, that reviews construction plans. In St. Louis, the director of the building commission tries to control the height of new churches. "We try not to go higher than twenty-four to twenty-eight feet from floor to ceiling because of energy costs," he says. "You don't want to heat a fifty-five-foot building."

Sometimes the building commission might encourage the pastor to think bigger than he is proposing. For example, in St. Louis the building director recommended that a parish build more classrooms than were requested by the pastor. "The area is growing," he told the archbishop. "Why don't you suggest they build six instead of four. Financially they can handle it." Sometimes the pastors think small because they believe it will be easier to get archdiocesan approval and also because they don't want to raise the money.

Bids and Contractors

For large expenditures, the archdiocese will usually require that a parish take at least three bids. Depending on the sophistication of the finance office, the bids would be examined to see whether a more economical deal is available and whether the contract protects the parish's interests. The building commission has "saved immeasurable amounts of money by requiring bids," reports the chancellor for administration of the archdiocese of New Orleans.

Frequently a pastor says this parishioner will do it for this amount. "He wants to help the church." We say, "That is wonderful. To make sure that he knows he is helping the church, we will get two other bids." Surprising the number of times the parishioner's is not low!

We had a recent case of \$10,000 to repair air conditioning. We sent a man down there. All it needed was freon. Roofing, the same thing. Sometimes a variant of \$20,000 to \$30,000.

Some archdioceses, like Los Angeles, limit certain types of work and purchases to specific contractors or suppliers. While in Los Angeles, I witnessed one pastor being chewed out by Monsignor Hawkes for having some parish volunteers paint the inside of his church rather than using an approved contractor. Likewise, the building director in St. Louis would try to talk pastors out of using certain prize-winning architects. "They get the prize, but you pay for it," he says.

There are arguments for and against archdiocesan control of parish expenses. The experience and expertise available in the central finance office is almost always greater than that available to a local pastor. In addition, the finance office can look out for the good of the entire archdiocese. On the other hand, the central office cannot know the needs and conditions of the local parish as well as the pastor and the parish council. The ideal system draws on the strengths of all the participants so that through consultation and dialogue a better result occurs than if decisions were totally centralized or totally decentralized.

Archdiocesan Banking

Besides being concerned about how parishes spend money, archdioceses also monitor what parishes do with their savings. Most archdioceses have a system encouraging parishes to deposit funds with the chancery. The archdiocese acts like a bank and pays interest to the parishes on these funds.

Archdiocesan banking is often adopted when an archdiocese faces severe financial difficulties. In Louisville it started during the Depression when the banks took a holiday. They refused to pay

out money to depositors but demanded payment on loans to parishes. Bishop John A. Floerish arranged to consolidate the deposits so that he could pay off the loans.

Centralized banking was implemented on a massive scale in the New York archdiocese under Cardinal Spellman. When he arrived in 1939, he found that the archdiocese and its parishes were \$26 million in debt to New York banks.³ But while some parishes were in debt, others had money on deposit in these same banks. By pooling together the deposits of the solvent parishes under archdiocesan administration, he was able to pay off the banks and internalize the debt.

More recently, Archbishop Gerety established a central bank in Newark after he arrived and found a \$25 million debt. He made the program optional, but offered interest rates and services to parishes that were competitive with local banks. In six years deposits went from zero to \$34 million.

A great variety of archdiocesan policies and procedures govern these banking systems. Depositing funds with the archdiocese is mandatory in some archdioceses (Baltimore, Chicago, Cincinnati, Detroit, Los Angeles, New Orleans) and optional in others (Atlanta, Omaha, Mobile, New York, Philadelphia, St. Paul). Some archdioceses pay parishes a competitive rate of interest on their deposits, while others pay them very little. They also vary on how much of the parish's funds have to be deposited with the archdiocese.

In Los Angeles, for example, all Sunday collections and other income are deposited in an archdiocesan account in the name of the parish, which is paid 6 percent interest on its deposits. Money is transferred to a parish checking account by the archdiocese when it is needed.

In Chicago and San Francisco, a parish is supposed to deposit "excess funds" with the archdiocese. In Chicago, excess funds are defined as anything more than a month's operating expenses. The archdiocese invests the funds and returns 60 percent of the earnings to the depositors and keeps 40 percent for the archdiocese. Thus if the investments earn 10 percent, the parishes get 6 percent.

In St. Paul, on the other hand, the system is voluntary and no significant parish deposits are with the archdiocese. Parishes have their own savings accounts and investments. The director of finances in St. Paul explains:

Our parishes tend to say, "This is ours." And so we don't get the sharing of surplus funds with which we could do many things if we had them. We have encouraged it, but it has never really come to be very much.

When the banking system is not mandatory, it is difficult to attract deposits if a parish can get a higher return elsewhere. In Portland, the director of business affairs notes, "During 1981-83, we lost a lot of parishes because they could put it in 14 percent and 15 percent CD's" while the archdiocese was only paying 8 percent.

The vice chancellor for finances in New York explains how he responded when parishes wanted to withdraw their funds.

We went to the files and found out that the parish over the years had been a borrower. So we wrote a very nice letter saying that "it is not a bank, it is a reciprocal situation whereby one parish helps another parish. You are probably not aware of the fact that your parish in 1943 got a \$240,000 loan and you only paid 3 or 4 percent interest on that." That was the end of that.

Optional systems can attract deposits if they offer competitive interest rates and service. The Atlanta archdiocese received \$5 million of deposits by paying parishes the same rate that they would get from six-month Treasury notes, with the addition of day-to-day liquidity. Newark also attracts parish deposits by offering competitive interest rates and additional services such as NOW accounts and investment management services. In addition, aggressive leadership of the archbishop made clear where he wanted parishes to deposit their money. The director of finances explains:

Archbishop Gerety played a key role. The pastors don't know the staff, but they do know the ordinary. Archbishop Gerety said, "I am the one who has to go out and deliver this. If it is going to be successful, I am the one who is going to take all the credit. I guess I've got to take the opposition too."

