

AGENDA

Executive Compensation Committee Meeting of the El Camino Hospital Board

Thursday, March 24, 2016 **4:30 p.m.**

El Camino Hospital

Conference Room B, Ground floor

2500 Grant Road, Mountain View, California

Jing Liao will be participating via teleconference from the following address:

Randolph B, 241 Madison Ave, Detroit, MI

MISSION: To advise and assist the El Camino Hospital (ECH) Board of Directors (“Board”) in matters related to governance, board development, board effectiveness, and board composition, i.e., the nomination and appointment/reappointment process. The Governance Committee ensures the Board and Committees are functioning at the highest level of governance standards.

AGENDA ITEM	PRESENTED BY		ESTIMATED TIMES
1. CALL TO ORDER	Jeffrey Davis, MD, Chair		4:30 – 4:31 p.m.
2. ROLL CALL	Jeffrey Davis, MD, Chair		4:31 – 4:32
3. POTENTIAL CONFLICT OF INTEREST DISCLOSURES	Jeffrey Davis, MD, Chair		4:32 – 4:33
4. PUBLIC COMMUNICATION	Jeffrey Davis, MD, Chair		4:33 – 4:36
5. CONSENT CALENDAR ITEMS: Any Committee Member may remove an item for discussion before a motion is made. Approval: a. Minutes of Executive Compensation Committee Meeting, Open Session (1/20/16) b. Proposed FY17 Meeting dates	Jeffrey Davis, MD, Chair	<i>public comment</i>	Motion Required 4:36 – 4:39
6. SUMMARY OF STAKEHOLDER INTERVIEWS ATTACHMENT 6	Stephen Pollack and Lisa Stella, Mercer LLC		4:39 – 4:44
7. EXECUTIVE INCENTIVE GOAL SETTING PHILOSOPHY ATTACHMENT 7	Jeffrey Davis, MD, Chair; Stephen Pollack and Lisa Stella, Mercer LLC	<i>public comment</i>	Possible Motion 4:44 – 5:24
8. EXECUTIVE PERFORMANCE APPRAISAL PHILOSOPHY ATTACHMENT 8	Kathryn Fisk, CHRO; Stephen Pollack and Lisa Stella, Mercer LLC; Tomi Ryba, CEO		Discussion 5:24 – 5:44
9. PREPARATION FOR JOINT MEETING WITH THE BOARD	Jeffrey Davis, MD, Chair		Discussion 5:44 – 5:59

A copy of the agenda for the Regular Committee Meeting will be posted and distributed at least seventy-two (72) hours prior to the meeting. In observance of the Americans with Disabilities Act, please notify us at 650-988-7504 prior to the meeting so that we may provide the agenda in alternative formats or make disability-related modifications and accommodations.

AGENDA ITEM	PRESENTED BY		ESTIMATED TIMES
10. ADJOURN TO CLOSED SESSION	Jeffrey Davis, MD, Chair		5:50 – 6:00
11. CONSENT CALENDAR Approval of Meeting Minutes of the Closed Session (1/20/16) <i>Gov't Code Section 54957.2</i>		<i>public comment</i>	Motion Required 6:00 – 6:02
12. Health and Safety Code Section 32106(b) for a report involving health care facility trade secret. - FY17 Strategic Planning Process and Organizational Goals	Tomi Ryba, CEO; Mick Zdeblick, COO		Discussion 6:02 – 6:17
13. Report involving <i>Gov't Code Sections 54957 and 54957.6</i> for report and discussion on personnel matters - Succession Planning, Leadership Development and Talent Profiles	Kathryn Fisk, CHRO		Discussion 6:17 – 6:32
14. Adjourn to Open Session	Jeffrey Davis, MD, Chair		Motion Required 6:32 – 6:33
15. RECONVENE OPEN SESSION/REPORT OUT			
To report any required disclosures regarding permissible actions taken during Closed Session.	Jeffrey Davis, MD, Chair		Information 6:33 – 6:34
16. PROPOSED FY17 COMMITTEE GOALS ATTACHMENT 16	Kathryn Fisk, CHRO	<i>public comment</i>	Possible Motion 6:34 – 6:44
17. EXECUTIVE COMPENSATION COMMITTEE CHARTER REVIEW ATTACHMENT 17	Kathryn Fisk, CHRO	<i>public comment</i>	Possible Motion 6:44 – 6:54
18. FY16 PACING PLAN ATTACHMENT 18	Jeffrey Davis, MD, Chair	<i>public comment</i>	Possible Motion 6:54 – 6:59
19. CLOSING COMMENTS	Jeffrey Davis, MD, Chair		Discussion 6:59 – 7:04
20. ADJOURNMENT	Jeffrey Davis, MD, Chair		7:04 – 7:05 p.m.

Upcoming Executive Compensation Committee Meetings in FY16:

- May 17, 2016

**a. Minutes of Executive Compensation Committee
Meeting, Open Session (1/20/16)**

**Minutes of the Open Session of the
 Executive Compensation Committee
 Wednesday, January 20, 2016, 4:30 p.m.
 El Camino Hospital, Medical Staff Conference Room
 2500 Grant Road, Mountain View California**

Members Present

Jeffrey Davis, MD
 Lanhee Chen
 Teri Eyre
 Jing Liao (joined at 4:45 pm and
 departed during the closed session)
 Bob Miller
 Julia Miller (joined during closed session
 at 6:00 pm via teleconference)
 Prasad Setty (joined at 4:38 pm)

Members Absent

None

Members Excused

None

Agenda Item	Comments/Discussion	Approvals/Action
1. CALL TO ORDER Committee Chair	Committee Chair Jeff Davis called the Executive Compensation Committee of El Camino Hospital to order at 4:35 pm.	
2. ROLL CALL	Silent roll call was taken. All Committee members except Jing Liao, Prasad Setty and Julia Miller were in attendance.	
3. POTENTIAL CONFLICT OF INTEREST DISCLOSURES	Chair Davis asked if any Committee member may have a conflict of interest with any of the items on the agenda. No conflict of interest was reported.	
4. PUBLIC COMMUNICATION	None.	
5. CONSENT CALENDAR	Motion: To approve the Minutes of the November 17, 2015 Executive Compensation Committee meeting. Movant: B. Miller Second: Eyre Ayes: Chen, Davis, Eyre, B. Miller Noes: None Abstain: None Absent: Liao, J. Miller, Setty	<i>Consent Calendar Approved</i>

