

Paychecks raise eyebrows

Competition: Growing complexity, demand for talent drive up pay for nonprofits' managers.

By Jamie Smith Hopkins. *The Baltimore Sun*
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Charity is big business in Maryland, and some of the providers provide the compensation packages to prove it.

Seven of the state's 501(c)(3) organizations - charities, the most common nonprofits - paid more than \$1 million in salary and benefits to at least one official during their 2003 fiscal year, according to the most recent Internal Revenue Service data consistently available. Thirty shelled out more than \$500,000, a Sun analysis found.

A generation ago, hardly anyone could expect to be compensated handsomely for working in the nonprofit sector. But now the largest charities - here and nationwide - are bigger, more complex and more likely to compete with for-profits than ever before. They have chief financial officers, head investment managers, attorneys on staff. And more and more frequently, they're looking for chief executives with corporate experience.

At the same time, they're offering bonuses, long-term incentives and benefits that are more reminiscent of publicly traded companies than the neighborhood homeless shelter.

"Nonprofits are realizing that they have to compete more intensively with the business sector for certain kinds of key positions," said Lester M. Salamon, director of the Johns Hopkins Center for Civil Society Studies. "That's probably pushing the wages up."

It's also pushing lawmakers on Capitol Hill and auditors with the IRS to question whether salaries are getting excessive - and whether some U.S. nonprofits are for-profits in tax-exempt clothing.

'The real stake here'

"The real stake here is that ... more and more of the supposedly taxed economic activity of the country will end up in this sector that is not taxed," IRS Commissioner Mark W. Everson told the Senate Finance Committee last month. The IRS is stepping up examinations of abuses in the

nonprofit world, including pay and perks.

Nationally, nonprofit hospitals and health care systems in particular are coming under fire for operating in ways that critics claim are little different than for-profit counterparts. Executive salaries make them an easy target: They're usually the top-paying charities.

That's true in Maryland. Compensation was highest at Marriottsville-based Bon Secours Health System Inc., which employs more than 25,000 across 21 hospitals and other health care facilities in nine states. It paid then-chief executive Christopher M. Carney more than \$1.5 million in salary, bonus and benefits in fiscal 2003.

The rest of the top five that year: University of Maryland Medical System Corp., the Johns Hopkins Health System Corp., MedStar Health Inc. and LifeBridge Health, which each paid their top executive at least \$1.2 million.

All say their boards study market trends - often with the help of consultants - before crafting compensation packages. Johns Hopkins aims to pay significantly more than average for well-known medical institutions because it believes that holding on to its star executives and doctors is the way to maintain its No. 1 spot on U.S. News & World Report's annual ranking.

Keeping 'crown jewel'

"We want to keep the crown jewel of Maryland in its status as the crown jewel," said Shale D. Stiller, chairman of the compensation committee of Johns Hopkins Medicine.

He thinks they're getting good bang for the buck from President Ronald R. Peterson, who earned \$1.4 million in 2003.

"For years, he never took a vacation," Stiller said. "He's usually at the hospital at 6:30 in the morning, and I think he rarely leaves until 9:30 or 10 in the evening."

The Sun's analysis included about 200 sizable nonprofits, typically with at least \$20 million in annual income, using numbers reported to the IRS by the nonprofits and then collected by GuideStar, a national database of nonprofit information. The study found that:

- Nonprofit executives can get golden parachutes too. MedStar Health of Columbia, which runs seven hospitals and other health services in the Baltimore-Washington area, gave multimillion-dollar severance packages to former executives over the past few years - the lingering result of the 1998 merger that created MedStar. Michael Merson, who headed one of the two merged organizations, was paid about \$925,000 in fiscal 2003 alone.

- Some raises beat the heck out of inflation. Maryland General Hospital in Baltimore paid

chief executive Timothy D. Miller nearly 80 percent more in fiscal 2003 than in the previous year. Hospital parent University of Maryland Medical System hastens to add that his \$705,000 compensation package was larger in part because he opted to take some deferred compensation he'd earned earlier. That was before Miller resigned in the wake of a scandal in which the hospital laboratory sent out hundreds of possibly inaccurate medical test results.

- The top guy isn't always the top paid. [Johns Hopkins University](#) President William R. Brody was the nation's highest-compensated leader of a U.S. college in fiscal 2003, but Dr. Henry Brem, director of the university's neurosurgery department, earned more. Brem's compensation package topped \$1 million.

'It's a market issue'

"It's a market issue," said Steven Knapp, the university's provost, who calls Brem a "world-class" physician. "The [clinical] faculty could in virtually every case make much more if they were in private practice."

