



City of Hemet

445 E. FLORIDA AVE • HEMET, CALIFORNIA 92543 • (951)765-2301

From the Office
of the

CITY MANAGER

Alexander P. Meyerhoff

August 3, 2017

Elaine M. Howle, CPA

State Auditor

621 Capitol Mall, Suite 1200

Sacramento, CA 95814

Re: Updated Corrective Action Plan

Dear Ms. Howle:

I am pleased to submit the City of Hemet Updated Corrective Action Plan dated August 3, 2017.

In this plan, the City of Hemet provides a detailed summary of its ongoing efforts to implement the State Auditor's recommendations. To date, the City has studied and implemented a number of the State's recommendations. The City is also pleased to report policy and programs changes which are moving the City towards greater financial stability.

The State Auditor's efforts to understand the unique challenges of the City of Hemet are appreciated. In this plan the City addresses each topic within the report and provides a timeline for the ongoing tasks to be undertaken in furtherance of the goal to achieve financial stability.

Each risk area is thoroughly reviewed and addressed with the goal of eliminating the "high risk" designation.

Should you have any questions, do not hesitate to contact me at the number listed above or via email at ameyerhoff@cityofhemet.org

Sincerely,

Alexander P. Meyerhoff, AICP
City Manager

APM/ka

Enclosure

Issue:

Expenditures continue to outpace revenue, impeding Hemet's ability to meet its financial obligations

Risk Area:

Ongoing budget deficit

- Projected a \$5 million budget deficit for fiscal year 2015-16 and continues to experience dwindling reserves.
- Developed an inaccurate and overly optimistic five-year plan to address its budget deficit.

City's Response:

The City's Executive Management Team (Management) began the FY 2017-18 budget process on February 15, 2017 by identifying and summarizing department programs and priorities for the FY17-18 Budget.

Based upon this work and Management's understanding of Best Management Practices in each of their respective disciplines, staff presented detailed reviews of each department's priorities to the City Council over three City Council meetings conducted on March 28, 2017, April 11, 2017 and April 25, 2017.

During this period, the City Council was simultaneously engaged in labor negotiations with multiple bargaining units, including the HPOA, HFFA, HPMA and HNSPEA. The Measure U Oversight Committee met on April 17, 2017 to review the Measure U Budget. The Measure U Oversight Board met again on May 1, 2017 to review additional information related to the Proposed Measure U budget. In the intervening weeks, the City's management team worked diligently to develop the FY 17-18 Preliminary Operating Budget and Capital Improvement Program. Together, these documents include both capital and operating budgets which represent Management's best professional recommendations.

From the outset, city staff was directed to deliver a "flat line" budgets which limited new spending. As a result, Department budgets do not exceed available resources. On May 30, 2017, the Draft FY 17-18 Preliminary Operating Budget was presented to City Council. At that meeting the City Council requested additional information about the costs of unfunded program and provided direction to staff. The City Council conducted a Special Meeting on June 7, 2017 to review the FY 2017-18 Draft Capital Improvement Program (CIP). The City Council spent several hours discussing the CIP. The CIP prioritizes the city's capital projects over the coming five year period. The majority of these projects in included in the CIP are maintenance projects.

In accordance with their authority, the Measure U Oversight Committee conducted a third and final meeting to review the Draft Measure U Budget on June 12, 2017. The City Council conducted a second budget workshop on June 13, 2017. The City Council conducted a third budget workshop on June 20, 2017. On June 20, the Planning Commission reviewed the 2017-18 Draft Capital Improvement Program and found the program consistent with the general plan. The City Council conducted a fourth budget meeting on June 27, 2017. The City Council reviewed the FY 17-18 Preliminary Operating Budget during regularly schedule meetings on July 11, 2017 and July 25, 2017. The City Council budget meetings were well attended by the public and community was highly

engaged throughout this entire process.

On July 25, 2017, the City of Hemet adopted the fiscal year 2017-18 General Fund budget. The FY 17-18 General Fund budget includes Revenues of \$50.3 million and Expenditures of \$49 million. The budget is consistent with the City's Five Year Financial Management Plan. Pursuant to Resolution #1880, City of Hemet policy requires a minimum of 20% General Fund reserve. The approved FY 17-18 General Fund Budget includes a 22% Reserve, which is consistent with this policy. Reserves serve as operating capital. In addition, the City of Hemet's General Fund has no bonded indebtedness.

