

## AGENDA

### EXECUTIVE COMPENSATION COMMITTEE OF THE EL CAMINO HOSPITAL BOARD OF DIRECTORS

**Thursday, November 8, 2018 – 4:00pm**

El Camino Hospital | Conference Room A (ground floor)  
2500 Grant Road Mountain View, CA 94040

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

AGENDA ITEM	PRESENTED BY		ESTIMATED TIMES
<b>1. CALL TO ORDER/ROLL CALL</b>	Bob Miller, Chair		<b>4:00-4:02pm</b>
<b>2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>	Bob Miller, Chair		<b>4:02 – 4:03</b>
<b>3. PUBLIC COMMUNICATION</b> a. Oral Comments <i>This opportunity is provided for persons in the audience to make a brief statement, not to exceed three (3) minutes on issues or concerns not covered by the agenda.</i> b. Written Correspondence	Bob Miller, Chair		<b>information 4:03 – 4:06</b>
<b>4. CONSENT CALENDAR</b> <i>Any Committee Member or member of the public may remove an item for discussion before a motion is made.</i>  <b>Approval</b> a. <a href="#">Minutes of the Open Session of the Executive Compensation Committee Meeting (September 20, 2018)</a>	Bob Miller, Chair	<i>public comment</i>	<b>motion required 4:06 – 4:07</b>
<b>5. REPORT ON BOARD ACTIONS</b> <a href="#">ATTACHMENT 5</a>	Bob Miller, Chair		<b>information 4:07 – 4:10</b>
<b>6. LETTERS OF REASONABLENESS</b> <a href="#">ATTACHMENT 6</a>	Lisa Stella, Mercer	<i>public comment</i>	<b>motion required 4:10 – 4:20</b>
<b>7. EXECUTIVE COMPENSATION CONSULTANT DASHBOARD</b> <a href="#">ATTACHMENT 7</a>	Lisa Stella, Mercer	<i>public comment</i>	<b>possible motion 4:20 – 4:50</b>
<b>8. ASSESS EFFECTIVENESS OF DELEGATION OF AUTHORITY</b> <a href="#">ATTACHMENT 8</a>	Cindy Murphy, Director of Governance Services; Bob Miller, Chair		<b>discussion 4:50 – 5:00</b>
<b>9. PROPOSED FY19 CEO EVALUATION PROCESS</b> <a href="#">ATTACHMENT 9</a>	Bruce Barge, Mercer	<i>public comment</i>	<b>possible motion 5:00 – 5:25</b>
<b>10. ADJOURN TO CLOSED SESSION</b>	Bob Miller, Chair		<b>motion required 5:25 – 5:26</b>
<b>11. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>	Bob Miller, Chair		<b>5:26 – 5:27</b>

AGENDA ITEM	PRESENTED BY		ESTIMATED TIMES
<b>12. CONSENT CALENDAR</b> <i>Any Committee Member or member of the public may remove an item for discussion before a motion is made.</i>  <b>Approval</b> <i>Gov't Code Section 54957.2:</i> a. Minutes of the Closed Session of the Executive Compensation Committee Meeting (September 20, 2018)	Bob Miller, Chair		<b>motion required 5:27 – 5:29</b>
<b>13.</b> <i>Gov't Code Section 54957 and 54957.6 for report and discussion on personnel matters:</i> - Review Salary Administration Process and Executive Incentive Plan	Lisa Stella, Mercer		<b>discussion 5:29 – 5:54</b>
<b>14. ADJOURN TO OPEN SESSION</b>	Bob Miller, Chair		<b>motion required 5:54 – 5:55</b>
<b>15. RECONVENE OPEN SESSION/ REPORT OUT</b> To report any required disclosures regarding permissible actions taken during Closed Session.	Bob Miller, Chair		<b>5:55 – 5:56</b>
<b>16. FY19 PACING PLAN</b> <a href="#">ATTACHMENT 16</a>	Bob Miller, Chair		<b>discussion 5:56 – 5:58</b>
<b>17. CLOSING COMMENTS</b>	Bob Miller, Chair		<b>discussion 5:58 – 5:59</b>
<b>18. ADJOURNMENT</b>	Bob Miller, Chair	<i>public comment</i>	<b>motion required 5:59 – 6:00pm</b>

**Upcoming Meetings:** January 29, 2019 (*tentative*) | March 28, 2019 | May 23, 2019 || **Board/Committee Educational Sessions:** April 24, 2019



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

**Thursday, September 20, 2018**

**El Camino Hospital | 2500 Grant Road, Mountain View, CA 94040  
Conference Room A (administration)**

**Members Present**

Teri Eyre  
Neysa Fligor  
Jaison Layney  
Julie Kliger  
Bob Miller, Chair  
Pat Wadors  
John Zoglin

**Members Absent**

None

Agenda Item	Comments/Discussion	Approvals/ Action
<b>1. CALL TO ORDER/ ROLL CALL</b>	The open session meeting of the Executive Compensation Committee of El Camino Hospital (the “Committee”) was called to order at 3:58pm by Chair Bob Miller. A silent roll call was taken. All Committee members were present. Ms. Fligor arrived at 4:01pm during Agenda Item 5: Report on Board Actions. Mr. Zoglin arrived at 4:16pm during Agenda Item 7: Ad Hoc Committee Report.	
<b>2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>	Chair Miller asked if any Committee members had a conflict of interest with any of the items on the agenda. No conflicts were noted.	
<b>3. PUBLIC COMMUNICATION</b>	None.	
<b>4. CONSENT CALENDAR</b>	<p>Chair Miller asked if any member of the Committee or the public wished to remove an item from the consent calendar. No items were removed.</p> <p><b>Motion:</b> To approve the consent calendar: Minutes of the Open Session of the Executive Compensation Committee Meeting (May 24, 2018), and for information: Article of Interest.</p> <p><b>Movant:</b> Eyre  <b>Second:</b> Wadors  <b>Ayes:</b> Eyre, Layney, Kliger, Miller, Wadors  <b>Noes:</b> None  <b>Abstentions:</b> None  <b>Absent:</b> Fligor, Zoglin  <b>Recused:</b> None</p>	<i>Consent calendar approved</i>
<b>5. REPORT ON BOARD ACTIONS</b>	<p>Chair Miller reported that the Board approved the Revised Executive Compensation Policies and Committee Charter in accordance with the Delegation of Authority to the Committee. He also reported that the Board approved the FY19 CMO Base Salary and FY19 CEO Salary Range and Base Salary.</p> <p>In response to Ms. Eyre’s question, Mr. Woods noted that the executive salary ranges are appropriate and allow ECH to attract the type of talent that the organization needs.</p>	
<b>6. FY18 ORGANIZATIONAL SCORE</b>	<p>Dan Woods, CEO, described the organizational goal score as further detailed in the packet:</p> <p>- Average LOS: 1.08</p>	

	<ul style="list-style-type: none"> <li>- Patient Experience (Rate the Hospital): 78.7%</li> <li>- Standardized Infection Ratio (CAUTI, CLABSI, C. Diff): Mr. Woods noted 1) the difficulty in measuring this goal, 2) improvement for all three infection rates, and 3) that the achievement for one of the three infection rates carried the overall achievement of this goal.</li> </ul> <p>Chair Miller noted ECH organizational scores date back to 2010. The Committee discussed the use of historical scores to evaluate how the incentive plan is performing.</p> <p>The Committee and Julie Johnston, Director of Total Rewards, discussed goal scoring, noting that maximum achievement on goal scores for both the organization and individual executives is 100%.</p>	
<b>7. AD HOC COMMITTEE REPORT</b>	<p>Ms. Eyre and Mr. Layney described the Ad Hoc Committee's process to review Mercer's engagement. Ms. Eyre thanked Mercer for their work and reported that Mercer is meeting and exceeding expectations. The Ad Hoc Committee recommended extending Mercer's contract through December 2020.</p> <p>In response to Ms. Fligor's question, Ms. Eyre noted that there are opportunities for continued improvement in the workflow between ECH and Mercer. The Ad Hoc Committee recommended that the involved parties meet and clearly map out workflows (for all points of origin for work) and set clear expectations about materials and their due dates.</p> <p>In response to Ms. Kliger's question, the Committee discussed RFPs conducted historically and best practices for exploring other compensation consultants in the market every three years. Ms. Wadors suggested that ECH conduct an annual performance evaluation with Mercer and use a dashboard to manage and evaluate work. The Committee discussed the compensation consultant market, including 1) players in the market, 2) the importance of access to sufficient market data, and 3) experience in and knowledge of healthcare.</p> <p><b>Motion:</b> To authorize Kathryn Fisk, CHRO, to take action on behalf of the Committee and extend the contract with Mercer through December 2020.</p> <p><b>Movant:</b> Wadors  <b>Second:</b> Fligor  <b>Ayes:</b> Eyre, Fligor, Layney, Kliger, Miller, Wadors, Zoglin  <b>Noes:</b> None  <b>Abstentions:</b> None  <b>Absent:</b> None  <b>Recused:</b> None</p> <p>Mr. Miller thanked the Ad Hoc Committee for their work. Mr. Pollack thanked the Committee for its continued confidence in Mercer.</p> <p>The Committee requested that a discussion regarding annual review for Mercer be paced for its November meeting. The Committee also requested that Mercer provide samples of a consultant performance dashboard so the Committee can select metrics to use in evaluating support levels.</p>	<p><i><b>Mercer engagement extension authorized; evaluation dashboard to be discussed at the November meeting</b></i></p>
<b>8. FY18 CEO EVALUATION PROCESS REVIEW</b>	<p>Chair Miller described the development of the FY18 CEO Evaluation Process facilitated by Mercer, including the development a questionnaire and the consolidation of Hospital and District Board processes.</p> <p>He commended Mercer for their work and solicited feedback from the Board members on the Committee. The participants expressed their comfort with</p>	

	<p>the process and its efficiency.</p> <p>Bruce Barge from Mercer joined the meeting via teleconference.</p> <p>Mr. Barge noted that considerations for the FY19 process can include: 1) whether or not to use metrics and/or a dashboard; and 2) conducting a 180 review related to the CEO's working relationship with the Senior Leadership team to enhance feedback and overall collaboration.</p> <p>Chair Miller noted that a discussion regarding the FY19 process is paced for the Committee's November meeting.</p> <p>Mr. Barge discontinued participation in the meeting.</p>	
<b>9. EXECUTIVE BENEFIT PLAN POLICY</b>	<p>Kathryn Fisk, CHRO, described the proposed policy changes as further detailed in the packet, including:</p> <ol style="list-style-type: none"> <li>1. Eligibility for health and welfare plan: from the first of the month 30 days/on after hire to the first of the month after the date of hire. Ms. Fisk noted recruitment has been challenging under the current policy. This proposed change is intended to align the policies for executives and employees.</li> <li>2. Guaranteed issue amount and the maximum cap on life insurance: This proposed change is intended to match market practice and to carry out the intent of the policy (3x salary).</li> </ol> <p><b>Motion:</b> To recommend that the Board approve the proposed policy changes.</p> <p><b>Movant:</b> Layney <b>Second:</b> Eyre <b>Ayes:</b> Eyre, Fligor, Layney, Kliger, Miller, Wadors, Zoglin <b>Noes:</b> None <b>Abstentions:</b> None <b>Absent:</b> None <b>Recused:</b> None</p>	<i><b>Executive Benefit Plan policy</b></i>
<b>10. ADJOURN TO CLOSED SESSION</b>	<p><b>Motion:</b> To adjourn to closed session at 4:44pm.</p> <p><b>Movant:</b> Fligor <b>Second:</b> Kliger <b>Ayes:</b> Eyre, Fligor, Layney, Kliger, Miller, Wadors, Zoglin <b>Noes:</b> None <b>Abstentions:</b> None <b>Absent:</b> None <b>Recused:</b> None</p>	<i><b>Adjourned to closed session at 4:44pm</b></i>
<b>11. AGENDA ITEM 20: RECONVENE OPEN SESSION/ REPORT OUT</b>	<p>Open session was reconvened at 5:32pm. Agenda items 11-19 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 (May 24, 2018), the Proposed FY19 CMO Incentive Goals, the FY18 Individual Executive Incentive Goal Scores, and the FY18 CHRO Incentive Goal Score by a unanimous vote in favor of all members present (Eyre, Fligor, Layney, Kliger, Miller, Wadors, Zoglin).</p>	
<b>12. AGENDA ITEM 21: FY19 COO BASE SALARY</b>	<p><b>Motion:</b> To approve the proposed FY19 COO Base Salary of \$550,000.</p> <p><b>Movant:</b> Layney <b>Second:</b> Kliger <b>Ayes:</b> Eyre, Fligor, Layney, Kliger, Miller, Wadors, Zoglin <b>Noes:</b> None</p>	<i><b>FY19 COO Base Salary approved</b></i>

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	<b>Abstentions:</b> None <b>Absent:</b> None <b>Recused:</b> None																					
<b>13. AGENDA ITEM 22: FY18 INDIVIDUAL EXECUTIVE INCENTIVE PAYOUT AMOUNTS</b>	<b>Motion:</b> To approve the proposed FY18 Individual Executive Incentive Payout Amounts as follows: <table><tr><th>Position</th><th>Payout</th></tr><tr><td>President, Foundation</td><td>\$57,144</td></tr><tr><td>VP, Corporate &amp; Community Health Services</td><td>\$74,992</td></tr><tr><td>Chief Financial Officer</td><td>\$135,637</td></tr><tr><td>Chief Human Resources Officer</td><td>\$99,029</td></tr><tr><td>VP, Payor Relations</td><td>\$76,138</td></tr><tr><td>Chief Administrative Services Officer</td><td>\$72,803</td></tr><tr><td>Chief Information Officer</td><td>\$64,026</td></tr><tr><td>Chief Nursing Officer</td><td>\$85,709</td></tr><tr><td>General Counsel</td><td>\$103,425</td></tr></table> <b>Movant:</b> Fligor <b>Second:</b> Kliger <b>Ayes:</b> Eyre, Fligor, Layney, Kliger, Miller, Wadors, Zoglin <b>Noes:</b> None <b>Abstentions:</b> None <b>Absent:</b> None <b>Recused:</b> None	Position	Payout	President, Foundation	\$57,144	VP, Corporate & Community Health Services	\$74,992	Chief Financial Officer	\$135,637	Chief Human Resources Officer	\$99,029	VP, Payor Relations	\$76,138	Chief Administrative Services Officer	\$72,803	Chief Information Officer	\$64,026	Chief Nursing Officer	\$85,709	General Counsel	\$103,425	<b>FY18 Individual Executive Incentive Payouts approved</b>
Position	Payout																					
President, Foundation	\$57,144																					
VP, Corporate & Community Health Services	\$74,992																					
Chief Financial Officer	\$135,637																					
Chief Human Resources Officer	\$99,029																					
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Chief Information Officer	\$64,026																					
Chief Nursing Officer	\$85,709																					
General Counsel	\$103,425																					
<b>14. AGENDA ITEM 23: FY19 PACING PLAN</b>	The Committee summarized the pacing requests from the meeting including discussions at the November meeting on 1) the Performance Incentive Plan structure and 2) a consultant dashboard to evaluate Mercer’s performance.																					
<b>15. AGENDA ITEM 24: CLOSING COMMENTS</b>	There were no additional comments from the Committee.																					
<b>16. AGENDA ITEM 25: ADJOURNMENT</b>	<b>Motion:</b> To adjourn at 5:34pm. <b>Movant:</b> Eyre <b>Second:</b> Wadors <b>Ayes:</b> Eyre, Fligor, Layney, Kliger, Miller, Wadors, Zoglin <b>Noes:</b> None <b>Abstentions:</b> None <b>Absent:</b> None <b>Recused:</b> None	<b>Meeting adjourned at 5:34pm</b>																				

