

**CITY OF VERNON**

**REPORT OF**

**JOHN VAN DE KAMP**

**INDEPENDENT REFORM MONITOR**

**Dated July 31, 2014**

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## PREFACE

“The new Vernon.” That’s what some its Council members call it now with pride.

In 2011 Vernon faced disincorporation and the end of a 106 year run as an independent industrial city. Assembly Speaker John Perez had introduced AB 46 and AB 71 which would have disincorporated Vernon. He and others questioned whether Vernon because of its unusual make-up could properly govern itself. The bills failed passage, when legislators concluded that Vernon should be given a chance to put its house in order.

I was brought in as Vernon’s Independent Ethics Adviser on February 15, 2011 to help the City to do just that.

My role was re-titled as “Independent Reform Monitor” and my term was extended on February 15, 2012 for four years. I was tasked to report on Vernon’s compliance with the Political Reform Act, Government Code §1090, the Brown Act, the Public Records Act and conflict of interest requirements as well as the City’s polices and procedures relating to the payment and expenses of invoices and also to “review the City’s governance reform measures and initiatives and recommend measures and initiatives in the best interest of the City.”

I have no executive power. Reforms and improvements are subject to the decisions made by the City Council, the City Administrator and the City’s staff. I only recommend. The City with very few exceptions has shown its consistent support of the reform measures recommended by Senator Kevin De Leon and me.

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

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

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

In the past six months Vernon has continued on its good government path making solid progress.

The most important milestone reached was the April 25<sup>th</sup> dedication and ground breaking of Meta Housing Corporation's new home construction project, Vernon Village Park, which when completed in 2015 will add approximately 50 new units in Vernon. The new housing will virtually double Vernon's population, which now stands at around 120. In the April election the City Council counted 68 registered voters; 25 voted in the election where the incumbent Luz Martinez was unopposed.

Of note also is the fact that Vernon's financial house is in order. Fiscal year 2013-2014 produced a positive balance between revenues and expenditures. This report will cover the responses to the unfinished business noted in the last report, most particularly those coming from Senator De Leon and from me, as well as some of Vernon's initiatives.

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John K. Van de Kamp

## RECENT DEVELOPMENTS

### Legislation

No legislation has been introduced in 2014 calling for Vernon's disincorporation.

### The City's Financial Future

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

The City's budget is prepared on a "Cash Basis" which reflects all cash-in and cash-out activities. At the end of each fiscal year the City's financial statements are prepared on a "Full Accrual Basis" in accordance with Generally Accepted Accounting Principles. The difference between "Cash Basis" and "Full Accrual Basis" is the cash-in and cash-out activities affect cash balances versus changes in all assets and liabilities in determining the economic impact. An example of this is depreciation which is a non-cash activity that is reflected on the year end "Full Accrual Basis" financial statements, but not in a "Cash Basis" budget. For budgeting purposes the "Cash Basis" approach reflects the changes in current resources.

The City's budget to estimated actual, subject to final audit, for fiscal year 2013-2014 are as follows:

	Estimated Actual	Budget
(1) Government Fund Revenue	\$66,707,147	\$72,168,189
Government Expenditures	\$64,396,721	\$72,806,586
(2) Business Type Fund Revenue (includes light, power, water, etc.)	\$252,813,782	\$264,458,267
Business Type Expenditures	\$250,964,595	\$263,819,870
(3) Total Revenues	\$319,520,929	\$336,626,456
Total Expenditures	\$315,361,316	\$336,626,456
Total Net Change	\$4,159,613	\$0

As illustrated above, the City experienced \$4.16 million excess revenue over expenditures in fiscal year 2013/2014. This is a far better picture than that provided for the 2012/13 fiscal year when total City expenditures exceeded revenues by \$9.5 million. Of special note is that Government Revenues and Expenditures were both lower than expected due to a timing difference with a mortgaged real estate sale not taking place as anticipated during FY 2013-14. This sale is planned for closing early in FY 2014-15.

In the final quarter of the 2013/14 fiscal year, the City Administrator, Finance Director, and Department Heads presented the Council at specially noticed hearings with budget proposals for the coming year on a department by department basis.

On June 17<sup>th</sup> the Council approved the 2014/15 budget: the numbers approved:

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

This budget calls for increases in revenues (based primarily on expected new tax and fee revenues), and expenditures to fill in what are believed to be needed gaps in staffing and deferred maintenance. New revenues included a 5% increase in its electric rate schedule, an increase in its warehouse parcel tax from \$29.09 to \$29.39 per 100 square feet of gross area of land based on increases in the Consumer Price Index, and after a study of its General Fee Schedule, an increase in fees adding an estimated \$1,004,083 to the City's General Fund (all the while leaving the City to pick up 35% of its annual General Fund Costs through taxes and electric utility transfers). Overall, revenues and expenditures constitute a 2% increase according to City Administrator Mark Whitworth.

Some adjustments are expected when labor negotiations are concluded with a number of the bargaining units still in negotiation as of the date of this report, but the overall total should not be impacted.

Since 2007-2008 the City's workforce has decreased by 23%, from 322 employees to 248 currently.

A concern is street maintenance. In the 2014-2015 budget year, \$1.490 million dollars has been set aside for concrete and pavement repairs. According to a study by the City's Public Works, Water and Development Services Department, the average pavement conditions index (PCI) of Vernon's roads score at 59 or fair, meaning "low to moderate severity of weathering with moderate cracking requiring a thin overlay or patch and slurry seal." The department notes that "there is a significant portion of the network that suffers from load related distresses." "If these issues are not addressed the quality of the road network will inevitably and rapidly decline." To maintain the fair rating, it is estimated \$3 to \$4 million needs to be budgeted each year according to the Pavement Management System developed by an outside consulting firm, Nichols Consulting Inc.

Road and maintenance improvements should be of interest to the business community. Businesses are the primary users of Vernon's roads, and their views should be sought pertaining not only to Vernon's roads but also how they view Vernon's city services and how best the City can direct its limited financial resources.

## **Personnel**

After a search organized by Human Resources Director, Teresa McAllister, preliminary interviews conducted by a panel primarily composed of City Attorneys and former City Attorneys from other cities and interviews of the top leading candidates conducted by the City Council—Hema Patel was chosen to serve as the new City Attorney at a salary of \$246,000 per year, closer to the 75th percentile level than that which was paid to her predecessor. She assumed office on July 21.

Dana Reed continues to provide as needed, advice to the City Administration; his firm, Reed and Davidson, has also been utilized on election issues.

