

CITY OF VERNON

REPORT OF

JOHN VAN DE KAMP

INDEPENDENT REFORM MONITOR

Dated January 31, 2015

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PREFACE

In November of 2014 Vernon was recognized by the LA Economic Development Corporation as a finalist in the most business friendly city in the small city category.

On November 10, the Eastern Group Publications, which publishes a number of newspapers, wrote an article heading “Vernon CommUNITY Fund Awards First Quarter,” mentioning in particular a \$54,000 grant to the East Los Angeles Women’s Center. The article quoted the development director of that organization, who said “the grant changed our vision of how industrial Vernon is, because they are giving back to the Community to provide services a lot of their employees need.”

The two stories illustrate not only Vernon’s success as a business friendly city (more about that in Chapter VI), but also how Vernon has moved to address needs emanating from neighboring cities which supply much of its work force.

The City of Vernon has made progress, in both directions, involving its business community in its decision-making and in establishing a good neighbor policy with the communities nearby.

For Vernon, business has always come first. It took the disincorporation efforts of the then Speaker John Perez in 2011 to get Vernon to look beyond its borders.

Thanks in large measure to now Senate President Pro Tem Kevin De Leon, the Speaker’s measures (AB 46 and AB 71) died in the Senate. Vernon was given a chance to put its house in order; meanwhile Senator De Leon recommended a series of reform measures which will be touched on in Chapter 1.

I was brought in as Vernon’s Independent Ethics Adviser on February 15, 2011 to help the City in its reform efforts.

My role was re-titled as “Independent Reform Monitor” and my term was extended on February 15, 2012 for four years. 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 polices and procedures relating to the reimbursement, expenses and payment 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 only recommend. The City with very few exceptions has shown its consistent support of the reform measures recommended by Senator Kevin De Leon and me.

This is my eighth report. The previous reports, all of which may be viewed on the City’s website, provided status reports and Vernon’s progress (or lack thereof) and offered recommendations regarding the way Vernon should do business.

This report, which essentially covers the period July 31, 2014 to January 31, 2015, has been prepared with the assistance of Robert Stern, the former President of the Center for Governmental Studies and former General Counsel to the Fair Political Practices Commission. As in the past, we have received significant support from Vernon's administrative staff as well as my staff at Mayer Brown LLP.

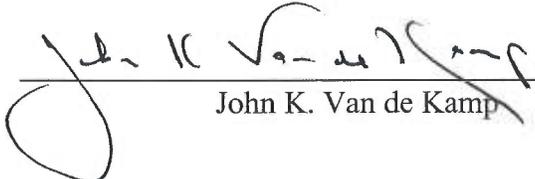
In those six months we have seen continuing progress.

Vernon's new housing project, Vernon Village Park, is now under construction with completion scheduled for mid 2015. Some 50 new units are expected to bring in around 125 new residents to Vernon, virtually doubling Vernon's population.

The Huntington Park soccer field renovation which Vernon largely funded (with a contribution of \$700,000), has been completed and open for play.

The last report indicated Vernon's financial house was in order, with a balanced budget set for 2014-15. A first quarter report was presented to the Council on November 18, which shows reductions in expected revenues and expected expenditures, with a year end forecast of a total deficit of around \$2.4 million. Plans are underway for refinancing some of the City's bonds and interest rate swaps which should improve the City's cash position and its ability to fund needed infrastructure projects, and reduce fiscal volatility.

As noted in my July 31, 2014 report, change is inevitable, certainly at the personnel level. The untimely death of Councilman Ybarra is evidence of that. The City's ability to cope with change and the need to continue on its reform path will always be a challenge.



John K. Van de Kamp

RECENT DEVELOPMENTS

Legislation

No legislation was introduced in 2014 calling for Vernon's disincorporation, nor is there any likelihood of that in 2015.

The City's Financial Future

The City's Finance Director, William Fox, provides quarterly reports to the Council as to the City's financial picture.

As reported in my July 31, 2014 Report, on June 17th the Council approved the 2014/15 budget: the numbers approved:

(1)	Government Funds	\$71,790,874
	Government Expenditures	\$71,790,874
(2)	Business Type Funds	\$271,511,626
	(includes light, power, water, etc.)	
	Business Type Expenditures	\$271,511,626
(3)	Total Revenues	\$343,302,500
	Total Expenditures	\$343,302,500

This budget called for increases in revenues (based primarily on expected new tax and fee revenues), and expenditures to fill in what are believed to be needed gaps in staffing and deferred maintenance. New revenues included a 5% increase in its electric rate schedule, an increase in its warehouse parcel tax from \$29.09 to \$29.39 per 100 square feet of gross area of land based on increases in the Consumer Price Index, and after a study of its General Fee Schedule, an increase in fees adding an estimated \$1,004,083 to the City's General Fund. Overall, revenues and expenditures constitute a 2% increase according to City Administrator Mark Whitworth.

At the November 18, 2014 Council meeting Finance Director Fox reported on the City's financial results for the first quarter of 2014-2015.

They are in short as follows;

	Budget/in millions	Actual/in millions
Governmental Revenues	11.4	11.4
Governmental Expenditures	21.6	19.1
Enterprise Revenues	75.1	71.4
Enterprise Expenditures	100.7	95.5

Forecast For The Year – in millions

	Budget	Actual (Forecast)
Governmental Revenues	71.8	71.2
Governmental Expenditures	71.8	69.3
Enterprise Revenues	271.5	262
Enterprise Expenditures	271.5	266.3

The net result, if the forecast holds true, is a small deficit of \$2.4 million, an amount which could change up or down, as it will be largely dependent on power sales.

Of note also was Fox's report on Pension Funding Liability. The most recent report being the 6/30/2013 Valuation Date.

- Safety Plan Schedule of Funding Progress

Valuation Date	Actuarial Liability	Asset Values	Unfunded Liability	Funded Ratio
6/30/2013	\$195.5	\$144.3	\$51.2	73.8%
6/30/2012	187.8	156.9	30.9	83.5%
6/30/2011	169.9	149.2	20.6	87.9%

- Miscellaneous Plan Schedule of Funding Progress

Valuation Date	Actuarial Liability	Asset Values	Unfunded Liability	Funded Ratio
6/30/2013	\$122.7	\$93.7	\$29.1	76.3%
6/30/2012	116.8	101.7	15.1	87.1%
6/30/2011	108.1	97.2	10.9	89.9%

While the report is 19 months behind the date of this report, and does not consider the improved market conditions since the June 30, 2013 valuation date, the reduction in the funded ratio is cause for concern. Reasons advanced for the substantial reductions in the funded ratio are an increased number of normal retirements, a 2013 early retirement program, and an older work force. Vernon's workforce has declined substantially from 2007. In 2007 Vernon's workforce totaled 322 employees. On December 9, 2014 it stood at 255 (including City Council members).

