

A Report to the Council on Finance and Administration
Considerations for Change in the Texas Annual Conference Apportionment Formula

Executive Summary

The Texas Annual Conference adopted its current expenditure based apportionment formula in 2001. It is currently considering the adoption of an income based apportionment formula which, in a variety of forms, has been adopted by at least five annual conferences and is under consideration by several more. Surveys of treasurers of annual conferences with income based formulae favorably compare their recent experiences with an income based formula with those under previous formulae.

The annual conference and its districts apportioned and billed local churches \$38.0 million in 2016. Annual conference apportionments totaled \$22.8 million or 59.9% of the total. Districts apportioned 5.55% of the total, and local churches were billed 34.5% of the total for health benefits and pensions.

The current expenditure based formula is designed to account for differences in local church cost structures and financial strength of congregations. Cost structures include operating expenses and pastor salaries per attendee, noting significant differences across our churches. Differences in financial strength are reflected by differences in total annual expenditures per attendee. These two differences affect the local church's capacity to pay apportionments.

The current expenditure based formula encourages the payment of apportionments, improvements in facilities, and support of non-apportioned benevolences through deductions. In addition, expenditures for programs and support staff as part of a recognized church revitalization program are deductible. The purpose of these deductions, in part, is to encourage church growth.

When comparing apportionments under the current expenditure based formula and an income based formula, current apportionments as a percent of total expenditures are restricted to a range of 2.2% to 10.3%. Percentages under an income based formula range from 0.2% to 84.4%. These deductions support the qualities of fairness and efficiency. Apportionments are calculated by multiplying a percentage times net expenditures. Since net expenditures are more stable from year to year than are receipts in support of the operating budget, the current formula provides more year-to-year stability for a church than an income based formula.

The income based formula is simply a percentage times total receipts in support of the operating budget. It is simpler than the current expenditure based formula and more easily explained to local church leaders than the current expenditure based formula. The apportioned budget can be adjusted to accommodate a 10% tithe applied to receipts in support of the local church operating budget. However, this application of the Biblical tithe raises questions of spending efficiencies.

A change from the current expenditure based formula to an income based formula predictably changes apportionments for every church. An estimated 320 churches would receive an increase in apportionments, and the same number would receive a decrease. Thirty-nine churches are expected to receive an increase of more than 60%. Of these 39 churches, 21 are expected to receive a 100% increase or more in apportionments. The predicted extreme decreases are fewer in number.

Of some concern is that a change in formula shifts a significant amount of apportionments from churches currently paying 100% in apportionments to churches currently paying less than 100% in apportionments, resulting in lower payout rates. The change in formulae in 2001 caused a less significant shift to the churches that paid less than 100% in apportionments. The conference average payout rate in response to the change in 2001 did not suffer, largely because of the four-year transition from one formula to another. Such a transition to an income based formula might also eliminate a decline in payout rates.

The interviews with the treasurers of annual conferences with income based formulae offered two negative considerations in spite of their satisfaction with the income based formula. One, there appears to be some level of under-reporting of receipts among some churches. The expense of a mission trip covered directly by a church member might not be reported as income but would be reported as an expense. Two, in conferences that rely upon current receipts rather than end-of-year local church reports, it is not possible to calculate payout rates which, in other annual conferences, are used in the determination of future annual conference apportioned budgets.

A Report to the Council on Finance and Administration
Considerations for Change in the Texas Annual Conference Apportionment Formula

In February 2017, the Council on Finance and Administration formed a Task Force to consider alternative apportionment formulae for possible implementation. The plans for the Task Force were approved by the Annual Conference in May 2017. These plans call for a report from a consultant, Donald R. House, Sr., establishment of listening sessions throughout the Annual Conference to receive comments, and a possible submission of a recommendation for a new apportionment formula to the 2018 meeting of the Annual Conference. This document has been prepared for the Council by its consultant.

I. The Apportionment Formula

According to the 2016 *Book of Discipline*, the Council shall “...recommend to the annual conference for its action and decision the methods or formulas by which apportionments to churches, charges, or districts for duly authorized General, jurisdictional, conference, district funds shall be determined (¶ 613.4).”¹ The apportionment formula for an annual conference governs the patterns of apportioned receipts received each year by the annual conference in support of its approved budget. Periodic consideration of the performance of an existing apportionment formula is appropriate.

Perhaps dating back to the year that the Texas Annual Conference was established, the apportionments have served as the primary means of funding the operations of the annual conference, annual conference missions and benevolences, and its apportionment obligations to the General Church. Significant funds are also collected from local churches through direct billing in support of pensions and health care benefits for pastors.² Minor amounts of funds are collected through Fair Share Goals, Special Sunday offerings, and Conference Advance Specials. Thus, the apportionment formula, which governs the distribution of apportionments to the local churches, has a significant impact upon the financial health of our churches and the annual conference.

¹ The 2016 *Book of Discipline*, ¶ 613.3.

² For 2016, a total of \$14,268,179 was received from local churches, pastors, laity church staff, and others through direct billings in support of pensions and health benefits. Source: *2017 Journal of the Texas Annual Conference*.

A. The Previous Apportionment Formulae

The Texas Annual Conference has a history of sustained use of an apportionment formula. Prior to 1960 and through 2000, the Conference formula was identical to the formula used by the General Church. It was referred to as the “decimal” formula.

$$A_j = \left\{ \left(.5x \frac{M_j}{\sum_{i=1}^n M_i} \right) + \left(.5x \frac{E_j}{\sum_{i=1}^n E_i} \right) \right\} xB$$

where A_j represents a local church’s apportionment
 M_j represents a local church’s membership
 E_j represents a local church’s net expenditures
 B represents the annual conference’s approved apportionment funds

This formula was evaluated and replaced by the 2000 General Conference. The primary grounds for its replacement were:

- 1) membership was a unreliable measure of a local church’s capacity to pay apportionments,
- 2) it failed to account for differences in local church cost structures that affected apportionment payment capacity.

B. The Current Expenditure-Based Apportionment Formula

In 2001, the Texas Annual Conference abandoned its decimal formula and implemented an expenditure-based formula following the design of the formula adopted by the 2000 General Conference. This revised formula is as follows:

$$A_j = (p + i_j) x E_j$$

where A_j represents the local church’s apportionment
 p represents the conference base percentage
 i_j represents the local church’s addition or subtraction from the base percentage
 E_j represents the local church’s net expenditures

Net expenditures for a local church equals total annual expenditures minus the deductibles. Table 1 below lists the qualified deductible expenditures.

Table 1
Net Expenditures

Net Expenditures = Total Expenditures - Deductions	
Deductions	
	Apportionment payments to conference
	Debt service payments (principle and interest)
	Facilities expenditures (excluding maintenance)
	Non-apportioned benevolences
	Revitalization expenditures

The debt service payments include payments on loans for buildings, parsonages, and lines of credit. The facilities expenditures commonly represent expenditures from funds raised during capital campaigns for improvements, major repairs, and expansions in facilities or land. These funds exclude proceeds from loans and routine maintenance expenses. The non-apportioned benevolences include any benevolence expenditures outside the church but expenditures that are not apportioned. These typically include special Sunday offerings, conference advance specials, and financial support for a local food bank. The revitalization expenditures is a deductible category only recently introduced. These include expenditures for programs or staff that have been collected in participation of a formal, recognized revitalization program, such as VCI, Benchmark, or Colinasway.

The “i” factor registers the extent to which the local church’s base expenditures and the local churches income differ from the average of the annual conference. Base expenditures is simply the total of pastors’ salaries and allowances plus church operating expenses (insurance, utilities, etc.) divided by worship attendance. Local church income is measured by total annual expenditures divided by worship attendance. In the primary research from which the formula was derived, it was determined that there are two fundamental differences in churches that should be taken into account: the cost of running a church and the financial strength of the membership.

The ‘i’ factor is calculated through two comparisons: base expenses per attendee, compared to the annual conference average, and total expenditures per attendee, compared to the annual conference average. The ‘i’ factor is increased (decreased) if either 1) base expenses per attendee is below (above) the conference average or 2) the expenditures per attendee is above (below) the annual conference average. If either differ from the conference average, the ‘i’ factor could be positive or negative.

Table 2
Calculations of the “i” Factor

	Base		Total	Base	
Church	Expenses	Income	"i"	Percentage	(p + i)
Somerville	0.005	-0.001	-0.006	0.110	0.104
Christ UMC	-0.007	0.004	0.012	0.110	0.122

Examples will help explain how the ‘i’ factor works. It equals the income adjustment minus the expense adjustment. We start with the base expenses. From Table 2, consider two churches, Somerville and College Station, Christ UMC. In 2016, Somerville had an average worship attendance of 52, a total pastor compensation of \$43,300, and operating expenses of \$30,070. Its base expenses per attendee equal \$1,410—larger than the conference average of \$1,099. College Station, Christ UMC has an average attendance of 1,151, total pastor compensation of \$329,178, and operating expenses of \$430,144. Its base expenses per attendee equal \$660—smaller than the conference average. Somerville’s base expense portion is 0.005. Christ UMC’s base expense portion is -0.007.

The income portion is based upon total expenditures divided by worship attendance. For Somerville, this income ratio equals \$1,965, and Christ UMC’s income ratio equals \$3,041. The conference average equals \$2,191, so Somerville’s income adjustment is -0.001. Christ UMC’s income adjustment is 0.004.

We now combine the two parts. For Somerville, the income portion equals 0.001 and its base expenses portion equals 0.005. Its ‘i’ factor equals -0.006. With the overall base percentage of 0.1100, Somerville’s (P + i) equals 0.104. Christ UMC’s income portion equals 0.004, and its base expenses portion equals -.007. Its ‘i’ factor equals 0.012. Its (P+i) equals 0.122. Each is multiplied by its respective net expenditures to determine its assigned apportionments.³

The key principle of the existing apportionment formula is that apportionments are adjusted for the minimum expenses of running the local church (pastors’ salaries and allowances plus operating expenses) and the “deep pockets” of the congregation—total expenditures per attendee. The measurement of net expenditures is similar in construct to that used in the decimal formula.

