

## The Western North Carolina Conference of The United Methodist Church

### Information For Local Churches Concerning “Disaffiliation” Under Paragraph 2553 of The Book of Discipline

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At the specially called General Conference in February of 2019, as part of a series of newly adopted legislation collectively known as the “Traditional Plan,” the General Conference passed a petition which would allow a local church to leave the denomination under a specific set of circumstances and subject to certain financial and legal conditions. Known as the new Paragraph 2553, this legislation originated a minority report in a legislative committee.

On several occasions prior to passage, the Judicial Council had ruled that this particular petition was unconstitutional because it did not require annual conference approval of the disaffiliation itself. However, the General Conference passed the petition without addressing the concerns of the Judicial Council. On the request of the Council of Bishops after passage, the Judicial Council took up judicial review of the legislation.

On April 25, 2019, in JC Decision No. 1379, the Judicial Council upheld the legislation after imposing a requirement that any disaffiliation agreement reached under the new ¶ 2553 has to be approved by a majority of the voting members of the annual conference.

We point this out at the beginning of this packet because the Judicial Council requirement is not found in the text of ¶ 2553 itself. However, we do discuss the annual conference approval requirement and related issues later in this material.

This package is designed to give your church leadership detailed information on disaffiliation under ¶ 2553, including the requirements, the presumptive timing, as well as information that will be required both by the Conference and your congregation as the process progresses.

For your reference, we have attached the text of ¶ 2553.

#### **NEW ¶ 2553, page 776.**

#### **[This new paragraph became effective at the close of the 2019 General Conference.]**

Section VIII. Disaffiliation of Local Churches Over Issues Related to Human Sexuality  
¶ 2553. *Disaffiliation of a Local Church Over Issues Related to Human Sexuality*—1.

Basis—Because of the current deep conflict within The United Methodist Church around issues of human sexuality, a local church shall have a limited right, under the provisions of this paragraph, to disaffiliate from the denomination for reasons of conscience regarding a change in the requirements and provisions of the *Book of Discipline* related to the practice of homosexuality or the ordination or marriage of self-avowed practicing homosexuals as resolved and adopted by the 2019 General Conference, or the actions or inactions of its annual conference related to these issues which follow.

2. *Time Limits*—The choice by a local church to disaffiliate with The United Methodist Church under this paragraph shall be made in sufficient time for the process

for exiting the denomination to be complete prior to December 31, 2023. The provisions of ¶2553 expire on December 31, 2023 and shall not be used after that date.

3. *Decision Making Process*—The church conference shall be conducted in accordance with ¶248 and shall be held within one hundred twenty (120) days after the district superintendent calls for the church conference. In addition to the provisions of ¶246.8, special attention shall be made to give broad notice to the full professing membership of the local church regarding the time and place of a church conference called for this purpose and to use all means necessary, including electronic communication where possible, to communicate. The decision to disaffiliate from The United Methodist Church must be approved by a two-thirds (2/3) majority vote of the professing members of the local church present at the church conference.

4. *Process Following Decision to Disaffiliate from The United Methodist Church*—If the church conference votes to disaffiliate from The United Methodist Church, the terms and conditions for that disaffiliation shall be established by the board of trustees of the applicable annual conference, with the advice of the cabinet, the annual conference treasurer, the annual conference benefits officer, the director of connectional ministries, and the annual conference chancellor. The terms and conditions, including the effective date of disaffiliation, shall be memorialized in a binding Disaffiliation Agreement between the annual conference and the trustees of the local church, acting on behalf of the members. That agreement must be consistent with the following provisions:

a) Standard Terms of the Disaffiliation Agreement. The General Council on Finance and Administration shall develop a standard form for Disaffiliation Agreements under this paragraph to protect The United Methodist Church as set forth in ¶ 807.9. The agreement shall include a recognition of the validity and applicability of ¶ 2501, notwithstanding the release of property therefrom. Annual conferences may develop additional standard terms that are not inconsistent with the standard form of this paragraph.

b) Apportionments. The local church shall pay any unpaid apportionments for the 12 months prior to disaffiliation, as well as an additional 12 months of apportionments.

c) Property. A disaffiliating local church shall have the right to retain its real and personal, tangible and intangible property. All transfers of property shall be made prior to disaffiliation. All costs for transfer of title or other legal work shall be borne by the disaffiliating local church.