	Recused: None	
6. EXECUTIVE INCENTIVE GOAL SETTING PHILOSOPHY	<p>Andrew Lewis of Sullivan Cotter directed the Committee's to the presentation materials and suggested that the most critical factor for the Committee to consider is whether it has asked the right questions about the performance measures that it is contemplating putting into an incentive plan. He also suggested that the Committee should spend some time considering individual vs. group goals.</p> <p>Chair Davis commented that the purpose of this agenda item was for the Committee to have a high level philosophical discussion to reach consensus about the goal setting. Kathryn Fisk, CHRO, commented that the Board has questions about the weight of organizational vs. individual goals and whether organizational goals that a particular executive has responsibility for should also be reflected in that executive's individual goals.</p> <p>Mr. Lewis reported that the rapidly growing trend in healthcare is to assess the CEO and his/her direct reports against institutional goals only. He reported this is particularly true in almost all very large multi-state health systems and in about 50% of hospitals the size of ECH. He also reported that organizations are typically using 4-6 organizational goals all weighted equally.</p> <p>The Committee discussed their views on balancing the use of organizational vs. individual goals. Mr. Miller suggested that it is important for the goals to reflect areas that each executive can actually impact so that it directs effort. Ms. Eyre stated that she is inclined to have shared goals for the top level executives and that accountabilities should be divided at the next level. In response to questions, Mr. Lewis reported that some organizations use gateway goals for accreditation and/or financial performance and some may use a quality measure as a gateway goal if the organizations is really striving to improve in a specific area.</p> <p>Chair Davis requested that the staff take two kinds of plans (1) the simplification, team, all executives have the same kinds of goals as opposed to (2) more individual accountability and bring back two specific proposal for the Committee to consider. He suggested that the committee discuss the two proposals and then have the</p>	

	<p>same discussion at a joint meeting with the Board.</p> <p>Mr. Miller commented that he would be comfortable with the CEO at 100% organizational goals and the next level with 3-5 simplified individual goals. Mr. Setty commented that it's important for the executive team to consider whether it's more critical for the team to focus on cohesion building or performance.</p> <p>Chair Davis also requested that the topics of (1) the % of the variable portion of executive compensation and (2) Long Term Incentives be agendaized for the next meeting. The Committee also recommended that the CEO discuss these issues with the executive team prior to the next meeting.</p>	
7. ADJOURN TO CLOSED SESSION	<p>Motion: To adjourn to closed session at 5:18 pm. Movant: B. Miller Second: Setty Ayes: Chen, Davis, Eyre, Liao, B. Miller, Setty Noes: None Abstain: None Absent: J. Miller</p>	
8. AGENDA ITEM 12 – RECONVENE OPEN SESSION / REPORT OUT	<p>Open Session was reconvened at 8:12 pm. The Closed Session Minutes of November 17, 2016 were approved by a vote of six members in favor (Chen, Davis, Eyre, Liao, Bob Miller, Setty), one member absent (J. Miller).</p> <p>Ms. Liao had left the meeting during the closed session.</p>	
9. AGENDA ITEM 13 – EXECUTIVE COMPENSATION CONSULTANT SELECTION	<p>Motion: To engage Mercer, LLC as executive compensation consultant and to instruct staff to determine timing and contract details that will promote an efficient and smooth transition. Movant: B. Miller Second: Chen Ayes: Chen, Davis, Eyre, B. Miller, J. Miller, Setty Noes: None Abstain: None Absent: Liao</p>	
10. AGENDA ITEM 14 – FY1Y6 COMMITTEE GOALS AND PACING PLAN	<p>Cindy Murphy, Board Liaison, reported that staff would like direction regarding what information the Committee would like brought forward to complete Committee Goal #3: "Evaluate the effectiveness of the executive performance review process and the annual/biannual cycle that includes self-assessment, stakeholder feedback, talent profiling, and executive leadership development."</p>	

	Julie Johnston, Director, Total Rewards, suggested that in the process of their initial interviews with key stakeholders, the new consulting firm gather information about perceptions of the current process. Mr. Miller suggested they also inquire about perceptions of the incentive plan.	
11. AGENDA ITEM 15 – CLOSING COMMENTS	None.	
12. AGENDA ITEM 16 - ADJOURNMENT	Motion: To adjourn at 8:15 pm Movant: B. Miller Second: Chen Ayes: Chen, Davis, Eyre, B. Miller, J. Miller, Setty Noes: None Abstain: None Absent: Liao	

Attest as to the approval of the foregoing minutes by the Executive Compensation Committee and by the Board of Directors of El Camino Hospital:

Jeffrey Davis, MD
Chair, ECH Executive Compensation
Committee

Peter C. Fung, MD
ECH Board Secretary

Prepared by: Cindy Murphy, Board Liaison

Proposed FY17 Meeting dates

Recommended Executive Comp Committee Date	Corresponding Hospital Board Date
July 2016 – No Meetings	July 2016 – No Meetings
No August Meeting	
September 22, 2016	October 12, 2016
No October Meeting	
November 15, 2016	January 11, 2017
December 2016 – No Meetings	December 2016 – No meetings
No January Meeting	
No February Meeting	
March 23, 2017	April 12, 2017
No April Meeting	
May 25, 2017	June 14, 2017
No June Meeting	

ATTACHMENT 6

HEALTH WEALTH CAREER

EL CAMINO HOSPITAL

EXECUTIVE COMPENSATION COMMITTEE MEETING

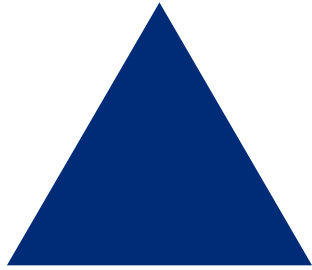
MARCH 24, 2016

Stephen S. Pollack
Lisa Stella
Los Angeles

A G E N D A

- Stakeholder Interviews
- Performance: Incentive Goals
- Performance: Leadership Assessment
- 2016 Methodology Discussion