The following Table 3 presents the bottom ten churches sorted by their 2016 expenditures per attendee.

³ Recall that net expenditures equals total expenditures minus the deductibles: debt service payments, non-debt finance expenditures on facilities, apportionment payments, benevolence spending beyond apportionment payments, and qualified expenditures for programs and non-clergy staff. Qualifications are based upon expenditures under recognized revitalization programs.

Table 3
Bottom Ten Churches
Expenditures per Attendee

		Expenditures	2016
	Church	Per Attendees	Attendance
1	HOUSTON GRACE (LOCKWOOD DR)	117	15
2	STONEHAM	270	43
3	LIVINGTON ST LUKES	287	16
4	PALESTINE ST PAULS	299	8
5	CORRIGAN MT VERNON	310	21
6	SAINT MATTHEW	339	55
7	PITTSBURG NORTH AVENUE	359	18
8	JEFFERSON CONNERS GOODWILL	362	25
9	THORNDALE FRIENDSHIP	367	18
10	ANDERSON YARBOROUGH CHAPEL	383	53

Table 4
Top Ten Churches
Expenditures per Attendee

		Expenditures	2016
	Church	Per Attendees	Attendance
1	HOUSTON ST LUKES	15,576	2,128
2	JEWETT	7,219	7
3	ORANGE FIRST	7,028	160
4	BEAUMONT FIRST	6,672	169
5	HOUSTON MEMORIAL DRIVE	6,483	1,740
6	HOUSTON CHAPELWOOD	6,448	2,070
7	TRINIDAD	6,309	19
8	HUNTSVILLE FIRST	6,214	413
9	BEN WHEELER BEN WHEELER	6,136	8
10	HOUSTON WEST UNIVERSITY	6,003	302

The churches listed in Table 3 are viewed, in part, as income-constrained—churches that struggle to find discretionary funds for critical needs. Those listed in Table 3 have demonstrated the capacity to secure funds for critical needs. On the basis of these figures alone, the “i” factor adjusts apportionments downward for churches listed in Table 3 and upward for churches listed in Table 4.

Table 5 presents the Top Ten Churches sorted by base expenses (pastor salaries and operations expenses per attendee).

Table 5
Base Expenses per Attendee
Top Ten Churches

		Base Expenses	Pastor	Operations	2016
	Church	Per Attendee	Salaries	Expenses	Attendance
1	HOUSTON GRACE (LOCKWOOD DR)	0	0	0	15
2	LEONA TANYARD	155	2,400	3,497	38
3	SERVANT	188	3,750	0	20
4	HEMPSTEAD HARPER	212	2,844	2,444	25
5	ANDERSON YARBOROUGH CHAPEL	213	8,150	3,163	53
6	JEFFERSON LOGANS CHAPEL	217	3,600	300	18
7	STONEHAM	233	5,400	4,602	43
8	OLD BOSTON OLD BOSTON	233	600	1,965	11
9	SAINT MATTHEW	236	3,000	10,005	55
10	LIVINGTON ST LUKES	245	1,700	2,215	16

These churches listed in Table 5 report relatively small levels of financial support for their pastors. These commonly reflect a church being served by a pastor with multiple charges, a retired pastor seeking little compensation, or a part time local pastor. Table 6 presents the bottom ten churches, sorted by base expenses per attendee.

Table 6
Base Expenses per Attendee
Bottom Ten Churches

		Base Expenses	Pastor	Operations	2016
	Church	Per Attendee	Salaries	Expenses	Attendance
1	JEWETT	6,552	21,137	24,726	7
2	BIG SANDY	3,280	16,800	12,721	9
3	BROWNSBORO	3,125	36,000	20,250	18
4	CHESTER CADE MEMORIAL	2,881	14,400	8,650	8
5	BEAUMONT FIRST KOREAN	2,875	13,000	10,000	8
6	HOUSTON GENOA	2,864	38,959	35,500	26
7	ARP	2,799	40,476	15,504	20
8	TRINIDAD	2,724	26,533	25,215	19
9	CARTHAGE PISGAH	2,663	17,989	5,975	9
10	PORT BOLIVAR BAY VUE	2,559	24,160	111,476	53

Most of the churches listed in Table 6 have relatively high pastor salaries and operations expenses, given the reported levels of worship attendance. It is common for these conditions to have been inherited from better times. For example, the worship attendance for Brownsboro in 2009 was 68, compared to 18 in 2016. The worship attendance for Jewett was 80 in 2003 compared to 7 in 2016. The worship attendance of Houston Genoa in 2000 was 89, compared to 26 in 2016. Although the worship

attendance in 2016 was a small percentage of its level a few years ago, the cost structure did not fully adjust. The church is saddled with relatively large continuing expenses.

The churches listed in Table 5 have the lower base expenses and thus are assigned larger apportionments (all else being equal). Those listed in Table 6 have the larger base expenses and thus receive smaller apportionments (all else being equal). The “i” factor is reduced for those listed in Table 6 and increased for those listed in Table 5.

The overall objective of the formula is to ask more of the churches with the deep pockets (measured by total expenditures per attendee) and smaller base expenses and to ask less of churches with members with lower incomes and with larger base expenses (measured by the sum of pastor salaries and operation expenses divided by attendance). The goal is to best match the size of the apportionment with the churches’ capacities to pay apportionments.

II. History of Changes to the Existing Apportionment Formula

There have been two changes in the current annual conference apportionment formula: 1) Adjustments for local church overpayment of apportionments, and 2) Adjustments for participation in recognized vital congregations programs. The adjustment for overpayment of apportionments was instituted in 2005 in order to encourage districts to collect additional funds from selected churches in their districts in order to cover some or all of the apportionment payment deficits in the district. The adjustment ensures that the churches that paid more than their assigned apportionments will not trigger a corresponding increase in their own apportionments in the future.

The apportionment adjustment for participation in recognized vital congregations programs was implemented in 2016. Churches that spend funds on programs and/or non-clergy staff compensation can submit applications that would allow them to deduct qualified expenditures from net spending calculations. This restricts increases in apportionments among churches investing in growth. After the completion of these programs, the conference benefits from increases in apportionment payments as such growth is realized.

III. Common Qualities Sought in an Apportionment Formula

There are several common qualities of an apportionment formula that annual conferences seek to attain: fairness, efficiency, simplicity and stability. It is not possible to substantially capture them all. For example, the simplest formula might not be efficient. There is no perfect formula, so annual conferences must sacrifice some qualities in order to attain others. Annual conferences must seek the best balance among opposing qualities.

Fairness is a quality of the outcome of an apportionment formula which receives strong emphasis in general discussions but, in practice, it is impossible to achieve. What is considered fair by one can be considered unfair by another. A 2000 report to the General Conference framed the question

of fairness into questions of willingness and ability.⁴ Since there is a general quest to pay apportionments in full, it was deemed unfair to ask a church for funds which exceed its capacity to pay. It likewise considered it unfair for the annual conference to assign a church only what it was willing to pay, when this amount fell below its capacity. This would necessarily shift apportionments to other churches simply because a church was unwilling but capable of paying a larger sum. It should be clear that a formula that lowers an apportionment for a select group of churches necessarily shifts the amount of the reduction to all other churches.

Efficiency considers the intent of an annual conference to maximize its apportionment payout rates. If a formula assigns a level of apportionment less than a church's willingness to pay, there are dollars left in the local church that could have been transferred to the annual conference. If, on the other hand, the apportionment exceeds the church's willingness to pay, the annual conference will receive less than apportioned, and the difference will form part of the annual conference shortfall in apportioned funds. Thus, an efficient formula matches the assigned apportionments to the willingness of churches to pay. As efficiency grows, annual conference receipts approach maximum levels. Efficiency cannot be achieved if churches have the capacity but not the willingness to support the annual conference through apportionments. The most efficient formula lowers apportionments among churches with the lower payout rates.

The capacity of a church in paying apportionments ideally relates to the amount a church is able to pay without underfunding ministries and staff compensation that, if underfunded, would either lead to church decline or would eliminate prospects for church growth. Some churches have a willingness to pay apportionments beyond their capacity, and there are churches unwilling to pay up to their capacity. As will be considered in a later section of this report, it is often the duty of the annual conference to ensure that for some churches apportionments match only their capacity when their willingness exceeds capacity.

Simplicity is sought so that annual conferences can better communicate with local churches regarding changes in their apportionments. Many want to be able to explain to church members why their apportionments increased or decreased. This is difficult with a complicated formula. It is also desirable for the formula to have some meaning that relates to purpose or governing principles. A formula reflecting a tithe relates to the Biblical principle, but this principle might be misapplied.⁵

Stability refers to the extent to which apportionments remain stable from year to year for most churches. Ideally, apportionments would exhibit low volatility when a local church's financial condition and operations are relatively stable over the years. Rapid decreases in a church's apportionments are welcomed when they mirror a rapid deterioration in a church's financial condition. It appears unfair if the financial conditions improve but the apportionments are slow to adjust upward. Churches do not

⁴ *The Connectional Ministry Funding Patterns Task Force, Report to the General Council on Finance and Administration, May 2000, IX. Appendix, Supporting Information and Conclusions.*

⁵ This principle is explained in more detail below.

welcome large, upward swings in apportionments under any condition, especially when their financial conditions have not changed. Volatility is best measured with the coefficient of variation, which is the ratio of the mean to the standard deviation—a statistical measure.

IV. Complications and Challenges

The history of our denomination includes the efforts among the annual conferences to implement the best possible apportionment formulae. This history demonstrates continual adjustments in existing formulae as well as occasional replacements. There is no perfect formula. It is useful to consider some of the more common challenges annual conferences have faced in their quests for improvement. The following discusses some of the more difficult challenges.

