



March 16, 2022

California State Auditor
621 Capitol Mall, STE 1200
Sacramento, CA 95814

Dear State Auditor:

The City of El Cerrito is pleased to submit its transmittal of the required six-month Progress Report on the City's Corrective Action Plan in response to your Report Number 2020-803 regarding the City of El Cerrito under the California State Auditor Local High Risk Program published on March 16, 2021. This Corrective Action Plan Progress Report reflects significant improvements on the part of the City, and has been prepared with the intent to outline the specific actions that the City of El Cerrito has performed since our submittal of the Corrective Action Plan (CAP) in September 2021 to address the risk areas identified in the Report and the proposed timing for undertaking those actions.

The CAP Progress Report provides an Executive Summary and updates the matrix of State Auditor High Risk Areas and Recommendations, the City Administration's response to the Recommendations, and the Corrective Action that the City has or will take on the Recommendation. The City has also included documentation for items noted in the matrix.

The City Council subcommittee of Councilmembers Lisa Motoyama and Tessa Rudnick has worked directly with staff to monitor the various actions outlined in the CAP, in anticipation of this update outlining the City's progress in implementing the CAP. The CAP Progress Report was presented to the subcommittee for their review and input, and the Progress Report will be shared with the entire City Council upon submission. The subcommittee reviewed the proposed actions and provided comments. Additionally, the previous Finance Director/City Treasurer Mark Rasiah left the City's employment in October 2021 and a new Finance Director/City Treasurer, Sandra Dalida, has joined the City as of March 1, 2022. Ms. Dalida will be highly involved in the implementation and monitoring process going forward.

Since the submittal of the CAP in May 2021 and the Progress Report in September 2021, the City has continued to make considerable progress in the risk areas identified as well as on many of the recommendations contained within the original Report. The City Council passed a balanced budget for FY 2021-22, initiated strategies to ensure fiscal sustainability, and has continued to review and monitor the City's budget and financial condition. The City Council approved mid-year budget adjustments that noted improvements in revenue projections and adjusted expenditures strategically as the City begins to restore services suspended during the pandemic. The City also issued its Annual Comprehensive Financial Report for Fiscal Year 2020-21 that confirmed that the City met its expenditure targets and exceeded revenue targets, showing a General Fund surplus of over \$4 million. This surplus does *not include* American Rescue Plan Act (ARPA) funding and was a direct result of expenditure cuts, careful budget monitoring, and conservative revenue estimates. ARPA funding was applied as revenue loss per the Final Rule from the U.S. Treasury, which resulted in a total General Fund reserve fund balance of \$7.1 million, which meets the GFOA recommended guidelines for reserves and is in accordance with



the City's Comprehensive Financial Policies. Notably, the City's independent auditor removed the "going concern" designation from the ACFR, reflecting the City's improved fund balance and position.

The City Council committed to the creation of a Fiscal Recovery Plan and has continued this process as well. The Council met on August 31, 2021 and held a study session to discuss strategies for the City's long-term financial sustainability. To that end, the City's plan is called the Fiscal Recovery and Sustainability Plan, to reflect not just the crisis response and short-term improvements but the long-term policies needed to sustain and enhance the City's financial condition. Because of the departure of the Finance Director and the City's continued challenges with staffing due to vacancies and COVID-19, this plan remains under development and will be adjusted in coordination with the new Finance Director and the City Council. A draft outline is provided in this update, and it is anticipated that the Council will update the elements of the Plan for approval during the budget process. However, it must be noted that the elements included in the draft Plan are already being implemented and there are significant improvements in all of the areas noted.

The City Council has continued to review the City's budget and financial condition through continued policy discussions and updates at their regular City Council meetings, and there has also been increased reporting to and input from the City's Financial Advisory Board. City staff has also continued to respond to the impacts created by the ongoing COVID-19 pandemic, both operational and financial, and has taken specific steps to address these impacts in preparing the budget so that the City's financial condition will continue to improve.

The City is proud of the work that has been accomplished over the past year within the identified risk areas and beyond. This CAP Progress Report shows that the City has indeed made substantial progress in improving its financial condition, and it is our hope that the State Auditor agrees and will remove the high-risk designation from the City of El Cerrito. Should there be any issues that are still pending in the opinion of the State Auditor, the City will provide a report at the next six-month mark in September 2022.

Please feel free to contact me should you have any questions.

Respectfully,

A handwritten signature in blue ink that reads "Karen E. Pinkos". The signature is written in a cursive style.

