

CITY OF VERNON

REPORT OF

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INDEPENDENT SPECIAL COUNSEL

Dated July 31, 2016

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PREFACE

In 2010 Vernon was a City in trouble.

In 2010, Vernon faced disincorporation led by Assembly 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.

In February 2016, as my four year term ended, I recommended, as a result of major personnel turnover, that my contract be extended for a year. The Council approved, and on February 16, 2016 the contract was amended and extended for one year. I was given a new title – Independent Special Counsel, and was asked to file two reports, the first a Semi-Annual Report on July 31, 2016, detailing changes in circumstances and recent developments in the City over the prior six months. The second Report, to be filed January 31, 2017, termed an Annual Compliance Report, is to include the type of information provided in the Reports filed between July 2011 and January 2016.

This report, while somewhat abbreviated, generally tracks previous reports.

This will be my eleventh 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 January 31, 2016 to July 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 the Council. The City has shown consistent support for the essential reform measures recommended by Senator de León and me.

At the outset, one must conclude that the winds of change under Vernon's new leadership have blown in the right direction. While significant changes have taken place in the past six months, the City's governance is strong and has followed the ethical principles that it began to adopt in 2011.

John K. Van de Kamp

RECENT DEVELOPMENTS

Personnel

The City Administrator's office has a brand new look.

Carlos Fandino was chosen by the City Council to succeed Mark Whitworth as the City Administrator, and was sworn in on March 15, 2016. Fandino was selected after an extensive search which produced a list of experienced City Managers and former City Managers from the region.

Fandino has a 27 year record of municipal experience, all of which has been with the City of Vernon, where he began as a systems operator and moved up to become the Director of Vernon's Gas & Electric Department in 2010. He is a Marine veteran of Operation Desert Shield, and for years he served as a Reserve Deputy Sheriff and Reserve LAPD officer.

He wasted no time in reorganizing the Administrative staff and rearranging the Administrative office space.

Kristen Enomoto, who served as Deputy City Administrator has left her position at the City of Vernon and is expected to be replaced by a person to serve with a new title and function, Chief Deputy City Administrator. Individual secretarial and analyst positions have been filled by Lilia Hernandez and Diana Figueroa, the latter who served with Carlos Fandino in the Gas & Electric Department. Alex Kung who served as a Deputy Administrator to Mark Whitworth was transferred to the Department of Finance and will be leaving the City on August 4.

As Carlos Fandino moved into his new position, Peter Hervish, a 41 year veteran of the energy industry and for the last 11 years an energy consultant with the Vernon Gas & Electric Department, was appointed the Interim Director of Vernon's Gas & Electric Department until a search is completed and a new Director appointed. An appointment is expected in August.

Kevin Wilson retired in December as the Director of Vernon's Public Works Water & Development Services. On February 16, 2016 Derek Wieske was approved by the Council to succeed him. Wieske most recently served as the Assistant City Engineer for the City of Long Beach and has 29 years of municipal experience, including service as the Public Works Director for the cities of Rancho Santa Margarita and the City of Long Beach.

Leonard Grosberg, a long time member of and most recently the Director of the City's Health and Environmental Control Department, left the City's employment in the Spring and was replaced on an interim basis by his predecessor Lewis Pozzebon. A search has been undertaken for the selection of a new Director.

Rounding out the new executive team is Isaac Garibay, who replaced Teresa McAllister as the Director of Vernon's Human Resources Department. McAllister retired in October 2015. Garibay most recently served as head of Temecula's Director of Human Resources and has 16 years of private and public sector experience in human resources management.

Other retirements are expected in the next year – including those of Fire Chief Michael Wilson and Police Chief Daniel Calleros.

The City’s Financial Picture

Finance Director Bill Fox provided forecasts of the City’s financial results for fiscal year ending June 30, 2016. They are in short as follows:

	Forecast For Fiscal 2015-2016 – in millions	
	Budget	Forecast
Governmental Revenues	75.2	73.6
Governmental Expenditures	75.4	73.4
Enterprise Revenues	265.1	221.2
Enterprise Expenditures	264.8	223.5

Total Revenues per the Forecast were \$294.8 while expenditures were \$296.9, overall a shortfall of \$2.1 million.

