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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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May 30, 1997

To: Board of Directors

From: Chairman, Special Committee
on Department Head Compensation

Subject: Department Heads' Performance Evaluation, Salary and Compensation

RECOMMENDATION(S)

The Special Committee on Department Head Compensation recommends the Board approve:

1. An increase in the General Manager's base salary from a flat rate of \$183,000 to a flat rate of \$196,400, based on his performance evaluation rating of "exceeds expectations", effective date to be June 29, 1997. Additional modifications to his contract include: 1) Deletion of the individual term life insurance policy and addition of variable universal life insurance policy, 2) Modification to the leave accrual provision to include an Administrative Leave accrual at a rate of 40 hours per year, 3) Modification to the severance package from one-half annual salary to annual salary; and

2. An increase in the General Counsel's base salary from a flat rate of \$164,383 to a flat rate \$179,500, based on his performance evaluation rating of "exceeds expectations", effective date to be June 29, 1997; and

3. An increase in the Auditor's base salary from a flat rate of \$104,021 to a flat rate of \$115,918 based on his performance evaluation rating of "exceeds expectations", effective date to be June 29, 1997; and

4. That the Administrative Code be amended accordingly.

EXECUTIVE SUMMARY

The Board of Directors is responsible for establishing the salary and benefits for the three Department Heads: General Manager, General Counsel and Auditor. On May 27, 1997, the Special Committee on Department Head Compensation (Committee) met to evaluate the performance of the Department Heads and to consider their compensation packages. The following is a summary of the Committee's recommendations.

DETAILED REPORT

General Manager

The Committee reviewed benefit options that would provide a competitive compensation package as well as options that would benefit Metropolitan. The recommended modifications are delineated below.

District Benefits

- *Deletion* of the Individual Term Life Insurance Policy at an annual premium cost of \$1,046.
- *Addition* of a variable universal life insurance policy for the General Manager of \$1,000,000 with Metropolitan named as an additional co-beneficiary at an annual premium cost of \$20,000. If the employee dies during his employment at the district, Metropolitan would recover \$250,000 and his estate would receive \$750,000. The terms of the policy include:
 - The District owns the policy for the first four years. If the employee leaves within that time frame the policy will remain with the District and can be maintained with the full Death Benefit being paid to the District if the employee should die at anytime in the future. The cash surrender values belong to the District, the policy could be surrendered at any point and all cash values would be paid to the District.
 - If the employee leaves after the four years, ownership of the policy is vested in the employee and he could maintain it himself or transfer the policy to a new employer. If the employee remains with the District until age 55 or later the cash values can be used to fund a monthly retirement income to the employee subject to the following restrictions: 1) The employee can not work for a competitor; and 2) the employee must be available to the District on a consultant basis.

Employee Benefits

- *An increase* in base salary from a flat rate of \$183,000 to a flat rate of \$196,400, based on his performance evaluation rating of “exceeds expectations”.
- *Modification* to the Leave Accrual provision to include an Administrative Leave accrual at a rate of 40 hours per year. The leave must be used by the end of the calendar year or the leave is forfeited.
- *Modification* of the severance package from one-half annual to annual salary.

The Committee also recommended an “exceeds expectations” team rating for the unrepresented employees for fiscal year 1996/97.

General Counsel

An increase in the General Counsel’s base salary from a flat rate of \$164,383 to a flat rate of \$179,500, based on his performance evaluation rating of “exceeds expectations” for the 1996/97 performance evaluation.

Auditor

An increase in the Auditor’s base salary from a flat rate of \$104,021 to a flat rate of \$115,918, based on his performance evaluation rating of “exceeds expectations” for the 1996/97 performance evaluation.