**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 E. Miller  
Secretary, ECH Board of Directors

Prepared by: Sarah Rosenberg, Contracts & Board Services Coordinator

## ECH BOARD COMMITTEE MEETING AGENDA ITEM COVER SHEET

<b>Item:</b>	Report on ECH and ECHD Board Actions Executive Compensation Committee November 8, 2018
<b>Responsible party:</b>	Cindy Murphy, Director of Governance Services
<b>Action requested:</b>	For Information
<b>Background:</b> <p>In FY16, we added this item to each Board Committee agenda to keep Committee members informed about Board actions via a verbal report by the Committee Chair. This written report is intended to supplement a verbal report by the Chair of the Committee and/or Board members who also serve on the Committee.</p>	
<b>Other Board Advisory Committees that reviewed the issue and recommendation, if any:</b> <p>None.</p>	
<b>Summary and session objectives:</b> <p>To inform the Committee about recent Board actions.</p>	
<b>Suggested discussion questions:</b> None.	
<b>Proposed Committee motion, if any:</b> None. This is an informational item.	
<b>LIST OF ATTACHMENTS:</b> <ol style="list-style-type: none"> <li>Report on October 2018 ECH and ECHD Board Actions</li> </ol>	

### **ECH Board Actions\***

1. October 10, 2018
  - a. Approved FY19 Period 2 Financials
  - b. Approved FY18 Financial Audit
  - c. Approved FY18 Annual 430(b) Retirement Plan and Cash Balance Retirement Plan Audits
  - d. Approved Appointment of Robin Driscoll to the El Camino Hospital Foundation Board of Directors
  - e. Approved Revised Executive Benefit Plan Policy (Life Insurance and Eligibility Date Provisions)
  - f. Approved Purchase of Los Gatos Imaging Equipment (O-Arm)
  - g. Approved NICU Medical Director and Neuro-Interventional Call Panel Contracts
  - h. Appointed Director Julie Kliger as Quality, Patient Care and Patient Experience Committee Chair
  - i. Approved FY18 CEO Incentive Plan Payment

### **ECHD Board Actions\***

2. October 16, 2018
  - a. Approved Resolution 2018-11 recognizing Community Benefit Partner Bay Area Women's Sports Initiative
  - b. Approved Resolution 2018-12 Adopting Calendar year 2019 Meeting Dates
  - c. Approved Resolution 2018-13 Amending the ECHD Conflict of Interest Code
  - d. Approved FY18 ECH and ECHD Consolidated Year-End Financials
  - e. Approved the FY18 Community Benefit Report
  - f. Approved the FY18 Year-End Stand Alone Financials
  - g. Approved the FY19 Financials YTD
  - h. Approved the FY19 Financial Audit
  - i. Approved a Revision to the El Camino Hospital Bylaws providing that a vacancy in the Board of Directors shall be deemed to exist when a Director, who was appointed or elected as a Director while serving as a Director of the sole Member is no longer a director of the sole Member.

\*This list is not meant to be exhaustive, but includes agenda items the Board voted on that are most likely to be of interest to or pertinent to the work of El Camino Hospital's Board Advisory Committees.



**Private & Confidential**

Mr. Robert Miller  
Chair, Executive Compensation Committee  
El Camino Hospital  
2500 Grant Road  
Mountain View, CA 94040

October 23, 2018

**Subject:** Reasonableness Opinion for El Camino Hospital Disqualified Persons

Dear Mr. Miller:

As requested by the Executive Compensation Committee (“Committee”) of the Board of Directors (“Board”) of El Camino Hospital (“El Camino” or “ECH”), Mercer has conducted an evaluation of the total remuneration program provided to the El Camino executives named in Table 1 for the fiscal year ending June 30, 2018 (FY 2018). The results of this assessment were presented in Mercer’s report at the May Executive Compensation Committee meeting and were used to inform the Board’s approval of FY 2019 compensation and benefits. This letter outlines the study’s objectives, Mercer’s evaluation process, findings, and our opinion that the approved FY 2019 total remuneration program for the named executives falls within a reasonable range of the competitive practice.

**I. PURPOSE**

The purpose of this letter is to document comparability data and provide Mercer’s opinion on the reasonableness of the executive total remuneration program in support of the organization’s pursuit of the rebuttable presumption of reasonableness under IRC §4958. To do so, we have:

- Presented relevant summary market comparability data at the May 2018 Committee and June 2018 Board meetings to ensure that the Committee and the Board are well-informed of current executive compensation and benefits practices when making decisions on El Camino’s executive remuneration;
- Advised the Committee regarding interpretation of the market data;
- Assisted the Committee in its governance responsibility with respect to the compensation program for all executives by providing Mercer’s opinion that all executives’ total remuneration, approved in August 2018, falls within a reasonable range of competitive market practices applicable to like positions among like organizations under like circumstances in accordance with the Intermediate Sanctions legislation and applicable regulations; and
- Documented the recent changes to compensation approved by the Board of Directors based on the comparability data Mercer provided to the Committee in May 2018.

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## II. BACKGROUND

Mercer serves as an independent advisor to the Committee. In this capacity, we provide advice and competitive compensation and benefits market data to management that has been used in its decision-making process relative to the compensation program for El Camino's executives.

The executive compensation program is governed by the Board of Directors and the Executive Compensation Committee, which advises the Board to meet all applicable legal and regulatory requirements as they relate to executive compensation and effectiveness in attracting, retaining, and motivating executives.

### Organization Context

El Camino Hospital's mission is to heal, relieve suffering, and advance wellness as a publicly accountable partner. El Camino opened its doors to its first patients on September 1, 1961 with 21 medical staff. An expanding population in Silicon Valley drove El Camino to develop further, and today El Camino Hospital consists of two campuses: Los Gatos and Mountain View. Net operating revenue for FY 2017 was \$870.5 million.<sup>1</sup>

### El Camino Executives

Table 1 details the list of incumbents included in Mercer's review of FY 2019 total remuneration. See Appendix C for detailed biographies of each incumbent.

**Table 1:** Executives Reviewed

Incumbent	Title
Mark Adams, MD	Chief Medical Officer
James Griffith	Chief Operating Officer
Bruce Harrison	President, SVMD
Iftikhar Hussain	Chief Financial Officer
Mary Rotunno	General Counsel
Deborah Muro	Chief Information Officer
Kathryn Fisk	Chief Human Resource Officer
Cheryl Reinking	Chief Nursing Officer
Ken King	Chief Administrative Services Officer
Joan Kezic	VP, Payor Relations
Cecile Currier	VP, Corp./ Comm. Health Svcs
Jodi Barnard	President of ECH Foundation
Open Position	Chief Strategy Officer

<sup>1</sup> Source: El Camino FY17 Financial Audit.

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### Executive Compensation Philosophy<sup>2</sup>

El Camino's Executive Compensation Philosophy utilizes the following guiding principles and objectives to drive executive compensation decisions:

1. Support the Hospital's ability to attract, retain, and motivate a highly-talented executive team with the ability and dedication to manage the Hospital accordingly.
2. Support the Hospital's mission and vision and achievement of strategic goals.
3. Encompass a total compensation perspective in developing and administering cash compensation and benefit programs.
4. Consider the Hospital's financial performance and ability to pay which shall be balanced with the Hospital's ability to attract, retain and motivate executives.
5. Govern the executive compensation programs to comply with state and federal laws.

The executive compensation program encompasses both cash compensation (base salary, incentive compensation, and other cash compensation) and non-cash compensation (benefit plans and perquisites) which, in whole, represent total remuneration.

The three key components of the program are base salary, incentives, and benefits. In evaluating executive compensation, the Executive Compensation Committee uses the following market definition and desired positioning guidelines.

**Table 2 – El Camino Hospital Market Definition and Desired Positioning**

Component	Market Definition and Desired Positioning
<b>Market Definition</b>	<ul style="list-style-type: none"> <li>Primarily national, not-for-profit, independent hospitals/health systems of comparable revenue size and complexity to ECH.</li> <li>Data increased by a 25% geographic salary differential to account for the salary differences in the Bay Area (reviewed annually to verify accuracy).</li> </ul>
<b>Base Salary</b>	<ul style="list-style-type: none"> <li>Salary range midpoints are based on the 50th percentile of market data.</li> <li>The salary range will be from 20% below to 20% above the salary range midpoint, and will be updated annually.</li> <li>Actual salary will reflect market range, performance, and incumbent competence, credentials, and experience.</li> <li>Pay at 80% to 90% of market 50th percentile may be appropriate for individuals with limited experience in a comparable position.</li> <li>Pay at 90% to 110% of market 50th percentile for fully experienced individuals with demonstrated records of successful performance.</li> </ul>

<sup>2</sup> This is extracted from El Camino's official stated philosophy, as approved at the February 14, 2018 Board meeting.

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	<ul style="list-style-type: none"> <li>Pay at 110% to 120% of market 50th percentile may be appropriate for a highly experienced individual with demonstrated record of consistently exceeding performance expectations or in roles which are particularly critical for the achievement of strategic objectives or roles with a particularly competitive labor market.</li> <li>Board of Directors can approve salaries above the normal salary range for hard-to-recruit positions or positions deemed critical to the organization's success.</li> </ul>
<b>Incentives</b>	<ul style="list-style-type: none"> <li>Target incentive opportunities are set at competitive levels.</li> <li>Actual total cash compensation will reflect individual and organizational performance.</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>Executive benefits and severance target competitiveness, compliance, and cost-effectiveness.</li> <li>Perquisites should only be provided when supported by specific business reasons. ECH's practice is to minimize the use of perquisites.</li> </ul>

### El Camino's Total Remuneration Program

Mercer assessed the value of the total remuneration provided to each executive, which consists of the following elements:

**Table 3:** Compensation Elements

Element	Overview
<b>Base Salary</b>	<ul style="list-style-type: none"> <li>Annual cash salary based on position, market data, and incumbent skills and experience.</li> <li>For FY 2019, approved base salary increases ranged from 1 – 10%, and were determined based on market, merit, and executive experience.</li> </ul>
<b>Incentives</b>	<ul style="list-style-type: none"> <li>Annual cash incentive awards were provided based on annual performance against system-wide financial, patient safety, patient satisfaction, and operational efficiency metrics.</li> <li>For FY 2019, target opportunity remains at 20% of base salary for all executives, with maximum opportunity at 150% of target opportunity.</li> </ul>
<b>Retirement</b>	<ul style="list-style-type: none"> <li>Executives are eligible for the following employer paid retirement plans: a Qualified Defined Contribution (DC) Plan; a Qualified Defined Benefit (DB) Plan; and a Nonqualified DC SERP. Total employer contributions range from 9% to 16% for executives, depending on pay and years of service.</li> <li>Executives may also participate in 403(b) and 457(b) plans for voluntary deferrals.</li> <li>See Appendix B for a detailed breakdown of benefits values.</li> </ul>
<b>Health &amp; Welfare</b>	<ul style="list-style-type: none"> <li>Executives are eligible to receive the same health benefits as all other El Camino employees.</li> <li>Executives receive group life insurance coverage of up to 3x base salary (capped at \$2 million); no medical underwriting required.<sup>3</sup></li> </ul>

<sup>3</sup> Policy effective January 1, 2019. FY 2019 Total Remuneration reflects life insurance values based on ECH's prior life insurance benefit policy. Differences between the life insurance values are minimal.

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Element	Overview
	<ul style="list-style-type: none"> <li>Executives are eligible to receive salary continuation if disabled: 100% of base salary for six months (offset for state disability insurance, worker's compensation, long-term disability, paid time off, extended sick leave)</li> <li>Executives are eligible for long-term disability equal to 60% of base salary up to a monthly maximum of \$15,000, effective January 1, 2018.</li> <li>See Appendix B for a detailed breakdown of benefits values.</li> </ul>
<b>Perquisites</b>	<ul style="list-style-type: none"> <li>Executives receive an employer contribution of 7% of base salary to an Executive Taxable Benefit Plan to purchase voluntary long-term disability, long-term care, and life insurance; unused allowance can be deferred to the 457(b) plan or paid in cash.</li> <li>Executive severance policy provides up to six months of base salary and health continuation benefits.</li> </ul>

Table 4 summarizes the approved target and maximum FY 2019 total remuneration program for El Camino's executives. Target values below reflect the *structure* of El Camino's program; actual payouts will vary and are based on performance. Maximum values assume annual incentive is paid at the maximum value (30% of base salary) and is paid for attainment of stretch performance under the annual incentive plan.

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**Table 4:** El Camino's FY 2019 Target and Maximum Total Remuneration Opportunity (Compensation Data in \$000s)

Incumbent	Salary	Total Cash Compensation				Total Remuneration		
		Bonus	TCC <sup>(1)</sup>	Bonus	TCC <sup>(1)</sup>	Benefits	Target TR <sup>(2)</sup>	Max TR <sup>(2)</sup>
Adams, Mark	\$575	20%	\$690	30%	\$748	\$131	\$821	\$878
Griffith, James	\$550	20%	\$660	30%	\$715	\$128	\$788	\$843
Harrison, Bruce	\$508	20%	\$609	30%	\$660	\$122	\$731	\$782
Hussain, Iftikhar	\$494	20%	\$593	30%	\$643	\$116	\$709	\$759
Rotunno, Mary	\$393	20%	\$471	30%	\$511	\$104	\$575	\$614
Muro, Deborah	\$361	20%	\$433	30%	\$469	\$99	\$531	\$568
Fisk, Kathryn	\$351	20%	\$421	30%	\$457	\$92	\$514	\$549
Reinking, Cheryl	\$354	20%	\$425	30%	\$460	\$105	\$529	\$565
King, Ken	\$303	20%	\$364	30%	\$394	\$93	\$457	\$487
Kezic, Joan	\$273	20%	\$328	30%	\$355	\$85	\$412	\$440
Currier, Cecile	\$267	20%	\$321	30%	\$347	\$87	\$408	\$434
Barnard, Jodi	\$260	20%	\$311	30%	\$337	\$86	\$397	\$423
Open Position	--	--	--	--	--	--	--	--

(1) Total Cash Compensation (TCC) calculated as Base Salary + Target/Max Bonus.

(2) Total Remuneration (TR) calculated as Total Cash Compensation + Benefits.

\*Market data has been discounted to reflect incumbent's FTE status: 0.9 for Kezic.

Benefit values are estimated for James Griffith pending enrollment on 12/1/2018.

### III. METHODOLOGY

Mercer's evaluation was conducted in accordance with our firm's standards for reviewing compensation arrangements in tax-exempt organizations.

#### Cash Compensation Assessment Methodology

- Market Composite - Healthcare Surveys:
  - Mercer (2017): *Integrated Health Networks (IHN) Compensation Survey*;
  - Integrated Healthcare Strategies (2017): *National Healthcare Leadership Compensation Survey*; and
  - Sullivan, Cotter and Associates, Inc. (2017): *Survey of Manager and Executive Compensation in Hospitals and Health Systems*.
- Survey Data Methodology:
  - From each survey, we collected market data for base salary and total cash compensation at the 25th, 50th, and 75th percentiles.
  - All survey data were scoped to approximate El Camino's net revenue size (\$350 million to \$1.5 billion, approximately 0.5x - 2.0x ECH's net revenue of approximately \$870 million).
  - All data sources were trended to January 1, 2019 by 3.0%, the expected annual increase for executives at health care organizations according to Mercer's 2017/2018 US Compensation Planning Survey.