## **Elections**

The City Council election for the seat formerly held by Hilario Gonzalez and held most recently by Luz Martinez who was elected to fill his unexpired term, was conducted on April 18, 2014. Ms. Martinez ran unopposed. Twenty-five of Vernon's 68 registered voters voted in the election with all 25 votes cast in her favor.

## **Bruce V. Malkenhorst**

Long time former City Administrator Bruce Malkenhorst's lawsuits against CalPERS and Vernon were described in my January 31, 2014 report.

His CalPERS administrative appeal is now scheduled for a five day hearing before an administrative law judge to be completed by September 4, 2014.

His pension has most recently been paid at a rate of \$556,688 per year; on April 1, 2014 it was reduced by PERS to \$125,845. He immediately filed another lawsuit seeking to enjoin the reduction. The Los Angeles Superior Court denied the injunction and instructed Malkenhorst to exhaust his administrative remedies through the PERS appeal.

Malkenhorst has also filed a breach of contract action against Vernon alleging that the City is obligated to make up the difference between his higher pension amount and the amount reduced by PERS. An amended complaint was filed on April 16, 2014 after the PERS reduction took place. The City has filed a demurrer. The matter has not yet been heard.

In another action Malkenhorst filed a federal case challenging the validity of Government Code §5234 (from SB 39 signed by the Governor in 2013), which requires the forfeiture of claims of pension rights or other claims against a public agency employer (but excepting accrued rights to which a person may be entitled under any public retirement system, if the person is convicted of a felony under State or Federal law for conduct arising out of his official duties.)

The U.S. District Court dismissed Malkenhorst's real party interest claims against the City; Malkenhorst has asked for reconsideration. Meanwhile the Court has asked the State to file a Motion to Stay the federal action pending the current state breach of contract claim against Vernon.

## **Exide**

Those with little knowledge of Vernon ask “Isn’t that where Exide is?”

As recounted in greater detail in my January 31, 2014 report Exide is a battery recycler located in Vernon on property approved for lead smelting in 1922. Today the property is used by Exide as a secondary lead smelting plant that recovers lead from recycled batteries.

After a number of reported lead and arsenic discharges at or near the Exide plant, AQMD (Air Quality Management District) on January 14, 2014 adopted more stringent emission standards for lead and other toxic contaminants for large lead and battery recycling facilities. Exide temporarily shut down upon notice from AQMD, and is under orders to correct all deficiencies and install all new required air emission equipment needed to meet the new standards. This will include new continuous monitoring equipment at the stack to check for fugitive gases and particulates.

It is expected that Exide will request permission to operate by the end of the year. Meanwhile, at the request of the L.A. County Board of Supervisors on March 11, 2014 the Los Angeles County Toxic Threat Strike Team was established to “target facilities that release toxic pollutants in highly burdened communities.” As an initial assignment the strike team was charged with achieving resolution of the Exide matter and to identify the ten most highly burdened communities in the County using the cumulative risk ranking method established by the California Office of Environmental Health Hazard Assessment (OETHA) and to negotiate with relevant state agencies the granting of state authority to the County where the facility presents substantial endangerment to the health of the public, and where its in the best interest of the County to assume leadership in mitigating the substantial endangerment. The core group of the strike team is made up of representatives from key County departments and agencies. Vernon’s Health Director Leonard Grossberg is working closely with the Strike Team.

## **Audit**

On February 18, 2014, Vasquez and Company, Vernon’s outside auditor, issued its financial statements of Vernon’s governmental activities, its business type activities, and for each major fund for fiscal year 2012-2013. That statement is available on Vernon’s website.

A few items to be noted here: the City’s total net position at the end of the 2012-13 fiscal year increased to \$95,104,216 from \$82,358,298 as of June 30, 2012.

Governmental activity expenses dropped to \$47,083,530 on June 30, 2013 from \$57,820,935 for the year ending June 30, 2012.

In 2012-13 outsourced professional costs were \$2,879,215 lower than the prior year due to lower costs incurred than those required to defeat the disincorporation efforts in the prior year.

Transfers to the governmental side of the budget from the business side reached \$11,959,593 in 2012-13 as opposed to \$9,147,090 in the prior year. The transfers were higher in 2012-13 due to the removal of limitations on transfers authorized by resolution No. 2012-04, and transfers allowed under the City’s electric bond indentures.

Vasquez reported \$437,165,014 in long term special obligation bonds owing as of June 30, 2013. According to their schedule, \$332 million of Vernon's Electric System Revenue Bonds 2009 series A will be paid off by the end of 2022, with debt service in 2012-13 of \$46 million for this series. (Vernon paid \$54.3 million in 2013-14 to service all of its debt.)

Studies are underway to determine whether the bond issue can be refinanced to spread out the length of the obligation, thereby reducing Vernon's annual costs, and providing some relief to the City's finances and/or its rate payers. The decision to do so will be based on the cost of refinancing, the interest rates at the time, and whether the benefits of refinancing outweigh its costs. The City is also looking at new financing for needed capital projects, as it should.

## CHAPTER I

### Senator De Leon's Critical Path Reforms

Many of Senator De Leon's Critical Path Reforms were approved by Vernon's voters in 2011.

In Chapter III of this report, one will find a status report on Senator De Leon's 2011 recommendations to construct approximately 50 new housing units including a significant affordable component, within three years, with the potential of doubling the electorate. With construction underway it is now estimated that completion of construction will occur in June of 2015.

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

#### 1. **Environmental and Community Benefit Fund**

##### Critical Path Reform

"Establish a substantial long term Environmental Community Benefit Fund to help mitigate the decades of noxious air released from Vernon (the exact amount to be negotiated):" No amount was specified.

##### Response from Vernon

On August 25, 2011 the City Council adopted a resolution (2011-149) ordering the establishment of the Fund for a duration of 10 years with \$5 million a year to be dedicated to this Fund.

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

Thus far funding has been allocated to support the soccer field renovation in Huntington Park (\$700,000), which was dedicated at a community event on April 26, 2014, and for the Hazard Park Armory Youth Center in East Los Angeles (\$500,000).

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

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

Joaquin Castaneda—interim Director of Senator Ricardo Lara's Long Beach Office

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

Michael Gavinia – Purchasing Manager of Gavinia Gourmet Coffee in Vernon

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

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

Michael Ybarra – Vernon Councilman and Vernon resident.

The administrators of the fund will respond to grant requests from charitable and governmental entities for projects and programs that benefit those residing and working in the Vernon area which includes Vernon, Maywood, Bell, Huntington Park, Commerce, Boyle Heights and East Los Angeles. Because many of those working in Vernon come from neighboring communities, those communities can benefit from the fund.

Vernon’s actions in this regard are responsive to Senator De Leon’s recommendations and signal a long-term good neighbor policy that it lacked for many years.

