A G E N D A

COMPENSATION COMMITTEE

MEETING OF
WEDNESDAY, JANUARY 18, 2017, AT 1:30 P.M.
FAIRWAY ROOM - CREEKSIDE

1. MEETING CALLED TO ORDER: Les Birdsall.

2. ROLL CALL: Birdsall, Adams, Fredlund

3. APPROVAL OF REPORT OF DECEMBER 15, 2016 (Attachment)

4. RESIDENTS' FORUM

5. OLD BUSINESS

   a. Proposed Change to Compensation Management Structure

6. NEXT MEETING: Wednesday, February 8, 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, DECEMBER 15, 2016, AT 10:00 AM

A regular meeting of the Compensation Committee was convened by Chair Les Birdsall, at 10:00 AM, in the Board Room at the Gateway complex.	Call to Order
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 Grafals, General Counsel; Rick Chakoff, Chief Financial Officer; Judith Perkins, Sr. Manager Human Resources, and Marla Pascoe, HR Generalist.	Attendance
The report of the Committee's meeting held on July 20, 2016 was reviewed and approved by the Committee as presented.	Report of July 20, 2016 Approved
Directors Haley, Delpech and Kelso were in attendance.	Residents' Forum
Staff presented the outside Consultant's analysis of the GRF compensation structure which validated the current process used to establish pay ranges for each position; they also caution that some positions had not moved with the market. Staff illustrated the market median pay in comparison to GRF.	New Business Item a. Consultant's Findings on Compensation Management Structure
Staff presented a proposal to revise the existing compensation management structure which would combine the standard cost of living increase with a merit based reward system. This proposal is in response to the outside consultant's determination that many positions are shifting lower within their pay bands. Upon a motion duly made and seconded, and discussed, the Committee voted unanimously to recommend changes to the Board of Directors as recommended by staff.	Item b. Proposed Change to the Compensation Management Structure
Staff presented a proposal based on the suggestion of the Committee Chairman, to add an additional holiday to the Foundation's schedule. Following discussion, the committee decided to take no action.	Item c. Possible Change to Holiday Schedule.
The next meeting of the Compensation Committee will be at 1:30 p.m. on Wednesday, January 18, 2017, in the Fairway Room at the Creekside Complex.	Next Meeting
The meeting was adjourned at 11:50 am.	Recess or Adjournment

Les Birdsall

Les Birdsall, Chair
Compensation Committee

MP/m

Agenda Item: 5a
Subject: Change to Compensation Management Structure
Meeting Date: January 18, 2017

SUMMARY REPORT
GOLDEN RAIN FOUNDATION COMPENSATION COMMITTEE

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

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

RECOMMENDATION:
At its December 15, 2016 meeting, the Committee considered staff recommendations for changes to the current Compensation Management Structure, to incorporate an annual cost of living adjustment based on the most recent CPI-U published by the Bureau of Labor Statistics (BLS) at the time of adoption, and to incorporate an additional discretionary market/merit adjustment amount, to be distributed to employees scoring above the median on their annual performance evaluations.

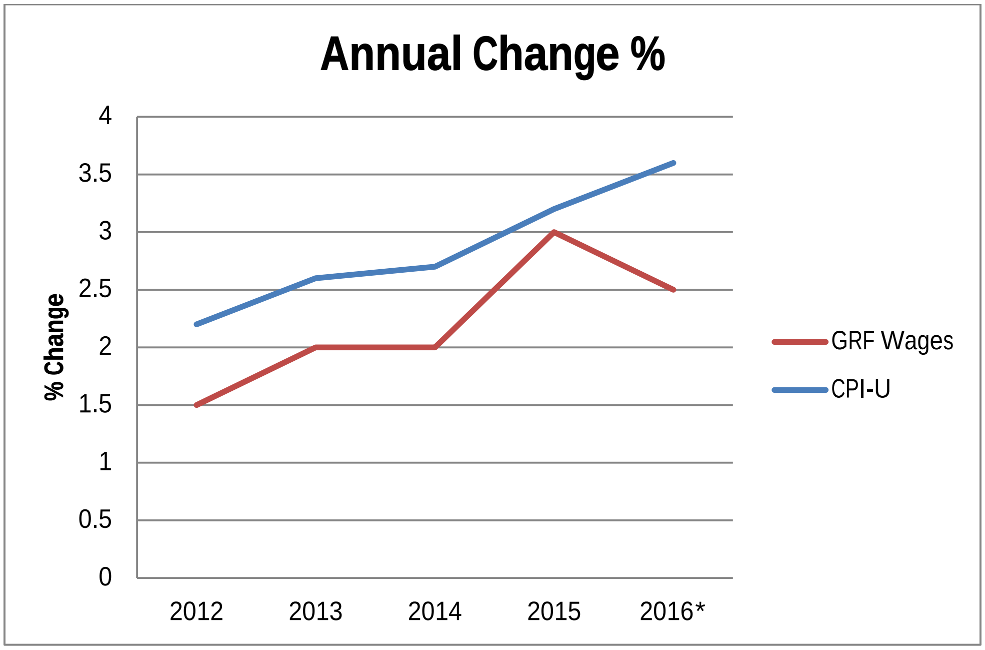
BACKGROUND:
In 2011, the Board adopted a compensation management structure (CMS) for wages and cash benefits allocable to staff. That structure was intended to replace the prior practice of providing staff with regular cost of living increases. Instituting the CMS was viewed as a means of attracting,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

