



March 16, 2023

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

Dear State Auditor Parks:

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 continued 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 May 2021 and subsequent Progress Report Updates in September 2021, March 2022, and September 2022 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 has received comments on the City's September 2022 CAP Progress Report from the State Auditor team that were posted on March 3, 2023 and is pleased to note that the State Auditor has noted that two high risk areas are now designated as "Addressed," two high risk areas are noted as "Partially Addressed," with only one last risk area listed as "Pending." The City appreciates that the State Auditor agrees with the City that we have made progress in the designated areas, and this CAP Progress Report for March 2023 will provide updated information on the "Pending" area that demonstrates the continued progress of the City and its commitment to financial sustainability.

Since the submittal of the CAP Progress Report in September 2022, the City continues to make significant progress in the risk areas identified as well as on many of the recommendations contained within the original Report. As previously reported, the City Council passed a balanced budget for FY 2022-23, continued strategies to ensure fiscal sustainability, and diligently reviews and monitors the City's budget and financial condition. The City Council passed midyear budget adjustments on March 7, 2023 that showed the City's commitment to continuing services while maintaining a healthy General Fund Reserve, and reflects the continued improvements in revenue projections and strategically adjusted expenditures as the City continues to restore services suspended during the pandemic.

The Annual Comprehensive Financial Report for Fiscal Year 2021-22 will be presented to the City Council on March 21, 2023 and confirms that the City came in well below its expenditure targets and exceeded revenue targets, showing a General Fund surplus of approximately \$6.4 million. This surplus does *not include* the second tranche of American Rescue Plan Act (ARPA) funding of \$3.1 million and was a direct result of the continuing sustainability measures, careful budget monitoring, being strategic about hiring for new and vacant positions, and conservative revenue estimates. ARPA funding



was applied as revenue loss per the Final Rule from the U.S. Treasury, which results in a FY 2021-22 fund balance of \$9.5 million, placing the City's total General Fund reserve fund balance of \$16.6 million, which far exceeds the GFOA recommended guidelines for reserves and is in accordance with the City's Comprehensive Financial Policies. As previously noted, the City's previous independent auditor Badawi and Associates removed the "going concern" designation from the FY 2020-21 ACFR, reflecting the City's improved fund balance and position.

The City Council adopted its Fiscal Recovery Plan at its meeting of August 16, 2022. As previously stated, most elements included in the Plan are already being implemented or already completed, and there are significant improvements in all of the areas noted. The City is beginning the process of updating its Strategic Plan, kicking off the process by conducting and completing a community survey which will be presented to the City Council in April. The results of this survey will be considered in the FY 2023-24 budget process as well as provide data for the environmental scan and SWOT analysis for the Strategic Plan. To further connect with the community, the City will conduct additional outreach and focus groups to help develop goals and objectives in harmony with the Fiscal Recovery and Plan. The City remains committed to continuous improvement and continues to regularly report on our progress to the City Council.

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. At its meeting on September 20, the City Council updated the City's Comprehensive Financial Policy to require City Management to regularly provide budget reports to the City Council as a means to increase accountability. The City Council has chosen to receive reports quarterly, though the policy states that the Council may require more frequent reporting should they determine the need to do so. 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.

It should be noted that these accomplishments have happened in spite of the fact that the City is in recovery mode, remaining short-staffed following the layoffs of the previous fiscal years. Despite the City seeking to restore positions and services post-pandemic, the City finds that it has had serious difficulty in recruiting and retaining talented staff in every department. In fact, the recommendations listed for the risk area "Insufficient reductions in ongoing costs" are, in the City's opinion, out of date. The City did not increase salaries for FY 2020-21 (thanks to agreement from all bargaining units), and did not increase salaries for management and confidential personnel for a total of three fiscal years. The City's salaries are behind what other cities are offering for similar positions, and we expect that the classification and compensation study will show that the City's compensation is lower than the current job market, not above market as the original audit report speculated. This has also been reflected in the latest round of negotiations for our public safety bargaining units, as the vacancy rate and recruitment struggles for both the Police and Fire Departments have been concerning and required salary adjustments in order to be competitive with other agencies. Because of this, the City would request that the State Auditor take into account that much has changed since the original report was released and reconsider this risk area in our upcoming review.



The City is proud of the work that has been accomplished over the past two years within the identified risk areas and beyond. We appreciate the opportunity that the audit provided the City to enhance and improve our policies and procedures and address our structural financial issues. With my transition to City Manager beginning in 2019 and with our Finance Director completing her first year with the City, the audit report has provided us the ability to put the City on the road to fiscal sustainability and envision a bright future.