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- All data sources were adjusted by 25% to account for the geographic salary differences in the Bay Area. See Appendix D for detail.
- One incumbent (Kezic) has a reduced Full Time Equivalence (FTE) status. As such, Mercer discounted the survey market data for her position to reflect the same FTE in the market.
- Mercer developed a position matching strategy for each role through a detailed review of job descriptions, discussions with El Camino, and interviews with executives.

We show a market ratio to 50th percentile (Market Ratio P50) which shows each El Camino executive's compensation element as a percentage of the market 50th percentile. A market ratio of 100% means that executive's compensation element is at the 50th percentile.

#### **Benefits Assessment**

El Camino's benefits and perquisites were compared to practices among both not-for-profit organizations using Mercer's (2016/2017) *Health Care Executive Benefits and Perquisites Survey* (revenue ranging from \$400 million to \$1.6 billion) and general industry companies from Mercer's Executive and Broad-Based Employee Retirement Tool (revenue ranging from \$400 million to \$1.6 billion) and Mercer's (2016/2017) *US Executive Rewards Year-End Survey* (revenue ranging from \$500 million to \$2.5 billion). To develop the survey total remuneration market perspective, Mercer added the market annualized value of retirement, health and welfare benefits and perquisites to market total cash compensation levels.

Mercer added the market annualized value of retirement, health and welfare benefits and perquisites to market total cash compensation levels.

## **IV. FINDINGS AND OBSERVATIONS**

#### **Target and Maximum Total Remuneration**

Tables 5-7 display the comparison of El Camino's approved FY 2019 target and maximum total remuneration program to market composite levels.

Overall, base salaries generally fall below the 50th percentile of the not-for-profit healthcare market for nearly all executives when the geographic salary differential is applied. El Camino executives' target bonus levels bring target total cash compensation (base salary + target bonus) to a more competitive position at just below the 50th percentile in aggregate. Target total remuneration (base salary + target bonus + benefits) is generally within 10% of market 50th percentile, with a few exceptions over the 75th percentile.

In aggregate, target total remuneration of the executives is within range of the market 50th percentile, which aligns with the desired positioning stated in El Camino's compensation philosophy. We will review individual circumstances that warrant compensation above target levels later in this letter. Maximum total cash

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compensation and maximum total remuneration for most executives is positioned below the 75th percentile of market data.

### **Base Salary**

As shown in Table 5, in aggregate, FY 2019 base salary levels fall at or below the 50th percentile of the not-for-profit healthcare market for nine of twelve executives.

**Table 5:** FY 2019 Approved Base Salary versus Market (Compensation Data in \$000s)

Incumbent	Title	ECH FY2019	Market Base Salary			Market Ratio P50
			P25	P50	P75	
Adams	Chief Medical Officer	\$575	\$513	\$576	\$661	100%
Griffith	Chief Operating Officer	\$550	\$511	\$599	\$676	92%
Harrison	President, SVMD	\$508	\$359	\$443	\$581	115%
Hussain	Chief Financial Officer	\$494	\$545	\$602	\$664	82%
Rotunno	General Counsel	\$393	\$403	\$446	\$503	88%
Muro	Chief Information Officer	\$361	\$390	\$426	\$475	85%
Fisk	Chief Human Resource Officer	\$351	\$331	\$377	\$423	93%
Reinking	Chief Nursing Officer	\$354	\$349	\$391	\$442	91%
King	Chief Administrative Services Officer	\$303	\$231	\$270	\$329	112%
Kezic	VP, Payor Relations	\$273	\$198	\$232	\$288	118%
Currier	VP, Corp./ Comm. Health Svcs	\$267	\$276	\$304	\$363	88%
Barnard	President of ECH Foundation	\$260	\$228	\$272	\$334	95%
Open Position	Chief Strategy Officer	---	\$323	\$382	\$422	---
<b>Aggregate</b>						<b>95%</b>

\*Market data has been discounted for Kezic's 0.9 FTE status.

Note: All market data include a 25% geographic differential.

### **Annual Incentives and Total Cash Compensation**

Table 6 provides a comparison of El Camino's total cash compensation (base salary + target bonus) to market composite total cash compensation. In aggregate, El Camino's FY 2019 target total cash compensation is positioned just above the 50th percentile. Most executives are positioned within 15% of the 50th percentile, with the exception of the President, SVMD, Chief Administrative Services Officer and VP of Payor Relations.



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**Table 6:** FY 2019 Approved Target and Maximum Total Cash Compensation versus Market (Compensation Data in \$000s)

Incumbent	Title	ECH TCC FY2019		Market Actual Total Cash Compensation			Market Ratio	
		Target	Max	P25	P50	P75	Target/ P50	Max/ P75
Adams	Chief Medical Officer	\$690	\$748	\$557	\$670	\$777	103%	96%
Griffith	Chief Operating Officer	\$660	\$715	\$522	\$655	\$803	101%	89%
Harrison	President, SVM D	\$609	\$660	\$378	\$492	\$683	124%	97%
Hussain	Chief Financial Officer	\$593	\$643	\$583	\$669	\$780	89%	82%
Rotunno	General Counsel	\$471	\$511	\$424	\$502	\$566	94%	90%
Muro	Chief Information Officer	\$433	\$469	\$403	\$469	\$535	92%	88%
Fisk	Chief Human Resource Officer	\$421	\$457	\$354	\$418	\$489	101%	93%
Reinking	Chief Nursing Officer	\$425	\$460	\$379	\$440	\$494	96%	93%
King	Chief Administrative Services Officer	\$364	\$394	\$258	\$308	\$382	118%	103%
Kezic	VP, Payor Relations	\$328	\$355	\$207	\$239	\$313	137%	113%
Currier	VP, Corp./ Comm. Health Svcs	\$321	\$347	\$331	\$350	\$388	92%	90%
Barnard	President of ECH Foundation	\$311	\$337	\$242	\$306	\$372	102%	91%
Open Position	Chief Strategy Officer	--	--	\$348	\$425	\$527	--	--
<b>Aggregate</b>							<b>102%</b>	<b>93%</b>

\*Market data has been discounted for Kezic's 0.9 FTE status.  
 Note: All market data include a 25% geographic differential.

### **Benefits**

Overall, El Camino's executive benefit offerings are generally consistent with market practice. The total value of El Camino's benefits is generally aligned with the market 50th percentile of the not-for-profit health care industry.

### **Retirement**

Overall, the types of retirement plans offered by El Camino are consistent with market practice. Like El Camino, the vast majority of similarly sized tax-exempt healthcare organizations provide a qualified defined contribution plan, although prevalence of defined benefit plans continues to decline. Total employer contribution value (including defined contribution, defined benefit and SERP) is generally aligned with the 50th percentile of the not-for-profit healthcare industry. However, due to the flat 5% SERP contribution, higher paid executives receive lower overall retirement benefit values as a percent of base salary.

### **Health and Welfare Benefits**

El Camino's executives receive the same health benefits as all other employees, which is consistent with market practice. Executive life insurance coverage is aligned with the market 75th percentile. Executive disability salary continuation and long-term disability coverages are consistent with market practice. Given the benefit levels, El Camino is generally consistent with market practice in its health and welfare benefit offerings.

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#### *Perquisites*

The length of El Camino's severance period (up to 6 months) is below typical market practice.

#### **Target Total Remuneration**

El Camino's target total remuneration values (base salary + target bonus + benefits) for executives are generally within 10% of the market 50th percentile, with the exception of four executives (President, SVMD, Chief Administrative Services Officer, VP of Payor Relations, and President of ECH Foundation). In aggregate, target total remuneration is between the market 50th and 75th percentiles. (Table 7)

#### **Maximum Total Remuneration Opportunity**

In addition to examining the approved target total remuneration program for El Camino's executives, Mercer also has reviewed the maximum total remuneration opportunity for executives (maximum total direct compensation plus benefits). Maximum total remuneration assumes the annual incentive plan pays out at maximum (i.e., 150% of target opportunity) and payout requires attainment of stretch goals under the annual incentive plan. In aggregate, executive maximum total remuneration (Table 7) is positioned just below the 75th percentile, in alignment with philosophy.

**Table 7: FY 2019 Approved Target and Maximum Total Remuneration versus Market (Data in \$000s)**

Incumbent	Title	ECH TR FY2019		Market Total Remuneration			Market Ratio	
		Target	Max	P25	P50	P75	Target/ P50	Max/ P75
Adams	Chief Medical Officer	\$821	\$878	\$636	\$757	\$875	108%	100%
Griffith	Chief Operating Officer	\$788	\$843	\$601	\$745	\$902	106%	93%
Harrison	President, SVMD	\$731	\$782	\$439	\$563	\$771	130%	101%
Hussain	Chief Financial Officer	\$709	\$759	\$667	\$759	\$878	93%	86%
Rotunno	General Counsel	\$575	\$614	\$491	\$574	\$644	100%	95%
Muro	Chief Information Officer	\$531	\$568	\$468	\$538	\$610	99%	93%
Fisk	Chief Human Resource Officer	\$514	\$549	\$411	\$480	\$557	107%	99%
Reinking	Chief Nursing Officer	\$529	\$565	\$439	\$505	\$565	105%	100%
King	Chief Administrative Services Officer	\$457	\$487	\$303	\$358	\$440	128%	111%
Kezic	VP, Payor Relations	\$412	\$440	\$242	\$279	\$360	148%	122%
Currier	VP, Corp./ Comm. Health Svcs	\$408	\$434	\$382	\$404	\$449	101%	97%
Barnard	President of ECH Foundation	\$397	\$423	\$286	\$357	\$430	111%	98%
Open Position	Chief Strategy Officer	--	--	\$405	\$489	\$596	--	--
<b>Aggregate</b>							<b>109%</b>	<b>99%</b>

\*Market data has been discounted for Kezic's 0.9 FTE status.  
 Note: All market data include a 25% geographic differential.

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#### V. BASIS FOR OPINION

Many factors are considered in an evaluation of the reasonableness of pay, including the organization's performance, its total rewards philosophy, and the qualifications and roles of the incumbents. Market data and external factors play a role in determining a reasonable range of compensation practices. Differences in pay levels between an organization and the market data (i.e., variation from the 75th) do not mean that an organization is necessarily over- or under-competitive. El Camino can compensate an executive above the 75th percentiles of the market and still be within a range of reasonable compensation, depending on the facts and circumstances of the particular situation.

- Industry Pressure: With the significant changes in the health care industry, El Camino faces a strategic crossroads as an independent community hospital system. The ability to attract and retain key talent remains critical to the future success of the organization during this turbulent time and providing compensation at market (50th percentile) or above levels is part of El Camino's strategy to ensure its ability to attract and retain executive talent.
- Executive Compensation Philosophy: El Camino's desired market positioning as described in the executive compensation philosophy is the market 50th percentile. In aggregate, El Camino executives are positioned within 10% of the 50th percentile for target compensation across compensation elements and in alignment with the compensation philosophy. Four individuals exceed target positioning, but this reflects specific circumstances for those individuals and the decision of El Camino to allocate its compensation spend strategically across the executive team. The Committee has discussed the rationale for the positioning of these four executives.

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## VI. OPINION OF REASONABLENESS

Mercer (US) Inc. certifies that it (1) is a compensation consulting firm, (2) performs compensation valuation studies of this type on a regular basis, and (3) is qualified to perform the valuations of the type of property or services involved. In our opinion, the total remuneration we have reviewed falls within a reasonable range of competitive market practices applicable to like positions among like organizations under like circumstances.

### Disclaimers

Mercer has relied on the information and data provided to us without any independent review or verification and we assume all data provided to us is accurate, factual and complete. This does not constitute an opinion regarding the underlying business decisions.

This opinion has been prepared exclusively for El Camino Hospital to assist in understanding market total remuneration positioning for its senior executives. This letter provides the Committee with market comparability data as required by Intermediate Sanctions regulations and we urge the Committee to ensure that the additional requirements for establishing the rebuttable presumption/determining reasonable compensation have been met and to seek the advice of counsel as needed in this regard. This letter may not be used or relied upon by any other party or for any other purpose; Mercer is not responsible for the consequences of any such unauthorized use.

We are unaware of any family members of the Executives listed in Table 2 that also work for El Camino Hospital who might also be considered disqualified persons

As always, it is our pleasure to be of service. If you have any questions about this letter, please do not hesitate to contact me at (213) 346-2233.

Sincerely,



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## APPENDIX A: MARKET EVALUATION DETAILS (COMPENSATION DATA IN 000S)

**Table 8: President, SVMD Market Data**

Benchmark Match Information	Wgt	Degree Required	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
							25th	50th	75th	25th	50th	75th	25th	50th	75th
US-HLTH-SUL2-16 - 7221 - Medical Group Chief Executive Officer/Executive Director (Non-MD) - All Medical Groups	1.0				23		\$307	\$358	\$454	\$332	\$448	\$638	\$349	\$448	\$638
_US-HLTH-MER4A-17 - 4125A - Top Physician Practices Executive - Total Net Revenue: 350M to less than 1.5B USD	1.0		\$1000M		7	7	\$331	\$421	\$581	\$331	\$421	\$581	\$331	\$421	\$581
US-HLTH-SUL-17 - 7145 - Top Physician Practices Management Executive - Systems: \$400M to \$900M Net Revenue	1.0		\$675.1M		17		\$222	\$284	\$359	\$245	\$313	\$421	\$245	\$313	\$421
Survey Composite							\$287	\$355	\$465	\$303	\$394	\$547	\$309	\$394	\$547
<b>Survey Composite with 25% Geographic Differential</b>							<b>\$359</b>	<b>\$443</b>	<b>\$581</b>	<b>\$378</b>	<b>\$492</b>	<b>\$683</b>	<b>\$386</b>	<b>\$492</b>	<b>\$683</b>



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**Table 9: Chief Financial Officer Market Data**

Benchmark Match Information	Wgt	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
						25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER4A-17 - 4230A - Chief Financial Officer (CFO) - Total Net Revenue: 350M to less than 1.5B USD	1	\$1B		25	25	\$458	\$502	\$562	\$496	\$565	\$636	\$496	\$565	\$636
US-HLTH-IHS-17 - 425 - Independent Chief Financial Officer - Systems: Net Rev \$500M-\$1.0B	1	\$752.8M		47		\$413	\$456	\$496	\$439	\$486	\$583	\$450	\$504	\$610
US-HLTH-SUL-17 - 7015-1 - Chief Financial Officer, All - Systems: \$400M to \$900M Net Revenue	1	\$651.4M	+10% for Size	82		\$437	\$488	\$537	\$465	\$554	\$653	\$475	\$555	\$653
Survey Composite						\$436	\$482	\$531	\$467	\$535	\$624	\$473	\$541	\$633
Survey Composite with 25% Geographic Differential						\$545	\$602	\$664	\$583	\$669	\$780	\$592	\$677	\$791

**Table 10: General Counsel Market Data**

Benchmark Match Information	Wgt	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
						25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER4A-17 - 4280A - Chief Legal Counsel/Top Legal Services Executive - Total Net Revenue: 350M to less than 1.5B USD	1	\$1.4B	-10% for Size	12	12	\$311	\$342	\$369	\$325	\$362	\$434	\$325	\$362	\$434
US-HLTH-IHS-17 - 590 - Top Executive, Legal Services (General Counsel) - Systems: Net Rev \$500M-\$1.0B	1	\$753M		37		\$311	\$338	\$399	\$316	\$384	\$418	\$316	\$384	\$418
US-HLTH-SUL-17 - 7075 - Top Legal Services Executive (General Counsel) - Systems: \$400M to \$900M Net Revenue	1	\$647.9M	+10% for Size	53		\$344	\$390	\$438	\$378	\$459	\$506	\$378	\$471	\$508
Survey Composite						\$322	\$357	\$402	\$340	\$402	\$452	\$340	\$406	\$453
Survey Composite with 25% Geographic Differential						\$403	\$446	\$503	\$424	\$502	\$566	\$424	\$507	\$566

