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Can a Church Go Broke?

By Frank Gibney Jr.



It used to be said that in polite society one shouldn't discuss sex or money. But that's no longer possible in the Roman Catholic Church. Just last week Milwaukee Archbishop Rembert G. Weakland acknowledged paying \$450,000 in 1998 to settle a claim that two decades ago he sexually assaulted a 30-year-old graduate student. (The Vatican accepted his resignation a day after the revelation.) Add the Weakland settlement to the huge sums other dioceses have paid to cover sex-abuse claims in recent years: an estimated \$25 million in Santa Fe, N.M.; nearly \$30 million in Boston; and \$31 million in Dallas.

With new allegations of sexual abuse surfacing almost weekly, Catholic dioceses across the U.S. face hundreds of millions of dollars in additional claims. Many now wonder: Can the church actually go broke? The short answer is no. In the U.S. the Catholic Church collects revenues totaling around \$7.5 billion annually. Even more impressive are its vast property holdings, which include everything from cathedrals and schools to beachfront retreats, stately mansions, golf courses and television and radio stations. But the real secret of the church's financial strength is that each of the

178 Roman Catholic dioceses in the U.S. organizes its affairs separately; nearly all employ a highly complex and decentralized legal structure that so far has effectively shielded their assets from legal claims brought against priests.

The increase in lawsuits is prompting dioceses from Providence, R.I., to Los Angeles to take further measures to protect — or hide, depending on your point of view — their assets. But it is also prompting new scrutiny of their corporate structures and raising questions about who should be held accountable for the sins of the fathers. "They act no different than Enron," says Miami attorney Ron Weil, who has pursued scores of sexual-abuse cases. "It's a very transparent effort to insulate themselves from liability."

Unlike a public corporation, a church is not required to publicly list its assets or overall revenue. Moreover, diocese officials, citing their First Amendment right to religious freedom, often decline to disclose details about church finances. And several dioceses have persuaded plaintiffs to accept reduced settlements, on the grounds that they could not afford to pay more.

In the 1980s, when only a few victims had gone public with claims of abuse, church officials could afford to resolve each case quietly and relatively inexpensively. But in the following decade, facing the prospect of multimillion-dollar judgments in sex-abuse cases, the dioceses in Dallas and Santa Fe were forced to sell or mortgage property to stay afloat. Since then, church officials have scrambled to devise new lines of defense.

There is much to protect. According to lawyers for 38 plaintiffs in Rhode Island, the Roman Catholic diocese of Providence operates more than 220 corporate subsidiaries, including the Aldrich Mansion, a sprawling compound on Narragansett Bay where the Brad Pitt movie *Meet Joe Black* was filmed. Shooting took six weeks on a property that charges \$3,000 to hold a baby shower there. The Providence diocese owns \$44 million in real estate, and income from its property finances a wide range of social services. Diocese officials argue that it cannot afford to compensate victims of sex abuse — and is not legally liable to do so.

Their rationale: the bishop's corporation manages property, not priests.

Plaintiffs across the country are encountering similar patterns of asset protection, as regional leaders divide church property among dozens if not hundreds of separate corporations, charities and other institutions. The Catholic Church in the U.S. may appear to be a monolithic religious corporation that manages its flock and money from the top down. But the church's fiefs operate as independently as fast-food franchises — and with less legal liability. Each diocese and the parishes within it are separately responsible for their financial affairs. Any one of these institutions could conceivably go broke in the face of big court judgments but almost certainly would not drag down the others.

That's dramatically different from the liability of, say, McDonald's, in which the company can be sued if a customer anywhere is scalded by hot coffee. The church's legal structure acts as a foil to any attack on the center. And ultimately, headquarters is the Vatican — a sovereign state that is effectively immune from private legal action in the U.S. (The Vatican for its part is publicly against any payout of compensation in sexual-abuse cases.) Church officials claim that even when an archbishop is on record as being the chairman of a diocesan corporation, whether a parish or a school, the diocese is not responsible for the acts of any parish priest. Of course, Big Tobacco once thought — wrongly, it turned out — that it was immune from lawsuits by individual smokers.