The FY 17-18 Operating Budget will allow the City Council to achieve the following objectives:

- A clean and safe city;
- Economic development; and
- Successful projects and programs

The City of Hemet will continue to monitor all financial activity. The City Council receives monthly financial reports. The City Council also reviews detailed quarterly financial updates during regularly scheduled meetings.

The City will continue to update the five-year financial plan annually and when significant changes to revenue or expenditures are identified. The Five-year Financial Management Plan is used as a guide for budget preparation each year and will continue to serve as a roadmap for financial stability.

The City of Hemet continues to seek opportunities for enhancing ongoing revenue, with any recommendations for new fees subject to policy approval by the City Council. At the same time, the City continues to seek and achieve efficiencies while reducing expenditures wherever possible. The City will continue to update existing fees annually to ensure the costs of providing services are recovered.

Auditor's Recommendation:

- "Hemet should identify additional sources of revenue and reduce costs, such as establishing and collecting fees for services it currently provides without charge and other options identified in this report."

City's Corrective Action Plan:

- (1) City Council placed a general purpose revenue measure on the November 2016 ballot, estimated to generate \$10 million annually.
- (2) Continue to update the Five Year Plan at least annually, with thorough analysis of projections for accuracy and feasibility.

Timing:

- (1) On July 26, 2016, the Hemet City Council placed the general purpose revenue measure on the ballot. On November 8, 2016, voters approved Measure U which provides a dedicated, long term (ten year) funding source to enhance public safety. On July 25, 2017, the Council approved a budget which incorporates new dedicated public safety funding for a period of ten years.
- (2) The Five Year Financial Management Plan was updated on January 10, 2017.

Risk Area:*Rising pension costs*

- Has maintained employer contributions but faces increasing costs because of its large unfunded liability.
- Will incur additional payments if it fills vacant positions.

City's Response:

The California Public Employees' Retirement System (CalPERS) is the agency that the City of Hemet contracts with to provide for employee pensions. The City of Hemet does not participate in the federal Social Security program. The City of Hemet has contracted with CalPERS since 1969, with several contract amendments to modify benefits and contributions being made since that time.

In January 2013, the California Public Employees' Pension Reform Act (PEPRA) took effect, changing CalPERS retirement and health benefits, and placing compensation limits on members. PEPRA requires that employers pay the normal cost of benefits (the annual cost associated with one year of service accrual) for each active employee. As required by law, all new CalPERS members will be enrolled subject to PEPRA. Given the change in the law under PEPRA, future increases to unfunded liabilities should be minimal, primarily subject to investment market fluctuations. While the PEPRA legislation goes a long way in managing the City of Hemet's pension ongoing liabilities, there continues to be costs associated with benefits already promised to former and current employees. As of the August 2016, CalPERS valuation report, the City of Hemet has a combined \$79 million unfunded liability for its Safety and Miscellaneous Plans. This unfunded liability is a result of benefit changes, investment performance and assumption changes over time.

Historically, the City's CalPERS unfunded liability was amortized over a 30 year period. This amortization period resulted in a greater liability due to the accrual of interest over the period of amortization. The result of 30 years of interest on unpaid liabilities totals approximately \$12.5 million. CalPERS allows agencies to reduce overall unfunded liability cost (base plus interest) by reduce the amortization base to fewer than 30 years, referred to as a "fresh start" amortization schedule. This "fresh start" requires that the number of years used as the amortization base be less than the current 30-year schedule and cannot be increased once changed (but can be further decreased). Any reduction in the amortization schedule would result in interest savings due to the accelerated payoff of liabilities. The most recent CalPERS valuation reports include an analysis of the City of Hemet's 30-year amortization schedule and alternative, reduced period schedules. Each alternative schedule increases the annual payment amount by 3%, compared to a more uneven payment amount change in the current schedule.

The regular monitoring of the citywide budget and annual update of the five-year financial management plan will allow the City of Hemet to prepare for increases in pension costs.

Auditor's Recommendation:

- "To ensure that it adequately plans for changes in its pension costs, Hemet should continue to update its five-year projections at least annually to reflect changes to annual pension costs."
- To attempt to reduce its pension costs, Hemet should continue to explore options and work with CalPERS to reduce payments for its unfunded liability."

