

CITY OF VERNON

REPORT OF

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INDEPENDENT REFORM MONITOR

Dated January 31, 2013

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PREFACE

I became Vernon's Independent Ethics Advisor on February 15, 2011, soon after the Assembly Speaker introduced AB 46 and then SB 781 that would disincorporate Vernon. At the time Vernon was seen (among other criticisms) as paying outlandish salaries to its public officials and in the hands of a few who profited by their position.

As I said in my July 31, 2012 report, the Assembly Speaker "scared the bejusus out of Vernon." The pressure of his bill forced Vernon's residents and businesses as well as its City government to understand that it could no longer do business the way it had in the past.

I have now issued three reports, July 29, 2011, January 31, 2012 and July 31, 2012 (all of which may be viewed on the City of Vernon website) recommending reforms and improvements in the way the City of Vernon does it business.

I have been aided in these past endeavors by Robert Stern, former President of the Center for Governmental Studies and former General Counsel of the Fair Political Practices Commission, Cynthia Kurtz, formerly Pasadena's City Manager, and Daniel Callender, a colleague at my old law firm Dewey & LeBoeuf.

In the reform efforts I have also been assisted by the work of many good spirited people living and working in Vernon, and by Senator Kevin De Leon, who on August 22, 2011 wrote to the City calling for housing reform (including new housing which would lead to a greater number of residents), the establishment of an Environmental and Community Benefit Fund, funding for Regional Community Recreational facilities and a revision of the City's trash hauling program.

Thanks to Senator De Leon and other legislators in Sacramento, the Speaker's disincorporation measures did not succeed, and the City of Vernon in essence was given time to clean up its act.

My employment was continued by Vernon's City Council for four years effective February 13, 2012, under a new title "Independent Reform Monitor," with reports due every six months.

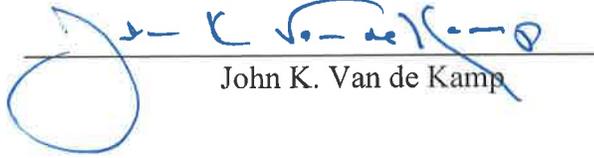
Since May of 2012, I have been associated with the firm Mayer Brown LLP as Counsel. This report is being prepared with the assistance of its staff and Robert Stern.

The scope of my work delineated in my engagement agreement with the City is to report on Vernon's compliance with the Political Reform Act, Government Code Section 1090, the Brown Act, the Public Records Act and conflict of interest requirements, as well as the City's policies and procedures relating to the payment and expenses of invoices and to "review the City's governance reform measures and initiatives and recommend measures and initiatives in the best interest of the City." I have no executive power. Reforms and improvements are subject to the decisions made by the City Council, the City Administrator and the City's staff. I can only recommend. Nonetheless, it must be said that the City, with very few exceptions, has shown its consistent support of the recommended reform measures. While it has taken time to implement

and integrate some of these measures, it is clear that even though AB 46 and SB 781 are no longer pending, that Vernon continues to implement good government reforms.

This report will cover Vernon's most recent efforts to address recommendations made by Senator De Leon and me, provide a handful of new recommendations, and address the City's efforts to bring its General Fund into balance.

In reviewing this report, one must conclude that there has been substantial progress in Vernon in the past six months, most of it very consistent with the path to reform that Senator De Leon and I have recommended.



John K. Van de Kamp

RECENT DEVELOPMENTS

Legislation

No legislation was introduced in 2012 calling for Vernon's disincorporation, nor is any pending at this time.

The City Budget

As indicated in my July 31, 2012 report the City Council on June 19, 2012 approved a \$323,543,544 budget for the 2012-2013 fiscal year, of which \$49,339,498 was dedicated to the City's General Fund. At that time the City projected a \$12 million General Fund deficit and proposed measures to close that deficit. On August 21, 2012 the budget was amended reflecting reductions of just over 6%.

A Special Election was held on September 18, 2012 calling for a utility user's tax not to exceed 9.8%, to be applied to all utilities, including electricity, water and gas, with an aggregate user's cap set at \$250,000 for electricity, water and gas. The measure was strongly opposed by Vernon's Chamber of Commerce and was defeated by a vote of 24 to 16.

A Maximum Special Parcel Tax was increased by the Vernon City Council from \$26.00 per 100 square feet to \$28.72 pursuant to a 1998 Ordinance (No. 1057), to be applied to warehouses, truck terminals, freight terminals, railroad facilities and other distribution facilities.

An electric rate adjustment was approved by the Vernon City Council raising rates 7.8% effective July 1, 2012, 7.8% Jan. 1, 2013, and 2% effective July 1, 2013. Other cities subsequently raised their electric rates. As a result Vernon's electric rates are still lower than most cities. Carlos Fandino, Vernon Director of Light & Power reports that "for year 2013 and 2014, the City continues to offer highly competitive rates to its large commercial and industrial customer base which represents 68% of total retail electric sales by the City." According to his calculations, Vernon's rates for 2013 will be 5% lower for 300,000 kilowatt users than Los Angeles Department of Water and Power and 10% lower than the rates charged by Southern California Edison. For those using 2,000,000 kwh, Vernon's rate will be 8% lower than LADWP's and 7% lower than SCE. In 2014 Vernon's rates will be between 8%-12% lower than that charged by those utilities. Fandino states that "through diligent resource procurement efforts and tight budget controls, the City of Vernon is working to ensure that our rate increases fall below the 5% threshold for the foreseeable future," while he expects that other utilities will continue to raise their rates 6-7% annually. (These figures do not reflect Renewable Portfolio Costs which Vernon's Light and Power Department may pass on to its customers.)

Rates are calculated by expected costs and demands. While Vernon's projections are relatively conservative (calling for a 1% increase in power demand), the requirements for and the cost of renewable energy seem to be volatile. Up until now Vernon's General Fund budget shortfall has been aided substantially by transfers from the Light and Power Department, transfers which may no longer be possible. The Department's financial situation will be tracked in future reports.

The Council approved a continuation of a 2.85% Public Benefits charge (in place since September 20, 1996) in the electric rates schedule and approved an allocation of \$2 million per year derived from this charge to offset the renewable power costs pass through to customers.

The City Administrator agreed to work with the City's Departments by the end of August to obtain 5-10% cost reductions in the city's General Fund. Thus far approximately 11% in cost reductions have been achieved.

At its December 4, 2012 Council meeting, the sale of 500 acre feet of Vernon's water rights to the City of Norwalk's Municipal Water System for \$12,000 per acre feet was approved. This one time measure for \$6 million reduces the 2012-13 general fund shortfall.

In some years that deficit has exceeded \$20 million; it was met by transfers from the City's Light and Power Fund, and one time stop gap measures (like the Water Rights sale previously described.)

The City has also reduced operating expenses (by over \$6 million in the past three years), and by approval (at its January 8, 2013 meeting) of an early retirement incentive program, which expects to reduce costs by \$8.1 million over the next five fiscal years. In addition there have been reductions in health care costs and new significant reductions in consultant and outside legal costs (now that the disincorporation crisis has passed). All told by July 1, 2013 the City will have reduced its work force by 25% over the last five years and is expected to save \$10 million annually.

At the same time, a reduced structural deficit remains.

After consultation with the business community, on January 8, 2013 the Council approved a three pronged tax approach to raise \$8 million a year to remove the General Fund structural deficit to be submitted to Vernon's resident voters at the April 9, 2013 general election. The measures to be considered by the voters are;

Measure K: An ordinance to increase the City's Business License tax, based on the average number of persons employed by the licensee for each calendar year, with a maximum tax rate set at \$750 for 1 employee to \$28,450 for licensees with 1,901 or more employees. Warehousing business tax rates are based on square footage with a tax rate of \$1,200 for the first 5,000 square feet and \$0.21 per square feet for square feet beyond that figure at a yearly maximum rate of \$11,950 per location. Other yearly maximum rates are set for specific dealers and vendors. The measure would take effect January 1, 2014. CPI adjustment shall be made annually.

