

CITY OF VERNON

REPORT OF

JOHN VAN DE KAMP

INDEPENDENT REFORM MONITOR

Dated January 31, 2016

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PREFACE

The City of Vinci (in the True Detectives HBO series) is off the air. But will there be re-runs? That applies to Vernon too.

In 2010 Vernon was a City in trouble.

In 2010, Vernon faced disincorporation by Speaker John Perez who introduced two measures (AB 46 and AB 781) to disincorporate the City. At that time Vernon was seen (among other criticisms) as paying outlandish salaries to its City Administrator and its Councilmembers, and substantial questions were raised as to whether it could govern itself properly.

The measures failed, in large measure because when it reached the State Senate, Kevin de León, now the President Pro Tem of the Senate and other Senators, concluded that Vernon should be given an opportunity to put its house in order.

On February 11, 2011, I was tasked with the role of Vernon's Independent Ethics Advisor and promptly brought in Robert Stern, the former general counsel of the Fair Political Practices Commission and Cynthia Kurtz, the former City Manager of Pasadena, to help me make recommendations for change and "initiatives in the best interest of the City," as well as to report on the City's compliance with the Political Reform Act, Government Code §1090, the Brown Act, the Public Records Act and conflict of interest requirements. We filed our first report on July 31, 2011.

My role was retitled as "Independent Reform Monitor" and my term was extended for four years on February 15, 2012. My reports have been issued every six months.

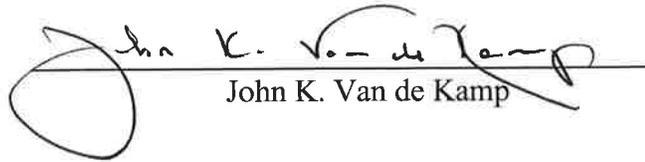
This will be my tenth report. All of the reports can be found on the Vernon website, www.cityofvernon.org/good-governance-reforms. They provide status reports about Vernon's progress (or lack thereof) and offer recommendations regarding the way the City should go about its business.

This report which covers the period July 31, 2015 to January 31, 2016 has been prepared with the assistance of Robert Stern and as in the past has received cooperation from Vernon's administrative staff as well as my staff at Mayer Brown LLP.

I have no executive power. The City Council and the City Administrator bear the burden of decisions affecting reforms and improvements in the way the City does its business. I can only recommend, mostly in the use of best practices leaving the exercise of discretion to the City's Administrator and its Council. The City has shown consistent support for the essential reform measures recommended by Senator de León and me.

In the next section I will report on recent developments in Vernon.

But in sum, it can be said that Vernon's good governance is still strong. With the forthcoming change of leadership and the resignation and replacement of key executives, extra effort needs to be exercised to make sure the progress made in the past four years continues.



John K. Van de Kamp

RECENT DEVELOPMENTS

The City's Financial Picture

At the November 17, 2015 Council meeting Finance Director Fox reported on the City's financial results for the first quarter of 2015-2016 and provided forecasts for fiscal year ending June 30, 2016. They are in short as follows:

	<u>Recorded Results of 9/30/2015</u>	
	Budget/in millions	Actual/in millions
Governmental Revenues	12.1	11.2
Governmental Expenditures	21.7	17.9
Enterprise Revenues	74.2	63.5
Enterprise Expenditures	98.3	91.5

	<u>Forecast For The Year – in millions</u>	
	Budget	Forecast
Governmental Revenues	75.2	74.4
Governmental Expenditures	75.4	71.6
Enterprise Revenues	265.1	254.4
Enterprise Expenditures	264.8	258.1

The net result, if the forecast holds true, is a small expenditures over revenues of \$0.9 million. This amount could change depending upon final year end accounting adjustments. Such a deviation, if any, would not be material.

Pension Funding Liability

The June 30, 2014 Valuation Date actuarial reports were released by CalPERS in mid-December 2015. There is always a lag time when this information is made available and published. The funded ratios for both the Safety and Miscellaneous plans showed improvement over the June 30, 2013 valuation period. This is largely due to increased asset valuations resulting from strong financial performance.

- Safety Plan Schedule of Funding Progress

Valuation Date	Actuarial Liability	Asset Values	Unfunded Liability	Funded Ratio
6/30/2014	\$213.1	\$163.8	\$49.3	76.9%
6/30/2013	195.5	144.3	51.2	73.8%
6/30/2012	187.8	156.9	30.9	83.5%

- Miscellaneous Plan Schedule of Funding Progress

Valuation Date	Actuarial Liability	Asset Values	Unfunded Liability	Funded Ratio
6/30/2014	\$127.8	\$110.1	\$17.7	86.2%
6/30/2013	122.7	93.7	29.1	76.3%
6/30/2012	116.8	101.7	15.1	87.1%

As of June 30, 2015, Vernon had 256 active employees and 84 retired employees.

As required by the Government Accounting Standards Board (GASB), Vernon implemented GASB #68, *Accounting and Reporting for Pensions*, in fiscal 2015. Under this reporting requirement, Vernon recorded the unfunded pension liability on its balance sheet.

The Vasquez Audit Report

On January 19, 2016 the City's Auditor presented to the City Council its report for the 2014-15 fiscal year (the Audit Report may be found on the City's website).

Peggy McBride of Vasquez reported on the financial highlights of the year, some of which will be summarized here.

(1) Unfunded Pension Liability.

Under the new pension reporting standard the City was required to report net pension liability. As of July 30, 2015 it stood at \$78.6 million, a drop of \$17.8 million from June 30, 2014.

That liability was further reduced after June 30, 2016 by a payment of \$8.7 million.

(2) Unfunded Liability for Post-Employment Benefits.

The City has an unfunded liability for Post Employment Benefits, mostly medical costs of \$53.5 million as of June 30, 2015, which the City, beginning in fiscal year 2017-18, will be required to record as a liability on its statements of fiscal position.

(3) The City's Overall Financial Position.

There was an overall increase in the City's net position for 2014-15 of \$10.7 million.

The City's General Fund showed an increase of \$7.4 million. Its Enterprise Funds (the Light and Power and Water Funds) showed an increase of \$7.75 million, after transfers of \$14.9 million to the City's General Fund. There was a small loss in the Fiber Optics Fund of \$218,000.

For Vasquez, the bottom line was that the "City's financial position suggests that the net pension liability can be appropriately funded without jeopardizing ongoing operations." Whether that statement would include other post employment benefits (OPEB) remains to be seen.