City's Corrective Action Plan:

- (1) Work with CalPERS to identify options to reduce payments for unfunded liability. Make recommendations to city council.
- (2) City will evaluate cost-effectiveness of annual CalPERS 2017 pre-payment of unfunded liability to take advantage of discounts.
- (3) City will analyze a change to the PERS Amortization schedule from 30 years to determine if additional savings are achievable.

Timing:

- (1) The City Council met to evaluate cost-effectiveness of annual CalPERS 2017 pre-payment of unfunded liability to take advantage of discounts and identify options to reduce pension liability during regularly scheduled City Council meetings on September 13, 2016, October 25, 2016 and November 15, 2016.
- (2) The City will continue to evaluate cost-effectiveness of CalPERS pre-payment of unfunded liability to take advantage of discounts on an annual basis.
- (3) After conducting a detailed analysis of revising the PERS Amortization schedule from 30 years to 20 years to determine if additional savings would be achievable, the City Council determined that additional savings would be achievable and approved a change to the PERS Amortization schedule from 30 years to 20 years as part of CalPERS "fresh start" program to reduce the City's pension liability on November 15, 2016. A reduction in the City of Hemet's amortization schedule for CalPERS unfunded liabilities will result in interest savings. Additionally, the predictable payment increase of 3% per year is more easily budgeted than the current schedule provides. Savings from the change in amortization schedule for CalPERS unfunded liabilities is estimated to be approximately \$12.5 million over the 20-year amortization period.

Risk Area:*Use of city-supported library by nonresidents*

- Spent \$1.8 million in fiscal year 2014-15 on library operations.
- Serves patrons throughout the region, of which nearly half are not Hemet residents.

City's Response:

The Hemet Library presently has 144,033 registered borrowers. Of the City's 83,000 residents, 76,816 are library customers. An additional 24,700 library cards are held by residents in the unincorporated areas of Hemet. The remaining 42,487 Hemet Library borrowers do not reside in the city or its unincorporated areas, and of this number 21,502 reside in San Jacinto. Annual circulation of 321,074 was recorded in FY 15-16. The library was open 201 days during the last fiscal year. The daily average circulation is 1,602 with a daily hourly check-out of 170 items.

The City Council conducted a work study on August 23, 2016 where it discussed the possibility of charging non-resident borrowers a fee for using the Hemet Public Library. Council was informed by California State Librarian Greg Lucas and Library Manager Caines that once a jurisdiction begins charging for library cards, the city would be required to withdraw from the Regional Library Consortium, Inland Library System. By charging for library cards, a city also loses eligibility for State and Federal Grant Funding. Furthermore, the State Librarian has informed staff that grants which have been previously awarded may need to be repaid. This includes the \$5,000,000 State Grant received by the City for use in library construction. By withdrawing from Inland Library System,

Hemet would also lose the benefit of over 500,000 e-books. This service costs the city nothing.

During the City Council meeting on August 23, 2016, a member of the public commented on the fact that because residents from Hemet's unincorporated areas contributed to the initial funding of the Library, it would be wrong to charge for library use when the city seeks to encourage these non-residents to engage in the economic life of the community by shopping, eating, playing and paying sales tax in Hemet. One council member suggested looking into regionalization of services with the neighboring City of San Jacinto. No other council members weighed in on or supported this suggestion. Previous City Councils have said that rejoining the County Library system was not desired as it does not save money and level of service did not meet community standards.

Auditor's Recommendation:

- "Hemet should seek legal guidance to adopt an annual library user fee structure to charge individuals other than city inhabitants and nonresident taxpayers for the use of the library resources."

City's Corrective Action Plan:

- (1) Evaluate adoption of library user fee structure and potential impacts to outside funding sources and existing cooperative agreements.

Timing:

- (1) Hemet City Council met to study adoption of an annual library user fee structure to charge individuals other than city inhabitants and nonresident taxpayers for the use of the library resources on August 23, 2016. During that meeting, following extensive discussion and deliberation, the City Council considered and ultimately rejected implementation of library user fee structure to preserve opportunity to receive grants and maintain the existing relationship with State Library.

Risk Area:

Significant retiree medical costs and unfunded liability

- Had large retiree medical obligations due to past promises of fully covered health care, but has since shifted approximately two-thirds of its remaining plan participants to lower-cost health plans.
- Continues to incur a large unfunded liability.