Year	CPI %	GRF %
2012	2.2	1.5
2013	2.6	2.0
2014	2.7	2.0
2015	3.2	3.0
2016*	3.6	2.5

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 increases greater than that of the cost-of-living.

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 twelve month reporting period 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 additional funds 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 and floors 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 recommended 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.

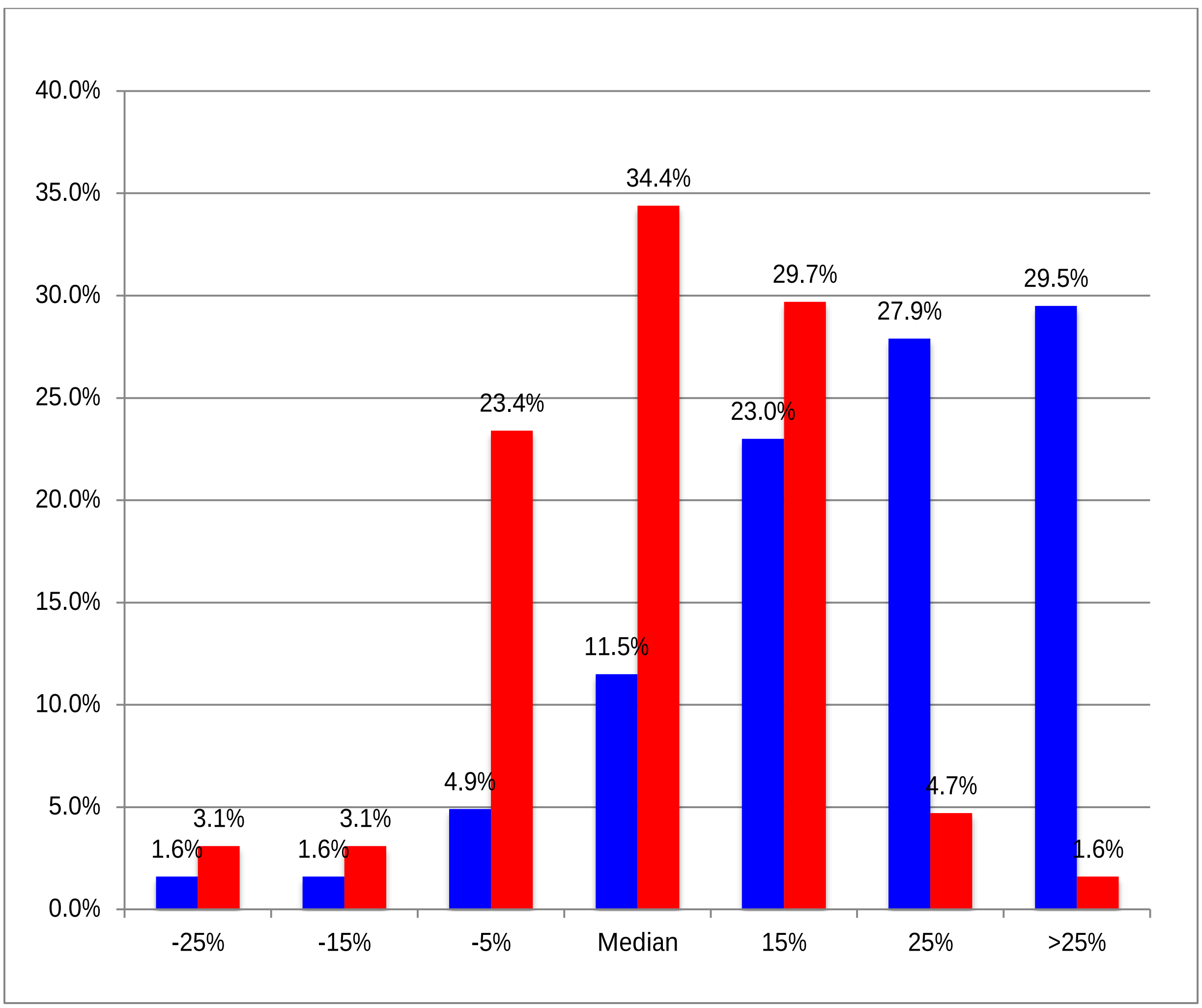
ATTACHMENTS:
Comparing 2011 and 2016 Compensation to the Median
Compound Growth Rate of $1 Earned in 2009