2015-2016 Budget

On June 2, 2015 the Council approved the 2015/2016 budget: The numbers approved:

(1)	Government Funds	\$75,157,866
	Government Expenditures	\$75,428,334
(2)	Business Type Funds	\$265,116,467
	(includes light, power, water, etc.)	
	Business Type Expenditures	\$264,845,999
(3)	Total Revenues	\$340,274,333
	Total Expenditures	\$340,274,333

This budget called for a small increase in revenues and expenditures over the forecasted results from 2014-15, primarily related to the cost of natural gas being projected to be higher. Budget expenditures are adequate to address staffing, service levels, and deferred maintenance. New revenues included a 3.5% increase in its electric rate schedule, an increase in its warehouse parcel tax from \$29.39 to \$29.54 per 100 square feet of gross area of land based on increases in the Consumer Price Index. Overall, revenues and expenditures constitute a 1% decrease over that budgeted from 2014-2015.

Refinancing

On July 9, 2015, the City successfully sold \$111.7 million in 2015 Series A Taxable Electric System Revenue Bonds. The sale provided funds to (a) refund a portion of the City's outstanding 2009 Series A Electric System Revenue Bonds, (b) finance costs of terminating two existing interest rate swap agreements, (c) fund a deposit to the Debt Service Reserve Fund, and (d) pay the cost of issuance of the new 2015 Series A Taxable Electric System Revenue Bonds.

The fortuitous time of the sale enabled the City to secure this debt at an attractive average coupon rate of 4.58%.

Finance Director Fox Reports

“The financial impact of the bond financing is a reduction in cash outflow over the next 7 years of \$12.5 million annually, with some fluctuations depending on the level of debt service each year. However, after 7 years, the new refunded debt service over an additional 5 year period will increase approximately \$21.8 million per year, which will still be lower than debt service payment levels prior to bond refinancing. After that seven-year period, there will be even lower debt service payments since the debt restructuring will have been substantially completed. The net impact of the financing is \$9.1 million additional debt and interest costs over the next 27 year period. The new debt structure provides a smooth transitioning to stabilize customer electric rates so that future increases can be lower and more predictable. The retirement of the two interest rate swap agreements eliminates the market rate volatility and financial burden that existed in the City's financial structure.”

In my view this refinancing is one of the high points of achievement in Vernon’s last four years.

Elections

No elections were held in the period.

On April 12, 2016, a City Election will be held to fill the seat now held by Mayor Michael McCormick, who has filed to run again for a new City Council term. No other person filed to run as of the close of the nomination period on January 19, 2016.

Personnel

On July 7, 2015 the City Council's agenda package included an "Authorization to Issue a Request for Proposals for an Executive Search Firm to Conduct a Recruitment for the Position of City Administrator."

The background: The City Administrator, Mark Whitworth, had been planning to retire after 25+ years of service with the City.

The Council approved going forward with the RFP. At the Council meeting the City Administrator said he was considering retirement at the end of 2015 but had not yet submitted resignation papers. On November 24, 2015 Whitworth gave notice of retirement effective May 2, 2016.

In my report of January 31, 2015, I noted that there had been a hint of City Administrator Mark Whitworth's resignation in 2014, but he never submitted a resignation request. Instead, on January 6, 2015, the Council approved a new contract with him.

In that report I stated that "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."

After a series of Council closed session meetings in December 2015, it was announced that Mr. Whitworth was retiring effective December 28, 2015. The City indicated that a settlement agreement between the City and Mr. Whitworth was reached because Mr. Whitworth had agreed to move up his retirement date – from May 2016 to December 28, 2015 – to accommodate the City's desire to complete the ongoing executive search for City Administrator and appoint his successor sometime early this year. Mr. Whitworth was provided six months severance as part of said agreement.

At a January 7, 2016 Council closed meeting, the Council chose A. J. Wilson to serve as the interim City Administrator until the Council names Whitworth's successor, after interviewing candidates provided by the League of California Cities. Wilson has 40 years of public management experience, having served as City Manager for a number of cities, including Pomona, Santa Ana and Kansas City among others. He is president of Wilson Communications, a management consulting firm. Wilson began service as Vernon's interim City Administrator on January 11, 2016.

It is expected that the new City Administrator will be on board sometime between March 1 and April 1, 2016.

Whitworth's years as City Administrator are marked by a series of reform measures that has put Vernon in the mainstream of Southern California cities, for which he deserves much credit. He has worked closely with me and as reported has put into place many of the reform measures that Senator de León and I have recommended. He has been the face of the new Vernon since 2010 when he originally served as Fire Chief and interim City Administrator, becoming a fulltime City Administrator in 2011. He worked closely with the business community to stave off Speaker Perez's disincorporation measures.

For some time Whitworth has talked of retiring and nurturing his avocado groves in Riverside County. Now he will have the opportunity to do that. In his early 50's, he will have plenty of job options if he tires of farming.

Teresa McAllister, for three years the City's Human Resources Director, retired in October 2015. She has been replaced on an interim basis by Lisette Grizzelle. A search conducted by an outside firm is in the process of conducting a search for her replacement. It seemed pretty clear that her long daily commute from Riverside got to be too much.

Kevin Wilson, who served Vernon for 34 years, 20 of which as its Director of Public Works, Water and Development Services, retired on December 27, 2015. Kevin's work has been appreciated by those within and outside of Vernon. A search led by the City's HR Director is underway. He is being replaced by Derek Wieske who is expected to begin by March 1, 2016.

Bruce V. Malkenhorst

Long time City Administrator Bruce Malkenhorst has filed a variety of law suits against CalPERS and Vernon regarding his retirement benefits for his work in Vernon. Below is a status report on the pending Malkenhorst cases.

1. In the Matter of the Calculation of Final Compensation of Bruce V. Malkenhorst, Sr. (CalPERS Case No. 2012-0671) (administrative appeal of CalPERS' decision to reduce pension.)

Administrative hearings were finally concluded. In its closing brief, CalPERS' arguments focused on the agency's discretion in interpreting and applying its own regulations, and the lack of a published salary schedule for Malkenhorst's multiple positions. The ALJ ruled against Malkenhorst.

(1) On November 18, 2015 the CalPERS Board of Administration approved in part the decision of the Administrative Law Judge, and will begin the process of recovering more than \$3.4 million in overpayments to Malkenhorst. Matthew Jacob, the CalPERS General Counsel, stated that "as the judge specifically found, Malkenhorst and other Vernon officials intentionally obscured Malkenhorst's pay increases, making it impossible to figure out how much the city was paying for what services, and subverting the law's transparency requirements."

Given Malkenhorst's propensity for litigation, it is expected that he will appeal this decision.

Other Malkenhorst actions still pending:

2. Bruce V. Malkenhorst, Sr. v. City of Vernon, et al. (Los Angeles Superior Court Case (LASC) No. BC516321) (Breach of contract action against the City; Malkenhorst alleges that the City is contractually obligated to make up the difference between his higher pension amount and the amount reduced by CalPERS.)

After the City prevailed in having this case dismissed by the trial court (based on failure to exhaust administrative remedies), Malkenhorst filed a notice of appeal.