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**Table 11: Chief Information Officer Market Data**

Benchmark Match Information	Wgt	Median Scope	Adj	# of Cos	# of Inc	Base			TCC			TDC		
						25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER4A-17 - 4165A - Chief Information Officer (CIO) - Total Net Revenue: 350M to less than 1.5B USD	1	\$1.1B		19	19	\$317	\$355	\$396	\$332	\$409	\$450	\$332	\$409	\$450
US-HLTH-IHS-17 - 550 - Chief Information Officer - Systems: Net Rev \$500M-\$1.0B	1	\$765.9M		48		\$295	\$318	\$342	\$301	\$336	\$383	\$301	\$339	\$387
US-HLTH-SUL-17 - 7030 - Chief Information Officer - Systems: \$400M to \$900M Net Revenue	1	\$649.6M	+10% for Size	60		\$324	\$349	\$402	\$335	\$381	\$452	\$335	\$381	\$452
Survey Composite						\$312	\$341	\$380	\$322	\$375	\$428	\$322	\$376	\$430
<b>Survey Composite with 25% Geographic Differential</b>						<b>\$390</b>	<b>\$426</b>	<b>\$475</b>	<b>\$403</b>	<b>\$469</b>	<b>\$535</b>	<b>\$403</b>	<b>\$471</b>	<b>\$537</b>

**Table 12: Chief Human Resource Officer Market Data**

Benchmark Match Information	Wgt	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
						25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER4A-17 - 4260A - Top Human Resources Executive - Total Net Revenue: 350M to less than 1.5B USD	1	\$1.1B		25	25	\$272	\$316	\$355	\$292	\$353	\$408	\$292	\$353	\$408
US-HLTH-IHS-17 - 500 - Top Executive, Human Resources - Systems: Net Rev \$500M-\$1.0B	1	\$722M		59		\$239	\$278	\$316	\$257	\$302	\$359	\$257	\$302	\$360
US-HLTH-SUL-17 - 7055 - Top Human Resources Executive - Systems: \$400M to \$900M Net Revenue	1	\$647.5M	+10% for Size	78		\$284	\$311	\$344	\$301	\$348	\$406	\$301	\$351	\$425
Survey Composite						\$265	\$302	\$339	\$283	\$334	\$391	\$284	\$335	\$397
<b>Survey Composite with 25% Geographic Differential</b>						<b>\$331</b>	<b>\$377</b>	<b>\$423</b>	<b>\$354</b>	<b>\$418</b>	<b>\$489</b>	<b>\$355</b>	<b>\$419</b>	<b>\$497</b>

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**Table 13: Chief Nursing Officer Market Data**

Benchmark Match Information	Wgt	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
						25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER4A-17 - 4380A - Top Nursing Executive - Total Net Revenue: 350M to less than 1.5B USD	1	\$1.2B		9	9	\$269	\$333	\$367	\$278	\$336	\$408	\$278	\$336	\$408
_US-HLTH-MER4A-17 - 4381A - Top Patient Care Executive - Total Net Revenue: 500M or More USD	0	\$1.6B	-15% for Size	7	7	\$218	\$283	\$343	\$233	\$343	\$366	\$233	\$343	\$366
US-HLTH-IHS-17 - 120 - Top Executive, Patient Care - Systems: Net Rev \$500M-\$1.0B	0	\$799.4M		14		\$224	\$245	\$330	\$244	\$266	\$344	\$244	\$266	\$344
US-HLTH-IHS-17 - 122 - Top Executive, Nursing/CNO (Strategy) - Systems: Net Rev \$500M-\$1.0B	1	\$686M		5		\$277	\$280	\$334	\$315	\$358	\$359	\$315	\$358	\$359
US-HLTH-SUL-17 - 7046 - Chief Nursing Officer/Top Patient Care Executive - Systems: \$400M to \$900M Net Revenue	1	\$649.1M	+10% for Size	74		\$291	\$324	\$361	\$316	\$362	\$419	\$320	\$362	\$419
Survey Composite						\$279	\$312	\$354	\$303	\$352	\$395	\$304	\$352	\$395
<b>Survey Composite with 25% Geographic Differential</b>						<b>\$349</b>	<b>\$391</b>	<b>\$442</b>	<b>\$379</b>	<b>\$440</b>	<b>\$494</b>	<b>\$381</b>	<b>\$440</b>	<b>\$494</b>



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**Table 14: Chief Administrative Services Officer Market Data**

Benchmark Match Information	Wgt	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
						25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER4A-17 - 4530A - Head of Support Services - Total Net Revenue: More than 0 USD	1	\$1.6B	-15% for Size	8	8	\$159	\$168	\$238	\$186	\$209	\$292	\$186	\$209	\$292
US-HLTH-IHS-17 - 215 - Top Executive, Support Services - Systems: Net Rev \$500M-\$1.0B	1	\$762M		15		\$201	\$255	\$294	\$222	\$270	\$332	\$222	\$270	\$342
US-HLTH-SUL-17 - 7061 - Top Support Services Executive - Systems: \$400M to \$900M Net Revenue	1	\$676.8M		9		\$195	\$225	\$257	\$211	\$261	\$293	\$211	\$261	\$293
Survey Composite						\$185	\$216	\$263	\$206	\$247	\$306	\$206	\$247	\$309
<b>Survey Composite with 25% Geographic Differential</b>						<b>\$231</b>	<b>\$270</b>	<b>\$329</b>	<b>\$258</b>	<b>\$308</b>	<b>\$382</b>	<b>\$258</b>	<b>\$308</b>	<b>\$386</b>

**Table 15: Vice President of Payor Relations Market Data**

Benchmark Match Information	Wgt	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
						25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER4A-17 - 4330A - Head of Managed Care - Total Net Revenue: 350M to less than 1.5B USD	1	\$1.1B	-10% for reduced FTE status	8	8	\$173	\$202	\$224	\$185	\$219	\$253	\$185	\$219	\$253
US-HLTH-IHS-17 - 800 - Head of Managed Care - Systems: Net Rev \$500M-\$1.0B	1	\$753M	-10% for Reduced FTE Status	15		\$121	\$141	\$204	\$126	\$142	\$205	\$126	\$143	\$205
US-HLTH-SUL-17 - 7229 - Top Managed Care Executive - Systems: \$400M to \$900M Net Revenue	1	\$682.5M	-10% for Reduced FTE Status	11		\$182	\$214	\$263	\$185	\$214	\$294	\$185	\$214	\$294
Survey Composite						\$159	\$186	\$230	\$165	\$192	\$251	\$165	\$192	\$251
<b>Survey Composite with 25% Geographic Differential</b>						<b>\$198</b>	<b>\$232</b>	<b>\$288</b>	<b>\$207</b>	<b>\$239</b>	<b>\$313</b>	<b>\$207</b>	<b>\$240</b>	<b>\$313</b>

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**Table 16: Vice President of Corporate and Community Health Services; President, Employee Assistance Program Market Data**

Benchmark Match Information	Wgt	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
						25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER4A-17 - 4600A - Head of Product/Service Line - Total Net Revenue: 350M to less than 1.5B USD	0	\$889.9M	+20% for org level	6	29	-	\$197	-	-	\$200	-	-	\$200	-
US-HLTH-IHS-17 - 325 - Head of Service Line (with Nursing) - Systems: All Systems	1		+20% for org level	6		\$201	\$214	\$266	\$242	\$245	\$285	\$242	\$245	\$285
US-HLTH-SUL-17 - 7260 - Top Service Line/Institute Executive - Other - Systems: All Health Systems	1		+20% for Org Level	14		\$240	\$272	\$315	\$287	\$315	\$335	\$287	\$315	\$335
Survey Composite						\$220	\$243	\$291	\$265	\$280	\$310	\$265	\$280	\$310
Survey Composite with 25% Geographic Differential						\$276	\$304	\$363	\$331	\$350	\$388	\$331	\$350	\$388

**Table 17: President of El Camino Hospital Foundation Market Data**

Benchmark Match Information	Wgt	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
						25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER4A-17 - 4240A - Head of Foundation - Total Net Revenue: 350M to less than 1.5B USD	1	\$1.1B		13	13	\$180	\$211	\$258	\$192	\$253	\$294	\$192	\$253	\$294
US-HLTH-IHS-17 - 735 - Head of Foundation/Fund Development - Systems: Net Rev \$500M-\$1.0B	1	\$761.6M		44		\$169	\$203	\$260	\$176	\$215	\$266	\$176	\$215	\$266
US-HLTH-SUL-17 - 7090 - Top Foundation/Fund Development Executive - Systems: \$400M to \$900M Net Revenue	1	\$667.7M		37		\$198	\$240	\$284	\$212	\$267	\$334	\$212	\$267	\$334
Survey Composite						\$183	\$218	\$267	\$193	\$245	\$298	\$193	\$245	\$298
Survey Composite with 25% Geographic Differential						\$228	\$272	\$334	\$242	\$306	\$372	\$242	\$306	\$372

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**Table 19: Chief Medical Officer Market Data**

Benchmark Match Information	Wgt	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
						25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER4A-17 - 4320A - Chief Medical Officer (CMO) - Total Net Revenue: 350M to less than 1.5B USD	1	\$1B		22	22	\$372	\$447	\$548	\$424	\$547	\$687	\$424	\$569	\$705
US-HLTH-IHS-17 - 650 - Independent Chief Medical Officer (MD/DO) - Systems: Net Rev \$500M-\$1.0B	1	\$761.1M		45		\$431	\$459	\$511	\$436	\$534	\$584	\$436	\$534	\$584
US-HLTH-SUL-17 - 7010-1 - Chief Medical Officer, All - Systems: \$400M to \$900M Net Revenue	1	\$636.4M	+10% for Size	66		\$428	\$477	\$527	\$476	\$526	\$595	\$476	\$526	\$597
Survey Composite						\$410	\$461	\$529	\$445	\$536	\$622	\$445	\$543	\$629
Survey Composite with 25% Geographic Differential						\$513	\$576	\$661	\$557	\$670	\$777	\$557	\$679	\$786

**Table 20: Chief Operating Officer Market Data**

Benchmark Match Information	Wgt	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
						25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER4A-17 - 4102A - Chief Operating Officer (COO) - Total Net Revenue: 350M to less than 1.5B USD	1	\$1.1B		14	14	\$464	\$552	\$605	\$464	\$619	\$711	\$464	\$619	\$711
US-HLTH-IHS-17 - 100 - Independent Chief Operating Officer (with Nursing) - Systems: Net Rev \$500M-\$1.0B	1	\$737.5M		26		\$381	\$437	\$494	\$385	\$453	\$607	\$385	\$453	\$607
US-HLTH-SUL-17 - 7005-1 - Chief Operating Officer, All - Systems: \$400M to \$900M Net Revenue	1	\$654.9M		62		\$382	\$448	\$523	\$403	\$501	\$609	\$418	\$501	\$632
Survey Composite						\$409	\$479	\$541	\$417	\$524	\$642	\$422	\$524	\$650
Survey Composite with 25% Geographic Differential						\$511	\$599	\$676	\$522	\$655	\$803	\$528	\$655	\$812

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**Table 21: Chief Strategy Officer Market Data**

Benchmark Match Information	Wgt	Median Scope	Adj	# of Cos	# of Incs	Base			TCC			TDC		
						25th	50th	75th	25th	50th	75th	25th	50th	75th
_US-HLTH-MER4A-17 - 4391A - Top Planning Executive - Total Net Revenue: 350M to less than 1.5B USD	1	\$1.2B		7	7	\$192	\$245	\$273	\$230	\$245	\$392	\$230	\$245	\$392
US-HLTH-IHS-17 - 790 - Top Executive, Strategic Planning - Systems: Net Rev \$500M-\$1.0B	1	\$757.5M		18		\$269	\$312	\$352	\$284	\$350	\$415	\$284	\$375	\$455
US-HLTH-SUL-17 - 7027 - Chief Strategy Officer - Systems: \$400M to \$900M Net Revenue	1	\$621.7M	+10% for Size	18		\$314	\$359	\$387	\$321	\$426	\$459	\$321	\$433	\$509
Survey Composite						\$258	\$305	\$338	\$279	\$340	\$422	\$279	\$351	\$452
<b>Survey Composite with 25% Geographic Differential</b>						<b>\$323</b>	<b>\$382</b>	<b>\$422</b>	<b>\$348</b>	<b>\$425</b>	<b>\$527</b>	<b>\$348</b>	<b>\$439</b>	<b>\$565</b>

## APPENDIX B: INCENTIVE PLAN PAYOUT DETAILS (COMPENSATION DATA IN 000S)

**Table 22: FY 2018 Incentive Plan Payouts**

Incumbent	Title	FY18 Base Salary	FY2018 Incentive Plan Payout			
			Target	Maximum	Actual (\$)	Actual (% Tgt)
Iftekhar Hussain	Chief Financial Officer	\$480	\$96	\$144	\$136	141%
Mary Rotunno	General Counsel	\$357	\$71	\$107	\$103	145%
Deborah Muro <sup>2</sup>	Chief Information Officer	\$350	\$44	\$66	\$64	146%
Kathryn Fisk	Chief Human Resource Officer	\$341	\$68	\$102	\$99	145%
Cheryl Reinking	Chief Nursing Officer	\$334	\$67	\$100	\$86	128%
Ken King	Chief Administrative Services Officer	\$295	\$59	\$88	\$73	124%
Joan Kezic	VP, Payor Relations	\$265	\$53	\$80	\$76	144%
Cecile Currier	VP, Corp./ Comm. Health Svcs & Pres, EAP	\$257	\$51	\$77	\$75	146%
Jodi Barnard	President of ECH Foundation	\$252	\$50	\$76	\$57	113%

<sup>1</sup> This table reflects incumbents who participated in the FY18 annual incentive plan.

<sup>2</sup> Deborah Muro became eligible for the executive annual incentive plan on 2/25/18, and her targets and payout calculation reflect a blend of the Management Performance Incentive Plan and the Executive Performance Incentive Plan; because the Market Total Remuneration assessment assumed participation in the executive plan for the entire year, the target and maximum figures for Muro in the assessment are higher than the figures presented in the above table.

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## APPENDIX C: EXECUTIVE BENEFITS AND PERQUISITES REVIEW

### Retirement Plans Summary

	El Camino	Market Practice	Comments
<b>Employer Paid</b>	<p><b>Qualified Plans</b></p> <p><u>Defined Contribution (DC) – 403(b) Plan</u></p> <ul style="list-style-type: none"> <li>Employer match of salary, based on pension years:               <ul style="list-style-type: none"> <li>1-14 years: 4%</li> <li>15-19 years: 5%</li> <li>20+ years: 6%</li> </ul> </li> </ul> <p><u>Defined Benefit (DB) – Cash Balance Plan</u></p> <ul style="list-style-type: none"> <li>5% of salary</li> </ul> <p>Contributions on pay up to IRS limit (\$275K in 2018)</p> <p><b>Nonqualified DC SERP</b></p> <p><u>457(f) Plan</u></p> <ul style="list-style-type: none"> <li>Executives receive employer contribution of 5% of salary</li> </ul> <p>Total employer contribution ranges from 9% to 16% for executives, depending on pay and years of service</p>	<ul style="list-style-type: none"> <li>Nearly all provide employer contributions to a qualified DC plan               <ul style="list-style-type: none"> <li>Less than 15% provide a qualified DB plan</li> </ul> </li> </ul> <p><b>Not-for-Profit</b></p> <ul style="list-style-type: none"> <li>60% provide a nonqualified plan to top executives               <ul style="list-style-type: none"> <li>The vast majority are DC SERPs</li> </ul> </li> <li>Median total employer contribution from all sources ranges from 12%-13% of salary</li> </ul> <p><b>For-Profit</b></p> <ul style="list-style-type: none"> <li>40% provide a nonqualified plan to top executives</li> <li>Median total employer contribution from all sources is 4% of salary</li> </ul>	<ul style="list-style-type: none"> <li>Overall structure is consistent with market practice although prevalence of DB plans continues to decline</li> <li>Total contribution is generally aligned with market median of not-for-profits and above 75<sup>th</sup> percentile of for-profits</li> <li>Because El Camino does not have an offset SERP, the retirement contribution as a percentage of compensation is higher for lower-paid executives than for higher-paid executives</li> </ul>

Sources: Mercer's 2016/2017 Health Care Executive Benefits and Perquisites Survey. Tier 1 Executives: CEO direct report; Tier 2 Executives: Tier 1 direct report.

