

**FINAL CONSULTATION REPORT
FOR THE HILLSBORO SEVENTH-DAY ADVENTIST CHURCH**

**By Monte C. Sahlín
Assistant to the President
Ohio Conference of Seventh-day Adventists**

July 1985

CONTENTS

Introduction - Page 1

Purpose - Page 2

Objectives - Page 3

History and Background - Page 4

Analysis of the Problem - Page 14

Alternatives - Page 20

Recommendations

... to the Local Church - Page 24

... to the Ohio Conference - Page 26

... to the Revolving Fund - Page 27

Summary - Page 29

INTRODUCTION

During a break in the Ohio Conference Executive Committee meeting of April 21, 1985, Elder Jose Osorio, pastor in the Wilmington-Hillsboro-Washington Court House district, requested that I assist him with a mini-consult at the Hillsboro Church. He stated that the church was not paying off its mortgage from the Columbia Union Conference Revolving Fund, and that Elder Russell G. Lucht, the conference treasurer, had told them that they must come up with some plan of action and recommended that they request consulting help from one of the Assistants to the President.

A week later, on April 30, I met with Elder Osorio and Harold McKay, the first elder, at the Hillsboro church. After carefully researching the files in the conference office, I met again with Elder Osorio on June 3. This time Michael Prickett, the church treasurer, was present. He had reviewed the records of the local church. I have also conducted interviews with the two previous pastors; Ken Studer, who was pastor during the building project, and Elder Wayne Spangenburg, who became pastor soon thereafter. I talked by phone with Mrs. Peggy Lee, office secretary at the Columbia Union Conference Revolving Fund, and obtained from her the complete accounts related to the Hillsboro Church building project.

The Hillsboro congregation is preparing a specific proposal to the Executive Committee. This report is meant to provide an objective review of the background to and elements of the problem.

PURPOSE

The Hillsboro Adventist congregation faces a grave crisis; its very existence is threatened. And, because in the Body of Christ "if one part suffers, every part suffers with it" (I Corinthians 12:26), the Ohio Conference also faces a grave crisis. For the same reason, the Columbia Union Conference Revolving Fund also faces a grave crisis; a crisis of credibility and trust. The purpose of this consulting project is to determine how the crisis developed, examine its dimensions and recommend some actions that each party might take to resolve it.

OBJECTIVES

When I met with the pastor and first elder at the Hillsboro church on April 30, 1985, we agreed to the specific objectives for this project. These are . . .

1. Give a report of the situation to the conference officers, carefully reviewing the past history of the church building project and the loan.
2. Assist the congregation in surfacing, exploring and researching all the options for responding to the current crisis.
3. Help the pastor and church leaders develop a written plan for presentation to the Ohio Conference Executive Committee.
4. Identify resources to train lay leaders to direct small group Bible studies as a major strategy for church growth.

The last objective will not be addressed in this report due to the fact that is somewhat different than the others. It will be presented in a separate report for the pastor and church board.

HISTORY OF THE HILLSBORO CHURCH BUILDING PROJECT

The Adventist congregation in Hillsboro has never numbered more than 36. Hillsboro is a small town with a population of 6,400 in rural Highland County (population 33,500) in southwest Ohio. The major economic activity in Highland County is agriculture. It has over 300,000 acres in farmland; the seventh largest chunk of farmland in the state. There are also about 40 manufacturing establishments, but 83% of these have less than 100 employees.

Three-quarters of the farms in Highland County are family farms, and due to the current problems of small agribusiness in the U.S., the people are poor. Annual income is well below the median for the state; unemployment is high. The county also has a high percentage of retired people; about double the usual rate for Ohio counties.

A large number of the people in Highland County are unchurched (64%). Among those who are members of a church, more than half belong to United Methodist congregations or independent Churches of Christ. Only 3% are Roman Catholics; 21% attend mainstream Protestant churches, and 12% are conservative Protestants. This means that the prognosis is not good for an evangelistic strategy which appeals primarily to conservative Protestants and nominal Catholics as Adventist strategy has over the years.

Over the past fifteen years accessions to the Hillsboro Adventist Church have averaged less than one per year. There have been no baptisms since 1980. Of the current membership of 27, six live out of state, 10 have not attended even once in two years, and another woman dropped out last fall. The active members include three couples and a single woman between 30 and 65 years of age, as well as two women in their eighties.

The members of the Hillsboro Church have been faithful supporters of Christian education over the years. Two families have sent all their children

through Adventist schools at considerable cost. One family currently has children enrolled at Mount Vernon Academy. Another family moved out of the community two years ago, and transferred their church membership, so that they could enroll their daughter in Spring Valley Academy.

For a number of years the church met in a converted garage outside the town. The members felt that they could not attract new people in that facility and expressed the need for "a more representative building." On September 12, 1968, the conference president and treasurer, Elders Philip Follett and Arthur E. Harms, met with Pastor Kenneth Lee and 13 adult members to discuss the feasibility of a building project. It was estimated that they would need \$41,500. The existing building could be sold for \$9,000 it was believed, and the conference would provide \$6,400 under the current policy. This meant that the congregation would have to raise about \$26,000. The conference officers urged the group to start a building fund as soon as possible and went with church leaders to look at several pieces of property.

