Archdiocese, with a new openness, faces debt

An expert calls the crisis "far worse" than thought. The plan: Sell off real estate, avoid bankruptcy protection.

Despite long-term debt of $350 million, the Archdiocese of Philadelphia has no plans to seek bankruptcy protection, its chief financial officer said.

The church is committed instead to bringing its annual operating expenses into balance within a few years, CFO Tim O'Shaughnessy said in an interview, and will sell off real estate to bring down its long-term debt.

Earlier this month Archbishop Charles J. Chaput pulled aside the curtain that his predecessors had kept around church finances for decades. The archdiocese had incurred a $39 million deficit for fiscal year 2012, he revealed, and was carrying hundreds of millions of dollars in long-term debt.
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In a wide range of interviews with church insiders and parishioners, many applauded the archdiocese's newfound transparency, but one church finance expert offered very stern words for recent cardinals' handling of church funds that has led to the financial crisis.

"It's far worse than I expected," said Charles Zech, director of Villanova University's Center for Church Management and Business Ethics.

"It speaks to the ineptness of [Cardinals] Rigali and Bevilacqua, not only in the handling of [clergy] sex abuse but also church finances," Zech said.

Cardinal Justin Rigali, who led the five-county archdiocese from 2003 to 2012, and Cardinal Anthony Bevilacqua, who preceded him for 15 years, "carried a lot of parishes and schools on the books that were not supporting themselves," said Zech, a national authority on church finances.

"Then, when they got into financial problems, they commingled funds or took money from the pension funds and put it toward this or that" but issued only brief financial reports that, according to Zech, "showed the cardinals surrounded by smiling children."

Now, he said, Chaput - who arrived here from Denver just 22 months ago to head the 1.4 million-member archdiocese - "has to close parishes that should have been closed long ago, and the financial burden has gotten to be immense."

Chaput was not available for comment last week. The Diocese of Knoxville, Tenn., where Rigali lives in retirement, referred all inquiries to the Philadelphia Archdiocese. Bevilacqua died last year.

Despite its fiscal woes, officials said the archdiocese still plans to host Pope Francis and the Vatican's international World Meeting of Families in 2015.

Among Catholic lay leaders who hailed Chaput's efforts was Ed Hanway, former chairman of the Cigna Corp.

"I think it will ultimately lead to stronger support by the faithful," said Hanway, who now leads a foundation that manages the archdiocese's high schools.

The archdiocese had "opened its kimono," said one prominent Catholic donor who asked not to be named. "There's no closing it now."

The breathtaking disclosures came in the form of a 37-page financial report produced by the auditing firm of Grant Thornton for the fiscal year ending June 2012. Chaput had it posted July 3 on the archdiocesan website.
Among the audit's findings:

The priests' pension fund, which should have assets of $90 million, had only $500,000.

The lay employees' pension fund was short $151.7 million.

The archdiocese's in-house "bank," called the Trust and Loan Fund, was $82 million in arrears.

Its self-insurance fund was short $30.4 million.

"Most Catholics I've talked to are a little anxious," Jim Kelly, 77, said after morning Mass at St. Timothy's parish in Tacony last week. "But I thought it was honest what they did."

David Skeel, who teaches bankruptcy law at University of Pennsylvania law school, agreed.

"I was struck at how candid it was," Skeel said of the audit report. "It does look like a serious effort to get their financial house in order."

That is Chaput's goal, O'Shaughnessy said in an hour-long interview at archdiocesan headquarters Thursday. "We've got these issues we've articulated; we're not trying to sugar-coat them."

A former CFO of the Aramark Corp., O'Shaughnessy said he took the job with the archdiocese in April 2012 because he believed Chaput - who had arrived here just nine months before - was committed to pulling the church out of its fiscal tailspin.

Filing for bankruptcy - as eight other Catholic dioceses have done in recent years in the face of sex-abuse lawsuits - "is not a consideration for me," O'Shaughnessy said.

His immediate priority is to bring the archdiocese's annual costs in line with its revenue. "We need to break even," he said.

By recommending to Chaput last year that the church lay off staff and sell properties - including the archbishop's mansion and the retired priests' home in Ventnor - O'Shaughnessy helped whittle the operating shortfall down to $6 million for the most recent fiscal year, which ended June 30.

While no trifling sum, $6 million is far more "manageable," said O'Shaughnessy, than the $39.2 million deficit incurred the previous year. These had included nearly $14 million in legal and professional services related to the priest sex-abuse scandal.

He said he hoped to "reach zero" operating deficit within a few years but thought it "imprudent" to announce a target date.

Far more daunting, O'Shaughnessy conceded, are the long-term obligations.

For most area Catholics, the most distressing of these has been the enormous deficit in the priests' pension fund at a time when much of the clergy is approaching retirement age.

The problem came about, he said, because the archdiocese for decades undercharged parishes, nursing homes, schools, and other entities for the annual pension contributions they are asked to make for each diocesan priest in their service.

"We've already increased the charge from $6,700 to $9,300," he said, adding that a better number would be $11,500, which he expects to start billing next year.

"All the currently retired priests are getting their pensions on a timely basis," he said, "and I can assure
you that will continue for the shorter term. The archdiocese has recently put $4 million into the fund.

"I think we can solve it" long term, he said, by selling off some archdiocesan properties, "but I'm not sure yet which assets" those might be. "Our intention," he said, "is to do what we have to do to meet the obligation."

While the priests' pension fund may seem to many Catholics to be the pressing matter, O'Shaughnessy said his first priority with property sales was to restore the $89 million owed to the Trust and Loan Fund, which holds parishes’ funds and makes loans to other parishes.

Previous archbishops had dipped into the fund to pay bills but did not replenish it in a timely fashion.

He said he had seen no evidence that the archdiocese had ever fraudulently transferred funds to protect assets from possible clergy sex-abuse lawsuits, as New York's archbishop, Cardinal Timothy Dolan, has been accused of doing while archbishop of Milwaukee.

"We've got some very good [real estate] assets," O'Shaughnessy said, but declined to identify them because he doesn't want prospective buyers exploiting the situation.

"We will make very sure we get good value," he said.

Whether the archdiocese's new transparency will coax the laity into opening its checkbooks wider remains to be seen, says Zech of Villanova.

"Most dioceses are bad" about financial disclosure, he said, "and this archdiocese has been atypically bad.

"What they're doing now is atypically good," he added, "but they have a long way to go."

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The previous CFO embezzled about $900,000, but the previous two cardinals mal-managed over $200,000,000 while living in a palace. Who were the greater criminals?

— Jacob

Saint Timothy’s is located in Mayfair not Tacony. Any Philadelphians on the desk this weekend?

— PhillyBoy

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