On June 21, 2016, the City Council, on a 3-2 vote approved the 2016-2017 Budget- hereinafter referred to as the Fiscal 2017 Budget.

	Budget in millions
Governmental Revenues	73.6
Governmental Expenditures	73.8
Enterprise Revenues	262.2
Enterprise Expenditures	262.0
Total Revenues and Expenditures	\$335.8

Staffing levels for the Fiscal year 2017 budget increased by 3 positions over 2016. At the same time, there will be 58 fewer City employees than in 2008, and a decrease in budgeted revenue and expenditures in the 2017 budget of \$4.5 million when compared to that budgeted for the 2016 fiscal year.

Reasons for the decrease include lower power revenue and costs and expected cuts in overtime in the Fire Department.

Labor Contracts

At its July 12, 2016 meeting the Council unanimously approved MOUs with the Vernon’s Firemen’s Association, the Vernon Fire Management Association, the Vernon Police Management Association, Teamsters Local 911, and the International Brotherhood Workers Local 147 for 3 year contracts running through June 30, 2019. An amendment was approved to the Vernon Police Officers Benefit Association 2014-2015 MOU.

The common feature of the contracts is a 2% annual salary increase for all employees except for those earning above the 75% level previously established as the benchmark level for Vernon's employees. Other common features include a removal of the freeze on salary step increases with step increases to be provided on the basis of merit, and a medical premium adjustment providing baseline care at the low cost HMO level. An opt-out option was negotiated which fixes the City's retiree medical cost to a capped monthly reimbursement.

In the Fire Department, provisions were included to reduce overtime, including a reduction in employees required on duty before overtime is effective. Their MOU reduced the number of engineers budgeted for by means of attrition, and a new requirement for new firefighters that to be eligible for Hazmet and Urban Search & Rescue pay they must be designated to perform the duties required by the assignment.

The result is an additional City expenditure of \$1.7 million in fiscal year 2017 as opposed to fiscal year 2016.

No budget changes will be necessary since the budget adopted contemplated the amount necessary to meet the MOU requirements.

OPEB Liability

The Other Post Employment Benefit (OPEB) liability (which includes medical benefits) remains at \$53.5 million based upon the most recent actuary report. City Staff sought and received direction from Council to move forward and establish a trust to fund this employee liability. The current direction being taken is the establishment of an account with CalPERS. Their program is known as the California Employers' Benefit Trust (CERBT) Fund. This is an IRS Section 115 trust fund dedicated to prefunding OPEB for all eligible California public agencies. The City will be establishing this trust account over the next few months. In the 2017 fiscal year approved budget, a total \$1 million has been budgeted as the initial funding. By developing a funding plan and budgeting annual contributions, the actuarial liability will be reduced.

Pension Liability

The City continues to pay the requested Annual Required Contribution (ARC) as provided by CalPERS. Effective June 30, 2015 the Government Accounting Standards Board (GASB) Statement No. 68 requires governments to report the total pension liability, as well as the fair value of plan assets available to pay pension benefits. The difference between a participating government's total pension liability and the fiduciary net position of the plan is the net pension liability (NPL). This NPL is reported on the statement of net position of the government wide and proprietary fund statements. As of June 30, 2015, the NPL for the City was \$78.2 million. This unfunded pension liability is the result of the shortfall between the fair market value of net assets and the actuarial value of net assets required to meet the pension obligations. The shortfall is the result of lesser rates of return on investments than forecasted based upon market conditions and investment decisions made by CalPERS. Each year the NPL is subject to either an upward and downward fluctuation based upon investment results achieved.

The City is examining whether extra funding should be made to further reduce the shortfall that exists.

Taxes

On June 7, 2016 the Council adopted a resolution setting the warehouse Special Parcel Tax at \$30.045 per 100 square feet of gross area of land for fiscal year 2017. As noted before, this was based on a 1998 ordinance approved by the electorate, with annual adjustments based on the Consumer Price Index For Urban Consumers. The increase is expected to provide an additional \$200,000 to the Fiscal 2017 Annual Budget.

Similarly, based on the 2013 voter approved Measure L, the annual levy of a parcel tax on non-residential parcels to fund public safety service was adjusted to \$0.03098 per square feet of taxable area, or a 1.696% increase over the 2016 fiscal year. The increase is expected to provide an additional \$10,000 in fiscal 2017.