This March 2023 CAP Progress Report shows that the City has indeed made further 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. The City will also be providing a copy of this CAP Progress Report to the Chair and Vice Chair of the Joint Legislative Audit Committee, as well as our own state Assembly and Senate representatives, so that they are also aware of the progress that the City of El Cerrito has made in this State Audit process. 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 2023.

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 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

cc: El Cerrito City Council
Chair and Vice Chair, Joint Legislative Audit Committee
Assemblymember Buffy Wicks
Senator Nancy Skinner



CITY OF EL CERRITO
CORRECTIVE ACTION PLAN – STATE AUDIT 2020-803
Progress Report: March 16, 2023

EXECUTIVE SUMMARY

Overview of High Risk Areas
 City Update as of March 2023

| Continual Diminishing of Financial Reserves Through Overspending | |
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| <p>California State Auditor's Assessment Status: Partially Addressed</p> | <p>El Cerrito continues to make progress in improving its financial condition. As we noted in our review of the city's March 2022 update, El Cerrito's fiscal year 2020–21 audited financial statements reported a general fund reserve of \$7.1 million, or 19 percent of the city's general fund expenditures, and general fund revenues exceeded expenditures by \$6 million. For fiscal year 2021–22, the city reported in its unaudited financial statements that general fund revenues exceeded expenditures by \$8 million, thereby increasing its general fund reserve to \$15 million. Because of its improved financial position, El Cerrito discontinued its practice of short-term borrowing in fiscal year 2022–23.</p> <p>However, we continue to observe that two of the main drivers of El Cerrito's improvement are factors that it may not be able to rely on in the future, which could potentially reduce the reserve that it has built. First, the city's increase in revenue is largely attributed to an unexpectedly robust real estate market. According to the city's unaudited financial statements for fiscal year 2021–22, the city's real estate transfer tax generated \$4.9 million—28 percent more than budgeted and more than it recognized in the prior year. In contrast, the city's overall revenue was \$1 million more than budgeted, but \$2.5 million less than reported in the prior year. If the city's real estate market slows, the city may not be able to generate sufficient revenue to cover its expenses. 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. As we note in our audit report, El Cerrito's financial challenges occurred in large part because it did not adjust its spending to match its revenue. Moreover, recent federal assistance has significantly aided El Cerrito in increasing its financial reserves. The city received \$6.2 million through the American Rescue Plan Act, which it has used to supplement its reserves. This federal funding represents approximately 40 percent of the city's reserve balance. However, El Cerrito cannot expect continued federal funding beyond this</p> |



