A massive park in West Virginia was meant to lift the fortunes of the Scouts, sagging amid the fight over gay membership. Instead, it has added to their woes.

The Boy Scouts’ $439 million gamble
In the misty, oak-filled woods of West Virginia, the Boy Scouts of America are building their answer to Disney World.

Known as The Summit Bechtel Family National Scout Reserve, the 10,600-acre park opens Monday, when 30,000 scouts are expected to visit for the quadrennial National Jamboree. The Summit will have more than five miles of zip lines, a white-water-rafting circuit, a 120-foot tree house and a stadium for 85,000 people.

The Summit is more than the ultimate Scout camp. It was envisioned as a way to shore up the finances of an organization burdened by a long-term drop in membership, costly sexual-abuse lawsuits and a bruising battle over whether to admit gay members. The park would bring in even more in donations than it would cost to build, Scout leaders concluded.

“The Summit gives us the opportunity to reintroduce ourselves to America and raise $1 billion for the best youth development in the world,” says a slide from a June 2010 presentation on the project.

It isn’t panning out that way. Costs are rising. Initially budgeted at $176 million through 2013, the Summit’s cost is now estimated to reach at least $350 million by the end of this year and $439 million by the end of 2015, according to Scouts documents reviewed by Reuters. To keep up, the Scouts issued new bonds last year – more than doubling their previous borrowing for the project.

The Scouts’ efforts to pay for the Summit are off target, too. Internal financial updates show that the Scouts’ national organization, based in Irving, Texas, was $108 million behind its capital-raising goal for the Summit as of the end of March. That was 32 percent shy of its projection of $342.6 million.

The Summit shortfall is part of a broader financial crunch facing the Boy Scouts as the organization shrinks. That decline has been exacerbated by the protracted gay-membership battle. A compromise adopted by Scout leaders in May – allow gay youth, but not gay adults – appears to be doing little so far to ease the pressure.

Conservative troops are threatening to secede; one splinter group said this week it is forming a rival to the Scouts. Liberal troops are meanwhile establishing more-inclusive policies. Many corporate donors continue to sit on the sidelines, even as some regional Scout councils face severe deficits, according to Boy Scout executives and council members across the country.

“We cannot support an organization that has a policy that is discriminatory,” said Joanne Dwyer, a spokeswoman for CVS Caremark, which stopped all funding to local Boy Scout councils and the national organization a decade ago. (See related story.)

The bottom line, said Doug White, who teaches nonprofit management at Columbia University, is that the Scouts “have real problems.” The combination of the Summit fundraising slowdown, extra borrowing for the project and the financial impact of the gay-rights controversy “puts them in a very precarious position.”

The Boy Scouts declined requests to interview chief scout executive Wayne Brock or national president Wayne Perry about the nonprofit’s financing. In a statement, the Scouts denied that Summit fundraising is suffering.

“It is inaccurate to review this document and draw a conclusion that fundraising is

Corporate America keeps up the pressure

In hindsight, it appears to have been a Pyrrhic victory. Christian churches sponsor a large proportion of Boy Scout troops in the United States, and the national leadership long sought to bar gay scouts and troop masters. That effort culminated in a 2000 ruling by the U.S. Supreme Court upholding the Scouts’ right to exclude “avowed homosexuals.”

The victory proved costly, as some corporate donors cut their funding of the Boy Scouts.

Intel, a longtime backer of local councils, now requires local Scout groups to pledge not to discriminate.

Merck and CVS Caremark stopped giving to the national Boy Scouts organization in recent years.

The pressure has kept up. This year, Illinois-based Caterpillar Inc suspended its $25,000-a-year support for a local Illinois council, saying it could not support an organization that continued to discriminate against homosexuals.

The Scouts’ decision in May to accept gay youth, but not gay adults, hasn’t gone far enough for Merck, CVS and Caterpillar.

“We certainly applaud the BSA’s decision to become a more inclusive environment,” said Caterpillar spokeswoman Rachel Potts. “However, the Boy Scouts still discriminates against leaders, which conflicts with our policies.”

By Robin Respaut

See the Special Report online: http://link.reuters.com/dud69t
behind schedule,” said Deron Smith, Boy Scouts spokesman. “Projections are just that, and serve as estimates that are adjusted throughout a project.”

Smith said the estimated $439 million cost of the Summit was “subject to change” and “contingent upon securing donor funding.” As for the May compromise on gay members, Smith said it is still too early to assess the impact on donors.

LONG DECLINE
The Scouts movement originated in England and launched in 1910 in the United States, where it found fertile ground. The appeal of merit badges and camping trips hasn’t kept pace with changing times and competing pastimes such as video games and extreme sports, however. There were 2.7 million Boy Scout members in 2011, down from a peak of 4.9 million in 1972. The U.S. population grew 49 percent in that time.

