

CHURCH AND FINANCE SERIES | PART 1

Benefits, pitfalls of operating like a business

Dioceses, parishes nationwide adopt corporate 'best practices'

By Emily Stimpson

The Church is Christ's Body on earth — healing, feeding, and forming bodies and souls.

It is also the largest nonprofit organization in the world, "employing" well over a million priests, Religious and laity. Its dioceses operate with multimillion-dollar budgets, running counseling services, schools, adoption agencies and more. Likewise, its parishes conduct programs and ministries of their own, funded by budgets that rival those of successful small businesses.

Eternity, infinity, mystery and grace. Accounting procedures, conflict-of-interest statements, strategic planning and electric bills. These are the two realities of the Church. One is theological, the other practical. The first infinitely more important, the second increasingly necessary and complex thanks to cultural changes.

Inflation and prosperity mean bigger budgets. A litigious society means more regulations. A decline in vocations means more lay employees. A consumer culture means higher parishioner expectations. And a 24-hour news cycle fed by the Internet means instant scandal when someone stumbles.

Need for greatness

The importance of the one reality — the Church's mission — demands excellence in the other — how it makes that mission happen. Or, at least, it should demand excellence.

"All too often, you find people thinking the mission of the Church is in tension with high standards of management, financial accountability or proper human-resource development," said Kerry Robinson, executive director of the National Leadership Roundtable on Church Management. "The consequences of that can lead to a culture of mediocrity."

Charles Zech, who runs the Center for Church Management at Villanova University, agrees. Citing Jim Collins' book "Good to Great," Zech noted that "the enemy of great is good." In other words, being good often leads to a complacency that prevents an organization from becoming great.

"My experience is that too many Church organizations are content to be good, and don't do the extra things that could make them great," he said. "Not every private-sector firm strives to be great, either, but far more do than in the Church. In the business sector, firms that are merely good may not survive when factors outside their control (demographic shifts, economic turmoil, etc.) emerge. They need to strive to be great."

The Church, of course, has an assurance for tough times that businesses don't: Christ's promise in Matthew 16:18 that the gates of hell will not prevail against her. But testing God's promises is never wise, which is why Robinson, Zech and others are urging dioceses and parishes to continue looking to the magisterium for guidance on living out the theological reality of their existence, but also to start looking to the world of business for guidance on carrying out the more practical aspects of their mission.

Operational challenges

One of the most important of those aspects is operations. And topping the list of operational challenges is how parishes manage their books.

A 2007 study conducted by the Center for Church Management found that 85 percent of the responding dioceses reported instances of embezzlement in the last five years.

"Parishes have a real problem with accountability and transparency in finances. Most lack internal financial controls that limit people's ability to steal from the Church," Zech said. "That's bad stewardship. It opens the door to scandal, drives down trust, and ultimately affects parishioner giving."

Recognizing that, many dioceses, including the Diocese of Oakland, Calif., have made getting their parishes' financial houses in order a top priority.

According to the diocesan chief financial officer, Mike

Canizzaro, that process has entailed drawing upon standard business practices such as creating an accounting manual that establishes a standardized chart of accounts and running training programs for parish bookkeepers and pastors. To offer reassurance that the procedures are compatible with mission, the diocese also obtained a mandate from its priests' council that the charts be used in the annual reports that pastors make to the diocese.

"That endorsement was all we needed to obtain consistently prepared and readable reports," said Canizzaro.

Annual reports themselves are a valuable tool that dioceses and parishes borrow from the corporate world, said Father Dan Mahan, executive director of the Marian College Center for Catholic Stewardship. There, annual reports help shareholders trust that their money is being handled wisely. Similarly, annual reports at the parish level, said Mahan, "instill in parishioners a sense of trust and appreciation for the work being done."

Unlike General Motors' sales and earnings, how well St. Mary's Parish carries out Christ's mandate is not easily quantifiable. But Father Mahan believes annual reports containing information such as the year-end balance sheet, the number of catechists serving in the parish, the number of volunteers reaching out to shut-ins, and the number of children educated, as well as information about youth group service projects and other parish outreaches, help parishes evaluate their efforts. That in turn helps strategic plan-

ning, enabling parishes to set goals and priorities that better advance their mission.

