



## *City of El Cerrito*

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

*March 2021*

**REPORT 2020-803**



LOCAL GOVERNMENT  
**HIGH  
RISK**



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March 16, 2021  
**2020-803**

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As directed by the Joint Legislative Audit Committee, my office conducted an audit of the city of El Cerrito (El Cerrito) as part of our high-risk local government agency audit program. Our assessment focused on El Cerrito's financial and operational risks, and the following report details the audit's findings and conclusions. In general, we determined that the city is at high risk of financial instability because of its continual overspending, poor budgeting practices, and lack of a comprehensive plan to address its financial challenges, all of which threaten the future provision of city services.

El Cerrito depleted its financial reserves in fiscal year 2016–17 and has since relied on short-term loans to continue operating. The city's poor budget development practices have led to substantial increases in budgeted expenditures that it cannot afford. Poor budget monitoring practices have also allowed city departments to routinely overspend. For example, El Cerrito's city management department spent a total of \$1.9 million beyond its budget from fiscal years 2015–16 through 2019–20, even after the city approved budget increases for each of these years. Moreover, even though El Cerrito recently proposed spending reductions of \$1.7 million for fiscal year 2020–21, we question whether those reductions are realistic, given the absence of specific detail in the city's budget, which should explain how the city's departments intend to achieve the reductions.

To address these concerns, we present several recommendations, such as documenting the assumptions and data the city uses to develop projections of revenue and expenditures, providing monthly updates to the city council on the city's budget status by department, and developing and implementing a comprehensive financial recovery plan. In addition, we recommend that El Cerrito seek opportunities for savings by conducting a comparative analysis of the city's total compensation for its employees and by recovering additional costs of its fee-based services.

Respectfully submitted,

A handwritten signature in black ink that reads 'Elaine M. Howle'.

ELAINE M. HOWLE, CPA  
California State Auditor

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# HIGH RISK ISSUES

City of El Cerrito, Contra Costa County

Risk Designation: **High Risk**

ISSUE	PAGE
<b>El Cerrito's Failure to Manage Its Spending Resulted in the Depletion of Its General Fund Reserves</b>	
<p><b>Continual diminishing of financial reserves through overspending</b></p> <ul style="list-style-type: none"> <li>Expenditures exceeded revenue in nearly every year from fiscal years 2009–10 through 2019–20.</li> <li>Exhausted its general fund reserves in fiscal year 2016–17.</li> <li>Relies extensively on short-term loans to provide services to its community and avoid insolvency.</li> <li>Faces rapidly increasing pension costs.</li> </ul>	3
<p><b>Ineffective budget development and monitoring practices</b></p> <ul style="list-style-type: none"> <li>Lacks sufficient policies and practices for developing departmental budgets.</li> <li>Does not enforce safeguards to prevent departments from overspending.</li> <li>Does not provide the city council with sufficient information to properly monitor the city's financial condition.</li> </ul>	12
<b>Without a More Coordinated Effort, El Cerrito's Financial Condition Will Continue to Deteriorate</b>	
<p><b>Lack of a formal financial recovery plan</b></p> <ul style="list-style-type: none"> <li>Developed its budget to reduce spending, but most proposed reductions do not specify how the city will decrease its costs.</li> <li>Identified some cost savings, but most are short-term and do not address future budget challenges.</li> <li>Lacks a comprehensive approach to replenish its reserves and ensure accountability for reductions in spending.</li> </ul>	19
<p><b>Insufficient reductions in ongoing costs</b></p> <ul style="list-style-type: none"> <li>Pays above-average salaries for certain positions.</li> <li>Has not sufficiently addressed the costs of employee salaries and benefits in its police and fire departments.</li> <li>Established contracts with police staff that result in more overtime pay than required under the law.</li> </ul>	22
<p><b>Missed opportunities to increase revenue</b></p> <ul style="list-style-type: none"> <li>Fails to charge adequate fees to fully cover the costs of its swim center.</li> <li>Charges low or no fees for its senior services, which must be subsidized by the city's general fund.</li> </ul>	28
<b>Appendices</b>	
Appendix A—Scope and Methodology	33
Appendix B—The State Auditor's Local High Risk Program	37
<b>Agency Response</b>	
City of El Cerrito	39
California State Auditor's Comments on the Response From the City of El Cerrito	55

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## Risks the City of El Cerrito Faces

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The city of El Cerrito (El Cerrito) is at high risk of financial instability because of consistent overspending that threatens its future provision of city services. For many years, El Cerrito's costs have exceeded its revenue, resulting in the city exhausting its reserves in fiscal year 2016–17. Since then, it has depended on short-term loans each year to meet its financial needs. However, the cost to the city for these loans has increased as the city's financial health continues to decline, creating additional strain on city resources. Further, the city's pension costs have continued to increase because it has not set aside enough funding to cover its pension obligations.

El Cerrito overspends because of its poor budget development and monitoring practices. The city assumes that its departments will spend more each year when developing its budget but does not sufficiently justify the specific needs of the departments. For example, the city's fiscal year 2018–19 budget included an 8 percent increase in planned expenditures over the prior year without providing an appropriate rationale for the increased amounts. Moreover, the city's budget policy does not address procedures for tracking departmental spending, such as producing reports that compare its budgeted expenditures to actual spending or holding departments accountable for explaining budget variances. In addition, the finance department allows departments to spend beyond their budgets by routinely overriding budgetary safeguards in the city's financial accounting system. These poor practices defeat the purpose of developing balanced budgets.

In its fiscal year 2020–21 budget, El Cerrito began to take steps to reduce its planned spending, but those changes will not be sufficient to improve its financial condition.

Some of the reductions, such as deferred cost-of-living increases for employees, are temporary savings that merely delay the actions needed to address rising costs. The fiscal year 2020–21 budget does not specify how the city will achieve the planned savings needed to carry out other proposed reductions. Although city management began presenting monthly budget reports to the city council in September 2020, these reports do not present financial information at a sufficient level of detail to control departmental spending. El Cerrito's failure to adequately address these deficiencies can be partially attributed to the absence of a comprehensive financial recovery plan to ensure a sustained and coordinated approach for reducing its costs and creating a sufficient financial reserve.

To address its overspending, El Cerrito needs to prioritize efforts to reduce expenditures and increase revenue. About 75 percent of the city's costs are for employee salaries and benefits, of which the majority pertain to staff within the fire and police departments. For instance, the city's firefighter positions have a higher base salary than the average salaries of comparable positions in nearby cities. In addition, the city authorized discretionary salary increases for its fire department battalion chiefs that increased their salaries above the average maximum salary for similar positions in nearby cities. El Cerrito's police department employs more than a quarter of all city staff and has a higher staffing ratio per capita than other cities in Contra Costa County and in the State as a whole. To achieve meaningful savings, El Cerrito will need to find ways to reduce these costs. In doing so, it needs to explore the appropriateness of its employee compensation and identify areas of inefficiency or overlap among positions throughout the city. El Cerrito also

**LOCAL HIGH RISK**

needs to pursue opportunities to increase its revenue. The city uses its general fund to subsidize the costs incurred to provide recreational services—specifically those for its swim center and senior services—but has not attempted to adjust its fees so that they cover the costs of providing those services, unlike the fees for other programs in the city.

To help El Cerrito address the risk factors we identified, we have developed several recommendations the city should implement, including the following:

- Develop and adopt a financial recovery plan that addresses the city’s overspending and specifies the corrective action it will undertake to ensure accountability in its fiscal recovery process. The plan should identify the city’s goals and intended corrective actions, the prioritization of its resources, and individuals responsible for monitoring its progress in implementing each action, and it should outline when the city anticipates completing key milestones related to each action. City management should also inform the city council on a quarterly basis of its progress in implementing the plan.
- Document the assumptions and data used to develop each department’s projections of revenue and expenditures for the fiscal year and provide this information to the city council during the budget approval process.
- Present monthly updates to the city council on the status of departmental budgets and promptly seek approval from the city council of proposed budget adjustments when warranted. City management should prepare and provide supporting documentation to justify any proposed budget increases.
- Conduct analyses of its management and staff positions that address their responsibilities, reporting relationships, and total compensation packages compared to similar positions in comparable cities to identify inefficiencies and overlapping areas of responsibility. Based on these analyses, El Cerrito should pursue opportunities to consolidate positions and reduce personnel expenditures.
- Seek opportunities to fully recover the costs of fee-based services for its swim center and senior services.

**Agency’s Proposed Corrective Action**

El Cerrito generally agreed with our recommendations, although it requested flexibility with the timing of their implementation. The city highlighted various efforts that it has taken or plans to take to address its financial condition. However, because El Cerrito did not submit a corrective action plan as part of this response, we look forward to receiving the plan by May 2021 to understand the specific actions it has undertaken or plans to take to address the conditions that caused us to designate it as high risk.

# El Cerrito's Failure to Manage Its Spending Resulted in the Depletion of Its General Fund Reserves

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## Because It Consistently Overspends, El Cerrito Is in a Weak Financial Position, as Demonstrated by a Deficit in Its General Fund, Reliance on Costly Short-Term Loans, and Rising Pension Costs

El Cerrito is at high risk of being unable to meet its financial obligations because it consistently spends more than the revenue it generates. Because of this overspending, its general fund reserves declined during the past decade from a peak of \$2.6 million in fiscal year 2011–12 and eventually were exhausted in fiscal year 2016–17. The city has used short-term loans since fiscal year 2012–13 to meet its financial obligations and remains dependent on them, rather than using them only as temporary financing tools, as is typically recommended. The interest and other financing costs of these loans have been increasing as the city's fiscal condition has worsened, further negatively affecting the city's finances. In addition, through the first half of fiscal year 2020–21, the city collected substantially less revenue than expected, increasing its financial stress. Moreover, the city is facing rising pension costs primarily because it has not set aside sufficient funds to address its pension liability.

### *Excessive Spending*

Since fiscal year 2009–10, El Cerrito consistently spent more than it received in revenue, leaving it in a precarious financial condition. To maintain financial stability, a city should strive to keep its spending within the revenue it generates. However, because El Cerrito does not exercise sufficient management oversight of its spending, as we discuss later, it spent more from its general fund than it received in revenue in eight of the

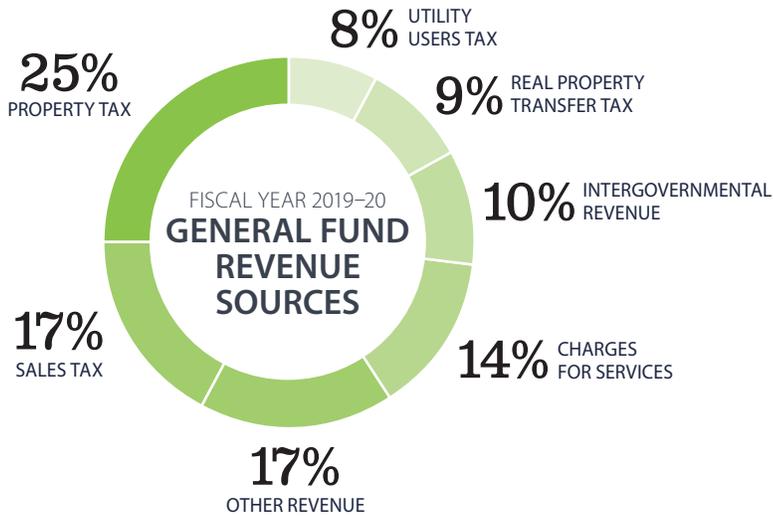
past 11 years. During these years, the city relied on nonoperating revenue, such as transfers from other funds or the sale of land, to cover its excessive costs. If nonoperating revenue was unavailable or insufficient, as was the case in some of these years, the city was forced to rely on its general fund reserves, until it completely depleted them in fiscal year 2016–17.

El Cerrito's annual general fund revenue grew by 37 percent between fiscal years 2014–15 and 2019–20, from \$29.1 million to \$40 million. The largest source of its revenue is property taxes, which represented 25 percent of the city's general fund revenue in fiscal year 2019–20. Another significant city revenue source is sales tax, which amounted to 17 percent of its general fund revenue in fiscal year 2019–20. These two revenue sources have grown by 45 percent and 38 percent, respectively, since fiscal year 2014–15. In addition, in November 2018, voters approved a new tax on the sale and transfer of properties, which generated \$3.5 million in fiscal year 2019–20, or 9 percent of the city's total general fund revenue. Figure 1 shows the city's various sources of general fund revenue.

During this same time frame, El Cerrito's expenditures increased along with its revenue. Total annual general fund expenditures increased by 36 percent, from \$29.1 million in fiscal year 2014–15 to \$39.7 million in fiscal year 2019–20. The largest areas of increased spending during these years were in two of the city's seven departments: fire and police. Total annual expenditures for these two departments increased by \$2.6 million and \$2.3 million, respectively. The majority of El Cerrito's spending is for salaries and benefits, as Figure 2 illustrates. In its budget for fiscal year 2020–21,

**LOCAL HIGH RISK**

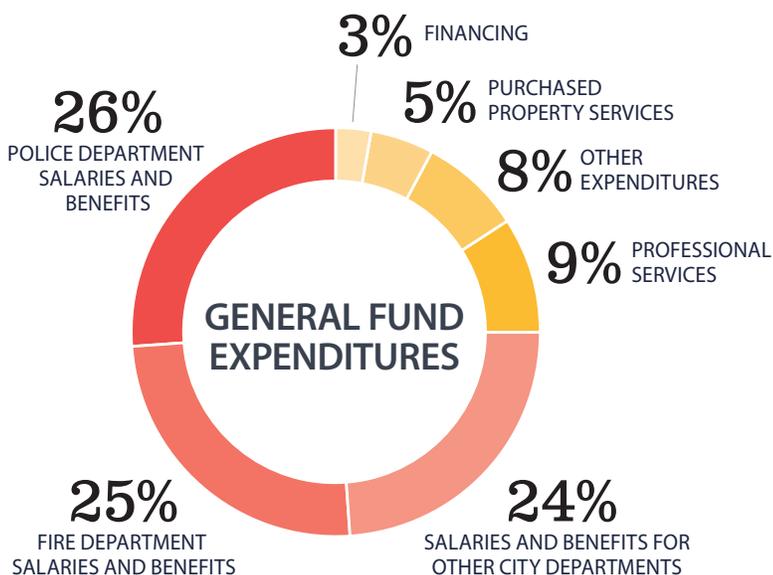
**Figure 1**  
El Cerrito Received General Fund Revenue From a Variety of Sources in Fiscal Year 2019–20



Source: El Cerrito's audited fiscal year 2019–20 comprehensive annual financial report.

Note: *Intergovernmental Revenue* includes revenue received through a contract El Cerrito has with a fire protection district serving the adjacent community of Kensington. *Other Revenue* includes inflows from other sources, including licenses and permits, fines and penalties, and franchise fees.

**Figure 2**  
The Majority of El Cerrito's General Fund Expenditures Are for Salaries and Benefits



Source: El Cerrito's annual budget for fiscal year 2020–21, adopted in October 2020.

the city reported \$30.3 million in annual personnel expenditures, representing 75 percent of its total general fund expenditures. The fire and police departments' personnel costs each represent about one-quarter of the city's costs.

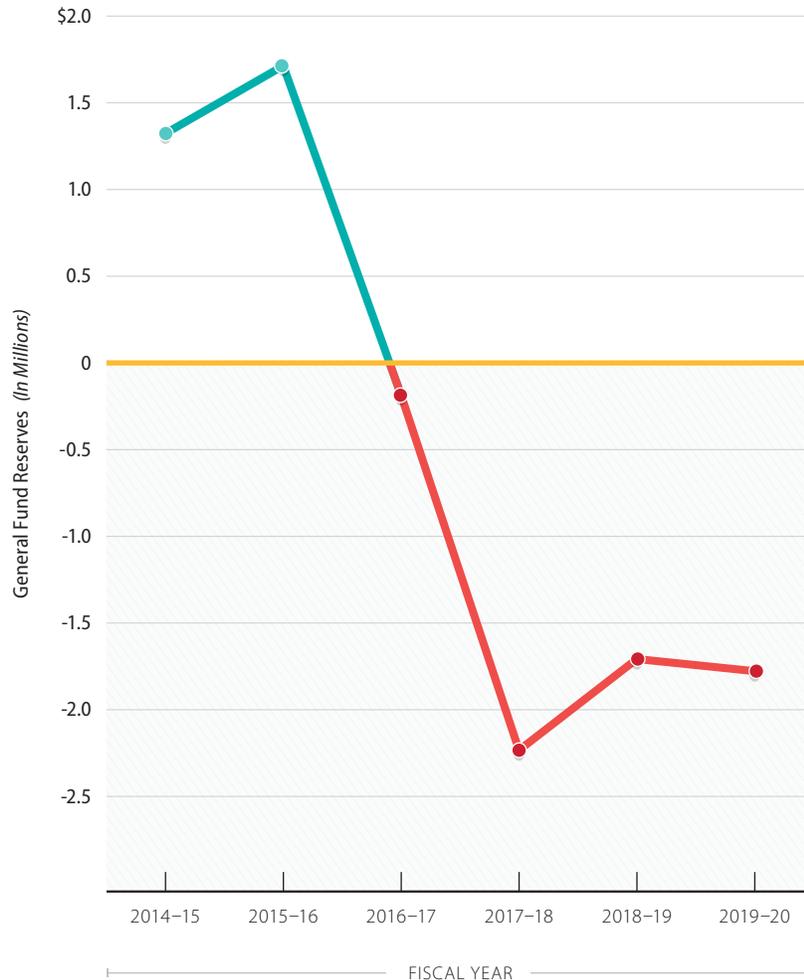
### Depleted General Fund Reserves

El Cerrito's history of overspending resulted in the depletion of its general fund reserves.<sup>1</sup> Such reserves should provide the city with resources to address any budget shortfalls that occur. However, as Figure 3 shows, the fund balance for the general fund has been negative since fiscal year 2016–17, meaning that the city has not had the financial reserves on hand to absorb its overspending. As we reported in the November 2020 update of our local government high risk dashboard, we designated El Cerrito's negative general fund reserves as a high risk indicator for fiscal years 2016–17 through 2018–19.

