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City of El Cerrito

Excessive Spending and Insufficient Efforts to Address Its Perilous Financial Condition Jeopardize the City's Ongoing Fiscal Viability

Summary

Our audit of the city of El Cerrito revealed that its consistent overspending continues to threaten its future provision of city services. By spending more than its available revenue for many years, the city exhausted its financial reserves and must continue to depend on short-term loans each year to meet its obligations. Moreover, El Cerrito has not taken sufficient action to reduce its costs and replenish its reserves.



Risk Designation: HIGH RISK

2019 Population: **Over 25,000**

2018 Median Income: **Over \$100,000**

2019 Unemployment Rate: **2%**

Key Risks

El Cerrito is experiencing numerous financial challenges:

- It continues to overspend, resulting in negative general fund reserves since fiscal year 2016–17, and it has relied on short-term loans of up to \$9 million annually during the past seven years to pay its bills and avoid insolvency.
- It has been unable to reduce its growing pension obligations and has incurred additional costs by allowing its retirees to retain their health care benefits upon retirement.
- It lacks effective practices to develop and monitor its budget to avoid overspending.

El Cerrito's financial condition continues to deteriorate:

- The city lacks a comprehensive financial recovery plan—it has not adequately demonstrated how it will ensure that it can reduce spending or address future budget challenges.
- There is not enough effort made to identify reductions in ongoing costs—the city pays above-average salaries for certain management positions and has not sufficiently addressed the costs of salaries and benefits of its police and fire department employees.
- There is opportunity to increase revenue that is not being pursued—the city's fees for the swim center and senior services do not fully cover the costs of those programs.

Key Recommendations | *El Cerrito should do the following:*

- Develop and adopt a comprehensive financial recovery plan addressing the city's overspending and report about its implementation to the city council each quarter.
- Document assumptions for all budgeted revenue and expenditure information and update the city council monthly about the status of its budgets and any need for adjustments.
- Pursue opportunities to consolidate positions and reduce personnel expenditures after conducting an analysis of its management and staff positions.
- Seek opportunities to recover costs of fee-based services for its swim center and senior services.