



Incentive Pay Research and Recommendations For Rhode Island Airport Corporation (RIAC)

Prepared for:
Rhode Island Airport Corporation (RIAC)

Prepared by:
ADK Consulting & Executive Search (ADK)

Date: October 20, 2014

Table of Contents

Project Summary.....	3
Incentive Pay Recommendations.....	6
Incentive Pay Program.....	10
Draft RIAC Business Performance Dashboard.....	13
Draft RIAC President Incentive Pay Dashboard.....	14
Sources.....	15

Project Summary

Background:

An objective of RIAC is to foster a progressive organization that attracts and retains talent to achieve the category of “best in class” in the airport industry and to provide compensation opportunities that are competitive in the broader market. In 2014 an employment contract was signed by Kelly Fredericks as President & CEO that addressed base salary and established a baseline for the overall incentive study and recommendation. ADK Consulting and Executive Search (ADK) was secured to research applicable CEO compensation programs that incorporated incentive pay and to make recommendations to the Commission.

For this Task Order, ADK was engaged by RIAC to:

- Research incentive programs of CEO’s of commercial service airports that would correlate to the governance structure of RIAC (similar to Authorities) as well as review industries outside of airports that may have some relevance and the compensation programs may have transferability.
- Make recommendations for a CEO incentive program that is consistent with market data.

ADK approached the project with the belief that CEO incentive programs are used as an effective method to:

- Ensure priorities of the organization are understood
- Link CEO compensation to achievement of objectives established by the organization
- Reward exceptional performance
- Make the overall compensation package competitive or at minimum on an even level with the market
- Encourage retention of the President/CEO.

Requirements for a sound incentive pay program:

The intent of the RIAC Task Order was to recommend an incentive program for RIAC's CEO for consideration by the Commission. However, the recommendations cannot be accomplished in a vacuum.

There are two overarching requirements in support of a sound incentive program:

1. First, is the need to determine the **business strategy and objectives** that pay incentives are intended to drive. This is in order to identify and develop the recommended measureable objectives and metrics that result in financial and operational benefits. This requirement was accomplished under ADK's organizational development study.
2. The second is to have an understanding of the salary structure currently in place at RIAC in comparison to similar airports and their compensation programs. The intent would be to have a **balance between salary and incentive** that is competitive with the market.

Steps taken by ADK to accomplish the project:

1. **Salary Study:** While the task order did not address salary specifically, incentive pay is intimately linked to the overall compensation package.
 - a. The salary study includes twenty-one (21) Authority governed commercial service airports (10 Small Hub and 11 Medium Hub). Information based on the most current enplanement data available from the FAA at the time of the study in early 2014.
 - b. This study does not include city and county governed airports because the breadth of responsibilities and compensation of directors at these airports is significantly different.
 - c. This data reflects that the cost of living for Providence Rhode Island is significantly higher than most areas of the country.
2. **Incentive Study:** According to Brian Elliott, manager of compensation and benefits at the Society for Human Resource Management (SHRM), the most misunderstood aspects of pay involve variable incentive plans and how they work. "Employees 'get' salary and benefits, but not how their bonus works and how it is linked to performance" says Elliott.
 - ADK researched the CEO compensation programs of fifteen (15) commercial service airports of varying sizes with similar governance to RIAC that offered some method of incentive pay and four (4) companies outside the airport industry. Generally, salary and incentive pay programs are higher in non-aviation industries and are not as relevant for comparison purposes.
3. **Recommendations:** ADK made recommendations based on the data collected.
4. **Pay for Performance:** ADK drafted the parameters of the Incentive Pay for Performance.