In December of 2012 Vernon hired a grants coordinator, California Consulting, to assist Vernon gaining additional funding for those facilities and for Vernon. Vernon’s Public Works Department is gathering information to assist California Consulting as it applies for public works funding which could help meet the goals set by Senator De Leon. Subsequently the contract was expanded so that California Consulting could assist Maywood as well as Vernon in obtaining grants. In so doing, Vernon can help secure grants for neighboring cities. California Consulting could also assist the new CommUNITY Fund in stimulating and reviewing grant requests to be funded directly by Vernon.

## **2. Sustainable Development and Energy Efficiency Commission**

### Critical Path Reform

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

### Response from Vernon

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

Its purpose: “To review the sustainability action plan for the City which should among other things, (1) outline goals for the City’s sustainability infrastructure; (2) describe the regulatory framework and industry setting bodies that will govern the City’s infrastructure; (3)

identify specific areas in which the City can become more sustainable and energy efficient; and (4) identify types of “green” businesses the City should attract.”

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

In short, a tall order.

Thus far the Commission’s major contribution has been to recommend an updated program to require trash haulers to minimize their emissions. On December 3, 2013, the Council approved an ordinance which most importantly required all trash haulers to replace all diesel trash trucks with natural gas burning vehicles by 2017.

## CHAPTER II

### Recommendations From Past Independent Reform Monitor Reports To Be Completed

- “1. To the best of our knowledge, Vernon’s staggered election system remains unique in California, and should be amended to meet the norm in time for the 2013 election.” (Page 11 of July 31, 2012 Report)

#### Response from Vernon

Since its public deliberation on May 15, 2012, no further action has been taken by the Council on this proposal. Consideration of this proposal is expected to take place when Vernon’s new housing is in place and when there is a larger electorate. (See page 13 of January 31, 2013 Report). At present, Vernon’s Council members serve five-year terms with staggered terms, so only one Council position is up for election each year. Concerns were raised that changing the format would invite hostile takeovers of Vernon’s city government.

- “2. The following recommendations relate to policies and procedures for contracts and should be addressed in a single policy document for the City Council’s review and approval by July 3, 2012:
- a. Require all contracts, including professional service contracts, to include ending dates and/or expenditure caps.
  - b. Review and rebid professional service contracts at least once every three years.
  - c. Require lead staff on professional service contracts, especially for legal services to negotiate for best rates or rates similar to those provided to other government agencies.
  - d. Require the review and sign-off of professional service invoices by the initiating division or department be reinforced either through a policy amendment or by memorandum from the City Administrator.
  - e. As a general practice do not allow compensation rate increases during the term of the contract. In the event all parties are aware that external factors are going to significantly affect costs and rates during the term of the agreement, require rate increases to be tied to the most appropriate index or cost of living index.” (Page 21, January 31, 2012 Report)

#### Response from Vernon

On December 4, 2012, the City Council approved adoption of a “Competitive Bidding and Purchasing Ordinance” that substantially tracked all the recommendations made in January 2012. For details, see my January 31, 2013 Report.

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

The City followed my recommendation and on May 20, 2014, the Council gave final approval to amendments to the “competitive bidding and purchase ordinance” drawing on the experience of the last 18 months. It took effect on July 1, 2014.

The ordinance made changes to the City’s contracting policies and specified that the Council approve any contract where in the 12 months preceding the effective date of the proposed contract the City had awarded the proposed vendor more than \$100,000. Its purpose: to limit the likelihood that contracts would be split in an effort to evade the requirement of Council approval.

Other changes included expansion of the purchasing authority of the City Administrator to \$100,000, of the Finance Director to \$50,000; increasing the exemption from selection procedure to \$5,000, and the informal selection threshold to \$50,000.

Exemptions to competitive bidding were revised:

- (1) It was clarified that piggy-back contract exemptions applied to non-governmental organizations created to allow for purchases for a large number of buyers.
- (2) Exemptions from competitive bidding apply to purchase of electrical power, natural gas, water or telecommunications where it would be commercially unreasonable to comply with standard procurement procedures.
- (3) Services that are not for public works projects do not need to be competitively bid, but must still comply with a competitive selection process.

Other changes:

Contracts between \$15,000 and \$50,000 require five vendor quotes, up from three.

Departments are allowed to use specifications other than “standard specifications for public works construction.”

Regarding bid security: Surety bonds are required to be 10%, up from 5%, with acceptance of cashiers checks and certified checks permissible in the alternative. It expressly requires payment bonds for public works contacts valued at above \$25,000.

Regarding professional service contracts: when a contract is for \$100,000 or less, and the City Administrator wants to extend it beyond 3 years, written notification to the City Council is required within 30 days of the extension of the contract. If the extension is for more than \$100,000, Council approval is required.

Budget control is tightened by clarifying that the Finance Director shall not make payments for any contract if such payment exceeds the responsible department’s budget.

Regarding the effective date: a six month transition period is provided. The old procedures may be used until December 31, 2014.

Comment. Overall the changes do not appear to depart from the original intent, to increase transparency in the City's contracting policies. Some changes appear to strengthen the City's polices, e.g., providing greater security. Others increase the City Administrator's approval authority and leave broad basis for exemptions "in the best interests of the City." (See Section 2.17.12(B)(2)). The changes appear well motivated to bring greater efficiency to the contracting process. At the same time, policies can be misused. While I have found nothing untoward thus far in the City's implementation of the new policies, it would be wise to review the policies periodically to determine how they have been implemented and in particular to determine if they have succeeded in avoiding undue favoritism in their administration.

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

3. "The City Council should appoint a new City Attorney." (page 12, January 31, 2014 Report)

#### Response from Vernon

In the spring of 2014 the City under the direction of Human Resources Director Theresa McAllister conducted a search for a new City Attorney. Some 40 applications were received. After preliminary interviews by a panel primarily composed of City attorneys and former City attorneys, the Council interviewed four finalists and selected Hema Patel as the new City Attorney. She will commence service on July 21, 2014, and will be earning \$246,000 per annum, close to the 75th percentile comparable range recommended in my January 31, 2014 Report.

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

#### Response from Vernon

As noted in an earlier report, HR Director McAllister was hired in 2012 and completed the citywide classification study (presented to the Council on January 21, 2014 and approved by the Council effective April 20, 2014). Eighteen incumbent positions were reclassified and 118 job classifications were updated, and all employees included within the scope of the study were allocated an appropriate job title, job class, and the exempt or non exempt designation under the Fair Labor Standards Act.

Reporting relationships were altered; the City Clerk now reports to the City Administrator as does the Director of Health and Environmental Control, the Director of Human Resources and the Finance Director/City Treasurer.

