

City of Toronto Agencies & Corporations:

Review of Executive Compensation Guiding Principles, Policies and Practices

December 2022



Prepared for:



Content

Section

- 1 Introduction
- 2 Executive Summary
- 3 Market Best Practices
- 4 Jurisdictional Scan: Executive Compensation Framework
- 5 A&C Consultation Feedback
- 6 Recommended Changes to Guiding Principles
- 7 Review of City's A&C Policies & Practices

PREPARED FOR:

The City of Toronto





1

Introduction

The City of Toronto's executive compensation guidelines for Agencies and Corporations (A&Cs) have been in place since 2014.

There is a need to review the guidelines due to market changes and the competitive executive talent landscape...

Introduction

In recent years, executive compensation has been a topical subject among the boards of directors in both the private and public sectors due to COVID, global and domestic economic factors, fiscal constraints, industry performances, tight labor market conditions, Public and Broader Public Sector executive compensation regulations, shareholders' scrutiny, market compensation trends and other factors.

In 2022, Korn Ferry ("KF") was retained by the City of Toronto to conduct an independent review of executive compensation at City of Toronto Agencies and Corporations ("A&Cs"). The scope of work included:

- A review of current A&C executive compensation policies, structures, programs and practices primarily against the current market best practices in the Public & Broader Public Sectors.
- Recommendations for updates to the City's 2014 Executive Compensation Guiding Principles for Agencies and Corporations (Guiding Principles) to provide for the recruitment and retention of high performing staff within an efficient, market competitive and affordable compensation system. The recommended Guiding Principles must reflect current market best practices in the Public & Broader Public and Private Sectors.

"Executives" are defined as the Administrative Head, and senior executives reporting to the Administrative Head. In general, they are the "C-Suite" population.

List of 20 A&Cs in the Review

Wholly-Owned Corporations (3)

Toronto Hydro Corporation

Toronto Community Housing Corporation

Lakeshore Arena Corporation

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



2 Executive Summary

Executive Summary (1)

The City of Toronto 2014 Guiding Principles adopted by City Council in [Item EX44.8, Executive Compensation at City Agencies and Corporations](#) as part of a framework based on the Total Rewards Approach Model, have not been reviewed or updated since City Council adopted them.

During the fall of 2022, KF completed:

1. Research on the framework approaches adopted by other governmental jurisdictions (i.e., federal, provincial and municipal governments);
2. Research on market best practices of executive compensation in the Public & Broader Public Sector (including Governments and Not-for-Profit organizations) and the Private Sector; and
3. Engagement with City Agencies and Corporations on their talent management, recruitment and retention priorities with respect to the City's 2014 framework.

The findings from the above informed the development of KF's recommended changes to the City's 2014 Guiding Principles in Section 6 of this report.

Executive Summary (2)

Jurisdictional Overview of Legislative Executive Compensation Frameworks

- Among Canadian municipal jurisdictions, only City of Toronto has adopted an executive compensation framework. Some municipal jurisdictions disclose the actual compensation of any persons (not just executives) whose salaries exceed a defined threshold on a commonly called “**Sunshine List**”.
 - The City of Toronto’s 2014 Guiding Principles are similar to the approaches used by the provinces of Alberta and Ontario but there are differences in the technical content (i.e., comparator group formation, public posting and submission, overseeing ministry’s approval, and other compliance requirements).
 - Most provincial jurisdictions have adopted an executive compensation disclosure requirement to foster public accountability and transparency.
-

Executive Summary (3)

Overview of Market Best Practices of Executive Compensation

Job Rates	The majority of companies (over 80%) in the Public & Broader Public Sectors (including Not-for-Profit organizations) and Private Sector establish the Job Rate (salary range midpoint) based on the Median (P50) salary of their comparator group. This is the most common practice among TSX companies.
Salary Ranges	Where an executive salary range is used, the most typical range spread is +/-20% of the salary range midpoint, establishing the maximum and minimum of the range at 120% to 80% of the median.
Annual Incentive / Variable Pay Plan	55% of the Public & Broader Public Sectors (including Not-for-Profit organizations) and 96% of the Private Sector have an annual incentive / variable pay plan for executives. The market annual incentive target payment (% of salary) increases as job size (scope and complexity) increases. For executives with large and comparable job sizes (scope and complexity), the incentive opportunities in the Public & Broader Public Sectors (including Not-for-Profit organizations) are significantly lower than those in the Private Sector.
Merit Pay using Merit Increase	Merit pay using merit increase is common (close to 100% prevalence across all sectors) for executives whose salaries are within the salary range.
Merit pay using re-earnable lump sum pay	Merit pay using re-earnable lump sum pay is only common for executives whose salaries are at the range maximum and who are <u>not</u> provided with an annual incentive / variable pay plan.

Executive Summary (4)

Overview of Feedback from City A&Cs

- Some A&Cs see themselves as unique and “hybrid” — providing both public services and generating revenue.
 - Discussions focused significantly on comparator group formation, including factors such as talent and business requirements.
 - Some A&Cs suggested that the formation of appropriate comparator group(s) within the City’s existing executive compensation guidelines has been challenging because of their unique mandates and business lines.
 - Some A&Cs want more flexibility in their comparator group(s) and compensation programs to attract and compete for talent in a broader market, including the use of private sector organizations.
 - Many expressed frustration with salary structures that do not address workforce pressures, business transformation obligations and mandates set by the City.
-

Executive Summary (5)

Overview of Key Recommended Changes to the City's Guiding Principles

2014 Guiding Principles	Recommended Changes to Guiding Principles
Comparator group is based on Public Sector	Comparator group is primarily based on Public & Broader Public sectors (including Not-for-Profit Organizations) as a default. If a set of criteria is satisfied (described later in the report in Section 5, Recommended Changes), an exception can be made and private sector organizations can be used up to a limit of one-third of the entire comparator group.
Salary range is +/-15% of salary midpoint	Salary range is +/- 20% of salary midpoint to provide flexibility and align with prevailing market practices.
Annual incentive / variable pay is capped at 20% of salary	If the A&C satisfies the criteria for adopting an annual incentive / variable pay plan, the target annual incentive should be the sum of the annual salary range midpoint plus the incentive pay target and should not exceed the comparator group median (50th percentile) target total cash compensation.