The choice of land had narrowed to a site north of town, and the site eventually used on the south edge of town, on April 30, 1970, when the conference president wrote the pastor and outlined ten "steps which should be taken between now and the time construction will begin on the new church." Elder Follett wrote, "I personally favor the land south of town."

On May 13, 1970, Follett and Harms again traveled to Hillsboro and met with the church board to consider the two sites. Seven church leaders were present, and it was voted "not to go ahead due to finances."

A year later the conference president wrote to the pastor advising him to look carefully at an offer from the Nazarene Church to sell their building. "Your offer of \$25,000 would a reasonable one," wrote Follett. "My guess is that you could settle down somewhere between \$27,000 and \$30,000 to really talk business if

they genuinely want to sell." (This is the only mention of this option in the record. There is no record of further investigation of this idea.) He also noted that he was glad to know that the pastor would be "planning for some baptisms before too long."

In September, 1971, the conference Executive Committee studied proposed sites, and "voted that we encourage the church to look with favor on the purchase of the land on Highway 247. The committee felt this was the wiser course of action in view of the size of the congregation, their financial potential, and the need for constructing a building as soon as possible." (Letter of 9-23-71 by P. Follett) Sale had been arranged for the old building. It was purchased by the Veterans of Foreign Wars, Post 9094, for \$12,500 in the fall of 1971.

At the October, 1971, meeting the Executive Committee voted to approve "the action of the Hillsboro Church in business session to purchase five acres at a price of up to \$10,600." The conference president wrote, "we understand that you have good reason to believe that the State Highway Department will purchase three acres of this land from you, and that you anticipate receiving approximately \$6,000 for this land." (10-25-71) Eventually, the church would actually get \$10,500 from the state.

On October 29, 1971, the conference president wrote to recommend "inexpensive church building contractors," but it was not until March of 1974 that the Executive Committee voted approval of the proposal for a church building project in Hillsboro, "in principle, with the understanding that \$28,400 would be covered by pledges or planned giving over the next several years" and a recommendation that the church invite the stewardship resource person for the conference to "meet with your church to discuss not only long-range regular giving, but also special gifts for this project." In addition to the regular contribution of the Ohio Conference (20% of the cash outlay on the project, less the amount

received from the sale of the old building) \$3,000 was committed from the General Conference Church Extension Fund.

In the same letter, the conference president also voiced some subtle concerns. He asked, "Is the \$54,300 cost estimate for the building a contract price?" This would prove to be a very important question! He also suggested "the possibility of erecting a pole-type building for \$20,000 to \$25,000. Of course, it won't be nearly so nice as the brick-faced colonial type building you are envisioning," wrote Elder Follett. "Probably your people wouldn't really be interested in that kind of construction at all. I am only suggesting that there might be an even less expensive way to go about building your church."

By June 10 the wheels were in motion. The conference president gave instructions to the treasurer to "get the Hillsboro Church plans off TODAY to the union," and wrote to Elder A. B. Butler, the union conference assistant treasurer, that "it is very urgent to start construction within the next few days in order to obtain the contract price they have negotiated. I will be telephoning you later this week and hope you can give approval for the starting of this building project."

Elder Harms did get the project proposal in the mail on June 10. It states that the current church membership in Hillsboro was 31, and proposed a seating capacity of 112. The cost of the project was placed at \$56,600 — \$5,000 for the land, \$46,500 for construction, and \$5,100 for furnishings. The document states that the church had \$17,000 in cash on hand, \$7,000 in firm pledges to be paid immediately, and \$3,100 to be donated over the next several months. In addition, the land was paid for. The Ohio Conference had assigned \$14,900 for the project, and it was proposed to borrow \$10,000.

Within a week Elder Harms also sent off a loan request to the Columbia Union Conference Revolving Fund. Evidently there were some problems with this application, and it was withdrawn. On August 6, 1974, another loan request

was submitted, and this time it was signed by the conference president. It asked to borrow \$12,000 instead of \$10,000, and down-sized the amounts shown for "cash on hand," including both the local church and conference shares. It indicates that \$5,500 of what had previously been listed as "cash on hand" were actually special gifts that had been pledged. The loan was to be repaid in 5 to 7 years at \$200 per month through the local church budget. Pledges from church members totaled \$231 per month.

A letter dated the same day from Elder Follett to Elder Harms states that the Hillsboro Church actually had \$14,000 on deposit in the Association. He also reported that Elder Sid Young, a stewardship specialist for the conference, had visited some of the members with the pastor and that one sister had pledged an additional \$3,500. "Unified Church Structures, Inc., will send a representative here within a few days, asking someone here to sign a contract," the president told the treasurer.