Lawyers representing the victims are working hard to crack each diocese's many-layered defenses, in part by showing that church officials responsible for supervising wayward priests also effectively control the corporations and entities that own church property. In a Miami case, the archdiocese claimed that it had no control over a parish school where a teacher molested a student. But attorney Weil showed that the diocese controlled not only curriculum and teacher appointments but also scheduling for the school conference rooms. The church settled before the case went to trial. "This is akin to a private getting caught and the general saying, 'He doesn't work for me,'" says Weil. "They're all wearing the same uniform."

Still, the church's secrecy and defiance are formidable obstacles. In 1998 Minnesota attorney Jeffrey Anderson sued the diocese in Stockton, Calif., on behalf of two brothers who had been sexually abused. Anderson discovered — in the middle of the trial, when he happened to rephrase a question posed to the diocese comptroller — that the diocese operated the separate Roman Catholic Welfare Corp., worth an

estimated \$400 million. But it was too late to add another defendant to the suit and too expensive to start a new trial. A jury awarded \$29 million to Anderson's clients, but the diocese, pleading poverty, managed to have the judgment reduced to \$7.6 million. Anderson says the award would have been much higher if the jury had known about the additional assets. The problem, Anderson says, is that "the Catholic Church doesn't have to do any accounting to anybody."

As a result, lawyers and plaintiffs must act as forensic investigators, digging through real estate title-transfer records and questioning local officials about church management of various charitable entities. They are finding, for instance, that church authorities regularly keep only records of the book value — rather than the current market value — of certain properties. The Stockton diocese, for example, in 1998 valued its multimillion-dollar cathedral at \$28,000, the cost to build it in 1942.

In Providence and Boston, plaintiffs' research has yielded some detail on the scope of church enterprises. But no matter how opulent their headquarters or how many seaside retreats their subsidiaries operate, the archdioceses and dioceses generally plead poverty — and tend to get away with it. Los Angeles attorney Katherine Freberg recalls trying in vain to get around California laws preventing access to church documents in a sex-abuse case last year. By releasing so little financial information, the Los Angeles archdiocese and Orange County diocese, reputed to be among the wealthiest in the country, were able to negotiate a relatively small settlement--\$5.2 million — which they delivered in just 15 days.

Now, though, the sheer volume of complaints is making church officials nervous, fearful that their defenses might be breached. In 1997 the Dallas diocese had to use insurance money, borrow \$11.3 million and sell all its vacant property to pay a reduced judgment of \$31 million following an initial \$119.6 million award for sex-abuse victims of Father Rudolph Kos. The Boston diocese says that to date it has paid nearly \$30 million in settlements.

The threat of financial ruin is one reason Boston last month pulled back from a proposed settlement that would have given as much as \$30 million to 86 victims of convicted child molester Father John Geoghan. Boston and other defendants are now taking a harder line against plaintiffs, interviewing their ex-wives, detailing their history of drug abuse or money troubles. "We act like any other defendant in any

other civil litigation," says David Smith, chief financial officer of the Boston archdiocese. "If counsel for the diocese didn't explore every possible avenue, they'd be negligent."

Practically every Catholic institution in the U.S. is searching for ways to protect itself financially. The Boston archdiocese, for instance, is considering a complete reorganization of its corporate structure to protect against future liability. One possibility would be for it to hold all its real estate in trust for its parishes, which would make it even more difficult for new claimants to squeeze much money out of the archdiocese for priests' misdeeds.

In an experiment that is gaining popularity among a range of Catholic communities, some schools and parishes have established corporations to give themselves complete independence, even from their regional diocese. In 1997, for instance, a group of Dominican nuns founded the Sisters of Mary, Mother of the Eucharist convent in Ann Arbor, Mich., which has expanded to include four local schools and two in Honduras. Sisters of Mary is incorporated and run by a lay board of directors. Its financial affairs are directed by a Virginia-based private investment group that primarily focuses its efforts on sustaining small nonprofit organizations. "You have to protect the future, and that's what the parishes and the schools are trying to do now," says Bernard Dobranski, dean of the Ave Maria School of Law, which is down the road from the convent.

By almost any reckoning, the church's legal future looks bleak. Boston alone is up against as many as 450 separate claims of sexual abuse. Plaintiffs' attorneys in California and New Mexico say they have received dozens of new allegations in recent weeks. In Milwaukee, the reverberations of last week's disclosure have only begun. The longer the church has to fight to protect its assets, the more likely it is that the real cost will be measured in faith.

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