

January 22, 2007

To: Pastors, Principals, Administrators and Bookkeepers

From: Mary Beth Koenig, CPA  
Chief Financial Officer

Thanks for your continued spirit of cooperation and your efforts to help us be good stewards of the resources given to our Diocese by God's people. Your collaboration and support are appreciated and essential to enabling our works to be effective. Please know that our diocesan staff stands ready to assist you in any way we are able.

### **Annual Budget Assumptions Letter**

The following information is being provided to assist you with completion of your annual budget:

#### **1. Cost of Living**

The Social Security/Medicare cost of living adjustment for 2007 is 3.3%. This amount could be used as a general guideline for salary increases.

As a matter of social justice and to maintain a high standard of Catholic education, schools in the U.S. are strongly encouraged to pay Catholic school teachers at least 80% of the local ISD wages. We encourage all schools to develop a plan to pay school teachers 90% of the local ISD wages.

#### **2. Health Insurance**

A health insurance committee consisting of several priests, parish business administrators and school principals was instrumental in designing and selecting our health insurance plan with Blue Cross Blue Shield of Texas. The change to Blue Cross Blue Shield has been beneficial financially while providing access to a broader network of doctors and providers.

To ease the budgeting and enrollment process, we will be changing the plan year for the health insurance plan from January 1 to July 1 effective July 1,

2007. There will be an open enrollment period in May and June prior to the start of the new plan year. We will be discussing various changes to the plan design and premium structure. At this time, we are anticipating an increase in premiums of no more than 15%. Please include this increase in school and parish budgets beginning July 1, 2007.

The last increase to the health premiums for lay employees was July 1, 2004. This will be a three year period with no increase in premiums. The last increase to priest/seminarian premiums was January 1, 2005. This will be a two and one-half year period with the same premium. We will continue to work diligently to provide quality insurance at a competitive price and will strive to keep increases to a minimum. However, health insurance costs continue to rise faster than the rate of inflation and we are not immune.

As part of the negotiations with Blue Cross Blue Shield, all locations must pay for at least one-half of the employee premium for all employees that wish to participate in the health plan. All employees working 30 hours or more per week must be offered the option of participating in the plan and cannot be charged more than 50% of the cost of the employee portion of the premium for the Basic PPO Plan. Each employer has the option to contribute at higher levels than the minimum including paying for all of the Deluxe PPO Plan if they so desire. This minimum contribution requirement is not optional and must be provided by the employer. If you need financial assistance, please send a written request. (See Section 9 – Diocesan Grants.)

A late fee of \$25 per month per person will continue to be assessed for all locations that do not pay their premiums in the month the premium is due.

### **3. Retirement Plan for Priests**

The annual retirement contributions for priests as of July 1, 2007 will remain the same. The amounts are per priest assigned to the parish:

- \$4,000 per year for parishes with less than \$500,000 in annual Sunday collections
- \$6,000 per year for parishes with greater than \$500,000 and less than \$1,000,000 in annual Sunday collections
- \$8,000 per year for parishes with greater than \$1,000,000 in annual Sunday collections

These premiums are billed monthly.

#### **4. Retirement Plan for Laity**

All parishes and schools may utilize the diocesan 403(b) plan. The plan is administered by Merrill Lynch and a variety of American mutual funds are offered. If you are interested in participating in the plan, please contact Jane Ramirez, Finance Manager.

#### **5. Cathedraticum**

The cathedraticum rate will remain at 9% (8% for parishes with parochial schools) for the next fiscal year.

Income from Cathedraticum represents approximately 50% of the budgeted expenses for the Chancery, Pastoral Center and Cedarbrake. We rely on this income to pay our operating expenses such as salaries, utilities, health insurance subsidy, religious personnel care, etc. It is very important that we receive this revenue on a timely basis in order to pay our day-to-day operating expenses.

Cathedraticum is due within 45 days following the end of the quarter (Nov. 15, Feb. 15, May 15 and Aug. 15). We realize there may be times when cash is "tight" due to unplanned maintenance or repairs or other items and accordingly you may have difficulty paying bills when they are due. However, it is the responsibility of the pastor or parish business administrator to communicate with the finance office if payment cannot be made timely and the reasons therefore.

We are here to assist you and are happy to help any way we can. Please call Rick Virgne, Director of Parish Business Services, if you have any questions concerning cathedraticum.

#### **6. Property, Worker's Compensation and Auto Insurance**

Property (including crime and general liability), worker's compensation, and auto insurance rates will increase as follows effective July 1, 2007:

- **Property – .625% of value (increase of less than 3%)**

Property insurance premiums are a factor of the rate shown above multiplied by the value. Most property values (replacement cost) will increase by approximately 5%.

- **Worker's compensation – approximate increase of 5%**

Some parishes routinely have significant worker's compensation claims. The reason is either inadequate financial management, employee dishonesty or a combination of both. Accordingly, parishes with a history of workers' compensation claims will pay

a higher premium than parishes with a history of few claims. Our insurance broker (Arthur J. Gallagher) continues to assist us with this evaluation.