3. Bruce Malkenhorst, Sr. v. State of California, et al. (United States District Court Case No. SACV14-00269) (Federal lawsuit challenging the constitutionality of California Government Code section 53244, "Malkenhorst's Law") Vernon was named in the lawsuit. District Court Judge Carney granted the City's motion to dismiss, finding that there is no legal basis for naming the City as a real party in interest. The Court also granted the State of California's motion to stay the case, finding that the federal litigation is premature since the same facts and legal issues were pending in the Los Angeles Superior Court. This case is stayed pending the resolution of the breach of contract action against the City in state court.

Exide

Exide, the long time battery recycler in Vernon, announced on March 11, 2015 that it would permanently close its Vernon plant, thereby avoiding criminal charges under an agreement reached between the company and the U.S. Attorney's Office.

The facility, which has operated in Vernon since 1922, was taken over by Exide in 2000 and had operated for years with only a temporary permit from the California Department of Toxic Substance Control (DTSC).

Before the announcement, Exide had stated that its goal was to have a full permit in place by the Spring of 2015, and had begun working on a remediation program to remove excessive lead contamination from the soil in a number of homes in Maywood and Boyle Heights.

DTSC had also found that Exide had been releasing cancer causing arsenic into the air for years. Elevated levels of lead in the soil had been found in the soil of homes and a school near the Vernon plant.

Under the agreement, Exide will demolish and clean its 15 acre Vernon facility and remove lead contamination from hundreds of homes in Southeast Los Angeles County. (Exide has already cleaned soil from about 40 homes where elevated lead levels were found. Additional homes are now being tested for lead in the soil in East Los Angeles and Vernon.)

Closing and cleaning the plant site will cost at least \$38.6 million dollars according to state officials. At least another \$9 million will be spent cleaning home sites. The company is required to put clean up money in its trust fund, with payments over the next five years.

Exide also agreed to provide free blood lead testing for another five years. Of the testing conducted thus far, no children tested above the level the United States Center for Disease Control considered elevated for children. Of the 600 persons tested by March 11, 2015 none had

lead levels high enough to require medical intervention. In the meantime the Exide closure impacts 130 employees and their families.

The company filed for bankruptcy in 2013. On March 27, 2015 Exide Technologies won bankruptcy approval to restructure, cutting \$600 million from its \$1 billion in debt. The Company under the ownership of its senior lenders. In so doing, the bankruptcy judge approved the closure of the Exide plant in Vernon.

The rest of Exide's 3,200 employee business remains intact with plants and recycling facilities involved in the manufacturing of automotive and industrial batteries remaining open. It has plants not only in the United States (Baton Rouge, Louisiana; Canon Hollow, Missouri; Muncie, Indiana; and Lampeter, Pennsylvania), but also in the Pacific Rim, Europe and Australia.

Public comment on the closure plan and the EIR will close the first week of February 2016.

Vernon Village Park

While noted elsewhere in the report Vernon's promise to build new housing has come to fruition. The project which was initiated in 2011 in the midst of the disincorporation crisis has been completed and the 45 unit 52nd Drive housing development developed by Meta Housing Corporation has opened, and new residents selected through a lottery process have moved in. The Village Park is a LED Silver apartment development that features one, two and three bedroom units with balconies and patios, on site laundry facilities, a community building, and a Vernon Police Department substation. The 102 new residents at Vernon Village Park have nearly doubled Vernon's population.

As of this date, only five of its new residents have registered to vote.

Taxes

In 1999 voters approved a maximum tax rate for the Warehouse Special Parcel tax to be adjusted annually based on the Consumer Price Index for all urban consumers. On May 19, 2015 the council approved a rate adjustment pursuant to this formula, raising the tax rate to \$29.544 per 100 square feet for 2015-16, as opposed to the \$29.39 rate for 2014-15. The tax is estimated to generate \$9.8 million dollars annually.

Another tax, the Public Safety Special Parcel Tax, was also raised, based on the Consumer Price Index for all urban consumers to \$0.03046 per square feet of the taxable area for 2015-16 from \$0.0303 for 2014-15. The tax generates approximately \$1.99 million per year.

While not tax rates per se, power rates will increase 3% in 2015-16. The increases are more fully described in Chapter 2 and in the discussion of the work of the Business and Industry Commission.

Meanwhile, at its December 15, 2015 meeting, the Council provided authorization to City staff to begin the process to amend its Water Rate Schedule to help fund necessary capital

improvement projects. The proposed changes include an increase of 6.10% for monthly meter charges, a 8.78% increase for volumetric charges (per hundred cubic feet of water) and a decrease of 7.50% in square foot charges. Even with the proposed changes, which can only be approved after a public hearing and the filing of protests, Vernon's water rates will be lower than those in the City of Industry, Carson, Santa Fe Springs, Commerce and the City of Glendale.

CHAPTER I

Senator de León's Critical Path Reforms

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

In the Recent Developments section and in Chapter III of this report, I report on one of his most significant recommendations, increasing Vernon's residential population. That recommendation has been fulfilled with the completion of the Vernon Village Park Apartments, which includes a significant affordable complement.

Other of his recommendations can be considered works in progress and will be reported on regularly.

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. That was when redevelopment funds were available.

Resolution 2011-149 was amended, modifying the original dollar commitment when redevelopment funding was no longer 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 completed to support the soccer field renovation in Huntington Park (\$900,000), which was opened in the summer of 2014, and a total of \$1,500,000 has been allocated over two fiscal years (2015 and 2016) for the Hazard Park Armory Youth Center in East Los Angeles.

The 2015-16 Vernon budget included \$2 million for the Good Neighbor Program, including \$1,000,000 for the retitled Vernon CommUNITY Fund (VCF), which is administered by one representative from the Vernon business community, three representatives filling at large seats from neighboring communities, two representatives appointed by Senators de León and Lara, and one Vernon councilmember.

