

CITY OF VERNON

FOLLOW-UP REPORT OF

JOHN VAN DE KAMP

INDEPENDENT ETHICS ADVISOR

Dated January 31, 2012

Table of Contents

	Page
PREFACE	1
RECENT DEVELOPMENTS.....	3
CHAPTER I Senator De León's "Critical Path Reforms"	5
A. Greater Accountability & Transparency	5
B. Van de Kamp Report Recommendations	6
C. Doubling the Electorate.....	6
D. Independent Reform Monitor.....	9
E. Worker Rights for Police, Fire, and Other Public Employees	10
F. Good Neighbor Program	11
CHAPTER II Independent Ethics Advisor Recommendations	14
A. The Political Reform Act of 1974 and Ethics	14
B. Housing and Elections.....	16
C. The Brown Act	18
D. The Public Records Act.....	19
E. Internal Policies, Procedures and Controls	21
F. Operations	23
CONCLUSION	27
RECOMMENDATIONS	33
A. Recommendations from the July 2011 Report to be Completed	33
B. New Recommendations.....	34

PREFACE

On February 15, 2011, the City of Vernon engaged me to serve as an Independent Ethics Advisor with specific duties, among them to:

- (a) review and evaluate Vernon's internal controls and policies with respect to the Political Reform Act of 1974, Government Code Section 1090, Brown Act, Public Records Act, and Conflict of Interest requirements;
- (b) review and evaluate Vernon's policies and procedures relating to reimbursement of expenses and payment of invoices to any individual affiliated with the City or the City Council, including City employees;
- (c) review the effectiveness of Vernon's policies for selecting and paying consultants and to recommend any alterations to ensure the proposed consulting agreements comply with all policies and procedures; and
- (d) review whether Vernon has appropriate policies pertaining to ethics and conflicts of interests and to evaluate the extent of existing training and education and to make recommendations regarding additional training and education relating to ethics and conflicts of interest.

The first report was issued on July 29, 2011 (the "July 2011 Report"). My engagement letter with Vernon, dated February 15, 2011 (the "February 2011 Engagement Letter"), called for a follow-up report, as reasonably deemed necessary and appropriate, with any additional findings by January 31, 2012. The February 2011 Engagement Letter provided interim steps following issuance of the July 2011 Report:

- (1) Within 90 calendar days of receipt the City Council shall review and consider adopting recommendations in the July 2011 Report.
- (2) Within 45 days of receipt the City Council shall advise me of any recommendations that the City Administrator and City Council consider unduly burdensome, impractical, costly, or which would otherwise impair the day-to-day operations of the City.
- (3) As to those recommendations not adopted by the City Administrator and the City Council, the City Administrator or City Council shall prepare in writing an alternative policy, procedure or system designed to achieve the same objective or purpose.

The City Council has reviewed and considered adoption of my recommendations in the July 2011 Report. The City Council has not advised of any recommendations the City Administrator or the City Council consider "unduly burdensome, impractical, costly or which would otherwise impair the day-to-day operations of the City", in essence implying approval of those recommendations.

In this Report, which has been developed by the team described in the July 2011 Report, Robert Stern, Cynthia Kurtz, Daniel Callender and I, will (1) address Senator De León's "critical path reforms" set forth in his August 22, 2011 letter to the City; (2) address the Independent Ethics Advisor's prior recommendations as reported on pages 49-52 of the July 2011 Report, including the City's ongoing efforts to comply with the Political Reform Act of 1974, Government Code Section 1090, the Brown Act, the Public Records Act, and conflict of interest requirements; and (3) offer additional thoughts and recommendations.



John Van de Kamp

RECENT DEVELOPMENTS

AB 46 and AB 781

AB 46 and AB 781 would have disincorporated Vernon. The disincorporation would have created a community services district with jurisdiction over certain functions currently performed by Vernon, e.g. fire protection, water, telecommunications, gas, electric utility and street maintenance. Both bills failed passage in the State Senate, but could be reintroduced at a later time.

City Charter Elections

Two elections have been held in Vernon, the first on November 8, 2011, and the second on November 22, 2011. Those elections dealt with amendments to the City Charter and resulted in resounding and in some cases unanimous votes in support of the following measures:

- Measure A: Limiting the number of terms a City Council member may serve at two terms, with a lifetime ban thereafter. (43-9)
- Measure B: Reaffirming the longstanding policy of ensuring the payment of prevailing wages on public works projects. (52-0)
- Measure C: Removing the provision mandating at-will employment for City employees. (52-0)
- Measure D: Eliminating restrictions on the City Council's authority to remove the City Administrator and to reduce the City Administrator's compensation. (52-0)
- Measure E: Requiring that the City maintain a Housing Commission. (49-1)
- Measure F: Ensuring that an Independent Reform Monitor is retained for four years. (50-0)
- Measure G: Requiring a special election to fill vacancies on the City Council, and prohibit the appointment of Councilmembers by the City Council. (50-0)
- Measure H: Prohibiting the Councilmembers from increasing their compensation in excess of cost of living adjustments. (49-1)
- Measure I: Removing restriction on the use of revenue from the City's Light & Power Department deposited into the City's Light & Power Fund. (43-0)
- Measure J: Requiring the establishment of a process allowing for open and competitive bidding on City service contracts by City Council ordinance. (43-0)

Resignations

Interim City Attorney Michael B. Montgomery resigned on October 31, 2011. A search firm has yet to be hired to help the City Council select a replacement. In the meantime, the day-to-day role is being filled by Chief Deputy City Attorney and City Clerk Willard Yamaguchi with the assistance of outside counsel Dana Reed of Reed & Davidson, LLP.

On December 1, 2011, Mayor Hilario Gonzales resigned after 37 years on the City Council. His current City Council position is vacant. His replacement will be elected in a special election on June 5, 2012. Councilmember William Davis continues to serve as Mayor Pro Tempore.

CHAPTER I

Senator De León's "Critical Path Reforms"

Each "critical path reform" recommended by Senator De León in his August 22, 2011 letter to the City, and Vernon's responses thereto, are set forth below.

A. Greater Accountability & Transparency

1. Critical Path Reforms

- "a. Implement Charter Reform via election at the earliest possible date this year that:
- i. Removes the "at-will" provision in the Charter;
 - ii. Establishes Council term limits;
 - iii. Establishes salary and benefit limits for senior city officials;
 - iv. Prohibits the Council from appointing successors;
 - v. Removes the provision that limits the ability to remove the City Administrator;
 - vi. Removes the provision prohibiting transfers from Light and Power to the General Fund;
 - vii. Adds a provision for prevailing wage in city contracts; and
 - viii. Establishes an open and competitive bidding process on service and personal service contracts that is prominently posted on the City's web-site, and that requires the details to those contracts to be prominently posted on the City's web-site at least seven days prior to Council approval."

2. Response from Vernon

All of the Charter reform recommendations have been approved by the voters at the November 8 and 22, 2011 elections.

