



**Minutes of the Open Session of the
Executive Compensation Committee**

Thursday, November 9, 2017

El Camino Hospital | 2500 Grant Road, Mountain View, CA 94040

Conference Room A (administration)

Members Present

**Teri Eyre
Neysa Fligor
Jaison Layney
Bob Miller, Chair
Julia Miller
Pat Wadors**

Members Absent

Agenda Item	Comments/Discussion	Approvals/ Action
1. CALL TO ORDER/ ROLL CALL	The open session meeting of the Executive Compensation Committee of El Camino Hospital (the "Committee") was called to order at 4:01pm by Chair B. Miller. Ms. J. Miller arrived at 4:04pm during Agenda Item 4: Consent Calendar. All Committee members were present.	
2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES	Chair Miller asked if any Committee members may have a conflict of interest with any of the items on the agenda. No conflicts were noted.	
3. PUBLIC COMMUNICATION	None.	
4. CONSENT CALENDAR	<p>Chair B. Miller asked if any member of the Committee or the public wished to remove an item from the consent calendar. Ms. Fligor requested that Item 4b: Progress Against FY18 Committee Goals be pulled for discussion.</p> <p>Ms. Fligor asked whether the Committee should add additional goals, as it appeared everything except one item was already completed for FY18. Chair B. Miller recommended that this discussion be deferred until later in the meeting when the pacing plan and the scope of the Committee's work would be discussed.</p> <p>The Committee commented that the metric related to goal-setting and plan design needed clarification and suggested that revisions may be appropriate, as the goal was set before the strategic plan was approved. Chair B. Miller suggested a clarification that the Committee would oversee implementation of any changes <i>resulting from</i> the strategic plan. Staff noted that goal revisions need to be approved by the Governance Committee and the Hospital Board.</p> <p>Motion: To approve the consent calendar: Minutes of the Open Session of the Executive Compensation Committee Meeting (September 21, 2017).</p> <p>Movant: Eyre Second: Layney Ayes: Eyre, Fligor, Layney, B. Miller, J. Miller, Wadors Noes: None Abstentions: None Absent: None Recused: None</p>	<i>Consent calendar approved</i>
5. REPORT ON BOARD ACTIONS	Chair B. Miller referred to the recent Board actions as further detailed in the packet. Kathryn Fisk, CHRO, reported that the Board approved the Committee Self-Assessment Tool that will be sent to Committee members to	

	complete in the next few months. She noted that the Committee self-assessment surveys are conducted every two years, and this year will include a deeper dive into the Committees now that the expanded structure has been in effect for five years.	
6. LETTERS OF REASONABLENESS	<p>Stephen Pollack from Mercer provided background on the IRS requirements for the Letters of Reasonableness for tax-exempt status and three main criteria used for review: 1) independent Board oversight and approval of the process/compensation, 2) use of third-party market data, and 3) documentation. He explained that the level of detail in the letters matches best practice for documentation.</p> <p>In response to Ms. Eyre's question, Mr. Pollack explained that a threshold for "unreasonableness" is not defined by the IRS; rather, compensation with documented rationale for the given facts and circumstances is deemed to be reasonable unless proven otherwise.</p> <p>In response to Ms. Miller's question, Mr. Pollack noted that most of his clients approve compensation for other Designated Persons (<i>i.e.</i>, executives, direct reports to the CEO) at the Committee level and forward a recommendation for only CEO compensation to the full Board.</p> <p>In response to Mr. Layney's question, Lisa Stella from Mercer clarified the application of the geographic differential in the calculations of total direct compensation (TDC) and total remuneration.</p> <p>Motion: To accept the Letters of Reasonableness, present the letters to outside counsel for the Board, and request that he present a letter documenting Reasonableness of Executive Compensation under IRS Section 4958 to the Board for acceptance.</p> <p>Movant: Layney Second: Wadors Ayes: Eyre, Fligor, Layney, B. Miller, J. Miller, Wadors Noes: None Abstentions: None Absent: None Recused: None</p>	<i>Letters of Reasonableness recommended for acceptance</i>
7. REVIEW OF ECH EXECUTIVE COMPENSATION AND BENEFITS PROGRAM AND POLICIES	<p>Chair B. Miller explained that the purpose of this agenda item is for staff to provide education on ECH's current programs and policies and to solicit feedback from the Committee. Following this meeting, staff will work with Mercer to develop recommendations for discussion at the Committee's next meeting.</p> <p>Ms. Fisk and Mr. Pollack outlined ECH's current practices and alignment with market practice for the following areas, as further described in the packet:</p> <p>Base Salary Range Positioning: Positioning includes benchmarking of executive roles and a geographic differential; salary range development is driven by the midpoint, which allows variability within the range while maintaining consistency. Mr. Pollack explained that +/- 20% from the midpoint on average is similar to the 25th to 75th percentile. The Committee discussed developing a guiding principle for aligning the geographic differential with the Bay Area market; currently, the only defined practice is that the data are reviewed every year.</p> <p>Base Salary Administration: Range placement is based on a variety of considerations. The Committee commented that it is not necessary to define "fully experienced" as 6-8 years and that a policy targeting at +/- 10% of the</p>	

