

## Case 5: The Salvation Army

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### Problem

Nashville, Tennessee, had a shortage of charitable housing for families and single parents with children. A national motel chain was selling a building. With a few minor renovations, George, working with The Salvation Army, envisioned a place that could provide support and housing for homeless families in need.

While the acquisition appeared to be a win-win situation for all involved, some individuals and organizations were lobbying against approval of this facility for its proposed use. George was concerned that politics and outspoken opposition would undermine his efforts. Everyone seemed to want to help the needy, but not if it happened in their neighborhood. Others argued for what they called the “separation of church and state.”

How could George overcome the obstacles and get approval to buy a building he was convinced would help meet the housing needs of Nashville’s homeless?

### Background: The Organization

The mission statement of The Salvation Army states, “The Salvation Army, an international movement, is an evangelical part of the universal Christian church. Its message is based on the Bible. Its ministry is motivated by the love of God. Its mission is to preach the gospel of Jesus Christ and to meet human needs in His name without discrimination.”

The Salvation Army international headquarters is in London, England, to which all branches report. The national headquarters in the United States is in Alexandria, Virginia. The United States is divided into four territories headed by territorial commanders. These are located in New York, Chicago, Los Angeles, and Atlanta. Each territory has a board of trustees possessing fiduciary responsibility for that territory.

The territories are divided into divisions headed by divisional commanders who report to the territorial headquarters. Kentucky and Tennessee form one of the nine southern divisions, with headquarters in Louisville, Kentucky. Divisions are broken down into areas.

The national and territorial headquarters leave the day-to-day operations of each area to area commanders, who are expected to comply with the *Minute Book* – a book of standardized corporate policies and procedures. Commanders are responsible for raising support for local programs and are audited yearly by the divisional headquarters.

Divisional and territorial headquarters may become involved in the major capital and strategic decisions of the branch. Property and legal issues go through them for preliminary approval and then to the territorial headquarters for final approval by the board of trustees. Headquarters may veto commander decisions if the action goes against the organization’s mission or if they deem an action ineffective or not feasible.

Before starting a capital campaign, The Salvation Army requires a study to justify the need and feasibility. Proposals are submitted to headquarters for review by the legal, property, accounting, and capital campaign departments.

### Nashville Operations

In an older part of Nashville, just south of downtown, The Salvation Army owns a 5,000-square-foot office building and a 15,000-square-foot warehouse. On the west, south, and east sides of downtown – in neighborhoods where the need is greatest – they own and operate three homeless shelters. Two of the buildings house men, and one houses women. Each includes common rooms designated as lounges and kitchens. They also own or lease seven thrift shops around the city, which are operated by their Adult Rehabilitation Center. These shops provide goods and services to the needy, income for the organization, and funding for drug and alcohol abuse programs.

After George Patton completed the College for Officer Training – a two-year school – the territorial headquarters appointed him commander of the Nashville, Tennessee, area. George is responsible for all major financial decisions; this includes capital projects ranging from acquisitions to raising funds.

Since assuming this role five years ago, George has successfully reestablished the area's financial viability and cultivated relationships with key individuals and organizations in the community. He also

- convinced several corporations to sponsor activities that improved the quality of life in the community.
- led a community awareness campaign on how The Salvation Army is meeting the needs of the poor and disadvantaged and making Nashville a safer place.
- promoted a value-added philosophy for The Salvation Army, illustrating how contributions to a few in need are multiplied for the benefit of many.
- developed an enthusiastic board of advisors that has supported many of his initiatives.

### **Family Housing: The Need**

A new concern is on George's mind. It seems to be everywhere lately. He reads about it in the newspaper. He hears it discussed on Nashville talk radio. He watches it reported on the evening news. It's the need for charitable family housing.

George brought a recently published article to the office and discussed it at the next staff meeting. "Our facilities seem to do an adequate job of feeding and sheltering single men and women. But what about families and single parents with kids? We don't have satisfactory housing for them. Based on this article and from everything I've been hearing and seeing lately, neither does anyone in Nashville," he said.

Joe, a staff member from facility services, replied, "If we do something for families, they are going to need some additional things like a private room versus dormitory living. And they'll need their own bathroom and kitchenette."

"Don't forget day care," piped in Hanna from personnel, "and safety. Moms need to know their kids are safe. Fences. Gates. Security. Maybe even a playground."