Vernon will have to devise a plan to address this problem; additional contributions from the City and/or employees will probably be required; a long term solution needs to be put into place, preferably before the end of this fiscal year.

Labor Settlements

Labor negotiations have been completed with all affected units, with the following results; 6 bargaining units received 2 year contracts with cost of living increases of 1.5% for 2014-2015, and 1.5% for 2015-2016. The Police Association signed a three year contract, with 1.5% cost of living increases for half of 2014-2015, and all of 2015-2016, for newly hired police officers, with pay for current police officers frozen at their current salaries since they are over the 75th percentile in the labor market.

At its December 9, 2014 meeting, the City also approved pay for executive classifications, based on the Citywide classifications and compensation study, at the 75th percentile of the surveyed labor market; for most City executives this means a 1.5% cost of living increase above the proposed maximum at the 75th percentile level. City Council members were also given the 1.5% cost of living increase bringing their annual salaries to \$25,368.

The Council also approved a \$400 per month auto allowance for nearly all the City executives.

On January 6, 2015 the Council approved a new contract with the City Administrator making his compensation \$289,104 per annum.

Given that the Risk Manager classification was eliminated effective December 2014, the net cost of the changes for the remainder of the 2014-2015 fiscal year was estimated at \$85,400.

Personnel

No major personnel changes were made in the six months, although a hint of an imminent major resignation was suggested in the public agenda for a closed session at the November 18, 2014 Council meeting under the heading Public Employment ("City Administration") followed by "Public Employee Appointment" Interim City Administrator."

Following the meeting it was revealed that indeed no resignation had been tendered by the City Administrator, and had not been requested. At its January 6, 2015 meeting the Council approved a new contract for the City Administrator. But the thought of retirement has been considered by City Administrator Mark Whitworth after his many years of service as Fire Chief and City Administrator (he took over during the disincorporation crisis). His leadership has been

critical during the crisis, and his support of reforms unwavering. Should retirement be reconsidered, I recommend that it be done in such a way that a search be undertaken, with enough lead time so that the search be completed and an adequate transition period be in place before he begins retirement so that the new City Administrator can learn the lessons learned over the past four years.

Elections

No elections were held in the period.

Upcoming is an election to fill the unexpired term of Michael Ybarra. That election is scheduled to take place on February 17, 2015. Only one candidate has filed papers for that seat, Melissa Ybarra, Michael Ybarra's daughter.

A General Municipal Election has been scheduled for April 14, 2015 for the seat now being held by Councilman Richard Maisano, who is not seeking re-election. Those candidates who have filed papers are Dennis L. Roberts and Yvette Woodruff Perez.

Bruce V. Malkenhorst

Long time City Administrator Bruce Malkenhorst has filed a variety of lawsuits against CalPERS and Vernon regarding his retirement benefits for his work in Vernon.

Little progress has been made in bringing any of the matters to finality.

The Administrative appeal hearing before an arbitrator was commenced on August 27, 2014 and could not be completed in the period set for the hearing; the Arbitrator continued the hearing until February 19, 2015. The Arbitrator will issue his proposed decision within 30 days after completion of the final hearing, whenever that takes place.

Nearly all of Malkenhorst's related cases against the City of Vernon, the State, and CalPERS await the exhaustion of his appellate remedies.

Malkenhorst had been receiving as much as \$556,688 per annum under his retirement program: on April 1, 2014 that was reduced by CalPERS to \$125,845.

Exide

Exide, the long time battery recycler in Vernon, remains shut down as it installs new required air emission equipment needed to meet new AQMD standards.

It is presently working to update its request for a full permit to operate with DTSC (Department of Toxic Substance Control), which must be approved if Exide is to continue to operate after December 31, 2015. Exide's goal is to have a full permit in place by the Spring of 2015, which will be preceded by a public comment period.

In the meantime Exide, in conjunction with DTSC, has begun working on a remediation program to remove excessive lead contamination from the soil at a number of homes in the Boyle Heights and Maywood areas.

2013-2014 Audit

On December 9, 2014, Peggy McBride of Vasquez & Company appeared before the Council to announce that the 2013-2014 audit of the City's finances had been completed. She said the City received a "clean" audit opinion, with no findings, but submitted process recommendations which the City has accepted and agreed to implement, ranging from hiring an independent third party to manage the City's fraud hotline under the supervision of the City Attorney and assist in formulating fraud prevention procedures, to restricting access to the vault where cash is maintained. (The audit is available on the City's website; see details in Chapter IV, pages 23 and 24.

The City's net asset position at the end of the 2013-14 increased to \$107,896,650 from \$95,104,216 in 2012-2013. Most of the change came from positive results in its Business Type Activities (\$11,486,608).

Government activity expenses dropped from \$47,083,530 in 2012-13 to \$46,570,906 in 2013-14.

Transfers to the Governmental side from the Business side totaled \$12,652,719 in 2013-2014 compared to \$11,959,593 in 2012-2013.

Vasquez reported Bonds Payable dropped from \$447,715,000 at the end of 2012-2013 to \$417,455,000 at the end of 2013-2014. As of June 30, 2014 \$302,135,000 of its Electric System Revenue Bonds (2009 Series A) remained outstanding. For 2013-14 debt service for these bonds was \$46,040,638. The remainder of the debt on these bonds is to be paid by the end of fiscal year 2022.

Other bonds have longer pay-out periods. Clearly, it is in Vernon's interest to refinance its bonds in such a way that annual debt and interest payments are smoothed out in future years to reduce its current annual payments. However, there are added financing and interest costs associated with this approach. The Finance Director's plan is to get to the market at the appropriate time to refinance the bonds.

Vasquez also reported, which bears repetition, on the increase in the unfunded pension liabilities. The Valuation Data report was for 6/30/2013 (rather than 6/30/2014). The safety plan was reported to have a funding ratio of 73.8%, with an unfunded liability of \$51,190,975, while The Miscellaneous Plan for other employees had a funded ratio of 76.3%, and an unfunded liability of \$29,083,699. As noted earlier, the City and/or PERS are going to have to address this shortfall, in all probability through additional City and employee contributions.