He called together a pastors' meeting, and we introduced all of these programs. He talked about how important this is for the current and future financial viability of the church of Newark.

He was the one who constantly kept reminding people. If he was somewhere, he would say, "How do you like the program? You in the cash management program? You in the investment management program?"

Despite promises to the contrary, some pastors fear that they will not be able to get their money back from the archdiocese when their parishes really need it. The Portland director of business affairs reports, "There is still a perception that if they deposit the money, we will steal it. Paranoia is out there."

Even in archdioceses where the banking system is mandatory, sometimes pastors will hide the money. Since few archdioceses have internal audit controls, this "nest egg" is usually not found until the pastor dies or a new pastor is appointed. One director of finances tells of a new pastor bringing him a briefcase containing \$80,000 that had been hidden in the rectory. "The old pastor was not trying to take care of himself," he says. "He just wouldn't send it downtown, and he wouldn't trust banks."

There are advantages and disadvantages to such a banking system. Most prosperous parishes prefer the decentralized system that gives them more control over their own finances. Some argue that this power is necessary to develop a sense of local responsibility. In addition, parishes can often get a better rate of return than is available from the archdiocese. The fiscal officer of the Hartford archdiocese, which does not have an internal bank, reports, "From the PR point of view, of keeping the troops [pastors] happy, there is a big advantage to leaving the money on the local level even though there are some investment advantages to pooling."

A centralized banking system allows money to be handled more efficiently. With pooled funds, experts can recommend better and more diversified investments than are available to parishes. The higher yield from these investments can be used to support church ministries.

Most importantly, the money deposited with the archdiocese can be loaned out to parishes and other archdiocesan agencies at lower rates than they would be able to get elsewhere. The archdiocese thus replaces the bank as the middle person between parishes with surpluses and parishes with debts. In Newark, the first \$25,000 deposited with the archdiocese was loaned to an inner-city parish so it could pay its bank loan. The bank had charged 1.4 percent over prime for ten years and the parish was never able to pay back any of the principal. Under the terms of the new loan, the parish paid the same amount to the archdiocese, but that amount included the amortization of the loan over a ten-year period.

How much interest an archdiocese charges a borrowing parish varies tremendously. Archdioceses with mandatory deposits and low interest payments to depositors loan money at the lower rates of interest. In Los Angeles, borrowers were charged 5 percent rate, while depositors were paid 6 percent even when commercial rates were three to four times higher. In Milwaukee, on the other hand, the archdiocese charges one point above the prime rate. Frequently, borrowing parishes will be charged 1 percent more than an archdiocese pays to parishes with deposits. This 1 percent spread is supposed to cover administrative costs.

Some archdioceses loan out to parishes all of the money on deposit. Others keep some in case a parish wants its money back. The St. Louis archdiocese has \$44 million on deposit and \$20 million loaned out. The rest is invested. On the other hand, Dubuque actually loaned out \$6 million to parishes while only having \$3 million on deposit from parishes. Normally the loans must be paid back within ten years in order to make the money available to other parishes. In addition, says the Detroit director of finance, "they will have another project in that time."

If the archdiocese does not have enough money to loan, the parish will have to borrow from a bank that might charge two or more points over the prime rate. By guaranteeing the parish loan, the archdiocese can get from the bank a more favorable rate than a parish would get on its own. "It is our cheapest way to assist them," explains the St. Paul finance officer, "because we get favorable interest for them that way." The archdiocese of Washington, for example, negotiated a line of credit that was .5 percent under prime. But the result can be that the archdiocese is guaranteeing millions of dollars in loans. "It looks staggering to see \$20 to \$30 million that we are guaranteeing," admits the St. Paul finance officer. "But we have gone over the finances of the parishes, so the risk is minimal."

New Parishes

Besides dealing with renovations and existing expenses, growing archdioceses have to start and build new parishes. Archdiocesan policies and procedures for opening a new parish are aimed at ensuring its financial viability. In a poor archdiocese, getting funds to start a parish would be up to the new pastor. But a better-off archdiocese can come to the assistance of the new parish. In Los Angeles, Monsignor Hawkes explained:

When we start a new parish--we do one or two a year--the cardinal gives the parish the property. Then we build what we think the place and the location needs. That would be a rectory and a multipurpose building for a church. Half of the multipurpose building might provide four classrooms, but it could also be used for Sunday Masses.

What it usually costs is \$2 million, and the diocese gives the parish up to \$1 million. That is the only way the people can handle it. Five percent on \$2 million is a large portion of your collection for interest. It would be \$100,000 a year, that's \$2,000 a Sunday. How can they do that and cover the maintenance and pay on the principal?

Services to Parishes

Large archdioceses frequently have financial services that can help parishes. The archdiocese might run benefit programs for parish employees (both lay and clerical), including medical insurance, worker's compensation, and pensions. Archdiocesan attorneys might be available to deal with legal questions. Larger archdioceses also might have in-house consultants on energy conservation, construction, purchasing, or other matters. Boston, for example, has a specialist on heating, while New Orleans has a specialist on air conditioning. In Baltimore the archdiocese has a professional consultant to help parishes with building and maintenance. If a parish needs a new roof, boiler, or renovations, the consultant would write the specifications and help them with bids.

Centralized purchasing, for example, can achieve economies of scale through large purchases or through providing suppliers with a large market by advertising through a special newsletter. "On simple school furniture," explains Cardinal Krol of Philadelphia, "we can get it at 40 percent of normal cost. That operation runs on an average of \$30 to \$40 million, and all we charge is about a quarter of a percent, which maintains the staff of buyers." Similarly, the archdiocese of Washington reduced the per-unit cost of installing double-paned windows by contracting for it on a large scale.

Insurance

During my interviews, finance officers were especially concerned about insurance costs. Churches need property, casualty, and liability insurance as well as health insurance for their employees. Archdioceses normally have centralized insurance programs rather than letting each

parish buy its own. Insurance coverage is less expensive when purchased at the archdiocesan level.

