A G E N D A

COMPENSATION COMMITTEE

MEETING OF
THURSDAY, DECEMBER 15, 2016, AT 10:00 A.M.
BOARDROOM - GATEWAY

1. MEETING CALLED TO ORDER: Les Birdsall.

2. ROLL CALL: Birdsall, Adams, Fredlund

3. APPROVAL OF REPORT OF JULY 20, 2016 (Attachment)

4. RESIDENTS' FORUM

5. NEW BUSINESS

   a. Consultant's Findings on Status of Compensation Management Structure

   b. Proposed Change to Compensation Management Structure

   c. Possible Change to Holiday Schedule

6. NEXT MEETING: Wednesday, January 11, 2017 at 1:30 p.m. in the Board Room at the Gateway complex

7. ADJOURN

If an executive session is necessary, it will be announced during the regular meeting. Executive session topics are restricted to legal, personnel, and third-party contract matters.

cc: GRF Board

COMPENSATION COMMITTEE REPORT
MEETING OF
WEDNESDAY, JULY 20, 2016, AT 1:30 PM

Call to Order

A regular meeting of the Compensation Committee was convened by Chair Les Birdsall, at 1:36 PM, in the Board Room at the Gateway complex.

Attendance

Present, in addition to the Chair, were Committee members Sue Adams and Mel Fredlund. Also in attendance were Tim O'Keefe, CEO of GRF; Anthony W. Grafals, General Counsel and Director of Confidential Services, Rick Chakoff, Chief Financial Officer, and Judith Perkins, Sr. Manager Human Resources.

Report of July 8, 2016 Approved

The report of the Committee's meeting held on June 8, 2016 was reviewed and approved by the Committee as presented.

Residents' Forum

Directors Brown and Delpech were in attendance. Director Brown voiced a concern regarding the way in which Fitness Trainers are compensated for personal and group training and asked that this be considered at some time in the future.

Old Business:
a) Revised Resource Pages

Perkins distributed revised copies of 2016 Compensation Study Executive Summary and the Compensation Background, to replace those pages in the Compensation Committee Resource Manual. Chakoff advised the Committee that the numbers on page 11 of the GRF Compensation History (Excluding MOD) are budgeted numbers, and explained how the numbers were derived.

Chairman Birdsall offered some comments as a prelude to the New Business portion of the agenda, saying that the Staff Report was very helpful in helping him understand the pay bands and structure. He also stated that he had understood the Compensation Study would be undertaken before the budgeting process, and was disappointed that we would not have current market data to use when determining increases in the wages line item. He closed by stating that his goal for the Committee was to develop a compensation package that didn't take anything away from employees, and to do so, he needed to understand how some employees came to be below the floor or above the cap for their compensation band.

New Business
a) Staff Report Compensation Management Structure

Perkins introduced the Staff Report, which explained the levels, families, floors and caps used in the Compensation Management Structure (CMS). The ensuing discussion covered the history of the original compensation study as well as how some employees ended out of band. Key points included understanding that the CMS is an internal structure for managing compensation, based on the various jobs; the linkage of the floors and caps to the external market; movement of the market and the resulting adjustment (usually in November) of bands to reflect market changes; that Board-approved wage adjustments are used to recognize employee performance, growth of skills, and value to the organization.

b) Non-Union Health and Welfare Benefits

Perkins reviewed the rate increase ranges received from the benefits brokerage; these are early quotes, and typically the Foundation sees some downward movement in the final quote, particularly in the medical insurance premium. It was pointed out that the recommendation was based on current employee enrollment, and that 2017 enrollment could be different. After a motion duly made, seconded, and discussed the Committee voted unanimously to recommend to the Board of Directors that the 2017 budget reflect an increase of $135,000 for non-represented health and welfare benefits.

<u>c) Non-Union Wage Adjustment</u>

Grafals reviewed the Summary Report, explaining the difference between an index-based compensation practice (i.e., using the Consumer Price Index to determine the amount of wage increase) versus a managed compensation practice (which determines the amount of wage increase based on market factors and competitive positioning). The ensuing discussion included a review of historical CPI rates, Staff recommendations, and Board-approved changes. After a motion duly made, seconded, and discussed, the Committee voted unanimously to recommend to the Board of Directors that the 2017 budget reflect an increase of $140,000 for non-represented wages.

<u>d) CEO Compensation Adjustment</u>

Perkins introduced a Summary Report recommending an increase in the 2017 budget wage line for the CEO, as the CEO's compensation has historically lagged the market. After a motion duly made, seconded, and discussed, the Committee voted unanimously to recommend to the Board of Directors that the 2017 budget reflect an increase of $27,600 for the CEO compensation line item.

<u>e) Union Cost Increases</u>

Grafals reviewed the Summary Report, explaining the evolution of the Collective Bargaining Agreement and the Foundation's contractual obligations for wage increases, health and welfare contributions and pension contributions. After a motion duly made, seconded, and discussed, the Committee voted unanimously to recommend to the Board of Directors that the 2017 budget reflect an increase of $150,000 for increases in Union costs.