By this time a new pastor had taken leadership in Hillsboro, Pastor Ken Studer. On August 7, 1974, he wrote a memo detailing the cost factors on the project and setting the total at \$52,375 — a few hundred dollars more than the proposal and the loan application. He also gave more detail concerning the pledges that had been made by the church members. Five thousand dollars were to be given within six to twelve months; another \$2,750 in 12 to 24 months; and a final \$2,750 in 24 to 36 months. He did not clarify how this related to the \$231 per month pledges toward the Revolving Fund loan. He stated that in addition to the \$14,000 on deposit with the Association, the church had made a \$1,500 down payment on pews and had \$2,000 in cash in its building fund.

By the ninth of August, the deadline on the building contract had been extended 30 days, and the conference president was giving instructions that the monies to be borrowed from the Revolving Fund; and those on deposit with the

Association were to be sent to the local church and passed through their books back to the conference to be held in escrow for the contractor. The contracting firm was requiring this, perhaps because the local church is not a legal entity. On August 12, 1974, the contract between the Association and Unified Church Structures, Inc., of Mount Clemens, Michigan, was executed. It included a clause in which the Association agreed that "the site will be ready to receive the structure not later than September 18." A check for \$4,440 was sent the same day to Mrs. Virginia Aldridge, the local church treasurer, to be used as a down payment on the contract.

Additional borrowing would be necessary for short-term cash flow, the conference president advised Pastor Studer on August 14. "You will probably have to borrow most of the additional \$10,500 which will be repaid in pledges over the next 36 months, as well as a portion of the (funds) to be provided by the Ohio Conference." This was to be paid back as soon as the appropriations and pledges came through.

By September 23 the check for the first Revolving Fund loan of \$12,000 had arrived and been processed through the conference office, the local church treasurer, and back to the conference office to be held for the completion of the contractor's work. On September 25 the conference treasurer wrote to Pastor Studer that "the Association will send to the Hillsboro Church treasurer all funds in excess of the total of \$22,000 required by the contract with Unified Church Structures, Inc. The church treasurer will notify us when she needs funds to pay UCS."

The official request to the Revolving Fund for the additional short-term borrowing was submitted October 31. The application form asks, "How do you propose to pay off this loan if granted?" The answer was, "Will pay interest only for time being, until conference appropriation is made." The note was signed

November 5, and Mrs. Aldridge was sent the check on November 8. The pastor reported to the conference treasurer that the project was "coming along fine. The church is under roof now. We are still planning to be in it by the first of the year."

In December the tone of the pastor's report was different. On December 11 he writes to Elder Harms stating, "We need more money for the Hillsboro building project." He stated that they needed about \$24,000 more and that a church member was "donating an investment property valued at about \$10,000 - \$12,000." He declared that this would allow them to "finish the church." On December 23 he wrote a detailed memo listing items that had already been paid, outstanding accounts, and anticipated expenses to complete construction. This revealed a substantial increase in the cost of the project. Now it would cost \$80,000 instead of \$52,000. Amazingly, there is no reaction to this in the record. By January 10, 1975, Elder Harms was submitting yet another loan application to the Revolving Fund for an additional \$12,000. The application states that "this loan is to be repaid as soon as a piece of property is sold. This property was donated by a (church member) and is now in the hands of a real estate man who feels the property will sell very quickly." Only interest was to be paid on the loan until the property was sold. The check for \$12,000 had arrived in the conference office and was sent on to Pastor Studer on January 17.

The problems with the project seem to get more complicated at this point. The donated property sells for only \$4,500 instead of the anticipated \$10,000 or \$12,000. There is nothing more in the record until November 11, 1975, when the pastor submits a final report on the cost of the new building. It is now over \$92,000, including "a \$1,000 bookkeeping error by (the local church) treasurer. Could (another) \$9,000 be borrowed from the Revolving Fund or the conference? A (church member) has pledged a Florida property she was offered \$9,000 (for) two

years ago." (There is no record that this property was ever sold and the funds put toward this project.)

The conference Executive Committee voted to approve the additional borrowing, and "to appropriate an additional \$2,474.58 to complete the conference's 20% participation." (Letter of 11-18-75 from P. Follett.) Implied in this action was also permission to use the conference appropriation for immediate bills and not pay off the \$10,000 note obtained in November. The conference treasurer was to "arrange with the Union Revolving Fund officers for this final \$9,000 loan to be repaid as a balloon payment several years in the future" in order to give time for the sale of the Florida property. (No copy of the this fourth note exists in the record.) "We are all delighted to have a representative church building in the Hillsboro area," wrote the conference president. "We rejoice with you in the persons baptized into the message during this year in Hillsboro." During 1975 a total of seven baptisms were held in the new church; the largest number of accessions, many times over, in any single year in the history of the congregation.

The Revolving Fund payment records show that the Hillsboro Church made payments on the original loan of \$12,000 totaling \$524.23 in 1974; \$1,436.21 in 1975; \$1,888.66 in 1976; and \$1,421.71 in 1977. Monthly payments were made during those years. Until August 1, 1977, no payments were made on the other three loans, and no interest was charged. Monthly payments covering the interest charges were made in the last five months of 1977.

