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VIA E-MAIL AND U.S. MAIL

Elaine M. Howle, State Auditor
California State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, California 95814

Re: Six-Month Response to June 2012 Audit Report

Dear Ms. Howle,

As requested in your letter dated June 28, 2012, we are writing to respond on the City's implementation efforts regarding the recommendations in your June 2012 Report 2011-131, many of which, as stated in the City's 60-day response, mirror or are very much in line with those previously set forth by Senator Kevin de Leon, Reform Monitor and former Attorney General John Van de Kamp, and the City.

As indicated in our 60-day response dated August 27, 2012, and our preliminary six-month response (January 9, 2013 email), the City has reformatted and updated its existing Good Governance Reform Implementation Matrix (Reform Matrix) to enhance readability and incorporate all recommendations made by your agency, Senator De Leon, and Reform Monitor Van de Kamp, as well as those initiated by the City in April 2011. The comprehensive Reform Matrix includes the implementation status and relevant documentation for each reform recommendation, as well as a staff contact for each of the items from your report.

The updated Reform Matrix is enclosed and is also posted on the City's website, http://www.cityofvernon.org/good_governance_reforms/reform_matrix.pdf, along with your June 2012 Report and the City's responses, Senator De Leon's August 2011 Critical Path Reforms, and Mr. Van de Kamp's semi-annual reports, including the most recent January 31, 2013 Report. All supporting documentation is contained within the Reform Matrix as linked items.

As the new and improved Reform Matrix illustrates, the City has made tremendous progress on all reform recommendations and remains committed to achieving full implementation of each. Following is a summary of some of the more significant accomplishments achieved in recent months.

Exclusively Industrial

New Executive Team Members Hired through Well Advertised, Statewide Searches Conducted by Professional Recruitment Firms

In 2012, the City successfully recruited five highly-qualified executives through a newly established process that includes the use of professional search firms and diverse interview panels. In all cases, a statewide search was conducted, with advertisement in related publications and the solicitation of as large an applicant pool as possible (as high as 71 in one particular case). Three of the executives came from outside of Vernon: Teresa McAllister, Director of Human Resources (formerly HR Director for Commerce and Assistant HR Director for Riverside), Nicholas George Rodriguez, City Attorney (formerly Chief Assistant City Attorney for Pasadena), and William Fox, Finance Director (formerly Chief Financial Officer for Las Vegas Valley Water District, Assistant General Manager for Glendale Water & Power, and City Auditor for City of Glendale). Two of the five were internal candidates: Leonard Grossberg, Director of Health & Environmental Control; and Daniel Calleros, Police Chief. Both successfully competed against a pool of highly qualified applicants from outside of the city, and the ranking panels included individuals outside of Vernon City Government.

1. Teresa McAllister, Director of Human Resources – September 4, 2012

In working with me, the new City Attorney, and outside labor law counsel, Ms. McAllister has significantly assisted in the development of the Personnel Merit System Ordinance that will be presented to City Council on February 5, 2012 as an alternative to the City's previous at-will employment system.

Wasting no time, Ms. McAllister has already begun to develop many of the personnel policies and procedures that will ultimately be incorporated into one comprehensive Personnel Policies and Procedures Manual as will be required by the proposed Personnel Merit System Ordinance. Three of the seven drafted to date have been approved by City Council, while four additional policies are currently under review by the other department heads. Additionally, on February 19, 2013, Ms. McAllister is expected to present for City Council adoption, a Terms of Employment Personnel Policy to specify and define employment terms for uniform interpretation and application.

Most significantly, Ms. McAllister was able to facilitate the City's extremely successful implementation of a PARS early retirement program, which resulted in 35 retirements, 22 of which are miscellaneous employees and take effect today, 12 that are safety employees and will occur by the end of this fiscal year, and 1 that is pending the outcome of a CalPERS appeal. Based on an extremely low replacement factor, the City is projecting a savings of \$1.9 million in the upcoming fiscal year (2013-2014), and a cumulative savings of nearly \$8.2 million over the next five fiscal years. Additionally, 30 of the 35 employees retiring were under the City's pre-July 1994 longevity program, which helped yield additional savings. That program will continue to phase itself out over the next five to ten years and will be examined more closely as part of a city-wide classification and compensation study of all positions and staff, including executives, to begin in Spring, 2013.