The City Council on May 26, 2011 fixed salaries for Vernon's department heads pursuant to a schedule in line with comparable local jurisdictions in Southern California to be effective July 1, 2011. The City Council reduced their own salaries by 18% to \$55,800 effective July 31, 2011 and approved reductions of their own salaries to \$24,996 to go into effect at the beginning of each Councilmember's next term. There are staggered terms, so the new \$24,996

salary would affect the first Councilmember when his (her) new term begins on April 17, 2012. In the July 2011 Report, I had urged reduction of Councilmember salaries effective immediately rather than at the end of each Councilmember's term. The City Council has not taken this action. At the very least, all Councilmember salaries should be set at \$24,996 by April 17, 2012, when the newly elected Councilmember takes office.

B. Van de Kamp Report Recommendations

1. Critical Path Reform

"a. Implement the recommendations in the Van de Kamp report as soon as feasible."

2. Response from Vernon

The status of Vernon's implementation of my recommendations is recounted in Chapter II of this Report.

Overall the City has made good progress and appears to be addressing most of the recommendations in a timely way.

C. Doubling the Electorate

1. Critical Path Reforms

- "a. Establish an independent Housing Commission;
- b. Spin off the city's current housing stock to the independent Housing Commission; and
- c. Construct approximately 50 new housing units with a significant affordable component within three years, with the goal of doubling the City's electorate."

2. Response from Vernon

The following is reported by the Housing Commission's outside counsel Reed & Davidson, LLP:

a. Establishment of the Vernon Housing Commission

On June 7, 2011, the City Council adopted Ordinance 1183 establishing the Vernon Housing Commission (the "Housing Commission"). The City Council concluded that overseeing the management, leasing and maintenance of City-owned housing could more efficiently and effectively be carried out by a commission rather than the City Council.

The Housing Commission was given broad responsibilities relating to City-owned housing. Generally, the Housing Commission has the authority to take any action regarding City-owned dwelling units that any owner in California would have the authority to take. However, the Housing Commission has not been given the power to sell or encumber City-owned housing or to acquire an ownership interest in any new housing units on behalf of the City.

The Housing Commission was given the following specific tasks:

- Enter into leases/rental agreements with tenants and prospective tenants;
- Take action to remove tenants for cause when permitted by law;
- Set, adjust and collect rents;
- Repair or reconstruct City-owned dwellings;
- Recommend a housing policy, including a provision for first responder priority, for adoption by the City Council within 60 days of the Housing Commission's first meeting;
- Make recommendations to the City Council within 180 days of its first meeting regarding whether the City should divest its ownership in any of the City-owned dwelling units and, if so, recommend a procedure that affords existing tenants a priority right to purchase units they are currently leasing;
- Make recommendations to the City Council regarding opportunities for development of housing in the City and other communities in close proximity; and
- Advise the City Council regarding matters relating to the City's housing element.

On November 22, 2011, the City's residents approved Measure E, a Charter amendment that requires the City to maintain a Housing Commission.

b. Appointment of Housing Commission Members

In accordance with Ordinance 1183, on August 2, 2011, Mayor Hilario Gonzales appointed, and the City Council ratified, the members of the Housing Commission to include the Mayor, two other residents and four business representatives.

c. Actions Taken by the Housing Commission

At its first meeting held on August 11, 2011, after completing a number of organizational matters, a resolution was adopted by the Housing Commission that authorized the City Treasurer to continue to collect monthly rents and for the Director of Community Services & Water to continue to provide general maintenance and repairs for City-owned housing units.

On October 5, 2011, the Housing Commission approved a housing policy, which the City Council ratified on October 18, 2011.

The Housing Commission obtained public comment regarding the desire for uniformity, input on rental rates, the length of leases and tenant transfers to vacant units.

The Housing Commission determined that rental rates should be set at market value recognizing the unique commercial/industrial nature of the City and the lack of typical residential amenities. The consensus among the Housing Commissioners was that rental rates would be determined using a market-based approach and that independent assessments by qualified professionals should be obtained to assist the Housing Commission. The staff was instructed to begin the process of obtaining independent rental rate appraisals.

At its January 12, 2012 meeting, the Housing Commission adopted a form lease and leasing procedures. The Housing Commission asked its Subcommittee to review the appraisals received and propose "market based rental rates" which are expected to be presented for public comment at the Housing Commission's February 9, 2012 meeting, with possible action taken at that meeting. The subject of divestiture of the housing units the City owns will also be addressed at that meeting.

Of note, 11 of the City owned residences are under 5 year leases, which expire in 2014 and 2015 (they cannot be affected by the proposed "market rate changes" during the duration of their leases). Additionally, 16 of the City owned residences are on month-to-month leases, 3 City owned residences are vacant, and one is used by the City's Fire Department.

d. New Housing Units

On August 25, 2011, the City Council voted to enhance government accountability by increasing the City's population through the construction of approximately 50 non-City-owned housing units. City staff was directed to develop a plan for review and implementation by the Housing Commission that provides for the construction of these housing units on land to be provided by the City within three years, including low and very low income units. The City staff was also directed to develop a plan for gap funding by the City as needed to attract private investment for development of such units.

The Housing Element in the City's current General Plan prohibits the development of any new residential units due to the unique industrial and commercial nature of the City. This policy is reflected in the City's zoning ordinances. To develop new housing units, the City will need to amend its General Plan.

A request for proposal was prepared seeking qualified firms to assist in the preparation of a General Plan update. On December 6, 2011, the City Council adopted a resolution to retain the firm of Hogle-Ireland to perform such services. Work on the General Plan amendment is currently underway.

The City Administrator is currently exploring housing development possibilities, most notably with the California Department of Veterans Affairs.

e. New Tenants

The Housing Commission in its adopted leasing procedures includes a lottery for new tenants.

D. Independent Reform Monitor

1. Critical Path Reforms

- "a. Appointment of an Independent Reform Monitor for a period of no less than four years;
- b. That Reform Monitor shall have broad-based authority to enforce the elements of the revised charter and other adopted reforms;
- c. The Reform Monitor's powers shall include the power to conduct audits of all city operations and budgets as well as review any proposed service or personal service contract that is substantial in nature; and
- d. The Reform Monitor shall report back annually to the Legislature on the progress of the City's efforts to meet its obligations and shall make recommendations on any additional changes that may be necessary to implement the changes."

2. Response from Vernon

On January 3, 2012, the City Council approved a new engagement letter with John Van de Kamp and his firm Dewey & LeBoeuf LLP, dated December 15, 2011 (the "December 2011 Engagement Letter"), pursuant to which they have been engaged to serve as an Independent Reform Monitor for four years beginning February 15, 2012, with continuing obligations to review the effectiveness of Vernon's policies regarding those items covered in the "Independent Ethics Advisors" engagement under the February 2011 Engagement Letter, which covered the Political Reform Act of 1974, Government Code Section 1090, the Brown Act, Public Records Act, and conflict of interest requirements, as well as policies and procedures relating to reimbursement of expenses to anyone affiliated with the City, including consultants.

The Monitor is also to review the implementation of the measures recommended by the Independent Ethics Advisor in his July 2011 Report.

The December 2011 Engagement Letter also authorized the Monitor to review the implementation of the recommendations of Senator De León and to make recommendations of "such other measures which may be called for which are in the best interest of the City." It was also stipulated that the Monitor shall have the power to conduct audits of all City operations and budgets as well as the power to review any proposed service contract that is substantial in nature.

