

GCFA STATEMENT ON THE IOT RESTRUCTURE PLAN

A task group of members of the General Council on Finance and Administration was established to review the Interim Operations Team proposal and the legislation submitted by the Connectional Table from the perspective of the roles and responsibilities of GCFA and to make a report to the full Council. The team met in December 2011 to review the plan and then by conference call in 2012. We propose adoption of the following document as GCFA's response to the IOT proposals.

BACKGROUND

We, the members of the General Council on Finance and Administration (GCFA) affirm the findings of the Call to Action (CTA) – and in particular the findings of the operational assessment of The United Methodist Church – and endorse that report.

The Interim Operations Team (IOT) Restructure Plan has been proposed as one way to address the findings in the CTA report. The IOT Plan was presented to the Connectional Table (CT) and the CT has proposed legislation to the 2012 General Conference to put that plan into place. The IOT plan is endorsed by the Council of Bishops (COB) as their preferred way to address the CTA.

We have reviewed the IOT plan and have four major areas of concern:

AREAS OF CONCERN

1. Budget recommendation - balance of powers

We believe certain functions of the current entity, GCFA, should continue to be independent to provide a necessary level of accountability to the whole Church. This includes episcopal funding, establishing a quadrennial budget, providing for some of the fiduciary and administrative responsibilities of the general agencies, internal auditing, and legal functions. The restructuring plan developed by the IOT gives the Council of Bishops a significant amount of additional influence at the expense of leadership by other clergy and the laity.

The General Conference has been responsible in the past for receiving a budget proposal from GCFA and prioritization of use of most of those funds from the Connectional Table. This balance of powers is critical for ensuring the budget being proposed to General Conference has been evaluated from the standpoints of the appropriate amount of funding for the operation of the general Church as well as the appropriate use of the funds made available in the general Church budget. The IOT proposal places development of the funding and use plans within a small 15-member board, with advice from the General Council for Strategy and Oversight and in consultation with the Council of Bishops. With the plan as proposed, relatively few people will be making decisions for the entire denomination in the absence of the careful modeling process undertaken for setting previous budgets. The current structure provides an independent, non-political evaluation of the amount of the budget being proposed and is an important part of the due diligence GCFA provides to General Conference. We believe loss of this modeling and review will produce budgets that are more subjective in nature and politically-driven.

2. Ascending liability - pooling of assets

The IOT plan fails to address legal liability issues as well as certain legal protections that are provided by the current structure. If all assets of the general agencies are pooled as proposed by the IOT plan, they may all be subject to common liability and, therefore, at risk for the liabilities of each other. The proposed Center of Connectional Mission and Ministry (CCMM) will be a legal entity which can be sued, and its assets may be the subject of legal proceedings to collect a court judgment. GCFA's legal department has worked diligently over the years to keep the assets of the Church separate and not subject to that shared risk. These separate, legal structures continue to be advisable in the opinion of GCFA's legal department.

3. Internal Revenue Service tax-exempt rulings

The group tax-exemption ruling that covers United Methodist churches, agencies, conferences, and affiliates in the United States was granted in the name of GCFA in 1974. The IOT restructure plan dissolves GCFA and incorporates those functions into other offices. If GCFA is dissolved, another UMC entity will need to apply for a new group ruling. The same result would follow if GCFA was merged into another entity, with the other entity being the surviving entity. This is because the IRS group ruling letter was issued solely to GCFA.

One possible approach is to amend the corporate documents of GCFA to, in effect, make GCFA the proposed CCMM. As this would result in a material change to GCFA's character, purposes, and methods of operation, it may have to reapply to the IRS for recognition of its own exempt status. During this reapplication period, it is unclear what the status of the group ruling would be, and whether it would be automatically reinstated in the name of the "new" GCFA.

If another entity must apply for a new group tax exemption ruling, it is important to note that in the past year, IRS officials have publically questioned whether group rulings should continue, and recently, the IRS announced that it is beginning a formal study of group rulings. While group rulings are under such scrutiny by the IRS, it is certainly reasonable to assume that it is better to already have one than be applying for one – especially when the group is as large and diverse those in the UMC Group Ruling.