The cost of insurance has skyrocketed in recent years. Archdioceses have experienced 100 to 500 percent increases in a single year while not being able to get the same amount of coverage. In Cincinnati in a two-year period, the insurance premium went from \$600,000 a year to \$1.3 million. "Last year [1985] we had a \$10 million umbrella that cost \$18,750," reported the Atlanta finance officer. "The figure we were quoted for renewal for only a \$4 million umbrella was \$80,000. Ten times per million [dollars of coverage]!"

Liability insurance recently has become a special problem. Sometimes no one is willing to insure an archdiocese because of its involvement in schools, day care, and youth programs. The archdiocese of San Francisco had trouble getting an insurance company to cover its athletic programs. The finance officer explains:

We are in the business, which is a highly risky business, of doing things with kids. We have schools, summer camps, altar boys, buses, CCD, all these things where kids are involved. Nationally, insurance claims where kids are involved are big, big claims. You are getting huge sympathy verdicts out of juries. A kid can be climbing on a slide in a playground and fall off and break a foot and it is a \$40,000 settlement. Those things add up. The church is a deep pocket, and they go for it.

In response to increased costs, finance directors are examining numerous options for insurance. In Washington, DC, the archdiocese changed insurance companies when its provider lowered the liability coverage from \$50 million to \$1 million. The new company offered coverage up to \$25 million but excluded coverage for child abuse, trampolines, and numerous other things.

Archdioceses are also doing risk assessments to see how they can limit their liability. The director of business affairs in Portland explains some of the issues they are examining:

More and more people want to use church facilities because other people have turned them down. We want to be a good citizen, we want to be active in the community, support things. But every time we let someone come in and use our facility, we open ourselves up for lawsuits. If someone slips and falls, it is because a tile was loose.

Ten years ago, nobody would think of suing the church. Now we are the first ones they think of. We are perceived as being wealthy.

Youth outings! You heard about the accident on Mt. Hood [where students from an Episcopal school were killed on a school sponsored outing]. We have youth ministers who like to go on rafting trips and camping trips. They have school buses in the parish which they take. Well, who is driving the school bus? Usually a volunteer or the youth minister himself. Who is maintaining the school bus? For the most part it sits there and is used spasmodically. What shape are the brakes in?

There is more concern over the use of alcohol at parish events, wedding receptions. Oregon, like most states, has cracked down on that, very tough laws. The liability has been extended back to the source.

How do we deal with all those issues? How can we transfer liability from us to someone else?

We will no longer allow parishes to just rent a bus and insure it under our program. Now we say, if you rent a bus, you also have to acquire the liability insurance through the bus company. It is costing them \$200, \$250 for insurance. The parishes are all upset. They are going to have to be upset; that is the real world.

Some archdioceses have cut costs by no longer insuring old buildings at replacement cost. "We would not want to rebuild it anyway," explains one finance officer. More and more archdioceses are also going the self-insurance route. The general feeling is that insurance company premiums include a percentage for profit and administration. In addition, self-funded health insurance programs can be designed with the church's needs in mind. "It is easy to say we disallow immoral procedures," reports the Cincinnati director of financial services. On the other hand, Cincinnati is generous in covering mental illness and chemical dependency. "Our feeling is that that individual needs it worse than maybe anyone else."

Few archdioceses would risk total self insurance. Frequently they will be self-insured for the first \$100,000 per fire or accident with reinsurance for higher amounts. Dubuque is considering total self-insurance for property. Rather than buying insurance, it would use the premiums from the parishes to build a reserve fund. For general liability, the director only wants to buy coverage for anything over \$700,000. "We got \$1 million worth of premiums a year," he explains, "and our average loss in fifteen years is only \$330,000." On the other hand, Dubuque closed down its self-funded health insurance program for teachers and went to Blue Cross/Blue Shield because it could reduce family premiums by \$600 a year.

Helping the Poor Parishes

Most parishes are self-supporting and don't need help from the archdiocese. Even a poor parish, unless it has a school, can usually support itself until it needs a major repair. If a parish is in trouble, the archdiocese will usually come to its rescue. A number of archdioceses have programs to give financial aid to poor, usually inner-city parishes and schools. The Los Angeles archdiocese, for example, aids thirty-six parishes in meeting their operating expenses. Chicago helps seventy parishes with \$8.5 million annually, most of which goes to parish schools. Philadelphia helps twenty-two parishes with \$1.8 million. New York has a similar \$7 million program.

Often a committee of pastors is responsible for reviewing the requests and dividing up the money. This works well because the pastors are knowledgeable in parish finances and can advise

the parishes as well as give them money. In Miami, the committee will visit the parish, review the plant and finances, and make recommendations on what the archdiocese should do for the parish. "That is helpful to us," says the Miami vicar for temporalities, "because it is not the central office making decisions. It is local pastors on behalf of parishes. They identify the problems and solutions."

Sometimes the financial problems are caused by incompetent financial administration, but often the parish is poor and the congregation is small. Inner-city parishes with large old churches and few parishioners are financial losers. Likewise, an inner-city parish with a school is frequently in trouble, especially if enrollment declines.

But such programs are possible only if the archdiocese has money to distribute. In dioceses where the money is decentralized in the parishes, twinning of rich and poor parishes is encouraged. Here a rich parish would help a poor parish directly rather than through the diocese. The advantage of such a system is that it is personal and can bring the parishioners directly in contact with each other. On the other hand, it is also dependent on personal relationships between pastors, and the money might not go where there is the greatest need.

Revenues for Archdiocesan Programs

Archdioceses run other programs besides parishes: cemeteries, hospitals, high schools, social services, seminaries, the chancery, and other agencies. Few programs are self-supporting. Cemeteries can be money makers, but schools only partially cover their costs through tuition. Some programs, such as social services, are also able to get grants from governmental or private agencies. But most programs need at least some money from the archdiocese. Getting revenue for archdiocesan programs is essential if the archdiocese is going to be more than a collection of independent parishes.