<u>Next Meeting</u>

The next meeting of the Compensation Committee is scheduled for Wednesday, August 10, 2016, at 1:30 pm in the Board Room at the Gateway Complex.

<u>Adjournment</u>

The meeting was adjourned at 3:04 pm.

Leslie Birdsall, PJ

Leslie Birdsall, Chair
Compensation Committee

JP/m

Agenda Item: 5a
Subject: Compensation Study Findings
Meeting Date: December 15, 2016

SUMMARY REPORT
GOLDEN RAIN FOUNDATION BOARD OF DIRECTORS

REPORT PREPARED BY:
Anthony W. Grafals, General Counsel and Director of Confidential Services

REQUESTED ACTION:
Review summary of findings by Compensation consultant.

BACKGROUND:
In 2011, GRF engaged an outside consulting firm to review its compensation practices and make recommendations for improvement. As part of that process, the consultant recommended a follow-up review after several years to ensure GRF staff was properly administering the newly adopted compensation management structure (CMS). In 2016, the follow-up review was undertaken by the outside consultant. A summary of the consultant's findings is attached.

ATTACHMENTS:
2016 Compensation Study Findings Report

2016 Compensation Study Findings

EXECUTIVE SUMMARY:

The outside Consultant's analysis generally validated the processes used by HR to establish pay ranges for each position within GRF. However, it was noted that some positions, although still generally within the established ranges, have not kept up with the market. Several have either fallen below the established range or are in imminent danger of doing so in the near future. Internal compensation equity is a concern. However, this cannot be easily addressed without additional resources.

BACKGROUND:

The 2016 Compensation Study was begun with the following objectives:

- Analyze grade structure within GRF
- Evaluate internal equity
- Evaluate current wage adjustment process and tools
- Obtain recommendations on appropriate adjustments to the CMS

METHODOLOGY:

The study examined three specific departments as being representative: Finance (Accounting, Insurance, IT); Communications (Rossmoor News, Channel 28); Mutual Operations. With the exception of the news carriers in the Communications department, and the Recycle Monitor and the Union employees in MOD, the job descriptions for all positions in these departments were reviewed by managers and, where possible, by the incumbents as well. The updated and approved job descriptions, with a current organization chart and current annualized wages for the included employees were provided to the consultants.

The consultant then performed a comprehensive job analysis including job functions, reporting relationships, potential impact on the organization, independence and other relevant factors. Additionally, GRF's structure, size, and operations were considered. Five key factors were then used to determine internal job value which could be applied to similar positions to evaluate internal equity.

2016 Compensation Study Findings

These five factors include:

- Knowledge and skills required by the job
- Supervision and/or direction given to other employees
- Contacts and working relationships
- Independence of action (decision-making and problem-solving)
- Overall potential impact of the job on the organization's success

Each of the three Directors/Sr. Managers involved in this process were asked to rank order the subordinate positions in terms of these five factors. The result of the internal analysis was an overall internal job matrix that identified the number of pay levels needed to effectively recognize and pay for differing levels of responsibility. This information, taken in conjunction with the labor market data, then formed the basis of any job classification recommendations made.

The external labor market analysis then compared current GRF positions to similar jobs in multiple published compensation surveys based on job content and level of responsibility, not solely on job titles. Wherever possible, at least three different surveys plus one or more different data cuts based on factors including size of company, annual budget, for-profit/not-for-profit, etc. were used to develop the analysis.

The final labor market data report included 25th / 50th / 75th percentiles, average variable pay and average total cash compensation data. To further support the reliability of the report, all data was aged to the same date, January 1, 2017, thereby evening out any timing variations in the salary survey reports relied on.

In addition to developing information regarding the current pay structure, the information gathered from the five factor process described above was used to develop a sample "ideal pay" or "job value" structure for potential later use. The job value structure relies on the five factors in conjunction with the market comparison data, to develop job values for each position in the organization. In this structure, positions in various departments, with differing titles and similar rankings could have the same job value and might consequently be paid similarly.

2016 Compensation Study Findings

CONCLUSIONS:

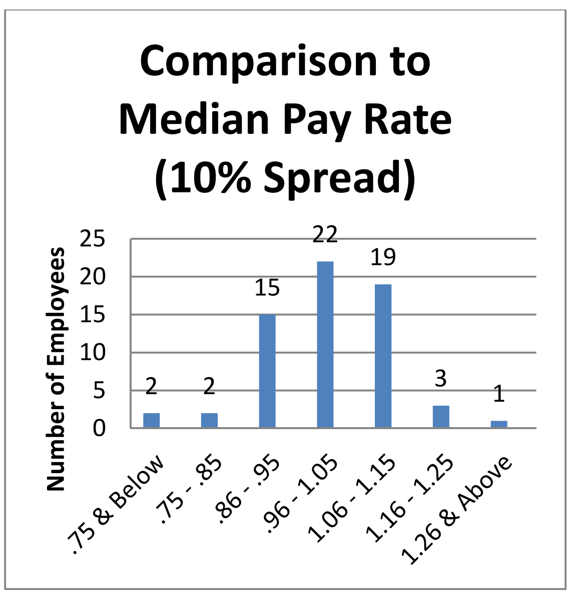
CURRENT COMPENSATION MANAGEMENT STRUCTURE

The consultants reviewed the current process for updating the Compensation Management Structure (CMS) and agreed that GRF's process is "viable and reasonable."