Executive Summary (6)

Overview of Key Recommended Changes to the City's Guiding Principles

2014 Guiding Principles	Recommended Changes to Guiding Principles
Merit Pay is not clearly defined	<p>For clarity, merit pay can be delivered either in the form of (a) merit increase or (b) re-earnable lump sum merit pay:</p> <ul style="list-style-type: none"> a) Merit increase (i.e., salary adjustment) can be considered for all incumbents whose salaries are within the salary range, subject to performance. b) Re-earnable lump sum merit pay <u>may</u> be awarded to those executives (1) whose salaries are at the salary range maximum and (2) who are <u>not</u> provided with an annual incentive / variable pay plan. <p>Re-earnable lump sum merit pay <u>should not</u> be awarded to those executives (1) whose salaries are at the salary range maximum and (2) who are <u>eligible</u> for an annual incentive / variable pay plan.</p>

Executive Summary (7)

Review of City's A&C Policies & Practices

Most A&Cs have executive compensation policies and structures in place. A&Cs have varying executive compensation approaches, policies and practices due to their individual uniqueness (i.e., mandate, complexity, environment and size) and different levels of resource availability.

- Most of the A&Cs (85%) have adopted job descriptions for their executive positions.
- 60% of the A&Cs adopted the use of a comparator group. Three A&Cs included private sector companies in their comparator groups. Some smaller A&Cs do not have the resources to conduct market comparator analysis.
- 40% of A&Cs have salary ranges and midpoints. 35% of A&Cs reported the use merit pay, of which the majority did not award merit for FY 2021.
- 25% of A&Cs reported having incentive plans. For those that did, all had incentive payouts below 20% of salary, except for one corporation.
- All A&Cs' benefit programs align to City's Guiding Principles and are generally similar to the common practices in the Public & Broader Public Sectors.
- 95% of A&Cs conducted annual performance assessments for their executives.



3 Market Best Practices

Market references and trends are among the factors used to develop the Guidelines...

Research Methodology

- Research in this report is primarily based on 2021 KF proprietary annual compensation survey. Where needed, special surveys were conducted to supplement the data to enhance the identification of specific trends. Data from a total of 576 participating organizations were utilized, with 419 in the Private Sector and 157 in the Public & Broader Public Sectors (including Not-for-Profit organizations).
- In this report, KF uses the following definitions for the various sectors:

Sector	Definition in KF Research
Public & Broader Public Sector (including Not-for-Profit Organizations)	Governments; entities that provide public services, receive capital or public funding from the government, agencies, commissions, boards, crown corporations, hospitals, universities; and other Not-for-Profit organizations (e.g., associations, charities).
Private Sector	Entities that are shareholder-owned (through publicly traded shares) or member-owned (through private shares) or privately held or a joint venture or a subsidiary of any of the four types. Most entities have a profit-making orientation.

Job Rate and Salary Range

- Job Rate of a salary range is defined as the salary rate for a fully competent incumbent to deliver the stated accountabilities.
- Over 80% of organizations in the Public & Broader Public Sectors (including Not-for-Profit organizations) as well as the Private Sector establish the Job Rate based on the Median (P50) salary of their comparator group. This is the most common practice given governance and accountability considerations (i.e., comfort of being in the middle of the market), particularly among TSX companies.
- The following summarizes the most typical salary ranges (where adopted) for executives among different organizations in the markets:

	Min	Midpoint /Job Rate (Market P50)	Max
Public & BP Sectors (including Not-for-Profit) see definition on page 15			
Healthcare / Education	80%	100%	100%
Crown Corporation	80%	100%	120%
Government Owned Utilities	80%	100%	100% or 120%
Financial Organizations	80%	100%	120%
Private Sector *	80%	100%	120%

Research is based on KF proprietary annual compensation survey.

* It is estimated that approximately 30% of the private sector companies do not adopt salary ranges for executives. These organizations manage their executive pay using pure market data and references without establishing any internal ranges.

Merit Pay

Research is based on KF proprietary annual compensation survey plus special survey supplements

Public & Broader Public Sectors (including Not-for-Profit organizations)