In the past six months the CommUNITY Fund has approved the following grants:

August 20, 2015

(1) Holy Angels Church of the Deaf, located in Vernon; the funding helps the Church provide youth enrichment services ranging from job training to counseling for younger deaf residents of Southeast Los Angeles	\$45,000
(2) Inner City Struggle, located on the East side of Los Angeles. The funding will assist in providing students with academic intensive support to prepare for post-secondary education, youth leadership activities and promoting outreach to students and families regarding available services at school based health centers.	\$35,000
(3) Los Angeles County Bicycle Coalition, to assist in activities focused on bike safety and education, distribution of bike helmets where needed and safety lights for commuters in seven cities, including Bell, Bell Gardens, Cudahy, Commerce and Huntington Park	\$35,000
(4) Proyecto Pastoral, helps provide operating funds to expand social services for youth, families and individuals living in Boyle Heights.	\$40,000
(5) Weingart East Los Angeles YMCA, to support a variety of services, including affordable child care and recreation in Boyle Heights and East Los Angeles.	\$2,500
Total	<u>\$180,000</u>

November 18, 2015

(1) Helpline Youth Counseling, to assist in delivering services to homeless individuals in Vernon, Bell, Bell Gardens, Commerce, Cudahy and Huntington Park	\$45,000
(2) Hispanas Organized for Political Equality (HOPE), to support its leadership and training work in Southeast Los Angeles	\$10,000
(3) Human Services Association, to support social service programs, including augmentation of parenting education in Huntington Park, Bell, Maywood and Commerce	\$35,000

(4) Opportunity Fund, to increase the level of investment and available capital in Southeast Los Angeles, facilitating an additional staff member in Huntington Park and covering some program expenses.	\$40,000
(5) South Central Family Health Center, to support an integrated behavioral health program for the community secured by the Huntington Park Family Health Center.	\$38,000
(6) Woodcraft Rangers, to help fund a summer long program for those coming from the Vernon Elementary schools	\$40,000
Total	<u>\$208,000</u>

In the 2015-16 Budget \$250,000 of the VCF \$1,000,000 allocation was set aside for Capital Grants which means that \$500,000 will be available for Capital Grants in 2015-16, because of the carryover from the prior year.

In addition to these grants, on July 7, 2015 the City Council approved a Grant Agreement between Vernon and Legacy LA Youth Development Corporation, providing funding for certain capital improvements to the Hazard Park Armory Youth Development Center. \$150,000 was previously awarded for the initial planning phase of this proposed renovation project. The amounts awarded:

(1) Up to \$350,000 in the 2015 fiscal year budget for a Design Development Phase. This was paid in September 2015;

(2) Up to \$1,000,000 from the 2016 fiscal year budget for Phase 1 construction projects.

“Legacy” is a Boyle Heights 501(c)(3) non-profit established to counteract the history of gang violence in Ramona Gardens and surrounding neighborhoods in East LA by providing multi-faceted programs focusing on leadership, academic support, mentoring and the arts.

Vernon has been working with Legacy since January 22, 2013 as part of a key element in its Good Neighbor Program.

Jemmott Rollins Group, a consulting firm, continues to advise the VCF Grant Committee and city staff on their Good Neighbor programs.

2. Noxious Air

Senator de León was explicit in his recommendation that Vernon mitigate decades of noxious air released from Vernon, by implication referring to its rendering plants and their releases.

Vernon's Green Commission has been addressing that issue in conjunction with the Air Quality Management District, which earlier in 2015 proposed a new rule (415) aimed at preventing odor releases from Vernon's rendering plants. The Green Commission found flaws in the proposed rule and has worked to compel each of Vernon's rendering plants to adopt an odor management plan based on best practices and to formulate a plan to quantify and qualify odor releases based on a scientific approach. It has also noted that any plan adopted needed to take into consideration Vernon's Fire and Safety regulations.

At present the AQMD is studying alternative approaches and is expected to formulate a modified Rule 415 in early 2016.

3. Sustainable Development and Energy Efficiency Commission

"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 changes 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."

The Commission 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. A work plan and budget was submitted and approved for the 2015-16 budget, and a new work plan and budget will be submitted for approval in the 2016-17 budget process.

The Green Commission's work regarding odor controls has been described in the previous section.

Also of interest to the Commission is Vernon's ownership of some 30,000 acres of property in Kern County, with the aim of developing solar and wind power generating electricity to help Vernon meet its renewable requirements.

The City's official statement in that respect reads as follows:

“Vernon has announced forward looking initiatives to achieve its goal of becoming a leader in environmentally responsible energy generation and environmentally sustainable city management. These initiatives include:

Vernon purchased 30,000 acres of property in Kern County and retained 18,000 acres with the intent of developing significant wind and solar-generated electricity to advance the renewable component of its energy resources and to assist other utilities in meeting their renewables objectives. The City was working with Kern County, and local agencies to move this ambitious plan forward. However, at this time they are in a hold mode waiting for positive indicators prior to reinitiating discussions with those agencies. The initial proposed wind energy project is expected to generate 175 megawatts of renewable energy.

Vernon is committed to stimulating green development within the City, while expanding the City's capacity to sustain and grow the 1,800 businesses that support approximately 50,000 jobs in the region.

Vernon is creating a climate action plan. The plan, which is the first in the Southeast region, will provide guidance to the City on how to take advantage of opportunities to reduce emissions of gases linked to climate change, which the City expects will have the additional benefit of also reducing traditional criteria pollutants.

The City has also commissioned a study to create a Green Industrial Development Plan, the goal of which is to establish a series of programs to enhance environmental sustainability and support economic vitality, while protecting the health of its residents and workers and the residents in surrounding communities.

Together, the two planning efforts will help the City to address such critical issues as improving energy efficiency, expanding the use of renewable resources, improving the management of water and storm water, and reducing the production of solid and hazardous waste, as well as many other important environmental issues.

Along with the other initiatives, these plans will ensure that the City of Vernon is ready to take a leadership role among its peers in building a model for municipally-led sustainable development.”

The Commission's task in the future is to fulfill the primary mission – particularly in ways the City can become more sustainable and energy efficient. A new work plan will be formulated in the spring of 2016. That work plan will require the cooperation of the City's agencies, primarily the Gas and Electric and Public Works Departments to work closely with the Commission and the City's Health and Environmental Control Department, which staffs the Commission.

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 following the April 2016 election.

- “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 1, 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 untowards 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. “Appraisals of promotability for City Executives, (better termed “performance evaluations”) should be conducted annually and placed in the City’s personnel file.”

Vernon’s Response:

While the City Administrator conducted verbal performance evaluations within the last two years, no formal performance evaluation program has been instituted by the City Administrator for those executives reporting to him. Performance evaluation of the City Administrator and the City Attorney have been undertaken by the Council. A best practices performance evaluation system needs to be implemented with respect to City executives, with written reports filed.

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 León and me. At no time has the City provided any written response responding negatively to the spirit of our recommendations.

As is always the case, there are new challenges which will emerge. These challenges (like 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.

The only complaint raised has been the speed the City has taken to implement some of the recommendations. But, while sometimes slow to respond, the City has in the main moved to meet the spirit of the recommendations.

5. “The City should conduct a periodic (every three years) compensation review (1) to determine if City salaries are in line with other Southern California cities, and (2) the Council should require evidence justifying the use of 75% ideal compensation level for policy purposes, or in the alternative establish another level justified by the evidence of the City’s needs.” (Page 15-16, July 31, 2012 Report)

Response from Vernon

A salary study is expected to be conducted in early 2016. Memoranda of Understanding with the City’s bargaining units expire June 20, 2016.