City's Response:

In 1998, the City of Hemet made the decision to discontinue offering an employer-paid retiree medical program to new employees. This change followed the 1990 decision to reduce retiree medical benefits from their previous levels, in an effort to reduce the increasing cost of other postemployment benefits (OPEB). Additionally, in 2015, the City Council passed Resolution No. 4642 terminating the highest costing medical plans. While these significant decisions did much to reduce the future cost of OPEB for the City, the actual cost of benefits has steadily increased.

On June 26, 2016, the Hemet City Council conducted a work-study during which it discussed the establishment of an OPEB trust for the purpose of setting aside funds for the future payment of retiree medical obligations.

An OPEB trust is an irrevocable account established for the purpose of saving and paying for OPEB liabilities. A separate account is created through an administrator in which the funds are invested according to a menu of strategies, achieving higher earnings than seen with the City's operating accounts. This use of a separate OPEB trust fund allows for investment flexibility pursuant to California Government Code Section 53620-53622, compared to the investment restrictions for the City's general pooled cash. The benefit of an OPEB trust is that, through regular funding and investment earnings, it is possible to pay the full future cost of OPEB directly from the trust, greatly reducing the ongoing impact to the City's operating funds.

The City Council discussion included the current status of the City of Hemet's retiree medical program, the "pay as-you-go" funding practice, and the unfunded liability amount through the sunset of the program. As the City of Hemet's retiree medical program no longer allows participation by new employees, it is anticipated the plan will reach its end-of-life in the next 40 to 50 years. Additionally, beginning with fiscal year 2016-17, GASB Statements 74175 will require the unfunded liability for OPEB, currently valued at \$87 million, to be included in the Statement of Net Position within the City's annual financial statements.

With a pay-as-you-go system a much higher actuarial liability is assumed and, when added to the unfunded liability for employee pensions, creates a negative net position of over \$100 million as presented on the City's financial statements. As a part of the work-study presentation was the recommendation that the City Council consider an ongoing funding policy with the establishment of an OPEB trust. A funding strategy ensures that an OPEB trust receives at least minimal deposits each fiscal year in an effort to build toward full-funding of the remaining liability through the life of the program. Full funding of the OPEB liability in the future will eliminate the need to use ongoing operating resources to pay annual retiree medical costs. This information was again presented to the City Council on September 13, 2016. At that time staff was directed to bring back additional information, including: o Historical returns for each of the trust administrators and funding strategies.

On October 11, 2016, the City Council met and discussed further review of OPEB trust options. Present at this meeting were representatives from PARS and CalPERS - CERBT. At the conclusion of discussions, the City Council provided direction to staff to return with the necessary documents to establish an OPEB trust with PARS, information regarding investment strategies, and recommendations for initial and ongoing contributions to the trust.

Additionally, it is recommended These initial and annual contribution amounts would total \$12 million in City contributions over 45 years. FIGAL IMPACT: Savings from the establishment and regular funding of an OPEB trust are anticipated to be millions of dollars. Required semi-annual actuarial valuation reports will provide a benchmark for progress toward eliminating the unfunded liability for the City of Hemet's retiree medical program.

The City of Hemet will continue the process of reducing retiree medical costs through the elimination of the highest costing plans as of September 1, 2016. Regular monitoring of the status of retirees for Medicare eligibility or coverage need will ensure appropriate expenditure levels. The City of Hemet will also continue to explore alternative plan options annually to identify opportunities for cost savings while maintaining comparable coverage for retirees.

Auditor’s Recommendation:

- “Hemet should continue to research the feasibility of ways to pay down the city’s unfunded liability for retiree health plan costs and take appropriate action based on the research performed.”

City’s Corrective Action Plan:

- (1) Discontinue the highest-cost plans from the menu offered to retire (policy direction given by City Council in 2015).
- (2) Continue to explore alternative plan options while maintaining comparable coverage.
- (3) Seek Council direction to establish an Other Post-Employment Benefits (OPEB) trust and draft funding policy.