In 1978 only three payments were received on loan ç1, totaling only \$278.84, and only two payments on loans ç2, ç3 and ç4, totaling \$391.11. (A total for the year of \$669.94.) In 1979 a total of \$1,747.97 in 12 payments was spread over the four loans. In 1980 it was 16 payments and \$2,369.08. In 1981 there were 18 payments totaling \$3,337.38, and the interest rate went to 8.5%

By August 31, 1982, when the Revolving Fund consolidated all four loans, the original \$12,000 note had been reduced to \$5,326. In that year the interest rate was hiked to 11% and the Hillsboro Church made a total of 12 payments, ranging from \$40 to \$340 each. During 1983 seven payments were made on the combined account. Each payment was \$400 or \$500. During 1984 seven payments were made; the first two of \$500 and the last five of \$700.

The Hillsboro Church knew of its problem, and in 1978 began to take steps to gain additional income to help pay off the Revolving Fund. On October 10 an agreement was confirmed with the Peace Lutheran Church for rental of the building on Sundays and one evening a week at \$100 a month plus 50% of the utilities. This income has consistently been applied toward the loan payments.

Policy changes at the Revolving Fund did not improve the situation. In January of 1980 and February of 1982 the Fund sent form letters to the Hillsboro Church, along with other borrowers, announcing significant increases in the interest rate. By January 1, 1982, it had nearly doubled from the 6.5% on the original notes to 11%. The additional interest charges were simply being added to the principal of the loan, and instead of paying off what it owed, the church found itself borrowing more money without even asking.

The management of the Fund must have observed the situation because on May 5, 1983, Elder Donald J. Russell, treasurer of the Columbia Union Conference, wrote to the local church treasurer about it:

"The original \$12,000 was loaned back in August, 1974. Subsequently, \$31,000 additional was borrowed, and now, after these many years, there is still a balance of \$44,362.36 as of March 31, 1983. The policy of the Revolving Fund is that these loans must be repaid on a regular amortization schedule for a period of eight years. At the time, however, when this loan was taken out, the loan repayment period was five years.

"It is imperative now that this loan be set up on an amortization schedule that will liquidate this debt in the next eight years. That will require a monthly payment of \$706.88. Since this loan is so old, we would actually like to see it paid off faster than

that; but if that would work a hardship on you, we would be willing to settle for an eight-year schedule.

"We would appreciate your cooperation in discussing this matter there locally and getting word back to us at your earliest convenience as to your concurrence with this arrangement."

In October the conference treasurer, Elder Russell G. Lucht, noted that no response had come to the letter from the Union Conference treasurer, and wrote requesting a meeting with the church board. At the writing of this report, the local church had not yet formulated a response to Elder Russell's letter. It is one of the objectives of this consultation to assist the pastor and church leaders in developing a reply.

ANALYSIS OF THE PROBLEM

Today in Hillsboro we have a half-dozen giving units trying to carry an expanding load of debt; a Revolving Fund up against an economy not as friendly as it once was; and a local conference faced with having to make some very difficult, "no win" decisions. It could be compared to the situation faced by the World Bank in Latin America!

One of the major reasons why this problem exists is the cost overruns on the original construction. In the project proposal document for the Blueprint Committee and the initial loan requests, the cost of building is placed at somewhere between \$51,600 and \$52,375. Then in December, 1974, a memo from Pastor Studer suddenly jumps it to \$80,092. When the third loan application is prepared on January 10, 1975, evidently Elder Harms found this increase somewhat unbelievable because he enters the cost factor at \$75,000. Yet, by the end of that year the conference Executive Committee is willing to accept a cost factor of nearly \$93,000.

What were the overruns? When Pastor Studer's original cost analysis in his letter to the conference president of August 7, 1974, is compared with his final report on November 11, 1975, many of the actual cost items are very close to the original estimates, and some are actually less costly than estimated. There are three cost areas that account for nearly \$24,000 in overruns. (A figure close to the amount of the extra borrowing not in the original plan.) There are two other areas of cost overruns that are more understandable and which increase the original cost estimate by less than 10%.

The largest single cost overrun was in the excavating of the building lot. A bid for excavating had been obtained from a friend of the church. It was for \$500. Actual costs ran to \$12,091. When the excavator began what he thought was a rather simple grading job for the basement and footers of the new church

building, he discovered that under the site was a very large deposit of solid rock. Larger earthmoving equipment was brought in, but this did not make a dent in the rock. Finally a blasting permit was obtained and \$550 of dynamite was purchased and used to remove a portion of the rock. Even this did not seem to really remove the depth that was needed, so a decision was made to relocate the building from where the architect had placed it on the lot. When this move was made it necessitated the bringing in of a large amount of landfill, and this cost nearly \$4,000 that was not planned. Evidently no one from the local church felt a need to confer with any conference staff person during this problem, or asked how this was going to impact the overall financial arrangements.

Almost as much cost overrun happened in the finishing of the building. The original plan included \$2,230 in bids for doors, windows, dry wall, etc. All of the labor was going to be donated by church members under the supervision of the chairman of the building committee, who had some construction experience. When he dropped out of the church during the early stages of construction, some skilled labor had to be hired out. It also appears that there was little control over the purchasing of materials: the expenditure on lumber and supplies alone is more than double the total estimate for this area of the project. Instead of \$2,230, a total of \$9,284 was spent on finishing-out the building.