City staff presented ten factors to be considered by the Council as it set salary levels as part of the budget process for the 2014-15 fiscal year. They however did not directly address why the 25% level was used.

6. “At the end of the 2014-15 fiscal year the City Attorney should report on a comparison of those costs of outside counsel for each of the prior years.”

Response from Vernon

The City Attorney reports: “we are committed to better managing the City’s legal costs while increasing the level and amount of legal services and simultaneously decreasing our overall budget. Following up on your questions regarding legal costs, I requested the following information from our finance department and wanted to pass it along.

For the 2012-2013 fiscal year the City Attorney’s legal budget was \$2,129,776.84. The actual amount spent was \$1,777,194.38.

For the 2013-2014 fiscal year the City Attorney’s legal budget was \$1,179,202.92. The actual amount spent was \$1,489,192.99.

For the 2014-2015 fiscal year the City Attorney’s legal budget was \$1,490,038.01. The actual amount spent was \$1,052,473.99.

The 2015-2016 City Attorney’s legal budget is \$1,469,558.04. Actual amount spent through January 1, 2016 is \$453,529.09.” (Note: the fiscal year budget runs from July 1, 2015 to June 30, 2016.

While the City Attorney has its own budget for its personnel and costs of outside counsel, the City’s Departments budget for their legal expenses. In the 2014-15 fiscal year the Departments’ legal expenses were budgeted at \$784,417. The actual amount spent was \$214,154.43 reflecting an approximate 75% reduction in their anticipated costs. That can be

attributed to centralization of legal work in the City Attorney Offices, which has been a goal of City Attorney Patel.

7. “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 León 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 No. 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 made to the Commission, and were noted in my January 31, 2015 Report.

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

On May 14, 2015 the Commission approved a recommendation to increase power rates over a three year period, which was approved by the City Council on May 19, 2015 calling for a 3.5% increase effective July 1, 2015, an additional 3% increase effective July 1, 2016, and an additional 2.5% effective July 1, 2017, as opposed to the two year rate increases of 6.3% each that had previously been recommended. The lower rates were approved in light of the proposed city debt restructuring.

The primary reasons given for increasing rates were expected increases in transmission costs, capital expenses required because of an aging transmission infrastructure and increased power costs associated with the Power Purchase Tolling Agreement currently in place.

On April 28th and May 14, 2015, the proposed bond transaction referred to in the Recent Developments section of this report was reviewed and unanimously supported by the Commission.

Given the Commission's mission statement, their agenda needs to be broadened to lead to recommendations as to how to make Vernon more attractive to business, investors and employees.

8. "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:

Completed. See page 5.

9. "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 is expected that now that this refinancing has been obtained, the plan will be presented to the business community for input, in the next six months.

This has not yet been done. The plan should be presented to the business community by the end of my next reporting period, July 31, 2016.

10. "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

Jemmott Rollins Group is presently advising the CommUNITY Fund, but thus far there has been little outreach to neighboring communities to help them secure their own grants, nor has a firm been hired at Vernon's expense to assist neighboring cities in this regard.

No action has yet been taken. Action on this front should be taken by July 31, 2016.

11. "The City should take action to address the shortfall in its unfunded pension liability." (See Recent Developments, pages 2 and 3.)

Response from Vernon

“No action has yet been taken.”

This topic should be considered in the 2016-17 budget process.

CHAPTER III

Housing

Vernon Village Park Apartments

The Vernon Village Park construction of 45 new units and a community room was completed in April 2015 and fully occupied. Three hundred applications were received for the 45 units, The only problems reported have been a lack of adequate parking for visitors and for those moving into their units.

Rentals

All but six of the City-owned housing units are fully leased (there are five vacancies in the Huntington Park units) and all have paid their rents. The vacancies in the Huntington Park units are the result of the decision to sell three of the units and to reserve the other two for Vernon tenants whose units are expected to be remodeled.

Rental revenues for the first six months of the fiscal year beginning July 1 have been \$128,000, \$9,000 below projections because of the vacancies in Huntington Park. It is projected that the revenues will be about \$21,000 less than budgeted by the end of the fiscal year in June, 2016. Expenditures have been \$65,000 compared to the budget amount of \$362,000, but the budgeted capital improvements have not yet begun. It is expected that remodeling of one unit will be completed by early June. Six other units may be remodeled afterwards depending on council action.

Most leases now are on a month to month basis, with only three on a yearly lease.

The City has retained two of the three appraisal firms previously utilized for a new updated appraisal of how much rents should be for all of its units. This was last done in 2011-12, and rents were increased pursuant to the recommendations of the appraisers. Depending on the results of the current rent studies, a public hearing, and Commission deliberation, it is anticipated that any proposed rent adjustments will be adjusted at a Special Housing Commission meeting slated for April, with an effective date of August, 2016.

Sale of Huntington Park Units

One of the Huntington Park units has been sold at the asking price of \$398,000 (net price of \$368,759 after commissions and fees). Escrow closed on December 4. Another is in escrow and is expected to close sometime in February.

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, two first responders are renting housing in City owned homes.

Lottery for Units That Become Vacant in 2016

A lottery for City owned housing that are vacated in the next six months was held at the Housing Commission meeting on December 9. Forty-nine people submitted applications, including eight first responders.

Housing Commission

The Commission met in September and December. Commission members Henry Haskell and Eric Gustafson were replaced by Kyle Cooper and Steve Florman.

CHAPTER IV

The Audits

A. PERS Audit

No cases relating to retirement benefits of former Vernon employees await ALJ adjudication of which the City is aware.

Judicial review is being sought in one case.

The ongoing saga of Bruce Malkenhorst's appeals of Cal PERS' action is described in the Recent Developments section of this report.

No new filings requesting Cal PERS review of its retirement decisions relating to Vernon employees are known to have been filed in the previous six months.

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 response to JLAC on October 7, 2015.

What follows is the status of ongoing or open JLAC recommendations, some of which were not mentioned in my July 31, 2015 Report. In JLAC's September 2015 follow-up report to Vernon some items were changed from "fully implemented" to "not fully implemented".

By the time JLAC provides a follow-up response in September 2016, Vernon believes that all items on the list will be completed to JLAC's satisfaction.

The following are what are considered "open items," with JLAC's recommendations and Vernon's most recent responses.

"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: Not Fully Implemented – Estimated Completion by July 2016"

The City expects to incorporate additional specificity regarding transfers from the power department including circumstances, limits, and permissible uses of the transferred revenue. This will be incorporated as part of the annual update of the Budget Policies and Procedures manual and will be presented to the City Council approval. The clerical error in the Budget

Policies and Procedures manual has been corrected. The appropriate maximum transfer rate to the City's general fund is 15%.

