



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
EXECUTIVE COMMITTEE

Item No.
6

Meeting Date: **MAY 28, 2013**

Subject:

Direction and Possible Action Regarding an Employee Performance Compensation Program

Recommendation:

Forward to the Board for approval.

Background/Justification:

To ensure ongoing financially strong performance of the San Diego County Regional Airport Authority and to recognize the contributions of employee collective high performance the Executive Committee is requested to recommend approval to the Board of an Employee Performance Compensation Program component, commonly referred to as a Gainsharing Plan, to the Airport Authority's unrepresented employees' compensation for fiscal year 2015.

Over the past 10 years, the San Diego County Regional Airport Authority has been a prudent steward of its financial resources with award winning budgeting and financial reporting as well as with exemplary financial performance. These accomplishments have allowed the organization to continue to invest in infrastructure and efficiency improvements; enhancing the operations of the airport through extraordinarily low bond interest rates, resulting in high customer service standards on behalf of the county's 3.1 million residents and the 17+ million users of the airport. This includes the associated firms doing business with the organization as well.

Debt service becomes an increasingly more important metric in the organization's future financials than has been the case over the past 10 years. As such, and in an effort to substantively increase the likelihood that the organization exceeds its debt obligations, the Employee Performance Compensation Program becomes an important addition to the organization's unrepresented pay for performance compensation model.

For reference, Debt Service is outlined below:

(\$ millions)

	FY 2012	FY 2013	FY 2014	FY2015	FY 2016	FY 2017	FY 2018	FY 2019
Gross Annual Debt Service*	\$ 19.0	\$ 40.4	\$ 61.1	\$ 67.6	\$ 68.4	\$ 68.4	\$ 68.4	\$ 68.4
Offset for PFCs and BAB Subsidy	(5.0)	(25.5)	(32.3)	(34.7)	(34.8)	(34.8)	(34.8)	(34.8)
Net Annual Debt Service	\$ 14.0	\$ 14.9	\$ 28.8	\$ 32.9	\$ 33.6	\$ 33.6	\$ 33.6	\$ 33.6

* Cash Principal and Interest Payments Due Annually

The attached guidelines (Exhibit A) were developed by the Authority's consultant, Barney & Barney, and will help establish context and perspective regarding the proposed parameters. Additionally, Exhibit B shows the past five years audited financial results and any potential payout that would have been available along with the proposed variables. This proposal is for unrepresented employees only as the Authority is obligated to meet and confer with represented employees on any compensation proposals.

Fiscal Impact:

The Employee Performance Compensation Program will have a De minimis impact on the organization's adopted budget because any payout will be funded by the excess actual financial performance over the budgeted financial performance achieved through effective budget management and meeting established financial parameters. The payout will also be recorded in the financial statements in the same fiscal year the excess actual financial performance is determined. Thus, it will not be required to include the funds within the annual budget. Exhibit B shows the past five years' audited financial results and any potential payout that would have been available for payment from excess funds. However, there is a high potential upside of increasing employee line of sight to the variables resulting in enhanced productivity and engagement.

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

- Community Strategy
 Customer Strategy
 Employee Strategy
 Financial Strategy
 Operations Strategy

Environmental Review:

- A. CEQA: This Board action, as an administrative action, is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act ("CEQA"), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Cal. Pub. Res. Code §21065.

- B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

Equal Opportunity Program:

Not applicable.

Prepared by:

JEFF LINDEMAN
SENIOR DIRECTOR, ORGANIZATIONAL PERFORMANCE AND DEVELOPMENT

**SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
EMPLOYEE PERFORMANCE COMPENSATION PROGRAM OR
GAINSHARING PROGRAM
Effective July 1, 2014**

PROGRAM OBJECTIVES

The Gainsharing Incentive Program is designed to provide incentive compensation for all eligible employees. Specifically, the Program is designed to:

- Align individual contribution to organizational performance and success
- Encourage attainment of organizational goals
- Encourage revenue enhancement and expense reduction
- Reinforce organizational culture
- Motivate job performance at all levels
- Be clearly communicated and understood
- Be perceived as fair by employees

DEFINITION OF GAINSHARING

A variable, at-risk, component of compensation that provides financial awards to all eligible employees contingent upon achieving quantifiable benchmarks in operating performance directly related to the success of the Authority.

PLAN YEAR

The Program will run for one year, concurrent with our fiscal year. This Program is effective July 1, 2013 through June 30, 2014.

ELIGIBILITY AND PARTICIPATION

All full-time non-represented employees of the Authority may participate in the Program. If an employee becomes eligible and approved in accordance with the Program during a Plan Year, then such employee may be eligible for participation in the Program on a pro-rated basis.

To be eligible for the incentive payment, an employee must be employed as of the end of the Plan Year. Furthermore, an employee must be employed as of the payment date and his/her overall performance rating must be equal to or greater than meeting expectations (currently graded as On Target) to receive the incentive payment.

AWARD DETERMINATION

Payouts are based on actual financial performance exceeding budgeted financial performance, measured by comparing operating revenue minus operating expenses plus interest income for both budget and actuals.

In addition, certain qualifying financial metrics must be met as well, including:

- Debt Service Coverage at least equal to the minimum specified within the Authority's Debt Issuance and Management Policy 4.40: Debt Service Coverage is generally defined as operating income before depreciation, plus interest income, divided by debt principal & interest (net of pledged Passenger Facility Charges (PFCs) and the Build America Bond (BAB) subsidy), as defined in Authority's Master Trust Indenture
- Airline Cost per Enplanement (CPE) no greater than budgeted CPE: CPE is generally defined as airline revenue divided by annual enplanements
- Days' Cash on Hand at least equal to the minimum specified within the Authority's Debt Issuance and Management Policy 4.40: Days' Cash on Hand is generally defined as unrestricted cash & investments divided by annual operating expenses.

