

CITY OF VERNON

REPORT OF

JOHN VAN DE KAMP

INDEPENDENT REFORM MONITOR

Dated January 31, 2014

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PREFACE

I became Vernon's Independent Ethics Advisor on February 15, 2011, soon after Assembly Speaker John Perez introduced AB 46, and then AB 781, that would have disincorporated Vernon. At the time Vernon was seen (among other criticisms) as paying outlandish salaries to its public officials who profited by their positions, and substantial questions were raised as to whether Vernon could govern itself properly. The bills did not pass, as a substantial number of legislators deemed it advisable to give Vernon an opportunity to put its house in order. It is fair to say that the threats posed by the legislation provided a wake-up call to Vernon's residents, businesses, and City officials. The City could no longer do business as it had in the past.

My role, which was re-titled as Independent Reform Monitor, was extended on February 15, 2012 for a four year term. I was tasked to report on Vernon's compliance with the Political Reform Act, Government Code §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 also 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. The City, with very few exceptions, has shown its consistent support of the recommended reform measures.

This is my sixth report. The previous reports were filed July 29, 2011, January 31, 2012, July 31, 2012, January 31, 2013 and on July 31, 2013 (all of which may be viewed on the City of Vernon's website), recommending reforms and improvements in the way the City of Vernon does its business.

In the reform efforts, I have been assisted by the work of many good spirited people living and working in Vernon, and by Senator Kevin De Leon, who in its time of crisis came to the City's defense and offered a series of recommendations, which were approved in principle by the City's council members and staff. Senator Richard Lara, whose district encompasses Vernon, has taken an active interest in the City and has been supportive of its new direction.

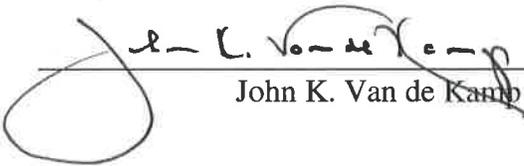
This report, which essentially covers the period of July 31, 2013 to January 31, 2014, has been prepared with the assistance of my staff at Mayer Brown LLP and with the help of Robert Stern, the former president of the Center for Governmental Studies and former General Counsel to the Fair Political Practice Commission. As in the past, we have received significant cooperation from Vernon's administrative staff and in particular the Assistant to the City Administrator, Kristen Enomoto.

In the past six months, Vernon has continued on its good government path, continuing to follow through on reform recommendations.

The most important milestone reached was the approval of Vernon's Tax Credit Allocation, which will assist META Housing's new home construction project, adding 45 new units in Vernon. When completed it is expected to more than double Vernon's population by the

end of 2015. It is expected that ground will be broken on the project sometime in the spring of 2014.

Why is this important? Because of the small size of Vernon's resident population, there have been few qualified residents willing to take on the task of effectively governing the City through its City Council, and that has led to the fears that an orchestrated take-over of City government by the unscrupulous remains a possibility. Enlarging its voter base through a fair and systematic methodology should add new talent and diversity better able to meet the reform demands of the City and diminish the fears of a take-over, which could move Vernon back to its old ways. This report will cover recent efforts to address recommendations made by Senator De Leon and me, that were not completed by July 31, 2013 (recommendations which have been successfully completed are noted in prior reports), and some new recommendations.



John K. Van de Kamp

RECENT DEVELOPMENTS

Legislation

No legislation was introduced in 2013 calling for Vernon's disincorporation.

The City's Financial Future

In my July 31, 2013 report, I reported on the various tax measures approved by Vernon's voters earlier in 2013, which are expected to raise \$8.1 million dollars in new funding for 2014. In November, the City's Finance Director, William Fox, provided the council with an overview of the results for fiscal year 2012-2013.

(1)	Government revenues	\$60.9 million
	Government Expenditures	\$64.8 million
(2)	Enterprise Revenues	\$213.3 million
	Enterprise Expenditures	\$218.9 million

At the same time, he reported an increase in the City's net total assets of \$20 million for fiscal year 2012-13. The increase was largely associated with the increased valuation of the City's swap investments, known as financial derivatives.

2014 should provide a brighter picture given the tax increases and additional financial market recovery of the City's swaps. For the first quarter of 2013-2014, Fox reported that expenditure levels were \$2 million dollars less than budgeted for governmental activities and \$3.7 million dollars less than that budgeted for enterprise activities (which include Light and Power, Gas, Water, and Fiber Optic Funds). A better reading of the City's financial health can be made by the end of its third quarter, but given the increased business activity in the City, it would appear that revenue projections should hold. To be watched are current expenditure levels and increases in future liabilities.

On August 6, 2013, the Council approved a three year professional services agreement with the public accounting firm Vasquez & Co. LLP to perform annual audits. The firm was chosen following the issuance of an RFP, and a competitive selection process involving feedback from four other cities using Vasquez & Co LLP. The City estimates that by hiring Vasquez it will save approximately \$100,000 per year, at the same time, employing a firm with expertise in the governmental sector and experience in auditing municipal utility operations. Their audit for the fiscal year 2013 has not yet been released, but will be noted in a subsequent report.

Personnel

Two major personnel changes took place in the past six months.

City Attorney Nicholas Rodriguez resigned effective December 2013 after serving some fourteen months as the City Attorney, after the council approved a settlement agreement. For the time being Deputy City Attorneys Scott Porter and Zaynah Moussa will carry on City Attorney responsibilities, with oversight provided as needed by Attorney Dana Reed who has served

Vernon in a number of capacities over the past three years, most recently as Interim City Clerk. Rodriguez was very supportive of Vernon's good governance reforms and provided essential legal guidance during a pivotal transition.

Reed, who is a partner in the Law Firm of Reed & Davidson, will no longer serve as Interim City Clerk, but will provide advice and counsel as needed to City Administrator Mark Whitworth. For the time being, Deputy City Clerk Ana Barcia will take on most of the obligations of the City Clerk.

Insofar as Reed is concerned, he has been invaluable in the reform efforts and has always provided wise and objective counsel, but the demands of his law firm require a different allocation of his time.

Fred MacFarlane, who has served Vernon since January 2011 providing strategic advice and assistance in meeting the City's media and public relations needs, has also helped prepare and publish Vernon's Quarterly. On November 5, 2013, the Council approved a new one year agreement with him calling for increased duties and an increased monthly fixed fee for his services.

Elections

No elections were held in this period. Councilmember Bill Davis was re-elected in April 2013, running unopposed. The Council has set the next Council Election for April 8, 2014. The seat of Councilmember Luz Martinez, who was elected in 2012 to fill the unexpired term of Mayor Hilario Gonzales will be up for election at that time. Martinez will be running unopposed as no other candidates filed for office as of the close of the nomination period on January 13, 2014. (Councilmembers serve five year terms, at a maximum of two full terms, with one seat up for election each year).

Bruce A.V. Malkenhorst

As noted in the July 31, 2013 report, Bruce A.V. Malkenhorst (Vernon's long time former City Administrator) sued CalPERS and Vernon as real parties in interest in 2012 to try to preserve his pension, and later sued Vernon to collect pension benefits disallowed by CalPERS (Malkenhorst was convicted of misappropriation of public funds after his resignation).

With respect to the first matter, after losing in the trial court, Malkenhorst has appealed; the Court of Appeal granted the L.A. County District Attorney's application to file an amicus brief in support of PERS. That matter is still pending in the Court of Appeal. As to the second matter, his breach of contract suit against Vernon, the City has filed a demurrer, and the judge has stayed all discovery pending further order of the Court. The demurrer hearing and case management conference is now scheduled for March 13, 2014.