The calculated pay ranges for 2017 are in line with the study's labor market rates, with very few exceptions. In addition, several formally red-lined positions (wages exceeded the position cap) will be eligible for raises in 2017.

LABOR MARKET PAY COMPARISON

Of the 39 positions in the three departments which were evaluated, encompassing a total of 64 employees, when the projected 2017 CMS ranges were compared to the labor market data, most were found to be appropriate. The table below depicts the relationship of median compensation rates to actual compensation rates for these 64 positions at GRF.



The current (2016) pay rates for three positions at GRF, encompassing five employees, fall below the study's labor market floor. Two of those positions (four employees) are part-time and/or part-time on-call positions; only one is a full-time employee. Assuming

2016 Compensation Study Findings

these employees receive a 3% raise, the full-time employee will then exceed the floor for that position; the part-time and part-time on-call positions will still remain somewhat below the floor.

FINDINGS

While the consultant agreed that the procedure used to maintain relative market currency was appropriate, they warned it was likely that some positions had not moved with the market.

Because of the unique market environment in which the Foundation operates, some positions (for example, service order specialist) are difficult to fully match in the general marketplace. In these cases, internal evaluation and other factors (for example, difficulty or ease of recruiting) may need to be considered to modify pay ranges.

Concerns were raised about internal equity between jobs. It does not appear, at least on the surface, that gender discrimination is the primary culprit, particularly given the Foundation's history of unregulated general/COLA raises. The ability to assess and balance internal equity using the current system is limited. In order to do so, a system such as the Job Value system used by the Consultant for its analysis and proposed for adoption by GRF would need to be implemented. However, the complexity of the Job Value system and the limited resources available to manage such a system on an organization-wide basis means that implementation is beyond the current capabilities of the Human Resources department as currently constituted.

Agenda Item: 5b
Subject: Change to Compensation Management Structure
Meeting Date: December 15, 2016

SUMMARY REPORT
GOLDEN RAIN FOUNDATION COMPENSATION COMMITTEE

REPORT PREPARED BY:
Anthony W. Grafals, General Counsel and Director of Confidential Services

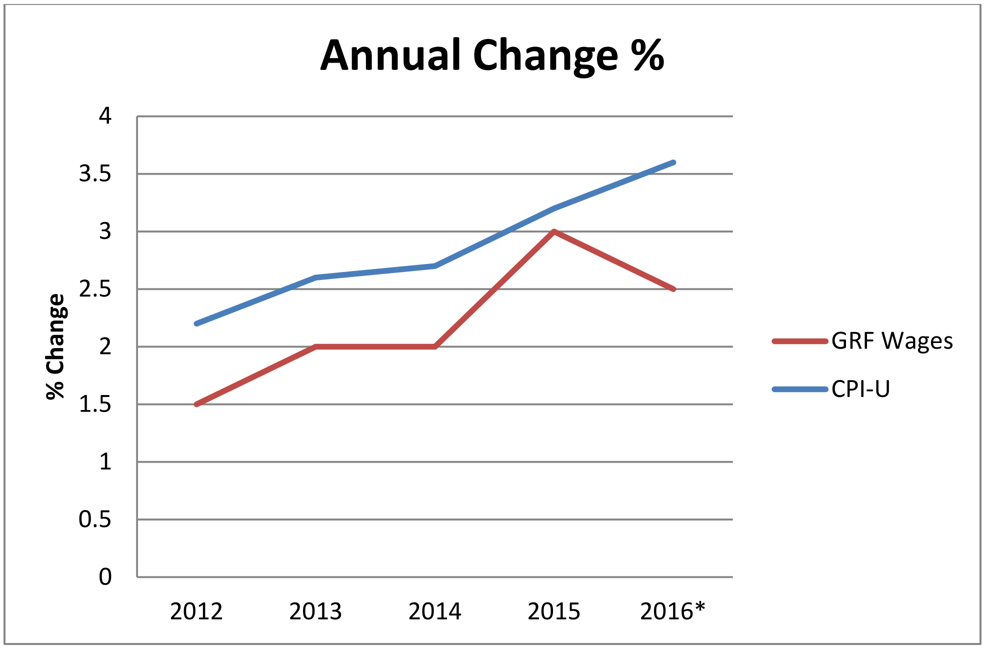
RECOMMENDATION AND REQUESTED ACTION:
Consider revisions to the existing compensation management structure for possible Board approval and adoption.