In 2015 the Council approved an increase in power rates, including a 3% increase effective July 1, 2017.

On August 16, 2016 the Council will conduct a public hearing regarding water rate adjustments. The recommendation calls for a blended rate increase of 6.53%.

In Vernon, many water customers normally consume little water on site, but rely on the constant availability from their potable connection for on site fire safety purposes.

Exide

While Exide has closed its plant, it continues to be in the news and will be followed.

Lewis Pozzebon, Vernon's Interim Health Director provides the following update:

“The California Department of Toxic Substances Control (DTSC) conducted soil sampling at residential sites in Vernon in February. The Health & Environmental Control Department (HECD) received from DTSC the results of the soil sampling on June 14, 2016. There were a total of 393 soil samples that were taken and 34 showed lead levels above 400 ppm, which DTSC has established is the level people need to limit their exposure to. Cover letters with the sample results were sent to all residents where sampling was conducted.

In addition, a representative from our department will be visiting the Vernon residents who were mailed a report throughout the week of June 27-30, 2016 to discuss the report and provide any needed information. HECD staff will be also be available by phone as well.

The HECD will be making arrangements with Public Works to mark and cover the areas at Vernon residential properties that showed elevated lead levels (over 400 ppm). Pictures will be taken of these areas as well. The

HECD will contact DTSC to schedule a town hall meeting for Vernon residents so a DTSC representative can answer questions about the sample reports.

The HECD will also be sending a letter to DTSC urging them to take swift action at the affected Vernon homes which showed elevated lead levels. However, DTSC is preparing an Environmental Impact Report (EIR), with an initial comment period that runs from June 16 to July 18, 2016. It is anticipated that the EIR process will delay clean-up for some time.”

In an LA Times Report dated July 23, 2016, it was reported that 36 properties which were in the areas tested (not all of which were in Vernon) had lead readings exceeding 1,000 ppm.

There is no news on human blood testing. In my last report, I reported that “of the 600 persons tested by March 11, 2015, none had lead levels high enough to require medical intervention.

Election

A Council election was conducted April 12, 2016. Mayer Michael McCormick, a 42 year veteran of the Council, was defeated by a write-in candidate, Leticia Lopez, by a vote of 21-14, with one other write-in vote cast. McCormick has been a strong and constant supporter of the City’s reform efforts. There is no reason to believe that Lopez will vary from that path.

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. Malkenhorst then appealed.

2. On November 18, 2015 the CalPERS Board reduced Malkenhorst’s monthly pension 80% and ordered him to repay \$3.4 million. 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.”

3. 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. On April 7, 2016 the California Court of Appeal upheld the City's demurrer and found no contract between the City and Malkenhorst guaranteeing the pension.

4. Bruce V. Malkenhorst, Sr. v. CalPERS, City of Vernon (Los Angeles Superior Court Case No. BS159589)

Still pending is a civil complaint and petition for writ of mandate brought by Mr. Malkenhorst against CalPERS and the City of Vernon in response to the CalPERS Board's November 2015 decision to uphold his pension reduction and order reimbursement of overpaid benefits.

Status:

This lawsuit asserts ten causes of action and seeks, among other things, a writ of mandate under Code of Civil Procedure section 1085, a writ of administrative mandamus under Code of Civil Procedure section 1094.5, monetary damages, and declaratory and injunctive relief. While Mr. Malkenhorst names the City as a respondent and defendant in this lawsuit, he includes almost no specific facts or allegations against the City. Mr. Malkenhorst alleges the City's role in this CalPERS process as follows:

Until very recently, the City of Vernon was aligned with Malkenhorst and supported Malkenhorst's right to his higher pension against CalPERS. After Malkenhorst's retirement in 2005, CalPERS initiated the first administrative processes against him. [...] The City of Vernon actively litigated with Malkenhorst using shared counsel (Loeb & Loeb) against CalPERS in the original litigation of these same facts and law. That process ended in a final determination by CalPERS in 2006 that the higher pension was acceptable.

As recently as 2012 in the CalPERS audit exhibits (before the City of Vernon's existence was challenged by the state senators), Vernon supported Malkenhorst in this very case. However, after narrowly avoiding being disbanded as a municipality, the City has since changed sides and aligned itself with CalPERS.