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



**CITY OF EL CERRITO
CORRECTIVE ACTION PLAN – STATE AUDIT 2020-803
Progress Report: March 16, 2022**

EXECUTIVE SUMMARY

Overview of High Risk Areas from September 2021
City Update as of March 2022

Continual Diminishing of Financial Reserves Through Overspending	
<p>California State Auditor's Assessment Status: Pending</p>	<p>Recent federal assistance has significantly aided El Cerrito in improving its financial reserves, but such progress may be temporary if the city does not address its underlying financial condition. The city received \$6.1 million under the American Recovery Plan Act (ARPA) and expects to receive more revenue than it spends in fiscal years 2020–21 and 2021–22. As a result, it could end fiscal year 2021–22 with a \$7.5 million reserve, representing 19 percent of general fund expenditures. This reserve level would be a substantial improvement from the negative reserve the city had in fiscal year 2019–20 and slightly above the 17 percent reserve recommended as a best practice. Because of its improved financial position, El Cerrito was able to reduce the amount of short-term borrowing it has used to fund its operations from \$8.5 million in fiscal year 2019–20 to \$6 million in fiscal year 2021–22, and it hopes to end this practice in fiscal year 2022–23.</p> <p>El Cerrito has been able to improve its financial position in large part because of one-time federal revenues and an unexpectedly robust real estate market. The change in the city's general fund can be attributed to its receipt of \$6.1 million in ARPA funds during fiscal years 2020–21 and 2021–22. Nevertheless, the city cannot expect to sustain substantial revenue from this source in future years. In addition, the city's real estate transfer tax generated \$4 million in fiscal year 2020–21, 53 percent more than expected. If the city had received the amount of the transfer tax that it budgeted for, the city would have \$1.4 million less in revenue. A highly variable revenue source such as this tax can leave the city vulnerable to overspending if the city increases its revenue projection based on a peak year but ultimately receives a much lower amount.</p> <p>Despite its recent progress, El Cerrito still needs to take long-term action to balance its revenue and expenditures. The city's budget for fiscal year 2021–22 includes a five-year forecast that shows expected revenue and expenditures through fiscal year 2025–26. That projection shows that El Cerrito expects to spend \$3.2 million more than its revenue from fiscal years 2022–23 through 2025–26,</p>



	<p>which would reduce much of the reserve that resulted from ARPA funding.</p> <p>Moreover, El Cerrito has taken only initial efforts to address its pension costs. The city states in its update that the police and fire chiefs, who are part of a union, have agreed to pay a higher proportion of their pension costs, although other unions that represent most employees have not agreed to any pension-related changes. El Cerrito also indicates that it is researching vendors to establish a Section 115 trust that can be used to pre-fund pension costs, which it expects to finalize in fiscal year 2022–23. In addition, the city states that it working with its benefits broker to address the health care subsidy the city provides to its retirees but has not yet identified any specific action it will take.</p>
--	---

City Update March 2022: The City has addressed this risk area by making substantial and measurable improvements to its financial condition, including significant budget cuts beginning in 2020 and within the FY 2020-21 Fiscal Response Plan, and by exercising fiscal discipline and careful budget monitoring. The City has completed its Annual Comprehensive Financial Report (ACFR) and its ending year totals reflects over \$4 million surplus in the General Fund not including American Rescue Plan Act (ARPA) funding; with the allocation of the ARPA funding to FY 2020-21 the ending General Fund balance is \$7.1 million, meeting the GFOA recommended reserve target of 17% and exceeding the City’s General Fund minimum reserve target of 10%. The City met its reduced expenditure targets and, due to conservative projections and a robust real estate market, exceeded revenue targets. The surplus is targeted for General Fund Reserves. The City’s independent auditor removed the “going concern” designation from the ACFR, reflecting the City’s improved fund balance and position.

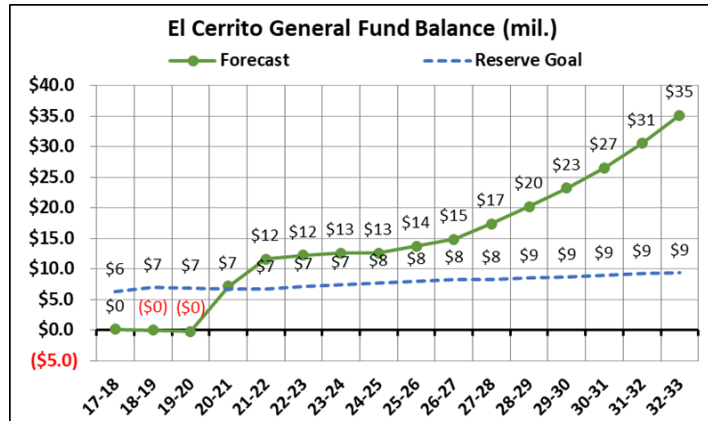
The City was allocated \$6.2 million from ARPA and per the direction of the City Council, the first tranche of \$3.1 million was allocated to FY 2020-21. Per the U.S. Treasury Final Rule and working in conjunction with our auditor Badawi and Associates and our consultants Management Partners, the ARPA funding is assigned as “revenue loss” to the City and allocated for general government services accordingly. The next tranche will be received in May 2022.

Because of previous progress in increasing General Fund reserve levels, the City issued a TRAN amount of \$5.8 million for FY 2021-22, which is a decrease from previous years; with the current status of our General Fund balance and next payment of ARPA funding of \$3.1 million in 2022, the City does not plan to issue a TRAN for FY 2022-23.

The City Council passed a balanced FY 2021-22 budget that did not include ARPA funding, again using conservative revenue projections, personnel reductions for unrepresented employees, and ongoing non-personnel expenditure reductions. Over the fiscal year, the City Council has discussed and monitored the budget by receiving budget updates and presentations from departments. The City Council held a priority-setting session on February 5 and made mid-year budget adjustments on March 1. Throughout the fiscal year, the Council has provided continuous direction to staff, understanding the need to be thoughtful and strategic as the City begins to restore services paused



during the pandemic and consider improved service delivery. Now that the pandemic seems to be easing again, demand for services and retention of employees will be critical considerations for the City Council as we move forward into the next budget cycle. Budget considerations and impacts will be presented as scenarios to the City Council using the 10-year budget projection model. A snapshot of the 10-year projection of the General Fund balance was presented to the Council including the March 1 mid-year budget adjustments, shown below, and allows the Council to see that at this time we remain on the path to fiscal health and sustainability that the City has committed to.