JLAC # "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: Not Fully Implemented – Estimated Completion by November 2015

"The following language has been added to the City's Compensation Policy II-3, Section 3 – Plan Maintenance and presented to the City Council at its November 3, 2015 meeting for adoption:

However, the City at its sole discretion may hire a consultant with experience and expertise in the area of salary surveys to conduct a classification and/or compensation study. To ensure internal pay equity and citywide pay comparisons, the salary survey methodology approved by the City Council for employee groups shall be the same methodology used when conducting salary surveys for the executive and management groups."

JLAC # "16. To better control contract expenditures and ensure that it receives the best value for the services it purchases, 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."

Vernon's Response

"Status: Fully Implemented

"The City Council approved Resolution 2015-10 on March 3, 2015 to require that all contracts contain a well-defined scope of work and deliverables to ensure that a sufficiently detailed invoice can be measured against."

JLAC's Response – October 2015

Status: Not Fully Implemented

"The City states that that City Council approved Resolution 2015-10 on March 3, 2015 to address that all contracts contain a well-defined scope of work and deliverables to ensure that a sufficiently detailed invoice can be measured against. Resolution 2015-10 includes templates which show the form the city will use for the Notice inviting Bids, Bid Form and Project Specifications, Instructions to Bidders and Specifications and Contract. However, these templates do not describe to contract managers (or others preparing the contracts) specifically what information must be included to ensure that a contract has a well-defined scope of work. It

is unclear how the City will ensure that all of its contracts contain a well-defined scope of work and deliverables that a sufficiently detailed invoice can be measured against.

Proposed Action to be Completed Prior to Next Annual Follow-Up Response Due September 2016

Develop additional guidelines to provide contract managers more specificity on what should be included in the scope of work and invoicing instructions.

JLAC # “20. To the extent that the City implements policies that affect contracts, the city should also ensure that it reviews all current contracts and amends them, if necessary, to comply with newly established policies.”

Vernon’s Response

Status: Fully Implemented

“New contracts and amended contracts are routed to various responsible departments to ensure compliance with the requirements of the City’s Competitive Bidding and Purchasing Ordinance. The routing process is done via the Contract/Amendment Signature Routing Form.”

JLAC Response – October 2015

Status: Not Fully Implemented

“The City indicates that in January 2013, the finance director and City Attorney conducted a citywide review of all open contracts in the City’s EDEN system to identify contracts that were not in compliance with new policies. In its October 2015 update the City states that new contracts and amended contracts are routed to various responsible departments to ensure compliance with the requirements of the City’s Competitive Bidding and Purchasing Ordinance. The routing process is done via the Contract/Amendment Signature Routing Form.

However, the City does not indicate whether it amended existing contracts to bring them in compliance with new policies.”

Potential City Response for Next Annual Follow-Up Response Due September 2016

Existing contracts as of January 2013 had contract lives from one to three years. Thus contracts in force as of January 2013 will now be complete or will be completed by January 2016. The then existing contracts in effect as of January 2013 will be evaluated and amended if necessary.

JLAC # “27. To address the structural deficit in its general fund, the City should seek long-term solutions to balance the general fund's expenditures and revenues and lessen its reliance on transfers from other City funds. These solutions could include revenue increases, such as the proposed increased and new parcel tax, as well as looking for ways to reduce expenditures.”

Vernon's Response

Status: Not Fully Implemented – Estimated Completion by July 2016

“In addition to the passage of new or increased taxes and the reduction of employee and consultant related expenditures, the City increased its General Fee Schedule by approximately 28%, effective July 1, 2014. The structural deficit in the General Fund is being addressed taking into consideration Post GASB 68 matters. City Council will be briefed on various options available to fund the deficit. Some options may include issuing pension bonds, increase general taxes and reduce operating expenses.”

JLAC # “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 – Estimated Completion by July 2016

“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 and governmental activities structural deficit through the budget process. As part of the briefing of the fiscal year end 2015 financial statements, an in depth discussion and information will be provided on the general fund and governmental activities' structural deficit. Council will be briefed on options that will reduce the deficit amount. This will be further addressed on quarterly financial reports to the Council and in the 2016 budget cycle.”

JLAC # “34. To ensure that it can demonstrate sufficient analysis and provide justification for its decisions on significant energy-related transactions, the City should develop an integrated energy strategy that examines all elements of its energy needs, sources, and objectives.”

Vernon's Response

Status: Not Fully Implemented – Estimated Completion by July 2016

“The Gas & Electric Department is currently preparing an Integrated Resource Plan (IRP) that will outline the amount, type, and scheduling of resources needed to meet the City's future energy needs at the lowest, reasonable cost. Once finalized, the IRP will be presented to City Council for adoption. The Department has established the Light & Power Department Policy and Procedure, Integrated Resource Plan Procedure to guide the preparation of the IRP.”

JLAC # “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: Not Fully Implemented – Estimated Completion by July 2016.

“The City will provide additional framework of the various actions that are taken into consideration when analyzing energy financial transactions in the Budget Policies and Procedures manual. This will include recognition of the use of financial analysis, scenarios, and cost impact of the decisions being made. This will be incorporated in the annual update of the budget Policies and Procedures manual and will be presented to the City Council for approval.”

JLAC # “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

Status: Not Fully Implemented – Estimated Completion by July 2016

“The City will update the Budget Policies and Procedures manual to document the steps taken prior entering into future interest rate swaps. These steps will include financial analysis, risk and benefits, legal review, and approval from City council prior to entering into a transaction.”

JLAC # “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

Status: Not Fully Implemented – Estimated Completion by July 2016

“The City will add clarifying language in the Budget Policies and Procedures manual that that there will be no derivatives entered into for speculative purposes. The Budget Policies and Procedures manual will be updated to document the various steps taken prior entering into any future interest rate swaps. These steps will include financial analysis, risk and benefits, independent examination, and approval from City Council prior to entering into a transaction. This will be presented to City Council as part of the annual update of the Budget Policies and Procedures manual.”

C. The Vasquez Audit Report

The audit report from Vasquez & Co. for the 2013-2014 fiscal year made a number of recommendations which were enumerated in the July 31, 2015 report.

The only open item reported was a recommendation “to adopt a written policy regarding accounts receivables including processes for evaluating collectability, authorizing write-offs and submitting to third parties for collections.” That recommendation resulted in a written policy signed off by all department heads.

The 2014-15 Audit Report has been completed and was reported to the Council on January 19, 2016, and can be found on the City’s website.

No new recommendations were received from Vasquez in the form of a management letter in its most recent Audit Report.

Highlights from the 2014-15 Vasquez Audit can be found on pages 4 and 5.

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:

Kyle Cooper, Vernon Housing Commission

Michael Shehata, Information Technology Analyst

Steve Florman, appointed to the Vernon Housing Commission, has yet to file an assuming office statement. He has been notified by the City Clerk of his obligation.