Best practices

Disseminating these ideas is the reason behind the founding of the National Leadership Roundtable on Church Management.

Founded in 2005, the Roundtable brings together Catholic leaders from business, philanthropy, academia and elsewhere to advise dioceses on "best practices" — procedures that can help the Church operate more effectively. Over the past three years, the Roundtable has hosted conferences on the topic, as well as constructed a feature on its website, www.nlrcm.org, called "ChurchEpedia," a searchable database that serves as a clearinghouse of best practices from the secular and sacred arenas.

The Roundtable also obtained a licensing agreement from the Standards for Excellence Institute, which serves the secular nonprofit sector, to adapt their "Standards and Ethics" code for use in Catholic dioceses. The code is essentially a 55-point

Key policy areas

According to the National Leadership Roundtable on Church Management, the key policy areas for dioceses and parishes to examine closely for conformity to Church and civil law are:

- Mission and programs
- Governance and advisory boards
- Conflict of interest
- Human resources
- Financial management and legal requirements
- Openness and transparency
- Fundraising
- Public life and public policy

For more information, visit www.nlrcm.org.

checklist, which helps bishops and pastors evaluate whether they have the necessary policies and procedures in place to keep their ships running smoothly.

The Roundtable worked with canon lawyers to make sure the list was in conformity with canon law. By the time the "translation" was complete, Robinson said, "when we read it, we thought if the Church had had this 25 or 50 years ago, we could have been spared so much heartache, not just from the sex abuse crisis, but also the concomitant financial crises."

Father Mahan points out that looking to the business community for guidance in the Church's practical affairs "doesn't mean we canonize every business practice." Practices are only transferable so far as they serve the mission, he said, but "good stewardship means we are transparent, and have the highest standards of accountability and rock solid controls. We can learn a lot from business about these things."

Added Robinson, "The only way for the Church's mission to flourish is if excellence is adhered to at every level, and that includes how we govern on a day-to-day basis."

Emily Stimpson is an OSV contributing editor.



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CHURCH AND FINANCE SERIES | PART 2

Dioceses find new ways to bond with Wall Street

Entering capital markets has allowed several to repay debt and fund building projects

By Emily Stimpson

When the deal went through in April 2005, it made the front cover of "Bond Buyer Magazine." Goldman Sachs went one step further, submitting it as their nomination for "Deal of the Year."

The cause of all the commotion? The Diocese of Austin's entry into the capital markets.

In 2005, the Texas diocese borrowed the proceeds of a \$108 million government-sponsored bond issue. That was \$108 million in low-interest, long-term, tax-exempt bonds — bonds that would pay off the diocese's higher interest debt, build new parishes, schools and community centers, and help it restructure its balance sheet, freeing up tens of millions of dollars for programs.

Pat O'Meara, founder of O'Meara Ferguson, the Catholic financial services firm that brokered the deal, said it was "historic," a sea change "in how Wall Street views the Church and how the Church views Wall Street."

Cash and carry

Historically, O'Meara said, when it came to assessing credit-worthiness, Wall Street made little to no distinction between an established Catholic diocese and an inner-city nondenominational church plant. For its part, the Church has generally preferred to fund its operations and construction on a "cash and carry basis": As dollars come in, dollars go out.

Back in the 15th century, that method worked well. St. Peter's Basilica cost \$45 million to build (that's \$895 billion in today's dollars), but construction lasted 176 years. That left plenty of time to bring in dollars before sending them out. In the 21st century, however, construction methods don't give the Church 176 years to raise funds for buildings; they're lucky if they have five.

Accordingly, said O'Meara, poor parishes can rarely build and grow, and even well-off parishes must generally build small, erecting buildings that meet their budgets but not their needs.

The cash and carry method of

financing can also undo the best strategic planning efforts.

"People will assess the pastoral needs that aren't being met, looking at them from demographic, geographic and other standpoints, come up with great plans, and then, at the 11th hour, bring in the financial component," said O'Meara. "And because the money isn't there, two years of work gets squashed at the end."

