

IRS audits Navy Pier

By [Danny Ecker](#) November 16, 2016

The IRS is auditing the nonprofit that runs Navy Pier to determine whether it properly reported income that isn't related to the primary purpose of the state's most-visited tourist attraction.

The audit for 2013 is disclosed in Navy Pier Inc.'s 2015 **tax form**, which also reveals pay raises for several of its top executives and a 9 percent year-over-year increase in operating revenue to \$45.2 million.

The IRS examination is "to ensure that all unrelated business income has been properly reported," according to the Form 990, which contains no further details about the audit. The form was only recently made publicly available.

The nature of the income the IRS is examining is not disclosed, but Navy Pier executives said in a statement that the audit is a "routine examination and is not yet complete."

One area the tax collection agency could be looking at is advertising and sponsorship revenue at the pier. Such business income for nonprofit organizations has been a hot-button issue for the IRS, **said Jim Quaid**, an expert on tax regulations governing nonprofits.

"The IRS says if you're competing with for-profit businesses, you should pay tax like everyone else," **said Quaid, a director at Chicago-based accounting firm Ostrow Reisin Berk & Abrams.** "The last five or 10 years, (the IRS) has been coming down hard (on nonprofits) related to business income."

Navy Pier's operating revenue of \$45.2 million in 2015 was its highest total since the pier's operations were privatized in 2011. Retail at the pier made up the largest piece of that sum at \$14.4 million, followed by \$9.7 million in parking revenue and \$7.3 million in revenue from Pier Park amusements.

The nonprofit status of NPI, as the organization is called, has been controversial since 2011. That is when it was spun off as a separate entity from the Metropolitan Pier and Exposition Authority, also known as McPier, which runs the McCormick Place convention center.

That move was designed to allow NPI to raise money for capital projects at the pier—most notably a **\$278 million pier redevelopment project**—but it also shielded the organization from having to share all of its financial details publicly.

The relationship between McPier and NPI is the centerpiece of a pending lawsuit filed in 2014 by the Better Government Association, which alleges that the two entities are violating the Illinois Freedom of Information Act by withholding information about how the pier's financial resources are used.

EXECUTIVE PAY

Also disclosed in the 990 tax form is a series of raises given to NPI top brass last year.

NPI CEO Marilyn Gardner had the highest income among executives with total compensation (including deferred pay and nontaxable benefits) of \$443,197. That marked a 7.2 percent increase from the prior year and 20 percent more than she made in 2013.

Other pier officials made far less than Gardner but got bigger pay increases on a percentage basis. Those include Senior Vice President Michael Degnan, whose total pay rose by nearly 9 percent to \$246,774, as well as Chief Operating Officer Brian Murphy, who got a 19 percent raise to \$338,877, partly as a result of absorbing

the duties of Chief Development Officer Jon Clay after his retirement, the pier said. Chief Financial Officer Ralph Leslie saw his compensation rise by 5.4 percent to \$283,247.

Not all pier executives got bigger paychecks, however. NPI Executive Vice President of Design and Construction Steve Haemmerle took a 5.5 percent cut in compensation last year, though he was the second-highest-paid officer with income of \$341,427.

The raises were part of a 14 percent overall increase in salaries and benefits for management and professional staff to \$3.9 million. In a statement, NPI attributed that to an expansion of its marketing team in preparation for the pier's 2016 centennial celebration, normal year-over-year merit increases and an increase in the cost of medical benefits.

NPI Board Chairman Bill Brodsky, who leads the board's compensation committee, said each executive's pay was a product of an "independent, objective, rigorous process" that included the board and an independent consultant weighing factors like Navy Pier revenue and customer satisfaction. One of the biggest factors in that calculation was the compensation of executives at more than a dozen other Chicago institutions including Adler Planetarium, the Field Museum, Shedd Aquarium, Museum of Science and Industry, and Lincoln Park Zoo, among others.

He also stressed the importance of performance incentives for each executive. Gardner's base salary, for example, accounted for about 66 percent of her total compensation. Most other top executives at the pier pull in about 70 percent of their total compensation from base salary.

"I would hold this up against any organization, public private or otherwise," said Brodsky, who has chaired compensation committees on other boards of major Chicago institutions. He noted that 2015 was a very good year for NPI in spite of construction work at the pier. The venue welcomed about 100,000 more visitors last year for a total of about 8.6 million and put finishing touches on major parts of its renovation, including a \$43 million overhaul of its south dock walkway and \$38 million expanded food court area.

"We're doing everything we would normally do, and in the midst of it all, we're building and closing off sections and making it as if people don't even know it's happening," he said.

DONATIONS DOWN

Brodsky said one area that is weighted less heavily in determining executive pay is fundraising, which didn't flourish last year at NPI.

NPI reported contributions and grants of \$25.9 million, but nearly \$25 million of that came from a portion of a \$115 million grant McPier gave NPI for its renovation project when it spun it off in 2011. The rest came from a portion of a \$20 million gift from the Polk Bros. Foundation that was announced in 2014 as well as a "handful of smaller gifts and grants from various sources," the pier said.

Brodsky said NPI does not pay its executives based on money they raise. But the pier's fundraising ability will determine how quickly it can get to work on the remaining pieces of the renovation, including a redesign of the family pavilion at its west end.

That project was slated to be financed through the \$115 million McPier grant, but it was left untouched due to **cost overruns** on things like the walkway and new restaurant area.