

**CITY OF VERNON**

**REPORT OF**

**JOHN VAN DE KAMP**

**INDEPENDENT REFORM MONITOR**

**Dated July 31, 2013**

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## PREFACE

I became Vernon's Independent Ethics Advisor on February 15, 2011, soon after the Assembly Speaker John Perez introduced AB 46 and then AB 781 that would have disincorporated Vernon. At the time Vernon was seen (among other criticisms) as paying outlandish salaries to its public officials who profited by their position.

As I said in my July 31, 2012 report, the Assembly Speaker "scared the bejusus out of Vernon." The threat of his bill forced Vernon's residents and businesses as well as its City government to understand that Vernon could no longer do business the way it had in the past.

This is my fifth report. The previous reports were filed July 29, 2011, January 31, 2012, July 31, 2012 and January 31, 2013 (all of which may be viewed on the City of Vernon's website) recommending reforms and improvements in the way the City of Vernon does it business.

In the reform efforts I have also been assisted by the work of many good spirited people living and working in Vernon, and by Senator Kevin De Leon, who on August 22, 2011 wrote to the City calling for housing reform (including new housing which would lead to a greater number of residents), the establishment of an Environmental and Community Benefit Fund, funding for Regional Community Recreational facilities and a revision of the City's trash hauling program. Most recently Senator Ricardo Lara, whose district now encompasses Vernon, has taken on an active and supportive interest in the City.

Thanks to Senator De Leon and other legislators in Sacramento, the Speaker's disincorporation measures did not succeed, and the City of Vernon in essence was given time to clean up its act.

My employment was continued by Vernon's City Council for four years effective February 13, 2012, under a new title "Independent Reform Monitor," with reports due every six months.

I am now associated with the firm Mayer Brown LLP as Counsel. This report is being prepared with the assistance of its staff and Robert Stern, former President of the Center for Governmental Studies and former General Counsel of the Fair Political Practices Commission, and have received significant cooperation from Vernon's administrative staff, and in particular Assistant City Administrator Kristen Enomoto.

The scope of my work delineated in my engagement agreement with the City is to report on Vernon's compliance with the Political Reform Act, Government Code Section 1090, the Brown Act, the Public Records Act and conflict of interest requirements, as well as the City's policies and procedures relating to the payment and expenses of invoices and 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 can only recommend. Nonetheless, it must be said that the City, with very few exceptions, has shown its consistent support of the recommended reform measures.

While it has taken time to implement and integrate some of these measures, Vernon continues on its good government path and in the past six months has made great progress in putting the City in the mainstream. The Council has shown a willingness to make some personal sacrifice to equalize their compensation at the recommended level, and in increasing the City's commitment to the Meta Housing project, showed real support for Senator De Leon's recommendation for new housing. And the Council approved a balanced budget for 2013-14.

This report will cover Vernon's most recent efforts to address recommendations made by Senator De Leon and me, address the City's efforts to bring its General Fund into balance, and provide a handful of new recommendations.

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John K. Van de Kamp

## RECENT DEVELOPMENTS

### Legislation

No legislation has been introduced in 2013 calling for Vernon's disincorporation.

### The City's Financial Future 2013-14

After consultation with the business community, on January 8, 2013, the Council approved a three pronged tax approach to raise \$8 million a year to remove the General Fund structural deficit to be submitted to Vernon's resident voters at the April 9, 2013 general election. The measures considered by the voters were:

Measure K: An ordinance to increase the City's Business License tax, based on the average number of persons employed by the licensee for each calendar year, with a maximum tax rate set at \$750 for one employee to \$28,450 for licensees with 1,901 or more employees. Warehousing business tax rates are to be based on square footage with a tax rate of \$1,200 for the first 5,000 square feet and \$0.21 per square foot for square feet beyond that figure at a yearly maximum rate of \$11,950 per location. Other yearly maximum rates are set for specific dealers and vendors. The measure takes effect January 1, 2014. CPI adjustments shall be made annually.

The measure is expected to generate an additional \$4.5 million a year in revenue.

On April 9, 2013 the measure passed with a vote of 37 yes, 5 no.

Measure L: An ordinance to levy an annual Special Parcel Tax on non-residential parcels at a rate of \$0.03 per square foot to fund public safety and health safety services and projects, to be levied on square feet of parcels not subject to the City's warehouse parcel tax. CPI adjustments are provided. The tax shall be first collected for 2013-14, with a sunset on the tax after fiscal year 2022-23.

This tax is expected to generate \$1.9 million per year.

The measure passed 36 – 6.

Measure M: An ordinance to levy a 1% utility users tax on electricity, gas, telecommunications, video and water services. The tax applies to businesses and residents, with an exemption provided for residents who are blind and disabled and those who meet the "low income" limits set by HUD. The tax sunsets in 2023.

This measure is expected to generate \$1.6 million annually.

The measure passed 34 – 7.

On June 18, 2013 the City Council approved a balanced budget for 2013-2014, effective July 1, 2013.

The “Net Budget” calls for revenue and expenses balancing out at \$311.2 million for the year with business revenues budgeted at \$239 million while governmental revenues were set at \$72.2 million.

The business–type expenses include expenses for Light and Power, Water, Gas and Fiber-Optics with \$54.2 million budgeted for debt, and \$156.3 million for the cost of sales.

Governmental expenses included Police (\$8.8 million) Fire (\$13 million), General Administrative (\$10 million), Capital Outlays (\$6 million), Health Services (\$1.4 million) and Public Works (\$5.6 million). \$2 million was set aside for the Community Benefit Fund and the Huntington Park Salt Lake Park Project and the East Los Angeles Hazard Park Amory.

As compared to the prior year, despite cost savings of \$1.8 million from the early retirement program, a reduction of legal costs estimated at \$1 million, and a reduction of \$3.5 million among Public Safety, Community Services and Health Departments, Vernon’s projected expenses for 2013-14 increased \$4.1 million from the prior year. The increases were largely attributed to increased costs associated with Light and Power (\$4.9 million), General Governmental Departments, including IT software, (\$1.2 million), the Community Benefit Fund and Regional Park Projects (\$2 million), and Public Works capital (\$2.3 million).

### **The City Auditor’s Report**

On March 5, 2013 the City’s Auditor Macias Gini & O’Connell released its financial statements relating to the City for the year ending June 30, 2012.

The reported total net asset value at the end of the 2012 fiscal year was \$82,358,298, as opposed to \$181,690,500 at the end of 2011. In 2007 their net assets were valued at \$313,566,791. A substantial part of the decrease between 2011 and 2012 (\$32,099,109) was related to the change in fair market value of its interest rate swap derivative instruments compared to that of prior years. As of this writing, the fair market value of those instruments has substantially increased.