2. Nicholas George Rodriguez, City Attorney – September 10, 2012

Mr. Rodriguez, in collaboration with the City's other Department Heads, drafted the long awaited and much needed Competitive Bidding and Purchasing Ordinance that repealed and superseded the outdated and arcane Purchasing System Ordinance, established a comprehensive competitive bidding process for procurement of goods and services, and addressed many of the related recommendations set forth by your team, Mr. Van de Kamp, and Senator De Leon.

On February 5, 2013, Mr. Rodriguez will present to City Council for adoption, a number of form documents required under the Competitive Bidding and Purchasing Ordinance to standardize contracting and purchasing forms and processes throughout the City. At present, the proposed forms of contract include those for professional service contracts, purchase order contracts, requests for proposals, and attorney service contracts. The documents contain good governance provisions, including requirements that rates charged to Vernon do not exceed rates charged to other governmental entities, as well as caps of three years duration, not to exceed dollar amounts, Equal Employment Opportunity provisions, and Living Wage and Prevailing Wage provisions. Additional forms of contract will be developed and presented to City Council in the near future.

Mr. Rodriguez has also begun to significantly reduce the city's reliance on outside counsel. Working with me and the HR Director, he facilitated the creation of a Deputy City Attorney position to begin building in-house capacity for a City Attorney Department that will perform much or most of the City's legal work. A salary survey was conducted to establish compensation for the position comparable to the levels paid by other cities, and the position was advertised in the Daily Journal. Scott E. Porter, Esq., formerly of Colantuono & Levin, was selected as the top candidate from a large and highly qualified applicant pool.

Through RFP processes overseen by Mr. Rodriguez, the City engaged Mark Mandell of d/b/a Mandell Municipal Counseling to provide municipal finance related services, and Jon Goetz of Kronick, Moskovitz, Tiedemann & Girard to provide legal services necessary for the Housing Development Project, both at rates typical of those paid by governmental entities. Mr. Rodriguez also successfully negotiated significantly reduced and more specifically defined contracts with Latham & Watkins for general services at a \$10,000 per month retainer level, and for the City's Kern County Land/Wind Project on a reduced hourly, contingency-based fee structure.

3. William Fox, Finance Director – December 21, 2012

Mr. Fox has taken steps to broaden and enhance the City's use of its enterprise resource planning (ERP) system in order to improve contract controls and the budget process.

All contracts are now required to be entered into the ERP system, which assigns each a unique contract number and limits payments up to the contract level. Contract managers

are being trained by the IT and Finance Departments to log payments and run periodic queries to monitor payments under a particular contract. Mr. Fox is working with each City department to purge the ERP system of all inactive contracts, as well as identify the current status of all professional service contracts to ensure that those are reviewed and rebid in accordance with the requirements of the new Competitive Bidding and Purchasing Ordinance. Mr. Fox is also working to develop a purchasing manual for the City of Vernon which will set forth the administrative regulations for the purchasing system, including the issuance of purchase order contracts and the use of purchasing cards.

On February 5, 2012, Mr. Fox will present the quarterly budget report for the second quarter of fiscal year 2012-2013 to the City Council. Said report and all future quarterly budget reports will contain detailed information on the current status, including explanations for any significant variances, year-end forecasts, and recommended budget revisions, if and where appropriate. In preparation for the quarterly reports, City departments will receive their respective quarterly budget reports, generated through the ERP system, and will be asked to provide explanations for deviations of 10% or greater.