To help stem the decline, the Boy Scouts National Council launched a plan for a bold investment in 2009: The Summit. The brainchild of former chief scout executive Robert Mazzuca and other board members, the Summit was seen as a means to help resuscitate the ailing 103-year-old non-profit, according to internal marketing documents.

Some board members considered the project a potential white elephant whose cost could outweigh its usefulness, according to two people familiar with the matter. Rising spending soon became a concern for some.

By 2015, cumulative spending is projected to reach $439 million, according to internal records seen by Reuters. That is more than the organization’s current $274 million endowment.

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MONEY AND VALUES: Boy Scouts in Los Angeles (above) have seen donations plunge amid the controversy over gay membership. At headquarters in Irving, Texas, site of the National Scouting Museum (below left), leaders long fought admitting gays. The policy caused liberal donors to flee, including Eagle Scout Stephen Spielberg. REUTERS/JONATHAN ALCORN/MICHAEL PRENGLER/DAVID MANNING/FILES
Spokesman Smith said the Summit’s cost expanded as the Boy Scouts secured donations and determined it was “wise to increase the investment in the infrastructure of the property.” He declined to elaborate.

Mazzuca, the chief executive when the Summit was launched, declined to talk for this article.

Last year, the Scouts drew up a financial plan to address rising Summit spending. A February 2012 internal memo from Boy Scouts president Wayne Perry advised senior Boy Scout executives that available cash from donations would be insufficient to cover the “cash burn” rate for the Summit.

Perry, a former telecom executive and a part-owner of the Seattle Mariners baseball team, declined to comment.

To cover construction costs, the memo shows, the Boy Scouts last year more than doubled their borrowings for the project. They did this mainly by a form of tax-exempt municipal bond known as a “conduit,” in which an organization essentially borrows the name of a local government in order to raise cheap long-term financing.

The Boy Scouts added $175 million in new conduit-bond debt last year to a pair of existing issues worth $100 million — bringing total Summit borrowing to $275 million. The Scouts also increased a line of bank credit to $75 million from $50 million. The bonds were bought by JPMorgan Chase, which organized the deal, provided the credit line and still owns the debt today. The bank declined to comment.

The bonds were issued in the name of Fayette County, West Virginia, where the Summit is located. The county received a $100,000 fee to issue the bonds on behalf of the Boy Scouts, but it is not responsible for payments, according to bond documents and the Scouts’ 2012 annual report.

Fayette County, with a population of 46,000 and average per capita income of $18,000 a year, won a national competition in 2009 to be the site of the Summit. It was chosen for its rugged terrain along the New River Gorge and its location within a 10 hour drive of 65 percent of the U.S. population, according to the Boy Scouts.
Fayette County commissioners say they approved the financing deal to generate jobs and exposure. The Summit is expected to create 60 permanent jobs for Fayette County and as many as 1,000 seasonal jobs, says County Commission president Matthew Wender.

As collateral for the bonds, the Boy Scouts pledged a major portion of their assets, according to the internal documents, including “the unrestricted portion of the endowment, Summit donor pledges and all other receivables” of the Boy Scouts of America.

A financing task force for the Summit initially set rosy donation goals. The February 2012 memo from president Perry to the Scouts’ National Executive Board says Summit donors were expected to pledge $220 million by early 2012. From there, the Scouts anticipated $150 million in new pledges each year. Cumulative donations would reach $520 million by the end of 2013, and $1.4 billion by 2019, according to the memo.

Actual giving has fallen short. Documents prepared for board members at the Scouts’ annual meeting in May show the organization had raised $234 million for the Summit as of March 31. That is compared to its “original projections” of $342.6 million.

In a statement to Reuters in May, spokesman Smith said the Scouts had secured approximately $332 million in donor commitments and in-kind contributions to fund the Summit, and that the Boy Scouts were “in a strong financial position.” Asked about the gap between that amount and the $234 million fund-raising figure highlighted in the board documents, he said the difference is accounted for by the in-kind donations. He declined to describe those donations or explain why the board highlighted the $234 million figure.

Despite its falling membership, the national Boy Scouts organization has a strong balance sheet. The Scouts could operate for nearly three years on their readily available funds alone, according to an analysis conducted for Reuters by Daniel Borochoff of charity-evaluation service CharityWatch.

Still, spending has grown faster than revenue. The nonprofit’s financial statements show that revenue from membership fees and product sales grew 21 percent from 2003 to 2012, to $229 million. But spending on salaries, insurance, and programs nearly doubled in the same period, to $212 million.

The Scouts board of directors, led by Perry, is unpaid. But the paid executives who manage the organization earn significantly more than their peers.

In 2011, the average compensation and benefits for the top five Boy Scouts executives totaled $696,862, compared to $550,673 for the top five Girl Scouts executives and $351,714 for YMCA officials.

Scouts spokesman Smith said the salaries are justified because the organization “seeks and retains nothing less than the best talent available.”