In my January 31, 2013 report, I noted that Vernon had stepped close to the financial brink and that only a combination of City cost reductions and “tax increases have been and will be necessary if its fiscal cliff is to be avoided.”

As noted in the prior section on the City’s budget, the City has taken the combination of steps needed, and after five years of growing financial uncertainty is in a relatively stable situation. To be watched are the City’s increasing power costs brought about by new state requirements, the potential for loss of power sales resulting from conservative power use by Vernon’s companies, and the unexpected shutdown of businesses such as Exide.

The City’s Finance Director Bill Fox reports that an RFP for auditing services was published on May 23, with responses originally due on June 13. An extension for response was granted to July 3. A recommendation is expected to be placed on the Council agenda on August 6, 2013.

## **Personnel**

The only significant high level personnel change in the past six months was the appointment of Michael A. Wilson to serve as Vernon's Fire Chief. Chief Wilson is a 24 year veteran of the Vernon Fire Department and served as a Battalion Chief for 17 years and as Assistant Fire Chief from 2009-2012. He succeeds Mark Whitworth, now the full time City Administrator, who served in a dual capacity as City Administrator and Fire Chief from 2012 to December 29, 2012.

## **Elections**

In the April 2013 election, City Councilmember Bill Davis was re-elected, running unopposed. In May long time City Council member W. Michael McCormick was elected Mayor. There were no challenges to voters in the April 2013 election.

## **Bruce A.V. Malkenhorst**

Bruce V. Malkenhorst held a number of positions in Vernon during his 30 plus years of employment, most notably as City Administrator. He resigned in 2008 and was later successfully prosecuted by the L.A. County District Attorney office for misappropriation of public funds, for which he received nine years probation and was ordered to pay up to \$35,000 in fines and penalties, as well as \$60,000 in restitution to Vernon. Shortly before he resigned he received a salary of \$915,000 per year.

He became the highest paid pensioner in the CalPERS state retirement system receiving over \$500,000 per year. CalPERS recently revisited Mr. Malkenhorst's pension entitlement and determined to reduce it substantially based upon the rules in effect at the time of Mr. Malkenhorst's employment. Mr. Malkenhorst sued CalPERS, and Vernon as a real party in interest in 2012 in an attempt to preserve his pension and lost at the trial court level. The matter is presently on appeal. Vernon is working with CalPERS in opposing Mr. Malkenhorst's claims, both at the trial court and the appellate levels. Subsequently, Mr. Malkenhorst sued Vernon in the attempt to collect the pension amount which CalPERS disallowed, claiming among other charges, breach of express contract, breach of implied promise, violation of due process and impairment of contract. Vernon intends to litigate and to oppose any further payments to Malkenhorst.

## CHAPTER I

### Senator De Leon's Critical Path Reforms To Be Completed

Many of Senator DeLeon'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 DeLeon's recommendations to construct approximately 45 new housing units with a significant affordable component within three years, with the goal of doubling the electorate. Significant progress has been made in that regard. (See Chapter III) Vernon's present population is around 115. The number of registered voters is around 70. If 45 new units are built by the end of 2015, it seems likely that Senator DeLeon's recommendation will largely be achieved.

There are still a number of his recommendations that remain to be completed.

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

##### Critical Path Reform

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

##### Response from Vernon

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

The City set aside \$3.2 million in the 2012-2013 City budget for the Fund and for funding the Regional Community Recreational Facilities. (see Recommendation 3 below)

The 2013-14 budget provided \$2 million in funding for the Fund (now called the Vernon Community Fund (VCF)) and for Regional Community Recreational Facilities.

When the 2011 resolution was adopted, the anticipated source of much of the Fund was redevelopment money which was later lost as a result of state legislation dissolving redevelopment agencies statewide. Given the City's General Fund difficulties, the 2011 Resolution should be modified to reduce the annual allocation but retaining the essential nature of the De Leon goals. It is recommended that the City Administrator and the Director of Finance continue to meet and confer with Senator De Leon and Senator Lara about how the funds should be allocated.

## **2. Independent Board**

### Critical Path Reform

“Creation of an independent board to allocate those Environmental and Community Benefit Funds (ECBF) including representation from outside affected communities.”

### Response from Vernon

While the City authorized management of ECBF by a nine member committee in 2011, the committee itself has never been appointed. Vernon’s staff is proposing a nine member “Grant Committee” consisting of representatives from the surrounding communities, the Vernon businesses community and from the offices of Vernon’s state legislators. The proposal will have the VCF operate permanently with funding to continue each year as appropriated in the City budget and from private donations. The grant committee will review all applications and allocate the resources based on merit.

## **3. Regional Community Recreational Facilities.**

### Critical Path Reform

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

### Response from Vernon

In Resolution 2011-149, the City agreed to provide a separate allocation of \$5 million to assist programs for 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.

As indicated earlier, a total of \$3.2 million was budgeted in 2012-2013 for these programs and the ECBF requirement, of which \$274,000 was spent in 2012-13.

Negotiations continue with representatives from Huntington Park and Boyle Heights.

In Huntington Park, design work was completed for the renovation of the Salt Lake Park Project. \$124,000 was placed in an escrow account in 2012-13 by Vernon for the design work. Additional sums will be deposited as the project is developed. It is estimated that it will take around six months to complete the soccer field portion of the project.

Alex Kung of the Vernon City Administrator’s office has met regularly with Hazard Park Armory Youth Center officials to review documents for the renovation of the Youth Center. \$150,000 was deposited into an escrow account in 2012-13 for the initial planning phase.

\$500,000, was budgeted for each of these programs in the 2013-2014 budget, as part of the \$2 million budgeted for the Community Benefit Fund and the Regional Community Recreational Facilities.

In December 2012 Vernon hired a Grants Coordinator, California Consulting, to assist Vernon in gaining additional funding for those facilities, and for other programs. Vernon's Community Services 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.

Vernon's City Administrator and staff have been in regular contact with Senator De Leon and Senator Lara to inform them of Vernon's plans. It is the City staff's intention to present their proposal to the Council for approval in the next six months.

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

##### Critical Path Reform

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

##### Response from Vernon

Members of the SDEEC were appointed by the City Council on January 3, 2012.

In the past six months the Commission has met twice. It's work is ongoing.

#### **5. Trash Hauling Program.**

##### Critical Path Reform

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

##### Response from Vernon

Resolution 2011-149 directed the City's Health Officer/Director of Health and Environmental Control "to consolidate trash hauling enterprises within the City and improve environmental and safety standards governing trash hauling in the City."

At present, 19 trash haulers have contracts within the City running to December 31, 2014. The City's Health Officer/Director of Health and Environmental Control, Leonard Grosberg, is working in conjunction with the SDEEC to prepare an updated program to address truck emissions and the number of trash hauler trucks on the streets of Vernon, and is looking to develop a program that minimizes emissions and road traffic.