Archdiocesan revenues mostly come from three sources: assessments on parishes, special collections in parishes, and income from investments. Most of the revenue usually comes from the parishes either through special collections or through assessments. Only a few archdioceses (like Chicago, Los Angeles, New York) have significant investment income from endowments created by past gifts. Sometimes no longer needed property can be sold and turned into an endowment as recently happened in Portland. If parish funds on deposit with the archdiocese are not loaned out, they also are invested.

Almost every archdiocese has an assessment or tax system that collects money from the parishes.⁴ Sometimes referred to as the cathedraticum, its original purpose was to support the bishop and his chancery. Some archdioceses have only one assessment, while others have assessments for various purposes. Like any tax system, the assessments are often complex and controversial. The assessment is normally a percentage tax on income with consideration given for whether the parish has a debt or a school.

The systems vary from archdiocese to archdiocese. Many have complicated formulas for determining what income is taxed at what rate. Income never includes tuition, but it may or may not include things like bequests, investment income, special collections (that the parish does not

keep), and profits from fund-raising activities like bingo. Most archdioceses have tax systems that are proportional--they tax all parishes at the same rate. A few, like Washington, have tried progressive rates, which tax the richer parishes at a higher rate.

For example, the Los Angeles archdiocese assesses 1 percent of ordinary income. Ordinary income excludes special collections, estates, and gifts of property or stocks. This is the cathedraticum that "nowhere meets the cost of the chancery," according to Monsignor Hawkes. In addition, he reported:

We assess the ordinary income of the parish 3 percent for seminaries. They are subsidized in excess of \$1 million a year. And we assess our parishes 4 percent of ordinary income to cover our 34 high schools. So our total assessment is 8 percent.

St. Paul in 1980-81 had a 7.5 percent assessment on income less \$150 per student in the parish school. In Newark, the calculation is a bit more complex. The maximum percentage is 12 percent on total revenues. There is a reduction of 1 percent for a parish school and a further reduction of 1 percent for a parish or school with a mortgage. There is a 1 percent surcharge on investment income if the funds are not in the archdiocesan investment management program.

One advantage of the percentage formula is that as parish incomes go up each year, so does the revenue for the archdiocese. A few archdioceses do not use percentage formulas but simply assess each parish a set amount. Unless there is a process for raising the amount each year, the archdiocese finds it difficult to keep up with inflation.

The New Orleans archdiocese has no assessment formula. Once the archdiocese decides how much money must be collected, the individual assessments are set by a committee of pastors who take into consideration parish income, expenses, debts, and other factors. Archbishop Hannan explains, "The pastors know the capabilities of each parish, they know their peers, though they argue with them."

Raising assessments is as controversial in the church as raising taxes in civil society. Pastors are practically always against raising assessments. The moderator of the curia in St. Paul says the pastors "scream, yell, moan when you raise the allocation one percentage point like we did this year. It went from 7.5 to 8.5 percent."

Archdiocesan Appeal

Besides the assessment, most archdioceses also have one or more special collections in the parishes. These archdiocesan appeals are structured in various ways. Often the money collected through the appeal goes for social services, education, and popular programs that have good fund-raising potential. Less glamorous programs, like insurance, utilities, the finance office, the tribunal, and the chancery office, are paid for by the assessment.

Sometimes there is one big collection for a multitude of programs. St. Paul, for example, has an archbishop's appeal that is collected on specified Sundays in the parishes. The trend appears to be toward one multipurpose collection so that people are not "nickeled and dimed to death." How this money is divided among archdiocesan agencies is an important part of the budgetary process. Normally from year to year, there will not be significant changes in the proportion going to the bigger programs like education and Catholic Charities.

But some archdioceses have separate collections for programs like the seminary, Catholic Charities, Catholic education, etc. Specified collections are one way of letting parishioners determine archdiocesan priorities. Cardinal Krol explains how he let people in Philadelphia vote with their check books:

All our collections are specified. We give the people an opportunity [to decide]; what we collect is sent to that specific thing. It isn't necessary to make priorities because we follow the policy of truth in advertising and respect the wishes of the donor. If we ask for this, and they give it for this, then that's what it is supplied to.

In some archdioceses, the collection occurs on a specified day, and whatever is collected goes to the archdiocese. In other archdioceses, the parishes are given a mandatory goal for the appeal. If they don't reach it in the collection, the money will have to come from other parish funds. If a parish goes over its goal, some archdioceses allow them to keep all or some of the money, while others require that all the money be sent to the chancery. Boston is unique in that neither the assessment nor the appeal is mandatory. The Detroit and Washington archdioceses are unusual in soliciting through direct mail campaigns.

Normally, the appeal goals are changed only incrementally, usually by adjusting them for inflation. "The individual goals of the parishes are done with a look at history and a look at the financial ability of a particular parish," explains the Louisville controller. "It is a seat of the pants thing." Raising appeal goals is not popular with pastors. The St. Paul moderator of the curia reports:

The annual Catholic appeal every year tries to raise the goal for every parish, especially those that did very well last year. They raise hell, scream, yell, and moan and have all kinds of appeal processes if they are not heard right.

In San Francisco, the priests' council voted to freeze the archdiocesan appeal target for a year and the archbishop reluctantly accepted their recommendation, which meant that many budgets had to be cut. Both archbishops and pastors appear to be reluctant to ask their people for more money. In addition, Bishop William McManus argues that it is in professional fund-raisers' self-interest to set goals low so that they are achievable.⁵ In any case, Catholics, in fact, contribute a smaller portion of their income to their church than do Protestants and Jews.⁶

It is sometimes argued that bishops act conservatively in order to please large contributors. In fact, churches are primarily funded by small contributors. Large contributors are more likely to give to hospitals, colleges, and cultural institutions than to churches. Bishop McManus reports that "development directors in several dioceses who responded to an inquiry of mine about their recently successful fund-raising ventures all said that the local bishop's credibility--his openness to suggestions, follow-through on commitments, and high visibility in the diocese--is essential to enlist pastors' and parishioners' cooperation with a diocesan fund drive."/7 In Seattle, officials note that contributions to the archbishop's appeal continued to increase despite Archbishop Hunthausen's public statements on peace and justice and his conflict with the Vatican.