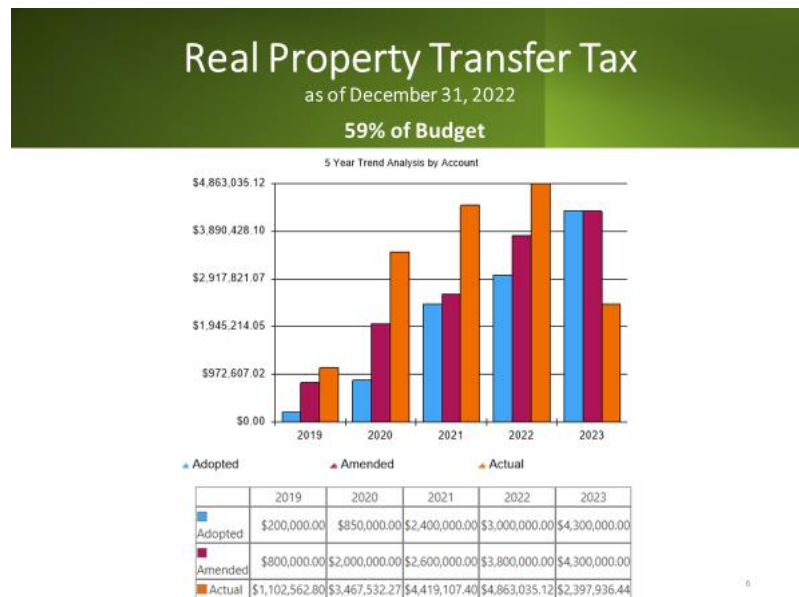
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| | <p>allocation and will need to ensure that it can maintain its reserves using its own financial resources.</p> <p>Although El Cerrito passed a balanced budget for its general fund for fiscal year 2022–23, it will need to continue to monitor and reassess its spending throughout the year. The budget projects general fund revenue of \$45.7 million compared to expenses of \$44.9 million, resulting in a slight surplus of \$812,000. In addition, El Cerrito chose to budget \$460,000 from its reserve for one-time expenses for contracted studies, such as the classification and compensation study it references in its update. Because of the slim margin in its surplus, the city will need to monitor its spending closely so that it can react quickly in the event that conditions change. For example, even though the city’s budget took into account recent salary increases for some of its employees, it is currently in negotiations with the fire department employee union. Salary increases for that group of employees could lead to expenditures outpacing revenues, particularly if the city fails to closely monitor its financial condition.</p> <p>Moreover, El Cerrito has taken some initial steps to address its pension costs. As part of an agreement with a union representing various employees who are not public safety employees, these individuals will begin paying 0.5 percent more towards their pension costs. The city expects this change will result in cost savings of \$14,000 annually. However, public safety employees have not yet agreed to any pension-related changes. El Cerrito also indicates that it will be seeking the services of a vendor to establish and administer a Section 115 trust that can be used to pre-fund pension costs. It plans to meet to finalize this strategy in September 2022 and will solicit providers in October 2022.</p> |
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City Update March 2023: The City has continued to address this risk area by making substantial and measurable improvements to its financial condition. The City has completed its year-end closing process and will be presenting the FY 2021-22 Annual Comprehensive Financial Report (ACFR) to the City Council at its meeting on March 21. The year-end actuals reflect an approximate \$6.4 million surplus in the General Fund not including American Rescue Plan Act (ARPA) funding; with the allocation of the ARPA funding to FY 2021-22 the ending General Fund balance for FY 2021-22 is \$9.5 million, exceeding the City Council’s direction from June 1, 2021 to target a \$1 million surplus each fiscal year. This will result in a total General Fund reserve of approximately \$16.6 million, well exceeding the GFOA recommended reserve target of 17% and the City’s General Fund minimum reserve target of 10%. The City came in below its expenditure targets and exceeded revenue targets. The surplus is targeted for General Fund Reserves, though as noted previously, the City Council and the Financial Advisory Board are considering funding sources for pension obligations in the coming months as well. The City’s independent auditor removed the “going concern” designation from the previous ACFR, reflecting the City’s improved fund balance and position. As previously reported, the



City was allocated \$6.2 million from ARPA and per the direction of the City Council, the second tranche of \$3.1 million was allocated to FY 2021-22 as with the first tranche in the previous fiscal year. Per the U.S. Treasury Final Rule, the ARPA funding is assigned as “revenue loss” to the City and allocated for general government services accordingly.

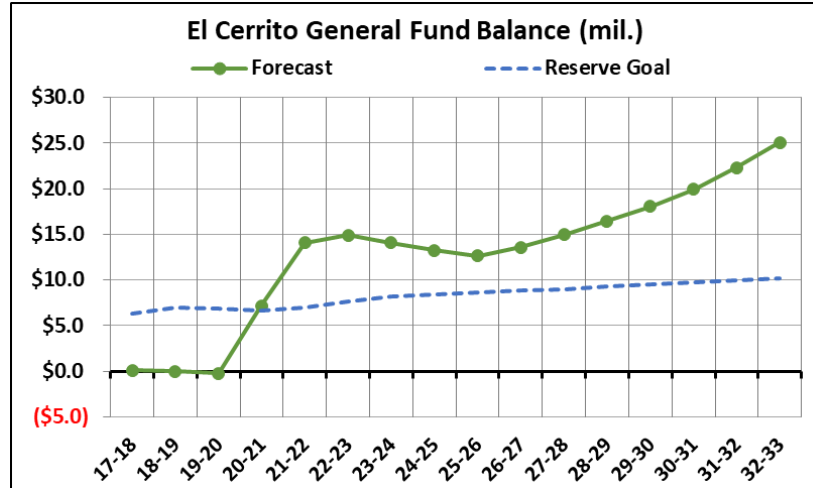
The FY 2022-23 budget, which used conservative revenue projections and implemented strategic non-personnel expenditure targets, is on target for both revenues and expenditures this fiscal year. Notably, the City’s tax consultants have observed that property and sales tax remain steady, and the Real Property Transfer Tax (RPTT) continues to perform well despite the real estate market slowdown as home prices have held in El Cerrito. As of 12/31/22, the RPTT was at 59% of budget as shown in the table below.



