ATTACHMENT 1

GUIDING PRINCIPLES FOR THE DEVELOPMENT OF SENIOR EXECUTIVE COMPENSATION POLICIES AT CITY AGENCIES AND CORPORATIONS (UPDATED JUNE 2023)

Purpose

These Guiding Principles for the Development of Senior Executive Compensation at City Agencies and Corporations (the "Guiding Principles") will contribute to compensation being set in a transparent, accountable and consistent fashion that protects the public interest while being fair to Executives. As Guiding Principles, they also maintain the responsibility of the agency or corporation Board to adopt its specific executive compensation structure as the employer.

The services delivered by City agencies and corporations play an important role in shaping the overall quality of life and attractiveness of Toronto as a place to live, work, play and invest. Sound and effective leadership is needed for these organizations to deliver high-quality services, support business objectives, and meet City expectations.

Strategic compensation helps City agencies and corporations to attract, motivate and retain highly talented Executives to manage their organizations while also demonstrating value for money to Boards, to the City of Toronto as the sole Shareholder or governing body, and to taxpayers and ratepayers.

The Guiding Principles were first approved by City Council in 2014 and are periodically reviewed to ensure they reflect market practices and support City objectives.

Definitions for terms used in these Guiding Principles can be found in Schedule A of this document. These Guiding Principles apply to the City agencies and corporations in Schedule B of this document.

Components of Executive Compensation Policies

These Guiding Principles outline components, processes and considerations that should be incorporated into the Executive Compensation Policy of each City agency and corporation.

Each Executive Compensation Policy should describe:

1. Policy Governance
2. Compensation Philosophy
3. Base Salary and Performance-related Pay
4. Comparative Analysis (Benchmarks)
5. Other Cash or Non-cash Compensation Elements

1. Policy Governance

An Executive Compensation Policy should be developed under the direction of the Board of Directors of a City agency or corporation by independent expertise, or Board committees and/or the organization's staff as delegated by the Board. The Policy should apply to compensation of all the organization's Executives. The Policy should be adopted by the Board of Directors and implemented by the organization.

Board-approved Executive Compensation Policies should be reviewed and updated every 4 years and within each term of City Council. This process should include updating of comparator information and compensation data to establish Base Salary midpoints and ranges, Incentive Pay opportunities, and may include other elements of Total Rewards, as applicable.

The most recent version of the organization's Executive Compensation Policy, once approved by the Board, should be provided to the City Manager.

Annual executive compensation data for all Executives should be provided to the City Manager at a time and in a format as requested by the City Manager.

2. Compensation Philosophy

The Executive Compensation Policy should describe the organization's compensation philosophy. The philosophy articulates the overall approach of the Policy, and should:

a. Competitively position total compensation at the 50th percentile.
b. Include a performance management program that differentiates performance.
c. Reflect a Total Rewards Approach to executive compensation.
d. Consider the long-term affordability and sustainability of the organization's compensation structure.
e. Demonstrate accountability and transparency and value for use of public funds.

3. Base Salary and Performance-related Pay

a. Job Description

Develop and maintain a detailed job description for each Executive position. A detailed job description should clearly lay out the functions, accountabilities, and the responsibilities of the Executive position. It should help inform the performance appraisal process and help set clear expectations and goals respecting job performance.

b. *<u>Base Salary Ranges</u>*

Establish Base Salary Ranges for each Executive position. Using the comparator analysis described in Section 4 as a guide to understand what the market is paying for the specific Executive positions, the City agency or corporation should set a Base Salary Range for its Executives. The Midpoint of the Base Salary Range should be set at the Median (50th percentile) of the comparator group.

The Base Salary Range minimum should be no less than 20% below the Midpoint and the Base Salary Range maximum should be no more than 20% above the Midpoint.

c. *<u>Performance Assessment Program</u>*

Regardless of compensation structure, all Executives should be subject to a formal and robust annual performance assessment. Performance measures should include both individual and organization measures.

d. *<u>Merit Pay</u>*

If Merit Pay is utilized, it should be awarded based on meeting measurable individual and/or organizational unit goals for the previous year, and enables Executives to progress through their Base Salary Range. Merit Pay should be calculated as a percentage of the Base Salary in the year in which it is awarded and is added to the employee's Base Salary as a salary adjustment if the Base Salary is within the Base Salary Range.

If Merit Pay is utilized, award amounts should consider:

i. The level of individual and organizational unit performance;
ii. Whether the organization has the availability of budget and can afford the awards;
iii. Market trends such as increases or decreases in compensation spending; and
iv. Market adjustments.

If the Executive is already at the top of or above their Base Salary Range and the Executive Compensation Policy does not adopt an annual Incentive Pay program, Merit Pay can be awarded as a lump re-earnable Merit Pay. This lump sum Merit Pay should not be added to the Executive's Base Salary and should be "re-earned" each year. If the Executive is already at the top of or above their Base Salary Range and there is a separate Incentive Pay program, no lump sum re-earnable merit should be awarded.

e. *<u>Incentive Pay</u>*

An organization may consider adopting an annual Incentive Pay program if the majority of the following criteria are satisfied.

i. Incentive Pay is a common practice in the comparable industry / market.
ii. The organization has the availability of budget and can afford the awards.
iii. The organization has a well-established performance plan that measures results for aligning with business expectations.
iv. The organization uses the incentive tool to support current and/or significant business needs.

