



September 16, 2021

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

Dear Ms. Howle:

This letter represents 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 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 May 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 in as noted in the matrix.

As previously reported, the City Council appointed a subcommittee of Councilmembers Lisa Motoyama and Tessa Rudnick to work 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.

Since the submittal of the CAP in May 2021, the City has made significant 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. Notably, the City finished Fiscal Year 2020-21 meeting its expenditure targets and exceeding revenue targets, showing an unaudited General Fund surplus of over \$2 million. It should also be noted that this surplus *does not include* American Rescue Plan Act (ARPA) funding. The surplus, which is targeted for the City's General Fund Reserve, is a direct result of expenditure cuts, careful budget monitoring, and conservative revenue estimates.

The City Council committed to the creation of a Fiscal Recovery Plan and has initiated 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. The Plan is under development and will continue to be reviewed by the Council for approval in the next two months. Once approved, the City will forward this Plan to the State Auditor.



The City Council has continued to review the City's budget and financial condition through continued policy discussions and monthly updates at their regular City Council meetings. The City adopted its FY 2021-22 Budget in June 2021 reflecting the short- and long-term budget strategies and City Council direction. City staff has 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 hopes that this CAP Progress Report serves to satisfy the identified risk areas and that the State Auditor agrees that the City has indeed made significant progress in improving its financial condition. Should there be any issues that are still pending that the City is required to report, the City shall plan to do so at the next six-month mark in March 2022.

Respectfully,

A handwritten signature in blue ink that reads "Karen E. Pinkos". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

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



**CITY OF EL CERRITO
CORRECTIVE ACTION PLAN – STATE AUDIT 2020-803
Progress Report: September 16, 2021**

EXECUTIVE SUMMARY

Overview of High Risk Areas from May 2021
City Update as of September 2021

Continual Diminishing of Financial Reserves Through Overspending	
<p>California State Auditor's Assessment Status: Pending</p>	<p>Although El Cerrito describes certain actions it has taken to address its financial condition, the city will likely need to reduce its overspending during the next several years to replenish its reserves. In its fiscal year 2019–20 audited financial statements, El Cerrito reported that general fund expenditures exceeded revenue by \$71,000 during that year and that its general fund reserves continue to be negative by \$1.8 million at the end of the fiscal year. Based on financial data through February 2021, El Cerrito estimated that it would end fiscal year 2020–21 with \$633,000 more in revenue than expenditures in its general fund. However, such a surplus would offset only a portion of its negative reserves.</p> <p>El Cerrito states that it expects to receive \$4.8 million in funding from the federal American Rescue Plan Act and plans to use those proceeds to address its negative reserves, although it acknowledges that regulations for these funds are still pending. The city subsequently informed us of its understanding that such regulations will likely require it to spend these funds by December 2024 but may enable the city to use other funding sources to replenish its reserves.</p> <p>The status of El Cerrito's financial condition is contingent on the city's ability to develop a fiscally prudent spending plan as part of its fiscal year 2021–22 budget. City management has taken some action thus far to involve the community in the development of the budget, which will assist in its efforts to manage its spending.</p>
<p>City Update September 2021: The City has addressed this risk area by making substantial 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's unaudited ending year totals reflects over \$2 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.</p>	



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, will be allocated to eligible expenditures for FY 2020-21, intended to further improve the amount of General Fund balance. The City is working with our independent auditor Badawi & Associates and consultant Management Partners to ensure appropriate ARPA spending and reporting.

The FY 2020-21 audit is underway, and, depending upon completed audited actuals, expects that the General Fund surplus plus ARPA funding will result in a General Fund balance of approximately \$4 million, meeting the City's General Fund minimum reserve target of 10%.

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, the City hopes to avoid the need for 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. The City Council continues to monitor and receive budget updates and will provide continuous direction to staff, particularly with respect to allocating the second ARPA payment of \$3.1 million, and will also reassess the FY 2021-22 budget at midyear and make adjustments as necessary.

Ineffective Budget Development and Monitoring Practices

California State Auditor's Assessment Status:
Pending

El Cerrito has taken some action to improve its budget development and monitoring, but it will need to fully address our report's recommendations to ensure that its budget practices effectively oversee citywide spending. After we issued our audit report, El Cerrito implemented a new policy requiring departments to ensure that they have specific budget authority by type of expenditure before spending city resources. The change in policy was designed to address the concern we identified about overriding budgetary safeguards in the city's financial accounting system. El Cerrito provided examples of emails to city departments reminding them of this policy, as well as documentation of an instance when its finance department rejected a spending request by a department that did not have sufficient budget authority.