On September 20, 2022, the City Council modified its Comprehensive Financial Policies to confirm the requirement to provide budget updates to the City Council no less than quarterly, with more frequent reporting should the Council deem it necessary to monitor significant issues. The City Council continued to discuss and monitor the budget by receiving these quarterly budget updates including information on expenditures and revenues by departments and has provided continuous direction to staff, understanding the need to be thoughtful and strategic as the City restores services paused during the pandemic and considers improved service delivery. Now that the local emergency has ended, demand for services and retention of employees remain critical considerations for the City Council. As such, during the midyear budget presentation on March 7, 2023 budget considerations and impacts were presented to the City Council using the 10-year budget projection model as in previous fiscal years. An updated 10-year projection of the General Fund balance including the midyear adjustments was presented to the City Council, shown below, and allows the Council and the public to see that at this time we remain on the path to fiscal health and



sustainability that the City has committed to, while being mindful of potential changes in the economy that could require adjustments.



The City Council directed staff in June 2021 to pursue opening a Section 115 Trust to address pension obligations. City staff engaged NHA Financial Advisors and held a kickoff meeting with the City Council and Financial Advisory Board on September 27, 2022 to confirm the process for establishing the Section 115 Trust and review its current pension obligation numbers from CalPERS. Unfortunately, the Finance Department is facing a severe staffing shortage with the Senior Accountant leaving for a position in another city and an unexpected retirement of a Finance Technician, resulting in vacancies for four of the six positions in Finance. Staff has been actively recruiting and has filled two entry-level accounting positions, however the Senior Accountant and Budget Manager remain vacant after several months; all positions are currently being staffed with temporary employees and consultants in order to facilitate the day-to-day Finance duties and complete the ACFR. The ACFR will be presented to the City Council on March 21, 2023. Following the fiscal year budget process, a Request for Proposals (RFP) for administration of the Section 115 trust will be issued, targeted for the summer. However, City staff continues to work with the Financial Advisory Board to create specific financial policies for funding the Trust appropriately, including allocations of General Fund surplus funds. Though delayed due to staffing, we still expect that the Trust administrator will be chosen and the Trust and funding policies established by the end of the calendar year. The City Council is aware of the staffing shortage in Finance and has been kept apprised of developments as they continue to closely monitor the budget and the City’s financial position.

The City Council directed staff in April 2021 to negotiate with bargaining units to increase employee contributions to CalPERS. City staff has followed this direction during negotiations with all bargaining units. The City negotiated and on March 7, 2023 the City Council approved a Memorandum of Understanding (MOU) with Local 1230 (Fire) that included a provision for CalPERS "classic" employees to make an additional 1.0% contribution for a total of 13% contribution (both the Police and Fire unions had already been making at least a 3% contribution to pensions). All City of El Cerrito



employees are providing additional contributions to CalPERS above the standard employee contribution.

Additionally, the City received documentation from our actuary that because the City “unblended” the retiree medical premiums from the active premiums effective January 1, 2022, that they have concluded the implicit subsidy no longer exists under the City’s retiree healthcare plan. Thus there is no OPEB liability for ordinary retiree healthcare benefits for employees and retirees.

Lack of Formal Financial Recovery Plan

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| <p>California State Auditor's Assessment Status: Addressed</p> | <p>El Cerrito issued its Fiscal Recovery and Sustainability Plan in August 2022. The plan is organized by actions the city plans to take, and it identifies a lead staff member, a target date of completion, and an annual fiscal impact for each action. The plan is divided into actions the city council approved in August 2020, such as the elimination of the assistant to the city manager position, other actions identified by the city, and additional actions based on recommendations from our audit report. The plan provides a number of objectives for the city to improve its financial condition, along with information for the city council and public to hold the city accountable.</p> |
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City Update March 2023: The City is pleased that the State Auditor has designated this risk area as “Addressed.” The Fiscal Recovery and Sustainability Plan will move the City from its previous crisis response to a measured approach toward long term fiscal health. City staff will continue to work through the strategies in this Plan and will provide regular updates to the City Council and State Auditor.