If the pension is reduced, then Vernon is the entity that will receive the benefit of past contributions made to fund the higher pension during petitioner's employment. The difference in contributions will now be transferred to benefit Vernon or offset Vernon's pension liabilities.

In addition to preparing a demurrer to Malkenhorst's complaint, the City also filed a special motion to strike the Complaint under the anti-SLAPP statute. Anti-SLAPP motions may be brought by a defendant that is sued under a cause of action that arises from any act of the

defendant in furtherance of the defendant's right of petition or free speech in connection with a public issue. Here, the City argued that Malkenhorst's claims arise from the City's exercise of its constitutional rights to petition the government and/or to freedom of speech, in the form of the City's act of petitioning the State Legislature to pass Government Code section 53244, of supplying information and documents to CaIPERS during CaIPERS' evaluation of whether to reduce Malkenhorst's pension, and of taking various litigation positions in Malkenhorst's administrative challenge to CaIPERS' pension decisions.

The anti-SLAPP motion is set for hearing on August 23, 2016.

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 and have been accomplished, among them, the completion of the Vernon Village Park apartments, which include 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. On June 21, 2016 the Council approved \$1 million for Phase One of its Construction Project. Permits have been approved, and the money disbursed.

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

February 17, 2016

- | | |
|--|----------|
| (1) Girl Scouts of Greater Los Angeles (serving Bell, Boyle Heights, Commerce, East LA, Huntington Park, Maywood and Vernon) for program expenses, grants to scouts and staff costs in after school program. | \$35,000 |
| (2) Self Help Graphics and Art (serving Boyle Heights) for General Operating Support | \$40,000 |

(3) Los Angeles Center for Law and Justice (serving Greater Los Angeles area) with access to justice, primarily in domestic violence, teen legal advocacy, and immigration services.	\$50,000
(4) Neighborhood Music School Association (serving Boyle Heights and surrounding communities) with music instruction program services for young people.	\$50,000
Total	\$175,000

May 18, 2016

(1) LA Family Housing (serving Boyle Heights) for emergency housing at Comunidad Cesar Chavez for families in crisis.	\$75,000
(2) Big Citizen HUB (serving Boyle Heights, Vernon and neighboring communities) for service to middle and high school students in Saturday youth leadership development.	\$50,000
(3) Coalicion De Latinos Americanos (CODELA) (serving Maywood) to assist start up new job training program geared to solar panel installation.	\$22,000
Total	<u>\$147,000</u>

Postscript: \$40,000 which had been a planned grant to CicLAvia was rolled over to 2016-17 for reconsideration upon receipt of a new application from CicLAvia.

Capital Grants

No Capital Grants were issued in the 2016 fiscal year. \$1,000,000 is available in the CommUNITY grant fund, but only up to \$750,000 will be used to award “Capital” grants, with specifics established by the Grant Committee.

As to membership in the CommUNITY Fund Grant Committee, Steve Veres and Juliet Goff were reappointed at the June 21, 2016 Council meeting.

2. Noxious Air

Senator de León was explicit in recommending that Vernon mitigate decades of noxious air released in Vernon by implication referring to its rendering plants.

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.

AQMD has not as yet issued a new Rule. It is expected that AQMD representatives will be visiting the rendering plants in August or September, and complete a rulemaking session by the end of September.

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.

On March 16, 2016 the Council approved the Green Commission's plan for 2016-17.

Begin work on the following tasks:

1. Make recommendations to City Council regarding sustainability and energy efficiency standards to be considered as part of the City's review process for conditional use permits and variances.
2. Develop tools and programs to educate Vernon's residents, communities, surrounding areas and businesses on sustainability related goals and successes.
3. Explore alternative technology projects.
4. Develop programs or methods to provide environmental compliance assistance to businesses and residents that focus on the following:
 - a. Reduction in general of solid waste streams.
 - b. Reduction in use of hazardous materials.
 - c. Reduction in greenhouse gas emissions (carbon footprint).
5. Explore funding assistance programs and partnerships for new technologies (i.e. “Sustainable Incubator to Convert Trash to Cash”).
6. Promote green business development.
7. Explore free planting/beautification projects.

The Council approved a budget for the Commission covering \$20,000 in costs relating to meeting stipends, education, travel and training for the seven commissioners and Health Department staff.