On July 31, 2012 and every six months thereafter, the Monitor is to issue written reports to the City Administrator and the City Council and the State Legislature detailing the Monitor's findings.

The only Senator De León recommendation not included was to give the Monitor "broad-based authority to enforce the elements of the revised charter and other adopted reforms" (emphasis added). The Monitor chose not to include this provision since this could constitute an inappropriate delegation of the powers inherent in the Charter City, and even if authorized by law, was unnecessary given the City's broad commitment to the recommended reforms, as well as the overhang of possible action by the State Legislature should Vernon's critical path reforms deviate in a substantial manner.

The City Council was informed that Robert Stern and Cynthia Kurtz had agreed to continue to work with the Independent Reform Monitor under the December 2011 Engagement Letter. Daniel Callender of Dewey & LeBoeuf LLP also will continue to work with the Independent Reform Monitor.

E. Worker Rights for Police, Fire, and Other Public Employees

1. Collective Bargaining by Police and Fire Fighters

a. Critical Path Reform

"a. Continue to allow for collective bargaining by police and firefighters."

b. Response from Vernon

The Vernon police officers and sergeants for a long period have been represented by the Vernon Police Officers Benefit Association (the "VPOBA"), which has entered into MOUs with the City during much of this time. In July 2011, a new MOU was negotiated between the VPOBA and the City to run to June 30, 2012.

The firefighters are represented by the Vernon Firemen's Association (the "VFA"). As of July 1, 2011, the City negotiated a new MOU with the VFA to run to June 30, 2012.

2. Collective Bargaining Neutrality for City Workers

a. Critical Path Reform

"b. Establish collective bargaining neutrality for city workers."

b. Response from Vernon

On August 25, 2011, the City in response to Senator De León's letter affirmed its commitment to collective bargaining neutrality for all City workers. (Resolutions 2011-147 and 2011-149). No other City employee group has approached the City yet to establish recognition rights to negotiate.

3. Living Wage

a. Critical Path Reform

"c. Establish a living wage program for city employees and contractors."

b. Response from Vernon

The City's living wage policy was ordered in Resolution 2011-149 on August 25, 2011. Ordinance 1187 was then adopted on October 4, 2011, providing for a minimum rate of \$10.30 per hour with health benefits, and \$11.55 if health benefits are not provided, subject to annual adjustments, applicable to City employees and most City contractors. The policy was modeled on the living wage policy adopted by the City of Los Angeles.

F. Good Neighbor Program

1. Environmental and Community Benefit Fund

a. Critical Path Reform

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

b. Response from Vernon

Resolution 2011-149, adopted on August 25, 2011, ordered the establishment of the Environmental and Community Benefit Fund (the "ECBF") for a duration of 10 years, with \$5 million per year plus consumer price adjustment to be allocated to the ECBF. The City Administrator and Finance Director were asked to find funding sources. As of the date of this Report, funding sources have not been determined and therefore no allocation has been made to the ECBF. The December 29, 2011 California Supreme Court decisions, which in essence eliminated the use of City redevelopment funds, ended one major potential source of the funding.

Allocation of money for the ECBF should await clarity regarding the future of the City's Redevelopment Agency funding. Legislation is expected to be introduced in 2012 to address the various issues associated with the elimination of the Redevelopment Agencies. The City should begin to fulfill its commitment to this recommendation by July 31, 2012. By that time, the City's financial picture should be clarified and the 2012 budget adopted.

2. Independent Board

a. Critical Path Reforms

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

b. Response from Vernon

In Resolution 2011-149, adopted on August 25, 2011, the City ordered management of the ECBF by a 9 member committee, each member serving a 2 year term. The ECBF will include 1 Senate Rules Committee appointee, 1 Assembly Speaker appointee, 1 Governor appointee, 1 Vernon appointee, 1 Huntington Park appointee, 1 Maywood appointee, 2 City of Los Angeles appointees (to include a Boyle Heights and South Los Angeles representative) and 1 County of Los Angeles appointee representing unincorporated East Los Angeles. As of the date of this Report, the appointments have not been solicited. It is expected that the appointments to the ECBF will be made by July 2, 2012.

3. Regional Community Recreational Facilities

a. Critical Path Reform

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

b. Response from Vernon

In Resolution 2011-149, adopted on August 25, 2011, the City agreed to provide a separate allocation of \$5 million to assist programs on the Hazard Park Armory Youth Center in Boyle Heights, and \$5 million to assist in the renovation of the Salt Lake Park in Huntington Park. The City Administrator and the City Treasurer were ordered to negotiate programs to be funded and present their recommendations to the City Council for consideration.

The funding mechanism for these allocations has yet to be finalized. In the meantime the City Administrator has commenced discussions with Huntington Park representatives relating to the Salt Lake Park project. Vernon is now awaiting a proposal from the City of Huntington Park; upon receipt it is expected that the City Administrator and the City Treasurer will present their recommendations to the City Council. No time limit has been established for this funding. Given the uncertain status of Redevelopment Agency funding, the timetable for this allocation should await clarity regarding the source of funding. The City

should set a timetable for a determination as to how and when the obligation is to be met no later than July 31, 2012, when the City's financial picture is clarified, the proposals have been received and reviewed, and the 2012 budget has been adopted.

4. Sustainable Development and Energy Efficiency Commission

a. Critical Path Reform

"d. Establish a Sustainable Development and Energy Efficiency Commission that includes representation from the environmental justice community."

b. Response from Vernon

Resolution 2011-149, adopted August 25, 2011, ordered the establishment of a Sustainable Development and Energy Efficiency Commission (the "SDEEC"). It was formally established by Ordinance 1188, to improve the City's environmental standards and to oversee major City projects to ensure they adhere to the City's environmental standards and requirements and to make recommendations and to promote best practices for sustainable development and energy efficiency in the City. The SDEEC consists of 7 members, composed of 3 business representatives, 2 labor representatives and 2 environmental representatives (one of whom comes from the environmental justice community). No member of the SDEEC may be a member of the City Council. Members of the SDEEC were appointed by the City Council on January 3, 2012.

5. Trash Hauling Program

a. Critical Path Reform

"e. Revise existing trash hauling program with strong environmental standards."

b. Response from Vernon

Resolution 2011-149, adopted on August 25, 2011, directed the City's Health Officer/Director of Health and Environmental Control to establish a Trash Hauling Franchise Program to consolidate trash hauling enterprises within the City and improve environmental and safety standards that govern trash hauling within the City. The City is in the process of developing a response to this directive and is expected to present its response to the SDEEC by May 1, 2012 for input by the SDEEC before a presentation to the City Council by June 1, 2012.

CHAPTER II

Independent Ethics Advisor Recommendations

Each recommendation by the Independent Ethics Advisor in his July 2011 Report, and Vernon's responses thereto, are set forth below.

A. The Political Reform Act of 1974 and Ethics

1. Campaign Disclosure

Recommendation

"1. The City Clerk should be sufficiently trained to review campaign disclosure statements and ask for supplemental information as needed."