The City Council had also previously directed staff to pursue opening a Section 115 Trust to address pension obligations. Staff is working with NHA Financial Advisors to begin the process with the City Council, including issuing an RFP for administration of such a trust and creation of specific financial policies for funding the Trust appropriately.

City staff worked with our benefits broker to determine the best way to deal with the implicit subsidy of retiree health care costs related to the City’s OPEB liability and, working with the insurance vendors, concluded that separating out the retirees from the active employees as a separate group, and calculating related costs for each group, was the best way for the subsidy to be recognized and dealt with. This means that the retirees will be paying their total share and not the subsidized active employee cost; which not only eliminates the subsidy but will also in time eliminate the OPEB liability completely. This also resulted in a decrease from what the City had budgeted for employee health care costs. This was implemented during the open enrollment window at the end of 2021 and is now in place. As of now and going forward, the retirees are charged their own costs in their own group and the City only pays for the active employee health care costs that do not include the implicit subsidy of the retiree health care costs.

Ineffective Budget Development and Monitoring Practices

California State Auditor's Assessment Status:
Partially Addressed

El Cerrito has incorporated several improvements into its budget process, although it still needs to address our concern regarding the lack of budget monitoring by department. The city’s fiscal year 2021–22 budget, adopted in June 2021, included several



	<p>improvements to the information provided to the public. This most recent budget document clearly outlines the assumptions that city management used to prepare the budget, includes a five-year forecast with a comparison to the prior five-year period, and provides detailed budgets and major expenditures for its departments. Each of these items adds to the transparency in the budget process and facilitates more informed feedback from stakeholders.</p> <p>In our May 2021 assessment of El Cerrito's corrective action plan, we noted that one of the critical budgeting items still needed was to track and present financial information by department. Maintaining information at this level of detail could help the city council hold departments accountable for their spending. El Cerrito states in its update that it will begin presenting this information to its city council in October or November 2021 and is still researching if it will change its policies to budget by department.</p> <p>To address its budget development and monitoring, city management has proposed to hire a budget manager. Such a position could assist El Cerrito with the budgetary issues we identified in our audit and help ensure that the city continues to maintain a budget that is relevant and useful for stakeholders. City management anticipates presenting the position to city council for approval in October and would seek to fill the position by December.</p>
--	--

City Update March 2022: As previously reported, during the FY 2021-22 budget process, the City increased its focus on department budgets. City Management and the Finance Director worked with department directors and documented assumptions and data resulting in department budgets that were included within the adopted FY 2021-22 budget. Departments presented their budgets to the City Council directly during the budget hearings, and the adopted FY 2021-22 budget document reflects this departmental emphasis. The City has provided a monthly General Fund report to the City Council since 2020, and City staff has worked with the ad-hoc City Council subcommittee to improve reporting to City Council to include department updates and trends. These reports, containing expanded narratives and departmental information, are now presented quarterly to the Financial Advisory Board and to the City Council. City Management and the Finance Director have continued to implement policies for department staff to monitor revenues and expenditures. City staff is working with the Financial Advisory Board and City Council to determine any recommended updates to the current Comprehensive Financial Policies as adopted by City Council.

During this past six-month reporting period, the City's Finance Director/City Treasurer Mark Rasiah left employment with the City as of October, following the retirement of the Finance Supervisor on September 30. City Management worked with consultant Management Partners to provide interim management in the Finance Department, and the new Finance Director/City Treasurer Sandra Dalida began employment with the City on March 1, 2022. City Management is working with the new Finance Director to assess and evaluate the Finance Department, including staffing, functions,



workflow, and policies and procedures. It is also expected that the other current vacant position in the department will be filled in the coming months to specifically focus on budgeting and financial analysis for the City, allowing City Management to be responsive to the City Council and the public in communicating budget strategies and information.

City Management and the Finance Director continue to work directly with departments to monitor revenues and expenditures and hold staff accountable. Budget performance will be noted in future department director evaluations. Departments are being monitored by City Management to ensure appropriate spending within departments as well as compliance with the current financial policy to ensure spending authority by fund is not exceeded. The FY 2020-21 ACFR reflects that funds met their expenditure targets for FY 2020-21. Additionally, the City Council passed a motion directing staff to set a goal of one million dollars minimum surplus in the General Fund annually at the recommendation of the Financial Advisory Board (FAB). As previously discussed, the City's Comprehensive Financial Policy will be reviewed and considered to be modified with respect to department reporting and to consider how to allocate any surplus, especially with respect to a Section 115 Trust once established.