A. Alignment of Interests

The annual conference has an interest in collecting sufficient funds that meet its budgetary needs for the current fiscal year. It also has an interest in maintaining and strengthening the financial condition of the local churches in order to meet future budgetary needs and missional objectives. Since apportionments collect funds from the local church, many apportionment formulae include features that seek to align the interests of the annual conference and the local church. Some of the more concerning complications include unintended disincentives to pay apportionments and to expend funds in support of benevolences and investments in church growth.

Many local churches look upon the apportionment as a necessary tax upon their operations—a tax that collects the required funds to support the annual conference and the larger connection. This view leads the local church to continually examine ways to reduce the “tax burden.” Some apportionment formulae provide no exemption or deduction for the funds used for the payment of apportionments. Due to the usual lag between the assignment of apportionments and the records used to determine the assignment, a church that raises funds for the single purpose of paying apportionments can find that the effort leads to higher apportionments in the future. That is, the effort to pay apportionments in full leads to even higher apportionments the next round. Thus, there is a disincentive, under these conditions, to pay apportionments in full. Deducting apportionment payments from the calculations for future apportionments eliminates this perverse incentive.

The deductibles in many formulae are used to encourage local churches to fund missions and philanthropic causes beyond the local church. These expenditures often reflect the churches’ support in important community projects. They are often combined with the support from other churches in the community. They can highlight the importance of the church in the community.

Many formulae include as deductions expenditures for “brick and mortar,” thereby encouraging churches to improve and expand facilities. Studies indicate that such improvements encourage church growth. Exclusions of such spending imposed the “tax” upon the funds collected through capital campaigns, potentially limiting the size of the intended investment in facilities. In instances involving a

church loan, the absence of a deduction can impose “double taxation”---a tax on the proceeds from the loan and a tax on the funds used to pay back the loan.

In the interest of encouraging church growth, studies also prove that investments in programs and non-clergy staff positively affect growth. Rarely are these types of expenditures deductible, but under the appropriate conditions, these expenditures are deductible under the current apportionment formula. This feature is new, having been approved during the 2016 annual conference.

The most destructive complication is one that is caused by an annual conference that over-apportions churches in order to cover the expected spending deficit. In some annual conferences that have implemented this practice, many churches became aware of significant over-apportionments. Under these conditions, some churches refuse to pay the apportionments of other, unwilling churches. Instead, they pay that portion of assigned apportionments that do not include any over-apportionment. Once this process begins, it is difficult to reinstitute the apportionment covenant—churches are expected to pay their fair share of conference funding needs.

B. Stability

Several annual conferences address the problems with stability of apportionments by averaging apportionment assignments across several years, seeking to smooth the transitions toward higher apportionments or lower apportionments. The expected consequence of this averaging is a lower payout rate. Consider the church facing a higher apportionment. The reason for the higher apportionment is improved conditions—perhaps a larger operating budget in response to improved giving. With averaging, the annual conference does not increase the apportionments for a considerable time after the experience of improved giving. Consider a church that experiences improved giving and a larger operating budget in 2015. The annual conference receives these improved reports by May 2016 when the 2018 annual conference budget is adopted. The church begins to receive the increased apportionments in January 2018—over two years after the experience of improved giving and expenditures. For most churches, the improved conditions last several years, and they are well prepared for the 2-year delayed increase in apportionments. Averaging across multiple years delays the increased apportionments for years beyond the 2-year lag.

Consider the church with deteriorating conditions that begin in 2015. The church does not receive the relief until 2018 under a formula without averaging. With averaging, the relief is delayed even longer. The churches facing these deteriorating conditions will not get apportionment relief soon enough and will be greatly challenged to pay its assigned apportionments until the full apportionment adjustment has been implemented. With averaging, this adjustment could take six or seven years to be fully implemented.

C. Budgeting

An additional complication is the management of the size of the annual conference apportioned budget. Most annual conferences appropriately take into account the payout rate on apportionments in determining the size of the apportioned budget. If the payout rate is improving, the annual conference may be more aggressive in increasing the size of the apportioned budget. If the payout rate is decreasing, the annual conference would use this indicator to limit increases or impose a decrease in the apportioned budget. As will be noted below, some income-based apportionment formulae make it difficult, if not impossible, to measure the payout rate. Thus, the management of the size of the apportioned budget cannot incorporate trends in the payout rate in the management of the size of the apportioned budget.

D. The Apportionment Covenant

The annual conference consistently seeks improvements in the apportionment payout rate. It encourages local churches to strengthen its covenant with the annual conference in meeting its financial obligations by paying its fair share of conference expenses. Annual conferences often celebrate when there is a growing number of churches that paid 100% of its apportionments. It encourages local church leaders to consider the full payment of apportionments as a high priority. Yet, if the apportionment formula is not well designed to encourage local church growth, the full payment of apportionments can be destructive to the annual conference.

There are churches that hold the 100% payout of apportionments among the highest priorities. Many churches maintain a relatively long history of 100% payouts. The annual conference benefit from these churches is a consistent payment of apportionments, somewhat independent of the amount assigned. These churches provide long term stability to the support of the annual conference budget if they represent a relatively large percentage of the apportioned budget. However, some of these churches pay apportionments out of funds better spent on programs, non-clergy staff, or building improvements. It is the annual conference that must seek an apportionment formula that does not injure churches' attempts to grow in the interest of increasing payout rates or increasing the number of churches paying 100% of apportionments. There are churches that pay 100% of apportionments for years but neglect its facilities and programs, ultimately resulting in church closure. It is the responsibility of the annual conference not to over-apportion churches that hold a 100% payout history as its primary goal but neglect critical investments in assuring a productive future.

Some examples are useful to consider. Between 2001 and 2003, the Texas Annual Conference closed fourteen churches. During this time, the apportionments were assigned using the old decimal formula, with the exception of 2003 when the new expenditure formula apportioned one-third of the apportionments and the decimal formula apportioned two thirds. Among the fourteen churches that closed, four tell a useful story.

Table 7 presents the end-of-year records for two of these churches: Bryan Chilton and Lodi.

Table 7
Histories of Bryan Chilton and Lodi

Year	Bryan Chilton					Lodi				
	Payout	Attend	Total Exp	Apportion	Programs	Payout	Attend	Total Exp	Apportion	Programs
1985	100.11%	11	3,391	881	104	88.16%	12	2,259	402	325
1986	108.97%	12	6,679	680	127	88.44%	8	2,045	390	0
1987	100.00%	12	3,865	509	148	100.00%	10	2,336	465	0
1988	107.56%	12	3,782	612	114	107.44%	11	2,375	520	0
1989	100.00%	8	2,807	539	0	100.00%	10	2,420	483	0
1990	100.00%	6	4,505	525	85	100.00%	12	2,684	476	0
1991	107.13%	12	5,147	466	139	111.34%	10	2,517	540	0
1992	106.01%	14	4,138	600	129	110.37%	13	2,567	649	0
1993	105.95%	13	8,246	534	103	106.00%	10	2,636	601	0
1994	105.93%	8	4,130	572	0	105.87%	11	2,299	613	0
1995	103.09%	8	4,251	568	0	102.99%	9	2,449	620	0
1996	100.00%	0	6,155	573	0	100.00%	8	2,285	573	0
1997	100.00%	10	3,370	649	0	100.00%	9	2,735	593	0
1998	100.00%	0	3,505	602	0	100.00%	8	2,404	586	0
1999	100.00%	12	3,522	529	0	100.00%	7	2,436	618	0
2000	100.00%	6	3,680	564	0	100.00%	3	2,522	620	0
2001	100.00%	7	3,649	522	0	100.00%	0	1,556	560	0

The records of these two churches demonstrate the common priority of paying 100% in apportionments. For Bryan Chilton apportionment payments remained relatively constant, ranging between \$466 and \$881, averaging \$584. Apportionment payments averaged 14.35% of total expenditures over the reported years. Program expenditures were abandoned in 1994, two years after the peak attendance of 14. Apportionments were paid in full every year. Perhaps the story here is the consistent payment of apportionments but the abandonment of programs.

Lodi has an interesting history of full payment of apportionments except for 1985 and 1986. Attendance peaked in 1992 with 13 attendees. It appears that Lodi abandoned programs in 1986. Lodi did not try to reverse its decline through investments in programs but dutifully paid apportionments in full.

Table 8 presents the histories of Asbury in the Beaumont District and Mt. Hope of Henderson.

**Table 8
Histories of Asbury and Mt. Hope**

Year	Asbury (BMT)					Henderson, Mt. Hope				
	Payout	Attend	Total Exp	Apportion	Programs	Payout	Attend	Total Exp	Apportion	Programs
1985	97.54%	45	29,892	4,800	5,120	99.60%	11	7,115	1,494	282
1986	91.37%	34	29,139	3,885	16,689	109.00%	10	8,107	1,151	249
1987	76.85%	31	25,987	3,329	3,241	100.00%	11	7,940	1,042	302
1988	86.88%	28	24,833	4,046	2,908	107.47%	13	7,971	1,281	0
1989	70.96%	27	24,910	3,074	2,855	100.00%	13	8,113	1,192	0
1990	72.60%	30	25,325	3,018	2,956	99.07%	13	8,021	1,060	0
1991	75.24%	28	27,877	3,032	3,098	107.23%	13	7,696	1,127	120
1992	76.42%	29	33,949	3,361	3,073	106.09%	15	7,676	1,184	120
1993	73.23%	23	23,639	2,219	2,836	106.08%	14	7,695	1,100	120
1994	105.94%	21	24,372	3,638	3,254	105.98%	14	7,579	1,116	120
1995	103.04%	19	22,910	3,393	2,820	103.03%	16	11,135	1,054	362
1996	100.00%	20	21,668	3,068	1,836	100.00%	19	7,721	939	1,110
1997	100.00%	21	23,910	3,078	2,029	100.21%	19	7,726	938	335
1998	100.00%	20	25,925	2,891	2,595	100.00%	16	7,709	1,018	381
1999	100.00%	18	21,042	3,102	794	100.66%	14	7,616	919	381
2000	100.00%	18	21,056	2,921	780	100.00%	15	8,288	902	565
2001	100.00%	16	17,703	2,476	854	100.00%	10	8,409	980	565
2002	100.00%	16	16,995	2,636	780	100.00%	5	6,810	1,213	0
2003	100.00%	0	2,444	2,230	0	100.00%	5	5,840	1,082	0

From Table 8 Asbury also demonstrates a high priority of paying apportionments in full, beginning in 1996. One can separate the years into two periods: 1985-1993 and 1994-2003. During the second period, average worship attendance was down 45%, total expenditures were down 27%, apportionments were down 14%, and program expenditures were down 67%. It is notable that paying apportionments in full was one of its final expenditures. It is not known what the continuation of program expenditures at the \$2,000 plus levels would have accomplished, but it is possible that lower apportionments would have kept this church in full operation.