d) Pension Liabilities. The local church shall contribute withdrawal liability in an amount equal to its pro rata share of any aggregate unfunded pension obligations to the annual conference. The General Board of Pension and Health Benefits shall determine the aggregate funding obligations of the annual conference using market factors similar to a commercial annuity provider, from which the annual conference will determine the local church's share.

e) Other Liabilities. The local church shall satisfy all other debts, loans, and liabilities, or assign and transfer them to its new entity, prior to disaffiliation.

f) Payment Terms. Payment shall occur prior to the effective date of departure.

g) Disaffiliating Churches Continuing as Plan Sponsors of the General Board of Pension and Health Benefits Plans. The United Methodist Church believes that a local church disaffiliating under ¶ 2553 shall continue to share common religious bonds and convictions with The United Methodist Church based on shared Wesleyan theology and tradition and Methodist roots, unless the local church expressly resolves to the contrary.

As such, a local church disaffiliating under ¶ 2553 shall continue to be eligible to sponsor voluntary employee benefit plans through the General Board of Pension and Health Benefits under ¶ 1504.2, subject to the applicable terms and conditions of the plans.

h) Once the disaffiliating local church has reimbursed the applicable annual conference for all funds due under the agreement, and provided that there are no other outstanding liabilities or claims against The United Methodist Church as a result of the disaffiliation, in consideration of the provisions of this paragraph, the applicable annual conference shall release any claims that it may have under ¶ 2501 and other paragraphs of *The Book of Discipline of The United Methodist Church* commonly referred to as the trust clause, or under the agreement.

### Paragraph 2553

A summary of the key points of the new ¶ 2553:

- Paragraph 2553 creates a ***limited*** right for a local church to leave the denomination ***solely*** “for reasons of conscience regarding a change in the requirements and provisions of the Book of Discipline related to the practice of homosexuality or the ordination or marriage of self-avowed practicing homosexuals as resolved and adopted by the 2019 General Conference, or the actions or inactions of its Annual Conference related to these issues which follow.” **This is key. Paragraph 2553 is not available as an exit path for other reasons. The church has to disagree with the “Traditional Plan” as passed by the General Conference OR disagree with some actions or lack of action by its own Annual Conference in relation thereto.** A certification by the church to this effect has to be attached to or included in the Disaffiliation Agreement.
- The local church must vote to approve disaffiliation at a duly called church conference by a 2/3 vote of the professing members in attendance. **The church conference *must* be called pursuant to Paragraph 248 of the Discipline.** A church vote that is not held under Paragraph 248 is invalid. The vote has to be held within 120 days of the District Superintendent’s call and/or approval of the meeting.
- After an affirmative vote, the Board of Trustees for the Annual Conference will prepare a Disaffiliation Agreement which deals with, at a minimum, the following points:
  - Effective date of disaffiliation;
  - Apportionment payments;
  - Payment of unfunded pension obligations;
  - Transfer of property;
  - Payment or assignment of church debt; and,
  - Other legal matters specific to your church.

The foregoing points are the matters specifically listed in ¶ 2553 that must be dealt with. These points will be discussed in more detail below.

- Payment of the financial obligations, transfers of property, and debt payoffs or assignments must be completed prior to the departure date.

- The church is responsible for all legal costs and other amounts associated with the transactions involved, including the legal costs of the annual conference.
- ¶ 2553 expires on December 31, 2023. So, a church should be in the process of disaffiliation long before that date. After that date, no local church can take advantage of ¶2553.

Church Conference  
Paragraph 248

The first official step to disaffiliation under ¶2553 is the church conference vote. The church conference is held pursuant to ¶ 248 of the Discipline. This conference is called by your District Superintendent. The District Superintendent also sets the time of the meeting. Your church sets the location. Your District Superintendent or an ordained elder appointed by him/her will preside at the church conference.

A dedicated response team will be assigned to your process. It will consist of the District Superintendent, the Conference Treasurer, the Conference Chancellor, and the chair of the District Committee on Church Location and Building. This team will evaluate the information you provide and provide your leadership with necessary information during the meeting phase.