El Cerrito also implemented a procedure to improve its budget development process. To provide more detail for its fiscal year 2021–22 budget, the city now requires departments to complete a standard form justifying expenditures of more than \$10,000 that are included in the budget.



	<p>To assist with its budget development and monitoring, El Cerrito prepared a five-year financial forecast in March 2021 after our audit's completion. This forecast includes options for permanent citywide spending reductions of \$1 million and \$2 million, which will help the city identify the amount and timing of specific expenditure reductions it will need to make. However, the city may still need to consider making additional spending reductions. Even if El Cerrito can achieve a \$2 million reduction in spending in fiscal year 2021–22, the city stills projects to spend more than its revenue in fiscal years 2023–24 and 2024–25.</p> <p>Despite the progress it has made, El Cerrito acknowledges that there are several recommendations from our audit that it is in the process of addressing. For instance, one of the critical budgeting practices we identified is the need to track and present financial information by individual department. The city council could use such information to hold departments responsible for their spending. El Cerrito states that it will research the issue and potentially make this change during fiscal year 2021–22.</p> <p>Further, El Cerrito states that it complies with certain Government Finance Officers Association (GFOA) best practices. However, the city did not provide evidence during the audit of complying with such policies. Our audit identified that El Cerrito does not adhere to many GFOA best practices pertaining to budget development and monitoring. As we state in our report, 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, thereby limiting the ability of the city council to determine the appropriateness of its spending.</p>
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City Update September 2021: 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 monthly reporting to City Council to include department updates and trends. Staff will present these updated reports to the Council beginning in October/November that will provide the information starting from July 2021. City Management and the Finance Director have continued to implement stricter policies for department staff to monitor revenues and expenditures. City staff is researching financial



policies and working with the Financial Advisory Board and City Council to determine any recommended updates to the current Comprehensive Financial Polices as adopted by City Council policy that would change from the current policy of budgeting by fund.

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. As of September 2021 the preliminary, unaudited actuals show that all funds (including departments) met their targets for FY 2020-21. Additionally, the City Council passed a motion directing staff to set a goal of one million dollars minimum surplus funds annually moving forward, at the recommendation of the Financial Advisory Board (FAB).

City Management and the Finance Director have initiated a restructuring of the Finance Department. The incumbent Finance Supervisor will be retired as of September 30, and the position is proposed to be replaced by a Budget Manager position that will 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. This is expected to be presented to the City Council for approval in October, and staff will seek to fill this position by the end of the calendar year.

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. This model will continue to be updated with information and shared with the Council during the fiscal year and will be utilized for future budget processes.

Lack of Formal Financial Recovery Plan

California State Auditor's Assessment Status: Pending	El Cerrito states that it is working on its fiscal recovery plan to include the elements we described in our report, and it anticipates completing the plan in the summer of 2021. We look forward to reviewing the city's fiscal recovery plan after its completion.
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City Update September 2021: 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 Plan is currently in development and is expected to be adopted by the City Council within the next two months.

Insufficient Reductions In Ongoing Costs

California State Auditor's
Assessment Status:
Pending

We are concerned that El Cerrito's corrective action plan does not identify a targeted approach to reduce its spending. El Cerrito's five-year forecast noted the need to make significant reductions in spending starting with its fiscal year 2021–22 budget but did not outline how it planned to do so. In response to our cost-reduction recommendations, El Cerrito indicated that it is unlikely that it will complete a salary and compensation study until fiscal year 2022–23. As we acknowledge in our audit report, any effort by the city to revise its salary costs will involve negotiations with its employee unions. In March 2021, El Cerrito sent letters to its labor unions requesting to meet and discuss the city's financial challenges. However, to fully engage in salary negotiations, the city will need information from a compensation study to substantiate any proposed revisions to the compensation for its employees. Moreover, the city could consider contracting certain city services as we recommended. Despite initially disagreeing with this recommendation, the city now states in its corrective action plan that it will explore this option with the city council and the community.

In its corrective action plan, El Cerrito reiterates its belief that it is limited in its ability to conduct a compensation study. Although the city expressed concern regarding the cost of a study, it did not address other key actions we recommended that it perform beforehand, such as analyzing its organizational structure and the functions it needs to achieve its goals and analyzing 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 about the initial cost of conducting a compensation study does not acknowledge 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. By not conducting a compensation study and related analyses, El Cerrito is limiting its ability to reduce its spending.