STAKEHOLDER INTERVIEWS



STAKEHOLDER INTERVIEWS

KEY THEMES

- Mercer conducted interviews with key stakeholders among El Camino Hospital leadership: **Board members, Compensation Committee members, and all Executive Leadership Team members.** Several themes emerged that will shape priorities for 2016:
- El Camino Hospital is currently at a **strategic crossroads**: it is increasingly difficult to thrive as an **independent community hospital** as the industry presses toward consolidation and integration of the care continuum. **Relationships** with physician groups and other strategic partners have become critical.
- To navigate the challenges ahead, ECH **requires strong leaders, a clear strategy and commitment to execution** – which necessitates **competitive but reasonable compensation** programs that reflect the specifics of the local executive talent market.
- Stakeholders generally agree that voluntary turnover cannot be attributed to compensation levels.
- Individual incentive goals – and the processes of setting, communicating, and approving – have been re-visited repeatedly in recent years, and stakeholders would like to decisively resolve the discussion in 2016 to allow for **ease of ongoing approval and validation of annual goals.**
- There is debate about the addition of a long-term incentive program: proponents cite the need for a longer-term focus given the nature of strategic imperatives, while critics note the current difficulty in successfully setting even one-year goals.

STAKEHOLDER INTERVIEWS

IMPLICATIONS AND PRIORITIES

- **Incentive Performance Measurement**
 - **March 2016:** Review current incentive design as related to goals and weighting and propose modifications to design and goal-setting process
- **Executive Market Assessment**
 - **March 2016:** Review 2015 assessment methodology and recommend adjustments for 2016
 - **May 2016:** Conduct executive assessment and recommend pay changes
- **Total Compensation Program Adjustments**
 - **FY2017:** Review benefits program and discuss viability of long-term incentive program addition



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MAKE TOMORROW, TODAY

ATTACHMENT 7

COMMITTEE MEETING AGENDA ITEM COVER SHEET

DRAFT

Item:	Executive Incentive Goal Setting Philosophy Executive Compensation Committee March 24, 2016
Responsible party:	Julie Johnston, Director of Total Rewards
Action requested:	Possible Motion
Background: <ul style="list-style-type: none"> The Executive Compensation Committee engaged Mercer as the Board's new executive compensation consultants Mercer has prepared a report summarizing El Camino Hospital's current organizational and individual performance incentive goals and is recommending modifications to the current approach The Committee has a joint session with the Board on April 13, 2016 	
Committees that reviewed the issue and recommendation, if any: <ul style="list-style-type: none"> N/A 	
Summary and session objectives : <ul style="list-style-type: none"> Review current process Discuss recommended modifications Determine possible recommendation or discussion points for joint session 	
Suggested discussion questions: <ol style="list-style-type: none"> What is working well in current process? What could be improved? Does the Committee wish to discuss the proposed modifications, with or without changes, at the joint session? Is the Committee ready to make a recommendation to the Board? 	
Proposed Committee motion, if any: The Committee recommends the following changes be considered by the Board:	
Attachments: Performance Incentive Goals (Mercer presentation) Executive Performance Incentive Plan Policy	

HEALTH WEALTH CAREER

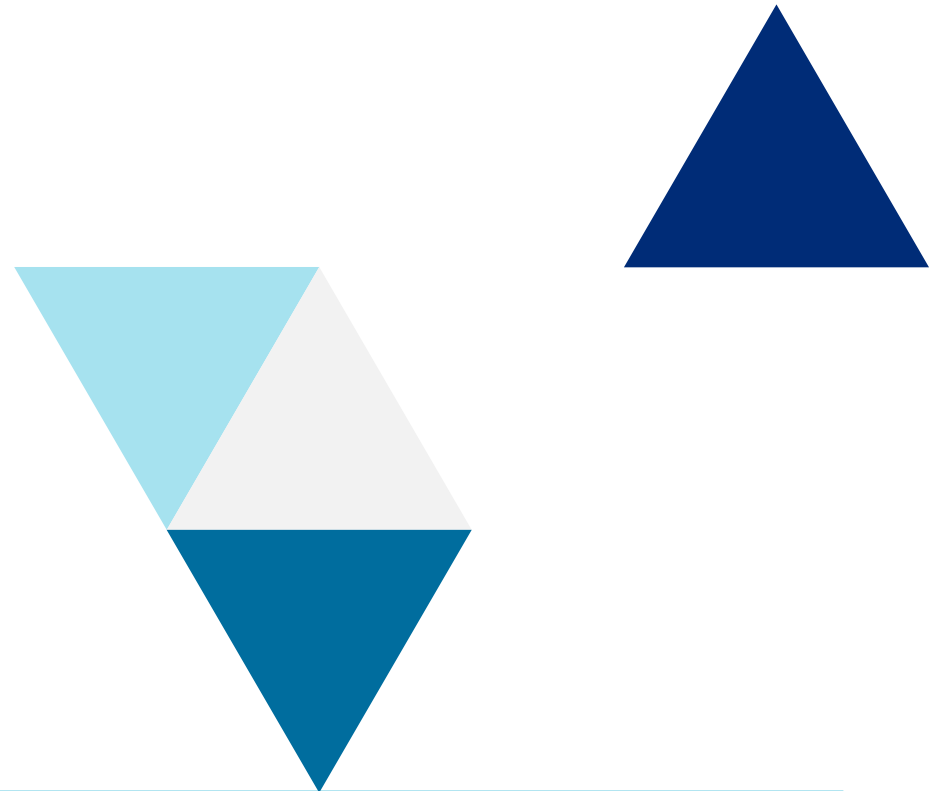
EL CAMINO HOSPITAL

EXECUTIVE COMPENSATION COMMITTEE MEETING

Executive Incentive Goal Setting Philosophy
MARCH 24, 2016

Stephen S. Pollack
Lisa Stella
Los Angeles

PERFORMANCE: INCENTIVE GOALS



INCENTIVE PERFORMANCE MEASURES

OVERVIEW OF ANNUAL INCENTIVE PLAN

- Overall, El Camino Hospital's annual incentive plan is aligned with market practice across most design elements

