



DATE: June 20, 2017

TO: Mayor and City Council

FROM: Director of Human Resources

SUBJECT: Adoption of a Resolution Approving Extensions and Modifications to Employment Agreements with the City Manager, City Attorney and City Clerk and Authorizing the Mayor to Execute Those Agreements and the City Manager's Home Loan Purchase Agreement on Behalf of the Council

RECOMMENDATION

That the City Council adopts the attached Resolutions authorizing extensions and modifications to employment agreements between the City of Hayward and the City Manager, City Attorney and City Clerk and authorizing the Mayor to execute those agreements and the City Manager's home loan purchase agreement on behalf of the Council.

BACKGROUND/DISCUSSION

The current employment agreements with the City Manager, City Attorney and City Clerk will expire on June 30, 2017. Each year, the Council reviews the performance of the City Manager, City Attorney and City Clerk. This year, the Council implemented a more comprehensive evaluation process to include 360-degree feedback, and provided goals for each Council Appointed Officer consistent with the Council Priorities. Based on the outcome of the performance evaluations, the Council has expressed a desire to extend the terms of the employment for the City Manager, City Attorney, and City Clerk through June 30, 2018.

The City Council has consistently maintained that all employees should be compensated in an equitable manner and that they should contribute toward the cost of their benefits in order to preserve the quality and level of the benefits provided, address the City's structural deficit, provide long-term financial stability, and maintain services to the Hayward taxpayers and community. In FY 2016, after a five-year period of no salary adjustments and increased contributions toward the cost of benefits, the City Council approved a salary adjustment of fifteen percent for the Council Appointed Officers that was paid in equal increments of 7.5% in FY 2016 and FY 2017. This fifteen percent was substantially less than the amount required to bring the City Manager, City Attorney and City Clerk to mid-market based on the City's comparable survey cities. In fact, a total compensation survey conducted in 2015, revealed that the Council Appointed Officers, were below mid-market by as much as 30%. An updated total compensation survey, completed in January 2017, reveals that these positions remain below mid-market. True to their commitment to balance the need for equitable salaries and have employees

contribute toward the cost of their benefits and provide long term fiscal stability, the Council is recommending salary increases for all three that are partially (or in the case of the City Manager fully) offset by an additional two percent contribution by each toward the city's share of the PERS retirement cost. Specifically, the Council recommends a cost-of living adjustment of five percent for the City Attorney and City Clerk (net 3% salary increase), and a two percent adjustment for the City Manager (net 0% salary increase) with an increased contribution to the City's share of PERS retirement costs of two percent, for a total of five percent cost sharing by each toward retirement costs. This salary adjustment does not bring the City Manager or the City Clerk to mid-market of the City's comparable survey agencies. However, the City Manager, City Attorney, and City Clerk recognize the continued fiscal challenges the City is facing and accept the proposed salary adjustments, offset by the additional contribution to CalPERS.

At the time the City Council appointed Kelly McAdoo as City Manager, they expressed a desire that the City Manager live in Hayward. Although not legally required to do so, Ms. McAdoo, not only agreed to move to Hayward, but expressed a desire to purchase a home for herself and her daughter in the Hayward community. The Council acknowledges that it cannot legally require the City Manager to live in Hayward, and that Bay Area housing costs continue to rise, which creates a great financial challenge for those trying to purchase in this market. Moreover, the compensation for the City Manager remains substantially below market, and she contributes toward her benefits at a rate higher than other City Managers in our survey cities.

A survey conducted in 2017 demonstrated that in many nearby jurisdictions, the City Manager received a home loan or housing assistance of some kind from the agency to live in the City they serve. In some instances, the agencies even purchased the home outright and required no payback. As part of her compensation package, the City Manager requested and the City Council agreed to provide Ms. McAdoo a home loan to assist in the purchase of a home in Hayward. The Council believes that such a loan is in the City's best interest for several reasons: 1) there is no cost to the City; 2) the City's investment portfolio benefits by the increased interest rate paid on the loan; and 3) the loan proceeds will come from non-General Fund accounts, and has no impact on the General Fund. Recognizing the mutual benefit of having its employees, especially the leadership, live in the Hayward community, the City Council has also directed staff to research potential options for providing some type of home loan program to all City employees that have an interest in living in Hayward.

Key Loan Terms:

- \$650,000 maximum loan amount
- Interest rate set at 1% above the City's investment portfolio rate fixed for the first 5 years; interest thereafter, for years 6 through 30 of the loan, will be set annually and shall accrue at a rate equal to the "Yield at Market" achieved by the City's Managed Portfolio for the quarter ended on June 30 of the previous calendar year, plus 100 basis points or 1%, but shall not exceed 6%.
- Ability to amortize closing costs into loan but loan to value shall not exceed 105%.
- If employment terminates for any reason, loan must be repaid within 12 months. If property is sold or transferred, loan must be repaid immediately.

- City Manager to provide a personal guaranty in the event of default and if the home value does not cover the outstanding balance of the loan.
- City will be the lien holder on the property.
- All closing costs, moving expenses and related expenses will be paid by City Manager.
- City Manager to make regular monthly principal and interest payments.

Additional terms for the City Attorney and the City Clerk include the option to cash out leave above the cap at 75% of their current rate on a one-time basis at any point during the contract term. There are no other substantive changes to the employment agreements.

FISCAL IMPACT

The approximate cost of the salary adjustments including the optional purchase of vacation hours in excess of the accrual cap for the City Attorney and City Clerk is \$48,000, which is offset by the additional two percent contribution to PERS, for a net impact to the General Fund of approximately \$46,500. The approximate net cost of the salary adjustment for the City Manager (offset by the additional two percent contribution to PERS) results in a General Fund impact of approximately \$1,000.

There is no cost associated with the home loan to the City Manager. As discussed above, the loan proceeds will be taken from non-General Fund accounts and the City's investment portfolio benefits from the higher interest rate paid on the loan.

NEXT STEPS

The Director of Finance and staff will work with the City Attorney's office to prepare the loan documents for the City Manager's home purchase. The attached resolution authorizes the Mayor to execute the loan documents on behalf of the City.

Human Resources staff will finalize the employment agreements for execution by the Mayor. Human Resources staff will also work with the City Manager, City Attorney's Office, and Director of Finance to research and recommend employee home purchase loans and/or down payment assistance programs for City of Hayward employees.

Prepared and Recommended by: Nina S. Collins, Director of Human Resources

Approved by:



Barbara Halliday, Mayor