This program could lead to a consolidation of trash hauling to a single contractor or fewer permitted haulers and AQMD approved "clean" trucks. Such a program is being developed with SDEEC, and some input from the trash haulers has been received. Once the program is finalized, it will be sent to the City Council for approval no later than six months before the expiration of the present contracts.

The Commission has met twice in the past six months to discuss the City Council's goals for the trash hauling program.

The Commission has recommended that the Council should amend Vernon's franchising program to support AQMD's mandate to require that all trash hauling vehicles be operated solely with compressed natural gas (CNG), as CNG powered trucks are environmentally superior to diesel powered trucks.

At its June 19, 2013 meeting the Commission unanimously approved a recommendation to direct staff to commission a study analyzing the potential environmental and economic impacts if the City were to mandate a decrease in the number of authorized franchised trash haulers. The Health Department is expected to respond to the Commission's request.

## CHAPTER II

### Recommendations From Past Independent Ethics Advisor Reports To Be Completed

- “1. All Councilmember salaries should be set at \$24,996 by April 17, 2012, when the newly elected Councilmember takes office. (Page 41 of July 29, 2011 Report)

#### Response from Vernon

On June 18, 2013 the Council voted unanimously to set all Councilmember salaries at \$24,946 per year, effective July 1, 2013. (that figure could be adjusted annually based on cost of living increases)

- “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. (Page 15 of January 31, 2012 Report.)

#### Response from Vernon

Completed. See January 31, 2013 Report.

- “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. (Page 16 of January 31, 2012 Report)

#### Response from Vernon

Completed. See January 31, 2013 Report.

- “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. (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)

- “5. Vernon, with the assistance of Reed & Davidson, LLP, should complete the Brown Act compliance manual by April 2, 2012. When completed, the Brown Act compliance manual, should be posted on Vernon’s intranet site. (Pages 18 and 19, January 31, 2012 Report)

#### Response from Vernon

Completed. See January 31, 2013 Report.

- “6. Vernon, with the assistance of Reed & Davidson, LLP, should complete the Public Records Act compliance manual by April 2, 2012. When completed, the Public Records Act compliance manual, should be posted on Vernon’s intranet site. (Page 20, January 31, 2012 Report)

Response from Vernon

Completed. See January 31, 2013 Report.

**Contract Policies**

- “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 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. (See page 15 & 16 of Ordinance 1200). For detail see my January 31, 2013 Report.

It is 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.

- “8. The work assignment of one remaining contractor with the Light and Power Department fail to meet the criteria for a contractor; the contract of the remaining contractor should be phased out.”

Response from Vernon

Completed. See January 31, 2013 Report.

“9. The City should hire a permanent City Attorney with expertise in municipal law and redevelopment. (page 24, January 31, 2012 Report)

Response from Vernon

Completed. See my January 31, 2013 report.

“10. The City should create a Human Resource/Personnel Department and hire a Human Resources Director.

Response from Vernon

Completed. Teresa McAlister was hired and commenced work on September 2012. (See my January 31, 2013 Report, page ). In my last report I indicated I would track her progress.

Classification & Compensation

On January 23, 2013, Human Resources Director Teresa McAlister sent an RFP to eleven classification consultants for a citywide classification and compensation study. Following interviews of the four responding consultants, the firm Public Personnel Consultants was chosen. On June 11, 2013 it initiated its study which is expected to be completed by the end of November. 158 classifications will be evaluated, and the consultant will then conduct a total compensation survey involving the salary and other compensable benefits comparisons from the City's identified labor market (which may include as many as 12 comparable cities).

The consultants will also compare the compensation of the Mayor and Councilmembers with that of comparable cities. As part of this study, the analysis will determine whether there are compensable differences as a result of the Mayor having an increased workload and responsibilities when compared to his/her peers. This component of study was the result of my recommendation to the Council at its June 18, 2013 meeting.

Citywide Health Benefits Consultant (Broker):

On January 9, 2013 an RFP was issued for a Benefits Consultant (Broker). After a review and interviews of the top rated applicants by eleven employees representing the recognized employees' organizations, and final interviews with the City Administrator, Alliant Insurance Services was chosen to become the City's benefit broker effective June 18, 2013. Alliant will analyze current City plans and negotiate renewals and plans for coverage for medical, dental, vision, life insurance, flexible spending account administration, Employee Assistance Program (EAP) and any benefit plan changes for January 1, 2014 implementation.

### Safety, Communications, Training

The HR Director has also been active in updating the City's Injury and Illness Prevention Program, organizing ongoing employee informational meetings, developing a quarterly employee newsletter which should come to fruition in the next six months, and presenting Hazard Communications training to all City employees, giving employees information on hazardous chemicals in their work areas, and categories of hazards and chemical specific information available through labels and material safety data as required by Cal-Osha.

### Executive Performance Evaluation

The HR Director in April and June presented to the City Administrator, his City executive staff, and representatives of the City's employee associations, draft performance evaluation forms, and policy for their review. When the final version is approved by the Council, the City will have a systematic method for evaluation and recordation of the performance of its employees.

In the meantime the Eden HR Management System has been implemented which includes performance evaluation software. City staff has been trained on its application.

“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 A, page 18 of Jan. 31, 2012 Report)

### Response from Vernon

In my January 31, 2013 report, I detailed a series of recommendations from a study of Matrix Consulting relating to Vernon's Police Department staffing.

Major changes have subsequently occurred within the Department.

Staffing: As a result of the City's early retirement program, eight police employees have retired (three non-sworn, five sworn police officers). Two critical non-sworn positions were backfilled in the Records Division. Chief Calleros indicates that at the present time there is no intent to backfill the other positions. Promotions within the Department filled two key vacancies, that of Police Captain and Patrol Sergeant. As a result of the early retirement program, staffing levels within the entire department now stand at 53.5 positions compared to 59.5 before the retirement program took effect.

Pro-Active Patrol Time: Chief Calleros reported the following regarding the Matrix study findings that Vernon had above average levels of proactive patrol time.

“As indicated in the study, high proactive field time is common in smaller communities with low call volumes as is the case in Vernon. It should also be noted that many forms of proactive workload are not accounted and/or tracked in dispatch Computer Aided Dispatch (CAD) system. In reviewing the proactive activity CAD data, we found that a number of patrol field services related to community oriented policing; regional/mutual aid services to local communities;

officer on-duty training, community outreach services; patrol field surveillances; an other patrol functions are not tracked in CAD. In order to accurately track proactive field time, a number of new CAD codes were created to better identify patrol and community oriented field activities.”

To better use proactive time he has added some new department programs that are useful for Vernon as well as the surrounding communities.