Titles were altered; the Director of Community Services and Water classification is now "the Director of Public Works, Water and Development Services," the Director of Light &

Power is now “the Director of Gas & Electric,” and the Finance Director is now “Finance Director/City Treasurer.”

The approximate cost to implement all the changes proposed and approved was \$13,824 which are to be absorbed within each department’s budget.

All told, this was a thorough study, with minor technical changes, some updating of reporting relationship provisions, and very minor costs. The Human Resources Director has been given express authority to make minor revisions to the classification plan when there are no significant impacts as to the essential functions of job classification, classes, class series, or the classification plan. The bottom line: the measures establish a personnel merit system and centralized hiring authority and control over personnel matters within the office of the City Administrator.

Once again I recommend that (1) a periodic (every three years) compensation review should be conducted by the City to determine if City salaries are in line with other Southern California Cities. (2) The Council should require evidence justifying use of the 75% ideal compensation level for policy purposes, or in the alternative establish another level justified by the evidence and the City’s needs. (Forty-two percent of the City’s benchmark classes were more than 10% below the 75th percentile labor market mid point rates).

In the January 31, 2014 Report I reported on the HR Director’s work regarding health benefits (reduced costs, increased coverage), hazardous chemical and injury and illness prevention programs, and executive performance evaluation policies and form development. They will not bear repetition here.

#### Fire and Police

After extensive outside studies, it has been determined that it is in Vernon’s best interests to maintain its own fire and police departments. (See January 31, 2014 Report, pages 15-19).

#### Police-Maywood

On June 17, 2014 Chief Daniel Calleros provided me with a copy of Vernon’s response to an RFP from Maywood to provide law enforcement services to Maywood. He stated that at least three other agencies had responded by the time of the RFP deadline.

In short, Vernon offered to provide 11 full-time police positions totally dedicated to Maywood with Chief of Police services provided by an on-site lieutenant. The major priority of the department would be devoted to patrolling and answering calls on a 24/7 basis with the addition of dispatchers to enhance service level. The goal of response time to priority calls would be 3.5 minutes from time of dispatch to on scene time. Patrol officers assigned to Maywood were committed for a minimum of two years unless promoted to a higher rank. Vernon also offered the services of its grant coordinator to seek out and obtain funding sources to help provide additional revenues to support operations. It was expected that Maywood’s former police facility at 4317 Slauson Avenue, now vacant, could be utilized to provide public access/counter service with two record clerks or a volunteer or police explorer/cadet. Radio coverage could be provided on the reactivated Maywood Police Department receiver currently

located at Vernon Fire Station No. 1. The term of the contract would be 3 years with options to extend upon mutual agreement.

The quoted annual price was at \$2,952,881, subject to upwards and downwards adjustments in the Consumer Price Index for Los Angeles County. That figure was at least \$200,000 less than what Maywood had been paying to the Los Angeles County Sheriff's Department for annual service. Further, Vernon offered to provide \$1 million per year from its commUNITY fund to assist Maywood in qualifying projects.

On June 26, 2014 the Maywood City Council (three members in attendance) approved a five year contract with the L.A. Sheriff's Department for its policing at a cost of \$3.2 million a year with CPI adjustments despite the fact that Vernon's proposal was acknowledged to have the top ranking of those who responded to the RFP.

### Police Performance

In the past six months Chief Calleros provided the Council with a review of the Police Department's performance. Some highlights:

Staffing at the end of 2013 staffing stood at 39 compared to 49 in 2010.

Arrests over the four year period averaged 393.25 per year. In 2013, 430 arrests were made, 79 of which were probable cause and warrant arrests.

Case filings over the four year term were relatively stable with a high of 354 in 2010, a low of 234 in 2012, with 268 in 2013.

Calls for services reached a high in 2013 of 5,449, compared to the four year average of 4,971.

Priority/response times averaged 3.13 minutes over the four years: it increased to 3.36 minutes in 2013.

Conclusions: Few can be drawn from the data except that the Department appears to be doing its job with less in the way of manpower. To its credit, despite concerns raised about its cost from some in the business community, there was virtually no support for contracting out its services. Chief Calleros while relatively new at his job, appears to have managed efficiently, has been a very good ambassador for Vernon with police departments in neighboring cities, as well as in handling demonstrations in Vernon such as those recently at Exide and Farmer John, where officers worked in an even-handed way with protesters exercising their First Amendment rights.

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

As indicated throughout this report, Vernon continues to follow through in addressing the recommendations by Senator De Leon and me, sometimes with modifications. The City has not provided any written response or any unwillingness or inability to respond positively to the spirit of these recommendations.

5. “The City Attorney should work to reduce its reliance on outside counsel and when necessary hire outside counsel at negotiated rates typical of those paid by governmental entities.” (Page 15-16, July 31, 2012 Report)

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

In the approved budget for 2014-15 the City Attorney’s Office was budgeted for a total \$1,490,038 including outside counsel. While the City Attorney continues to use outside counsel in specialized areas, for example Reed and Davidson on election issues, and Liebert, Cassidy, Whitmore, etc. on the Malkenhorst matters, rates are negotiated per my recommendation. At this point it appears that this recommendation has been responded to in an affirmative matter.

It is important that the new City Attorney continue to implement the recommendation.

6. “The Business Development Committee was established on January 3, 2012. That Committee should be tasked with recommending to the City Council new revenue possibilities, which could include rate and tax changes, as well as reduced City expenditures. The purpose is to develop a full and broader understanding of the City’s financial situation and ways to improve it and to be able to meet the commitments made by the City to Senator De Leon during the legislative debate over disincorporation.” (Page 17, July 31, 2012 Report)

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

As noted in my January 31, 2014 Report, “The original recommendation was based on the idea that the business community should have a better understanding of the City’s governmental activities since its activities largely benefit their community, and to give it a stronger role in recommending to the City the scope and quality of the services it requires, with knowledge of the costs involved.”

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

Later it says “the Commission shall focus its efforts on the following areas:

- (a)
  - (1) Long range land use planning.
  - (2) Retention and expansion of business and industrial base.
  - (3) Targeted recruitment and marketing to potential businesses.
  - (4) General marketing and public relations.
  - (5) Taxes, fees, and utility rates.
  - (6) Federal ,state, and local incentive/rebate programs to foster business development and retention.
  - (7) Workforce development.
  - (8) Public/private partnerships.
  - (9) Long term stability of a positive business climate.
  - (10) Impact of business development on residential communities within and in close proximity to Vernon.
- (b) Provide a forum for addressing public concerns related to the City’s business and industrial development related costs, procedures, and activities.
- (c) Participate in annual independent audit report activities as directed by the City Staff or City Council.
- (d) Perform other such duties as the City Council may assign or designate.”