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 2011 recommendations to construct approximately 50 new housing units including a significant affordable component, within three years, with the potential of doubling the electorate. With construction underway it is now estimated that completion of construction will occur in June of 2015.

There are still a number of his recommendations that can be considered works in progress.

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):" No amount was specified.

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.

Resolution 2011-149 was amended, modifying the original dollar commitment which was made when redevelopment funding was available. No dollar commitments were specified in the amendments, although it was noted that there would be separate allocations for renovations of the Hazard Park Youth Center and Salt Lake Park.

Thus far funding has been allocated to support the soccer field renovation in Huntington Park (\$700,000), which was opened in the fall of 2014, and has been set aside for the Hazard Park Armory Youth Center in East Los Angeles (\$500,000).

The 2014-15 Vernon budget included \$2.2 million for the Good Neighbor Program, including \$1 million for the retitled Vernon CommUNITY Fund, which will be administered by one representative from the Vernon business community, three representatives filling at large seats from neighboring communities, two representatives appointed by Senators De Leon and Lara, and one Vernon councilmember. On July 1, 2014 the Council made the following appointments to the seven person committee:

Steve Veres – District Director of Senator Kevin De Leon's office

Joaquin Castaneda—Interim Director of Senator Ricardo Lara’s Long Beach Office

Jessica Maes – Publisher of El Aviso magazine and a member of the Chambers of Commerce of both Huntington Park and Bell Gardens

Michael Gavina – Purchasing Manager of Gavina Gourmet Coffee in Vernon

Yolie Flores – Senior Fellow to the Campaign for Grade Level Reading and former Board Member and Vice President of the LAUSD Board of Education

Juliet Goff – President of Kal Plastics in Vernon and past Chair of the Vernon Chamber of Commerce

Michael Ybarra – Vernon Councilman and Vernon resident.

On November 4, 2014, following the death of Councilmember Michael Ybarra, and the resignation of Joaquin Castaneda of Senator Ricardo Lara’s office, Vernon Councilman William Davis, and Senator Lara’s Legislative Consultant, Lawrence Cooper, were appointed to replace them.

On November 12, 2014, the CommUNITY Fund approved grants totaling \$244,500 to six “Vernon Area” non profit organizations serving youth and families in nearby communities.

East Los Angeles Women’s Center - \$54,000 for general program support

Southeast Rio Vista YMCA - \$35,000 for fund development efforts

Plaza Community Services - \$35,000 for job search assistance programs

Rio Hondo-Vernon Rotary Club - \$12,500 for books and student scholarships

California Children’s Academy - \$60,000 for operating support for childcare programs

Boy Scouts of America - \$48,000 for urban scouts program in Southeast L.A. County.

The Committee, which meets quarterly will meet on February 18, 2015 to consider new grant applications.

As noted, funding has been provided for the Huntington Park soccer field renovation (\$700,000). A separate allocation for the renovation of the Hazard Park Armory Youth Center in East Los Angeles has been budgeted and is included in the \$2.2 million set aside for the Good Neighbor Program in the 2014-15 fiscal year.

Jemmott Rollins Group, a consulting firm, is advising the Committee and City Staff.

2. Sustainable Development and Energy Efficiency Commission

Critical Path Reform

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

Response from Vernon

On June 17, 2014 the Council approved an ordinance to rename the Sustainable Development and Energy Efficiency Commission “the Green Vernon Commission” with some variations in terms, term limits, membership requirements and powers of the City Council to remove members.

One of its primary duties is to “periodically review the sustainability Action Plan for the City which should among other things, (1) outline goals for the City’s sustainability infrastructure; (2) describe the regulatory framework and industry setting bodies that will govern the City’s infrastructure; (3) identify specific areas in which the City can become more sustainable and energy efficient; and (4) identify types of “green” businesses the City should attract.”

It is mandated to prepare an annual work plan and request for budget authorization subject to approval by the City Council, and to make recommendations to the Council to enhance Vernon’s sustainability, including but not limited to water and energy efficiency, renewable resources, climate change strategies, air quality, waste management and recycling, water resource conservation, infrastructure, transportation, and natural resource conservation.

Appointments to the Commission have been made. Those serving are:

David Honda – Commission Chair
D.S. Honda Construction, Inc.

Michael Gavina – Commission Vice-Chair
F. Gavina & Sons

Hector Garcia – Commission Member
Farmer John Meats, LLC

Jim Andreoli Jr. – Commission Member
Baker Commodities

Peter Corselli – Commission Member
U. S. Growers Cold Storage

Armando Espinoza – Commission Member
UFCW 770

Jaime Villanueva – Commission Member
Teamsters 572

Thus far, three meetings have been held, on September 17, 2014, November 12, 2014 and December 17, 2014. The first two meetings were primarily orientation sessions dealing with the City's Conflict of Interest Code, AB 1234 (Ethics), and Government Code Section 1090 (Conflict of Interest restrictions).

At its December 17, 2014 meeting the City's Health Director made a presentation regarding the AQMD's new rule to mitigate odors from rendering facilities which will impact a number of Vernon's businesses, as well as its residents and those of nearby communalities. In the discussion of the proposed rule it was noted that it would only impact four facilities, all in Vernon, and that no financing had been offered for the required modifications, some of which would be very costly.

It is recommended that this Commission address the other subjects previously mentioned, with recommendations for the Council.

CHAPTER II

Recommendations From Past Independent Reform Monitor 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). At present, Vernon’s Council members serve five-year terms with staggered terms, so only one Council position is up for election each year. Concerns were raised that changing the format would invite hostile takeovers of Vernon’s city government. The Council should revisit this in 2016.

- “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. For details, see my January 31, 2013 Report.

On May 20, 2014, the Council, drawing on 18 months of experience, approved amendments which became effective on July 2014. Those were summarized in my July 31, 2014 report and will not be repeated here.

In my last report I said while I have found nothing untoward thus far in the City's implementation of the new policies, it would be wise to review the policies periodically to determine how they have been implemented and in particular to determine if they have succeeded in avoiding undue favoritism in their administration.

I therefore continue to recommend that by July 2017 the City bring in outside expert contract analysts to review the policies and their implementation and to report publicly on their findings.

3. The City should create a Human Resources/Personnel Department and hire a Human Resources Director. (January 31, 2012 Report, page 25)

HR Director McAllister, who was hired in 2012, has produced improved health benefits, various prevention programs, an approved classification program, altered reporting relationships and title changes, and on December 9, 2014 after conclusion of labor negotiations which adhered to Vernon's policy of setting salaries at the 75th percentile level, was able to achieve essentially the same result for management positions.