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

Teresa McAllister, Director of Human Resources

Eric Gustafson, Vernon Housing Commission

Henry Haskell, Vernon Housing Commission

Several officials filed their annual Statements of Economic Interest two months after the April 1 deadline. Four of them were with the Green Vernon Commission. The city clerk's office did not impose any fines on these officials, but City Clerk Maria Ayala has indicated that starting in 2016, she will fine officials who file their statements late.

B. Campaign Statements

The Committee to Elect Leaders for Reform, sponsored by the Vernon Chamber of Commerce, filed a statement on July 28 for the previous six month period: January 1 through June 30, 2015. The Committee reported that it returned four contributions received in 2014 which had not been deposited: \$1,500 each from Baker Commodities and Farmer John, \$1,000 from Square H Brands, and \$315 from Cooperative Purchases. The Committee repaid bills from the previous year of \$1,072, spent \$57 and has \$561 in cash on hand.

C. Public Records Request

The City received 182 requests for public records and responded to each of the requests. No complaints were received.

CHAPTER VI

Business Activity in Vernon

John McMillan, Vice President of Industrial Brokerage for Cushman and Wakefield, has once again provided industrial vacancy rates for Vernon and for cities in Greater Los Angeles markets for the fourth quarter of 2015 and 3rd quarter vacancy rates rankings for US industrial markets.

Vernon has maintained its 3.9% vacancy rate, which looks good as opposed to those in the US industrial markets, but not so strong when compared with Greater Los Angeles markets, which have shown significant declines in their vacancy rates.

McMillan offers the following commentary.

“Despite recent economic events overseas, the vast majority of major US industrial markets continue to push forward and improve at a very steady pace, evidenced by the National US Industrial Vacancy Rate dropping to 6.4% from 6.7% in 2Q15, despite a lot of new speculative industrial development coming on line across the US in 2015.

As usual, the Greater Los Angeles region continued to lead the nation, this time with the vacancy rate dropping down to just 2.3% this period from 3.0% in 2Q15. We are tied only with the South San Francisco Peninsula for the lowest vacancy rate in the U.S., and yet the Greater LA basin has just over 1 Billion sf of industrial product, while the SF Peninsula is closer to 60 Million sf.

Given the rapid tightening of the markets, rents and sale prices are continuing to rise. Land values are rising too, and owner/users and speculative developers battle it out for what few sites come available every year in the in-fill markets. Vernon in particular has a far larger percentage of owner/user occupants, and thus land values in Vernon in particular are really spiking.

Unfortunately, Vernon's vacancy rate did not drop from the Second Quarter of 2015, finishing the year at the same 3.9%. Comparable (in size) cities such as Santa Fe Springs dropped from 1.8% to just 0.9%, the City of Industry from 2.5% to 1.3%, and Torrance from 4.1% to just 1.7%. The City of Commerce on the other hand, barely moved as well, dropping to only 3.1% from 3.2%. It should be noted that the bulk of Vernon and Commerce's industrial product is Class B & C product, developed primarily from the 1940's through the 1970's. Companies today are becoming far more sophisticated in terms of their needs for higher clearance, better dock high loading, and stronger sprinkler systems, but also they want environmentally friendly features such as natural light, LED lighting, better energy efficiency, etc. Very few developers build speculative product into the Vernon/Commerce submarket, as land is so much more expensive than other areas, plus the credit tenant base isn't as deep as many Vernon/Commerce companies prefer to own their real estate. With that said, there are two larger industrial warehouses of roughly 120k and 152k currently under construction in Vernon, and both buildings have offers from multiple major US companies, all of whom do well above \$1B in total revenue. This proves that Vernon can support lease absorption of new product by major

credit tenants, and those companies aren't only drawn to more modern industrial markets such as Carson, Santa Fe Springs, Industry, etc. In just a few months, it's quite possible that Vernon could be home to two of major US consumer goods companies, on top of the brand new distribution center Whole Foods completed on Pacific Boulevard earlier last year. If there was more speculative development taking place in Vernon, arguably even more major firms would choose to locate here, as Vernon is the bulls-eye of the Greater LA basin.”

Overall Vacancy Rate Rankings - Low to High
Third Quarter 2015
 U.S. Industrial Markets

Market	Vacancy Rate
SF Peninsula, CA	2.3%
Greater Los Angeles	2.3%
Orange County, CA	3.0%
Denver, CO	3.4%
Lakeland, FL	4.1%
Oakland, CA	4.5%
San Francisco North Bay CA	4.7%
Palm Beach, FL	4.9%
Pennsylvania I-81/I-78 Distribution Corridor	5.0%
Stockton/Tracy CA	5.1%
Portland, OR	5.3%
Silicon Valley, CA	5.3%
Houston, TX	5.4%
St. Petersburg/Clearwater, FL	5.6%
San Diego, CA	5.6%
Inland Empire CA	5.7%
Philadelphia, PA	5.8%
Contra Costa, CA	5.8%
Ft. Lauderdale, FL	6.0%
Miami, FL	6.1%
National U.S.	6.4%
Chicago, IL	6.4%
Tampa, FL	6.7%
New Jersey - Northern	7.0%
New Jersey - Central	7.4%
Orlando, FL	7.5%
Dallas/Ft. Worth TX	7.7%
Atlanta, GA	8.3%
Baltimore, MD	8.3%
Jacksonville, FL	8.8%
Long Island NY	9.2%
Boston, MA	10.1%
Sacramento, CA	10.6%
Northern VA	11.5%

Overall Vacancy Rate Rankings - Low to High
Fourth Quarter 2015
 Greater Los Angeles Markets

Market	Vacancy Rate
South Gate	0.1%
Montebello *	0.5%
Van Nuys	0.7%
Pico Rivera	0.8%
Santa Fe Springs	0.9%
Carson	1.2%
City of Industry	1.3%
Compton	1.7%
Torrance	1.7%
Gardena	2.0%
El Monte/S. El Monte	2.0%
Long Beach	2.1%
Burbank	2.2%
La Mirada	2.5%
Pomona	2.6%
Rancho Dominguez	2.9%
Commerce	3.1%
Valencia	3.8%
Vernon	3.9%
Cerritos	4.4%
Chatsworth	5.6%

Electricity Usage

Electricity usage is one factor to be considered in analyzing the business activity in Vernon. The chart is a year over year comparison of electricity usage.