The measure is expected to generate an additional \$4.5 million a year in revenue.

Measure L: 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 and health safety services projects, to be levied on square feet of parcels, not subject to the City's warehouse parcel tax: CPI adjustments are provided. The tax shall be first collected for 2013-14, with a sunset on the tax for fiscal year 2022-23.

This tax is expected to generate \$1.9 million per year.

Measure M: an ordinance to levy a 1% utility users tax on electricity, gas, telecommunications, video and water services. The tax applies to businesses and residents, with an exemption provided for residents who are blind and disabled and those who meet the “low income” limits set by HUD.

This measure is expected to generate \$1.6 million annually.

The City Auditor’s Report

As of this writing the City Auditor Macias Gini & O’Connell, has not released its financial statements for Vernon’s 2011-12 fiscal year, which ended June 30, 2012.

A draft of their audit report was reviewed; without going into detail it reveals a substantial drop in Vernon’s net assets from 2011 (which stood at \$181,690,500).

In 2007 Vernon’s net assets stood at \$313,566,791.

The City’s current budget and financials will be discussed in detail at the Council’s February 5, 2013 meeting, with a review of the Audit Report (assuming it is released by then) to be scheduled at the following Council meeting by new City Finance Director William Fox. He emphasizes that Vernon is a going concern, and that bleak as the past five years may have been for Vernon, that with reductions in the City payroll, the end of the AB 46 crisis and the heavy costs associated with the City’s defense, the utility rate increases, and the prospective tax rate proposals (subject to voter approval), the outlook for the 2013-2014 fiscal year should be positive.

Nonetheless, it is clear that Vernon has stepped close to the financial brink, and that only a combination of City cost reductions and tax and rate increases have been and will be necessary if its fiscal cliff is to be avoided.

Personnel

At its December 18, 2012 meeting after a search and interview of the leading candidates, the Council appointed William Fox, the former Assistant General Manager for Glendale Water & Power and City Auditor for the City of Glendale, and most recently the Chief Financial Officer of the Las Vegas Valley Water District, to become its new Finance Director, succeeding incumbent Rory Burnett who is retiring in February 2013. Fox began his assignment on Dec. 26, 2012.

At the same meeting, after a search and interviews of the leading candidates, Interim Chief Daniel Calleros was appointed Police Chief.

In August 2012, after significant searches;

--Teresa McAllister, formerly the Human Resources Director for the City of Commerce, was appointed Vernon’s Human Resources Director

--Nicholas Rodriguez, formerly Pasadena's Chief Assistant City Attorney, was appointed Vernon's City Attorney. Willard Yamaguchi who has served the City as Interim City Attorney, City Clerk, Risk Manager and Chief Deputy City Attorney, retired in January. Scott Porter has been hired to serve as Vernon's Deputy City Attorney, bringing 12 years of municipal law experience to his new position. It is expected that his presence will avoid some of the expensive outsourcing of Vernon's legal business.

--Leonard Grosberg was appointed Health Director, and began in his new capacity in August 2012.

A search is now underway for a Fire Chief to succeed Mark Whitworth, Vernon's City Administrator who no longer fills a dual position as City Administrator and Fire Chief (Whitworth continues as the Vernon City Administrator).

Elections

After lengthy hearings conducted by former Judge Debra Wong Yang, Luz Martinez was elected to the Council to complete the remaining term of ex-Mayor Hilario Gonzales. Election challenges were filed by both Daniel Newmire relating to the April election won by Michael Ybarra, and by Reno Bellamy over the June election. Both challenges have been dismissed in Superior Court (Bellamy has terminated his City housing lease, is no longer living in Vernon, and has resigned from the Housing Commission). See Chapter IV—for more information about the elections.

CHAPTER I

Senator De Leon's Critical Path Reforms To Be Completed

Many of Senator DeLeon's Critical Path Reforms were approved by Vernon's voters in 2011.

In Chapter III of this report, one will find a status report on Senator DeLeon's recommendations to construct approximately 45 new housing units with a significant affordable component within 3 years, with the goal of doubling the electorate. Significant progress has been made in that regard. (See Chapter III) Vernon's present population is around 115. The number of registered voters is around 70. If 45 new units are built by the end of 2014, it seems likely that Senator DeLeon's recommendation will largely be achieved.

There are still a number of his recommendations that remain to be completed.

1. Environmental and Community Benefit Fund

Critical Path Reform

"Establish a substantial long term Environmental Community Benefit Fund to help mitigate the decades of noxious air released from Vernon (the exact amount to be negotiated):"

Response from Vernon

On August 25, 2011 the City Council adopted a resolution (2011-149) ordering the establishment of the Fund for a duration of 10 years with \$5 million a year to be dedicated to this Fund.

The City set aside \$3.2 million in the 2012-2013 City budget for the Fund and for funding the Regional Community Recreational facilities (see Recommendation 3 below).

The anticipated source of much of the Fund was redevelopment money which was lost as a result of state legislation dissolving redevelopment agencies statewide. Given the City's General Fund difficulties, negotiations with Senator De Leon should be initiated to modify the 2011 Resolution to reduce the annual allocation but retaining the essential nature of the De Leon goals. It is recommended that the City Administrator and the Director of Finance meet and confer with Senator De Leon in the first 3 months of 2013 to determine whether and how such modifications shall be made.

2. Independent Board

Critical Path Reform

"(b) Creation of an independent board to allocate those Environmental and Community Benefit Funds (ECBF) including representation from outside affected communities."

Response from Vernon

While the City authorized management of ECBF by a nine member committee in 2011, the committee itself has not been appointed. The City and Senator De Leon have a mutual interest in altering how this fund is managed. It is recommended that this be worked out by April 1, 2013.

3. Regional Community Recreational Facilities.

Critical Path Reform

“e. Immediately fund regional community recreational facilities in affected neighboring communities (the scope and sites to be negotiated)”

Response from Vernon

In Resolution 2011-149 the City agreed to provide a separate allocation of \$5 million to assist programs for the Hazard Park Armory Youth Center in Boyle Heights and \$5 million to assist in the renovation of the Salt Lake Park in Huntington Park.

As indicated earlier, a total of \$3.2 million has been budgeted in 2012-2013 for these programs and the ECBF requirement.

Negotiations have been ongoing with representatives from Huntington Park and Boyle Heights.

In Huntington Park, design work is underway for the renovation of the Salt Lake Park project. \$124,000 has been placed in an escrow account to be paid by Vernon for the design work. Additional sums will be available as the project is developed. It is estimated that the project will take around two years to finish after completion of the design work.

Alex Kung of the Vernon City Administrator's office has met four times with Hazard Park Armory Youth Center officials to review documents for the renovation of the youth center. It was estimated that \$500,000 will be sought in 2012-2013 from Vernon for design, engineering, and renovation costs of that facility. As of this writing, \$150,000 has been approved by the City for this project and will be deposited into an escrow account.

In December 2012 Vernon hired a Grants Coordinator, California Consulting, to assist Vernon in gaining additional funding for those facilities, and for other programs.

Since Senator De Leon set no dollar amount on the funding of these regional facilities, it is in the City's best interest to negotiate with Senator De Leon as to the timing of their funding, and add flexibility to its 2011-149 Resolution so that Vernon would be able to assist other programs in neighboring communities.

It is recommended that this subject be discussed and hopefully resolved at a meet and confer between the City Administrator and Senator De Leon to take place in the first quarter of 2013.

4. Sustainable Development and Energy Efficiency Commission

Critical Path Reform

“Establish a sustainable development and energy efficiency commission [SDEEC] that includes representatives from the environmental justice community.”

Response from Vernon

Members of the SDEEC were appointed by the City Council on January 3, 2012.