Serving the mission

In most dioceses, he continued, the money regulates the mission, it doesn't serve it, and "that has to change."

Hence Austin's bond issue.

Austin wasn't the first Catholic entity to take advantage of tax-exempt government bonds. Once the Supreme Court made it possible for religious organizations to borrow tax-exempt dollars for nonsectarian purposes (functionally everything but sanctuaries and statues), Catholic hospitals and universities began using them to purchase equipment and fund construction. Two dioceses before Austin — Indianapolis and Arlington, Va., — also issued bonds to build schools.

What made Austin unique was that the underlying credit of the diocese, not a piece of real estate or tuition, was the basis for repayment. Even more important was that, for the first time, parish cash flows were factored into the diocese's credit rating. In other words, until 2005, parishioners' weekly contributions, no matter how regular and generous, were considered "nonrecurring revenue." Only campaign pledges counted.

Austin, however, needed those parish contributions to count. Including them gave Moody's a more accurate and positive picture of diocesan finances and parishes' ability to repay diocesan loans — a picture necessary for



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earning the good credit rating that would secure the much-needed low-interest, tax-exempt funds.

"We experienced a 40 percent growth rate in Catholic families over five years," said Scott Whitaker, the diocese's stewardship and development director. "At the same time, our diocese is only 61 years old. We had a lot of building to do fast, and a typical capital-campaign strategy wasn't going to work for us. We saw this as an opportunity to take advantage of a form of financing that other nonprofits have been taking advantage of for years."

Since 2005, other dioceses have come around to Austin's way of thinking. Oakland, Calif., Orlando, Fla., and Houma-Thibodaux, La., have all entered the bond market to finance massive building projects and debt repayment. Other deals between Wall Street and Catholic dioceses are currently in the works.

The advantages of tax-exempt bonds are significant.

Said Whitaker, "They give dioceses a much longer period of time to repay debt and a much lower interest rate."

They also, O'Meara said, allow dioceses to keep more cash on hand and provide them with more money to invest. In turn, those investments generate tax-exempt interest and give dioceses more dollars to spend on ministry.

Some challenges

Despite those advantages, dealing with Wall Street is not for every

diocese and religious organization.

To start with, said Moody's vice president and senior credit officer Diane Viacava, not every diocese can earn the necessary credit rating.

"To issue investment grade bonds, the diocese needs to have some established roots and have the funds, assets and parishioners to guarantee repayment," she said.

Added O'Meara: "There's good debt, and there's bad debt. If you don't have the money, and you don't know how you're going to pay for it, that's bad debt. The capital markets work for dioceses that know they have the ability to pay for something over time."

O'Meara also pointed out that while this type of financing is ideal for religious orders that run hospitals and schools ("because you can't run a hospital on a cash and carry basis"), it's not necessarily compatible with the charism of orders such as the Capuchin Friars of the Renewal, who seek to cultivate a sense of poverty and dependence on God's provision.

Another challenge, which Whitaker said Austin is working to answer, is countering "the idea that because we have \$100 million, parishioners are off the hook on giving."

"It's still debt, and we still have to pay it back," he said. "There are also more needs in this diocese than even \$100 million can finance. Plus, as humans, we need to give. That doesn't go away with

Entering the capital markets: a checklist

Before any diocese considers entering the capital markets to finance operations, construct new buildings or pay off high interest debt, Diane Viacava, a vice president and senior credit officer at Moody's, recommends they take these steps to get their house in order:

- Know why you're borrowing and for what projects.
- Know who is borrowing and who is responsible for repayment.
- Have the "cleanest financials reports possible," including audited statements.
- Have clear governance structures in place.
- Know your story — that includes needs, demographics, history, accomplishments and the support in your community for your work.

tax-exempt financing."

Then there's the current climate on Wall Street. Endowments aren't generating the income they did three years ago, when Austin's deal went through. Also, said Viacava, bond buyers are more cautious about lending, wanting "to see lots of liquidity on hand."