Malkenhorst's appeal of PERS' order reducing his pension is now pending before an administrative law judge who has set a discovery and motion schedule, with several motions set to be heard on February 14, 2014.

An additional element has been added. Senator Kevin De Leon introduced SB 39 in December of 2012. It passed the Legislature and was signed by Governor Brown in October 2013, and is now in effect. It requires an appointed public officer, convicted of any felony under State or Federal law, for conduct arising out of or in the performance of his official duties, to forfeit contract rights or other claims against a local public agency employer to pension rights or benefits, other than accrued rights to which he may be entitled under any public retirement system.

Unquestionably, the impact of this law, which would appear to affect Malkenhorst's claims against the City of Vernon, will be argued extensively by counsel for both sides.

There appears to be no end in sight to this litigation. In the meantime, Malkenhorst is drawing his full pension from PERS estimated at around \$500,000 per year.

Exide

Exide Technologies is a battery recycler located in Vernon at 2700 South Indiana Street on property approved for lead smelting by L.A. County in 1922. The property was annexed in to Vernon in 1959. Today, the property is used by Exide as a secondary lead smelting plant that recovers lead from recycled automotive batteries.

On March 22, 2013 the AQMD (Air Quality Management District) ordered Exide to cut arsenic emissions. AQMD spokesman said that their assessment of Exide's Vernon facility showed a higher cancer risk, affecting a larger number of residents than any other of the more than 450 regulated facilities in Southern California.

On April 24, 2013 the California Department of Toxic Substances Central (DTSC) ordered the temporary halt of Exide's operations due to a possible hazardous substance leak from a pipeline at the facility, i.e., possible discharges through underground storm water pipes with high levels of lead.

As a result, Vernon City officials formally requested that AQMD issue a health advisory for the eastern and western regions of the South Coast Air Basin. AQMD did not act on that request.

On June 10, 2013, after the shut-down, Exide filed for Chapter 11 bankruptcy protection.

On June 17, 2013, Superior Court Judge Lewis Lavin issued a restraining order against DTSC and allowed Exide to continue operation, and finalized that order with a preliminary injunction against DTSC on July 2, 2013, pending state administrator proceedings which are expected to conclude by the end of the first quarter of 2014.

Exide claims it has installed an above ground storm water piping system and is planning for other storm water and air quality improvements.

Free blood tests were to be made available to people living in the area for lead exposure but not for arsenic, under the direction of the Los Angeles County Board of Supervisors and its partner agencies. On October 1, 2013, Vernon's City Council again called upon AQMD to issue

a health advisory, but to no avail. The AQMD has claimed it can only act when it has the scientific proof that anyone has been harmed.

On December 17, 2013, DTSC issued an emergency order directing Exide to clean up lead and other metals that had been deposited near their plant and ordered the clean up by January 31, 2014. In its letter to Exide, DTSC reported the finding of high concentrations of lead within 1500 feet of the plant and in two storm drains along Bandini Boulevard. In a separate memo, agency officials noted that lead and arsenic were detected in several locations in residential areas.

On December 18, 2013, the City's Health and Environmental Control Director, based on the scientific findings in DTSC's Step-Out Dust and Soil Sampling Report, issued an Administrative Enforcement Compliance Order to Exide to correct violations of City codes relating to unlawful discharge of hazardous materials on the ground and in the storm drain and sewer system within 30 days of the Order. The due date on the order was extended to January 31, 2014, so the City could coordinate with DTSC.

On January 10, 2014, AQMD adopted Amended Rule (1420.1 establishing more stringent emission standards for lead and other toxic air contaminants from large lead-acid battery recycling facilities. Through various City resolutions and letters from the Mayor, the City strongly supported the new Rule.

Meanwhile a hearing board is taking testimony on AQMD's petition calling for a halt in lead and smelting operations at Exide until its "air pollution systems are improved and deemed adequate."

Further monitoring of the Exide site continues for lead and arsenic emissions.

The City of Vernon has expressed great concerns over the reports but lacks the statutory authority to act independently on most of these issues, given the authority of AQMD and DTSC.

Vernon's web site has a special section dedicated to the Exide situation and can be accessed for the most recent information pertaining to Exide.

In an unrelated matter, the City Health and Environmental Control Department ordered immediate clean up of flammable hazardous waste substances improperly stored at Four Star Chemical, a chemical packager and aerosol manufacturer in the City. The order called for the safe removal and proper disposal of substances found stored in leaking drums. Four Star Chemical achieved full compliance by July 31, 2013.

CHAPTER I

Senator De Leon's Critical Path Reforms

Many of Senator De Leon'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 De Leon's recommendations to construct approximately 45 new housing units including a significant affordable component within three years, with the goal of doubling the electorate. Significant progress has been made in that regard. Vernon's present population is around 112. The number of registered voters is around 63. If 45 new units are built by the end of 2015, it seems likely that Senator De Leon'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 the Regional Community Recreational Facilities, but spent only a portion of that. (See pages 8 and 9)

The 2013-14 budget provided \$2 million in funding for the Fund (now called the Vernon CommUNITY Fund (VCF)) and for Regional Community Recreational Facilities.

When the 2011 resolution was adopted, the anticipated source of much of the Fund was redevelopment money, which was later lost as a result of state legislation dissolving redevelopment agencies statewide.

On August 20, 2013 the City Council amended 2011-149 and in lieu of the Environmental Community Benefit Fund (ECBF), established the Vernon CommUNITY Fund (VCF) to promote health, safety, educational, and recreational efforts throughout the City and its surrounding areas, with funding to come on a year to year basis from the City's annual budget.

The City Administrator was directed to make recommendations to the Council in the budget process for allocations to the Hazard Park Armory Youth Center and Salt Lake Park (already recipients of funding).

Management of the VCF is to be conducted by a seven person committee coming from representatives of legislative districts in or near the City, persons from surrounding cities or unincorporated areas and Vernon, from the Vernon business community, and one Vernon City Council member.

A draft ordinance was discussed at the Council meeting on December 17, 2013, and the final ordinance was presented to the Council on January 21, 2014 for a first reading.

2. Independent Board

Critical Path Reform

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

Response from Vernon

(See pages 7 and 8)

3. Regional Community Recreational Facilities.

Critical Path Reform

“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 was earmarked in 2012-2013 for these programs and the ECBF requirement, of which \$274,000 was spent in 2012-13.

Negotiations continue with representatives from Huntington Park and Boyle Heights.

\$500,000 was originally budgeted for each of these programs in the –2013-2014 budget as part of the \$2 million dollars budgeted for the then Environmental Community Benefit Fund (ECBF) and the Regional Community Recreational Facilities.

As noted in Section 1 of this report, Resolution 2011-149 has been amended. No dollar commitments were specified in the amendments, although it was noted that there would be separate allocations for the Hazard Park Youth Center and the renovation of Salt Lake Park.

On August 6, 2013, the Council authorized a deposit of \$100,000 a month for five months, i.e., \$500,000, into an escrow account to fund construction costs to renovate the soccer field at Salt Lake Park in Huntington Park. Previously, on July 17, 2013, the Council approved a deposit of \$124,000 to the escrow account for the project. The remaining funding of

approximately \$125,000 is expected to come from a Los Angeles County Safe Neighborhood Parks Grant. Huntington Park expects the construction to be completed by May 1, 2014. That should end Vernon's commitment to this project.

Meanwhile, \$500,000 has been budgeted in 2013-14 budget for the Hazard Park Armory Project. That project remains in the design stage and is moving toward the construction stage. Alex Kung of the City Administrator's office is working with the Hazard Park representatives in submitting a grant application for work to be done in 2014.

