

**CITY OF TEMECULA
AGENDA REPORT**

TO: City Council

FROM: Peter M. Thorson, City Attorney

DATE: June 11, 2019

SUBJECT: Approve the Third Amendment to City Manager Aaron Adams' Employment Agreement

RECOMMENDATION: That the City Council approve the Third Amendment to City Manager Aaron Adams' Employment Agreement.

BACKGROUND: On June 11, 2013, the City Council approved the Employment Agreement for Aaron Adams as the City Manager. The Employment Agreement was amended on February 14, 2017, and July 1, 2017. At the closed session on May 28, 2019, Council directed the City Attorney to prepare an amendment to Mr. Adams' employment agreement changing certain terms.

The following table summarizes the changes in the terms of Mr. Adams' Employment Agreement that would be made in the proposed Third Amendment followed by an explanation of the changes:

Compensation Factors	Current Agreement	July 2019 (year 1)	July 2020 (year 2)	July 2021 (year 3)	July 2022 (year 4)	July 2023 to June 30, 2024 (year 5)
Base Salary	\$231,750	\$245,863	\$245,863	\$245,863	\$245,863	\$245,863
Health/Dental/Visio	\$ 19,200	\$ 19,200	\$ 19,200	\$ 19,200	\$ 19,200	\$ 19,200
457(b) Contribution	\$18,000	\$ 19,000 or IRS Maximum, if greater	\$ 19,000 or IRS Maximum, if greater	\$ 19,000 or IRS Maximum, if greater	\$ 25,000 or IRS Maximum, if greater	\$ 25,000 or IRS Maximum, if greater
401(a) Contribution		\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Auto Allowance	\$6,000	\$7,200	\$7,200	\$7,200	\$7,200	\$7,200
Max 3% COLA			COLA	COLA	COLA	COLA
Total Compensation	\$274,950	\$301,263	\$301,263	\$301,263	\$307,263	\$307,263
Executive Leave Cash Out	\$8,913	\$9,456	\$9,456	\$9,456	\$9,456	\$9,456
Comprehensive Annual Leave Cash Out	\$27,854	\$29,550	\$29,550	\$29,550	\$29,550	\$29,550

In addition to Total Compensation noted above, the City will continue to contribute to the California Public Retirement System (CalPERS) on behalf of Mr. Adams, including the annual Employer Contribution Rate, as determined by CalPERS, less 3% paid by Mr. Adams per the

City's "Cost-Sharing" formula, plus 8% of Employee's Share, reportable as "Special Compensation."

- 1. Three Year Extension of Employment Agreement (Paragraph 2.).** Mr. Adams' Employment Agreement would be extended for three years and would expire on June 30, 2024, unless extended or terminated under the terms of the Agreement.
- 2. Salary (Section 4.A.).** Mr. Adams' annual base salary will increase to \$245,863 effective July 1, 2019 and this annual base salary would continue throughout the term of the Employment Agreement.
- 3. Cost of Living Adjustment ("COLA") (Paragraph 4.B.).** Mr. Adams would be entitled to a maximum 3% COLA beginning on July 1, 2020 that would be applied on each July 1 for the term of the Employment Agreement. The COLA shall be the lower of either the percentage change in the Annual Consumer Price Index (CPI) for Urban and Clerical Workers for Riverside-San Bernardino-Ontario, CA for the prior calendar year as compared to the Annual CPI of two calendar years prior or 3%. (For example, the July 1, 2020 COLA would be the percentage change between the 2019 Annual CPI and the 2018 Annual CPI.)
- 4. Deferred Compensation Accounts (Paragraph 5.C).** In addition to the base salary, City's contribution to an approved IRS 457(b) deferred compensation account on behalf of Mr. Adams would be increased from the current \$18,000 per year to \$19,000 per year, on July 1, 2019, 2020, and 2021 and to \$25,000 per year on July 1, 2022 and 2023, or to the maximum contribution amount allowed by the IRS. Additionally, City will contribute \$10,000 per year for the term of the Employment Agreement to an Internal Revenue Code 401(a) profit sharing plan on behalf of Mr. Adams.
- 5. Auto Allowance (Paragraph 8).** Mr. Adams' automobile allowance will be increased from \$500 to \$600 per month beginning July 1, 2019 for the term of the Agreement.
- 6. Cash Out of Executive Leave and Comprehensive Annual Leave.** In an effort enable a long time employee to keep Comprehensive Annual Leave balance at a reasonable level, Mr. Adams has the option to cash out this accumulated leave annually, although this is not required. Executive Leave Cash-Out of 80 hours per year and Comprehensive Annual Leave Cash-Out of up to 250 hours per year were established in the Original Agreement and the First Amendment to the Agreement, by reference to the Management Compensation Plan. The change in Executive Leave Cash-out from \$8,913 to \$9,456 beginning July 1 2019 and the change in Comprehensive Annual Leave Cash-Out from \$27,894 to \$29,550 beginning July 1, 2019 only reflect the higher hourly rates as provided in the Agreement.

All of the other provisions of Mr. Adams' existing Employment Agreement, as amended, would remain in effect without any changes.

FISCAL IMPACT: If the proposed Employment Agreement is approved: (1) Base salary cost would increase \$14,113 each year of the Agreement beginning July 1, 2019; (2) potential cost of the COLA beginning July 1, 2020 are not known at this time as the COLA cost would be calculated based on the changes in the Consumer Price Index each year; (3) increased cost of Deferred Compensation contribution would be a total of \$17,000 for the remaining term of the Agreement for IRS 457(b) account, subject to changes in the IRS Maximum, and a total of \$50,000 for IRS 401(a) account for the remaining term of the Agreement; (4) increased cost for the auto allowance would be a total of \$6,000 over the term of the Agreement; and (5) increased cost of the existing Executive Leave Cash-out would be a total of \$2,715 and additional cost for

the existing Comprehensive Annual Leave Cash-out would be a total of \$8,480 for the remaining term of the Agreement. The cost of both items (4) and (5) are subject to increase based on the outcome of the COLA calculation each year.

ATTACHMENTS:

1. Proposed Third Amendment to Employment Agreement for Aaron Adams
2. Original Employment Agreement for Aaron Adams, First Amendment, and Second Amendment