



CITY OF

NEWPORT BEACH

City Council Staff Report

July 8, 2025
Agenda Item No. 17

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: Aaron Harp, City Attorney - 949-644-3131,
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PREPARED BY: Aaron Harp, City Attorney

TITLE: Fourth Amended and Restated Employment Agreement for City Manager

ABSTRACT:

Pursuant to Article V of the City Charter of Newport Beach, the city manager is appointed by and serves at the pleasure of the City Council. The terms and conditions of City Manager Grace Leung's employment are defined in her Third Amended and Restated Employment Agreement. From time to time, the City Council and the city manager may renegotiate these terms, including adjustments to compensation and other benefits.

On February 25 and April 15, 2025, the City Council held meetings with the city manager to conduct her annual performance evaluation. During these discussions, the Council and Ms. Leung engaged in thoughtful dialogue about her future retirement plans and their shared commitment to a smooth leadership transition. Ms. Leung expressed her willingness to remain in her role as long as necessary to ensure a stable and well-prepared transition to the next city manager. These collaborative efforts have resulted in the Fourth Amended and Restated Employment Agreement for the City Manager, which is presented for the Council's review and approval.

RECOMMENDATIONS:

- a) Determine this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) and 15060(c)(3) of the CEQA Guidelines because this action will not result in a physical change to the environment, directly or indirectly;
- b) Approve and authorize the Mayor to execute a Fourth Amended and Restated Employment Agreement between the City of Newport Beach and City Manager Grace K. Leung, subject to the terms and conditions approved by the City Council; and
- c) Approve Budget Amendment No. 26-006 appropriating \$455,371.65 from unappropriated General Fund balance to various salary and benefit accounts to implement the terms of the Agreement for FY 2025-2026.

DISCUSSION:

City Manager, Grace K. Leung, was appointed as city manager for the City of Newport Beach on September 4, 2018. Her current employment terms are outlined in a Third Amended and Restated Employment Agreement (Third Amended Agreement), which

was approved by the City Council on January 25, 2022. The Third Amended Agreement provided for:

1. Term: A term from January 25, 2022, through December 30, 2026.
2. Base Salary and Adjustments: An annual Base Salary of \$301,187, which is now \$345,782, because of contract amendment(s) and cost-of-living adjustments tied to Key and Management Executive Management Employees (Management Employees).
3. Performance Bonus: A performance bonus of 2.5% of her annual base salary, as adjusted.
4. Annual Physical Exam: An annual physical exam of \$1,250.
5. Phone Allowance: A phone allowance that is equal to the phone allowance provided to Management Employees (Phone Allowance).
6. Auto Allowance: An auto allowance of \$500 per month (Auto Allowance).
7. Attorney's Fees: Attorneys' fees of up to \$4,000 to review the Third Amended Agreement.
8. Deferred Compensation: A City paid contribution to her 401(a) defined contribution plan in the total amount of \$29,500 per calendar year, which is currently \$44,500 per calendar year based on annual adjustments provided for in the Third Amended Agreement.
9. CalPERS Contribution: An initial CalPERS contribution of 13%, which is currently 11.5% (tied to the same formula or percentage contribution as is applied to the Tier II non-safety members of the Key and Management Group covered under the Compensation Plan and for the same duration).
10. Severance Benefit: A severance provision that provides for a cash settlement equal to her monthly base salary, multiplied by the number of months left on the unexpired term of the Third Amended Agreement (not to exceed 18 months) and six months of medical coverage, if the Third Amended Agreement is terminated without cause.

For the City Council's consideration is a Fourth Amended and Restated Employment Agreement (Fourth Amended Agreement, which is attached hereto as Attachment A), which provides for the following:

1. Term: A term from July 8, 2025, through December 26, 2025.
2. Base Salary and Adjustments: An annual Base Salary of \$345,782 (same as her current base salary), which would be adjusted by the same percentage salary schedule/cost-of-living adjustment, if any, approved by the City Council for Management Employees, as outlined in the Compensation Plan. For instance, if the

Management Employees receive a cost-of-living adjustment of 5% after July 8, 2025, the City Manager's base salary will increase by 5%.

3. Performance Bonus: A bi-weekly performance bonus of 2.5% of her base salary, as adjusted, as well as a separate lump sum performance bonus of 2.5% of her annual base salary, as adjusted, payable on the next normal payday that includes December 26, 2025.
4. Annual Physical Exam: An annual physical exam of \$1,250, which is the same as her current allowance.
5. Phone Allowance: A Phone Allowance that is equal to the phone allowance provided to any Management Employees, which is the same as her current allowance.
6. Auto Allowance: An Auto Allowance of \$500 per month, which is the same as her current allowance.
7. Attorney's Fees: Attorneys' fees of up to \$5,000 to review the Fourth Amended Agreement.
8. Deferred Compensation: A City contribution to her 401(a) defined contribution plan that is equal to the current adjusted total contribution limit under section 415(c)(1)(A) in effect for calendar year 2025 (currently \$70,000).
9. CalPERS Contribution: An initial CalPERS contribution of 11.5% (tied to the same formula or percentage contribution as is applied to the Tier II non-safety members of the Key & Management Group covered under the Compensation Plan and for the same duration). For instance, if the Management Employees CalPERS contribution is reduced from 11.5% to 8% after July 8, 2025, the city manager's CalPERS contribution will decrease to 8%.
10. Severance Benefit: A severance provision that generally provides that if the city manager does not resign before the end of the term and the Fourth Amended Agreement is not terminated for cause, the City will pay her severance equal to her annual base salary in effect on December 26, 2025, Auto Allowance, Phone Allowance, the applicable City's annual flexible spending account cafeteria contribution in effect as of December 26, 2025, and Twenty-Four Thousand Dollars (\$24,000.00), all of which is contingent on the city manager taking certain required actions.

FISCAL IMPACT:

The estimated additional cost associated with the Fourth Amended and Restated Employment Agreement for the city manager is \$455,371.65. The Budget Amendment appropriates \$455,371.65 in increased expenditure appropriations from the General Fund unappropriated fund balance.

ENVIRONMENTAL REVIEW:

Staff recommends the City Council find this action is not subject to the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Division 6, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly.

NOTICING:

The agenda item has been noticed according to the Brown Act (72 hours in advance of the meeting at which the City Council considers the item).

ATTACHMENTS:

Attachment A – Fourth Amended and Restated Employment Agreement for City Manager

Attachment B – Budget Amendment