In December 2012, Vernon hired a Grants Coordinator, California Consulting, to assist Vernon in gaining additional funding for those facilities, and for Vernon. Vernon's Community Services Department is gathering information to assist California Consulting as it applies for public works funding, which could help meet the goals set by Senator De Leon. Subsequently, the contract was expanded so that California Consulting could assist Maywood as well as Vernon in obtaining grants. In so doing, Vernon can help secure grants for neighboring cities.

Vernon's City Administrator and staff have been in regular contact with Senator De Leon and Senator Lara to inform them of Vernon's plans.

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 the past six months the commission has met twice as reported below, recommending a new trash hauling policy. It is now turning to sustainability and energy-efficiency related aspects of applications for conditional use permits and variances, efforts to educate citizens and businesses on sustainability related goals, and Vernon's energy needs, including studying the potential use of Vernon's property in the Jawbone Canyon area of Kern County for utilization as a wind farm, and will be looking at other forms of renewable energy and alternative technology to meet Vernon's energy requirements, looking to cleaner energy and greater efficiencies.

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, 19 trash haulers have contracts within the City expiring December 31, 2014. The City's Health Officer/Director of Health and Environmental Control, Leonard Grossberg, worked 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, aiming at developing a program that minimizes emissions and road traffic.

At the present time, 19 companies are legally authorized to pick up solid waste in Vernon. Sixteen pick up via "Top Loaders" and 15 pick up "Roll offs." Thirteen do both.

After review at the SDEEC level and by the Council, the Council on December 3, 2013 authorized an ordinance in keeping with the SDEEC recommendations which would:

(1) Support the Vehicle Clean Air requirements of the Southern California Air Quality Management District (SCAQMD) to require trash haulers to replace all diesel trash trucks with natural gas burning vehicles by 2017, thereby reducing emissions.

(2) Modify the prior directive to the City Health Officer so as to limit his role to consolidate trash hauling enterprises and to improve environmental standards that govern trash hauling in the City—eliminating the word "safety", since it was felt that safety was best regulated by other governmental entities.

(3) Permit the existing trash haulers to continue to operate in the City.

In making its decision, the Council heard from not only from SDEEC but representatives of the trash hauling industry as well as Vernon's business community who argued that limitations on the number of trash haulers would not necessarily reduce the number of trips. They supported the need for flexibility and personal choice when selecting a hauler.

The move to natural gas will clearly cut emissions. At the same time, limits on the number of trash haulers would tend to reduce traffic because of improved routing, according to Health Director, Leonard Grossberg.

But a substantial reduction of the number of haulers could also tend to reduce competition; some argued that the reduction would tend to drive up the cost for Vernon's businesses.

As it stands, it is likely that a number of trash haulers will not be able to meet the 2017 natural gas mandate and will leave the City.

CHAPTER II

Recommendations From Past Independent Ethics Advisor Reports To Be Completed

- “1. 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

Since its public deliberation on May 15, 2012, no further action has been taken by the Council on this proposal. Consideration of this proposal is expected to take place when Vernon’s new housing is in place and when there is a larger electorate. (See page 13 of January 31, 2013 Report)

Contract Policies

- “2. 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). For detail, see my January 31, 2013 Report.

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

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

Response from Vernon

With the resignation of Nick Rodriguez, the position has become vacant. While the Deputy City Attorneys are filling in, the City Council should appoint a new City Attorney.

4. The City should create a Human Resource/Personnel Department and hire a Human Resources Director.

Response from Vernon

Completed. Teresa McAllister was hired and commenced work on September 2012. (See my January 31, 2013 Report, page 7, 15). In my last report I indicated I would track her progress.

Classification & Compensation

On January 23, 2013, Human Resources Director McAlister sent an RFP to eleven classification consultants for a citywide classification and compensation study. Following interviews of the four responding consultants, the firm Public Sector Personnel Consultants was chosen. On June 11, 2013, the studies were commenced. The classification study has been completed followed by meet and confer conferences with affected employee organizations.

Meanwhile, the compensation survey of Vernon's salaries and compensable benefits with those of other cities was presented to the Council on January 21, 2014 (the study included the positions of the Mayor, the Council and executives).

Classification

The results of the position classification indicate:

Of the original 166 classifications, 125 classifications will remain in total.

59 classifications were deleted or merged into other classifications.

18 new job classes were developed.

90% or 218 positions (employees) were assigned to the proper job class or required minor title modifications to more accurately describe their job responsibilities.

10% or 25 positions were reclassified to another job class.

Compensation

The compensation study involved comparisons with 26 other cities, although not for the same purpose – some were included for Miscellaneous Employees – some were made for Police & Fire, others for Utility personnel, and others for Health Benefits.

A prior Safety Plan Administration policy, adopted on September 17, 2013, was postured to pay market average compensation levels at a minimum, with an ideal of paying employees at the 75th percentile of the applicable labor market.

The market comparisons revealed the following variances:

75th Percentile Total Compensation (including benefits)

41 (48.23%) of benchmarked job classes are more than 10% below the 75th percentile labor market mid-point rates.

38 (44.70%) of benchmarked classes are comparable to the 75th percentile labor market midpoint rates (within 10% above or below).

6 of benchmarked job classes are more than 10% above the 75th percentile labor market mid-point rates.

The City is currently in contract negotiations with the IBEW Local 42, the Vernon Police Management Association and Teamsters 911, and is about to enter contract renewal negotiations with other units. As a result, immediate implementation of the study awaits further developments.

As to some of the primary positions in Vernon, the compensation study reveals the base salary of the two highest paid positions as compared to the cities used as comparable are:

City Administrator (monthly compensation of \$22,500) or 1.30% higher than comparables.

City Attorney (monthly compensation of \$21,000) or 11% higher than comparables. The City Attorney's position is now vacant; it provides an opportunity for the City to bring the position's salary down to the 75% comparable level.

Of interest too is the compensation rate for Vernon's Council members, who over the past two years have reduced their pay from close to \$70,000 per year to their present pay of \$2,083 per month. While the figure is still relatively high compared to many cities, both Culver City and Riverside report significantly higher base pay for Council members (L.A. County's Board of Supervisors and L.A. City Council members recorded appreciably higher pay but essentially work full time).

The conclusion one reaches is that Vernon's pay is generally in the ballpark, and that this system-wide study should help Vernon meet its compensation goals by providing effective current data-driven rationale for its labor decisions.

This type of study needs to be done periodically and shared publicly, as this one was.

My July 31, 2014 report will indicate how this report has been utilized by the City.

My early recommendations with respect to the study:

(1) The Council should require evidence based information justifying use of the 75% ideal level for policy purposes or in the alternative, establish another ideal level justified by the evidence.

(2) The Council should re-set the City Attorneys pay at or near the 75% comparable levels which would be applicable to the new City Attorney.

(3) The Council should require compensation studies to be conducted every three years.

State Controller Survey

In the meantime, the State Controller on December 17, 2013 issued a compensation report based on wages and benefits paid to city employees throughout the state in 2012 (487 cities reported).

Vernon's average wages and benefits reported were the highest of all reporting cities with an average wage of \$98,332 and average retirement and health benefits of \$32,175 (Hayward was second with average wages of \$96,122 and average retirement and health benefits of \$37,226).

Why? The reasons postulated:

(1) Vernon has an older work force with maximum step increases and resulting high wages. In the first half of 2013, an early retirement policy was adopted by Vernon which led to the retirement of some 31 senior employees (those with 20 years of service or more) and 18 safety employees, a move that is estimated to save \$8.2 million dollars over five years.

(2) A significant percentage of Vernon's employees are in its police and fire departments. Pay in these safety departments is relatively comparable to that in other Southern California cities; pay for such personnel is generally higher than that for the average city employee.