If an Incentive Pay program is implemented, the award should be assessed annually as a percentage of the Base Salary in the previous year in which it is awarded. It should be calculated separately from any Merit Pay award. Incentive Pay should not be applied to Base Salary as a salary adjustment.

If an Incentive Pay program is implemented, an Executive's Base Salary plus Incentive Pay target (Total Cash Compensation target) should not exceed the comparator group median (P50) Total Cash Compensation target. This approach will define the maximum incentive opportunity for each Executive.

If an Incentive Pay program is implemented, payments to Executives should only occur where they demonstrate superior performance exceeding expected performance as indicated by transparent, quantifiable individual and corporate performance measures. The stated performance measures, among other things, should relate to:

i. Strategic objectives articulated by the organization;
ii. The demonstrated growth in public value of the organization;
iii. The creation of a positive, dynamic, professional, ethical, service-oriented workplace culture that attracts, motivates and retains employees;
iv. Timely and thorough implementation of applicable City Council directives including Shareholder Directions, Relationship Frameworks, applicable City of Toronto policy, and recommendations of City accountability Officers and internal ethics executives; and
v. Alignment with applicable City priorities and plans.

If an Incentive Pay program is implemented, the Incentive Pay (including both the individual and the corporate performance elements) should not be awarded in cases where individual performance is deemed not satisfactory.

If both Incentive Pay and Merit Pay are applied, they should be calculated separately to avoid compounding increases.

4. Comparator Analysis

a. <u>Purpose</u>

A key element in setting Executive compensation policy is the use of comparator analysis. Comparator analysis yields a general picture of the compensation levels within a sector. Overall, a comparator analysis gives insight into what range of compensation is required to attract, motivate and retain talented Executives balanced by affordability and value for money for the organization, the City, taxpayer and ratepayer.

This process involves comparing the Executive's compensation to compensation for comparable positions in comparable organizations.

Complete a comparator analysis for each Executive position to establish the Base Salary Range with a Midpoint using the Median of the market comparators in the Public, Broader Public and Not-for-Profit Sectors as a default (i.e., excluding Private Sector comparators). The comparators should be comparable organizations of similar size, organizational structure, business risk, and management complexity.

b. Comparator Group

In a comparator analysis, relevant Public, Broader Public and Not-for-Profit Sector organizations are surveyed with respect to compensation, and its sub-components, paid to their Executives. From the data, a Median value for the Base Salary should be derived.

Note carefully: Comparators should be identified, and their compensation data should be included in the Executive Compensation Policy adopted by the Board to clearly identify the methodology for developing compensation structures and establishment of Executive Base Salary Ranges and Total Cash Compensation.

A minimum of 8 Canadian organizations should be included in the comparator group. Private Sector organizations in Canada, and organizations outside of Canada, should not be included in the comparator group by default. Specific exceptions to this Guiding Principle are described in the next subsection.

c. Private Sector Comparators

The use of Canadian Private Sector organizations can be included in the comparator group as an exception, if the majority of the following criteria are satisfied.

i. The organization has significant commercial and revenue generating requirements;
ii. The comparable industry/market includes a significant proportion from the Private Sector;
iii. Talent source and competition is from the Private Sector for the executive team or the specialist executive role; and
iv. There is a significant business need requiring executive talent from the Private Sector.

If the inclusion of Private Sector organizations in the comparator group is justified using the criteria in this subsection above, the number of Private Sector organizations should not exceed one-third of the entire comparator group or the weighting of Private Sector organization pay level should not be more than one-third of the blended comparator group.

Note carefully: an organization electing to include Private Sector comparators should provide an assessment of the criteria in this subsection and the weighting of Private Sector comparators and include this information in their Executive Compensation Policy.

d. *Document Rationale for Comparator Selection*

A clear and detailed rationale for the use of each comparator should be documented as part of the comparator analysis for each Executive position to indicate why the use of the comparator is appropriate. *Note carefully: this rationale should be included in the Board-approved Executive Compensation Policy.*

An important principle in conducting a comparator analysis is the need for a rationale for selecting the individual comparators which are used to set the compensation levels. Public and Broader Public Sector organizations that may seem similar on the surface to profit, not-for-profit and regulated corporations, can in fact be quite different with respect to size, organizational structure, complexity, and business risk profiles. Therefore, time and care has to be taken in selecting comparators and undertaking the analysis. Comparator analysis gives a good overview of the range of compensation, and the variance between organizations. As part of setting Executive compensation structures, a detailed comparator analysis along with a rationale for the use of comparators should be developed and included in the Board-approved Executive Compensation Policy.

5. *Other Cash or Non-cash Compensation Elements*

a. *Benefits Package*

Adopt and maintain an employee Benefits package that helps attract and retain Executives while ensuring that the Benefits package is competitive, appropriate for the demographics of the Executive talent pool, and provides the public value for money.