Once again I recommend (1) a periodic (every three years) compensation review be conducted by the City to determine if City salaries are in line with other Southern California Cities. (2) The Council should require evidence justifying use of the 75% ideal compensation level for policy purposes, or in the alternative establish another level justified by the evidence and the City's needs.

Clearly Vernon wants to and has attracted capable and committed employees. But it would be wise to have some evidence to support its present "75%" policy.

Response from Vernon

1) The recent formation of six bargaining units by employees will require the City to systematically review its compensation and benefit levels in comparison to the comparable labor market. This would provide city staff pertinent and supportive data in preparation of each negotiation process. Current memoranda of understandings expire as of June 30, 2016. Therefore, compensation and benefit data will be surveyed from the labor market in early January 2016 and thereafter in accordance with the expiring terms of each bargaining agreement (normally every 2-3 years). With the exception of non-represented employees (Executives, mid-management and confidential employees) wages are a negotiable item in accordance with the Meyers Milas-Brown Act. No changes to compensation can be recommended on a unilaterally basis or outside the negotiation process. To ensure there are no compactions in salaries and benefits offered to non-represented groups (Executive, Management, Confidential), the Human Resources Director recommends non-represented groups follow similar compensation and benefit levels offered to General Unit employees. The non-represented group's compensation levels will be systematically surveyed at the same time as the General Unit employees (Teamsters).

2) On September 17, 2013, City Council adopted the Salary Plan Administration Policy II-3. This policy is intended to attract, retain, and motivate highly qualified staff that are necessary to enable the City of Vernon to discharge its obligations to the community with regard to the quality and timeliness of services provided. Based on the desire of the City Council to provide high quality services and leadership to the community and management to the organization, **the compensation policy should be 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. To this end, the Human Resources staff shall make available to the City Administrator for consideration in determining pay, the salary grade at the 75th percentile of the competitive surveyed rates. The 75th percentile will be one of several internal and external factors that the City will use to consider appropriate compensation.

3) On June 3, 2014, in accordance with the above policy, city staff presented as part of the budget adoption process, the following ten (10) factors for City Council consideration in the recommendation of the appropriate salary level for City of Vernon employees for fiscal year 2014-2015:

- The City's financial ability to pay and sustain the recommended salary grade ranges at the 75th percentile.
- Ability to attract and retain highly qualified, knowledgeable employees and increase applicant pool for competitive recruitment processes.
- Reduction in turnover of employees and loss of hard to fill positions to other cities.
- Retention of institutional knowledge.
- City of Vernon is a full service city that provides an array of services that many cities do not offer: Gas Services, Health Department, three-minute Police Department response times for Priority 1 calls, Class 1 Fire Department
- The uniqueness and complexity of job content and duties of City of Vernon employees in comparison to local full service City comparators.
- City of Vernon employees pay 100% of the employee PERS contribution rate; other agencies in the comparable labor market pay a portion of the employee PERS contribution rate.
- City of Vernon benefits and vacation accruals are low in comparison to the comparable labor market.
- City of Vernon employees, even if otherwise eligible, have not received annual merit increases since June 2009 due to a City wide freeze implemented as a result of the economic downturn. One time merit increases were issued in January 2012.

City of Vernon non-safety employees have not received any COLA increases since 2008.

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

Vernon continues to follow through on addressing the recommendations made by Senator De Leon and me. At no time has the City provided any written response or unwillingness or inability to respond positively to the spirit of our recommendations. As is always the case, there are new challenges which will emerge. These challenges (like smoothing out the bond payments and addressing pension liability) need to be discussed at the executive level together with programs to address them. The management team which meets regularly in an open discussion setting is a great place for these challenges to be raised, options discussed, and programs developed with everyone participating to make them a reality.

5. “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

In the Audit Report for 2012-2013 it was reported that professional costs were \$2,879,215 lower than the prior year due the defeat of the disincorporation effort.

In the approved budget for 2014-15 the City Attorney’s Office was budgeted for \$1,490,038 including outside counsel. While the City Attorney continues to use outside counsel in specialized areas, for example Reed and Davidson on election issues, and Liebert, Cassidy, Whitmore, etc. on the Malkenhorst matters, rates are negotiated per my recommendation. City Attorney Patel had made a conscious effort to deal with as many legal problems as possible in house, and avoid the use of outside counsel unless absolutely necessary. She is making an effort to centralize all of the City’s legal matters within her office. At the end of the 2014-15 fiscal year, she expects to have a reading on whether or not the efforts for the year resulted in cost-savings for the City.

6. “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)

“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)

As noted in my January 31, 2014 Report, “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.”

Response from Vernon

On July 15, 2014 the City Council adopted Ordinance 1223 establishing the Vernon Business and Industry Commission, whose mission was defined as “to make the City of Vernon even more attractive to employees, businesses, and investors, while appropriately considering the needs and concerns of the residents and communities within and in close proximity to Vernon. The Commission is intended to provide a special forum to address public concerns related to the City’s business and industrial development related costs, procedures and activities.”

On November 4, 2014 appointments were finally made to the Commission. Those appointed:

<u>Commission Member Name</u>	<u>Appointment Category</u>	<u>Term End Date</u>
Robert Wendoll	Business Representative	<i>June 30, 2016</i>
Eric Gustafson	Business Representative	June 30, 2018
Douglas Pittman	Business Representative	June 30, 2018
John McMillan	Real Estate Representative	<i>June 30, 2016</i>
Brett Dedeaux	Real Estate Representative	June 30, 2018
Stan Stosel	Employee/Labor Representative	June 30, 2018
W. Michael McCormick	City Council Representative	<i>June 30, 2016</i>

The Commission will take on the responsibilities of the Electric Rate Committee and the former Business Development Committee.

At the December 9, 2014 Council meeting the City Administrator reported that John McMillan had resigned because of the press of business and that it was unlikely that the Commission would meet until a replacement was appointed. On January 6, 2015 Ken Jackson of Camfield Partners LLC was appointed.

The delay in getting this Commission up and running is unfortunate for both the City’s government and the business community. Important issues now confront the City and decisions are apt to be made in the next six months on such issues as zoning, refinancing, and infrastructure improvements. This Commission should be of value to the City’s government, enabling the business community to weigh in on these issues and for City officials to better understand the needs of its largest constituent.