5. **Scorecards tied to objectives:** ADK identified measurable objectives and developed metrics that apply to not only financial and operational results, but also, key objectives established by the RIAC President/CEO. Common strategies identified as important to the business of airports are Customer & Community Commitment, Talent Management, Operational Efficiency, and Financial Effectiveness. In order to specifically define the metrics that can be applied to year-over-year results with targets that can be adjusted to market conditions by RIAC, ADK developed two dashboards:
- a. RIAC Business Performance Dashboard currently in draft with four strategies identified.
 - b. President Incentive Pay Dashboard in draft:
The President Incentive Pay Dashboard contains qualitative measures that are tied to the RIAC Business Performance Dashboard that reflects quantitative metrics. These dashboards are similar in nature to how various airports measure their progress and success towards their goals. Some airports that have a well-defined incentive pay program use comparable measurement tools to determine if and how incentive pay is awarded. There are some airports that maintain an incentive pay program that is subjective and not specific. ADK recommends a program that has definition and is only realized when the airport has the financial stability to support the program. If an incentive pay program is adopted by RIAC, ADK proposes the outline on the following pages.

Note: While the terms “incentive” and “bonus” are frequently used interchangeably, “incentive” is more palatable when discussed or covered in the media. “Incentive” is perceived as a “motivational” tool and “bonus” is perceived as something “extra.”

Incentive Pay Recommendations

Total compensation program review

Traditionally in the airport industry, Executives have progressed in their career and transitioned to new opportunities or different airports that provide a new challenge, or for one reason or another, hold a specific appeal.

Professional challenges that are enticing may include:

- Opportunity to enhance career
- Reputation of the airport and/or governing body
- Size of airport in passengers and/or cargo, and staff
- Responsibility for a system of airports
- Interesting challenges that if met can make a significant difference to the airport and/or community (confidence of the director to meet the challenges)
- Business development and growth opportunities of the airport and community
- Governance structure
 - More autonomy and broader reach
 - More supportive and has the best interest of the airport at the forefront
 - Not susceptible to instability from political elections

New opportunity appeal may include:

- Geographic location
 - Desirable for quality of life
 - Proximity to family and friends
 - Climate
- Compensation
 - Salary
 - Benefits
 - Retirement program
 - Incentive/bonus program

Various turnover and return on investment models exist (e.g. SHRM, INC.com, cbsnews.com/moneywatch) and typical estimates to replace the leader of an organization range from 100%-200% of the annual salary depending upon the level of intellectual knowledge the individual possesses about the organization. One of the intangible costs that is difficult to quantify is the impact to the growth and development of other staff within the organization and the impact that change can have on the momentum and execution of progress. For multiple reasons most organizations desire to establish stability in the senior leadership positions. When establishing a compensation program for the leader, it is necessary to take many things into consideration and the time to develop such a program is in advance of the Executive being enticed to consider other employment options. There are direct and indirect costs when replacing an Executive, so it is critical that an organization not only select the best qualified candidate initially but that the compensation program and the culture of the work environment appropriately influence the individual to remain with the organization.

Compensation programs should factor in items beyond the base salary when evaluating the total package in order to be competitive as well as attractive for the Executive. The salary structure in relationship to comparable airports and the market and regional cost of living are considerations along with other components. If there is a goal to retain the Executive for a significant amount of time, it is recommended that the employer consider the compensation programs of airports that may offer desirable challenges or opportunities that may entice him/her to leave. Of course there should always be consideration to any community sensitivities and the acceptance level of customized programs for the Airport leader.

ADK Recommendations

ADK Consulting and Executive Search recommends a well-balanced compensation program that corresponds with the leader feeling appropriately compensated but also is motivated to be highly effective each year and to be enticed to remain with the organization.

- **Base Salary** for the position of the RIAC President/CEO is currently at a rate that is slightly lower than what is more consistent with the airport industry when considering cost of living factors. In respect to breadth of responsibility and market, a competitive base salary range for the President/CEO of RIAC is \$300,000 to \$330,000 with the cost of living adjustment. The President/CEO has signed a new contract with a base salary of \$285,600. If other benefits or a healthy incentive pay program is put into place, the opportunity and added value to the CEO could make the overall compensation package comparable to the market when adopting a lower base salary range. ADK recommends this combination as an excellent way to offer the President/CEO the opportunity to increase compensation through performance and achievement of goals without raising the base pay to levels that the Board is uncomfortable with and could invite criticism in the media.
- **Incentive Pay** rewards performance of the organization and its President/CEO. Our recommendations discuss an incentive pay opportunity that is triggered for eligibility only if RIAC's operating margin* is greater than acceptable percentage to the board, such as 15%. (See note regarding operating margin.) The President/ CEO will be evaluated on the accomplishment of executive objectives and initiatives that the Corporation specifies each year which are centered on five key strategies. Each objective will be evaluated by the Board to conclude if the initiatives within each strategy have been met successfully. The success of each Executive Objective is associated with a percentage for meets expectations and exceeds expectations. For the initial year the percentages that we recommend would be set at 2% for Meets Expectations and 4% for Exceeds Expectations. The annual incentive pay can range from 0% if the Executive Objectives are not met, up to a maximum of 20% of base pay for Exceeds Expectations in every category of Executive Objectives. Final performance determination and the corresponding calculation of award payments are subject to the Board's approval.

