

Protect The Hersheys' Children, Inc.

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Childcare Advocacy Group Calls Charitable Trust Board Compensation "Unconscionable and Profligate," Cites Board Compensation of \$1.6 Million While Employees Ordered to Economize

Hershey, PA (January 13, 2008). Protect The Hersheys' Children, Inc. (PHC), an advocacy group of Milton Hershey School (MHS) alumni dedicated to monitoring the Hershey Trust, has released an analysis of the compensation practices pursued by the trust's charitable board. The study found that the board's compensation practices contravene charitable board norms, including guidelines established by not-for-profit advisory groups, the Pennsylvania Attorney General, and the charter establishing the Hershey Trust. MHS, the world's largest residential childcare charity, is located in Hershey, PA and is funded by the Hershey Trust. Its assets totaled \$8 billion at the start of 2008, including 10,000 acres of land. MHS was founded in 1909 by Milton & Catherine Hershey and today serves approximately 1,700 children.

The Hershey Trust board, alone among residential childcare charities, compensates board members at levels starting at \$100,000 for part-time charitable board work. PHC's analysis notes that this compensation is 1,300% of the median for compensated trustees, according to a 2005 study. While the median compensation for all compensated trustees was \$7,750 in 2005, the lowest annual sum reported for MHS trustees in 2007 was \$97,988, or 13 times the median amount.

PHC asserts that MHS board members' hourly rates for their purportedly charitable work "shock the conscience" and that this is epitomized by the \$402,000 paid to board chairperson Roy Zimmerman. (This is approximately \$773 per hour, according to PHC's calculations.) Zimmerman is an attorney and former PA Attorney General. He was named to the board in 2003 by political allies, who selected him over residential childcare professionals. Once Zimmerman joined the board, its first acts included rescinding Hershey Trust governance reforms, opening the door to current compensation practices. PHC's analysis points out that Zimmerman's \$773 per hour for Hershey Trust charitable work is 155% higher than his law firm's highest billable rate for blue-chip corporate clients. PHC states that MHS could save money by "dispensing with the fiction that Mr. Zimmerman is performing charitable service and instead simply hiring him at his law firm's highest corporate rate."

Reform rescission also opened the door to child-crowding, a policy shift pursued by the Zimmerman board even though childcare professionals uniformly condemn it. PHC's analysis notes that child-crowding is motivated in part by economizing, which is necessitated by an astonishing \$1.9 billion in Hershey Trust losses over the last year. The Zimmerman Board also makes all MHS investment decisions, with board members paying themselves director fees for serving on related-company boards. In spite of massive portfolio losses and related MHS childcare economizing, the MHS Board has tripled its own compensation.

Childcare economizing has included introducing dormitories, something rejected by Milton & Catherine Hershey. It has also included crowding children within existing student homes, in contravention of expert advice. MHS employees have recently been ordered to find new ways to tighten their belts further even while MHS leadership compensation mushrooms, contributing to low employee morale. PHC asserts that MHS Administrator salaries are out of line with those of other childcare facilities, with several Administrators in the quarter-million dollar range while MHS President John A. O'Brien draws \$664,000. O'Brien has reportedly been asked to step down at the end of this school year after

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presiding over what PHC asserts were five years of divisive policies, including bullying of frontline staff and smearing of childcare reform advocates. O'Brien was hired by the MHS Board even though he was discovered during the vetting process to have been falsely claiming to hold a graduate degree in psychology, among other qualification deficiencies. PHC's analysis warns that the current MHS Board leadership will likely repeat the conduct that led to the hiring of O'Brien, calling for Board leadership change "before another President-selection debacle occurs."

PHC's analysis criticizes an infrastructure budget that included construction of an intake facility that cost \$40,000,000 and that housed 20 children per bedroom, which PHC asserts constitutes stark regression in childcare practices. PHC describes the MHS Board's infrastructure budget as "deformed and grossly unbalanced in favor of projects that do not even house children." Such projects include purchase of a failing luxury golf course frequented by Zimmerman and O'Brien, purchase of assets from and naming buildings for MHS leadership cronies, and spending \$130,000,000 to "renovate" a single school building.

PHC notes that the \$600,000,000 spent by the MHS Board during the last five years on infrastructure was enough to have constructed 1,000 new homes for MHS children at a cost of \$600,000 per home. Such spending would have created more natural and homelike settings for MHS children in line with what MHS houseparents, PHC, and childcare professionals advised. Instead, the MHS Board constructed only 29 new residences for MHS children, crowded children into new and existing facilities, and diverted resources elsewhere.

The child-crowding caused by this triggered houseparent opposition that was met with MHS leadership bullying, which in turn has contributed to declining morale among frontline care-providers. PHC's analysis points out that the MHS Board and Administration have closed ranks in defense of questionable decisions, with the Board ignoring Administration misconduct while the Administration championed the reform rescission that opened the door to current Board compensation. According to PHC, "Lacking any outside check on their behavior, the MHS Board and Administration have locked themselves into an insidious downward spiral propelled by mutual self-interest, and in a manner that underscores the need for Attorney General action."

PHC has repeatedly called for intervention by Attorney General Tom Corbett, to no avail. Corbett is politically allied to Zimmerman, who has used charitable resources for a political fundraising event while naming political cronies to lucrative Hershey Trust positions, in lieu of naming residential childcare professionals to the MHS Board. PHC is nonpartisan.

PHC's analysis notes that, even though the MHS Board is spending about \$100,000 per child annually, poor programs, child-crowding, and inadequate leadership have led to alarming attrition rates. 994 children have left MHS during the last five years while only 630 children graduated. The MHS leadership's answer is to blame departing children, suggesting that they are not "the right children" for MHS, while otherwise experimenting with a crowded intake facility.

PHC's report concludes with a call for volunteer Hershey Trust board service along with MHS leadership change. According to PHC, "The removal and scapegoating of a sadly unqualified MHS President by the latest failed MHS Board is not enough. It is necessary also to remove the MHS Board leaders who hired this individual in the first place and who endorsed his every decision, no matter how reckless, while lining their own pockets... It is thus time to change the system, not just the latest exploiters of that system. For starters, upstanding citizens who have already made their way in the world need to stop taking \$1,600,000 of annual fees for part-time charitable board work from funds that should go to needy children."

The entirety of PHC's analysis is available at: www.protecthersheychildren.org

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