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### Retirement Plans Summary, continued

El Camino		Market Practice	Comments
<b>Voluntary Deferrals</b>	<u>403(b) Plan</u>	<ul style="list-style-type: none"> <li>Nearly all allow for deferrals to a 403(b)/401(k) plan</li> </ul>	<ul style="list-style-type: none"> <li>Consistent with market practice to provide a 457(b) plan</li> </ul>
	<ul style="list-style-type: none"> <li>Allows for deferral of pay (up to \$18,500 in 2018; \$24,500 if age 50+)</li> </ul>	<b>Not-for-Profit</b> <ul style="list-style-type: none"> <li>85% allow additional deferrals into a 457(b) plan</li> </ul>	
	<u>457(b) Plan</u> <ul style="list-style-type: none"> <li>Allows for additional deferral up to \$18,500 in 2018</li> <li>Most executives have elected to defer some of their Taxable Allowance into the 457(b) plan</li> </ul>	<b>For-Profit</b> <ul style="list-style-type: none"> <li>50% allow additional deferrals into a nonqualified plan</li> </ul>	

Sources: Mercer's 2016/2017 Healthcare Executive Benefits and Perquisites Survey. Tier 1 Executives: CEO direct report; Tier 2 Executives: Tier 1 direct report.

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### Health & Welfare Plans Summary

	El Camino	Market Practice	Comments
<b>Medical</b>	<ul style="list-style-type: none"> <li>Executives receive the same health benefits as all employees</li> </ul>	<ul style="list-style-type: none"> <li>It is common to provide the same health benefits and employer/employee cost sharing to all employees</li> </ul>	<ul style="list-style-type: none"> <li>Consistent with market practice</li> </ul>
<b>Life Insurance</b>	<ul style="list-style-type: none"> <li>3x annual salary, up to a maximum of \$2 million; no medical underwriting required (effective 1/1/2019)</li> <li>Previous plan allowed for 3x salary, up to a maximum of \$1.25 million, with amounts over \$350k subject to medical underwriting</li> <li>Executives have the option to buy additional coverage with Taxable Allowance</li> </ul>	<ul style="list-style-type: none"> <li>Almost all provide employer-paid group coverage</li> <li>30%-45% provide supplemental coverage to top executives</li> <li>Median coverage is 100%-150% of salary (200%-300% at the 75<sup>th</sup> percentile)</li> </ul>	<ul style="list-style-type: none"> <li>Adjustments made to the plan ensure that life insurance remains very competitive and provides equitable benefits for higher-paid executives</li> <li>Elimination of medical underwriting requirement (guaranteed issue) reduces administrative burden on covered employees and organization</li> </ul>
<b>Long-term Care (LTC)</b>	<ul style="list-style-type: none"> <li>Executives can buy coverage with Taxable Allowance</li> <li>2 executives have 2008 policies that were provided as a non-elective employer-paid benefit</li> </ul>	<ul style="list-style-type: none"> <li>Approximately 5% provide executive coverage to executives</li> </ul>	<ul style="list-style-type: none"> <li>Providing LTC is not prevalent in the market</li> </ul>

Sources: Mercer's 2016/2017 Health Care Executive Benefits and Perquisites Survey. Tier 1 Executives: CEO direct report; Tier 2 Executives: Tier 1 direct report



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### Health & Welfare Plans Summary, continued

	El Camino	Market Practice	Comments
<b>Salary Continuance</b>	<ul style="list-style-type: none"> <li>• Employer-paid executive coverage equal to 100% of salary for up to 6 months</li> </ul>	<ul style="list-style-type: none"> <li>• 75% provide group coverage               <ul style="list-style-type: none"> <li>– 60% of salary is the most common benefit</li> </ul> </li> <li>• 40% provide supplemental coverage to top executives               <ul style="list-style-type: none"> <li>– 100% of salary is the most common benefit</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Consistent with market practice</li> </ul>
<b>Long-term Disability (LTD)</b>	<ul style="list-style-type: none"> <li>• Employer-paid group coverage to all employees equal to 60% of salary up to a monthly maximum of \$15,000</li> <li>• Executives have the option to buy additional coverage with Taxable Allowance</li> </ul>	<ul style="list-style-type: none"> <li>• Nearly all provide group coverage</li> <li>• 30%-50% provide supplemental coverage to executives</li> <li>• Median coverage is 60% of salary up to \$15,000 per month</li> </ul>	<ul style="list-style-type: none"> <li>• Coverage level is consistent with market practice</li> </ul>
<b>Taxable Allowance</b>	<ul style="list-style-type: none"> <li>• 7% of salary</li> <li>• Can be used to purchase LTC, additional LTD, and life insurance, defer into 457(b) plan, or distributed in cash</li> </ul>	<ul style="list-style-type: none"> <li>• Prevalence of flexible plans has declined over time (less than 20% provide), due to complexity and compliance risk</li> </ul>	<ul style="list-style-type: none"> <li>• Note that El Camino's plan was updated in 2009, which simplified the plan and minimized compliance risk</li> </ul>

Sources: Mercer's 2016/2017 Health Care Executive Benefits and Perquisites Survey. Tier 1 Executives: CEO direct report; Tier 2 Executives: Tier 1 direct report

### Severance and Perquisites Summary

	El Camino	Market Practice	Comments
<b>Severance</b>	<ul style="list-style-type: none"> <li>Salary and health benefits continue for up to 6 months</li> </ul>	<ul style="list-style-type: none"> <li>65% provide additional severance for executives</li> <li>Median severance period is 12 months for executives               <ul style="list-style-type: none"> <li>75% continue benefits during the severance period</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Length of severance period is below market median</li> </ul>
<b>Perquisites</b>	<ul style="list-style-type: none"> <li>El Camino does not provide any executive-only perquisites</li> </ul>	<ul style="list-style-type: none"> <li>Car/car allowance is the most prevalent remaining perquisite               <ul style="list-style-type: none"> <li>20%-35% for executives</li> </ul> </li> <li>Perquisites are slightly more prevalent among for-profit companies, with ~60% providing at least one perquisite</li> </ul>	<ul style="list-style-type: none"> <li>Perquisites without a clear business-related purpose continue to become less prevalent</li> </ul>

Sources: Mercer's 2016/2017 Health Care Executive Benefits and Perquisites Survey. Tier 1 Executives: CEO direct report; Tier 2 Executives: Tier 1 direct report

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## APPENDIX D: EXECUTIVE BIOGRAPHIES

### MARK ADAMS, MD, FACS **Chief Medical Officer**



Mark Adams joined El Camino Hospital as Chief Medical Officer (CMO) in the fall of 2018. Mark has more than 8 years of experience serving as a CMO. Most recently, he served as CMO for PeaceHealth, a \$2.4B not-for-profit health system with 16,000 caregivers serving Washington, Oregon, and Alaska. Mark has also served on several Boards, and currently serves as a Board Member for Cambia Health Solutions, a holding company for payor organizations. He received his MD and BA in Biology from the University of Pennsylvania, conducted his general surgery residency and vascular surgery fellowship at the University of Washington, and holds board certifications in general and vascular surgery.

### JAMES GRIFFITH **Chief Operating Officer**



James Griffith joined El Camino Hospital as Chief Operating Officer (COO) in the fall of 2018. Prior to joining ECH, James served as the COO and Chief Strategy Officer for Tanner Health System, a \$500M healthcare system serving West Georgia and East Alabama. He was responsible for the system's overall operations, clinical program development, and strategy development. He has also held numerous roles with Salinas Valley Memorial Healthcare System, such as COO, SVP OF Strategic Management and Planning, VP of Strategic Planning and Development, and VP of Physician & Business Development. James received his MBA from Middlebury Monterey Institute of International Studies and his BA from the University of Tennessee.

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**BRUCE HARRISON**  
**President, SVMD**



Bruce Harrison joined El Camino Hospital as Silicon Valley Medical Development, LLC (SVMD) president in the winter of 2018. Bruce has more than 20 years of experience establishing, leading, and operating multi-specialty medical groups. He has served as senior vice president of strategy and operations at Optum, part of UnitedHealth Group. Mr. Harrison worked on relationships between payers, providers' groups, health systems, and data analytics to help make the health system work better for everyone. For six years, he concurrently served as vice president of network development at Stanford Health Care and as chief administrative officer of University HealthCare Alliance. His previous experience includes executive leadership roles at WellStar Health System, Saint Agnes Healthcare, and Scripps Clinic and Research Foundation.

**IFTIKHAR HUSSAIN**  
**Chief Financial Officer**



Iftikhar Hussain joined El Camino Hospital as the chief financial officer in the spring of 2014. He has more than 30 years of health care financial experience. Most recently, Iftikhar was chief executive officer of Mills-Peninsula Health Services in Burlingame, California. Other previous roles include director of finance at Alta Bates Summit Medical Center in Oakland, California, and director of accounting services at Mercy Healthcare/Catholic Healthcare West in Sacramento, California. He earned a bachelor's degree in finance and accounting from the University of California, Berkeley. Iftikhar is a member of the Healthcare Financial Management Association.

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**MARY ROTUNNO**  
**General Counsel**



Mary Rotunno is the General Counsel for El Camino Hospital. Before joining the hospital in early 2014, she served for over 11 years as Senior Counsel for the Bay Area Region at Dignity Health in San Francisco, California. Mary has more than 25 years of experience as an attorney specializing in litigation and health care law. Mary graduated from University of Illinois at the Medical Center with a Bachelor of Science in Nursing and worked as a registered nurse before earning her Juris Doctor degree from University of California, Hastings College of Law. Her long-term commitment to service provided a natural transition from serving patients to serving clients, both allowing her to pursue her passion for helping others.

**KATHRYN FISK**  
**Chief Human Resource Officer**



Kathryn Fisk is the chief human resources officer for El Camino Hospital. She joined the hospital in early 2014. Most recently Kathryn was regional director of human resources for the Florida Region of Tenet Healthcare. She also served in several senior-level human resources positions at the University of Miami Health System, Baptist Health South Florida and the University of Massachusetts Medical Center and School. Along with master's degrees in biology and business administration, she holds a lifetime Senior Professional in Human Resources certification from the Society of Human Resources Management (SHRM).

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**CHERYL REINKING, RN, MS**  
**Chief Nursing Officer**



Cheryl Reinking serves as the chief nursing officer for El Camino Hospital. She has served the hospital in progressive nursing leadership roles for the past 25 years. Cheryl received a bachelor's degree in nursing from Illinois Wesleyan University and a master's degree from San Jose State University. She's a member of the El Camino Hospital Community Benefit Advisory Board, Integrated Nurse Leadership Program Board, and Private Duty for Pathways Home Health and Hospice Board. Cheryl is also certified by American Nurses Credentialing Center in advanced nursing administration.

**KEN KING**  
**Chief Administrative Services Officer**



Ken King is the chief administrative services officer for El Camino Hospital. He joined the hospital in 1988. Before joining the El Camino Hospital, Ken worked in various engineering management positions in hospitals in Southern California. He's a member of the American Society of Hospital Engineers, National Fire Protection Agency, and the Association for the Advancement of Medical Instrumentation.

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**JOAN KEZIC**  
**Vice President of Payor Relations**



Joan Kezic is the vice president of payor relations for El Camino Hospital. She joined the hospital in 1996 after 10 years as director of contracting at Sequoia Hospital in Redwood City, California. Joan received a bachelor's degree in health planning and business administration from Penn State University. She's a member of the Managed Care Committee of the California Healthcare Association and the Healthcare Financial Management Association.

**CECILE CURRIER**  
**Vice President of Corporate and Community Health Services; CEO of CONCERN: Employee Assistance Program**



Cecile Currier is the vice president of corporate and community health services for El Camino Hospital, as well as the chief executive officer of CONCERN: Employee Assistance Program. An employee of El Camino Hospital since 1985, she has many years of experience in health care with a focus on behavioral health, community health services, occupational health and employee assistance programs. Cecile earned a bachelor's degree in sociology and a master's degree in social work from the University of California, Santa Barbara. She's also a licensed clinical social worker.

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**JODI BARNARD**  
**President of the El Camino Hospital Foundation**



Jodi Barnard joined El Camino Hospital as the president of the El Camino Hospital Foundation in the fall of 2013. She has more than 25 years of development leadership experience across acute and pediatric health care, higher education and nonprofit institutions. Most recently, Jodi served as the regional executive director for statewide foundations of Providence Health & Services in Oregon and executive director of the Providence Community Health Foundation, Southern Oregon Service Area. Before moving to Oregon, she led development programs at Dayton's Children's Medical Center, the University of Dayton and Qbase. Jodi is a graduate of Interlochen Arts Academy and DePauw University.



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## APPENDIX E: GEOGRAPHIC SALARY DIFFERENTIAL

- A geographic salary differential is a numerical value that expresses how a position's pay in a particular location compares to the national average pay for the same position.
  - For example, a differential of 27% for Mountain View means that the average executive salary in Mountain View is 27% higher than the average salary of executives in like positions across the US.
- The purpose of applying a geographic salary differential to market data is to account for the market differences in that employee's location.
  - Geographic salary differentials used in this study are calculated using data from the Economic Research Institute (ERI), which determines differentials using salary survey data from across the country. The differential in the Bay Area has been increasing over the past decade, with that increase accelerating over the past three to five years.

	Bay Area <sup>1</sup>	Silicon Valley <sup>2</sup>	Mountain View
<b>Average Differential</b>	<b>23%</b>	<b>27%</b>	<b>27%</b>

<sup>1</sup> Bay Area includes Silicon Valley (see below), San Francisco, Oakland, Berkeley, Piedmont, Lafayette, Walnut Creek, Alameda, and Marin County.

<sup>2</sup> Silicon Valley includes Mountain View, Palo Alto, Cupertino, Sunnyvale, Los Altos, and Los Gatos.

- A geographic salary differential of 25% has been applied to survey data for base salary, total cash, and total remuneration in this study.
- Per the executive compensation philosophy, the application of a geographic differential recognizes the significantly higher cost-of-labor in Silicon Valley.



**Stephen S. Pollack**  
Partner

633 W 5<sup>th</sup> St, Suite 1200  
Los Angeles, CA 90071  
+1 213 346 2233  
stephen.pollack@mercer.com  
www.mercer.com

Mr. Robert Miller  
Chair, Executive Compensation Committee  
El Camino Hospital  
2500 Grant Road  
Mountain View, CA 94040

October 31, 2018

**Subject:** Reasonableness Opinion for El Camino Hospital Chief Executive Officer

Dear Mr. Miller:

As requested by the Executive Compensation Committee ("ECC" or "Committee") of the Board of Directors ("Board") of El Camino Hospital ("El Camino" or "ECH"), Mercer has conducted an evaluation of the total remuneration program for the El Camino Chief Executive Officer for the fiscal year ending June 30, 2019 ("FY 2019"). This letter outlines the study's objectives, Mercer's evaluation process, findings, and our opinion that the approved FY 2019 total remuneration program for the Chief Executive Officer falls within a reasonable range of the competitive practice.

