

Incentive Pay Plan

2016 Salary and Benefits
Resolution Amendment

May 17, 2016

Topics

- Incentive Pay Plan Design
- Customer Feedback
- Implementing the Incentive Pay Plan
- Partial year implementation
- Non-Financial Goals

Incentive Pay Plan

- **Results oriented**
 - Financial performance exceeds budget
 - Payout is fully earned when two values driven, non-financial goals are met
- **Self-funding and taxpayer oriented**
 - Financial performance must be above threshold before plan pays out
 - At least half the positive variance is retained by the Port
 - A portion is returned to the airport (required amount)
 - A portion will go to the tax levy fund to help offset future increases
- **Values driven, socially responsible**
 - Focuses on the triple bottom line
 - Pays out to employees first, executive leadership follows
 - Doesn't add to fixed salary costs
- **Capacity building**
 - Makes the Port stronger over time

Results oriented, self-funding and Century Agenda focused

Business Case

- Motivates exceptional performance
- Drives Century Agenda goals
- Supports working together as “One Port”
- Improves the Port’s ability to compete for talent
 - Makes the Port more competitive with private employers
 - Differentiates the Port among public sector employers
- Is consistent with high-performing employers
- Benefits taxpayers, may help offset future levy increases

One Port creating jobs in our community

Motivating Exceptional Performance

TWO TYPES OF GOALS

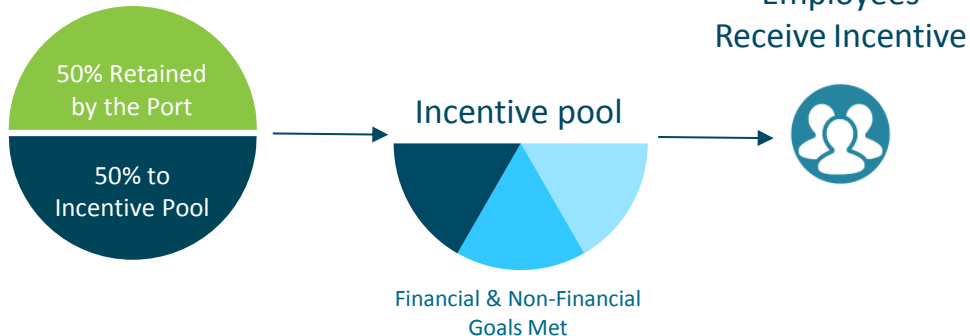
1. Financial
 - Self-funding
2. Values Driven, non-financial
 - Focuses the Port on the most important social responsibility and environmental sustainability commitments each year

Results Oriented, Self-funding, Values Driven, Century Agenda Focused

Incentive Pool Funding

- ↑ Adjusted Revenue Higher than Budget
- + Budget
- ↓ Expenses Lower than Budget

= Total Positive Variance



Financial goals must be met to fund pool

Payout Method



Employees



Step 5 (Max)

Step 4

Step 3

Step 2

Step 1

Minimum

Step 5.1 (Max)

Step 4.1

Step 3.1

Step 2.1

Step 1.1

Executives



Incentive plan pays from the bottom up

Individual Payout Calculations

Employees Earn Awards Based on Annual Performance Review Ratings

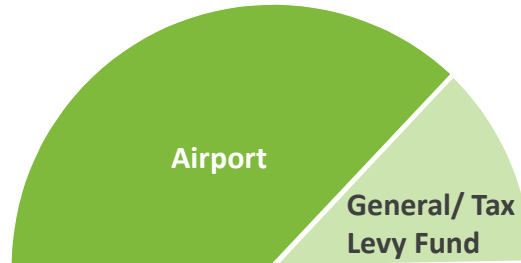
Performance Rating	Rating Distribution	Payout Factor	Minimum Payout*	Step 1	Step 2	Step 3	Step 4	Step 5 - Maximum
Unsatisfactory	0%	No Payout	0%	0%	0%	0%	0%	0%
Contributing	0% – 5%	1 X Payout	0.5%	1%	2%	3%	4%	5%
Strong	65% - 70%	2 X Payout	1.0%	2%	4%	6%	8%	10%
Highly Effective	15% - 20%	3 X Payout	1.5%	3%	6%	9%	12%	15%
Exceptional	5% - 10%	4 X Payout	2.0%	4%	8%	12%	16%	20%
Total Variance Needed to Fund			\$2.0M					\$21.6M
Payout Pool Funding			\$1.0M					\$10.8M

NOTES – payouts are based on employees eligible earnings during the plan year
Payouts assume all goals, financial and non-financial, are met

