

**CITY OF TEMECULA
AGENDA REPORT**

TO: City Council

FROM: Aaron Adams, City Manager

DATE: June 11, 2019

SUBJECT: Approve Employment Agreements with Executive Staff Members, Authorize City Manager to Establish and Amend Employment Agreements with Executive Staff Members, and Approve Amended and Restated Management Compensation Plan for Unrepresented Employees

PREPARED BY: Isaac Garibay, Human Resources Manager

RECOMMENDATION: That the City Council:

1. Approve Employment Agreements with Executive Staff Members;
2. Authorize City Manager to Establish and Amend Employment Agreements with Executive Staff Members;
3. Approve Amended and Restated Management Compensation Plan for Unrepresented Employees.

BACKGROUND:

Executive Management Staff Employment Agreements

The City has historically hired Executive Staff Members whose terms and conditions of employment were largely determined by the Management Compensation Plan in effect at the time of employment. As the labor market changes in a direction where attraction and retention in public sector employment is progressively becoming more challenging, it has become imperative to maximize the strategies used in attracting and retaining top talent in the City's workforce. Specifically, it is critically important to attract and retain top talent at the executive level in order to maintain the City of Temecula's standards for first-class service, business continuity, and to maintain workforce stability and morale. One way to accomplish this is to establish and maintain individual, Employment Agreements with each Executive Staff member, which would allow for the development of a total compensation package that is tailored to attract and/or retain an employee using incentives that are of specific value to that individual employee, thereby maximizing the City's ability to effectively attract and retain the employee. To that end, it is proposed that the City enter into an Employment Agreement with each Executive Staff Member which preserves all forms of compensation currently in effect, including benefits in the Management Compensation Plan approved by the City Council. Executive Staff Members referenced in this recommendation currently include: Gregory Butler, Isaac Garibay, Kevin

Hawkins, Jennifer Hennessy, Michael Heslin, Randi Johl Olson, Patrick Thomas, and Lucas Watson.

Further, it is recommended that the City Council authorize the City Manager to establish any future Employment Agreements with Executive Staff Members, and make any amendments to existing Employment Agreements, subject to the total personnel expenditure budget limitations approved by the City Council.

Additionally, the City currently employs a cohesive and high-performing Executive Staff Team which the City Manager desires to retain. In an effort to retain the current Executive Staff Team, the City Manager recommends that in addition to entering into an Employment Agreement with each Executive Staff Member, the City Manager have discretion to include in each Agreement a newly-developed Retention Benefit contingent upon the Employee's longevity and performance, which would strongly incentivize both high performance and continued employment. The conditions of the proposed Retention Benefit are as follows:

- The City's General Fund Reserves shall be fully funded at the then-established standards of the City Council in order for the City Manager to offer the retention benefit.
- The employee must have completed five years of executive service with the City of Temecula.
- The employee must have achieved the highest possible overall performance rating on three out of their last five annual performance evaluations.

If the above-mentioned conditions are met, the Employee may be eligible to receive an amount equal to the maximum normal contribution limit to an Internal Revenue Code Section 457(b) Deferred Compensation Plan (i.e. \$19,000 in 2019). This amount shall be paid as income in twenty-six (26) biweekly installments at the same time as Employee is typically paid, and may be contributed to a deferred compensation plan. Due to the combination of longevity and performance criteria, this benefit shall not be considered reportable income under the California Public Employees Retirement System (CalPERS). Further, it is recommended that the City Manager retain the right to award or deny the Retention Benefit within the budget limitations approved by the City Council.

Amended and Restated Management Compensation Plan

Executive Benefit Removals:

Establishing individual Employment Agreements with each Executive Staff Member negates the need to outline certain benefits in the Management Compensation Plan (MCP) which would be duplicative of an Employment Agreement or no longer applicable to the Executive Staff Member; therefore, the following modifications are recommended:

- The above-mentioned Retention Benefit for Executive Staff Members is intended to replace the Special Merit Pay benefit outlined in Section 4.2 of the MCP; therefore, it is recommended to exempt any Executive Staff Member from receiving the Special Merit Pay outlined in Section 4.2 of the MCP.

- It is recommended to remove any references to Severance Pay or Automobile Allowance in the MCP.

Compensation Adjustments:

Section 4 of the MCP references the Annual CPI for the Urban and Clerical Wage earners for Los Angeles, Riverside and Orange Counties Metropolitan Statistical Area (MSA). The U.S. Bureau of Labor Statistics dissolved the MSA referenced in Section 4 subsequent to the City Council's approval of the MCP effective July 1, 2017. As a result, it is recommended that the City use the percentage change in the CPI for Urban and Clerical Workers for Riverside-San Bernardino-Ontario, CA for January 2019 as compared to January 2018, which is 3.08%. This would effectively trigger a 3% Cost of Living Adjustment effective July 1, 2019 per the remaining terms of the MCP.

Retiree Medical, Dental and Vision Premium Reimbursement:

Section 20.6 of the MCP was intended to require that an employee must be continuously employed in a regular, authorized position from July 1, 2005 until his or her retirement from the City of Temecula as one of several criteria to meet eligibility for the Retiree Medical, Dental and Vision Premium Reimbursement benefit; however, the City also acknowledges that the language can be interpreted otherwise. As a result, it is recommended that the City update the language in the MCP to prospectively and explicitly implement the intent to "cap" the benefit by disallowing any employees from becoming eligible for the Retiree Medical, Dental and Vision Premium Reimbursement benefit who have not been continuously employed in a regular, authorized position from July 1, 2005 until his or her retirement from the City of Temecula.

CAL/Executive/Administrative Leave Time Cash Out:

Section 17.4 of the MCP allows an employee to cash out up to 120 hours of Comprehensive Annual Leave (CAL) per fiscal year if certain conditions are met, and further allows the employee two opportunities to cash out said 120 hours – one in December, and one in June. Section 17.4 of the MCP also allows an employee to cash out their Executive Leave or Administrative Leave; however, there is only one opportunity in June to cash out said Executive or Administrative Leave. It is recommended that the City allow an additional opportunity in December of each fiscal year for employees to cash out Executive or Administrative Leave, similar to that of the CAL cash out, up to the annual maximum amounts currently noted in the MCP

FISCAL IMPACT: The estimated annual cost of implementing the newly-developed Retention Benefit for the existing Executive Staff Members is \$154,204. All proposed changes are requested in the Fiscal Year 2019-2020 Annual Operating Budget.

ATTACHMENTS: Executive Staff Employment Agreements and Amended and Restated Management Compensation Plan Dated July 1, 2019