It is expected that in five years the average age of the work force will be reduced, leading to comparably lower average pay levels.

The compensation study reveals that Vernon's higher paid positions are generally in order. Over the past two years, their pay levels have been studied and, where appropriate, put into a framework consistent with comparable cities (i.e. those with light and power departments).

Citywide Health Benefits Consultant (Broker):

On January 9, 2013, an RFP was issued for a Benefits Consultant (Broker). After a review and interviews of the top rated applicants by eleven employees representing the recognized employee organizations, and final interviews with the City Administrator, Alliant Insurance Services was chosen to become the City's benefit broker effective June 18, 2013. Alliant has analyzed current City plans and negotiated renewals and plans for coverage for medical, dental, vision, life insurance, flexible spending account administration, and other benefits for January 1, 2014 implementation. The result of those negotiations is reduced costs for the City and its employees, with increased coverage and greater options for its employees.

Safety, Communications, Training

The HR Director has also been active in updating the City's Injury and Illness Prevention Program, organizing ongoing employee informational meetings, developing a quarterly employee newsletter which is now in draft form, and presenting ongoing Hazard Communications training to all City employees, giving employees information on hazardous chemicals in their work areas, and categories of hazards and chemical specific information available through labels and material safety data as required by Cal-OSHA.

Executive Performance Evaluation

The HR Director in April and June presented to the City Administrator, his City executive staff, and representatives of the City's employee organizations, draft performance evaluation forms and policy for their review. The final version was approved by the Council. The City now has a systematic method for evaluation and recordation of the performance of its employees.

In the meantime, the Eden HR Management System has been implemented which includes performance evaluation software. City staff has been trained on its application.

5. "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)

Response from Vernon

In my January 31, 2013 report, I detailed a series of recommendations from a study by Matrix Consulting relating to Vernon's Police Department staffing, and noted in the July 31, 2013 Report some of the changes that resulted.

Concerns have been raised, particularly by the business community about Vernon's cost for its Police and Fire Programs.

What follows is an update on Vernon's response to the Matrix recommendations and its study of a presentation by the L.A. County Consolidated Fire Protection District as to its proposal to take over Vernon's fire services.

Police

Staffing: As a result of the City's early retirement program, eight police employees retired (three non-sworn, five sworn police officers). Two critical non-sworn positions were backfilled in the Records Division. Chief Daniel Calleros indicates that at the present time there is no intent to backfill the other positions. Promotions within the Department filled two key vacancies, that of Police Captain and Patrol Sergeant. As a result of the early retirement program, staffing levels within the entire department now stand at 51.5 positions compared to 59.5 before the retirement program took effect.

Pro-Active Patrol Time: Chief Calleros reported the following response regarding the Matrix study findings that Vernon had above average levels of proactive patrol time.

"As indicated in the study, high proactive field time is common in smaller communities with low call volumes as is the case in Vernon. It should also be noted that many forms of proactive workload are not accounted and/or tracked in the dispatch Computer Aided Dispatch (CAD) system. In reviewing the proactive activity CAD data, we found that a number of patrol field services related to community oriented policing; regional/mutual aid services to local communities; officer on-duty training; community outreach services; patrol field surveillances; and other patrol functions were not tracked in CAD. In order to accurately track proactive field time, a number of new CAD codes were created and added to better identify patrol and community oriented field activities."

To better use proactive time he has added some new department programs that are useful for Vernon as well as the surrounding communities.

"In addition, to make use of proactive time, we have implemented a Warrant Service Team and a Special Enforcement Team using patrol staff for these functions. When patrol staffing levels permit, these teams are deployed to address specific crime trends as well as serving outstanding Vernon arrest warrants in our region. Our Detective staff is also participating in a Southeast Regional Parole Compliance Team to conduct verification and compliance checks of recently released parolees in the Southeast area. The compliance teams are made up of officers from local police agencies in the Southeast region and the teams are deployed bi-monthly. As part of our participation in the task force, the police department will receive some State funding to cover personnel costs."

Detective Bureau: The Matrix analysis suggested that Detective staffing levels be reduced by one Detective given the low caseload. Chief Calleros reports the following:

"With the retirement of the Detective Lieutenant, we have eliminated this position and the duties associated with this position have been assigned to the Detective Sergeant. The Administrative Lieutenant oversees the Detective Bureau, Professional Standards Office, the Communications Center, and the Records Division. This level of supervision is consistent with small police agencies. By assigning these new duties to the Detective Sergeant, cases and collateral duties

typically handled by the Detective Sergeant will be disseminated amongst the four Detectives. The distribution of cases and collateral duties, will allow the Detective Sergeant to focus on the administration and supervision of the unit.”

Organizational Structure: Matrix recommended evaluation of the Department’s organizational structure to assure quality internal and external results in managing the organization. Chief Calleros’ response:

“The recommended organizational structure was simplified.” In summary, the command structure brings the Patrol and Services Operations under a Captain who handles the day-to-day operations within the police department and allows the Police Chief to focus on City, community, and overall department issues.

Maywood: Still open is the Matrix recommendation that Vernon pursue providing contract services to the City of Maywood. (see page 16 of the January 31, 2013 Report).

Chief Calleros reports that his department’s study indicates that to provide such service Vernon’s Police Department would have to augment its staffing levels to add three dispatchers to its Communication Center and one position to oversee the activities in Maywood, and two Records Technicians to handle additional workload from Maywood. Further, most of the vacant positions resulting from the early retirement program would have to be filled.

The Vernon study indicates that its cost using dedicated patrol staff assigned to Maywood versus sharing patrol officers is estimated at approximately \$3.1 million. That equates to a \$100,000 savings for Maywood, compared to the L.A. County Sheriff’s Department contract now standing at \$3.2 million. Vernon is considering dedicating as much as \$1 million from its Vernon CommUNITY Fund to add to Maywood’s savings. That would bring Maywood’s savings to \$1.1 million. The Sheriff’s contract with Maywood runs to June 30, 2014.

According to Chief Calleros, the estimated savings to Vernon would be about \$1.5 million, “based on the utilization of dedicated patrol officers and the need to increase Dispatch and Records Technician’s workload.” That figure could be reduced slightly if it becomes necessary to bill Maywood for vehicle maintenance and other materials agreed upon that are necessary for the effective operations of the department.

The bottom line is that a contract for Vernon to provide police service to Maywood remains in the interests of both cities. For Maywood, it means dollar savings, dedicated personnel, and a more direct relationship with its neighboring city. For Vernon it means dollar savings, better utilization of its personnel, and more traditional police work (given that Maywood is primarily a residential city) for its personnel.

City Administrator Whitworth and Chief Calleros attended a Maywood City Council meeting in November and have informed Maywood’s City Manager and Council that Vernon stands ready to discuss providing police services to Maywood on a contractual basis. Further contact is expected to take place.

Fire Services

In June 2012, Vernon requested a proposal from the Consolidated Fire Protection District of Los Angeles County (the District) for fire services. The District feasibility study was received by Vernon in September of 2013 and evaluated by Vernon's staff. Its analysis was presented to the Council on December 17, 2013.

In short, the District reported it could operate three of the city's four fire stations at an estimated cost of \$11.9 million dollars, not including other escalation clauses. Constant staffing for three city fire stations with three engine companies, one truck company and one paramedic squad would provide a total staffing of fifteen uniformed personnel on duty daily in the City, plus fire prevention staff.

Specialized resources such as hazardous material and urban search and rescue squads would be able to respond within the City as needed and come from fire district units within 4.9 miles for the urban search and rescue unit and 14.3 miles for the hazardous materials unit.

