



Ontario Northland Transportation Commission Executive Compensation Program

Introduction

The Government of Ontario has implemented a new framework for broader public sector executive compensation. The Executive Compensation Framework regulation came into force on September 6, 2016. It applies to all designated employers under the *Broader Public Sector Executive Compensation Act, 2014* (“BPSECA”) and establishes requirements that designated broader public sector employers must meet when setting executive compensation.

The framework requires all designated employers to have a written executive compensation program that describes the compensation they may provide to designated executives. The program must include information on the following:

- Compensation philosophy;
- Salary and performance-related pay caps;
- Comparative analysis used to determine salary and performance-related pay caps; and
- Other elements of compensation provided to designated executives.

Employers are required to post a draft executive compensation program on their public-facing website for a minimum of thirty (30) days to allow a reasonable opportunity for members of the public to comment on the manner in which the employer determines the compensation they may provide to their designated executives.

The Ontario Northland Transportation Commission (ONTC) is a transportation leader in Northern Ontario, providing efficient, valued and vital transportation solutions, including rail passenger and rail freight service, motor coach service, and rail remanufacturing and repair services. ONTC is an agency of the Government of Ontario and reports to the legislature through the Minister of Northern Development and Mines (MNDM).

Since December 2014, ONTC has been focused on transforming into a dynamic, sustainable organization. Over the past few years, the focus has been on containing/reducing costs while providing ever-better service, growing business in a strategic, responsible manner, while taking into account potential risks. The company’s transformation efforts have produced many positive results including increase revenues, bottom line savings, and workplace culture that is innovative and adaptive.

In order to continually improve, ONTC has identified five goals to shape our efforts and activities. These include:

- Reduce or contain operating expenses
- Demonstrate ONTC’s commitment to health, safety and environment
- Continuously improve and innovate to achieve business and service excellence
- Increase revenue
- Collaborate with employees and communities

In order to deliver on its mandate ONTC must be able to attract and retain the talent necessary to meet its

objectives. ONTC recognizes that salary is only one component of compensation and the organization is focused on ensuring a competitive and sustainable compensation package.

In 2017 ONTC engaged the Hay Group to provide independent expert advice on non-union compensation, including the establishment of the Agency’s Executive Compensation Program. The ONTC recognized the need to align compensation with organizations of similar mandate and activity in order to support the achievement of ONTC business goals and the ability to attract, retain and motivate key employees.

As part of this process, seventeen (17) comparable broader public sector organizations were identified and market data was compiled based on a benchmark of the 50th percentile of these organizations. No private sector organizations were included in the comparator market group, and all public sector comparators are Canadian organizations.

A. Compensation Philosophy

ONTC’s compensation philosophy is designed to ensure that ONTC is able to attract, retain, and motivate key talent in a manner that is competitive, affordable and aligned with ONTC’s business strategy.

Compensation Principles:

1. Compensation must be viewed through a total rewards lens
2. Total compensation should reward employees who live the values of the organization and achieve their objectives to ensure the organization achieves its objectives.
3. The pay component must be competitive to attract and retain talent
4. The total rewards program must be sustainable
5. There should be an element of risk to pay – each year a portion of salary will be re-earnable.

Total Rewards at ONTC consist of:

Compensation	Benefits	Learning Opportunities	Work Environment
<ul style="list-style-type: none"> • Base Pay • Incentive Pay 	<ul style="list-style-type: none"> • Medical/Dental • Life Insurance • Pension • Wellness 	<ul style="list-style-type: none"> • Career Development • Training • Performance Feedback • Succession Planning 	<ul style="list-style-type: none"> • Values • Leadership • Work Relationships • Work/Life Balance

The objective behind our rewards program is to support the organization’s values of:

- Accountability
- Customer Satisfaction
- Positive Team/Work Environment
- Safety
- Continuous Improvement

Consequently, as part of the performance management plan all management staff are measured against living the values of the organization and their individual performance goals.

Initial placement within the pay range is determined by an employee's experience and knowledge coming into the position and their demonstrated competency on the job.

The ONTC targets total salary at the 50th percentile (P50) of the broader public sector peer group. That is the point where half of our comparators pay above, and half pay below. ONTC determines pay ranges based upon market data.

A strong performance management program which considers an individual employee's development, achievement of goals, contribution to team goals and competencies, is used to move employees through their market-based salary ranges. The organizational payroll adjustment budget envelope is shared through the company and distributed fairly and equitably based upon the performance rankings. The overall plan is to allow individuals to progress through adjusted salary ranges over time in accordance with ONTC's pay-for-performance program.