7. “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 \$54.3 million dollars a year to service and figure out a way to lower and smooth its costs.”

Response from Vernon

It's taken a while, but the City under the leadership of Finance Director Bill Fox is in the process of doing that now. See page 7.

8. "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." (January 31, 2014 Report)

Response from Vernon:

Input for capital needs and future operational costs have been received in a strategic planning process. An overall five year plan has been circulated internally, but funding for the plan will depend on the City's yearly financial situation and subsequent needs. It's expected that once refinancing has been obtained, the plan will be presented to the business community for input, most likely in the Spring of 2015.

9. "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

California Consulting's contract has been terminated. The City is looking elsewhere for a Grants Coordinator; Jemmott Rollins Group is presently advising the CommUNITY Fund.

Vernon understands the need of neighboring cities to solicit their own grants and wants to help them do that. Although Vernon provided California Consulting's Grant Coordinator service for over a year at a cost of \$2,000 a month, little progress has been made on this segment of Vernon's good neighbor policy.

CHAPTER III

Housing

Vernon Village Park at 4675 52nd Street

The Vernon Village Park construction of 45 new units and a community room is expected to be completed in April 2015 and be ready for occupancy soon thereafter. Tenant applications are currently being accepted.

Rentals

All of the City owned housing units are now fully leased, and all have paid their rents. All but three of the units are now on standard yearly leases. Two units have five year leases that end in August 2015; one unit is transitioning from a five year lease to the new one year lease.

Sixteen of the 31 units are now paying full market rent, up from nine units a year ago.

It is forecast that rental revenues should be \$307,000 by the end of the fiscal year with expenditures of \$280,000, leaving a surplus of about \$27,000.

Renovations at the 50th Street units were more extensive than anticipated and have cost about \$60,000; the costs have been submitted to the insurance company for reimbursement.

Third Party Manager

The contract with Solari Enterprises, Inc., the manager of the rental properties, expired; Solari failed to apply for renewal. The city staff is now managing the properties and believes it can do so efficiently and effectively. Solari Enterprises will be leasing the Vernon Village Park rentals under its contract with Meta Housing Corporation.

First Responders

For City owned housing units, first responders (police and fire personnel and business first responders) have a priority if a rental property becomes available in the city until four such persons lease units. Currently, three first responders are renting property in the city.

Lottery for Units That Become Vacant in 2015

A lottery for rental units that are vacated in the next six months was held at the Housing Commission meeting on December 10. Thirty-nine people submitted applications. Currently, there are no vacancies. The lottery did not apply to the Vernon Village Park; people need to apply separately for those units. Since it is privately held, the Housing Commission has no jurisdiction over its policies.

Housing Commission

The commission met in September and December. Michael Hughes was re-elected as chair at the December meeting and Melissa Ybarra was elected as vice-chair. The terms of four commission members will expire in August, 2015.

CHAPTER IV

The Audits

A. PERS Audit

Human Resources Director, Teresa McAllister reports that there are no new issues with regard to employees' membership status. The only open issues are the following:

- (1) Bruce Malkenhorst: the litigation involving the former City Administrator, PERS, and the City of Vernon is described on pages 4 and 5 of this report.
- (2) Mayor Michael McCormick: his pension determination appeal was heard on the PERS calendar in May. Its determination was upheld by the Board. Mr. McCormick is seeking judicial review on this matter.
- (3) Five other previously employed individuals have appealed PERS determinations of their pension payments. Resolution of these appeals is still pending.

B. The JLAC Audit (Joint Legislative Audit Committee)

In the middle of the disincorporation crisis JLAC reviewed Vernon's management and finances and on June 28, 2012 released its report and recommendations. In previous reports I noted JLAC's recommendations, Vernon's responses and JLAC's response to them. Vernon issued its last follow-up report to JLAC on July 8, 2014; these are noted in my July 31, 2014 report.

There are still a number of open issues. Among them:

JLAC, Number 4

4. To increase accountability and transparency in its governance, the city should develop a formal policy that describes the circumstances under which revenues can be transferred from its power department, and the limits and permissible uses of transferred revenue.

Vernon's Response

“Status: Fully Implemented

On February 4, 2014, the City Council adopted a formal Budget Policies and Procedures Manual prepared by the Finance Director. The Manual was developed utilizing the methodology used by the Government Finance Office Association (GFOA), approaches by other local cities, and the City's existing practices. The Manual includes a section specifically addressing interfund transfers. (See page 8 of Budget Policies and Procedures Manual.)”

JLAC's Reply – September 26, 2014

“Although the city’s budget includes an interfund transfers policy, the policy lacks specific detail related to transfers from the power department: the circumstances under which transfers can occur and the limits and permissible uses of transferred revenue. The policy is also unclear whether the limitation on total transfers is 15 or 20 percent of fund revenues.”

JLAC: Number 9.

“9. To ensure that it develops complete and appropriate personnel policies and procedures, the new human resources director should ensure that the city’s policies and procedures include, at a minimum, an improved methodology for and analysis of future salary surveys, ensuring that they are performed by staff or a consultant with experience and expertise in the area of salary surveys.”

Vernon’s Response

“Status: Fully Implemented

On September 17, 2013, the City Council adopted Personnel Policy II-1: Classification Plan Administration and Personnel Policy II-3: Salary Plan Administration. The Director of Human Resources has primary responsibility for the maintenance and application of both plans, including the preparation of recommended revisions/updates for consideration by the City Administrator and/or City Council. The Classification Plan Administration Policy identifies the various class series within the City and requires, at minimum, a triennial review of each series. The application of the Plan must be reviewed each fiscal year to verify and ensure the adequacy of job descriptions, the proper allocation of jobs to appropriate salary ranges, the proper classification and compensation of employees, and the reflection of any significant changes in comparison to the labor market. More frequent reviews may be conducted as recommended or directed by the City Administrator. The City Council will review any recommended revisions or updates to the Classification and/or Salary Plans as part of the budget process each year, or more frequently as necessary. Such recommendations, and Council consideration thereof, shall be based on competitive market conditions, the City’s ability to pay, and applicable collective bargaining agreements. Copies of the referenced policies are included.

JLAC's Reply – September 26, 2014

“The policies that the city references do not address our recommendation, specifically, they do not include “an improved methodology for and analysis of future salary surveys, ensuring that they are performed by staff or a consultant with experience and expertise in the area of salary surveys.”

JLAC: Number 28.