Paramedic squad and truck company assigned to the City would serve as a first—in or second—due units to adjacent fire district areas which experience heavy call volumes.

In its executive summary, the District opined that Vernon “could potentially realize some significant annual savings by contracting with the Fire District.”

In its response at the December 17, 2013 Council meeting, Vernon's Fire Chief Wilson detailed Vernon's Class I Fire Department standing with its highly trained Haz Mat specialists, its specialization in urban search and rescue response and paramedic operations, and its dedication to Vernon, as compared to the District's Class IV rating in 2004 and the District's regional approach which on the average extends response times. The District would have its Haz Mat operations and USAR units within Vernon while its Fire Chief, Fire Marshall and Battalion Chief would be located outside of Vernon. Chief Wilson cited a Vernon Chamber of Commerce Executive Report measuring insurance cost impacts from downgrading the Fire Department's ISO ratings. (ISO ratings are released every eight to ten years; the last one was completed in 2010.)

The Costs of Downgrading

Class I to Class II = \$8.4 million

Class I to Class III = \$25.4 million

Finance Director Fox detailed Vernon's Fire Service expenditures for 2013-14 at \$14,173,358, but offset by revenues and fees for net expenditures of \$11,455,679 compared to the District's estimate of a total cost of \$11,877,578, or a cost savings using Vernon's existing fire services of \$421,900.

As presented there are obvious advantages to Vernon and its business community in keeping the City in control of its fire department in terms of better direct service and cost savings to the businesses located in Vernon. The Council took no action on the District's proposal other

than receiving and filing the study, and has invited the District to review Vernon's analysis and respond to its findings.

6. "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

Over the past six months, City Administrator Whitworth, various Councilmembers and various Department Heads and key staff have attended conferences and seminars of the League of Cities (Sacramento September 18-20), Independent Cities (Rancho Bernardo, July 11-14) and, Contract Cities (Temecula, October 4 & 5), and regularly attend League Division meetings. The Mayor met with other Mayors at a meeting called by Los Angeles' new Mayor, Eric Garcetti.

The City Administrator is in regular contact with City Managers of neighboring cities. Attendance at these meetings and the ongoing contacts provide Vernon's leadership opportunities to better understand the problems facing other cities and to better enhance Vernon's "best practices" environment. It also tends to diminish Vernon's reputation as an "outlier."

New Recommendations from 2012 Reports

1. "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

Completed. See detail in July 31, 2013 Report. Given the resignation of City Attorney Nick Rodriguez, this recommendation will be tracked in further reports.

The goal of this recommendation is to handle as much legal work in house as is possible and responsible, and to use competent outside counsel at rates normally charged to other governmental entities, giving Vernon excellent legal representation at a cost far less than that experienced in the past turbulent years. At the end of the 2013-14 fiscal year the City should compare its cost for outside counsel for the year with those of each of the prior five years.

2. "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 the recommendations by Senator De Leon and me, sometimes with modifications. The City has not

provided any written response or any unwillingness or inability to respond positively to the spirit of those recommendations.

3. “The Business Development Committee was established on January 3, 2012. 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

In the past twelve months, every Business Development Committee meeting has been cancelled. Difficulties were experienced gaining a quorum. The City Council has directed the staff to recommend how the Committee should be reconstituted and to determine its goals and purposes. As of this writing no recommendations have been made.

The original recommendation was based on the idea that the business community should have a better understanding of the City’s governmental activities since its activities largely benefit their community, and to give it a stronger role in recommending to the City the scope and quality of the services it requires, with knowledge of the costs involved. It remains to be seen whether this Committee or another one should fulfill this role, but it is important that an outside business oriented committee fulfill the task. Otherwise, it is left to the City government to make unilateral decisions that may run afoul of the City’s most important constituents. The City has been slow to address this issue but City Administrator Whitworth has stated that he expects to address this shortly.

4. “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.” (Page 32, Jan. 31, 2012 Report).

Response from Vernon

The City’s Finance Director continues to issue quarterly reports in Council meetings and has made similar presentations to the business community.

5. “Internal staff or outsourcing should be utilized for better long range financial planning.”

Response from Vernon

A professional services agreement with Public Financial Management (PFM) was approved by the Council in August 2013 for financial advisory services, following an RFP and a competitive selection process. The agreement runs for three years, at a cost of \$200,000 per year. PFM performs long range planning and was rated as a superior service provider by four contacted references.

6. “Long Term Debt Policies meeting the needs of the City should be established no later than January 1, 2013. The City should review its bonded indebtedness which today costs \$60 million dollars a year to service and figure out a way to lower and smooth its costs.”

Response from Vernon

City Finance Director Fox reports that as the budget was developed in the Spring of 2013, an evaluation was made of the City’s debt structure and the conditions at that time. It was determined that it was unwise then and unwise at this time to restructure the debt (and particularly the Swap Agreements) because the cost of redemption would be high. In short, if that were done, interest would be owed and the costs of redemption would exceed the benefits sought. The swap values are being monitored on a daily basis and when the timing is appropriate as conditions change, the restructuring will be on the table again.

New Recommendations from July 31, 2013 Report

1. “The Business Development Committee needs to be reorganized, and a new mission statement needs to be adopted. That mission should include a broad understanding of the City’s financial situation and needs with involvement in the City’s long term planning.” (See page 38 of July 31, 2013 Report)

Response from Vernon

No action taken. (See page 20)

2. “The City needs to make appointments to the Committee to control allocations from the “Vernon CommUNITY Fund.” (See page 38 of July 31, 2013 Report)

Response from Vernon

Incomplete: (See pages 7 and 8)

3. “California Consulting, Vernon’s Grants Coordinator, should work closely with appointees making allocations from the Vernon CommUNITY Fund to document needs and help Vernon better assist neighboring communities.” (See page 38 of July 31, 2013 Report)

Response from Vernon

In process: (See page 9)

4. “The City should commence a meeting of Mayors and City Administrators of neighboring cities to meet Eric Garcetti, Los Angeles’ new Mayor, to discuss items of mutual interest.” (See page 38 of July 31, 2013 Report)

Response from Vernon:

Completed. Mayor Garcetti beat Vernon to the punch, meeting with local Mayors and officials in the Fall, including Vernon’s Mayor McCormick.

5. “Vernon, through its Finance Director, should begin a planning process for the long term looking at such issues as street maintenance, improved mobility, setbacks where achievable, watershed and storm water management, graffiti and litter control, and landscape improvements that will make Vernon a more welcoming community (i.e., greening Vernon). Such a process should involve representatives from the business community from its outset.”

Response from Vernon:

Vernon’s Finance Director is developing a five year planning exercise requesting internal departmental input regarding capital needs and the projection of future operational costs (including salary, pension and health care costs). When developed, the business community and the public will be invited to attend a financial planning workshop to weigh in on the preliminary data leading to the presentation of the five year plan to the Council. This is expected to be completed by June 1, 2014.

Chapter III

Housing

1. 4675 52nd Street Property Development

The proposed project on a 2.06 acre lot will consist of 45 units and a community room. Units will be one, two and three bedrooms. After the City Council approved a 65 year \$1.5 million loan to the developer, Meta Housing Corporation, the California Tax Credit Allocation Committee approved the necessary tax credit allocation at its September 2013 meeting.

The developer has applied for additional funding grants of \$450,000 from the Bank of San Francisco; if approved the City's loan will be reduced by that amount. Permanent financing is expected to be secured by February.

Meta Housing submitted construction plans that totaled over 100 pages in early December to the City. These plans, which can be inspected by the public, are now being reviewed by staff.

The site has some soil vapor and metal contamination, such as arsenic, that is being removed. The contaminated soil has been dug out and is ready for transportation off the site. It is possible that a vapor barrier will be placed under the building to protect the tenants.