In 2012, six meetings have been held. A work plan and budget were adopted, as was a mandatory commercial recycling policy calling for 75% diversion (designed to permit businesses to determine individually the type of facility to utilize to meet the requirement). A Recycling Policy and a Sustainability Action Plan were approved by the City Council. A Mission Statement was also adopted. SDEEC has been given presentations on Vernon’s Solid Waste Hauler program and alternative technologies, but no further action has been reported.

5. Trash Hauling Program.

Critical Path Reform

“Revise existing trash hauling program with strong environmental standards.”

Response from Vernon

Resolution 2011-149 directed the City’s Health Officer/Director of Health and Environmental Control to consolidate trash hauling enterprises within the City and improve environmental and safety standards governing trash hauling in the City.

At present, 17 trash haulers have contracts within the City running to December 31, 2014. The City’s Health Officer/Director of Health and Environmental Control, Leonard Grosberg, is working in conjunction with the SDEEC to prepare an updated program to address truck emissions and the number of trash hauler trucks on the streets of Vernon, and is looking to develop a program that minimizes emissions and road traffic.

This a program could lead to a consolidation of trash hauling to a single contractor with “clean” trucks. Such a program is being developed with SDEEC, and some input from the trash haulers has been received. Once the program is finalized, it will be sent to the City Council for approval no later than six months before the expiration of the present contracts.

The SDEEC met on January 30, 2013 to finalize its trash hauler recommendations, which will be presented to the City Council.

CHAPTER II

Recommendations From Past Independent Ethics Advisor Reports To Be Completed

- “1. All Councilmember salaries should be set at \$24,996 by April 17, 2012, when the newly elected Councilmember takes office. (Page 41 of July 29, 2011 Report)

Response from Vernon

No Council action has been taken on this recommendation. As it now stands, newly elected Councilmen Michael Ybarra’s salary is set at \$24,996, while newly elected Councilmember Luz Martinez took a voluntary reduction to that level upon taking office. The salary of other Councilmembers (or their replacements) will go to Ybarra’s and Martinez’s level when their new term begins. As it stands the three other Councilmembers’ salary now remains at \$55,800. Their salaries were reduced 18% to that level July 31, 2011.

It is once again recommended that all Councilmembers salaries should be set at the \$24,996 level as soon as possible—a salary level similar to that in many Los Angeles County cities.

- “2. The City has provided training but not written materials on complying with Government Code Section 1090. A compliance manual should be completed by April 2, 2012, with the assistance of Reed & Davidson, LLP. (Page 15 of January 31, 2012 Report.)

Response from Vernon

Written materials addressing Government Section 1090, the Brown Act and the Public Records Act have been prepared by Reed and Davidson and made available to all employees on the City’s intranet site, and were utilized in the annual AB 1234 training sessions of Council members, Commission members, department heads and key staff on August 20, 2012 while an in depth session on the Brown Act and the Public Records Act was held with Department heads and key staff on December 6, 2012.

- “3. Reed & Davidson, LLP is reviewing the City’s existing conflict of interest codes, and the City should adopt any updates or amendments by October 31, 2012 in accordance with the Fair Political Practices Commission biannual review period. (Page 16 of January 31, 2012 Report)

Response from Vernon

The City Council adopted an updated Conflict of Interest Code on November 20, 2012.

- “4. To the best of our knowledge, Vernon’s staggered election system remains unique in California, and should be amended to meet the norm in time for the 2013 election. (Page 11 of July 31, 2012 Report)

Response from Vernon

At its meeting on May 15, 2012 the Council discussed the staggered election proposal and concluded that with its present small electorate, a decision regarding moving to a staggered Councilmember election should be held in abeyance until new housing is in place with a substantially larger electorate. Concerns were raised that with the present size of the City electorate that an engineered takeover of City government might be suggested by such a move and would be inimical to the City's best interests. In 2006 such a takeover was attempted when homeless persons were registered out of a Vernon warehouse in an attempt to influence the City election.

No further action has been taken by the Council on this proposal. It is recommended that the proposal be reconsidered when Vernon's new housing is in place and when there is a larger electorate.

- "5. Vernon, with the assistance of Reed & Davidson, LLP, should complete the Brown Act compliance manual by April 2, 2012. When completed, the Brown Act compliance manual, should be posted on Vernon's intranet site. (Pages 18 and 19, January 31, 2012 Report)
- "6. Vernon, with the assistance of Reed & Davidson, LLP, should complete the Public Records Act compliance manual by April 2, 2012. When completed, the Public Records Act compliance manual, should be posted on Vernon's intranet site. (Page 20, January 31, 2012 Report)

Response from Vernon

See Response No. 2. The City has complied with these recommendations. Both manuals have been completed and posted electronically.

Contract Policies

- "7. The following recommendations relate to policies and procedures for contracts and should be addressed in a single policy document for the City Council's review and approval by July 3, 2012:
 - a. Require all contracts, including professional service contracts, to include ending dates and/or expenditure caps.
 - b. Review and rebid professional service contracts at least once every three years.
 - c. Require lead staff on professional service contracts, especially for legal services to negotiate for best rates or rates similar to those provided to other government agencies.
 - d. Require the review and sign-off of professional service invoices by the initiating division or department be reinforced either through a policy amendment or by memorandum from the City Administrator.

- e. As a general practice do not allow compensation rate increases during the term of the contract. In the event all parties are aware that external factors are going to significantly affect costs and rates during the term of the agreement, require rate increases to be tied to the most appropriate index or cost of living index. (Page 21, January 31, 2012 Report)

Response from Vernon

On December 4, 2012 the City Council approved adoption of a “Competitive Bidding and Purchasing Ordinance” that substantially tracked all the recommendations made in January 2012. (See page 15 & 16 of Ordinance 1200).

The Ordinance was drafted under the leadership of outside counsel and new City Attorney Nicholas Rodriguez, after consulting with Department Heads, and provides that all contracts in excess of \$25,000 must be subject to formal competitive bidding or competitive selection, unless they fall into listed exceptions, such as “sole source” or contracts with other governmental entities.

The Council will approve all specific contracts in excess of \$75,000; contracts of less than \$75,000 that comply with the ordinance and utilize City Council approved form documents as the basis of the transaction will be approved by the City Administrator (these levels were adopted after review of levels in other L.A. County communities, and appear to be in line with many of them).

Purchases of less than \$25,000 will be made pursuant to administrative procedures adopted by the City Administrator; purchases over \$3,000 require solicitations of no fewer than 3 vendor quotes unless otherwise exempted.

While the new Ordinance and its procedures are currently in effect, the prior purchasing procedures may be utilized on the recommendation of the City Administrator and City Attorney on a case by case basis, to and through June 30, 2013, to the extent needed to assure a smooth transition.

It is recommended that the City review compliance with the new ordinance no later than June 30, 2014, to determine its effectiveness and whether any changes need be made.

- “9. The City should hire a permanent City Attorney with expertise in municipal law and redevelopment. (page 24, January 31, 2012 Report)

Response from Vernon

After a search and a review of some 32 applicants, and interviews with some of them, Nicholas Rodriguez, the Chief Assistant City Attorney of Pasadena and Chief of its Civil Division was selected, and began service on September 10, 2012.

- “10. The City should create a Human Resource/Personnel Department and hire a trained Human Resources Director (page 25, January 31, 2012 Report).

Response from Vernon

After a search, a review of applicants, and interviews, the Council hired Teresa McAllister who commenced her Vernon work in September 2012 and is in the process of developing a merit system as an alternative to its present at will employment system. She has also assisted the City Administrator in the City's efforts to reduce its work force by offering an early buyout to City employees with the aim of cutting the City's labor costs, has helped arrange interview panels for the City Finance Director and Chief of Police applicants, and is developing new personnel policies. She is presently developing studies of the City's benefit programs, its classification, and its compensation of employees throughout City government with the aim of bringing its job classifications in synchronization with the new personnel policies. She plans to issue an RFP for a Benefits Consultant/Broker to help analyze the City's medical programs and for advice on employee/retiree benefit issues. On her agenda is an update of the City's Injury and Illness Prevention Program, a quarterly newsletter, and increased training and professional development.