“28. The city should clearly present the general fund structural deficit to the city council and the public in a budget that includes narrative and summary information to help users understand the city’s budget process and its priorities and challenges, and that incorporates the

elements for improved budgeting practices recommended by the Government Finance Officers Association (GFOA).”

Vernon’s Response

Status: Not Fully Implemented – Estimate Completion by July 2015

“On February 4, 2014, the City Council adopted the Budget Policies and Procedures Manual, which incorporates best practices recommended by GFOA, including Fiscal First Aid, and provides for the method of communication of budget information (see pages 7 and 12-13). These practices were implemented as part of the fiscal year 2014-2015 budget preparation process. Additionally, the Finance Director’s fiscal year 2013-2014 2nd Quarter Financial Update to the City Council identified the need to address the General Fund’s structural deficit through the budget process.”

JLAC’s Reply – September 26, 2014

Not fully implemented

JLAC: Number 35.

“35. To ensure that it can demonstrate sufficient analysis and provide justification for its decisions on significant energy-related transactions, the city should create a formal process and guidelines that include the following: identifying the benefits and risks of proposed transactions, quantifying the benefits and risks of proposed transactions, evaluating and comparing proposed transactions against alternative proposals, quantifying the impact of proposed transactions on short-term and long-term rates paid by the city’s energy customers, seeking an independent validation of the fair market value of proposed transactions, and documenting and communicating the findings of the evaluation process to the city council.”

Vernon’s Response

Status: Fully Implemented

“On February 4, 2014, the City Council adopted the Budget Policies and Procedures Manual, which establishes guidelines regarding planning, revenue development, investments, capital improvements, debt management, fixed assets, use of reserves, and inter-fund transfers. In some cases, consultants are used to assist with the various elements of the guidelines because they have specific, task-related expertise and resources. For example, in the case of a recent electric rate adjustment on July 1, 2014, the consulting services of Crossborder Energy and Michael Bell management Consulting were utilized to provide specific expertise in addressing business risks and to ensure that appropriate electric rates were developed. As part of this analysis, scenarios were examined against alternative proposals which quantified proposed transactions on rates for a three year period. This provided an independent assessment and validation that was documented and communicated to City Council as part of the related public hearing held on June 17, 2014. A copy of the presentation made to the City Council is included.”

JLAC's Reply – September 26, 2014

“Although the city’s Budget Policies and Procedures Manual establishes a framework, it lacks guidance for how the city will analyze financial transactions. To address our recommendation, the city will need to ensure that its policies and procedures specifically include the aspects of appropriate financial decision making that we listed.”

JLAC: Number 38.

“38. To ensure that any future decisions to enter into interest rate swaps are carefully considered, the city should develop and follow a process that thoroughly analyzes the risks and benefits of the potential swap transaction.”

Vernon's Response

“On February 14, 2014 the City Council adopted the Budget Procedure and Policies Manual which contains a section specifically addressing investments and examination/analysis of swap transactions. (See page 5 of Budget Policies and Procedures Manual.)”

JLAC's Reply – September 26, 2014

“The city’s policy addresses existing interest rate swaps but our recommendation is specific to any future interest rate swaps.”

JLAC: Number 39.

“39. To ensure that any future decisions to enter into interest rate swaps are carefully considered, the city should specifically disallow the use of derivatives for speculative purposes and should require the retention of the documents and analyses that support the decision to enter into the swap.”

Vernon's Response

“On February 4, 2014, the City Council adopted the Budget Policies and Procedures Manual, which contains a debt management section that limits borrowing to use for capital improvements or projects that cannot be financed from current revenues. This section also provides guidelines for the issuance and repayment of debt. (See page 6 of Budget Policies and Procedures Manual.) Documents related to interest rate swaps are retained in accordance with the City’s Records Retention Policy (see pages 13-15), a copy of which is included.”

JLAC's Reply – September 26, 2014

“The city has not implemented a policy that specifically disallows the use of derivatives for speculative purposes.”

It is expected that the State Auditor will have a follow-up report out in early 2015. In an email sent to State Audit staff on October 16, 2014, Vernon indicated that it would address the

outstanding recommendations or portions thereof during its annual review of the respective policies, which is expected to occur on a fiscal year basis.

The Vasquez Audit Report

Earlier, the report from Vasquez & Co., Vernon's external Auditor was noted and quoted in part. While there were no findings, recommendations were provided to management, and Vernon's management responded, as follows:

1. **Recommendation:** Expand on the City's existing antifraud program (e.g., whistleblower policy, code of conduct and ethics, background checks, etc.) by hiring an independent third party for reporting, tracking of fraud cases and formalizing a structured fraud prevention training program for City employees.

Management Response: The City Agrees with the recommendation and has begun implementation. The City has investigated various third party service providers that provide the initial reporting of and tracking for the fraud cases. A determination has been made to enter into an agreement with The Network, Inc. The Network, Inc. develops integrated governance, risk, and compliance solutions that help organizations mitigate risk and achieve compliance. They provide 24/7 live coverage and online access capability for reporting of fraud. The Fraud Hotline will be administered by the City Attorney's Office, who will be notified of fraudulent reporting by The Network. The City Attorney in cooperation with the City Administrator will determine the appropriate follow up actions required to investigate allegations. City Council will be briefed on material fraudulent activities. Training of employees will be done as part of the employee meetings that are periodically held.

2. **Recommendation:** Adopt a written policy regarding accounts receivables including processes for evaluating collectability, authorizing write-off and submitting to third parties for collection.

Management Response: The City agrees and will develop a written policy should be implemented that provides guidelines to handle past due accounts. This will include determining the criteria and timing for internal resolution prior to sending it to a third party collection agency.

3. **Recommendation:** Strengthen controls over cash receipts at City Hall by restricting access to the vault by the person responsible for cash collection and by assigning someone independent of the cash collection function responsibility for storing the daily cash receipts in the vault.

Management Response: The City agrees with the recommendation. The vault will be restricted to the Finance Director, Assistant Finance Director, and Deputy Treasurer who do not collect or record collections into the cash receiving system.

4. **Recommendation :** Enact a policy incorporating the option for supplier/vendor audits as part of the procurement process. Auditing vendors/ suppliers can provide both the City

and the vendors an opportunity to strengthen their quality processes, and also serve as a fraud deterrent and detection device for City management.

Management Response: The City agrees with the recommendation. An audit clause will be developed and included in standard city issued contracts. This will provide greater protection and clarity in cases where vendor audits need to be done.