Insufficient Reductions In Ongoing Costs

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| <p>California State Auditor's Assessment Status: Pending</p> | <p>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. In response to our recommendations to reduce costs, El Cerrito issued a request for proposals for a classification and compensation study. The study began in August 2022 with an expected completion sometime in early Fall 2023. We expect that the city will use the results of the study to adjust salaries as needed and serve as a guide for the city to maintain financial viability by assessing the staff positions it needs to carry out the city’s operations.</p> <p>The city continues to defer 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 indefinitely</p> |
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| | <p>suspended the process but notes that it is having retention and recruitment issues with its management staff. 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 this process should not be eliminated.</p> |
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City Update March 2023: The City Council approved a contract with Koff and Associates for a Citywide classification/compensation study on July 19, 2022. Koff and Associates began their work as of August 31, 2022 and the study is slated to be completed in September 2023.

As previously noted, salary increases for Management and Confidential (unrepresented) employees were 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%, special pays such as auto allowances were eliminated, and this group was subject to a total of 44 furlough days in the last two fiscal years resulting in a take-home pay cut of approximately 7% during that period. The practice of increasing salaries to exceed the control point of any position has indeed been suspended and only a cost-of-living adjustment (COLA) for this group is being factored into the current 10-year projection model. In short, this group has been the most impacted with respect to salary and benefit reductions among all City employees during the past three years. The City Council understands that because this group's salary ranges were frozen for three years, the current salary ranges and control points are behind the market and are now lower than similar positions of nearby cities. The City is presently experiencing retention issues with current management employees and serious recruitment challenges for vacant positions not just in this group but across the organization.

Because of the existing conditions post-pandemic and the current state of the job market, the City believes that the criteria used for this risk area is out of date and is no longer relevant. Unlike the original speculation by the State Auditor team that the classification and compensation study would provide areas of efficiency and cost savings, it is now understood that the study will instead highlight how far behind the market many of the City's positions are. This has been demonstrated by the fact that the City continues to carry a high number of vacancies despite recruitments being open for several months, and all reports are that salaries are not competitive to attract talent; indeed, according to exit interviews, several employees left for positions in neighboring cities and agencies for higher salaries and incentives. The City is committed to be prudent and control expenditures, however it is evident that if the City doesn't have flexibility with compensation within this extremely tight job market, we will continue to have vacancies and forced to rely on temporary employees or consultants to continue to provide services or programs, which can sometimes be more expensive. The City believes that the State Auditor might reconsider this risk area with respect to updated, relevant information related to staffing and salaries, understanding that the conditions described in the original audit report from two years ago no longer apply, and reassess the City's status accordingly.



Missed Opportunities to Increase Revenue

California State Auditor's
Assessment Status:
Pending

El Cerrito has made some recent progress in increasing its revenues. However, it continues to defer actions that could create more financial stability for the city. El Cerrito’s fiscal year 2021–22 budget expected that its swim center would generate more revenue than expenses, and its fiscal year 2022–23 budget projects that swim center revenues will cover 96 percent of its costs. However, the revenue generated from El Cerrito’s senior services covered only 25 percent of the cost of those services in fiscal year 2021–22 and the city’s fiscal year 2022–23 budget projects senior services revenue to cover only 26 percent of its costs. Maintaining user fees at a level that represents only a small percentage of its costs will not be sustainable for the city unless it makes a policy decision to reduce expenses in other programs as needed and subsidize its senior services from other revenue sources.

The city continues to state that it will conduct a demand and cost recovery analysis for recreation services after normal operations resume, and it endeavors to do so by the end of 2023. The city further emphasizes that its cost recovery rate is greater than those of other nearby cities. Regardless of these other cities’ policies, El Cerrito should not delay efforts to ensure that it establishes fees at appropriate levels to cover the cost of its services or find other sources of revenue so that it can continue to provide these services to the public.

El Cerrito was able to sublease one of the modular units that it rented but was not using. It sublet the unit to the Kensington Police Protection and Community Services District for a fee that will range from \$45,000 to \$52,000. The city also reported that it presented a proposal to its city council in April 2022 to recover the cost of its emergency medical services, but the city council chose not to make any changes to its operations. The city’s fire chief reported that the city would need to rely on a contractor to perform billing services, and the potential limitations on the types of incidents that the city could bill for would result in gross revenue of \$50,000 per year with additional costs for staff and contractors to operate the program.