For dioceses that can still issue investment-grade bonds, however, O'Meara believes this is a helpful finance strategy for weathering tough times.

"Market downturns that affect donations are going to happen," he said. "But using the capital markets allows dioceses to keep more cash on hand. When donations slow down, you have reserves. You don't have to stop building. You don't have to stop programs."

"There are always going to be risks, however you finance the mission," he concluded. "But the advantage of the capital markets is that we have a longer time to manage those risks."

Emily Stimpson is an OSV contributing editor.

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CHURCH AND FINANCE SERIES | PART 3

Priests challenged to run 21st-century parishes

Pastors juggle leadership responsibilities while keeping Church's mission first and foremost in their minds

By Emily Stimpson

Once upon a time, parishes were run by many priests, and schools by many religious sisters or brothers. Budgets were smaller, programs fewer and the regulations governing parish activities few and far between.

During the latter half of the 20th century, however, once upon a time came to an abrupt end. And, at least in America, the Church that legendarily thinks in centuries is now struggling with how to equip her priests and laity to carry out their new responsibilities in a new environment.

The struggle starts with preparing priests not so much for pastoring, but, rather, running a 21st-century parish.

"No one becomes a priest because they want to run a small business," said Charles Zech, director of the Center for Church Management at Villanova University. "But that's what they find themselves doing once they're in a parish."

On-the-job learning

And most do it with little training. "Generally, our priests are put in charge of multimillion-dollar nonprofit operations with no experience in time management, no experience in managing a budget, hiring and training a staff, or building a team," said Marilyn Blanchette, president of the Catholic Foundation of Central Florida. "We haven't equipped them with the right tools for success."

Thus far, seminaries haven't incorporated leadership and management training into curricula in any significant way because, said Zech, most "can't fit it in." Seminaries already struggle to give men the essentials of spiritual, theological, philosophical and liturgical formation in a limited time.

That means most priests learn on the job. And while many rise to the challenge, many more struggle. In either case, said Father Dan Mahan, executive director of the Marian College Center for Catholic Stewardship, on-the-job training in leadership and management is far from ideal.

"If our priests aren't prepared to be leaders and managers going in, we're setting many of them up for failure," he said. "It's going to be difficult for them and difficult for parishes."

Leadership training

To help correct the problem, a growing number of bishops are looking to

Catholic veterans of the corporate world, hoping to cull their wisdom on leadership, management and human resources.

Soon after his installation in the Diocese of Orlando, Fla., Bishop Thomas Wenski recognized the problems his priests faced. After holding a special synod to evaluate the health of the diocese and devise solutions to its problems, one of the first steps he took was to invite in the Good Shepherds, Good Leaders Program.

Launched in 2006, the program was developed by the Catholic Leadership Institute (CLI). Its president, Matthew Manion, once ran a \$100 million division of a for-profit company. The Good Shepherds, Good Leaders Program is the fruit of his and other Catholics' experience leading organizations.

Over the course of two years, through monthly meetings and six weekend retreats, priests learn the basics of executive leadership: creating a compelling vision, goal and priority setting, time management, how to recruit and develop people, building strategic partnerships, and more.

CLI spent five years developing the program, adapting proven leadership principles for the unique role of priests. Although not everything was transferable, Manion said the basics hold true.

"Excellent leadership works regardless of the setting because it's other-centered, servant leadership," he said.

In Orlando, more than 30 priests signed up and are now one year into the program. Another 25 dioceses currently sponsor Good Shepherds, Good Leaders, and 17 more will soon launch it for their priests.