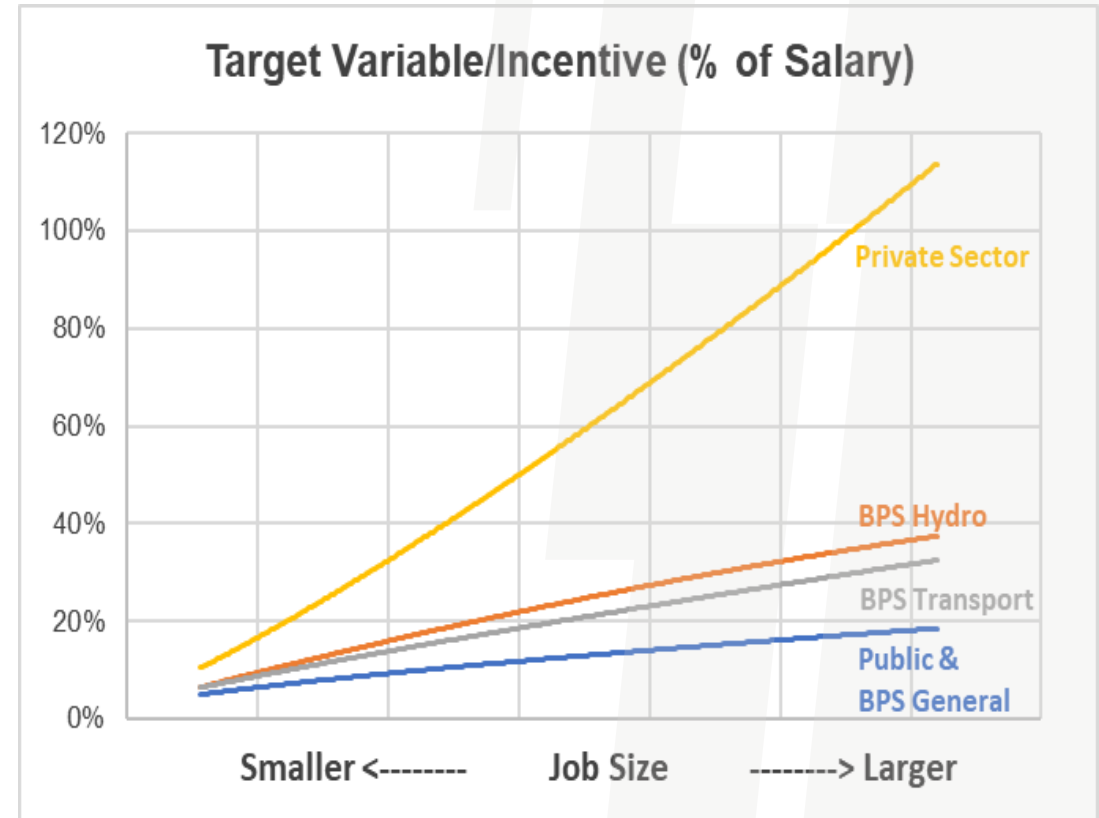
- All organizations in Public & Broader Public Sectors (including Not-for-Profit organizations) have a merit pay plan for their executives. If there are no fiscal constraints, the majority will award merit pay annually.
- As a default policy, the great majority of organizations (82%) do not provide salary increases (merit increase) when the incumbent salary is at the range maximum. Salary increase is only awarded when the salary range maximum is lifted.
- 27% of the organizations indicate that a merit pay (a re-earnable lump sum pay that is not rolled in salary) will be awarded to “superior” performers, reviewed on a case-by-case basis.
- All reported that they approach merit pay and incentive plan separately.

Private Sector

- All Private Sector organizations have a merit pay plan for their executives. However, not all PS organizations will award merit pay every year.
- As a default policy adopted in those Private Sector organizations with executive salary ranges, 100% do not provide salary increases (or merit increase) when the incumbent salary is at the range maximum. A salary increase is only awarded when the salary range maximum is lifted.
- Approximately 30% of the organizations indicate that a lump sum merit pay (not rolled in salary) will be awarded to “superior” performers, reviewed on a case-by-case basis.
- All respondents indicate that they approach merit pay and incentive plans separately.

Annual Variable / Incentive Pay

- **Public & Broader Public Sectors (including Not-for-Profit organizations):** 55% of the market provides an incentive program, as do 79% of BPS Hydro organizations and 78% of BPS transport organizations.
- **Private Sector (PS):** 96% of the market offer an annual variable / incentive pay.
- **All Sectors:** annual incentive target payment (% of salary) increases as job size (scope and complexity) increases, as illustrated by the graph on right.
- **All Sectors:** all respondents provide the same incentive plan for all executives regardless of the actual salary position. They treat merit pay and incentive payout separately in terms of approach and award mechanism, including those whose salaries are at the range maximum.





4

Jurisdictional Scan: Executive Compensation Framework



Executive Compensation Frameworks for A&Cs (1)

Korn Ferry has conducted a scan of various jurisdictions (based on information published in the public domain by the respective jurisdictional authorities) with respect to their approach to developing and administering compensation policies and framework for executives in crown agencies and corporations. A summary of their approaches and methods is presented below:

	Summary of Approaches	Jurisdiction ¹
[A]	<ul style="list-style-type: none"> The Government administers a compensation structure for Heads / CEOs of agencies and corporations. The Board of Directors of the agency / corporation oversees executive compensation policies and programs for other designated executives. 	Federal, Alberta ²
[B]	<ul style="list-style-type: none"> Under legislation (or a similar legal requirement), an executive compensation framework regulation with specific guidelines is used for the agencies / corporations to comply. The responsibility of stewardship rests with the Board of Directors. 	Ontario, Alberta ² , BC, City of Toronto
[C]	<ul style="list-style-type: none"> No executive compensation framework regulation is used. Disclosure regulation is used to ensure transparency and accountability. <p>*** In 2021, the Saskatchewan Government implemented cash compensation holdback (i.e., temporary reduction) for its crown CEOs and VPs (54 executives at eight Crown corporations).</p>	Manitoba, Newfoundland and Labrador, Quebec, Nova Scotia Sask***

Notes

1. KF is not aware of any executive compensation framework requirement in other municipal jurisdictions.
2. Alberta Government has a combination of Methods [A] and [B].

