



October 11, 2018

**To:** Route91Strong (R91S) Board of Directors

**From:** Dave Freudenberger, CFO  
Iris Sherman, Director of Operations

**Subject:** *Compensation Analysis for the R91S President/CEO Position*

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As you all know, the Board of Directors recently voted to make our organization's President/CEO a full-time, paid officer. As you also know, our President/CEO has been working even more hours than a traditional full-time position would entail, since the inception of our organization approximately one year ago, without any compensation. Once the Board approves a compensation plan and employment agreement, the President/CEO compensation will be retroactive to July 1, 2018.

### **Background**

Our non-profit attorney, Scott Galbreath, advised us to establish a compensation committee, collect comparable compensation data, determine an appropriate compensation level for the President/CEO, and work with Scott to develop an employment agreement that stipulates the compensation provisions. Iris and I worked together, as the compensation committee, to collect the necessary data and recommend a reasonable and fair compensation formula for the President/CEO; this memo contains a summary of the data and our analysis, as well as our recommendations. Scott is preparing the employment agreement for our review based on the results of this memo.

Scott's advice regarding this process can be found in many places on the internet, not the least of which is the IRS. The IRS recommends that non-profits follow a three-step process to determine that chief executive compensation is reasonable and not excessive, as follows (and as described by the National Council of Nonprofits):

1. The board should arrange an “independent body” (which means that the person receiving the compensation should not be part of the review process) to conduct a “comparative review.” Many non-profits task a “compensation committee,” or use their executive committee, or another sub-group/task force of board members, for this purpose. As you know, Iris and I are both board members, and neither one of us are compensated by R91S.
2. The independent body should take a look at “comparable” salary and benefits data, such as data available from salary and benefit surveys, to learn what non-profit employers with similar missions, and of a similar budget size, that are located in the same or a similar geographic region, pay their senior leaders. Tables 1 and 2, attached, present this data, which was obtained from pertinent compensation surveys. Discussion regarding the data sources and our analysis is presented below.
3. The board/independent body that is conducting the review should document who was involved and their “independence” (i.e., they do not receive compensation from the non-profit), the process used to conduct the review, and the disposition of the full board’s decision to approve the executive director’s compensation (minutes of a meeting are fine for this). The documentation should demonstrate that the board took the comparable data into consideration when it approved the compensation.

This three-step process is commonly referred to as the “rebuttable presumption” test used to establish reasonableness. If followed, the IRS must rebut or prove that the compensation is unreasonable; if not followed, the IRS may simply claim that the compensation appears to be unreasonable, leaving the non-profit with the burden of proof and with the hassle of dealing with the IRS.

## **Data and Analysis**

### ***Data***

Two data sources were used to conduct this analysis. The primary data source was prepared by Nonprofit Compensation Associates, Inc., and is entitled *Fair Pay for Northern California Nonprofits, The 2018 Compensation and Benefits Survey Report*. This survey (the “2018 Survey”) is current, is geographic-specific to our area, breaks compensation down by size of the non-profits who were surveyed (based on annual expenses), and also organizes data by type of service provided. It also comes highly recommended by Impact Foundry, a non-profit organization that has been providing comprehensive services and support to non-profits in the immediate Sacramento region and in 18 surrounding counties since 1989. Scott suggested we consult with Impact Foundry, and they in turn recommended that we utilize data in this survey. We had to pay \$180 to obtain it, but it contains exactly what we need.

The secondary data source is the *2016 Charity CEO Compensation Study* prepared by Charity Navigator in October 2016. The data in this source (the “2016 Survey”) is not quite as

precise as the 2018 Survey, but it contains similar and useful data that we used to supplement, cross-check, or provide context for our analysis of the data in the 2018 Survey. This data source was free. The Charity Navigator study for 2018 will be released any time, but it was not available as we collected and analyzed data for this analysis.

There are many other data sources available for non-profit compensation studies. For example, PNP Staffing Group produces non-profit salaries and staffing trends reports, but these reports are limited to several East Coast metro areas. GuideStar produces what appears to be a widely used non-profit compensation report, but the fee to obtain that report is \$374, and it didn't seem essential given the value of the 2018 Survey for this particular purpose. Other reports were even more expensive to buy, such as the Nonprofit Analytics database prepared by Excellence in Giving; access to that data costs \$1,500.

### ***Analysis – Table 1***

Table 1 presents the primary data we used, and our analysis of that data from the 2018 Survey. Annual base salary is presented for three data points: the 10<sup>th</sup> percentile (i.e., 90% of CEOs earned more than this amount); the average; and the 90<sup>th</sup> percentile (i.e., only 10% of CEOs earned more than this amount). The first line of Table 1 shows the data points for all non-profit organizations in the survey; there were approximately 600 respondents. The average annual salary for a CEO across all organizations in northern California who responded to this survey is approximately \$156,000; salaries in the 10<sup>th</sup> percentile and 90<sup>th</sup> percentile are \$84,000 and \$245,000, respectively.