City Update March 2023: Recreation staff continues to assess various fees for the Swim Center and Senior Services and increased fees will be included in the FY 2023-24 Master Fee Schedule that is expected to be approved by the City Council by May 2023. El Cerrito’s Recreation Department 77% cost recovery rate remains well above the cost recovery rates of the comparison cities. As of this update, Recreation’s overall revenues are on target with the Swim Center at 60% of budgeted revenue (with expenditures at 60% of budget) and Senior Services at 70% (with expenditures at 50%



of budget). Senior services are continuing to be reinstated after having been closed due to the pandemic, but as staff has consolidated staffing and services to the Community Center, again this has in turn has continued to reduce expenses. Classes and services offered for seniors remain at the Department's normal cost recovery structure and not at the free or low-fee level, though as previously stated, the City believes we must remain sensitive to what the market will bear with respect to the costs for all Recreation services, especially for seniors, as demand/use will decrease if fees are set too high.

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 to increase fees for services. City staff has been working with Renne Public Policy Group for grant writing services to assist City staff in identifying, applying for, and administering grants and grant funding and has begun application for grants in the areas of public safety and infrastructure. As previously reported, the City has been successful in obtaining grant funding for infrastructure and transportation projects, including the City's Del Norte Complete Streets project (as noted in the FY 2022-23 Capital Improvement Program), for improvements to our local streets, and for vegetation management for the City's Hillside Natural Area for wildfire safety. The City has also recently been designated as a Prohousing jurisdiction by the Governor and California Department of Housing and Community Development, one of just 10 agencies in the state, allowing access to specific grant opportunities to support housing for which the City has begun the process to apply.



**CITY OF EL CERRITO
CORRECTIVE ACTION PLAN – STATE AUDIT 2020-803
MARCH 2023**

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 2023 |
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| <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> <p>September 2022: Additional information added to confirm this item is completed.</p> <p>March 2023: Additional information added to confirm this item is completed.</p> | <ul style="list-style-type: none"> • The City’s audited ending year totals reflects a \$6.4 million surplus in the General Fund. The City came in below its expenditure targets and exceeded revenue targets. The surplus is targeted for General Fund Reserves. • The City was allocated \$6.2 million from ARPA and received its second payment in the amount of \$3.1 million. This funding, per the direction of the City Council, was allocated as revenue loss for FY 2021-22. • The FY 2021-22 audit is complete and the unaudited General Fund surplus including ARPA funding is has resulted in a General Fund surplus of approximately \$9.5 million, resulting in a General Fund reserve of approximately \$16.6 million, far exceeding the GFOA recommended reserve target of 17% and the City’s General Fund minimum reserve target of 10%. • The City’s cash flow position eliminated the need for a TRAN, so a TRAN was not issued for FY 2022-23. • City management and Finance staff continue to implement strict policies |



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| | | <p>for staff to monitor revenues and expenditures and will continue to report to City Council on budget performance. The City’s Finance Director is continuing to monitor these policies and implement systems to ensure continued compliance.</p> |
| <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. A kickoff meeting with the City Council and Financial Advisory Board was held on September 27, 2022 to confirm the process for establishing the Section 115 Trust and review its current pension obligation numbers from CalPERS. Due to staffing shortages in the Finance Department, City staff will plan to issue a Request for Proposals (RFP) for administration of the Section 115 following the FY 2023-24 budget process. City staff is working with the Financial Advisory Board to create specific financial policies for funding the Trust appropriately, including potential allocations of General Fund surplus funds. It is expected that the Trust administrator will be chosen and the Trust and funding policies established by the end of the calendar year. Expected completion: FY 2023-24. Responsible staff: City Management/Finance Department. • The City Council directed staff to work with all employee bargaining units to negotiate increased contributions to CalPERS. The City negotiated an increase of 0.5% of additional costs with the SEIU bargaining unit, resulting in all City employees contributing to CalPERS employer costs in addition to the employee cost. The City also |



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| | | <p>approved an MOU with Fire Local 1230 with an increased CalPERS contribution resulting in a 13% total contribution. Completed.</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. Staff received confirmation from the actuary that there is no longer an OPEB liability. Completed. |



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

State Auditor Determination as of August 2022: Addressed.

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 Issue # 3
Fiscal Recovery Plan**

State Auditor Determination as of March 2023: Addressed.