The Committee is to be comprised of three individuals representing the owner or operator of a business in Vernon, two individuals with knowledge of Vernon’s real estate market, one labor representative employed at a Vernon business, and a Vernon councilmember.

In establishing the new Business and Industry Commission, the Council dissolved the Ad Hoc Advisory Committee on Electric Rates and the Ad Hoc Advisory Committee on Business Development.

Appointments to the Commission by the Council are pending.

The Commission has a broad mandate. Its effectiveness will in large measure depend on the quality of its membership and its leadership. The experience with the two dissolved Committees was mixed. The Electric Rate Committee was active and involved, unlike the Business Development Committee.

I cannot stress enough the potential of the new Commission. Business involvement with the City's government was deficient prior to the disincorporation crises. As the primary beneficiary of the City's governmental actions, the business community has a big stake in how its government behaves. From the first of these reports, I have advised closer linkage between the City government and its major constituency. This Commission if successful can provide valuable advice and input to City government, and in so doing, make the City more attractive and responsive to its needs.

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." (Page 32, Jan. 31, 2012 Report).

Response from Vernon

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

8. "Internal staff or outsourcing should be utilized for better long range financial planning."

Response from Vernon

A professional services agreement with Public Financial Management (PFM) was approved by the Council in August 2013 for financial advisory services, following an RFP and a competitive selection process. The agreement runs for three years, at a cost of \$200,000 per year. PFM performs long range planning and was rated as a superior service provider by four contacted references. According to Finance Director Fox, PFM is now engaged in determining if and how Vernon's debt can be restructured to lengthen its bond payment obligations and provide new financing for capital infrastructure improvements.

9. "Long Term Debt Policies meeting the needs of the City should be established no later than January 1, 2013. The City should review its bonded indebtedness which today costs \$54.3 million dollars a year to service and figure out a way to lower and smooth its costs."

Response from Vernon

The City's Finance Director reported in January that as the budget was developed in the spring of 2013, an evaluation was made of the City's debt structure and the conditions at that time. It was determined that it was unwise then to restructure the debt (and particularly the Swap Agreements) because the cost of redemption would be high. In short, if that were done, interest would be owed and the costs of redemption would exceed the benefits sought. The swap values are being monitored on a daily basis and when the timing is appropriate as conditions change, restructuring will be recommended. In June of 2014 he indicated that restructuring was again being studied and so reported at the Council's June 17, 2014 budget hearing.

10. "Vernon, through its Finance Director, should begin a planning process for the long term looking at such issues as street maintenance, improved mobility, setbacks where achievable, watershed and storm water management, graffiti and litter control, and landscape improvements

that will make Vernon a more welcoming community (i.e., greening Vernon). Such a process should involve representatives from the business community from its outset.” (January 31, 2014 Report)

Response from Vernon:

Vernon’s Finance Director has asked department heads for input regarding capital needs and the projection of future operational costs. Some of that information was provided to the Council at its 2014 budget study sessions but as yet an overall plan has not been completed and is awaiting results of the long range refinancing study begun by PFM. He indicates once a plan is fully developed it will be presented to the business community and the public by way of a financial planning workshop.

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

Response from Vernon:

On July 1, 2014 the Council made the appointments. (See pages 8 – 9)

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

Response from Vernon

In process: (See page 9)

## **Chapter III Housing**

This was an important six month period for Vernon's housing situation. Several significant events occurred.

### **1. Vernon Village Park at 4675 52nd Street**

On April 25, the groundbreaking ceremony for the Vernon Village Park was held. This apartment development, expected to be completed in 2015 by Meta Housing Corporation, will contain approximately 50 units containing one, two and three bedrooms. If fully occupied, this development is expected to double the number of Vernon voters. Congresswoman Lucille Roybal-Allard, State Senator Kevin de Leon and State Senator Ricardo Lara spoke at the ceremony along with Mayor Michael McCormick and other dignitaries. Progress on the construction of the units is on schedule, and no major problems or delays have occurred.

### **2. Housing Units**

Vernon's rental units are now 100% occupied. The last time this occurred was about four years ago.

The City is now in year three of a four year plan to bring the rents on City owned residential properties to fair market value. Twelve units are currently at full market rate rents. For this fiscal year, the housing units' revenues were approximately \$82,000 more than the expenses for these units. Next year, the revenues are expected to be substantially greater and the surplus should be over \$100,000. The City has established a separate allocation within the budget to pay for major expenses for the units, such as roofing, plumbing and other large expenditures.

A lottery to establish a waiting list for any housing vacancies occurred at the June 11 meeting of the Housing Commission. Twenty-five persons submitted their names. No unit to unit transfers occurred during this six month period. No tenants are in arrears for rent payments.

### **3. Contract with Solari Enterprises**

The Housing Commission, after extensive staff research, approved a new contract with Solari Enterprises limited to leasing and consulting/advisory services on an as needed, task-specific or project-specific basis, rather than for managing the properties, which had been the responsibility of Solari Enterprises for the past year. The contract for one year, July 1, 2014 through June 30, 2015, is in an amount not to exceed \$25,000.. (The Commission is allowed to enter into contracts without City Council approval if the contracts are under \$25,000 for the term of the contract.)

The Housing Commission determined that it would be more efficient and better for the residents if the day to day management duties, which include leasing, rent collection and repair and maintenance services, be done by City staff, rather than by an outside company such as Solari Enterprises.

At its April meeting, the Housing Commission reviewed a resident survey on Solari's performance. Out of 26 units, 11 responded to the survey and those that completed the survey indicated a high level of dissatisfaction with Solari.

Solari was required to submit a capital improvement plan, but has not yet done so. Thus, the City's last payment to Solari has not been sent and will be held until the plan is provided by Solari.

## Chapter IV

### The Audits

#### A. PERS Audit

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

(1) Bruce Malkenhorst: the litigation involving the former City Administrator, PERS, and the City of Vernon is described on pages 4 and 5 of this report.

(2) Mayor Michael McCormick: his pension determination appeal was heard on the PERS ALU calendar in May. Finality of that determination is still pending.

(3) Five other previously employed individuals have appealed PERS determinations of their pension payments. Resolution of these appeals is still pending.

#### B. The JLAC Audit (Joint Legislative Audit Committee)

On June 28, 2012, JLAC released its audit report on the management and finances of the City of Vernon. In previous reports, I have noted some of the recommendations and Vernon's responses.

Following my July 31, 2013 report, JLAC responded to Vernon's one year response. What follows are some of the JLAC comments and Vernon's most recent responses (some of the actions taken in response are noted elsewhere in the Report). The City issued a follow-up report to JLAC on July 8, 2014.