“In addition, to make use of proactive time, we have implemented a Warrant Service Team and a Special Enforcement Team using patrol staff for these functions. When patrol staffing levels permit, these teams are deployed to address specific crime trends as well as serving outstanding Vernon arrest warrants in our region. Our Detective staff is also participating in a Southeast Regional Parole Compliance Team to conduct verification and compliance checks of recently released parolees in the Southeast area. The compliance teams are made up of officers from local police agencies in the Southeast region and the teams are deployed bi-monthly. As part of our participation in the task force, the police department will receive some State funding to cover personnel costs.”

Detective Bureau: The Matrix analysis suggested that Detective staffing levels be reduced by one Detective given the low caseload. Chief Calleros reports the following:

“With the retirement of the Detective Lieutenant, we have eliminated this position and the duties associated with this position have been assigned to the Detective Sergeant and Administrative Lieutenant. The Administrative Lieutenant will oversee the Detective Bureau, Professional Standards Office, the Communications Center, and the Records Division. This level of supervision is consistent with small police agencies. By assigning these new duties to the Detective Sergeant, cases and collateral duties typically handled by the Detective Sergeant will be disseminated amongst the four Detectives. The distribution of cases and collateral duties, will allow the Detective Sergeant to focus on the administration and supervision of the unit.”

Organizational Structure: Matrix recommended evaluation of the Department’s organizational structure to assure quality internal and external results in managing the organization. Chief Calleros response:

“The recommended organizational structure was simplified.” In summary, he said the command structure brings the Patrol and Services Operations under a Captain who will handle the day-to-day operations within the police department and allow the Police Chief to focus on City, community, and overall department issues.

Maywood: Still open is the Matrix recommendation that Vernon pursue providing contract services to the City of Maywood. (see page 16 of the January 31, 2013 Report).

Chief Calleros reports that his department’s study indicates that to provide such service Vernon’s Police Department would have to augment its staffing levels to add three dispatchers to

its Communication Center and one position to oversee the activities in Maywood, and two Records Technicians to handle additional workload from Maywood. Further, most of the vacant positions resulting from early retirement program would have to be filled.

The Vernon study indicates that its budget using dedicated patrol staff assigned to Maywood versus sharing patrol officers is estimated at approximately \$3.1 million. That equates to a \$100,000 savings for Maywood, compared to the L.A. County Sheriff's Department contract now standing at \$3.2 million. The Sheriff's contract with Maywood runs to June 30, 2014.

As for Vernon, according to Chief Calleros, its estimated savings would be in the neighborhood of \$1.5 million, "based on the utilization of dedicated patrol officers and the need to increase Dispatch and Records Technician's workload." That figure could be reduced slightly if it becomes necessary to bill Maywood for vehicle maintenance and other materials agreed upon that are necessary for the effective operations of the department.

The bottom line is that a contract for Vernon to provide police service to Maywood remains in the interests of both cities. For Maywood, it means dollar savings, dedicated personnel, and a more direct relationship with its neighboring city. For Vernon it means dollar savings, better utilization of its personnel, and more traditional police work (given that Maywood is primarily a residential city) for its personnel.

It is recommended that personnel of both cities continue to discuss this and hopefully resolve whether or not such a contract should be entered into, a contract which should be to the advantage of both cities.

- "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. (Page 15, July 31, 2012 Report)

#### Response from Vernon

Over the past six months City Administrator Whitworth and various Councilmembers have attended meetings of the League of Cities (Sacramento), Contract Cities (the Contract Cities Annual Municipal Seminar at Indian Wells, May 16 – 18, 2013), and the most recent Contract Cities meeting at Rancho Bernardo in July.

The City Administrator is in regular contact with City Managers of neighboring cities. Attendance at these meetings and the ongoing contacts provide Vernon's leadership opportunities to better understand the problems facing other cities and to better enhance Vernon's "best practices" environment. This interaction should continue and become the norm.

#### **New Recommendations from 2012 Reports**

- "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. (Page 15, July 31, 2012 Report)

Response from Vernon

See page 9 of Chapter I. In the 2012-13 City budget \$3.2 million was allocated for this fund and for Regional Recreational Facilities. \$274,000 was spent on Regional Recreational facilities. In the 2013-14 budget \$2 million was budgeted for its Vernon Community Fund and Regional Recreational Facilities.

- “2. Given the uncertain status of Redevelopment Agency funding, the timetable for allocation of \$5 million to assist in the renovation of the Salt Lake Park in Huntington Park should await clarity regarding the source of funding. (Page 15 of July 31, 2012 Report)

Response from Vernon

See page 9.

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

Response from Vernon

The City Attorney continues to implement this recommendation. Following negotiating new contracts with Latham & Watkins (described in my January 31, 2013 report), he has brought two new attorneys in house, as Deputy City Attorneys, Scott Parker and Zaynah Moussa. Their salaries are based on a market study of other public offices and their class specification are likewise based upon comparable positions in other city attorney offices. 66 qualified applicants applied for the position. The successful candidates had no prior connection with the City of Vernon, its City Attorney, or any member of the Executive Management Team.

The in house attorneys are expected to handle some of the legal matters that had been previously been outsourced to private firms.

At the same time, specialized legal services of a large and ongoing nature are being outsourced through a formal competitive process.

Request for proposals were issued based on objective criteria. As a result the following firms were selected:

Kronick, Moskovitz, Tiedemann & Girard for Housing Development and Planning matters.

Liebert Cassidy Whitmore and Jones Mayer for Labor & Employment matters.

For specialized work of a more occasional nature, proposals or intent letters were obtained, resulting in contracts with the following:

Mark Mandell for water rates and municipal revenue issues.

Bill Kruze for water rights issues.

Matthew Silver for Code Enforcement.

The goal of this process is to handle as much legal work in house as possible and responsible, and to use competent outside counsel at rates normally charged to other governmental entities, giving Vernon excellent legal representation at a cost far less than that experienced in the past turbulent years.

“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 these recommendations. In the past six months many of the recommendations have been addressed. They have not provided any written response as to any unwillingness or inability to respond positively to any of these recommendations.

“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, page 27 of January 31, 2012 Report)

#### Response from Vernon

Completed. Mr. Whitworth serves as the City Administrator under a two year contract, which can be extended by agreement of Mr. Whitworth and the Council. The two year contract expires on December 29, 2014.

Following a search and interviews, Vernon’s Assistant Fire Chief Michael Wilson was appointed Fire Chief.

“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)

#### Response from Vernon

In the past six months, every Business Development Committee meeting has been cancelled. Difficulties were experienced gaining a quorum. The City Council has directed the staff to recommend how the Committee should be reconstituted and to determine its goals and purposes. The staff, under the direction of Kevin Wilson, is also studying the number of Committee meetings to be scheduled annually.

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. It remains to be seen whether this Committee or another one should fulfill this role, but it is important that an outside business oriented committee fulfill the task. Otherwise it is left to the City government to make unilateral decisions that may run afoul of the City's most important constituents.