As a threshold matter, your church should answer these simple questions in writing:

***1. What are your specific disagreements or concerns with the change in the requirements and provisions of the Book of Discipline related to the practice of homosexuality or the ordination or marriage of self-avowed practicing homosexuals as resolved and adopted by the 2019 General Conference?***

***2. What actions or inactions of your Annual Conference related to the change in the requirements and provisions of the Book of Discipline related to the practice of homosexuality or the ordination or marriage of self-avowed practicing homosexuals as resolved and adopted by the 2019 General Conference do you disagree with or have concerns with?***

You should be able to specify your disagreements with the Traditional Plan passed at the 2019 General Conference, and/or your disagreement with actions or failures to action your conference has taken in regards to the passed Traditional Plan. Matters unrelated to the adopted Traditional Plan should not be considered. Also, action or inaction by the annual conference prior to the adoption of the Traditional Plan would not be relevant. As we have noted before, ¶2553 is a very limited exit path. By its own requirements, it does not allow exits for broadly held disagreements with the denomination or matters that preexisted passage of the Traditional Plan.

This is a true discernment process led by your District Superintendent. The Conference will not accept as valid simple recitations of reasons used by other churches who have entered into the process. You must satisfy your District Superintendent, and ultimately your presiding bishop.

Ultimately, your church will have to certify your qualifying reasons for disaffiliation. This certification will become part of or attached to the Disaffiliation Agreement, as required by ¶2553.

Your District Superintendent will not approve and schedule a church conference without the above information.

In requesting the church conference, you should be prepared to provide information to the District Superintendent regarding the local church assets, debt, and intentions of clergy. Asset information should include locations and balances in your bank accounts, financial statements and balance sheets, copies of deeds and key contracts, and information on endowments and restricted gifts. Debt information provided should include schedules of debt (if any) and copies of leases and loan documents (notes, deeds of trust, security agreements, and the like). *This information is information required for your District Superintendent to approve and schedule the church conference.*

Why do we want this information? Because ¶2553 requires that property transfers, debt payoffs or assignments, and the like are completed *prior* to the disaffiliation date, we want to make sure that nothing we do and nothing you do in relation to disaffiliation, the property transfers, or in dealing with debt inadvertently triggers a default in your existing loan agreements. We also want to make sure that we and you are aware of the possibility of reversionary interests in deeds or dedicated gifts, as these types of provisions can have serious legal consequences to your church if triggered. We also want to make sure all parties understand the terms and limitations of endowments.

There may also be situations in which a church has certain legal matters, like workers compensation claims, administrative employee claims, lawsuits (threatened or pending), contractual obligations, etc. that require the church or Conference to halt the process. This is certainly something that would be discussed by the parties. From the Conference standpoint, we want this process to benefit eligible churches and not unintentionally do harm to them.

Your District Superintendent will also need to have discussions with your pastoral staff regarding their own intentions, i.e., will they stay in the UMC or do they want to exit with the church. These will be conversations that your leadership will not be privy to for the most part, aside from whatever your clergy tells you. However, the ultimate intentions of your pastoral staff will be made public to you in advance of a church conference.

If your leadership has any interest in seeking assistance from the Conference to evaluate your financial viability as a church after disaffiliation, please let your District Superintendent know. While there is no requirement in ¶2553 regarding financial viability studies, it is a legitimate issue for churches to consider.

Prior to the church conference, we will provide you with the payment amounts for both the apportionment payment and the unfunded pension liability.

What should be disclosed to the congregation in advance of or at the church conference:

- The apportionment amount
- The amount of the unfunded pension obligation
- The total amount of vitality grants from the district or conference over the past 10 years to be repaid
- Debt payoffs, plans to assign debt or refinance (and the fees and costs associated)
- Other material property or payment issues (examples):
  - Reversions of real estate, dedicated gifts, endowments
  - Repayment or loss of any grants or other funds used in staffing, missions or operations
- The way(s) in which you will pay the total disaffiliation cost.
- What, if any, denomination will your church join?
- Will your pastor stay with the UMC? Be credentialed by the denomination which the church joins? How will he/she be credentials if you are not joining another denomination?
- If the vote does not pass, will you ask for a change in pastor?
- Anticipated timelines for payments, new entity set up, property transfers, disaffiliation agreement, and annual conference approvals.