## **I. PURPOSE**

The purpose of this letter is to document comparability data and provide Mercer's opinion on the reasonableness of executive total remuneration program in support of the organization's pursuit of the rebuttable presumption of reasonableness under IRC §4958. To do so, we have:

- Presented relevant summary market comparability data at the May 2018 Committee and June 2018 Board meetings to ensure that the Committee is well-informed of current market executive compensation and benefits practices when making recommendations on El Camino's Chief Executive Officer remuneration;
- Advised the Committee regarding interpretation of the market data;
- Assisted the Committee in its governance responsibility with respect to the compensation program for the Chief Executive Officer by providing Mercer's opinion that the level of total remuneration falls within a reasonable range of competitive market practices, applicable to like positions, among like organizations under like circumstances, in accordance with the Intermediate Sanctions legislation and applicable regulations; and
- Documented the Chief Executive Officer compensation approved by the Board of Directors in August 2018 based on the comparability data Mercer provided to the Committee in May 2018 and the Board in August 2018.



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## **II. BACKGROUND**

Mercer serves as an independent advisor to the Committee. In this capacity, we provide advice and competitive compensation and benefits market data to management that has been used in its decision-making process relative to the compensation program for El Camino's Chief Executive Officer.

The executive compensation program is governed by the Board of Directors and the Executive Compensation Committee that advises the Board to meet all applicable legal and regulatory requirements as related to executive compensation and effectiveness in attracting, retaining, and motivating executives.

### **Organization Context**

El Camino Hospital's mission is to heal, relieve suffering, and advance wellness as a publicly accountable partner. El Camino opened its doors to its first patients on September 1, 1961 with 21 medical staff. An expanding population in Silicon Valley drove El Camino Hospital to develop further, and today El Camino Hospital consists of two campuses: Los Gatos and Mountain View. El Camino's net operating revenue for FY 2017 was \$870.5 million.<sup>1</sup>

### **Executive Compensation Philosophy<sup>2</sup>**

El Camino's Executive Compensation Philosophy utilizes the following guiding principles and objectives to drive executive compensation decisions:

- Support the Hospital's ability to attract, retain, and motivate a highly-talented executive team with the ability and dedication to manage the Hospital accordingly.
- Support the Hospital's mission and vision and achievement of strategic goals.
- Encompass a total compensation perspective in developing and administering cash compensation and benefit programs.
- Consider the Hospital's financial performance and ability to pay which shall be balanced with the Hospital's ability to attract, retain and motivate executives.
- Govern the executive compensation programs to comply with state and federal laws.

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<sup>1</sup> Source: El Camino FY17 Financial Audit.

<sup>2</sup> This is extracted from El Camino's official stated philosophy, as last approved at the February 14, 2018 Board meeting.



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The executive compensation program encompasses both cash compensation (base salary, incentive compensation, and other cash compensation) and non-cash compensation (employer provided benefit plans and perquisites) which, in whole, represent total remuneration.

The three key components of the program are base salary, incentives, and benefits. In evaluating executive compensation, the Executive Compensation Committee uses the following market definition and desired positioning guidelines.

**Table 1:** El Camino Hospital Market Definition and Desired Positioning

COMPONENT	MARKET DEFINITION AND DESIRED POSITIONING
Market Definition	<ul style="list-style-type: none"> <li>Primarily national, not-for-profit, independent hospitals/health systems of comparable revenue size and complexity to ECH.</li> <li>Data increased by a 25% geographic salary differential to account for the salary differences in the Bay Area (reviewed annually to verify accuracy).</li> </ul>
Base Salary	<ul style="list-style-type: none"> <li>Salary range midpoints are based on the 50th percentile of market data.</li> <li>The salary range will be from 20% below to 20% above the salary range midpoint, and will be updated annually.</li> <li>Actual salary will reflect market range, performance, and incumbent competence, credentials, and experience.</li> <li>Pay at 80% to 90% of market 50th percentile may be appropriate for individuals with limited experience in a comparable position.</li> <li>Pay at 90% to 110% of market 50th percentile for fully experienced individuals with demonstrated records of successful performance.</li> <li>Pay at 110% to 120% of market 50th percentile may be appropriate for a highly experienced individual with demonstrated record of consistently exceeding performance expectations or in roles which are particularly critical for the achievement of strategic objectives or roles with a particularly competitive labor market.</li> <li>Board of Directors can approve salaries above the normal salary range for hard-to-recruit positions or positions deemed critical to the organization's success.</li> </ul>
Incentives	<ul style="list-style-type: none"> <li>Target incentive opportunities are set at competitive levels.</li> <li>Actual total cash compensation will reflect individual and organizational performance.</li> </ul>
Benefits	<ul style="list-style-type: none"> <li>Executive benefits and severance target competitiveness, compliance, and cost-effectiveness.</li> <li>Perquisites should only be provided when supported by specific business reasons. ECH's practice is to minimize the use of perquisites.</li> </ul>



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### El Camino Chief Executive Officer

Mercer reviewed the FY 2019 total remuneration for Daniel Woods, who was appointed Chief Executive Officer on June 14, 2017 and commenced employment with ECH effective August 30, 2017. Woods previously served as President and Chief Executive Officer of Wellstar Kennestone Regional Medical Center, the flagship hospital of WellStar Health System in Georgia. At Wellstar Kennestone, Woods oversaw a combined Medical Staff of over 1,100 employed and independent physicians and 4,700 employees. Prior to WellStar, Woods served as Senior Vice President at Verras Healthcare, a healthcare consulting firm providing services to hospitals by pairing business intelligence with clinical analytics. He served as Vice President of Operations for nine years at Northwestern Memorial Healthcare and concurrently for five years as President and CEO of NM Home Healthcare. He spent 12 years at the University of Chicago Hospitals and Health System serving in multiple leadership roles including President and CEO, CareMed Chicago and Vice President of the health system.

### El Camino's Total Remuneration Program

Mercer assessed the value of the total remuneration, which consists of the following elements:

**Table 2:** Compensation Elements

ELEMENT	OVERVIEW
<b>Base Salary</b>	Annual cash salary based on position, market data, and incumbent skills and experience.
<b>Incentives</b>	Annual cash incentive awards are provided based on annual performance against system-wide financial, patient safety, quality outcomes, and smart growth metrics. The Chief Executive Officer's FY 2019 target opportunity is 30% of base salary, with maximum opportunity of 45% of base salary.
<b>Retirement</b>	The Chief Executive Officer is eligible for the following employer paid retirement plans: a Qualified Defined Contribution (DC) Plan; a Qualified Defined Benefit (DB) Plan; and a Nonqualified DC SERP. Total employer contribution is 13% of base salary. The Chief Executive Officer may also participate in 403(b) and 457(b) plans for voluntary deferrals, including unused allowance from the Taxable Benefit Allowance.



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ELEMENT	OVERVIEW
<b>Health &amp; Welfare</b>	<p>The Chief Executive Officer is eligible to receive the same health benefits as all other El Camino employees.</p> <p>The Chief Executive Officer receives group life insurance coverage of up to three times base salary (capped at \$2 million) with no required medical underwriting.<sup>3</sup></p> <p>The Chief Executive Officer is eligible to receive salary continuation of 100% of base salary for six months, including any state disability insurance, worker's compensation, long-term disability benefits, paid time off and extended sick leave. The Chief Executive Officer is eligible to receive long-term disability equal to 60% of base salary up to a monthly maximum of \$15,000.</p>
<b>Perquisites</b>	<p>The Chief Executive Officer receives an employer contribution of 7% of base salary to an Executive Taxable Benefit Allowance to purchase voluntary long-term disability, long-term care, and life insurance; unused allowance can be deferred to the 457(b) plan or paid in cash.</p> <p>The Chief Executive Officer was provided a relocation allowance of up to \$100,000. El Camino offered to make an interest-free loan to the Chief Executive Officer of up to \$400,000.</p>
<b>Severance</b>	Executive employment agreement provides up to 12 months of base salary and health benefits.

Table 3 summarizes the approved target and maximum FY 2019 total compensation program for El Camino's Chief Executive Officer. Target values shown in Table 3 reflect the *structure* of El Camino's program; actual payouts will vary and are based on performance. Maximum values assume annual incentive is paid at the maximum value and is paid for attainment of stretch performance under the annual incentive plan. Total remuneration is shown exclusive and inclusive of the special one-time awards granted upon sign-on (\$100,000 relocation allowance amortized over 2 years (\$50,000 for 2019), and a \$400,000 interest-free loan with a 30-year fixed mortgage rate (\$18,320 for 2018).

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<sup>3</sup> Policy effective 1/1/2019. FY 2019 CEO Total Remuneration reflects life insurance values based on ECH's prior life insurance benefit policy. Differences between the life insurance values are minimal.



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**Table 3:** El Camino's Chief Executive Officer FY 2019 Target and Maximum Total Remuneration Opportunity (Compensation Data in \$000s)

	Base Salary	Total Cash Compensation				Total Remuneration		
		Target Bonus	Target TCC <sup>(1)</sup>	Max Bonus	Max TCC <sup>(1)</sup>	Benefits	Target TR <sup>(2)</sup>	Max TR <sup>(2)</sup>
Excluding One-Time Awards	\$890	30%	\$1,157	45%	\$1,291	\$190	\$1,347	\$1,481
Including One-Time Awards	\$890	30%	\$1,157	45%	\$1,291	\$258	\$1,415	\$1,549

(1) Total Cash Compensation (TCC) calculated as Base Salary + Target/Max Bonus.

(2) Total Remuneration calculated as Total Cash Compensation + Benefits (employer cost of all benefits).

### III. METHODOLOGY

Mercer's evaluation was conducted in accordance with our firm's standards for reviewing compensation arrangements in tax-exempt organizations.

#### Cash Compensation Assessment Methodology

Our approach to evaluating competitive compensation practices for El Camino's executives is to develop a composite of market data, constructed by weighting each of the following published healthcare surveys equally.

- Market Composite - Healthcare Surveys:
  - Mercer (2017): Integrated Health Networks (IHN) Compensation Survey;
  - Integrated Healthcare Strategies (2017): National Healthcare Leadership Compensation Survey; and
  - Sullivan, Cotter and Associates, Inc. (2017): Survey of Manager and Executive Compensation in Hospitals and Health Systems.
- Survey Data Methodology:
  - From each survey, we collected market data for base salary, total cash compensation, total direct compensation (where applicable), and total remuneration at the 25th, 50th, and 75th percentiles. Each survey source is weighted equally to arrive at the market composite.
  - All survey data were scoped to approximate El Camino's net revenue size of \$870 million.



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- All data sources were trended to January 1, 2019 by 3.0%, the expected annual increase for executives at healthcare organizations according to Mercer's 2017/2018 US *Compensation Planning Survey*.
- All data sources were adjusted by 25% to account for the geographic salary differences in the Bay Area. See Appendix C for detail.

We show a market ratio to 50th percentile (Market Ratio P50) which compares each El Camino's compensation element to the adjusted survey data 50th percentile. A market ratio of 100% means that executive's compensation element is at the 50th percentile.

### Benefits Assessment

El Camino's benefits and perquisites were compared to practices among not-for-profit organizations using Mercer's (2016/2017) *Healthcare Executive Benefits and Perquisites Survey* (revenue ranging from \$400 million to \$1.6 billion). To develop the survey total remuneration market perspective, Mercer added the market annualized value of retirement, health and welfare benefits and perquisites to market total cash compensation levels. To calculate the Chief Executive Officer's Target and Maximum Total Remuneration, Mercer added the annualized values of retirement and other benefits to target and maximum total cash compensation.

## IV. FINDINGS AND OBSERVATIONS

### Target and Maximum Total Remuneration

Table 4 displays the comparison of El Camino's approved Chief Executive Officer FY 2019 total remuneration program relative to market composite levels.

**Table 4:** FY 2019 Annualized Base Salary, Target Total Cash Compensation, and Total Remuneration versus Market (Compensation Data in \$000s)

	ECH FY2019		Market			Market Ratio	
	Target	Max	P25	P50	P75	Target/ P50	Max/ P75
Base Salary	\$890	--	\$939	\$1,095	\$1,231	81%	--
Total Cash Compensation <sup>(1)</sup>	\$1,157	\$1,291	\$1,073	\$1,317	\$1,577	88%	82%
Total Remuneration (exc. relocation/loan assistance) <sup>(2)</sup>	\$1,347	\$1,481	\$1,194	\$1,457	\$1,734	92%	85%
Total Remuneration (inc. relocation/loan assistance) <sup>(2)</sup>	\$1,397	\$1,531	\$1,194	\$1,457	\$1,734	96%	88%

(1) Market Total Cash Compensation calculated as Base Salary + Actual Bonus.

(2) Market Total Remuneration calculated as Total Cash Compensation + Benefits (employer cost of all benefits). Excludes relocation bonus and offered loan assistance.

(3) Market Total Remuneration calculated as Total Cash Compensation + one-time and ongoing benefits (employer cost of all benefits).





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**Base Salary**

As shown in Table 4, the Chief Executive Officer's base salary is positioned at 81% of market 50th percentile, which is within El Camino's pay guidelines for newly-hired individuals.

**Annual Incentives and Total Cash Compensation**

The Chief Executive Officer's FY 2019 target total cash compensation (i.e., base salary + target bonus) is positioned within 15% of the 50th percentile, in accordance with El Camino's stated compensation philosophy.

**Benefits**

Overall, El Camino's executive benefit offerings are comprehensive and generally consistent with market practice and those provided by comparators. The total value of El Camino's benefits program is generally aligned with the market 50th percentile of the not-for-profit healthcare industry.

- Retirement

Overall, the types of retirement plans offered by El Camino are consistent with market practice. Like El Camino, the vast majority of similarly sized tax-exempt healthcare organizations provide a qualified defined contribution plan. Total employer contribution to retirement (including defined contribution, defined benefit and SERP) is aligned with the 50th percentile of the not-for-profit healthcare industry.

- Health and Welfare Benefits

The Chief Executive Officer receives the same health benefits as all other employees, which is consistent with market practice. The Chief Executive Officer receives life insurance coverage of up to 3X base pay (\$2,000,000 maximum) with a guaranteed issue of the full basic benefit, effective January 1, 2019. Because of the cap, the total coverage level is ~225%, which is between the market median and 75th percentile. The Chief Executive Officer receives salary continuation of 100% of base salary for up to 6 months, and long-term disability coverage of 60% of base pay up to a monthly maximum benefit of \$15,000, which is consistent with market practice. Given the benefit levels, El Camino is generally consistent with market practice in its health and welfare benefit offerings.

- Perquisites

El Camino provides the Chief Executive Officer with an employer contribution of 7% of base salary to an Executive Taxable Benefit Allowance to purchase voluntary long-term disability coverage, long-term care, and life insurance. Any unused allowance can be deferred to the 457(b) plan or he may opt to receive in cash. Perquisites without a clear business-related purpose continue to become less



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prevalent in the market. Flexible benefit plans in particular are declining in prevalence for a variety of reasons including complexity and cost. El Camino's executive severance policy is to provide base salary and health benefits for up to six months, and the Chief Executive Officer's employment agreement provides twelve months. The length of El Camino's severance period is below market practice.

