



# City of Hemet

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From the Office  
of the

CITY MANAGER  
Alexander P. Meyerhoff

August 2, 2016

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

***Re: Corrective Action Plan***

Dear Ms. Howle,

It is with pleasure that the City of Hemet submits this 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."

Pursuant to California Government Code Section 8545(b) and 8545.1,

"The California State Auditor may establish a high-risk local government agency audit program for the purpose of identifying, auditing, and issuing reports on any local government agency, including, but not limited to, any city, county, special district, or any publicly created entity, whether created by the California Constitution or otherwise, that the California State Auditor identifies as being at high risk for the potential of waste, fraud, abuse, or mismanagement or that has major challenges associated with its economy, efficiency, or effectiveness."

The City of Hemet is pleased to learn that, through the High Risk Local Government Agency Audit program, the State Auditor has found no evidence of waste, fraud, abuse, mismanagement or other malfeasance.

The City is firmly committed to responsible financial practices. Since 2008, the City has undertaken numerous cost saving measures to improve its financial position. The actions include a series of concerted and coordinated efforts to place the City on path of financial sustainability. These steps include:

**1. Reduction in Staffing Levels**

Between FY 08-09 and FY 16-17, city staffing was reduced by 38% from 442 to 293, including a loss of 25 police officers and 10 firefighters.

**2. Balancing Services with Revenues**

Over the same period, the Hemet Public Library reduced operating hours by 50%. Operation of the City of Hemet Simpson Senior Center was contracted to Valley Wide Parks and Recreation and the YMCA of Riverside.

**3. Employee Compensation and Benefit Reductions**

Beginning in 2008, city employees agreed to a number of significant pay and benefit reductions. These included layoffs, salary cuts, furloughs and increased employee contributions to medical and retirement benefits. Reforms also included a reduction in benefits for new employees. Changes in state law (PEPRA) have further reduced the benefits and compensation for new employees.

**4. Retiree Medical Benefit Reductions**

The City Council discontinued the provision of retiree medical to new employees in 1998. Due to decisive action taken by the City Council in 2015, the city is projected to save over \$30 million in retiree medical expenses over the next 10 years.

**5. Public Private Partnerships**

In 2011, the Hemet City Council voted unanimously to approve a "Franchise Agreement for Comprehensive Refuse Services" with CR&R, Inc. This action resulted in the elimination of 28 city jobs and shifted the entire city-run refuse operation to CR&R, Inc. The city received a lump sum payment of \$12.5 million, an annual franchise fee totaling \$12.5 million (\$657,895 per year) and monthly payments totaling \$63 million over 19 years. This agreement resulted in an infusion of cash in the city's general fund as well as an on-going revenue stream to help off-set the city's structural deficit. The City will continue to explore opportunities for public-private partnerships.

**6. Contracts for Service**

The city currently contracts with the private sector or non-profits for over 40 functions city-wide including, but not limited to: animal control services, forensic crime-lab analysis, fire plan check, background investigations, vehicle towing service, custodial services, landscape maintenance, and refuse and solid waste collection and disposal. The city will continue to explore options for contracting and/or privatization of non-essential services.

### **7. Grant Funding**

The City continues to aggressively pursue grants resources, having applied for over \$30 million in grant funding to offset general fund expenditures since 2008. Public safety grant awards during this 7 year period total over \$20.5 million for public safety expenses including police and fire safety equipment, police and fire personnel in support of innovative public safety enhancement programs such as the Hemet Restoring Our Community Strategy (ROCS) and traffic safety and gun violence reduction programs. Grant funding has also been used extensively to offset general fund expenditures for the purchase of police, fire and public works vehicles and apparatus. Last year alone, the city was awarded \$4,489,674 in Federal grant dollars. The City will continue to aggressively pursue grant opportunities.

### **8. External Funding Sources**

General fund operations funded by sources other than the general fund or grants totaled \$757,737 in 2014. The city continues to aggressively pursue outside funding sources to offset general fund expenditures.

### **9. Financial Sustainability**

In 2015, the City Council adopted the Five-Year Financial Plan which ends the City's historic practice of deficit spending by FY 19-20 while maintaining at least a 20% General Fund Reserve (Fund Balance) as required by city ordinance.

Key elements of the 5-year plan include:

- General fund savings generated by the retiree medical reform;
- Capital improvement projects (CIP) not supported by general fund; and
- "Status quo" service and staffing in general fund departments.