The work plan is an ambitious one and responds to recommendations to broaden out the Commission's goals. This work plan will be tracked.

Kern County Property

Vernon's purchase of 30,000 acres of property in Kern County was noted in prior reports.

The present status of the project is as follows, as reported by Peter Hervish, the City's Interim Director of Light & Power:

“The City of Vernon purchased 29,722 acres of land in fee title in Kern County on October the 8th, 2008 from ReNu Resources, LLC (“ReNu”). The City began environmental studies with CH2MHILL, and transmission access studies on a central portion of the land after the closing date in anticipation of submission of a draft EIR to Kern County Planning. These studies were later used to support an offering followed by a sale of the central land portion of 12,420 acres to Boulevard Associates, LLC a subsidiary of NextEra Energy Resources, LLC. The 12,420 acres were developed into the 162 MW North Sky River Wind Farm Project which went commercial in late 2012.

The City continued to perform the environmental studies on the remaining 17,302 acres with CH2MHILL until October, 2012. These acres were retained 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 renewable objectives. The City was working with Kern County, and local agencies to move this ambitious plan forward. However at this time the City is in hold mode and waiting for positive indicators from the County and other agencies prior to reinitiating discussions with those agencies and expending the funds for refreshed environmental studies.

The City has continued to maintain its meteorological studies on the 17,302 acres to this date.

The City is optimistic that as we approach the RPS deadlines which mandate up to 50% renewable resource energy in 2030 that agency indicators will shift to a more positive mode and development may actually be encouraged by the public and those agencies themselves since the remaining land, particularly the western half, is considered to be in the path of some of the best wind in the State of California if not the United States.

Initial studies demonstrated that up to 175 MW's of Gross potential wind energy were available, however at this time with improved and more efficient wind turbine designs and control methodologies the capacity factors have been improved by upwards of 15 to 20% depending on technology supplier which translates into more MWhrs produced over similar time spans. Therefore in conclusion as time marches on the amount of energy that may be produced by the City land, after development, only increases which translates into an increase in its valuation parameters.”

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.

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.

It was expected that the arrival of new residents in Vernon’s Village Park would increase the registered voter rolls. Thus far fewer than 10 new voters have registered from the new complex. Until the full registration impact of Vernon’s Village Park is realized, this recommendation should be put on hold.

2. Contract Recommendations

On December 12, 2012, the Council adopted a series of policies and procedures for contracts, primarily for contract term limitations, competitive bidding and strong oversight policies. In May 2014 the Council approved amendments to the 2012 Ordinance.

Nothing untoward has been found in those policies or their implementation.

At that same time I continue to recommend that by July 2017 the City hire outside expert analysts to review the City’s policies and to make such recommendations as appropriate to insure the City is following best practices.

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

Completed. The new City Administrator files performance evaluations for executives each year on their anniversary date.

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.

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

Vernon conducted a follow-up compensation review that was reported to the Council on July 19, 2016 in the form of new recommended compensation for the various classifications. Among the entities whose pay was used for comparability purposes, when applicable, were the cities of Los Angeles, Culver City, Huntington Beach, Torrance, Glendale, Riverside, Montebello and Santa Fe Springs, and LA County.

In the majority of the classifications, compensation for Vernon’s classifications were increased, although some were reduced. The new classifications go into effect for the 2017 budget year and represents Vernon’s continued decision to put Vernon’s compensation classification level at the 75% level of their counterparts.

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 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 (To come)

In 2014 the Committee was retitled the Business & Industry Commission, and appointments were made to the Commission.

In the past six months, only one meeting was held (May 16, 2016), while the February 11, 2016 meeting was canceled.

Subject matter at the May 16, 2016 meeting included discussion of the proposed Water Rate adjustment, support for the Open Streets initiative in Vernon, based on a MTA (Metro) grant program that provides funding for local expenses to plan and host one day events that close the streets to automotive traffic and open them to people to walk or bike, and after hearing of Vernon's citywide study to prepare a bicycle master plan, expressed concerns about the safety of riders under such a plan, indicating that much thought should go into such a plan since there is a high volume of trucks traveling through the City on a daily basis.

At the Council's June 21, 2016 meeting, the Council appointed Business Representative (Mr. Robert Wendoll), Real Estate representative (Mr. Jack Cline) and City Council Representative (Mayor Bill Davis) to serve terms expiring June 30, 2016.