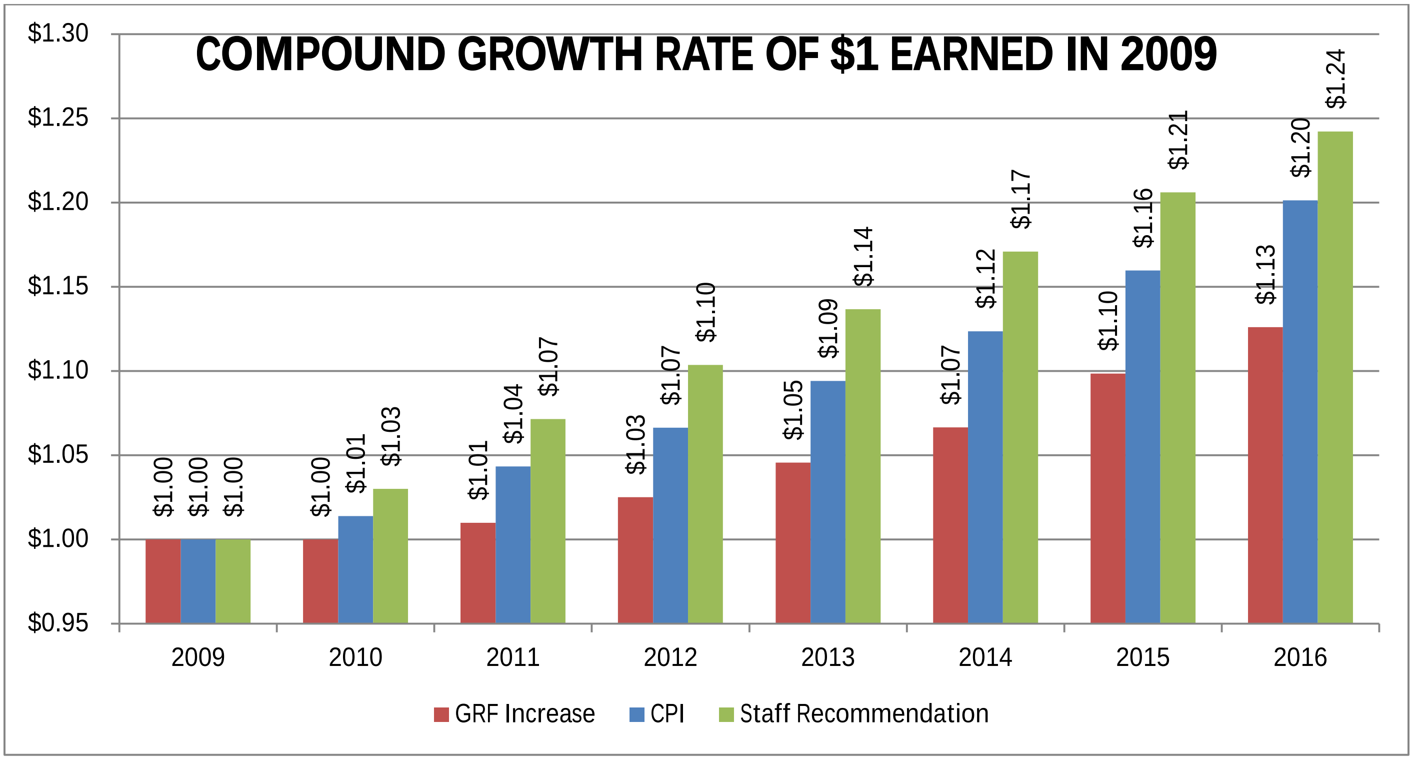
COMPARING 2011 AND 2016 COMPENSATION TO THE MEDIAN

Percent of Employees in Each Category

Salary 2011-2016

	N=61	N=64
PERCENT	**2011**	**2016**
-25%	1.6%	3.1%
-15%	1.6%	3.1%
-5%	4.9%	23.4%
Median	11.5%	34.4%
15%	23.0%	29.7%
25%	27.9%	4.7%
>25%	29.5%	1.6%
	100.0%	100.0%





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