range midpoint seemed too restrictive. Mr. Pollack explained that in the market there tends to be more flexibility around the midpoint than at ECH. The Committee discussed the Board's application of the policy (adhering to the market median, budgeting for executive performance and market adjustments) and opportunities for Board education to provide context for step increases.

Ms. Eyre noted that a missing piece in ECH's executive compensation program development has been the voice of the CEO; she suggested that any system should be supporting and enabling Mr. Woods' goals.

Performance Management: The process includes an annual performance review by supervisor (the Board reviews the CEO; the CEO reviews executives). Ms. Fisk explained that annual reviews are required by The Joint Commission and that the policy is the same for all employees, including executives. In response to Chair B. Miller's question, Ms. Fisk outlined the 5 weighted criteria used in executive performance appraisals.

Mr. Pollack described general market practice, where the CEO provides context for executive salary recommendations with a high level paragraph for each executive (highlighting accomplishments, criticality of role, etc.). Ms. Eyre suggested that there may be opportunities for consolidation or de-duplication, so executives are not evaluated against too many different criteria across all parts of the compensation program; the Committee encouraged distillation and summation of an executive's contribution to the organization at a high level and use of a policy that is specific to executives rather than for all employees.

Ms. J. Miller suggested that the Hospital Board should delegate more authority to the Committee and only approve compensation for the CEO.

Total Cash Compensation: The current policy does not address TCC positioning; the Committee noted the discrepancy between holding the executives to compensation at the 50th percentile while asking for organizational performance at the 75th or 90th percentile. The Committee suggested the flexibility in a policy to compensate more in a particular year (*i.e.*, up to the 75th percentile) based on strong performance (tied to clear, actionable goals).

Chair B. Miller also suggested framing the incentive plan as positive achievement, rather than as a takeaway.

Mr. Pollack reviewed the market positioning summary of ECH executives by quartile. Ms. Eyre also suggested including job criticality as well as tenure in the policy. The Committee suggested that staff review the 7% taxable benefits allowance that can currently be taken as cash or put into the 457(b) retirement plan and consider conversion to cash compensation.

Plan Design: Mr. Pollack reported that ECH's plan design is market competitive. The Committee discussed the difficulty for the CEO in effectively communicating meaningful messages with only a small amount of incentive pay tied to discretion. Ms. Fligor voiced her support of having some form of discretionary pay. The Committee and Mr. Pollack suggested that discretion could play a larger role by combining the individual and discretionary portions of the annual incentive (not as formulaic) or by allowing more discretion in the determination of base pay. Mr. Pollack cautioned that any changes should not over complicate the plan or be framed as a takeaway.

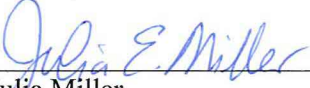
Metrics & Weighting: Ms. Fisk and Mr. Pollack reviewed the metrics and weighting as further detailed in the materials. There were no additional