Response from Vernon

The City Clerk has been trained by Reed & Davidson, LLP to review campaign disclosure statements. The training was completed on January 5, 2012. He has also begun to get involved with the City Clerks' Association.

In addition, the City Council on September 20, 2011, adopted an ordinance that limits individual contributions to City Council candidates to no more than \$100 per election. It does not and cannot bar independent expenditures.

2. Conflicts of Interest Statements

Recommendation

"1. The City Clerk should ensure that assuming office and leaving office statements are filed on-time."

Response from Vernon

According to Reed & Davidson, LLP, the City Clerk is very conscientious about ensuring that such statements are filed on time.

Recommendation

"2. The City Clerk needs to ensure that all statements are readily accessible and kept for at least seven years."

Response from Vernon

All statements are readily accessible and kept for at least seven years.

Recommendation

"3. The City should provide all incoming affected employees with written guidance regarding compliance with filing the required documentation together with copies of the forms to be completed."

Response from Vernon

The City provides all the necessary information as published by the Fair Political Practices Commission regarding compliance with the Political Reform Act and provides respective conflicts of interest codes and filing forms.

Recommendation

"4. The City should provide written instructions on how to comply with Government Code Section 1090."

Response from Vernon

The City has provided training but not written materials on complying with Government Code Section 1090. A compliance manual is expected to be completed by April 2, 2012, with the assistance of Reed & Davidson, LLP.

3. Ethics Training

Recommendation

"1. The City should continue to provide ethics training to all Councilmembers and staff in compliance with Section 53235, and should consider yearly courses as appropriate, particularly if there is an influx of new employees and/or if there are significant changes in the rules."

Response from Vernon

Reed & Davidson, LLP provided ethics training primarily dedicated to the Political Reform Act and Government Code Section 1090 to staff and all Councilmembers on June 21, 2011, and expects to continue to do so annually.

Recommendation

- "2. Written manuals for the Ethics Training should be provided to new high level employees and Councilmembers within 30 days of assuming their positions."

Response from Vernon

A comprehensive written compliance manual is expected to be completed by April 2, 2012 and provided to employees and Councilmembers.

4. Conflict of Interest Codes

Recommendation

- "1. The City should continue to adopt conflict of interest codes for all City agencies and ensure that they are kept up to date when there are any changes in the state law. The City should direct its ethics attorneys, Reed & Davidson, to review the codes and recommend any necessary changes."

Response from Vernon

The City maintains its conflict of interest codes up to date. Reed & Davidson, LLP has provided assistance with preparing new codes and is reviewing existing codes. The review is expected to be completed by May 1, 2012; any updates or amendments will be adopted by October 31, 2012 in accordance with the Fair Political Practices Commission biannual review period.

Recommendation

- "2. The City Council needs to adopt a conflict of interest code for the new Housing Commission and alert potential appointees of the reporting and disqualification requirements."

Response from Vernon

The City Council has adopted a conflict of interest code for the Housing Commission and has required reporting of relevant interests by the members of the Housing Commission.

B. Housing and Elections

Recommendations

- "1. Appointments should be made as soon as possible to the Housing Commission. The Housing Commission should quickly formulate housing

policies. If rental programs are adopted, the Commission should set rates on a market basis, and establish policies that avoid favoritism to City personnel and their relatives and friends.

2. Consideration should also be given to the sale of all City-owned residences. If a sales program is adopted, the Commission should be careful to adopt policies that avoid favoring those who work for the City and their friends and relatives. (One exception to this could be the encouragement of a limited number of first responders to live in City housing)."

Response from Vernon

For the response from Vernon, see Chapter I, Section C.2.

Recommendation

- "3. Vernon should hold elections every two years with staggered four-year terms for Councilmembers, with two seats up at one election, and three seats up in the other election."

Response from Vernon

Staggered Elections

The City has not acted on this recommendation and is planning to hold an election on April 10, 2012, for one City Council seat and an election on June 5, 2012 for the former Mayor Councilmember's seat that was vacated due to his resignation. The City Council has not discussed this recommendation at a meeting, but the City has indicated that there are good reasons for holding elections every year with only one seat up for election, apparently fearing a takeover attempt such as that experienced in 2006.

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.

The City Council placed a Charter amendment on the November 22, 2011 ballot that prohibits appointments by the City Council to fill vacancies on the City Council. The measure passed. As a result, City Council vacancies must be filled through the election process.

Election Complaint

On November 7, 2011, Vernon resident Michael Ybarra filed a complaint with the City Clerk alleging that six people who were not legal residents of the City had registered to vote, most of whom had voted early (*i.e.*, prior to November 7) in both the November 8 and November 22, 2011 elections. In all, he alleges that five people voted who may not have been eligible to vote in one or both elections (one did not vote in the November 8 election and one did not vote in either election). In addition, his complaint questions how two people could be living

in City housing if they do not have a lease with the City, and he challenges their right to vote. (Note: if a person is living at a residence, that person is eligible to vote despite not being listed on a lease.) On December 20, 2011, following the two November elections, the City Clerk sent the County Registrar-Recorder a copy of the complaint and a cover letter asking that the matter be examined. The City Clerk noted that, in addition to the registered voters mentioned in the complaint, two registered voters (one of whom had voted) were in addresses that were vacant and that fourteen registered voters (one of whom had voted at the November 8 election) do not appear to live where they are registered. The Registrar-Recorder's office has notified the City Clerk that it has sent out letters to all of the residents challenged in the complaint.

In an unrelated action, the Housing Commission, as it established leasing procedures, has recently directed City staff to determine the names of the people living in the City owned housing.

C. The Brown Act

1. Training

Recommendation

- "1. In order to comply with City Council resolution No. 2011-69, Vernon must provide annual Brown Act compliance training. The AB 1234 Ethics Training did not satisfy this requirement. The Brown Act compliance training should be conducted in the third quarter of 2011. For 2012 and thereafter, annual Brown Act compliance training may be conducted concurrently with the Political Report Act training (i.e., the AB 1234 Ethics Training) and Public Records Act training."

Response from Vernon

Daniel Abramson and Jerry Margaret Simmons of Reed & Davidson, LLP conducted Brown Act and Public Records Act compliance training (i) on September 20, 2011 for members of the City Council, the Advisory Committee on Electric Rates and the Housing Commission; and (ii) on September 28, 2011 for department heads and staff. On December 6, 2011, pursuant to City Council Resolution No. 2011-196, the City Council resolved that Vernon will conduct Brown Act compliance training for Vernon officials and staff on an annual basis. For 2012 and thereafter, Vernon plans to conduct Brown Act and Public Records Act compliance training concurrently with the annual AB 1234 Ethics Training.

2. Compliance Policy and Manual

Recommendation

- "2. Vernon also should continue to work with Reed & Davidson, LLP, or another expert approved by the City Counsel, to develop a written Brown Act compliance policy. Vernon, with assistance

from counsel, should also prepare a Brown Act compliance binder that contains written materials to help Vernon employees understand the requirements of the Brown Act and how those requirements apply to Vernon. Both the Brown Act compliance policy and the compliance binder should be made available to Vernon employees in electronic form and posted on Vernon's intranet site."