The Commission in its early years played an important role in setting power rates.

In that Alex Kung will be leaving the City on August 4, 2016, the City Administrator needs to appoint a new liaison to the Commission, and to make sure that the Commission meets regularly and carries out its valuable mission, to provide a special forum to address public concerns related to the City's business and industrial development related costs, procedures and activities, and as I have suggested, to recommend how to make Vernon more attractive to business, investors and employees.

CHAPTER III

HOUSING

Presentation by the California Department of Toxic Substances Control

At the June Housing Commission meeting, Susan Valleneuva of the California Department of Toxic Substances Control made a presentation. She said the state department is testing 10,000 properties for potential toxic contamination and has access agreements with 2,800 properties.

A CEQA (California Environmental Quality Act) study must be completed before cleanup can begin. It takes about three to five days to remove, replace and landscape contaminated sites. The department works with the property owner, not the tenant. The department is primarily concerned with exposed lead in the soil although it will also be testing for other compounds, including arsenic.

The department has seen lead of up to 8,000 parts per million in affected areas, with 1,000 part per million the level at which one should be concerned. The clean up will reduce the parts to no more than 80 parts per million. However a test that shows soil with 400 parts per million or lower will not be a candidate for cleanup.

Soil cleanup will begin in the summer of 2017, with the master plan allowing for cleaning up to 2,500 homesites.

Sale of Vernon Housing Units

Three houses in Huntington Park have been sold for a total net of \$1,113,900. The last house was sold earlier this year for \$398,000, with a net profit to the city of \$370,000. The City still owns two townhomes in Vernon.

Maintenance

None of the 28 housing units in Vernon are in compliance with the Americans with Disabilities Act. City staff is now engaged in an evaluation to see what the costs would be necessary to comply. One unit that is now being upgraded will be fully compliant with the ADA requirements. That unit is being remodeled for a cost of \$119,875. The remodel will occur this summer and will take about two months to complete.

Seven more units need to be rehabilitated, with \$450,000 budgeted in 2015-16 for the rehabilitations.

According to a memo on City Housing Maintenance Action Plan, there is a total of \$227,700 in maintenance repairs needed. It was expected that the maintenance repairs would be completed no later than July 30.

Dewey Pest Control has been hired to inspect units once a month. It does not place traps inside the home but looks for pests on the outside.

Housing Report

All rents were collected for the second quarter of this year although there were 15 late payments with four late fees. Total revenue was \$42,000 under what was budgeted. There were five vacancies, which included three in Huntington Park (the homes that were sold.) There were \$37,000 fewer expenditures than budgeted.

Lottery for Future Vacancies

Nineteen applications for housing were received, with four first responders applying, all of which will be placed in the lottery with first responders receiving limited priority.

There was one application for a unit transfer.

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.

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. They are found in my January 31, 2016 Report.

Vernon believes that all items on the list will be completed to JLAC's satisfaction, and will soon be filing a follow-up report for JLAC's consideration, before JLAC's expected response in September 2016.

CHAPTER V

Compliance Review

Statements of Economic Interest

All City officials, except for one commissioner, timely filed the necessary annual, assuming office and leaving office statements of economic interest.

The official who did not file is Brett Dedeaux, of the Vernon Business and Industry Commission, who has resigned but failed to file his Annual Statement or Leaving Office Statement. He has been contacted by the city clerk but has not responded.

Public Records Requests

The City received 143 requests from January 1 to June 23 and responded to them in a timely manner. No complaints have been received.

Campaign Statements

The two candidates running in the April election filed campaign statements that stated that each had spend less than \$1,000 for the election. No other committee, including independent expenditures committees, filed campaign statements during the period.

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 US industrial markets, as well as for Vernon and cities with the largest footprint in the Greater Los Angeles basin.

He reports Vernon's vacancy rate for the Second Quarter of 2016 at 3.2%, down from 3.9% at the end of 2015.

His comments are as follows:

“The US industrial market continues to push forward at a rapid pace, evidenced by the National US Industrial Vacancy Rate dropping from 6.4% in 4Q16, to 5.8% now, just six (6) months later, which is the lowest level of the past 30 years, and full 270 bps below the 10 year historical average.