***Note: Operating Margin**

Revenues minus expenses (excluding depreciation, taxes, debt and interest) divided by the total revenues.

- **Retention Incentive** is a consideration to encourage the President/CEO to remain employed by RIAC and could be implemented as part of the overall compensation package of the CEO if desired by the Board. The overall objective of the incentive pay program is to find a balance in the total compensation package that is competitive or even with the industry based on cost of living.

How the Retention Incentive Program works:

After each three-year period the President/CEO is under contract, we recommend that he/she receive a retention incentive of \$45,000. At the President/CEO discretion, this amount can be either applied to a retirement program or provided as salary with applicable taxes withdrawn. If the President/CEO voluntarily leaves the organization or is terminated for cause prior to the end of the three-year period in which the retention incentive is earned, the amount is 100% forfeited and will not be awarded.

Explanation of conclusions:

ADK put considerable thought into this report; however, RIAC should adopt a program that best suits its culture. Our goal is to ensure that our recommendation for the total compensation package is comparable to the industry as well as enticing for the CEO to 1) stay at RIAC and 2) be incentivized to continue to be a high performer within defined initiatives. We evaluated the compensation package for twenty one (21) Airport Authorities including RIAC ranging in size based on enplanements. PVD enplanements were used as a comparison and a few of the governing bodies operated a system of airports similar to RIAC but not all. Nine (9) commercial service airports have fewer enplanements and eleven (11) have more enplanements than PVD. Some of the elements that helped us arrive at our recommendations are provided below.

Conservative Mid-Range

The distribution of the twenty other airports when considering the cost of living:

- There are six other airports that are below the \$300,000 recommended base salary range. Three are larger in size and three are smaller based on enplanements.
- Six airports are at the range of \$300,000 - \$330,000, two airports being larger and four being smaller than PVD.
- Eight airports are above the base salary of \$330,000, six being larger and two being smaller than PVD. Of these, four airports provide a **base salary** that is within the range of the **maximum compensation** that could be obtained with our recommendations for RIAC which includes base salary plus incentive and retention. Four of the eight airports offer known incentives above the base salary. Three are unknown and may or may not offer incentive pay.

Retention as it Relates to the Total Compensation Package

The retention pay that we propose is a factor in considering the total package. A retention bonus of approximately \$15,000 yearly added to the current salary of \$285,600 would equate to annual salary of \$300,600. This is at the low end of the recommended range. ADK recommends that a retention program be implemented at the start of the second year of employment. The amount could be reevaluated and potentially raised at the completion of the CEO's fourth year of employment to encourage employment for the next three year period.

- Incentive pay would be calculated on base pay not including any retention award.
- At current base pay and incentive pay of 10%, for example, the compensation would be at \$314,160. With \$15,000 retention incentive added, annual compensation is equivalent to \$330,000. This is on the high end of the recommended salary range for a base salary and in line with peer airports, some with incentive programs and some without.
- If the CEO is successful in achieving the full 20% incentive pay (exceeding expectations in all categories), the compensation is equivalent to \$342,720 + \$15,000 (retention incentive) = \$357,720. This puts RIAC in a maximum compensation range that is lower than the base salary of four airports in the study, one of which is smaller than RIAC.

Additional Comments

Having the lower salary and higher incentive pay opportunity has a number of benefits to RIAC. It provides the CEO an incentive for exceptional performance which is the purpose of the program and it permits the opportunity to earn a significantly greater amount when specified goals are met. Secondly, the lower base salary is more likely to be acceptable to the media and community.