She is off to an impressive start; her progress will be tracked in my July 31, 2013 Report..

"11. The City should complete a study of the Vernon Police Department staffing and costs in comparison with other primarily industrial cities (Chapter II. Section A, page 18 of Jan. 31, 2012 Report)"

In my July 31, 2012 report, I also recommended that the City make the Matrix personnel aware of the Sheriff's proposal and ask it to offer comments with respect to the proposal. I also asked "Following its receipt the City Council should immediately address the Sheriff's proposal and decide whether its worthwhile to pursue Phase II. Unquestionably the savings offered by the contract are very attractive. What needs to be determined is whether they are real, and whether adequate service can be provided under its proposal. The Matrix Study may offer other alternatives which could significantly reduce the costs of Vernon's policing."

The City Administrator has also asked the Los Angeles County Fire Department to provide a similar proposal, i.e., what type of services it could provide, and at what cost, should the City decide to contract out its fire services.

Response from Vernon

Matrix Consulting was hired following an RFP in the last quarter of 2011-2012 to conduct the study. The Matrix report was submitted to the City Council on January 22, 2013.

Matrix indicated that they found Vernon unique and could not find any other police force in the country facing a similar resident and commercial population. Therefore, they found no comparables.

Instead it focused, not on "per capita" or per "1000 residents" ratios as a way to measure effectiveness, but on the generated workload and the availability of proactive time to generate activities.

Matrix's recommendations were as follows:

"PATROL:

1. Develop a plan for higher utilization of the proactive time available to patrol officers in the field.
2. Target authorized field staffing at 21 officers, exclusive of traffic K-9 and Sergeants.
3. Maintain existing authorized staffing levels in the Traffic Unit.

DETECTIVES

1. The Vernon Police Department should reduce the ranks of Detectives by one (1) position.
2. Implement best management practice case management approaches to include the use of solvability factors at screening and ongoing case reviews.
3. Continue the practice of assigning Detectives and the Detective Sergeant collateral duties.

SUPPORT SERVICES

1. Increase staffing in the unit by three additional Dispatchers to meet the one non-peak and two peak staffing level without excessive use of overtime and the use of police officers to cover a console.
2. Make no changes to the staffing or base procedures of the Records Unit.
3. Make no changes to the staffing or base procedures of the Property and Evidence function, which includes Department coordination of judicial process.
4. Reorganize and simplify the command structure of the Vernon Police Department, bringing the Investigations Lieutenant under the Captain and the Records Manager under the Support Services Lieutenant.

FEASIBILITY OF PROVIDING CONTRACT SERVICES TO THE CITY OF MAYWOOD

1. The City of Vernon should begin to pursue providing contract services to the City of Maywood – it provides cost savings to Maywood, cost deferrals to Vernon, improves the utilization of Vernon staff and regionalizes an important public safety service."

In short, Matrix saw no need to downsize the Vernon Police Department, reducing the cost of Detectives by but 1 position, while filling a Dispatch Supervisor position and increasing staffing in the units by two additional Dispatchers to meet the one non-peak and two peak staffing levels without excessive use of overtimes and the use of police officers to cover a console. (Note: The Dispatchers are not peace officers, so there would be little fiscal impact if the recommendations are adopted.)

With respect to Vernon providing contract police services to Maywood, Matrix indicated that a shift from the Los Angeles County Sheriff's Department to Vernon's Police Department could save Maywood \$250,000 per year. Matrix suggested savings to Vernon would only occur if Vernon's "extraordinarily high proactivity" levels were transferred to Maywood, saving Vernon up to \$2.75 million.

Vernon's Police Department is about to lose 8 positions (five sworn, 3 non-sworn) due to the early retirement program (It is expected that 2 of the non-sworn positions will be backfilled). Most of these positions in all likelihood would have to be filled if Maywood is to be served. At the present time the L.A. County Sheriff's contract with Maywood runs to June 30, 2014, subject to cancellation with a 180 day notice.

Chief Calleros responded to the Matrix Report at the January 22, 2012 Council meeting, indicating that the Department concurred with the results and recommendations of the study and analysis, and said that he intended to work on an execution process as financial resources permit. He outlined some of the Department's response;

(1) Better and more complete tracking of proactive time, e.g. patrol field services related to community policing, mutual aid services to local communities, community outreach services, patrol field surveillance and other patrol functions not now tracked.

(2) Elimination of the Detective Lieutenant position upon the expected retirement.

(3) A formal case screening check list, now in effect.

(4) Dispatcher level staffing will be re-evaluated once the City financial situation is stabilized.

(5) The recommended organizational structure will be implemented after the scheduled retirements (8) occur in late June. Six positions will not be backfilled.

(6) Should Vernon contract with Maywood for police services it will be necessary to backfill a few of the sworn positions lost to early retirement. Staffing levels will need to be augmented in the Communications Center and an additional Patrol Lieutenant will be required.

It is clear from the City Council's recent discussion that it wants to retain its own police department, rather than contracting out to the Los Angeles County Sheriffs Department, a view that seems to be shared by many in the business community.

Unfortunately, the Matrix Report did not address the Sheriff's proposal.

While the L.A. County Fire Department was asked to provide a proposal to take over Vernon's fire service, it declined to do so.

"12. The City should establish an ongoing consulting relationship with City Administrators and City Managers from other Southern California cities and League of California Cities representatives to review best practices and Vernon's utilization of them. (Page 15, July 31, 2012 Report)

Response from Vernon

The City Administrator Mark Whitworth and Councilmembers have attended Independent Cities and League of Cities meetings on a regular basis. The City Administrator has met with City Administrators and City Managers from other neighboring cities on an increasing basis, offering the opportunity to discuss mutual problems and best practices. This recommendation is considered “done.” At the same time the interaction should be continued.

New Recommendations from 2012 Reports

- “1. Allocation of money for the Environmental and Community Benefit Fund should await clarity regarding the future of the City’s Redevelopment Agency funding. The City should begin to fulfill its commitment to this recommendation by July 31, 2012. By that time, the City’s financial picture should be clarified and the 2012 budget adopted. (Page 15, July 31, 2012 Report)

Response from Vernon

See page 9 of Chapter I. The 2012-13 City budget has been adopted. Only \$3.2 million has been allocated for this fund and for Regional Recreational Facilities.

- “2. Given the uncertain status of Redevelopment Agency funding, the timetable for allocation of \$5 million to assist in the renovation of the Salt Lake Park in Huntington Park should await clarity regarding the source of funding. (Page 15 of July 31, 2012 Report)

Response from Vernon

It now appears there will be no Redevelopment Agency funding. (See page 10 and Chapter 1)

- “3. On January 17, 2012, after interviewing three search firms in public meetings, the City Council was divided 2-2 on its choice of a firm to conduct the search for the City Attorney. That postponed the selection of a City Attorney. The City Council needs to work together to resolve this as soon as possible. When a City Attorney is selected, Latham & Watkins LLP, which has served the City in a number of ways during the disincorporation fights, expects its levels of service will be substantially decreased. The City Attorney should work to reduce its reliance on outside counsel and when necessary hire outside counsel at negotiated rates typical of those paid by governmental entities. (Page 15, 16, July 31, 2012 Report)

Response from Vernon

The impasse was broken, as indicated earlier. Following the selection of a search firm, the narrowing of candidates, and interviews, Nicholas Rodriguez was selected and approved by the City Council on July 19, 2012.

As to outside counsel, the Council in its December 18, 2012 meeting approved two new contracts with Latham & Watkins, providing a 10% discount on what are expected to be substantially reduced services on traditional City matters, and a contract for service for "Windfarm" development with Latham that provides a 50% discount for its services at the outset, but potentially may develop to a full fee payment with a bonus should the Vernon property in question be sold at a profit. Given Vernon's reliance on Latham over the past three years, and the firm's knowledge and insight into the City's problems, both contracts make sense for Vernon and were approved unanimously by the Council.

