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HEADLINE: Nonprofit makes its owners wealthy;
As state cuts services, pair collects more than \$7 million in 5 years.

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BODY:

Edward Dawson started his business from scratch in 1978. He and his wife, Marcia, built it into a \$63-million-a-year enterprise with offices throughout California.

The couple, who earned more than \$7 million in salary and deferred compensation in the last five years, now own a villa overlooking the beach in Palos Verdes and other real estate worth millions of dollars.

Theirs is a classic tale of entrepreneurial success -- except their wealth comes from running a nonprofit that is sustained by taxpayer dollars.

The company, Social Vocational Services, provides job training, life skills instruction and group housing for people with developmental disabilities -- an industry that relies on low-wage workers and government handouts.

The Dawsons made their millions while navigating the murky boundaries of nonprofit law. By definition, nonprofit companies exist for the public good. Federal law says that executive pay must be "reasonable" -- a vague standard that regulators and watchdogs say essentially allows nonprofits to set their own limits.

While the state is slashing the budget for the developmentally disabled, it places no ceiling on how much executives like the Dawsons can earn. In addition to their pay, they collect more than \$700,000 a year for renting properties to SVS, including a San Francisco condominium for their own use.

Their financial practices were unusual enough to prompt an investigation by the state attorney general in 2000 into whether SVS' board of directors was placing the Dawsons' personal gain above the nonprofit's public mission.

But after the investigation ended in 2004 with a confidential settlement -- obtained last month by The Times through the Public Records Act -- the board gave them raises. Over the next four years, Edward Dawson's salary as chief executive jumped from \$368,508 to \$872,311.

Determining what constitutes "reasonable" compensation under the law can come down to a debate among experts.

"These cases are often challenging to prosecute because there is no bright line for what constitutes reasonable compensation," said Belinda Johns, head of the charitable trusts section of the California attorney general's office.

Pushing for stricter rules on nonprofit executive pay, Sen. Charles E. Grassley (R-Iowa) recently told the Senate Finance Committee that boards have "rubber-stamped compensation packages which they know to be unreasonable."

Earlier, SVS was among five nonprofits nationwide singled out in a 2005 report on employment programs for the disabled by the U.S. Senate's Commission on Health, Education, Labor and Pensions.

The commission found their executives benefited from excessive compensation, lavish perks or self-dealing -- conducting business with one's own company.

But the law is also open to interpretation on self-dealing. It's allowed if the board considers other options and finds them less beneficial to the company.

"If you have good lawyering and you are very brazen, you can work around things," said Jim Fishman, a law professor at Pace University in New York.

Frances Hill, a law professor at the University of Miami who reviewed the 2004 settlement for The Times, called the agreement "insufficient" because it left the Dawsons too much room to keep enriching themselves.

The Dawsons did not return calls seeking comment and refused to see a reporter who visited their headquarters in Torrance. SVS board members could not be reached.

A lawyer for SVS, Savery Nash, said the Dawsons believe they should be compensated as if they worked in the private sector, an idea now embraced by many nonprofits, notably hospitals and arts organizations.

Nash also defended the rental arrangements and other side deals, saying that Edward Dawson has always provided the nonprofit a bargain and is entitled to a return on his investments.

"All along he has been sticking his neck out for the company," Nash said.

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Edward Dawson was a 31-year-old graduate student at UCLA when he found a way to combine his interests in developmental disabilities and real estate. SVS began as a series of group homes.

By the time he got his doctorate in education in 1982, his company was adding programs for clients and vans to transport them.

Most of the money came from the state -- and still does.

Under the Lanterman Act of 1969, people with mental retardation and other developmental disabilities are guaranteed a wide range of state-funded services. Money flows through a network of 21 regional centers, themselves nonprofits, which then contract with providers, including SVS.

Marcia Dawson, who has a mentally retarded son, was a caseworker at Harbor Regional Center in Torrance before she met her husband. They married in 1984. As the nonprofit grew, the Dawsons bought more homes, then leased them to SVS.

By the end of the 1990s, SVS had grown into a \$32-million-a-year business.

In 1999, the Dawsons arranged to sell SVS to not sure you know Inc., a for-profit company headquartered in Kentucky. Such a sale requires the attorney general's approval.

