



September 16, 2023

Grant Parks
California State Auditor
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, September 2022, and March 2023 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 March 2023 CAP Progress Report from the State Auditor team that were posted in August 2023, and was able to meet with members of the audit team in August of 2023. The City appreciates that the State Auditor recognizes the City that has made progress in the designated risk areas, and this CAP Progress Report for September 2023 provides updated information on the City's activities that demonstrates the continued progress of the City and its commitment to financial sustainability.

Since the submittal of the CAP Progress Report in March 2023, 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. The City Council passed a balanced budget for FY 2023-24, continued strategies to ensure fiscal sustainability, and diligently reviews and monitors the City's budget and financial condition. The City Council approved the FY 2023-24 budget noting conservative revenue projections and thoughtfully considered strategic expenditures for providing service delivery within our means. The City is currently in its end-of-year closing process in preparation for the annual independent audit that results in the Annual Comprehensive Financial Report for Fiscal Year 2022-23. The current unaudited actuals show that the City came in well below its expenditure targets and exceeded revenue targets, projecting a General Fund surplus between approximately \$3 and \$4 million. This surplus is a direct result of the continuing sustainability measures, careful budget monitoring, being strategic about hiring for new and vacant positions, and conservative revenue estimates.

The City is now in the process of updating its Strategic Plan, kicking off the process by conducting and completing a community survey which was presented to the City Council in April. The results of this



survey were considered in the FY 2023-24 budget process and provided data for the environmental scan and SWOT analysis for the Strategic Plan. To further connect with the community, the City is conducting additional outreach and focus groups to help develop goals and objectives in harmony with the Fiscal Recovery and Sustainability Plan. The City remains committed to continuous improvement and staff 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.

Notably, the City Council took historic action to further its commitment to long-term fiscal sustainability. At the City Council Meeting on August 15, 2023, the El Cerrito City Council took action by investing \$10 million of the City's General Fund reserve balance to secure funds in case of an emergency and to provide funding for the City's pension costs. The City Council voted unanimously to place \$9 million of the City's General Fund reserve balance in the City's Emergency Disaster Relief Fund (EDRF) to be used in the event of severe economic downturns or disasters. The EDRF was recommended by the City's Financial Advisory Board and adopted by the City Council in 2019 as a part of its Comprehensive Financial Policies. The \$9 million, located in a restricted portion of the City's General Fund, fully funds the EDRF with an amount equivalent to three months of payroll costs. With this action, the City now has General Fund Reserves of more than 28% of Citywide expenditures, including the fully funded EDRF.

At the same meeting, the City Council unanimously approved a motion to create, and provide \$1 million to fund, a Section 115 Pension Funding Trust dedicated to meeting the City's pension obligations. A Section 115 Trust is an irrevocable trust under Section 115 of the Internal Revenue Code that can only be used to either pay pension costs or pay down unfunded pension liabilities, while serving as an asset in the City's Financial Statements. It is the goal of the City Council to place additional funds in the Section 115 Trust each year. This action will be confirmed by official establishment of the Trust on September 19, 2023. Together, these actions further cement the City's positive financial trajectory over the last three years, dramatically increasing the City's General Fund reserve balance and taking actions to ensure financial health and stability into the future.

It should be noted that these accomplishments have happened in spite of the fact that the City is in still 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" remain, 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 that will be completed this year will show that the City's compensation is lower than the current job market, not above market as the original audit report speculated. Because of this, the City again requests 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.



Further, the City notes that according to the State Auditor website, the Local High Risk Dashboard will be discontinued as of October 1, 2023. The City has been pleased that as of FY 2020-21, our position had improved in the ranking list and had also improved to “Moderate Risk” according to our score. As the City’s position on the dashboard helped to determine that our City was audited by your office, we are concerned that if there are no longer updates, then it will be impossible for the public to note any new improvements on the City’s part nor will we be able to move from our current position. We spoke of this issue with the members of the audit team at our August meeting, and they let us know that the team could produce an updated score based at least on our FY 2021-22 ACFR, and after we complete our FY 2022-23 ACFR, so that we could at least communicate those scores to the City Council and the public. Therefore, we respectfully request that the State Auditor team reassess the City’s score based on the City’s substantial improvements and timely updates that have been provided to the State Auditor, ensuring that the public has the ability to be aware of the City’s progress.

