

June 19, 2007 - DAVENPORT (IA) Creditors may add parishes to bankruptcy
Des Moines Register, By Shirley Ragsdale, Religion Editor

Davenport Diocese says churches are separate entities

If a bankruptcy judge approves creditors' request to hire accounting experts to examine the Diocese of Davenport's financial dealings and records, it may give abuse survivors a chance to expand the money pool to cover their financial claims, according to legal experts.

The legal move, which may draw parishes into the bankruptcy, leaves a bad taste in the mouths of some lay Catholics.

"The abuse victims kept saying the lawsuits (against the diocese) weren't about the money," said Stephen Slobodnik of Mount Pleasant, a member of St. Alphonsus parish. "Obviously, it is about the money."

Last week, the creditors' committee, made up of people who have said they were abused by priests, asked bankruptcy Judge Lee Jackwig for permission to hire a forensic accountant to closely examine 48,000 diocesan financial documents. The accountant would be looking for real estate transfers, gifts and money transfers between church entities. If granted, the cost of the audit would be paid out of the bankruptcy estate.

"The creditors will be spending money that would otherwise go to them with the hope and the expectation that they will make more money by employing the accountant than if they did not," said Robert Lawless, a University of Illinois professor of bankruptcy law.

That may lead to creditors challenging the ownership of parishes or parish liability regarding claims against the diocese, according to Pat Bauer, an Iowa State University law professor who has been following the Davenport bankruptcy.

The Davenport Diocese, like the four other U.S. Roman Catholic dioceses that have filed for bankruptcy, maintains the parishes are separate legal entities.

In the Catholic Diocese of Spokane (Wash.), parishes were asked to donate the equivalent of one year's contributions to the diocese to the bankruptcy estate as an alternative to being dragged into the legal fray over their legal status.

"It would be very difficult for the reorganization plan in the diocese's bankruptcy to conclusively resolve the possible liability of the parishes and the schools to the victims in the absence of some contribution by the parishes and the schools," Bauer said. "If they didn't put in a penny, the bankruptcy could not resolve their liability. It would leave open, down the line, the opportunity of claimants to sue parishes and schools, not because of their assets but conceivably because the parishes and schools knew about the abuse."

That idea may not sit well with the parishes.

"I don't think the parishes are liable, because they were incorporated in the 1920s, separate from the diocese," Slobodnik said. "But it feels like those people want to put the load on us. It's hard to accept responsibility for something over which we had no control. People think there's a money pot here, but there isn't."

All of the diocese's financial transactions have already been disclosed in the bankruptcy petition, according to Davenport Diocese bankruptcy attorney Richard Davidson.

"I don't know how much digging (the creditors) have to do to see that we

don't have any money and we can't get any," Davidson said. "We're not trying to keep money from them. We're just trying to give all we have."

Earlier this month, a California bankruptcy judge gave creditors permission to examine property deals and other transactions of the Diocese of San Diego. Creditors include more than 150 people suing the diocese for alleged sexual abuse committed by San Diego-area Catholic priests. The same law firm represents the San Diego and Davenport creditors committees.

Creditors in San Diego contend that the diocese's estate should include its parishes and the millions of dollars in real estate and other assets.

The two dioceses' bankruptcies aren't comparable, Davidson said. Church property in Iowa is more likely to be a liability than an asset.

"Nobody wants to buy a 100-year-old Catholic cathedral at the corner of Ninth and Iowa streets in Davenport," Davidson said. "The plumbing in the bathroom doesn't work, it needs an elevator and a \$2 million roof. It's in a bad neighborhood. It has high utility and upkeep costs. They don't have to sue us for it, we'll give it to them."