MONTH	2014	2015	
January	87,903,097	88,647,003	
February	91,141,505	91,293,051	
March	86,879,313	86,070,401	
April	92,228,954	95,029,154	
May	92,580,982	91,268,587	
June	97,175,233	92,047,267	
July	96,276,161	94,752,977	
August	101,248,983	97,894,394	
September	100,346,732	99,863,323	
October	98,015,584	97,407,982	
November	99,246,788	97,916,431	
December	88,860,311	89,061,538	
Total KWh	1,131,903,643	1,121,252,108	-0.94%

Once again Vernon's usage in KWh is down slightly, attributable in part to the use of renewable sources of energy (e.g., solar), and cost cutting measures taken by Vernon's businesses.

Total revenues are down, but those have been largely offset by lower gas price expenses.

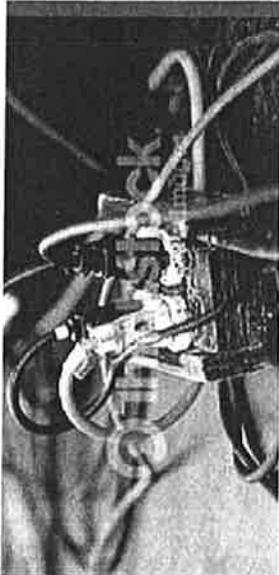
Insofar as competitiveness is concerned, Vernon's rates are slightly lower than LADWP (whose rates went up 4.4% at the end of 2015, and projects an annual system average rate increase of 4.68% over the next five years). LADWP projects power expenses will increase and expects a further rate increase in FY 2020-21 to meet revenue requirements to support its programs.

Vernon on the other hand has approved rate increases of 3.0% effective July 1, 2016 and an additional rate increase of 2.5% effective July 1, 2017.

Vernon's electricity costs for residential users compare favorably with other Southern California power providers.

Vernon Gas & Electric Offers City Residents the Lowest Electricity Costs in Southern California

* Electricity Costs for Homeowners/ Renters - Southern California Public Power Authority (July 2015)



Utility Rates*	1,000 kW/h	500 kW/h	200 kW/h
	\$97.98	\$50.56	\$22.11
	\$167.56	\$78.88	\$29.87
	\$180.74	\$83.59	\$37.25
	\$195.99	\$88.04	\$33.78
	\$255.06	\$97.34	\$30.63

8 Vernon Quarterly

As noted in my July 31, 2016 report, quoting the May 2014 Report from the Michael Bell Management Company, “Vernon’s rates are competitive with other local utilities, but no longer reflect historical margins.”

Vernon must continue to watch closely the rates of its competitors and aim to improve its rate margins, and in so doing publicize Vernon’s advantage. The rate and tax advantages are one of the principal reasons companies locate in Vernon.

Building Activity

Vernon's business community showed stability in its business activity.

Calendar year 2015 saw a slight decrease in Vernon's building activity, as reported by its Building Department, with a significant decrease in permits pulled, and a decrease of \$1.5 million in the dollars associated with the permits as compared to 2014. At the same time, business activity far exceeded that of the time of the disincorporation crisis.



**City of Vernon
Building Department
Monthly Report from 12/1/2015 to 12/31/2015**

Type	Value	# of Permits
Electrical	\$598,268.00	20
Grading	\$858,444.75	2
Industrial - Addition	\$500,000.00	1
Industrial - Remodel	\$389,000.00	7
Mechanical	\$787,213.00	13
Miscellaneous	\$406,294.00	13
Plumbing	\$332,700.00	8
Roof	\$235,000.00	2
December 2015 TOTALS PERMITS:		66
PREVIOUS MONTHS TOTAL		634
YEAR TO DATE TOTAL		700
December 2014 TOTALS PERMITS:		88
PREVIOUS MONTHS TOTAL		1170
PRIOR YEAR TO DATE TOTAL		1258

CONCLUSION

The past six months have seen some turnover in key positions in Vernon, leading not only to job security concerns but whether Vernon will continue its good governance momentum. It is one of the principal reasons I recommended that my contract be extended for another year, a recommendation which was endorsed by the Council on January 5, 2016.

In my last report I recounted the good government changes Vernon has made in the past four years.

Despite the former City Administrator's argument that the "positive reform changes will continue indefinitely because we have established a solid foundation that has changed the culture of governance in Vernon," it takes good people at the top to continue and/or build on that foundation.

The individuals who fill the three major positions now open (City Administrator, Public Works and HR Director) will set the tone – good, bad, or indifferent, for the next five years, as will the Council members (three of whom are relatively new on the Council).

They will be dealing with difficult issues; including, but not limited to:

Addressing the unfunded liability of the City's pension program and its future unfunded post-employment benefits costs;

Working with AQMD to set new rules for odor emissions;

Making Vernon attractive for new business, keeping taxes and rates as low as possible;

Getting the business community more involved with City policy-making;

Investing in renewable energy resources to fuel its power production, at the same time keeping power rates lower than that of other local energy providers;

As former City Administrator Whitworth stated "These are the types of issues that all cities face."

Former Speaker Perez believed Vernon, because of its small electorate, was unable to govern itself properly.

The City must continue to prove him wrong and live up to the expectations of Senator de León and others who gave Vernon a "second chance."

Hiring a new City Administrator committed to ethical and good governance practices is key to meeting the expectations of the "second chance" Vernon was granted.

RECOMMENDATIONS

A. Recommendations from Senator de León’s 2011 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.” See pages 12-15. (Partially completed. To follow.)
2. “Creation of an independent board to allocate CommUNITY Benefit Funds including representation from outside affected communities.” (Completed. See pages 12-14. 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 18)
2. Appraisals of promotability for City executives should be conducted annually and written evaluations should be placed in the City’s personnel files (See page 18).
3. Consideration of staggered terms should take place when Vernon’s new housing is in place and there is a larger electorate. (See page 17). To follow.
4. Vernon’s 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, should involve should involve and be presented to representatives from the business community in the next six months. (See page 21) To follow.
5. The City should conduct a periodic (every three years) compensation review to determine if City salaries are in line with other California cities. A study is expected to be conducted in the next six months. (See page 19). To follow.
6. 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 pages 19). To follow.
7. 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 17-18). To follow.
8. The City must continue to watch closely the taxes and utility charges of its competitors and publicize Vernon’s rate margin advantages. (See page 35). To follow.

9. The City should take action to address its unfunded pension liability and its post-employment benefits liability. (See pages 3, 4, 5, 21, 22).

C. New Recommendations

- (1) The City should hire a City Administrator committed to reforms and good governance practices. (See page 37).
- (2) The City should take action to hire a person or firm to help neighboring cities obtain their own grants. (See page 21).
- (3) The “Green” Commission needs to fulfill its primary mission, particularly – recommendations to have the City become more sustainable and energy efficient. The City, Gas and Electric and Public Works Departments need to work closely with the Commission. (See page 16)
- (4) The agenda of the Business and Industry Commission should be broadened to lead to recommendations as to how to make Vernon more attractive to businesses, investors and employees (see page 21).