Executive Compensation Frameworks for A&Cs (2)

The following tables set out further details of the approach adopted by each jurisdiction:

	Description of Approach
City of Toronto	<ul style="list-style-type: none"> Since 2014, the Council has established Executive Compensation guidelines for its A&Cs. The current guidelines provide detailed specifications for the definition of comparator group, salary range, merit and variable incentive cap, benefit cost and pension contribution ratio. The responsibility of stewardship rests with the Board of Directors.
Municipal Entities	<ul style="list-style-type: none"> Among large Canadian municipalities, only City of Toronto has an executive compensation framework for its A&Cs. Various municipal jurisdictions disclose the actual compensation of any persons (not just executives) whose salaries exceed a defined threshold (e.g., \$100,000) on their public disclosure sites, similar to the Ontario Sunshine List. These lists are intended to provide public accountability and transparency.

Research is based on information published in the public domain by the respective jurisdictional authority

Executive Compensation Frameworks for A&Cs (3)

	Description of Approach
Federal	<ul style="list-style-type: none"> ▪ Privy Council Office (PCO) administers salary bands (GC1 to GC10) for Heads (chairs, vice chairs, chiefs and commissioners) in agencies, boards and commissions. ▪ PCO also uses a band structure (CEO 1 to CEO 8) for CEOs in crown corporations. ▪ The board of directors at each agency / corporation oversees the compensation policies and programs for other executives below the Heads / CEOs.
British Columbia	<ul style="list-style-type: none"> ▪ The Public Sector Employers Act outlines rules on compensation paid by public sector employers to public sector employees. ▪ The province has two categories: (1) Commercial Crown Corporation (2) Service Delivery Crown Corporations. Exceptions are given to BC Investment Management Corporation, BC Pension Corporation Translink and BC Ferry Corporation. ▪ Public sector employers are required to make comprehensive disclosures for the CEO and next four highest paid/ranking executives. ▪ There is a formal process for disclosure submission to the Public Sector Employers' Council Secretariat for review and approval. ▪ Compensation should be benchmarked against (1) BC BPS organizations (2) Other BPS organizations outside of BC (3) Private Sector only in cases of talent in high demand with significant recruitment pressure from the private sector.

Executive Framework and System for A&Cs (4)

	Description of Approach
Alberta	<ul style="list-style-type: none"> ▪ The Reform of Agencies, Boards and Commissions Compensation Act (RABCCA) came into force in 2016 that governs the executive compensation for the province's agencies, boards and commissions (ABCs). The legislation authorizes the government to establish compensation frameworks as part of a broader approach to improve public oversight and stewardship of agencies. As a result, compensation practices in these public organizations are intended to become more transparent, accountable and well-governed. ▪ The government has established a universal compensation structure for all the Heads of ABCs with a few exceptions, and various structures for Heads in Post Secondary Institutions and Superintendents in School Boards. ▪ The board of directors at each ABC oversees the compensation policies and programs for other executives below the Heads / CEOs. The Act requires ABCs to use Canadian public sector comparators as the primary comparators for determining executive compensation. Private sector comparators are only to be used in special cases such as when talent is highly specialized and cannot be recruited from the public sector. Such cases must be approved by the Treasury Board.
Saskatchewan	<ul style="list-style-type: none"> ▪ Under the Financial Administration Act, 1993, compensation information for the Crown Investments Corporation (CIC) and its subsidiaries is disclosed in the Payee Disclosure Report published annually by the CIC. The report contains disclosure of total compensation for executives and senior management members. ▪ In 2021, the Government implemented cash compensation holdback for its crown CEOs and VPs. The holdback is 67% of the incentive compensation.

Executive Compensation Framework for A&Cs (5)

	Description of Approach
Manitoba	<ul style="list-style-type: none"> ▪ According to the Public Sector Compensation Disclosure Act, public sector bodies must make available compensation provided to officers or employees who exceed a threshold level (\$75,000) in compensation (including all cash and non-cash salary or payments, allowances, bonuses, commissions, and perquisites). ▪ This disclosure is required for crown corporations, hospitals, personal care homes, child and family services agencies, municipalities, the City of Winnipeg, school boards, universities, and colleges, as well as non-profit organizations receiving funding from other public sector bodies.
Ontario	<ul style="list-style-type: none"> ▪ In 2014, the Broader Public Sector Executive Compensation Act (BPSECA) was enacted by authorizing the Government to establish executive compensation frameworks applicable to designated employers (public hospitals, school boards, universities, and other public bodies under the Public Service of Ontario Act that are not also Commission public bodies under that Act). ▪ In September 2016, new framework regulation (O. Reg. 304/16) was adopted under the Act, requiring the designated employers to establish their executive compensation policies using Broader Public Sector comparator groups. Private sector comparators can be used as an exception upon submission of a business case and with the approval by the Treasury Board Secretariat and the responsible minister. ▪ In August 2018, a new regulation (O. Reg. 406/18) freezes executive compensation for designated employers. It revokes the prior Compensation Framework Regulation (O. Reg. 304/16) and replaces the executive compensation restraints under the Broader Public Sector Accountability Act, 2010 (BPSAA).

Executive Compensation Framework A&Cs (6)

	Description of Approach
Newfound-land and Labrador	<ul style="list-style-type: none"> On December 13, 2016, the Government of Newfoundland and Labrador passed legislation in the House of Assembly requiring an annual listing of all employees in departments and a number of agencies, boards, commissions, health care bodies, educational bodies and Crown corporations who receive total compensation of more than \$100,000 in a year.
Nova Scotia	<ul style="list-style-type: none"> The Public Sector Compensation Disclosure Act (2010) requires public sector bodies (members of the Government Reporting Entity, entities designated by regulations, and certain not-for-profit organizations) to report the names and compensation of anyone paid over \$100,000 during the fiscal year.
Quebec	<ul style="list-style-type: none"> The Province of Quebec requires public service sector organizations (i.e., ministries, agencies, crown corporations, commissions etc.) to disclose executive compensation (equivalent to the “Sunshine List”).



