



City of Hemet

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From the Office
of the
CITY MANAGER
Alexander P. Meyerhoff

August 30, 2016

Elaine M. Howle, CPA
State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Re: Revised Corrective Action Plan

Dear Ms. Howle,

It is with pleasure that the City of Hemet submits this ***Revised Corrective Action Plan***, in response to the report to the Joint Legislative Audit Committee entitled "Local High Risk - City of Hemet: Its Ongoing Budget and Organizational Inefficiency Threaten Its Financial Stability and Delivery of Services."

The State Auditor's efforts to understand the unique challenges of the City of Hemet are appreciated and each risk area has been thoroughly reviewed and addressed with the goal of eliminating the "high risk" designation.

Attached for your review is our ***Revised Corrective Action Plan***, should you wish to discuss the plan, report and the City's response, please contact Jessica Hurst, Deputy City Manager at (951) 765-2330 or via email at jhurst@cityofhemet.org

Sincerely,

Alexander P. Meyerhoff
City Manager

APM/ka

Attachments

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:

In June 2016, the City of Hemet adopted the fiscal year 2016-17 General Fund budget of \$36 million. The budget includes a \$350,000 deficit (less than 1%) which is consistent with the 2015 Five Year Financial Management Plan. Pursuant to Resolution #1880, the City of Hemet has a policy which requires a minimum of 20% reserves. In the FY 16-17 budget the city included a 25% reserve, which is consistent with this policy. These reserves serve as operating capital. The City of Hemet has no indebtedness. The City of Hemet will continue to monitor all financial activity, including presenting quarterly financial updates to the City Council. Additionally, the City will continue to update the five-year financial plan at least annually and when significant changes to revenue or expenditures are identified. The five-year financial management plan will continue to be used as a guide for budget preparation each year.

The City of Hemet will continue to seek efficiencies for the reductions of expenditures and opportunities for enhancing ongoing revenue, with any recommendations for new fees subject to policy approval by the City Council. The City will continue to update existing fees annually to ensure the costs of providing services are recovered.

The Fire Year Plan will continue to serve as a roadmap for budget preparation for financial stability.

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) Completed 7/26/16
- (2) Annually

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 regular monitoring of the citywide budget and update of the five-year financial management plan will allow the City of Hemet to prepare for increases in pension costs. As required by law, all new CalPERS members will be enrolled subject to PEPR.

The City of Hemet will continue to explore options for the reduction of its unfunded pension liability, including through prepayment and changes to amortization bases, subject to available financial resources and policy approval by the City Council.

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) 1/31/17
- (2) Annually
- (3) 1/31/17

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 City presently has 144,033 registered borrowers of the City's 83,000 residents, 76,816 are library customers. In the unincorporated areas of Hemet, an additional 24,700 customers have library cards. 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.

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) Pursue partnership agreement for a regional library in partnership with Riverside County and City of San Jacinto.

Timing:

- (1) 8/23/16

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:

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 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) 9/1/16
- (2) Annually
- (3) 1/31/17

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 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.

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, presented to the City Council in June 2015, identified the Hemet Fire Departments staffing level at .55 firefighters per 1000 population as compared to the Regional median of .92 firefighters per 1000 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 City will take the necessary steps to review its current practice of not billing for Emergency Medical Services; future actions/ review will require appropriate policy direction from the City Council.

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) 8/23/16
- (2) 9/13/16
- (3) 9/13/16

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:

The day to day coordination of City events, event calendars and keystone City functions is coordinated through the City Manager's office. The City has identified the need for the establishment of a Public Information Officer (PIO); the City will continue to evaluate the need for this position as well as ensuring for appropriate policy and fiscal support.

Public Safety Departments (Law and Fire) have robust community based outreach programs; Hemet Fire Department has created a community based newsletter, participates in a wide variety of social media platforms and conducts community based outreach activities, as well as handling media relations.

The City is actively engaged in community outreach consistent with community needs and existing resources which includes social media, newsletters, websites, publications, city cable channel, city website and other media outlets. City staff is proactively engaged with local press and editorial boards.

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) Explore use of PEG funds to broadcast live city council meetings.
- (2) Use Social Media to transmit City Council updates to the community.

Timing:

- (1) October 2016
- (2) October 2016

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 270 employees over that timeframe. 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, Code Enforcement).

Timing:

- (1) 8/23/16
- (2) 9/1/16
- (3) May 2017

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 has been negligent in this area. The City Manager has identified the need for long-term succession planning. This plan will build up on 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 recently commissioned report 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 is taking steps to conduct 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.

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.

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) May 2017
- (2) May 2017

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 streamlines 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.

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.
- (2) Present a draft request for proposals to City Council for consideration of the costs, service levels and potential benefits of outsourcing parks maintenance.
- (3) Present results of any proposals to City Council for discussion and policy direction.

Timing:

- (1) 9/13/16
- (2) 10/11/16
- (3) November/December 2016