Mr. Fox and I have enlisted the services of BLX Group to perform an assessment of the feasibility of terminating the City's swaps, along with a detailed process for doing so, and those results, along with any appropriate recommendations, are expected by early May, 2013. Also expected around that time, is a comprehensive debt policy that Mr. Fox is developing, which will include elements recommended by GFAO, as well as a risk/reward analysis process regarding potential swap transactions.

Comprehensive Plan for Construction of the New Housing Development Project

On October 16, 2012, the City Council accepted the proposal of Meta Housing Corporation for the 52nd Drive Housing Development Project and entered into an exclusive negotiating agreement with said developer for said project.

The project is expected to consist of 45 units, comprised of one-, two-, and three-bedroom units, and will include such amenities as a laundry room computer lab, tot lot, and community building, as well as an office for site managers and social service providers. Certain units, as appropriate and required, will be designated as low-income at varying levels, and will be ADA accessible.

As indicated by the following schedule, in addition to the actual construction and development tasks for the 52nd Drive Housing Development Project, amendments to the City's General Plan and Zoning Ordinance were also required to identify suitable sites and permit the construction of new housing within the City.

GENERAL PLAN AND ZONING AMENDMENTS TASKS	COMPLETION/ DUE DATE	DEVELOPMENT TASKS	COMPLETION/ DUE DATE
Issue RFP for Consultant to assist in the preparation of General Plan Amendment	October 2011	Issuance of RFP to select a Developer for 52nd Drive Housing Project	April 2012
Select consultant	November 2011	Selection of Housing Developer	August 2012
Enter into Contract	December 2011	City and Developer to enter into an Exclusive Negotiation Agreement	October 2012
Notice of Preparation of Supplemental EIR mailed	September 2012	City and Developer to enter into a Disposition and Development Agreement	February 2013
Submittal of Draft Housing Element to HCD for Approval	September 2012	Developer to apply for first round of tax credits	March 2013
Approval of Housing Element by HCD	December 2012	Developer to apply into second round of tax credits	July 2013
City Council approval of Environmental Document for Housing Element and Zoning Amendment	February 2013	Award of tax credits	August 2013
Approval of Housing Element Update and Zoning Amendment by City Council to create Housing overlay	February 2013	Architectural Plans and permitting for new development	November 2013
		Construction Start Date	December 2013
		Lease up Start	December 2014
		Construction complete	January 2015
		Lease up complete	February 2015

The City is very much on track with the aforementioned schedule, and all tasks scheduled through December 2012 have been completed. The proposed General Plan Update (Housing Element and Land Use Element), Zoning Ordinance Amendment, CEQA Mitigated Negative Declaration, and Development Agreement with Meta Housing, and the related public hearing are on the February 5, 2013 City Council agenda. The Development and Disposition Agreement (DDA) is slated for the following meeting. The DDA is currently being negotiated, but will serve as the City’s comprehensive plan for the Housing Development once finalized, and is expected to consist of the following elements:

- Conveyance of Land (Ground Lease)
- Project Schedule
- Construction
- Financing
- Income and Affordability Requirements
- Site Management
- Maintenance Requirements
- Remedies

Expenditure Reductions and April 2013 Tax Proposals to Address General Fund Structural Deficit

The General Fund deficit is a decades-long problem that can only be resolved through comprehensive, long-term revenue solutions and strict cost reductions and controls.

Since early 2011, the City has worked diligently and extensively with the Vernon Chamber of Commerce and other members of the business and residential communities to develop a long-term, stable solution consisting of equal parts expenditure reductions and increased revenues to address the structural deficit in the City's General Fund.

With the success of the early retirement program previously discussed, as of July 1, 2013, the City will have reduced its workforce by 25% (81 employees) over the last five years. Through these reductions, along with reductions to employee retirement and health care costs, and significant reductions in consultant and outside legal costs, the City is saving \$10 million annually, representing a 22% decrease in General Fund operating costs over a five to six-year period. The City is operating at its leanest possible staffing levels and continues to reevaluate and reorganize in order to provide the most efficient and cost-effective service model.