The Government Finance Officers Association (GFOA), which publishes best practices for governments, recommends that cities maintain a reserve balance equivalent to a minimum of two months of expenditures or revenue, representing a minimum of 17 percent of annual expenditures or revenue. In fiscal year 2019–20, this recommended level equated to a minimum reserve of \$6.8 million for El Cerrito, based on 17 percent

<sup>1</sup> The city's general fund reserves consist of the portion of its fund balance that the city has not limited to a specific purpose.

**Figure 3**  
El Cerrito Depleted Its General Fund Reserves in Fiscal Year 2016–17



Source: El Cerrito’s audited comprehensive annual financial reports for fiscal years 2014–15 through 2019–20.

Notes: Consistent with the methodology used in our local government high risk dashboard, we calculated reserves for the general fund as the committed, assigned, and unassigned portions of the city’s fund balance as reported in the city’s audited financial statements. Restricted fund balances are amounts not available for use by the city, and were therefore excluded from the total reserve amount.

El Cerrito’s general fund reserves fluctuate each year primarily because of differences between revenue and expenditures as well as other increases and decreases, such as transfers from and to other city funds, and nonoperating activity, such as the sale of land.

of the city’s expenditures.<sup>2</sup> However, as Table 1 shows, the city was unable to achieve this threshold during any of the fiscal years

<sup>2</sup> Because El Cerrito’s financial policies require that the city maintain a general fund reserve of at least 10 percent of general fund expenditures, we used expenditures, rather than revenue, as the basis of our comparison.

from 2009–10 through 2019–20. Additionally, the city has been unable to meet its own goal of maintaining a reserve of at least 10 percent of annual expenditures—equating to \$4 million in fiscal year 2019–20—during any of the past 11 years. El Cerrito’s inability to meet this significantly lower threshold is of even greater concern.

**Overuse of Short-Term Loans**

Because it has exhausted its reserves, El Cerrito has been relying, in part, on short-term loans to pay its bills and avoid insolvency. In each year since fiscal year 2012–13, the city has obtained a loan, generally at the beginning of the fiscal year with a one-year term, to provide temporary funding to cover its immediate costs. For example, the city must rely on loan proceeds to cover payroll costs from July until December, when it receives substantial property tax revenue. The size of the loan that the city obtained each year grew from \$5 million in fiscal year 2015–16 to a peak of \$9 million in fiscal year 2019–20 and declined slightly to \$8.5 million in fiscal year 2020–21. Although short-term loans can address temporary financial difficulties, GFOA best practices recommend that cities perform

ongoing cash forecasting to ensure sufficient cash liquidity and mitigate any potential revenue shortfalls, thereby reducing the need for short-term borrowing. However, El Cerrito has relied on short-term loans annually for nine years and is not in a financial position to discontinue its use of these loans, according to its finance director. Nevertheless, continued

**LOCAL HIGH RISK**

**Table 1**  
**El Cerrito Has Consistently Failed to Meet General Fund Reserve Goals**

<b>GFOA general fund reserve goal</b> <i>(as a percentage of annual expenditures)</i>	<b>17%*</b>
<b>El Cerrito's general fund reserve goal</b> <i>(as a percentage of annual expenditures)</i>	<b>10%</b>

<b>FISCAL YEAR</b>	<b>EL CERRITO'S RESERVES AS A PERCENTAGE OF ANNUAL EXPENDITURES</b>
2009–10	7.3%
2010–11	9.2%
2011–12	8.1%
2012–13	4.1%
2013–14	3.5%
2014–15	4.4%
2015–16	5.4%
2016–17	(0.5)%
2017–18	(6.1)%
2018–19	(4.1)%
2019–20	(4.4)%

Source: El Cerrito's audited comprehensive annual financial reports for fiscal years 2009–10 through 2019–20.

\* 17 percent represents two months of a full year (2 divided by 12) of expenditures, which is the GFOA's recommended minimum.

reliance on these loans has led the city to deemphasize the urgency of addressing a critical financial concern.

In addition, the interest costs and financing fees associated with these loans have increased in recent years because of the city's ongoing poor financial performance. The city's continued use of these loans means it will continue to bear these costs for the foreseeable future. Credit rating agencies such as Standard & Poor's Global Ratings assign specific ratings to credit seekers based on a forward-looking opinion of their creditworthiness. These ratings are

indicative of a city's financial performance and aid creditors in making decisions when lending money to potential borrowers. A rating is based on a variety of factors, including the likelihood that a borrower will be able to meet its financial commitments in accordance with the terms of a loan agreement. As shown in the text box, these ratings vary from AAA, the highest rating, which indicates that an entity's ability to meet its financial commitments is extremely strong, to a rating of D, which indicates that the entity is already in default, meaning that it has neglected to fulfill a financial obligation or has filed for bankruptcy. El Cerrito's credit rating over the past four years has deteriorated from an AA- rating in 2016 to a BBB- rating in 2020, reflecting weakened creditworthiness as a result of its dwindling reserve levels.

Because of El Cerrito's worsening financial condition, the interest rate it pays for these short-term loans has doubled from 1.5 percent

in fiscal year 2016–17 to 3 percent in fiscal year 2020–21. Because interest rates declined to record lows during the same period, such an increase particularly underscores the increasing financial risk to the city. Further, as we note above, the amount borrowed each year has also increased over the years, which in turn drives up interest costs. Because of the city's increasing interest rate and the growing size of its loans, its annual interest costs more than tripled from nearly \$72,000 in fiscal year 2015–16 to more than \$254,000 expected in fiscal year 2020–21. Similarly, other fees and financing costs associated with the procurement of

**The Standard & Poor’s Global Rating Scale Identifies the Creditworthiness of Entities**

CREDIT RATING	ABILITY TO MEET FINANCIAL COMMITMENTS
AAA	Extremely strong
AA	Very strong
A	Strong
BBB	Adequate, but likely to weaken under adverse economic conditions
BB-C	Vulnerable to nonpayment
D	In default

Source: [www.standardandpoors.com](http://www.standardandpoors.com)

Note: Individual ratings may also be denoted with a + (more creditworthy) or – (less creditworthy) to indicate the degree of creditworthiness within a rating.

these loans increased from about \$36,000 to \$91,000. Figure 4 shows the rising costs to El Cerrito of borrowing. If the city does not address its overspending, its costs for these short-term loans will continue to increase, thereby compounding its already precarious financial situation.

**Potential Revenue Reductions**

El Cerrito’s budget for fiscal year 2020–21 projects that the city’s general fund revenue will be lower than its actual revenue from the prior year by \$845,000, or 2 percent. The projected decline is based on a forecast, performed by the city’s fiscal consultant, that anticipated a recession resulting from the COVID-19 pandemic (pandemic). However, during the first half of fiscal year 2020–21, the city collected \$1.8 million, or 10 percent, less in general fund revenue than it collected during the same period in the prior year from sources including sales tax, utility user tax, and recreation program fees. Such a decline

indicates that the city’s revenue for the current fiscal year may be substantially less than expected.

For example, El Cerrito’s recreation department, which receives fees for services such as child care, recreation facility rentals, and its swim center, is currently unlikely to meet its revenue goals for fiscal year 2020–21. From July to December 2019, the city collected \$2 million in recreation fees, but from July to December 2020, the city collected only \$839,000. Such a substantial decline will force the city to seek other revenue sources to offset costs incurred by the recreation department. Furthermore, the city’s expectation that the recreation department would collect \$4 million in fiscal year 2020–21 appears to be unrealistic, given that it collected only 21 percent of that amount through the first half of the year. Some of the revenue decline can be attributed to fewer recreational activities because of the pandemic, which has also resulted in a reduction of about \$1 million or one-third of the recreation department’s costs during these first six months compared to the costs incurred during the same period in fiscal year 2019–20. To address the shortfall in revenue, the city council stated at a December 2020 city council meeting that it would seek additional reductions in recreation programs, including reductions in services provided by its swim center and activities offered by its senior services program. However, the city council did not direct city management during that meeting to address the declines in other revenue outside of the recreation department.

Similarly, El Cerrito’s sales tax revenue has declined more than expected. From July to December 2020, the city collected only \$2.5 million, or 38 percent of the \$6.5 million in sales tax revenue it budgeted to collect in fiscal year 2020–21. City management has not yet reassessed the reasonableness of its projection for this revenue source. However, the finance director stated that there is

**LOCAL HIGH RISK**

**Figure 4**  
 El Cerrito's Costs of Borrowing Continue to Increase as Its Credit Rating Weakens



**AA-** CREDIT RATING In Fiscal Year 2015-16  
 ----->  
**BBB-** CREDIT RATING In Fiscal Year 2020-21

Source: El Cerrito's financial accounting system, loan documents, and Standard & Poor's Global Ratings credit profile reports.

usually a lag of one or two months in the collection of this revenue and that the city would amend the budget for any anticipated increases or decreases. Although El Cerrito is not heavily reliant on sales tax revenue, even small reductions in the amount of sales tax generated can be significant, given the city's financial condition. These decreases in otherwise reliable revenue sources underscore the need for El Cerrito to immediately reduce its spending to mitigate potential revenue reductions.

**Substantial Increases in Pension Payments**

A significant portion of El Cerrito's increasing financial obligations can be attributed to its pension liability, which it has been unable to reduce. This liability pertains to the pension plan it offers its employees through the California Public Employees' Retirement System (CalPERS). The city's net pension liability grew by 67 percent from the end of fiscal year 2014-15 through the end of fiscal year 2019-20.<sup>3</sup> As of June 2020, the city had a net pension liability of \$65.8 million. A city with a large net pension liability will incur increasing pension costs over time because of the need to pay down the liability, which may strain its ability to provide services to its residents, particularly during periods of significant revenue decline.

A city's net pension liability will grow substantially over time if it delays efforts to set aside funds to pay for retirement benefits already earned by employees that will need to be paid in the future. If a city dedicates

specific funds early, it can invest them for a longer period, resulting in a higher amount of earnings from those investments to cover subsequent benefit payments as employees retire. However, a city that does not set

<sup>3</sup> Net pension liability represents the employer's obligation to pay for all of the pension benefits it has promised in the future but has not yet funded. Pension liabilities increase because of many factors, such as additional benefits that are earned under the pension plan for each year employees work and as their salaries increase.

aside enough funding for this purpose will experience significant growth in its net pension liability because it does not have the investment earnings to cover its future costs. As a result, it will need to allocate a much higher proportion of funds in the future to pay for those costs. As we reported in our local government high risk dashboard, El Cerrito has invested only 68 percent of the amount it needs to pay for the pension benefits it has promised to its employees, a funding ratio that we consider high risk.<sup>4</sup>

The amount El Cerrito pays toward its pension liability continues to grow because the city pays only the minimum amount required each year as determined by an actuary. State law requires CalPERS' actuaries to determine the amount of the minimum employer contribution a participating public entity should pay each year to fund the provision of pension benefits. That contribution includes a portion to fund the benefits earned during the year by current employees as well as a portion designated to reduce the entity's net pension liability. CalPERS bases the amount of the contribution on several factors, including the projected cost of pension benefits.

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***“The amount El Cerrito pays toward its pension liability continues to grow because the city pays only the minimum amount required each year.”***

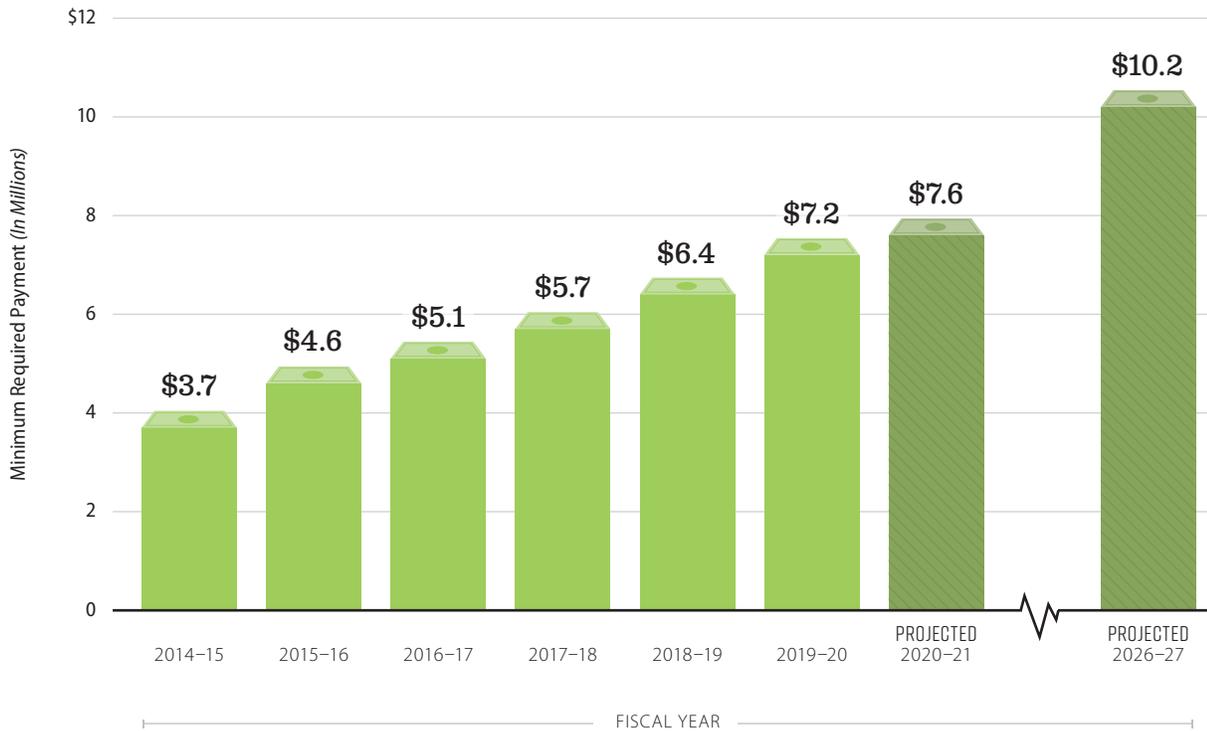
According to El Cerrito's finance director, the city does not plan to pay more than the minimum required employer contribution each year. Although the annual contribution is intended to eliminate the net pension liability in 20 years based on the actuary's determination, paying the minimum amount alone is unlikely to reduce El Cerrito's liability significantly in the short term. Similar to the concept of a home mortgage loan, payments made by the city toward its pension liability consist of a portion to reduce the principal owed, with the remainder applied to interest charged on the outstanding balance of the liability. However, a substantially higher proportion of the payment during the early years applies to interest costs, resulting in only a small amount of the liability actually being reduced. Further, because future benefit payments will continue to grow as employees' salaries increase, the minimum amount needed to cover these obligations will correspondingly continue to increase. The minimum contribution that El Cerrito must pay may also change based on fluctuations resulting from the return on its invested funds, changes in city staffing levels, and actuarial assumptions such as life expectancy.

As Figure 5 shows, the minimum amount that El Cerrito was required to pay each year grew considerably from fiscal years 2014–15 through 2019–20. In fiscal year 2020–21, the minimum amount El Cerrito must pay is projected to be \$7.6 million, which represents 20 percent of its total budgeted general fund expenditures, and by fiscal year 2026–27, CalPERS estimates that the minimum amount will exceed \$10 million. To address the amount that needs to be invested to reduce the size of the net pension liability, the city could establish a pension trust fund. El Cerrito could periodically contribute to the fund and also negotiate with employees for them to contribute on an ongoing basis, thereby reducing the burden on the amount the city needs to contribute toward pensions each year.

<sup>4</sup> Pension funding and other financial risk indicators are reported in the local high risk dashboard at [http://auditor.ca.gov/local\\_high\\_risk/dashboard-csa](http://auditor.ca.gov/local_high_risk/dashboard-csa)

**LOCAL HIGH RISK****Figure 5**

El Cerrito's Minimum Required Payments to Address Its Pension Costs Have Steadily Increased and Are Projected to Increase Substantially in the Future



Source: El Cerrito's audited comprehensive annual financial reports for fiscal years 2014-15 through 2019-20, El Cerrito's fiscal year 2020-21 budget, and projection for fiscal year 2026-27 based on the California State Auditor's local high risk dashboard.

### **Retiree Health Care Benefits**

El Cerrito's policy of allowing its retirees to remain in its health insurance plan increases the plan's overall cost to the city. The city allows its retired employees to retain their health care benefits upon retirement if desired. It requires those individuals to pay their own premiums, which are the same rates as those charged to active employees. However, health care costs for retirees are generally higher than those of current city employees. When determining the premium amounts, the city's health insurance plan pools the costs of both current and retired employees, resulting in the premium for current employees being higher than if the retirees' costs were excluded. Because the city pays current employees'

premiums, it is essentially subsidizing the premium rates for retirees by bearing the additional cost.

El Cerrito has various options that it could consider to reasonably address the additional costs incurred by its decision to allow retirees to remain in the city's health care plan. For example, the city of Beverly Hills offered its current employees a one-time payment to voluntarily terminate their eligibility for retiree health care benefits, and it discontinued its policy of providing such benefits to newly hired employees. These two actions significantly reduced Beverly Hills' projected liability for retiree health care costs. Alternatively, the city of Chula Vista determined the additional costs pertaining to the higher premium rates for

retiree participation in its health plan and established an agreement with its employee bargaining groups in fiscal year 2011–12 to require new employees to pay those costs if they choose to remain in the plan upon retirement. Chula Vista later eliminated this benefit entirely for subsequent new hires.