The City is extremely proud of the work that has been accomplished over the past two-and-a-half 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 new Finance Director on board, the audit report has provided us the ability to put the City on the road to fiscal sustainability and envision a bright future.

This September 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 March 2024.

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

Respectfully,

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

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: September 16, 2023**

EXECUTIVE SUMMARY
Overview of High Risk Areas
City Update as of September 2023

Continual Diminishing of Financial Reserves Through Overspending	
<p>California State Auditor's Assessment Status: Partially Addressed</p>	<p>El Cerrito has made progress in improving its financial condition in recent years but expects expenditures to exceed revenues in fiscal year 2022–23 necessitating the use of its reserve. It has also not yet taken critical actions that would help ensure that it maintains a stable financial condition. El Cerrito’s fiscal year 2021–22 audited financial statements reported a general fund reserve of \$16.4 million, or 41 percent of the city’s general fund expenditures, and general fund revenues exceeded expenditures by \$6.8 million. Because of its improved financial position, El Cerrito discontinued its practice of short-term borrowing in fiscal year 2022–23. However, in its fiscal year 2022–23 mid-year budget update presented in March 2023, staff recommended increasing budgeted revenue by \$1.2 million and budgeted expenditures by \$2.2 million to account for updated expectations, including \$926,000 in salary increases pertaining to a new fire department union contract and \$559,000 in project costs for the Community Development Department. In our September 2022 assessment, we noted that the city’s fiscal year 2022–23 budget projected only a slight surplus of \$812,000 and thus it was important for the city to monitor its spending. After adoption of the mid-year budget adjustments, the city’s fiscal year expenditures were projected to exceed revenues by \$605,000. We are concerned about this action to increase expenditures more than revenues partway through the year as it follows the same behavior that resulted in El Cerrito’s recent financial troubles. As we note in our March 2021 audit, in prior fiscal years, El Cerrito did not adjust its spending to be consistent with its revenues, resulting in the city being unable to maintain a reserve and becoming reliant on short-term borrowing.</p> <p>Further, we continue to observe that the city’s increase in revenue is largely attributed to an unexpectedly robust real estate market that the city may not be able to rely on in the future. In its update, the city provided a chart showing the real property transfer tax it has received since 2019, depicting that this tax revenue has consistently been greater than expectations. However, if the city’s real estate market slows, as is widely anticipated given increasing</p>