Mt. Hope reached its peak in worship attendance in 1996 with attendance of 19. Paying apportionments in full was a high priority. Its final two years are interesting in that apportionments increased by 24% in 2002 and the church terminated its program expenditures. The church continued to pay its apportionments in full. The apportionment formula did not offer any relief or encouragement in expanding program expenditures for the purpose of growth. Again, there is no assurance that investments in growth would have altered the destiny of this church, but it is another example of a church holding apportionment payout as a high priority and allowing expenditures known to enhance growth to deteriorate.

Perhaps the lesson from these church closures is about the reliance upon the apportionment covenant with its emphasis upon paying apportionments in full while failing to consider the necessities of churches to continually invest in growth. As will be discussed in a later section of this report, the ratio

of apportionments assigned to total expenditures is an important measure of the apportionment burden upon local church expenditures. These ratios among the churches that closed will be revisited.

There are no present means by which an annual conference can determine the capacity of a local church to pay apportionments. There is no way in which one can know that a lower apportionment assigned to a church would result in the employment of a youth director that would be instrumental in growth. There is no way that one can know that a higher apportionment would result in the elimination of a key program that is responsible for most first-time visitors. The recent modification of the existing formula that allows a church to deduct expenditures from funds raised within a recognized church revitalization program is one attempt to address this deficiency.

V. Considerations of Alternative Formulae: The Income-based Formulae

In 2005, the General Council on Finance and Administration altered its local church reporting forms to include amounts of income received in the local church. The categories of income include:

1. Receipts in support of the local church operating budget (pledges, gifts from unidentified individuals, interest from reserves, etc.)
2. Receipts from capital campaigns, memorials, bequests, etc.
3. Grants and other forms of support from the annual conference

This new reporting requirement enabled annual conferences and the General Church to consider income based apportionment formulae—apportionments based upon the income the local church receives rather than membership, attendance, or expenditures.

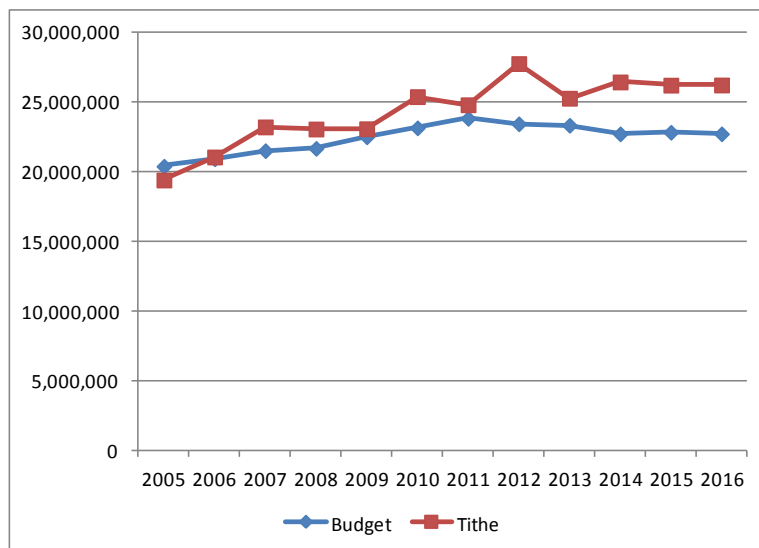
The specific income based formula most often considered is the 10% tithe. The 10% tithe is Biblically based and describes the expectations of individuals in their support of the church. Most consider the tithe as a focus upon the individual rather than the funding of the ministries of a local church. It is a measure of the sharing of one's gifts rather than a prescription of the level of funding required for church operations. When the 10% tithe is applied to a local church, it confuses the quest for the appropriate balance between the most effective place for ministries and administration. Apportionments to the local church govern the division of funds to be spent at the local church level versus the multiple levels of the connection (annual conference, jurisdictional conference, and General Church). It seems that this division is best determined by an examination of where the funds are most effectively deployed. If missions are best administered by the local church, these funds should largely remain in the local church. If the administration for pensions and health benefits are best administered by the annual conference, these funds should be transferred to the annual conference. The determination of where in the connection funds are most efficiently spent does not necessarily follow the 10% rule. The tithe addresses the responsibilities of the individual to the church. The division of funds between the local church and the annual conference might best be governed by the relative efficiencies of the levels of organizations and the tasks assigned.

This confusion is demonstrated by the separation of functions across the annual conferences and their respective churches. As will be noted below, some annual conferences are configured to require a higher percentage of local church income (as much as 16%) and other annual conferences are configured to require a lower percentage (as little as 8%). There is no known tendency for the most efficient allocation of funds to be at the 10% level.

The common alternative to the tithe is the establishment of a percentage that best matches the annual conference’s balance between the needs for funds in the local church and the needs for funds in the annual conference. This alternative sets the percentage at any appropriate level, currently ranging from 8% to 16%. This alternative departs from the notion of the tithe but underscores the benefits of simplicity. A fixed percentage to be applied to the appropriate income measure is quite simple in theory and in practice.

The calculations under the income based formula are straightforward. As a test of the 10% rule for the Texas Annual Conference, one can merely compare the total amount apportioned under the 10% rule with the actual amount apportioned over the years. Figure 1 presents these comparisons.

Figure 1
Nominal Apportioned Budget and Ten Percent of Giving to Local Church Operating Budgets



Over most years, the Texas Annual Conference required less than the apportionments calculated under the 10% rule for most years. However, instead of apportioning most of the conference expenses for pensions and health benefits, local churches make direct payments to the annual conference through local church bank drafts. Additionally, the districts apportion their churches in support of their ministries. Table 9 presents these additional collections from the local churches and pastors from the conference and the districts.

Table 9
Collections from Local Churches
Direct Payments and Apportionments

	2016
Conference Apportionments	22,753,159
Direct Payments: Health	7,197,152
Direct Payments: Pensions	5,905,971
District Apportionments	2,102,338
Total	37,958,620

The total funds received from the local churches by the annual conference and the districts for 2016 equal \$37,958,620. The total represents 14.46% of total local church receipts in support of their operating budgets in 2016. The 2016 total as a percent of 2014 total local church receipts equals 14.34%. If all of these collections were received through annual conference apportionments, the 10% rule would be insufficient. If these payments were collected through apportionments, the apportionments would exceed the 10% rule by almost \$12 million. Thus, it is possible to apportion most of these funds under a 10% rule and rely upon direct billings and district apportionments to collect the remainder.

Historically, the annual conference adopts a budget and the CF&A configures the apportionment formula to match the adopted budget. If, instead, the percentage used in an income based formula remains fixed, the annual conference budget must be adjusted in response. The annual conference budget would be governed by the level of giving among local churches to their respective operating budgets and the fixed percentage. This, however, challenges the notion of spending efficiencies at the annual conference and the larger connectional levels versus the local church level.

VI. District Apportionments

In the Texas Annual Conference, the districts collect their funds for operations through their own apportionments to local churches.⁶ Among the nine districts in the Texas Annual Conference, eight districts apportion their local churches using the annual conference apportionment formula.⁷ The

⁶ The annual conference funds the salaries, benefits, and limited expenses of the district superintendents. All other district expenses must be funded by the districts.

⁷ These eight districts annually request the conference office to calculate apportionment decimals for each church. Decimals equal each church's annual conference apportionment divided by the total annual conference apportionments assigned to the district churches. A church's decimal is then multiplied by the district apportioned budget to calculate the church's district apportionment.

Central South District relies upon apportionments assigned through a previous district formula for each year's apportionments.⁸

Table 9 presents the total apportionments assigned to the local churches from the annual conference and from the districts. Table 10 below presents the district apportioned budgets and the annual conference apportionments for each of the nine districts. The final column presents the relative sizes if the district apportionments—district apportionments as a percentage of total annual conference apportionments assigned to the district churches.

Table 10
District Apportionments
2016

	District	Conference	
Districts	Appt	Appt	Percent
Central North	160,579	4,965,457	3.23%
Central South	333,789	4,279,076	7.80%
East	199,207	1,056,652	18.85%
North	322,180	1,337,363	24.09%
Northwest	176,926	1,704,241	10.38%
South	274,247	3,656,916	7.50%
Southeast	306,850	1,176,032	26.09%
Southwest	148,000	3,320,447	4.46%
West	180,560	1,256,977	14.36%
Total	2,102,338	22,753,161	9.24%

In 2016, the districts added 9.24% in district apportionments (\$2,102,338) to the annual conference apportionment (\$22,753,161). The relative sizes of the district apportionments differ considerably among the districts. District apportionments in the Central North district add only 3.23% to the annual conference apportionments, but district apportionments in the Southeast District add 26.09% to the annual conference apportionments.