5. **Recommendation:** Begin using checks containing security features, such as erasure protection, high-resolution micro-printing, watermarks, security inks, and ultraviolet ink. Such security features may help the City reduce its exposure to physical check tampering.

Management Response: The City agrees with the recommendation. Blank checks will be ordered that includes security features that reduce the likelihood of alteration or tampering.

Compliance with the open recommendations from JLAC and Vasquez & Co. should be finalized in the next six months and will be tracked in my July 31, 2015 Report.

CHAPTER V

Compliance Review

A. Conflicts of Interest–Economic Interest Statements

The following persons filed assuming office statements Form 700 during the period from July 1 to December 15:

Hema Patel, City Attorney

Jessica Maes, Board member to the Vernon CommUNITY Grant Committee

Juliet Goff, Board member to the Vernon CommUNITY Fund Grant Committee

Lawrence Cooper, Board member to the Vernon CommUNITY Fund Grant Committee

Michael Gavina, Board member to the Vernon CommUNITY Fund Grant Committee

Ana Barcia, Secretary to the Vernon CommUNITY Fund Grant Committee

Douglas Pittman, Commissioner for the Vernon Business and Industry Commission

Stan Stosel, Commissioner for the Vernon Business and Industry Commission

Robert Wendoll, Commissioner for the Vernon Business and Industry Commission.

The following persons filed leaving office statements Form 700 during the period from July 1 to December 15:

Alexander Chernis, Board Member to the Oversight Board Successor Agency to the RDA

Andrei Yermakov, IT Manager to the Information Technology Department

Scott Porter, Vernon City Attorney's Office.

B. Campaign Statements

The Committee to Elect Leaders for Reform, sponsored by the Vernon Chamber of Commerce, filed a statement on August 4 for the previous six month period: January 1 through June 30, 2014. The committee reported that it received four contributions: \$1,500 each from Baker Commodities and Farmer John, \$1,000 from Square H Brands, and \$315 from Cooperative Purchases. The committee spent \$50 and has \$6,055 in cash on hand, while owing \$1,072 to two vendors.

C. Public Records Request

The city received 121 requests for public records and responded to each of the requests. No complaints were received.

CHAPTER VI

Business Activity in the City

Vacancy Rate

John McMillan, Vice President of Industrial Brokerage for Cushman and Wakefield, has provided industrial vacancy rates of Vernon for the end of the 4th quarter of 2014 in comparison with other cities in the Greater Los Angeles market. Vernon's vacancy rate of 4% as of December 31, 2014 is slightly lower than the 4.2% reported at the end of the second quarter of 2014.

Overall Vacancy Rate Rankings - Low to High <i>Fourth Quarter 2014</i> Greater Los Angeles Markets	
Market	Vacancy Rate
South Gate	0.8%
Montebello	1.2%
Van Nuys	1.9%
Burbank	2.0%
El Monte/S. El Monte	2.1%
Santa Fe Springs	2.4%
Compton	2.6%
Commerce	2.9%
City of Industry	3.4%
Pomona	3.6%
Carson	3.6%
Vernon	4.0%
Cerritos	4.0%
Gardena	4.1%
Torrance	4.6%
Chatsworth	4.8%
Rancho Dominguez	4.9%
Valencia	5.3%
Pico Rivera	5.9%
La Mirada	7.7%

McMillan observes that the Greater Los Angeles area was leading the nation (in lower industrial vacancy rates) at the end of the third quarter, and “we don’t expect that to change.”

He also noted “As for the 2014 SoCal statistics, Vernon is right in the middle of the pack for Southern California at 4.0%. That is really quite amazing given cities of comparable size,

such as Commerce, Santa Fe Springs, and the City of Industry, all have a much more modern industrial basis than Vernon, where the majority of the buildings were constructed between 1940 and 1970. Despite the inherent functional obsolescence, industrial activity in the City of Vernon remains extremely active, and land values in particular are rising rapidly as there are so few land redevelopment sites available in Vernon on which new industrial buildings can be constructed.”

Building Activity

A sign of Vernon's attraction to the business community is the building activity in the City.

2014 saw an uptake in building activity, an increase of around \$13 million over that reported by the City's Building Department for 2013. (\$5 million is attributed in 2014 to Meta Housing's Vernon Village Park).

2014's building activity is at the highest level it has been since 2009 (\$55 million). In pre-recession days, e.g., 2006 it reached \$99.2 million.



City of Vernon
Building Department
Annual Report - 2014

Type	Value	# of Permits
Commercial - Remodel	465,000.00	4
Demolition	847,000.00	8
Electrical	11,499,236.00	197
Grading	3,537,242.00	9
Industrial - Addition	87,000.00	3
Industrial - New	22,751,666.00	3
Industrial - Remodel	8,273,171.00	90
Mechanical	6,520,640.00	103
Miscellaneous Permit	7,635,062.00	160
Multi/Residential - New	5,000,000.00	1
Plumbing	2,171,324.00	83
Roofing	1,807,683.00	20
TOTALS	\$70,595,024.00	681
TOTAL ANNUAL FEES COLLECTED	\$1,011,344.17	
Certificate of Occupancy - New Buildings		4
Certificate of Occupancy - Existing Buildings		20

Electricity Usage

Electricity usage in Vernon increased slightly over the past six months. As a result usage in 2014 dropped only 0.15%; in the first six months it had dropped 0.85%. Had the shutdown at Exide and Primo not occurred, it is estimated that usage would have been up slightly in 2014.

MONTH	2013	2014	
January	87,321,139	87,903,097	
February	93,331,131	91,141,505	
March	86,907,539	86,879,313	
April	93,800,977	92,228,954	
May	94,880,810	92,580,982	
June	96,781,702	97,175,233	
july	94,099,580	96,276,161	
August	101,325,695	101,248,983	
September	101,028,990	103,346,732	
October	97,335,245	98,015,584	
Novenber	97,849,927	99,246,788	
December	91,945,638	88,860,311	
	1,136,608,373	1,134,903,643	-0.15%

In terms of rates Vernon moved quickly in 2013 and thereafter to increase its electricity rates to meet the requirements for renewable energy.

In May of 2014 the Michael Bell Management Company released a report of “Southern California Bill Comparisons” and noted “Vernon’s rates are competitive with other local utilities, but no longer reflect historical margins.” Both SCE and DWP have pending significant rate increases awaiting approval.

