

EARLY DEBT RETIREMENT EFFORTS SPAWN SPENDING DESIRES

Liz Washington Arnold

The Citadel, The Military College of South Carolina

Early Debt Retirement Efforts is a decision case focused on methods to unify a divided congregation and determine the resulting financial and organizational costs when leadership ignores its role in The Church. This is currently a medium size church (approximately 400 members) with a \$300,000 annual budget. The Church exists within a very large denomination but has its own somewhat democratic church council with denominational structure and rules. During its 26 year history, The Church has only had 4 Pastors, and the current Pastor has been there 5 years

This case provides the user with a financial and leadership situation where cost issues have been created and organizational unity has been severed. Typical concerns preceding the problems, how to handle a divided organization with financial problems, and the total cost of the issues are explored. While the situation does not have a distinct time frame for resolution, time is of the essence since unification of the organization is imperative to the future of the current leader and The Church.

The case is based on an actual situation and uses primary data obtained through field research and on-site interviews. It can be used in a management, financial accounting or cost accounting class. While the information presented is relatively straightforward, and there is no clear decision point. There are sufficient extenuating circumstances to make for a good discussion of critical factors in this type of decision analysis

CONGREGATIONAL MEETING

“A large debt is a sign of a prosperous church. What will we do with all that money if we pay off the church’s mortgage?” said Ethel, a member of the congregation, as she spoke on behalf of the Pavilion-Playground Committee’s (PPC) recommendation.

“If we want to attract more young people to our church we need this type of playground and the pavilion will give them a place to sit and watch their children. If we build it, they will come!” said Ernie, one of the committee members.

“But we are having a problem meeting our budget this year. It’s only midyear and we are already behind over \$25,000 dollars in our giving this year and we expect

next year to be even worse.” said Nancy, chairperson of finance. She continued, “To spend \$170,000 on a playground and pavilion at this time, when the economy is bad and others have contributed to pay off the mortgage is not the best thing to do.”

Dana, one of the church trustees, spoke up and asked “What happened to our long term goal to create additional parking and extend the fellowship hall to increase the space? Those were supposed to be our next major projects. We don’t have enough parking for either of our services and the fellowship hall is too small now for most of our events. If we vote for this plan to building a pavilion in back of the fellowship hall and put the playground on the side of the fellowship hall, then the playground will block the extension of the fellowship hall and the pavilion will take up the area intended for the parking lot extension? I know we need a new playground, but does it have to be there? and the pavilion is not something we need at this time.”

Peggy, Chairperson of the PPC, explained that “The committee has decided that we have to vote on this (the pavilion and the playground) as an all or nothing project since we (the committee) have invested our time in doing this research. Besides, it will help the church budget because the payments will be lower even if we add another \$170,000 to the mortgage?

“But” replied Nancy, “it will cost us much more in the long run.”

Peggy responded with “If we refinance the mortgage, instead of paying it off in 3 years, we can stretch our payments out to 7 or 10 years and our payments will be lower and we won’t have to struggle to meet the budget.”

Harry, one of the charter members asked Darlene, “what is going on here, I thought we came to vote on the proposal for a new playground?”

Harry was not the only one confused as most of the congregation was unaware of the turmoil that had been going on within the church for the last few years and had pinnaced over the PPC’s existence and recommendation to build a \$45,000 playground and \$125,000 pavilion. Some background should help.

CHURCH HISTORY

This is currently a medium size church (approximately 400 members) with a \$300,000 annual budget. The Church exists within a very large denomination but has its own somewhat democratic church council with denominational structure and rules. During its 26 year history, The Church has only had 4 Pastors, and the current Pastor has been there 5 years.

The Church was formed about 26 years ago with a small gathering of persons originally meeting in members' homes with the local district superintendent acting as their pastor. The Church was started within a very large denomination. Less than a year later the group had grown to approximately 35-40 regular attendees and the first appointed pastor of The Church, was assigned, Pastor Nate. Under his pastoral guidance, a name was chosen, goals and priorities were set and a larger facility to hold church services was rented. About a year later, The Church became chartered within the denomination with 70 persons officially listed as charter members.