BACKGROUND:
In 2011, the Board adopted a compensation management structure (CMS) for wages and cash benefits allocable to staff. That structure was intended to replace the prior practice of providing staff with regular cost of living increases. Instituting the CMS was viewed as a means of attracting, promoting and retaining highly qualified staff.

The CMS relies on market wage data purchased through surveys performed by firms with expertise in compensation management. That data is used to establish wage bands for each position or broad position classification. Each wage band has a minimum (floor) and a maximum (cap) beyond which employees' compensation should not be adjusted. The compensation bands themselves are adjusted periodically based on the survey data received, indicating the upper and lower market price for a given position or class of position during the limit year. Employee wages are adjusted within those bands based on individual performance metrics.

A system such as this has long been a staple of compensation management for corporate America. This system depends on an evaluation of each employee demonstrating that s/he meets at least acceptable performance standards year over year, and sufficient funding for wages to maintain existing relative compensation for some wage-earners, and to provide incentive, or merit, pay for top performers to incentivize continued high performance.

However, since the adoption of the CMS at GRF, annual wage increase percentages have compared unfavorably to actual changes in the CPI-U (applicable to all urban wage earners for all costs including food and energy) for the SF-Oakland-San Jose Metro Area, as illustrated by the following table:



*** 12 mos. ending October 31, 2016**

This trend was confirmed in the 2016 review of the CMS by an outside consultant engaged to determine whether the CMS was being properly administered. The outside consultant noted that the CMS appeared to be properly administered as evidenced through appropriate shifts in the various compensation bands. However, wages for many positions were noted to be shifting lower within their bands. If such a trend continues, the obvious result will be a need to provide significant increases at some point in the future just to keep wages minimally competitive and within their market bands, thus making it difficult to retain existing staff or attract new competent replacements, without a large one-time catch up contribution to affected wages.

During the 2016 Board-year, comments from the Board suggested that maintaining Rossmoor-Walnut Creek as a premier senior adult community remains a priority. To that end, maintaining a highly competent staff is crucial.

Additionally, during the 2016 budget cycle, it was noted that some employees' wages had either fallen below the minimum market compensation rate for their wage band, or were never able to catch up to their minimum in the absence of additional increases.

In considering how best to ameliorate the current trend, staff determined that not unlike the approach for avoiding the adverse impacts of deferred maintenance of fixed assets, an approach for maintaining the cost of existing employees performing satisfactorily should be incorporated as a mechanism to ensure that over time, wage increases do not significantly lag the applicable CPI-U, even during periods when funds for merit increases may not be available.

Therefore, staff considered that a bifurcated approach which combines a standard cost-of-living-increase system with a merit based reward system might be effective. Staff now therefore recommends the following changes to the current CMS:

1. Annually, all employees who meet specific criteria and are performing satisfactorily will receive a Cost-Of-Living-Increase consistent with the 12 mos. percentage change in the CPI-U for the SF-Oakland-SJ Metro Area for the then most recent quarter-end on the date that the GRF budget is finalized, for the then next fiscal year.

2. In addition to the Cost-of-Living-Increase, during any year in which the Board determines sufficient funds are or will be available for a merit increase in the following year, the Board may provide an additional fund for the CEO to distribute based on merit, as determined by objective reviews and scoring of employee performance for the prior year.