In the worst case scenario, GCFA's legal staff has advised that if our group ruling was terminated, donors would still be able to deduct charitable contributions to most of the organizations currently covered under the UMC Group Ruling. This is because, by statute, churches, certain other religious organizations, and some very small organizations with annual gross receipts not exceeding \$5,000 are treated as "automatically" exempt under Internal Revenue Code, even without applying to the IRS for recognition of their exemption. But there are many organizations currently covered under the UMC Group Ruling that would not fall under any of these exceptions, and would no longer be exempt if our group ruling was terminated (unless they applied to the IRS themselves for recognition of exemption).

Moreover, the elimination of the UMC Group Ruling would negatively affect all organizations that are currently covered by it, including local churches, because it serves the important purpose of providing "proof" of exemption to donors, vendors, and local authorities, who sometimes require such proof.

4. Disconnect with the Call to Action

Most United Methodists recognize the need for re-evaluating the existing functions and structures of the general Church and making changes to better equip local churches in fulfilling their mission.

As the CTA report and its operational assessment note, The United Methodist Church must address a number of critical challenges. We must close the distance and reduce the level of mistrust at all levels of the connection. We must increase the number of vital congregations in United Methodism and redirect the flow of resources to better resource our local churches. Recognizing that resources are not unlimited, the Church must utilize emerging technologies to ensure that available resources are used responsibly. We must find better ways of addressing "low performing clergy" and there must also be some effort to deal with problems created by "toxic churches."

While establishing a new structure for the Church is critical, the new plan must clearly identify specific functions to be used in achieving the goals of the restructure. For example, it is not enough to simply provide for a structure that will "strengthen the local Church." The plan should clearly illustrate specifics as to how the local Church will be strengthened as a result of the new structure. We believe in many cases, the IOT plan has failed to adequately address many of the challenges noted in the CTA report. By concentrating primarily on questions of structure, the IOT proposal largely leaves unanswered the question of how the denomination will be functionally different in the future.

The large global constituency of The United Methodist Church requires, to some degree, a structure that is large enough to be effective and inclusive. We believe it is legitimate to raise concerns about how the new IOT structure, with its 45-member advisory board and 15-member board of directors drastically reduces clergy and laity participation in the decision making process of our denomination and to ask how this will reduce distance or mistrust between congregations, annual conferences, and the general Church. Reduction in agency size and staffing have already been proposed and, to some degree, implemented by the agencies themselves.

SUMMARY

We believe that this IOT restructure plan fails to address many legitimate concerns relating to the work of GCFA and the legal structure of the denomination. The restructure plan will put the assets of the Church at risk and will fail to protect the Church from risk of loss if the Center of Connectional Mission and Ministry were named in a lawsuit and could imperil the non-profit status of many of our ministries.

We believe that the IOT restructure plan as proposed will not accomplish the goals defined in the CTA. It will make significant changes in structure but will not put into place clear definitions of effectiveness and ways to move toward those defined goals. The plan places the voice of all clergy and laity into the hands of a small board that is not inclusive or representative of our Church.

The Council is aware that other alternative plans for restructure will be proposed for consideration by the General Administration legislative committee of General Conference. In light of all plans and options that can be considered, we urge the delegates to the 2012 General Conference to devise a structure for our denomination that:

- provides for an independent financial and administrative agency working on behalf of the General Conference to keep the general Church effective in its ministry and accountable to the people of The United Methodist Church

- retains the separate legal structure that will protect as much as possible the assets of the Church from joint liability,
- includes plans for retaining the tax-exempt ruling for the Church in the United States,
- allows for inclusive representation in the decision-making of the Church,
- clearly addresses the finding of the Call to Action, including enhancing the vitality of our congregations, decreasing distance and mistrust at all levels of the connection, of providing a clear path forward on how to improve the effectiveness of the ministries of our general agencies.

A restructure plan that does not address these major areas of concern in full prior to implementation with complete and proper due diligence will have unintended consequence for the legal and administrative function of the Church. These unintended consequences will divert attention from the mission of the Church so that decision-makers will need to address undoing unintended negative results instead of proactive work in making disciples of Jesus Christ for the transformation of the world.