- “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.” (Page 32, Jan. 31, 2012 Report).

#### Response from Vernon

The City's Finance Director provided such data at the Council's first February meeting covering the first six months of 2012-13, as well as projections for the full fiscal year, together with suggested budget revisions. He made a similar report in April 2013, and continued to provide updated data in public Council meetings in May and June 2013, as the Council studied and approved the 2013-14 budgets. This recommendation should be considered completed. It is expected that ongoing public quarterly budget reports will continue.

## **Chapter III**

### **Housing**

#### **1. General Plan**

After approval of the City's housing element by the State of California's Department of Housing and Community Development on December 14, 2012, the City Council adopted the housing element and zoning ordinance along with the necessary environmental requirements at its February meeting.

#### **2. 4675 52<sup>nd</sup> Street Property Development**

Meta Housing Corporation, based in Los Angeles, was chosen to develop the property at 4675 52<sup>nd</sup> Street. The City will not own the units built on the property but will continue to own the land. It is assumed that the project will be classified as affordable housing and the rent that is charged will be based on the tenant's income, but in general will be about the same or lower than the amount the City is charging for equivalent units. The proposed project consists of 45 units and a community room on a 2.06 acre lot. The units would be a mix of one, two and three bedrooms. The final development agreement was approved at the Council's February 19, 2013 meeting. At its June 18, 2013 meeting the Council approved a 65 year \$650,000 loan to Meta that was increased to \$1.5 million at a special council meeting on July 3, 2013 in order for META to gain the necessary tax credit allocation from the California Tax Credit Allocation Committee.

#### **3. Conversion to One Year Leases and Internet Charges**

All of the 16 month to month tenancies have been converted to one year leases on the form lease adopted by the Housing Commission and pursuant to the Commission's policies and procedures.

Six of the Vernon units and one Huntington Park unit still have five year leases, with five of these leases expiring in November, 2014, and two of the leases expiring in 2015. The units are expected to be converted to one year leases on expiration of the five year lease. All of the five year leases are paying substantially under the market rate, but their rents are increased each year by the increase in the Consumer Price Index or two percent, whichever is greater.

Of the 26 units in Vernon, eight are now paying the market value rent and one is vacant. Three of the Huntington Park units are vacant and the other two are paying less than the market value suggested for them.

The rest of the units that are not paying market rates for their rents are under a four step increase plan to bring them up to full market rates by 2015. The second step of increases takes effect August 1. This will generate almost \$27,000 in additional revenue. When the full market rents become effective, the City is anticipating about \$325,000 total revenue per year.

The City's Fiber Optics Division is working closely with the City Attorney and City Administrator's office to develop a proposed residential internet subscription program to present to the City Council in August.

#### **4. Divesting of Huntington Park Properties**

Once again, the Housing Commission recommended to the City Council that the City sell the five Huntington Park properties, but the City Council, at its July 2 meeting, again decided that it was going to wait before selling the properties because the housing market had not recovered enough to warrant sales of the properties. The two condos in Huntington Park had been purchased in 2005-06 for significantly more than the current assessed values. For example, the property at 2915 E. 60<sup>th</sup> Place, #S was bought for \$352,000 and now has a value of about \$155,000. The three single-family homes were purchased in March 1989 for about \$160,000 each, and are currently appraised at \$265,000 to \$275,000.

The Housing Commission, at the recommendation of the new property manager, Solari Enterprises, Inc., approved a significant reduction in rent for the three unleased properties in Huntington Park, ranging from an 11% reduction for one property to about a 20% reduction for the other properties. One of the properties has been vacant for two years, another for one year, and the third for 6 months.

#### **5. First Responders**

First responders have priority in renting units from the City until there are four first responders leasing properties. Currently, there are three first responders (two firefighters and one police officer) leasing property. This is an increase of one since my last report in January, 2013.

#### **6. Lottery for Units that Become Vacant in 2013**

The semi-annual lottery was held at the June 12, 2013, meeting by the Housing Commission in order to create a wait list that is used to fill units that become vacant.

There are now 23 persons on the wait list, some of whom were also on the wait list created six months ago. Only three units are vacant, all in Huntington Park. Six of the eight units currently being rented at the full market rate were leased to persons in the May, 2012 and December, 2013 lotteries.

#### **7. Unit to Unit Transfer Policy**

During this six month period, two persons have completed a unit to unit transfer. One was City Council Member Luz Martinez and the other was the tenant at 4327 Furlong.

#### **8. Removal of Tenants Who Have Breached Their Leases by Subletting**

Section 22 of the City's lease agreement prohibits persons who rent property from subletting their property to persons not authorized to occupy the property under the lease. In addition, lessees may not assign their lease to other persons.

Six months ago, we reported that the City had found three units being sublet or assigning their leases improperly to other persons. Two of the three matters have been resolved while one is close to resolution.

The 4327 Furlong Place property has been vacated and leased at full market rent to persons transferring from another unit. The tenants also paid the required \$1,000 transfer fee.

The 3378 E. 50<sup>th</sup> Street property was vacated by the tenant two days before he was to be evicted by the Sheriff pursuant to an unlawful detainer order issued by the court. The unit has been leased at full market rent to the person who was next on the corresponding wait list. The new tenant does business in Vernon.

Since the lessee at 4321 Furlong Place did not vacate, the City filed an unlawful detainer action, which it won in May. However, the tenant has not vacated the property, pending a writ of possession that has been filed in Superior Court.

### **9. Back Payment of Rents**

Only one person owes the City any back payment of rents, about \$3,000, including late fees, and that person (who rented at 6036 Stafford Avenue, Huntington Park) no longer resides at the property. Although the lessee (a former City employee) agreed to a payment schedule, he has left the state and has not repaid anything that he owes. The City is pursuing the matter through the debt collection agency Caine & Weiner.

### **10. Third Party Property Manager**

The Housing Commission, by a unanimous vote, contracted with Solari Enterprises for an amount not to exceed \$25,000 to manage the housing leases for one year beginning June 1. Four bids had been received. Solari's bid was rated higher than the others because it had the most experience. The Housing Commission was able to approve the contract, without City council approval, because the contract did not exceed \$25,000.

Solari will collect rents and process new lease renewals. They are also working with the City on maintenance and repair issues on a case by case basis to determine whether the City or Solari is best suited to handle individual issues in the most efficient and cost effective manner.

## **Chapter IV**

### **Elections Held in 2013**

#### **Lawsuit to Remove Voters from the Los Angeles County Voter Registration Index**

In January, City Clerk Dana Reed filed a lawsuit in Los Angeles County Superior Court against Los Angeles County Registrar-Recorder Dean Logan asking the court to order Registrar Logan to remove six voters from the county registration index. The six voters had cast ballots in the June, 2012, election, but their votes were not counted after a proceeding held by Hearing Officer Debra Yang determined that their votes were not validly cast. In five of the six cases, Yang had found that the voters did not live in Vernon. In the sixth case, she found that the voter had not submitted his ballot properly.