### **10. Responsible Financial Practices**

In 2016, the City Council adopted the FY 16-17 Annual Budget, which includes a nearly balanced budget, with a deficit of \$350,000, which is less than 1% of the General Fund.

The City of Hemet's Corrective Action Plan to the State Auditor outlines its plan to address the State Auditor's recommendations.

The City of Hemet has worked closely with the State Auditor over the last several months. This has been an arduous process in which the City provided detailed financial, organizational and

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historical data to the State Auditor. This information is critical to both understanding the history of the City, and developing a complete and accurate picture of the current financial and organizational state of the City.

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 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](mailto:jhurst@cityofhemet.org)

Sincerely,



Alexander P. Meyerhoff  
City Manager

APM/ka

Attachments

**Audit Issue:****Expenditures continue to outpace revenue, impeding Hemet's ability to meet its financial obligations****Identified Risk Factor(s):***Ongoing budget deficit*

- Projected a \$5 million budget deficit for fiscal year 2015-16 and continues to experience dwindling reserves.
- Developed a five-year plan to address its budget deficit, but inaccurate information and overly optimistic assumptions distort the validity of the projections.

**City's Response:**

In June 2016, the City of Hemet adopted the fiscal year 2016-17 budget with an approximately \$350,000 deficit, in-line with the 2015 Five Year Financial Management Plan. 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.

**Action Item:** Annual update of the City of Hemet Five Year Financial Management Plan

**Timing:** Annual updates, at a minimum.

**Identified Risk Factor(s):***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.

**Action Item:** Upon receipt of June 30, 2015 pension plan valuation reports, analyze options for reducing interest costs of pension plans through adjustment of amortization period in coordination with CalPERS.

**Timing:** Twelve months

**Identified Risk Factor(s):**

*Use of city-supported library by nonresidents*

- Charge a user fee for non-residents of the city of Hemet.

**City's Response:**

Over 40,000 citizens live in the unincorporated area of Riverside County that has a mailing address of Hemet CA who also has the same zip codes as residents. This is a policy decision that requires approval by City council.

**Action Item:** A survey will be conducted with non-resident patrons with results and recommendations presented to City Council for policy direction.

**Timing:** Six months

**Identified Risk Factor(s):**

*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.

**Action Item:** On July 26, 2016, the City Council was presented with information for the establishment of an other post-employment benefit (OPEB) trust. Council directed staff to proceed with preparing documentation to establish a trust and draft a policy for regular funding of the trust.

**Timing:** Within 90 Days

**Audit Issue:**

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

**Identified Risk Factor(s):**

*Underfunded fire department*

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

**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.

**Action Item:** On July 26, 2016, the City Council approved the placement of a ballot measure to create a 1% sales tax for the November 2016 ballot in order to enhance revenues in support of expanded services.

**Timing:** Ongoing; the City Council has approved the placement of a ballot measure for the November 2016 ballot.

**Identified Risk Factor(s):**

*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 Clerk'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 (Police 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 police department maintains several social media platforms that are very responsive including Facebook, Twitter and Instagram. Additionally, the Hemet Police Citizen Volunteer program has been recognized regionally and nationally for its engagement with the community.

**Action Item:** The City Manager's office has begun the hiring process for an administrative analyst that would be responsible for community engagement.

**Timing:** Six months.

**Identified Risk Factor(s):**

*Inefficient structure of city government*

- Experiences disproportional reporting relationships within the city operations resulting from too many individuals reporting to key management officials.
- Have some interrelated functions that do not have shared reporting relationships and are located in separate buildings.

**City's Response:**

The City Manager's office is preparing a succession and re-organization plan.

**Action Item:** A succession and re-organization plan will be completed in June 2017.

**Timing:** Twelve months.

**Identified Risk Factor(s):***Turnover of key positions and lack of consistent leadership*

- Experienced frequent turnover of its city manager and fire chief positions affecting its management of city operations, although these positions have been filled.
- Likely to have some city departments heavily affected by upcoming retirements

**City's Response:**

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.

**Action Item:** A succession and re-organization plan will be completed in June 2017.

**Timing:** Twelve months.

**Identified Risk Factor(s):***Inconsistencies in outsourcing maintenance activities*

- Continues to outsource some landscape maintenance while performing maintenance of its parks separately, resulting in additional costs.

**City's Response:**

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 service subject to policy approval by the City Council. Historically this has resulted in a combination of outsourced maintenance services, public private partnerships, and services retained in-house.

**Action Item:** Provide City Council with overview of level of services currently being provided and evaluate the most efficient manner in providing services levels acceptable to the City Council.

**Timing:** Six Months.