

## **Covenant Shares Frequently Asked Questions**

Last updated: January 19, 2023

### **PLEASE NOTE:**

The answers to the frequently asked questions in this document are best efforts at interpreting and applying the covenant shares assessment method as proposed and adopted by General Synod in June 2019, and have no precedential value. They are based on the Alternate Funding Committee's work, its written proposal to the 2019 General Synod (which is available at *MGS 2019*, pp. 47-53), and recommendations adopted by the 2019 General Synod in response to the written proposal (*MGS 2019*, EC 19-9, p. 52). Further clarifications and interpretations may be necessary after the implementation of covenant shares. If a classis would like a formal opinion to clarify any aspect of covenant shares, they may seek advice from the General Synod's Commission on Church Order or the Covenant Shares Review Committee (which will begin its work in 2023, after implementation of covenant shares).

### **What line of the Consistorial Report Form (CRF) will be used as the basis to calculate covenant shares?**

Line 21, "Contributions received". Contributions on this line shall be defined as any gift received by the church that is considered a charitable donation. Two exceptions are new endowment gifts and grants received which are reported on other lines of the CRF.

### **What will the percentage be?**

The covenant shares rate for 2024, the first year covenant shares will be in effect, will be approved by the 2023 General Synod. And after that first year, the rate will be proposed to the General Synod for approval on an annual basis. In 2018, the 10-year average percentage of contributions received through the per-member assessment method was 2.73 percent.

### **Will the percentage rate change from year to year?**

The rate will require General Synod's annual approval. Eventually, we hope that the percentage rate will stay the same year after year. However, it may fluctuate slightly in the first few years as we adjust to the new financial reporting on the CRF.

### **When will covenant shares become effective?**

2024 will be the first calendar year of using covenant shares as the RCA's funding method.

### **Why would the basis include all contributions? Did the committee consider using only general offerings?**

Many of the concerns we heard about basing covenant shares on all contributions related to the inclusion of special contributions. Some examples of special contributions include capital campaigns, missions giving, and benevolence. The committee decided that it is best to use all

contributions as a way to keep the formula simple and avoid confusion about defining general offerings, thereby reducing the risk for inaccurate reporting of contributions. Using all contributions is a way to ensure that the same basis is used consistently across the denomination. Using all contributions as the basis treats all contributions the same, regardless of how a church might record contributions for general and special purposes.

The committee feels that the limitations to increases from year to year alleviate much of the concern over a significant burden being added due to significant one-time increases, such as capital campaigns, in a church's contributions.

Contributions are simply the basis by which the amount of covenant shares will be calculated. Covenant shares do not need to be paid from the source that they are based on. Covenant shares will be a budgeted expense for the church and paid for in the same manner as current assessments.

We encourage all churches to use the calculator (available at [www.rca.org/covenantshares](http://www.rca.org/covenantshares)) to see how covenant shares would compare to the current method.

### **Should pass-thru gifts be included with contributions?**

Yes, the General Synod proposal defined contributions as any give received by the church, except for new endowments or grants. Again, in order to keep the method simple, the committee proposed a method with as few exceptions as possible.

### **Why not use total income as the basis?**

Some churches have other sources of income, such as building rental income, tuition fees for a daycare or school, investment income, thrift store income or endowment distributions. These other sources of income do not necessarily increase a church's ability to pay covenant shares. Revenues from programs like this are often needed to cover direct expenses associated with a program. For example, a daycare uses tuition revenue to cover the direct costs of running the daycare.

Also, contributions come from those attending the church and thus, more likely relate to participation with the denomination and its programs.

The Regional Synod of the Heartland used a percentage of income method for one year using total income as the basis. After a year of using this method, the classes asked that contributions be used as the basis rather than total income for the same reasons as mentioned above.

### **How will we honor donor's intent for use of designated gifts if a percentage goes to the denomination in covenant shares?**

Using total contributions is simply the basis for which the denomination will calculate covenant shares due to the denomination from each classis. The church does not need to pay covenant shares directly from the contributions used in the basis for calculation. The church can pay it out as an expense just as they do under the current per-member assessment method. The church does not need to use the designated gift to pay the covenant shares to the denomination. The church may use general offerings or other income sources to pay for covenant shares.

The church may choose to pay for covenant shares from the designated gift as long as they inform the donor of this practice.

**Currently, newly organized churches gradually build up to paying full denominational assessments over a five-year period. Will this continue?**

Currently, the membership of newly organized churches is assessed on a graduated formula based on R-51, approved by the General Synod in 2010. The classis is assessed for the membership of newly organized churches based on the following formula: newly organized churches will pay 20 percent of the full assessment amount the first year of organization, 40 percent in their second year, 60 percent in their third year, 80 percent in their fourth year, and 100 percent in subsequent years. Under the new covenant shares method, the same formula would be followed.

**Do classes and regional synods need to convert to a percentage of income method?**

No. This new method is for the denominational funding only. However, classes and regional synods may choose to use this new method as well in order to be consistent with the denominational method.

**Has a proportional method been proposed and not approved prior to the 2019 General Synod?**

No. The idea of a proportional method has been brought to General Synod many times. However, an actual proposal for a new method has not been brought as a motion before the 2019 General Synod.

**Have any RCA regional synods or classes changed to a percentage of income method from a per-member method?**

Yes. The Regional Synod of the Far West proposed a change to proportional giving in 2011. They have been successfully using this method since it was adopted. Several classes in the Far West have also adopted a similar method. The Regional Synod of the Heartland moved from per-member assessments to a percentage method a couple years ago. They made a few tweaks to the methodology (see "Why not use total income as the basis?"), but they too believe it has been a success in their region. Some classes in the Heartland have also made the change.

**Did the CRF change?**

Yes. Part 1b of the CRF changed in 2018 so that the basis for covenant shares (total contributions on Line 21) will be clearly identifiable and defined. Other changes were also made to Part 1b so that the financial information will align with a standard church financial statement.

**What about grants from a classis or government agencies?**

These will not be included in contributions and therefore, covenant shares would not be based on grant income. Grants from any agency should be reported on the "other income" line on the CRF.

**Will some churches pay more under the covenant shares?**

Yes. Some churches will pay more and some churches will pay less than the current per-member system. We believe that basing covenant shares on contributions equitably distributes the denominational funding support because churches are asked to pay according to their means. The implementation to the new method would be gradual and implemented over a period of years so as not to burden a church in one year due to the change in denominational funding method.

**Will the denomination receive more income under the new method?**

Under the new method, the income received by the denomination will fluctuate based on contributions received by the local church.

**Will there still be a method for petitioning for relief from denominational assessments?**

Yes. The petitioning process for aid adopted by the 1991 General Synod would be updated to apply to covenant shares.

**How will this affect Canadian classes?**

In order to remain consistent with the current practice for collecting assessments in Canadian dollars, Canadian churches will pay covenant shares at a rate of 50 percent of a 12-month average currency differential between the U.S. dollar and the Canadian dollar. The RCA treasurer will calculate the average exchange rate for the prior 12 months as of June 30 each year.