ELEMENT	CURRENT PROGRAM
Target	<ul style="list-style-type: none">• 20% of base salary (30% for CEO)
Leverage	<ul style="list-style-type: none">• Up to 150% for maximum goal achievement
Gate/Trigger	<ul style="list-style-type: none">• Joint commission accreditation• Operating Margin
Performance Measures	<ul style="list-style-type: none">• 3 Organization: 2 Patient Safety & iCare, 1 Smart Growth• 3-5 individual goals
Weighting	<ul style="list-style-type: none">• CEO: 90% Organization/10% Discretionary• Executives: 70% Organization/20% Individual/10% Discretionary
Governance	<ul style="list-style-type: none">• Organization and executive individual goals approved by Board• Goal achievement scores approved by Board• Other committees have purview of goal setting

INCENTIVE PERFORMANCE MEASURES

GOAL SELECTION AND WEIGHTING

INDIVIDUAL

- Enables clear accountability for achieved or missed outcomes
- Allows for greater differentiation in performance pay
- Increases transparency to functional objectives

BENEFITS

ORGANIZATION

- Articulates strategic priorities
- Sets clear direction for individual goals and action planning
- Motivates teamwork and engenders sense of shared purpose
- Streamlines goal-setting and approval process

Individual
scorecards with
customized metrics

Organizational metrics
that apply to all
executives



Current
Recommended

INCENTIVE PERFORMANCE MEASURES RECOMMENDED MODIFICATIONS

- Mercer recommends two potential adjustments to performance measures – changes could be adopted independently or together

Recommendation 1: Increase Organizational Weighting for Executives

Group	Weighting
CEO	<ul style="list-style-type: none">• 90% organization goals (3-4)• 10% Board discretion
Executives	<ul style="list-style-type: none">• 80% organization goals (3-4)• 10% individual goal (preferably 1, max 2)• 10% CEO discretion

- **Individual goal:** significant, precise, measurable, and aligned with organizational goals to be reviewed with and approved by CEO. Goal should represent the most important annual outcome for each executive and drive action planning and process milestones.
- **Discretion:** consistently incorporates various sources of information; reflects subjective perception of contribution and embodiment of leadership competencies.

INCENTIVE PERFORMANCE MEASURES RECOMMENDED MODIFICATIONS

Recommendation 2: Increase Linkage to Future Strategy

- Successful leadership at El Camino currently encompasses two critical functions:
 - Effective management of existing acute care facilities and programs
 - Diligent articulation and execution of future strategy for smart growth
- Organization-level goals emphasize the current operational needs despite the criticality of strategy execution to near-term future of El Camino
- Mercer recommends:
 - Adding a 4th organization-level goal focused on future strategy
 - Linking individual goal clearly to future strategic direction

INCENTIVE PERFORMANCE MEASURES

RECOMMENDED ANNUAL INCENTIVE PLAN

- Recommended changes streamline goal-setting process, highlight shared objectives while incorporating individual accountability, and emphasize strategic action

ELEMENT	CURRENT PROGRAM
Target	<ul style="list-style-type: none"> • 20% of base salary (30% for CEO)
Leverage	<ul style="list-style-type: none"> • Up to 150% for maximum goal achievement
Gate/Trigger	<ul style="list-style-type: none"> • Operating Margin • Quality (<i>Optional</i>)
Performance Measures	<ul style="list-style-type: none"> • Organization: 3 operational, 1 strategic • Individual: 1-2 SMART goals with strategic plan link
Weighting	<ul style="list-style-type: none"> • CEO: 90% Organization/10% Discretionary • Presidents: 50% Organization/40% Business/10% Discretionary • Executives: 80% Organization/ 10% Individual/ 10% Discretionary
Governance	<ul style="list-style-type: none"> • Organization and individual goals approved/ validated by Board • Individual executive goals approved by CEO/ validated by Board • Review board process in incentive goal setting (multiple committees)

2016 METHODOLOGY DISCUSSION

POTENTIAL METHODOLOGY ADJUSTMENTS

Aspect	2015 Approach	Potential 2016 Adjustments
Peer Group	<ul style="list-style-type: none"> National sample Primarily not-for-profit, independent hospitals and health systems Comparable size (\$500M - \$1B) and complexity 	<ul style="list-style-type: none"> Include specific peer cut of local hospitals/systems, as available Adjust revenue where possible (\$500M - \$1.5B) Add secondary source to include general industry for profit data for certain functional positions
Data Sources	<ul style="list-style-type: none"> Leading healthcare compensation surveys: <ul style="list-style-type: none"> – Mercer – SullivanCotter – Integrated Healthcare Strategies 	<ul style="list-style-type: none"> Same surveys for healthcare Additional for-profit sources (Mercer, Towers Watson) Include 990 data or other public disclosures
Geographical Differential	<ul style="list-style-type: none"> Applied a 20% premium to market salaries Data shown with and without adjustment 	<ul style="list-style-type: none"> Mercer to confirm geographical differential If pulling local data, geographic premium would not apply



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**EL CAMINO HOSPITAL
BOARD OF DIRECTORS POLICIES AND PROCEDURES**

03.04 EXECUTIVE PERFORMANCE INCENTIVE PLAN

1. Coverage:

The Chief Executive Officer (“CEO”) of El Camino Hospital (“the Hospital”) and those executives reporting directly to the CEO or COO. Participation in the plan is subject to approval by the Hospital Board of Directors.

2. Reviewed/Revised:

New: 9/15/09, 12/08/10, 2/13/13, 6/11/14 (eff 7/1/14), 10/14/15

3. Policy Summary:

The Performance Incentive Plan is one component of the executive total compensation program which includes base salary, benefits, and other cash compensation. The Performance Incentive Plan is a goal-based compensation program designed to motivate and reward performance toward key annual strategic goals of the Hospital.

4. General Provisions:

The target amount for incentive pay will be competitive with those at comparable hospitals. An executive’s incentive payout will be based on their performance against pre-defined organizational and individual goals and measures aligned with the Hospital’s mission, vision, and strategic goals.