#### **Target Total Remuneration**

The Chief Executive Officer's FY 2019 target total remuneration (excluding relocation and sign on) value (base salary + target annual incentives + benefits) is positioned within 10% of the 50th percentile. Inclusive of the special one-time awards given to Mr. Woods, FY 2019 target total remuneration is positioned at approximately the 50th percentile. The Board believes these awards were essential to securing Mr. Woods' acceptance of the employment offer, given the high cost of housing in the El Camino area. This value has been included; however, it does not represent target go-forward compensation and appears to be part of an initial contract exemption (and therefore reasonable).

#### **Maximum Total Remuneration Opportunity**

In addition to examining the approved target total remuneration program for El Camino's Chief Executive Officer, Mercer also has reviewed the Chief Executive Officer's FY 2019 *maximum* total remuneration opportunity (maximum total cash compensation plus benefits). Maximum total remuneration assumes the annual incentive plan pays out at maximum (i.e., 150% of target opportunity) and payout requires attainment of stretch goals under the annual incentive plan. The Chief Executive Officer's maximum total remuneration value, inclusive of special awards in 2019, is within 15% of the market 75th percentile.

#### **V. BASIS FOR OPINION**

Many factors are considered in an evaluation of the reasonableness of pay, including the organization's performance, its total rewards philosophy, and the qualifications and roles of the incumbents. Market data and external factors play a role in determining a reasonable range of compensation practices. Differences in pay levels between an organization and the market data (i.e., variation from the 50th) do not mean that an organization is necessarily over- or under-competitive. El Camino can compensate an executive above the 75th percentiles of the market and still be within a range of reasonable compensation, depending on the facts and circumstances of the particular situation. Mercer considered the following factors in determining the reasonableness of pay for the Chief Executive Officer of El Camino:

- Industry Pressure: With the significant changes in the healthcare industry, El Camino faces a strategic crossroads as an independent community hospital system. The ability to attract and retain key talent remains critical to the future success of the organization during this turbulent time and providing compensation at market (50th percentile) or above levels is part of El Camino's strategy to ensure its ability to attract and retain executive talent.



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- Executive Compensation Philosophy: El Camino's desired market positioning as described in the executive compensation philosophy is the market 50th percentile. The Chief Executive Officer is positioned within 10% of the 50th percentile for target remuneration, in alignment with the compensation philosophy.
- The Qualifications and Role of the Chief Executive Officer: The El Camino Chief Executive Officer is critical to the success of the organization. The Committee has acknowledged that he is well-regarded, experienced, and possesses significant industry knowledge.
- One-time Special Awards: The relocation award and loan assistance offered to Mr. Woods do not raise 2019 total remuneration above the 50th percentile at target levels. Furthermore, these are temporary payments that are not indicative of the go-forward compensation program for the Chief Executive Officer. We believe that these would meet the definition under the initial contract exemption and are therefore deemed reasonable.

## VI. OPINION OF REASONABLENESS

Mercer (US) Inc. certifies that it (1) is a compensation consulting firm, (2) performs compensation valuation studies of this type on a regular basis, and (3) is qualified to perform the valuations of the type of property or services involved. In our opinion, the total remuneration we have reviewed falls within a reasonable range of competitive market practices applicable to like positions among like organizations under like circumstances.

### Disclaimers

Mercer has relied on the information and data provided to us without any independent review or verification and we assume all data provided to us is accurate, factual and complete. This does not constitute an opinion regarding the underlying business decisions.

This opinion has been prepared exclusively for El Camino Hospital to assist in understanding market total remuneration positioning for its Chief Executive Officer. This letter provides the Committee with market comparability data as required by Intermediate Sanctions regulations and we urge the Committee to ensure that the additional requirements for establishing the rebuttable presumption/ determining reasonable compensation have been met and to seek the advice of counsel as needed in this regard. This letter may not be used or relied upon by any other party or for any other purpose; Mercer is not responsible for the consequences of any such unauthorized use.

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As always, it is our pleasure to be of service. If you have any questions about this letter, please do not hesitate to contact me at (213) 346-2233.

Sincerely,

A handwritten signature in black ink that reads "Stephen S. Pollack".

Stephen S. Pollack  
Partner

Copy:  
Lisa Stella, Mercer

## APPENDIX A: MARKET EVALUATION DETAILS (COMPENSATION DATA IN 000S)

**Table 5:** Chief Executive Officer Not-For-Profit Market Data

Benchmark Match Information	Wgt	Adj	# of Cos	# of Incs	Base			TCC			TDC			Total Remuneration		
					25th	50th	75th	25th	50th	75th	25th	50th	75th	25th	50th	75th
US-HLTH-MER-16 - 4100A - President/Chief Executive Officer (CEO) - Healthcare System: Total Net Revenue: 350M to less than 1.5B USD	1		26	26	\$654	\$875	\$975	\$672	\$997	\$1,293	\$672	\$997	\$1,293	--	--	--
US-HLTH-IHS-16 - 050 - Independent Chief Executive Officer - System: Net Rev \$500M-\$1.0B	1		47		\$720	\$820	\$878	\$725	\$906	\$1,118	\$725	\$944	\$1,147	--	--	--
US-HLTH-SUL-16 - 7000 - President and Chief Executive Officer - System: \$400M to \$900M Net Revenue	1		85		\$637	\$743	\$847	\$690	\$905	\$1,076	\$690	\$925	\$1,080	--	--	--
Survey Composite					\$670	\$813	\$900	\$695	\$936	\$1,162	\$695	\$956	\$1,173	\$794	\$1,052	\$1,289
Survey Composite with 25% Geographic Differential					\$838	\$1,016	\$1,125	\$869	\$1,170	\$1,453	\$869	\$1,194	\$1,467	\$988	\$1,311	\$1,607

## APPENDIX B: INCENTIVE PLAN PAYOUT (COMPENSATION DATA IN 000S)

**Table 7:** Actual FY 2018 Incentive Plan Payout

Incumbent	Title	FY18	FY2018 Incentive Plan Payout			
		Base Salary	Target	Maximum	Actual (\$)	Actual (% Tgt)
Daniel Woods	Chief Executive Officer	\$850	\$255	\$383	\$307	120%

## APPENDIX C: EXECUTIVE BENEFITS AND PERQUISITES REVIEW

### Retirement Plans Summary

El Camino		Market Practice	Comments
<b>Employer -paid</b>	<p><b>Qualified Plans</b></p> <p><u>Defined Contribution (DC) – 403(b) Plan</u></p> <ul style="list-style-type: none"> <li>Employer match of salary, based on years of pension:               <ul style="list-style-type: none"> <li>1-14 years: 4%</li> <li>15-19 years: 5%</li> <li>20+ years: 6%</li> </ul> </li> </ul> <p><u>Defined Benefit (DB) – Cash Balance Plan</u></p> <ul style="list-style-type: none"> <li>5% of salary</li> </ul> <p>Contributions on pay up to IRS limit (\$275K in 2018)</p> <p><b>Nonqualified DC SERP 457(f) Plan</b></p> <ul style="list-style-type: none"> <li>13% of salary, offset by contributions to qualified plans</li> </ul> <p>Total contribution is 13% of salary</p>	<ul style="list-style-type: none"> <li>Nearly all provide employer contributions to a qualified DC plan               <ul style="list-style-type: none"> <li>Less than 15% provide a qualified DB plan</li> </ul> </li> </ul> <p><b>Not-for-Profit</b></p> <ul style="list-style-type: none"> <li>60% provide a supplemental plan to the CEO               <ul style="list-style-type: none"> <li>The vast majority are DC SERPs</li> </ul> </li> <li>Median total contribution from all employer-provided sources ranges from 12%-13% of salary</li> </ul> <p><b>For-Profit<sup>1</sup></b></p> <ul style="list-style-type: none"> <li>40% provide a supplemental plan</li> <li>Median total contribution from all employer-provided sources is 4% of salary</li> </ul>	<ul style="list-style-type: none"> <li>Overall structure is consistent with market practice although prevalence of DB plans continues to decline</li> <li>Contribution level is aligned with not-for-profit market median</li> </ul>

Source: Mercer's 2016/2017 Healthcare Executive Benefits and Perquisites Survey.

## Health & Welfare Plans Summary

	El Camino	Market Practice	Comments
<b>Medical</b>	<ul style="list-style-type: none"> <li>CEO receives the same health benefits as all employees</li> </ul>	<ul style="list-style-type: none"> <li>It is common to provide the same health benefits and employer/employee cost sharing to all employees</li> </ul>	<ul style="list-style-type: none"> <li>Consistent with market practice</li> </ul>
<b>Life Insurance</b>	<ul style="list-style-type: none"> <li>3X annual salary, up to a maximum of \$2 million; no medical underwriting required</li> <li>Previous plan allowed for 3x salary, up to a maximum of \$1.25 million, with amounts over \$350k subject to medical underwriting</li> <li>Has the option to buy additional coverage with Taxable Allowance</li> </ul>	<ul style="list-style-type: none"> <li>Almost all provide employer-paid group coverage</li> <li>30% to 45% provide supplemental coverage to the CEO</li> <li>Median coverage is 150% to 200% of salary (200% to 300% at the 75<sup>th</sup> percentile)</li> </ul>	<ul style="list-style-type: none"> <li>Adjustments made to the plan ensure that life insurance remains very competitive and provides equitable benefits for higher-paid executives</li> <li>Elimination of medical underwriting requirement (guaranteed issue) reduces administrative burden on covered employees and organization</li> </ul>
<b>Long-term Care (LTC)</b>	<ul style="list-style-type: none"> <li>Has the option to buy coverage with Taxable Allowance</li> </ul>	<ul style="list-style-type: none"> <li>Approximately 5% provide executive coverage to the CEO</li> </ul>	<ul style="list-style-type: none"> <li>Providing LTC is not prevalent in the market</li> </ul>

Source: Mercer's 2016/2017 Healthcare Executive Benefits and Perquisites Survey.



### Health & Welfare Plans Summary, continued

	El Camino	Market Practice	Comments
<b>Salary continuance</b>	<ul style="list-style-type: none"> <li>Employer-paid executive coverage equal to 100% of salary for up to 6 months</li> </ul>	<ul style="list-style-type: none"> <li>75% provide group coverage               <ul style="list-style-type: none"> <li>60% of salary is the most common benefit</li> </ul> </li> <li>40% provide supplemental coverage to the CEO               <ul style="list-style-type: none"> <li>100% of salary is the most common benefit</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Consistent with market practice</li> </ul>
<b>Long-term Disability (LTD)</b>	<ul style="list-style-type: none"> <li>Employer-paid group coverage to all employees equal to 60% of salary up to a monthly maximum of \$15,000</li> <li>Has the option to buy additional coverage with Taxable Allowance</li> </ul>	<ul style="list-style-type: none"> <li>Nearly all provide group coverage</li> <li>30% to 50% provide supplemental coverage to the CEO</li> <li>Median coverage is 60% of salary up to \$20,000 per month</li> </ul>	<ul style="list-style-type: none"> <li>Coverage level is consistent with market practice</li> </ul>
<b>Taxable Allowance</b>	<ul style="list-style-type: none"> <li>7% of salary</li> <li>Can be used to purchase LTC, additional LTD, and life insurance, defer into 457(b) plan, or distribute as cash payments</li> </ul>	<ul style="list-style-type: none"> <li>Prevalence of flexible plans has declined over time (less than 20% provide), due to complexity and compliance risk</li> </ul>	

Source: Mercer's 2016/2017 Healthcare Executive Benefits and Perquisites Survey.

### Severance and Perquisites Summary

	El Camino	Market Practice	Comments
<b>Severance</b>	<ul style="list-style-type: none"> <li>Salary and health benefits continue for 6 months</li> </ul>	<ul style="list-style-type: none"> <li>65% provide additional severance benefits</li> <li>Median severance period is 18 months for the CEO               <ul style="list-style-type: none"> <li>75% continue benefits during the severance period</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Length of severance period is below market median</li> </ul>
<b>Perquisites</b>	<ul style="list-style-type: none"> <li>Relocation allowance up to \$100,000 that vests over 2 years (the annual value is \$50,000)</li> <li>Interest-free loan up to \$400,000 (compensatory value of interest included in total remuneration of \$18,320)<sup>1</sup></li> </ul> <p><sup>1</sup> This perquisite was offered to the CEO but was not taken</p>	<ul style="list-style-type: none"> <li>Car/car allowance is the only perquisite that remains somewhat prevalent               <ul style="list-style-type: none"> <li>35% for the CEO</li> <li>Perquisites are slightly more prevalent among for-profit companies, with ~67% providing at least one perquisite to the CEO</li> </ul> </li> <li>Relocation allowances are common for executives</li> <li>Interest-free loans are less common</li> </ul>	<ul style="list-style-type: none"> <li>Perquisites without a clear business-related purpose continue to become less prevalent</li> <li>The CEO's perquisites were intended to assist with relocation expenses associated with his recruitment at the time of hire and have little impact on market positioning</li> </ul>

Source: Mercer's 2016/2017 Healthcare Executive Benefits and Perquisites Survey.

## APPENDIX C: GEOGRAPHIC SALARY DIFFERENTIAL

- A geographic salary differential is a numerical value that expresses how a position's pay in a particular location compares to the national average pay for the same position.
  - For example, a differential of 27% for Mountain View means that the average executive salary in Mountain View is 27% higher than the average salary of executives in like positions across the US.
- The purpose of applying a geographic salary differential to market data is to account for the market differences in that employee's location.
  - Geographic salary differentials used in this study are calculated using data from the Economic Research Institute (ERI), which determines differentials using salary survey data from across the country. The differential in the Bay Area has been increasing over the past decade, with that increase accelerating over the past three to five years.

**Table 8:** Geographic Salary Differential Data

	BAY AREA <sup>4</sup>	SILICON VALLEY <sup>5</sup>	MOUNTAIN VIEW
Average Differential	23%	27%	27%

A geographic salary differential of 25% has been applied to survey data for base salary, total cash, and total remuneration in this study.

Per the executive compensation philosophy, the application of a geographic differential recognizes the significantly higher cost-of-labor in Silicon Valley.

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<sup>4</sup> Bay Area includes Silicon Valley (see below for Silicon Valley definition), San Francisco, Oakland, Berkeley, Piedmont, Lafayette, Walnut Creek, Alameda, and Marin County.

<sup>5</sup> Silicon Valley includes Mountain View, Palo Alto, Cupertino, Sunnyvale, Los Altos, and Los Gatos.

# COMPENSATION CONSULTANT FEEDBACK

Rate the compensation consultant team on the following key attributes:

(1) Does not meet expectations (2) Meets expectations (3) Exceeds expectations

Technical Expertise	Consistently demonstrates valuable expertise, technical depth, industry knowledge, leading edge ideas, and market-driven information to support decisions.	
Analysis and Due Diligence	Presents thorough, accurate analysis that is placed in the context of industry practice, market data, and the organization's compensation philosophy and practices.	
Proactive/Responsive	Brings new ideas on an ongoing basis, anticipates emerging issues and red flags, and demonstrates initiative in understanding ECH culture, stakeholders, strategy, and success drivers.	
Innovative	Appropriately asks questions, shares divergent perspectives, and presents alternative solutions for consideration.	
Communication	Engages regularly and appropriately with key stakeholders.	
Independence/Objectivity/Balance	Understands reporting relationship; manages relationships between Board, Compensation Committee, and management appropriately; maintains objectivity and avoids conflicts of interest.	
Trusted Advisor	Strives to build a long-term partnership; places organization interests ahead of their own; understands perspectives of various stakeholders; appropriately challenges and questions.	
Project Management	Establishes a methodical course of action and drives plan to completion according to agreed-upon ownership. Develops and adheres to a thorough process for working with management, Committee and Board.	

