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El Cerrito's Response to the State Auditor Report

El Cerrito, Calif: The [California State Auditor](#) has issued their report on the City of El Cerrito as part of the State Auditor's Local High Risk Program. As part of the process, the City provided a response to the draft report and can be found at this link: <https://www.el-cerrito.org/DocumentCenter/View/15428/State-Auditor-Response---El-Cerrito>

City Manager Karen Pinkos notes in the response that the City agrees with most of the recommendations provided in the five risk areas identified by the State Auditor. In fact, the recommendations complement the actions that the City has already undertaken, having identified many of the same issues within in the report and has taken steps toward implementing changes to address these issues. Further, the City recognizes that there are still areas to be improved and the City Administration is committed to continuous improvement in all its operations. The City of El Cerrito has and will continue to make the needed improvements that are necessary to improve operational effectiveness and to restore the City's financial health. City Manager Pinkos states,

“In my two years as City Manager, I have focused on actions to restore the City to fiscal health. It became clear as I began my tenure that the City needed to change its culture to become more fiscally disciplined. Since then, I have worked diligently with the City Council and the City staff to make decisions that reflected the need for financial responsibility. I have dealt with the repercussions of prior decisions that served to deplete the General Fund reserves and shifted the focus of the City organization toward fiscal discipline. It took several years for the City to get to this point, and there is no quick fix. But the City Council and the City staff have demonstrated their desire and ability to put the City back on track, and the City indeed is trending in the right direction as our current fiscal year 2020-21 budget indicates. It is also important to highlight that the City has faced significant challenges in the past year due to the COVID-19 pandemic. While the City clearly had financial challenges prior to the pandemic, there is no doubt that the City has been forced to respond to the impacts created by the pandemic, both operational and financial, and has taken specific steps to address our fiscal issues as a result. The City of El Cerrito understands that we must be vigilant in ensuring that we are able to sustainably provide services and will take seriously the recommendations of the State Auditor.”

In February 2020, the Joint Legislative Audit Committee approved the State Auditor to conduct an audit of the City under the Local High Risk Program. A team from the State Auditor's office began working with El Cerrito staff to conduct the audit in October 2020. The team provided the City with a draft report during the first week of March 2021 and was given five business days to respond to the draft report. City staff conferred with the City Council and provided the response to the State Auditor within the designated timeframe.

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Elaine Howle
California State Auditor
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Dear Ms. Howle:

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

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

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

Background

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



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

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

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

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



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

Audit Report

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

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

Response to High Risk Areas

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

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

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



Summary of the Administration's Response

	Total
The Administration Agrees with this Recommendation	14
The Administration Partially Agrees with this Recommendation	3
The Administration Does Not Agree with this Recommendation	1

High Risk Issue # 1
Financial Condition and General Fund Reserves
"Continued Diminishing of Financial Reserves Through Overspending"

Administrative Response to State Auditor Recommendations for High Risk Issue #1:

High Risk Area #1 - State Auditor Recommendations	Response
1. To eliminate its reliance on short-term loans, El Cerrito should address its overspending and its revenue shortfalls as discussed throughout this report	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.
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	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.
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	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.



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

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

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

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

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

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



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



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

The City's Comprehensive Financial Policy states:

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

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

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



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

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

High Risk Area #3 - State Auditor Recommendations	Response
<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>

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

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



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

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

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

High Risk Area #4 - State Auditor Recommendations	Response
<p>1. To identify potential savings and efficiencies, El Cerrito should perform the following tasks:</p> <ul style="list-style-type: none"> ○ By September 2021, conduct an analysis of the organizational structure of the city and assess the functions it needs to achieve its goals ○ Based on the results of the organizational structure study, conduct an analysis of the duties and responsibilities assigned to each of the city’s current staff positions to identify any overlapping areas of responsibility and inefficiencies. ○ Using the results of its organizational structure study and its analysis of duties and responsibilities, conduct a compensation study by comparing total compensation for its staff positions with compensation paid by other cities. Based on the results of this study, implement personnel and salary changes that would result in ongoing cost reductions 	<p>The Administration Agrees with this Recommendation - A comprehensive study of the City’s classification and compensation structure (including total compensation – not just base salaries) would be beneficial to the City. However, costs are expected to exceed \$100,000. If the City Council directed the Administration to allocate funding for a comprehensive classification and compensation study, staff believes this cannot be completed by September 2021. A study of this magnitude must be completed by an industry expert. A Request for Qualifications (RFQ) would have to be developed, issued and a subsequent selection process would follow. In addition, the consultant's work would take several months of extensive research of comparing classifications and the intricacies of total compensation before the City would be provided with preliminary findings.</p>
<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>
<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>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.</p> <p>In 2020, the Administration negotiated an elimination of a 3% COLA set to take place in July 2020. In addition, the City filled three long-standing vacancies to reduce the amount of overtime in the Fire Department.</p>

<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.</p> <p>In 2020, the Administration negotiated an elimination of a 3% COLA set to take place in January 2020 and another 3% COLA set to take place in January 2021. In addition, the Police Chief has conducted several assessments and implemented a restructuring of the Police Department in order to achieve cost savings while still maintaining critical public safety service within the community.</p>
<p>6. To identify all available options to reduce its costs for its fire and police services, El Cerrito should perform an analysis by December 2021 to determine whether it would be more cost-effective to contract with nearby fire or police departments for services.</p>	<p>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 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</p>

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

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

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

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

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



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

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

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

High Risk Area #5 - State Auditor Recommendations	Response
<p>1. To more fully recover costs at its swim center after the pandemic, the city should perform the following:</p> <ul style="list-style-type: none"> ○ 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>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 	<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</p>



<p>senior activities to the city-owned community center or clubhouses</p>	<p>most vulnerable residents, most of whom are on fixed incomes.</p> <p>The Administration also agrees with the State Auditor’s recommendation regarding subleasing its costly modular buildings and moving senior activities to city-owned spaces.</p>
<p>3. To more fully recover the costs of the emergency medical services it provides, El Cerrito should conduct an analysis by July 2021 to identify the cost to the city of providing such services. Using this analysis, El Cerrito should consider the following:</p> <ul style="list-style-type: none"> ○ 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.</p> <p>Regarding additional revenue opportunities, the Administration is currently developing an analysis reviewing various Fire Department fees to determine if fees align with actual costs. Recommendations will be brought forward to the City Council as a part of the budget process.</p>

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

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

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



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

Conclusion

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

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

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