The retention incentive coupled with the pay for performance incentive and base salary will bring the total compensation more in line with other airports with similar governance structures when taking into account cost of living.

Our recommendation is for RIAC to use the factors 2% and 4% when evaluating the Executive Objectives. However, RIAC may choose to change these factors which would alter our recommended 10%-20% that is comparable to other programs that we identified.

There are many other benefits that have not been evaluated in this study and are quite variable such as retirement, housing, vehicle allowance, expense accounts, etc. The private sector provides healthier incentive programs although may not provide equivalent general benefits.

President Incentive Pay Program

Purpose and objectives

The Rhode Island Airport Corporation (RIAC) maintains a philosophy and interest for the business growth and sustainability of the Rhode Island airport system to attract and retain a President/CEO that feels valued, is motivated to excel, and has a strong commitment to the success of RIAC. Consistent with this desire is the adoption of an incentive pay program to encourage exceptional achievement and reward the contribution and attainment of defined organizational strategies. Incentive pay is in addition to any annual base pay increase that is associated with the annual evaluation of job performance. Both the job performance and the achievement of the defined organizational strategies will be reviewed and assessed at the same time although they will be appraised independently.

Specific objectives of the incentive pay program include:

- Reward the achievement of financial and operational performance goals that will ensure the long-term success of RIAC, in the context of meeting the legal and regulatory requirements that RIAC is subject to;
- Ensure regional growth is supported and stimulated through solid aviation business decisions and actions;
- Attract and retain talent to achieve the category of “best in class” in the airport industry and to provide compensation opportunities that are competitive in the broader market;
- Place a portion of the compensation package at risk and dependent upon performance results.

Conditions and Determination of Incentive Pay

President must be employed in good standing for the 12 months prior to the award of incentive pay. President must, at a minimum, meet expectations for each performance evaluation category within the annual review. This is separate from the annually specified Executive Objectives and initiatives that are associated with President’s Incentive Pay scorecard.

RIAC must obtain an operating margin of at least an approved percentage by the Corporation such as 15% for the fiscal year ending prior to the evaluation period.

Effective Date

The program will go in affect [REDACTED]. The Plan Year covers a one-year performance period, running from July 1 to June 30. A new Plan Year commences every July 1.

President’s Incentive Pay Dashboard and Executive Objectives

At the outset of each Plan Year the Corporation may identify key initiatives that are specified as Executive Objectives. A dashboard that is centered on five key strategies is used to measure the accomplishments of these strategies in addition to standard performance. The initiatives are included in the annual performance evaluation for discussion purposes and will be assessed in the following year at the time of the performance evaluation for the President.

Sample strategies and executive objectives

RIAC President Incentive Pay Dashboard

Strategy	Executive Objectives	Meets Expectations	Exceeds Expectations	Initiatives
Talent Management	Ensure team performance and maintain effective employee relations.	__ %	__ %	
Operational Efficiency	Manage capital improvement program and project completion relative to value and schedule.	__ %	__ %	
Financial Effectiveness/ Business Development	Improve operating margin for system of airports and their contribution to the region.	__ %	__ %	
Customer/ Community Commitment	Recruit and retain air service and business providers that meet the regional demand and support economic development and build a positive reputation for RIAC in the region.	__ %	__ %	
Leadership and Strategic Planning	Provide the foundation for a progressive and sustainable culture. Inspire and instill commitment that will garner quality services and facilities, safe and convenient aviation gateways to New England.	__ %	__ %	

Performance Evaluation, Executive Objective Evaluation and Award Determination

After the conclusion of each Plan Year, the President will provide a year-end summary report for the Corporation’s Board Chair to demonstrate the achievement of the each Executive Objective and any specific initiatives that were identified by the Corporation and were provided to him/her during the prior year performance evaluation.

After receipt of the President’s year-end summary, the Corporation Board will complete an annual performance evaluation that is comparable to performance evaluations for all RIAC staff.

The President will receive consideration for an increase in base pay at the time of the evaluation.