A similar problem developed with the electrical work, and it resulted in a cost overrun of \$5,264. The church member who originally served as chairman of the building committee worked at a vocational school, and had arranged for the electrical work on the church to be a student project. One of the faculty members, a licensed electrician, would supervise the work and see that it met code requirements. The church would provide only the materials, while the students did the work. When this church member dropped out, the church was forced to find someone else to do the electrical work. "We got bids from several sources,"

remembers Ken Studer. "But, they were all very high. Then someone put us in contact with an electrician on the staff of Kettering Medical Center, but it still cost several thousand dollars for his labor." (Interview of 5-19-85.) More than \$5,000 of unplanned cost.

When the contract was finally negotiated with Unified Church Structures, Inc., it was about \$2,000 more than the original estimate. That is not surprising to people who have dealt with construction firms. The \$3,000 in costs that the building committee did not think to include in the original estimate is also not surprising to experienced managers of building projects. This includes driveway paving, the blueprints, a survey of the lot, fees paid to the State of Ohio for inspection approvals, etc.

There was a lack of management in this project. No person was the general contractor for this project. Unified Church Structures, Inc., was responsible only for the framing and roof. When that was done, it collected its money and went back to Michigan. After that more than \$50,000 was spent on construction. A church member with "some construction experience who worked at a vocational school" was chairman of the building committee, but he dropped out even before Unified Church Structures came on the scene.

The pastor was left to manage the project, but he (1) had no real experience or training in construction management; (2) was busy in what proved to be the biggest evangelistic year in the church's history; and (3) had another, larger church in the district to care for in addition to Hillsboro. The conference staff did not have a person skilled in the management of construction projects.

Who was really in charge? Who had the authority to nearly double the cost of the project? Who asked the difficult questions, and calculated the long-term effect on the church? The unfortunate answer to all of these questions is no one.

Loan policies are not helpful. Why is a building project originally approved by the General Conference Blueprint Committee on the basis that it will borrow \$10,000 allowed to add \$33,000 in loans without going back through the process of scrutiny? Would the Blueprint Committee have allowed a congregation of about 30 people to borrow \$43,000 and build a \$90,000 project? Probably not. If so, the operating policies of the Revolving Fund should not allow this to be circumvented by piecemeal borrowing. This project involved four different loans, none more than \$12,000, but together involving \$43,000 of the Fund's assets.

Policy was particularly inadequate in dealing with the loans that were related to specific gifts of real estate. The third and fourth loans (\$12,000 and \$9,000) were each requested on the basis that a church member had donated a piece of real estate that was valued at about the amount of the loan. In one case the property sold for about one-third the amount of its "value," and in the other case there is no record that it was ever sold and the funds applied to the loan. In normal banking procedures these loans would have been secured by the real estate, and if payment was not made on schedule, the bank would simply take the real estate and the loan would be satisfied by whatever the bank would be able to get from liquidating the real estate. If similar rules had been followed in this case the local church would not be left with an unmanageable load of debt, and the Revolving Fund may have looked more carefully at the loan requests when they were submitted.

The decision to increase the interest rate on the overdue loans simply compounds the problem. In the late 1970's the Hillsboro church was covering the interest on the loans with payments of \$100 a month, more or less. Now, it costs more than \$400 a month just to cover interest. Much of that was simply added to the loan. In effect the Revolving Fund is creating paper money; protecting an

asset (overdue loan) by extending more credit which the borrower has not even asked for.

When the decision was made to increase the interest rate to almost double its original rate, no study was made of the church's capacity to pay. The church was not asked to consent to this change in the written contract governing the loan. There is no evidence that there was any kind of research regarding the impact of this decision on case-by-case situations, or consideration of how to apply it prudently.

Small churches lack non-institutional models. When a small church like Hillsboro thinks about how to grow and what type of a program it should have, one of the key things it always thinks of is having a traditional church building in a good location. An examination of church growth research indicates that in the majority of cases, once the new building is purchased or constructed, there is never again significant church growth. The "American Dream" for churches includes having a nice building. In fact, for many Americans a church is a building.

Is that a viable, sustainable dream? Is it really important for a small church to pay the high price just to have a physical plant? Would other models of church, such as the house church, serve just as well or perhaps even better? Really these questions cannot be answered because the denomination does not communicate alternative models of church to be studied by local congregations and considered as "just as good" as the traditional model. The time has come when it must begin to do so, or many other small congregations will find themselves in this predicament.

Is the Hillsboro Church giving enough? Perhaps the reason for this situation is simply that the congregation is not giving in a liberal fashion, or does not manage its money well. The data does not support this. Total Tithe in 1984 was \$9,678 from six giving units. Per capita Tithe (computed against book membership,

not active giving units) was \$358, as compared to a conference per capita of \$489. There have been Tithe increases averaging about 10% each year since 1981.

Giving to the local church is comparatively high. In 1982 it was 71% of Tithe; in 1983 it was 77% of Tithe; and in 1984 it was 85% of Tithe. On the average local giving in Adventist churches runs between 40% and 50% of Tithe. In many Ohio Conference churches it is about 30% of Tithe. (A complete table listing the dollar amounts of Tithe, local giving, etc., for the Hillsboro Church can be found in Appendix B.)

