

**Meeting of the Economic Advisory Committee
January 2016**

The Economic Advisory Committee met January 27-28, 2016 in Nashville to review its June 2015 recommendations, making use of updated information. The Committee made several changes in its previous recommendations, some of which are substantial. These changes were prompted by some unexpected reports received since the June 2015 meeting, particularly the 2014 end-of-year local church reports.

In addition to the new local church end-of-year reports from 2014, the Committee reviewed economic indicators and apportionment receipts through 2015 and consensus economic forecasts of inflation, the Dow Index, and GDP. The committee retained the same structure of the economic model used by the Committee during past meetings.

June 2015 Projections versus Actuals

The projections are based upon an economic model that includes a host of projections, such as worship attendance, growth in GDP, inflation, a measure of generosity, and others. Each meeting the Committee compares past projections to the actuals to evaluate the accuracy of the projections and the usefulness of the structure of the projection model. The key projections and the reported actuals are presented below, evaluating the work of the Committee from its June 2015 meeting.

| | (In Millions) | |
|----------------|--------------------|----------------|
| | Projections | Actuals |
| Attend (2014) | -1.80% | -2.60% |
| Giving (2014) | 1.93% | 2.38% |
| Net Exp (2014) | 4,677.4 | 4,608.0 |
| Payout (2015) | 91.60% | 91.63% |

The projected worship attendance for 2014, adopted in June 2015 by the Committee, includes an assumed single-year decline of 1.80%. The actual decline was 2.60%. This actual single-year percentage decline is the largest in the history of the denomination, increasing at an increasing rate for years. The 2014 numerical decline is over 75,000 attendees and is also the largest in the history of the denomination.

Total giving in 2014 increased by 2.38% in contrast to the projected increase of 1.93%. As has been the case for decades, and a testament to United Methodists' generosity, increases in giving per attendee have more than offset the loss of giving due to the decline in worship attendance. The increases in giving per attendee have been driven by the turnover of membership. Gains have largely come from the higher income counties and losses have been recorded among the lower income counties. The length of time in which this turnover is to continue is unknown.

The projected net expenditures for 2014 were \$4,677.4 million, compared to the actual net expenditures were \$4,608.0 million. This underperformance results in lower apportionments than projected, given the adopted fixed base percentage from General Conference 2012. The projected payout rate for 2014 on apportioned funds is virtually identical to the actual payout rate.

The Committee implemented changes in the key assumptions from those adopted in June 2015. The projected rate of decline in worship attendance is now more aggressive. The growth in giving per attendee is expected to improve in the presence of a more modest growth in GDP and disposable per capita income. Apportionment payout rates are to remain strong but slightly below earlier projected levels.

The Recommended Budgets

The recommended budget from the June 2015 meeting of the Committee totaled **\$621.1** million. The revised budget totals **\$595.6** million.

| Record Year | Actual & Projected Net Expenditures | Spending Year | Base Percentage | Projected Total Apportionments | Projected Payout Rates | Projected Collections |
|--------------------|--|----------------------|------------------------|---------------------------------------|-------------------------------|------------------------------|
| 2014 | 4,607,965,184 | 2017 | 3.194% | 147,173,790 | 91.10% | 134,075,323 |
| 2015 | 4,526,699,828 | 2018 | 3.196% | 144,664,719 | 91.70% | 132,657,547 |
| 2016 | 4,599,054,515 | 2019 | 3.251% | 149,499,811 | 91.70% | 137,091,326 |
| 2017 | 4,606,884,055 | 2020 | 3.345% | 154,080,862 | 91.70% | 141,292,150 |
| | 18,340,603,581 | | 3.247% | 595,607,581 | 91.52% | 545,116,347 |

The major driver leading to the reduction in recommended apportionments is the more rapid decline in worship attendance. The Committee considered both the needs for mission and ministry among the general agencies and commissions as well as the financial health among the annual conferences. The base percentage is equal to that recommended in the June 2015 report which reflects a larger percentage retention of the average dollar received in the collection plate by the local church and/or annual conference. The overall projected payout rate is **91.52%** resulting in projected collections totaling **\$545,116,347**. Total worship attendance under this scenario is expected to decline to 2,575,308 by 2017, which represents a decrease of 9.1% in only three years.

The previous recommendation submitted in June 2015 presented total net expenditures of **\$19,127.0** million compared to the revised level of **\$18,340.1** million. Total projected collections have been revised downward, from **\$574.7** million to **\$545.1** million. The revised recommendation reflects a downward adjustment in the capacity of the local churches to fund the work of the general agencies and commissions.

As a comparison, the expected totals from the 2013 – 2016 quadrennium include total apportionments of **\$598.3** million, total net expenditures of **\$18,056.9** million, an overall payout rate of **90.62%**, and apportionment collections of **\$542.2** million. Projected total collections under this recommendation for next quadrennium represent an increase over expected collections for this quadrennium of 0.53%.

Alternative Budget:

The Committee also considered a more optimistic set of assumptions leading to an alternative budget recommendation of **\$604.0** million. This more optimistic recommendation is based upon a successful implementation of a funded strategy designed to slow the decline in worship attendance among the jurisdictional conferences.

| Record Year | Actual & Projected Net Expenditures | Spending Year | Base Percentage | Projected Total Apportionments | Projected Payout Rates | Projected Collections |
|--------------------|--|----------------------|------------------------|---------------------------------------|-------------------------------|------------------------------|
| 2014 | 4,607,965,184 | 2017 | 3.227% | 148,681,883 | 90.85% | 135,077,490 |
| 2015 | 4,530,729,801 | 2018 | 3.229% | 146,277,211 | 91.45% | 133,770,509 |
| 2016 | 4,619,611,554 | 2019 | 3.284% | 151,706,825 | 91.35% | 138,584,185 |
| 2017 | 4,656,522,607 | 2020 | 3.379% | 157,336,943 | 91.30% | 143,648,629 |
| | 18,414,829,145 | | 3.280% | 604,002,862 | 91.24% | 551,080,814 |

The less aggressive decline in worship attendance, in response to the implementation of a strategy, results in a greater net expenditure total--**\$18,414.8** million vs. **\$18,340.6** million. The improved net expenditure allowed for a less aggressive decline in the base percentage, resulting in a base percentage of **3.280%** instead of **3.247%**. Both yielded a payout rate over 91% which is acceptable. This budget is recommended by the Committee only if denominational leaders conclude that such a strategy will be funded, implemented early in the next quadrennium, and will be successful in slowing the rate of decline in worship attendance.

The Continuing Crisis of Decline

The Committee seeks to underscore the unprecedented 3-year decline in worship attendance of 6.3% between 2011 and 2014—40% of which was recorded between 2013 and 2014. The annual rate of decline is getting larger, and there is little reason for optimism, absent the implementation of effective strategies designed to arrest the decline. In the past, the gains in giving through the growth in giving per attendee more than offset the losses due to attendance decline. Over the past quadrennia, net spending continued positive growth, even in the presence of the Great Recession. The denomination is approaching that time in which the growth in giving per attendee can no longer offset the loss in giving due to worship attendance decline. When this occurs, giving to our local churches will have reached its peak. This can be deferred or avoided with the implementation of successful strategies.