Funding step determined by the size of the payout pool

Positive Budget Variance Allocation

At least 50%
retained by the
Port



Executive Leadership
Team



50% Shared with
employees

For Illustrative Purposes Only

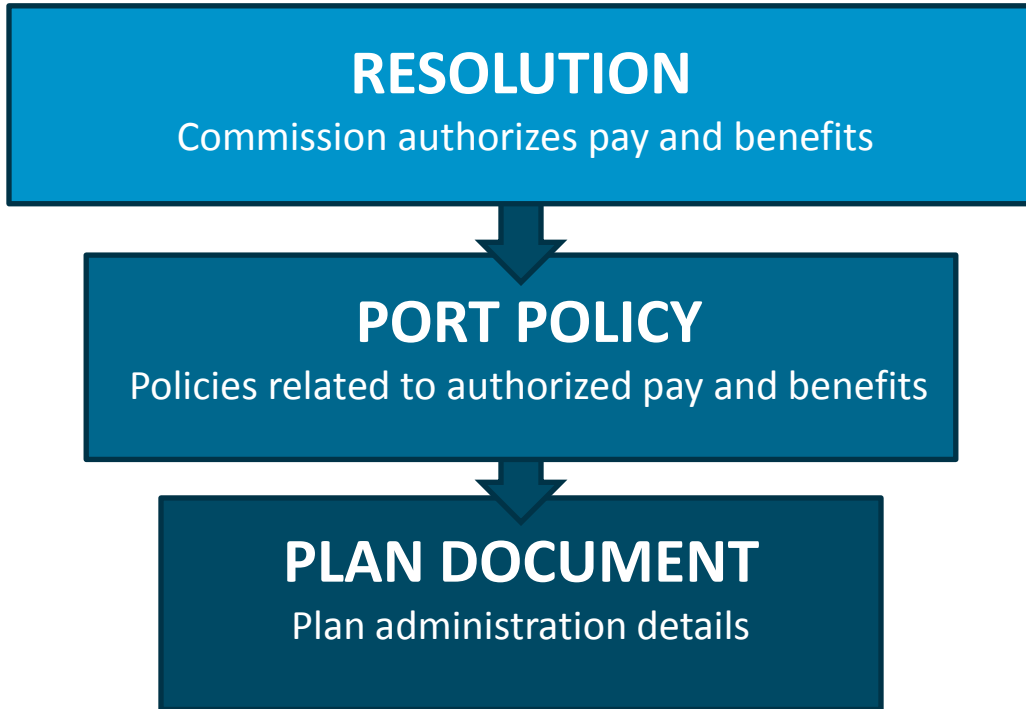
Total variance shared with stakeholders

Following Up – Customer Feedback

- 24 Line of Business customers contacted, 20 responded
 - Overall, supportive of Incentive Pay
 - Feedback reinforces our proposed plan design
 - Tie to the Century Agenda, include a robust appraisal process, emphasize self-funding
 - Limited cautionary feedback
 - Proceed cautiously, why not just increase base pay
 - Helping employees work together is a good thing, but hope it doesn't mean increased customer costs
 - Some worry about cost of implementation, and possible adverse impact on pay for ineligible employees

Customers generally supportive of incentive pay

Implementing the Incentive Pay Plan



Resolution is high level, Policy is mid-level, Documents are details

Implementing the Incentive Pay Plan

- Resolution
 - Defines the Incentive Pay Plan, plan funding, specifies goals must be communicated in advance, refers to Port Policy HR-21
- Port Policy, HR-21, Pay Administration
 - Includes link to the performance review program, specifies performance ratings are considered when determining individual performance awards
- Incentive Pay Plan Document
 - Specifies how performance ratings are considered when determining individual awards, specifies what the guided performance rating distribution is, includes reference to the performance review rating oversight process

Details are contained in the plan document

Mid-year Implementation

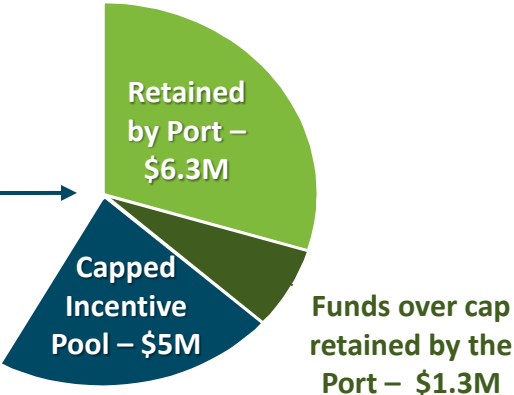
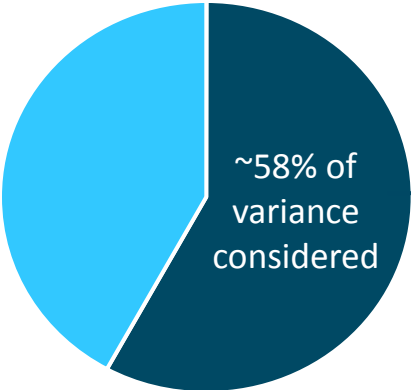
- June 1, 2016 Implementation
- Mid-year implementation will require adjustments
 - Variance eligible to fund the payout pool will be pro-rated
 - Only 7/12 of the total positive variance will be available for 2016 incentive pay plan calculations
 - 50% of the **pro-rated** total positive variance will be used to determine payout step