Response from Vernon

On December 6, 2011, pursuant to City Council Resolution No. 2011-196, the City Council adopted a Brown Act compliance policy. The City Council also mandated that Vernon issue a Brown Act compliance manual to officials and staff that outlines the requirements of the Brown Act and Vernon's related policy and procedures. The City Clerk and the City Attorney will review and update the Brown Act compliance manual on an annual basis. Vernon, with the assistance of Reed & Davidson, LLP, plans to complete the Brown Act compliance manual by April 2, 2012.

The Brown Act compliance policy was transmitted by email to Vernon department heads but has not been posted on Vernon's intranet site. The Brown Act compliance policy, and when completed, the Brown Act compliance manual, will be posted on Vernon's intranet site.

D. The Public Records Act

1. Training

Recommendation

- "1. In order to comply with City Council resolution No. 2011-69, Vernon must provide annual Public Records Act compliance training. The AB 1234 Ethics Training did not satisfy this requirement. The Public Records Act compliance training should be conducted in the third quarter of 2011. For 2012 and thereafter, annual Public Records Act compliance training may be conducted concurrently with the Political Report Act training (i.e., the AB 1234 Ethics Training) and Brown Act training."

Response from Vernon

See Chapter II, Section C.1.b. above for a discussion on Vernon's response to the Independent Ethics Advisor's recommendations for Public Records Act training.

2. Compliance Policy and Manual

Recommendation

- "2. Vernon also should continue to work with Reed & Davidson, LLP or other counsel to develop a written Public Records Act compliance policy which shall permit a person to make an oral request for a record. Vernon, with assistance from Reed & Davidson, LLP, also should prepare a Public Records Act compliance binder that contains supplemental written materials to help Vernon employees understand the requirements of the Public Records Act and how those requirements apply to Vernon. Both the Public Records Act compliance policy and the compliance binder should be made available to Vernon employees in electronic form and posted on Vernon's intranet site. Vernon's Public Records Act compliance policy also should be made available on Vernon's website."

Response from Vernon

On December 6, 2011, pursuant to City Council Resolution No. 2011-197, the City Council adopted the Public Records Act Compliance Policy. The City Council also repealed City Council Resolution No. 7216, dated September 22, 1998, entitled "A Resolution of the City Council of the City of Vernon Revising its Fees and Procedures for Public Inspection and Examination of Public Records, and for Obtaining Copies of Public Records of the City of Vernon and Repealing Resolution No. 6677" and adopted the Public Records Compliance Procedures and Fees, which, among other things, permits a person to make an oral request for a record.

The Public Records Act Compliance Policy mandates, among other things, that Vernon issue a Public Records Act compliance manual to its staff that contains supplemental written materials to help the staff understand and comply with the requirements of the Public Records Act and Vernon's related policy and procedures. The City Clerk and the City Attorney will review and update the Public Records Act compliance manual on an annual basis. Vernon, with the assistance of Reed & Davidson, LLP, plans to complete the Public Records Act compliance manual by April 2, 2012. The Public Records Act Compliance Policy, and when completed, the Public Records Act compliance manual, will be posted on Vernon's intranet site.

The Public Records Act Compliance Policy and Compliance Procedures and Fees were transmitted by email to Vernon department heads and were posted on Vernon's website on January 11, 2012.

E. Internal Policies, Procedures and Controls

1. Internal Financial Controls, Record Keeping, Policies for Selecting and Engaging Consultant and Structure of Current Consulting Agreements and Payments Made to Consultants

Recommendations

- "1. Require all contracts, including professional service contract, to include ending dates and/or expenditure caps.
2. Review and rebid professional service contracts at least once every three years.
3. 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.
4. 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.
5. 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 rate."

Response from Vernon

These five recommendations relate to policies and procedures for contracts. They will all be addressed in a single policy document for the City Council's review and approval by July 3, 2012.

Recommendation

- "6. Review contracts with individuals to make sure the criteria for contractors or consultants are being met. If any contracts do not meet this criteria, take steps to transfer the work to City employees or change the status of the contractor to employee."

Response from Vernon

The work assignments of one remaining contractor with the Light & Power Department fail to meet the criteria for a contractor. The Light & Power Department will request

that the City Council create a staff position to take on this work by February 21, 2012. Once the position has been filled, the contract of the remaining contractor will be phased out.

2. Internal Audits, Budget, and Policies and Procedures Related to Reimbursement of Expenses and Payments of Invoices to any Individual Affiliated with the City or the City Council including City Employees.

Recommendations

- "1. Adopt a written formal travel policy for City employees.
2. Amend the City Council travel policy to provide the Council specific guidance related to purchase of economy airline tickets. Ensure City Council Travel Policies are reviewed as a part of orientations for new Councilmembers. Written advisories should go out to each Councilmember when there are changes in policy."

Response from Vernon

A travel policy that applies to both Councilmembers and staff was adopted by the City Council by Resolution No. 2011-187 on November 15, 2011. The policy was modeled after a Vernon policy that had been repealed and the current City of Pasadena policy.

No Councilmembers have been elected since the policy was adopted so there have been no orientation sessions, but the travel policy will be included in the orientation of new Councilmembers. The travel policy will be included in the updated handbook for City employees.

Recommendation

- "3. Conduct market comparison studies for department heads and other key staff positions on a regular basis, e.g., every three years."

Response from Vernon

Market studies comparing Vernon's department head salaries with those of 18 other southern California cities have been completed. The staff comparison report was presented to the City Council on May 26, 2011, which, in response, established new top salaries for a number of senior positions. Effective July 1, 2011, all senior official salaries were adjusted to be within the range established by the survey except for salary of the Director of Community Services & Water. Because this position has more responsibility than the positions with which it was compared, the City decided that the current salary, which is 6% higher than the market range, was appropriate. Therefore, the salary was not reduced. Similar market studies are expected to be conducted every three years.

Market studies for other staff positions will be completed after the Human Resources Director has been hired.

Recommendation

"4. Reduce City Councilmember salaries effective immediately to the level set forth in the May 26, 2011, resolution rather than at the end of each member's term."

Response from Vernon

As noted previously in this Report, the City Council reduced their annual salaries by 18% to \$55,800 effective July 31, 2011 and approved a reduction of their salaries to \$24,996 effective at the beginning of each Councilmembers next term. No further action has been taken or scheduled.

Recommendation

"5. Seek voter approval for a Charter amendment that would tie future City Council salary increases to the cost of living or some other appropriate index."

Response from Vernon

As noted previously in this Report, on November 22, 2011, Vernon voters approved a Charter amendment prohibiting the City Council from increasing their compensation by more than a cost of living adjustment.

F. Operations

Recommendation

"1. Schedule regular meetings of the department heads."

Response from Vernon

City department heads and the City Administrator meet every two weeks on the day following the City Council meetings.

Recommendation

"2. Implement ongoing updates about AB 46 with employees."

Response from Vernon

AB 46 is no longer active legislation so updates are not necessary.

Recommendation

"3. Update the existing rules and regulations regarding the employment of related family members, prohibiting the hiring, promotion and transfer of

relatives of city employees into positions which allow an employee to control the hiring and the terms, conditions or performance of employment of a relative."