The differences in the relative sizes of the district apportionments indicates that a change in the annual conference apportionment formula, given the dependence of eight of the districts upon this formula, has a larger effect on some district churches than on others. For Central North District churches, a change in the annual conference formula has less of an effect on district churches than for district churches in the Southeast District.

⁸ The Central South District churches' apportionments are fixed across the years until the district apportionment budget is changed. Each church's apportionment is adjusted by the same percentage as the percentage change in the district apportioned budget.

VI. The Simple Income Based Formula versus the Current Formula: Comparisons

A. Predicted Shifts to Apportionments Among the Churches

The income based formula used for this comparison uses a percentage that yields the same total amount to be apportioned as was used in the calculations of the 2018 apportionments under the present formula. The tables that include the church-level apportionment comparisons are attached as Appendix A to this report. However, it is the analysis of the results that is of primary interest.

Any change in an apportionment formula alters the distribution of assigned apportionments and can yield an increase in collections or a decrease in collections. It is virtually impossible for a different formula to yield no change in collections. There are four critical groups of churches with which one can assess the impact of the change in a formula:

1. Churches that paid 100% of its apportionments and will receive an apportionment increase.
2. Churches that paid less than 100% of its apportionments and will receive an apportionment increase.
3. Churches that paid 100% of its apportionments and will receive an apportionment decrease.
4. Churches that paid less than 100% of its apportionments and will receive an apportionment decrease.

I will refer to these by group number. Group 1 includes churches that paid 100% in apportionments but with smaller, previous apportionments. Some of these churches will pay less than 100% with the larger apportionments. Thus, this group will contribute to a reduced payout rate.

Group 2 includes churches that did not pay 100% with the smaller apportionments and will receive an increase in apportionments. It is possible that none of these churches will increase their payments and will necessarily report lower payout rates. Group 2 is a key collection of churches to consider because these churches are poorly positioned to handle an increase in apportionments. Group 1 is best positioned.

Group 3 includes churches that paid 100% with the larger apportionments assigned and will receive reduced apportionments. These churches are expected to pay 100% in apportionments with the reduced apportionments. As a group, there will be a decrease in apportionments paid due to the decrease in apportionments assigned. From an efficiency standpoint, these are the churches for which an annual conference would not want to decrease apportionments.

Group 4 includes churches that paid less than 100% payout and will receive a decrease in apportionments. These churches will likely improve their payout rates with the reduced apportionments. This group will contribute to an improved payout rate.

Any change in apportionments that shifts apportionments from Group 3 to Group 2 will contribute to a reduced payout rate. This shift represents a redistribution of apportionments from the 100% payout churches to those with less than 100% payouts. Shifts from Group 4 to Group 1 will

moderate this negative adjustment and could potentially improve the overall payout rate. The result cannot be known in advance. However, with a larger the shift from Group 1 to Group 4 it is more likely that the annual conference will suffer from a reduced payout rate.

Table 11 presents the reallocations across the four groups with a total apportionment of \$23,095,869.

Table 11
Changes in Apportionments
Current to an Income-based Apportionment Formula

	Number of Churches	Apportionment Change	Portions
Group 1	285	805,580	61.82%
Group 2	35	497,446	38.18%
Group 3	271	-1,083,616	79.74%
Group 4	49	-275,288	20.26%

The income based formula will reassign \$1,083,616 from Group 3 — churches with a history of 100% payout rates. One would expect 61.38% of these dollars to be transferred to the churches with a past history of paying 100%--Group 1. Only 38.18% would be expected to be shifted to churches with a less than 100% payout rate—Group 2. A much smaller decrease (\$275,288) will be shifted to Groups 1 and 2—Group 1 getting the larger share. Again, the net result of these shifts upon the overall payout rate is unknown.

Changes occurred when the decimal formula was replaced by the current, expenditure-based formula. Table 12 presents these transitions that took place between 2002 and 2005.

Table 12
Changes in Apportionments
Decimal Formula to the Current, Expenditure-based Formula

	Number of Churches	Apportionment Change	Portions
Group 1	402	1,177,453	82.01%
Group 2	60	258,288	17.99%
Group 3	193	-1,174,897	80.99%
Group 4	55	-275,859	19.01%

Compared to the predicted changes with the transition to an income-based formula, the transition from the decimal formula to the current formula entailed a larger transfer of apportionments of similar size from Group 3 to Groups 1 and 2. Group 1, the best positioned to receive increases, received 82.01% of the increase compared to 61.82% of the increase in Table 11. The shift from Group 4 to Groups 1 and 2

in Table 11 are about equal to the shift from Group 4 in Table 12. Overall, the shift in apportionments from the decimal formula to the expenditure based formula had an impact on payout rates more favorable than what one would expect in a transition from the expenditure based formula to the income based formula because of the differences in portions in Groups 1 and 2 in Tables 11 and 12.

The payout rates from 2001 to 2005 did not deteriorate. The transition from one formula to another was scheduled to take four years. This better enabled the churches most affected to adjust their budgets to accommodate the changes. Perhaps the lesson from the earlier change in the apportionment formula is that churches adjust well to a change if given sufficient time.

It is of some interest to examine the churches in the Texas Annual Conference that fall into the four groups. Appendix A includes these churches with the exception of those churches that did not report sufficient information from which apportionments could be calculated with the income based formula.

B. Stability

The local church and the annual conference usually prefer stability in the apportionments assigned to a typical church across the years. From a statistical perspective, this means low levels of volatility. There are two drivers of volatility in a local church’s apportionments across multiple years—the church’s relative share of the total to be apportioned and the total amount apportioned. To examine the former, one must account for changes in the latter.

Table 13 presents the measured volatility of apportionments assigned to local churches between 2008 and 2016 under the present formula and an income-based formula with the 8.8% rate applied to income, adjusted for differences in the total amount apportioned.

Table 13
Annual Percentage Changes in Year-to-Year Apportionments
2008 to 2016

	1st	10th	25th	75th	90th	99th
Income Based Formula	-77.45%	-31.25%	-7.51%	9.02%	25.23%	296.00%
Current Formula	-45.97%	-16.02%	-7.75%	5.01%	16.06%	76.49%

For the figures presented in Table 13, year-to-year percentage changes in apportionments were calculated for each church under each apportionment formula. For First United Methodist Church in Madisonville, eight year-to-year percentage changes in apportionments were calculated for the nine years between 2008 and 2016. An average percentage change was then calculated for Madisonville First—representing the average of all eight figures. This was done for every church under both formulae. These averages were then adjusted for the average percentage change in total apportionments. These adjusted average percentage change tells one the extent of apportionment

variations experience under the existing formula and the extent of variation that the church would have experienced under the income based formula. For most churches, the average percentage changes were quite small. However, this is not the case for the other churches, and how many churches actually experienced or would have experienced relatively large percentage changes is of concern.

For each apportionment formula, there were 645 churches listed with their respective average, adjusted percentage changes. They were then sorted by size of percentage change. The figures in Table 8 are spread over differing points in the sorted percentage changes among all 654 churches. For example, the 10th percentile figures indicate the percentage change in the sorted list of churches that separates 10% of the churches with percentage decreases larger than the recorded percentage and 90% of the churches with percentage decreases smaller than the recorded percentage and churches with increases in the apportionments. The 10th percentile figure tells us the average percentage change that separates 10% of the churches with larger negative percentage changes and 90% of the churches with average percentage changes with either smaller negative percentage changes or positive percentage changes than the separating average percentage change. Under the income based formula, ten percent of the churches would have decreases in apportionments larger than -31.25% and 90% of the churches would have smaller decreases or actual increases in apportionments compared to the -31.25%.

In Table 13, for the income based formula, the 25th percentile is -7.51% for the income based formula and is -7.75% for the current formula. Both are virtually equal which means that on average, 25% of the churches (numbering 164) would have been assigned an apportionment that is at least 7.71% lower than the previous year for the income based formula and at least 7.75% lower for the current formula. The difference is negligible. However, the similarities stop there.

At the 75th percentile, the differences between the two formulae become apparent. For the income based formula, the average increase that separates the bottom 75% and the top 25% is 9.02% under the income based formula and only 5.01% for the current formula. At the 90th percentile the differences between the two formulae are greater. Under the income based formula, the average percentage change that separates the bottom 90% and the top 10% is 25.23% and is 16.06% under the current formula. This indicates that if there is concern for churches that experience on average at least 25% per year increases in apportionments, there are more of those churches under the income based formula than under the current formula.

In short, the volatility of year-to-year apportionments is substantially greater under the income based formula than under the current formula. The reason for this difference is the volatility in local church income from year to year compared to the volatility of net expenditures from year to year. Table 14 presents the mean and standard deviations of church income and net expenditures between 2005 and 2016.

Table 14
Mean and Standard Deviations
Income and Net Expenditures
2005 - 2016

	Mean	SD	CV
Income	386,836	1,175,716	25.64%
Net Exp	251,857	694,940	19.59%

From Table 14, the average coefficient of variation of annual income among churches across the years equals 25.64%. The average coefficient of variation of net expenditures among churches across the years equals 19.59%. The incomes of churches across the years vary 31% more than do their net expenditures across the years.⁹ The apportionments assigned under an income based apportionment formula should vary more across the years than would apportionments assigned based upon the current apportionment formula.

Churches can experience a single year drop in income if the stewardship campaign was not conducted well. Yet, for that year, the church will reduce expenditures but not nearly as much as the reduction in income because it can pull from reserves or make use of its line of credit. The church understands that temporary nature of the income decrease and knows how to correct it. It will not release staff or discontinue a ministry in the face of a temporary decline in income—particularly if the cause is known to be temporary.

C. Fairness

In the interest of balancing the needs for funds in the local church and the needs for funds in the annual conference and the connection, it is useful to measure the distribution of the apportionment burden across the churches under the two alternative formulae. This exercise was used in the consideration of the current formula replacing the decimal formula.