Local church expenditures have averaged about \$10,000 in recent years, and one-third to one-half of this has been loan payments to the Revolving Fund. During 1983 and 1984 spending was greater than income, effectively using up a modest gain realized in 1982. The building has electric heat and the Adventist share currently averages \$177 per month. Other monthly costs include \$22 for telephone, \$5 for water and sewer charges, \$51 for insurance, and \$707 for the loan payment. This totals \$962 a month before any Sabbath School materials, church bulletins or outreach supplies are purchased. It does not include janitorial or maintenance costs.

The pastor and church treasurer have recently contacted every active church family and obtained an increased pledge to the local church budget. These total more than \$350 a month, 48% of 1984 Tithe. This is sacrificial giving when it is considered alongside the fact that most of the giving units in the Hillsboro Church have only retirement incomes.

THE ALTERNATIVES

In a brainstorming session with the pastor and treasurer of the Hillsboro Church, twelve options were identified. These range from those most comfortable for the congregation to those that are least comfortable for the local church. I will describe and give a brief analysis of each.

1. The Revolving Fund can forgive the loan or the Ohio Conference can pay it. This would be great for the local church, but it would create real difficulties for the denominational finance system. Once a precedent is set, many local churches will find themselves in situations needing the same solution.

2. The Revolving Fund can forgive a part of the loan, or the Ohio Conference can assist in paying it. Much the same pros and cons develop here as it option number one, although it cloaks the action in a degree of uncertainty that holds down the degree and speed of reaction from other churches.

3. The loan could be rescheduled to cover a period of 16, 25 or even 30 years. This option is somewhat illusory, since there is a comparatively small change in the monthly payment and it locks the church into a very long period of time during which it must raise funds for debt. This option also sets precedents that are upsetting to the denominational finance system.

4. Special fund raising could be conducted outside the local church. There are potentially donors throughout the Ohio Conference and the North American Division who might take pity on this small, rural church with a big problem and help to liquidate the debt. This would require permission from the Executive Committee and other denominational organizations, and it would mean that the pastor, or some other denominational employee, would have to invest considerable time and travel expense.

5. Additional fund raising could be conducted among the members of the Hillsboro congregation. There is little chance that this will result in gifts not already pledged or given.

6. Special fund raising could be conducted among non-Adventists in Highland County. The church members are very negative about going to their neighbors, confessing their need and asking for help. The prognosis for this kind of fund raising is not great.

7. A funding plan could be developed that would combine increased giving by the church members, increased rental income from Peace Lutheran Church, and very modest assistance from the Ohio Conference. This is a short-term solution, but it may be necessary in order to buy time for any other solutions to take hold and begin to work. It has in its favor that it encourages local responsibility, and gives attention to wringing out every asset the local church can possibly identify. (This is the option found most favorable by the pastor and church leaders.)

8. The rent charged Peace Lutheran Church could be raised to a point that it covers the short-fall in loan payments. This would mean raising the rent from \$100 per month to \$400 or \$500 per month. It must be taken into consideration that this rent does not include utilities. The Lutheran group is paying an average of nearly \$200 a month above the rent. On the other hand, the Lutheran congregation has as much use of the building as they wish, they have posted a permanent sign in front of the church that is as large as the Adventist sign, and they are a larger group. Average attendance is 35 to 40, and the Rev. John B. Lind's letter of May 3, 1985, indicates that they have more than twice as many active giving units as the Adventist group.

9. Additional renters could possibly be found. The facility is not used during the day, Mondays through Fridays, so it could be rented to a day care center or some similar business. Of course, our people have negative feelings about using

"the house of the Lord" as income-producing real estate, but in this situation that may be the lesser of evils. This is a small town and it is not clear that any potential renter could be found for day use of the building, but the pastor and church treasurer have agreed to look for possible tenants.

10. The local congregation could simply demand that the denomination come in and rescue them and provide the funding for solving this situation. Local church leaders do not find this appealing because they believe that they must take responsibility for their building project, and because they are loyal and supportive members of the Seventh-day Adventist Church. They recognize that setting up an adversary relationship will only increase the difficulty of their predicament.

11. The building might be sold to Peace Lutheran Church with an understanding in the contract that the Adventist group will have a 99-year lease. This has the advantage of solving the loan problem immediately, but it has enormous psychological disadvantages in the eyes of our people in Hillsboro. The Peace Lutheran Church is aware of our difficulties and has made repeated inquiries about purchase of the building. They have no active plans to build elsewhere, and they have grown accustomed to behavior that transmits their feeling of being "at home" in the Adventist building. To sell to them would seem to our people to be "unconditional surrender." (A variant of this option would be to seek a second mortgage from Peace Lutheran Church, payment on which would not begin until the current loan is retired.)