***Deferral of Maintenance and Capital Projects***

Because of its financial condition, El Cerrito has delayed efforts to address the maintenance and repair of its facilities and the development of needed capital projects. The city presents a list of desired capital projects and maintenance projects within its annual budget. In total, El Cerrito identified in its fiscal year 2020–21 budget \$245.4 million in projects for both necessary repairs and desired improvements. However, the city expects that it will be able to spend only \$21.4 million for these projects from fiscal years 2020–21 through 2024–25, an average of \$4.3 million per year. Much of the planned spending comes from state transportation funds and El Cerrito’s Measure A funds, which may only be used to fund street repair and maintenance projects.

At that rate of spending, it would take the city more than 50 years to fund the projects it has currently identified, even though many of these projects involve the need to address existing deficiencies. For example, El Cerrito’s master plan for parks and recreation, approved by the city council in April 2019, identified \$9.7 million in existing deficiencies in its facilities that would require specific action, such as accessibility modifications required to comply with the Americans with Disabilities Act and replacement of assets that have worn down or no longer function. However, El Cerrito’s fiscal year 2020–21 budget assigned only \$152,000 in total from fiscal years 2020–21 through 2024–25 to address projects specified in that master plan, representing less than 2 percent of its immediate need. In addition, El Cerrito’s public works director stated that the city will need to replace its public safety building, which was built in the 1960s and houses its police and fire departments, within the next decade. The city projected that the replacement building will cost \$35.6 million, although it has not developed a plan or timeline to pay for this capital project. In the long term, deferring necessary maintenance and capital projects can lead to increased costs because of the more extensive repairs or asset replacement that will be needed due to prolonged inattention to deteriorating facilities.

***“Because of its financial condition, El Cerrito has delayed efforts to address the maintenance and repair of its facilities and the development of needed capital projects.”***

***Recommendations to Address This Risk:***

- *To eliminate its reliance on short-term loans, El Cerrito should address its overspending and its revenue shortfalls as discussed throughout this report.*
- *To ensure that its rising pension costs do not jeopardize the city’s ability to provide services to its residents or contribute to potential insolvency, El Cerrito should identify and use alternative methods of paying for the obligation, such as establishing a trust funded by the city or through employee*

**LOCAL HIGH RISK**

*contributions that invests amounts that can be used to pay for future pension benefits and reduce future pension costs.*

- *To ensure that its policy of allowing individuals to remain as members of city-sponsored health care plans upon retirement does not result in additional costs for the city, El Cerrito should calculate the subsidy it provides to those retirees and charge them for the difference in cost resulting from their inclusion in the health care pool.*

### **Ineffective Budget Development and Monitoring Practices Drive Overspending**

The budget practices used by El Cerrito's management fail to follow budgeting best practices and do not ensure sufficient monitoring of departmental spending. The finance director is responsible for initiating the development of the city's budget, which serves as the city's financial plan for the fiscal year. The finance director meets with department heads to discuss budget adjustments and verify personnel costs. The city manager ultimately presents a final proposed budget to the city council for approval. However, the city's approach for developing its budget is flawed because it does not appropriately justify the needs of its departments and does not provide sufficient information to the city council to enable it to review the reasonableness of the proposed spending. Moreover, city management does not adequately monitor departmental spending against the approved budget, nor does it periodically update the city council on any deviations from the budget during the fiscal year. In addition, finance department staff have the ability to circumvent the safeguards in the financial accounting system to allow departments to exceed their spending authority. This lack of accountability has enabled departments to routinely exceed their budgets without any consequences.

### **Budget Development**

El Cerrito's budget development process does not conform to best practices. The GFOA recommends that local governments develop revenue projections based on an analysis of past performance as well as assumptions regarding future performance. Further, GFOA best practices for projecting expenditures recommend that governments account for all services provided to the community, such as public safety, community development, and recreation, as well as the key issues that may affect the actual amounts being spent. The GFOA also specifies that the assumptions used for expenditure projections be described in relation to revenue assumptions. However, El Cerrito initiates its budget development process by assuming that its departments' budgets will increase each year. This approach conveys an assumption among city departments that increased spending is expected instead of an awareness by the departments that they should be assessing and justifying the amounts that they actually need. The accounting supervisor stated that the city assumes that both revenue and expenditures will increase by 3 percent each year but does not conduct an analysis of whether such increases are justified. The finance director indicated that this amount is based on inflation as well as commitments pertaining to various contract agreements for non-personnel expenditures such as the city's police dispatch contract. However, because city management routinely increases department budgets annually without sufficient scrutiny, there is no incentive for departments to manage costs or financial resources.

El Cerrito's use of a baseline assumption for its annual budget growth may have led it to spend more than the baseline and more than its revenue could support. For example, the city increased its planned expenditures in its fiscal year 2018–19 budget by 8 percent above the amounts in the prior-year budget but did not provide any reasonable justification in the budget document for those higher costs. The fiscal year 2018–19 budget included a summary,

for comparison, of the final expenditures the city was expecting to incur for fiscal year 2017–18 at the time it prepared its budget in June 2018. This comparison indicated that expenditures the city expected to incur for fiscal year 2017–18 would exceed the amount budgeted in that year by \$1.5 million, or 4 percent. The budget for fiscal year 2018–19 then increased the amount the city planned to spend by \$1.2 million, which resulted in an increase of 8 percent over the fiscal year 2017–18 budget. However, the budget lacked detailed explanations for why expenditures should increase by this amount. For example, the budget projected fire department costs to increase by 15 percent in fiscal year 2018–19 and 6 percent in fiscal year 2019–20. Although the budget provided high-level descriptions of anticipated increases in certain citywide costs, such as personnel and supplies, it did not include any explanations specifically pertaining to the fire department’s increases.

**“The budget lacked detailed explanations for why expenditures should increase by 8 percent over the fiscal year 2017–18 budget.”**

The deputy city manager informed us that city management meets with department heads each year when developing the budget. Nevertheless, the city was unable to provide documentation of the results of such interactions, so it is unclear why the city increased its projections for specific expenditures. Failure to document the reasoning for the increases reduces transparency and limits the ability of decision makers to ensure that the changes to the budget are appropriate. Further, because of the lack of sufficient detail describing how the city determined these amounts, it is unclear why the city believed it could afford them.

El Cerrito’s budget does not sufficiently explain the reasons for changes in revenue and expenditure projections for departments compared to prior years, and in some cases the prior-year amounts included for comparison are inconsistent with audited financial statements. Without these key pieces of information, the city council’s ability to evaluate the reasonableness of the projections is limited. GFOA best practices encourage local governments to provide a financial overview as part of their budgets that clearly describes the financial position of the city, including comparisons of budgeted amounts and actual financial activity from prior periods, so that stakeholders have the information necessary for budgetary decision making. To facilitate the monitoring of budgetary performance, the overview should provide the specific reasons for any deviations from prior-year amounts, including whether they are expected to be temporary or long-term. However, we found that the information reported in the budget focused only on the activities each department accomplished during the past few years. The budget does not provide stakeholders with explanations of any deviations that occurred, nor does it describe how long those deviations are expected to continue.

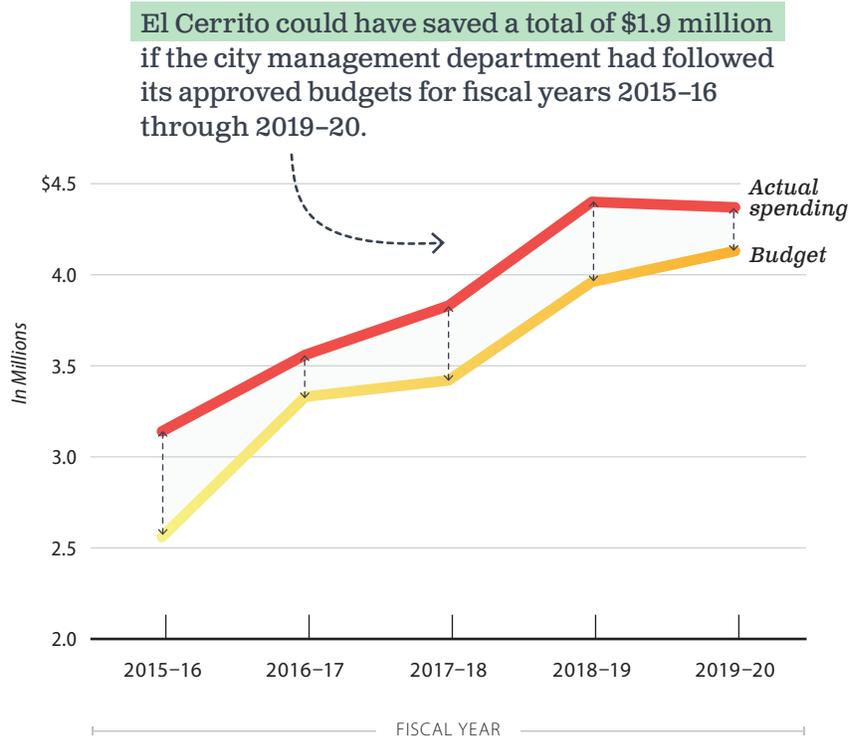
#### ***Budget Monitoring***

Once it has developed and approved its budget, El Cerrito does not sufficiently monitor departmental spending and hold departments accountable for adhering to the budget. The city manager is responsible for organizing and directing a team of department directors and staff members to administer programs and deliver public services as well as to ensure that the departments have adequate financial resources for those functions. The city’s finance director is similarly tasked with managing and supporting the budgeting process and developing financial policies. Both positions are responsible for overseeing the development of a balanced budget and the monitoring of departmental spending to guide the city in

## LOCAL HIGH RISK

**Figure 6**

**El Cerrito's City Management Department Consistently Spent Beyond Its Budget Even as the City Continued to Approve Annual Budget Increases**



Source: El Cerrito's annual budgets and audited comprehensive annual financial reports for fiscal years 2015–16 through 2019–20.

operating in a fiscally sound manner. However, the oversight that city management has provided has not been sufficient to control departmental spending, and the city does not have appropriate financial policies to promote effective stewardship of public resources.

**“The oversight that city management has provided has not been sufficient to control departmental spending.”**

In particular, the city's budget policy does not address procedures for tracking departmental spending, such as producing reports that compare budgeted expenditures to actual spending or requiring the finance director to review the comparisons and request explanations from department directors for significant differences. Instead, the policy states only that department heads are responsible for ensuring that expenditures stay within the budget. Further, the city's policies do not specify any form of accountability among departments to assure that they adhere to their budgets or alert city management or the city council when they are at risk of overspending. Consequently, the city

was unable to demonstrate that it requires departments to justify excessive spending.

The lack of policies related to budget monitoring and accountability has resulted in a history of overspending. From fiscal years 2015–16 through 2019–20, El Cerrito's spending exceeded its budget by up to 7 percent each year. In particular, as Figure 6 illustrates, annual budgeted expenditures for the city management department have consistently increased from fiscal years 2015–16 through 2019–20.<sup>5</sup> Further, during each of these years, the department spent more than

<sup>5</sup> For budget purposes, El Cerrito groups expenditures for its city council, city manager, city attorney, city clerk, information systems unit, and human resources unit within a single category titled city management.

the amounts adopted in its budgets. If the city management department had adhered to its spending limits, the city could have saved \$1.9 million in total from fiscal years 2015–16 through 2019–20, an amount that would have offset the city’s negative reserve balance as of June 2020.

Departments are able to overspend their budgets because finance department staff circumvent safeguards in the city’s financial accounting system, as Figure 7 illustrates. According to the finance department’s accounting supervisor, the city’s financial accounting system is designed to restrict disbursements of funds to prevent overspending by department staff. When the budget is initially approved by the city council, the finance department records in the system the *authorized limit* to be spent for each expenditure category for each department. The accounting supervisor further stated that the system designates the authorized limit as the maximum amount that the department is allowed to spend during the fiscal year. As a department incurs costs, the city records expenditures in the system that are tracked against the authorized limits. However, according to the accounting supervisor, when a department attempts to spend beyond the authorized limit, the system alerts finance department staff, who then routinely override the alert without review or approval from the finance director, thus allowing the overspending to go unquestioned and rendering such safeguards meaningless. When we discussed this process with the finance director, he indicated that the finance department’s practice is to ensure that payments are made on time and that the city’s departments charge costs to the correct account codes. Further, he stated that the departments are responsible for adhering to their budgets. However, the finance department should be responsible for maintaining controls over spending throughout the city. Its practice of overriding controls allows departments to spend beyond their approved budgets without concern for the limits imposed in the budget.

As a result, the city has allowed its departments to spend beyond their approved budgets for years without explicit approval from the city council. For example, in fiscal year 2018–19, the city council approved total budgeted expenditures of \$2,269,000 for the community development department. Although the city recorded that total as the authorized limit in its financial accounting system, the department incurred additional expenditures of \$253,000 beyond that limit. Without enforcing appropriate management processes in the financial accounting system to ensure that departments spend within their approved limits, those departments will continue to exceed their spending authority.

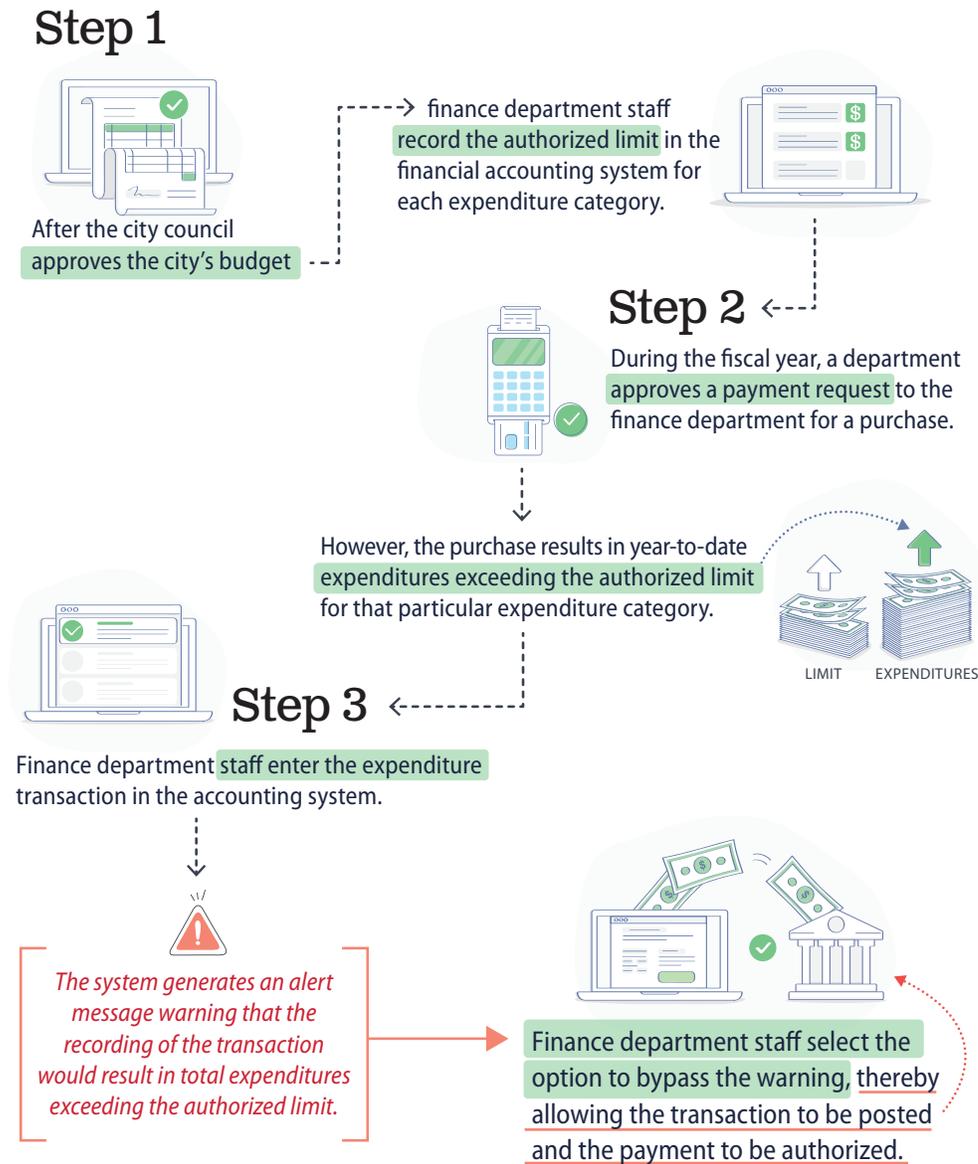
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**“El Cerrito’s city council does not have sufficient information to properly monitor the city’s financial condition and budgetary performance throughout the year.”**

In addition, El Cerrito’s city council does not have sufficient information to properly monitor the city’s financial condition and budgetary performance throughout the year. Although the city council is responsible for approving the initial budget, city management does not provide the city council with detailed, periodic budget-to-actual spending comparisons for departments during the year. Consequently, the city council does not have enough information to identify whether departments are adhering to their spending plans to provide city services. According to GFOA best practices, regular monitoring of a city’s budgetary performance and its

## LOCAL HIGH RISK

**Figure 7**  
By Overriding Budgetary Safeguards in the City's Financial Accounting System, El Cerrito's Finance Department Allows Departments to Overspend



### Consequences of Circumventing Safeguards

- ✗ Departments are able to spend beyond their approved budgets.
- ✗ The city manager and finance director cannot control excessive spending.
- ✗ The city council cannot rely on the budget when it attempts to oversee the city's financial condition.

actual expenditures in comparison to its budget allows stakeholders to more readily identify any deviations from the amounts that were approved by the city council. Further, providing this information to decision makers on a routine basis is considered crucial for enforcing budgetary accountability by department heads related to spending. GFOA best practices also recommend that cities develop monthly or at least quarterly revenue and spending plans in which they compare actual results to the amounts that were initially budgeted. Moreover, it is the responsibility of city management to prepare and provide this information to the city's governing body and to develop proposed solutions to remediate potential problems.