Once actual financial performance has been determined to have exceeded budgeted financial performance and the qualifying criteria are met, 10% of the excess "gain" will be recorded in the same fiscal year as determined. . The qualifying financial metrics described above must be met after recording the excess gain for payouts to be eligible. If eligible, the amount of gain to be shared with employees, if any, is subject to the approval by the Authority's Board of Directors.

Payouts will be made annually, after audited financials are approved by the Board of Directors.

Participants are eligible for up to a maximum of \$2,500 per Plan Year, with a minimum payout determined at the beginning of each fiscal year by Authority management, when funding allows. All eligible employees will share equally in the available pool. Those employees hired after the beginning of the Plan Year will participate on a pro-rated basis.

NON ASSIGNABILITY

No incentive or any benefit under the Plan shall be assignable or transferable by the participant during the participant's lifetime except as otherwise approved by the Board of Directors.

NO RIGHT TO CONTINUED EMPLOYMENT

Nothing in the Plan shall confer upon any employee any right to continue in the employ of the Authority or shall interfere with or restrict in any way the right of the Authority to discharge an employee at any time for any reason whatsoever, with or without good cause.

San Diego Regional Airport Authority
Employee Performance Compensation Program Modeling

Revised 5/23/13

EXHIBIT B

Maximum Award per Employee	\$2,500.0
Maximum Employee Share of Gain	10%

Gainsharing Modeling Projections

Performance Criteria	Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2010		Fiscal Year 2011		Fiscal Year 2012	
	Target	Actual								
Financial Performance	\$27.2	\$35.1	\$28.4	\$25.1	\$18.4	\$23.1	\$29.2	\$32.6	\$38.9	\$39.9
Days Cash on Hand	365	444	365	385	365	537	365	494	365	522
Debt Service Coverage	1.50	3.20	1.50	3.57	1.50	3.60	1.50	3.11	1.50	2.81
Cost Per Enplaned Passenger	\$6.78	\$6.26	\$6.69	\$6.36	\$7.45	\$6.73	\$7.61	\$7.54	\$8.32	\$8.33
Award Determination										
Gain Above Target (Actual - Target)	\$7,929,000		-\$3,267,000		\$4,700,000		\$3,400,000		\$1,000,000	
Was Days Cash on Hand Met?	Yes									
Was Debt Service Ratio Met?	Yes									
Was Cost Per Enplanement Met?	Yes		Yes		Yes		Yes		No	
Award Pool										
Total # of Employees	258		260		260		263		254	
Max pool Based on Participation	\$645,000		\$650,000		\$650,000		\$657,500		\$635,000	
Actual Award Pool	\$792,900		\$0		\$470,000		\$340,000		\$0	
Award per Participant	\$2,500		\$0		\$1,808		\$1,293		\$0	

- Financial Performance equals operating net income plus interest income
- Days' Cash on Hand is generally defined as unrestricted cash & investments divided by annual operating expenses.
- Debt Service Coverage is generally defined as operating income before depreciation, plus interest income, divided by debt principal & interest (net of pledged Passenger Facility Charges (PFCs) and the Build America Bond (BAB) subsidy), as defined in Authority's Master Trust Indenture.
- CPE is generally defined as airline revenue divided by annual explanements.

Revised 5/23/13

Item 6



Proposal for Employee Performance Compensation (Gainsharing) Program

Discussion Document

May 28, 2013



- Outline of proposed approach
- Discuss financial considerations to Authority based on gain sharing approach
- Agree on next steps

Below is an overview of the proposed gain sharing approach ...

Elements	Description
Objectives	<ul style="list-style-type: none">• Align individual and organizational performance• Encourage attainment of organizational goals• Reinforce organizational culture• Motivate job performance• Objectively recognize employee contribution• Be clearly communicated and understood by those participating in and administering the program• Be easy to calculate and correlate to specific goals• Be perceived as fair by employees• Provide competitive compensation that is available to everyone• Encourage eligible employees to participate with a fair, motivating compensation program
Participation	<ul style="list-style-type: none">• All full-time unrepresented Authority employees would be eligible
Metrics	<ul style="list-style-type: none">• Net income (adjusted to include interest income)• Debt service coverage• Cost per enplanement• Days' cash on hand
Mechanics	<ul style="list-style-type: none">• Payout eligibility is based on the pre-established thresholds for each metrics being met• If targets are reached, payout is based on a derivative of net income vs. budget
Frequency	<ul style="list-style-type: none">• Annual payout, after financials are prepared and approved by the Authority• Performance against goal will be communicated to the staff periodically throughout the year
Award Distribution	<ul style="list-style-type: none">• All eligible participants would share equally in the available pool• Maximum award is \$2,500 per participant

Below we summarize how the plan would have performed based on historical financials ...

San Diego Regional Airport Authority Employee Performance Compensation Program Modeling

Revised 5/23/13

Maximum Award per Employee	\$2,500.0
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Days Cash on Hand	365	444	365	385	365	537	365	494	365	522
Debt Service Coverage	1.50	3.20	1.50	3.57	1.50	3.60	1.50	3.11	1.50	2.81
Cost Per Enplaned Passenger	\$6.78	\$6.26	\$6.69	\$6.36	\$7.45	\$6.73	\$7.61	\$7.54	\$8.32	\$8.33
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Was Cost Per Enplanement Met?	Yes		Yes		Yes		Yes		No	
Award Pool										
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Max pool Based on Participation	\$645,000		\$650,000		\$650,000		\$657,500		\$635,000	
Actual Award Pool	\$792,900		\$0		\$470,000		\$340,000		\$0	
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