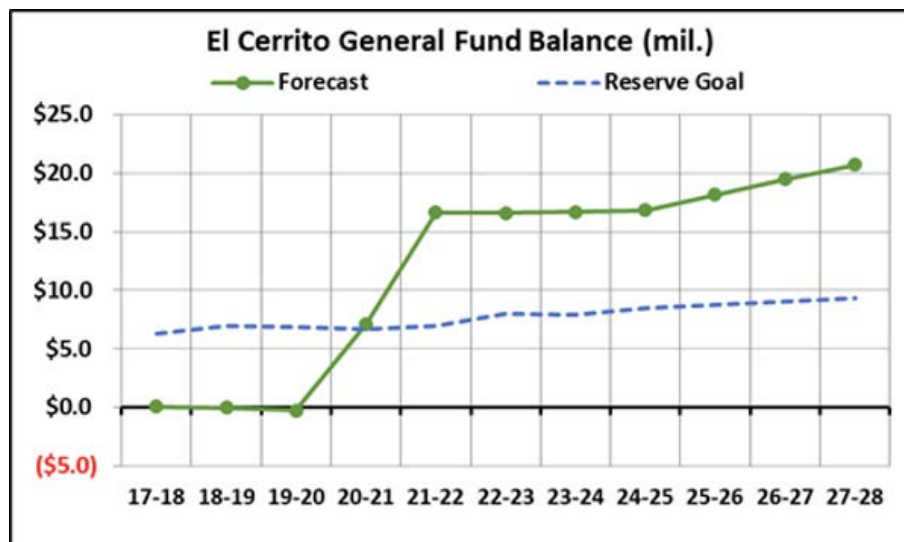


	<p>mortgage rates during the past year, the city’s expenditures may further outpace its revenue. A highly variable revenue source such as this tax can leave the city vulnerable to overspending if the city increases its revenue projection based on a peak year but ultimately receives a much lower amount. 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.</p> <p>Moreover, El Cerrito has taken only initial steps to address its pension costs. The city indicates that staffing shortages in its finance department have delayed its efforts to seek the services of a vendor to establish and administer a Section 115 trust that can be used to pre-fund pension costs. It states that it plans to solicit providers in Summer 2023. In its update, El Cerrito notes that it reached an agreement with its firefighter union for that union to begin paying a 1 percent increase in its pension contribution. However, the update does not mention that the same agreement increased pay by 1 percent to offset the increased pension contribution. The agreement also included raises of 3 to 5.5 percent—based on the job classification—effective September 2022, a 3.75 percent raise for all members effective July 2023, a 4.5 percent raise for all members of the union in July 2024, and increased contributions to members’ post-employment health benefits. The city’s analysis of the agreement identified a total cost of \$564,000 over two years.</p>
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City Update September 2023: The City has addressed this risk area by making continued substantial and measurable improvements to its financial condition. The City has begun the year-end closing process for FY 2022-23 and while some adjustments are still being made, we are projecting between \$3 - \$4 million in General Fund surplus. This was achieved thanks to conservative budgeting in both revenues and expenses: in revenues, overall property and sales taxes exceeded targets and Department-specific revenues, especially Community Development and Recreation, performed above target as well; expenditures came in approximately 5% under budget largely due to vacant positions creating salary savings, fiscal discipline on the part of Departments, and continued monitoring of spending by the City Council. The FY 2022-23 audit is underway, and the City has recently hired a new Finance Director who is working directly with our independent auditor in carefully reviewing the year-end results. Once the Annual Comprehensive Financial Report (ACFR) is completed, the Council will consider allocating the surplus per the City’s recently revised financial policy that provides a priority list for allocation (described in further detail below).

[The FY 2023-24 Budget](#) was adopted in June 2023, which once again used conservative revenue projections and implemented strategic non-personnel expenditure targets. Notably, the City’s tax consultants continue to project that property and sales tax will remain steady. Staff is closely monitoring Real Property Transfer Tax (RPTT) receipts and will adjust the budget targets if necessary. However, despite the real estate market slowdown home prices have held in El Cerrito, so this and other property taxes are expected to continue to provide a steady source of revenue.

The City Council continued to discuss and monitor the budget regularly by receiving quarterly budget updates including information on expenditures and revenues by departments, held a retreat to discuss priorities as well as community budget meeting during the budget process, 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. An updated 10-year projection of the General Fund balance, including expected one-time expenditures that would require a budget amendment during FY 2023-24, was presented to the City Council 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. A graph depicting the 10-year projection is shown below.



On August 15, 2023, the City Council revised its Comprehensive Financial Policies to include a new policy for allocating General Fund year-end surplus as well as modified the structure of the Emergency Disaster Relief Fund (EDRF). These revisions were recommended by the City’s Financial Advisory Board (FAB) after their consideration at their public meetings.

- The year-end surplus policy created a priority list for allocation for any General Fund year-end surplus. These priorities are:
 - General Fund reserve, up to the minimum target included in the reserve policy
 - EDRF, up to the minimum target of three months of payroll
 - A minimum of 33% toward pension costs
 - Any one-time expenditures, including capital improvements, as recommended by the City Manager
- The EDRF, which consists of funds that per the policy can only be used in case of severe economic downturn or a disaster, was modified to be a restricted portion of the General Fund, instead of a stand-alone fund, allowing for clarity in the City’s financial statements.

At that same meeting, the City Council acted on a recommendation from the Financial Advisory Board to allocate \$9 million (representing approximately three months of payroll) of the \$16.6



million General Fund balance to the EDRF. The EDRF had not been created or funded due to lack of reserves prior to this year. Now, the City has allocated the full amount per the policy, and as the EDRF is a restricted portion of the General Fund, the Fund ratio remains at approximately 30% of expenditures, meeting the City Council's policy goals and allowing for financial stability, protecting the City especially in case of an emergency.

