



# A Church Extension Planning Guide

## Dealing With a Church Fire

*by Thomas J. Gallen*

**There is perhaps no experience as traumatic to the corporate life of a congregation than to watch the destruction by fire of a church building. That building is sacred space. It is the place where children were baptized, basic values learned, lifelong friendships nurtured, achievements honored, marriages celebrated, and funerals conducted. For dozens, hundreds, or perhaps even thousands of persons, it is the "significant other" place.**

Church buildings should be protected from fire. Obviously, the most important steps for any church trustees are preventive. But once the fire has happened, the direction of energies needs to be in the recovery of as much as is due from the company that carries the insurance policy. This guide is directed to that issue. It is designed to help local churches understand what steps and procedures may be used to be certain that the interests of the congregation are protected in the negotiations leading to an insurance settlement.

This is not an answer guide. The answers to the questions appropriate to an insurance settlement lie with the local church board, the insurance underwriter, and the attorney or contractors involved in the settlement. But this guide is designed to share the critical questions that will need to be addressed to assure the congregation that everything possible was done to protect their interests.

Every settlement is unique. There are variables that can never be fully explored in any printed guide. But certain basic principles apply to all fire losses. These are basics of policy amounts, building value, coinsurance and damage that must be calculated into every loss. From these the congregation will need to watch for its own uniqueness.

One caution. It is very easy to become trapped in the detail of a fiscal crisis without realizing that a church fire is essentially a spiritual crisis. The routine life of the congregation must be preserved and nurtured if any financial recoveries are to have a meaningful place in which to be used. The spiritual life of the congregation must never fall victim to the loss of a building. Remember always that churches don't burn, buildings burn. Churches go on in the incarnate corporate life!

Finally, insurance companies are generally very fair in their settlement practices. Nothing said here is meant to suggest otherwise.

### The Ounce of Prevention

The following suggestions are designed for those who may have occasion to thoroughly think through fire prevention before a major fire.

1. People are more important than the building. Plan and conduct fire drills in the church schools and in the morning worship services.
2. Clearly mark all exit routes in a manner consistent with local codes.
3. Construct fire doors at places in

the building suggested by the fire marshal. Yes, the doors are ugly, but they can save lives.

4. See that all exits contain doors that open out, not in, and are equipped with panic bar closing devices.

5. Reconstruct areas outside of all exits to remove unnecessary obstacles including stairs, landings and railings.

6. Install smoke and fire detection systems, preferably with direct linkage to the fire department.

7. Make sure all windows and doors operate freely. Never nail windows shut to prevent vandalism, etc.

8. Provide an abundant supply of fire extinguishers, especially in furnace areas, kitchen areas, and inaccessible parts of the building. Keep these charged and inspected!

9. Do not neglect faulty or old wiring. Fix it!

10. Do not store paint, cleaning supplies, or flammable items in any concentrated area. Always keep debris cleaned out.

11. Inspect the facilities frequently for fire hazards, preferably with a local fire official.

Review this list on a regular basis to check your preparedness in case a fire does occur.

### Insure and Inventory

These suggestions will give you a head start when you are faced with a problem:

1. When placing or reviewing your insurance policy, have the amount of

coverage checked by someone familiar with settlements or construction costs. The chief factor in the settlement is the cost to replace the building as new construction in today's market. Try to secure that estimate from a reliable contractor.

2. Update the amount of coverage as often as possible. There are firms who specialize in providing these kinds of appraisal figures for you. If you have a large or expensive facility, it is well worth it!

3. Take great care to insure extraordinary items separately or to assure that they are considered in the total appraisal. These include organ, stained glass, works of art, and unusual furnishings in the building.

4. Develop and maintain a complete inventory of furnishings. The agent will assist with this. Include the date purchased and the cost. It is helpful, if possible, to note location in the building (see chart below).

5. Carefully check the public liability and workman's compensation insurance at least annually. Also check your casualty, physical damage, and crime insurance.

## Immediate Steps When You Have a Loss

When a loss occurs, particularly if it is a very serious loss, you have an immediate responsibility as trustees to give several days of extraordinary time to the church. The following checklist of procedures may help you during those days.

1. Care for and gather as complete information as possible on any injuries sustained during the fire.

2. Call your insurance company's agent.

3. Convene a meeting of the board (including trustees) the day of the fire if possible.

4. The board may want to appoint task forces with the following functions:

- **Property Security and Salvage:** To work on the storage of any salvaged furnishings and to board up or to otherwise secure the building until debris removal can begin; to contract for any cleaning of salvage and removal of debris from the property; to handle the sale of any salvaged furnishings following the insurance settlement; and to see that the damaged building is secured from public entrance to the satisfaction of local authorities.
- **Insurance Negotiation:** To gather all insurance papers of the congregation for immediate examination; to retain the consulting services of an attorney and contractor; to meet all time periods for filing information with the insurance company that are stipulated by the policy; and to adjust insurance coverage immediately reflecting the damaged condition of the remaining property. Also, to recommend to the board of trustees a plan for maximum investment of the insurance proceeds while congregational decisions are made.
- **Relocation:** To make arrangements for temporary housing for the congregation until such time as rebuilding or relocation is completed, including pastoral housing if the parsonage has been damaged, and office relocation.