1. Eligibility – Participants hired after December 31 will not be eligible for the program until the beginning of the next fiscal year on July 1. Incentive compensation will be pro-rated for executives with at least six months, but less than one year in the position at the end of the fiscal year. Written performance goals and measures will be determined within the first 60 days of employment.
2. Criteria – the Hospital has established three criteria for payout. There will be no payout unless all three criteria are met. The Hospital must be accredited by the Joint Commission and the individual executive must “meet expectations” on their performance review. In addition, the Hospital will establish a financial measure that must be achieved each fiscal year (i.e., a percent of operating margin) for payout to occur.
3. Amount of incentive pay – the maximum payout for an executive is 30% of their base salary as of the end of the fiscal year. The targeted payout percent for those

participants reporting to the CEO or COO is 20% of base pay. The maximum incentive pay for the CEO is 45% with a target of 30% of base salary.

4. Organizational Goals – each fiscal year the Hospital will define organizational goals that support the strategic/business plan upon which 70% (90% for the CEO) of performance incentive pay will be based. Whenever possible, each goal will have performance measures for threshold, target, and maximum levels and payouts will be on a continuum.
5. Executive Individual Goals (excluding CEO) – at the beginning of the fiscal year, each participant will propose performance goals and measurements that support the strategic/business plan upon which 20% of performance incentive pay will be based. Whenever possible, each goal will have performance measures for threshold, target, and maximum levels and payouts will be on a continuum.
6. Ten percent (10%) of the executive's performance incentive pay will be at the CEO's discretion subject to Board approval. Ten percent (10%) of the CEO's performance incentive pay will be at the Board's discretion.
7. Performance Incentive Payout – Incentive compensation will be paid within 30 days of the Board of Directors approving the payout amounts. In order to receive incentive compensation, executives must be employed in an executive position at the time the incentive compensation is paid.

5. Roles and Responsibilities

1. The El Camino Hospital Board of Directors shall approve the plan design, organizational goals, executive individual goals, and performance incentive payout amounts.
2. The Executive Compensation Committee Charter defines the responsibilities delegated by the Hospital Board such as reviewing and recommending goals and performance incentive payout amounts.
3. The CEO recommends the organizational and individual goals, discretionary score, and recommends incentive payout amounts to the Committee.
4. The Chief Human Resources Officer and/or Director Compensation and Benefits are responsible for overseeing administration of the program and implementing actions approved by the Board.



El Camino Hospital[®]

THE HOSPITAL OF SILICON VALLEY

Incentive Goal Setting Philosophy

CEO Perspective:

Executive Motivation and Retention

Executive Compensation Committee

March 24, 2016

Tomi Ryba, CEO

Excellent Results:

- El Camino Hospital has assembled a highly qualified leadership team who has executed, for the most part, exceptional results.
- Truven validated our work by naming ECH one of the top 100 hospitals in the nation, amongst a field of 3000. Within these top hospitals there is substantially lower mortality and complications.
- The ECH core business is clinically excellent, knowing we will always devote resources to maintaining and improving outcomes for our patients.
- We have also produced remarkable financial outcomes compared to peers across the country.

Opportunities for Improvement:

- Efforts to contain costs
- Adding integrated care competencies
- Executing an aligned physician strategy
- Developing a 3-year payer strategy on pace of assuming risk
- Diversify investments in non-acute that aligns with core business

Barriers to Future Success:

- Current business model
- Being a small provider in a highly competitive market with providers of scale and distinction
- The pace of payer and provider consolidation

Questions:

- How do we motivate and retain our executives in this high-risk model?
- How do we build new competencies with the transition to post-acute care?

Non Financial Motivators In Place:

- Affecting the quality outcomes and experience of patients
- El Camino Hospital's Mission in service to the community
- Relationships with Co-Workers

Summary:

- The Executive Compensation and Incentive Plan, through the guidance and partnership between ECH leadership and the Executive Compensation Committee of the Board, has ensured alignment between organizational strategy, priorities, goals, and incentives.
- We have effectively cascaded to the manager level.
- Modest iterations of the weight distribution and/or emphasis on the process will not materially affect the results.
- A formal review of a long term incentive plan (LTIP) is warranted. We need to be forward thinking in how we retain executives over the next 3 to 5 years, during which time the market complexity will only heighten.

ATTACHMENT 8

COMMITTEE MEETING AGENDA ITEM COVER SHEET

DRAFT

Item:	Executive Performance Appraisal Philosophy Executive Compensation Committee March 24, 2016
Responsible party:	Julie Johnston, Director of Total Rewards
Action requested:	For Discussion
Background: <ul style="list-style-type: none"> The Executive Compensation Committee engaged Mercer as the Board's new executive compensation consultants Mercer has prepared a report on leadership assessment and identified potential opportunities The Committee has a joint session with the Board on April 13, 2016 	
Committees that reviewed the issue and recommendation, if any: <ul style="list-style-type: none"> N/A 	
Summary and session objectives : <ul style="list-style-type: none"> Review summary of current process Discuss potential opportunities for improvement 	
Suggested discussion questions: <ol style="list-style-type: none"> What is the role of the leadership assessment in evaluating job performance? What is the role of the leadership assessment in developing talent? 	
Proposed Committee motion, if any: None.	
Attachments: Leadership Assessment (Mercer presentation)	

HEALTH WEALTH CAREER

EL CAMINO HOSPITAL

EXECUTIVE COMPENSATION COMMITTEE MEETING

Executive Performance Appraisal Philosophy
MARCH 24, 2016

Stephen S. Pollack
Lisa Stella
Los Angeles

LEADERSHIP ASSESSMENT

TWO OBJECTIVES: EVALUATION AND DEVELOPMENT

EVALUATION

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- Tools and processes seek to assess the level of executive achievement against pre-determined goals
- Generally oriented toward decisions about future opportunities for executives, and rewards (base salary increases, incentive payouts)
- Board role primarily focuses on CEO achievement

DEVELOPMENT

.....