5

A&C
Consultation
Feedback

*The recommended Guidelines
should support the needs of
A&Cs successfully...*

*What are the voices from the
Board of Directors?*

A&C Feedback Engagement Meetings

- During the fall of 2022, Korn Ferry and City Staff reached out to the Chair of the Board of Directors and the Administrative Head at each A&C to provide a status update on the Executive Compensation Review and to seek further inputs through a consultation process.
 - Board members and/or executives from all in-scope A&Cs were engaged between September to November 2022 through Board / Committee meetings, other meetings or special surveys. The discussion topics included:
 - Comments on the 2014 Guiding Principles;
 - Executive talent landscape;
 - Alignment of executive recruitment with organizational and business needs; and
 - Approaches to developing comparators and benchmarking compensation.
 - A summary of feedback from the A&C meetings is provided on the following page.
-

A&C Feedback Themes

Talent Landscape

- Most feedback focused on comparator groups (what do we do and who do we compete with for talent).
- A few smaller/non-commercial A&Cs expressed an interest in potentially expanding their talent sources.
- Certain executive talent shortage has been experienced.
- Feedback did not focus on technical concepts such as salary range spread, incentive opportunity, range width, and pension cap.

Flexibility

- Various A&Cs are seeking flexibility in [A] competitive compensation, [B] the ability to hire talent from the industries / sectors, and [C] support for pay-for performance through an incentive plan.
- Various A&Cs want to explore separate peer groups for specialized executives.
- Many A&Cs expressed frustration with the current pay structure that does not support business transformation and shifting mandates set by the City.

Hybrid Model

- Several A&Cs indicated that while they are government agencies, they are raising revenue and competing with private sector enterprises.
- A “hybrid” business model should reflect a hybrid comparator group and comparable pay levels.
- While various A&Cs are comfortable using only Broader Public Sector comparator groups, they still want a view of private sector pay levels for an additional reference.



6

Recommended Changes to the Guiding Principles

The proposed changes recognize market best practices as well as the executive talent landscape and the business needs at A&Cs...

Recommendation for Guidelines: Overview

After a thorough review of the 2014 Guiding Principles, KF found key elements to be sound, prudent, and reasonable including the creation of job descriptions, the implementation of base salary ranges, and the adoption of pension and benefits.

However, KF has observations and recommendations with respect to:

1. Comparator Analysis
 2. Job Rate & Salary Range
 3. Annual Incentive / Variable Pay
 4. Merit Pay (Merit Increase | Re-Earnable Lump Sum Merit Pay)
 5. Termination Payments
 6. Engagement and Advisory Supports
-

Recommendation for Guidelines: (1) Comparator Analysis

1. A&Cs are encouraged to adopt as many appropriate comparators as possible for data stability and representation. A minimum of 8 Canadian organizations should be included in the comparator analysis.
2. The Public, Broader Public Sector and Not-for-Profit organizations in Canada should be the primary criterion. Private Sector organizations in Canada or organizations outside of Canada should not be included in the analysis by default.
3. The use of Canadian Private Sector organizations may be considered as an exception, as long as a majority of the following criteria is satisfied:
 - a) Significant commercial and revenue generating requirements;
 - b) The comparable industry/market includes a significant proportion from the private sector;
 - c) Talent source and competition is from the private sector for the executive team or the specialist executive role; and
 - d) There is a significant business need requiring executive talent from the private sector.

Recommendation for Guidelines: (1) Comparator Analysis (continued)

4. If an exception is justified,
 - a. the number of Private Sector organizations should not exceed one-third of the entire comparator group; or
 - b. the weighting of the Private Sector organization pay level should not be more than one-third of the blended comparator group.

Individual A&Cs must provide an assessment of these criteria and inform/consult City Staff. City Staff may report the exception to City Council.

Rationale

Without a significant amount of available market references of the limit or ratio used between Private and Public & Broader Public comparators, KF's recommendation on the one-third limit for Private Sector organizations is based on the Ontario's 2016 regulation and KF's judgement that it is reasonable for the majority of the City of Toronto's A&Cs, especially those that are more commercially oriented.

For information only, under Ontario's Executive Compensation regulation (O. Reg. 304/16), the number of Private Sector organizations are not allowed to exceed half of the entire comparator group, subject to a business case and ministry approval. BC regulations do not explicitly specify the limit for Private Sector organizations.

Recommendation for Guidelines: (2) Job Rate and Salary Range

1. Recommended that A&Cs develop their job rates / midpoint of salary range based on the comparator group Median (P50) salary.
2. Recommended that the salary range minimum and maximum be to +/-20% of the midpoint of the salary range. However, A&Cs may choose to implement a narrower spread if that is more suitable.
3. Recommended that A&Cs review and adjust their salary ranges periodically, based on both market and internal factors to ensure market competitiveness as well as internal executive talent stability and strength.

Rationale

Over 80% of the market (including the Public & Broader Public and Private Sectors) uses comparator P50 as the target pay level for establishing the job rate / salary range midpoint.

A salary range spread of +/-20% of the salary range midpoint is the most common market practice in the Public & Broader Public and the Private Sectors.

Recommendation for Guidelines: (3) Incentive Pay

1. An A&C can adopt an annual incentive / variable pay program as long as a majority of the following criteria is satisfied:
 - a) It is a common practice in the comparable industry / market.
 - b) The organization has the budget and can afford the program.
 - c) The organization has a well-established performance plan that measures results for aligning with business expectations.
 - d) The organization uses the incentive tool to support current and/or significant business needs.