Aside from any required adjustments made for any executives resulting from the Executive Compensation Program implementation, the average rate of increase in salary for designated executives is intended to be the same given the same levels of performance as the non-executive staff.

Pay at Risk

ONTC believes that a component of executive pay should be re-earnable (paid only where performance commitments are met). This supports our value of continuous improvement and provides accountability to identified outcomes. Total pay for each executive will not exceed the fiftieth percentile of the market.

Example

An executive with a salary set at \$200,000 with 5% re-earnable portion would be paid \$190,000 through the year and then be paid the remaining \$10,000 re-earnable portion only if they met the performance commitments set for the year.

Performance commitments are established in a formal performance plan at the outset of the year, and performance evaluated by the CEO or Chair of the Board as applicable.

B. Designated Executive Positions

With the assistance of Hay Group, ONTC identified two (2) classes of executives reporting to the CEO, being:

- VP Transportation, classed as VP2
- VP Corporate Services and VP Rail Mechanical & RRC, classed as VP1

With four (4) executive roles, ONTC has a lean executive structure. While the executive structure may change due to business needs, ONTC ensures that the structures are in line with best organizational design principles to not require excessive senior level staff. For an organization the size and scope of ONTC, two (2) to three (3) levels of executive reporting to the CEO is appropriate to reflect the differing size of portfolios, responsibility, and scope of each member of the senior leadership team.

Designated Executive Position	Executive Class
CEO	CEO
VP Transportation	VP2
VP Corporate Services	VP1
VP Rail Mechanical & Remanufacturing	VP1

C. Salary and Performance-related Pay Caps

Comparator Selection

ONTC operates throughout northeastern Ontario, is an agency of the government of Ontario, and competes with private sector and public sector employers for executive talent.

The Hay database was utilized to select Broader Public Sector organizations considered comparable with respect to most or all of the following factors:

- a. Scope of responsibility of executives
- b. Type of operations
- c. Industries within which the organization competes for executives
- d. Size of organization
- e. Location of the organization

A group of seventeen (17) comparable broader public sector organizations were identified, which included all of the public sector organizations identified by the Hay Group to be in the transportation sector.

The comparator organizations chosen all have at least one comparable executive per executive class in terms of job 'size' and 'scope', as measured by the Hay job evaluation methodology.

All organizations identified are or similar size, with no more than two (2) times the annual budget of ONTC. Six (6) of the seventeen organizations identified have operating budgets of less than \$100 million.

There are very few public sector comparators of similar size for the type of work that ONTC does. Five (5) similar-sized public sector transportation organizations were identified in the Hay Group database and all have been included in the ONTC comparator list. ONTC then looked to broader public sector organizations of similar size, type, and locations as ONTC. It was determined that organizations in the utility sector provided an appropriate broader public sector comparator as they contain jobs of size, scope and complexity. Specifically, they:

- predominantly employ the same groups of skilled employees (e.g., skilled trades such as electricians, outside technical workers, credentialed engineers) and the ONTC competes with the utilities sector for talent
- capital intensive work
- are comparably sized organizations
- are comparably located organizations (i.e. being outside of the Greater Toronto Area (GTA), these organizations are not influenced by GTA labour and wage trends)

The majority of comparator organizations are in Ontario, with 3 comparators located in other Canadian provinces.

Table 1

Final BPS Comparators - Dec 6, 2017		
Organization Name - Public Sector	Size	Province
Agricorp	\$100 to \$249 Million	ON
Bluewater Power Distribution Corporation	\$100 to \$249 Million	ON
Burlington Hydro Inc.	\$100 to \$249 Million	ON
Greater Sudbury Utilities	\$100 to \$249 Million	ON
Kitchener-Wilmot Hydro Inc.	\$100 to \$249 Million	ON
Marine Atlantic Inc.	\$100 to \$249 Million	NL
Peterborough Utilities Group	\$100 to \$249 Million	ON
PUC Services Inc.	\$100 to \$249 Million	ON
Thunder Bay Hydro Electricity Distribution Inc.	\$100 to \$249 Million	ON
Utilities Kingston	\$100 to \$249 Million	ON
Windsor-Detroit Bridge Authority	\$100 to \$249 Million	ON
Alcohol and Gaming Commission of Ontario	Less than \$100 Million	ON
Deposit Insurance Corporation of Ontario	Less than \$100 Million	ON
Greater Victoria Harbour Authority	Less than \$100 Million	BC
Halifax Port Authority	Less than \$100 Million	NS
Technical Standards and Safety Authority	Less than \$100 Million	ON
Thunder Bay Port Authority	Less than \$100 Million	ON

Comparative Analysis Details

The ONTC engaged the Hay Group to evaluate designated Executive positions using the Hay Group job evaluation method. The Hay Group job evaluation method is a form of factor comparison that has been used by thousands of organizations to evaluate clerical, trade and technical, management and professional, and executive level jobs. At present, it is used in profit and non-profit organizations in over forty countries around the world.