As previously reported, the City continues to follow GFOA best practices to use historical trends and analysis as the basis for financial projections, to develop and monitor the City's financial condition, and implement financial policies as adopted by the City Council. Current pandemic conditions continue to provide uncertainty within financial projections, however staff worked with our tax consultants HdL and department directors to provide a five-year General Fund projection included in the FY 2021-22 budget document. The budget document also includes details on the assumptions and trends that are reflected within the revenue and expenditure projections throughout the budget. Following the adoption of the FY 2021-22 budget and the receipt of the first tranche of ARPA funding, staff and the City Council has worked with consultant Management Partners using a model to develop a ten-year General Fund projection that was discussed with the City Council at their study session in August 2021 and updated and shared in February and March 2022. This model will continue to be updated with information and shared with the Council during the fiscal year and will be utilized for the upcoming fiscal year budget process.

Lack of Formal Financial Recovery Plan

California State Auditor's Assessment Status:
Pending

El Cerrito continues to report that it is developing a financial recovery plan. The city indicated that its consultant facilitated a study session with its city council to discuss short-term recovery and long-term financial sustainability. From that effort, El Cerrito is now in the process of preparing its Fiscal Recovery and Sustainability Plan.

City Update March 2022: The City Council adopted its FY 2021-22 budget in July 2021 that included many of the elements as discussed in the Corrective Action Plan sent to the State Auditor in May 2021, and both the Fiscal Response Plan adopted in 2020 and the Corrective Action Plan were included within the budget document. The Council then met on August 31, 2021 and held a study



session facilitated by local government consultant Management Partners to discuss the City’s short-term recovery and long-term financial sustainability. The Fiscal Recovery and Sustainability Plan will move the City from its previous crisis response to a measured approach toward long term fiscal health.

The Fiscal Recovery and Sustainability Plan (attached in draft form) is continuing to be developed and is expected to be adopted by the City Council in the coming months, likely during the upcoming budget process. This process has been delayed by the severe understaffing of the Finance Department due to the departure of the Finance Director and Finance Supervisor as well as continuing challenges to citywide staffing due to COVID-19 including the omicron surge beginning in late 2021. However, it should be noted that many of the items within the plan are being implemented and will be reviewed and updated for the FY 2022-23 budget process in consultation with the new Finance Director and City Council.

Insufficient Reductions In Ongoing Costs

California State Auditor's Assessment Status:
Pending

Although El Cerrito's current financial condition has improved, the city still needs to take specific action to control the growth of its salary and benefit costs, especially given its projection of expenditures exceeding revenue in future years. In response to our recommendations to reduce costs, El Cerrito continues to state that it does not anticipate completing a salary and compensation study until fiscal year 2022–23. Further, the city has deferred a decision to permanently end its system of allowing certain management employees the ability to receive salary increases above the threshold established in the city's salary schedules. At this time, the city states that it has suspended the process pending its completion of the compensation study. As referenced in our review of the May 2021 corrective action plan, El Cerrito indicated that any changes to the city's salary structure would need to be studied to determine the best option for the city. However, our audit cited specific examples of management employees being paid in excess of the city's salary schedule and greater than similar positions of nearby cities, so we are unclear why a compensation study is necessary to determine whether this process should be eliminated. El Cerrito's other efforts to address its salary and benefit costs have not resulted in substantial savings. The city indicated in its update that it met with two employee unions to discuss changes in salary and benefits to current contracts but those unions declined to make any changes.

City Update March 2022: Staff issued an RFP for a comprehensive classification and compensation study in February and received three bids as of 3/11/2022, with costs in excess of \$100,000 and a



timeframe of several months to complete, as City staff had expected. Staff are evaluating these bids carefully and will then discuss with the City Council the best option, including determining if the study should begin in FY 2021-22 with budget amendments necessary to fund the study, or if the study should wait until FY 2022-23 and fund the study through the upcoming budget process.

Salary increases for Management and Confidential (unrepresented) employees have been frozen for the fiscal years FY 2019-20 and FY 2021-22. In addition, the City Council imposed an additional 2% contribution into CalPERS for a total of 3% in the last two fiscal years. The practice of increasing salaries to exceed the control point of any position has been indefinitely suspended, and at this time only a cost of living adjustment (COLA) for this group is being factored into the current 10-year projection model. It should be noted that based on discussions with local colleagues, because this group’s salary ranges have been frozen for two years the current salary ranges are likely behind market, and City Management is already experiencing retention issues with current employees and recruitment challenges for vacant positions within this group. The classification/compensation study will verify where the salaries for this group lie within the market. Any permanent change to the Management/Confidential compensation system that determines salaries and benefits will be considered after the completion of the classification/compensation study and discussed with the City Council, in order to ensure that the City’s salary system is appropriate, that compensation is indeed within the market, and that the City is able to recruit and retain capable Management and Confidential employees in order to provide effective service delivery to the community.

As previously reported, other salary increases for all represented employees within bargaining units for FY 2021-22 were obligated per closed Memorandums of Understanding (MOU), and all units declined to defer the salary increases for another year. However, two of the units within the Public Safety Management Association (PSMA - Police Chief and Fire Chief) agreed to increase their CalPERS contribution by 2% for a total of 14% which has been implemented. The current MOUs for Local 1230 (Fire) and SEIU expire in June 2022, and City Management will work with the City Council with respect to its direction and authority during negotiations for the next MOUs.