- **Automobile – approximate increase of 5%**

All diocesan/parish/school vehicles must be registered in the name of the diocese. The legal title to the vehicle must be in the name of the diocese. Additionally, the title must be on file with the diocesan finance office. Please contact Izzy Williams, Senior Accountant, if you have any questions.

These premiums are now billed by the diocesan finance office.

## **7. Quarterly Reports**

All quarterly reports for parishes and schools are due to the diocese by the 45<sup>th</sup> day following the end of the quarter (Nov. 15, Feb. 15, and May 15) and the 30<sup>th</sup> day following the end of the fiscal year (July 30). It is most helpful that we receive these reports on a timely basis. Our lenders require the preparation of quarterly consolidated financial statements for all the parishes and the maintenance of certain financial covenants and ratios.

We are now matching the subsidy reported in the school financial statements to that reported by the parish. This subsidy must agree/reconcile in order for the subsidy to be deducted from income for the cathedraticum assessment calculation for the parish. Therefore, if the school financial statements are not submitted, the parish will not be able to receive the deduction for the school subsidy.

## **8. IRS Mileage Reimbursement**

The current IRS mileage reimbursement rate is 48.5 cents per mile. This rate should be used to reimburse all lay employees for authorized business miles driven. Priests receive a car allowance as part of their salary and are reimbursed for gas, repairs, insurance, etc. Accordingly, priests should not ordinarily receive a mileage reimbursement.

## **9. Diocesan Grants**

Parishes and schools that have a need for financial assistance for the upcoming year from the diocese should prepare a written request. Please submit requests for diocesan financial assistance for the upcoming fiscal year by March 31. A diocesan committee will assess the needs of the parish or school. We will provide a grant or an interest-free or low interest rate loan. Funding for grants is limited and comes from the diocesan operating budget (Cathedraticum and Catholic Services Appeal).

## **10. Budgets**

According to USCCB Guidelines, all parish and school budgets are required to be on file at the diocese. After approval of the annual budget by the parish finance council or school board, please submit a copy of the budget to the diocesan finance office. Approved budgets are due to the diocesan finance office by May 31, 2007.

We are in the process of developing a long-term facility plan for parishes and schools. This will help us plan for the future capital needs of the diocese. Additionally, the plan will help parishes estimate the cost of maintenance of existing facilities and planned expansion of future facilities. We will be developing this plan with the goal of gathering all information in the next two years. We will be seeking your input as we develop the forms.

## **11. Internal Controls**

The USCCB recently issued recommendations to strengthen internal controls at parishes. These include an annual letter from parish finance council members and the pastor communicating and certifying various types of information, diocesan training of parish finance council members and annual completion of an internal control questionnaire by each parish. We are reviewing this information and will provide further details regarding the information required in the next couple of months.

## **12. Diocesan Savings and Loan**

The intent of the Diocesan Investment and Loan program (DIAL) is for those parishes with excess operating funds, endowments or savings to deposit those funds with the diocese so they may be loaned to other parishes. Parishes with large cash balances will earn more income through this program than by investing the funds in money market accounts or certificates of deposit with a bank. Additionally, parishes needing a loan will pay a lower interest rate than available at the bank. The intent of the program is for all of us to help one another and to keep our money “within the family”.

If you are interested in depositing funds in this program, please contact Mary Beth Koenig. It is our sincere hope that parishes with excess cash will take advantage of this program. This program is being used to deposit all Our Faith Our Legacy rebates to parishes. Interest rates are changed monthly and are posted on the diocesan website. Funds deposited in the program greatly benefit those parishes with financial needs. This is a way in which we can live out “stewardship”, thus helping those in greater need.

### **13. Diocesan Line of Credit**

All parishes must borrow funds through the diocesan line of credit. Loans from outside lenders are prohibited unless approved in writing by the Bishop. Generally, the only loans allowed from outside lenders are those with other Catholic organizations such as the Clerical Endowment Fund (“CEF”) which loan funds on an unsecured basis.

An origination fee in the amount of 1% of the loan will be charged to cover diocesan costs of obtaining capital (loan origination fees and other costs of obtaining debt). This fee may be added to the principal of the loan or paid in cash.

### **14. Assistance to Catholic Schools**

In accordance with the Policy on Parish Support of Catholic Schools that was approved by the Presbyteral Council and promulgated by the Bishop on February 2, 2005, parishes that do not have a parochial school must contribute a minimum of \$150 per student for each registered student in their parish that attends a Catholic School. While \$150 per student is the minimum, we suggest a rate of \$300 per student in an effort to keep the tuition affordable for all families.

This payment is not optional and was effective July 1, 2005. It is the responsibility of the school to notify the parish regarding the amounts due from each parish for enrolled students. Some schools are having difficulty collecting these amounts. Please do your part in making Catholic education affordable and attainable for all students in the diocese. We encourage and appreciate your support of Catholic education.

If you have any questions about any of these matters, please feel free to call me.