

Mayor Greg Lyman's Interview with the State of California Auditor

At the December 17, 2019 City Council meeting, I provided a verbal update on my time spent with the State Auditor during their visit to El Cerrito last month. This memo provides a summary of the questions that were asked of me and the responses I provided during that visit as well as next steps on remedying our structural budget issues.

As you are aware, based on the release of the ranking of California cities by the State Auditor in late October 2019, a team from the State Auditor's office visited the City of El Cerrito to discuss our rating of "high risk." The team conducted a preliminary assessment to determine whether or not the State Auditor should conduct a full audit of the City's finances. The team spoke to the City Manager, Assistant City Manager, Finance Director, Department Heads, and every City Councilmember. In totality, a majority of their questions generally focused on the story of our financial situation – how we got there, the reasons why, when were we aware of our reserve levels, what measures have we done in the past and our plans for future action to ensure fiscal sustainability. I told El Cerrito's story as I know it and below is a summary of my responses:

What is your understanding of the City's reserve?
What were past decisions that increased the City's costs with no clear revenue source?

Our City's reserve has been fluctuating for the last decade due to a variety of decisions made by the City Council in order to preserve City services to residents. For example, the City's reserves went from \$3.4 million in 2008 down to \$1 million in 2019 primarily because of the need to pull funds from reserve to plug unfunded budget gaps as a result of policy decisions that have had on-going budget implications. These costs have included:

- Implementing no layoffs of City staff during the recession of 2009 and 2010;
- Implementing no layoffs when the El Cerrito Redevelopment Agency was dissolved by Governor Brown in 2012;
- Affirming Sanctuary City values and the City's opposition of ICE contracts by Contra Costa Sheriff in 2016 which resulted in a dispatch contract with the City of Richmond that cost the City more than anticipated; and,
- Building the MidTown Activity Center in 2018 due to the West Contra Costa Unified School District (WCCUSD) unexpected decision to terminate the City's use of the Senior Center building.

In addition, there are other City Council policy decisions that have impacted our costs with no clear on-going revenue source:

- Establishing a Minimum wage for El Cerrito in 2015, which increased the cost of summer part time workers;
- Increasing library hours;
- Ongoing compliance with State Stormwater Pollution laws;
- Maintaining Citywide street lights beyond what the City receives in revenue from the Lighting and Landscape Assessment District (LLAD);

- Implementing implicit bias and de-escalation training in response to growing homelessness and mental health issues; and,
- Funding School Resource Officers at 100% level, while the City is only reimbursed by WCCSD at 80%.

How long have you known the reserves were in trouble?
What have been the past and recent efforts to increase revenues?

The decline of the City’s revenue began in 2010 as a result of the nationwide recession. The City Council at the time debated intently whether to use reserves or make cuts. While we decided to use the reserve to preserve services and retain staff, the following reductions were still implemented:

- Eliminating vacant positions in 2010 and 2012 to balance the budget which caused the City to have an almost 20% vacancy rate;
- Renegotiating Police and Fire labor contracts in 2012 resulting in public safety employees deferring pay increases and increasing the amount they pay for retirement up to 12%. Non-public safety employees also picked up the full employee cost of their retirement, which had been previously paid by the City; and,
- Changing the City’s health insurance broker to reduce costs in 2014.

In 2010 and 2014, sales tax revenue measures were passed to help with growing costs of health care, wages and unfunded retirement liabilities. Also in 2014, the City Council passed the San Pablo Avenue Specific Plan (SPASP) to spark property development along the economically depressed San Pablo Avenue (Avenue). In 2016, the City’s reserves continued to decline and be a great concern as the previous reductions implemented were still not enough. In turn, the City refinanced some of its debt to reduce costs and increased the amount collected from the 2000 Measure A Pool and Park Measure for the swim center and park capital projects to the maximum allowable amount.

In 2017, the City began exploring becoming a Charter City. In 2018, the City Council put forward and residents passed Measure V which changed El Cerrito from a General Law to a Charter City. The passage of this measure gave El Cerrito greater local control and the ability to benefit from revenue options, including the implementation of the Real Property Transfer Tax (RPTT). The City Council continues to express great desire for revenue from RPTT to go into our reserve.

Most recently in 2019, the City Council put forward and residents passed Measure H to continue our existing revenue stream for pools and parks (Measure A). The passage of Measure H can now reduce costs against the General Fund as maintenance is performed on the facilities that Measure A helped make possible to build.

The City was also making efforts to increase revenue prior to the recession. In 2006, the City attempted to increase the amount collected from the LLAD to offset the approximate \$400,000 per year of General Fund revenue to pay streetlights, etc. Given that the ballot measure fell within the jurisdiction of Proposition 218, votes were cast based on the square footage of lots.

This proposed increase failed due to large landowners along the Avenue being opposed. The LLAD assessment rates have not been increased since the creation of the LLAD over 30 years ago in 1988.

In 2008, the City Council put forward Measure A which improved the City's pavement condition index (PCI) ranking without having to dip into the City's General Fund. Through that ballot measure, El Cerrito went from having one of the worse pavement condition rankings to currently having one of the best in the Bay Area.