5. Have your attorney read carefully and interpret to the board any actions required by the policy that must be performed within time restraints, particularly filing of proof of loss.

6. You may want to add to the task

forces people from the congregation who have expertise in the areas of work that must be done. These people can be utilized in an advisory capacity of the board and can work actively on its task forces.

7. Request a statement in writing from the insurance company giving you permission to remove furnishings and equipment from the facility without prejudice to your claim. That is, by removing and cleaning certain items you do not accept that they are free from claim or damage.

8. Do not remove anything from the premises until the insurance company's agent has inspected the damage with you.

9. Employ a professional photographer (perhaps one used by a local architectural firm) to take photographs of structural damage and other damage caused by the fire. It is especially important to have photographs of structural support members, roof supports, floor joists, foundation and wall sections, and twisted or disfigured structural steel. If possible, have the photographic work notarized.

10. Prepare a careful inventory of every item of furniture and equipment in the building at the time of the fire. You will need this list in the settlement on furnishings. Include the original cost, date purchased, and current replacement cost; also, location at the time of the fire if this can be determined.

## Negotiating Your Insurance Settlement

Fortunately, most insurance companies give fast and reliable settlements to major and minor insurance fire losses. There are needs, however, for great care to be taken on the part of the church trustees to ensure that the settlement is fair and just in terms of the coverage purchased by the congregation. For this reason, and because so many variables apply to any settlement, the church board must take every possible step to ensure that the interests of the congregation are well protected.

1. You should retain the services of an attorney as quickly as possible

Location	Description	Date Purchased	Cost
Sanctuary	Grand Piano	Sept. 25, 2001	\$19,900
Nursery	3 Evenflo Cribs	Jan. 7, 2004	\$110 ea.
Youth Room	36 Schoolcraft Stacking Chairs	Aug. 12, 2002	\$30.50 ea.

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following the fire. Do not assume that this means you are going to take the settlement to arbitration. Do assume that you could have to go to arbitration and be very prepared to do so.

2. You are required by your insurance policy to file a written proof of loss within a specified period following the fire. Observe this date. It is customary to request an extension of the date within which you must file such a statement if you are not prepared with adequate information in time. Do this in writing and be sure to receive a written response. It may be possible to file this after a settlement agreement has been reached. This would be in your best interest.

3. You may wish to consider the services of a public adjustor firm in settling your insurance claim. This step should only be taken when you have a fairly good indication that there are going to be difficulties with your insurance company. It is seldom true that the services of a public adjustor firm will secure a better settlement for the congregation than you would get through your own careful negotiations with a reliable insurance company. Public adjustors are generally paid on a commission basis (percentage of settlement) with a guaranteed minimum.

4. You should strongly consider employing the services of a well-established local contractor to prepare an estimate of (1) the cost of constructing the facilities (replacement) at the current material and labor rates and (2) the cost of repairing the facilities to their condition immediately preceding the fire.

5. There are at least five crucial figures that will be used by the insurance company in determining what to offer you as a reasonable settlement for the claim:

- The current cost (new construction) to replace the facility.
- The cost to repair the facility to its condition immediately prior to the fire.
- The amount of insurance that you currently carry.
- The effective co-insurance factor.
- The depreciation appropriate to the age and condition of the facilities.

6. The following steps will give you a general idea of what the settlement should be:

- Establish the replacement cost for the facility at current rates for labor and material.
- Subtract the appropriate depreciation (a well-constructed and

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maintained building should last 350 years or more).

- Add the value of any extraordinary items in the facility not separately insured and the value of furnishings and equipment.
- This will give you a working replacement figure.
- Multiply this figure by the effective co-insurance requirement to arrive at the amount of insurance needed for full coverage.
- Divide the amount of insurance in force by the amount needed as calculated above to arrive at the co-insurance factor to be applied in the settlement.
- From the repair cost, subtract any adjustments that may be necessary in terms of unique items or conditions.
- Multiply the adjusted repair cost by the co-insurance factor to produce the estimated settlement on co-insurance items. Add to this the settlement on any items separately insured to determine the total recovery.

7. Working with the contractor, a knowledgeable attorney can advise you whether or not the estimates secured by the insurance company (which should be shared with you) are a reasonable basis upon which to determine a fair settlement. Give particular attention to the following:

- An unusually high figure for the cost of replacing the facility (this will affect the co-insurance factor and lower the total recovery).
- An unusually low figure for

repairing the fire damage (the lower the estimated costs of repair, the lower the recovery).

8. The decision as to when to accept the insurance company's offer should be very carefully considered and should not be a matter of public information. The insurance company will negotiate within a small range around the calculations made from its estimates, but not greatly. The company will have a determined figure in mind beyond which it will not go short of arbitration. Remember, a six-month delay in accepting a settlement of \$500,000 could cost you \$15,000 in earned interest. The object should be for the best fair settlement short of arbitration and reached in the shortest possible time. Arbitration is in the church's best interest only when the offer is not compatible with the best information on the extent and conditions of the loss.