- Tools and processes seek to assess the level of executive skill, capability and potential
- Oriented toward identifying strengths and development needs for purposes of assessing readiness for new roles and outlining development plans to strengthen team
- Board role includes CEO development and succession planning; may include executives

SUCCESSION PLANNING SPANS BOTH OBJECTIVES

LEADERSHIP ASSESSMENT AT EL CAMINO

EXECUTIVE EVALUATION PHILOSOPHY

Aspect	Market Perspective/ Best Practices
Content	<ul style="list-style-type: none">• CEO assessment of direct reports generally focuses on what is done (achievement of incentive and other significant goals) and how it is done (assessment of behavioral competencies)• Broadly, organizations are moving away from annual performance review and toward quarterly performance conversations with significant focus on development and coaching
Objective	<ul style="list-style-type: none">• Succession planning is a primary objective and may include achievement records, 360 assessments, personality assessments, career profiles, talent review sessions• Compensation decisions are an important secondary purpose
Link to Compensation Decisions	<ul style="list-style-type: none">• Incentive compensation generally linked only to pre-defined incentive goals, but merit pay decisions often consider achievement of other performance goals and behavioral competencies (as well as market pay levels)
Ownership	<ul style="list-style-type: none">• CEO has primary responsibility for calibration of more detailed executive goals• Board assesses CEO performance and development needs



MERCER

MAKE TOMORROW, TODAY

ATTACHMENT 16

**Executive Compensation Committee
DRAFT Goals for FY 2017**

Purpose

The purpose of the Executive Compensation Committee (“Compensation Committee”) is to assist the El Camino Hospital (ECH) Hospital Board of Directors (“Board”) in its responsibilities related to the Hospital’s executive compensation philosophy and policies. The Compensation Committee shall advise the Board to meet all applicable legal and regulatory requirements as it relates to executive compensation.

Staff: Kathryn Fisk, Chief Human Resources Officer

The Chief HR Officer shall serve as the primary staff support to the Committee and is responsible for drafting the committee meeting agenda for the Committee Chair’s consideration. The CEO, and other staff members as appropriate, may serve as a non-voting liaison to the Committee and may attend meetings at the discretion of the Committee Chair. These individuals shall be recused when the Committee is reviewing his/her compensation. The CEO is an ex-officio of this Committee.

Goals	Timeline by Fiscal Year (Timeframe applies to when the Board approves the recommended action from the Committee, if applicable.)	Metrics
1. Advise the Board on performance incentive goal-setting and plan design ensuring strategic alignment and proper oversight of compensation-related decisions.	Q2-4	<ul style="list-style-type: none"> • Recommend FY16 performance goal scores and payouts (Q2) • Oversee the implementation of changes that impact the FY18 strategic planning, budgeting, and goal setting processes (Q3-4) • Recommend FY 18 goals and measurements (Q4) • Assess the value of long-term incentives to support the achievement of long-term strategies (Q3)

Goals	Timeline by Fiscal Year (Timeframe applies to when the Board approves the recommended action from the Committee, if applicable.)	Metrics
2. Evaluate supplemental executive benefit program including market competitiveness, best practice, total compensation, and strategic value.	Q3-4	<ul style="list-style-type: none"> • Review consultant analysis and options for consideration (Q3) • Determine recommendation to the Board regarding possible design changes to supplemental executive benefit program including any impact on other elements of total compensation (Q4)
3. Advise the Board ensuring strategic alignment and proper oversight of compensation-related decisions.	Q 2-3	<ul style="list-style-type: none"> • Review base salary administration policy, review market analysis, and make base salary recommendations to the Board (Q2) • Submit the letter of reasonableness for Board acceptance (Q3) • Review compensation philosophy and performance incentive plan policies and make recommendation to Board to approve any changes (Q3)

To be Submitted to the Board by:

Jeffrey Davis, Chair, Executive Compensation Committee

Kathryn Fisk Executive Sponsor Executive Compensation Committee

ATTACHMENT 17

ECH BOARD COMMITTEE MEETING AGENDA ITEM COVER SHEET

Item:	Biennial Committee Charter Review Executive Compensation Committee Meeting Date: March 24, 2016
Responsible party:	Cindy Murphy, Board Liaison
Action requested:	Possible Motion
<p>Background: The Governance Committee's charter provides that it will ensure that each Board Advisory Committee reviews its Charter every other year. The Executive Compensation Committee ("ECC") last reviewed its Charter in May 2014. The Governance Committee will review any proposed revisions and make a recommendation to the Board.</p> <p>1. It has been the organization's practice for the ECC to select an Executive Compensation Consultant and inform the Board of the selection. After reviewing the ECC's Charter, staff recommends that the language be revised to clarify whether the ECC has the authority to select and engage a Consultant, or whether specific Board approval of the engagement is required. Staff has drafted Alternative A, giving the ECC the authority, and Alternative B, requiring Board approval, for the Committee's consideration.</p> <p>2. It is the Board's current practice to develop and conduct the CEO's annual evaluation process without assistance from the ECC, though the Executive Compensation <u>Consultant</u> does provide staff support. Staff recommends the Charter be revised to reflect current practice by removing the words "Develop the CEO evaluation process in collaboration with the CEO" from the list of the ECC's duties.</p>	
Other Board Advisory Committees that reviewed the issue and recommendation, if any: N/A	
Summary and session objectives : To obtain a recommendation from the Committee that the Board Approve Draft Revised Charter Alternative A or Alternative B.	
Suggested discussion questions: Is it an effective and efficient use of the Board's time to require Board approval, or should the decision to select and engage an Executive Compensation Consultant remain with the Committee?	
Proposed Committee motion, if any: To recommend that the Board Approve Draft Revised Charter Alternative _____.	
LIST OF ATTACHMENTS: 1. Current ECC Charter 2. Draft Revised Alternative A 3. Draft Revised Alternative B	

Executive Compensation Committee Charter

Purpose

The purpose of the Executive Compensation Committee (“Compensation Committee”) is to assist the El Camino Hospital (ECH) Hospital Board of Directors (“Board”) in its responsibilities related to the Hospital’s executive compensation philosophy and policies. The Compensation Committee shall advise the Board to meet all applicable legal and regulatory requirements as it relates to executive compensation.

Authority

All governing authority for ECH resides with the Hospital Board except that which may be lawfully delegated to a specific Board committee. The Committee will report to the full Board at the next scheduled meeting any action or recommendation taken within the Committee’s authority. The Committee has the authority to select, recommend engagement of, and supervise any consultant hired by the Board to advise the Board or Committee on executive compensation issues. In addition, the Committee, by resolution, may adopt a temporary advisory committee (ad hoc) of less than a quorum of the members of the Committee. The resolution shall state the total number of members, the number of board members to be appointed, and the specific task or assignment to be considered by the advisory committee.