On March 16, 2011, after interviews with several qualified and reputable municipal finance consulting firms, the City engaged the services of NBS to review the City's revenue base and service model, and provide appropriate recommendations for revenue generation, as well as a detailed implementation plan and assistance to complete any proposed recommendation.

Based on thorough analysis of the recommendations presented by NBS, as well as extensive discussions with and feedback from Vernon's business and residential communities, the following proposed tax measures on the April 2013 City of Vernon General Municipal Election ballot represent what the City believes to be an appropriate distribution of the revenue burden among Vernon's various industries and taxpayers.

April 2013 Tax Proposals

1. Proposed Business License Tax Increase (Measure K)

Measure K proposes to the voters adoption of an ordinance to increase the City's existing Business License Tax rates in accordance with Exhibit A of the Resolution No. 2013-01. The proposed ordinance would also modify the method for calculating business license taxes on additional square footage, multiple business activities at one location, and for contractors. Additionally, the ordinance clarifies that leasing of real property by the owner of that property, absent some other business activity, does not constitute a business that is subject to this tax.

The proposed increases to the Business License Tax rates are expected to generate an additional \$4.5 million in revenues.

2. Proposed Special Parcel Tax (Measure L)

Measure L proposes to the voters adoption of an ordinance to levy an annual Special Parcel Tax on non-residential parcels at a rate of \$0.03 per square foot to fund public safety services and projects. The proposed tax would be levied only on those parcels or portions thereof not subject to the City's existing Warehouse Parcel Tax. The tax is proposed to sunset in 10 years (Fiscal Year 2022-23).

The proposed Special Parcel Tax is expected to generate \$1.9 million to fund essential Fire, Health, and Police services and projects.

3. Proposed Utility Users' Tax (Measure M)

Measure M proposes to the voters adoption of an ordinance to levy a 1% Utility Users' Tax on non-residential electricity, gas, telecommunications, video and water utility services. The proposed tax would sunset 10 years after the date it takes effect.

The proposed Utility Users' Tax is expected to generate \$1.6 million.

CalPERS Corrections Stemming from its April 2012 Audit Report

On October 16, 2012 the City adopted a correction resolution to its current contract with CalPERS, as provided by CalPERS, to eliminate the inclusion of Local Prosecutors as local safety members as adopted in February 2005. The correction resolution revokes the provision as of its 2005 effective date as if it had never been incorporated into the City's contract in the first place. No members of the City Attorney's Office retired from CalPERS during the time the provision was in effect.

In April 2011, the City implemented the Payroll Module in its ERP system (EDEN), which ensures that, for CalPERS reporting purposes, premium and specialty pay are reported under their proper pay codes, and limits reportable compensation for individuals to the limits established by the federal Internal Revenue Code to prevent the possibility of over-reporting.

As this letter and the enclosed Reform Matrix indicates, and as Mr. Van de Kamp concludes in his Independent Reform Monitor Report issued today, Vernon, "[a]s a City[,] can be proud of its recent accomplishments." A copy of Mr. Van de Kamp's report is also enclosed.

Admittedly, Vernon is incredibly proud of the progress it has made as a City and in improving its governance operations. With the arrival of new, highly qualified and experienced executive team members and the improved practices they bring to the City, a diverse five-member City Council formed in-part through two contested elections held in 2012, and the increased involvement of business and community leaders through a number of new committees and commissions and more open and transparent processes, Vernon is truly transforming into the model city it set out to become less than two years ago.

Vernon remains committed to achieving full implementation of all of its reform measures, including those recommended in your report. We thank you for the opportunity to keep you apprised of our progress and look forward to reporting additional progress and success in our one-year response.

Sincerely,



Mark C. Whitworth
City Administrator

Enclosures

cc: Vernon Mayor and City Council Members w/out Enclosures
Senator Kevin de Leon w/out Enclosures
Senator Ricardo Lara w/out Enclosures
Reform Monitor John Van de Kamp w/out Enclosures