Timing:

- (1) The City discontinued the highest cost medical plans on September 1, 2016.
- (2) The City’s Human Resources Department meets regularly with its insurance broker HUB to identify potential areas for streamlining costs for insurance.
- (3) The City Council studied an Other Post-Employment Benefits (OPEB) trust and draft funding policy on October 11, 2016. The City Council approved the establishment of an Other Post-Employment Benefits (OPEB) trust and a funding policy on October 25, 2016. At that meeting the City Council established an OPEB trust with PARS and took the following related actions: Adoption of a resolution authorizing participation in the PARS Public Agencies Post Employment Benefits Trust; Selection of an investment strategy for contributions to the Trust; Appointment of a City representative as the City’s Plan Administrator; and Authorization of a City representative to execute documents to implement the Trust. The City Council also adopted a policy for initial and ongoing contributions to the fund. An initial contribution of \$750,000 from the fund balance in OPEB Fund (Fund No. 689) and annual contributions of \$250,000 are included in Resolution Bill No. 16-085 were implemented by the City Council in accordance with staff recommendations for the ongoing funding of the OPEB trust.

Issue:

Ineffective and inefficient organizational management negatively affects Hemet's provision of public services.

Risk Area:

Underfunded fire department

- Faces critical needs for sufficient staffing and repairs to its infrastructure.
- Handles high demand for services with minimal staffing, resulting in potentially unsafe conditions.
- Incurs costs for emergency medical services but does not recover these costs through charges.

City's Response:

The Hemet Fire Department commissioned a detailed review of its operations, known as a Service Delivery Options Analysis. The report provided 27 recommendations, including the need to address critical staffing needs. The report was presented to the City Council in June 2015, it identified the Hemet Fire Department staffing level at 0.55 firefighters per 1,000 population as compared to the Regional median of 0.92 firefighters per 1,000 population served. The City will continue to evaluate Fire Department staffing needs and will make the necessary structural changes when changes to revenue or expenditures are identified.

The policy of the Hemet Fire Department is to recover, where appropriate and pursuant to Local, State, and Federal statutes, any and all costs associated with providing traffic accident mitigation, fire suppression, rescue services, hazardous materials response and mitigation, investigations and related services.

The Hemet Fire Department has been authorized to fill all open budgeted positions; this includes entry level Firefighter/Paramedics, Engineers and Fire Captains. Additional staffing needs have been addressed through a long term 5-year plan and will be predicated on appropriate policy and budgetary support.

Hemet Fire Station facilities are included in the City's Capital Improvement Plan – this includes ADA related compliance needs as well as repair and future replacement of Fire Station facilities. Fire facility needs are reviewed and addressed each fiscal year and programmed as funds are made available.

On September 27, 2016, the City Council met and discussed potential impacts related to and potential revenue generated through the implementation of an EMS first Responder Fee. In this discussion the City Council reviewed the following facts, Hemet has a population of approximately 83,860. Of that population, those 65 years or older accounted for 23% of population. The median age of a Hemet resident is 40 years old.

In terms of the Patient/Payer Mix, the City Council was provided with the following statistics: Inland Empire Health Plan / Medi-Cal - 35%, Medicare – 25%, Private Insurance - 10% and No Pay - 15%.

The City Council also discussed a potential EMS Fee (\$350) and Subscription Fee (\$50). Under this scenario, subscribers would pay \$50 per year/ per household. In the event of paramedic response to an emergency, a household bill for the paramedic response (\$350) would be waived.

Staff's analysis indicated that fees could generate approximately \$4.5 Million (gross) annually, based

upon an estimate of 13,000 EMS calls and a fee of \$350. This estimate was based upon estimated collection rates upon private insurance collection of 30%-33%. Because Medicare/Medicaid do not cover first responder charges, patients are billed directly. This population could be anticipated to have a 10% collection rate. Implementation of the EMS Responder Fee would require a change in City policy from its current "soft recovery" collection process to "hard recovery."

Auditor's Recommendation:

- "Hemet should generate additional revenue, such as charging fees for emergency medical services provided by the fire department.
- "If it implements a fee for emergency medical services, Hemet should conduct a comprehensive fee analysis to determine the fully burdened hourly rates for providing emergency medical service, specific to the duration of emergency medical calls, and ensure that first responder fees do not exceed the cost to provide the service."
- "If Hemet does not adequately fund its fire department to address the concerns identified in its 2013 and 2015 consultant reviews, it should pursue alternatives for providing services, such as shared fire services with other local governments."

City's Corrective Action Plan:

- (1) Conduct work study with city council and current vendor, Fire Cost Recovery, to identify impact of and potential revenue generated through the implementation of an EMS first Responder Fee.
- (2) Commence comprehensive fee analysis to determine the fully burdened hourly rates for providing emergency medical service, specific to the duration of emergency medical calls, and ensure that first responder fees do not exceed the cost to provide the service.
- (3) Develop and present comprehensive staffing and implementation plan to address concerns identified in 2013 and 2015 consultant reviews of fire department, with immediate priority given to filling battalion chief rank.