In September 2020, city management began providing to the city council monthly reports of revenue and expenditures showing year-to-date actual amounts for the current fiscal year compared to the budget and prior-year actual amounts. However, the reports do not identify expenditures by individual departments. Instead, they simply break out citywide expenditures into eight categories, such as personnel and professional services. The city manager explained that she believes that presenting financial information at the fund level is most relevant for the city council's needs. Nevertheless, this lack of detail impedes the city council's ability to analyze spending of specific departments and makes it difficult to understand the causes for any deviation from budgeted expectations. When we inquired of city council members regarding their expectations for reporting on the city's financial status, some members indicated that they would like to receive more detailed financial information than the reports that are currently being provided.

Beyond the recently instituted monthly reporting, the only formal process in which El Cerrito's city management communicates interim budgetary performance is through its midyear budget update to the city council. However, this process lacks sufficient detail and is frequently not timely, thus limiting the

city council's ability to exert authority over the city's spending. The midyear budget update, presented by the finance director, is intended to address large variances from the initial budget. Although such variances could be tracked by the spending history of individual departments, El Cerrito's midyear budget update does not present specific information in that format but instead summarizes requested budget increases by accounting fund type, such as the general fund, and by expenditure category, such as employee salaries and operating costs. Information presented in such a format obscures accountability by the departments, as it does not identify whether certain departments are exceeding their projected spending. Additionally, El Cerrito's midyear budget update has historically been presented to the city council as late as 10 months into the fiscal year, which is too late to effectively address any significant deviations. According to the city's finance director, the city's goal is to produce this report by mid-February, as it needs time to obtain input from individual departments. Nevertheless, even under that time frame, no formal evaluation of the city's financial condition would occur for more than half of the fiscal year.

In addition, we question the reliability of the estimates reported in the midyear budget update. In our review of midyear budget updates from fiscal years 2015–16 through 2019–20, we found that the city presented overly optimistic projections of revenue exceeding expenditures when, in fact, the actual financial activity reported at the end of the fiscal year showed that expenditures generally exceeded revenue. For example, in its midyear budget update in March 2018, the city projected that revenue would exceed expenditures for fiscal year 2017–18 by \$225,000. However, actual revenue for that year was \$731,000 less than actual expenditures, representing a difference of nearly \$1 million. According to the city's finance director, the additional expenditures that made up this significant variance were largely because of

**LOCAL HIGH RISK**

public safety overtime, which was higher than the amount anticipated at the time of the midyear budget update.

Moreover, the limited information in the city's budget and midyear update may result in the city council being unaware of potential recurring budget overages. The GFOA recommends that budget documents include comparisons between budgeted and actual spending to evaluate budgetary performance. Even though El Cerrito's budget document provided to the city council includes comparisons of the proposed budget to prior-year actual spending, it does not include the original budget from the prior year. Consequently, a city council member would need to gather information from the prior-year budget, the midyear budget update from that prior year, and actual spending from the city's financial statements to evaluate how the city performed in the prior fiscal year compared to its budget.

Although the city council reviews information and approves resolutions necessary to fulfill its duties, it ultimately bears the responsibility for ensuring the financial health of the city. According to a council member, the city council needs additional information in the financial materials that city management provides to increase transparency and allow the city council to develop alternatives for addressing the city's financial condition. Without accurate and timely information, the city council and the public cannot effectively monitor the city's financial condition or determine whether El Cerrito is efficiently using its resources to meet its goals.

**Recommendations to Address This Risk:**

- *El Cerrito should adopt GFOA budgeting best practices that specifically include the following:*
  - » *Using historical trends and analysis as the basis for financial projections.*
  - » *Expanding its monthly revenue and expenditure budget updates to include comparisons to actual results to minimize overspending.*
  - » *Establishing procedures to prevent, detect, and correct deviations from adopted budgets during the fiscal year to ensure that departments do not significantly overspend.*
- *To ensure accountability in the budget development process, city management should document the assumptions and data used to develop each department's projections of financial activity for the fiscal year. This information should be made available to the city council during the budget review and approval process.*
- *To ensure accountability in monitoring the budget, city management should present monthly updates to the city council on the current status of departmental budgets and comparisons to prior-year budgeted and actual amounts. City management should promptly seek approval from the city council of proposed budget adjustments by departments when warranted. City management should also prepare and provide to the city council supporting documentation to justify any proposed budget increases.*
- *To guard the fiscal health of the city, the city council should direct city staff to provide the information described above and regularly review such documents.*
- *To ensure that departments do not exceed their budgeted spending authority, the city should establish and enforce safeguards within its financial accounting system that prevent expenditures from being incurred without appropriate budget authorization.*

# Without a More Coordinated Effort, El Cerrito's Financial Condition Will Continue to Deteriorate

## El Cerrito Lacks a Comprehensive Framework That Would Help It Resolve Its Financial Challenges

El Cerrito does not have a comprehensive framework to address its financial sustainability and has not sufficiently demonstrated how it will be able to halt its recurring overspending. The city's budget documents do not adequately provide such detail, and the city's current fiscal response plan lacks the structure required to reduce its recurring general fund deficit. After initially contracting with a consultant in fall 2019 to assist with developing a strategic plan, El Cerrito redirected the consultant in March 2020 to develop a fiscal response plan to address the city's financial condition, given the impact of the pandemic. Although the consultant prepared the fiscal response plan in August 2020 and provided it to the city for use in developing the budget for fiscal year 2020–21, that plan does not contain several elements that are essential for ensuring sustained focus toward curtailing excessive spending and replenishing the city's general fund reserves.

The city's fiscal response plan consists of two components: a recession model forecast and a list of budget strategies. The forecast includes revenue and expenditure projections based on an assumption that the pandemic would result in a recession. The forecast also includes assumptions used to determine changes in revenue and expenditures needed to maintain the city's service levels. In particular, the consultant predicted that the city would continue to experience reductions in the reserve balance of its general fund totaling \$1.1 million in fiscal years 2021–22 and 2022–23 but would achieve growth beginning in fiscal year 2023–24. The budget strategies include a set of proposed goals, with the highest priority placed on long-term financial sustainability.

The consultant recommended that El Cerrito implement the strategies recommended in the fiscal response plan and estimated that doing so would result in reduced annual costs of \$1.5 million starting in fiscal year 2020–21 that would lead to achieving a general fund reserve goal of 17 percent in fiscal year 2025–26.

Although the fiscal response plan references El Cerrito's financial condition at a broad level, it does not provide the city with the necessary accountability for ensuring sustained progress toward resolving its financial challenges. Most importantly, the fiscal response plan does not identify specific action items to be performed by departments, the individuals within city management and the departments who are responsible for implementing the plan, and the time frames for completion of tasks. The absence of such information raises concerns about how the city would be able to hold individuals and departments accountable for achieving the city's goals. Moreover, even though El Cerrito included the consultant's narrative summary of the fiscal response plan in its fiscal year 2020–21 budget document, the budget does not sufficiently describe how the city planned to implement the budget strategies from the plan through specific reductions to budgeted expenditures.

Following years of excessive spending, El Cerrito adopted a fiscal year 2020–21 budget in October 2020 that includes \$1.7 million less in spending than actual expenditures it reported for fiscal year 2019–20—representing a 4 percent reduction—and projects that the city's revenue will exceed its expenditures by \$663,000. To ensure that it had appropriate spending authority in fiscal year 2020–21 until it was able to assess the financial impact of the pandemic, the city first adopted a budget

**LOCAL HIGH RISK**

in June 2020 that included a summary of potential budget reductions. In October 2020, El Cerrito approved an updated budget that incorporated its estimates of how the pandemic would affect revenue and expenditures. This information included revenue projections revised from the initial budget, a list that references further planned reductions in expenditures, and the budget strategies presented by its consultant.

However, El Cerrito's fiscal year 2020–21 budget does not clearly identify how it plans to reduce spending, raising concerns about whether it will actually achieve those reductions. GFOA best practices state that a complete and comprehensive budget is necessary to provide decision makers with the ability to determine how effectively all of the different aspects of the budget fit together and whether there is an appropriate balance of resources and assigned uses. Although El Cerrito's budget identifies the categories of expenditures by department that the city plans to reduce, such as salaries and operating costs, it lacks specific detail to allow the city council and the public to see exactly how the city expects to achieve less spending and whether and how the reductions will affect the provision of city services.

**“El Cerrito's fiscal year 2020–21 budget does not clearly identify how it plans to reduce spending.”**

Another deficiency in El Cerrito's fiscal year 2020–21 budget is the amount of inconsistent information provided. The budget makes reference to multiple cost

reductions, yet none of them reconcile to the expenditure amounts budgeted. In addition to the reductions of \$1.5 million proposed in the consultant's fiscal response plan, the approved budget includes a narrative describing another set of cost reductions developed by the city totaling \$2.7 million in ongoing costs and \$1 million in one-time savings. And even though the budget projected total expenditures that are \$1.7 million less than the fiscal year 2019–20 actual expenditures reported by the city, that total does not reconcile to specific actions described in either set of budget reductions. Moreover, the city's budget does not clearly demonstrate that any of the proposed reductions actually resulted in decreases to budgeted expenditures. For example, the proposed reductions from the fiscal response plan specified that the police department's budget would be reduced by \$595,000 because of the restructuring of police operations, yet the budget presented an increase of \$34,000 from prior-year actual costs.

When we inquired about this apparent contradiction, the city manager stated that the \$595,000 reduction was incorporated in the budget and that the police department's costs would be higher if the reduction had not been included. However, El Cerrito's budget document does not present information about amounts that the city initially intended to spend and how the stated reductions affected those amounts. Consequently, the budget document in its current format does not provide city council members with the necessary information to evaluate whether city management's proposed reductions are reasonable and attainable. Moreover, the absence of a detailed description of the \$1.7 million in budget reductions raises concerns as to whether the city actually adjusted its budgeted spending to align with the reductions it claims it will make, and if so, by how much. To provide clarity, the city could have prepared a summary identifying the total budget reductions for fiscal year 2020–21 compared to actual expenditures incurred in fiscal year 2019–20. In addition, the city could

have specified the staff positions it expected to reduce or eliminate to achieve the total proposed personnel savings.

Another concern with El Cerrito's budget is that it does not contain sufficient detail to demonstrate the actions its departments will perform to achieve \$1.7 million of reduced spending throughout the city. For example, the city's budget includes reductions to its city attorney budget of \$168,000, or 35 percent less than the prior year's estimated actual expenditures it reported, as well as reductions to its police department's overtime budget of \$182,000, or 31 percent less than the prior year's actual expenditures. However, the city does not provide explanations of how either of these reductions will be accomplished. In another instance, El Cerrito reduced its budget for property and capital acquisitions by 28 percent, yet the only reference to this change in the budget is a statement that the city is making a small reduction in costs from prior-year amounts. Further, the budget includes reductions in most departments, but the city has been unable to substantiate many of the specific reductions for each department and the reasons for those decreases. Without such detail in its budget document, city management will not be able to use the budget to hold departments accountable for making desired reductions, and the city council will not be able to oversee city management's progress in achieving all of the intended budget reductions.

Moreover, some of El Cerrito's projected savings are not ongoing and will result in future budget challenges. In its budget, the city approved various cost-saving strategies for fiscal year 2020–21, some of which it expects to be ongoing, whereas others are intended to be one-time savings. For example, the fiscal year 2020–21 budget includes \$959,000 in cost savings based on a one-time agreement to furlough staff throughout the year. Additionally, the city reported the elimination of cost-of-living salary increases for staff during fiscal year 2020–21, for a total expected savings of \$750,000. However, this

reduction will not result in long-term savings because the contracts between the city and its employee unions contain a provision for the salary increases to take effect in fiscal year 2021–22. The city manager stated that the city is in discussions with various employee unions regarding deferring these salary increases, although there is no assurance of future salary savings. Because these two items are one-time savings only for fiscal year 2020–21, the city should expect its costs to increase by at least \$1.7 million in fiscal year 2021–22, thereby placing greater pressure on it to identify other cost reductions.

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***“Some of the city's planned budget reductions will not result in cost savings because they do not reduce actual spending.”***

Additionally, some of the city's planned budget reductions will not result in cost savings because they do not reduce actual spending. Specifically, the fiscal year 2020–21 budget reported \$1.6 million in reductions pertaining to decreased spending by departments. Yet \$700,000 of this amount is attributed to positions in its police and community development departments that have been vacant for multiple years and would not result in an actual reduction in spending. For instance, the city claimed that it would reduce personnel costs by not filling a senior records specialist position in the police department, although this position has been vacant since at least fiscal year 2015–16, and similarly that it would not fill three police officer positions that have been vacant

**LOCAL HIGH RISK**

since fiscal year 2017–18. We question how the city will meet its goals to reduce its spending when some of these proposed cost savings are not actually reductions from prior-year spending.

Although El Cerrito consistently spends more than it takes in and has exhausted its reserves, city leadership has not developed a comprehensive framework for improving its long-term financial health. As previously discussed, the consultant’s fiscal response plan lacks the breadth and depth required of such an approach. City leadership would benefit from creating a formalized financial recovery plan that not only identifies the most effective combination of citywide and departmental strategies to address the city’s financial condition but also provides the level of detail that would enable the city to commit to implementing these strategies. The GFOA notes that a written financial recovery plan is a useful tool that can help a city’s leadership focus its direction and give its stakeholders greater confidence in the recovery process.

The GFOA further explains that key elements of an effective financial recovery plan include financial forecasts and an operational action plan. El Cerrito’s existing budget process is not sufficient to serve this purpose because it does not direct city staff to take long-term actions to address the city’s financial condition but instead focuses on reducing budgeted spending for a single year. As we discuss above, city departments routinely overspend their budgets, which negatively affects the city’s financial outlook. Without a comprehensive plan that holds both the individual departments and city management accountable, it is unclear whether or when the city will be able to address its overspending. Additionally, a formalized plan would give stakeholders, including city residents, greater assurance that the city is taking steps to improve its financial condition, as well as a means to evaluate the city’s performance.

**Recommendation to Address This Risk:**

*To ensure accountability in its fiscal recovery process, El Cerrito should develop and adopt a financial recovery plan by July 2021 that describes its goals and intended corrective actions, prioritizes its resources, identifies individuals responsible for monitoring its progress in implementing each action, and outlines when it anticipates completing key milestones related to each action. City management should also inform the city council on a quarterly basis of its progress in implementing the plan.*

**El Cerrito Is Not Sufficiently Reducing Its Ongoing Costs**

El Cerrito is not thoroughly seeking opportunities to reduce its spending and improve its financial health. In particular, the city is not taking sufficient action to manage its salaries, which represent the largest component of its spending, and is not actively seeking potential reductions by identifying positions that have a higher base salary than positions in comparable cities. In addition, the city has the discretion to give certain management employees potentially excessive salary increases. Further, El Cerrito has not focused enough attention on reducing or controlling spending in its fire and police departments, which represent most of the city’s spending on salaries.

**Salary Reductions**

Even though most of El Cerrito’s general fund expenditures are for salary and benefits, the city has not sufficiently pursued long-term reductions to help address its overspending in these areas. In its budget for fiscal year 2020–21, the city projected \$29.5 million

in personnel expenditures from its general fund out of \$38.7 million in total expenditures for the year, amounting to 76 percent of the budget. Accordingly, El Cerrito's primary focus should be on reducing or controlling its personnel costs. If city employees accepted a 1 percent salary reduction, the city would save about \$260,000 annually. However, the city has not sought a long-term reduction of this nature. To do so, it would need the cooperation of its employee unions because more than two-thirds of city employees as of November 2020, including police and fire department management, are represented by unions. The city's employee unions agreed to forgo their 2020 salary increase but negotiated with the city for raises in a later year. Consequently, nearly all represented staff are scheduled to receive a 3 percent raise in 2021, for an expected increase in spending of about \$400,000 that the city cannot afford.

When considering salary reductions, El Cerrito should pursue opportunities to reduce its salary costs for positions that have salaries higher on average than those of surrounding cities. We compared El Cerrito's fiscal year 2019–20 salaries for key positions to those of Alameda, Albany, Hayward, Pinole, and Richmond (comparison cities).<sup>6</sup> These cities are included in the group of cities that El Cerrito uses when performing compensation comparisons and are within close proximity in the Bay Area. For example, we identified that El Cerrito's annual base salary for firefighters is \$5,000, or 6 percent, higher than the average of similar positions in the comparison cities. El Cerrito planned to spend about \$1.7 million for the firefighter positions in fiscal year 2020–21, representing 4.5 percent of the city's general fund spending. El Cerrito could conduct a compensation study to identify similar instances in which its compensation and

benefits are higher than those of other cities. Based on the results of the study, El Cerrito could attempt to negotiate adjustments to the salary schedule of specific positions or freeze pay increases until the salaries align with those of other cities.

In addition, El Cerrito pays higher amounts for some of its highest-paid classifications. Like many cities, El Cerrito establishes a salary range for each of its positions. The ranges for each of its management positions include a threshold that the city considers the top salary step. However, employees in certain management classifications can be paid up to 25 percent more than this upper threshold based on exceptional performance. According to the city manager, the purpose of paying employees above the threshold is to reward exceptional performance for management employees and to allow for flexibility in recruitment and hiring. We identified eight individuals, as Table 2 shows, whose salaries are above the upper threshold for their salary ranges. Since November 2018, the city has authorized or agreed to salary increases for each of these positions, either resulting from a merit increase or as part of a negotiated contract with the city. Moreover, the salaries for five of these employees are higher than the average top salaries of similar positions at the comparison cities. When we inquired about these increases, a council member stated that El Cerrito is competing with other cities in the Bay Area for high-quality personnel and needs to offer competitive salaries to attract such individuals. Nevertheless, the higher salaries not only place greater strain on the city's finances but also increase the city's costs to provide pension benefits for these individuals. Given that the city exhausted its general fund reserves in fiscal year 2016–17 and needs to reduce its spending, we question the appropriateness of the city's continued practice of authorizing or agreeing to raises for employees that would exceed the threshold for their salary ranges.