12. The building might have to be sold, and the Hillsboro church operate from a home or rented quarters. The reality is that the congregation would probably not survive this move. Some of the younger members have indicated that if this were to happen, they would transfer to one of the other Adventist churches in the region even if it were to mean a considerable drive time. Over the years we have allowed our people to buy into the prevailing cultural notion that says that

if a congregation does not own a meeting house, then it is not really a church. No amount of last-minute persuasion will change that view at this point in the life of the Hillsboro Church. This option will effectively close it down.

A careful review of the options seems to indicate that numbers 7, 9 and possibly 3 offer the most promise. It is imperative that whatever solution is developed, it take into consideration both short-term and long-term impacts, and that it keep in focus that situations of a similar nature do exist. Hillsboro, regrettably, is not a unique story.

RECOMMENDATIONS

The recommendations submitted are directed to the several different entities involved in this situation. They seek to resolve the problem with as little loss as possible to each entity, realizing that for any party to experience no loss would mean that other parties must experience considerable loss.

Recommendations to the Hillsboro Church

1. The rent paid by Peace Lutheran Church must be raised sharply and immediately. It may seem that if they are pushed too hard, they will be lost as tenants and friendly neighbors, but it is the opinion of the consultant that they are well aware of the fact that they are taking advantage of the Adventist Church, and when their bluff is called, they will agree to more equitable terms. (At present the Adventist Church is in effect subsidizing a Lutheran mission in a community where its own evangelism is not prospering. If the Revolving Fund had not delayed foreclosure on the loan for several years, the Lutheran Church would have had to pay a considerably higher monthly cost factor in order to purchase the building or build another one.) There are no other churches in Highland County who do not use their facilities on Sundays, and the Lutheran group really has no choice in the short term other than rental from the Adventist Church.

2. It is vital that a payment be made to the Revolving Fund every month without fail. If a full payment cannot be made, then a partial payment should be made. The working procedure of the treasurer should be to pay the loan payment first, and then make do with the remaining funds in paying the remaining bills. Otherwise, the tendency is to let the loan payments slide and the result is that less money is actually paid into the loan account.

3. In order for recommendation number two to be a reality, the church needs to arrange to pay its utility bills on a "budget plan." At present the church does

not make loan payments during the months of high utility costs, and this makes it easier to skip payments during other months.

4. The congregation must understand fully and clearly where it stands. The gravity of the situation must be communicated, and then twice or three times a year a special business meeting set up to review the progress that has been made. Perhaps a note should be published in the bulletin every Sabbath indicating the amount of the loan that remains to be paid. It is easy for the little group to become complacent as the years go by without a demand to "bite the bullet."

5. The canvass of members to gain new pledges which has been started must be completed: even inactive members should be contacted. And, it is equally important that it be followed through. Reports should be prepared by the treasurer and sent to each pledger on a regular cycle. These reports should show the general state of church finances, and the specific giving and pledge of the individual who receives the report. These reports should be confidential, of course, and it would be best to mail them to the homes of the givers, rather than distribute them at worship.

5. More important than owning a building is owning a goal. What is the goal, or mission, of the Hillsboro Adventist Church? Why is more than \$95,000 being invested by its members and the denomination? Is it simply so that worship services and a Sabbath School can be conducted each week? If the Hillsboro Church has no long-term future, then perhaps it is best to "cut the losses" and close it down now. The only rationale for solving the current problem that will meet the will of God is a plan for the advancement of His kingdom in Highland County. The Hillsboro Church needs to put together such a plan, and commit time and energy, as well as money, to its implementation.

The consultant wishes to commend the efforts of church members who are presently working with Elder Osorio in conducting small group Bible studies with

the use of video materials. Commitment is demonstrated when a church member takes on an extra job just to finance the purchase of video equipment for Bible studies.

Recommendations to the Ohio Conference

1. The conference officers and Executive Committee must carefully consider not only the costs involved in this one case, but the kind of implication their actions will telegraph to the rest of the congregations in the conference. It would be best if action on this case were accompanied by a policy statement regarding when future funds will be committed and when they will not, and what happens if a church gets into a position where it is not paying back the funds loaned to it. Current policy speaks to the portion of the total cost of a building project which the conference will pay, and gives some guidelines for financial computations, but it is inadequate in (a) assessing the long-range viability of the congregation, and (b) verifying the pledges that are made by church members. A careful, detailed formula that indicates what is a safe amount for a congregation to borrow should appear in a policy document.

2. If the local church and the Revolving Fund will agree to the other recommendations in this report, then a limited amount of immediate financial assistance is probably the wisest course of action for the Ohio Conference to take at this time. If the small churches in the conference feel that (a) they are threatened in the current economic environment, and (b) the conference is just going to let them die, then a very negative reaction could develop among that portion of the constituency.

3. There is need for a person on the conference staff who has the solid business experience and respect of the churches and conference leaders necessary to manage building projects, as well as other business affairs. Treasury personnel cannot be expected to function as general contractors for church building projects,

or even to be expert at negotiating with and monitoring the work of contractors. General contracting skills are needed. If such a staff person had been available when the Hillsboro group discovered the dome of solid rock under their building site, there may have been a course of action suggested that would not have cost an additional \$12,000. Perhaps a person with these skills would even have suggested a few hundred dollars be spent on geological studies before the lot was purchased.