Budgeting for Archdiocesan Programs

Most of the current archbishops remember serving under bishops who operated without budgets. With only a few archdiocesan agencies, the budgetary process was simple prior to the 1960s. When someone needed money, he asked the bishop, who would say yes or no depending on his personal preferences and whether there was any money in the bank. Often the bishop himself wrote the check.

Social services, however, proliferated in the late 1960s and 1970s. The same period saw an increase in the number of diocesan offices, many of which were devoted to goals set by the Second Vatican Council: liturgical renewal, ecumenism, family life, adult religious education, minority affairs, peace and justice, etc. Although they raised some of their money from outside sources, these new agencies also competed with the schools for archdiocesan money just at the time school costs were increasing because of the replacement of low-salaried religious teachers with more expensive lay teachers. In the 1980s lay ministries also entered the competition for church funds.

Budgetary problems arise because no archdiocese has unlimited resources and many have very limited resources. Monsignor Hawkes, late vicar for finances in Los Angeles, put it bluntly: "Any diocese can give to the People of God only what the People of God can pay for." Although some archdioceses were run in the red in the past, today no archbishop wants to have an unbalanced budget and that leads to conflict over limited funds. The moderator of the curia in St. Paul reports, "The archbishop worships fiscal accountability, which is not bad. A balanced budget, that's his rule. They almost killed each other around here last year because the budget committee couldn't get a balanced budget."

One of the early steps in the budgetary process is projecting revenue. Since the archbishop almost always demands a balanced budget, income projections determine the size of the archdiocesan budget. Projecting income is more or less difficult depending on whether appeal goals are mandatory and how assessments are calculated. Normally all categories are adjusted upward slightly. Sometimes income is conservatively projected to be the same as the previous year, which is an informal way of providing for unforeseen contingencies. During a local or national economic downturn, income projections may even be lowered because of the fear that people will have less to give.

In Newark, some expansions in the budget were made contingent on the achievement of fund-raising goals. The director of finance tells an agency head, "Look, we achieved a goal of \$3 million last year. Given all the factors we will probably get \$3.4 million, but we are not sure about the \$400,000 increase." The programs covered by increased revenues cannot be initiated until the revenues come in.

There is no easy way to judge among the various requests for money. Hard choices have to be made if the budget is to be balanced. Every archbishop and finance officer is looking for the magic budgetary process that will guarantee the most efficient use of church funds for the most important church priorities while at the same time keeping everyone in the archdiocese happy. No one has found this magic formula, which is not surprising since neither has any government or philanthropic agency.

A few archdioceses say that they have adopted budgeting systems that have been tried in the federal government: PPBS (planning, programming, budgeting system used in the Johnson administration), management by objectives (Nixon administration) or zero-based budgeting (Carter administration). Many who do not have these systems wish they did. Hardly any of the participants seem to know that these systems did not produce miraculous results in Washington.

In the minds of most archdiocesan officials, the ideal budgetary process begins with the drawing up of a mission statement that establishes the priorities and goals of the archdiocese. Once priorities are decided, they believe that the budgetary process will be an easy calculation of the most efficient way of reaching these goals. Agency heads will draw up their budgets with these goals in mind. They will be reviewed by their supervisors and an archdiocesan budget committee that will make recommendations to the archbishop.

The difficulty is that these mission statements usually are abstract and general in tone. They favor Catholic education, social justice, family life, youth ministry, care for the elderly, concern for minorities, continuing education for priests, parish renewal, adult education, etc. Any mission statement that does not cover all of these bases would not be backed by a consensus in the archdiocese. As a result, to the outsider, the mission statements are comparable to political party platforms--a wish list without priorities.

To those who participated in drawing up the mission statement, however, it has more meaning. They know the politics behind each phrase, who pushed for it, who opposed it, why it was changed, how much it was debated, how seriously it was considered by those who adopted it. As a result, the process of drawing up a mission statement is often more important than the product.

The archbishops recognize that they cannot relax after the mission statement is written. Archbishop Weakland of Milwaukee explains, "The budget process is the way in which you take your vision and goals and try and make them concrete." But translating the mission statement into budgetary terms is not easy. Archbishop Roach of St. Paul notes, "Our 'Five Year Vision' is more than just a piece of paper. We work at that, very unevenly, but we do work at it."

In St. Paul, the planning committee attempted to translate the mission statement into quantifiable budgetary terms. The more often an agency was mentioned in the five-year plan, the higher its

priority. "It could mean as many as 10 percentage points of annual budget," says the moderator of the curia. "Sounds as arbitrary as hell, but that was one way they did it." One of the problems with this system was that the tribunal, utilities, debt service, and other essentials not listed in the vision document still had to be paid for. In Baltimore, in attempting to quantify priorities, the archbishop's cabinet gave points to each program depending on how they judged it on a series of criteria. The most humorous result was that the archbishop's house came out as a low priority not to be funded.

After the mission statement is written, agencies are asked to submit with their budgets an explanation of how their goals and objectives fit into the mission of the archdiocese. They are also asked how their programs will fulfill their goals and objectives. The director of planning in Louisville admits that the mission statement is an umbrella designed to cover everything "we can or should be doing in the diocese." It is in writing the objectives and programs of agencies that things get concrete and restrictive. "It is not really the top, it is the bottom that is important," he says.

Agency heads can find this process threatening because it allows others to pass judgment on the legitimacy of their work. In fact, there is little indication that these processes have had major effects. The process is most beneficial to new archbishops, new cabinet members, and budget committees because it helps them learn what the agencies are doing or supposed to be doing. But here it is really new leadership, with a new agenda, that is forcing change, rather than a budget system. After a few years of this process, the production of goals and objectives by agencies becomes routine. Old copies are pulled out of the files and updated.