Debbie, the accountant, stated, "The cost per square foot would be higher, along with the requirement for more stringent safety regulations and building codes."

George left the meeting pondering the plight of families, especially single dads and moms with children. Throughout that day and the

following weeks, he prayed, expressing his concern and wrestling with options.

### **Family Housing: The Opportunity**

About a month later while out running an errand, George noticed a Sleep Inn Motel on the north side of Nashville that was for sale. An idea sparked. He stopped to inquire. He left excited.

The facility had 160 rooms on two floors with three separate wings, office space, a dining room, kitchen, outdoor pool, parking, and a fence around the property. The arrangement seemed to be perfect for families needing short-term housing. Additionally, the motel was on a major intersection with bus lines to all parts of the city on both streets. "This would provide transportation to our residents as they seek employment, visit the doctor, attend school, and go wherever they need to go," thought George.

Next, George investigated the neighborhood. The motel was in a combination of residential and commercial buildings. The homes were mostly old and for single and multiple families. Although they had been in an economic decline, residents were trying to reestablish themselves as an up-and-coming location convenient to downtown. Walking to the commercial area, George saw many small businesses involved primarily in manufacturing and operations that used a warehouse. There were a few shops – grocery, cleaner, beauty shop, etc. From what he could observe, the area offered little to attract outside consumers into the district other than favorable leasing arrangements, low rentals, and depressed property values.

Back at the office, George called several people he typically consulted. He learned that the neighborhood had cultural problems. Illegal drugs, crime, and alcohol abuse were common in and around the motel. The police patrolled the area, but they could only do so much. However, change was coming. Some of the residents had organized neighborhood watch programs and drug-free zones. Others were working to discourage businesses like nightclubs from getting permits to operate in the area.

The motel was 30 years old. It had lost most of its business customers to newer hotels that had been built near the airport and major corporations. Tourists preferred motels closer to sports facilities and tourist attractions. Sleep Inn Corporation expected its motels to earn an

annual return on investment of at least 15%; this facility fell far short and Sleep Inn saw no benefit in maintaining it.

A potential buyer could be someone looking to convert the building into a low-income extended stay or continued-living residence. A local corporation might consider buying the building to house minimum-wage employees as an additional form of compensation to encourage company loyalty and reduce employee turnover as some southern mill cities used to do for their employees.

Apparently, no one wanted to buy the property to tear down the motel. While real estate was undervalued, there wasn't a demand for property. Additionally, neighbors were not looking for high-rise buildings or more warehouses in their area, even if it replaced a decaying structure. Actually, the residents preferred a motel or something like it that could draw revenue to the area, as long as the organization was reputable and did not cater to illegal activities.

### The Cost

Although the motel idea had its challenges, the consensus was that George should pursue the idea. Next, he considered the cost. The Sleep Inn was asking \$2.2 million. A plus – all the beds, TVs, dressers, office furniture, and kitchen and dining room contents were included! It would take another \$300,000 to convert the building to accommodate family housing, fill in the pool, construct a day care, bring the dining areas up to code, increase security, and add additional fencing to protect children.

George did the math. The annual motel operating budget was about \$500,000. This covered two full-time staff and 12 part-time staff in various positions including maintenance, security, and day care. The day care needed licensing, which would determine the number of workers allowed. George figured \$100,000 annually for capital improvement and equipment repair or replacement. He estimated \$26 per square foot for operating expenses and a 5% annual increase for inflation for the next 10 years.

The Salvation Army Nashville Area had a secure balance sheet. Debt funding supported about 35% of assets and contributions; grants and surplus operating funds underwrote the remaining 65% of assets. The annual operating fund statement had a small surplus for the last three years. George anticipated that trend continuing.

### Funding

George decided a capital campaign would be the best way to raise the funds to purchase the Sleep Inn. The Salvation Army fund-raising guidelines require that 60% of the total funds be pledged or in-hand to begin activities. He had several executives from major corporations on his board who had been generous in the past. The building was tangible; once donors "saw" the building and caught the vision for its use, he was certain they would contribute. He believed he could count on pledges or contributions for 60% of the purchase price plus all capital improvement costs within the next 90 days or in time for closing. He might be able to get a cooperative financing arrangement through the Sleep Inn Corporation for the remaining 40% of the costs within one year. George was confident on the success of the project as the balance of funds, with verifiable pledges, could be collected over a three-year period.

