

AIR FORCE VILLAGES (AFV)

Leadership Succession Planning and Compensation

This policy guidance is mandatory for actions by the Board of Directors and AFV Staff coincident to the replacement of the President and Chief Executive Officer. This guidance can also be a general plan of action for Chief Financial Officer or other senior staff positions replacement. The policy provides guidance to the President regarding selection and promoting other senior staff.

Categories of Leadership Vacancy

Succession of President and Chief Executive Officer leadership is critical to continuity of operations of AFV. Two general categories of leadership succession are envisioned: planned succession and unplanned or unexpected succession. Each category entails differing considerations and actions by the Board of Directors, Executive Committee and the Staff.

- **Planned Succession**

Planned Succession occurs with the public or closely held decision by the President through retirement or other voluntary termination of employment. Planned Succession assumes advance notice by the incumbent President of his/her intentions to the Chairman of the Board. The desired departure date may or may not be immediately released to the public, based on operational considerations.

Advance notice of the incumbent's personal decision to pursue other interests permits the Chairman of the Board to engage professional executive search capabilities and to appoint a Search Committee composed primarily of serving Board members; however, persons who have extensive AFV experience, past Board membership or community leaders could also be candidates for Search Committee membership.

- **Succession Coincident to Incumbent President's Departure**

Ideally, the Search Committee will have sufficient time and latitude to complete the search to permit a Board decision regarding succession prior to the incumbent President's departure. However, AFV Succession Planning recognizes the possibility that a new President and Chief Executive Officer will not be vetted and employed coincident to the desired departure of the incumbent. Therefore, the possibility of an Interim President and Chief Executive Officer may be required.

- **Interim President and Chief Executive Officer Appointment**

An Interim President may be appointed by the Board of Directors to serve for a temporary period. An Interim President will be delegated full or partial authority by the Board of Directors at the time of appointment. Interim candidates range from previous AFV Presidents, current staff, incumbent or previous Board members, or community leaders willing to assume these responsibilities. An Interim President may be a candidate for permanent appointment; however, stipulation of an Interim President's eligibility for consideration for permanent appointment should be made by the Executive Committee prior to the interim appointment.

- **Unplanned Succession**

Unplanned or unexpected succession results from a number of possible causes, including death, incapacitating illness, personal factors that no longer permit the high performance of an incumbent, and the formal loss of confidence by the Board of Directors in the incumbent's ability to perform satisfactorily. Unplanned Succession includes little advance notice of the impending leadership vacuum; there will exist, an urgent requirement for immediate remedial measures by the Chairman, the Executive Committee and the Staff which are generally outlined in the following paragraphs.

- **Death of an Incumbent President and Chief Executive Officer**

Death of an incumbent President will normally require a desktop audit of financial matters under the control of the individual and the formal closure of such accounts and the determination of benefits which may accrue to the incumbent's next of kin. Death of an incumbent will normally require the appointment of an Interim President.

- **Incapacitating Illness**

An incumbent President rendered suddenly incapacitated may or may not require termination and permanent replacement. The determining considerations will include but are not limited to: severity of incapacitation; prognosis of recovery; anticipated length of incapacitation; and the confidence of the Board that returning the incumbent to full duty is in the clear best interest of AFV.

Upon a declaration that the incumbent President is incapacitated, the Chief Financial Officer will immediately and temporarily withdraw any fiduciary authority held by the incumbent to avoid any appearance of conflict of interest or inadvertent appearance of retained decisional authority.

If the incapacitated incumbent President is anticipated to fully recover and return to full duty, an Acting President and Chief Executive Officer will be appointed by the Chairman with the advice and consent of the Executive Committee. Under these circumstances, the individual appointed to act on behalf of the incapacitated incumbent President will likely

be a serving senior staff member who will be instructed by the Chairman on how to conduct the duty of acting for the temporarily absent President. An Acting President will normally not hold full authority of President and Chief Executive Officer; the spectrum of authorities will be specified by the Chairman.