#### Compensation Practices

JLAC: The State Auditor stated "the City has not properly managed its executive positions, failing to establish minimum qualifications for its key leaders" and pointed to the fact that the City had not had a Director of Human Resources since July of 2009. It also criticized its salary survey as not considering some important factors when it compared its executive salaries to those in other cities. It also pointed to "legally questionable retirement benefits" for current and past executives.

#### Vernon's Response

As noted, a Human Resources Director, Teresa McAllister, was appointed and began service in September 2012. Benefit and compensation studies with outside consultants have been completed to help bring Vernon in line with best practices in other comparable cities.

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

JLAC: The Human Resources Director shall ensure that the City's policies and procedures include at a minimum, a periodic appraisal for executives.

Vernon's Response

At-Will Employment Agreements (Safety and Non-Safety) require a written performance evaluation for all executive positions, defining goals and performance objectives, to be conducted six months after the date specified in the Agreement, and annually thereafter. Executive Performance Appraisal forms were adopted and are now being utilized.

JLAC: The City should determine whether employees have a vested right to longevity payments and whether it can legally reduce or discontinue the original longevity program as a means to reduce its costs.

Vernon's Response

Pursuant to the City's July 2013 response, Public Sector Personnel Consultants (PSPC) completed its Citywide Classification and Compensation Study and found tiered longevity programs similar to Vernon's elsewhere in the market. Additionally, PSPC found that longevity benefits were being discontinued on a go-forward basis.

The City's labor law counsel has determined that current employees have a vested right to the longevity pay they currently receive. It cannot be unilaterally reduced or discontinued by the City. In accordance with the MMBA, the City must negotiate with all affected bargaining units to reduce or discontinue any longevity programs.

The City has recently been in negotiations with all six of its employee bargaining units and has, in good faith, proposed to each bargaining unit to discontinue the current longevity program for all employees hired after December 31, 2013. The City could not in good faith propose to reduce the original longevity program. As of July 9, 2014, negotiations with 3 units have concluded and all of those units have agreed to discontinue the current longevity program for future hires. Negotiations with two of the remaining units are expected to conclude by July 31, 2014, while the third is expected to take longer.

**Other Expenses**

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

Vernon's Response

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

The Purchasing Manual, as updated February 4, 2014, contains a section on credit card procedures and responsibilities and outlines the responsibilities of the Finance Director to review and compare credit card statements against their corresponding receipts to ensure accuracy, accountability, and appropriateness of purchases. The City Administrator is required to perform such review for the Finance Director's credit card purchases. (See page 20 of Purchasing Manual.)

### **Revenue Transfers**

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

#### Vernon's Response

In the 2013 budget process a determination was made, based on the projected results of its Light and Power operations, as to how much could be transferred to the General Fund, at the same time meeting its debt covenant requirements and City policies. Pro rata payments were scheduled on a monthly basis with a true up adjustment scheduled for the last month of the fiscal year to ensure covenant compliance.

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

### **Amending Contracts**

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

#### Vernon's Response

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

### **Addressing the Structural Deficit**

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

#### Vernon's Response

In addition to the passage of new or increased taxes and the reduction of employee and consultant related expenditures, the City increased its General Fee Schedule by approximately 28% effective July 1, 2014. The structural deficit in the General Fund is further being addressed by the City Administrator and Finance Director in conjunction with the long-term financial planning efforts currently underway. The City's Financial Advisor, PFM, is currently assisting and advising the City with regard to potential debt restructuring options that would further address the structural deficit. The City continues to seek additional solutions consistent with the provisions and requirements of its Budget Policies and Procedures Manual.

### **Budget Policies**

To better guide its budget preparation and improve transparency, the City should develop budget policies, particularly for long-term planning, that incorporate the elements that the GFOA recommends and make these policies available to the public on its website.

#### Vernon's Response

On February 4, 2014, the City Council adopted the Budget Policies and Procedures Manual, which incorporates best practices recommended by GFOA and contains sections specifically governing budget preparation and long-term planning. These guidelines were implemented as part of the fiscal year 2014-2015 budget preparation process. The Budget Policies and Procedures Manual is posted on the Finance Department page of the City's website. (See pages 9 – 13 of Budget Policies and Procedures Manual.)

### **Investment Derivatives**

JLAC: To minimize the continuing financial losses on the two currently outstanding interest rate swaps, the City should develop a clear process for deciding how it will terminate these swaps based on the cost and future risk to the City.

#### Vernon's Response

On February 4, 2014, the City Council adopted the Budget Policies and Procedures Manual, which contains a section specifically addressing investment derivative monitoring, reporting requirements, and financial conditions or thresholds for termination. (See page 5 of Budget Policies and Procedures Manual.) The Finance Director is continuing to monitor the swap transactions to determine the appropriateness of partial or full terminations of the agreements.

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

#### Vernon's Response

Budget Policies and Procedures Manual, contains a debt management section that limits borrowing to use for capital improvements or projects that cannot be financed from current

revenues. This section also provides guidelines for the issuance and repayment of debt. (See page six of Budget Policies and Procedures Manual.) Documents related to interest rate swaps are retained in accordance with the City's Records Retention Policy (see pages 13-15), a copy of which is included.

### **Integrated Energy Strategy**

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

### **Vernon's Response**

The Gas & Electric Department is currently preparing an Integrated Resource Plan (IRP) that will outline the amount, type and scheduling of resources needed to meet the City's future energy needs at the lowest, reasonable cost. Once finalized, the IRP will be presented to City Council for adoption. The Department has established the Light & Power Department Policy and Procedure, Integrated Resource Plan Procedure to guide the preparation of the IRP. Estimated complete date: July 2015.

## **Chapter V Compliance Review**

### **Conflicts of Interest—Statements of Economic Interests**

The Political Reform Act (Government Code Section 81000 et seq.) requires that Vernon's City Councilmembers and designated employees and consultants file annual, assuming office and leaving office Statements of Economic Interest.

Through Resolution 2014-01, the City revised its Conflict of Interest Code and designated 53 positions (some with more than one employee in the position) that the Council determined had disclosure requirements. Sixty employees (out of a workforce of 256 City employees) filed Statements of Economic Interests.

The City Administrator required 14 outside consultants to file the appropriate Statements of Economic Interest (Form 700).

These consultants served or assisted City departments or agencies in a meaningful enough way that they were required to be designated.

### **April 8<sup>th</sup> General Municipal Election**

A regularly scheduled City election was held on April 8, 2014, to elect one City Councilmember. One candidate appeared on the ballot, Councilmember Luz Martinez, and she was re-elected. She filed a campaign statement indicating that she would not spend more than \$1,000 for the election.