<sup>6</sup> Our comparison focused on base salaries and did not include special increases that employees may be eligible for, such as education incentives, pay for additional responsibilities, or longevity pay.

**LOCAL HIGH RISK****Table 2**

**El Cerrito Established Salaries for Eight Positions That Exceed the City's Salary Threshold, and Several Also Exceed Top Salaries at Comparison Cities**

POSITION	ANNUAL SALARY	SALARY THRESHOLD PER SALARY SCHEDULE	AMOUNT EXCEEDING THE THRESHOLD	AVERAGE OF TOP SALARIES AT COMPARISON CITIES
Police Chief	\$214,677	\$196,488	\$18,189	\$230,059
Police Captain	207,542	195,828	11,714	201,374
Battalion Chief*	190,032	168,708	21,324	178,192
Battalion Chief*	180,369	168,708	11,661	178,192
Battalion Chief*	198,424	168,708	29,716	178,192
Battalion Chief / Training Officer*	198,411	185,568	12,843	178,192
Finance Director	190,008	181,596	8,412	198,028
Public Works Director	193,050	183,828	9,222	206,615
		<b>Total</b>	<b>\$123,081</b>	

Source: El Cerrito's personnel budget for fiscal year 2020–21 and salary schedules for the cities of Alameda, Albany, Hayward, Pinole, and Richmond.

Note: Highlighted positions have annual salaries that exceed the average of top salaries at the comparison cities we reviewed.

\* This position is eligible to receive overtime compensation. The annual salary and threshold represent base pay exclusive of any overtime worked.

**“The higher salaries not only place greater strain on the city's finances but also increase the city's costs to provide pension benefits for these individuals.”**

According to the city manager, El Cerrito has not conducted any analyses since the 1990s to assess the classification, structure, or compensation of its positions. In 2014 El Cerrito performed a limited analysis of salaries for many of the city's positions, including department directors and staff, but that analysis did not assess their job duties or reporting structure. The city manager stated that the information from the analysis helped the city understand

the market of similar positions at other public agencies. According to the International City/County Management Association, an association of local government professionals that advocates for public sector best practices, employee compensation should be based on the position requirements, the complexity of the job, the leadership needed, labor market conditions, the cost of living in the community, and the organization's ability to pay. Completing a comprehensive classification study would provide city management with information on the responsibilities of each position within the city and identify any overlap or redundancy. Further, an analysis of the structure of city positions could enable management to consolidate or remove unnecessary positions and identify long-term savings. In addition, a comprehensive salary study could provide up-to-date information on how El Cerrito's compensation packages compare with those of neighboring cities and identify potential areas of overspending. For example, many employees in El Cerrito's police and fire departments

contribute 12 percent of their salaries for pension benefits, with the remaining costs funded by the city. In contrast, the comparison cities we reviewed structured their compensation packages to require certain police and fire personnel to contribute up to 22 percent of their salaries for pension benefits, resulting in a lower share of costs to those cities. The city manager stated that the city would benefit from completing a study of this nature, but she does not believe that the city currently has funds to prioritize doing so. Nevertheless, a salary study could identify long-term savings for the city that could outweigh the short-term costs of the study.

### ***Cost Reductions for the Fire and Police Departments***

Because nearly two-thirds of the city's budgeted fiscal year 2020–21 general fund spending is for its police and fire departments, El Cerrito will need to pursue decreases in the expenditures of these two departments if it is to make significant reductions in spending. However, the city has not fully explored opportunities to reduce the cost of these services. The fire department's budgeted general fund expenditures increased from \$8.4 million in fiscal year 2015–16 to \$11.6 million in fiscal year 2020–21. These budget increases averaged nearly 6.7 percent each year, a faster rate of growth than the city's budgeted expenditures as a whole. Nearly all of these increases—\$2.8 million in total—were for personnel expenditures. To adhere to minimum recommended staffing levels for operating its fire engines, El Cerrito must maintain the appropriate number of staff at its fire stations. Consequently, the city's efforts to manage the personnel costs of its fire department may result in more achievable savings if it focused on pursuing reductions in salaries and benefits, rather than on eliminating staff positions. As discussed above, the salaries of some positions in the fire department are higher than those of similar positions in the comparison cities. The city could also conduct an analysis of the costs and

benefits of contracting with another agency for fire services as a way to reduce its costs. According to the city manager, El Cerrito has not considered contracting out its fire services.

El Cerrito has maintained a source of revenue that helps offset its fire department costs but also limits the impact of cost reductions by its fire department. In 1995 the city contracted with a fire protection district (district) that serves Kensington, an unincorporated community within Contra Costa County that borders El Cerrito to the southeast, to provide fire protection services to the district. El Cerrito's contract, which was most recently amended in 2019, allows it to operate the district's fire station and provide service to Kensington. In exchange for this service, the district pays El Cerrito an amount that is calculated using predetermined percentages of the city's expenditures for the fire department. For example, according to its contract, the district pays 27.75 percent of El Cerrito's fire department salaries and 33.33 percent of costs for uniforms. In fiscal year 2019–20, the district paid El Cerrito approximately 28 percent of the estimated total annual cost of El Cerrito's fire department. We analyzed service call data from January 2015 through November 2020 to determine the proportion of calls that originated from Kensington and found that only 11 percent of the calls that the fire department responded to were in Kensington, meaning that El Cerrito fully recovered the costs of responding to those calls. Because Kensington pays a percentage of El Cerrito's fire department costs, any reduction in these costs will also reduce the revenue that El Cerrito receives from this contract. El Cerrito will need to take such revenue loss into consideration when making efforts to address its fire department spending.

El Cerrito has also not made concerted efforts to reduce spending in its police department, despite the large number of staff in that department. As of November 2020, the police department had 47 employees, representing

**LOCAL HIGH RISK**

28 percent of total city staff. Those employees included 39 sworn officers. The department provides a range of services, including investigations, traffic enforcement, and K-9 (police dog) services. In fiscal year 2019–20, the police department paid \$588,000 in overtime costs, representing 4.5 percent of the department’s overall spending. The relatively low amount of overtime costs is an indication that the police department may be overstaffed. However, a police department is likely to incur some overtime costs even when overstaffed, because an officer who responds to a call at the end of a shift may have to continue working until the conclusion of the call.

Other entities have noted that El Cerrito’s police department may be overstaffed. According to a May 2020 report by the Contra Costa County Civil Grand Jury (grand jury report), El Cerrito has 1.77 officers per 1,000 residents, compared to a ratio of 1.48 for the State as a whole and 1.09 overall for Contra Costa County. Even after we adjusted the ratio to account for the size of El Cerrito’s police department as of November 2020, this updated ratio of 1.53 officers per 1,000 residents continues to be higher than the state and county benchmarks. The grand jury report also states that El Cerrito’s police staffing level is the second highest among cities in the county. Additionally, the city’s fiscal consultant recommended eliminating three police department positions, although those reductions were not included in the city’s fiscal year 2020–21 budget. The consultant recommended eliminating these three positions in the traffic enforcement division and merging those and other special operations functions into other areas of the department. The fiscal year 2020–21 budget instead eliminated two school resource officer positions and a management analyst position from the police department. El Cerrito previously established an agreement with a local school district to jointly pay for the officers. However, El Cerrito eliminated those positions after the board of the school district voted to eliminate funding for them.

According to the city manager, El Cerrito’s goal is to reduce staffing in the police department through attrition rather than through eliminating staff positions. However, this approach does not involve the city actively taking steps to reduce its spending.

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**“Relying on the retirement of specific employees to reduce expenditures is not an effective approach to address the city’s financial condition.”**

To reduce expenditures at the police department, the city proposed in its fiscal year 2020–21 budget a plan for reorganization that, in addition to the changes above, includes eliminating the special operations division and moving its staff and functions into other divisions. However, the overall impact of this reorganization is limited, as it appears to be driven by the retirement of an officer rather than by a proactive assessment of the police department’s functions. According to the police chief, he expects a lieutenant to retire in fiscal year 2020–21. The plan eliminates the lieutenant’s position and the division that the position oversees and shifts the staff to other divisions. If the city does not fill the lieutenant’s position and does not hire other positions in the police department to compensate for staff taking on the lieutenant’s duties, it will save more than \$300,000 annually. The police chief further stated that he expects additional retirements in fiscal years 2020–21 and 2021–22 and could hold those positions vacant to reduce costs. Nevertheless, relying on the retirement of specific employees

is not an effective approach to address the city's financial condition. In addition to restructuring its police department, El Cerrito could conduct an analysis of the costs and benefits of contracting with another entity to provide police services as a way to reduce its costs, similar to the approach discussed previously for the fire department. However, the city manager stated that El Cerrito has not considered contracting out its police services.

Although the police department has a relatively low amount of overtime costs, the city could seek to reduce that amount even further by negotiating with the police union to revise the overtime pay structure for its sworn officers. As previously mentioned, overtime expenditures for the police department totaled \$588,000 in fiscal year 2019–20. Federal law allows public agencies to pay employees engaged in law enforcement overtime compensation when their work hours exceed certain thresholds over certain work periods. In its union contract, the city agreed to a work schedule for its sworn police officers of 80 hours over 14 days, including meals and other time incidental to a normal shift. Officers who work in excess of 80 hours over 14 days receive overtime pay. However, federal law permits law enforcement officers to receive overtime pay for hours worked in excess of 86 hours in a 14-day work period. Therefore, the city could potentially reduce its overtime costs if it were to renegotiate the overtime threshold with its police union. If this scheduling change saved an average of six hours of overtime per work period per police officer, corporal, and sergeant, the department could save about \$130,000 per year. When we asked the police chief about the possibility of changing the overtime threshold, he did not agree that a change of this nature would result in fair compensation for police department staff. Nevertheless, federal law allows such an overtime structure.

***Recommendations to Address This Risk:***

- *To identify potential savings and efficiencies, El Cerrito should perform the following tasks:*
  - » *By September 2021, conduct an analysis of the organizational structure of the city and assess the functions it needs to achieve its goals.*
  - » *Based on the results of the organizational structure study, conduct an analysis of the duties and responsibilities assigned to each of the city's current staff positions to identify any overlapping areas of responsibility and inefficiencies.*
  - » *Using the results of its organizational structure study and its analysis of duties and responsibilities, conduct a compensation study by comparing total compensation for its staff positions with compensation paid by other similar cities. Based on the results of this study, implement personnel and salary changes that would result in ongoing cost reductions.*
- *To better control its salary costs, El Cerrito should end its practice of providing city management authority to pay certain employees over the threshold established in its salary ranges.*
- *Based on the results of its comprehensive analysis, El Cerrito should do the following:*
  - » *Freeze salary increases for management positions with salaries above those of comparable cities until they are in line with those salaries. For positions with salaries above those of comparable cities that are represented by bargaining units, the*

**LOCAL HIGH RISK**

*city should not agree to additional salary increases until those positions' salaries are in line with the salaries in comparable cities.*

- » *Seek to eliminate or consolidate positions that have overlapping responsibilities.*
- *To reduce its fire department's costs, El Cerrito should develop a timeline by July 2021 for controlling the department's personnel expenditures, such as through negotiated salary reductions or freezes.*
- *To reduce its police department's costs, El Cerrito should perform the following by December 2021:*
  - » *Assess the services provided by the police department to identify opportunities to reduce its staffing levels.*
  - » *Negotiate with its police union to increase the overtime threshold for sworn officers to 86 hours over 14 days, from 80 hours over 14 days.*
- *To identify all available options to reduce its costs for its fire and police services, El Cerrito should perform an analysis by December 2021 to determine whether it would be more cost-effective to contract with nearby fire or police departments for services.*

### **El Cerrito Is Missing Opportunities to Increase Its Revenue**

From fiscal years 2015–16 through 2019–20, El Cerrito subsidized the cost of its recreation services with revenue from other sources in its general fund each year because the recreation department had not established certain fees at sufficient levels to fully cover the costs of its programs. This subsidy ranged from \$682,000

to \$890,000 in fiscal years 2015–16 through 2018–19 and increased to \$1.7 million in fiscal year 2019–20 as total revenue from recreation programs dropped significantly. The text box identifies the programs offered by the recreation department. In particular, the city's swim center and senior programs both incurred significantly more costs than the revenue they generated during the past several years. In fiscal year 2019–20, the swim center's expenditures exceeded its revenue by \$403,000, and expenditures for its senior programs exceeded revenue by \$354,000. In contrast, the revenue generated by the recreation department's other programs has been sufficient to cover those programs' costs in recent years. Consequently, by not charging adequate fees for its swim center and senior programs, the city is missing opportunities to obtain additional revenue for these programs. If the city cannot generate sufficient fees for these programs, it may be unable to continue to provide these services to its residents in the future.

#### **Programs Operated by El Cerrito's Recreation Department**

- Swim center
- Child care programs
- Youth programs
- Adult/community programs
- Senior programs

Source: El Cerrito's budget reports.

Although the costs to operate the swim center have increased during the past several years, the city has not sufficiently increased its fees to cover those additional costs, resulting in the recreation department having to rely on subsidies from the general fund. For example, the department maintained the price of a 30-day swim pass for residents at \$88 per month during fiscal years 2015–16 through

2019–20 rather than increasing that fee proportionately to cover the increased costs of operating the swim center. The city also charges the same single-use fee for swimmers regardless of residency status and fluctuations in demand. During peak demand, such as weekends and summer vacation, the city may be able to charge a higher fee to achieve full cost recovery. Because the fee revenue the city generated did not increase in proportion to its expenditures, its swim center experienced a cumulative deficit of \$1.4 million from fiscal years 2015–16 through 2019–20.

El Cerrito's recreation director stated that municipal-operated pools focus on providing fitness and swimming programs to the general public at affordable rates and that those services are generally subsidized by other funding sources. However, based on his review of other cities' recreation programs, he believes that El Cerrito's cost recovery for its swim center is better than that of most other cities. Nevertheless, the city continues to subsidize its swim center by a significant amount each year, furthering the drain on its general fund.

During the pandemic, the city temporarily raised fees for the use of its swimming pool. According to the recreation director, the department increased the fees because of pool capacity limits resulting from the social distancing requirements of public health orders. Despite limited usage, swim center revenue sufficiently covered expenditures through the first five months of fiscal year 2020–21, demonstrating some level of acceptance by city residents for fee increases. Although usage patterns may differ after the pandemic and costs may increase when the hours of operation expand, the fee increases have nonetheless allowed the city to sufficiently recover its costs so far in this fiscal year. As the pandemic subsides, the city should reassess its fee structure and consider revising its fees to continue its efforts to achieve full recovery of operating costs.

El Cerrito also has not charged sufficient fees to cover the full costs of its senior services. Currently, the recreation department

offers free and low-fee activities to seniors, including the county nutrition program, presentations, and classes on topics such as art, fitness, and technology. The city incurs costs to provide these activities, including costs for personnel, supplies, and overhead. Given El Cerrito's financial condition, the city will need to consider recovering a greater proportion of these costs by either charging increased fees for existing fee-based activities or charging for activities that are currently free. If the city cannot sufficiently address its financial condition through other means, it may ultimately need to reduce or cancel these services and those of its swim center, as the city council contemplated during its December 2020 meeting.

In addition, since 2018 the city has paid more than \$125,000 annually to lease modular buildings for senior center activities. The city entered into the lease, which expires in April 2023, when the lease for the facilities it had previously used was terminated. According to the recreation director, however, the city-owned community center and clubhouses should be able to accommodate its senior activities. Our review of the booking schedules for the community center for various weeks in 2019 and 2020 confirms that many of its rooms are available for use throughout the day. Nevertheless, the city is obligated through April 2023 to pay for the use of the modular buildings at a total cost of more than \$684,000 because the lease contract requires payment of an early termination fee that the lessor informed the recreation director would be equal to the amount owed on the lease if the city were to cancel. The recreation director also stated that the city has been actively seeking renters to sublease the modular buildings but has not yet been successful, possibly because of the current lack of demand for indoor activities.

Unlike the recreation department, the city's community development department and public works department both structure their fees to recover the full costs of providing direct services, such as permits, planning,

**LOCAL HIGH RISK**

and recycling. The two departments strive for full cost recovery by basing their fees on estimated expenditures and the outcomes of fee studies or projections. For example, the community development department conducted a comprehensive fee study in 2018 to determine the full costs of supporting activities for which the city can charge fees, such as building permits and inspection services. The community development director stated that costs for the fee study were \$18,000, and they were recovered through the fees charged by that department. Similarly, the public works department produced 10-year projections for its recycling fees by estimating future revenue and expenditures based on the prior year's activity to assist its efforts to fully cover its costs. Accordingly, the recreation department can take similar action to achieve full cost recovery for its services.

In our initial assessment, we identified a potential opportunity for El Cerrito to increase its revenue by collecting fees for the emergency medical services that the city's fire department provides. About 44 percent of the calls that the fire department responded to from January 2015 through November 2020 involved paramedic or first responder emergency medical services that result in significant costs to the department. Unlike some other cities, El Cerrito does not charge individuals for these services. We subsequently determined that El Cerrito receives revenue for providing emergency medical services through an interagency agreement with Contra Costa County, in effect from July 2019 through June 2022. The agreement stipulates that El Cerrito's fire department will provide prehospital first responder services within its jurisdiction and in Kensington until Contra Costa County or its contractor assumes care of the patient. Under the agreement, the county pays El Cerrito up to \$111,000 annually for its services.

