

September 3, 2015

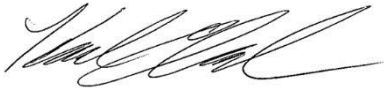
Vincent Rodo
Chief Financial & Administration Officer
Toronto Transit Commission
1900 Yonge Street
Toronto, Ontario
M4S 1Z2

Dear Mr. Rodo,

I am pleased to provide this presentation deck on Pay for Performance.

I understand the concepts illustrated in this deck are to be discussed with the TTC Human Resources & Labour Relations Committee at a meeting scheduled for September 10, 2015.

Regards,



Karl Aboud
Senior Principal

TORONTO TRANSIT COMMISSION

Pay-for-Performance Considerations

September 10, 2015



PAY-FOR-PERFORMANCE SCHEMATIC

Enterprise-oriented
annual variable pay
award

Variable Pay /
Bonus /
Incentive /
Gainshare

Individually-oriented
merit award (for those
at range maximum)

Lump Sum Merit

Individually-oriented
merit adjustment
through salary range

Range Maximum /
Job Rate

Policy /
Midpoint

Range
Minimum

VARIABLE PAY - ILLUSTRATION

■ Illustrative four-quadrant Balanced Scorecard

<p>Fiscal Responsibility</p> <ul style="list-style-type: none">• Are we fiscally efficient:<ul style="list-style-type: none">• Operating budget• Revenue growth• Operating ratio	<p>Productivity Results</p> <ul style="list-style-type: none">• Do we deliver to our business standards:<ul style="list-style-type: none">• On time service• Capital project completion• Equipment reliability
<p>Customer Responsiveness</p> <ul style="list-style-type: none">• What do our customers think of us:<ul style="list-style-type: none">• Customer feedback survey• Call centre findings• Proactive engagement strategy	<p>Social Impact</p> <ul style="list-style-type: none">• What is our societal record<ul style="list-style-type: none">• Workplace safety• Environmental findings• Regulatory compliance

- Determine performance standards for each metric
- Awards are based on collective enterprise performance
- Maximum award of up to 20% of salary?

VARIABLE PAY - DISCUSSION

■ Advantages

- Uses existing enterprise-wide performance standards
- Encourages decisions in the best interests of the enterprise (reduces silos)
- Payroll adjustments align with / are funded by enterprise performance
- Easier to set corporate performance standards than individual ones

■ Disadvantages

- More emphasis for corporate performance targets to be defensible
- Results could be impacted by factors outside of the enterprise's control
- Poor performers may receive the benefits created by superior performers
- Can performance be improved if just the executives are getting rewarded

TTC VARIABLE PAY CONSIDERATION

- TTC has no such program
- Such a program does exist at almost all private sector orgs and at the majority of “commercial” public sector orgs
- Such a program should enhance the alignment of stakeholder interests (shareholder, customers, management)
- TTC likely has the measurement capabilities to determine its appropriate metrics and performance standards
- Hay Group would support the consideration of such a program
- TTC management would likely support the consideration of such a program

MERIT SALARY ADJUSTMENT GRID - ILLUSTRATION

			Compa-Ratios			
			Above	High	Medium	Low
		Distributions	10%	25%	40%	25%
Performance Management Ratings	Consistently Exceeds	5%	3.0%	3.5%	4.5%	5.5%
	Often Exceeds Expectations	25%	2.0%	2.5%	3.5%	4.5%
	Meets Most Expectations	50%	1.0%	1.5%	2.5%	3.5%
	Some Improvement Req'd	15%	0.0%	0.5%	1.5%	2.5%
	Major Improvement Req'd	5%	0.0%	0.0%	0.0%	0.0%

MERIT SALARY ADJUSTMENTS - DISCUSSION

■ Advantages

- Individual objectives & behavioural expectations are established
- Superior performers are recognized & rewarded
- Payroll adjustments align with individual performance
- Adjustments can speed-up the progression of low compa-ratio incumbents

■ Disadvantages

- Individual performance assessment is a culture shift
- Fair & objective performance assessments are difficult to do
- The financial differentiation may not be worth the effort
- Performance ratings are sometimes skewed (high) as supervisors do not want to deprive subordinates of salary adjustments

TTC PERFORMANCE & SALARY PROCESS

- TTC has a performance appraisal process that is an assessment of Achievement of Objectives as well as Demonstration of Behaviours
- TTC has a six-step pay progression process from bottom to top
 - With salary ranges that differ by hours of work
- In theory, poor performance can forfeit the step progression
- In theory, superior performance can double the step progression
- In practice, virtually everyone goes up a step each year
- As the TTC salary progression process is mostly unaffected by performance assessment, the performance assessment process may not be administered as diligently as possible