Ground is expected to be broken in March, with occupancy a year later. Meta will choose the builder; the city does not select the builder or contractors. Prevailing wages will be paid to construction workers.

The developer will be responsible for the selection of the tenants. Those who live or work within one mile of the housing site will be given priority over others who wish to rent units. Selection must be made by a public random selection from the pool of eligible applicants. At this time the City's Housing Commission has no jurisdiction over the tenant selection system and the management of the properties. Given past practices it is in the City's interest to make sure the tenant selection system avoids favoritism and outside influences.

Of the 45 units being built, two must be rented at an affordable rent to "extremely low income households" (about 30% of the LA area's median income), fourteen to "very low income households" (about 50% of the LA Area's median income) and six to "low income households" (about 60% of the LA Area's median income). These percentages go into effect if the US Department of Housing and Urban Development does not define the terms.

2. Conversion to One Year Leases and Internet Charges

The November Housing Report indicates that nine units are at full market rent. It also indicates that 11 units are on a month to month basis, since these units did not elect to renew their one year leases which expired on August 1, 2012. Because these are tenants who have resided in Vernon for many years and were part of the transition process to the new housing policies and procedures, they have been provided courtesy reminders of their option to renew their leases for one-year terms or shorter. As part of the four-year Market Rent Implementation Schedule adopted by the Housing Commission, rents were substantially increased for these units

to tier two, effective August 1, 2013 (for example, a three bedroom unit was raised to \$1,030 from \$695 a month, and several two bedroom units have been raised to \$547 from \$394 a month.)

Two of the five year leases expire in 2015 and will be converted to one year leases at that time. When the full market rents become effective in 2015, the City anticipates about \$325,000 total revenue per year.

One of the three Huntington Park units has been rented at the reduced rate recommended by Solari Enterprises, Inc., the third party property manager, leaving two vacant units. The rents for those units have also been reduced pursuant to Solari's recommendation.

The lessee at 4321 Furlong Place was evicted in September; the unit is now ready for rental.

All the Internet connections have been completed except for three units, two of which did not respond to requests to install the connection, and one who has said they were not interested. Sixteen residents have subscribed and are paying the \$40.65 a monthly fee for Internet service.

3. First Responders

First responders have priority in renting units from the City until there are four first responders leasing properties. Currently, there are three first responders (one police officer and two firefighters) renting property, the same number as six months ago.

4. Lottery for Units that Become Vacant in 2014

The semi-annual lottery was held by the Housing Commission at its December 11, 2013, meeting. The lottery created a waiting list of 30 people that will be used to fill rental units that become vacant during the next six months.

5. Third Party Property Manager

Solari Enterprises, Inc. is now managing the rental properties and files reports regularly and appears at the meetings of the Housing Commission. The City Council, at its December meeting, voted to approve an increase in the amount paid to Solari from \$25,000 a year to \$65,000 a year due to about \$40,000 in increased maintenance and repair costs which Solari is expected to incur, which were not anticipated when the original contract was signed.

6. Housing Commission

Three members of the Commission were reappointed or appointed by the Mayor for terms expiring August 10, 2017: they are Michael Hughes, the business representative (incumbent), Melissa Ybarra, a resident (incumbent) and Mayor Michael McCormick (the designated City Council member). Twelve persons applied to be on the Housing Commission: three residents and nine business representatives.

The appointed members join four other members whose terms will expire August 10, 2015. The Commission is scheduled to meet quarterly but its September 2013 meeting was canceled. It last met on December 11, 2013.

Chapter IV

The Audits

A. PERS Audit

Human Resources Director, Teresa McAllister reports that there are no outstanding issues with regard to current employees membership status and that the only open issues are the following:

(1) Malkenhorst; the litigation involving the former City Administrator, PERS, and the City of Vernon, is described on pages 6 and 7 of this report.

(2) Mayor McCormick; his pension determination status is scheduled to be heard on the PERS ALJ calendar in May of 2014.

All the other issues described in the July 31, 2013 have been settled.

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. In previous reports, I have noted some of the recommendations and Vernon's responses.

Following my July 31, 2013 report, JLAC responded to Vernon's one year response. What follows are some of the JLAC comments and Vernon's most recent responses (some of the actions taken in response are noted elsewhere in the Report). The City is currently working on further follow-up responses to items still in progress and expects to submit those by February 1, 2014.

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 the 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. Benefit and compensation studies with outside consultants have been completed to help bring Vernon in line with best practices in other comparable cities. See Chapter II, page 14.

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

Other Expenses

JLAC: Credit Card internal controls need to be strengthened, and ambiguities and travel expense limits on hotel accommodations need to be addressed. The Finance Department should review credit card expenditures for appropriateness.

Response from Vernon:

The City's new Finance Director, William Fox, was given the task to determine an appropriate limit for hotel costs and to review and develop a revised intranet control policy for reviewing and approving credit card charges.

On October 1, 2013 and December 17, 2013, the Council approved a resolution revising the expense reimbursement policy, providing cost caps clarifying documentation requirements, specifying expense and cash and advance submission deadline requirements, and guidance to determine eligible and ineligible expenditures (Resolutions 2013-84 and 2013-100). IRS guidelines were followed. The Finance Director reviews and approves all credit card expenditures.

Revenue Transfers

JLAC: The City should develop a formal policy describing the circumstances under which revenues can be transferred from its Power department, and the limits and permissible use of transferred revenues.

Response from Vernon:

In the 2013 budget process a determination was made, based on the projected results of its Light and Power operations, as to how much could be transferred to the General Fund, at the same time meeting its debt covenant requirements and City policies. Pro rata payments were scheduled on a monthly basis with a true up adjustment scheduled for the last month of the fiscal year to ensure covenant compliance. A written policy will be completed in time for the next budget process, i.e., no later than June 30, 2014.

Scope of Contract

JLAC: The City should require that all contracts contain a well defined scope of work and deliverables that a sufficiently detailed invoice can be measured against.

Response from Vernon:

The City after a review of its RFPs believes that they are now sufficiently specific and complete. Department heads responsible for the RFPs and the work involved review and approve the related invoices which then must be approved by the Finance Director. No formal cash disbursement policy has been drafted as of this writing, but the Finance Director has stated that while he does not see a problem in this area, he believes a formal policy is appropriate and will seek to present one in February 2014.

Amending Contracts

JLAC: The City should review all current contracts and amend them if necessary to comply with newly established policies.

Response from Vernon:

The contracts in place have been reviewed. It was not found necessary to amend existing contracts. New contract policies were adopted on December 4, 2012. Contracts that had been in effect for three or more years were identified for re-bidding and a number of RFPs were issued relating to those contracts (See July 31, 2013 Report).

Addressing the Structural Deficit

JLAC: To address the Structural Deficit in its general fund the City should seek long term solutions to balance the General Fund's revenues and expenditures and lessen its reliance on transfers from other City funds.

Response from Vernon:

At present the structural deficit is being addressed. This is examined annually as part of the City's open and transparent budget process. While transfers are still coming from its Light and Power Department, its recent tax increases and expenditure reductions have brought about a balanced General Fund budget for the 2013-14 fiscal year. In its presentations to the City Council and to the business community, the Finance Department has reviewed the City's budget and actual performance for the 2012-13 fiscal year and expectations for the 2013-14 fiscal year. The Finance Director believes he has incorporated the elements for improved budget practices recommended by the Government Finance Officers Association (GFOA), and plans to memorialize them in February 2014. Addressing the structural deficit will be a key provision in the long range financial planning process.

