

ARC: C.4.30

Source: Auditor Generated as referenced

**Purpose:** To document our analysis of El Cerrito’s fiscal year 2018-19 and 2019-20, and 2020-21 budgets to assess the level of information regarding efforts to meet budgeted spending or reasons for changes in budgeted spending provided to city council when making its budget decisions.

[REDACTED]

**Conclusion:**

- El Cerrito’s most recent budgets fail to provide reasonable justifications or explanations for most increasing costs.
- The budget also does not contain information regarding the prior year budgeted amounts and [REDACTED]-contains no comparison of the prior year budget to actual performance or in comparison to current year amounts. Therefore, city council would not be able to determine from the budget document alone departmental budget performance.
- The budget discusses efforts to reduce spending but those efforts cannot be tied to the actual budgeted amounts, nor can they be tied to the amounts that the city initially intended to spend, and are not sufficiently detailed.

**Analysis:**

Fiscal years 2018-19 & 2019-20 Budget [C.4.4] – The budget provides limited information on prior year increased spending and the reasons for increased spending in the current budget.

- Pages 6 – 12 – City manager’s message
  - Page 11 – The message projects reserves to decrease to 3.4% of expenditures but **attributes** [REDACTED] the decline to [REDACTED] “unanticipated expenses (increased dispatch, Senior Center relocation) and prior-year audit adjustments [.]” As for expenses, the message notes “[o]ther expenses will increase generally by 3% for inflation.” General fund expenses as presented on this page and later in the document do roughly increase by 3% overall. However, this hides the fact that some departments’ budgets increased by more than 3% while some decreased less [see C.4.1].
  - Page 11 – The message identifies the cost of increasing personnel costs as due to cost of living increases “consistent with Bay Area inflation” and a “very large pension cost increase is anticipated in FY 2019-20.” However, the message does not explain why the pension costs will increase.
  - Page 12 – The message **characterizes** [REDACTED] the decline in reserves from the prior year on “the unanticipated major expense (approximately \$500,000) of relocating our senior services and a one-time prior period adjustment to the FY 2015-16

fund balance as proposed by the new City auditors.” The message does not fully explain why costs increased so significantly in fiscal year 2017-18 (\$3 million or 9%). [see C.4.4, pg.11, AN1]

- Pages 13 – 25 include background information on the budget.
- Pages 26 – 55 include financial information for the city as a whole.
  - **Page 31 - 32 describes reasons for some increased citywide costs at a very high level. It does not provide reasons for specific budget increases attributed to individual departments such as the police or fire departments.**
    - **Personnel:** The budget again notes cost of living increases and increasing pension contributions. **It does not explain why the pension costs are increasing.** The discussion also notes that health insurance costs increased by 10 percent.
    - Professional Services: states a decrease but does not explain why.
    - Purchased Property Services: notes a decrease in the overall budget but also notes an increase from lease costs, utilities, and maintenance services.
    - Other Services: notes an increase of 4.7 percent which it associates with inflation as well as “the costs for property insurance, communications and software licenses increase.”
    - **Supplies:** Notes a decrease in budget due to budgets being adjusted to actual spending. The budget does show a decrease from 2017-18 to 2018-19 but 2019-20 shows an increase greater than 2017-18 actuals and is not explained.
    - Property and Capital: Notes a decrease in budget due to senior center savings
    - Financing Costs: notes an increase due to resumption of payment of long term debt
    - Other Financing Uses: notes the amount relates to overhead costs and should remain steady.
  - Page 41 - The section on general fund expenses does not explain changes in costs but focuses on how it claims “nearly 95% of the General Fund is non-discretionary” because it relates to personnel or other necessary costs such as insurance. The description of “non-discretionary” here **can be** misleading as non-discretionary costs are those the city is legally required to spend whereas these costs are just those where the city has less ability to change its spending because of factors such as collective bargaining agreements or the need to purchase insurance.
  - Page 42 – The page shows general fund expenditures by department and states “Department budgets have remained fairly consistent over the last few years.” However, the city management, public works, community development, and recreation department each had spending increases greater than 5 percent on average each year.

- Pages 56 – 153 show department specific budgets. **The departmental budgets display prior year accomplishments but do not explain increased prior year costs, budgetary performance, or reasons for increased projected spending.**
- Pages 154 – 164 discuss the city’s successor agency and other dependent entities.
- Pages 165 – 214 discuss plans for capital improvements.
- Pages 215 – 220 discuss long-term debt.
- Pages 221 – 233 discuss background information such as a glossary of terms, demographic profile, and description of employee benefit plans.
- Pages 234 – 246 show the city’s financial policies.
- Pages 247 – 251 explain the city’s boards and commissions and their respective budgets. The descriptions explain loosely what the budgets are intended for.
- **Pages 252 – 312 display line item budgets for each city department and fund but contain no explanation for changes.**
- Pages 313 – 316 include the resolutions approving the budget.