Another example of an area that El Cerrito has not demonstrated its commitment to managing its spending pertains to salary increases for its management positions. Our audit described a process that the city used to authorize or agree to salary increases for certain management employees that exceeded the threshold established in the city's salary schedules. El Cerrito's response to the audit stated that the city had suspended the process for 2020 and would consider eliminating the process later in fiscal year 2020–21. However, El Cerrito now states in its corrective action plan that it will not consider permanently eliminating the process until the completion of a compensation study. The city manager stated 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.

Furthermore, El Cerrito's corrective action plan reiterates its initial response to the audit that it eliminated cost of living increases. However, this statement 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 such salary increases for subsequent years as we describe in our audit report. 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. El Cerrito stated that it will freeze salaries during fiscal year 2021–22 for management employees not represented by an employee union, but it is unclear how long the city can continue to defer pay increases for that group.

City Update September 2021: The City Council has expressed interest in completing a comprehensive classification and compensation study, and the scope of work will include assessments of the functions and staffing of the organization with the intention of providing detailed information on the organization, staffing, and comparative compensation levels to the staff and the Council. This study will inform any further organizational assessment to evaluate staffing needs and opportunities. Staff still intends to issue an RFQ/RFP by the end of calendar year 2021. Based on the cost, staff will then determine with the City Council if funding is available, if budget amendments



would be necessary to fund the study, or if the study should wait until the following fiscal year. It is not likely that this study will be completed in FY 2021-22.

The practice of salary increases for Management and Confidential (unrepresented) employees that exceed the control point has been indefinitely suspended, as the City has frozen salary increases for Management/Confidential since FY 2019-20 and has continued to do so through 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. Any permanent change to the compensation system that determines salaries would be considered pending the completion of a classification/compensation study and discussed with the City Council.

As previously indicated, other salary increases for FY 2021-22 were obligated per closed contracts for all represented employees within bargaining units. City Management worked with Local 1230 (representing Fire Department employees), the El Cerrito Police Employees Association (representing Police Department employees), SEIU (representing miscellaneous employees), and the Public Safety Management Association (representing Public Safety Management) to discuss the City’s current financial situation and asked them to defer their COLAs that are included in their closed contracts for FY 2021-22. All represented bargaining units declined to defer their salary increases for FY 2021-22.

However, two of the units within PSMA (Police Chief and Fire Chief) agreed to increase their CalPERS contribution by 2% for a total of 14%. The current MOUs for Local 1230 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.

The City Council discussed the recommendation to consider contracting out for Police and Fire services during their study session on August 31, 2021 and did not direct staff to perform an analysis for contracting out services at this time. Public Safety has historically been the highest priority and concern of residents of the City. The Council determined that they were not interested in pursuing a contract for police services; and while the Council discussed evaluating options for fire services, they also recognized the complications involved because the Kensington Fire Protection District contracts with the City for fire services. The City 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 with another agency for public safety services.

Missed Opportunities to Increase Revenue

<p>California State Auditor's Assessment Status: Pending</p>	<p>Although El Cerrito updated some fees for its swim center and senior services, it plans to conduct an analysis of demand and cost recovery as conditions relating to the COVID-19 pandemic are more stable. In May 2021, El Cerrito updated swim center fees and senior</p>
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	<p>services fees in its master fee schedule. It increased many of its fees for its swim center by 2 to 10 percent, although those increases do not take effect until September 2021. For its senior services, the city increased the fee by \$1 for some of its services. While these fee increases are likely to result in greater revenue for the city, El Cerrito still has additional opportunities to increase its revenue.</p>
<p>City Update September 2021: • 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. Staff will conduct an analysis on swim center demand, on senior services 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. Other revenue opportunities, including grant funding, are continuously being sought out by staff and will continue to work with the City Council on any opportunities for increasing fees for services.</p>	



**CITY OF EL CERRITO
CORRECTIVE ACTION PLAN – STATE AUDIT 2020-803
Progress Report: September 16, 2021**

High Risk Issue # 1 Financial Condition and General Fund Reserves		
<p>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.</p>		
High Risk Area #1 - State Auditor Recommendations	Response May 2021	Corrective Action Updated: September 2021
<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>	<ul style="list-style-type: none"> • The City’s unaudited ending year totals reflects over \$2 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. Completed for FY 2020-21, and ongoing. • 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, will be allocated to eligible expenditures for FY 2020-21, intended to further improve the amount of General Fund balance. The City is working with our independent auditor Badawi & Associates and consultant Management Partners to ensure appropriate ARPA spending and reporting. Estimated Completion: FY 2021-22 and ongoing. Responsible staff: City Management/Finance Department.