Missed Opportunities to Increase Revenue

<p>California State Auditor's Assessment Status: Pending</p>	<p>El Cerrito's corrective action plan update refers to the fee adjustments it made in May 2021 that it previously reported in its initial corrective action plan. The city continues to state that it will conduct a demand and cost recovery analysis for swim center and senior services after normal operations resume. Nevertheless, El Cerrito should not delay efforts to ensure that its fees cover the cost of its services regardless of changes in demand. For fiscal year 2021–22, El Cerrito still expects the cost of operating its swim center and senior services to exceed the revenue obtained from fees, thus resulting in the city needing to subsidize those services. El Cerrito also reports in its update that it is currently researching</p>
---	--



options to recover the cost of its emergency medical services and plans to provide information to its city council.

City Update March 2022: Recreation staff assessed various fees for swim center and senior services, and increased fees were included in the Master Fee Schedule approved by the City Council in May 2021. Fees were increased on certain categories including drop-in swim, and passes do have a resident/non-resident pricing structure. Additionally, the Fee Schedule now includes a holiday surcharge for when the swim center is open on a holiday, and on those days only drop-ins are accepted (no passes) that includes the holiday surcharge with both resident and non-resident prices. Senior services are beginning to be reinstated after having been closed due to the pandemic, but staff has consolidated staffing and services that are now offered at the Community Center; because staffing has been reduced this has in turn has reduced expenses. Currently the classes and services offered for seniors are at the department's normal cost recovery structure and not at the free or low-fee level. Staff will conduct an analysis on the demand for swim center and senior services and cost recovery once normal operations resume and a typical season can be conducted. Staff will again review current and projected costs for the upcoming FY 2022-23 Master Fee Schedule process, so that appropriate cost increases will be considered.

Staff is currently in negotiations with the Kensington Police Protection and Community Services District for subleasing one of the modular buildings for the District's temporary use, which will offset part of the City's monthly charges. The City's lease ends in 2023. Details including leasing costs and length of use by the District are still being discussed at this time. If negotiations are successful, the likely timing that the District would begin using the space and offsetting City costs would be Summer 2022.

Staff has conducted preliminary research regarding increasing emergency fees and will provide information to the City Council in April, and upon direction will initiate further analysis. This item has been delayed due to staffing challenges resulting from vacant Battalion Chief positions that have just recently been filled. Other revenue opportunities, including grant funding, are continuously being sought out by staff in all departments and will continue to work with the City Council on any opportunities for increasing fees for services.



**CITY OF EL CERRITO
CORRECTIVE ACTION PLAN – STATE AUDIT 2020-803**

High Risk Issue # 1

Financial Condition and General Fund Reserves

Overview: The City Council and City staff are determined to restore the City to fiscal health, increasing the General Fund reserves, and provide appropriate levels of service with respect to revenues. City staff will continue to monitor revenues and expenditures closely and work with the City Council to determine adjustments in a timely manner, if warranted.

High Risk Area #1 - State Auditor Recommendations	Response	Corrective Action March 2022
<p>1. To eliminate its reliance on short-term loans, El Cerrito should address its overspending and its revenue shortfalls as discussed throughout this report</p>	<p>The Administration Agrees with this Recommendation – 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.</p> <p>March 2022: This item is completed.</p>	<ul style="list-style-type: none"> • The City’s audited ending year totals as per the FY 2021-22 Annual Comprehensive Financial Report (ACFR) reflects over \$4 million surplus in the General Fund, not including American Rescue Plan Act (ARPA) funding. The City met its reduced expenditure targets and, due to conservative projections and a robust real estate market, exceeded revenue targets. The surplus is targeted for General Fund Reserves. • The City was allocated \$6.2 million from ARPA and has received its first payment in the amount of \$3.1 million. This funding, per the direction of the City Council, was allocated as revenue loss for FY 2020-21, intended to further improve the amount of General Fund balance. The City’s ACFR reflects this as confirmed by our independent auditor Badawi & Associates. The City continues to work with consultant Management Partners to ensure appropriate ARPA spending and reporting. • The FY 2020-21 audit and ACFR is completed and the General Fund surplus including ARPA funding



		<p>resulted in a General Fund balance of \$7.1 million, meeting the GFOA recommended reserve target of 17% and exceeding the City’s General Fund minimum reserve target of 10%. The ACFR no longer designates the City as a “going concern.”</p> <ul style="list-style-type: none"> • Because of progress in increasing General Fund reserve levels, the City issued a TRAN amount of \$5.8 million for FY 2021-22, which is a decrease from previous years; with the next payment of ARPA funding of \$3.1 million in 2022, at this time the City does not plan to issue a TRAN for FY 2022-23. • City management and Finance staff have implemented stricter policies for staff to monitor revenues and expenditures and will continue to report monthly to City Council on budget performance. The City’s new Finance Director is continuing to monitor these policies and implement systems to ensure continued compliance.
<p>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</p>	<p>The Administration Agrees with this Recommendation – 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.</p>	<ul style="list-style-type: none"> • The City Council has directed City staff to establish a Section 115 Trust. Staff has researched vendors and will be working with our financial advisors to present next steps to the City Council, including issuing an RFP in the coming months. The new Finance Director and the Financial Advisory Board will develop a recommended funding policy for the City Council’s consideration. Expected completion: FY 2022-23. Responsible staff: City Management/Finance Department/Human Resources. • The City Council directed staff to work with all employee bargaining units to negotiate increased contributions to CalPERS. The