2. The individual A&C must provide an assessment of these criteria and consult City Staff. City Staff may report the program to City Council.

Recommendation for Guidelines: (3) Incentive Pay (continued)

3. When an annual incentive plan is used, the appropriate target annual incentive should be defined as the sum of the midpoint salary range plus the incentive pay target should not exceed the comparator group median (50th percentile) target total cash compensation. The target and/or maximum annual incentive opportunity should align reasonably well with market practices and the A&C's own pay-for-performance principles.
4. If the annual incentive is administered as a % of salary, the incentive payout should be calculated using the salary in the current fiscal year before a merit pay increase in the new fiscal year.
5. The annual incentive pay amount is determined by corporate and individual performance measures. If an individual executive's performance is not satisfactory, incentive pay is not recommended.

Rationale

Over 80% of the market (Public & Broader Public Sectors and Private Sector) uses comparator P50 as the target pay level for establishing the job rate and total cash compensation. The method of using P50 target total cash includes all comparators regardless of whether they are an incentive provider or a non-incentive provider.

Recommendation for Guidelines: (4) Merit Pay

If an A&C has an annual incentive / variable pay program for its executives, the following are recommended:

1. For those executives whose actual salary is at the maximum of the salary range, they are not qualified for any merit increase or any re-earnable lump sum merit pay, subject to a good performance standing determined by a formal evaluation process.
 2. For those executives whose actual salary is within salary range, they are qualified for a merit increase, subject to a good performance standing determined by a formal evaluation process.
 3. Merit increase may also consider market adjustments, cost of living and applicable internal factors.
 4. The amount of merit increase should reasonably align with common market practices and within the A&C's budget and affordability.
 5. Executives are not guaranteed an annual merit pay.
-

Recommendation for Guidelines: (4) Merit Pay (continue)

If an A&C does not have an annual incentive / variable pay program for its executives, the following are recommended:

1. For those executives whose actual salary is at the maximum of the salary range, they are qualified for a re-earnable lump sum merit pay, subject to a good performance standing determined by a formal evaluation process.
2. For those executives whose actual salary is within salary range, they are qualified for a merit increase, subject to a good performance standing determined by a formal evaluation process.
3. Merit increases may also consider market adjustment, cost of living adjustment and applicable internal factors.
4. The amount of merit increase should reasonably align with common market practices and be within the A&C's budget and affordability.
5. Executives are not guaranteed an annual merit pay.

Rationale

KF's recommendations for Merit Pay aligns with the common market practices, as illustrated in Section 3 (Market Best Practices).

Recommendation for Guidelines: (5) Termination Pay

Korn Ferry offers the following recommendations to consider performance in awarding termination payouts (often referred to as severance pay):

While circumstance for termination payouts is different depending on the nature of the employment contract and the circumstances around the termination it is important for City agencies and corporations to have a rigorous, standard process for determining the nature and amount of such payouts, including when payouts are predetermined in employment contracts.

Several common and employment law considerations must be examined in developing a policy framework around termination payments. It is acknowledged that termination payments are provided by Boards for their executives through individual employment contracts.

City agencies and corporations must create a process and policy for determination of termination payouts as part of their senior executive compensation review. **The termination policy and payout:**

- Should not be made for termination with cause (including misconduct);
- Should not be seen as a significant reward for failure; and
- Should be in compliance with applicable legislation, as a minimum.



Recommended
Improvements

Recommendation for Guidelines: (6) Engagement & Advisory Supports

Korn Ferry offers the following three recommendations to improve the engagement and supports to the Board of Directors at A&Cs:

1. Where needed, City Staff should play an advisory role to A&C Boards on the application of the City's Guiding Principles.
2. Where needed, City Staff may consider providing additional supports related to individual A&C executive compensation policies.
3. City Staff should review the City's Guiding Principles every 3 to 4 years, recognizing the pace of changes at A&Cs as well as in the market.



7

Review of City's A&C Policies & Practices

Approach of the Review

In undertaking the executive compensation program review, KF took an independent, objective and evidence-based approach that considered:

- A&C executive pay philosophy, principles and policies for executive talent;
- A&C organizational scope and complexity;
- Market pay comparability using appropriate comparators, recognizing the diverse nature of the A&Cs and their uniqueness (where applicable);
- Key elements of the City's Guiding Principles;
- Market best practices; and
- Total compensation including base salary, merit award and incentive award (where provided), benefits and pension. Note that a qualitative / prevalence analysis of market practices is applied to assess benefits and pension.

Note: All data provided by the A&Cs are as of December 31, 2021.

During the data collection process, KF consultants met with A&C Management to ensure the understanding of the organization, roles in scope, and the executive compensation / benefit programs.

Review of A&C Executive Compensation Policies and Practices (1)

Review of City's A&C Policies & Practices

Most A&Cs have an executive compensation policies and structures in place. A&Cs have varying executive compensation approaches, policies and practices due to their individual uniqueness (i.e., mandate, complexity, environment and size) and different levels of resource availability. Most of the A&Cs have adopted job descriptions and performance assessment for their executive positions while their benefit programs are generally similar to the practices in the Public & Broader Public Sector (including Not-for-Profit organizations).