		<ul style="list-style-type: none"> • The FY 2020-21 audit is underway, and, depending upon completed audited actuals, expects that the General Fund surplus plus ARPA funding will result in a General Fund balance of approximately \$4 million, meeting the City’s General Fund minimum reserve target of 10%. Completed. Responsible staff: City Management/Finance Department. • 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, the City hopes to avoid the need for a TRAN for FY 2022-23. Completed for FY 2021-22, and ongoing. Responsible staff: Finance Department/City Management. • The City Council passed a motion directing staff to set a goal of one million dollars minimum surplus funds annually moving forward, at the recommendation of the Financial Advisory Board (FAB). Estimated Completion: FY 2022-23 and ongoing. • 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. Completed (May 2021).
<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</p>	<p>The Administration Agrees with this Recommendation – As a first step, the Administration has been focused on building its reserve levels. Establishing a Section 115 Trust would be an extension of those efforts. The Administration intends to work</p>	<ul style="list-style-type: none"> • The City Council has directed City staff to establish a Section 115 Trust. Staff is now researching vendors and a recommended funding policy for the City Council’s consideration. Financial policies are also slated to be discussed by the City’s Financial Advisory Board in the



<p>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>with the City Council to recommend establishing a Section 115 Trust or consider other methods to fund CalPERS obligations.</p>	<p>coming months. Estimated completion: FY 2022-23. Responsible staff: City Management/Finance Department/Human Resources.</p> <ul style="list-style-type: none"> • The City Council directed staff to work with all employee bargaining units to negotiate increased contributions to CalPERS. The Management/Confidential group (which is unrepresented), the Fire Chief, and the Police Chief are now contributing an additional 2% as of FY 2021-22. Estimated completion: to be determined. Responsible staff: City Management/Human Resources.
<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>	<ul style="list-style-type: none"> • City staff is working with the City’s benefits broker to determine the cost impact of retirees on the healthcare plan and will implement fees to recover the cost. Estimated completion: FY 2021-22. Responsible staff: Human Resources/City Management.



**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 Updated: September 2021
<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>	<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 for FY 2021-22 staff worked with our tax consultants and department directors to provide a five-year General Fund projection that was presented to the City Council and included in the FY 2021-22 budget document. Completed. Responsible staff: Finance Department/City Management. ● Following the adoption of the FY 2021-22 budget and the receipt of ARPA funding, staff and the City Council has worked with Management Partners to develop a ten-year General Fund projection model. This was discussed with the City Council at their study session in August 2021 and will continue to be updated with information. The ten-year projection will be shared in detail with the Council as the Fiscal Recovery and Sustainability Plan is completed, and during the fiscal year. Completed for FY 2021-22, ongoing. Responsible staff: Finance Department/City Management. ● City staff has worked with the City Council subcommittee to improve



		<p>monthly reporting to City Council, which started in September 2020 at the request of Council, to include department updates and trends. Staff will present these updated reports to the Council beginning in October/November. Estimated completion: In progress, October/November 2021.</p> <p>Responsible staff: Finance Department/City Management.</p> <ul style="list-style-type: none"> • City Management and the Finance Director have implemented stricter policies for department staff to monitor revenues and expenditures. Completed (May 2021).
<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>	<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. City Management and Finance continue to meet with directors regularly to review progress. Completed. <p>Responsible staff: City Management/Finance.</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</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</p>	<ul style="list-style-type: none"> • City staff has worked with the City Council subcommittee to improve monthly reporting to City Council to include department updates and trends. Staff will present these updated reports to the Council beginning in October/November. Estimated completion: In progress, October/November 2021. • City staff is researching financial policies and working with the Financial Advisory Board and City Council to determine any



<p>should also prepare and provide supporting documentation to justify any budget increases.</p>	<p>provided to the City Council will provide justification by Department (including revenues, expenditures, and adjustments).</p>	<p>recommended updates to the policy that would change from the current policy of budgeting by fund. Estimated completion: FY 2021-22. Responsible staff: Finance Department/City Management.</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>The Administration Agrees with this Recommendation – 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>	<ul style="list-style-type: none"> • The City has provided a monthly General Fund report to the City Council since 2020, and is working to improve this monthly reporting to include department updates and trends. Estimated completion: October/November 2021. Responsible staff: Finance Department/City Management.
<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>The Administration Agrees with this Recommendation -- 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 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>	<ul style="list-style-type: none"> • City Management and the Finance Director have implemented policies 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 return payment requests to departments not in compliance and report discrepancies to the Finance Director. 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. Completed. (May 2021) Note: As of September 2021 the preliminary, unaudited actuals show that all funds met their targets for FY 2020-21. • City Management and the Finance Director have initiated a restructuring of functions in the Finance Department. The incumbent Finance Supervisor will be retired as of September 30, and the position is