Wise use of resources

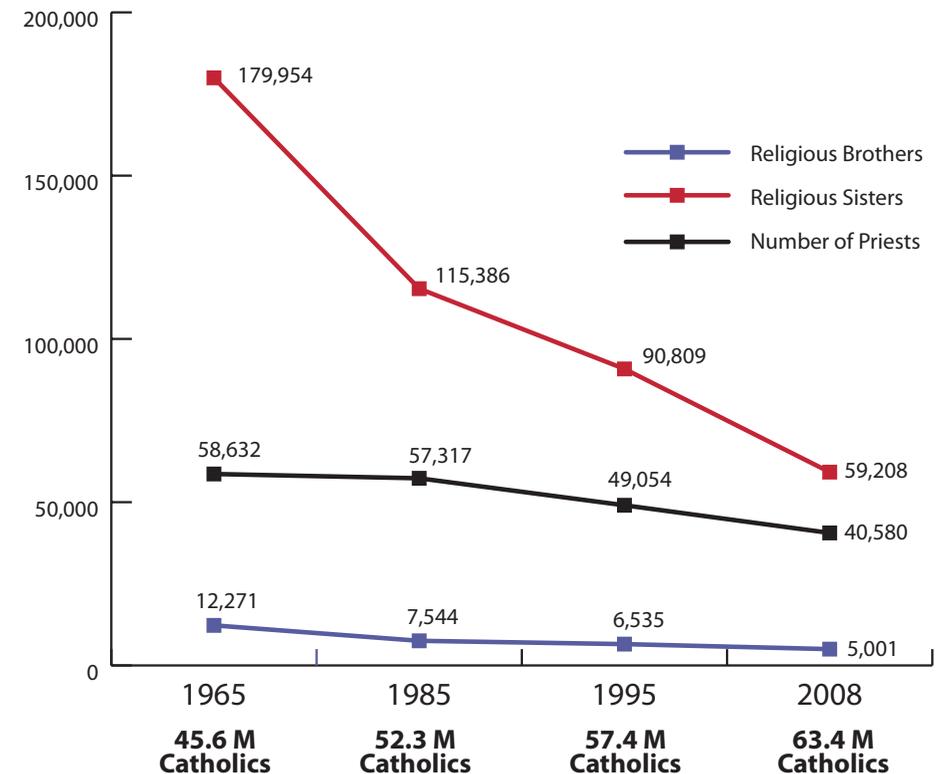
Helping priests get the tools they need to lead and manage their parishes is only one piece of addressing the Church's human-resource problem. A solid staff of well-trained lay employees and volunteers working effectively is also critical. But finding and keeping that kind of staff isn't easy.

"Because our Church has a long tradition of being run by priests and Religious, we still feel we have to apologize for paying someone a just salary, so we're always seeking the least-expensive way to fund positions," said Blanchette. "But you get what you pay for."

Even when you get better than you pay for, keeping employees without being able to offer financial incentives is challenging, said Zech. Some leave so that they can better support their families. Others give less of themselves on the job because they don't feel justly compensated.

From collars to suits

Many of the leadership, management and human-resource challenges facing the Church stem from the declining number of priests and Religious serving the Church and the increasing numbers of laity taking their place. In 1991, for example, there were 15,000 lay ministers. By 2006, that number climbed to 30,000.



Based upon data collected by Georgetown's Center for Applied Research in the Apostolate and the U.S. Conference of Catholic Bishops

Likewise, many parishes struggle to recruit the right volunteers for the right jobs.

The Orlando diocese is drawing on the human-resource and management expertise of Blanchette and others to address those problems. Right now, they're helping parishes develop fundraising plans that direct a certain percentage of every gift into a fund that can be used for staffing costs. That guarantees money on hand for hiring the best possible person. Blanchette also works with priests to help them recruit the right lay volunteers for planning boards, and then trains the boards to effectively serve the pastor and the parish.

The diocese also plans to hire a human resource staffer to work with parishes.

God-given talents

Elsewhere in the country, other dioceses have turned to the National Leadership Roundtable on Church Management, a group of Catholics who've put their leadership experience at the service of the Church, for similar help. Two members have run international executive recruiting firms, and they provide tools for dioceses and parishes to help them recruit and retain the best possible people.

Once the right people are in place, another business tool can help keep them

there: the Clifton StrengthsFinder.

Developed by the Gallup Institute and used in business and industry, the assessment tool is now available for use by churches. At the Marian College Center for Catholic Stewardship, Father Mahan teaches priests and lay leaders how to use the tool in their parishes "to help people identify and use their God-given talents."