The Hay Group's method is based on the notion that jobs can be measured on the basis of their relative contribution to the overall objectives of the organization. By considering core aspects of content and context that are common to all jobs, it provides a systematic basis for defining and comparing the requirements for all kinds of jobs at all levels.

By utilizing the Hay methodology, positions at ONTC were evaluated and assigned Hay points. The Hay Group then compared ONTC positions to positions in the comparator group with similar Hay points. This ensures that the designated executive role is compared to executive roles of similar responsibility and scope. Using the Hay method limits any possibility of bias based on differences in the relative size, mandate, budget

and scope of the comparator organizations. This ensures a measured, appropriate and conservative approach to determining appropriate pay ranges.

Structure

Based on the Hay Group’s market comparisons, and benchmarking a pay cap at the 50th percentile of comparator pay as denoted in the Ontario Regulation 304/16, the maximum annual total compensation was determined. This pay cap of maximum total compensation at the 50th percentile is a moderate approach, as it is the point where half of our comparators pay above, and half pay below.

ONTC PROPOSED COMPENSATION STRUCTURE

Executive Class	Salary Range Minimum (\$)	Salary Range Maximum ¹ (\$)	Pay at Risk Re-earnable Portion at Max Salary, Based on Performance (%)	Pay at Risk ² Re-earnable Portion at Max Salary, Based on Performance (\$)
CEO	\$ 250,275	\$ 333,700	8%	\$ 26,696
VP2	\$ 200,775	\$ 267,700	5%	\$ 13,385
VP1	\$ 172,500	\$ 230,000	5%	\$ 11,500

¹ At the 50th Percentile of market comparators. This figure include the “Pay at Risk” portion. An executive in the VP1 class who is at the top of the range (\$230,000) would receive \$218,500 plus \$11,500 maximum re-earnable portion, for a maximum total salary of \$230,000

² An executive with a salary set at \$200,000 with 5% re-earnable portion would be paid \$190,000 through the year and then be paid the remaining \$10,000 re-earnable portion only if they met the performance commitments set for the year.

D. Salary and Performance-related Pay Envelope

Following the compensation analysis of comparable private and public sector organizations by the Hay Group, the ONTC chose a 100% public sector comparator group for this compensation review. The existing pay bands for executive staff have not been updated since 1999, creating a significant gap between executive salary levels compared to market. The ONTC proposes an initial adjustment to the executive pay envelope of 5% to bring current ONTC executives to appropriate levels within the new pay ranges. This will better align with Canadian Public Sector compensation, as well as ensure all executives are placed at appropriate pay levels relative to their performance. With this 5% pay envelope increase, executive compensation will continue to remain at, or below, the 50th percentile relative to 100% public sector comparators. With these considerations in mind, the ONTC believes the increase to the envelope is reasonable and will allow the organization to operate efficiently and responsibly.

As outlined in Section A, a strong performance management program which considers an individual employee's development, achievement of goals, contribution to team goals and competencies, is used to move employees through their market-based salary ranges. The organizational payroll adjustment budget envelope is shared through the company and distributed fairly and equitably based upon the performance rankings. The overall plan is to allow individuals to progress through adjusted salary ranges over time in accordance with ONTC's pay-for-performance program. Aside from noted adjustments made for any executives resulting from the implementation of the initial adjustment, the average rate of increase in salary for designated executives is intended to be the same, given the same levels of performance, as the non-executive staff.

ONTC considered the five factors outlined in the Broader Public Sector Executive Compensation Guide in determining the maximum rate of increase to executive compensation:

1. The financial and compensation priorities and realities of the Government of Ontario

As noted in 2016 Ontario Economic Outlook and Fiscal Review; "We continue to move Ontario forward through investments in public transit, roads, bridges and priority infrastructure. This is all part of our long-term economic plan."

ONTC provides essential transportation services and significant economic development support in the North. A study of ONTC GDP impact showed that for every job at ONTC, another job is created in the region and or every \$1 paid in wages there is 1.47 value-add in the region.