	<p>Committee comments.</p> <p>Long-Term Incentives: ECH does not have an LTIP. Mr. Pollack explained that the larger an organization is (like a big system), the more likely it is that they have an LTIP. He recommended that an LTIP should not be used as a retention tool but instead to complement long-term strategic plans. The Committee members commented that an LTIP may make the overall compensation plan too complicated and that there may not be a need for one; discretion and shorter-term annual goals can be used to support the overall strategic plan.</p> <p>Retirement: Several Committee members expressed concerns about the inequity of the SERP. Mr. Pollack noted that any plan changes would be contingent on any legislative changes.</p> <p>Sign-On Benefits: Mr. Pollack that ECH's severance is below market levels. Ms. Fisk explained that the CEO makes all decisions related to sign on benefits as there is no policy document outlining available programs/tools. The Committee discussed the Board's considerations of recommendations related to severance, releases used with severance, and payment of severance through salary continuation and offsets when an executive finds a new job.</p> <p>PTO: The PTO policy is the same for all employees, including executives. Ms. Fisk noted that PTO includes holidays, vacation, and minor illnesses and is accrued from an employee's start date. The Committee discussed whether or not there should be a separate policy for executives to allow flexibility for recruitment.</p>	
<p>8. APPROVAL OF ADDITION OF POSITION (PRESIDENT, SVMD) TO EXECUTIVE COMPENSATION BENEFITS PLAN & FY18 SALARY RANGE</p>	<p>Dan Woods, CEO, Mr. Pollack, and Ms. Stella described the differentiation between recruiting a physician versus a non-physician for the President, SVMD position. Mr. Woods clarified that Silicon Valley Medical Development, LLC (SVMD) is an affiliate of ECH and the position had been previously approved and budgeted.</p> <p>Ms. Eyre left the meeting at 6:12pm.</p> <p>Motion: To recommend the Board add the President, SVMD position to the Executive Compensation Plan with a base salary range of: \$344,000-\$430,000-\$516,000 (non-physician) OR \$467,000-\$584,000-\$700,800 (physician).</p> <p>To recommend the Board approve the weighting of organizational, individual, and discretion be 50%, 40%, and 10% respectively consistent with other organizational Presidents.</p> <p>To recommend that the Executive Compensation Philosophy policy be amended to include the new position.</p> <p>To recommend that the Executive Performance Incentive Plan policy be amended to reflect the weighting of 50%, 40%, 10%.</p> <p>Movant: Wadors Second: Miller Ayes: Fligor, Layney, B. Miller, J. Miller Noes: None Abstentions: None Absent: None Recused: None</p> <p>Ms. Wadors left the meeting at 6:13pm.</p>	<p><i>President, SVMD position inclusion in the Exec Comp benefits plan and FY18 salary range recommended for approval</i></p>
<p>9. ADJOURN TO CLOSED SESSION</p>	<p>Motion: To adjourn to closed session at 6:13pm.</p>	<p><i>Adjourned to closed session</i></p>

	Movant: Miller Second: Fligor Ayes: Fligor, Layney, B. Miller, J. Miller Noes: None Abstentions: None Absent: Eyre, Wadors Recused: None	<i>at 6:13pm</i>
10. AGENDA ITEM 13: RECONVENE OPEN SESSION/ REPORT OUT	<p>Open session was reconvened at 6:15pm. Agenda items 10-12 were addressed in closed session.</p> <p>During the closed session, the Committee approved the Minutes of the Closed Session of the Executive Compensation Committee Meeting of September 21, 2017 by a unanimous vote in favor of all members present (Fligor, Layney, B. Miller, J. Miller). Ms. Eyre and Ms. Wadors were absent.</p>	
11. AGENDA ITEM 14: FY18 COMMITTEE PACING PLAN	<p>The Committee and staff discussed adding a Committee meeting in January to review staff's recommendations regarding changes to the executive compensation and benefits program and policies. The purpose of this earlier meeting (rather than waiting until the scheduled March meeting) would be for the Committee to make recommendations that, if approved by the Board, could be incorporated into the FY19 budget. Staff will poll the Committee for possible meeting dates and times.</p> <p>The Committee also requested an update on the progress against goals at the January meeting to assess whether or not the goals should be revised.</p>	<i>Staff to schedule a January 2018 meeting</i> <i>Goals review/ discussion paced for January meeting</i>
12. AGENDA ITEM 15: CLOSING COMMENTS	There were no additional comments from the Committee.	
13. AGENDA ITEM 16: ADJOURNMENT	Motion: To adjourn at 6:23pm. Movant: Miller Second: Layney Ayes: Fligor, Layney, B. Miller, J. Miller Noes: None Abstentions: None Absent: Eyre, Wadors Recused: None	<i>Meeting adjourned at 6:23pm</i>

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


 Bob Miller
 Chair, Executive Compensation Committee


 Julia Miller
 Secretary, ECH Board of Directors

Prepared by: Sarah Rosenberg, Contracts & Board Services Coordinator