One of Vernon’s main attractions for business over the years has been low electric rates. As it moves forward with refinancing it is recommended that it work to recreate the margins it once maintained in terms of lower costs when referenced to the major power producers in Southern California.

Water Rates

Another barometer of Vernon’s ability to promote business as a result of lower rates are its water rates.

Effective March 1, 2013 the Council approved a resolution (2013-29) increasing its water rate to cover increased expenses associated with rising replenishment and surface water costs and needed capital improvement projects. (Vernon’s Water Department prefers to fund its small capital projects on a pay as you go formula, as opposed to bonding.)

A study was conducted comparing its rates with neighboring cities. The following table illustrates a comparison of equivalent rate on a cost per hundred cubic feet basis:

TableNo. 5

Agency Name	Cost Per HCF
City of Industry – La Puente Valley County Water District	\$1,950
City of Vernon (Proposed with SF)	\$2,253
Maywood Mutual No.3	\$2,350
City of Industry – Rowland Water District	\$2,385
City of Long Beach Tier II Rate	\$2,439
City of Pasadena Block 2 Rate	\$2,718
City of Glendale	\$2,750
City of Carson – Golden State Water Company	\$3,004
City of Commerce – California Water Service	\$3,146
City of Santa Fe Springs	\$3,820

Effective April 1, 2014, an adjustment for inflation based on the Consumer Price Index for all Urban Consumers and a pass through adjustment on the increase of water from the Central Basin Water District and the Water Replenishment District was made.

The bottom line: Vernon’s water rates are still competitive.

CONCLUSION

Vernon's sense of stability was shaken when Councilmember Michael Ybarra, 61, died suddenly on September 26, 2014. A Councilman since April 17, 2012, Ybarra was independent and not afraid to ask questions. A long time resident, Ybarra's father and great-uncle had served on the Council.

Supportive of the reform measures taken as well as strong in support of the business community, his untimely death raised the question – "Who will follow him?" Given Vernon's limited population and its past history, concerns still exist that the unscrupulous will try to find their way into City government, try to return it to its old ways. His daughter Melissa, a member of the Housing Commission, has chosen to file to succeed him and is running unopposed.

That leaves the April election to replace Councilman Maisano to produce a new member.

As noted in my last report "it is only a matter of time when the lineup of the City Council will change, albeit slowly." Mr. Ybarra's death proves it can happen quickly and unexpectedly.

That's why it is important that the City gets greater resident involvement on its various committees, and with new residents virtually doubling the City's population by the end of 2015, needs to attempt to get them involved and understand the City's history and the good government policies the City has adopted.

Similarly, should the Council be faced with the need to appoint a new City Administrator, it needs to do so carefully, with the knowledge that the person who fills that position has great power to keep the City on its forward path, or return it to its old ways.

Vernon in the past six months continues on its reform path. While the City still has much to do, the issues it faces: budget balancing, dealing with its unfunded pension liability, refinancing, establishing new zoning rules, and infrastructure investment are issues facing most cities. Most important, they are on Vernon's agenda. Many of them will be addressed within 2015.

The function of my final two reports will be to track its progress, and determine as best one can, how deep seated is its commitment to best practices and good governance.

RECOMMENDATIONS

A. Recommendations from Senator De Leon’s 2011 Critical Path Reforms To Be Completed

1. “Construct approximately 50 new housing units with a significant affordable component within three years, with the goal of doubling the City’s electorate.” (See pages 8, 18) In process. Will follow.
2. “Establish a substantial and long term Environmental Community Benefit Fund to help mitigate decades of noxious air released from Vernon.” (See pages 8-11). “The Vernon CommUNITY Fund” and the “Green Commission,” to follow.
3. “Creation of an independent board to allocate CommUNITY Benefit Funds including representation from outside affected communities.” (See pages 8-9) In process. To follow.

B. Recommendations from the Independent Reform Monitor 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 15)
2. Appraisals of promotability for City executives should be conducted annually and placed in the City’s personnel file. (To follow)
3. Consideration of staggered terms should take place when Vernon’s new housing is in place and there is a larger electorate. (See page 12)
4. 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 15 - 16) In process. To follow.
5. Jemmott Rollins Group 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). To follow.
6. 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 17) In process. To follow.

7. The City should conduct a periodic (every three years) compensation review to determine if City salaries are in line with other California cities. (See pages 13-14). To follow.
8. 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. (See page 13-14). To follow.
9. The City, by 2017, should bring in outside expert contract analysts to review the City's amended Competitive Bidding and Purchasing Ordinance and its implementation. (See page 12-13). To follow.
10. The new City Attorney should continue to reduce its reliance on outside counsel and when necessary hire outside counsel at negotiated rate typical of those paid by other governmental entities. At the end of the 2014-15 fiscal year the City Attorney should report on a comparison of the costs of outside counsel for each of the prior five years. (See page 15). To follow.
11. The City needs to continue to review its bonded indebtedness and figure out a way to restructure its debt to lower and smooth out its annual costs. (See pages 2, 17). To follow.
12. In its long range planning the City should make sure it keeps pace with its infrastructure needs, and in so doing seek the advice from the business community as to what it believes is most important. (See page 17). To follow.
13. The City should compare itself with the competition (other cities) to prove that its taxes and utility charges are lower than the competition. (See pages 29-31). To follow.
14. The City website should show the results of all elections. (Posting on the website will begin following the February 17, 2015 Council election and will continue for later elections.)
15. The City's website should permit the public easier access to the City's Council's agenda and the reports and background material for its use at Council meetings. (Completed).
16. The minutes of Vernon's governmental meeting should continue to be thorough and complete, reporting comments and discussion of matters under consideration, rather than being shortened to an "action only" report. (Partially completed. The minutes are now more than action oriented, with brief mentions of speakers on various issues. Access to full recordings of meetings is available through the Clerk's Office. The recording process needs to be reviewed to insure that the speakers can be understood.)

C. New Recommendations

1. Should the City Administrator decide to retire, his decision should be communicated in a timely manner, giving the City Council the opportunity to conduct a search, select a replacement, with time left for an adequate transition.
2. The July 31, 2015 report should track PERS open issues regarding various employees noted on page 20, and any new issues PERS raises with Vernon.
3. The July 31, 2015 report should also track Vernon's compliance with the open JLAC audit recommendations, and with those coming from Vernon's financial auditors, Vazquez & Co. (See pages 20-24).
4. The City should take action to address the shortfall in its unfunded pension liability. (See pages 4-5).