

Nawiingnokiima Forest Management Corporation's Executive Compensation Framework

1. Overview

The Nawiingnokiima Forest Management Corporation (NFMC) is a relatively new provincial agency. It is the first local forest management corporation, established in May 2012, as a Crown agency under the Ontario Forest Tenure Modernization Act, 2011. The mandate of the corporation in brief, is to plan and manage Crown forests sustainably and to provide economic development opportunities to communities dependent on Crown timber from the management area. The defined management area is comprised of 1.9 million hectares and includes the Ojibway communities of Pic River First Nation, Pic Mobert First Nation, Hornepayne Aboriginal Community and the towns of Marathon, Hornepayne, Manitouwadge and White River.

The corporation is guided by a board of directors, mostly resident in the local communities, who are committed to the sustainability of the forest and enhancing the benefits that flow from its wise use and development. The organization operates to balance complex political, economic and environmental interests.

The NFMC is headquartered in Marathon, Ontario and employs a current permanent staff of nine and an additional seasonal workforce of four. These numbers and the operating budget amounts are expected to increase materially, as Sustainable Forest Licenses are transferred over the next year and the organization continues to develop towards a mature state. The NFMC strives to maximize efficiencies and control costs and in addition to its staff resources, relies on a well-established forestry contracting community to carry out services in harvesting, silviculture and planning. The current operating budget is approximately \$10M annually which is expected to grow substantively in coming years.

2. Compensation Philosophy

The NFMC's compensation philosophy provides direction to all elements of staff compensation and is the basis for the NFMC's Executive Compensation Plan (ECF). The NFMC has experienced challenges recruiting qualified and capable personnel for senior management positions in the past. However, through annual review of employee performance in achieving targets that contribute to the organizations objectives, ongoing monitoring of the business environment and periodic review of its Compensation Framework, the NFMC strives to assure measurable progress towards meeting its operating goals and broader strategic objectives.

The NFMC developed its Compensation Framework building on four primary principles:

- 1) To recognize and address the reality that compensation is a basic factor to enable successful recruitment of well qualified leadership in a remote location;
- 2) To attract, retain, motivate and develop a quality workforce;
- 3) To pay competitively within the broader public service while remaining cost effective;

- 4) To invest compensation resources wisely with a focus on performance to achieve the corporate objectives of the NFMFC.

3. Salary and Performance – Related Pay Caps

The Broader Public Sector Executive Compensation Act (BPSECA) was proclaimed in March 2015. Direction for the completion of an Executive Compensation Framework (ECF) is contained in a regulation under the BPSECA. The regulation direction applies to employees and office holders of designated employers who are entitled to receive cash compensation of \$100,000 or more in a calendar year. Regulation directs that compensation be capped no greater than the 50th percentile in a range of comparator positions in at least eight similar organizations within Ontario.

The NFMFC has managed its executive compensation based on an approved strategy and maintained a freeze on salary over the past four years. It has developed its current Framework, now available for review, consistent with the direction outlined in the BPSECA. The NFMFC has three positions that meet the criteria to be designated within the ECF.

These include: the General Manager, the Financial Manager, and the Forestry Operations Manager (a senior operations professional).

4. Comparative Analysis

Under the regulation, a comparable position is to be identified within at least eight different but similar organizations with respect to the following factors:

- 1) Scope of the responsibilities of the organization's executives
- 2) Type of operations the organizations engage in
- 3) Industries within which the organization competes for staff
- 4) Size of the organization
- 5) Location of the organization

Based on these factors the following organizations were identified for comparison:

1. Ministry of Natural Resources and Forestry – Director, Forest Tenure; Comptroller/Chief Acct; Manager Timber Allocation
 - These positions are similar in scope of responsibilities and could be recruited for in a similar industry and in a similar location
 - The Director level position has been used and continues to be considered, the model envisioned for the corporation's general manager
2. Sault Ste Marie Economic Development Corporation – General Manager; Director Finance; Senior Operations Professional
 - These positions are similar in scope and directly focused on economic development in Northern Ontario

3. Northern Ontario Heritage Fund Corporation – Executive Director; Finance Services Manager
 - Focus on economic development, resource industries and based in Northern Ontario
4. Ontario Northland Transportation Commission – Director of Operations; Finance Manager; Operations Manager
 - Operations are similar in scope, responsibilities, size and location
5. Owen Sound Transportation Commission – Chief Executive Officer; VP Operations; Manager of Finance
 - Operations are similar in scope, responsibilities size and location
6. Algonquin Forestry Authority - General Manager; Treasurer; Chief Forester
 - This operational enterprise is similar in all five factors as it performs similar forestry operations in a rural Ontario setting
7. Agricorp – Director of Operations; Finance manager; Senior Program Professional
 - Operations are similar and the organization is focused on industry support and economic development
8. North Bay and Mattawa Conservation Authority – Chief Administrative Officer; Finance Manager; Senior Program Professional
 - This organization is similar in all five factors and is similarly sized and located in Northern Ontario

The NFMC's ECF, consistent with the regulation direction and based on the assessment of the 50th percentile for comparable data (2016) for the positions, assigns the following pay caps by position.

- 1) General Manager who is charged with managing and directing the business affairs and day to day operations of the corporation. They are expected to direct all human resource activities, apply policies so that public funds are managed with integrity and provide leadership and management direction to staff.
Salary Cap: \$145,000
- 2) Finance and Business Manager who is charged with providing leadership to staff related to the financial activities of the corporation. They lead and co-ordinate work planning, finance reporting, allocation processes, budgeting programs, financial analysis and internal and external audits.
Salary Cap: \$114,000
- 3) Forestry Operations Manager who is charged with providing leadership and management to staff related to forestry operations. They oversee the forest

operations on the landbase working with both staff and contractors, directing forest management planning and implementing forest operations including harvesting, road building, timber sales and silviculture.

Salary Cap: \$111,000

Upon the ECF's approval, the NFMC will manage compensation awards to ensure that increases are performance based and do not exceed the assigned cap maximums unless and until a revised Framework is developed and approved.

5. Executive Salary and Performance-Related Pay Envelope

The NFMC current executive (pay year 2016-2017) envelope is \$330K.

Consistent with overall government direction and in keeping with the objective to maintain only a modest increase in executive salary while at the same time recognizing the need to address inflation and maintain competitiveness with other similar organizations, the maximum rate of increase for the total envelope will be managed to four percent annually. Applying this maximum rate of increase to the management positions could mean that the envelope cap would be reached in two and a half years to three years. We expect however that salary increases, based on individual performance, will be assigned at rates less than four percent and therefore the salary envelope cap will remain applicable for up to five years.

This amount is deemed to be consistent with government intent and reflective of other factors related to determining executive compensation including; salary compression, recent executive compensation trends and ensuring the envelope reasonably remains at approximately three percent of the annual operating budget (\$10.M) This strategy is especially important for the NFMC, in working with the realities of its remote location, to be able to try to reduce the risk of losing executive talent as a consequence of prolonged compensation restraint. This amount also provides important flexibility for the organization to perhaps ameliorate the very negative effect of salary compression which could otherwise easily occur, sometimes in a relatively short time.

6. Other Elements of Compensation

The NFMC currently permits, consistent with approved policy, some staff to live in a location different from the organization's base in Marathon, Ontario. This structure acknowledges that work from the employee's home location is permissible at times and in some cases efficient for the purposes of delivering the corporation's business activities. Support for transportation costs is provided to facilitate this operational design.

No other elements of compensation or benefits are provided to the executive staff that are not available to other members of the organization.