		<p>Management/Confidential group (which is unrepresented) is now contributing an additional 2% as of FY 2021-22 and the Fire Chief and Police Chief bargaining units agreed to an increased contribution of 2% as well. At this time, all bargaining units with the exception of one (SEIU) contribute 3-5% of CalPERS employer costs in addition to the employee cost. The City is entering negotiations with 4 bargaining units in 2022. Estimated completion: to be determined pending negotiations. Responsible staff: City Management/Human Resources.</p>
<p>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</p>	<p>The Administration Agrees with this Recommendation – 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.</p> <p>March 2022: This item is completed.</p>	<ul style="list-style-type: none"> • City staff worked with our benefits broker to determine the best way to deal with the implicit subsidy and, working with the insurance vendors, concluded that separating out the retirees from the active employees as a separate group, and calculating related costs for each group, was the best way for the subsidy to be recognized and dealt with. This means that the retirees will be paying their total share and not the subsidized active employee cost; which not only eliminates the subsidy but will also in time eliminate the OPEB liability completely. This also resulted in a decrease from what the City had budgeted for employee health care costs. This was implemented during the open enrollment window at the end of 2021 and is now in place. As of now and going forward, the retirees are charged their own costs in their own group and the City only pays for the active employee health care costs that do not include the implicit subsidy of the retiree health care costs.



**High Risk Issue # 2
Budget Development and Monitoring**

Overview: The City is committed to continuous improvement in implementing policies and procedures that conform with best practices in local government, and to provide information to the City Council and the community in order to make informed and educated decisions.

High Risk Area #2 - State Auditor Recommendations	Response	Corrective Action March 2022
<p>1. El Cerrito should adopt GFOA budgeting best practices that specifically include the following:</p> <ul style="list-style-type: none"> ○ 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. 	<p>The Administration Agrees with this Recommendation – 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> <p>March 2022: This item is completed.</p>	<ul style="list-style-type: none"> • The City continues to follow GFOA best practices to use historical trends and analysis as the basis for financial projections. Current pandemic conditions continue to provide uncertainty within the projections, however staff worked with our tax consultants and department directors to provide a five-year General Fund projection included in the FY 2021-22 budget document. Following the adoption of the budget and the receipt of ARPA funding, staff and the City Council has worked with Management Partners using a model to develop a ten-year General Fund projection. This was discussed with the City Council at their study session in August 2021, updated and shared with the Council in February and March 2022, and will continue to be updated with information and shared with the Council during the upcoming fiscal year budget process and ongoing. • On February 5, 2022, the City Council held a priority setting session where the priorities for the upcoming year were discussed in the context of beginning the FY 2022-23 budget process. • Departments were included in regular reporting to the City Council, including several presentations at



		<p>the regular Council meetings in February and March 2022 that including reporting activities and end-of-year projections, and mid-year budget adjustments were presented to and approved by the City Council in March reflecting the reports and discussions with the City Council.</p> <ul style="list-style-type: none"> • City staff has continued to improve budget reporting to City Council and now provides expanded quarterly updates that are presented at City Council meetings that include a narrative and department updates and trends for both revenues and expenditures. The new Finance Director and staff will work to further improve these reports as the Council desires. • City Management and the Finance Director have implemented strict policies for department staff to monitor revenues and expenditures. The new Finance Director will continue to monitor and improve on these policies and procedures.
<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>The Administration Agrees with this Recommendation – 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>March 2022: This item is completed.</p>	<ul style="list-style-type: none"> • City Management and the Finance Director worked with department directors and documented assumptions and data resulting in department budgets that were included within the adopted FY 2021-22 budget. Directors presented their budgets directly to the City Council during the FY 2021-22 budget hearings. This has continued through the fiscal year including additional department presentations to the City Council prior to the mid-year budget adjustments. City Management and Finance continue to meet with directors regularly to review progress.



<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>The Administration Agrees with this Recommendation – 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>	<ul style="list-style-type: none"> • City staff has continued to improve budget reporting to City Council and now provides expanded quarterly updates that are presented at City Council meetings that include a narrative and department updates and trends for both revenues and expenditures. The new Finance Director and staff will work to further improve these reports as the Council desires. Completed. • City staff has researched financial policies and continues to work with the Financial Advisory Board and City Council to determine any recommended updates to the Comprehensive Financial Policies that will ensure transparent and consistent reporting, including department information and accountability. The FAB has had discussions on this item at their monthly meetings and desires to work with the new Finance Director on any proposed changes to the policies. Estimated completion: FY 2021-22. Responsible staff: Finance Department/City Management.
<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>The Administration Agrees with this Recommendation – The City Council has directed staff to provide monthly and now quarterly financial reports, which 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>March 2022: This item is completed.</p>	<ul style="list-style-type: none"> • The City provided a monthly General Fund report to the City Council since 2020, and during FY 2021-22 improved and expanded the report to include a narrative and department trends and information, which is now provided quarterly.
<p>5. To ensure that departments do not exceed their budgeted</p>	<p>The Administration Agrees with this Recommendation -- The</p>	<ul style="list-style-type: none"> • City Management and the Finance Director have implemented policies