In 2001, the CF&A calculated, for each local church, the ratio of the decimal based apportionments to total expenditures as a measure of the burden of apportionment on the local church. At that time, there were several extreme examples. Mt. Zion in the old Palestine District was assigned an apportionment representing 41.9% of its total expenditures. The percentage for Galveston Moody Memorial was only 2.3%. Five percent of the churches had ratios in excess to 20%.

To compare the burdens of apportionments between the two formulae, it is useful to construct under each formula for every church the ratio of assigned apportionments to the church’s total expenditures, similar to the comparisons made in 2001. Table 12 presents these ratios under both formulae—the first ratio (“Expenditure”) representing the 2018 apportionments to 2016 total expenditures under the existing, expenditure based formula and the second ratio (“Income”)

⁹ The 31% represents the ratio of 25.64% to 19.59%.

representing the 2018 apportionments under the income based formula to the same 2016 total expenditures. For Houston Casa De Alabanza, the ratio of apportionments to total expenditures under the existing, expenditure based formula equals 7.3%. Under the income based formula, the ratio equals 84.4%. The percentage applied to income is scaled so that the totals apportioned under the two formulae are equal. Table 15 presents the churches with the top forty income based percentages.

Table 15
Apportionment Assignment Ratios
Apportionments To Total Expenditures
Current Formula and Income-based Formula
Top Forty Income-based Ratios

	Church	Expenditure Formula	Income Formula	2016 Attendance
1	HOUSTON CASA DE ALABANZA	7.3%	84.8%	63
2	HOUSTON GRACE (LOCKWOOD DR)	2.2%	83.1%	15
3	LUFKIN RYAN CHAPEL	9.1%	26.0%	21
4	SAN AUGUSTINE MCMAHAN CHAPEL	7.9%	22.0%	18
5	DIALVILLE	9.5%	21.3%	15
6	RUSK ADAMS CHAPEL	8.9%	18.3%	19
7	PALESTINE ST PAULS	9.2%	18.3%	8
8	MARSHALL MALLALIEU	9.6%	17.1%	15
9	FLINT	9.1%	17.0%	6
10	NEW BOSTON RED BAYOU	6.5%	16.6%	39
11	PALESTINE UNION	9.7%	16.3%	12
12	THORNDALE FRIENDSHIP	9.8%	16.2%	18
14	EUSTACE	7.6%	15.7%	5
15	HENDERSON ST PAULS	7.5%	15.6%	29
16	ANDERSON YARBOROUGH CHAPEL	9.8%	15.6%	53
17	PALESTINE FIELDS CHAPEL	9.7%	15.6%	25
18	QUITMAN LIBERTY	7.2%	15.2%	73
19	SAN FELIPE SAN FELIPE	8.9%	15.2%	20
20	BRYAN LEE CHAPEL	8.2%	14.4%	75
21	PAIGE	9.3%	14.1%	22
22	STONEHAM	9.9%	13.1%	43
23	MISSOURI CITY COVENANT GLEN	9.9%	12.9%	1,006
24	DAISETTA DEVERS	8.0%	12.7%	7
25	WOODS	8.2%	12.5%	6
26	HENDERSON PINE HILL	8.5%	12.4%	16
27	DOBBIN PLEASANT GROVE	9.5%	12.4%	13
28	SERVANT	9.2%	12.1%	20
29	LOVELADY ALEXANDER	9.4%	12.0%	11
30	BROWNSBORO NEW HOPE	9.5%	11.9%	19
31	BAYTOWN ST JOHNS	8.4%	11.8%	48
32	HUGHES SPRINGS HARRIS CHAPEL	9.3%	11.7%	12
33	LANEVILLE	8.8%	11.6%	14
34	GARRISON CONCORD	7.9%	11.6%	4
35	HENDERSON GOODSPRINGS	8.4%	11.6%	22
36	FLYNN	8.8%	11.6%	30
38	BECKVILLE ROCK HILL	8.6%	11.2%	9
39	HAWKINS CENTER	9.3%	11.0%	17
40	SUGAR LAND PARKWAY	8.3%	11.0%	392

The current, expenditure based apportionment formula ratios range from 2.2% to 10.3%. The income-based apportionment formula ratios range from 0.2% to 84.8%. Less than 1% (or five) of the churches were assigned an income-based apportionment formula ratio greater than 20%, compared to five percent in 2001 under the decimal formula. There were only three churches with income-based apportionment formula ratios less than 2.2%--the minimum ratio under the current formula. There were 44 churches that were assigned income-based apportionment formula ratios greater than 10.3%--the maximum current ratio. In short, the income based ratios have more churches in the extreme upper ranges and the extreme lower ranges, but these are very few in number.

It is useful to turn back to the fourteen churches that closed between 2001 and 2003. Table 16 presents the names of these churches, their average ratio of apportionments to total expenditures, and their average apportionment payout rates between 1985 and closure, as applicable.

Table 16
Closed Churches, Apportionment Burdens, and Payout Rates
2001-2003

Church	Closure	Ratio	Payout
Longview, Sunny Grove	04/08/2001	18.64%	94.49%
Saratoga (BMT)	08/28/2001	14.77%	87.20%
Lodi	09/01/2001	22.96%	101.21%
Bryan Chilton	01/01/2002	14.06%	102.63%
Bryan, Zion Hill	01/01/2002	14.74%	101.69%
Nome	03/28/2002	10.72%	94.52%
Bloomburg (TEX)	10/06/2002	14.22%	102.51%
Aldersgate (HNN)	01/05/2003	13.23%	80.54%
St. Vincent UMC of Silbee (BMT)	03/02/2003	11.98%	79.33%
Henderson, Mt. Hope	03/03/2003	13.60%	102.34%
Sacul	05/15/2003	19.36%	87.88%
Asbury (BMT)	06/01/2003	14.74%	91.06%
Veterans UMC (HWN)	06/01/2003	11.68%	2.43%
Houston, Central Park	12/31/2003	11.06%	46.03%
Average		14.70%	83.85%

The average ratio among the fourteen churches equals 14.7%. The average payout rate equals 83.85% but includes five churches that averaged over 100% payout rate between 1985 and closure. It includes three churches with an average payout rate of more than 90%. It is likely that the annual conference celebrated the five churches for paying 100% of their apportionments for every year. It remains an unanswered question whether these churches would have made the investments in growth and secured stronger conditions if the apportionments were lower through an effort to encourage such investments.

VII. Reported Experiences with Income Based Apportionment Formulae

There are several annual conferences that utilize income-based formulae currently. Efforts were made to interview the treasurers of these annual conferences and a few responded to these requests: Great Plains, Kentucky, Dakotas, and Indiana. Summaries of these interviews are presented below.

A. Great Plains Annual Conference

The Great Plains Annual Conference was formed by the merger of East Kansas, West Kansas, and Nebraska. East Kansas and West Kansas implemented an income based apportionment formula several years before the merger. Great Plains inherited the formula from these two annual conferences.

The formula is simple and based upon the 10% tithe. Each church is apportioned 10% of the total reported in Section 1 of the end-of-year report. This section includes the following categories of income:

- Gifts from identified givers
- Gifts from unidentified givers
- Gifts in support of personal pledges
- Interest from financial holdings
- Fees collected from use of facilities, etc.
- Income from the sale of assets
- Income from fundraising efforts in support of the operating budget

These categories of income to the local church are understood to collectively capture total funds received in support of the local church operating budget.

The total apportionments assigned to the local churches necessarily equal the sum of funds in this section times 10% across all annual conference churches. In practice, total apportionments assigned exclude a small number of churches that fail to report income—perhaps only two. The annual conference budget is based upon ten percent of the total income reported on the end-of-year reports. The 10% percentage is fixed and governs the size of the annual conference budgets.

Because the income figures come from the end-of-year reports, there is the usual 2-year time delay between the receipt of the funds and the records from which the apportionments are calculated. For example, the 2018 budget is based upon the 2016 end-of-year reports. A church is expected to pay 2018 apportionments from 2018 receipts but the amount of apportionments is based upon 2016 receipts.

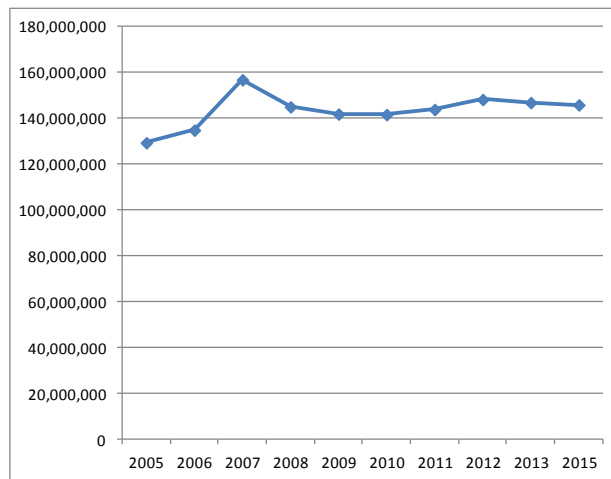
A portion of the budget (Mission Support) is not apportioned but is funded through a type of “second-mile” giving. It is akin to the Fair Share Goals in the Texas Annual Conference. The Great Plains Annual Conference is seeking to improve the payout rates for the main budget—targeting a 90% payout

rate. Great Plains has a significant financial reserve from which some of the interest from this pool is used to supplement the annual budget. For 2018, the annual conference budget was set at \$15.4 million, and the supplement from interest on the reserve pool totals \$1.8 million—almost 12% of the total budget.

There is an incentive among some churches to collect funds in support of the local church budget that circumvents the reporting of operating budget-supporting receipts at the end of the year. A financial gift dedicated to (say) the youth program could be view to be outside the boundaries of the operating budget. Great Plains has experienced some underreporting when comparing receipts recorded in the end-of-year reports and local church expenditures. These rare instances are reported to the District Superintendent for further advisement.