After more growth and another move to a larger rented facility, The Church in its 5th year sent out "Crusade Visitors" to get pledges to build a new Church facility on a site that had been purchased a year earlier. The building campaign was a success and in September of that year, a ground breaking ceremony was held as The Church had secured a 30 year fixed rate mortgage (\$500,000 at 10 %) and building on the new facility started. In December of the following year, The Church held their first worship service in their new church building.

The small congregation struggled for the first couple of years to pay the mortgage (approximately \$4,400) and other obligations of the church. But as the membership doubled in size, meeting the bills became easier and many ministries and church programs were developed. After Pastor Nate left, Pastor Connie came to the church and continued to lead the church as it continued to grow and worked with the congregation to enlarge the church facilities, ministries and programs.

CHURCH GROWTH & EXPANSION

Under Pastor Connie's leadership, The Church not only continued to grow, but expanded its ministries and outreach programs. The Church started another campaign drive to add an education/fellowship building to the existing facility as it outgrew the original church rooms. More office space and rooms were needed for these new ministries and programs. The plans for the new facility included long-term goals for future expansion and land improvements. An example of the strategic plan agreed upon by the members included having the new addition built in a location and manner that could allow it to be expanded on one side without significantly altering the rest of the building if needed. This would result in a substantial cost savings in the future.

The campaign fund raiser was a success and the money was raised over a 3 year period to pay for the new building. In addition, additional monies were raised to improve and remodel the existing church facility. Pastor Connie was at The Church for over 14 years and under her leadership and nurturing The Church grew to over 400 in membership and moved to two services to accommodate the growth.

The various programs and ministries of The Church flourished. The Church was very active in the community and in denominational activities and events. As customary in this denomination, there were many internal as well as outreach ministries. Among the programs started 3 years before Pastor Connie left was an annual Dave Ramsey seminar (money management and living debt free) for interested members and community persons. Pastor Connie and The Church leaders also developed a plan to pay The Church mortgage off early through special voluntary contributions. These contributions went directly to the bank to reduce the principal owed on the loan.

After paying on the mortgage for 19 years, it was determined that through these generous donations The Church was going to be able to pay off the mortgage in 3 years, which meant paying it off 8 years early. However, several of the charter members had moved or passed away and now some of the recent church members saw this “early debt retirement” as an opportunity to fulfill some of the goals they had for the church (superseding the previous long-term goals for the church) and extend the mortgage another 8 years. What started out as a \$10,000 Playground Committee, ended up as a \$170,000 Playground/Pavilion Committee and divided the church into 2 factions (the church vote was 52 to 47 in favor of the project).

After Pastor Connie left, another Pastor, Pastor Paul, was appointed to serve The Church and after a couple of years, his leadership (or lack of it) and ministering skills arose as concerns among some of the congregation members. Although he was paid as a full time minister for The Church, Pastor Paul had several non-church obligations that required his time. Eventually more and more persons became concerned as they were paying for a full time pastor, but Pastor Paul did not seem to have time for most of his pastoral duties and did not want to be involved with the finances of The Church. And as in most situations where the formal leader does not accept the leadership position, someone else will assume the role/responsibility. This person at The Church was Peggy, a recent new member of The Church, who was at that time the chairperson of Pastor Parish Relation Committee. This was 3 years before the congregational meeting.

In the three years leading up to the congregational meeting, Peggy had assumed a noticeable leadership role in most aspects of The Church’s activities. In regard to various committees at The Church, Peggy was either a member of the committee or her husband was a member of the particular committee or she acted as an advisor to the committee. For instance, even though she was not on the finance committee or the worship committee, she sat in on their meetings. When this became noticeable and discussed with Pastor Paul, he said he wanted to take a “wait and see approach.”

PLAYGROUND COMMITTEE

When the Church Council decided to form a Playground Committee a year ago with The Children's program leaders, Linda and Arlene, as co-chairs, Peggy volunteered to be on the committee. The Church had already started a fund raising campaign for the playground. It was discussed at that council meeting that the playground might cost between \$5,000 and \$10,000. The playground committee's charge was to look at various options and bring a recommendation back to The Church council. At the two Council Meetings leading up to this congregational meeting, The Playground Committee had reported that they were progressing. However, three weeks before the congregational meeting, The Church Council was called to a special session to decide on purchasing a playground and pavilion. At that meeting it was explained that "the playground committee" had become "the playground-pavilion committee" and that Peggy was the chairperson.