- "4. The City should continue to follow through on the recommendations set forth in this Report, and when unwilling or unable to do so provide a written response for its rationale (Conclusion, page 24 of January 31, 2012 Report)"

Response from Vernon

As indicated throughout this report, Vernon continues to follow through in addressing these recommendations. In some instances the timeline has been lengthened, but given the stress facing the City, not unreasonably. They have not provided any written response as to their unwillingness or inability to respond positively to any of these recommendations.

In the case of the recommendation on staggered terms, the Council addressed it directly at a Council meeting and provided reasonable arguments why the matter should be dealt with when new housing was in place.

One area where the City fell short was in response to the recommendation for all Council salaries to go to \$24,996 no later than when the victor of the April 2012 election was certified and took office. There has never been any justification articulated in public or in writing why that should not take place. It continues to be unreasonable for Mr. Ybarra and Ms. Martinez to be paid \$24,996 while all the other Councilmembers receive \$55,800.

- "5. The City Council as it is constituted on April 17, 2012 should decide (1) whether to continue to employ Mr. Whitworth as the City Administrator, and if not (2) to employ a search firm to help find qualified candidates, keeping Mr. Whitworth in his role until a new City Administrator is chosen." (Conclusion, page 27 of January 31, 2012 Report)

Response from Vernon

At its December 18, 2012 meeting the Council unanimously approved an at will employment agreement with Mark Whitworth, who resigned as Fire Chief effective, December

29, 2012, and became exclusively its full time City Administrator under this agreement. Whitworth receives compensation of \$267,000 per year and the benefits provided to the City's executive personnel, as well as an auto allowance and retirement protection in the event CALPERS docks him for safety benefits for the time he served in a dual capacity. (At that time he was paid his regular Fire Chief's salary, far less than the compensation he would have received as City Administrator.)

The contract runs for 2 years, which can be extended by agreement of Whitworth and the City.

At the December 18, 2012 meeting the Council appointed Norm Roberts to conduct a search for the new Fire Chief. In the interim, Dave Kimes serves as Interim Fire Chief. He was appointed by the Council on January 22, 2013.

- “6. The City should task the Business Development Committee to review not only ways to improve the City's business climate, but to review the City's financial situation and budget. That ten person Committee was established on January 3, 2012, consisting of two Councilmembers, three business representatives, two real estate representatives, two labor representatives and the City Administrator. That Committee should have the full cooperation of the City Administrator and the City Treasurer as well as other members of the City Administration. That Committee should be tasked with recommending to the City Council new revenue possibilities, which could include rate and tax changes, as well as reduced City expenditures. The purpose is to develop a full and broader understanding of the City's financial situation and ways to improve it and to be able to meet the commitments made by the City to Senator De Leon during the legislative debate over disincorporation.” (Page 17, July 31, 2012 Report)

Response from Vernon

The City Administrator's Office presented its tax proposals to the Committee on December 12, 2012 (described elsewhere), and earlier (on October 10, 2012) offered its proposed zoning modifications for a retail corridor on the southern end of Vernon, as well as zoning modifications to provide for new truck terminals in northerly Vernon. The City has also proposed permitting electronic billboards along the 710 freeway. All of these proposals are intended to lead to additional General Fund revenues for Vernon. The Committee reviewed the proposal, commented on them, and was generally supportive. In short the Committee and City officials are working well together to meet the recommendations.

- “7. The Treasurer should make a public report to the City Council every quarter outlining the City's progress in meeting the City's budget revenue and expenditure expectations. The first quarterly report should be made at the City Council's first meeting in May 2012 when the financial results for the January – March period are available.” (Page 32, Jan. 31, 2012 Report).

Response from Vernon

The Treasurer's Office with the assistance of Alex Kung of the City Administrator's Office, gave its first report at the City Council meeting in May 2012 and presented its report on the last quarter of 2011-2012 in August 2012, and is expected to make its report on the first and second quarters of 2012-13 in February 2013. In my recommendation, I urged the City to show greater detail as well as year to year changes, and their reasons for them in their budget presentation.

The City Finance Director has indicated that such data will be provided at its first February meeting which will cover the first six months of 2012-13, as well as projections for the full fiscal year, together with suggested budget revisions.

Chapter III

Housing

1. General Plan

The City's current General Plan's Housing Element and Zoning Ordinance does not permit the of construction of new housing within the City. The City hired a consultant, Hogle Ireland, Inc., to prepare an updated housing element and an amendment to the City's zoning ordinance to allow for the construction of new housing. Pursuant to state law, the housing element was sent to the State of California's Department of Housing and Community Development, which approved the plan on December 14, 2012. The City Council is expected to adopt the housing element and zoning ordinance along with the necessary environmental requirements at its February meeting.

2. 4675 52nd Street Property Development

Meta Housing Corporation, based in Los Angeles, was chosen to develop the property at 4675 52nd Drive. The City will not own the units built on the property but will continue to own the land. It is assumed that the project will be classified as affordable housing and the rent that is charged will be based on the tenant's income, but in general will be about the same or lower than the amount the City is charging for equivalent units. The proposed project would consist of 45 units and a community room on a 2.06 acre lot. The units would be a mix of one, two and three bedrooms. The final development agreement is expected to go to the City Council for approval at its February meeting.

3. Conversion to One Year Leases and Internet Charges

As of August 1, 2012, 15 of the 16 month to month tenancies were converted to one year leases on the form lease adopted by the Housing Commission and pursuant to the Commission's policies and procedures. One of the month to month tenants vacated his unit prior to August 1, 2012. As of August 1, 2012 the City had not yet begun to charge for internet service. It is in the process of installing the necessary connections to all units and developing a fee schedule and a billing process for the service.

4. Divesting of Huntington Park Properties

At its July 18 meeting, the Housing Commission directed staff to ask the City Council to consider again the Commission's recommendation to divest city-owned property located in Huntington Park as the five city-owned units become vacant. (The Council had voted to continue to lease the Huntington Park properties at its June 5 meeting because the Council was concerned that the property would not get a sufficient price given the current real estate market conditions.)

The Commission suggested that sale of such property could possibly bring in revenues of up to \$1 million to the City and that the City's budget concerns merited sale of the property. The motion requesting City Council reconsideration passed the Commission by a vote of 5 to 1, with Mayor Davis the only no vote (one member of the Commission was absent).

At its August 7 meeting, the City Council revisited the issue of divesting the property and, after discussion and consideration of the ongoing income to be provided by the new market rents versus the one-time cash infusion, and the fact that the City would be taking a loss on the property if it sold it at this time, the Council decided by a vote of 4 to 0 not to sell the property since the market value of the property still was not at the level the Council felt appropriate.

5. First Responders

The two first responders, already living there, continue to rent from the City. They are firefighters. Priority for first responders continues until there are four first responders. At that point, responders no longer have priority.

6. Lottery for Units that Become Vacant in 2013

At its December 12, 2012 meeting, the Housing Commission conducted its semi-annual lottery to create the wait list that will be used to fill units that become vacant on or after December 12. Sixty people submitted their names for the lottery and are on the wait list. Three units have become vacant since December 12, 2012. The staff is in the process of leasing those units to the persons on the December wait list.

7. Removal of Tenants Who Have Breached Their Leases by Subletting

The City of Vernon leases a number of residential units. Section 22 of the lease prohibits the lessees from subletting their unit to persons not authorized to occupy the property or assigning their lease to other persons.

The Housing Commission at its June meeting authorized the staff to begin termination of leases and bring eviction proceedings against named lessees who no longer occupy their units; as a consequence, the units would be deemed abandoned.