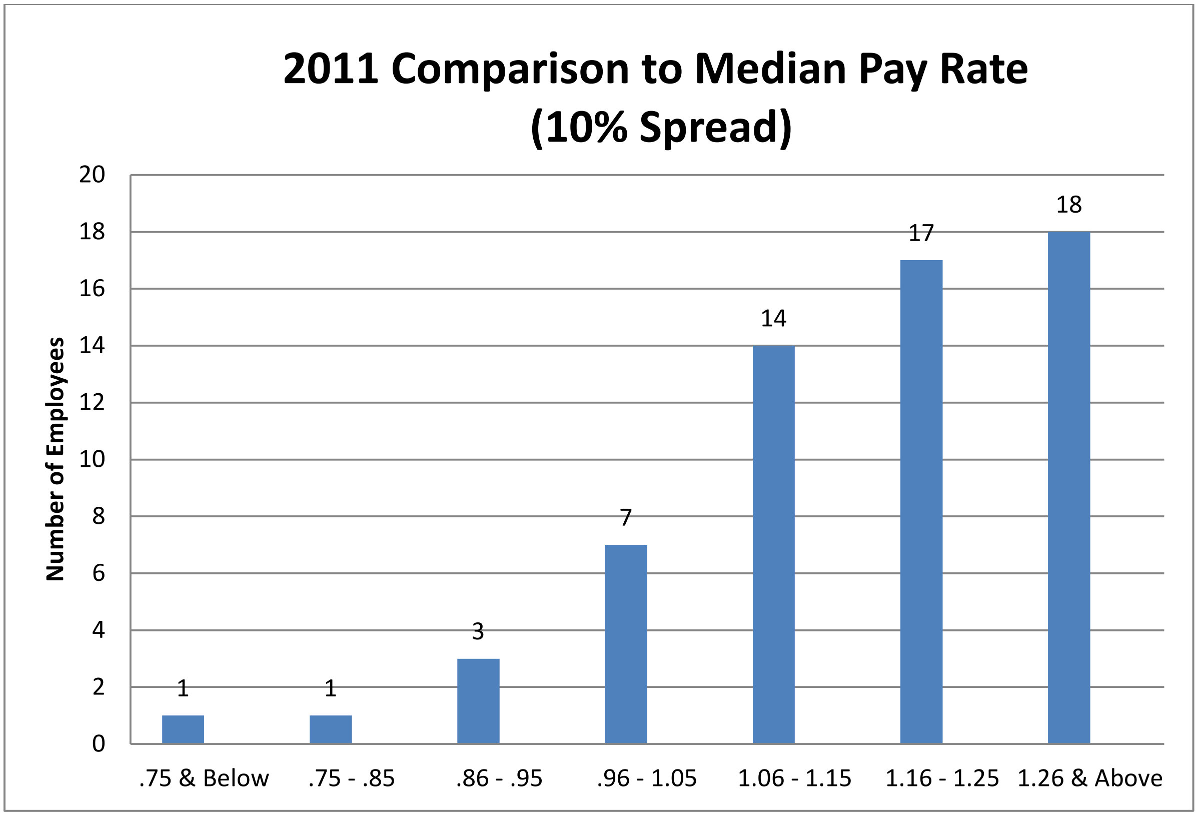
3. Wages will continue to be subject to the caps established as a component of the CMS for the applicable calendar year, notwithstanding the actual or proposed award of either a cost-of-living-increase or merit increase.

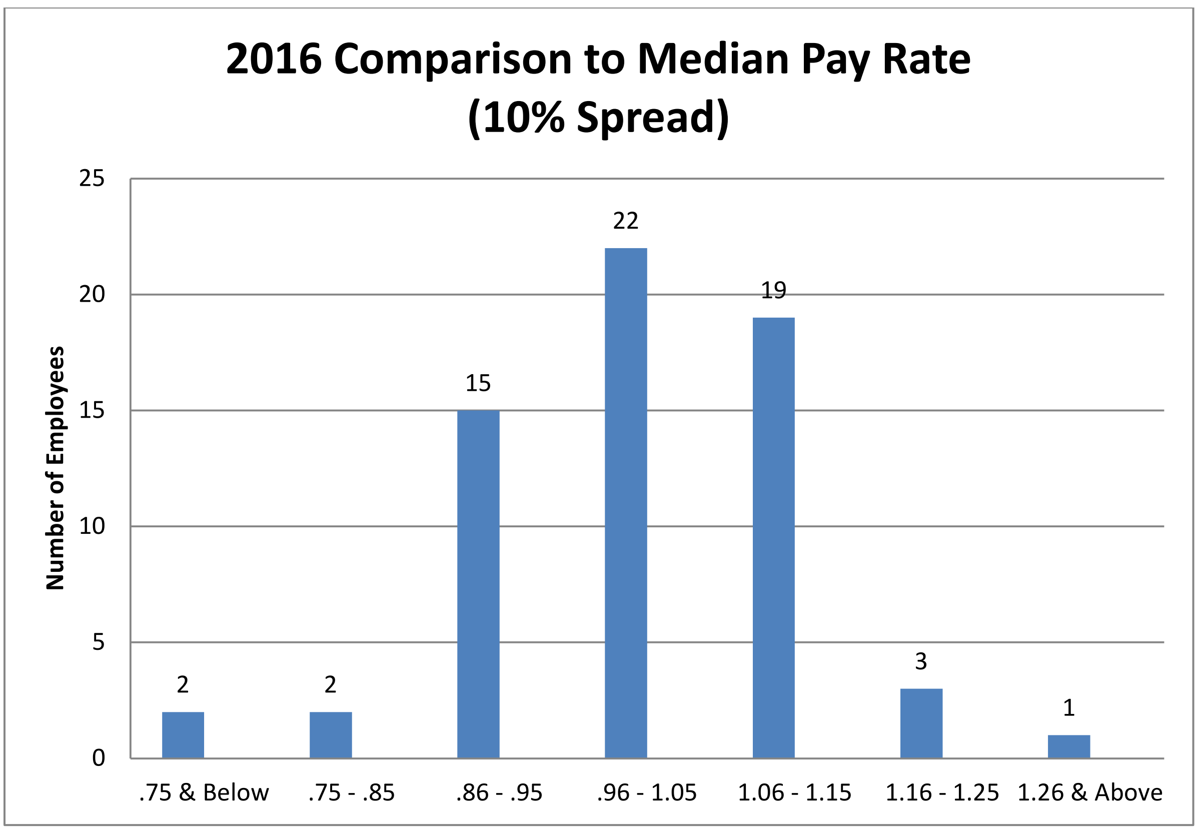
By establishing fixed targets and dates and by combining a cost-of-living based system with a merit based system, it is anticipated that wages will be managed so as to reward high performance (and the resultant expectation that high performance is consistent with the desire to continue to be a *premier* senior community) and avoid significant gaps in compensation, which is among the most significant costs of operations for GRF, thereby avoiding the need for large catch-up contributions in the future.

