## Goodwill chief agrees to pay cut

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SUMMARY: Nonprofit charity | Michael Miller's decision comes as a state audit calls his $831,508 pay in 2004 "unreasonable"

The president of Portland's Goodwill has agreed to a significant pay cut after an 18-month investigation by the Oregon attorney general's office concluded his $831,508 in total pay and benefits in 2004 was "unreasonable."

Michael Miller's compensation and benefits, which had risen 61 percent since 1998, have been substantially more than that earned by the chief executives of Oregon's other prominent social service organizations, according to the audit obtained Monday by The Oregonian.

"Law does not require executives to take a vow of poverty to work in the nonprofit sector," auditors wrote of Goodwill Industries of the Columbia Willamette. "But 'reasonable compensation' is a substantive legal standard. . . . Miller's 2004 compensation ranks him in the top 1/2 to 1 percent of all American wage earners."

Goodwill's chairman of the board, Thomas C. Young, said Miller, who has been president of the charity for 20 years, agreed to accept a 24 percent cut in his salary and performance bonus because he thinks discussions of his compensation have been a distraction for an agency that does much public good.

Miller also agreed to no longer accept contributions to a special investment trust that was also part of his compensation package, Young said. Even with the reductions, Young said, Miller remains one of the highest-paid executives at Goodwill Industries branches across the country.

Attorney General Hardy Myers, whose staff in the Charitable Activities Section took input from Portland's Goodwill and its lawyers before finalizing the audit, praised the charity for making changes that he hopes will put Miller's pay --and that of other Oregon nonprofit officials --in line with best industry practices.

After Myers and auditors confronted Goodwill with their early findings, the charity agreed to create a new committee to handle compensation matters and adopted a new policy to govern them.

"It's a significant change," Myers said. "They have adopted a set of principles and consultant recommendations . . . that I think puts them on a good track for purposes of future determinations of CEO compensation."

Miller's 2005 salary, along with his performance bonus, dropped to less than $400,000 from a high of $520,000 in 2004, Young said. He said Miller also agreed to a cut in deferred compensation.

The Goodwill president's pay package --salary, benefits and deferred compensation --has been at issue since The Oregonian reported last year that his total pay and benefits in 2002 was the highest among chief executives of all 173 Goodwill branches in North America.

Miller heads the top-selling Goodwill charity in the nation, with annual revenues of $65 million in 2004. He has consistently declined comment about his compensation, but Goodwill has defended his compensation, saying it's in line with that of executives who head similar for-profit businesses.

In a 12-page response to the audit, Goodwill argued that the auditors' analysis was "flawed" and that the charity had scrupulously followed the law in setting Miller's compensation over the years.

The Portland-based charity employs about 1,800 workers, at least two-thirds of whom are disabled or disadvantaged. Many work in 33 retail stores and four outlets that dot the region from Vancouver to Bend to Lincoln City. The stores sell donated items such as clothes, toys and household goods.

The audit said that while 11,484 charitable corporations and trusts were headquartered in Oregon in 2003, only 156 of them paid executives a salary of $100,000 or more. Most of these executives or key employees work for universities, hospital or health care systems, major foundations or international relief organizations.

Federal laws and regulations allow nonprofits to compensate their executives based on pay at similar nonprofit or for-profit companies. Nonprofit executives whose pay exceeds market rates can be fined and forced to pay back their organizations, and boards that approve such compensation packages can be fined.

That seldom happens, however. "The idea you can compare with for-profits is, to us, the open door to a free-for-all," said Rick Cohen, executive director of the National Committee for **Respo nsive Philanthropy,**
a Washington, D.C., charity watchdog group.

The Internal Revenue Service and Congress are taking aim at charities with highly paid executives. In September, the IRS proposed regulations that could make it easier for the government to revoke the tax-exempt status of nonprofits that benefit executives instead of meeting their missions.

A bill moving through Congress would increase the punishment for nonprofits that pay huge salaries or otherwise allow executives to profit from their positions.

Auditors focused on language supporting Oregon's Revised Model Corporations Act, adopted in 1989, which allows payment of "reasonable compensation" at nonprofit organizations.

A key sticking point as the Department of Justice and Goodwill debated Miller's pay package was his performance bonus.

"There is nothing inappropriate or illegal about providing annual financial performance incentives," auditors wrote. "However, the size of the bonus (now almost equal to the base salary) is inconsistent with bonuses paid to nonprofit organizations."

The median for such bonuses runs between 15 percent to 22 percent of base salary, Myers said.

The audit also found that Goodwill had based Miller's salary in recent years on a 1999 survey of similar executives who included his brother, John Miller, whose pay package exceeded $444,000 in 2004.

That 1999 survey was problematic, auditors said, because it relied heavily on comparisons with for-profit organizations that were far larger than Portland's Goodwill.

Miller drew a 5.9 percent increase in compensation between 2003 and 2004, according to Goodwill's latest financial report, which was filed last month with the Department of Justice. Much of Miller's pay package reflected increases in the value of his benefits and deferred compensation.

The Goodwill executive has a complex benefits package, including a so-called rabbi trust he will receive upon retirement. In 2004, the trust increased in value by $141,637 because of market increases, annual earnings and cash contributions from Goodwill. The trust's total market value was $636,023 as of Dec. 31.

As part of the reduced compensation Miller agreed to, he will no longer accept contributions to the trust.

A supplemental retirement plan, started for Miller in 1996, provides $74,000 for every year he works at the nonprofit. The value of that retirement account stands at $497,502.

Under an agreement between Miller and the charity --good through March 2009 --he would earn between one and three years of salary should the board fire him for any reason other than him being convicted of a felony crime that involves "moral turpitude."

Goodwill also structured a life insurance policy for Miller a decade ago with annual premiums of $74,000. Upon Miller's death, Goodwill collects $1 million and all the premiums it has paid.

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