Membership

The Executive Compensation Committee shall be comprised of two (2) or more Hospital Board members. The Committee may also include 2-4 external (non-director) members with knowledge of executive compensation practices, executive leadership or corporate human resource management. The Hospital Board may designate up to two Hospital Board members to serve as alternate Committee members. Alternate Committee members shall serve as full members of the Committee when their attendance is permitted. If there are two alternates, meeting attendance will rotate with assignments made by the Committee Chair upon appointment or reappointment. If an alternate or Hospital Board member is unable to attend any Committee meeting, the unassigned alternate Committee member may attend any Committee meeting so long as the number of Hospital Board members in attendance is less than five.

- Compensation consultants may be retained as appropriate and participate as directed.
- The Chair of the Committee shall be appointed by the Board Chair, subject to approval by the Board. All members of the Committee shall be eligible to serve as Chair of the Committee.

- All Committee members shall be appointed by the Board Chair, subject to approval by the Board, for a term of one year expiring on June 30th each year, renewable annually.
- It shall be within the discretion of the Chair of the Committee to appoint a Vice-Chair from among the members of the Committee. If the Chair of the Committee is not a Hospital Board member, the Vice-Chair must be a Hospital Board member.
- All members of the Committee must be independent directors with no conflict of interest regarding compensation or benefits for the executives whose compensation is reviewed and recommended by the Committee. Should there be a potential conflict, the determination regarding independence shall follow the criteria approved by the Board and as per the Independent Director Policy.

Staff Support and Participation

The CHRO shall serve as the primary staff support to the Committee and is responsible for drafting the committee meeting agenda for the Committee Chair's consideration. The CEO, and other staff members as appropriate, may serve as a non-voting liaison to the Committee and may attend meetings at the discretion of the Committee Chair. These individuals shall be recused when the Committee is reviewing his/her compensation.

General Responsibilities

The Committee is responsible for recommending to the full Board policies, processes and procedures related to executive compensation philosophy, operating performance against standards, and succession planning.

Specific Duties

The specific duties of the Executive Compensation Committee include the following:

A. Executive Compensation

- Develop a compensation philosophy that clearly explains the guiding principles on which executive pay decisions are based. Recommend the philosophy for approval by the Board.
- Develop executive compensation policies to be approved by the Board.
- Review and maintain an executive compensation and benefit program consistent with the executive compensation policies, which have been approved by the Board. Recommend any material changes in the program for approval by the Board.
- Review the CEO's salary range, performance incentive program, benefits, perquisites, and contractual terms. Recommend to the Board any salary changes and/or any performance incentive payouts based on the Committee's evaluation of the CEO's performance.

- Review the CEO's recommendations regarding salary and performance incentive payouts for the upcoming year for the executives whose compensation is subject to review by the Committee based on the CEO and Committee's evaluation of the executive's performance. Recommend to the Board any salary changes and/or any performance incentive payouts based on the Committee and CEO's evaluation of the executive's performance.
- Periodically evaluate the executive compensation program, including the charter, policies, and philosophy on which it is based, to assess its effectiveness in meeting the Hospital's needs for recruiting, retaining, developing, and motivating qualified leaders.
- Periodically review the total value, cost and reasonableness of severance and benefits for executives.
- Annually review and present for Board acceptance the letter of rebuttable presumption of reasonableness.
- Review market analysis and recommendation of the Committee's independent executive compensation consultant.
- Establish salary ranges for each executive and recommend placement in the range for the CEO and those executives eligible for the plan to the Board.

B. Performance Goals and Evaluation

- Review and provide input into the CEO's recommendations regarding annual organization goals and measures used in the Executive Performance Incentive Plan. Recommend organizational performance incentive goals for approval by the Board.
- Provide input into establishing the CEO's annual individual performance incentive goals to execute the Hospital's strategic plan. Recommend the CEO's individual annual goals and measures for approval by the Board.
- Provide input into establishing the executive team's annual performance incentive goals to execute the Hospital's strategic plan. Recommend the annual goals and measures for approval by the Board.
- Develop the CEO evaluation process in collaboration with the CEO.

C. Executive Succession and Development

- Review annually the CEO's own succession plan, including a leadership and professional development plan based on the previous year's performance evaluation.
- Review annually the CEO's succession plan for the executive team members, which shall include the process by which potential executives are identified and developed.

Committee Effectiveness

The Committee is responsible for establishing its annual goals, objectives and workplan in alignment with the Board and Hospital's strategic goals. The Committee shall be focused on continuous improvement with regard to its processes, procedures, materials, and meetings, and other functions to enhance its contribution to the full Board. In addition, the Committee shall provide counsel and advice to the Board as requested.

Meetings and Minutes

The Committee shall meet at least once per quarter. The Committee Chair shall determine the frequency of meetings based on the Committee's annual goals and work plan. Minutes shall be kept by the assigned staff and shall be delivered to all members of the Committee when the agenda for the subsequent meeting is delivered. The approved minutes shall be forwarded to the Board for review and approval.

Meetings and actions of all advisory committees of the Board shall be governed by, and held and taken in accordance with, the provisions of Article VI of the Bylaws, concerning meetings and actions of directors. Special meetings of advisory committees may also be called by resolution of the Board and the Committee Chair. Notice of any special meetings of the Committee requires a 24 hour notice.

Approved as Revised: November 12, 2014.

Executive Compensation Committee Charter

DRAFT Revised Alternative A March 24, 2016

Purpose

The purpose of the Executive Compensation Committee (“Compensation Committee”) is to assist the El Camino Hospital (ECH) Hospital Board of Directors (“Board”) in its responsibilities related to the Hospital’s executive compensation philosophy and policies. The Compensation Committee shall advise the Board to meet all applicable legal and regulatory requirements as it relates to executive compensation.

Authority

All governing authority for ECH resides with the Hospital Board except that which may be lawfully delegated to a specific Board committee. The Committee will report to the full Board at the next scheduled meeting any action or recommendation taken within the Committee’s authority. The Committee has the authority to select, ~~engage~~~~recommend engagement of,~~ and supervise ~~any~~ consultant ~~hired by the Board~~ to advise the Board ~~and/or the~~ Committee on executive compensation issues. In addition, the Committee, by resolution, may adopt a temporary advisory committee (ad hoc) of less than a quorum of the members of the Committee. The resolution shall state the total number of members, the number of board members to be appointed, and the specific task or assignment to be considered by the advisory committee.