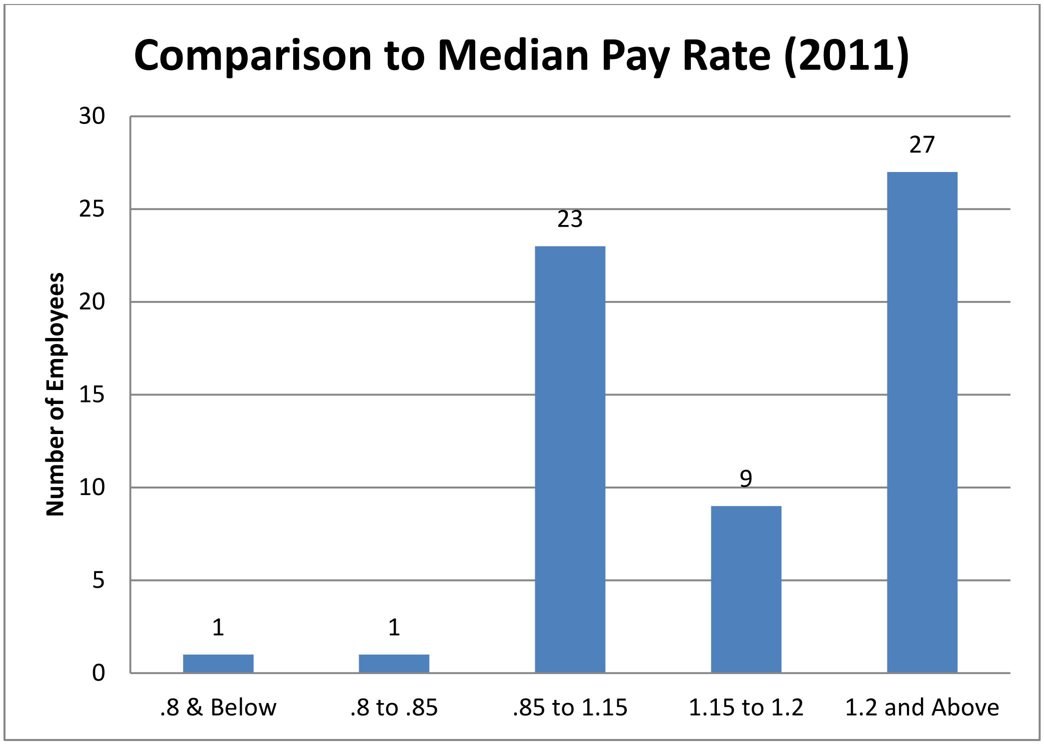
SUBSEQUENT ACTIONS:
Review, discuss, and vote on whether to recommend changes to the full Board.