The income potential for Great Plains is, of course, dependent upon the giving to the operating budgets among the local churches. Figure 1 presents the record of giving to the operating budget from the end-of-year reports.

Figure 2
Annual Giving to the Operating Budget
Great Plains Annual Conference



As demonstrated, the total giving has remained reasonably stable since 2008, so the apportionment (10% of the total) also has remained stable.

B. Kentucky Annual Conference

The Kentucky Annual Conference implemented an income-based apportionment formula as early as 2008. It is a real-time program in that each local church is billed monthly on the basis of monthly gifts to the operating budget but with certain deductions such as improvements to buildings and facilities that are not financed through an on-going capital campaign. A percentage is applied to the monthly net receipts that govern the apportionment payment. This percentage is established by CF&A

each year, based upon expected receipts and the adopted annual conference budget. In the early years of the program the percentage was 16%. For 2017, the percentage is 11%.

There is a difficulty in determining the apportionment payout rate since some churches do not return the monthly form but merely return a check. Some churches aggregate multiple months of payments at one time, and some do not respond at all.

The form to be completed by the local church is complicated, and the conference staff is constructing another version of the form to reduce the complexities. The current version requires the church to calculate qualified receipts for the month:

“All income received including offering, other operating income, Sunday School offerings, building funds, capital campaigns, etc.”

The qualified exclusions are subtracted from the income line:

“Exclude ... funds spent for debt retirement, funds received for capital improvements, funds received for Advance Specials, United Methodist Special Day Offerings and Fifth Sunday Offering for Methodist Home.”

The net amount is multiplied by the 11% which governs the local church’s monthly apportionment.

The reliance upon a real-time income based apportionment formula offers some advantages and disadvantages. The major advantage is the local church’s apportionments are linked to same-month revenues. A church that regularly experiences poor receipts in the summer weeks benefits by lower monthly apportionments. The apportionments vary directly with the receipts.

The disadvantages seem obvious. There is little ability of a church to establish an overall strategy for paying apportionments based upon the financial strength of the local church. A standard practice of a finance committee is to know exactly the total annual apportionment amount and can make periodic payments throughout the year based upon a targeted payout rate—whether it is 100%, 85%, or 60%. It is difficult for a church to implement a special fundraiser to complete its apportionment obligations when the total obligation is not known until close of business December 31.

Management of the apportionment system is difficult in that there is no accurate method of calculating an annual conference’s apportionment payout rate. The payout rate requires an accurate measure of apportionments assigned. Churches that fail to submit monthly statements of income make the measurement of apportionments difficult. Failure to submit monthly forms is too common among local churches without sufficient staff. The accounting demands on the local church for a monthly determination of apportionments can be substantial in many cases—particularly for the small membership church.

C. Dakotas Annual Conference

The Dakotas implemented its income-based apportionment formula in 2014, dropping its decimal based formula with 50% weight on membership and 50% weight on net spending. The formula is applied to current receipts, so, as does Kentucky, it is a real-time payment of apportionments. The reported income used for apportionments is the total of gifts to the operating budget. The current percentage applied to the total gifts is 16%. Each month the local church is to total its total receipts in support of the operating budget, apply a rate of 16%, and remit these funds to the conference office during the following month.

CF&A recommends the percentage to be applied to the monthly total receipts which is based upon the size of the adopted budget and estimated collections. There is no accurate way to measure total apportionments since there are some churches that do not remit payment for several months, so there is no end-of-year total of receipts. The CF&A could later review the end-of-year reports, but this practice has not yet been adopted. At annual conference, CF&A reports on the changes in total receipts from local churches but does not have a way to determine the payout rate.

The annual conference engaged in a significant effort to educate the churches on the proposed new apportionment formula, along with materials that demonstrated where their apportioned dollars went. This educational process led to a large majority of delegates to approve the new formula as a replacement for the old decimal formula.

The historical annual payout rates under the decimal formula averages 89%. Its history with the income-based formula is brief (implemented in 2014), but the total receipts increased in the first two years of experienced and decreased in the third year. The reporting burden upon the local church has not been an issue from the treasurers' experience, and the new formula has been well received. One of the attractive features is the assurance that a local church's apportionments will decrease in response to a downturn in giving.

D. Indiana Annual Conference

The Indiana Annual Conference introduced its income-based apportionment formula in 2009 when the conference was established from the churches in the original North Indiana and South Indiana Annual Conferences. This annual conference is understood to have the longest history with such a formula.

For annual conference funding, the formula is a simple 10% multiplied by total gifts to the operating budget in the previous year:

Income from identified and unidentified contributors
Pledged or unpledged income
Undesignated interest and dividend income

Income received from building use fees

Income received from fundraisers and programs in support of the operating budget

Exclusions include receipts from capital campaigns, pass-through giving (e.g., special Sunday offerings), and tuition-based ministries (e.g., tuition for a church day school). The annual conference adds a small percentage to the 10% tithe to fund operations and ministries among the districts. This percentage varies from 1% to 1.5%.

The local church applies the total percentage to its past-year's income. For 2018, the giving will be based upon its 2017 reported income. Thus, the local church will know early in the calendar year the total amount that is apportioned.

Not all churches have been reporting their receipts and paying their apportionments, based upon the final end-of-year reports and the submitted receipts. For 2016, the calculated income based upon reported total qualified income times 10% equals \$16.6 million. Only \$13.0 million was received, resulting in a payout rate of 80.0%. In 2016, 50% of the churches paid 100% of the self-reported apportionment.

Some generous churches overpay their apportionments which closed the apportionment shortfall by \$300,000. Eleven of the top 25 churches contributed to this extra level of giving. These overpayments result in a payout rate of 81.6%.

The CF&A adjusts its recommended budget on the basis of projections of apportionment payments. The adoption of the 2018 budget takes place during the 2017 meeting of the annual conference which takes place in May. Thus, the apportionments assigned to the local churches in support of the 2018 budget are not determined until after the 2018 budget is approved.

E. Conclusions from the Interviews

The overall message from the interviews was that the treasurers were supportive of their respective income based apportionment formula. There were reported complications for local churches in understanding the types of income for which the apportionment percentage applies. Some churches (few in number) failed to report income and thus did not pay apportionments. Overall, the local churches experienced the simplicity of the income based formula.

Three of the four annual conferences that were interviewed experienced some challenges in the budgeting process. Typically, the annual conference meets in the May of each calendar year and approves an apportioned budget for the next calendar year. The Texas Annual Conference met in May 2017 and approved the apportionments for local churches to be applied in 2018. The local churches had available the 2018 apportionments as they developed and approved their local church budgets for 2018. This typical schedule gives the annual conference and the local church the certainties of apportionments months prior to the year to which these apportionments apply. The main disadvantage of the typical

schedule is that the apportionments assigned in 2018 are based upon the local churches financial experiences in 2016—imposing the two-year lag.

The Kentucky and Dakota Annual Conferences avoid the two year lag by assigning the calculations of apportionments to the local church—the product of the assigned percentage times the qualified income received during a month. There is no lag between the financial condition of the church and the assigned apportionment. However, the annual conference is challenged in that it approves a 2018 budget in May 2017 but does not realize its actual total apportionments assigned until the end of the budgeting year—December 31, 2018. The annual conference is asked to approve a spending budget without the knowledge of the amount to be apportioned as well as the predicted payout rate. A conservative strategy under these conditions would call for a restrained budget or an elevated percentage to be applied to qualified income to ensure against a budget shortfall.

The Indiana Annual Conference implemented a formula that shortens the reporting lag by one year. Churches apply the assigned percentage to the total qualified income they received the previous year. Thus, the local church knows the amount apportioned at the beginning of the calendar year during which the apportionments are to be paid. For 2018, the church will know their apportionments on December 31, 2017. The annual conference would have adopted the percentage to be applied in its May 2017 annual conference meeting.

However, the local church typically adopts its 2018 budget before Christmas services. For some churches, the largest month of receipts in the year occur in December. Thus, the local church budget is approved before the church knows its next year's apportionments. The annual conference sets the assigned percentage to be applied to qualified income before it knows the level of qualified income in the local churches. Although the reporting lag is shorter, but the annual conference and the local church faces additional budgeting uncertainties.

As discussed above, many annual conferences monitor the payout rate on apportionments as a reflection of the effects of the size of the apportioned budget upon the local churches. Under some income based apportionment formulae, there can be a time lag between the recording of the receipts from apportionment payments and the recording of the apportionments to the local church. This condition is a consequence of local churches calculating their own apportionments.

Consider the difficulties faced by Kentucky and Dakota Annual Conferences. The treasurer receives the apportionment payments as usual. Some churches include the qualified income on the monthly report, but not all reporting churches do. Some churches will delay a full apportionment payment by choosing to report a relatively large gift several months after its receipt. The annual conference can verify the reporting of the gift by comparing the local church's end-of-year report with the sum of the monthly reports used in apportionment payments. The sum of the monthly reports of income should equal the end-of-year annual report.

For most annual conferences, the local churches do not submit their end-of-year reports until the end of January following the apportioned year. Annual conference totals cannot be completed until the treasurer's office receives the reports that were not submitted in January. Some reports must be corrected through phone calls to the pastor. Under usual conditions, the annual conference totals are not calculated until March or April, after the CF&A has met and recommended the next year's budget to the annual conference in the pre-conference journal. Thus, the CF&A is unlikely to have access to the payout rate for the previous year when it prepares the budget recommendation for the next calendar year.

There is likely to be a discrepancy between the self-reported apportionments recorded on the monthly local church reports with apportionment payments and the calculated apportionments from the end-of-year local church reports. How to interpret the true amount of apportionments in the presence of these discrepancies is unclear. One annual conference treasurer admitted that they do not try to calculate a payout rate under its income based apportionment formula.