By contrast, CEOs at the smallest non-profit organizations – those with annual expenses less than \$500,000 (the average was \$333,000, which will be somewhat close to where we end up for the full year 2018) – earned considerably less than the average across the board. The average CEO salary for this group of small non-profits was \$77,000, or about one half (49%) of the average for all of the organizations.

If we apply this 49% factor to other categories of non-profits in the survey, we can also estimate CEO pay with even more precision. As provided in Table 1, the estimated CEO salary for the smallest non-profits in the Sacramento region is \$74,000. Also, the estimated CEO salaries for the smallest non-profits who provide health-related services and social services (the two sectors, or categories, that most closely align with R91S's services) are \$86,000 and \$75,000, respectively.

Having dissected the data four ways, we calibrated the average CEO salary across those four areas: smallest non-profits in northern California; smallest non-profits in the Sacramento region; smallest non-profits operating in the health services space; and smallest non-profits operating in the social services space. That average, presented at the bottom of Table 1, is \$78,000. That average also falls near the middle of the range between the 10<sup>th</sup> percentile and 90<sup>th</sup> percentile, but at 45% it is on the lower side of the exact middle (50%).

## ***Analysis – Table 2***

The data and analysis presented in Table 2 serves to support the conclusions reached in Table 1. The 2016 Survey, together with the Charity Navigator website, provides links to helpful resources that we utilized in our analysis. The Sector Analyzer Tool allowed us to better pinpoint average CEO salary for specific service categories (Health Services and Human Services), a specific annual expense category (the lowest category available is  $\leq$  \$3.5 million), and a specific geographic region (Pacific West) and, within the region, a state (California). Based on these criteria, the average CEO salary is approximately \$118,000 for health services and \$93,000 for human services. Note that these are 2014 salaries, escalated at 3% per year to 2018. Both the 2018 Survey and the 2016 Survey include data indicating that average CEO salaries have been increasing over the last decade at a rate of approximately 3% per year, or 0.25% per month.

Charity Navigator also provides CEO salary graphs that show the relationship between a non-profit's annual expenses and its CEO salary, with a different graph for each of the seven regional areas within the country (of which Pacific West is one), presented for each service category/sector. These graphs suggest that average CEO salaries for the lowest annual expense non-profits in the Pacific West are \$101,000 and \$84,000 for the health services and human services categories, respectively. Again, these average salaries reflect 2018 estimates escalated from 2014 data at 3% per year.

Finally, Charity Navigator recently produced its 2017 Metro Market Study, which among other data points contains median CEO compensation for 30 metropolitan markets across the country. Of those 30, five metro areas have very similar populations as the population of the Sacramento metro area: St. Louis; Pittsburgh; Denver; Orlando; and Portland. The average CEO compensation of those five data points, in 2018 dollars, is \$128,000, suggesting that that amount might be a reasonable approximation for the Sacramento metro area. Note the distinction here, though, between median and average compensation. These data points, unlike the others we have used and described above, reflect median rather than average salaries. The median salaries are likely to be much less than the average salaries due to the skewness of the data toward the higher end salaries.

## ***Other Considerations***

As a full-time employee of R91S, the President/CEO could be entitled to a host of benefits that we are not at this time contemplating. Iris and I do not feel that paid vacation and sick time is appropriate in this instance because the President/CEO may take whatever personal time is needed around the duties related to R91S as long as job performance is not adversely impacted; this flexible approach has worked well during the last year, and there is no reason to change it now.

However, other valuable benefits are also not being contemplated at this time, but should be accounted for when considering the total compensation being recommended in this analysis. For instance, most retirement plans involve some form of matching funds; our President/CEO would not be receiving such funds. In addition, health insurance can be extremely expensive, and that is not being covered at this time, either. The 2018 Survey notes that 77% of the surveyed organizations provide some type of retirement benefits to their full-time employees, and 93% of the surveyed non-profits offer some type of medical insurance to full-time employees. On a smaller scale, 60% of the survey participants pay for the cell phones of their executive directors. All of these, and potentially other, President/CEO benefits could be added to the compensation package later. Finally, as you are already aware, all of our President/CEO's business-related travel expenses will continue to be reimbursed.

### **Recommendations**

The President/CEO of R91S has devoted long hours and made it a life's mission during this organization's first year of existence to not only make R91S relevant and sustainable, but to lay the groundwork for continued growth, new initiatives, and innovative fundraising programs that will generate increasing revenues and support many more survivors who desperately need our assistance. Fair and reasonable compensation, which is not excessive, is in order for our President/CEO. We believe the following compensation approach does just that.