Fiscal year 2020-21 Budget [C.4.5] - The budget provides limited information on prior year increased spending and the reasons for increased spending in the current budget. **The budget discusses efforts to reduce spending but those efforts cannot be tied to the actual budgeted amounts and are not sufficiently detailed. The budget also does not provide information about amounts that the city initially intended to spend and how the reduced spending affected those initial numbers.**

- Pages 6 – 12 – City manager’s message
  - Page 7 – discusses reductions the city has made to its 2019-20 spending due to declining reserves. It also notes the economic impact of the COVID-19 pandemic on city revenues.
  - Page 8 – describes budget reductions but as our annotations note, the described reductions do not tie to the budget and are not sufficiently detailed.
  - **Page 9 – despite discussing reductions on the previous two pages, the citywide budget shows an increase over fiscal year 2019-20 but does not explain why.**
  - Pages 10 and 11 – describe furloughs and eliminated cost-of-living increases that affected fiscal year 2019-20 and 2020-21 spending.
  - Page 11 – notes the city’s plan to keep positions vacant to control costs.
  - Pages 11 and 12 – notes the need to reduce spending due to a negative reserve balance.

- Pages 13 – 25 include background information on the budget.
- Pages 26 – 61 include financial information for the city as a whole.
  - Page 32 - 33 describes reasons for some increased citywide costs at a very high level.
    - Personnel: describes the reduction in personnel costs as a result of furloughs, eliminated cost-of-living increases, and planned layoffs. The description also notes the increase in pension costs and attributes it to changes in CalPERS discount rate and actuarial assumptions.
    - Professional Services: the description does not explain why professional services increase, it only notes changes between funds.
    - Purchased Property Services: notes the funds paying for the increase in this category but not the reason for the increase.
    - Other Services: notes a decrease but the explanation is not clear (“mainly due to the cost reductions put in place for FY 2020-21 by as the costs for property insurance, communications and software licenses increase.”).
    - Supplies: Notes a decrease in budget due to budgets being adjusted to actual spending.
    - Property and Capital: only states “a small reduction in costs from the prior year actuals.”
    - Financing Costs: only notes that financing costs are related to lease payments and long term debt. The budget for financing costs increased.
    - Other Financing Uses: notes the amount relates to overhead costs and should remain steady.
  - Pages 38 to 41 again describes the fiscal response plan and its planned reductions (see page 8 note above).
  - Page 46 repeats language from the 2018-19 and 2019-20 budget describing general fund spending as non-discretionary (see discussion of 18-19/19-20 budget page 41 above).
- Pages 62 – 121 show department specific budgets. The departmental budgets display prior year accomplishments but, with a couple of exceptions, do not explain increased prior year costs, budgetary performance, or reasons for increased projected spending.
  - Page 95 – The fire department budget summary notes that it is reducing overtime expenses because the department will be fully staffed, reducing the need for overtime.
  - Page 97 – The police department summary notes that it will be reducing its sworn staff by 17% due to attrition to reduce costs.
- Pages 122 – 132 discuss the city’s successor agency and other dependent entities.
- Pages 133 – 147 discuss plans for capital improvements.
- Pages 148 – 155 discuss long-term debt.

- Pages 156 – 167 discuss background information such as a glossary of terms, demographic profile, and description of employee benefit plans.
- Pages 168 – 183 show the city’s financial policies.
- Pages 184 – 188 explain the city’s boards and commissions and their respective budgets. The descriptions explain loosely what the budgets are intended for.
- Pages 189 – 193 include the resolutions approving the budget.
- Pages 194 – 238 display line item budgets for each city department and fund but contain no explanation for changes.
- Pages 239 – 250 show the fiscal response plan developed by the city’s consultants. The report describes projections of reserve balances considering different actions the city takes as well as different economic outcomes. The plan recommends \$1.5 million in reductions (page 250).
  - Page 243 – describes \$3.7 million in reductions it says the city has made for fiscal year 2020-21. However, the actual reduction in citywide expenditures between fiscal years 2019-20 and 2020-21 in the adopted budget is only \$1,414,250 (page 32) and \$1,677,653 for the general fund (page 46). Therefore, the noted reductions cannot be tied to the actual budget.