It would seem proper for the treasurer to contact local churches for which the monthly reports of income do not total the annual income recorded in the church's year-end report. However, this contact to the pastor of the church could be viewed as a financial audit, seeking to correct an under-reporting of income. The exercise becomes an audit of local church records. This does not seem to improve the relations between the conference treasurer and the pastor of the local church.

VIII. Other Annual Conferences Using or Considering an Income Based Apportionment Formula

A. Rocky Mountain Annual Conference

This annual conference implemented an income based formula during the 2009-2012 quadrennium. The income used in the formula is gross revenue with some exclusions. The income to which a percentage is applied is approximately the same as income received in support of the operating budget. The percentage applied to the income figure equals 13% of which 3% is designated to annual conference mission programs.

B. New Mexico Annual Conference

The New Mexico Annual Conference has implemented an income based formula equal to 8% of ordinary operational revenue.

C. Arkansas Annual Conference

The CF&A for the Arkansas Annual Conference is currently working on a proposal to implement an income-based apportionment formula.

D. Holston Annual Conference

The Holston Annual Conference has implemented an income based formula by applying 10% to qualified income—a measure that approximates receipts in support of the operating budget of the church.

IX. The Comparisons Between the Apportionments Assigned

Tables A-1 through B-3 present the comparison between apportionments assigned under the two formulae among churches with the largest differences. For example, Table A-1 presents the apportionments for 39 churches for which the income based formula apportionment is at least 60% larger than the apportionment assigned under the existing, expenditure based formula. Table B-1 presents churches with the largest decreases in apportionments if the income based formula replaced the existing, expenditure based formula.

With any change in apportionment formulae, there will be churches with relatively large shifts in apportionments assigned. The differences can be measured by formulating the income based apportionment formula so that the total apportioned equals the total already apportioned for 2018 under the current expenditure based formula. The larger differences deserve some comment.

Consider Houston Grace UMC in Table A-1. The large difference between the apportionments for Houston Grace, \$38 under the expenditure based formula and \$1,761 under the income based formula, is explained by a \$341 net expenditure and a reported income of \$20,000. For 2016 its reported total expenditures is only \$1,756. The average of its previous five years equals \$17,569 and remains reasonably consistent. The best explanation for the difference is a recording error. Total expenditures is most likely \$17,560.

Houston Casa De Alabanza reported an income from the sale of assets of \$1,090,728 in 2016—perhaps real estate that had been donated to the church. Since it was reported as income in support of the operating budget, the apportionment from the income based formula is considerably larger than the apportionment based upon total expenditures of \$93,768 and net expenditures of \$64,310. Its reported income in two of the previous three years is also greater than \$1,000,000. Its reported income in 2015 is zero. Total expenditures between 2012 and 2016 range between \$94,000 and \$109,000 except for the single exception of 2013 which equals \$1,193,743—most likely \$119,374 instead. The three years of reported income of over \$1,000,000 with an average worship attendance of under 65 is curious.

Prairie View would have had an income based apportionment of \$3,083 compared to the expenditure based formula apportionment of \$1,921. Its total expenditures equal \$23,744 of which \$5,474 is deductible. It received \$34,940 in contributions from identified givers and \$72 in earned interest. The operating budget was significantly overfunded which explains the difference in apportionments. This pattern is consistent during the previous five years. This appears to be a church that succeeds in accumulating financial reserves.

From Table A-2, Sugarland Parkway reported an income of \$1,634,489. Its total expenditures equal \$1,085,431 of which \$260,736 is deductible resulting in a net expenditure of \$824,695. The church's receipts in support of its operating budget were substantially larger. This difference explains the almost 60% larger apportionment under the income based formula. During the previous five years, receipts have totaled \$8,791,878 and total expenditures have totaled \$6,317,684. Sugarland Parkway has a history of spending less than its receipts—another church adding to its financial reserves.

From Table A-1, Atlanta Laws Chapel has a reported income of \$156,003 and a net expenditure of only \$56,882 in contrast to a total expenditure of \$114,824. This is another example of receipts significantly over budget, but a relatively large portion of the spending is deductible—50%. The church spent \$51,899 in facilities expenditures out of total expenditures of \$114,824. This is an important distinction in that a large gift to the operating budget was presumably directed toward an improvement in facilities. Under the income based formula, the special gift is treated as any other income and drives up apportionments. In the expenditure based formula, the gift has little impact upon apportionments since its use is deductible.

These five churches tell an interesting story. Two of the churches' apportionment calculations appear to suffer from reporting errors. The three other churches have experienced operating budgets being over funded. This condition, coupled with relatively large percentage of deductible expenditures, explain the differences in apportionments. For one church, Sugarland Parkway, the history of receipts includes years with substantial surpluses and years with substantial deficits. In 2014 its surplus exceeded \$3 million. Its spending over the years remains relatively stable—averaging \$1.2 million per year. Its receipts are highly variable.

Table B-1 includes churches for which the income based apportionment for 2018 is significantly less than the apportionment assigned under the current, expenditure based formula. An examination of these records raises questions about recording errors. A sample of seven churches was drawn from Table B-1. Among these churches total receipts for the previous five years equal \$585,487. Total expenditures over the previous five years equal \$890,237—52% greater than the reported income. One church reported zero income for three consecutive years in spite of a relatively stable history of total expenditures. Another sampled church reported zero income for four consecutive years in spite of a relatively stable history of total expenditures.

These records suggest that some of our churches do not take the time to ensure accurate figures when reporting church receipts. This may be the case because the receipts are not used in the calculations of apportionments. However, these records are commonly reviewed by local church finance committees so the errors could have been made only in the year-end-reports to the annual conference. Nevertheless, a transition to an income based formula must include some instructions and monitoring to ensure accurate records of receipts.

X. Summary and Conclusions

A transition to an income-based formula shifts the focus from expenditures to receipts. The transition moves to a simpler formula which is one of the preferred features of an apportionment formula. However, in practice, an income-based formula loses its identity to the Biblical tithe when since the funding needs of the annual conference differs from the receipts under the 10% rule. Moreover, there is no Biblical parallel between the principle of the individual sharing blessings with others and the optimal funding requirements of an annual conference, combined with the other components of the connection, versus the local church. At least, the theology that establishes a parallel concept not yet been developed or remains undiscovered.

The advantages of simplicity are challenged by the increased volatility in apportionments under the income-based formula. According to the Texas Annual Conference records, church income is more volatile than church expenditures. Churches seem reasonably well prepared to respond to an annual stewardship campaign that is poorly designed and implemented. In these conditions, annual local church expenditures are based upon available reserves and lines of credit with the expectation that next year's receipts will improve.

The income-based formula distribution of apportionments compared to the current distribution will cause potentially significant disturbance among many churches. There are approximately 320 churches expected to experience an increased in apportionments and an equal number expected to experience a decrease in apportionments. However, there is a significant number of churches expected to experience extreme changes. Thirty-nine are expected to experience an increase in apportionments by more than 60%. Twenty-one will experience more than 100% increase in apportionments. Only seven churches are expected to receive more than a 60% decrease in apportionments. There are 66 churches are expected to receive a decrease by more than 20%. About half of those churches expected to receive decreases will received decreases by less than 10%. Thus, the expected decreases are more equally distributed in percentage terms than the expected percentage increases. This is an unexpected, yet unwelcomed, finding.

This analysis suffers somewhat from income reporting failure—too many churches failing to report income which is the basis of the income-based apportionment formula. This is likely due to the fact that income is not used for any specific purpose so there is no administrative insistence in reporting this figure and reporting it accurately. Some of the annual conferences currently using an income-based formula suffer from under reporting and no reporting, although the incidences are relatively few.

The income-based formula loses in a comparison based upon fairness in that the cost structures of local churches differ significantly and incomes do not account for these differences. Comparing Tables 4 and 5 one finds that Hempstead Harper, with an average attendance of 25, incurs a cost of pastor salary of only \$2,844 while Houston Genoa, with an average attendance of 26, incurs a cost of pastor salary of \$38,959. If incomes are approximately the same, the income-based apportionment will strip Houston Genoa of most of its discretionary funds.

The inability of the income-based formula to best match the capacity to pay results in an expectation that payout rates would be lower unless sufficient time is afforded for local church adjustments. Some annual conferences that implemented the income-based apportionment formula used the considerations of a new formula as a time for educating the local churches about the importance of apportionment payments and the blessings of full payment. Thus, the considerations provided a platform from which the annual conference could elevate the importance of apportionment payouts.

The Kentucky and Dakotas Annual Conferences implemented a real-time income based formula so that apportionments exactly match in time the receipt of funds. Apportionments are to be paid on a monthly basis. This application, however, eliminates any accurate assessment of a payout rate. A church that fails to report (and pay) leaves the annual conference with no record of what should have been paid. Of course, a church that under-reports its income also leaves the annual conference with no record of what should have been paid. This condition exists with any apportionment formula, but it seems to be more significant with the real-time income based formula.

Table 17 presents an overall summary of the four qualities sought in an apportionment formula and how each formula might be graded.

Table 17
Grading the Apportionment Formulae

	Expenditure	Income
	Formula	Formula
Fairness	√	
Efficiency	√	
Simplicity		√
Stability	√	

Overall, the income-based formula owns the advantage of simplicity. Among the four annual conferences interviewed, the treasurers seem to endorse the income-based formula over the formulae that it replaced. Its inability to account for differences across the local churches that govern their respective capacities to pay apportionments seems to be a challenging weakness. This inability causes the income formula to be deficient in fairness and efficiency. The statistical evidence indicates that the income based formula is deficient in stability. In spite of this grading, there are several annual conferences that have implemented income based apportionment formulae and appear quite satisfied with its operations. There are several other annual conferences that are considering it.

Donald R. House, Sr.
October 2017