Annual operating motel costs were more difficult to fund. These costs were not as glamorous – or visible – as a building. George would

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have to resort to more traditional fundraising activities to meet the increased annual operating budget. He believed that as he took care of these homeless families, the

community would benefit, welfare costs would decrease, and income taxes through increased employment would increase. Governmental agencies and corporations should be willing to share some of the increased prosperity and help offset the additional cost to The Salvation Army. George thought about partnering with HUD, working through the local Homeless Coalition for the construction and operating phases. "I'll also look into grants," he thought.

If George borrowed money, he would pay 8% interest over 30 years. The current annual inflation rate was 4%, and the return on U.S. government securities was 5.5%. Because of The Salvation Army's size, they were able to obtain loans at a favorable prime rate.

While this capital project appeared to be a win-win-win situation for The Salvation Army, people in need, and the community at large, funding was only one of the hurdles standing in George's way.

## **The Opposition**

Another potential hurdle was the opposition. As George pursued the idea of purchasing the Sleep Inn and converting it into family housing for homeless families, he began to hear of pockets of resistance to the proposal. Some individuals in the neighborhood displayed “not in my backyard” fear. While everyone “said” they wanted to help the needy, many did not want them in their neighborhood. To them, accepting homeless people would degrade the neighborhood and bring property values down, just as they were finally seeing the glimmer of revitalization occurring.

Some in the neighborhood were motivated by the desire for investment dollars. A few investors did not even live in the area but were real estate speculators. They leveraged into various properties at pennies on the dollar and wanted a significant turnover in investment in a short time. Believing that a homeless shelter would not increase real estate values, they sowed seeds of doubt in the minds of neighbors and started a movement against the proposed housing. Vocal constituents in a seemingly popular uprising can significantly impact the hearts and minds of the city council.

Some members of city government might be reluctant to support The Salvation Army because of its Christian-based values system even though it is well recognized for its charitable mission. Individuals who approve permits and licenses have been known to invoke separation of church and state restrictions if anything takes on the appearance of supporting a religious activity.

Government-based social service agencies were also trying to justify their operations. When their caseloads increased, so typically did their funding. If a private organization were to meet the same needs, the public organizations feared there would be less funding available to them. If social services leaders felt short-changed, they might lobby government officials and businesses to oppose The Salvation Army’s plan. Additionally, government agencies and social services have the advantage of being on the inside; they know the system and how to use it to achieve their objectives.

Also working against George could be an “old South” or “good old boy” culture among some that superseded all other beliefs and values. However, in George’s favor was the fact that Nashville was the buckle of the “Bible Belt,” and the culture strongly supported Christian

organizations and initiatives. People stood for strong moral values and favored helping the poor and disadvantaged.

## **Summary**

Organizations and individuals can fight hard when they feel their personal space is threatened. Anyone could use a scare campaign to maximize their political clout and voting power with city and state government politicians and agencies. Although operating within the law, George was aware there could be attempts to undermine his project; the acquisition was not certain.

However, George was a strong Christian. He promoted Christian values within his organization as a source of hope and encouragement for the many disadvantaged who relied – and even survived – on The Salvation Army to meet their basic needs. The project’s social value was substantial. Adequate housing would take families off welfare and improve their potential for employment. The small businesses in the area made jobs and training available. With people working and contributing to society, there would be less crime. Children would receive better care, nurturing, and education and would be more likely to make a positive contribution to society.

He was ready to act. Once more, George analyzed the capital acquisition from every angle. Believing that the financial benefits of this capital project would exceed the initial and subsequent annual operating costs, and with assurance that he held the “high ground” in terms of those who would oppose him, George organized a meeting of the board of advisers. He would ask them to use their means and networks to support the project, and he would enlist whatever help he could to wade through the bureaucratic channels and get necessary approvals to purchase the Sleep Inn.

While lying awake in bed the night before the meeting, George wondered, “Will the board be as enthusiastic about this project as I am? Will Sleep Inn accept my offer? Will I get the required governmental approval? How can I spark compassion in the hearts of these people and enable them to see all the good things that could come out of this? With God’s help!”

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