Budget Committee

Most archdioceses have an agency budget first reviewed by the agency's board of directors if it has one. Then it is reviewed by the director of the department the agency reports to. Finally, an archdiocesan budget committee examines revenue projections, agency budgets, and the total financial picture of the archdiocese. Although the archbishop still has the last word, using a committee is perceived as being more democratic and collegial. Sometimes the committee is composed of chancery people, for example, the archbishop's cabinet. Chancery officials bring expertise to examining the budget but also vested interests.

Some archbishops try to get outsiders, both lay and clerical, to review the budgets. The logical group under canon law would be the finance council, but usually its members are chosen for their expertise as accountants, lawyers, and financiers, not for their sensitivity to pastoral issues. In addition, they are usually too busy with other financial issues (insurance, investments, real estate, construction, audit) to give enough time to the budget. Often a separate budget committee representing a better cross section of the archdiocese is preferred. The committee might include members of the priests' council and laypersons and religious from the archdiocesan pastoral council.

When an outside group closely examines agency budgets and programs, conflict can arise. There can be a gap "between all of the vested service people and the volunteers who are supposedly exercising ecclesial oversight," explains the St. Paul moderator of the curia. "There has to be a

bridging between them, because historically we have had two camps, and there is a lot of blood spilled between them."

If an archbishop does not have the time or desire to examine each office budget in detail, the recommendations of the budget committee carry great weight. In addition, if he follows its recommendation, the committee can also take some of the blame if people are unhappy with the final budget.

Archbishop Weakland of Milwaukee explains how his budget committee works.

I have nine people on the budget committee--six lay and three priests. The three priests are appointed by the executive board of the priests' council and the other six, the lay people, I appoint.

The delegates from the various departments present their portion of the budget to this board. The board then looks at each department's budget, looks at the composite budgets, and then recommends to me what they think the income is going to be for the next year.

[They point out] the areas that they don't think are too solid, where they think some questioning should be given. They give me the options where they think something will have to be cut or money will have to be raised or whatever so as to balance the budget. They end up giving me a pretty good account of what they think is happening or could happen for the next year.

Percentage Increases and Cuts

When the budgets submitted by the various agencies are totaled, they usually exceed the amount of money available. In order to avoid this, some archdioceses simply instruct their agencies not to increase their budgets more than a set percentage. The director of business affairs in Portland admits, the budget process is "not very sophisticated, mostly taking last year's budget and adjusting it for inflation without much thought to what our priorities should be." In St. Paul, despite attempts to use the vision statement for priorities and budgeting criteria, spending increases in 1985 were simply limited to an across-the-board percentage. "The projected income was such," explains the finance officer, "that that was the only way we could have balanced the budget."

If agencies are allowed to propose what they think they need, the total will always exceed the income available. Then the proposed budgets must be cut. In Omaha, the finance officer says,

We don't want to get into the situation where we tell them, "Cut this program or that program." We wait until after they submit their budgets and see how much the budgets add up to. We see it is going to be short this much money, then we have to cut. Just cut 1.5 percent.

This approach is simpler to administer than examining each budget and deciding what to cut. It also has the appearance of fairness since everyone is hurt equally. Archbishop Gerety of Newark explains:

Deciding what to cut in the budget is very difficult. So you just have to slice. We did it on an across-the-board basis. Of course that caused a lot of problems, but nevertheless we had to do it. You take the bull by the horns and say, "There is so much pie; now you fellows go ahead and slice it up."

In a detailed review of items in the budget, the archbishop and the budget committee exercise control over what an agency does with its money. Under a block grant system, the archbishop delegates to subordinates the decisions about how the money in their agencies is used. They can expand one program and cut elsewhere. The directors, rather than the archbishop or the budget committee, are forced to make the difficult choices. "That is why you hire a director," explains the director of planning in Louisville. If he chooses projects that are worthless, "he is going to have egg on his face. If he is going in the wrong direction, then he or she won't be around very long."

Cutting budgets is very difficult. All agencies are doing or proposing worthwhile things, and all have employees and constituents who will be hurt by the cuts. Since a high proportion of the archdiocese's budget goes to salaries, any significant cut must eliminate personnel. The preferred way of doing this is not to replace someone when they retire or quit. In addition, reorganizations are sometimes aimed at reducing duplication and saving money. But often cuts are aimed at nonpersonnel expenses like travel, workshops, etc.

The Hard Choices

When the hard choices have to be made, an archdiocese will first recognize that certain expenses are simply unavoidable. In Newark, the archdiocesan finance office categorized expense items by whether they were fixed or variable. Insurance, utilities, debt service, contractual obligations, the archbishop, and auxiliaries were considered fixed expenses. "You can't ask the bank to wait for two months," explains the finance officer. "If we want to expand, we can only expand after we have absorbed fixed expenses."

Even in Washington where there is an attempt to use zero-based budgeting, the process is applied only to "optional" or new programs. "You can't zero base the tribunal," admits the secretary for support services. "Canon law says there is going to be a tribunal. The administrative budgets are those things that we consider to be givens." In such a system, however, the debate is over what should stay for close review. As the secretary for planning and management in Baltimore notes, "It is hard to get agreement on what should stay and what shouldn't."

Second, there will be a determination of salary increases that will eat up much of the increased revenues. "Let's say our income goes up \$1.5 million, and you give a raise," explains Bishop Robert Banks, vicar general of Boston. "The raise, depending on what it is, is going to take about \$500,000 to \$750,000. So that leaves you very little to fool around with."

Third, new programs or expenses will get greater scrutiny than old programs. Often they will be cut or postponed if the budget is tight. Cutting existing programs, firing existing staff is more difficult than postponing hiring or major purchases, like a new car.