		<p>proposed to be replaced by a Budget Manager position that will 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. This classification is being developed and is expected to be presented to the City Council for approval in October, and staff will seek to fill this position by the end of the calendar year.</p> <p>Expected Completion: December 2021.</p>
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**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 Updated: September 2021
<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 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 Plan is currently in development and is expected to be adopted by the City Council in the coming months. Estimated completion: December 2021. 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 Updated: September 2021
<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 	<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"> ● The City Council has expressed interest in completing a comprehensive classification and compensation study, and the scope of work will include assessments of the functions and staffing of the organization with the intention of providing detailed information on the organization, staffing, and comparative compensation levels to the staff and the Council. This study will inform any further organizational assessment to evaluate staffing needs and opportunities. Staff still intends to issue an RFQ/RFP by the end of calendar year 2021. Based on the cost, staff will then determine with the City Council if funding is available, if budget amendments would be necessary to fund the study, or if the study should wait until the following fiscal year. It is not likely that this study will be completed in FY 2021-22. Estimated completion: FY 2022-23. Responsible staff: Human Resources/City Management. ● As previously mentioned, City Management and the Finance Director has initiated a restructuring of functions in the Finance Department. The incumbent Finance Supervisor will be retired as of September 30, and the position is proposed to be replaced by



<p>and salary changes that would result in ongoing cost reductions</p>		<p>a Budget Manager position that will 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. This classification is being developed and is expected to be presented to the City Council for approval in October, and staff will seek to fill this position by the end of the calendar year. Estimated Completion: December 2021.</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. 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 (unrepresented) group, with a permanent change to be considered pending the completion of a classification/compensation study. This study may also be used as a basis for discussions on compensation during future negotiations with the PSMA. Estimated completion: FY 2022-23. Responsible staff: Human Resources/City Management.



<p>3. Based on the results of its comprehensive analysis, El Cerrito should do the following:</p> <ul style="list-style-type: none"> ○ 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 ○ Seek to eliminate or consolidate positions that have overlapping responsibilities 	<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 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>	<ul style="list-style-type: none"> ● The City has frozen salary increases for Management/Confidential since FY 2019-20 and has continued to do so through FY 2021-22. City Management worked with PSMA to discuss deferring their COLAs per their closed contracts for FY 2021-22, and PSMA declined to defer their salary increases for FY 2021-22. However, two of the units within PSMA (Police Chief and Fire Chief) agreed to increase their CalPERS contribution by 2%. Completed for FY 2021-22 and ongoing. Responsible staff: City Management. ● 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 will likely not take place until at least the end of calendar year 2021. Estimated completion: FY 2021-22.
<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</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>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>	
<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</p>	<p>The Administration Does Not Agree with this Recommendation – The Administration would study public safety personnel costs as part of the classification</p>	<ul style="list-style-type: none"> ● Public Safety has been the highest priority and concern of residents of the City. 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.



<p>contract with nearby fire or police departments for services.</p>	<p>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 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>	<p>The Council determined that they were not interested in pursuing a contract for police services; and while the Council discussed evaluating options for fire services, they also recognized the complications involved because the Kensington Fire Protection District contracts with the City for fire services. The Council remains interested in the results of the classification/compensation study that will be conducted to inform future discussions on the Fire Department, as well as the entire organization however the Council is not currently considering contracting out for public safety services.</p> <p>Completed. Responsible staff: City Management.</p>
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**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. City staff also continuously seeks and utilizes grant opportunities to supplement revenues.

High Risk Area #5 State Auditor Recommendations	Response	Corrective Action Updated: September 2021
<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"> ● Recreation staff assessed various fees for the swim center, and increased fees were included in the Master Fee Schedule approved by the City Council in May 2021. 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. 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"> ● Recreation staff assessed various fees for senior services, and increased fees were included in the Master Fee Schedule approved by the City Council in May 2021. Staff will conduct an analysis on future demand for senior services once normal operations



<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>resume and a typical operation can be conducted. Since the pandemic is ongoing, the date of completion cannot be estimated at this time. Estimated completion: to be determined. Responsible staff: Recreation Department.</p> <ul style="list-style-type: none"> ● Staff continues to explore subleasing the modular buildings, though due to the pandemic and lack of interest, it is more likely that the buildings will be removed once the lease expires in 2023. 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 ○ 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 	<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 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>	<ul style="list-style-type: none"> ● Staff is currently reviewing data and will provide information to the City Council regarding increasing emergency fees, and upon direction will initiate further analysis. Estimated completion: January 2022. Responsible staff: Fire Department/City Management.