In parishes where it's used, Father Mahan says he sees staff "learning more about themselves, and understanding and working better with their partners in the workplace"—all of which improve job satisfaction, help with retention and enable people to serve the Church's mission more effectively.

For as much wisdom as the world of business can offer the Church, however, Blanchette still advises dioceses and parishes to take it with a hint of caution.

"The danger, as we become more strategic and professional, is to lose sight of the mission," she said. "We're not here to make a profit. All the money we earn, leverage and invest, all the work we do, all the people we hire, it's all meant to help us do what God calls us to do. That's what we always need to have in front of us."

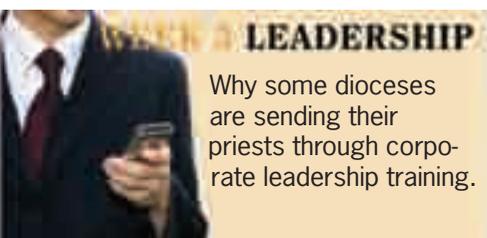
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CHURCH AND FINANCE SERIES | PART 4

Helping the Church stay in education business

Dioceses are urged to incorporate lessons from corporate, nonprofit worlds to finance schools

By Emily Stimpson

In 2007, the crosses came down from the walls of seven Catholic schools in Washington, D.C.

Rather than close the financially troubled schools, which served some of the city's poorest neighborhoods, the Archdiocese of Washington converted them to charter schools and handed over the reins to a private charter school operator. The archdiocese maintains ownership of the buildings, while educational and operational control rests in the hands of the charter operator.

From an educational standpoint, most concede the move was a good one: It kept strong schools open in the neighborhoods that most

needed them. From a financial standpoint, the move was also helpful: It freed up money to reinvest in other archdiocesan schools, without forcing hundreds of children into public schools. But what about from a mission standpoint?

"That's a question mark," said Pat O'Meara, founder of O'Meara Ferguson, a Catholic financial services company that helps schools, dioceses and organizations find creative ways to finance their mission. "Conversion to charter schools clearly makes sense for a very limited set of circumstances. When it's viewed as a solution for Catholic schools globally, that's a problem."

"Our responsibility as Catholics is not just to give children an education that's going to help them find a job," he said, "but rather to give them an education that's going to give them true peace and lasting happiness."

As demographics shift and cultures change, however, that's a responsibility that more dioceses than just Washington are struggling to fulfill. Accordingly, before any more crucifixes come down from the walls of any more classrooms, a growing number

of educational and financial experts are urging Catholic dioceses to start thinking "outside of the box" about how they operate and finance their schools.

Intellectual capital

Just this year, Notre Dame launched its Alliance for Catholic Education (ACE) Consulting Initiative. Born out of an educational task force commissioned in 2006 by the school's president, Holy Cross Father John Jenkins, ACE will work with urban Catholic schools to improve how they manage, market and

finance their operations. By incorporating lessons from the corporate and nonprofit worlds, such as best practices in management and public relations, ACE believes these schools can remain viable for decades to come.

"These schools need to remain vital," said Steve Perla, director of ACE. "They are beacons of hope in their communities. But they need some intellectual capital, which they can't afford to buy."

Another option for strengthening Catholic schools' financial viability and for opening new schools in areas where they're needed is to head to Wall Street. That's what the Archdiocese of Indianapolis did in 1995. With the help of Stephen Goldsmith, who was mayor of Indianapolis at the time, the archdiocese issued \$38 million in tax-exempt bonds to finance a dozen school construction and renovation projects.

According to Goldsmith, who now serves as the director of the Innovations in American Government Program at Harvard's Kennedy School of Government, in Indianapolis, "the inner-city Catholic schools were playing a major role in stabilizing communities and providing opportunities for the city's children at a time when the public school's were failing." Accordingly, he went to bat for them in the city, securing for them the right to issue tax-exempt



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bonds, which meant a lower interest rate and longer repayment period than other forms of debt.

In the decade since Goldsmith and the archdiocese headed to the capital markets, tax-exempt financing has helped other dioceses and schools find lower cost ways to build and make capital improvements to their schools, including Arlington, Va., Austin, Texas, and Orlando, Fla.