It should be noted that the Finance Department continued to face a severe staffing shortage in the past six months, with two more vacancies occurring including the Finance Director and an entry-level accountant. However, the City has filled two significant vacancies including a new Finance Director that began in July 2023 and a new Budget Manager beginning in September 2023. This has resulted in two of six positions in Finance being vacant, however active recruitments are underway for Senior Accountant and entry-level accountant, with the hope of these positions being filled by the end of the calendar year. Vacant positions are still currently being staffed with temporary employees and consultants in order to facilitate the day-to-day Finance duties and complete the audit. 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 also took action on pension costs. As previously reported, all City of El Cerrito employees are providing additional contributions to CalPERS above the standard employee contribution per City Council direction. In addition, the Council originally 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. While the process had been stalled due to the staffing situation in Finance, City Management and Finance staff were able to move forward over the summer on initiating the process to open a Section 115 Trust for pension obligations. On August 15, 2023, the City Council passed a motion allocating \$1 million of General Fund reserve as initial funding for a Section 115 Trust and selected PARS as the Trust administrator. On September 19, 2023, the City Council will consider approving the opening of the Trust, designating the Plan Administrator, and authorizing the City Manager to execute the appropriate documentation for the Trust as well as confirming the \$1 million initial funding for the Trust. The City Council and the Financial Advisory Board will also be consulted with respect to the investment strategy for the Trust in future meetings. This significant action to open the Trust, along with the new policy for allocating future surplus funds to the Trust, will serve to benefit the City in future years to address the City's pension costs. **Staff will provide an addendum to this update to the State Auditor following the City Council meeting to reflect action taken by the City Council.**



Insufficient Reductions In Ongoing Costs

California State Auditor's
Assessment Status:
Pending

Although El Cerrito’s current financial condition has improved, the city still needs to take specific action to control the growth of its salary and benefit costs. In response to our recommendations to reduce costs, El Cerrito issued a request for proposals for a citywide classification and compensation study. The city notes that the study includes a review of its organization and compensation structure and practices. The study began in August 2022 and is expected to be completed in September 2023.

The city indicates in its update that the current state of the labor market means that the study will likely show that El Cerrito underpays its staff. However, we expect that the city will use the results of the study not only to adjust salaries as needed but also to serve as a guide for maintaining financial viability by assessing the staff positions it needs to carry out its operations. Having a better understanding of the cost of various job classifications will allow the city to make informed choices on the number and type of positions it can afford to staff and the services it can offer.

City Update September 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 had been slated to be completed in September 2023. The study is now expected to take an additional few months to complete: first, City staff has worked with Koff to consider some staffing changes and potential reorganization in the Public Works Department in order to provide better service delivery; secondly a member of the consultant team went on unexpected medical leave. Nevertheless, the study remains well underway and the team is moving forward with the process and looks forward to presenting the results in the coming months. However, again, as previously noted: the City does not expect that the completion of this study will result in reducing costs, rather it is expected to confirm that the City’s salaries are below market in many areas.

As a reminder, 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 was 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.

The City still 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 has carried 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 again requests that the State Auditor 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 over two years ago no longer apply, and reassess the City's status accordingly.

Missed Opportunities to Increase Revenue

<p>California State Auditor's Assessment Status: Partially Addressed</p>	<p>El Cerrito has made some progress in increasing its revenues. However, it continues to defer actions that could create more financial stability for the city. In our assessment of the city's previous update, we noted that 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. In its recent update, the city states that as of March 2023, senior services is at 70 percent of budgeted revenue and 50 percent of budgeted expenditures for fiscal year 2022–23. Nevertheless, because El Cerrito budgeted senior services revenues of \$80,000 and expenditures of \$310,000 for the full year, it would likely still be faced with the policy decision to subsidize these services from other available revenue sources.</p>
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City Update September 2023: Recreation staff has analyzed fees for the Swim Center and Senior Services and increased fees were included in the FY 2023-24 Master Fee Schedule that were reviewed by the Park and Recreation Commission and approved by the City Council in May 2023. Additionally, staff completed an analysis of both the Swim Center and Senior Services including demand for services, cost recovery, and fee comparisons. This analysis confirms El Cerrito's



Recreation Department cost recovery rate remains well above the cost recovery rates of the comparison cities, and that the subsidy to the General Fund has decreased as the Department expects to achieve 82% cost recovery. As of this update, Recreation's overall revenues are projected to end above the target budget with the Swim Center at 100% of budgeted revenue (with expenditures at 97% of budget) and Senior Services at 135% (with expenditures at 75% 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. The City Council has further instructed staff to view services through an equity lens, and as the analysis concludes, full cost recovery would not provide services at an acceptable cost that contributes to the quality of life of all persons in El Cerrito.