This performance evaluation will also include ratings of either Meets or Exceeds Expectations for the achievement of the previous Plan Year Executive Objectives and any initiatives that had been identified and stated on the prior year's performance evaluation.

Incentive pay is based on the achievement of the Executive Objectives and initiatives. Each Executive Objective is independently evaluated to conclude if the initiatives within each strategy have been met successfully. The Corporation Chair will finalize the assessment and scoring of achievement for each Executive Objective. The success of each Executive Objective is associated with a percentage. The percentages of all Executive Objectives will be totaled to arrive at an aggregate percentage to be multiplied by the President's base pay to arrive at the incentive pay award. The incentive pay is independent of the President's salary. Final performance determination and the corresponding calculation of award payments are subject to the Corporation's approval.

The Corporation has full discretion to cancel payment of awards in whole or part for any Plan Year during which a violation of applicable local, state or federal regulations or laws occurs.

Payment of Incentive Pay

Payment of the award will be made as soon as possible after the Corporation's approval. All award payments will be subject to required, applicable tax withholdings. If the President terminates employment prior to the conclusion of the Plan Year he/she will forfeit incentive pay for that period.

Rhode Island Airport Corporation

Business Performance Dashboard

Strategy	Executive Goals	Current State	Target	Action
Talent Management	<ol style="list-style-type: none"> 1. Increase percentage of staff training 2. Improve employee engagement 3. Establish working committees and focus groups 		<ol style="list-style-type: none"> 1. 16/hours employee 2. Greater employee response to surveys 3. Appropriate representation 	<ol style="list-style-type: none"> 1. Develop employee training plan and documentation logs 2. Conduct engagement survey 3. Each group develops written objectives and timeline
Operational Efficiency	<ol style="list-style-type: none"> 1. Value of change orders as a percentage of total capital program 2. Project completion relative to schedule 3. Decrease operating cost per enplanement at PVD 		<ol style="list-style-type: none"> 1. = or < 5% 2. = or < 15 days 3. = or > 2% 	<ol style="list-style-type: none"> 1. Manage change orders 2. Manage schedule creatively 3. Evaluate staffing levels and supplies
Financial Effectiveness	<ol style="list-style-type: none"> 1. Manage airline cost 2. Increase net income from Interlink 3. Reduce Operating deficit at outlying airports 4. Manage personnel cost per operating cost 5. Increase non airline revenue percentage 6. Increase fuel sales at outlying airports 		<ol style="list-style-type: none"> 1. = or < current state 2. > 3% 3. > 5% 4. = or < — 5. > 3% 6. > 5% 	<ol style="list-style-type: none"> 1. Reduce airfield operating expenses 2. Partner on marketing campaign 3. Review and revise leases 4. Renegotiate benefit cost 5. Lease property 6. Marketing campaign, creative purchasing
Customer/Community Commitment	<ol style="list-style-type: none"> 1. Increase passenger enplanements 2. Increase cargo tonnage 3. Develop strategic business plan 4. Enhance customer satisfaction 5. Reduce energy consumption 		<ol style="list-style-type: none"> 1. > 2% 2. > 3% 3. 33% completion 4. > meets expectations 5. > 5% 	<ol style="list-style-type: none"> 1. Develop new commercial service incentive plan 2. Marketing initiative 3. Strategic plan development through collaboration 4. Administer survey, establish committee 5. Identify current consumption

***** All information presented in the dashboard is examples – RIAC staff and leadership will determine the actual content including Goals, Targets, and Action items that align with the established strategies.**