Your church officers and trustees have a legal, fiduciary obligation to disclose all material financial and legal information to your congregation as they make this decision. Disclosing all of this information fulfills that obligation.

After approving a church conference, your District Superintendent must schedule the vote within the next 120 days.

You will have to give at least 10 days' notice to the congregation through the same means you would give notice of a specially called charge conference.

An affirmative disaffiliation vote requires 2/3 of the voting members physically present at the church conference. Absentee ballots are not permitted and should not be counted.

While the Covid-19 infection rate is still high, church conferences can be held virtually through Zoom, a conference call, or another safe method as determined by the DS and the church. Only those professing members present at the meeting or call are eligible to vote. Voting may be through paper ballot which is returned to the church, through a Brick River form, or through Election Buddy.

You will want to have an appointed secretary making a record of proceedings and the vote itself.

The church conference is essentially conducted under the same rules for charge conferences set out in ¶¶ 246 and 247 of the Discipline.

Discussion should be limited to the relevant topics. You will want to have a prepared resolution for the church to vote on. You may want to consider coordinating with your District Superintendent in preparing the resolution to insure the proper and sufficient language is included.

If your church votes in the affirmative, your leadership will be dealing with a specific committee

from the Conference Board of Trustees to prepare the Disaffiliation Agreement. Your District Superintendent will assist you in coordinating contact.

### Disaffiliation Agreement

Paragraph 2553 requires that disaffiliating churches enter into a “Disaffiliation Agreement” with their annual conference. The agreement is prepared by the trustees of your annual conference. Our trustees are incorporated in a legal entity separate from the Conference itself.

Our trustees are: The Board of Trustees, Western North Carolina Conference, United Methodist Church, Inc.

The format of a Disaffiliation Agreement has been provided to our Conference Trustees by the General Council on Finance and Administration in Nashville, Tennessee, as required by ¶2553. The Conference Trustees will customize the format to fit your particular church, including additional terms and conditions specific to your disaffiliation.

A church cannot disaffiliate unless they have executed a Disaffiliation Agreement.

The Disaffiliation Agreement will include provisions related to:

- Your date of disaffiliation
- Payment of Apportionments
- Payment of your unfunded pension liability
- Pay off or treatment of your debt and other material contractual obligations
- Transfer of property
- Release of claims
- Indemnification (if any)
- Clergy considerations
- Timing of payments and performance of other conditions (*note-financial obligations and property transfers must be completed prior to disaffiliation*)

Your pastoral staff will coordinate their own plans with their District Superintendent and the Office of the Bishop. However, we may include provisions in a Disaffiliation Agreement related to the determination of status for your clergy. For example, there may be a deadline by which they surrender credentials, retire, etc. For the Conference, we need to know what clergy will be available in setting appointments for the next Conference year, and we need to know who is retiring so we can arrange necessary approvals and make timely reports to the Board of Pensions.

Apportionments: ¶2553 requires that you pay the Conference any unpaid apportionments for the 12 months prior to disaffiliation, as well as an additional 12 months of apportionments.

Pension obligations: Your church will pay a withdrawal liability in an amount equal to its pro rata share of any aggregate unfunded pension obligations to the annual conference. Per ¶2553, the General Board of Pension and Health Benefits shall determine the aggregate funding obligations of the annual conference using market factors similar to a commercial annuity provider, from which the annual conference will determine the local church’s share. ***Note-calculating the funding obligation based upon market factors similar to a commercial annuity***

**provider is likely to lead to a figure higher than your current funding plan. Your current funding plan is calculated using an entirely different methodology.** We bring this to your attention now so there are no surprises.

Property: Your church has the right to retain its real and personal property without payment to the Conference. This includes vehicles, cash, equipment, etc. All property transfers must be completed **prior** to the disaffiliation date.

Debt: Your church must satisfy all debts, loans, and liabilities, or assign and transfer them to its new entity, **prior** to disaffiliation. This would include real estate debt, equipment leases, judgments, liens, insurance claims, etc.

If your church has received any grant from the Conference within the last 10 years related to church start-up, congregational development or church vitality, those will need to be paid back to the Conference.

Paragraph 2553 requires that all payments for the above have to be completed prior to the date of disaffiliation.

Once all payments have been made, property transfer completed, and all other liabilities resolved, your church property will be released by the Conference Trustees from the trust clause contained in the Book of Discipline.