The Housing Commission adopted specific procedures regarding the impermissible subletting or assigning of housing units at its December 12, 2012 meeting. All current leases prohibit subletting or assigning housing units, but staff recommended that the Commission adopt specific procedures to be followed in the event of such violations of the lease. The procedures give the Housing Commission Director the power to declare a lease void if the Director determines that the lessee has sublet or assigned the lease. However, before initiating any legal action to evict the occupants of the housing unit and recover possession of the unit, the Director must notify the Chair and Vice-Chair of the Commission (although failure to do so does not invalidate any action of the Director.) Any compromise or settlement of a legal action with a value more than \$2,500 must be approved by the Commission. If the Commission fails to approve any compromise or settlement, the Director may continue with the legal action and subsequent appeal if any.

In November, the City sent out three letters to lessees alleging that they had violated Section 22 by subletting their units or improperly assigning their leases to other persons. The letters requested that they vacate their units within 30 days of receipt of the letter.

One of lessees, at 4327 Furlong Place, responded by vacating his unit in December.

Another lessee, at 3378 E. 50th Street, denied that he had sublet his unit to anyone; he stated in a voicemail that his family was living there. He also attempted to pay another month's rent on November 29, which was refused by the City. He continues to occupy the property, and has stated he will not vacate it. The City has filed an unlawful detainer action to remove the persons occupying this property.

The third lessee, at 4321 Furlong Place, indicated that he and the 4 people living in the unit would be vacating the unit by January 31, 2013.

8. Back Payment of Rents

The City has been active in pursuing lessees who are behind in their lease payments. The Housing Commission adopted procedures on non-payment or late payments of rent at its December 12, 2012 meeting. It gave the Housing Director discretion on matters with a value of \$2,500 or less. For matters amounting over \$2,500, the Housing Commission must approve any compromise or settlement of any legal action or claims against the lessee. If the Commission fails to approve any compromise or settlement, the Director may continue with legal action and subsequent appeal if any. The Housing Director is required to report on the status of any pending legal actions or the settlement of such claims to the Commission at each regularly scheduled meeting.

The City sent a 3-day notice to pay or quit to the lessee at 6036 Stafford Avenue, Huntington Park, who was delinquent on nearly four months of rent and related late fees, totaling close to \$3,000. The tenant has vacated the property, has agreed to pay past due rent, and agreed to a repayment schedule with the City, in which full repayment will occur on or before March 31, 2013.

In November 2012, the City also sent a letter to the lessee at 4329 Furlong Place who owed back payments for two months totaling \$734, plus \$29.36 in late fees. The tenant has paid his back rent and is current with all of his payments.

9. Unit to Unit Transfer Policy

At its September meeting, the Commission adopted a unit to unit transfer policy. It allows current lessees, who have occupied their units for at least a year, to transfer to a vacant unit no more than once a year. A fee of \$1,000 to cover the costs of the transfer will be assessed upon approval of a transfer request. The lessee must pay the established market rate for the newly acquired unit.

Unit to unit transfer requests follow the same procedures as those for prospective tenants, including the semi-annual lottery, but have priority over new tenants. One tenant submitted her name for the December 12, 2012 lottery and is in the process of transferring units.

10. New Housing Commissioners

Housing Commissioners Gabriel Early and Reno Bellamy submitted their resignations from the Commission on October 25 and December 1, respectively. The Mayor, with City

Council ratification, appointed John Kriste at the November 6 meeting and Melissa Ybarra at the December 6 meeting, to fill the vacancies at the Housing Commission.

11. Third Party Property Manager

At its meeting of December 12, 2012 the Housing Commission discussed whether or not to authorize the staff to engage a third party property manager to administer the City's housing stock. At the meeting, the staff requested authorization to hire a management firm for a term not to exceed six months at a cost not to exceed \$35,000.

The staff issued a Request for Proposal (RFP) in October but only received one bid, which was much higher than was anticipated. This bid was discussed by the Housing Commission, which voted to ask the staff to seek more bids.

On January 24, 2013, staff issued a revised RFP that more clearly explains the City's housing stock; it is more akin to privately owned rental housing than government housing.

Chapter IV

Elections Held in 2012

April 12 Election

In my July report, I wrote of the results of the regularly scheduled April 10 election and the challenges to six people who voted in that election by attorney Frederic Woocher, representing the Vernon Chamber of Commerce. On election night, the City's canvassing board rejected the six ballots cast by those challenged and certified that Michael Ybarra was the winner of the council race by a vote of 26 to 19. The losing incumbent, Daniel Newmire, challenged the action in Los Angeles County Superior Court.

Newmire sought a writ of mandate asking the court to recount the votes for the April election. He alleged that the City had improperly denied the six voters their right to have their votes counted.

On November 8, 2012 the Superior Court dismissed Newmire's case without prejudice.

June 5 Special Election

In my July report, I wrote about the June 5 special election that has been scheduled to fill the vacancy caused by the resignation of Mayor Hilario Gonzales in 2011. This election was not conducted by the City since it was held on the same day as a statewide primary election. The City requested that the County of Los Angeles consolidate the election with the statewide primary and process the ballots. The vote reported by the county was 34 for Reno Bellamy and 30 for Luz Martinez.

After the County Registrar of Voters refused to disqualify ten voters challenged by attorney Frederic Woocher, representing the Vernon Chamber of Commerce, the City adopted ordinance No. 1197, which allowed the City Council to adopt procedures for election contests. It then passed Resolution No. 2012-116, which provided for appointment of a neutral hearing officer to consider election contests.

On July 17, the City Council appointed former Superior Court Judge and former U.S. Attorney Debra Wong Yang as the Hearing Officer for the contested election held on June 5. She heard testimony on nine contested voters (a tenth voter had his challenge dropped). Two of the voters were challenged on the basis that they had delivered their vote by mail ballots improperly, and all nine were challenged on the basis that they were not legally domiciled in Vernon.

Yang held several days of hearings with both sides represented by attorneys. Forty-three witnesses were called. On October 15, Hearing Officer Yang issued a ruling that disqualified seven of the nine voters challenged in the proceeding. She found that five of the voters were not legally domiciled in Vernon, two of the voters had delivered their vote by mail ballots improperly, and that two of the voters should have their votes counted. In light of her findings, she recommended that the City Council seat Luz Martinez as the winner of the June 5 special

election because she had won by a vote of 30 votes to 27 votes. The Council did so at its meeting on October 23, 2012.

Before the hearings by Yang commenced, candidate Reno Bellamy sought to enjoin the City's election contest proceedings. His injunctive requests were denied several times by Los Angeles Superior Court Judges; he dismissed his case with prejudice on November 19 after reaching a settlement with the City. He subsequently terminated his Vernon lease and no longer lives in the City.

Lawsuit to Remove Six Voters from the Los Angeles County Voter Registration Index

On January 3, 2013, Interim City Clerk Dana Reed filed an action in Los Angeles Superior Court against Los Angeles County Registrar-Recorder Dean Logan requesting that the Court order Registrar Logan to remove six voters from the County registration index. The six voters all had voted in the June, 2012, election, but their votes were not counted pursuant to the findings of Hearing Officer Debra Yang (described above.) In five of the six cases, Yang had found that the voters did not live in Vernon. In the sixth case, David Timothy Roberts, she determined that Roberts had not submitted his ballot properly. The lawsuit, however, alleges that David Timothy Roberts no longer lives in Vernon.

September Special Election on Proposition A, City Utility Tax

The City Council voted to ask Vernon's voters to approve a two-year utility users' tax that would have been assessed on the amount of electricity, gas, water and telecommunications services that were used by Vernon residents and businesses. The maximum tax rate would have been 9.8%. On September 18, Vernon voters rejected the tax by a vote of 24 to 16.

Chapter V

The Audits

A. PERS Audit

The July 31, 2012 report recounted the release of the PERS audit, which will not be repeated here. In my report I noted, in part as a response to that audit that:

(1) Vernon City Employees are now paid for one specific position, even if they are assigned other positions.

(2) The City no longer pays safety contributions for its attorneys and has amended its contract with PERS to eliminate that possibility.