<p>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>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 to ensure there are adequate funds before submitting payment requests to Finance, and/or submit a budget transfer request to Finance moving funds where available to cover the expense.</p> <p>March 2022: This item is completed.</p>	<p>for departments to monitor revenues and expenditures and hold staff accountable. Budget performance will be noted in future department director evaluations. Finance staff have been directed to and are returning payment requests to departments not in compliance with these policies and procedures and will report any discrepancies to the Finance Director or City Manager. Departments are being monitored by City Management to ensure appropriate spending within departments as well as compliance with the current financial policy to ensure spending authority by fund is not exceeded. As a result, General Fund expenditures came in under budget as of year-end FY 2021-22.</p> <ul style="list-style-type: none"> • City Management is now in the process of restructuring of the Finance Department. The Finance Supervisor retired as of September 30, 2021 and the Finance Director left employment as of October 15, 2021. A new Finance Director was hired and began her position on March 1, 2022 and is evaluating staff and their functions as well as assessing the department's needs and workflow. A budget manager or financial analyst position is being considered that will specifically focus on budgeting and financial analysis for the City; in the interim the department will continue to work with Management Partners and other consultants to assist with financial analysis.
--	--	---



**High Risk Issue #3
Fiscal Recovery Plan**

Overview: The City will develop and implement a Fiscal Recovery Plan that will focus on financial sustainability and accountability.

High Risk Area #3 - State Auditor Recommendations	Response	Corrective Action March 2022
<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>The Administration Agrees with this Recommendation – 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>	<ul style="list-style-type: none"> • The City Council met on August 31, 2021 and held a study session facilitated by local government consultant Management Partners to discuss the City’s short-term recovery and long-term financial sustainability. The Fiscal Recovery and Sustainability Plan (attached in draft form) is continuing to be developed and is expected to be adopted by the City Council in the coming months, likely during the upcoming budget process. This process has been delayed by the severe understaffing of the Finance Department due to the departure of the Finance Director and Finance Supervisor as well as continuing challenges to citywide staffing due to COVID-19 including the omicron surge beginning in late 2021. However, it should be noted that many of the items within the plan are being implemented and will be reviewed and updated for the FY 2022-23 budget process in consultation with the new Finance Director and City Council. Estimated completion: July 2022. Responsible staff: City Management.



**High Risk Issue # 4
Reducing Costs**

Overview: The City will work to ensure that expenses, particularly in personnel, are at appropriate levels within the City's resources while allowing the City to recruit and retain a talented staff to provide services. City management will work with all bargaining units to ensure fair and reasonable compensation that is consistent with ensuring the financial sustainability of the City.

High Risk Area #4 - State Auditor Recommendations	Response	Corrective Action
<p>1. To identify potential savings and efficiencies, El Cerrito should perform the following tasks:</p> <ul style="list-style-type: none"> ○ 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 cities. Based on the results of this study, implement personnel and salary changes that 	<p>The Administration Agrees with this Recommendation - 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>	<ul style="list-style-type: none"> ● Staff has issued an RFP on February 3, 2022 and has received three responses at the closing date of March 11, 2022. As expected, costs are in the range of \$100K and above, with timelines of several months to complete the study. Staff are currently reviewing the proposals and will provide options to the City Council including whether or not to make budget amendments necessary to fund the study, or if the study should wait until the following fiscal year. Estimated completion: FY 2022-23. Responsible staff: Human Resources/City Management.



<p>would result in ongoing cost reductions</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>The Administration Agrees with this Recommendation - The Administration would study management compensation as part of the classification and compensation study recommended by the State Auditor.</p> <p>In 2020, the Administration suspended this practice for Management & Confidential employees and will consider eliminating this when the Management & 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>	<ul style="list-style-type: none"> This practice has been indefinitely suspended for the Management and Confidential group, with a permanent change to be considered pending the completion of a classification/compensation study that will help determine the appropriate compensation system structure. This study may also be used as a basis for discussions on compensation during future negotiations with the PSMA. <p>Estimated completion: FY 2022-23. Responsible staff: Human Resources/City Management.</p>
<p>3. Based on the results of its comprehensive analysis, El Cerrito should do the following:</p> <ul style="list-style-type: none"> o 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 	<p>The Administration Partially Agrees with this Recommendation – 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</p>	<ul style="list-style-type: none"> The City has frozen salary increases for Management/Confidential since FY 2019-20 and FY 2021-22. Because this group has not had any increases in two fiscal years, based on discussions with local colleagues the salaries for this group are expected to be well behind the market of comparable cities at this time. The PSMA bargaining unit declined to defer their salary increases for FY 2021-22, however two of the units within PSMA (Police Chief and Fire Chief) agreed to



<p>should not agree to additional salary increases until those positions' salaries are in line with salaries in comparable cities</p> <ul style="list-style-type: none"> o Seek to eliminate or consolidate positions that have overlapping responsibilities 	<p>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>March 2022: This item is completed.</p>	<p>increase their CalPERS contribution by 2%.</p> <ul style="list-style-type: none"> • Staff will consider conducting updated salary/benefits surveys for positions within the Management group to confirm that compensation is within the market of comparable cities/agencies; however due to limited staff resources this has not taken place at this time. • Considering the layoffs that have been implemented and vacancies throughout the organization, at this time there are no positions that have overlapping responsibilities; the management/confidential positions have had to take on the work of vacant/eliminated positions in order to continue to provide services to the public.
<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>The Administration Partially Agrees with this Recommendation – 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. 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>	<ul style="list-style-type: none"> • City Management worked with Local 1230, who represents Fire Department employees, to discuss the City's current financial situation and this recommendation during the FY 2021-22 budget process. Local 1230 declined to defer their salary increases for FY 2021-22. The current MOU expires in June 2022 and City Management will work with the City Council with respect to its direction and authority during negotiations for the next MOU. Estimated completion: 2022. Responsible staff: Human Resources/City Management.



