Apportionment – A Proposed Way Forward
Jim, May 23, 2016

- The amount of apportionment for each local Meeting should be a function of recurring income, including unrestricted contributions, dividend and interest income from unrestricted depository or investment accounts, dividend and interest income from endowment funds used to pay operating expenses of the local Meeting, and certain ancillary income as defined below (collectively, the "local Meeting share").

  Contributions to temporary restricted funds are not included in the apportionment calculation. Dividend and interest income earned from any temporary restricted funds and any temporary restricted bequests should be considered as an addition to temporary restricted funds and not included in the apportionment calculation. However, if at some point in the future, the local Meeting lays down the purpose for which temporarily restricted contributions were made, all such temporarily restricted contributions that are not returned to each donor would become unrestricted contributions to the local Meeting and thereby included in the local Meeting share in the year in which the purpose was laid down. All dividend and interest income earned from temporary restricted funds and bequests would also be included in the local Meeting share.

  Bequests, either restricted by the donor, temporarily restricted by the local Meeting, or unrestricted, should be considered as non-recurring income and therefore excluded from the local Meeting share. However, dividend and interest income from an unrestricted bequest should be included in the local Meeting share. Dividend and interest income from a permanently restricted bequest or a permanently restricted fund(s) where the designated use of funds is extraneous to the local Meeting, such as financial assistance for a child to attend a BYM camp, is not included in the apportionment calculation.

  Capital gains or capital losses from any investment fund owned by the local Meeting are not included in the apportionment calculation.

  I would include all unrestricted contributions to the local Meeting irrespective of the amount of any specific donor's contribution. Also, if the net aggregate local Meeting shares (aggregate local Meeting shares less any allowances as described below) was $1,800,000 for a specific year and the BYM budgeted amount for total apportionment was $450,000, each local Meeting's share should be 25% of its net local Meeting share.

  Comments:

  1. I have deliberately started with a flat apportionment rate. Whether it should be 25% or some other percentage can be determined later. I am also open to a progressive rate system, such as 22% for small local Meetings, 25% for medium-sized local Meetings, and 28% for the largest local Meetings. Again, the actual percentages can be worked out later as can the specific definition of a small, medium, and large local Meeting. In either case, this approach ensures that the apportionment rate will not be regressive and place a disproportionately higher apportionment burden on any smaller local Meeting.

  2. This approach also includes every unrestricted contribution, regardless of size. It honors each unrestricted contribution equally. I did not see any rationale or purpose for excluding small contributions.

3. The annual increase in aggregate apportionment over the past several years has been nominal. Yet the apportionment rate can increase or decrease by a maximum of 25%. As a general principle, I believe that 25% is too high. I am open as to the maximum change and am hopeful that it can be 5% or less for every local Meeting.

4. I have also deliberately excluded any capital gains or losses from the definition of the local Meeting share because capital gains or losses are non-recurring.

5. Treatment of ancillary income, such as rental income or special fundraising events. If a local Meeting offers its facilities for use to various non-profit – or even for profit – organizations, on either a one-time basis or an ongoing basis, the gross rental income should be included in the local Meeting share. I would exclude income from special fundraising events because they are often community-building events both within the local Meeting and in the local community. Also, it is often the case that the funds raised from such an event are earmarked for a specific purpose in the community at large.

- Mortgage debt owed by or to be incurred by a local Meeting.

  The entire principal amount of mortgage debt incurred by a local Meeting is excluded from the calculation of the local Meeting share. Mortgage interest paid is not excluded. Mortgage closing costs are also not excluded. The same rule applies to loans from individuals or loans from a financial institution.

  It is assumed that the source of funds for the local Meeting's initial equity investment in an existing building or a to-be-constructed building is temporary restricted contributions accumulated over time and/or one or more bequests. As noted above, temporary restricted funds and bequests are excluded from the calculation of the local Meeting share. Therefore, it is a logical extension that the entire principal amount of a mortgage loan(s) should also be excluded since the initial equity investment plus the principal amount of the mortgage loan(s) equals the total cost of the building.

  The methodology for excluding the principal amount of a mortgage loan is different from the standard amortization of a mortgage loan. Assume that a local Meeting borrows $180,000 and the term of the mortgage is 15 years. For purposes of calculating the local Meeting share, $12,000 in principal per year is excluded for each of the 15 years ($12,000 x 15 = $180,000). Even if the mortgage loan had a five year balloon payment, the same methodology would apply. The principal exclusion per year is a function of the term of the initial amortization schedule, not the year in which a balloon payment may be due.

  Here is the methodology if a local Meeting has an existing mortgage loan. Again, assume that the initial mortgage loan was for $180,000 for 15 years and the mortgage originated in 2009. At the end of 2015, the remaining principal balance on the loan was $157,500. The principal exclusion per year would be $17,500 per year for the remaining 9 years of the term of the mortgage ($17,500 x 9 = $157,500).

  Going back to the first example, assume that in the sixth year of the mortgage, the local Meeting received either a restricted contribution of $36,000 for the purpose of making a lump sum payment on the mortgage or a bequest used by the local Meeting for the same purpose. The entire $36,000 exclusion would be applied to the end of the mortgage, thereby reducing the amortization period from 15 years to 12 years. And if another $24,000 restricted contribution or bequest was received in year 8, the entire $24,000 would be applied at the end of the recalculated amortization period, thereby reducing the amortization period from 12 years to 10 years. The objective is to keep the local Meeting operating within the previously established parameters of the mortgage exclusion on a consistent basis.

- Meetings with Multiple Meeting Houses and/or Burial Grounds.

  We know about each of the local Meetings in this category. We also know that the circumstances for each such local Meeting are unique. It is also my understanding that if such a Meeting is laid down, the real property owned by that Meeting reverts to the ownership of BYM.

  I think that the proposed revision of the apportionment process creates an opportunity for BYM to address the financial circumstances of each such Meeting, including the long term strategy for the Meeting itself. My thought is to engage each of these Meetings in an exploratory discussion of apportionment within the context of their ongoing maintenance needs and requirements as well as their vision of the future of the Meeting itself.