(3) In 2009 the City terminated its hybrid program paying hourly rates for those working hours in excess of a specific number of hours at their primary position for which there was a set salary.

(4) Since 2007 the City stopped paying extra compensation to Councilmembers and others for attending meetings of boards, commission and committees.

(5) The City and its outside counsel Steve Berliner of Liebert Cassidy and Whitmore are working with and should continue to work with PERS to ensure that Vernon is in full compliance with its CALPERS contract.

As a result of the audit, PERS received retirement overpayments from Vernon representing both employee and employer contributions. To the extent overpayments were made and labeled as employee contributions, employees should get that money back from PERS, while employer contributions which are overpaid are usually retained in the City's PERS retirement account. The City's PERS retirement account is less than 100% funded.

As a result of the audit, in or around May and June 2012, determination letters were sent by PERS to nine current and former City officials related to their work, compensation and benefits in Vernon, and an opportunity was given to the recipients to respond.

As of this writing, no final disposition has been reached as to those determination letters.

The City has not received copies of any new determination letters (i.e. questioning entitlement to retirement benefits) that have been issued by PERS to present or former Vernon employees.

B. The JLAC Audit (Joint Legislative Audit Committee)

On June 28, 2012 JLAC released its audit report on the management and finances of the City of Vernon.

This report will comment briefly on some of the JLAC comments and proposals.

Housing

JLAC: Full reform of the City's housing practice will take years to achieve.

Vernon's Response

The City has acted expeditiously to reform its rental practices and to establish new housing. Construction is expected to be completed by the end of 2014, and occupancy to be attained in the first six months of 2015.

Compensation Practices

JLAC: The State Auditor stated "The City has not properly managed its executive positions, failing to establish minimum qualifications for its key leaders and pointed to the fact that they City had not had a Director of Human Resources since July of 2009. It also criticized its salary survey as not considering some important factors when it compared its executive salaries to those in other cities." It also pointed to "legally questionable retirement benefits" for current and past executives.

Vernon's Response

As noted, a Human Resources Director, Teresa McAllister, was appointed and began service in September 2012. She is now in the process of developing benefit and compensation studies with outside consultants to bring Vernon in line with best practices in other comparable cities.

As to its retirement benefits, see the previous section relating to the PERS Audit and Vernon's response.

Contracting Services

JLAC: It noted that the City had not completed its Contract Policy document and urged strengthening the City's ERP system to track City contracts. It mentioned the planned contracting reforms.

Vernon's Response

All the "Planned Contracting Reforms" are in place. (See Chapter II). The ERP System will be reviewed for necessary improvements by the new Finance Director who will examine all existing contracts and the recommendations noted in the July 31, 2012 Report on pages 28 and 29. As noted, the new City Attorney is committed to the review and rebidding of professional

service contracts every three years and for those now in place more than three years by July 1, 2013. He took office in September, 2012.

Other Expenses

JLAC: Credit Card internal controls need to be strengthened, and ambiguities and travel expense limits on hotel accommodations need to be addressed.

Vernon's Response

The City's new Finance Director, William Fox has "been given the task to determine an appropriate limit for hotel costs and to review and develop a revised internet control policy for reviewing and approving credit card charges," according to City Administrator Mark Whitworth. It is recommended that the Council take action on Mr. Fox's findings no later than July 1, 2013. The City did establish new travel policies on November 15, 2011 (Resolution No. 2011-18). Those policies will be reviewed for minor adjustments.

CHAPTER VI

Compliance Review

A. Conflict of Interest

We have found that in calendar year 2012 Vernon's executives filed required statements of economic interests.

JLAC noted that the City had not required its consultants to file statements of economic interest, and that the City Administrator had not made a written determination as to whether its consultants should file such statements. As a result, in my July 31, 2012 report I recommended that such determination be made.

Vernon's Response

City Attorney Nick Rodriguez reports the following:

"Vernon is following discussions at the Fair Political Practices Commission which has identified the need for some clarity in this area of regulation. A brief review has indicated only one non-employee who should be subject to the filing requirement, specifically Dana Reed, and he does, in fact, file a Form 700. Vernon is not presently in the situation where other consultants (non-City employees) are involved in administration and decision making at an executive level, and it is my understanding that contracts with individuals such as Eric Fresch and Curtis Fresch, who exercised executive authority, were closed out prior to my arrival. A more comprehensive review of contracts will be conducted during the first quarter of this year in conjunction with the new Finance Director to determine whether there are any other consultants who should be subject to the filing requirement."

The City Council has access to all filed statements of economic interests filed by Vernon employees and consultants required to make such filings.

B. Public Records Act

The City began compiling a log of public records requests in late November. According to the log, ten requests for public records were received between November 19 and December 17. All the records were provided, most within ten days of the request. No complaints were received regarding Vernon's compliance.

C. Campaign Statements

A review of the campaign statement filed reveals the following:

The Committee to Elect Leaders for Reform, sponsored by the Vernon Chamber of Commerce, filed campaign statements indicating that it had made independent expenditures of \$8,387 supporting candidate Michael Ybarra for City Council.

Baker Industries filed a major donor report that disclosed it has given \$10,000 to the Committee to Elect Leaders for Reform in opposition to the special utility tax measure on the ballot in September. However, the Committee to Elect Leaders for Reform did not file a statement for the September election.

D. Statements of Economic Interests

The City received assuming office statements of economic interests (Form 700) for incoming council members Luz Martinez and Michael Ybarra, incoming city Attorney Nicholas Rodriguez, and all new designated employees through December 31, 2012. They were filed in a timely manner.

E. Approval of Minutes

As of Jan. 4, 2013, minutes for the October 23, November 2012, and December meetings (nine meetings in total) were not available to the public. It is recommended that minutes should be calendared for Council approval no later than six weeks after the meeting in question. (The minutes themselves appear to be thorough and accurate).

F. Agenda Packages

The agendas are available publicly (and on line) on the Thursday before the regular Tuesday Council meeting. The Agenda “package,” (i.e., the back-up material and supporting documents for the agenda items”) are available at the meeting, but are not available on line, as is the Agenda. For purposes of transparency, the back-up material should be made available on line at the earliest possible time, for example, within a week after the meeting.

Chapter VII

Business Activity in the City

John McMillan, Executive Director of Industrial Brokerage for Cushman & Wakefield provided the following information:

“As of 4th Quarter 2012, “Vernon’s current overall vacancy rate rose very slightly to 4.5%.” Activity across the board remains flat. Unless companies have to grow/shrink, they have been renewing their leases as they continue to “hunker down” and monitor business demand, the impacts of new taxes and regulations, etc. On the bright side, there is minimal supply of buildings to choose from, so owners of available buildings have begun to try and push rates, albeit slowly for now, but there could be a spike coming as quality buildings are becoming harder to find. Additionally, Vernon is an “in fill” location where land is scarce so new buildings are rare, which also helps keep supply down.”

The 4.5% vacancy rate compares with 4.2% in the Cushman & Wakefield report of June 26, 2012.

Meanwhile, re-leasing rates appear to be following an area trend of modest increases.

Cushman and Wakefield shows Vernon’s place in the “Greater Los Angeles Markets” in December 2012.

Market	Total Inventory	Vacancy Rate
Long Beach	18,722,761	10.9%
Pomona	21,617,569	6.7%
City of Industry	81,274,998	6.6%
Cerritos	16,123,749	6.1%
Compton	24,898,093	5.9%
Torrance	29,740,445	5.9%
Rancho Dominguez	14,534,207	5.5%
El Monte	10,172,699	4.6%
Vernon	56,827,502	4.5%
Commerce	49,634,121	4.4%
Santa Fe Springs	57,727,763	3.8%
Carson	48,672,695	3.4%

Electricity Usage Comparison

Electric Power usage has some relevance to business activity. In my last report (July 31, 2012) we noted a 1% increase in electric usage in 2012 over 2011, but a decrease in May 2012 attributed to the closure of the AFA facility.