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

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	Corrective Action September 2023
<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> <p>September 2023: Additional information added to confirm this item is completed.</p>	<ul style="list-style-type: none"> • The City’s unaudited year end totals project a \$3 to \$4 million surplus in the General Fund. The City came in below its expenditure targets and exceeded revenue targets. The surplus will be allocated by the City Council according to their newly adopted year-end surplus policy. • The FY 2022-23 audit is underway and the unaudited General Fund surplus is projected to result in a General Fund reserve of approximately \$17 million, once again 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 does not require the use of a TRAN. • City management and Finance staff continue to implement strict policies for staff to monitor revenues and expenditures and will continue to report to City Council on budget performance. The City’s Finance Director monitors these policies and systems to ensure continued compliance.
<p>2. To ensure that its rising pension costs do not jeopardize</p>	<p>The Administration Agrees with this Recommendation – As a</p>	<ul style="list-style-type: none"> • The City Council will consider establishing a Section 115 Trust on



<p>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>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> <p>September 19, 2023: This item is expected to be completed.</p>	<p>September 19, 2023. The City Council, as recommended by the Financial Advisory Board, created a specific policy for allocating year-end surplus to include funding for pension costs. Expected completion: September 19, 2023. Responsible staff: City Management/Finance Department.</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. All employees and all bargaining units are currently contributing increased contributions to CalPERS. Completed.
<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"> • As of the end of 2021, 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. The City no longer has 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 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 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 September 2023
1. To identify potential savings and efficiencies, El Cerrito should perform the following tasks: <ul style="list-style-type: none"> o By September 2021, conduct an analysis of the organizational structure of the city and 	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	<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



<p>assess the functions it needs to achieve its goals</p> <ul style="list-style-type: none"> ○ Based on the results of the organizational structure study, conduct an analysis of the duties and responsibilities assigned to each of the city's current staff positions to identify any overlapping areas of responsibility and inefficiencies. ○ Using the results of its organizational structure study and its analysis of duties and responsibilities, conduct a compensation study by comparing total compensation for its staff positions with compensation paid by other cities. Based on the results of this study, implement personnel and salary changes that would result in ongoing cost reductions 	<p>to the City. However, costs are expected to exceed \$100,000. If the City Council directed the Administration to allocate funding for a comprehensive classification and compensation study, staff believes this cannot be completed by September 2021. A study of this magnitude must be completed by an industry expert. A Request for Qualifications (RFQ) would have to be developed, issued and a subsequent selection process would follow. In addition, the consultant's work would take several months of extensive research of comparing classifications and the intricacies of total compensation before the City would be provided with preliminary findings.</p>	<p>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.</p> <ul style="list-style-type: none"> ● Because of additional review of organizational and classification structure, along with some unexpected delays in consultant staffing, the study is now projected to be completed at the end of the calendar year. Estimated completion: December 2023. Responsible staff: Human Resources/City Management.
<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</p>	<ul style="list-style-type: none"> ● A permanent change will be considered once the classification/compensation study is completed and new salary ranges are established. 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 all bargaining units. 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



	<p>practice was not suspended for members of the Public Safety Management Association (PSMA) as they are a bargaining unit, therefore, the City would have to engage in a meet and confer to discuss the possibility. The Administration cannot unilaterally impose the elimination of this practice to the PSMA.</p>	<p>not able to compete with neighboring cities at this time. Estimated completion: Fall 2023/Winter 2024 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 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> <p>March 2022: This item is completed.</p> <p>September 2022: Additional information added to confirm this item is completed.</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 classification/compensation study will verify where the City's current compensation compared to other cities/agencies. ● 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



	<p>March 2023: This item is no longer relevant and is completed.</p>	<p>impact of the City's current compensation with respect to the tight labor market. 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 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>	<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 bargaining unit, as well as reflect the value the City places on public safety. Completed.
<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 	<p>The Administration Partially Agrees with this Recommendation – The Administration continues to look into personnel cost reduction options Citywide, however, the Administration</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