In March, Superior Court Judge Robert H. O'Brien granted the petition submitted by the City against four of the six voters. Two of the voters, Victor Garcia and David Timothy Roberts, had mailed letters to the Registrar saying that they no longer lived in Vernon. One of the voters, Glen Davis Gulla was removed by the Court, and another, Bernard Patrick Roberts, was deleted by the Registrar due to his testimony before the Hearing Officer in 2012. Two others were not removed since service of process was not effectuated prior to the court hearing. These two, Robin Miller and Denise O'Connell, remain on the Voter Index, but did not cast ballots in the April election.

## **Chapter V**

### **The Audits**

#### **A. PERS Audit**

The July 31, 2012 report recounted the release of the PERS audit, which will not be repeated here. In my report, I noted, in part as a response to that audit that:

(1) Vernon City Employees are now paid for one specific position, even if they are assigned other positions.

(2) The City no longer pays safety contributions for its attorneys and has amended its contract with PERS to eliminate that possibility.

(3) In 2009, the City terminated its hybrid program paying hourly rates for those working hours in excess of a specific number of hours at their primary position for which there was a set salary.

(4) Since 2007, the City stopped paying extra compensation to Councilmembers and others for attending meetings of boards, commission and committees.

(5) The City, through its Human Resource Director Teresa McAllister and its outside counsel Steve Berliner of Liebert Cassidy and Whitmore, continue to work with and should continue to work with PERS to ensure that Vernon is in full compliance with its CALPERS contract.

As a result of the audit, PERS received retirement overpayments from Vernon representing both employee and employer contributions. To the extent overpayments were made and labeled as employee contributions, employees should get that money back from PERS, while employer contributions which are overpaid are usually retained in the City's PERS retirement account. The City's PERS retirement account is less than 100% funded. However, according to its most recent actuarial report it is funded at 87.6% while according to CalPERS Annual Review of Funding Levels & Risks as of June 30, 2012, the vast majority of non-pooled public agency plans were funded in the 65-80% range.

The Human Resource Director confirmed with CalPERS's representative that there are no outstanding issues with regards to current employees' membership status.

The City has not received any further correspondence regarding the final determinations or correspondence on the pending appeals of former employees.

Of the nine employees who received determination letters the following is a breakdown of the status:

One has been placed on CalPERS' retirement roll.

Two did not appeal the CalPERS final determination notice.

One—the City has received reimbursement for overpayment.

One is currently under settlement as a beneficiary.  
Two are former employees currently under appeal.  
Two are current City contributors, Michael McCormick and Mark Whitworth.

CalPERS Compensation: The Human Resources Director is in ongoing communication with CalPERS regarding the compensation and reportable wages for City of Vernon employees. The following items remain under discussion and review by CalPERS:

- 1) Reportable uniform allowance for Misc employees. CalPERS finding #9 asserts that the City failed to report the value of uniforms and uniform maintenance nor was such contained in a written labor policy or agreement. The City does not provide a uniform allowance for its Misc employees and therefore disputes this finding.
- 2) City Council member Salary – CalPERS is currently in the process of submitting all that is needed to place Mayor McCormick on the ALJ calendar.
- 3) City Administrator/Fire Chief – All documentation regarding the promotion of Mr. Whitworth to City Administrator was sent to CalPERS for resolution on Thursday, June 27, 2013. CalPERS has advised that they would conclude a final review and determination as soon as possible.

#### **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.

This report will comment briefly on the City's response to some of JLAC's comments and proposals.

#### **Housing**

JLAC: Full reform of the City's housing practice will take years to achieve.

#### **Vernon's Response:**

The City has acted expeditiously to reform its rental practices and to establish new housing, assuming Meta Housing gains its necessary tax credits once the City's application for allocation is approved.

#### **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 are now underway to 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.

### **Contracting Services**

JLAC: It noted that the City had not completed its Contract Policy document and urged strengthening the City's ERP system to track City contracts. It mentioned the planned contracting reforms.

### Vernon's Response

Largely completed. The contracting reforms are in place. (see the January 31, 2013 Report (Chapter II).

The ERP System has been reviewed by the Finance Director for necessary improvements. He reports that as a result he has identified all professional service contracts. Contracts that have been in effect for three or more years have been identified for rebidding. "Since the adoption of the competitive bidding and purchase ordinance, ten RFP's have been issued, including such professional services as insurance brokerage, financial advisor, and independent public accountant."

### **Other Expenses**

JLAC: Credit Card internal controls need to be strengthened, and ambiguities and travel expense limits on hotel accommodations need to be addressed.

### Vernon's Response:

The City's new Finance Director, William Fox, was given the task to determine an appropriate limit for hotel costs and to review and develop a revised intranet control policy for reviewing and approving credit card charges. He has examined the existing travel policies and determined they are in conformity with IRS guidelines and in line with other governmental entities. Small refinements will be made during fiscal year 2014 in the areas of conferences and auto allowance reimbursement.

Mr. Fox and his staff, in conjunction with the City Attorney's Office, worked with all City departments to develop a purchasing manual (based upon the model used by the City of Pasadena) that was recently approved by the City Administrator. The purchasing manual includes bidding parameters, strengthened credit card controls, and enhanced contractual terms and conditions.

At its August 20, 2013 City Council meeting it is expected that the Finance Director will present an amendment to the City of Vernon's Travel & Expense Reimbursement policy (Resolution 2011-187). It is expected to provide greater clarity and enhance provisions regarding meal and hotel costs, and ensure that the City's guidelines are consistent with those of the federal government.

In early July, the City of Vernon provided a lengthier "one year response to the California State Audit Report – 2001-133." It can be found on the City of Vernon's website at <http://www.cityofvernon.org/good-governance-reforms>

## CHAPTER VI

### Compliance Review

#### A. Conflict of Interests--Economic Interest Statements

On March 12, 2013 City Administrator Whitworth made a final determination on which individuals were considered “consultants” required to file Form 700. By April 2, 2013 all 11 consultants subject to the determination filed the Form 700 with the City. That information and the names of the consultants so designated were reported to the City Council on May 7, 2013.

The consultants required to file were the following:

Chuck Bailey, Plan Checker and Senior Electrical Inspector for the Community Services and Water Department, of Interwest Consulting Group;

James Barger, Code Inspector for the Fire Department, of JSB Fire Protection;

Dan Bergmann, serving in a role comparable to Manager for the Light & Power and Gas Department, of Interstate Gas Service;

Melvin Green, Plan Checker and Civil Engineer for the Community Services and Water Department, of Melvin Green & Associates;

Peter Hervish, serving in a role comparable to Manager for the Light & Power & Gas Department, of Port Canaveral;

Gustavo Lamanna, Legal Counsel to the Successor Agency to the former Vernon Redevelopment Agency, of Kane, Ballmer & Berkman;

Stuart Leviton, Commission Counsel for the Housing Commission, of Reed and Davidson;

Dana Reed, City Clerk, of Reed and Davidson;

Laura Stetson, who drafted the housing element and related environmental documentation, and other revisions to the City’s General Plan and Zoning Ordinance.