Response from Vernon

The City Council adopted an updated nepotism policy on August 25, 2011 by Resolution No. 2011-137 which includes all the restrictions in this recommendation. The policy was modeled after the current City of Pasadena nepotism policy.

Recommendation

"4. Adopt a media policy and provide media training for department heads and others who are expected to communicate with the media."

Response from Vernon

The City Council adopted Resolution No. 2011-186 on November 15, 2011 that approves a media relations policy. The City Administrator and the Public Information Officer are the City's official spokespersons on all matters. City department heads may provide basic information on matters pertaining to their respective departments. The policy does not address Councilmembers as their elected status allows them to speak to the media on any topic, except for matters subject to confidentiality restrictions.

Training for department heads will be conducted by June 28, 2012 as part of a regularly scheduled staff meeting.

Recommendation

"5. Require that the City Clerk has training on regulations governing municipal elections as well as Brown Act and Public Records Act compliance."

Response from Vernon

The City Clerk attended training on the Brown Act and the Public Records Act on September 28, 2011 and met with outside counsel Dana Reed to review requirements on campaign disclosure statements on January 5, 2012.

In 2012 the Brown Act training will be conducted concurrently with required Public Records Act compliance training.

Recommendation

"6. Hire a permanent City Attorney with expertise in municipal law and redevelopment."

Response from Vernon

On January 17, 2012, after interviewing three search firms in public meetings, the City Council was divided 2-2 on its choice of a firm to conduct the search. That postpones the selection of a City Attorney. The City Council needs to work together to resolve this as soon as possible.

When a City Attorney is selected, Latham & Watkins LLP, which has served the City in a number of ways during the disincorporation fight, expects its level of service will be substantially decreased. The City Attorney should work to reduce the City's reliance on outside counsel and when necessary hire outside counsel at negotiated rates typical of those paid by governmental entities.

Recommendation

- "7. Should the present City Administrator - Fire Chief continue to serve in a dual function, he should be supported by an Assistant City Administrator and an able Assistant Fire Chief."

Response from Vernon

Based on the December 6, 2011 City Council Resolution No. 2011-199, it is unclear if the current City Administrator will continue in his current dual roles after April 17, 2012. At the current time, Cynthia Kurtz, former Pasadena City Manager, is serving as a consultant to the City Administrator on a part-time basis.

The current Assistant Fire Chief, Andrew Guth, according to City Administrator - Fire Chief Mr. Whitworth, is able and has done a capable job while Mr. Whitworth has continued to fill his dual roles.

Recommendation

- "8. Create a Human Resources/Personnel Department and hire a trained Human Resources Director."

Response from Vernon

The City Council established the salary for the Human Resources Director position with Resolution No. 2011-85. In June 2011, the City Administrator presented the City Council a recommendation to begin the recruitment process for the Director. The City Council failed to act on the recommendation. On December 6, 2011, the City Council authorized the City Administrator to engage a search firm for the engagement of a Human Resources Director.

Recommendation

- "9. Conduct a study of the Vernon Police Department staffing and costs in comparison with other primarily industrial cities."

Response from Vernon

An internal study new under the direction of Carlos Fandino, Light & Power Department Director, has just commenced. There is no deadline for its completion.

Recommendations

- "10. Actively participate in the Independent Cities Association and the League of California Cities.
11. Establish an ongoing consulting relationship with City Administrators and City Managers from other Southern California cities and League of California Cities representatives to review best practices and Vernon's utilization of them."

Response from Vernon

Vice Mayor Davis, Councilmember McCormick and the City Administrator attended the annual Independent Cities Association ("ICA") conference in July 2011 and the Contract Cities conference in September 2011, and intend to participate in the February 2012 ICA conference. The City Administrator also intends to attend the League of California Cities' City Manager conference in February 2012.

The City Administrator will use the League of California Cities' Gateway Cities Area Group meetings to meet additional local administrators and managers and plans to select up to three administrators and/or managers by September 2012 to advise the City as needed.

CONCLUSION

As can be seen, significant reforms have been undertaken by Vernon in the past year. But as can be seen there is still unfinished business. The good news is that timetables have been set for completion of many of the remaining recommendations emanating from the De León and Van de Kamp reports. In my July 2012 report as the Reform Monitor I will report on the status of those recommendations.

It is my recommendation that the City 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.

Of concern at the moment is the future of Vernon's leadership. At present the City Council has four rather than five members and at times appears divided on issues of importance.

Councilmember Newmire's seat is open for election on April 10, 2012, while the former Mayor's Councilmember term will be filled by election on June 5, 2012. The commitment of the new City Council to the fulfillment of the reform measures can be better measured following the two elections. At the same time the candidates in the elections should be challenged to lay out their vision for Vernon's future and how its government should perform.

Of concern also is the future of the City Administrator-Fire Chief Mark Whitworth. As of the date of this Report, his status remains "as is" until April 17, 2012. Whether he wants to continue in his present capacity and if so whether the new City Council in April desires him to continue in his City Administrator role or whether to have him return to his position as Fire Chief leaving the possibility of a search for a new City Administrator, are open questions (See Dec. 6, 2011 City Council Resolution 2011-199). In my July 2011 Report, I recommended that if the incumbent served in a dual capacity he should be supported by an Assistant City Administrator. Cynthia Kurtz is now helping to fill that position on a part time basis as a consultant.

There is no question that Mr. Whitworth has done an able job in representing the City during the disincorporation crisis, and has had to spend a great deal of time outside the City during the crisis. Since September 2011, Mr. Whitworth has overseen the timetable of reform measures, has been able to work more closely with staff, has made himself more available to Councilmembers and has sought and welcomed assistance where needed, e.g. through the part-time help from consultant Cynthia Kurtz. Without assigning fault, it is clear that his relationship with two of the Councilmembers needs to be improved. That will take some time and commitment from both quarters.

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

At the same time, the City Council should take action to hire a search firm to develop candidates for the vacant City Attorney position. Capable firms have been interviewed and the divided City Council failed to act. Roughly four months will be required once the search firm is chosen before a City Attorney selection can be made. The delay is costing the City time and money since the City Administrator must turn to Reed & Davidson, LLP, for assistance at its meetings.

The bottom line is that the City Administrator and the City Attorney remain key figures in Vernon's future and must provide strong, stable leadership of the highest ethical standards if Vernon is to succeed. In so doing the City government (including the City Council) and its stakeholders (business and residents) must be well informed about the City's situation on an ongoing basis and involved in its future.

To that end the various Commissions and Committees which have been established go a long way towards meeting that goal.

Two Councilmen have recently raised questions in an Los Angeles Times article about the City's relationship with Latham & Watkins, the City's primary law firm during the disincorporation, claiming that "neither Latham & Watkins nor City Administrators would provide them detailed legal billings or answer other questions about the services for which the firm is charging." (Los Angeles Times, Dec. 28, 2011) The Councilmen are entitled to those answers, although there was no record that they had asked those questions, at least at a public meeting. At the January 3, 2012 City Council meeting, it was made clear by the City Administrator that the Councilmembers would have access to billing records and a process was established under which they could ask for them, review them, and receive explanations about them prior to regular City Council meetings. All Councilmembers should understand that it is appropriate to raise concerns and ask questions before and during public meetings. As the old saying goes "there are no bad questions."