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**“Unlike some other cities, El Cerrito does not charge individuals for emergency medical services.”**

El Cerrito's fire chief informed us that the city has not conducted an analysis to determine whether the amount it receives from the county is sufficient, and he also stated that the intention of the funding agreement was to provide a means of offsetting the fire department's costs for the emergency services. However, considering that the fire department's emergency medical service calls make up a large proportion of the department's overall service demand, \$111,000 is unlikely to cover the actual cost of providing those services each year. El Cerrito may have an opportunity to offset its costs by charging first responder fees similar to those charged by other nearby cities, such as Albany and Alameda. If the city determines that the costs incurred to provide emergency medical services exceed the amount received through its agreement with the county, it could explore renegotiating its contract to recover more of its costs and pursue other alternatives, such as charging fees for those services.

**Recommendations to Address This Risk:**

- To more fully recover costs at its swim center after the pandemic, the city should perform the following:
  - » Conduct an analysis to identify the demand for the swim center under normal conditions at different times—including holidays, weekends, and when the public has restricted access to neighboring swim centers—and determine whether increasing single-use fees during these hours could better cover the costs of operating the swim center.
  - » Establish separate single-use fees in its master fee schedule for nonresidents at the swim center, in order to increase revenue.
- To more fully recover costs for its senior services, the city should do the following:
  - » By August 2021, assess free and low-fee senior activities and prepare an analysis for the city council that includes a plan for recovering the full cost of these activities.
  - » Continue to seek opportunities to sublease its modular building and move senior activities to the city-owned community center or clubhouses.
- To more fully recover the costs of the emergency medical services it provides, El Cerrito should conduct an analysis by July 2021 to identify the cost to the city of providing such services. Using this analysis, El Cerrito should consider the following:
  - » Determine whether it can renegotiate its contract with Contra Costa County.
  - » Determine whether charging fees for its services would be cost-effective, considering any additional administrative costs it may incur.
  - » Pursue other options to generate revenue.

We conducted this audit under the authority vested in the California State Auditor by Government Code section 8543 et seq. and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
California State Auditor

March 16, 2021

**LOCAL HIGH RISK**

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# Appendix A

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## Scope and Methodology

The Joint Legislative Audit Committee (Audit Committee) approved a proposal by the California State Auditor's Office (State Auditor) to perform an audit of El Cerrito under the local high risk program. We conducted an initial assessment of El Cerrito in December 2019 in which we reviewed the city's financial and operating conditions to determine whether it demonstrated characteristics of high risk pertaining to the following six risk factors specified in state regulations:

- The local government agency's financial condition has the potential to impair its ability to efficiently deliver services or to meet its financial or legal obligations.
- The local government agency's ability to maintain or restore its financial stability is impaired.
- The local government agency's financial reporting does not follow generally accepted government accounting principles.
- Prior audits reported findings related to financial or performance issues, and the local government agency has not taken adequate corrective action.
- The local government agency uses an ineffective system to monitor and track state and local funds it receives and spends.
- An aspect of the local government agency's operation or management is ineffective or inefficient; presents the risk for waste, fraud, or abuse; or does not provide the intended level of public service.

Based on our initial assessment, we identified concerns about El Cerrito's financial condition and financial stability as well as aspects of its operations that appeared to be ineffective or inefficient. As such, we requested authority from the Audit Committee to perform an audit of El Cerrito under the local government high risk program. The Audit Committee approved the request, and the following table lists the audit objectives and related procedures that address these risk factors. We did not identify concerns during our initial assessment pertaining to the remaining three risk factors.

**LOCAL HIGH RISK**

**Table**  
**Audit Objectives and the Methods Used to Address Them**

AUDIT OBJECTIVE	METHOD
<p>1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.</p>	<p>Reviewed relevant laws, rules, regulations, guidelines, and policies related to the financial and operational administration of the city. In particular, reviewed federal and state laws relating to overtime and the operation of public safety departments.</p>
<p>2 Evaluate El Cerrito's current financial condition and ability to meet its short-term and long-term financial obligations while continuing to provide services to its residents.</p>	<ul style="list-style-type: none"> <li>• Reviewed financial information, including budgets and audited financial statements, and assessed the impact of the financial condition on the city's ability to provide services to its residents.</li> <li>• Interviewed key staff members in El Cerrito's finance department to inquire about the city's efforts to meet its obligations.</li> </ul>
<p>3 Identify the causes of El Cerrito's financial challenges, and determine whether the city has developed an adequate plan for addressing those challenges, including the following:</p> <p>a. Assess the city's efforts to improve its financial condition by increasing revenue and reducing costs.</p> <p>b. Evaluate the city's use of short-term and long-term loans to fund its operations, and identify viable options for improving its cash flow.</p>	<ul style="list-style-type: none"> <li>• Reviewed El Cerrito's financial reports and the reports by its fiscal consultant to identify the causes of its financial challenges.</li> <li>• Reviewed the plans El Cerrito has developed to address its financial challenges and compared those plans to best practices issued by the GFOA.</li> <li>• Assessed whether the city's plans are likely to result in actions that will address its challenges.</li> <li>• Identified the city's history of using short-term loans to meet its financial needs and the costs of using such loans.</li> <li>• Reviewed city financial documents to determine that El Cerrito does not have long-term loans. As of June 2020, the city had about \$19 million in various long-term debt obligations and unamortized bond premiums among its governmental and proprietary funds. Most of these obligations are refunding bonds, including \$7.2 million in lease revenue refunding bonds, \$8.8 million in sales tax revenue refunding bonds, and \$1.6 million in recycling facility revenue refunding bonds.</li> </ul>
<p>4 Determine whether El Cerrito's budgeting processes comply with best practices. Evaluate the city's procedures and underlying assumptions for projecting future revenue and expenditures, and determine whether they result in balanced budgets and accurate financial forecasts.</p>	<ul style="list-style-type: none"> <li>• Reviewed El Cerrito's budget reports, budget policies, and informal guidance to assess challenges resulting from the city's budgeting practices.</li> <li>• Interviewed key staff members responsible for the city's budget development to obtain an understanding of the city's budgeting process, including the development of projections, and identified any inefficiencies or areas of concern with those practices.</li> </ul>
<p>5 Review the costs of El Cerrito's existing programs and services. Identify which programs are self-sustaining, evaluate options for potential revenue from new or increased fees, and evaluate potential cost savings from reduced spending on programs that rely on the general fund to operate.</p>	<ul style="list-style-type: none"> <li>• Identified programs that have the capacity to be self-sustaining but are not operating in such a manner. Focused on the swim center and senior services, two programs in the city's recreation department that consistently required subsidies from the city's general fund.</li> <li>• Reviewed financial reports and interviewed city officials to identify opportunities for El Cerrito to recover more of its costs.</li> </ul>

AUDIT OBJECTIVE	METHOD
<p><b>6</b> Evaluate the financial viability of El Cerrito's fire department, including the following:</p> <ul style="list-style-type: none"> <li>a. Evaluate the city's demand for emergency fire services and assess the appropriateness of its fire department's staffing and size.</li> <li>b. Evaluate the cost and benefit of El Cerrito's use of staff overtime rather than filling vacancies in its fire department.</li> <li>c. Determine whether El Cerrito can charge fees to offset the costs of its fire department providing primary response to emergency medical calls, and estimate the potential revenue it could receive from doing so.</li> </ul>	<ul style="list-style-type: none"> <li>• Assessed the fire department's staffing levels. According to best practices, fire departments should identify minimum staffing levels as necessary to perform firefighting operations. Based on its determination of staffing levels, El Cerrito's fire department maintains the minimum staff required at each of its fire stations.</li> <li>• During our initial assessment, the city indicated that it preferred to incur overtime costs in its fire department instead of filling vacant positions. That assessment concluded that this practice resulted in increasing the city's overall costs. The city subsequently decided to hire three new firefighters in an effort to reduce fire department overtime costs.</li> <li>• Identified an existing agreement that allows El Cerrito to obtain revenue for providing emergency medical services and assessed the sufficiency of that agreement.</li> </ul>
<p><b>7</b> Evaluate the impact of deferred maintenance and delayed equipment and capital replacement, including the city's need for a new public safety building, on El Cerrito's long-term costs and ability to provide services.</p>	<ul style="list-style-type: none"> <li>• Reviewed lists of pending maintenance and capital replacement projects throughout the city to identify the potential financial impact resulting from the deferral of those projects.</li> <li>• Interviewed key staff members responsible for tracking El Cerrito's deferred maintenance to inquire about the city's efforts to address projects requiring particular attention.</li> </ul>
<p><b>8</b> Review and assess any other issues that are significant to the audit.</p>	<ul style="list-style-type: none"> <li>• Compared salaries for key positions to salaries of comparable positions at five nearby cities.</li> <li>• Because El Cerrito's police and fire departments have the largest departmental budgets in the city and the largest number of employees among city departments, we reviewed their operations to identify areas where the city could potentially reduce costs.</li> </ul>

Source: Analysis of documents and data obtained from El Cerrito, and interviews with El Cerrito officials and staff members.

### Assessment of Data Reliability

In performing this audit, we relied on data from El Cerrito's financial accounting system to review its revenue and expenditures for fiscal years 2015–16 through the first half of fiscal year 2020–21. The U.S. Government Accountability Office, whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of computer-processed information that is used to support our findings, conclusions, and recommendations. We verified the accuracy of these data by selecting revenue

and expenditure categories from the data and tracing the amounts reported to the city's audited financial statements. We verified the completeness of these data by comparing total revenue and expenditures for fiscal years 2015–16 through 2019–20 to the totals reported in the audited financial statements and other supporting documentation. Accordingly, we found the city's financial accounting system to be sufficiently reliable for the purpose of reviewing its financial condition.

**LOCAL HIGH RISK**

In addition, we relied on two data sets developed by El Cerrito for specific purposes. To obtain salary information for city employees, we relied on personnel budgets developed by the city. To ensure that the conclusions we reached aligned with the city's projections of personnel costs, we reconciled data from the personnel budgets to the information included in the annual budget documents presented to the city council and the public. Accordingly, we found the personnel budgets to be sufficiently reliable for the purpose of identifying salaries.

To obtain information about the types of calls that El Cerrito's fire department responds to and the locations of those calls, we relied on a call log maintained by the fire department. Because the call log is entirely electronic, we were not able to conduct accuracy and completeness testing.

However, we ensured that the information in the call log was recorded in a logical format. Consequently, we found the call log data to be of undetermined reliability for the purpose of establishing the type and location of calls responded to by the fire department. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings, conclusions, and recommendations.

# Appendix B

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## The State Auditor's Local High Risk Program

Government Code section 8546.10 authorizes the State Auditor to establish a local high risk program to identify local government agencies that are at high risk for potential waste, fraud, abuse, or mismanagement or that have major challenges associated with their economy, efficiency, or effectiveness. Regulations that define high risk and describe the workings of the local high risk program became effective on July 1, 2015. Both statute and regulations require that the State Auditor seek approval from the Audit Committee to conduct high-risk audits of local entities.

To identify local entities that may be high risk, we analyzed audited financial statements and pension-related information for more than 470 California cities. This detailed review included using financial data to calculate indicators that may be indicative of a city's fiscal stress. These indicators enabled us to assess each city's ability to pay its bills in both the short and long term. Specifically, the indicators measure each city's financial reserves, debt burden, cash position or liquidity, revenue trends, and ability to pay for employee retirement benefits. In most instances, the financial indicators relied on information for fiscal year 2016–17.<sup>7</sup>

Based on our analysis from 2019, we identified several cities, including El Cerrito, that appeared to meet the criteria for being at high risk. We visited each of these cities and conducted an initial assessment to determine the city's awareness of and responses to these issues as well as to identify any other ongoing

issues that could affect our determination of whether the city was at high risk. After conducting our initial assessment, we concluded that El Cerrito's circumstances warranted an audit. In February 2020, we sought and obtained approval from the Audit Committee to conduct an audit of El Cerrito.

If a local agency is designated as high risk as a result of an audit, it must submit a corrective action plan. If it is unable to provide its corrective action plan in time for inclusion in the audit report, it must provide the plan no later than 60 days after the report's publication. It must then provide written updates every six months after the audit report is issued regarding its progress in implementing its corrective action plan. This corrective action plan must outline the specific actions the local agency will perform to address the conditions causing us to designate it as high risk and the proposed timing for undertaking those actions. We will remove the high risk designation when the agency has taken satisfactory corrective action and the deficiencies identified in the audit have been satisfactorily addressed.

<sup>7</sup> As we describe in Appendix A, we conducted our initial assessment of El Cerrito in December 2019. In November 2020, we updated our financial indicators to include information through fiscal year 2018–19.

**LOCAL HIGH RISK**

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Elaine Howle\*  
California State Auditor  
621 Capitol Mall, STE 1200  
Sacramento, CA 95814

Dear Ms. Howle:

The City of El Cerrito welcomes the opportunity to provide a response to the draft report from the State Auditor. The City has cooperated fully with the State Auditor's team, engaged in extensive communications, provided all of the requested information and documentation, and participated in numerous meetings with the various team members during the five months that the audit was conducted.

In my two years as City Manager, I have focused on actions to restore the City to fiscal health. It became clear as I began my tenure, which was reinforced by the Fiscal Year (FY) 2018-19 audit and Comprehensive Annual Financial Report (CAFR), that the City needed to change its culture to become more fiscally disciplined. Since then, I have worked diligently with the City Council and the City staff to make decisions that reflected the need for financial responsibility. I have dealt with the repercussions of prior decisions that served to deplete the General Fund reserves and shifted the focus of the City organization toward fiscal discipline. It took several years to get the City to this point, and there is no quick fix. But the City Council and the City staff have demonstrated their desire and ability to put the City back on track, and the City indeed is trending in the right direction as our current fiscal year 2020-21 budget indicates.

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The City feels that it is important to highlight that the City has faced significant challenges in the past year due to the COVID-19 pandemic. While the City clearly had financial challenges prior to the pandemic, there is no doubt that the City has been forced to respond to the impacts created by the pandemic, both operational and financial, and has taken specific steps to address our fiscal issues as a result.

### **Background**

In the past two years and prior to this report, the City has focused on our budget by seeking additional revenue and implementing cost-saving measures. I was appointed City Manager on December 26, 2018. One of my top priorities was to restore General Fund reserves, and in completing the 2018-19 fiscal year it was apparent that structural changes needed to be made in order to do so. The City Council, and the previous City Manager, had focused on maintaining the current level of services to the point where we depleted our reserves. While the voters passed a new tax measure in November 2018, it had yet to begin to assist in increasing our revenues, and the budget created by the previous Administration did not reflect the City's financial situation. Once the fiscal year 2018-19 audit was completed, the path that needed to be taken was clear: the City needed to decrease expenditures and consider structural modifications in order to restore fiscal health. This required a change in culture for our organization. Beginning in 2019, I

**LOCAL HIGH RISK**

worked with the Mayor to ensure that there was a budget item on every bi-weekly City Council agenda, I worked with staff to analyze their budgets in order to identify reductions and monitor the revenues, and in February 2020, the City held a town hall meeting to discuss the budget with our community. The City Council then directed staff to provide \$2 million in reductions for the next fiscal year.

In March 2020, the COVID-19 pandemic became prevalent and the City declared a local emergency on March 13, 2020. We closed all City buildings to the public, and they have remained closed since then. The pandemic has completely altered the way the City does business and had detrimental impacts to our revenues. Many programs, particularly those offered by the Recreation Department, were forced to close or be severely restricted due to shelter-in-place orders from the County and the State. The City was forced to furlough all part-time workers and required furlough days of all full-time non-public safety staff. Management employees also had pay and benefits cut. We began to work with all of the bargaining units of the City and were successful in negotiating that every single employee did not receive a cost of living adjustment (COLA) in 2020. We worked tirelessly to meet, discuss, analyze, and develop the FY 2020-21 budget—all while working remotely, managing the local emergency, and navigating staff shortages due to the pandemic including employees being exposed or testing positive for COVID-19. This included working with the City Council during the summer of 2020 to develop a Fiscal Response Plan that would include structural fiscal impacts beginning in the current fiscal year. City staff also implemented regular budget reports to the City Council that provide information on the City's General Fund budget position, Income Statement, and Cash Flow Projections.

Moving forward into the FY 2020-21 budget, further reductions were implemented. In the summer of 2020, the City worked with Management Partners to develop a Fiscal Response Plan to address restoring the General Fund reserves, utilizing a dashboard with various economic data points and projections to develop a menu of options for the City Council to consider. Another community meeting on the budget was held in August 2020 to discuss the various components of the Fiscal Response Plan. The Plan identified over \$1.5 million in structural impacts for this and future budget years with the intention of meeting fund balance goals over the next five years to attain the recommended 17% General Fund reserves. This Plan was implemented in the FY 2020-21 budget that was amended in October 2020, and the City has carried out the identified reductions including eliminating ten (10) positions through layoffs and defunding five (5) vacant positions. On February 16, 2021, the City Council implemented further adjustments to the budget including reducing revenues in response to the ongoing pandemic impacts as well as further reducing expenditures by close to \$1 million. As a result of the steps that the City has taken, the City has projected that the General Fund will end the current fiscal year with a surplus, that would result in a net positive General Fund balance of \$524,000.

While these actions have allowed the City to begin to trend in the right direction, we know that we must continue along this path in order to meet the goals of the Fiscal Response Plan and restore our General Fund reserve to an appropriate level. The City continues to monitor the



budget constantly in order to be responsive to the ongoing economic impacts. Looking ahead to FY 2021-22, in the coming months City staff will be presenting to the City Council updates on the current fiscal position, the City's CalPERS liabilities, and five-year budget projections in order to begin developing the next fiscal year budget. A community meeting will be held in April as well so that the community can provide input on potential further structural changes to the budget. The City continues to closely track the budget and our financial position and respond accordingly.