There were no other matters presented to the voters at this election. Sixty-eight persons were registered to vote and 25 persons voted. The City website does not show the results of the election or any past elections.

### **Public Records**

About 100 requests were received asking for public records from the City during the six month period from January 1. According to the report compiled by the City, Vernon officials responded to the requested records in a timely manner. The City received no complaints about failure to respond to the record requests

### **Minutes of Meeting**

On July 1, 2014 the City Administrator after consultation with the City Clerk and staff decided to produce minutes of Council and other City meetings on an "action" basis, indicating the subject of the matter under consideration, the action taken and the vote. The minutes no longer include a summary of the comments from the public, Councilmembers and staff on the particular subject. While minimizing the minutes in this fashion is expected to save staff time and occasional error, more complete minutes produced over the past two years leaves behind a historical record of the issues Vernon has dealt with and how it has addressed them that is valuable to those keeping close watch on Vernon. I believe that it is preferable to maintain the

past practice for the foreseeable future to be able to establish in the long run that Vernon's City government is open and transparent.

### **Recommendations**

(1) The City website should show the results of all elections.

(2) The City's website should permit the public easier access to the City Council's agenda and the reports and background material for its use at Council meetings. While such material was reported to be available on the City's website it was virtually impossible to access it (with certain types of software). On July 10 the Deputy City Clerk provided new information about access to this material.

(3) The minutes of Vernon's governmental meetings should continue to be thorough and complete, reporting comments and discussion of matters under consideration, rather than being shortened to an "action only" report.

## Chapter VI

### Business Activity in the City

#### Vacancy Rates

John McMillan, Executive Director of Industrial Brokerage for Cushman & Wakefield, once again provided industrial vacancy rates for Vernon for the end of the 2<sup>nd</sup> quarter of 2014 in comparison with those of the cities in the Greater Los Angeles market. Vernon's vacancy rate of 4.2% as of July 1, 2014 compared with its vacancy rate of 4.1% reported as of January 1, 2014.

Overall Vacancy Rate Rankings - Low to High <i>Second Quarter 2014</i> Greater Los Angeles Markets	
Market	Vacancy Rate
Burbank	2.1%
Van Nuys	2.2%
South Gate	2.2%
Montebello	2.2%
Compton	2.6%
Santa Fe Springs	2.9%
El Monte/S. El Monte	3.2%
Pomona	3.2%
City of Industry	3.7%
Commerce	3.9%
Carson	3.9%
Gardena	4.0%
<b>Vernon</b>	<b>4.2%</b>
Chatsworth	5.2%
Pico Rivera	5.4%
Valencia	6.1%
Cerritos	6.1%
Rancho Dominguez	6.2%
Torrance	6.9%
La Mirada	10.0%

McMillan comments "Vernon's vacancy rate remained at a very stable 4.2%, which is amazingly where it sat in 2012 & 2013 as well. There have been plenty of transactions in Vernon over the course of that 24 month period, including my team's sale of the Angelus Can site to Whole Foods in December 2013, and the sale of a 164k facility on 44<sup>th</sup> Street to SAS Textiles in 2013 too, which are only two samples of recent absorption (albeit very large ones). So, chalk up Vernon's three year run at 4.2% vacancy as just a very odd coincidence."

He also provided vacancy rate rankings for the US Industrial Markets. It is notable how well the San Francisco Peninsula, Orange County and the greater Los Angeles markets score. John notes the SF Peninsula has experienced large growth in its tech sector.

Overall Vacancy Rate Rankings - Low to High Second Quarter 2014 U.S. Industrial Markets	
Market	Vacancy Rate
SF Peninsula, CA	3.7%
Orange County, CA	3.9%
Greater Los Angeles	4.0%
Denver, CO	4.2%
Oakland, CA	4.5%
St. Petersburg/Clearwater, FL	5.0%
Philadelphia, PA	5.0%
Lakeland, FL	5.1%
Houston, TX	5.8%
Portland, OR	5.9%
Palm Beach, FL	6.3%
San Francisco North Bay CA	6.4%
Tampa, FL	6.7%
Miami, FL	6.8%
Chicago, IL	7.0%
<b>National U.S.</b>	<b>7.2%</b>
Inland Empire CA	7.2%
Pennsylvania I-81/I-78 Distribution Corridor	7.6%

New Jersey - Northern	7.6%
Baltimore, MD	7.7%
San Diego, CA	7.9%
Ft. Lauderdale, FL	7.9%
Dallas/Ft. Worth TX	8.1%
Silicon Valley, CA	8.2%
Contra Costa, CA	8.2%
New Jersey - Central	8.3%
Atlanta, GA	8.4%
Orlando, FL	8.9%
Long Island NY	9.3%
Stockton/Tracy CA	9.6%
Jacksonville, FL	10.6%
Boston, MA	11.7%
Phoenix, AZ	11.8%
Northern VA	12.1%
Sacramento, CA	12.8%
Suburban MD	13.0%
Hartford, CT	14.0%
New Haven, CT	14.5%
Southern New Hampshire NH	19.4%

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Recently a number of large companies have shown interest in moving some of their facilities to Vernon.

The conclusion to be reached from the numbers; Texas Governor Rick Perry and others have not persuaded Vernon’s businesses to move. It still appears to be a relatively attractive business community.

### Electricity Rates

Electricity usage in retail sales dropped .85% in the first six months of 2014, when compared to first six months of 2013, according to Carlos Fandino, Vernon’s Director of Power and Light. While the City has added several new customers to the City load, the shutdowns at Exide and Primo had some impact.

	MONTH	2013	2014				
	January	87,321,139	87,903,097				
	February	93,331,131	91,141,505				

		<b>2013</b>	<b>2014</b>					
	March	86,907,539	86,879,313					
	April	93,800,977	92,228,954					
	May	94,880,810	92,580,982					
	June	96,781,702	97,175,233					
		553,023,298	547,909,084	-0.85%				
		<b>2013</b>	<b>2014</b>					
6 months	<b>Exide</b>	12,705,762	11,604,179	-8.67%				
4 months	<b>Primo</b>	1,203,342	885,949	-26.38%				
	Primo comparison is based on 4 months before being shut off in March 2014							

### **Building Activity**

Kevin Wilson, Vernon’s Director of Public Works, Water & Development Services, provides a six month report covering the number of permits issued and the valuation of planned construction, as compared to the 2013 totals for the same months.

Wilson notes: “The report continues to reflect improvement in the building activity in the City.”