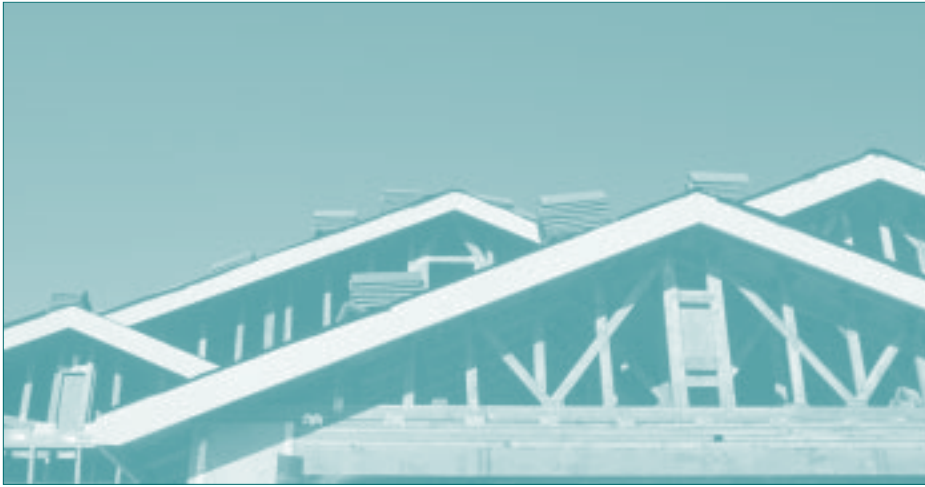
9. When negotiations have been completed, then offer the insurance company a fixed amount in return for all salvage rights. You and the insurance company can probably benefit. You can often receive more income from the sale of the furnishings than will be offered to the insurance company. The time and patience will produce more interest in the sale of the furnishings and equipment. Some items may be reusable and others may have high sentimental value for members of the congregation.

10. Remember when all is hot and heavy that the insurance company wants you happy! Chances are that the company has millions of dollars worth of insurance written in the community whose policy holders are watching very carefully to see if the settlement is to your satisfaction. Their business depends on it!

### **In the Weeks Ahead ...**

You will have innumerable decisions to make in the weeks following the insurance settlement. Questions of location, merger, type of facilities, and the congregation's future will consume you.

The following thoughts are random, but may help at points:



1. Take your time. Do not rush into decisions about your future. You will not lose the enthusiasm of the members or the empathy of the community in a matter of months. You have a once-in-a-lifetime opportunity for a congregational second birth. Few congregations ever have that opportunity. Use it to make decisions about ministry, not just about buildings. Remember that you are planning for the congregation's future mission, not just its future facilities.

2. Church Extension is available to assist a congregation in developing a strategy for rebuilding following a fire. A staff member will meet with leaders and planning resources will be provided without cost to the congregation.

- Church Extension should be contacted promptly with a request for a General Consultation. A staff member will then contact the church to set a date and time for a consultation. A request may be made by writing or calling Church Extension (see box, this page).
- Do some structured planning. The Church Extension Building Planning Service is available at no cost to the church. Staff assistance, the *Building Planning Workbook* and related planning materials are available upon request.

3. Outline the plans for cash management. You will have in hand considerable sums of money from the insurance settlement. Do not tie them up in long-term investments.

The immediate needs for money will vary with the situation but remember the following expenses:

- **Demolition and debris removal.** Depending upon the size of the building and the extent of damage, this could vary from several thousand dollars to twenty-five or thirty thousand dollars.
- **Relocation expenses.** These would be necessitated by the temporary relocation of the congregation and offices. You may have need for immediate equipment replacement (e.g. office equipment).
- **Architectural expenses.** The architect will operate on a percentage of total cost basis as a fee structure. Generally this fee will be between 7.5% and 10% of the total cost of construction (depending upon the size of the project). Eighty percent of this fee will normally be paid before groundbreaking! This means that on a \$500,000 repair and renovation program you will need between \$40,000 and \$50,000 up front.

4. Do not always assume that the existing mortgages should be paid off first. You may have that money at a far lower interest rate than what you will pay for a new first mortgage on the rebuilt facilities. It may be that the bank will insist on clearing up this encumbrance, but it is worth the energy to see if low mortgages can be carried to completion.

5. Keep the congregation informed. You will be engulfed in the weeks

following the fire with rumors. Have regular announcements each week by the trustee chairperson giving information on the state of affairs that week. Also, share vital information in frequent mailings to the members.

6. Remember that your role as leadership persons is not to make decisions but to enable the congregation to make informed choices. This can be a period of strengthening the congregational decision-making capacity. Do not presume that you know what the congregation wants. Involve the entire congregation in a learning process about the financial capacities and program/building needs.

Trust the decision-making abilities of the congregation. With their sense of ownership for decisions, the congregation will grow in this crisis, not fragment.

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**Additional Planning Guides addressing a variety of facility planning issues are available from:**

**Church Extension**  
**P.O. Box 7030**  
**Indianapolis, IN 46207**  
**Phone: 317.635.6500**  
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