## ECH BOARD COMMITTEE MEETING AGENDA ITEM COVER SHEET

<b>Item:</b>	Assessment of Effectiveness of Delegation of Authority to the Executive Compensation Committee  Executive Compensation Committee  November 8, 2018
<b>Responsible party:</b>	Bob Miller, Chair, Executive Compensation Committee; Cindy Murphy, Director, Governance Services
<b>Action requested:</b>	Discussion
<p><b>Background:</b></p> <p>At its April 18, 2018 meeting, on this Committee's ("ECC") recommendation, the Board delegated authority to us to approve for Executives other than the CEO (1) adjustments to annual salary ranges and annual salaries, (2) individual goals for incentive purposes, and (3) the amount of bonus awards earned. The intended purpose of the delegation was two-fold. First, to leave these decisions in the hands of those with specific subject matter expertise with Board members working alongside and second, to free up Board time to enable the Board to focus on strategic planning and decision making.</p> <p>Since that time, the Committee approved the following for Executives other than the CEO:</p> <p><b><u>May 2018</u></b></p> <ol style="list-style-type: none"> <li>1. FY19 Salary Ranges</li> <li>2. FY19 Base Salary Adjustments</li> <li>3. FY19 Individual Goals</li> </ol> <p><b><u>September 2018</u></b></p> <ol style="list-style-type: none"> <li>1. FY18 Individual Incentive Plan Goal Scores</li> <li>2. FY18 Incentive Plan Bonus Awards</li> <li>3. FY19 COO Base Salary</li> </ol> <p>We reported each of our approvals to the Board as informational items on the Board's consent calendar. The Board did not raise any questions or concerns about the reported approvals. Due to timing issues, the Board approved the FY19 CMO Base Salary without prior full ECC review or approval, although it was reviewed with the Committee Chair prior to Board submission.</p>	
<b>Other Board Advisory Committees that reviewed the issue and recommendation, if any:</b> N/A	
<p><b>Summary and session objectives:</b></p> <p>For the Committee to consider whether the delegation of authority serves its intended purposes.</p>	
<p><b>Suggested discussion questions:</b></p> <ol style="list-style-type: none"> <li>1. Does the Committee receive adequate information and feel comfortable making these</li> </ol>	

## ECH BOARD COMMITTEE MEETING AGENDA ITEM COVER SHEET

	decisions without oversight by the full Board? 2. Does the Board have confidence in the Committee's decisions? 3. Has the delegation resulted in less time spent on executive compensation matters at the Board level, with respect to both meeting preparation and Board discussion?
	<b>Proposed Committee Motion, if any.</b> None.
	<b>LIST OF ATTACHMENTS:</b> None

# EL CAMINO CEO PERFORMANCE REVIEW PROCESS

## COMPENSATION COMMITTEE MEETING DISCUSSION

NOVEMBER 8, 2018

**Bruce Barge**  
**Lisa Stella**  
**Stephen Pollack**



# TODAY'S AGENDA

- Review of criteria/process used for CEO performance review for FY2018
- Proposed future CEO performance management process
- Commentary/recommendations for specific process elements
  - 90 degree survey of CEO direct reports
  - “Discretionary” portion of incentive
  - Sharing of ECH financial/performance outcomes with Board/Chair and use in performance management



# METHODOLOGY & APPROACH

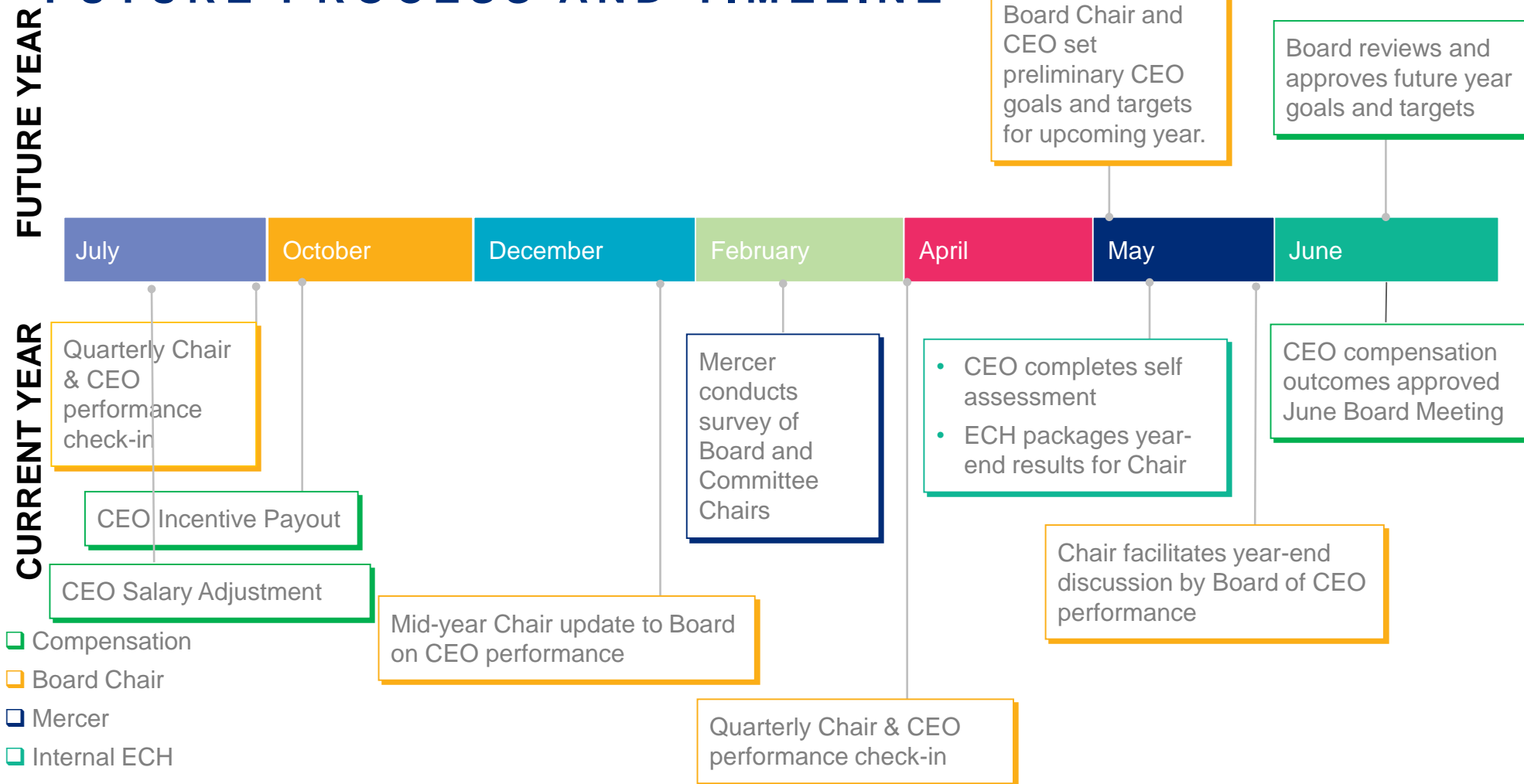
The following pages describe the performance evaluation process for Dan Woods, CEO of El Camino Hospital (ECH) for FY2018 (Dan was employed in this role for the majority of that year). The process was led by Lanhee Chen, Chair of the Hospital Board, in collaboration with Peter Fung, Chair of the District Board. Mercer facilitated the process by collecting data and summarizing results. The process included the following:

- Performance criteria were proposed by Mercer and agreed to by Board Chairs with support from ECC Chair. Performance data were collected from 2 surveys (Hospital Board and District Board), CEO self assessment, and normal reporting of ECH financial and operational results.
- Board survey (ratings and verbatim narrative comments) completed by all 10 members of the Hospital Board (including 5 who are also District Board members). Survey assessed four key areas of performance/impact:
  - **ECH Organization Performance:** ECH results for quality, financial, and operational metrics
  - **ECH Strategic Framework:** CEO impact in development/refinement of ECH strategy and readiness/progress for executing it
  - **Support to Hospital and District Boards:** CEO impact in developing/maintaining Board relationships, communications, governance and performance
  - **CEO Leadership Behavior:** effectiveness of CEO in building/maintain the ECH senior leadership team, culture and mission
- Rating scale used was 1 = Well Below Expectations, 2 = Below Expectations, 3 = Meet Expectations, 4 = Exceeds Expectations, 5 = Outstanding

## METHODOLOGY & APPROACH (CONT'D)

- Separate District Board survey (ratings and verbatim narrative comments) completed by the 5 members of the District Board. Survey assessed four performance areas specific to District Board, plus a separate question regarding feedback for performance of the CFO, with question content leveraging the District Board charter, as below. The same 1-5 rating scale and anchors were used for this survey:
    - How well has the CEO built and led an efficient and cohesive management leadership team with employees in the positions that he was authorized by the district board to select, engage, employ and manage?
    - How well did the CEO serve as a liaison officer between the District Board and relevant committees?
    - How well has the CEO inspired the trust of the District Board?
    - Overall how well has the CEO acted as a duly authorized representative of the District and in administration of the District?
    - How well does the CFO meet the District Board's needs in its finance including preparation of an annual budget, shepherding of the District's resources, and assessing and reviewing the District's investments?
  - CEO also completed a narrative self-assessment regarding performance/impact in same areas as above:
    - Leadership Team Engagement and Management
    - Liaison Responsibilities
    - Trust of the District Board
    - Representation and Administration of the District
  - CEO self assessment was submitted to Board Chair on confidential basis and discussed between CEO and Board Chair. Board Chair aggregated all information and presented a summary of performance results to the Board for their discussion and action.
-

# PROPOSED CEO PERFORMANCE MANAGEMENT FUTURE PROCESS AND TIMELINE



**Continuous Feedback for the CEO throughout the year**

# **PROCESS DESIGN RECOMMENDATIONS REQUEST ECC REVIEW AND APPROVAL**

- Use of a 90 degree survey for CEO direct reports could be done either in February, 2019 or in Fall of 2020. Design should be as follows:
  - Conducted by Mercer to protect confidentiality of participants
  - Content to be aligned with ECH leadership criteria and best practice
  - Results to be solely for CEO development purposes, not evaluative or influencing CEO pay or job outcomes
  - CEO to share summary of results with Board Chair only, within context of confidential conversations, to enable both to discuss and support ECH leadership effectiveness
- Design/use of “discretionary” component of CEO performance evaluation/rewards to be determined.
- The Board and Board Chair desire more streamlined process and information, including ECH financial/operational/strategic performance, to make it easier to set goals and monitor performance. A separate consultant is working with the Board to achieve this goal.



**MERCER**

**MAKE TOMORROW, TODAY**

**Executive Compensation Committee**

**Updated October 10, 2018**

<b>FY19 ECC Pacing Plan – Q1</b>		
<b>July 2018</b>	<b>August 2018</b>	<b>September 20, 2018</b>
<p><i>No scheduled meeting</i></p>	<p><i>No scheduled meeting</i></p> <p><i>Board to take action on:</i></p> <ul style="list-style-type: none"> <li>- <i>CEO Base Salary and 2<sup>nd</sup> Amendment to Employment Agreement</i></li> <li>- <i>CMO Base Salary</i></li> </ul>	<ul style="list-style-type: none"> <li>- Receive update on Strategic Plan</li> </ul> <p>Committee to take action on:</p> <ul style="list-style-type: none"> <li>- Approve Minutes</li> <li>- Recommend Approval of FY18 Organizational Score</li> <li>- Approve FY18 Executive Individual Scores</li> <li>- Approve FY18 Executive Performance Incentive Payout Amounts (Pending Board approval of FY18 Organizational Score)</li> <li>- Ad Hoc Committee Report: Recommendation Regarding Retention of ECC Consultant and Possible RFP</li> </ul> <p><i>Board to take action on:</i></p> <ul style="list-style-type: none"> <li>- <i>Approve FY18 Organizational Score</i></li> </ul>
<b>FY19 ECC Pacing Plan – Q2</b>		
<b>October 2018</b>	<b>November 8, 2018</b>	<b>December 2018</b>
<p><i>No scheduled meeting</i></p> <p><i>Board to take action on:</i></p> <ul style="list-style-type: none"> <li>- <i>Accept Moss Adams' financial audit</i></li> </ul> <p><i>Board to receive informational report on:</i></p> <ul style="list-style-type: none"> <li>- <i>FY18 Executive Individual Scores (closed)</i></li> <li>- <i>FY18 Executive Payout Amounts (open)</i></li> <li>- <i>FY19 CMO goals (closed)</i></li> <li>- <i>FY19 COO Base Salary (open)</i></li> <li>- Mercer Prepares Letters of Reasonableness</li> </ul> <p><i>Board and Committee Educational Gathering October 24, 2018</i></p>	<p>Committee to take action on:</p> <ul style="list-style-type: none"> <li>- Approve Minutes</li> <li>- Recommend Letters of Reasonableness</li> <li>- <b>Dashboard for reviewing Executive Compensation Committee Consultant</b></li> <li>- Assess Effectiveness of Delegation of Authority</li> <li>- Review Salary Administration Process <b>and Executive Incentive Plan</b></li> <li>- Discuss FY19 CEO Evaluation Process</li> </ul> <p><i>Mitch Olejko prepares cover letter for rebuttable presumption action</i></p>	<p><i>No scheduled meeting</i></p> <p><i>Board to take action on:</i></p> <ul style="list-style-type: none"> <li>- <i>Approve Letters of Reasonableness</i></li> </ul>

Executive Compensation Committee

Updated October 10, 2018

FY19 Executive Compensation Committee Pacing Plan – Q3		
January 2019	February 2019	March 28, 2019 (→3/27? – Dan conflict 3/28)
<p><i>Proposed Meeting:</i> <i>T 1/29; W 1/30</i></p> <ul style="list-style-type: none"> <li>- Review Incentive Plan structure</li> <li>- Update on Strategic Plan implementation</li> <li>- Review compensation timeline</li> </ul>	<p><i>No scheduled meeting</i></p>	<p>Committee to receive report on:</p> <ul style="list-style-type: none"> <li><del>— Update on Strategic Plan Implementation</del></li> <li>- Progress against FY19 Organizational Performance Incentive Goals</li> <li>- Succession Planning Practices and Update on Executive Development Plan</li> <li><del>— Executive Benefit Plan Review</del></li> </ul> <p>Committee to take action on:</p> <ul style="list-style-type: none"> <li>- Approve Minutes</li> <li>- Proposed FY20 Committee Goals</li> <li>- FY20 Meeting Dates</li> </ul>
FY19 Executive Compensation Committee Pacing Plan – Q4		
April 2019	May 23, 2019	June 2019
<p><i>Board &amp; Committee Educational Gathering</i> <i>April 24, 2019</i></p>	<p>Committee to take action on:</p> <ul style="list-style-type: none"> <li>- Approve Minutes</li> <li>- Finalize FY20 Pacing Plan</li> <li>- Review and Approve FY20 Executive Salary Ranges</li> <li>- Review and Approve FY20 Executive Base Salaries</li> <li>- Review and Recommend FY20 Organizational Goals</li> <li>- Review and Approve FY20 Executive Individual Performance Incentive Goals</li> <li>- Review and Recommend CEO's FY20 Salary Range and FY20 Base Salary</li> </ul>	<p><i>No scheduled meeting</i></p> <p><i>Board to take action on the following items:</i></p> <ul style="list-style-type: none"> <li>- <i>FY20 Organizational Goals</i></li> <li>- <i>FY20 CEO Salary Range and Base Salary</i></li> <li>- <i>FY20 Committee Goals and Board and Committee Calendar</i></li> </ul> <p><i>Board to receive report on</i></p> <ul style="list-style-type: none"> <li>- <i>FY20 Executive Individual Goals</i></li> <li>- <i>FY20 Executive Salary Ranges and Base Salaries</i></li> </ul>