The most recent report showing full calendar year comparison for 2011 and 2012 shows a very slight increase (0.09%) in power usage in 2012 over 2011. Note however, that usage declined in the past six months of the report, at a time when power rates increased 7.8%.

	Retail Sales (kwh)		
MONTH	2011	2012	
January	88,512,350	90,386,943	
February	90,830,124	94,439,063	
March	87,297,673	91,115,412	
April	95,992,272	95,234,547	
May	93,771,347	91,546,847	
June	96,809,312	97,445,761	
July	97,031,156	97,080,201	
August	100,429,157	98,630,238	
September	102,669,913	101,89,989	
October	98,736,103	96,368,818	
November	99,152,041	98,985,990	
December	92,904,873	91,992,903	
Total kWh	1,144,136,321	1,145,128,724	0.09%

CONCLUSION

Vernon faced disincorporation because it was an outlier; its executive salaries were exorbitant, it ran as a fiefdom controlled by a few, and had little in the way of relationships with the neighboring cities.

That is in the past. Salaries are now within the norm. Its new Housing Commission creates rules for leases and stands by them, and its rental rates are relatively comparable to market rates. City Commissions comprised of the residents and representatives of its business community meet regularly to review Vernon's practices and recommend necessary change to the Council.

Vernon has hired new executives, with strong good government backgrounds.

As a City it can be proud of its recent accomplishments.

That's not to say that every recommendation made has been met. In the next section, one will find a number of recommendations that should be dealt with, particularly those dealing with Senator DeLeon's path to reform, which need to be addressed soon in consultation with the Senator who has been so helpful to Vernon.

Other recommendations, as yet unmet, are scheduled to be dealt with in the next six months.

Vernon's government seems to be a happier, upbeat place. The Council seems to be in general agreement on most issues. At the same time its members say very little. There is little debate or public questioning of proposals, nor is there much coming from them speaking in favor of the measures they adopt. As public officials they can shed light on the City's problems, the way in which they can be met, and provide education to the residents and businesses they impact: perhaps old habits die hard.

Going forward, it is my expectation that many of the as yet to be completed recommendations will be addressed in the next six months.

That leaves one overriding concern, balancing the City's budget, while at the same time continuing to offer its business community the benefits that made Vernon attractive to them in the first place.

In the middle of the 2012-13 budget year, there have been serious attempts to meet the budget shortfall, i.e., 11% in cuts, the one time \$6,000,000 sale of water rights, the incentive based early retirement program which attracted 35 of Vernon's employees to sign on (estimated to save \$8.1 million over 5 years), a substantial reduction in legal fees that was associated with the disincorporation crises, and electric rate adjustments (noted on page 4).

With all of the reductions, Vernon's General Fund which provides Police & Fire and other traditional City services faces an estimated \$8 million annual budget shortfall.

It is this shortfall which the City Administrator and the Council intend to address in the April election through a series of taxes described on pages 6 & 7. Given the rejection of the utility users' tax proposal in the September election, it is too early to know how the business community will react to this proposal, as well as the all important electorate.

There is an ongoing necessity that Vernon keep its head above water financially. What happens in the next six months will be very important in that regard. The subject will be addressed again in July 31, 2013 report, at which time the election results will be known, and a 2013-14 City budget will be in place.

RECOMMENDATIONS

A. Recommendations from Senator De Leon's Critical Path Reforms To Be Completed

1. "Establish a substantial and long term Environmental Community Benefit Fund to help mitigate decades of noxious air released from Vernon (the exact amount to be negotiated)." (See page 9)
2. "Creation of an independent board to allocate those Environmental and Community Benefit Funds (ECBF) including representation from outside affected communities." (See page 9, 10)
3. "Immediately fund regional community recreational facilities in affected neighboring communities (the scope and sites to be negotiated) (See page 10)
4. "Revise existing trash hauling program with strong environmental standards." (See page 11)

B. Recommendations from the July 2011 and the January 2012 & July 2012 Reports To Be Completed

1. All Councilmember salaries should be set at \$24,996 by April 17, 2012, when the newly elected Councilmember takes office. (See page 12)
2. The City should complete a study of the Vernon Police Department staffing and costs in comparison with other primarily industrial cities, and after its completion and review determine whether to engage in the Phase II Study with the L.A. Sherriff's Department that could lead to contract out Vernon's policing to that Department. (See page 15-17)
3. The City should begin to fulfill its commitment to the recommendation for allocation of money to the Environmental and Community Benefit Fund by July 31, 2012. By that time, the City's financial picture should be clarified and the 2012 budget adopted. (See pages 9, 18)
4. The timetable for allocations of \$5 million to assist in the renovation of the Salt Lake Park in Huntington Park should await clarity regarding the source of funding. (See pages 10, 18)
5. The city should continue to follow through on the recommendations set forth in this Report, and when unwilling or unable to do so provide a written response for its rationale. (See pages 19)
6. The City should amend its Resolution 2011-149 which called for funding specific amounts and transfers from the Environmental and Community Benefit Fund and for Regional Community Recreational Facilities to make it consistent with the City's ability to fund those measures. (See pages 9, 10, 18)

7. The City should continue to work with PERS to ensure that Vernon is in full compliance with its CALPERS contract. (See page 28)
8. Salary surveys for Councilmembers and key executives should be set within three years after its last survey, looking at the complexity (or lack thereof) of the positions with respect to the comparative positions in other cities. (See page 29, 30)
9. Appraisals of promotability for City executives should be conducted annually and placed in the City's personnel file. (The new HR Director is in the process of developing a Performance Evaluation policy and a tracking program for evaluations)
10. The City's use of the ERP system to track City contracts needs to be strengthened. (See page 29, 30)
11. Credit card approval processes need to be reviewed, better controls put in place, and a memorialization of the controls established. (See page 29, 30)
12. Travel policies with respect to controls on hotel and meal costs need to be amended to eliminate ambiguity and provide better guidance when and how exceptions are to be approved. (See pages 29, 30)
13. The City Administrator and the City Attorney should devise a review process with respect to consultants to determine when and how they must file economic of interest statements under State Conflict of Interest Laws, and provide documentation of determination decisions, with notice to the affected consultant and to the City Council. (See page 31)
14. The City Administrator and its Finance Director should improve the narrative and details for its budget and expenditure presentations. (See page 20, 21)
15. Internal staff or outsourcing should be utilized for better long range financial planning. (Awaiting review by new Finance Director)
16. Short and long term debt policies meeting the needs of the City should be established no later than January 1, 2013. (Awaiting review by new Finance Director)
17. The City should study reviewing its bonded indebtedness which today costs \$60 million a year to service, and figure out a way to lower and smooth out its payments, thereby putting it in a position to lower its recent tax hikes. (Awaiting review by new Finance Director)

NEW RECOMMENDATIONS

C. New Recommendations

1. The City Administrator and the Director of Finance should meet and confer with Senator De Leon in the first 3 months of 2013 to determine whether and how modifications can be made to the following De Leon Critical Path Resolutions;
 - (a). The 10 year \$5 million a year dedication of City Funds to the Environmental Community Benefit Fund;
 - (b). How and by whom the Fund should be managed;
 - (c). The \$10 million allocation to the Hazard Park Armory Youth Center and the renovation of the Salt Lake Park in Huntington Park. (See pages 7-8);
2. All Councilmember salaries should be set at the \$24,996 as soon as possible. (See page 10)
3. Consideration of staggered terms should take place when Vernon's new housing is in place and there is a larger electorate. (See page 19)
4. The City should review compliance with its new Competitive Bidding and Purchasing Ordinance no later than July 1, 2014 to determine its effectiveness and whether any changes need to be made. (See page 14)
5. Minutes of Council meetings should be calendared for Council approval no more than six weeks after the meeting in question. (See page 28)
6. The Council's meeting agenda package (back up material and supporting documents) should be available on line as soon as practicable, but no later than a week after the meeting. (See page 28)