RIAC President Incentive Pay Dashboard

Strategy	Executive Objectives	Meets Expectations	Exceeds Expectations	Initiatives
Talent Management	Ensure team performance and maintain effective employee relations	___ %	___ %	<ol style="list-style-type: none"> 1. Adopt new effective organizational structure 2. Adopt a professional development program
Operational Efficiency	Manage capital improvement program and project completion relative to value and schedule	___ %	___ %	<ol style="list-style-type: none"> 1. Construction activity on schedule and within budget
Financial Effectiveness/ Business Development	Improve operating margin for system of airports and their contribution to the region	___ %	___ %	<ol style="list-style-type: none"> 1. Reduce operating deficit at outlying airports 2. Manage personnel and benefit cost and ensure competitiveness 3. Enhance business development beyond air service
Customer/ Community Commitment	Recruit and retain air service and business providers that meet the regional demand and support economic development and build a positive reputation for RIAC in the region	___ %	___ %	<ol style="list-style-type: none"> 1. Revise air carrier incentive plan to entice increased commercial service 2. Secure Customs support and advance international service opportunities 3. Implement customer service training for law enforcement and other staff 4. Enhance Interlink operation in coordination with Warwick
Leadership and Strategic Planning	Provide the foundation for a progressive and sustainable culture. Inspire and instill commitment that will garner quality services and facilities, safe and convenient aviation gateways to New England.	___ %	___ %	<ol style="list-style-type: none"> 1. Enhance communication and delivery of information to the Corporation 2. Establish and communicate vision for organization and inspire staff to fulfill mission. 3. Forge positive relationships within the community

***** All information presented in the dashboard is examples and aligns principally to the President's evaluation received 4/2014 – RIAC Board members will determine the actual content including the objectives and initiatives that align with the established strategies.**

Airports Included in the Salary Study

Governing Body	Airport	Code
Allegheny County Airport Authority	Pittsburgh International	PIT
Birmingham Airport Authority	Birmingham-Shuttlesworth International	BHM
Columbus Regional Airport Authority	Port Columbus International	CMH
Connecticut DOT & Connecticut Airport Authority	Bradley International	BDL
Greenville-Spartanburg Airport Commission	Greenville Spartanburg International	GSP
Indianapolis Airport Authority	Indianapolis International	IND
Jackson Municipal Airport Authority	Jackson-Evers International	JAN
Jacksonville Airport Authority	Jacksonville International	JAX
Kenton County Airport Board	Cincinnati/Northern Kentucky International	CVG
Lee County Airport Authority	Southwest Florida International	RSW
LIT Municipal Airport Commission	Bill and Hillary Clinton International	LIT
Louisville Regional Airport Authority	Louisville International Airport	SDF
McGee Tyson Airport Authority	McGee Tyson	TYS
Memphis-Shelby County Airport Authority	Memphis International	MEM
Metropolitan Nashville Airport Authority	Metropolitan Nashville International	BNA
New Orleans Aviation Board	Louis Armstrong New Orleans International	MSY
Raleigh-Durham Airport Authority	Raleigh-Durham International	RDU
Reno-Tahoe Airport Authority	Reno-Tahoe International	RNO
Rhode Island Airport Commission	T.F. Green	PVD
Sarasota Manatee Airport Authority	Sarasota/Bradenton International	SRQ
Spokane Airport Board	Spokane International	GEG

Airports Included in Incentive Pay Research

Governing Body	Airport	Code
Bishop International Airport Authority	Bishop International Airport	FNT
City of Austin, TX	Austin-Bergstrom International Airport	AUS
Columbus Regional Airport Authority	Port Columbus International Airport	CHM
Greater Orlando Airport Authority	Orlando International Airport	MCO
Greater Toronto Airports Authority	Toronto Pearson International Airport	YYZ
Jacksonville Airport Authority	Jacksonville International Airport	JAX
Lee County Airport Authority	Southwest Florida International Airport	RSW
Little Rock Airport Commission	Bill and Hillary National Airport	LIT
Louisville Regional Airport Authority	Louisville International Airport	SDF
Metropolitan Nashville Airport Authority	Nashville International Airport	BNA
Norfolk Airport Authority	Norfolk International Airport	ORF
Reno-Tahoe Airport Authority	Reno-Tahoe International Airport	RNO
Richland Lexington Airport District	Columbia Metropolitan Airport	CAE
San Diego Airport Authority	San Diego International Airport	SAN
Sanford Airport Authority	Orlando Sanford International Airport	SFB
Wayne County Airport Authority	Detroit Metropolitan Airport	DTW

Private Industry Included in the Incentive Research

Company

Avis Budget Group
InterDigital Communications
Starwood Hotels
Target Stores