The Committee presented their proposal with an approximate cost of \$190,000 (\$145,000 for the pavilion and \$45,000 for the playground) and said it was an all or nothing deal. The committee recommended funding their proposal by refinancing The Church's mortgage for 10 years instead of the early payout of only 3 years to go. There were immediate reactions to the proposal as council members and other church attendees began to take sides. Most of the folks at the meeting were hearing about the pavilion for the first time and had many objections and questions. All agreed that we needed a playground, but why one so expensive? Why did we have to have a pavilion in these recessionary times? Why couldn't we build these items instead of purchasing them? Why was it an "all or nothing" proposal –playground and pavilion? Why the location selected for the playground (it would prevent the expansion of the current education/fellowship building) and why this was selected before we completed other projects (parking lot, etc.)? It was decided that this issue needed to be brought before the entire Church congregation. The Pastor was present at the meeting and agreed that this should be put before the congregation for a vote.

Which is why the congregational meeting was occurring for the church attendees to approve or disapprove the purchase of a playground and pavilion at a revised cost of \$170,000 (\$45,000 for the playground and \$125,000 for the pavilion) by refinancing The Church's mortgages? The \$170,000 would be added to the mortgage balance at the time of refinancing. It was noted at the meeting that the finance committee opposed the purchase and the trustees of the church had a split vote on the issue. Although the committee presented their proposal as an all or nothing project, the purchase of the pavilion and the playground would be from a different suppliers.

Peggy explained that refinancing the mortgage and adding the playground and pavil-

ion to the mortgage balance would also help The Church's current budget problems as this would reduce the monthly payments from \$4,400 to around \$3,400. This would be a \$1,000 a month savings if we refinanced everything for 10 years. Peggy said she had talked to several banks and The Church could get a 4.5% loan from one of them.

Other Church Information

- Annual budget - \$300,000
- Number of Pastors – 1
- Church Services – 2
- Number of regular attendees – 300
- Number of children attending regularly – 25
- Church location – small town with several other churches and 2 churches of the same denomination.

THEORY

How did this go from a thriving church working together to a divisive organization with people actively not contributing any more to The Church's offerings? What are the dollar costs? What are the other costs, if any?

While "conflict is inevitable in groups and organizations due to the complexity and interdependence of organizational life, theorists have differed about whether conflict is harmful or beneficial to organizations...and empirical research has reflected this contradiction" (Jehn, 1995, p.256). There is research that has shown evidence that "diminished disagreements" (conflict avoidance) actually impairs the quality of a group's final decision (Gero 1985, Leung 1988). So, is conflict healthy and if so, when does it become harmful to the organization? Are church congregations and/or their leader held to a higher standard than other organizations? Should church congregations avoid church conflicts?

While there are many articles and books on small group mediations and conflict resolution, there is a subset of conflict resolution literature that has undertaken the task of resolving unwholesome conflicts within congregations. However, the literature does agree that once the conflict has become unwholesome to the congregation, a third party may need to intervene to lead the congregation back to healthy ground (Sumii 2002 and Public Report 2007). Sumii and the Public Report not only discuss the issue in detail, but both provide various resources to aid the congregation on

this journey. However, the solution to a congregation reach settling conflicts in a healthy manner depends on early recognition and graceful leadership (Sumii 2002 and Portrier 2006).

REFERENCES AND ADDITIONAL READINGS

- Gero, A (1985). Conflict avoidance in consensual decision processes. *Small Group Research*, Vol. 16, No. 4, 487-499.
- Jehn, K. (1995). A multimethod examination of the benefits and detriments of intragroup conflict. *Administrative Science Quarterly*, 40, 256-282.
- Leung, K (1988). Some determinants of conflict avoidance. *Journal of Cross-Cultural Psychology*, 19, 1, 125-136.
- Public Report. 2007. Conflict in Congregations. Center for Congregations. www.centerforcongregations.org.
- Sumii, G. (2002). Preventing unhealthy church conflict resolution. California Southern Baptist Convention, Church and Pastoral Care. gsumii@csbc.com.
- Poirier, A. (2006). *The Peacemaking Pastor: A Biblical Guide to Resolving Church Conflict*. Grand Rapids, MI: Baker Books, Baker Publishing Division.
- Needles, B. and Powers, M (2010). *Financial Accounting* (10th Ed.). Mason, OH: South-Western Cengage Learning.