Nonprofits have heft in Maryland. In 2003 they employed 228,000 people, nearly as many as local government and a lot more than state government, according to a soon-to-be-released report by Salamon and Johns Hopkins research associate Stephanie Geller.

The Johns Hopkins institutions combined are the largest private employer in the state, with 44,000 jobs - not counting the thousands of student positions.

"The nonprofit sector is, and always will be, a driver for the Maryland economy," said Richard P. Clinch, director of economic research with the Jacob France Institute at the [University of Baltimore](#), which is a state school.

Most of the top jobs come with wages that wouldn't raise any eyebrows. Half the chief executives of local nonprofits earned salaries and bonuses of less than \$70,000 in 2003, according to the Maryland Association of Nonprofit Organizations.

"The very high compensation of a very small number masks the very low compensation of a very large number," said Rick Cohen, executive director of the National Committee for Responsive Philanthropy, a Washington watchdog group.

The big nonprofits point out that their executive pay pales in comparison with that of public companies. In 2003 Lockheed Martin Corp.'s then-CEO, Vance D. Coffman, earned more than \$22 million in salary, bonus, stock options and similar pay, not counting other perks.

Sometimes the pure cash compensation looks similar. Carney, Bon Secours' recently retired chief executive, took home about the same amount of it in 2003 as the chief executive of Choice Hotels International Inc., best known for its Comfort Inn brand. But Bon Secours had \$2.1 billion in revenue, more than five times Choice Hotels' \$386 million.

Peggy Moseley, a spokeswoman for Bon Secours, said Carney was an excellent leader, tripling the system's facilities during his eight years at the helm. Pay is important, she said, because there aren't many people who can run large faith-based medical systems.

Corporate-esque pay may annoy donors, but it isn't necessarily an IRS red flag. Nonprofits can - and sometimes do - look at "comparable" for-profit companies when they're setting executive compensation.

Don Kramer, a Pennsylvania attorney who represents charities, argues that even when the salaries match up, nonprofit leaders are giving up a lot.

"An entrepreneur in business can reap the reward of that work for a lifetime and pass it on to the kids, whereas when a nonprofit executive leaves, they may get a pension," Kramer said. "People who try to make these comparisons don't recognize the lost personal economic opportunity."

Some charity experts think the problem isn't that nonprofits are trying to compete for corporate talent, but that some of them are nonprofits at all. Hospitals used to be the gathering place of the poor but are now fee-for-service providers, said John D. Colombo, a University of Illinois College of Law professor who studies charities.

"I don't think there is much of a rationale for multimillion-dollar business enterprises being tax-exempt," said Colombo, who said teaching and research hospitals are the exception.

MedStar Health says it has a bottom-line way to ensure that leaders pay attention to more than the bottom line: Executives must meet nonfinancial performance objectives linked to charity care and community service programs to be eligible for incentive pay.

"Someone might say, 'What's the purpose of your tax-exempt status?' and [MedStar trustees] actually quantify that," said Bill Leisy, a partner with Ernst & Young, which advises the board on compensation.

AmeriDebt case

AmeriDebt Inc. couldn't justify its existence. The Maryland nonprofit rose into the ranks of the nation's largest credit-counseling agencies before falling into scandal and bankruptcy. In March the Federal Trade Commission shut it down.

In 2003, the year that four states and the FTC filed lawsuits against AmeriDebt for charging its debt-ridden clients high, hidden fees, President Douglas R. Nunes was compensated to the tune of \$673,700 - a \$400,000 raise from 2002.

Chimes Inc., a well-respected Baltimore charity serving the mentally disabled, failed to include a sizable chunk of the salaries paid to key executives between 2000 and 2002 on its main IRS filing, The Sun found in 2003. The nonprofit said it noted the salaries on a separate submission for a nonprofit trade group called Chimes Delaware.

Chimes' 2003 return adds up the salary sources, showing chief executive Terry A. Perl's compensation at about \$715,000 - more than the heads of all but a few of the state's hospitals.

Kramer, the Pennsylvania attorney, is acting as special counsel to Chimes and said that the previous years' filings were honest mistakes and that overall pay is determined with the help of accounting firms, which offer salary data from comparable organizations.

"The auditor said it was within the range of reasonable," Kramer said. "Chimes is an organization that has expanded hugely."

Other end of scale

At the other end of the salary scale is Columbia Union College, a 1,100-student liberal arts institution in Takoma Park affiliated with the Seventh-day Adventist Church. President Randal Wisbey's total compensation was roughly \$70,000 in fiscal 2003.

"The general principle that guides the pay scale for the Seventh-day Adventist Church is that salaries should reflect a modest living wage," said Scott Steward, Columbia Union's public relations director.

The Montgomery County college does offer a benefit some other nonprofits can't claim, though: "We get Friday afternoons off," Steward said.

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