### **Audit Report**

The City of El Cerrito believes the recommendations contained within this report complements the actions that the City has already undertaken and/or is currently developing, and will help confirm issues and concerns that the City has shared with its community. The City has, in fact, already identified many of the same issues within in the report and taken steps toward implementing changes to address these issues. The City recognizes that there are still areas to be improved, indeed, the City Administration is committed to continuous improvement in all its operations. The City of El Cerrito has and will continue to make the needed improvements that are necessary to improve operational effectiveness and to restore the City's financial health.

While the City understands its financial condition and the State Auditor's concerns that resulted in the report generated from the audit, the City Administration does not agree with much of the commentary contained in the report. The Administration believes that the tone, language, and words of the commentary throughout the Audit Report do not match the recommendations provided by the State Auditor. The City provides comments with respect to this commentary as noted in this response. It should also be noted that the Administration asks for flexibility with the dates for expected completion of recommendations throughout the report, as the City continues to work within the local health emergency, impacting resources and allowing for relevant analysis.

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### **Response to High Risk Areas**

The State Auditor has structured their Audit into the following Five High Risk Areas:

- Financial Condition and General Fund Reserves
- Budget Development and Monitoring
- Fiscal Recovery Plan
- Reducing Costs
- Increasing Revenues

For each High Risk Area identified by the State Auditor, the Administration has provided responses to both the respective recommendations and the extensive commentary provided by the State Auditor. The Administration has noted when it does and does not agree with the Auditor's recommendations and the supporting reasons. The Administration is focusing on ways in which the State Audit can be helpful to the Administration's focus on fixing the City's structural financial issues.

**LOCAL HIGH RISK**

<u>Summary of the Administration's Response</u>	<u>Total</u>
The Administration Agrees with this Recommendation	<b>14</b>
The Administration Partially Agrees with this Recommendation	<b>3</b>
The Administration Does Not Agree with this Recommendation	<b>1</b>

<p><b>High Risk Issue # 1</b>  <b>Financial Condition and General Fund Reserves</b>  <i>"Continued Diminishing of Financial Reserves Through Overspending"</i></p>
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**Administrative Response to State Auditor Recommendations for High Risk Issue #1:**

<b>High Risk Area #1 - State Auditor Recommendations</b>	<b>Response</b>
1. To eliminate its reliance on short-term loans, El Cerrito should address its overspending and its revenue shortfalls as discussed throughout this report	<b>The Administration Agrees with this Recommendation</b> – The Administration goal is to not have to rely on a TRAN (Tax & Revenue Anticipation Note) in the future. The City will continue to work with the City Council on implementing strategies to achieve the GFOA recommended reserve levels that will eliminate the need for a TRAN.
2. To ensure that its rising pension costs do not jeopardize the City's ability to provide services to its residents or contribute to potential insolvency, El Cerrito should identify and use alternative methods of paying for the obligation, such as establishing a trust funded by the City or through employee contributions that invests amounts that can be used to pay for future pension benefits and reduce future pension costs	<b>The Administration Agrees with this Recommendation</b> – As a first step, the Administration has been focused building its reserve levels. Establishing a Section 115 Trust would be an extension of those efforts. The Administration intends to work with the City Council to recommend establishing a Section 115 Trust or consider other methods to fund CalPERS obligations.
3. To ensure that its policy of allowing individuals to remain as members of City-sponsored health care plans upon retirement does not result in additional costs for the City, El Cerrito should calculate the subsidy it provides to those retirees and charge them for the difference in cost resulting from their inclusion in the health care pool	<b>The Administration Agrees with this Recommendation</b> – The Administration intends to work with its benefits broker to determine the cost of the implicit subsidy that is provided to retirees by allowing them to stay on the City's plan (at the retiree's cost), and work with the City Council on implementing this subsidy fee to those respective retirees.



**Administration Response to State Auditor Commentary in High Risk Issue #1:**

The Administration understands the City’s history regarding expenditures exceeding revenue in nearly every year beginning at the time of the Great Recession in FY 2009-10, continuing through the dissolving of Redevelopment Agencies in California in 2012, through to the previous fiscal year. Nor do we disagree that the City exhausted its General Fund reserves in FY 2016-17 or that the City relies on the issuance of a TRAN (Tax and Revenue Anticipation Notes). All of this information can be found in the City’s publicly available Comprehensive Annual Financial Reports (CAFR) which are certified by an independent Auditor, presented to the City Council each year, and are archived on the City’s website. This information was the basis for which the new City Manager began action in 2019 to take aggressive steps to solve its budget crisis and to work toward a substantive reserve level.

It should be noted that revenues that have fallen behind anticipated budget amounts in FY 2020-21, particularly in the Recreation Department, as a result of the significant impact of the COVID-19 closures of public spaces since March 2020. The Administration has been actively monitoring this and has been alerting City Council throughout the fiscal year. Based on the Administration’s recommendations, the City Council authorized a reduction in the revenue budget and approved a corresponding reduction in expenses to mitigate it, including furloughs and layoffs of staff. The City Manager and Finance Director, per the City’s budget monitoring practices, continue to meet with Departments on a regular basis to assess budgetary risks and respond accordingly.

**High Risk Issue # 2**  
**Budget Development and Monitoring**  
*“Ineffective Budget Development and Monitoring Practices”*

**Administrative Response to State Auditor Recommendations for High Risk Issue #2:**

<b>High Risk Area #2 - State Auditor Recommendations</b>	<b>Response</b>
<p>1. El Cerrito should adopt GFOA budgeting best practices that specifically include the following:</p> <ul style="list-style-type: none"> <li>○ Using historical trends and analysis as the basis for financial projections.</li> <li>○ Expanding its monthly revenue and expenditure budget updates to include comparisons to actual results to minimize overspending</li> <li>○ Establishing procedures to prevent, detect, and correct deviations from adopted budgets during the fiscal year to ensure that departments do not significantly overspend.</li> </ul>	<p><b>The Administration Agrees with this Recommendation</b> – The Administration believes in continuous improvement. The Administration is committed to implementing procedures that hold departments accountable in keeping with best practices.</p> <p>The Administration does adhere to GFOA Budgeting Best Practices (such as using historical trends analysis as the basis for projections, monthly updates do include comparison to actuals) and has consistently been awarded the GFOA Distinguished Budget Presentation Award.</p>

8

## LOCAL HIGH RISK



<p>2. To ensure accountability in the budget development process, city management should document the assumptions and data used to develop each department's projections of financial activity for the fiscal year. This information should be made available to the city council during the budget review and approval process.</p>	<p><b>The Administration Agrees with this Recommendation</b> – The Administration plans to provide documentation of assumptions and data for Department projections to the City Council. Each Department will continue to be required to submit assumptions with revenue and expense projections as appropriate.</p>
<p>3. To ensure accountability in monitoring the budget, city management should present monthly updates to the city council on the current status of departmental budgets and comparisons to prior year budgeted and actual amounts. City management should promptly seek approval of proposed budget adjustments by department when warranted. City management should also prepare and provide supporting documentation to justify any budget increases.</p>	<p><b>The Administration Agrees with this Recommendation</b> – The Administration will consult with the Financial Advisory Board (FAB) to review the City's current Comprehensive Financial Policy, which calls for budgeting by Fund, to consider the impacts of budgeting by Department. If the FAB recommends and the City Council approves this policy change, the information provided to the City Council will provide justification by Department (including revenues, expenditures, and adjustments).</p>
<p>4. To ensure that it fulfills its duty to guard the fiscal health of the city, the city council should direct staff to provide the information described above and regularly review such documents.</p>	<p><b>The Administration Agrees with this Recommendation</b> – The City Council has directed staff to provide monthly financial reports, and this has been done since mid-2020. The Administration is committed to continuing this practice that includes the recommendations from the State Auditor that are contained in this risk area.</p>
<p>5. To ensure that departments do not exceed their budgeted spending authority, the city should establish and enforce safeguards within its financial system that prevent expenditure from being incurred without appropriate budget authorization.</p>	<p><b>The Administration Agrees with this Recommendation</b> -- The current financial policy and the adopted budget gives the City spending authority at the fund level, which permits departments to balance funding needs with available budgeted funds within the line-item budget. In the short term, the Administration will hold departments accountable to prevent the total departmental budget being exceeded. In the long term, departments will continue to be required to analyze their line item budgets and there are adequate funds before submitting payment requests to Finance.</p>



**Administration Response to State Auditor Commentary in High Risk Issue #2**

The City's Comprehensive Financial Policy states:

*"A Budget will be adopted by Resolution of the City Council annually, which will contain the budget amendment process, budget amendment authority, and spending authorities. All departments are responsible for meeting the City's financial policy goals and ensuring the City's long-term financial health. Budget control is maintained at the fund level. The City Manager is authorized to transfer budgeted amounts within departments and within funds. In addition, amendments that are made to authorize spending of increased or new special purpose revenues may be approved by the City Manager. Budget modifications between funds or increases or decreases to a fund's overall budget must be approved by the City Council."*

The City is in compliance with this policy with respect to budgeting by fund that provides the City Manager the authority for direct spending for payments within departments and funds. Departments are required to code expenses to the appropriate expenditure line item in order to ensure that costs are recorded correctly. Proper budget authorization has been implemented and expenditures are disbursed and monitored according to this policy. ⑨

City Administrative and Finance Department staff have been working remotely since City Hall was closed on March 13, 2020 due to the COVID-19 pandemic and resulting health orders. The ending of FY 2019-20 and the budget process for FY 2020-21 were unlike any other fiscal year. Prior to the current fiscal year, the City had prepared a Biennial Budget once every two years for the past ten years and followed a thorough budget process, utilizing the City's strategic goals in its adopted Strategic Plan, as outlined in previous budget documents. In contrast, the FY 2020-21 budget was produced while managing the local health emergency and under extremely volatile physical, financial, and economic circumstances, and the process was necessarily modified and mitigations were made because of the crisis situation (including the City Council directing staff to do a one-year budget rather than a two-year budget). Despite these challenges, the City Manager and Finance Director met regularly with each Department Director to analyze revenues and expenditures by department on an ongoing basis, and developed budgets based on identified trends, personnel costs as determined by memorandums of understanding with bargaining units, professional service requirements, and outside service contracts. Departments were required to justify their budget proposals and work with the Finance Director to ensure accuracy. The City Council directed staff to prepare the FY 2020-21 budget including millions of dollars in reductions with the understanding that the City's financial situation, exacerbated by the pandemic, was dynamic and required consistent monitoring. Since the FY 2020-21 budget was adopted in June 2020 the budget has been amended twice, in October 2020 and February 2021, in response to the uncertain and changing landscape due to the impacts from COVID-19. As a result, the budget is currently on track to produce a positive net General Fund balance at the end of this fiscal year. ⑩  
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**LOCAL HIGH RISK**



**High Risk Issue # 3**  
**Fiscal Recovery Plan**  
*"El Cerrito Lacks Comprehensive Framework That Would Help It Resolve Its Financial Challenges"*

**Administrative Response to State Auditor Recommendations for High Risk Issue #3:**

<b>High Risk Area #3 - State Auditor Recommendations</b>	<b>Response</b>
<p>1. To ensure accountability in its fiscal recovery process, El Cerrito should develop and adopt a financial recovery plan by July 2021 that describes its goals and intended corrective actions, prioritizes its resources, identifies individuals responsible for monitoring its progress in implementing each action, and outlines when it anticipates completing key milestones related to each action. City management should also inform the city council quarterly of its progress in implementing the plan.</p>	<p><b>The Administration Agrees with this Recommendation</b> – The Administration will expand upon the City’s existing Fiscal Response Plan to include the State Auditor’s recommended additions. This will be a living document that will continue to serve as the City’s roadmap to financial stability in FY 2025-26. The City Council will be informed quarterly on implementation progress.</p>

**Administration Response to State Auditor Commentary in High Risk Issue #3**

In 2019, the new City Manager and Finance Director began to work with the City Council and all departments to begin the process of addressing the structural deficit in the General Fund. Working with Management Partners, the City’s strategic plan consultants, City staff worked with the City Council and community to discuss the City’s strategic goals and understand the City’s budget and financial situation. Prior to the pandemic, the City Council held study sessions and a town hall meeting on the budget and directed staff to reduce the baseline FY 2019-20 budget by \$2 million. After the local emergency began, the City took additional action including salary and hiring freezes, implementing furloughs, and reducing additional costs across departments. The City then embarked on its FY 2020-21 budget process (within the challenges of the pandemic as described in the previous section) and continued its work with Management Partners to develop and analyze potential solutions to implement for FY 2020-21 and beyond, with an emphasis on building General Fund reserves. The City held another community meeting in August 2020. This process resulted in the Fiscal Response Plan, which identified \$1.5 million in structural reductions from the baseline budget. This Plan was incorporated within the FY 2020-21 budget and has been implemented in the affected departments. This Plan included several personnel reductions and layoffs, which took effect in January 2021. Going forward, the City Council will continue to review revenue and expenditure projections for the current and next fiscal year, and in March will discuss the updated five-year forecast and a review of CalPERS costs. The City plans to hold another community meeting in April to gain additional public input and feedback. Staff anticipates it will



develop the FY 2021-22 budget again in a virtual manner, and will continue to meet regularly with departments to analyze projected revenues and expenditures. The City will work to expand and update the Fiscal Response Plan in accordance with the State Auditor’s recommendation and in accordance with the development of the FY 2021-22 budget.

**High Risk Issue # 4**  
**Reducing Costs**  
*“El Cerrito Is Not Sufficiently Reducing Its Ongoing Costs”*

**Administrative Response to State Auditor Recommendations for High Risk Issue #4:**

High Risk Area #4 - State Auditor Recommendations	Response
<p>1. To identify potential savings and efficiencies, El Cerrito should perform the following tasks:</p> <ul style="list-style-type: none"> <li>○ By September 2021, conduct an analysis of the organizational structure of the city and assess the functions it needs to achieve its goals</li> <li>○ Based on the results of the organizational structure study, conduct an analysis of the duties and responsibilities assigned to each of the city’s current staff positions to identify any overlapping areas of responsibility and inefficiencies.</li> <li>○ Using the results of its organizational structure study and its analysis of duties and responsibilities, conduct a compensation study by comparing total compensation for its staff positions with compensation paid by other cities. Based on the results of this study, implement personnel and salary changes that would result in ongoing cost reductions</li> </ul>	<p><b>The Administration Agrees with this Recommendation</b> - A comprehensive study of the City’s classification and compensation structure (including total compensation – not just base salaries) would be beneficial to the City. However, costs are expected to exceed \$100,000. If the City Council directed the Administration to allocate funding for a comprehensive classification and compensation study, staff believes this cannot be completed by September 2021. A study of this magnitude must be completed by an industry expert. A Request for Qualifications (RFQ) would have to be developed, issued and a subsequent selection process would follow. In addition, the consultant's work would take several months of extensive research of comparing classifications and the intricacies of total compensation before the City would be provided with preliminary findings.</p>
<p>2. To better control its salary costs, El Cerrito should end its practice of providing city management authority to pay certain employees over the threshold established in its salary ranges</p>	<p><b>The Administration Agrees with this Recommendation</b> - The Administration would study management compensation as part of the classification and compensation study recommended by the State Auditor.</p>

11

**LOCAL HIGH RISK**



	<p>In 2020, the Administration suspended this practice for Management &amp; Confidential employees and will consider eliminating this when the Management &amp; Confidential Resolution is updated this fiscal year. However, this practice was not suspended for members of the Public Safety Management Association (PSMA) as they are a bargaining unit, therefore, the City would have to engage in a meet and confer to discuss the possibility. The Administration cannot unilaterally impose the elimination of this practice to the PSMA.</p>
<p>3. Based on the results of its comprehensive analysis, El Cerrito should do the following:</p> <ul style="list-style-type: none"> <li>○ Freeze salary increases for management with salaries above those of comparable cities until they are in line with those salaries. For positions with salaries above those of comparable cities that are represented by bargaining units, the City should not agree to additional salary increases until those positions' salaries are in line with salaries in comparable cities</li> <li>○ Seek to eliminate or consolidate positions that have overlapping responsibilities</li> </ul>	<p><b>The Administration Partially Agrees with this Recommendation</b> – The Administration would study management compensation as part of the classification and compensation study recommended by the State Auditor.</p> <p>The Administration has already taken action to freeze salaries, as no unrepresented employees have received merit increases this fiscal year and received no COLAs. In addition, the Administration imposed 26 non-paid furlough days (roughly a 10% reduction in pay) for FY 2020-21 for unrepresented Management employees.</p>
<p>4. To reduce its fire department's costs, El Cerrito should develop a timeline by July 2021 for controlling the department's personnel expenditures, such as through negotiated salary reductions or freezes.</p>	<p><b>The Administration Partially Agrees with this Recommendation</b> – The Administration continues to look into personnel cost reduction options Citywide, however, the Administration has no ability to impose salary reductions or freezes on the two bargaining groups that represent sworn members of the Fire Department. Any proposals from the Administration are subject to meet and confer and there is no obligation from the labor groups to accept.</p> <p>In 2020, the Administration negotiated an elimination of a 3% COLA set to take place in July 2020. In addition, the City filled three long-standing vacancies to reduce the amount of overtime in the Fire Department.</p>

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<p>5. To reduce its police department's costs, El Cerrito should perform the following by December 2021:</p> <ul style="list-style-type: none"> <li>○ Assess the services provided by the police department to identify opportunities to reduce its staffing levels</li> <li>○ Negotiate with its police union to increase the overtime threshold for sworn officers to 86 hours over 14 days to 80 hours over 14 days.</li> </ul>	<p><b>The Administration Partially Agrees with this Recommendation</b> – The Administration continues to look into personnel cost reduction options Citywide, however, the Administration has no ability to impose salary reductions or freezes on the two bargaining groups that represent sworn members of the Police Department. Any proposals from the Administration (including those regarding overtime) are subject to meet and confer and there is no obligation from the labor groups to accept.</p> <p>In 2020, the Administration negotiated an elimination of a 3% COLA set to take place in January 2020 and another 3% COLA set to take place in January 2021. In addition, the Police Chief has conducted several assessments and implemented a restructuring of the Police Department in order to achieve cost savings while still maintaining critical public safety service within the community.</p>
<p>6. To identify all available options to reduce its costs for its fire and police services, El Cerrito should perform an analysis by December 2021 to determine whether it would be more cost-effective to contract with nearby fire or police departments for services.</p>	<p><b>The Administration Does Not Agree with this Recommendation</b> – The Administration would study public safety personnel costs as part of the classification and compensation study recommended by the State Auditor.</p> <p>Per conversations with the State Auditor, the intent of this recommendation was for the City to “receive a cost estimate.” However, the Administration believes that it is professionally necessary that this analysis of this magnitude must be a comprehensive study completed by an industry expert(s) to extensively evaluate the detailed service delivery impacts in contemplating an outsourcing of both of the City’s Public Safety Departments. There would be significant impacts to current sworn employees that would have to be to extensively evaluated. The amount of work necessary plus the costs</p>

2

12

**LOCAL HIGH RISK**



	involved to complete such an analysis is not realistic by December 2021. After the City Council is informed by the classification and compensation study, the City Council can determine if this is an area they would like the Administration to study, and allocate the appropriate resources to complete.
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**Administration Response to State Auditor Commentary in High Risk Issue #4**

When the City conducts a salary survey to determine the appropriate market for a position, the City uses a set of comparison cities and agencies that were originally identified many years ago when the City last completed a classification and classification study. These cities/agencies were based on many factors, including proximity, demographics, population, cost of living, and competitiveness. The comparables have been agreed upon since then by both the City and the bargaining units within their memorandums of understanding (MOU). The City’s policy, also memorialized within MOUs, is to provide median compensation of the comparison cities/agencies.