Membership

The Executive Compensation Committee shall be comprised of two (2) or more Hospital Board members. The Committee may also include 2-4 external (non-director) members with knowledge of executive compensation practices, executive leadership or corporate human resource management. The Hospital Board may designate up to two Hospital Board members to serve as alternate Committee members. Alternate Committee members shall serve as full members of the Committee when their attendance is permitted. If there are two alternates, meeting attendance will rotate with assignments made by the Committee Chair upon appointment or reappointment. If an alternate or Hospital Board member is unable to attend any Committee meeting, the unassigned alternate Committee member may attend any Committee meeting so long as the number of Hospital Board members in attendance is less than five.

- Compensation consultants may be retained as appropriate and participate as directed.
- The Chair of the Committee shall be appointed by the Board Chair, subject to approval by the Board. All members of the Committee shall be eligible to serve as Chair of the Committee.

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- Review the CEO's recommendations regarding salary and performance incentive payouts for the upcoming year for the executives whose compensation is subject to review by the Committee based on the CEO and Committee's evaluation of the executive's performance. Recommend to the Board any salary changes and/or any performance incentive payouts based on the Committee and CEO's evaluation of the executive's performance.
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▪ ~~Develop the CEO evaluation process in collaboration with the CEO.~~

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Executive Compensation Committee Charter

Draft Revised Alternative B March 24, 2016

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Approved as Revised: November 12, 2014.

ATTACHMENT 18

EXECUTIVE COMPENSATION COMMITTEE

REVISED March 9, 2016

PACING PLAN FOR FY 2016

FY2016: Q1		
JULY	AUGUST	SEPTEMBER 17, 2015
No Board Meeting		<p>Committee to take action on:</p> <ol style="list-style-type: none"> 1. FY 15 organizational score 2. FY 15 individual scores for CEO & exec team 3. FY 15 performance incentive payout amounts (execs and CEO) 4. Discuss creation of ad-hoc and/or sub-committee(s) 5. Minutes of April 22 and May 28, 2015 meeting 6. Revise Executive Compensation Policy 7. Add General Counsel to Exec. Comp and Benefits Plan; FY 16 Base Salary <p>Committee to receive:</p> <ol style="list-style-type: none"> 1. Report regarding FY 15 Executive Performance
FY2016: Q2		
OCTOBER	NOVEMBER 17, 2015	DECEMBER
<p>14 - Board to take action on the following items:</p> <ol style="list-style-type: none"> 1. Accept Moss Adam's financial audit 2. Approve FY 15 organizational score 3. Approve FY 15 executive individual scores 4. Approve FY15 executive payout amounts (discuss in closed, vote in open) 5. Determine CEO's discretionary score and FY 15 individual score 6. Approve FY15 CEO payout amount (discuss in closed, vote in open) 7. Add General Counsel to Exec Plan; FY16 Base Salary <ul style="list-style-type: none"> • Executive incentive payouts 10/30/15 • RFP Ad Hoc Committee meets 	<p>Committee to take action on:</p> <ol style="list-style-type: none"> 1. Letter of rebuttable presumption 2. Minutes from September 17, 2015 meeting <p>Committee to Discuss :</p> <ol style="list-style-type: none"> 1. Executive Compensation Consulting RFP process: Scope of Work, Candidate firms, Selection process and criteria <ul style="list-style-type: none"> • Staff initiates RFP for consultant <p><i>*Semi-Annual Board and Committee Gathering November 4, 2015</i></p>	<p>No Board Meeting</p> <ul style="list-style-type: none"> • Mitch Olejko prepares cover letter for rebuttable presumption action <p>Responses to RFP due</p>

FY2016: Q3		
JANUARY 20, 2016	FEBRUARY	MARCH 24, 2016
<ul style="list-style-type: none"> ▪ Committee to interview EC Consultant candidates and make recommendation to the Board. ▪ Executive Goal Setting Philosophy <p>13– Board to take action on the following items:</p> <p>1. Accept letter of rebuttable presumption</p> <ul style="list-style-type: none"> • Beginning of benefit /executive benefit plan year <ul style="list-style-type: none"> • Jan 7 - Ad hoc Committee Reviews Responses to RFP 	<p>10 - Board to Consider ECC recommendation re ECC Consultant</p> <ul style="list-style-type: none"> • Notify selected consulting firm. Complete contracting agreement 	<p>Committee to take action on:</p> <p>Committee to review and discuss:</p> <ol style="list-style-type: none"> 1. Update on FY 17 Strategic Planning and progress against FY 16 performance incentive goals 2. Update on succession planning, leadership development, and talent profiles 3. Executive Performance Appraisal Process 4. Long-Term Strategy 5. Executive Goal Setting Philosophy 6. Proposed FY17 Committee Goals 7. Biennial Review of Charter 8. FY 17 Meeting Dates <p>*Semi Annual Board and Committee Gathering March 23, 2015</p> <p>Staff supports information requests from consultant.</p>

FY2016: Q4		
APRIL	MAY 17, 2016	JUNE
<p>Staff reviews preliminary findings. Consultant reviews findings with Chair</p> <p>Joint Meeting with the Board</p>	<p>Committee will take action on:</p> <ol style="list-style-type: none"> 1. Receive report on Executive Comp and Benefits 2. Finalize proposed Committee FY 17 goals and action plan based on findings and recommendations 3. Review & may approve salary ranges for FY17 4. Review and discuss CEO's recommendations on FY 17 base salaries. May determine recommendation. 5. Review and discuss CEO's recommendations on FY 17 organizational and executive individual performance incentive goals. Determine recommendation. 6. Discuss and may determine recommendation on CEO's FY 17 base salary 7. Discuss and determine recommendation on CEO's FY 17 individual goals 8. Approval of March 2016 minutes <p>Committee will review and discuss:</p> <ol style="list-style-type: none"> 1. Update on 360 Review/Stakeholder feedback 2. Long Term Strategy 	<p>8- Board to take action on the following items:</p> <ol style="list-style-type: none"> 1. FY 17 organizational goals 2. FY 17 executive individual goals 3. FY 17 CEO individual goals 4. FY 17 executive base salaries 5. FY 17 CEO base salary 6. FY 17 Committee goals