We recommend that the timing of payments, transfer of property, disaffiliation date, and final release be after the required Annual Conference approval of the Disaffiliation Agreement.

The reason is that, if for some reason, the Annual Conference does not approve the Disaffiliation Agreement, you will not have paid large sums of money, transferred property, etc. We will not have to “unwind” the transactions (which may not be possible for the pension obligation after it is paid into the plan). We will need hard dates built into the agreement by which those items have to be completed, i.e. a “Closing Date.”

To maximize planning, we do include a way for either party to terminate the Disaffiliation Agreement and halt the process if some need to do so arises. It may be that your church enters the process and decides that it is not a process you ultimately wish to follow or complete.

### Annual Conference

As noted earlier, JC Decision No. 1379 imposed a requirement that the Disaffiliation Agreement be approved by a majority vote of the Annual Conference itself.

We view this as a final step in the process of obtaining required consents. As a matter of timing the Annual Conference vote, we recommend that the vote occur prior to paying money, making property transfers, etc.

As you may be aware, to have a matter voted on at Annual Conference, a petition must be filed with the Secretary of the Annual Conference. Our conference has adopted a set of long standing rules and procedures governing the filing and consideration of petitions. The rules require that petitions for the June session of the Annual Conference be submitted by April 1, otherwise the



petition cannot be brought to the floor.

An example of the timing is that to hear a petition at June 2021 Annual Conference, the petition would have to be submitted prior to or by April 1, 2021.

Nothing regarding this timing prevents you from beginning the process. There will be many moving, complicated parts which will take time to sort out. Moving through the process slowly and deliberately is in the interest of all sides.

Once a Disaffiliation Agreement is signed by your church and the Conference Trustees, we will assist you in preparing the petition. The Conference may construct a special form to which we attach the agreement itself for filing.

***Note-The Disaffiliation Agreement will not be confidential.*** JC Decision No. 1379 requires that the Annual Conference ratify the ***agreement itself*** through a majority vote. This means the terms and conditions of the agreement will be public. Thus, our suggestion of attaching the agreement draft to a pre-printed petition form.

After an affirmative Annual Conference vote, we will complete the outstanding items in the Agreement that need to be completed.

***Another timing issue related to both property transfers and treatment of debt is that you will need to hold a specially called charge conference to approve both of these items. Since your church will still be in The United Methodist Church, you will still have to comply with the provisions of the Discipline until the disaffiliation is complete.*** We are happy to help you through this part of the process.

#### Other Considerations

By your disaffiliation date, your church will need to have removed the Cross and Flame logo from your signs and/or building, the mention of The United Methodist Church from your signage, websites, domain names (including “UMC”), stationary, etc.

We also encourage you to review your insurance coverage on the front end of this process so you are aware of policy renewal dates and can discuss insurance changeover well in advance of the disaffiliation date with your insurance agents. Some insurance policies, like workers compensation, are complicated to change over in the middle of a policy year. You may have to complete new applications, obtain new quotes, or complete governmental forms for regulating agencies.

You will need to obtain new state and federal tax identification numbers for your new church entity. This will include new withholding accounts with the state and federal taxing authorities. You will want to make sure you change over bank accounts, payroll accounts, and the like.

You will also need to apply for tax exempt status with the Internal Revenue Service. As of your disaffiliation date, you will no longer be included in The United Methodist Church exempt entity group ruling. In short, you will need to get your own 501(c)(3) status. Your accounting or legal advisors can guide you through this process.

Further, you will need to apply for tax-exempt status in the counties in which the local church owns property.

### Conclusion

This is a path your church will walk with the Conference. Our commitment is to start and finish this journey with your church, wherever that leads. We will deal openly and honestly with your church. Nothing in the process is intended to stonewall you or delay your exit.

While we wish you would not leave the denomination, we also recognize and respect your decision. This is a pathway open to you by valid action of the General Conference.

Many issues and questions will arise as we journey together. Paragraph 2553 is broad and does not deal with specific, real-world issues. We will make all reasonable efforts to work through issues with your church.

Finally, Paragraph 2553, is under review by the Judicial Council, our denomination's judicial body or "court." Their ruling may change what has been outlined in this packet. Your District Superintendent will be in contact with you if or when we know more.