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 September 2023 |
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| <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> <p>September 2022: This item is completed.</p> | <ul style="list-style-type: none"> • The City Council approved the Fiscal Recovery and Sustainability Plan on August 16, 2022. 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 outlines actions taken, actions ongoing, and future actions to ensure the City's fiscal sustainability. These actions have provided the City with a basis to move forward as we continue to improve our fiscal health, and have been successful as demonstrated through the City's Annual Comprehensive Financial Report (ACFR) and budget document. City staff will continue to work through the strategies in this Plan and will provide regular updates to the City Council and State Auditor. Completed. |



**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.

Note: City staff believes that the summary and recommendations for this risk area are no longer applicable following the pandemic, the extremely tight and competitive job market, the difficulty in attracting and recruiting public safety and management staff, and the fact that due to the freeze in salaries of employees the City’s salaries are below market. The City believes the criteria and recommendations in this risk area results in the City being judged for conditions that no longer exist and cannot be sustained.

| High Risk Area #4 - State Auditor Recommendations | Response | Corrective Action March 2023 |
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| <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 | <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</p> | <ul style="list-style-type: none"> • The Citywide classification/compensation study is currently in process. The study also includes a review of the City’s organization and compensation structure and practices and will develop compensation recommendations that will assist the City in recruiting, motivating, and retaining competent staff while being fiscally responsible. Further, the compensation and salary structure will be modified accordingly so that any inconsistencies and inequity that remain with respect to the control point within the current classifications are addressed. Koff and Associates began their work as of August 31, 2022. Estimated completion: September 2023. Responsible staff: Human Resources/City Management. |



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| <p>other cities. Based on the results of this study, implement personnel and salary changes that would result in ongoing cost reductions</p> | <p>compensation before the City would be provided with preliminary findings.</p> | |
| <p>2. To better control its salary costs, El Cerrito should end its practice of providing city management authority to pay certain employees over the threshold established in its salary ranges</p> | <p>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"> • While this practice has been suspended for the Management and Confidential group, with a permanent change to be considered pending the completion of the classification/compensation study, the City must further consider an appropriate compensation system structure that attracts talent in the competitive job market and prevent further staff from leaving for higher paying positions in other agencies. This study will also used as a basis for discussions on compensation during future negotiations with the PSMA. It should be noted that the study is expected to show that the City's management salaries are at or below market, as the City is not able to compete with neighboring cities at this time. <p>Estimated completion: Fall 2023 and ongoing. 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"> ○ Freeze salary increases for management with salaries above those of comparable cities until they are in line with those salaries. For positions with salaries | <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> | <ul style="list-style-type: none"> • The City froze salary increases for Management/Confidential since FY 2019-20 and FY 2021-22. Because this group had not had any increases in two fiscal years, the salaries for this group are expected to be behind the market of comparable cities at this time, which has resulted in difficulty attracting staff for vacant management positions. The |



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| <p>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</p> <ul style="list-style-type: none"> ○ Seek to eliminate or consolidate positions that have overlapping responsibilities | <p>The Administration has already taken action to freeze salaries, as no unrepresented employees have received merit increases this fiscal year and received no COLAs. In addition, the Administration imposed 26 non-paid furlough days (roughly a 10% reduction in pay) for FY 2020-21 for unrepresented Management employees.</p> <p>March 2022: This item is completed.</p> <p>September 2022: Additional information added to confirm this item is completed.</p> <p>March 2023: This item is no longer relevant and is completed.</p> | <p>classification/compensation study will verify where the City's current compensation compared to other cities/agencies.</p> <ul style="list-style-type: none"> ● Considering the layoffs that were previously 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. Some positions have had to be restored because the lack of staff is unsustainable and leading to decreased staff morale and burnout as well as service delivery issues. ● The City is continuing to experience retention issues with current employees and serious recruitment challenges for vacant positions within this group and must consider the impact of the City's current compensation with respect to the tight labor market. <p>Completed.</p> |
| <p>4. To reduce its fire department's costs, El Cerrito should develop a timeline by July 2021 for controlling the department's personnel expenditures, such as through negotiated salary reductions or freezes.</p> | <p>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</p> | <ul style="list-style-type: none"> ● City Management worked with Local 1230, who represents Fire Department employees, to discuss the City's 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 City completed negotiations in February 2023, and contrary to the State Auditor report, a salary survey showed that the positions were <i>below</i> market. Therefore the MOU approved by the City Council reflects negotiations that provides appropriate COLAs to the various classifications in order to ensure employees are at the market and address recruitment and retention of employees in this |