As usual, the Greater Los Angeles Region continued to lead the nation, with a vacancy rate of only 1.6% this quarter, vs 2.3% in 4Q16. There is nearly 1.1 Billion sf of industrial product in the Greater LA area; the largest industrial submarket in the US.

While Vernon's vacancy rate of 3.2% lags compared to other large industrial cities such as Santa Fe Springs at 0.7%, Carson at 1.3%, and Commerce at 2.4%, it still was down as well from its 4Q16 vacancy rate of 3.9%. It's important to note that those other cities have more modern industrial buildings (on average) and today's tenants value higher clearance, better truck loading, and calculated sprinklers systems, among other Class A building features. Vernon could certainly use more new construction. What few modern buildings have been built in the city in the last few years, have been absorbed quickly, as evidenced by a three building project totaling roughly 188k that was finished in early 2016, and was 100% absorbed within 2 months of completion, with the largest building of 120k being leased a few months prior to completion by a \$\$B US E-commerce company.

Needless to say, industrial values across the entire US are up across the board, and Vernon is no different. Land values, rental rates, and sale pricing continue to set new high-water benchmarks.”

Overall Vacancy Rate Rankings - Low to High
Second Quarter 2016
 U.S. Industrial Markets

Market	Vacancy Rate
Greater Los Angeles	1.6%
Orange County, CA	2.3%
East Bay, CA	2.8%
Denver, CO	3.4%
Nashville, TN	3.9%
Cincinnati, OH	4.0%
Milwaukee, WI**	4.3%
New Jersey - Central	4.3%
Portland, OR	4.4%
Charlotte, NC	4.5%
Detroit, MI	4.6%
Inland Empire CA	4.7%
Miami, FL	4.9%
Indianapolis, IN	4.9%
Cleveland, OH**	5.0%
Pennsylvania I-81/I-78 Distribution Corridor	5.1%
San Diego, CA	5.2%
Seattle, WA**	5.4%
Philadelphia, PA	5.4%
Louisville, KY**	5.4%
Pittsburgh, PA**	5.6%
New Jersey - Northern	5.7%
Orlando, FL	5.8%
National (U.S.)	5.8%
Las Vegas, NV**	6.0%
Chicago, IL	6.3%
Houston, TX	6.4%
Jacksonville, FL	6.5%
Columbus, OH	6.6%
Greenville, SC**	6.7%
Dallas/Ft. Worth, TX	6.9%
Long Island, NY	6.9%
Salt Lake City, UT**	7.1%
Baltimore, MD	7.2%
St. Louis, MO	7.3%
Boston, MA	7.4%
Kansas City, MO	7.5%
Atlanta, GA	8.4%
Minneapolis, MN**	8.5%
Dayton, OH	8.6%
Buffalo, NY**	9.0%
Sacramento, CA	9.4%
Phoenix, AZ	9.6%
Memphis, TN**	9.7%
Fredericksburg, VA**	10.2%
Binghamton, NY**	11.7%
Birmingham, AL**	14.4%

Overall Vacancy Rate Rankings - Low to High
Second Quarter 2016
 Greater Los Angeles Markets

Market	Vacancy Rate
South Gate	0.3%
Van Nuys	0.7%
Santa Fe Springs	0.7%
Montebello	0.9%
Compton	0.9%
City of Industry	1.1%
Torrance	1.2%
Carson	1.3%
Long Beach	1.3%
Pomona	1.3%
Rancho Dominguez	1.4%
La Mirada	1.5%
Burbank	1.6%
Cerritos	1.6%
Pico Rivera	1.7%
Gardena	1.9%
Valencia	2.0%
Commerce	2.4%
El Monte/S. El Monte	3.2%
Vernon	3.2%
Chatsworth	3.9%

NOTE: Includes U.S. markets tracked by C&W and Alliance offices ()** with industrial inventory of over 100MSF.

This report contains information available to the public and has been relied upon by Cushman & Wakefield on the basis that it is accurate and complete. Cushman & Wakefield accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

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Electricity Usage

Electricity usage has been a factor in analyzing Vernon's business activity.

Once again, when the first six month of 2016 are compared with those of 2015, we see a slight decline in usage. Why? Cost cutting measures and conservation by Vernon's businesses are probably the cause, as electricity rates rise.