Of importance also is the City's long term financial structure and sustainability. The 2011 audit of the City's finances has yet to be released (Vernon's fiscal year run from July 1-June 30). But, the audit for 2007 showed total Vernon net assets of \$313,566,791 (of which \$39,674,041 were restricted) declining to \$201,108,074 in 2010 (of which \$51,216,953 were restricted). Light & Power Department total net assets which are included in the City's numbers had declined from \$177,298,970 (of which \$48,378,388 were restricted) in 2008 to \$109,795,399 (of which \$45,522,784 were restricted) in 2010.

On August 16, 2011, the City's budget was adopted by the City Council for the 2011-2012 fiscal year. In its entirety it provided for \$325,715,685 in revenue for all funds, with expenditures of the same amount. The City's governmental expenditures (excluding Light & Power, the Redevelopment Agency, the Hazardous Waste Fund, the Parcel Tax Fund and smaller utility-like funds) came to \$61,601,888. Given the low level of property and sales taxes collected, the City's governmental fund (covering City Administration, Police, Fire, etc.) requires substantial support from other City sources, e.g. Light & Power revenue.

Various steps have been taken to bring the City books into balance.

Power rates were increased by the City Council, after a review and recommendation from the Ad Hoc Advisory Committee on Electric Rates, by 8% effective July 1, 2011 and by an additional 8% effective January 1, 2012.

As noted previously in this Report, a Charter provision was passed on November 22, 2011 eliminating a provision prohibiting the City's use of revenue from its Light & Power Department. Previously Light & Power funds had been "loaned" to the City.

On December 15, 2011, the City Council approved a resolution, as modified on January 3, 2012, adopting a repayment plan to repay current and long term obligations of the City's Gas, General, and Water Funds to the Light & Power Fund by:

1. Merging the Gas Fund into the Light & Power Fund for accounting and financial reporting purposes.

2. Over the next fifteen months, selling General Fund real estate assets and remitting to the Light & Power Fund sufficient proceeds to repay all of the General Fund's current and long term obligations to the Light & Power Fund. Some sales have been initiated, with the net proceeds to be transferred pursuant to the City Council resolution.

On January 10, 2012, Vernon went to market to sell 2012 Series A and Series B bonds to pay a portion of the costs of capital improvements and to refund \$28,680,000 aggregate principal of its 2009 bonds maturing on May 1, 2012. The bonds were oversubscribed; a net of \$71,607,506 was obtained through the bonds, which permits the City to smooth out its payment of a portion of its obligations from its 2009 bond measure over a period of 30 years.

Audits

IRS audits initiated in 2011 into the 2009 Light & Power bonds were closed without any changes to the Light & Power bonus tax exempt status.

The audit of Vernon's retirement obligations by PERS that begun in 2010 is still in process and should be released after February 1, 2012. It is expected that some revisions will be made with respect to pension contributions. If overpayment to the pension fund have been made, Vernon should receive a return of those overpayments from PERS.

The Bureau of State Audits is conducting a broad-ranging audit of Vernon's financial operations. Their report is expected by mid-year 2012.

Study

At the behest of the City, a study has been undertaken with an outside firm, NBS, to explore general tax funding options. The purpose is to study alternative tax policies which could work fairness and bring in added revenue to the City.

As noted previously in this Report, the status of Vernon's Redevelopment Agency and the City's responsibility to the State with respect to its Redevelopment funds and properties remain in doubt.

Business Activity in the City

Of interest is the impact of the recession and AB 46 on the business climate of Vernon.

Two barometers indicate a relatively stable situation.

1. Cushman and Wakefield's study of vacancies in Vernon of buildings 10,000 square feet or larger shows (i) a 4.1% vacancy rate in 2011; (ii) a 4.1% vacancy rate in 2010; and (iii) a 3.9% vacancy rate in 2009. The highest vacancy rate in the past 10 years was 5.2% in 2001. The lowest was 1.5% in 2006.
2. The City's business license report shows that (i) in 2011, there were 1,599 total licenses (1,381 renewed and 218 new licenses); and (ii) in 2010, there were 1,610 total licenses (1,401 renewed and 209 new licenses).

In Standard & Poor's analysis of Vernon's Credit Rating as it pertains to "Retail Electric and Wholesale Electric", Standard & Poor's credit analyst wrote the following:

"The customer base is almost entirely commercial and industrial, yet has diversity by sector, including food processing, manufacturing, packaging, garment production, and refrigeration. Of the total 1,893 customers, 61% are commercial and 33% industrial. Industrial load accounts for 68% of total energy sales and 65% of revenues. The system load factor was 67%, which we consider moderately high, in fiscal 2011, reflecting the industrial nature of the customer base in which many major customers operate 24 hours per day. The largest customer is Matheson Tri-Gas, a gas separation company, which accounted for 8% of retail sales revenues for fiscal 2011. The 10 largest electric customers accounted for approximately 37% of retail revenues – up from 32% in fiscal 2007 – due mainly to Matheson.

Energy demand has historically fluctuated slightly, and typically declines during periods of economic recession. Retail sales rose 2.4% in fiscal 2007 and an additional 3.9% in fiscal 2008, then fell 6% in fiscal 2009 and 2% in 2010 and was virtually unchanged in 2011, suggesting that perhaps demand has stabilized. The city projects retail load to increase a slight 1.5% annually through 2017. In our view, the city's favorable competitive position among industry-oriented municipalities in Southern California enhances the stability of the utility's customer base. In particular, the city offers proximity to Los Angeles, a high degree of transportation access

(freeway and rail), low taxes, and electricity rates that are still among the lowest in California.

Although rates are what we consider low, we believe the industrial nature of the utility's customer base and the need to retain customers limit significant upward rate mobility. According to city estimates, Vernon's commercial and industrial rates are 28% below other regional rates, averaging 9.55 cents per kWh in 2011, despite rate increases in four of the past five fiscal years. Vernon's industrial rates are also 31% below Southern California Edison's rates."

The Standard & Poor's Report also indicates that Vernon has a high debt burden with debt to capitalization at 79%.

The Standard & Poor's Report gives Vernon a profile of "5" on Standard & Poor's 10 point scale, on which 1 is the highest, reflecting the view "of the utility's rate setting authority, virtually all industrial and moderately concentrated customer base, and strong competitive position."

Marisa Olguin, President and CEO of the Vernon Chamber of Commerce, adds this note:

"Overall, businesses in Vernon continue to struggle like other manufacturing and distribution industries throughout the state of California. Growth and constriction vary depending on the diverse industries that exist in Vernon. Specific industries that have traditionally been large employers in steel, furniture and some apparel are much smaller as they continue to find ways to be competitive – whether its [sic] producing out-of-state, off-shore, or changing its production schedules to manage utility usage. The food processing and cold storage industries continue to have a strong presence. Many companies that have survived the economic downturn have constricted, re-adjusted, placed holds on hiring to mitigate mass layoffs, and/or held off on project expansions. Despite the slow growth, businesses in Vernon continue to employ a high concentration of median income jobs which serves as a major economic contributor in sales tax to surrounding cities. The most important issue facing Vernon is whether the City's traditional business model will continue to be sustainable for businesses in the future."