Item	Market Best Practice/ City's Guiding Principles	City's A&C Current Practices
Job Description	Detailed job description for each senior executive position.	85% of A&Cs provided job descriptions. Two were temporarily not available as reviews are underway.
Comparator Analysis	<p>Market Practice: appropriate comparator group(s) is a foundation to set compensation target.</p> <p>Complete the analysis for each senior executive position by using industry / market comparators .</p>	<p>60% of the A&Cs adopted the use of a comparator group. The rest do not use a comparator group or plan to have one in the future.</p> <p>Three A&Cs included private sector companies. Some smaller A&Cs do not have the resources to conduct market comparator analysis.</p>
Base Salary Range	<p>Market Practice: over 80% of the market establish the salary range midpoint at the market median (P50).</p> <p>For each senior executive position. Midpoint should be the median (P50) for the comparators.</p>	40% of A&Cs had salary ranges and midpoints.

Review of A&C Executive Compensation Policies and Practices (2)

Item	Market Best Practice/ City's Guiding Principles	City's A&C Current Practices
Merit Pay	<p>Market Practice: most organizations provide merit increase for those salaries within the salary range, subject to performance assessment.</p> <p>Consider merit pay based on individual and/or business unit goals to progress executives through the salary range or reward good performers who are at the top of their salary range.</p>	<p>35% of A&Cs reported the use merit pay, of which the majority did not award merit for FY 2021.</p> <p>65% did not report the use of merit pay / merit increase.</p>
Variable / Incentive Pay	<p>Market Practice: 55% of the Broader Public Sector provide an annual incentive plan.</p> <p>Under the Guiding Principles, variable / incentive pay only occur when executives demonstrate superior performance by exceeding specific organizational performance measures.</p>	<p>25% of A&Cs reported having incentive plans. For those that did, all had incentive payouts below 20% of salary, except one Corporation.</p> <p>A few A&Cs reported that they were considering to implement an incentive program for their executives for supporting the business / pay-for-performance.</p>
Pensions	<p>Ratio of the <i>employer contribution must not exceed 1x the employee's contribution</i> based on their base salary, with exceptions.</p>	<p>All A&Cs except one corporation (95%) aligned with the Guiding Principles.</p>

Review of A&C Executive Compensation Policies and Practices (3)

Item	Market Best Practice/ City's Guiding Principles	City's A&C Current Practices
Benefits and Other Entitlements	No standard approach. Key principle is they must be provided in an accountable, transparent fashion and for matters related to the performance of the position.	All A&Cs aligned to City's Guiding Principles and to the Public & Broader Public Sector practices.
Executive Termination Payment	<p>Market Practice: Executive severance policy is common across sectors.</p> <p>Must have a policy on executive termination payments including development of a standard process for determining the amount.</p>	20% of A&Cs reported formal severance policies. 80% of other A&Cs either did not provide any policy or indicated they do not have one.
Annual Performance Assessment	<p>Market Practice: the majority of organizations in both the Broader Public Sector and Private Sector conduct a formal annual performance review for their executives with respect to pay determination and talent management.</p> <p>Develop and implement this program for senior executives.</p>	95% of A&Cs conducted annual performance assessments.

Benefits Analysis

- Benefits and pensions were assessed using a qualitative / prevalence analysis of market practices in the Public & Broader Public Sectors.
 - The assessment compares Public & Broader Public Sectors market practices to City A&C practices, using the following indicators:
 - “+” better benefits
 - “=” similar benefits
 - “-” less benefits.
-

A&C benefit practices are largely reflective of market practices in the public and broader public sectors.

Market Comparison – Retirement Benefits

Benefit Prevalence	Broader Public Sector (BPS) Organizations	Typical A&C Practices	A&C vs BPS
Registered Pension Plan			
Eligibility	68% have a defined benefit (DB) pension plan only, 37% have a defined contribution (DC) plan only, 10% have frozen or closed plans, and 15% have retirement allowances.	91% of groups provide a DB plan (OMERS). TTC has its own DB Plan with feature similar to OMERS and TAF has a RSP.	=
Defined Benefit (DB) Plan			
DB Pensionable earnings	82% of plans use base salary and 18% use base salary plus bonus to calculate retirement benefits.	100% plans calculate retirement benefits using employee's base salary.	=
DB Employee Contribution	Median contribution is 8.1% of earnings below Yearly Max Pensionable Earnings (YMPE) and 10.7% above. Average is 8.3% below YMPE and 10.6% above..	90% use 9% of earnings below YMPE, and 14.6 above.	-
DB Employer Contribution	Employer contributions generally are equal or exceed employee contributions depending on the funding cost for the plan.	90% use 9% of earnings below YMPE, and 14.6 above.	-
DB Benefit Formula	Median formula is 1.4% of earnings up to YMPE, plus 2.0% of earnings above YMPE per year of service.	80% use the formula “2% x credited service (years) x “best five” earnings”.	+/=
DB Final Average Earnings Period	Typically 5 years.	55% use highest paid 60 months average.	=
DB Cost of Living Adjustments	98% of plans have cost of living adjustments.	91% of groups have cost of living adjustments.	=
DB Supplemental Executive Retirement Plan (SERP)	Of those that offer a DB plan, 53% offer a defined benefit type of SERP plan.	64% of groups do not provide a SERP plan.	-
DB SERP Employee Contribution	Same contribution as employer		
DB SERP Benefit Formula	Typically, same as the registered plan.		
Other Retirement			
Retirement Allowance	Not prevalent.	82% do not provide a retirement allowance.	=