Month	2015	2016	
January	88,647,003	85,815,935	
February	91,293,051	87,009,903	
March	86,070,401	87,017,380	
April	95,029,154	92,788,415	
May	91,268,587	92,380,607	
June	92,047,267	92,757,027	
	544,355,463	537,769,267	-1.21%

The City should periodically report on its tax and utility charges, as compared to its competitors, and publicize Vernon's tax and rate advantages.

Building Activity

In the first six months of 2016 Vernon's Building Department issued its report of Business Activity, reflected in various permits filed. It showed an increase in valuation of \$8 million over the prior year, with a big jump coming in June.



**City of Vernon
Building Department
Monthly Report from 6/1/2016 to 6/30/2016**

Type	Value	# of Permits
Commercial New	\$1,300,000.00	1
Demolition	\$100,006.64	2
Electrical	\$11,404,818.54	27
Grading	\$3,400,360.25	3
Industrial - Addition	\$18,480.00	1
Industrial - Remodel	\$298,400.00	7
Mechanical	\$10,688,495.54	14
Miscellaneous	\$549,651.00	23
Plumbing	\$1,230,360.00	13
Roof	\$270,175.00	5
JUNE 2016 TOTALS PERMITS:		96
PREVIOUS MONTHS TOTAL		208
YEAR TO DATE TOTAL		304
JUNE 2015 TOTALS PERMITS:		56
PREVIOUS MONTHS TOTAL		293
PRIOR YEAR TO DATE TOTAL		349

CONCLUSION

Vernon has a new face. Or more accurately, new faces, and new leadership.

The Administrative office has had a total turnover; key executive positions have been filled, or are in the process of being filled.

The result; Mark Whitworth was correct when he said “we have established a solid foundation that has changed the culture in Vernon.”

The new leadership team is setting a good tone.

Vernon is now in the best practice group of Southern California cities. Other cities will begin to look to Vernon on how to do it.

The most important accomplishment in the past six months are the 3 year labor contracts will all of its bargaining units, established by good leadership under Carlos Fandino, together with strong representation by leaders of the bargaining units. The result; a Win Win situation for both sides, and labor peace for the next three years.

There are issues to deal with in the coming months and years:

Addressing the unfunded liability of the City’s pension program and its future post-employment benefit costs. Overall, Vernon has an older work force. An above average number of retirements is expected in the next year.

Working with AQMD to achieve reasonable odor emission rules.

Monitoring the DTSC soil studies and the necessary cleanup.

Making Vernon more attractive to business. Supporting new construction. (See John McMillan’s comments mentioned on page 21).

Keeping taxes and power rates as low as possible, to maintain Vernon’s competitive edge.

Getting the business community more involved in the City’s policy-making.

As I have repeatedly told the Council, speak up and be heard. The Council members still appear very reluctant to speak their minds at Council meetings. In my role I always had plenty of questions to ask. And I have to believe that Council members do too. My advice to them: Ask your questions. Share your opinion. Do so publicly – at Council meetings. That’s what Council members do in other cities, and you should do it in Vernon, and in so doing not only to show you understand what’s going on, but to serve as helpful policy makers, and to make sure that policy options are fully developed by the City Administrator and his staff.

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.” (Partially completed. To follow.)
2. “Creation of an independent board to allocate CommUNITY Benefit Funds including representation from outside affected communities.” (Completed. 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 14, 15).
2. Consideration of staggered terms should take place when Vernon’s new housing is in place and there is a larger electorate and voter registration. (See page 14).
3. 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. To follow.
4. The City should conduct a periodic (every three years) compensation review to determine if City salaries are in line with other California cities. (See page 15).
5. 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. To follow.
6. 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 14). To follow.
7. The City must continue to watch closely the taxes and utility charges of its competitors and publicize Vernon’s rate margin advantages. (See page 23.). To follow.
8. The City should take action to address its unfunded pension liability and its post-employment benefits liability. (See page 5). (To follow.)

- 9 The City should take action to hire a person or firm to help neighboring cities obtain their own grants. (From prior reports). To follow.
- 10 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 12) (To follow.)
- 11 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 16). To follow.
12. The City should closely monitor the DTSC soil studies relating to the Exide releases as well as the blood tests for those affected, and push for timely cleanup where elevated levels of lead have been found.