City of Vernon  
Building Department  
Monthly Report - Prior Year Comparison - June, 2014

Type	Value	# of Permits
Electrical	\$276,653.00	18
Grading	\$482,500.00	1
Industrial - Remodel	\$337,500.00	7
Mechanical	\$630,300.00	9
Miscellaneous Permit	\$514,434.00	9
Plumbing	\$229,850.00	9
Roofing	\$46,000.00	2
June 2014 TOTALS	\$2,517,237.00	55
PREVIOUS MONTHS TOTAL	\$34,899,006.00	288
YEAR TO DATE TOTAL	\$37,416,243.00	343
June 2013 TOTALS	\$8,500,207.00	55
PREVIOUS MONTHS TOTAL	\$11,266,466.00	266
PRIOR YEAR TO DATE TOTAL	\$19,766,673.00	321

In my January 31, 2014 report I quoted Wilson's numbers from the prior eight years. For the full year 2013, 676 permits were issued with a valuation of \$57,555,724, the highest number since 2008. Should Vernon continue to match its 2014 numbers for the remainder of the year, it should substantially exceed the number produced in 2013.

In short, by this barometer Vernon still appears to be able to attract new businesses, with an emphasis on garment manufacturing, food processing and warehousing.

## CONCLUSION

This is starting to sound like a broken record.

Vernon continues on its reform path.

In this report I have noted important milestones. A new City Attorney, ground breaking for its new housing project, appointments to Vernon's CommUNITY Fund Grant Committee, dedication of the new soccer field in Huntington Park (largely funded by Vernon), the reconfiguration of its committees into its new Business and Industry Commission, a balanced budget for 2013-2014, a balanced budget for 2014-2015, the beginning of long term planning, and implementation of various reform measures.

That is not to say that Vernon can relax. There are challenges ahead. If Vernon continues to be attractive to the business community, the City must make sure that its principal economic attraction remains intact, i.e., lower costs for business. In the past two years businesses have faced higher utility charges, parcel tax increases, and new fees, all needed to fund the City's balanced budget now in place.

Vernon now needs to do the following:

(1) Compare itself with the competition (other cities), to prove that its taxes and utility charges are lower than that of the competition, and if not, make sure they are.

(2) In its long range planning, make sure that it keeps pace with its infrastructure needs, and in so doing seek the advice from its business community as to what it believes are most important.

The key to both of these objectives lies in the refinancing of its debt. As noted, by 2022 Vernon will have paid off some \$332 million dollars of its Electric System Bond Series A. When that figure is combined with interest it means that Vernon now pays around \$46 million a year to meet that number. By 2022 Vernon will be free of that obligation and can use the money saved for other purposes. Of course it is not as simple as that. Vernon will still have infrastructure needs for which it will have to borrow, but nothing like \$332 million.

What is preferable, if it can be done at a lower annual cost (still an if), is to lengthen its bonded indebtedness payment schedule, and seek necessary new funding for its infrastructure needs, all the while reducing its annual principal and interest payments with the goal of avoiding any new taxation on business, and better yet to roll back some of the taxes most recently imposed.

Perhaps it's pie in the sky, but if Vernon can attract new business its health will be enhanced by greater City revenues and a City governmental workforce that should not have to be enlarged. Two other thoughts need to be added:

The good government principles that have been established the last three years must become embedded as a way of life. The goodwill established over the past three years can be

blown away were the City to fall into different hands (the worst case) and diminished were the City Administration and the Council to forget what brought the City to this point.

In my January 31, 2014 report I noted that it is only a matter of time when the lineup of the City Council will change, albeit slowly. But who will be there to take their place? Now is the time to find other residents able and willing to take the place of those who retire voluntarily or involuntarily, or as a result of term limits. One way to find those residents is to place potential successors on the various committees who advise the City government. Certainly greater resident involvement and understanding of how the City runs and should run is a key towards maintenance of the good government policies the City has adopted over the past three years.

## RECOMMENDATIONS

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

1. Construct approximately 50 new housing units with a significant affordable component within three years, with the goal of doubling the City’s electorate.” (See page 20) In process. Will follow.
2. “Establish a substantial and long term Environmental Community Benefit Fund to help mitigate decades of noxious air released from Vernon (the exact amount to be negotiated).” (See pages 8 and 9)
3. “Creation of an independent board to allocate those Environmental and Community Benefit Funds (ECBF) including representation from outside affected communities.” (See pages 8 and 9) In process. Will 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 pages 15-16)
2. Appraisals of promotability for City executives should be conducted annually and placed in the City’s personnel file. (See pages 22 and 23)
3. Consideration of staggered terms should take place when Vernon’s new housing is in place and there is a larger electorate. (See page 11)
4. The Business Development Committee needs to be reorganized, and a new mission needs to be adopted. That mission should include a broad understanding of the City’s financial situation and needs with involvement in the City’s long term planning. (See pages 16 - 18) In process. Will follow.
5. California Consulting, Vernon’s Grants Coordinator, should work closely with appointees making allocations from the Vernon Community Fund to document needs and help Vernon better assist neighboring communities. (See pages 9, 12)
6. Vernon, through its Finance Director, should begin a planning process for the long term looking at such issues as street maintenance, improved mobility, setbacks where achievable, watershed and storm water management, graffiti and litter control, and landscape improvements that will make Vernon a more welcoming community (i.e., greening Vernon). Such a process should involve representatives from the business community from its outset. (See pages 18 – 19) In process. Will follow.
7. The City should conduct a periodic (every three years) compensation review to determine if City salaries are in line with other California cities. (See page 14)

8. The City Council should require and obtain evidence based information justifying use of the 75% ideal compensation level, or in the alternative, establish another ideal level justified by the evidence. (See page 14)

### **C. New Recommendations**

1. 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 13).
2. The new City Attorney should continue to reduce its reliance on outside counsel and when necessary hire outside counsel at negotiated rate typical of those paid by other governmental entities. At the end of the 2014-15 fiscal year the City Attorney should report on a comparison of the costs of outside counsel for each of the prior five years. (See page 16).
3. The City needs to continue to review its bonded indebtedness and figure out a way to restructure its debt to lower and smooth out its annual costs. (See page 18).
4. In its long range planning the City should make sure it keeps pace with its infrastructure needs, and in so doing seek the advice from the business community as to what it believes is most important. (See page 33).
5. The City should compare itself with the competition (other cities) to prove that its taxes and utility charges are lower than the competition. (See page 33).
6. The City website should show the results of all elections. (See page 28).
7. The City's website should permit the public easier access to the City's Council's agenda and the reports and background material for its use at Council meetings. (See page 28) In process. Will follow.
8. The minutes of Vernon's governmental meeting should continue to be thorough and complete, reporting comments and discussion of matters under consideration, rather than being shortened to an "action only" report. (See page 28).