Consultants' Written Documentation

JLAC: When entering significant energy related transactions relying on the advice of consultants the City should develop a process for the consultants to provide written documentation enabling the Council and the public to be better informed about the cost, risks and benefits of proposed transactions.

Response from Vernon:

This is required anytime intellectual property is developed by consultants, who provide their documentation and spread sheet models to the City, better enabling updates performed by City Staff. The Finance Director indicates that this policy has been formalized through the inclusion of an "Ownership of Work" clause in the City's standard form of contract.

Debt Policy

JLAC: The City should develop a clear process for deciding how it will terminate their swaps based on the cost and future benefits to the City.

Response from Vernon:

As indicated earlier, the swap investments are being monitored daily by the Finance Director. As interest rates rise, the cost to the City of refinancing the swaps will be reduced. The City would like to reduce its annual debt costs, but wants to do it in such a way that the benefits of doing so outweigh its costs. The City is watching this closely, and is looking for an opportune time to terminate their swap investments.

Chapter V

Compliance Review

A. Conflicts of Interest--Economic Interest Statements

The following employees assumed office between July 1 and December 20, 2013 and filed statements of economic interest:

- Jose Gonzalez (Purchasing Assistant) - 7/16/13
- James Moore (Electric Inspector) - 8/5/13
- Lissette Michel (Sr. Human Resources Analyst) - 9/30/13
- Felix Velasco (Engineering Assistant) - 10/28/13
- Octavian Ngarambe (Resource Planner) - 12/3/13

City Attorney Nick Rodriguez left office on December 6, 2013, and filed the appropriate leaving office statement.

B. Campaign Statements

The Committee to Elect Leaders for Reform (sponsored by the Vernon Chamber of Commerce) filed amended campaign statements for the 2012 election, on July 31, 2013 updating expenditures, reporting \$9884.87 in expenditures for the May 20, 2012-June 20, 2012 period. On the same date they filed their semi-annual statement for the period of July 1, 2012-December 31, 2012 reporting \$10,000 in contributions and \$5492.40 in expenditures for that period. Also received on that date was a statement for the January 1, 2013-June 30, 2013 period reporting \$2,500 in contributions and \$198 in expenditures.

In August of 2013 Baker Commodities filed an amended Major Donor and Independent Expenditure Report for the period January 1, 2012-December 5, 2012 reporting expenditures and contributions of \$53,900 in that period with \$45,000 in monetary contributions to the Chamber of Commerce and \$3,900 to Senator Kevin De Leon in connection with opposition to AB 46, and \$5,000 to The Committee to Elect Leaders for Reform in connection with opposition to a Vernon Parcel Tax.

C. Public Records Requests

Nearly 100 requests for public records were received by the City in the past six months. The City responded to all the requests (almost all by email), by and large in a timely manner. No complaints were received.

Chapter VI

Business Activity in the City

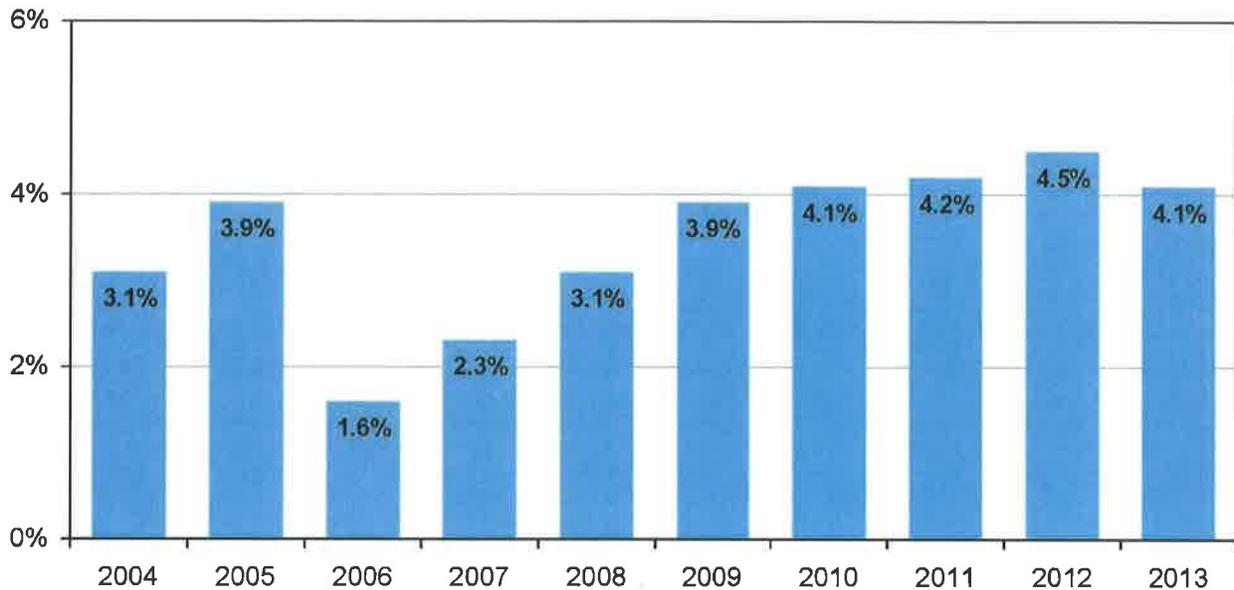
Vacancy Rates

John McMillan, Executive Director of Industrial Brokerage for Cushman and Wakefield, provides 4th Quarter 2013 industrial vacancy rates for the Greater Los Angeles markets.

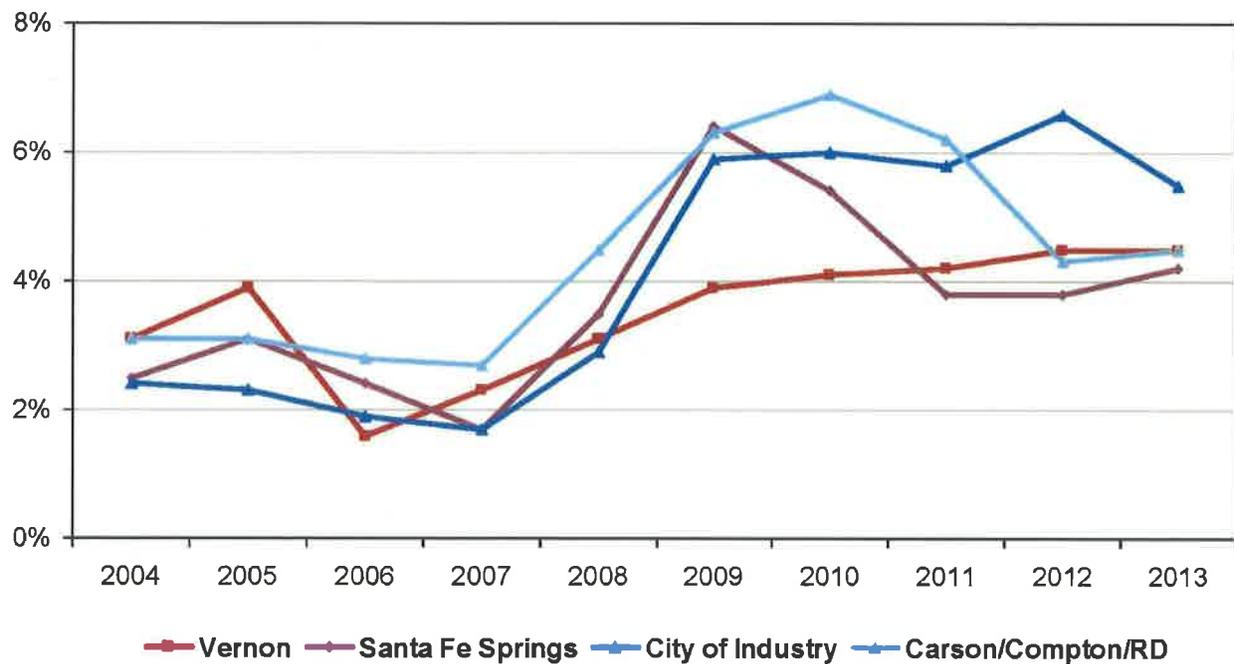
Vernon's vacancy rate reached 4.1% at the end of the 4th quarter of 2013 where it stood in 2010 before the disincorporation crisis.