Craig Underwood, serving in a role comparable to Assistant Finance Director, of the BLX Group, and

John Van de Kamp, Independent Reform Monitor, of Mayer Brown.

All the consultants, with the exception of Stuart Leviton, were required to file the broadest disclosure. Leviton was required to file interests in real property located in Vernon or property within two miles of the City’s borders or within two miles of any residential property owned or used by the City; investments or business positions with companies that provide services, goods, supplies, materials, equipment or machinery of the type used by the Housing Commission; and income, including gifts and travel payments, from sources have an interest in

residential property within the City or within two miles of residential property owned or used by the City or from sources that provide services, goods, supplies, materials, equipment or machinery of the type used by the Housing Commission.

In addition to those listed above, three other consultants filed statements of economic interest, Steve Berliner, David Davies, and Jon Eric Goetz. It was later determined that they were not required to file such statements.

### **B. Campaign Statements**

The Vernon Chamber of Commerce filed a semi-annual campaign statement on January 31, 2013 under the name Committee to Elect Leaders for Reform. The campaign statement listed two \$5,000 contributions, one from Rieder Enterprises on July 25 and another from Baker Commodities on September 17. The statement listed expenses of \$5,492, most of which went to Erin Lehane, a consultant. The Committee has a zero cash balance as of December 31, 2012 although it owes \$915 in outstanding bills.

Mayor William Davis was up for election in April and filed a campaign statement indicating that he did not intend to spend more than \$1,000 in campaign expenditures for the election.

### **C. Public Records Act Requests**

During this six month period the City received about 60 requests for public records. It responded within ten days for nearly all the requests. Nearly all of the responses were sent by email to those asking for the public records. No complaints were received.

### **D. Approval of Minutes**

In the January 31, report it was recommended that minutes should be calendared for Council approval no later than six weeks after the meeting in question. That has been accomplished.

### **E. Agenda Packages**

The agendas are available publicly (and on line) on the Thursday before the regular Tuesday Council meeting. The Agenda “package,” (i.e., the back-up material and supporting documents for the agenda items”) is available in the City Clerk’s office , at the meeting and on-line.

The agenda format itself was revised by the City Clerk’s office to make it more user friendly, and to make the City’s business more intelligible and transparent to the general public. This is in excess of what is required under the Brown Act, but furthers the goals of the City’s Good Governance efforts.

Pursuant to my suggestion in my January 31, 2013 report, the City has implemented a more informative and user friendly website. The full City Council agenda packets dating back to January 2012 are available at <http://cityofvernon.org/government/public-meetings/citycouncil>.

The agenda packets for all other City committees and commission meetings dating back to January 2012 are also available on their respective pages. While there have been some technical glitches, it is the intent to have the agenda packets posted on the Thursdays before the regular Council meetings. In so doing the City has improved upon my suggestion.

## Chapter VII

### Business Activity in the City

#### A. Vacancy Rates

John McMillan, Executive Director of Industrial Brokerage for Cushman & Wakefield, provided an outline of the 2<sup>nd</sup> quarter 2013 industrial vacancy rates for the major US industrial markets, as well as the larger submarkets in just the greater Los Angeles area.

He noted “Los Angeles County and Orange County have the lowest industrial vacancy rates in the U.S. Vernon’s vacancy rate has remained stable at 4.2%, which is exactly where it was at this time in 2012. While the vacancy rate has remained stagnant, Vernon property values across the board have risen steadily. Land and building purchases in particular are in great demand.

Despite the age of the majority of the buildings in Vernon, the inherent functional obsolescence of those buildings by today’s modern standards, and the recent increases in electrical rates and various taxes, Vernon continues to have one of the lowest vacancy rates in not only LA County, but the entire U.S. That is a testament to Vernon’s ideal central location, superior freeway access, and the City staff’s industrial friendly attitude and services.”

Overall Vacancy Rate Rankings – Low to High <b>Second Quarter 2013</b> U.S. Industrial Markets
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Market	Vacancy Rate
<b>Greater Los Angeles</b>	<b>4.4%</b>
<b>Orange County, CA</b>	<b>4.4%</b>
St. Petersburg/Clearwater, FL	5.4%
SF Peninsula, CA	5.5%
Denver, CO	5.5%
Philadelphia, PA	5.7%
Oakland, CA	6.3%
Houston, TX	6.6%
Inland Empire CA	6.8%
Tampa, FL	7.1%
Miami, FL	7.3%
Portland, OR	7.4%

Overall Vacancy Rate Rankings – Low to High <b>Second Quarter 2013</b> Greater Los Angeles Markets
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Market	Vacancy Rate
Burbank	1.9%
Van Nuys	2.5%
South Gate	2.9%
El Monte/S. El Monte	2.9%
Gardena	3.4%
Carson	3.4%
Montebello	3.4%
Pico Rivera	3.6%
Commerce	4.1%
<b>Vernon</b>	<b>4.2%</b>
Santa Fe Springs	4.4%
Valencia	4.9%

Chicago, IL	7.9%	Compton	4.9%
Palm Beach, FL	8.0%	Cerritos	5.0%
San Francisco North Bay, CA	8.1%	Rancho Dominguez	5.2%
New Jersey - Central	8.4%	City of Industry	5.2%
Baltimore, MD	8.6%	Pomona	5.7%
Ft. Lauderdale, FL	8.7%	Chatsworth	6.3%
San Diego, CA	9.1%	Torrance	7.6%
Atlanta, GA	9.1%	La Mirada	11.9%
New Jersey – Northern	9.4%		
Silicon Valley, CA	9.4%		
Dallas/Ft. Worth TX	9.5%		
Pennsylvania I-81/1-78 Distribution Corridor	9/6%		
Jacksonville, FL	10.0%		
Orlando, FL	10.0%		
Long Island, NY	10.4%		
Contra Cpsta. CA	10.7%		
Phoenix, AZ	11.3%		
Hartford, CT	12.2%		
Suburban MD	12.3%		
Northern VA	14.1%		
Boston, MA	14.5%		

In my January 31, 2013 report, Vernon’s vacancy rate for 2012 was listed at 4.5%.

## **B. Electricity Usage Comparison**

In my January 31, 2013 report I noted that electric power usage “has some relevance to business activity and reported a 1% increase in electric usage in 2012 over 2011.