Finally, when existing programs are judged, a multitude of variables come into play. Attempts to establish quantifiable criteria for judging programs have been unsuccessful. "You have to do it by intuition," says the director of planning in Louisville. As a professional planner, he admits that relying on intuition rather than quantifiable criteria makes him uncomfortable. But trying to quantify everything does not work either. "If you are going to get everything down in numbers and add it up, get a computer," he says, "you don't need people." But people do not find choices between programs easy to make. "You can spend more money in Catholic Charities, or is Catholic education more important?" he notes. "There is no answer. You have to look at what they are doing and not doing. What would they do if you provided them more resources?" In fact, the proportion of funds going to various ministries does not change radically from year to year.

Often an important input for the archbishop in this intuitive decision is what he hears about a program from important constituencies like the pastors. If they bad mouth the program, he will decide the money is being wasted. Also important will be his judgment of the program director. If he has the archbishop's confidence, his program will not be cut but might expand. But expansion can also depend on the availability of qualified personnel especially in smaller archdioceses. A program might be desirable, but the archbishop will not fund it until the right person is found to direct it. "That is where you bump your head most of the time," says the director of planning in Louisville.

Paying Off a Debt

Some archbishops found deficit spending and large debts when they arrived in their archdioceses. "Any bishop who goes into a diocese which has serious financial problems is terribly compromised," says Archbishop Hurley of Anchorage. "Until he gets that under control the entire pastoral operation is in jeopardy. You run into the factual problem of no money, then the necessity of getting money from the locals."

Archbishop Gerety found a \$25.5 million debt in Newark. Cardinal Medeiros reportedly found a \$50 to \$80 million debt in Boston. For these archbishops, the first matter on their agenda had to be paying off their debts. In Newark a number of high schools had been built and not completely paid for. There were also heavy expenses in the social service area. At the same time the archdiocese was losing wealthier parishioners to the suburbs. In addition, there were rumors of financial incompetence and mismanagement.

Archbishop Gerety's first move, he says, was to form a finance committee of "people who know what they are talking about" to assist him. Next, he had "to convince people that what we were trying to do was something credible, that we were trying to put the archdiocese on an even keel financially. We had to cut budgets, we had to consolidate a bit. We had to negotiate with the banks, we had to convince the banks that we could pay it off if they gave us a reasonable interest rate."

Newark's \$25.5 million debt came due on January 1, 1984, at a time when interest rates were very high. If the loan was renewed, the existing 7 percent interest rate would more than double. The finance officer told the archbishop, "If we don't get that principle down to a level we can manage, you will find that any new revenues you generate will go to additional interest expenses" and "the banks would have owned half the church in Newark."

The finance office also negotiated with parishes that owed money to the archdiocese or the banks. "We reached 172 agreements with parishes, addressing everything from past-due assessments, self-insurance premiums, pension obligations, loans," reports the finance officer. Some parishes were so poor or so heavily in debt that pastors had given up hope. The archdiocese eventually wrote off \$10 million in debts owed it by parishes so that pastors could "see the light at the end of the tunnel." Newark met the deadline by increasing revenues, reducing expenses, and by internalizing the debt through its deposit and loan fund.

But sometimes an archbishop is forced to go deeper in debt. Archbishop Hannan was installed in New Orleans in October 1965, shortly after Hurricane Betsy destroyed six churches and badly damaged every other archdiocesan building. In addition, a number of high schools were under construction.

"The first Christmas I was here," Archbishop Hannan recalls, "the priest in charge of finances told me that \$1 million was due on January 1 on our indebtedness and we didn't have a dime." He got the banks to give him sixty-day notes to cover that. "Then, through the centralized financing, I paid back those sixty-day notes," he says. "In order to complete these high schools we had to run the bank debt up to \$37.5 million. That made a real big problem for the future, but that was the only thing to do."

As the case of New Orleans shows, debt was not always a bad thing. The debt that Archbishop Hannan inherited from Archbishop Cody was at only 5 percent interest. When other interest rates went up, the archdiocese wisely kept these loans as long as it could.

Financial Restrictions on a Bishop

There are few canonical restrictions on the power of a bishop over diocesan finances. Canon law, which is the same for bishops and archbishops, aims at conserving the patrimony of the diocese and at avoiding debilitating debts.⁸ Canon law requires that the bishop get the approval of his finance committee before alienating church property worth over \$500,000. Alienation is a technical term that means the transfer of the ownership of property from one person to another. A sale of property is not an alienation unless the proceeds are transferred to another person or

institution. The alienation of property worth over \$1 million requires the approval of the Holy See.

In the strict sense, alienation applies to real property and to funds invested for a specific purpose by proper ecclesiastical authority or by the intention of the donor.⁹ On the other hand, money, stocks, bonds, certificates of deposit, or other securities not designated for a specific purpose do not come under the alienation rules. Thus, by only "temporarily" assigning money to various funds or endowments, a bishop can avoid the alienation rules if he later wants to withdraw the funds.

Canon law also requires that the bishop obtain the approval of his finance council and college of consultors for acts of "extraordinary administration." Extraordinary actions have traditionally included "land purchases, construction of new buildings or extensive repairs on old buildings, leasing or renting property for longer than nine years, the opening of a cemetery, long-term investment of any kind of capital, the establishment of a school or institution, and taking up special collections."¹⁰

Their approval would also be needed for incurring indebtedness (without corresponding increases in assets of the diocese) that exceeds \$500,000. The Holy See's approval is needed for indebtedness exceeding \$1 million. But since most indebtedness does result in an increase in diocesan assets, e.g., a new church or school, Vatican approval is rarely needed for a loan unless it is to cover operating expenses.

The American bishops consider seeking permission from Rome on financial matters to be impractical and feel that the \$1 million ceiling is too low. At the November 1985 meeting of the NCCB, they recommended increasing the maximum amounts to \$5 per capita of the Catholic population of a diocese up to a ceiling of \$5 million. They also asked the Holy See to empower the pro-nuncio to allow expenditures beyond the maximum limit when recourse to the Holy See is difficult. The Vatican considered the recommendations were "inappropriate" and said no.