The 2018 Survey reports compensation and benefit practices in effect on January 1, 2018, so a six-month adjustment to the data in that study must be made to reflect a July 1, 2018, starting salary for the President/CEO. As discussed above, such an adjustment can be made based on a 0.25% escalator per month, which amounts to a 1.5% increase over the six-month period between January 1 and July 1. That would bring the total compensation for the R91S President/CEO, effective July 1 – based on the \$78,000 amount derived in Table 1 – to approximately \$80,000. We recommend that the total salary and bonus be based on this figure.

We further recommend that the annual \$80,000 amount be divided into two forms of compensation: 1) a monthly salary of \$5,000; and 2) a quarterly bonus equal to 10% of total revenues received during the quarter, not to exceed a \$5,000 bonus in any of the first three quarters of the year. The fourth quarter would involve a true-up, or reconciliation, process that allows the President/CEO to capture bonus compensation based on revenues received during the entire calendar year, up to a maximum of \$20,000 in bonus for the year.

An \$80,000 ceiling on total salary and bonus pegs our President/CEO compensation at the average base salary for non-profit organizations similar to ours: currently a small amount of annual expenses (less than \$500,000); based on the Sacramento region within a northern California context; and providing health-related and human/social-related services. Since this total compensation recommendation excludes valuable full-time employee benefits, such as retirement contributions and medical insurance coverage, we believe this proposal falls well short of anything that might be considered excessive compensation.

Iris and I will be available to discuss this in detail with any Board member, either prior to or when we meet to review and approve the President/CEO compensation package. As you know, the President/CEO will not be part of this conversation and approval process. Also, we will forward Scott's draft employment agreement as soon as we receive it.

Attachments:

Table 1

Table 2

**Table 1**  
**Route91Strong**  
**President/CEO Position**  
**Compensation Study**  
**Primary Data and Analysis**

Organization/Location/Type of Service	Annual Base Salary		
	10th Percentile	Average	90th Percentile
<b>All Organizations in Northern CA Survey</b>	\$84,100	\$155,853	\$244,959
<b>Organizations with Annual Expenses &lt; \$500,000</b> (Average Annual Expense = \$333,000)	\$53,865	\$76,947	\$114,266
Smallest Organizations Salary as % of All	64%	49%	47%
<b>Sacramento Region</b>	\$90,000	\$150,794	\$237,713
Assumed Smallest Organization Amount	\$57,644	\$74,449	\$110,886
<b>Health/Medical Services</b>	\$60,000	\$174,169	\$249,995
Assumed Smallest Organization Amount	\$38,429	\$85,990	\$116,615
<b>Social Services (One Program)</b>	\$75,749	\$152,038	\$239,239
Assumed Smallest Organization Amount	\$48,516	\$75,063	\$111,598
<b>Average of Four Smallest Organization Amounts</b>	\$49,614	\$78,112	\$113,341
<b>Position within Spectrum between 10th and 90th Percentile</b>	0%	45%	100%

Source: "Fair Pay for Northern California Nonprofits, The 2018 Compensation & Benefits Survey Report" by Nonprofit Compensation Associates, Inc.

10/11/2018

**Table 2**  
**Route91Strong**  
**President/CEO Position**  
**Compensation Study**  
**Supporting Information**

Organization Service Category/Size/Location	Average CEO Salary
<b>Sector Analyzer Tool</b>	
Health Category Annual Expenses <= \$3.5M (Lowest Category) Pacific West Region: California	\$117,638 /1
Human Services Category Annual Expenses <= \$3.5M (Lowest Category) Pacific West Region: California	\$92,771 /1

**Salary Graphs by Expenses, Category, and Region**

Health Category Annual Expenses approx \$600,000 (Lowest Amount) Pacific West Region	\$101,000 /2
Human Services Category Annual Expenses approx \$500,000 (Lowest Amount) Pacific West Region	\$84,000 /2

2017 Metro Market Study	Population (millions)	Median CEO Comp
St. Louis Metro Area	2.8	\$138,000
Pittsburgh Metro Area	2.4	\$131,000
Denver Metro Area	2.9	\$125,000
Orlando Metro Area	2.4	\$114,000
Portland Metro Area	2.4	\$113,000
Sacramento Metro Area (avg comp is calculated) 2017 Salary Data escalated by 3% to 2018	2.7	\$124,200 \$128,000

/1 Escalated from 2014 to 2018 at 3% per year.

/2 Estimated based on selected graphs; escalated from 2014 to 2018 at 3% per year.