Timing:

- (1) On September 27, 2016, the City Council met and discussed potential impacts related to and potential revenue generated through the implementation of an EMS First Responder Fee.
- (2) On September 27, 2016, the City Council met and discussed a commence comprehensive fee analysis presented by Chief Brown to review the fully burdened hourly rates for providing emergency medical service, specific to the duration of emergency medical calls, and ensure that first responder fees do not exceed the cost to provide the service. At that meeting the City Council, having reviewed all of the data provided by Chief Brown, determined that implementation of the EMS First Responder Fee would be infeasible at that time.
- (3) Complete. All budgeted entry-level Firefighter/Paramedic positions filled and Battalion Chiefs, are filled as of July 1, 2017. The City is moving forward on promotional examinations for rank of Engineer and Captain in September 2017 to fill budgeted vacancies at this level due to retirement and long-term injuries.

Risk Area:

Lack of coordinated approach to promote community engagement

- Does not have a citywide coordinated effort for community engagement.
- Has not sufficiently communicated information on citywide concerns to members of the public.

City's Response:

Day to day coordination of City events and City functions is coordinated through the City Manager's office.

The City is actively engaged in community outreach consistent with community needs and existing resources which include social media, newsletters, websites, publications, city cable channel, city website and other media outlets. The City conducts an annual state of the city address which is open to the public.

City Council and staff members are proactively engaged with the local press and editorial boards.

Throughout the year, City Council members and City staff speak at a wide range of community events, including, but not limited to; open houses, coffee house constituent meetings, Chamber of Commerce events, Rotary Club, Exchange Club, Hemet Action Group, schools, neighborhood associations, homeowners associations, faith community events and professional associations including the SRCAR local board of realtors and the Hispanic Network.

One of the four strategic priorities of the Hemet Police Department is to actively engage the community as partners in enhancing quality of life in Hemet. In pursuit of this goal, the department operates a robust community volunteer program that includes bi-annual community police academies open to the public. The HPD also produces a quarterly community newsletter and deploys a speakers bureau for training and informational meetings with school groups, service clubs, homeowners associations and business leaders. The police department actively engages the community via social media such as Facebook, Twitter, Instagram and Nextdoor with an average weekly reach to 23,000 people. The department is constantly open to new and innovative methods of engaging with other city departments and the community at large.

Hemet's Fire Department also has a robust community based outreach program. The Hemet Fire Department has created a community based newsletter and conducts community based outreach activities, as well as handling media relations. The department actively engages the community via social media such as Facebook and Nextdoor.

The safety departments conduct a wide range of community events throughout the calendar year, including Annual Fire Station Open House during National Fire Prevention Week, Firefighter Association Smoke Alarm Installation and Maintenance Program for seniors, National Night Out, Dinner With a Cop and other City sponsored events throughout the year.

The Hemet Public Library also provides a wide range of programs and activities to meet the needs of the community.

The City offer multiple avenues for service to those interested in becoming involved in the community through volunteering. The City's planning commission, park commission and traffic commission, Homeless Task Force, Diamond Valley Lake Ad Hoc committee and Skate Park task force provide ample opportunities for community engagement. The city also has a number of structured volunteer programs including Citizens on Patrol, Police Explorers, Fire Explorers, as well as formal and informal volunteer opportunities in various departments at city hall, the corporate yard, the Kovell Building, the Simpson Center and at the library.

Auditor's Recommendation:

- "Hemet should create and implement a plan for community engagement, including strategies to educate and engage the community in the city's needed reforms and its efforts toward achieving financial stability. This plan should focus on seeking public involvement in a more participatory, deliberative, inclusive, and collaborative manner."

City's Corrective Action Plan:

- (1) City will create a community engagement plan, including strategy to educate and engage the community in city's needed reform and its ongoing efforts to achieve financial stability.

Timing:

- (1) On July 25, 2017, the City Council approved the hiring of an Assistance City Manager and the creation of a Citywide Newsletter as part of the FY 17-18 Budget. The Assistant City Manager recruitment has closed and interviews are tentatively scheduled for August 2017. This position will be responsible for development of the community engagement plan.