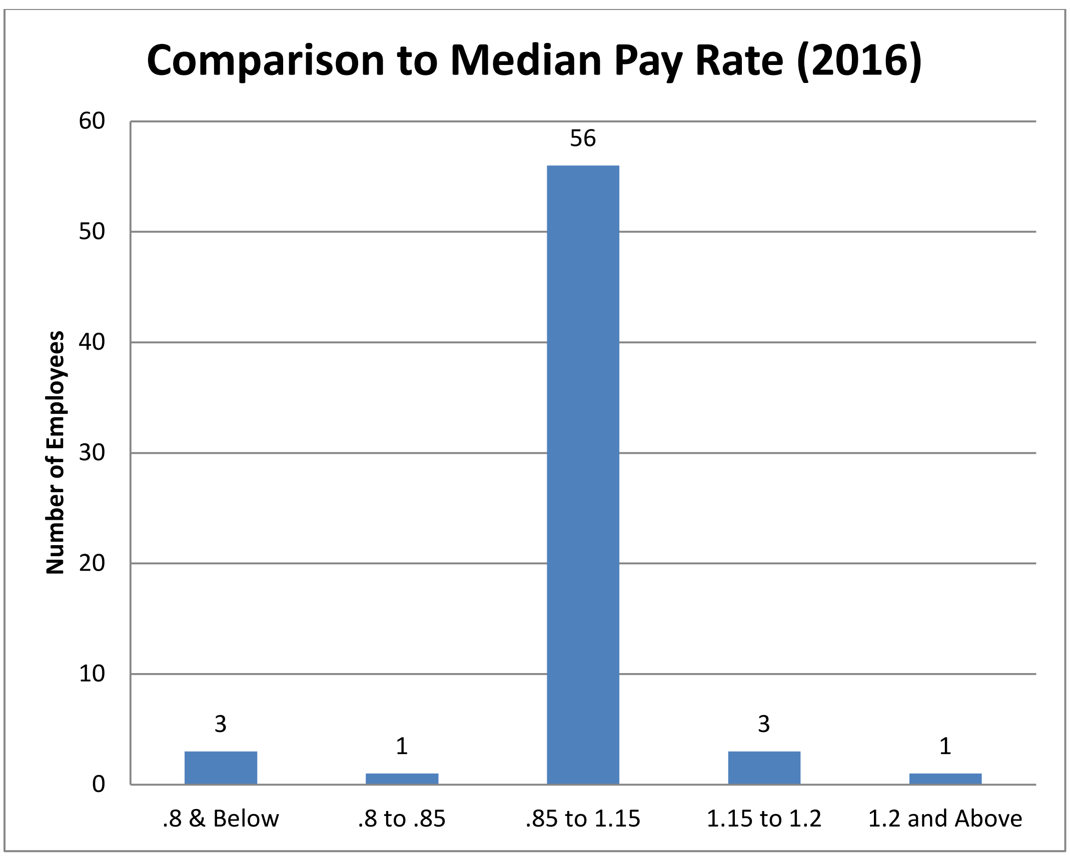
FINANCIAL IMPACT:
The actual difference between the CPI-U and GRF wage increases during the five years since adoption of the CMS is 3.3%. Thus, the average annual difference between applicable CPI data and wage increases for the past 5 years was 0.66% per year. However, avoiding the need for subsequent "catch-up" contributions to wages in later years would make the net long-term impact neutral.

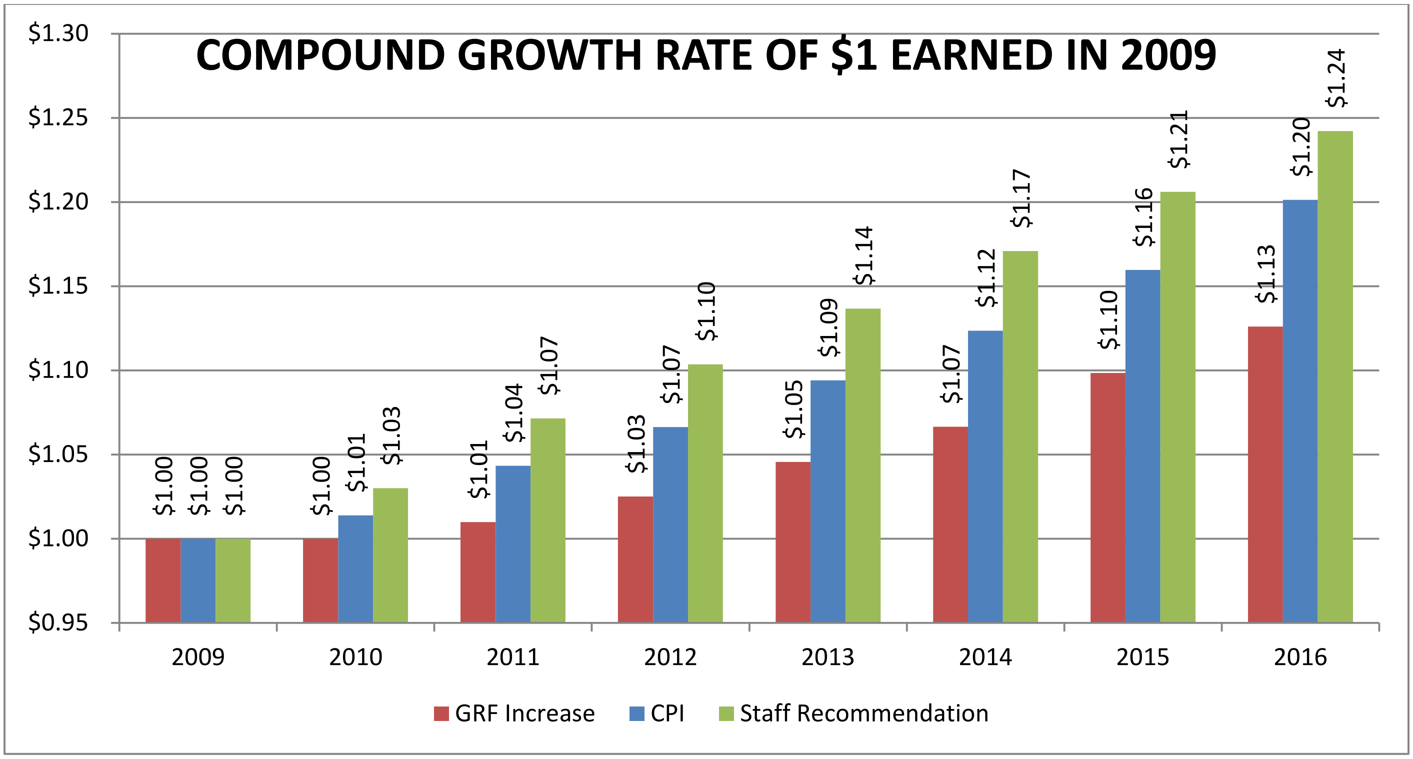
ATTACHMENTS:
Comparison to Median Pay Rate (2016)
Comparison to Median Pay Rate (2011)
2016 Data Comparison to Median Pay Rate (10% Spread)
2011 Data Comparison to Median Pay Rate (10% Spread)
Compound Growth Rate of $1 Earned in 2009