Market Comparison – Life & Disability Benefits

Benefit Prevalence	Broader Public Sector (BPS) Organizations	Typical A&C Practices	A&C vs BPS
Basic Group Life			
Eligibility	100% of employers provide basic group life insurance.	100% of groups provide Basic Group Life.	=
Employer Paid Premium	61% are employer paid; 35% of plans require employees to share the premium cost, and 4% are employee paid.	91% employer paid premium.	=
Coverage	Typical coverage is 200% of base salary.	91% offer 200% of annual earnings or more.	=
Maximum Benefit	Median maximum is \$750,000.	18% offer \$750,000 or more.	-
Basic Accidental Death & Dismemberment			
Eligibility	91% of employers provide basic AD&D insurance.	91% of groups offer Basic AD&D insurance.	=
Employer Paid Premium	61% are employer paid; 27% of plans require employees to share the premium cost, and 12% are employee paid.	82% are employer paid premium.	+
Coverage	Typical coverage is 200% of base salary.	82% offer 200% of base salary or more.	=
Maximum Benefit	Median maximum is \$750,000.	18% offer \$750,000 or more.	-
Short Term Disability (STD)			
Eligibility	90% of employers provide short term disability.	64% of groups offer STD.	=
Coverage	Median coverage is 100% of salary for 8 weeks, followed by 75% for 17 weeks.	36% offer 100% of salary for 8 weeks or more.	-
Long Term Disability (LTD)			
Eligibility	100% of employers provide long term disability insurance.	100% of groups provide LTD.	=
Employer Paid Premium	48% are employer paid, 27% are paid by employee and 25% are shared.	100% employer paid premium.	=
Coverage	Median coverage is 70% of earnings up a monthly maximum of \$10,000	55% offer 70% of earnings or more.	=
Inflation Adjustment	40% of plans have annual cost-of-living increases.	27% of groups have annual cost-of-living increases.	-

Market Comparison – Healthcare & Dental Benefits

Benefit Prevalence	Broader Public Sector (BPS) Organizations	Typical A&C Practices	A&C vs BPS
Health & Dental Benefits			
Eligibility	100% of employers provide extended health care coverage.	100% of groups provide Health Benefits.	=
Comprehensive Medical	100% of plans provide Comprehensive Medical coverage. Percentage of premium paid by the ER is 100% (median), 94% (avg). Co-insurance is 100% (median), 96% (avg). 21% of plans have a deductible, typically \$72 per year.	100% employer paid premium; 91% do not have a deductible.	=
Prescription Drugs	100% of plans provide Prescription Drugs coverage. Percentage of premium paid by the ER is 100% (median), 94% (avg). Co-insurance is 100% (median), 96% (avg).	100% employer paid premium.	=
Vision	98% of plans provide Vision coverage. Percentage of premium paid by the ER is 100% (median), 93% (avg).	91% of groups provide vision coverage.	=
Hearing Aids	100% of plans provide Hearing Aids coverage. Percentage of premium paid by the ER is 100% (median), 93% (avg).	100% offer Hearing Aid coverage.	=
Dental	100% of organizations provide Dental coverage.	100% of groups provide Dental Benefits.	=
	Percentage of premium paid by the ER is 100% (median), 94% (avg).	100% employer paid.	=
	Basic: co-insurance is 100% (median), 93% (avg).	100% cover 100% of Basic.	-
	Major: co-insurance is 60% (median), 64% (avg).	64% cover 60% of Major.	=
	Average annual maximum is \$1,985.	73% have a maximum of \$2,000 or more.	=
	81% of plans cover orthodontic services; co-insurance is 50% (median), 54% (avg). Average lifetime orthodontic maximum is \$2,274.	82% offer orthodontic services.	=
11% of plans have a deductible, typically \$50 per year.	91% do not have a deductible.	=	
Health Care Spending Account	53% of organizations provide a HCSA, in the amount of \$810 (median), \$1,116 (avg) for Executives / Senior Management.	27% of groups provide a HCSA.	-

Market Comparison – Vacations

Benefit Prevalence	Broader Public Sector (BPS) Organizations	Typical A&C Practice	A&C vs BPS			
Vacations						
Annual Vacation	Executive / Sr. Management		Executive / Sr. Management			
	Service Year(s)	Days			Service Year(s)	Days
	1	20			1	36% offer 20 days or more
	5	20			5	73% offer 20 days or more
	10	25			10	64% offer 25 days or more
	15	25			15	91% offer 25 days or more
Max.	30	Max.	82% offer 30 days or more			
Employee can carry up to one to two weeks vacation to the next calendar year, up to an overall pre-set limit. Accrued and untaken vacations will be paid out upon termination of employment.						
Personal Days	Typically 2 to 3 days per year.	100% of groups offer 2 days per year or more.	=			

Market Comparison – Perquisites and Other Entitlements

Benefit Prevalence	Broader Public Sector (BPS) Organizations	Typical A&C Practices	A&C vs BPS
Perquisites and Other Entitlements			
Car Benefits	15% of lower executives to 40% of higher executives are provided with a car benefit. Among those have a program, 78% provide car allowances; 14% provide company owned or company leased cars and 8% the employee chooses between a car and an allowance.	91% of groups do not offer car Benefits.	=
Parking	57% provide subsidized parking facilities to employees.	55% provide parking.	=
Club Membership (e.g., Recreational, Fitness)	24% offer club memberships to employees.	18% offer club memberships to employees.	=
Professional Membership	Provided.	27% offer professional memberships.	-
Training & Development / Educational Assistance	100% of employers offer employee education assistance. Typically, employer covers 96% of the cost.	36% offer training & development.	-
Financial / Tax Planning	Typically not provided.	91% do not provide.	=
Child Care	Typically not provided.	91% do not provide.	=
Wellness Account	Typically not provided.	91% do not provide.	=
Flexible Perquisite Account	Typically not provided.	91% do not provide.	=
Telecommunications / Computer Assistance	100% offer telecommunications assistance to employees. Typically employers cover 95% of the cost.	55% of offer telecommunications assistance.	=



Thank you