ONTC supports top priorities within the mandates of a number of provincial ministries, including Northern Development and Mines, Transportation, Economic Development, Health and Long term care, Environment and Climate Change, Tourism, Infrastructure, Indigenous Relations, Education and Skills Development, Agriculture and Food and Municipal Affairs. Ontario Northland is critical to the government's Growth Plan for Northern Ontario, the Northern Ontario Multimodal Transportation Strategy, Intercommunity Bus and achieving climate change targets to reduce greenhouse gas (GHG) emissions.

ONTC has been firmly focused on the goal of becoming a dynamic, successful transportation agency delivering efficient, cost-effective services that promote economic development, job creation and community sustainability. In this context a potential maximum 5% rate of increase is reasonable and reflective of the

government's Broader Public Sector Executive Compensation priorities, outlined in the 2017 provincial budget, of ensuring the ability to attract and retain the necessary talent to deliver high-quality public services while managing public dollars responsibly.

2. Recent executive compensation trends within the Canadian public sector and broader public sector

Korn Ferry Hay Group's 2016 Executive Market Trends report indicates a cumulative increase in actual base salary from 2008 to 2015 of approximately 15%, or a compound annual growth rate of 1.9%, for executives in the national broader public sector. According to the Ontario Ministry of Labour, the 11-year average from 2006 to 2016 of the annual wage base increase for the provincial public sector was 1.82%. Most of these employees also receive annual increases for progress-through-the-ranks up to the maximum of their salary ranges. There was no change to ONTC executive compensation pay ranges since 1999 and, since 2010, executive pay has been frozen, with executives therefore unable to move through their respective pay ranges.

3. Review of the existing percentage of budget designated to executive compensation

In 2016/17 ONTC spent less than one percent (1%) of its budget on executive compensation. With the proposed increase, the amount will remain below one percent (1%). Information for the comparator organizations is not readily available at this time. As noted in the Broader Public Sector Executive Compensation Guide, data related to this factor will be more readily available for the development of subsequent executive compensation programs, as information regarding executive salary and performance-related pay envelopes will be provided in public-facing executive compensation programs.

4. The effect on attracting and retaining executive talent, as well as the difference between the salary for those positions and the salary for the employees who directly report to the holders of those positions.

The current ONTC compensation structure has not been updated since 1999, leading to a significant lag in executive salary levels compared to market. An ability to retain and attract talent is required to ensure the ongoing transformation of Ontario Northland into a dynamic, sustainable organization. Experienced leadership is essential to drive the ONTC's ongoing transformation agenda.

Internally, non-executive manager compensation has been impacted by the freeze on executive compensation. To avoid compression or overlap in salary structures, ONTC has limited increases to non-executive management pay. This has resulted in significant challenges in retaining and attracting individuals into both the designated executive positions, and the non-executive manager and professional positions which have significantly greater responsibility and accountability, without the corresponding compensation. A 5% maximum increase to executive compensation will support ONTC to remain reasonably competitive with its comparator group, and allow for the implementation of a consistent non-executive management salary structure.

5. Any significant changes or expansion in operations

The Ontario Northland Transportation Commission (ONTC) is expanding bus service in the Northeast and will work in collaboration with existing private carriers to introduce service to communities in the Northwest. The communities that will benefit from this collaboration include Hearst, Hornepayne, White River, Red Lake,

Emo, Rainy River, Fort Frances, Atikokan, Red Rock and others. Improved services will provide vital links between communities that will help people living in Northern Ontario travel to medical and personal appointments, attend school, visit with friends and family, and access other essential services.

ONTC Rail Services will continue to work with off-line shippers, municipalities and economic development agencies to establish multi-modal transportation hubs. Businesses located away from ONTC main line railway can truck goods to the multi-modal facility for transfer to rail cars for cost effective longer-range shipping across the North American rail network, providing access to the national and international markets. This strategy to diversify rail freight business will increase carload shipments, and is already adding revenue from multi-modal hubs recently established in Cochrane, Englehart, Porquis and Hallnor (Timmins).

The Rail Mechanical and Remanufacturing shops in North Bay have restructured and substantially diversified its customer base. Through transformation the division has improved productivity, processes, training and business practice in order to optimize the Province's investment in this facility. In addition to maintaining and rehabilitating Ontario Northland's rail assets, the Rail Mechanical and Remanufacturing shops have added 20+ external customers over the past 3 years, providing commercial repair and remanufacturing services for freight cars, passenger cars / coaches, locomotive upgrades and repairs, painting and wheel work.

E. Other Elements of Compensation

ONTC does not offer retention pay, signing bonuses or any other compensation features that are prohibited by the provincial regulation. Executives have the same benefit and pension program offered to other non-union employees. The compensation plan is different in that there is a re-earnable portion.