The employer's pension benefit contribution (registered plan or supplemental individual agreement) for Executives should not exceed 1.0 times the employee's contribution (1:1), except as allowed under pension plan policy or applicable law.

The range of Benefits should be analyzed through comparator compensation analysis and applicable legislation.

b. <u>Other Entitlements/Perquisites</u>

The provision of Other Entitlements/Perquisites should be provided for in an accountable, transparent fashion and for matters related to performance of the duties of the position or physical or mental well-being of the employee. All Other Entitlements/Perquisites should be publicly available and posted on the City agency or corporation website.

The range of Other Entitlements/Perquisites should be analyzed through comparator compensation analysis and applicable legislation.

c. <u>Termination Payments</u>

Executive Compensation Policies should contain a policy on Executive termination payments, including development of a standard process for the determination of the amount and conditions for payouts. Subject to common and employment law considerations, the policy should minimize severance payouts and restrict termination payments in the case of termination with cause.

SCHEDULE A: DEFINITION OF TERMS

The following terms are defined for the purpose of these Guiding Principles:

Base Salary: is the pay rate established by employers to pay to employees performing a particular job or function. This figure does not include any lump sum payments pertaining to merit or incentive payments.

Base Salary Range: is the range of a Base Salary established by employers to pay to employees performing a particular job or function. A Base Salary Range generally has a minimum pay rate, a maximum pay rate, and a series of mid-range opportunities for pay increments.

Benefits: a component of compensation, employee benefits can include holidays, sick time, dental, drug, and medical coverage, life insurance, both short and long term disability, pension benefits, and other taxable benefits. Benefits do not include CPP and EI statutory contributions. The total value of benefits refers to the employer's contributions to employee benefits on an annualized basis (i.e., calculated for a 12 month period).

Broader Public Sector: includes government-owned or primarily government-funded organizations such as corporations, and government agencies.

Executive: the administrative head of a City agency or corporation, and the senior executives who report directly to the head (informally referred to as 'C level' executives).

Executive Compensation Policy: should include aspects of Total Rewards Approach and the compensation components described in these Guiding Principles, and shall include, at a minimum, cash and non-cash (i.e., benefits, perquisites) compensation structures, specific comparators used along with analysis for determining appropriate comparators, methodology for calculating compensation, comparator compensation data, and Base Salary Ranges showing the Midpoint, maximum and minimum Base Salary.

Incentive Pay: a performance-based pay program where employees are awarded pay for superior performance in meeting corporate targets. Also referred to as variable pay, bonus pay, short-term incentive program or annual incentive program.

Median: when considering Executive compensation within a defined comparator group, the point at which 50% of Executive compensation falls below, and 50% falls above. Also referred to as the 50^{th} percentile of the compensation value within a comparator group.

Merit Pay: a salary adjustment to an Executive's Base Salary that allows an Executive to progress through their Base Salary Range, or a lump sum re-earnable award if the Executive is already at the top of or above their Base Salary Range. It should be awarded based on meeting measurable individual and/or organizational unit goals. Merit pay is intended to encourage the ongoing development of skills and competency at the job performed and serve as an incentive to achieve exceptional performance.

Midpoint: the median of the Base Salary Range for a specific Executive or midway between the minimum and maximum amount.

Not-for-profit Sector: includes non-share public benefit corporations and charities structured to make a profit only to the benefit of its objects, including organizations defined under the Ontario Not-for-Profit Corporations Act, 2010.

Other Entitlements / Perquisites: includes car allowances/leases, paid or reserved parking, meal allowance, clothing allowance, attendance at conferences, fitness club membership and/or personal counselling services.

Private Sector: includes for-profit businesses, including organizations defined under the Business Corporations Act (Ontario),1990.

Public Sector: includes governments (federal, provincial/territorial, regional, municipal, and First Nations).

Total Cash Compensation: Total value of all cash components, comprised of Base Salary, Merit Pay and/or Incentive Pay.

Total Rewards Approach: a broad-based conceptual compensation model on which the City's Guiding Principles are based, that includes consideration of traditional compensation elements such as Base Salary, Incentive/Merit Pay and Benefits, Other Entitlements/Perquisites along with more qualitative elements such as recognition of performance, work-life balance, and career/development opportunities.

SCHEDULE B: APPLICABLE AGENCIES AND CORPORATIONS

These Guiding Principles apply to the following City agencies and corporations:

Wholly-Owned City Corporations (4) Toronto Hydro Corporation Toronto Community Housing Corporation Toronto Seniors Housing Corporation Lakeshore Arena Corporation ***City Service Agencies (9)*** CreateTO Exhibition Place Heritage Toronto Toronto Atmospheric Fund TO Live Toronto Parking Authority Toronto Transit Commission Toronto Zoo Yonge-Dundas Square	***Arena Boards (8)*** George Bell Arena Larry Grossman Forest Hill Memorial Arena Leaside Memorial Community Gardens Arena Moss Park Arena North Toronto Memorial Arena Ted Reeve Community Arena McCormick Playground Arena William H. Bolton Arena