Haunting the Boy Scouts are dozens of lawsuits alleging sexual abuse by local employees and volunteers dating back to the 1960s. Litigating those cases remains one of the major risks to the Boy Scouts balance sheet, according to the Scouts’ 2012 annual review.

In 2010, for example, an Oregon jury awarded $19.9 million in damages to a Scout who had been sexually abused by an assistant troop leader in the early 1980s.

The risk of further payments looms. In 2012, an Oregon court ordered the Boy Scouts to release 1,200 files that document allegations of sexual abuse by Scout leaders from 1965 to 1984. Last year, the Scouts boosted self-insurance reserves to $132 million from $87 million.

Spokesman Smith confirmed the Boy Scouts have also set aside in a special reserve an extra $65 million from their endowment to cover litigation costs. “However,” he said, “no transfer of funds from the endowment to the general liability (fund) has taken place and would require board approval.”

**“LIKE SPENDING YOUR IRA”**

The fiscal pressures at Scouts headquarters are felt in other corners of the country, too.

Thirteen years ago, the Los Angeles Boy Scouts Council was flush with donations from well-heeled charities and wealthy Hollywood film directors.

Then, in 2000, the U.S. Supreme Court ruled the Boy Scouts of America had the right to bar gays from their ranks. The

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**High spending**

The Boy Scouts’ massive new park could cost $439 million, internal memos show.

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**SPLINTER GROUP:** Ex-member John Stemberger is helping create a faith-based rival to the Scouts. REUTERS/DAVID MANNING
United Way, which once gave $1 million a year to the local council, ended its funding, according to a former council president.

Some of the Hollywood glitterati also fled – including film director Steven Spielberg, an Eagle Scout who once credited the Boy Scouts with inspiring him to make his first film. After the Supreme Court decision, Spielberg resigned from the Boy Scouts’ advisory board and stopped contributing to the local council, stating that it was “a real shame” to see the Scouts “actively and publicly participating in discrimination.”

A representative for Spielberg said the director had no statement to make on whether he would resume participating in the Scouts.

Today, the Los Angeles Council, which serves many inner-city minority scouts, is relying on its endowment to fund program services. The council ran a $3.25 million deficit in 2011; since 2001, it has run an average annual deficit of $1.3 million, tax filings show.

“It’s like spending your IRA to pay your bills, because you don’t have a job anymore,” said John Harbison, a former president of the Los Angeles Council. “That’s obviously not a sustainable model, and we won’t be able to do that for long.”

Boy Scouts spokesman Smith said the percentage of councils with money troubles has fallen since 2005 through a national program to “help ensure councils are financially sustainable.” He declined to provide examples.

In the wake of the May compromise on gay youths, the conflicting demands of liberals and conservatives on the issue leave the Scouts in a severe bind. Indeed, the May decision came shortly after an internal study projected continuing financial damage if the Scouts stuck with their universal ban on gays – and continuing damage if they ended it, too.

The issue was to come to a head at the Scouts’ annual national meeting in May. In an April webcast to 1,400 delegates, the Scouts released the survey results. The study found that if both gay youth and adults were allowed to join, the Scouts would suffer a “significant membership loss” of 200,000 to 400,000 youths, a leadership loss of 10 to 15 percent, and a financial hit upwards of $30 million.

If the Boy Scouts didn’t change their blanket ban on gays, the survey found, the group expected “continued membership loss across all regions,” a financial position that “continues to erode and continued loss of corporate support.”

The survey didn’t assess the impact of the compromise the Scouts eventually chose at the May meeting – allowing gay youth but not adults.

Spokesman Smith said that the reaction of donors so far has been mixed, and it’s too early to know the net effect. “We are aware of some donors withdrawing support of Scouting, but there have also been former donors now making contributions,” he said.

The financial pinch in relatively liberal parts of America could worsen. A bill in the California state legislature would deny tax-exempt status to youth groups that discriminate based on sexual orientation. The bill was triggered by the Scouts’ policy on gays, said California state senator Ricardo Lara. A similar bill has been proposed in New York.

The May compromise appears to be alienating traditionalists, too.

On July 9, a coalition of parents and scout leaders formerly associated with the Scouts said it would launch a rival, faith-based outdoors program for boys in January. Gay children will be allowed, but won’t be permitted to profess their sexuality.

“It remains to be seen what the exodus is going to look like,” said John Stemberger, founder of OnMyHonor.net, a group helping to form the new program. “But we’re seeing it in droves everyday in thousands of people contacting us.”

Jeremy Miller, a Cub Scout leader in Cincinnati, Ohio, said his entire troop is planning to leave over the May decision. Miller told his 7-year-old son, Evan, in June that he wouldn’t be returning to the Cub Scouts.

“We said, the Boy Scouts have made decisions that don’t follow the Bible, so we’re not going to be part of it,” said Miller.

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