Risk Area:

Inefficient structure of city government

- Has experienced disproportional reporting relationships within city operations.
- Has some functions that are related, but do not share reporting relationships or locations.

City's Response:

Organizational changes between 2008 and 2016 have resulted in dramatic changes in staffing levels. The organization has reduced the number of employees from 420 employees to a low of 270 employees over that timeframe. Voter approval of Measure U in the November 2016 Election has allowed the City to begin the hiring of new public safety positions. As of August 1, 2017, the City has 299 staff members due to recent hiring in the Fire and Police Departments.

Much of the organizations mid and upper-management positions were eliminated. In addition, some departments are staffed without adequate required technical expertise.

Auditor's Recommendation:

- "To streamline oversight, better align similar functions, and provide opportunities to leverage staff, Hemet should reorganize the structure of its city government. Specifically, it should conduct a comprehensive organizational analysis, including work assignments, workloads, reporting relationships, and coordination points, and pursue options to improve efficiency and effectiveness, such as creating a combined community development and services department, shifting engineering to become a division under public works, and shifting its code enforcement division to public safety."

City's Corrective Action Plan:

- (1) Authorize a comprehensive organizational analysis, including work assignments, workloads, reporting relationships, and coordination points, and pursue options to improve efficiency and effectiveness.
- (2) Initiate comprehensive organizational analysis.
- (3) Conduct work study on staff implementation of the comprehensive organizational analysis (Community Development, Public Works, Engineering, Library, Finance, Human Resources and Code Enforcement).

Timing:

- (1) Fire Department Service Delivery Options Report is complete. The Police Department previously

completed this analysis as part of the RISE Plan. It is anticipated that this task will be completed by the next Correction Active Plan Update, February 2018.

- (2) A new position, Assistant City Manager, was approved in the FY 17-18 Budget and will be the Executive Staff member responsible for this assignment. This recruitment is underway. It is anticipated that this task will be completed by the next Correction Active Plan Update, February 2018.
- (3) A new position, Assistant City Manager, was approved in the FY 17-18 Budget and will be the Executive Staff member responsible for this assignment. This recruitment is underway. It is anticipated that this task will be completed by the next Correction Active Plan Update, February 2018.

Risk Area:

Turnover of key positions and lack of consistent leadership

- Has experienced frequent turnover in its city manager and fire chief positions.
- Is likely to have some city departments heavily affected by upcoming retirements.

City's Response:

Succession planning is one of the hallmarks of responsible organizational development. The City Manager has identified the need for long-term succession planning. This plan will build upon the findings of the comprehensive organizational analysis. The City must identify its next generation of leadership as a sizeable cohort of employees approach retirement age. The plan must provide for organizational development, educational development, skill development while also providing clear career-pathways for both early-career and mid-career employees.

The City has identified the need to establish a cohesive succession planning strategy; Hemet Fire Department is in the process of evaluating the creation of a Firefighter Trainee position to expand its hiring outreach as well as rank specific training to identify and develop personnel for future leadership roles in the organization. Staffing needs will be addressed annually and will be predicated on appropriate funding allocations.

At this time several key vacancies remain to be filled including Assistant City Manager, Director of Engineering/City Engineer and Director of Finance. The recruitments for Assistant City Manager and Director of Engineering/ City Engineer have closed. The City is close to an appointment of Director of Engineering/City Engineer. Interviews for the Assistant City Manager will be scheduled. The recruitment for the Director of Finance is ongoing. In addition, the Police Chief has announced his intent to retire effective December 2017.

The recently commissioned Fire Department Service Options Delivery Analysis, completed and presented to the City Council identified the need to re-establish critical key management positions within the Fire Department. The City completed a class and compensation study for the position of Battalion Chief. The City will re-establish this position as significant changes to revenue or expenditures are identified.

Auditor's Recommendation:

- "Hemet should complete a strategic plan that identifies goals, initiatives, responsibilities, funding requirements, potential funding sources, and key performance measures by January, 2017."

City's Corrective Action Plan:

- (1) Complete a comprehensive organizational analysis that identifies goals, initiatives, responsibilities, funding requirements, potential funding sources, and key performance measures.
- (2) Prepare an organization-wide succession plan and planning process.