When conducting salary surveys of specific positions to determine whether the position is within the market, the top step of the position in question is surveyed, and for total compensation—the full cost of an employee, including benefits and special pays. As an example, for the Local 1230 bargaining unit, the MOU states:

*“For the purposes of establishing median total compensation, the City and Local 1230 agree to survey eleven jurisdictions: the eight comparable cities of Alameda, Albany, El Cerrito, Hayward, Livermore, Pinole, Pleasanton, and Richmond; and three comparable fire districts, including the Contra Costa County Fire Protection District, the Rodeo-Hercules Fire Protection District, and the San Ramon Valley Fire Protection District....For the purposes of the agreement, “median total compensation” for the survey shall include the following items of compensation for the ranks of Firefighter, Fire Engineer and Fire Captain: Base Salary (top step); Employee’s Retirement Contribution Paid by Employer; E.M.T. Incentive Pay; Haz-Mat Incentive Pay; Continuing Education Pay; Officer Certification Pay; A.A./B.A. Degree Pay; Acting Incentive Pay; Basic Qualifications Pay; Advanced Skills Pay; Rank Proficiency Pay; Major Emergency Pay; Uniform Allowance. The survey shall also include the maximum City contributions for dental, medical, life insurance, vision care, long term disability, and Medicare.”*

⑬ The State Auditor, however, chose only a few of those cities and looked at base salary as opposed to total compensation. It is unknown why this methodology was used as opposed to verifying the City’s methodology or suggesting another type of methodology altogether. Judging the appropriateness of compensation completely depends on the cities and districts used, and one can mix and match any number of cities to show El Cerrito is paid more—or less.



With respect to considering contracting public safety services, the Administration would have to work with the City Council and the entire community on whether another organization’s values align with El Cerrito’s community values. Such an undertaking would need to be mindful of the magnitude of the impact to the City and its employees, residents, and businesses, and certainly much must be considered well beyond only costs.

**High Risk Issue # 5**  
**Increasing Revenues**  
*“El Cerrito is Missing Opportunities to Increase Revenue”*

**Administrative Response to State Auditor Recommendations for High Risk Issue #5:**

High Risk Area #5 - State Auditor Recommendations	Response
<p>1. To more fully recover costs at its swim center after the pandemic, the city should perform the following:</p> <ul style="list-style-type: none"> <li>○ Conduct an analysis to identify the demand for the swim center under normal conditions at different times – including holidays, weekends, and when the public has restricted access to neighboring swim centers – and determine whether increasing single-use fees during these hours could better cover the costs of operating the swim center</li> <li>○ Establish separate single-use fees in its master fee schedule for nonresidents at the swim center, in order to increase revenue</li> </ul>	<p><b>The Administration Agrees with this Recommendation</b> – The Administration plans to conduct an analysis during normal conditions (not during the current pandemic). The Administration has concerns over the potential disproportionate accessibility impacts to minority and low-income communities as a result of further increasing swim center fees.</p>
<p>2. To more fully recover costs for its senior services, the city should do the following:</p> <ul style="list-style-type: none"> <li>○ By August 2021, assess free and low-fee senior activities and prepare an analysis for the city council that includes a plan for recovering the full cost of these activities</li> <li>○ Continue to seek opportunities to sublease its modular buildings and move</li> </ul>	<p><b>The Administration Agrees with this Recommendation</b> – The Administration plans to conduct an analysis during normal conditions (not during the current pandemic) to appropriately understand the current demand for service. Senior Services have been closed for the past year and will not likely be reopened before August. The Administration has racial equity concerns that increasing fees for Senior Services could have serious implications for the City’s</p>

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**LOCAL HIGH RISK**



<p>senior activities to the city-owned community center or clubhouses</p>	<p>most vulnerable residents, most of whom are on fixed incomes.</p> <p>The Administration also agrees with the State Auditor’s recommendation regarding subleasing its costly modular buildings and moving senior activities to city-owned spaces.</p>
<p>3. To more fully recover the costs of the emergency medical services it provides, El Cerrito should conduct an analysis by July 2021 to identify the cost to the city of providing such services. Using this analysis, El Cerrito should consider the following:</p> <ul style="list-style-type: none"> <li>○ Determine whether it can renegotiate its contract with Contra Costa County</li> <li>○ Determine whether charging fees for its services would be cost-effective considering any additional administrative costs it may incur</li> <li>○ Pursue other options to generate revenue</li> </ul>	<p><b>The Administration Agrees with this Recommendation</b> – The Administration has completed a preliminary investigation on this issue and will provide this information in written form to the City Council. The City can conduct a more robust and finalized analysis if directed by the City Council.</p> <p>Regarding additional revenue opportunities, the Administration is currently developing an analysis reviewing various Fire Department fees to determine if fees align with actual costs. Recommendations will be brought forward to the City Council as a part of the budget process.</p>

**Administration Response to State Auditor Commentary in High Risk Issue #5**

The Recreation Department does not operate on a full cost recovery basis, as is true with most municipal recreation departments, and is not operated as an enterprise fund. However, the City does operate on an approximate 75% cost recovery basis, which is a higher percentage than other departments in the East Bay. Additionally, it must be noted that the decrease in revenue in this department for both FY 2019-20 and FY 2020-21 are solely because of the pandemic, due to the various stay-at-home orders and restrictions on indoor and outdoor programs from Contra Costa County and the State. This also meant providing substantial refunds to customers who had pre-registered for future programming prior to the County and State health orders.

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The General Fund subsidy of Recreation Department programming allows the City to ensure that as many residents as possible are able to utilize the City’s services, particularly the most vulnerable populations in our City. It is possible that if fees are increased for some services, many seniors and low-income residents would not be able to use those services, creating an issue of inequity in service delivery and accessibility. This disparity would need to be examined with respect to changes in the Recreation Department fee structure recommended to the City Council.



With respect to emergency medical fees, the City would only be able to charge private insurance for reimbursement and not Medicare. It is understood that one of the most popular health insurance companies (Kaiser) will not reimburse for emergency medical services as well as residents who receive insurance through the Affordable Care Act. As such, the City would have to direct bill residents to pay out of pocket for these costs. It has been preliminarily estimated that potential revenue is approximately \$20,000, not including administration costs. The Administration additionally has serious equity concerns for the City's most vulnerable residents, including low-income, seniors, those with disabilities, and those with pre-existing health issues. There is also a concern that residents will be hesitant to utilize emergency medical services when necessary because of the costs associated.

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### Conclusion

The City has done extensive work in the last two years to make budget reductions, change its culture and procedures, and has maintained a clear focus on improving the City's financial health. Our work is not complete, but we also have not sat idle by any means. It is impossible to know how the City might have fared if not for COVID-19, but there is also no doubt that the global pandemic had a major impact on the City's budget, economy, and all of the City's operations. The City of El Cerrito, through its City Council and Administration, believes that the City should be recognized for addressing the difficult financial challenges that face not just the City of El Cerrito, but all local governments throughout the State of California.

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El Cerrito is a small, full-service City that has an excellent quality of life, and maintaining that quality of life has been the intention behind providing a high level of service to our residents, businesses, and visitors. The Administration recognizes the need to apply best practices in providing services to the residents of our City, and we have welcomed suggestions for improving our financial condition. The Administration believes an audit of any city should reflect the intent of State Auditor's Local High Risk Program which is to conduct a neutral and fair assessment and provide useful recommendations to cities identified as a "high risk" so as not to be detrimental to the continued progress of a city. The City of El Cerrito understands that we must be vigilant in ensuring that we are able to sustainably provide services and will take seriously the recommendations of the State Auditor.

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Respectfully,

Karen E. Pinkos, ICMA-CM  
City Manager  
City of El Cerrito

**LOCAL HIGH RISK**

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## Comments

### CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE CITY OF EL CERRITO

To provide clarity and perspective, we are commenting on El Cerrito's response to our audit. The numbers below correspond to the numbers we have placed in the margin of El Cerrito's response.

El Cerrito's statement that it is trending in the right direction appears premature given our concerns about the reasonableness of the projected cost reductions it presents in the city's fiscal year 2020–21 budget. As we note on page 20, we question whether the city will actually achieve the savings it has projected in its fiscal year 2020–21 budget. Further, a substantial amount of spending reductions El Cerrito made in fiscal years 2019–20 and 2020–21 were one-time savings and do not reflect long-term spending reductions, as we discuss on page 21. Most city staff are scheduled to receive a salary increase during fiscal year 2021–22, an increase in spending the city cannot afford. As such, we question El Cerrito's assertion that its financial condition is trending in the right direction.

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El Cerrito's statement regarding its employees' cost-of-living salary increases fails to disclose the full financial impact of the city's negotiations. Even though El Cerrito negotiated with its employee unions to eliminate cost-of-living salary increases for fiscal year 2020–21, it nevertheless agreed to cost-of-living salary increases for subsequent years as we describe on page 21. Consequently, the city should expect its costs to increase by at least \$1.7 million in fiscal year 2021–22, thereby placing greater pressure on it to identify other cost reductions.

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Although El Cerrito states that it implemented the fiscal response plan developed by its consultant, including budget reductions, its fiscal year 2020–21 budget does not clearly identify how it plans to reduce spending, raising concerns about whether it will actually achieve those reductions, as we describe on page 20. Further, as we note on the same page, the city's budget presents inconsistent information by identifying multiple cost reductions that do not reconcile to the expenditure amounts budgeted.

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El Cerrito's response is misleading. The city states that it reduced costs by nearly \$1 million during its city council meeting on February 16, 2021. However, El Cerrito fails to mention that it also reduced its revenue projections by more than \$1.3 million for fiscal year 2020–21, a larger amount than the amount of the decline in

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**LOCAL HIGH RISK**

projected spending. The net effect of both adjustments results in \$362,000 less in projected financial resources for the city at the end of the fiscal year.

- ⑤ El Cerrito overstates the actual amount of financial resources available for the city's use. The general fund balance of \$524,000 that the city projects it will have at the end of fiscal year 2020–21 includes amounts that have been restricted for specific use and are not available for city operations. We identified the city's general fund reserves in Figure 3 on page 5, which represent the city's unrestricted financial resources. At the end of fiscal year 2019–20, the city's general fund reserves amounted to a deficit of \$1.8 million. The ongoing deficit has resulted in the city's reliance on short-term loans to pay its bills and avoid insolvency, as we describe on page 5.
- ⑥ We disagree with El Cerrito's statement that it believes the audit report's content does not match the recommendations. Each recommendation directly aligns with a risk area within the report and is intended to address the risk. Moreover, the report's content, including tone and wording, aligns with the severity of the risk areas we identified. Accordingly, we stand by the conclusions in our report and their corresponding recommendations.
- ⑦ El Cerrito has the opportunity to formally present its progress in addressing the risk areas described in our report, including any efforts pertaining to the report's recommendations and when it plans to implement its proposed actions. As we describe on page 37, El Cerrito is required to submit a corrective action plan within 60 days of this report's publication. The corrective action plan must outline the specific actions the city will perform to address the conditions causing us to designate it as high risk and the proposed timing for undertaking those actions. The city must then provide written updates every six months after the audit report is issued regarding its progress in implementing its corrective action plan.
- ⑧ Our audit identified that El Cerrito does not adhere to many GFOA best budgeting practices. As we describe on page 12, El Cerrito does not develop revenue projections based on an analysis of past performance and assumptions regarding future performance, which has resulted in overspending by its departments. Further, the city does not disclose in its budget the specific assumptions used for expenditure projections in relation to revenue assumptions, as we note on page 13, thereby limiting the ability of the city council to determine the appropriateness of its spending.
- ⑨ El Cerrito's statement regarding its policy of budgeting by fund does not address the concern pertaining to its poor budget monitoring practices. As we describe beginning on page 13, the city has consistently overspent, in part, because it does not monitor spending

by individual departments. Budgeting and reporting at the fund level does not allow for such monitoring, as we describe on page 17. The fact that El Cerrito believes that it is meeting its policy of budgeting by fund is irrelevant to the risk area we describe in the report.

Despite El Cerrito's claim that it required its departments to justify their budget proposals, city management was unable to produce evidence describing those justifications. As we state on page 12, the budget does not provide sufficient information to the city council to enable it to review the reasonableness of the proposed spending. Failing to do so reduces transparency and limits the ability of the city council to make informed decisions.

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We disagree with the city's perspective that its ability to address this recommendation is limited because of the cost associated with a compensation study. As we recommend on page 27, the city should initially analyze its organizational structure and the functions it needs to achieve its goals. It should then analyze the duties and responsibilities assigned to its current staff positions. Such an effort should be undertaken before seeking a consultant to conduct a compensation study. Further, the city's concern appears to focus on the initial cost of conducting a compensation study rather than on the long-term savings that could result from implementing changes recommended from the study, such as potential opportunities to reduce the costs of employee benefits, similar to the opportunities we note on page 24. By not conducting a compensation study, El Cerrito is limiting its ability to reduce its spending.

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The city's response appears to prematurely dismiss a potential approach to reduce costs. Given El Cerrito's financial condition, we believe that it is important for the city to consider all options for cost reductions, including making good-faith efforts to determine the costs and benefits for potential changes in the delivery of city services. Although El Cerrito states that a comprehensive study completed by industry experts is necessary when evaluating potential changes to the delivery model of public safety services, we believe that the city should pursue initial efforts, such as seeking a cost estimate from other agencies, before making a determination of the viability of outsourcing.

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El Cerrito misses the point of our conclusion. As we describe on page 23, the city should pursue opportunities to reduce its salary costs for those positions with salaries that are higher on average than those of surrounding cities. Our analysis identified examples of specific city positions with salaries that are higher than those of other cities to demonstrate the value of conducting a compensation study. As we note on page 24, El Cerrito has not conducted a compensation study since the 1990s and may be missing opportunities to manage its salary costs.

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**LOCAL HIGH RISK**

To clarify our approach pertaining to the use of comparison cities on page 23, we added text to the description of the comparison cities to indicate that these cities are included in the group of cities that El Cerrito uses when performing compensation comparisons.

- ⑭ El Cerrito's concerns with the impact of changing its fees should not prevent the city from taking any action. As we note on page 28, annual subsidies for its recreation department ranged from \$682,000 to \$1.7 million in fiscal years 2015–16 through 2019–20. Further, as we note on page 29, El Cerrito raised the fees at its swim center during the pandemic, resulting in revenue sufficiently covering expenditures for the first five months of fiscal year 2020–21. As we describe on page 29, if the city does not charge sufficient fees for its services, it may ultimately be forced to discontinue providing those services entirely.
- ⑮ Although El Cerrito states that its senior services have been closed for the past year, the program is still incurring costs and generating a small amount of revenue, resulting in the city's general fund continuing to subsidize the program.
- ⑯ El Cerrito attempts to minimize the risks we present in our report by stating that the challenges it faces are experienced by all local governments in California. Although the city's finances have been impacted by the pandemic, El Cerrito is facing financial challenges because of its overspending and poor budget development and monitoring practices. Our local high risk dashboard identifies El Cerrito at high risk for seven of 10 financial risk indicators. In particular, El Cerrito's negative balance of \$1.7 million of general fund reserves in fiscal year 2018–19 ranks among the highest risk compared to other cities throughout the State.
- ⑰ El Cerrito's statement and previous comments appear to imply that our audit was not a fair assessment of the city. We disagree. As we describe throughout the report, El Cerrito's excessive spending and its insufficient efforts to address its financial condition have resulted in our designation of the city as high risk under our local government high risk program. In developing our conclusions and recommendations, we relied on sufficient, appropriate evidence and followed generally accepted government auditing standards. Accordingly, we stand by our findings and conclusions.