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| | <p>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> <p>As of 2022, the Department's salaries have been found to be below market, resulting in recruitment issues.</p> <p>March 2023: This item is no longer relevant and is completed.</p> | <p>bargaining unit, as well as reflect the value the City places on public safety. Completed.</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</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. ● The actions taken to reduce the budget and staffing had a detrimental impact on the Department, coupled with a difficult period for all law enforcement grappling with social justice issues over the past few years. In 2022, the Department was at just 54% of authorized positions leading to overtime and burnout, decline in staff morale, severe difficulty in recruiting new officers, and concerns about sustaining public safety. Our agency could not compete with neighboring cities for salary and other benefits. The City, at the request of the union, met to discuss the situation and agreed upon a side letter to address concerns of recruitment and retention by adjusting steps in classification, providing for a recruitment incentive, |



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| | <p>while still maintaining critical public safety service within the community.</p> <p>However, following the series of issues concerning law enforcement nationwide, the labor market for police has become extremely competitive. The City found it could not fill vacancies and its salaries were below market, which is unsustainable and has a direct impact on public safety.</p> <p>March 2023: This item is no longer relevant and is completed.</p> | <p>and other benefits; the PEA agreed to delay the January 2023 increase to July 2023. The MOU remains in place until 2024.</p> <p>Completed.</p> |
| <p>6. To identify all available options to reduce its costs for its fire and police services, El Cerrito should perform an analysis by December 2021 to determine whether it would be more cost-effective to contract with nearby fire or police departments for services.</p> | <p>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.</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</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>Completed.</p> |



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| | <p>Departments. There would be significant impacts to current sworn employees that would have to be 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>September 2021: This item is completed.</p> | |
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| <p align="center">High Risk Issue # 5 Increasing Revenues</p> | | |
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| <p>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.</p> | | |
| <p align="center">High Risk Area #5 State Auditor Recommendations</p> | <p align="center">Response</p> | <p align="center">Corrective Action March 2023</p> |
| <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 | <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 2022-23 Master Fee Schedule, fees were increased in Recreation categories; swim center 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. |



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| <p>neighboring swim centers – and determine whether increasing single-use fees during these hours could better cover the costs of operating the swim center</p> <ul style="list-style-type: none"> ○ Establish separate single-use fees in its master fee schedule for nonresidents at the swim center, in order to increase revenue | | <ul style="list-style-type: none"> ● Swim Center revenues are currently at 60% of the revenue budget with expenditures at 60% as well, showing on target performance. ● Staff plans to perform an analysis on swim center demand and cost recovery once normal operations resume and a typical season can be conducted. Staff will endeavor to complete this by the end of the next season. Estimated completion: 2023. 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 council that includes a plan for recovering the full cost of these activities ○ Continue to seek opportunities to sublease its modular buildings and move senior activities to the city-owned community center or clubhouses | <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 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> | <ul style="list-style-type: none"> ● Senior services are continuing 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 offered in this division are at the department’s normal cost recovery share structure and not at the free or low-fee level. ● The Senior Services Division budget is currently at 70% of its budgeted revenues and 50% of expenditures, showing strong performance. ● Staff will conduct an analysis on demand for senior services once normal operations resume and a typical operation can be conducted. Since the pandemic restrictions are easing, staff will determine if this analysis can be completed in 2023. Estimated completion: 2023. Responsible staff: Recreation Department. ● As of FY 2022-23 Master Fee Schedule, fees were increased in Recreation categories. Completed. ● On July 19, 2022, the City Council approved a license agreement with the Kensington Police Protection and Community Services District to sublease one of the modular buildings |



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| | | <p>(previously used for Senior Services) for the District’s temporary use, which will offset part of the City’s monthly charges. The KPD is currently leasing the building, making payments, and is fully operational. Completed.</p> |
| <p>3. To more fully recover the costs of the emergency medical services it provides, El Cerrito should conduct an analysis by July 2021 to identify the cost to the city of providing such services. Using this analysis, El Cerrito should consider the following:</p> <ul style="list-style-type: none"> ○ 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> <p>September 2022: This item is completed.</p> | <ul style="list-style-type: none"> ● On April 19, 2022, the City Council held a study session to discuss first responder fees. City staff conducted research on first responder fees using data from several local fire service agencies and consultants. City staff and the City Council shared concerns that the implementation of such fees could have a higher impact on low-income residents and seniors, that it would create a disincentive for people to call for medical response, and the expected revenue would not be worth the costs of implementation. The City Council declined to pursue implementing first responder fees further. Completed. ● City staff continues to renegotiate contracts (including our dispatch contract with the City of Richmond beginning this fiscal year) and pursue grants to enhance revenue and offset costs. In August 2022, the City Council approved a contract with Renne Public Policy Group for grant writing services to assist City staff in identifying, applying for, and administering grants and grant funding. Completed. |