Given that this is a mid year report, I asked Carlos Fandino, Vernon’s Director of Light and Power, to provide me with the January to July power figures for 2013 versus those of 2012.

The result;

Retail Sales (kwh)

<b>MONTH</b>	<b>2012</b>	<b>2013</b>	
January	90,386,943	87,321,139	
February	94,439,063	93,331,131	
March	91,115,412	86,907,539	
April	95,234,547	93,800,977	
May	91,546,847	94,880,810	
June	97,445,761	96,781,702	
<b>6 Mo. Total kWh</b>	<b>560,168,573</b>	<b>553,023,298</b>	<b>-1.28%</b>

My reaction, usage was relatively stable.

Mr. Fandino’s analysis of the numbers:

“Using a straight comparison of 2012 numbers, the City of Vernon Light and Power Department has seen an overall decrease in load of 1.28% over the last six months. However, 2012 was a leap year, and the one extra day of load skewed the comparison. After adjusting for the extra day of February 29, 2012, a true apples-to-apples comparison revealed an overall load decrease of only 0.71%. Exide was temporarily off line, but has resumed operations as of July 2013. As you may also recall, another large customer, AFA Foods/United Food Group, closed its Vernon operations last year and the current occupant at that location is consuming less electricity than AFA did. It should also be noted that permits were recently issued for a large refrigerated produce facility and they are expected to be online in early 2014; this prospective customer will help offset the recent decrease in load.”

## CONCLUSION

In the past six months Vernon has tied up a lot of loose ends. It has addressed its most significant financial problems, with staff reductions, and tax increases. It has produced a balanced budget.

The Executive staff, with a new Finance Director, a new City Attorney and a new HR Director appears to be working well with the City Administrator, and other department heads. Regular staff meetings are the norm.

The City's relationship with the residential community appears to have improved. Witness the support for the tax increases in April, and what appears to be an undisputed election.

The Council also appears to be working together in a way that manifests united support for the good government recommendations that have been made. In my last report I noted that the "members say very little, there is little debate or public questioning of proposals nor is there much coming from them speaking in favor of measures they support." Having attended a majority of Council meetings in the past six months I must report that that still holds true. But a break through may have occurred on the July 3<sup>rd</sup> special Council meeting when the councilmembers actively discussed and debated what the City's contribution to the META Housing Project should be. In the end they overrode the staff recommendation and added \$250,000 to the staff recommendation, a decision that appears likely to enable META to gain the tax credits needed for the housing project to go forward.

Looking ahead, decisions are imminent on the appointments of a City auditor and an outside financial consultant. In both instances RFPs were issued, interviews conducted and recommendations are going forward to the council in early August. Whatever the outcome the process was correct. And the result may be that Vernon has the advantage of new sets of eyes.

In the next six months it is expected that Vernon's community outreach program will be better articulated and that Resolution 2011-149 establishing an Environmental Community Benefit Fund (at \$5 million a year for 10 years) and a separate allocation of \$5 million each to assist programs for the Hazard Park Amory Youth Center in Boyle Heights and for the renovation of the Salt Lake Park in Huntington Park, will be amended in light of Vernon's budget realities. At the same time amendments to the Resolution should make it clear that Vernon will support its neighboring communities on an ongoing basis for the long term.

Vernon can now look to its future; it is time for long term planning. Vernon's administrators need to ask what should Vernon look like in five years and how does it get there. Needed will be long term planning for such things as better street maintenance, improved mobility, set backs where achievable, aesthetic and landscape improvements (e.g. greening Vernon), watershed and storm water management, better graffiti and litter

control, as well as meeting the needs of the fire and police departments and other departments involved in meeting Vernon's needs and priorities.

From an outsider's perspective, Vernon has been in a defensive mode, first as a result of the recession, and in 2011 because of the disincorporation crises. As a result there appears to have been a growth in deferred maintenance. Now is the time to begin to reverse it and to use the City's resources to make it a more attractive place to do business. That will require an in depth planning exercise (involving the business community), budgeting based on needs and priorities, and a commitment to make sure that Vernon's tax and power rates beat the competition, support its existing business community, attracts new business, all the while providing good jobs for thousands of Southern Californians.

## RECOMMENDATIONS

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

1. “Establish a substantial and long term Environmental Community Benefit Fund to help mitigate decades of noxious air released from Vernon (the exact amount to be negotiated).” (See page 8)
2. “Creation of an independent board to allocate those Environmental and Community Benefit Funds (ECBF) including representation from outside affected communities.” (See page 8, 9)
3. “Immediately fund regional community recreational facilities in affected neighboring communities (the scope and sites to be negotiated) (See page 9, 10)
4. “Revise existing trash hauling program with strong environmental standards.” (See page 10, 11)

### **B. Recommendations from the July 2011, the January 2012, July 2012, and, January 31, 2013 Reports 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 19)
2. The City should amend its Resolution 2011-149 which called for funding specific amounts and transfers from the Environmental and Community Benefit Fund and for Regional Community Recreational Facilities to make it consistent with the City’s ability to fund those measures. (See page 35)
3. The City should continue to work with PERS to ensure that Vernon is in full compliance with its CALPERS contract. (See pages 25, 26)
4. Appraisals of promotability for City executives should be conducted annually and placed in the City’s personnel file. The City Council needs to approve the performance evaluation forms and policy drafted by its H.R. Director. (See page 15)
5. Internal staff or outsourcing should be utilized for better long range financial planning. (A new outside Financial Advisor is expected to be approved by the Council in August).
6. Short and long term debt policies meeting the needs of the City should be established no later than January 1, 2013. (To be addressed in next six months).
7. The City should study reviewing its bonded indebtedness which today costs \$60 million a year to service, and figure out a way to lower and smooth out its

payments, thereby putting it in a position to lower its recent tax hikes. (To be addressed in next six months).

8. Consideration of staggered terms should take place when Vernon's new housing is in place and there is a larger electorate. (See page 19 of January 31, 2013 Report).
9. The City should review compliance with its new Competitive Bidding and Purchasing Ordinance no later than July 1, 2014 to determine its effectiveness and whether any changes need to be made. (See page 14 of January 31, 2013 Report).

### **NEW RECOMMENDATIONS**

1. 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 page 19).
2. The City needs to make appointments to the Committee to control allocations from the "Vernon Community Fund". (See page 9).
3. 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.
4. As recommended to the City Council on July 2, 2013 the City should convene a meeting of the Mayors and City Administrators of neighboring cities to meet Eric Garcetti, Los Angeles' new Mayor to discuss issues of mutual interest.
5. Vernon, through its Finance Director, should begin a planning process for the long term looking at such issues as street maintenance, improved mobility, setbacks where achievable, watershed and storm water management, graffiti and litter control, and landscape improvements that will make Vernon a more welcoming community (i.e., greening Vernon). Such a process should involve representatives from the business community from its outset. (See page 35, 36).