"It's now become quite commonplace," said Goldsmith.

Building trust

What isn't commonplace, however, is an idea championed by Goldsmith and O'Meara that builds upon Indianapolis' experience and proposes an alternative to the charter school conversion chosen in Washington.

At the heart of the idea is a question, said O'Meara: "What business do we want to be in: the education business or the building business?"

If it's the building business, he said, then the Washington model is perfect. If it's the education business, then the Washington model is not the answer.

Rather than continuing to own buildings, while outsourcing the education of children, O'Meara and Goldsmith propose a model called "sale-lease backs." In this model, the dioceses "sell" their school buildings to a canonical entity called a "pious foundation." The pious foundation obtains the money for the purchase from the capital markets at a tax-exempt rate, then holds the buildings in perpetuity for the diocese, almost like

a trust, while paying back the debt with the money they receive in "rent" from the diocese.

The diocese, in turn, takes the money from the sale of the buildings and puts it into an endowment fund for the schools. The tax-exempt interest earned off the endowment pays for leasing the buildings and generates income that can be used for scholarships, salaries and other needs. O'Meara estimated that in many dioceses, the money that can be freed up for such use will range from \$2 million to \$6 million.

"Essentially, you're monetizing the patrimony of the Church," said O'Meara. "The Church has all this wealth built up over the past 100 years in its buildings. But why keep it in the buildings?"

He stressed that during an economic downturn this model gives schools a cushion to see them through the worst of times.

"It means that if you lose 10 families because they can't pay tuition, the school won't go under. You have a longer time to turn the situation around," he said.

Stewardship matter

Whether or not the sale-lease back model is the right one for any given diocese, Goldsmith noted that given the challenges they face, Catholic schools "need to do what every other institution that wants to survive does: Remember that there are always creative and better ways to fulfill your mission, and find those ways."

For O'Meara, Perla and others working to find those ways, what their search ultimately comes down to is helping schools

Tough times

Economic hardship, demographic changes and a decline in religious vocations all spell trouble for America's Catholic schools

1,200: The number of faith-based inner-city schools that closed between 2000 and 2006.

250: The percentage increase of minority students in inner-city Catholic schools

500: The percentage increase of non-Catholic students in inner-city Catholic schools

179,954: The number of religious sisters in 1965

59,208: The number of religious sisters in 2008

96: The percentage of Catholic schoolteachers who are laypeople.

5: The percentage teacher salaries once occupied in Catholic schools' budgets when schools were primarily staffed by Religious.

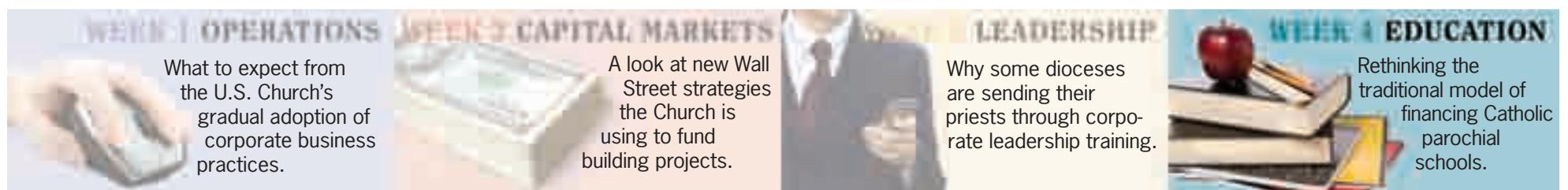
75-80: The percentage teacher salaries now occupy in Catholic school budgets.

Sources: White House Summit on Faith Based Education, Center for Applied Research in the Apostolate and the University of Notre Dame's Alliance for Catholic Education.

and dioceses become better stewards of what has been entrusted to the Church.

"So often we ask, 'How can we bring new assets in?'" said O'Meara. "But what we really need to ask is, 'How can we optimize the assets we already have?' We need to look at what we're trying to accomplish, what our assets are, and then bring those assets to bear."

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