4. Proposals for building projects should be required to be submitted in much fuller detail. Time spent writing a complete proposal document may prevent time spent in writing documents like this one. A sufficient presentation of a church building project would include the growth history, congregational analysis, stewardship history, mission potential and plans of the church as well as details about cost of construction, etc. Local churches should be required to prove that they have serious strategies for future mission before large sums of denominational funds are committed to their building projects.

Recommendations to the Revolving Fund

1. The interest rate on the Hillsboro loan should be rolled back to the 6.5% on the original notes. The notes do not indicate anything about a variability of interest rate even in the event of late payment, and Elder Russell's letter of May 5, 1983, clearly indicates that the Revolving Funds knows that "concurrence" of the local church is needed in the changed arrangements. This would reduce the payments by about \$100 a month and make it possible for the plans of the local church to begin to be successful in paying off the debt.

2. The Revolving Fund should also make this original interest rate retroactive and thus reduce the indebtedness of the Hillsboro Church to less than it originally borrowed. If the local church is locked into a situation where the debt grows faster than it can pay it off, there will be no motivation to pay the loan. This

also creates a situation where investors in the Revolving Fund must question the nature of its assets and the rate of growth in these assets.

I am sure that these two recommendations will come as a surprise to the management of the Revolving Fund. Nonetheless I would ask them to consider carefully what the results will be if local conferences find that they are being charged for bad loans. Will local conferences continue to support the Revolving Fund if they must choose between the cost of paying off old debts and the reactions of their own constituency to the forced sale of church buildings? What will happen when local church leaders see a local church forced to sell its building in order to protect the investments of the Revolving Fund? Will they continue to support the Revolving Fund, or will they seek other sources of financing for local church building projects?

3. Amendments should be made to the policy regarding loans that are made because of cash flow needs tied to gifts of real estate. The consultant feels that the Revolving Fund would want to consider handling these in a different fashion than are regular loans for church building projects; perhaps in a way similar to how secured loans are handled by banks. When a church member is willing to give a piece of property in order to gain a loan for a project, they should be willing to sign papers giving the source of the loan a mortgage on the property. If not, then no loan should be made.

SUMMARY

If the local church will implement the recommendations in this report, it should have an income of at least \$350 a month from the regular giving of its members and a rental income of an equal amount. This should be sustainable for eight years, especially if the church pursues its current initiatives for church growth through small group Bible studies. This would mean that the church could pay at least \$550 per month toward the loan for a full twelve months each year, or a total of \$6,600 per year.

If the Revolving Fund will implement the recommendations in this report, the monthly payment on this loan would be about \$550, and the total to be repaid would be less than \$40,000. This would enable the loan to be repaid in eight years, and would make the loan a more solid asset on the balance sheet of the Fund.

If the Ohio Conference will implement the recommendations in this report, the small amount of funding necessary to "grease the edges" of this plan will be available and insure its implementation. The conference officers and Executive Committee may also need to take a hard-nosed role in getting the other parties to agree to these recommendations. It has played the role of go-between in this story from its beginning, and should not shrink from the new demands placed on that role at this time.

More important than the question of working out a package to salvage this loan, is the lesson to be learned from this story. The policy implications of this case must be given attention, especially by the Ohio Conference and the Revolving Fund.

APPENDIX A

COMPARISON OF COST ESTIMATES & ACTUAL EXPENDITURES

HILLSBORO CHURCH BUILDING PROJECT

<u>Cost Area</u>	<u>Estimate (8-7-74)</u>	<u>Actual (11-11-75)</u>
Framing	22,200	24,250
Heating	2,800	2,937
Lighting & electrical	1,895	7,159*
Floor coverings	1,500	1,036
Plumbing	4,500	4,854
Masonry & cement work	9,800	9,851
Excavating	500	11,591**
Roof, gutters & siding	1,300	1,203
Painting	150	22
PA system	400	396
Pews & pulpit furniture	5,100	5,134
Finishing	2,230	9,284***
Items not in the original plan		3,005

*The original estimate was based on purchase of materials with donated labor. Materials did cost only \$1,652, less than budget, but labor cost \$5,507 even though it came from a staff member of Kettering Medical Center who was prevailed upon to help.

**In addition to \$6,000 of additional charges for excavating labor, there was an unexpected \$550 for purchase of dynamite, and then \$3,883 for dirt and gravel to backfill the change in position of the building on the site.

***The original \$2,230 was all to be for purchase of materials; labor was to be donated. When the volunteer worker dropped out, it was necessary to hire \$2,365 in labor, and purchases at lumber yards and hardware stores mounted to nearly \$6,500. In addition a person was paid \$526 to install locks.

APPENDIX B

GIVING HISTORY - HILLSBORO ADVENTIST CHURCH

<u>Year</u>	<u>Tithe</u>	<u>Increase</u>	<u>Percapita</u>	<u>Local Giving % of Tithe</u>	
1982	\$8,699	18%	\$290	\$6,141	71%
1983	9,058	4%	335	6,939	77%
1984	9,678	7%	358	8,258	85%