Timing:

- (1) A new position, Assistant City Manager, was approved in the FY 17-18 Budget and will be the Executive Staff member responsible for this agreement. This recruitment is underway and it is anticipated that this task will be completed by the next Correction Active Plan Update, February 2018.
- (2) A new position, Assistant City Manager, was approved in the FY 17-18 Budget and will be the Executive Staff member responsible for this agreement. This recruitment is underway and it is anticipated that this task will be completed by the next Correction Active Plan Update, February 2018.

Risk Area:

Inconsistencies in outsourcing maintenance activities

- Outsources some landscape maintenance, but maintains its parks, resulting in additional costs.

City's Response:

The City of Hemet contracts out for over 40% municipal functions. These include animal control, crime lab forensics, fire plan check, background investigations, towing, custodial services, landscape maintenance, and solid waste and recycling services.

The City of Hemet will continue its practice of exploring opportunities for the most cost effective provision of landscape maintenance that offer service efficiencies, provide streamlined services, and provide enhanced customer service, at levels of services subject to policy approval by the City Council. Historically this has resulted in a combination of outsourced maintenance services, public and private partnerships and services retained in-house.

On August 23, 2016, the City Council and staff held a work study at the regular meeting of the City Council. During the study session, and related to the risk area of outsourcing park maintenance activities, the Public Works Director:

- Provided an overview of outsourcing landscape maintenance in the park.
- Shared that a similar evaluation prepared in 2011 indicated a higher cost for comparable outsourced services.

- Updated the City Council on the scope of services information that was provided to the State Auditors regarding the services performed by the current in-house staff.
- Provided information regarding specific cost items that would be retained in the Parks Fund, regardless of outsourcing.
- Committed to review existing park maintenance service levels to a future Council meeting for review and to confirm options for acceptable service levels to be used for the possible development of a future request for proposals.

On September 27, 2016, at the regularly scheduled City of Hemet Council meeting, the City Council conducted a thorough review of the existing park landscape maintenance service levels. Through a presentation made by the Public Works Director, the Council and staff reviewed the current standard landscape maintenance activities performed and frequency of current programs of work. Staff also reviewed challenges related to performing standard maintenance and reviewed additional non-maintenance activities performed by in-house staff.

The City currently outsources a number of landscape functions including the maintenance of over fifty (50) Landscape Maintenance Districts. The most recent update to contract cost was completed in January 2016. Current City landscape maintenance costs under this contract run \$0.145 per square foot annually. The \$0.145 price was effective January 1, 2017. This includes standard services once per week, as well as monthly, quarterly and annual turf maintenance services. This cost excludes graffiti abatement, multiple day service, restroom maintenance and other sanitizing work.

City staff also provides for maintenance of a number of landscape facilities, which run \$329,757 annually. The average unit cost for city maintained landscape areas is \$0.139 square foot annually. This cost includes all services, material costs, internal services and fuel, training and vehicle maintenance.

This analysis demonstrated that outsourcing of landscape maintenance would result in over \$15,000 of increase to general fund supported park maintenance cost and would result in a lower level of service.

Auditor’s Recommendation:

- “Hemet should initiate a request for proposals to consider the costs and benefits of outsourcing citywide maintenance of all streetscapes.”

City’s Corrective Action Plan:

- (1) Review current park maintenance service levels with City Council and confirm options for acceptable service levels to be used for the development of a scope of services to be used for request for proposals.

Timing:

- (1) On September 27, 2016, at the regularly scheduled City of Hemet Council meeting, the City Council conducted a thorough review of the existing park landscape maintenance service levels. Council and staff reviewed the current standard landscape maintenance activities performed and frequency of current programs of work. Council also reviewed challenges related to performing standard maintenance and reviewed additional non-maintenance activities performed by in-house staff.

The detailed maintenance service analysis was included in the presentation. The review identified costs that would remain in the parks fund should outsourcing occur, and identified

costs related to existing park landscape maintenance services for potential outsourcing. The costs of the existing park landscape maintenance services were further projected out to an annual per square foot cost, and was then compared to the recently bid per square foot cost of the city's current landscape maintenance districts service provider. The per-unit cost of in-house services was at a lower cost than the current landscape maintenance contractors per unit cost. Therefore, outsourcing of landscape maintenance would result in over \$15,000 general fund supported park maintenance cost and a lower level of landscape maintenance service. It was the City Council consensus to retain the current park maintenance service levels. The City Council also provided direction to staff to *not* move forward with a request for proposals for park maintenance services.