<p>opportunities to reduce its staffing levels</p> <ul style="list-style-type: none"> o 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>has no ability to impose salary reductions or freezes on the two bargaining groups that represent sworn members of the Police Department. Any proposals from the Administration (including those regarding overtime) are subject to meet and confer and there is no obligation from the labor groups to accept.</p> <p>In 2020, the Administration negotiated an elimination of a 3% COLA set to take place in January 2020 and another 3% COLA set to take place in January 2021. In addition, the Police Chief has conducted several assessments and implemented a restructuring of the Police Department in order to achieve cost savings while still maintaining critical public safety service within the community.</p> <p>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>to defer their salary increases for FY 2021-22. The current MOU expires in June 2024.</p> <ul style="list-style-type: none"> • 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, and other benefits; the PEA agreed to delay the January 2023 increase to July 2023. The MOU remains in place until 2024. <p>Completed.</p>
<p>6. To identify all available options to reduce its costs for its fire and police services, El Cerrito should</p>	<p>The Administration Does Not Agree with this Recommendation – The</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



<p>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>Administration would study public safety personnel costs as part of the classification and compensation study recommended by the State Auditor.</p> <p>Per conversations with the State Auditor, the intent of this recommendation was for the City to “receive a cost estimate.” However, the Administration believes that it is professionally necessary that this analysis of this magnitude must be a comprehensive study completed by an industry expert(s) to extensively evaluate the detailed service delivery impacts in contemplating an outsourcing of both of the City’s Public Safety Departments. There would be significant impacts to current sworn employees that would have to be to extensively evaluated. The amount of work necessary plus the costs 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>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>
	<p>September 2021: This item is completed.</p>	<p>Completed.</p>



**High Risk Issue # 5
Increasing Revenues**

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

High Risk Area #5 State Auditor Recommendations	Response	Corrective Action September 2022
<p>1. To more fully recover costs at its swim center after the pandemic, the city should perform the following:</p> <ul style="list-style-type: none"> ○ Conduct an analysis to identify the demand for the swim center under normal conditions at different times – including holidays, weekends, and when the public has restricted access to neighboring swim centers – and determine whether increasing single-use fees during these hours could better cover the costs of operating the swim center ○ Establish separate single-use fees in its master fee schedule for nonresidents at the swim center, in order to increase revenue 	<p>The Administration Agrees with this Recommendation – The Administration plans to conduct an analysis during normal conditions (not during the current pandemic). The Administration has concerns over the potential disproportionate accessibility impacts to minority and low-income communities as a result of further increasing swim center fees.</p> <p>September 2023: This item is completed.</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. ● The Swim Center budget is projected to end FY 2022-23 at 100% of its budgeted revenues and 97% of budgeted expenditures, showing on target performance. ● Staff has completed an analysis on Swim Center demand, cost recovery, and fee comparisons, which has concluded that the Division has been successful in achieving an appropriate level of cost recovery while providing competitive prices for patrons within the market. Completed.
<p>2. To more fully recover costs for its senior services, the city should do the following:</p> <ul style="list-style-type: none"> ○ By August 2021, assess free and low-fee senior activities and prepare an analysis for the city 	<p>The Administration Agrees with this Recommendation – The Administration plans to conduct an analysis during normal conditions (not during the current pandemic) to appropriately understand the</p>	<ul style="list-style-type: none"> ● Senior Services are continuing to be reinstated and staff has consolidated staffing and services that are 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



<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>September 2023: This item is completed.</p>	<p>this Division are at the Department’s normal cost recovery share structure and not at the free or low-fee level.</p> <ul style="list-style-type: none"> ● The Senior Services Division budget is projected to end FY 2022-23 at 135% of its budgeted revenues and 75% of budgeted expenditures, showing strong performance. ● Staff has completed an analysis of Senior Services demand, cost recovery, and fee comparisons, which has concluded that the Division has been successful in achieving an appropriate level of cost recovery while providing competitive prices for patrons within the market. Completed. ● 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 (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>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- 	<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</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.



<p>effective considering any additional administrative costs it may incur</p> <ul style="list-style-type: none"> ○ Pursue other options to generate revenue 	<p>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"> ● 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.
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