Other restraints on episcopal financial power are financial disclosure and external audits. In 1984 about 70 percent of the dioceses made their financial reports public.¹¹ Of these published reports, 78 percent were done by CPA firms. Audited dioceses had larger populations, revenues, and revenues per Catholic. The books of most archdioceses are audited, and the audit and management letter are usually reviewed by the finance committee.

The American Institute of Certified Public Accountants and the National Conference of Catholic Bishops have recommended a set of accounting principles and reporting practices for dioceses.¹² Although there are some technical disagreements between the two groups, both recommend the use of fund accounting and the accrual basis for financial reporting. All "indicate that essential disclosure information is to be found in the Balance Sheet, the Statement of Activity, the Statement of Change in Fund Balance, the Statement of Change in Financial Position, and the Footnotes."¹³ One study found that on a 100-point scale, dioceses scored 60.5 on disclosure.¹⁴ Interestingly, population size did not affect disclosure scores. Dioceses using CPA firms had higher scores. Dioceses experiencing financial stress also tend to disclose more to

satisfy creditors and donors. The Vatican Bank and PTL scandals are apt to encourage fuller disclosure in the Catholic church.

Canon law does not mandate external audits or specific reporting practices, but it does require a diocese to "render an account to the faithful concerning the goods offered by the faithful to the Church...."¹⁵ Typically, the archdiocesan newspaper will publish all or part of the audit. To most nonprofessionals it is unintelligible, and it elicits few letters. But whenever the newspaper decides not to publish the audit, letters come in asking what they are trying to hide. Further confusion results from the fact that when an archdiocese has many corporations, the financial report for the central offices does not give a total picture of the financial condition of the archdiocese.

Conclusion

Every archbishop must spend a good deal of his time on finances. Even in Los Angeles where finances were delegated to a powerful vicar for finances, Cardinal Manning would have to pay some attention to finances. "It is completely delegated [to me]," explained Monsignor Hawkes, "but I do nothing of any magnitude that I do not advise him of before I do it."

Decisions to build a church or school, to sell or buy a large piece of property, to increase salaries, to borrow money would all be brought to the archbishop. Frequently, state law requires his signature for such actions. The annual budget, especially major changes in expenditures for programs or services, would also come to him.

The archbishop might de facto delegate many financial decisions to a finance director or to a budget committee, but there is no question in anyone's mind that he has the authority to make the decisions himself. Some archbishops delegate for theological reasons--they believe in consultation and shared responsibility. They also delegate because they want to spend their time doing something else. Often delegation is a strategy to avoid the conflict that surrounds the scramble over limited funds. It is easier to be a unifying force in the archdiocese if a committee or finance director is blamed for making the unpopular financial decisions.

But despite all the financial problems faced by archbishops, most agree that finances are not their biggest headache, it is personnel. Even financial problems are often symptomatic of personnel problems. "You find out the problem is people not money," explains the finance officer in New York. "If you got the people, money is secondary. If they are innovative, take initiative.... Money that could be spent better is shoring up personnel situations all over the lot." In the next chapter, the archbishop's role in personnel will be examined.

Footnotes

1. Andrew Greeley and William E. McManus, *Catholic Contributions, Sociology and Policy* (Chicago: Thomas More Press, 1987), 2. Protestants give 2.2 percent of their income or \$580 a year.

2. Richard A. Schoenherr and Eleanor P. Simpson, *The Political Economy of Diocesan Advisory Councils*, Respondent Report No. 3 (Madison: Comparative Religious Organization Studies, University of Wisconsin, July 14, 1978), 5.
3. James Gollin, *Worldly Goods* (New York: Random House, 1971). John Cooney, *The American Pope: The Life and Times of Francis Cardinal Spellman* (New York: Times Books, 1984), 79, 95-97.
4. See Donald J. Frugé, "Taxes in the Proposed Law," *CLSA Proceedings* 44 (October 18-21, 1982): 274-88. Donald J. Frugé, *The Taxation Practices of United States Bishops in Relation to the Authority of Bishops to Tax According to the Code of Canon Law and Proposed Revisions*, *Canon Law Studies* No. 506 (Washington, DC: Catholic University of America, 1982), 100-133.
5. Greeley and McManus, *Catholic Contributions*, 117-18.
6. *Ibid.*, 2.
7. *Ibid.*, 112.
8. Canons 492-94, 1254-1310.
9. John J. Myers, "Book V: The Temporal Goods of the Church (cc. 1254-1310)" in *The Code of Canon Law: A Text and Commentary*, ed. James A. Coriden, Thomas J. Green and Donald E. Heintschel (New York, Paulist Press, 1985), 879. See also Jordan Hite, T.O.R., "Church Law on Property and Contracts," *Jurist* 44 (1984): 117-133; Austin Bennett, "The Practical Effect on the Fiscal Administration of Church Finances of Book Five: The Law Regarding Church Possessions," *CLSA Proceedings* 42 (1980): 93-104; John J. Myers, "The Diocesan Fiscal Officer and the Diocesan Finance Council," *CLSA Proceedings* 44 (1982): 181-188.
10. Myers, "Book V," 874.
11. Thomas M. Rowe and Gary A. Giroux, "Diocesan Financial Disclosure: A Quality Assessment," *Journal of Accounting and Public Policy* 5 (1986): 66.
12. National Conference of Catholic Bishops, *Diocesan Accounting and Financial Reporting* (Washington, DC: NCCB, 1971) and *Accounting Principles and Reporting Practices for Churches and Church-Related Organizations* (Washington, DC: NCCB, 1983). American Institute of Certified Public Accountants, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, Statement of Position 78-10 (New York, AICPA, 1978) and *Audits of Certain Nonprofit Organizations* (New York: AICPA, 1981).
13. Rowe and Giroux, "Diocesan Financial Disclosure," 64.
14. *Ibid.*, 66.
15. Canon 1287 §2.

See also:

Chapter 6: Personnel, the next chapter

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