Put together, this would indicate that the economic recession had an impact on Vernon, but there is no evidence that the spectre of disincorporation raised by AB 46 did much damage. While businesses were approached to move elsewhere, the business community remained largely intact and worked together to defeat the measure.

Vernon's challenge for the future – beyond governance – is to maintain and improve its economic attraction, and to see that its business model, which is largely based on lower costs of doing business, is maintained, if not strengthened. Vernon's existing, as well as incoming, businesses want to have long term assurance that Vernon's business model will remain intact for the long term.

Financial Situation and Reporting

This in no way purports to be an analysis of Vernon's financial situation. Up to this point the focus has been on governance, and improvement in Vernon's administration to bring it into line with the best run Southern California cities.

But as we have addressed Vernon's financial situation, one could not overlook the decline in Vernon's assets from 2007 to 2010, as well as some of the measures which have been undertaken to deal with that decline.

To that end it would appear that it is in the best interest of Vernon's residents and stakeholders to take a good look at Vernon's revenues and expenditures.

I therefore recommend the following:

- a. That the City task the Business Development Committee to review not only ways to improve the City's business climate, but to review the City's financial situation and budget. That 10 person Committee was established on January 3, 2012, consisting of 2 Councilmembers, 3 business representatives, 2 real estate representatives, 2 labor representatives and the City Administrator. That Committee should have the full cooperation of the City Administrator and the City Treasurer as well as other members of the City Administration. That Committee should be tasked with recommending to the City Council new revenue possibilities, which could include rate and tax changes, as well as reduced City expenditures. The purpose is to develop a full and broader understanding of the City's financial situation and ways to improve it and to be able to meet the commitments made by the City to Senator De León during the legislative debate over disincorporation.
- b. A public report by the Treasurer to the City Council every quarter outlining the City's progress in meeting the City's budget revenue and expenditure expectations. The first quarterly report should be made at the City Council's first meeting in May 2012 when the financial results for the January – March period are available.

RECOMMENDATIONS

A compilation of the recommendations made throughout this Report are set forth below:

A. Recommendations from the July 2011 Report to be Completed

1. All Councilmember salaries should be set at \$24,996 by April 17, 2012, when the newly elected Councilmember takes office. (Chapter I, Section A.)
2. The City has provided training but not written materials on complying with Government Code Section 1090. A compliance manual should be completed by April 2, 2012, with the assistance of Reed & Davidson, LLP. (Chapter II, Section A.2.)
3. Reed & Davidson, LLP is reviewing the City's existing conflict of interest codes, and the City should adopt any updates or amendments by October 31, 2012 in accordance with the Fair Political Practices Commission biannual review period. (Chapter II, Section A.4.)
4. To the best of our knowledge, Vernon's staggered election system remains unique in California, and should be amended to meet the norm in time for the 2013 election. (Chapter II, Section B.)
5. Vernon, with the assistance of Reed & Davidson, LLP, should complete the Brown Act compliance manual by April 2, 2012. The Brown Act compliance policy and, when completed, the Brown Act compliance manual, should be posted on Vernon's intranet site. (Chapter II, Section C.2.)
6. Vernon, with the assistance of Reed & Davidson, LLP, should complete the Public Records Act compliance manual by April 2, 2012. The Public Records Act Compliance Policy and, when completed, the Public Records Act compliance manual, should be posted on Vernon's intranet site. (Chapter II, Section D.2.)
7. The following recommendations relate to policies and procedures for contracts, and should be addressed in a single policy document for the City Council's review and approval by July 3, 2012:
 - a. Require all contracts, including professional service contract, 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 rate. (Chapter II, Section E.1.)
8. The work assignments of one remaining contractor with the Light & Power Department fail to meet the criteria for a contractor. The Light & Power Department should request that the City Council create a staff position to take on this work by February 21, 2012. Once the position has been filled, the contract of the remaining contractor should be phased out. (Chapter II, Section E.1.)
 9. The City should hire a permanent City Attorney with expertise in municipal law and redevelopment. (Chapter II, Section F.)
 10. The City should create a Human Resources/Personnel Department and hire a trained Human Resources Director. (Chapter II, Section F.)
 11. The City should complete a study of the Vernon Police Department staffing and costs in comparison with other primarily industrial cities. (Chapter II, Section F.18.)
 12. The City should establish an ongoing consulting relationship with City Administrators and City Managers from other Southern California cities and League of California Cities representatives to review best practices and Vernon's utilization of them. (Chapter II, Section F.20.)

B. New Recommendations

1. Allocation of money for the Environmental and Community Benefit Fund should await clarity regarding the future of the City's Redevelopment Agency funding. The City should begin to fulfill its commitment to this recommendation by July 31, 2012. By that time, the City's financial picture should be clarified and the 2012 budget adopted. (Chapter I, Section F.1.b.)
2. Given the uncertain status of Redevelopment Agency funding, the timetable for allocations of \$5 million to assist programs on the Hazard Park Armory Youth Center in Boyle Heights and \$5 million to assist in the renovation of the Salt Lake Park in Huntington Park should await clarity regarding the source of funding.

The City should set a timetable for a determination as to how and when the obligation is to be met no later than July 31, 2012, when the City's financial picture is clarified, the proposals have been received and reviewed, and the 2012 budget has been adopted. (Chapter I, Section F.3.b.)

3. On January 17, 2012, after interviewing three search firms in public meetings, the City Council was divided 2-2 on its choice of a firm to conduct the search. That postpones the selection of a City Attorney. The City Council needs to work together to resolve this as soon as possible. When a City Attorney is selected, Latham & Watkins LLP, which has served the City in a number of ways during the disincorporation fight, expects its level of service will be substantially decreased. The City Attorney should work to reduce its reliance on outside counsel and when necessary hire outside counsel at negotiated rates typical of those paid by governmental entities. (Chapter II, Section F.)
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)
5. The City Council as it is constituted on April 17, 2012 should decide (1) whether to continue to employ Mr. Whitworth as the City Administrator, and if not (2) to employ a search firm to help find qualified candidates, keeping Mr. Whitworth in his role until a new City Administrator is chosen. (Conclusion)
6. The City should task the Business Development Committee to review not only ways to improve the City's business climate, but to review the City's financial situation and budget. That 10 person Committee was established on January 3, 2012, consisting of 2 Councilmembers, 3 business representatives, 2 real estate representatives, 2 labor representatives and the City Administrator. That Committee should have the full cooperation of the City Administrator and the City Treasurer as well as other members of the City Administration. That Committee should be tasked with recommending to the City Council new revenue possibilities, which could include rate and tax changes, as well as reduced City expenditures. The purpose is to develop a full and broader understanding of the City's financial situation and ways to improve it and to be able to meet the commitments made by the City to Senator De León during the legislative debate over disincorporation. (Conclusion)
7. The Treasurer should make a public report to the City Council every quarter outlining the City's progress in meeting the City's budget revenue and expenditure expectations. The first quarterly report should be made at the City Council's first meeting in May 2012 when the financial results for the January – March period are available. (Conclusion)