Market	Vacancy Rate
Long Beach	9.2%
Torrance	8.2%
Rancho Dominguez	7.2%
City of Industry	5.5%
El Monte	4.7%
Cerritos	4.4%
Compton	4.4%
Santa Fe Springs	4.2%
Vernon	4.1%
Carson	4.1%
Commerce	3.5%
Pomona	3.1%

The following chart shows Vernon's vacancy rate over the past 10 years



A 10 year historical comparison of overall vacancy rates of Vernon with Santa Fe Springs, The City of Industry and Carson/Compton shows rising rates in all those cities after 2007 and leveling off and decreases since 2009:



Electricity Usage

Electricity usage in retail sales was down 1.28% in the first six months of 2013 and down .74% in the final six months. The 2012 numbers were up 1% over 2011.

In short, usage has remained relatively stable over the past three years, despite increases in rates, largely as a result of the state requirements for the use of renewable resources.

Looking ahead, Exide's future is in doubt. A shutdown there could lower retail electricity usage around .5%. The permits issued in 2013 for a large refrigerated produce facility which is expected to be online in early 2014, as well as for newer permittees (noted in Kevin Wilson's Report below), should largely offset a Exide shutdown.

Carlos Fandino, Vernon's Director of Light and Power figures Vernon's retail electricity sales in 2014 should equal or be up around 1% from those in 2013.

MONTH	2012	2013	
January	90,386,943	87,321,139	
February	94,439,063	93,331,131	
March	31,115,412	86,907,539	
April	95,234,547	93,800,977	
May	91,546,847	97,880,810	
June	97,445,761	96,781,702	
6 Mo. Total kWh	560,168,573	553,023,298	-1.28%
July	97,080,201	94,099,580	
August	98,630,238	101,325,695	
September	101,899,989	101,028,990	
October	96,368,818	97,335,245	
November	98,985,990	97,849,927	
December	91,992,903	91,945,638	
Grand Total	1,145,126,712	1,136,608,373	-0.74%

Building Contractor Activity

Kevin Wilson, Vernon's Director of Community Services and Water provided a Report for the last 8 years, covering the number of permits issued and the valuation of the planned construction in each of those years:

Year	Number of Permits	Valuation
2006	903	\$99,178,058
2007	1064	\$98,944,554
2008	1064	\$98,944,554
2009	887	\$55,748,122
2010	742	\$40,313,125
2011	743	\$35,769,877
2012	745	\$27,406,648
2013	676	\$57,555,724

Wilson's Conclusion:

"The increase in construction values clearly indicates that economy is improving, lending for new construction is becoming easier, and the reinvestment in Vernon by businesses and developers is growing. Based on discussions with the development community it is anticipated that the value for construction projects in 2014 would be similar to that of 2013."

My conclusion: The recession and the attempted disincorporation put a major crimp in investment and reinvestment in Vernon, from which it is now recovering, although the number of permits and the valuation of the construction related to those permits in 2013 is down substantially from 2006-2007 levels. Vernon must do more to attract new businesses and reinvestment this year and in the years ahead. That is one reason why Vernon needs to reestablish its Business Development Committee, which should not only look at and make recommendations regarding City government and its budget, but also recommend ways to attract new business. If successful, greater utility use and a broader tax base can reduce electric and tax rates for everyone.

CONCLUSION

Vernon continues to follow a reform path.

A number of their early promises for reform have been met, or are in the works for implementation. There has been no turning back.

That's not to say that things can't get better—a comment that can always hold true.

Vernon needs a new City Attorney.

It needs to appoint a VCF Board to deal with grants to neighboring cities.

Construction of the housing project must commence, and be completed.

The health and welfare of its citizens needs to be assured. Exide needs to be closed or proof must be clear that it offers no health threat to Vernon's residents and those that work there.

In my last report I noted "Vernon can now look to its future; it is time for long term planning. Vernon's administrators need to ask what should Vernon look like in five years and how does it get there. Needed will be long term planning for such things as better street maintenance, improved mobility, set backs where achievable, aesthetic and landscape improvements (e.g. greening Vernon), watershed and storm water management, better graffiti and litter control, as well as meeting the needs of the fire and police departments and other departments involved in meeting Vernon's needs and priorities."

That comment still holds true.

Vernon has survived the disincorporation crisis and has taken the road to reform.

How does it stay on that road? As long as Vernon has a City Administrator and an executive staff dedicated to good government principles, Vernon should succeed.

As long as Vernon has Council members equally dedicated, Vernon should succeed.

But the present lineup will change. How long with the City Administrator be there? How long will the Council members be in place?

Retirements are a sure thing. It is only a matter of time until they occur. When they occur, who will replace them?

How does the City protect itself from the type of venality of the past and the virtual subservience of the Council to strong willed and powerful executives?

The answers lie in the retelling of the lessons learned, and in the increased involvement of the business community to guard against a return to the old ways. Strong oversight and openness must continue.

My role ends in February 2016, around the time the new housing will be occupied. I have no vested interest in the service I provide, but it might be in the best interest of the City to have an independent person or persons familiar with governmental standards provide oversight by watching and reporting on what is going on in Vernon.

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 pages 7 and 8)
2. “Creation of an independent board to allocate those Environmental and Community Benefit Funds (ECBF) including representation from outside affected communities.” (See page 8)

B. Recommendations from the July 2011, the January 2012, July 2012, and, January 31, 2013 Reports To Be Completed

1. 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 page 19)
2. Appraisals of promotability for City executives should be conducted annually and placed in the City’s personnel file.
3. Consideration of staggered terms should take place when Vernon’s new housing is in place and there is a larger electorate. (See page 11)
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 12)

C. Recommendations from the July 31, 2013 Report to be Completed

1. The Business Development Committee needs to be reorganized, and a new mission needs to be adopted. That mission should include a broad understanding of the City’s financial situation and needs with involvement in the City’s long term planning. (See pages 19 and 20)
2. The City needs to make appointments to the Committee to control allocations from the “Vernon Community Fund”. (See page 8)
3. California Consulting, Vernon’s Grants Coordinator, should work closely with appointees making allocations from the Vernon Community Fund to document needs and help Vernon better assist neighboring communities. (See page 9)
4. Vernon, through its Finance Director, should begin a planning process for the long term looking at such issues as street maintenance, improved mobility, setbacks where achievable, watershed and storm water management, graffiti and litter control, and landscape improvements that will make Vernon a more

welcoming community (i.e., greening Vernon). Such a process should involve representatives from the business community from its outset. (See page 22)

NEW RECOMMENDATIONS

1. At the end of the 2013-14 fiscal year the City should compare the cost of outside counsel with those of each of the prior five years.
2. The Finance Director should complete memorialization of the budget practices recommended by GFOA.
3. The City Council should require and obtain evidence based information justifying use of the 75% ideal compensation level, or in the alternative, establish another ideal level justified by the evidence.
4. The Council should re-set the City Attorney's pay level at or near the 75% level which would be applicable to the new City Attorney.
5. The Council should require compensation studies to be conducted every three years.