Only part of 2016 actual results will be incentive plan eligible

2016 Incentive Calculation Example

If a 2016 year-end total positive variance **\$21.6 Million**

Then the variance eligible for incentive pay plan calculations **\$12.6 Million**



7/12 pro-rating applied to actual reflecting June - December eligible results

\$5.0M capped payout pool estimated to fund Step 2.1, 0% to 8% payouts for employees and executive leaders

Pro-rated total variance will result in smaller payouts

Values Driven Non-Financial Goals

#1 – Small Business and WMBE Participation

- a. Increase small business contracting participation Port-wide, as defined by the U.S. Small Business Administration guidelines to 35%, including the sub-goal of a 50% increase (over 2015) of certified Washington State Office of Minority and Woman's Business Enterprises to 5.1%.
- b. By November 1, 2016, assess all Port efforts geared to promoting small and WMBE business participation and provide a report to the Commission rating the effectiveness of each and providing specific recommendations for improvements for Commission consideration.

Focusing the Port on the triple bottom line

Values Driven Non-Financial Goals

#2 – Customer Satisfaction and Public Engagement

- a. Quantitatively and qualitatively assess customer satisfaction of all segments of non-aviation customers to measure satisfaction with Port services and facilities; and identify specific areas for improvement.
- b. Improve aviation customer overall satisfaction, as measured by the Airport Service Quality (ASQ), from 4.07 to 4.13.
- c. Assess within our jurisdiction public and other local government understanding of the Port and our role in the regional and local economy.
- d. By November 1, 2016, provide a report to the Commission that includes:
 - i. Benchmarks for future goal setting to improve satisfaction with Port services and facilities.
 - ii. Strategies to improve the ASQ.
 - iii. High impact actions and programs to improve public and other local government understanding of the Port and our role in the regional and local economy

Focusing the Port on the triple bottom line

Values Driven Non-Financial Goals

#3 – Environmental Stewardship

- a. Develop and ensure Port-wide implementation of an environmental scorecard that measures the Port's environmental footprint and that will serve to guide and monitor reduction efforts in all Port operating and non-operating divisions.
- b. By November 1, 2016, assess potential opportunities for increasing the use of renewable energy and reducing greenhouse gas emissions at Port owned facilities and report findings and recommendations to the Commission for consideration.

Focusing the Port on the triple bottom line

ADDENDUM



Historical Port of Seattle Financial Results

	2012	2013	2014	2015	2016 Forecast *
<u>Adjusted Act/Bud Var.</u>					
Non-Aeronautical Revenues	\$8,045	\$2,031	\$10,114	\$19,895	\$4,736
Total Port O&M Expenses	\$13,324	\$16,846	\$13,560	\$11,092	\$5,303
Adjusted Total Favorable Var.	\$21,369	\$18,877	\$23,674	\$30,987	\$10,039
Available for Incentive Payout Pool	\$10,684,669	\$9,438,580	\$11,837,106	\$15,493,457	\$2,911,310
Payout Step	5	4	5	5	1.1
Payout Pool Funding	\$9,416,920	\$7,769,582	\$9,970,110	\$11,179,303	\$2,160,187
Total Retained by POS	\$11,952,417	\$11,107,579	\$13,704,102	\$19,807,611	\$7,878,813

* includes pro-rated, partial year, total variance

Proposed Incentive Pay Plan would have paid out in the last 4 years

Pool Funding Example

PLAN FUNDS ITSELF

	2016 Budget	2016 Actual*	Variance
Total Revenue	\$584.5m		
Less Aeronautical Revenue	- \$257.4m		
Adjusted Revenue	= \$327.1m	\$337.3m	\$10.2m
Total Port Expense	\$336.1m	\$324.7m	<u>+\$11.4m</u>
Total Variance			<u>= \$21.6m</u>
50% to the Payout Pool			\$10.8m

*NOTE – 2016 Actual is for illustrative purposes only, total variance supports maximum plan payout

Incentive plan funded by positive budget variance