2011 Comparison to Median Pay Rate
(10% Spread)
Number of Employees
0
2
4
6
8
10
12
14
16
18
20
1
1
3
7
14
17
18
.75 & Below
.75 - .85
.86 - .95
.96 - 1.05
1.06 - 1.15
1.16 - 1.25
1.26 & Above


2016 Comparison to Median Pay Rate
(10% Spread)
Number of Employees
0
5
10
15
20
25
2
2
15
22
19
3
1
.75 & Below
.75 - .85
.86 - .95
.96 - 1.05
1.06 - 1.15
1.16 - 1.25
1.26 & Above


Comparison to Median Pay Rate (2011)
Number of Employees
30
25
20
15
10
5
0
1
1
23
9
27
.8 & Below
.8 to .85
.85 to 1.15
1.15 to 1.2
1.2 and Above


Comparison to Median Pay Rate (2016)
Number of Employees
60
50
40
30
20
10
0
3
1
56
3
1
.8 & Below
.8 to .85
.85 to 1.15
1.15 to 1.2
1.2 and Above



COMPOUND GROWTH RATE OF $1 EARNED IN 2009
$1.30
$1.25
$1.20
$1.15
$1.10
$1.05
$1.00
$0.95
2009
2010
2011
2012
2013
2014
2015
2016
$1.00 $1.00 $1.00
$1.00 $1.01 $1.03
$1.01 $1.04 $1.07
$1.03 $1.07 $1.10
$1.05 $1.09 $1.14
$1.07 $1.12 $1.17
$1.10 $1.16 $1.21
$1.13 $1.20 $1.24
GRF Increase
CPI
Staff Recommendation

Agenda Item: 5c
Subject: Addition to Holiday Schedule
Meeting Date: December 15, 2016

SUMMARY REPORT
GOLDEN RAIN FOUNDATION COMPENSATION COMMITTEE

REPORT PREPARED BY:
Anthony W. Grafals, General Counsel and Director of Confidential Services

RECOMMENDATION AND REQUESTED ACTION:
Consider adding an additional holiday/holidays to the GRF schedule of operations.

BACKGROUND:
The GRF president contacted staff to discuss the possibility of adding an additional holiday to GRF's annual calendar, as a means of rewarding staff without incurring significant additional expenses.

Staff suggests consideration of incorporating one or both of the remaining two holidays on the federal holiday schedule. By adhering to the federal holiday schedule, the calendar remains consistent with existing holidays. Additionally, employees with children or families often find that one or more family members are off work on those dates.

Presently, GRF observes eight of the ten recognized federal holidays. GRF also provides days off for the Friday after Thanksgiving and Christmas Eve.

The remaining two federal holidays which are not observed by GRF include Martin Luther King day (the third Monday in January), and Columbus Day (the second Monday in October).

By observing an additional holiday, some operational costs would be reduced, such as electricity. However, costs for overtime pay of those employees required to work on the holiday, including bus drivers, golf shop employees, lifeguards and some maintenance personnel, would increase.

Based on the current GRF holiday schedule, observed holidays occur in January, February, May, July, September, November and December. Of the two remaining unobserved federal holidays, the longest period without a holiday would occur between Labor Day (first Monday in September) and Veterans' Day (November 11). Columbus Day would fall in the middle of October, between those two months. Conversely, MLK day would occur about two weeks after New Years' Day, and about four weeks prior to Presidents' Day.

Alternatively, MLK day observance may be more politically appropriate, whereas there are communities that have raised objections to celebrating a date connected with Christopher

Columbus, due to his perceived treatment of the indigenous population he encountered in North America.

SUBSEQUENT ACTIONS:
Review, discuss, and vote on whether to recommend changes to the full Board.

FINANCIAL IMPACT:
Estimated to be a slight increase in costs attributable to payment of overtime wages to those employees required to work on holidays, within the ability to be absorbed by the existing budget and some lowered operating costs.