<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"> ○ 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 to 80 hours over 14 days. 	<p>The Administration Partially Agrees with this Recommendation – 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. 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>	<ul style="list-style-type: none"> ● City Management worked with the El Cerrito Police Employees Association (PEA), who represents Police Department employees, to discuss the City's current financial situation and this recommendation during the FY 2021-22 budget process. PEA declined to defer their salary increases for FY 2021-22. The current MOU expires in June 2024. Estimated completion: unknown. Responsible staff: Human Resources/City Management.
<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>The Administration Does Not Agree with this Recommendation – The Administration would study public safety personnel costs as part of the classification and compensation study recommended by the State Auditor. Per conversations with the State Auditor, the intent of this recommendation was for the City to "receive a cost</p>	<ul style="list-style-type: none"> ● The City Council discussed this during their study session in August 2021 and did not direct staff to perform such an analysis at this time. The Council remains interested in the results of the classification/compensation study that will be conducted to inform their discussions on these departments, however the Council is not currently considering contracting out for public safety services.



	<p>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 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.</p>	
--	--	--



**High Risk Issue # 5
Increasing Revenues**

Overview: The City continues to explore all opportunities for increasing revenues through various fees within all departments, in addition to the recommendations listed. The Master Fee Schedule for FY 2021-22 is currently being developed for City Council approval in May 2021, where increases will be reviewed and considered. City staff also continuously seeks and utilizes grant opportunities to supplement revenues.

High Risk Area #5 State Auditor Recommendations	Response	Corrective Action March 2022
<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"> ○ 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 	<p>The Administration Agrees with this Recommendation – 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>	<ul style="list-style-type: none"> ● As of FY 2021-22 Master Fee Schedule, fees were increased on certain categories including drop-in swim; passes do have a resident/non-resident pricing structure. ● The Master Fee Schedule includes a holiday surcharge for when the swim center is open on a holiday, and on those days only drop-ins are accepted (no passes) that includes the holiday surcharge with both resident and non-resident prices. ● Staff will conduct an analysis on swim center demand and cost recovery once normal operations resume and a typical season can be conducted. Since the pandemic is ongoing, the date of completion cannot be estimated at this time. ● Staff will again review current and projected costs for the upcoming FY 2022-23 Master Fee Schedule process, so that incremental cost increases will be considered. Estimated completion: to be determined. Responsible staff: Recreation Department.
<p>2. To more fully recover costs for its senior services, the city should do the following:</p> <ul style="list-style-type: none"> ○ By August 2021, assess free and low-fee senior activities and prepare an analysis for the city 	<p>The Administration Agrees with this Recommendation – The Administration plans to conduct an analysis during normal conditions (not during the current pandemic) to appropriately understand the</p>	<ul style="list-style-type: none"> ● Senior services are beginning to be reinstated and staff has consolidated staffing and services that are now offered at the Community Center; because staffing has been reduced this has in turn has reduced expenses. Currently the classes that are being



<p>council that includes a plan for recovering the full cost of these activities</p> <ul style="list-style-type: none"> ○ Continue to seek opportunities to sublease its modular buildings and move senior activities to the city-owned community center or clubhouses 	<p>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 most vulnerable residents, most of whom are on fixed incomes. 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>offered in this division are at the department’s normal cost recovery share structure and not at the free or low-fee level.</p> <ul style="list-style-type: none"> ● Staff will conduct an analysis on demand for senior services once normal operations resume and a typical operation can be conducted. Since the pandemic is ongoing, the date of completion cannot be estimated at this time. ● Staff will again review current and projected costs for the upcoming FY 2022-23 Master Fee Schedule process, so that incremental cost increases will be considered. Estimated completion: to be determined. Responsible staff: Recreation Department. ● Staff is currently in negotiations with the Kensington Police Protection and Community Services District for subleasing one of the modular buildings for the District’s temporary use, which will offset part of the City’s monthly charges. Details including costs and length of use are still being discussed at this time. If successful, the likely timing that the District would begin using the space and offsetting City costs would be Summer 2022. Estimated completion: FY 2022-23. Responsible staff: Recreation Department/City Management.
<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"> ○ Determine whether it can renegotiate its contract with Contra Costa County 	<p>The Administration Agrees with this Recommendation – 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. Regarding additional revenue opportunities, the Administration is currently</p>	<ul style="list-style-type: none"> ● Staff has conducted preliminary research regarding increasing emergency fees and will provide information to the City Council in April, and upon direction will initiate further analysis. This item has been delayed due to staffing challenges resulting from vacant Battalion Chief positions that have just recently been filled. Estimated completion: July 2022. Responsible staff: Fire Department/City Management.



<ul style="list-style-type: none">○ 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	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.	
--	--	--