If the incapacitated incumbent President is not expected to return to duty, an Interim President will be selected.

- **Personal Factors That No Longer Permit the High Performance of an Incumbent**

This set of circumstances is likely rare. Here, an incumbent is likely held in high regard by the Board of Directors, but personal considerations make it unlikely that continued service as the President is in either party's best interest. This scenario portends a measured – and respectful – reduction of duties and eventual replacement in the best interest of AFV.

- **Formal Loss of Confidence by the Board of Directors**

Formal loss of confidence presumes full discussion of performance issues and a vote by the Board of Directors to approve or disapprove further association of the incumbent and AFV. The full participation by legal counsel is assumed.

Prior to a vote of confidence by the Board, the Chairman may instruct the Chief Financial Officer and Information Technology Officer to freeze or withdraw financial authority, access to computer systems and access to physical facilities, as deemed appropriate to safeguard AFV assets.

The Executive Committee, with the advice of legal counsel, will determine termination considerations which may or may not be offered to the terminating incumbent.

Selecting a President and Chief Executive Officer

Policies addressing executive leadership including a formal review of executive leadership performance, executive leadership succession, executive compensation, and executive compensation policy.

Selection of the President: The Board for Air Force Villages, Inc. (AFV, Inc) will approve the selection of the President. Nomination of the Vice President and Chief Financial Officer will be by the President with approval of the Board..

1. In the event of a sudden unplanned vacancy of the President/CEO position, the Chairman of the Board, AFV, Inc. will appoint the Chief Financial Officer to the position. Should that person not be available, appointments by the Chairman to the President/CEO position follows the following priority:
 - Chief Operating Officer

- A Board member willing to serve
2. The Chairman of the Board will then appoint a search committee composed of at least 3 persons and not more than 5 persons. A majority of those appointed will be members of the Board of AFV, Inc.
 3. The search committee will first review the qualifications of current staff and Board to determine if there are person(s) who should assume the position without a formal search. These candidates will be presented to the Executive Committee for interview and consideration. Should the Executive Committee recommend selection of a person for President, the recommendation will be presented to the full Board for approval.
 4. Should the search committee decide that further search for qualified personnel is required, they will proceed using one or more of the following options:
 - Advertisement through AAHSA TAHSa, and other sources.
 - Gemini Executive Search
 - Deffet Group
 - Other sources, as appropriate

A short list of qualified candidates will be prepared by the Search Committee and presented to the Executive Committee for interview. Should the Executive Committee select a person for President, the recommendation will be presented to the full Board for approval.

Compensation Policy: AFV will conduct a review of salary parameters for the President and Chief Financial Officer every 2-3 years, as seems appropriate. It is the intent of the Board that persons selected for these positions will be of such a caliber that they should be compensated (e.g. total compensation including pay, medical, insurance, and other benefits) in the upper quartile of those with similar responsibilities.

Performance and compensation of the President: The Executive Committee will review the performance of the President annually, assess performance and adjust the compensation of the President. (If the President is in the first term, the first performance review will not occur until the end of the first six months) Generally the following factors will be considered in assessing performance:

- Financial performance, e.g. meeting the budget
- Resident satisfaction
- Progress toward the Goals and Objectives of the Strategic Plan

The Chairman of the Board may solicit comments from the full Board regarding performance of the President.

Compensation will be adjusted consistent with the above policy, performance, and national economic factors.

Performance and compensation of the Chief Financial Officer: The President will assess the performance of the Chief Financial Officer and adjust compensation consistent with the stated policy above. The President will advise the Executive Committee of the results of the appraisal and compensation.

Guidance to the President regarding selection and promoting other senior staff: The President is responsible for selecting senior staff (Executive Directors and direct reports to the President) and determining their compensation. It is the intent of the Executive Committee that the Committee be advised of such selections, reassignments, or promotions in advance.