The deal fell apart, but only after the interest of the attorney general had been piqued, said Nash, the SVS attorney.

The investigation focused on the Dawsons' compensation and a van rental company, according to the settlement agreement, which detailed the state's concerns.

Tax filings show that SVS was paying up to \$1.8 million a year to rent vans from Glynhart Corp., a for-profit company owned by the Dawsons.

Glynhart had no employees or other customers. SVS paid for maintenance, gas and drivers.

The state also raised questions about whether the SVS board of directors had properly vetted the Dawsons' pay packages and other business deals.

But it was far from an open-and-shut case. Past board members said in interviews with The Times that the van deals were approved only after comparing what outsiders would have charged.

Nancy Bloch, a former SVS board member whose adult son is a client, said the directors also followed proper legal procedures when setting the Dawsons' salaries. "If they were paid \$5 million, it'd be worth it," she added. "It takes everything to run it. This man has a PhD."

The investigation eventually became a negotiation. In the resulting settlement, the Dawsons paid nothing.

Instead, an insurance policy that covered the board for inadvertent fiduciary missteps reimbursed the nonprofit \$175,000.

Edward Dawson agreed to stop renting vans to SVS, and the board agreed that the Dawsons' total compensation would not exceed the 90th percentile of executives at similarly sized nonprofits.

In the months leading up to the settlement, the Dawsons collected \$1.5 million in deferred compensation, a figure that brought their total pay for the year to \$2.2 million.

It made 2004 their best year ever.

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In the wake of the settlement, the Dawsons continued to prosper.

They sold the van rental company to SVS for \$1.9 million. The price, former directors said, was based on outside offers.

They went on to start a new company, Torrance Commercial Properties, which bought SVS' headquarters for \$2.3 million. Then the for-profit firm began collecting rent for it and three other properties from the nonprofit. Last year's tax filings show the rent totaled \$626,664.

The Dawsons also receive \$84,000 a year in rent from SVS for a San Francisco apartment. Tax filings say they use it when traveling on business.

Nash said the Dawsons collect fair rents for their properties.

In addition to his salary, Edward Dawson also receives \$50,300 a year for running Glynhart, the van company he sold, according to 2008 tax documents. His wife makes \$606,862 as chief financial officer at SVS.

Those salaries are far outside the norm for similarly sized nonprofits, calling into question whether SVS is complying with the 90th percentile requirement of the settlement agreement.

Charity Navigator, a watchdog group in Washington that tracks salaries of 5,500 nonprofits across the country, generated data showing that among charities with budgets between \$50 million and \$75 million, the average pay for chief executives was \$331,000.

The 90th percentile was \$531,000.

A Times review of tax filings could not find any California nonprofits serving the disabled that paid their executives more than Edward Dawson earns.

The next highest paid chief executive -- with \$540,126 in salary and benefits -- runs Pride Industries, which is based in Rocklin, Calif., and has a budget twice that of SVS.

Bill Nikkel and other former board members said that after the 2004 settlement, the board hired a consultant who presented survey data showing that the Dawsons deserved raises.

Officials at both the state Department of Developmental Services and the regional centers said it is not their place to question the Dawsons' salaries. Providers for the disabled are paid a standardized rate per client.

"We're not paying SVS differently than other vendors," said Robert Riddick, the executive director of the Central Valley Regional Center in Fresno. "We have not gone in and said to folks, 'What's your salary?'" he said.

But several experts questioned how SVS was able to pay its executives so much more than its competitors, many of whom are suffering from state budget woes.

Rate freezes have been in effect for several years, and as a result, some providers have reduced their staffs or cut pay. Amid protests this year, the Legislature trimmed state spending on regional centers by \$334 million, or roughly 12%, though the number of clients has been rising.

Catherine Blakemore, executive director of Disability Rights California, an advocacy group, said, "People with developmental disabilities are going to have a much harder time getting the services they need."

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Researcher Maloy Moore contributed to this report.

GRAPHIC: PHOTO: HEADQUARTERS: The office of Social Vocational Services, which provides job training, housing and other assistance for people with developmental disabilities, is in Torrance. PHOTOGRAPHER: Christina House For The Times GRAPHIC: A profitable year CREDIT: Los Angeles Times

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