What have been the City's revenue assumptions?

There are a variety of factors beyond the City's control that have contribute to why revenue assumptions have not always been realized in the anticipated amounts, including:

- Dissolution of the El Cerrito Redevelopment Agency – this statewide action caused City redevelopment revenue to disappear in 2012. As a result, the City has sued the State to return \$1.4M back to our City;
- Insufficient Stormwater Assessment Fees – the stormwater assessment fee has never been increased and the City has unfunded state mandates to comply with clean water regulations;
- Change of Home Depot Tax Revenue – the State Tax Assessor changed how Home Depot's tax revenues were split with the City of Richmond, reversing several years of tax revenue which caused El Cerrito to have to pay Richmond the difference;
- Decline in User Utility Tax Revenues – this decline is a statewide trend accelerated by the increase of people canceling landlines and cable TV subscriptions;
- Change of Assessed Home Values – the County Assessor vastly reduced property values in 2010 and these were not restored until 2014. This coincided with both his re-election efforts;
- Slow Development of San Pablo Avenue – based on when the SPASP was passed we expected the development on the Avenue was originally expected to start in 2016, but only started to make great progress in the last year; and,
- Marijuana Tax Revenue – the City made the assumption in this fiscal year's budget that a proposed marijuana dispensary would open in El Cerrito, netting approximately \$500,000 in General Fund revenue. This marijuana dispensary has yet to open and is not expected to open before the fiscal year end in June 2020.

Has the City Council considered cutting services?

As mentioned earlier, we have decreased our reserves so that the General Fund can continue to support programs desired by residents. It is difficult to end essential safety services and services that make El Cerrito distinctly better.

For example, in 1988 there were no street lights in the City of El Cerrito. As a result, residents voted to tax themselves, implementing the LLAD. The LLAD tax generates about \$750,000, however, the cost exceeds \$1.2M. The City could save money if we eliminated the street lights

Citywide, however, this is a service our residents expect and deserve. Few residents remember the time before we had street lights and turning off the lights would be a shock.

The City could also save money eliminating the School Resource Officers currently at El Cerrito High School and Korematsu Middle School. Our reimbursement from WCCUSD is currently 80% or \$300,000 of the \$360,000 cost. Few parents of current WCCUSD students remember the time before SROs were placed on those campuses. However, the City is responsible to provide a safe educational experience in our community even when the school district cannot.

The City could save money eliminating the extra hours we have the library open, at a cost of approximately \$100,000 per year. However, demand for library services in our community is on the rise and residents frequently line up to enter the library just before opening.

What about firefighter overtime?

For many years, overtime has been cheaper than the fixed costs that come with hiring a new employee given that overtime hours are not calculated as part of an employee's pension earnings for retirement. This calculation was true in 2010 and needs to be revisited in 2020. With the recent wildfires the last two years, this has been a strain on our budget. While we are fully reimbursed by the state office of emergency services for any overtime relating to fires that our crews are sent to through the state, we do have minimum staffing requirements here and in Kensington associated with providing services here at home, and our overtime costs are increasing. This is something that staff will need to analyze carefully.

What about revisiting increasing the LLAD?

The auditor asked if the City should put forward a Proposition 218 election again to increase the LLAD. Given the extensive changes along San Pablo Avenue, new property owners who own parcels proposed mostly for residential may have a different perspective on paying for safe street lighting.

State Auditor Assistance

I asked the State Auditor what help they could provide our City. We talked about how an audit might be a huge drain on our staff, when we most need them to help with our efforts to resolve our financial issues and prepare a budget. The State Auditor said they could decide to do a focused audit on just costs, or just revenues. In the month of January, they will be developing a scope to recommend to the State Legislature. I requested a focused audit as it sounded like the best balance between accessing their expertise and managing our staff workload during the next six months. Unfortunately, the timing of their audit will not be ideal. If the State Auditor were to do some type of audit, they would need to seek authorization on February 19, potentially conduct their field work in March, April and May, and possibly generate their final report in August/September. Their report would be well after our budget is adopted and, if the community supports a revenue measure, would be after the deadline for putting forward a

measure on the November 2020 ballot. Ultimately, their timing could undermine our efforts this year to address our issues.

Anticipated City Council Action This Year

As we discussed in December, the City Council will focus on fiscal stability this year. The City will be undergoing an update to our strategic plan and we will revisit our current strategic goals and determining how to prioritize the services we provide. This will not be a wish list this time around, but a reality check as to how to best allocate resources to our community. Our current strategic goals include:

- Deliver Exemplary Services;
- Achieve Long-Term Financial Sustainability;
- Sense of Place and Community Identity;
- Develop Public Facilities;
- Ensure Health and Public Safety; and,
- Foster Environmental Sustainability.

Staff will need to consider cuts across the board. Residents will consider what their priorities are through the strategic plan and budget processes.

Residents may again decide to increase revenues to maintain our services. I know that sounds like a broken record, however, some of our revenues, like LLAD, Storm Drain Assessment and the Utility Users Tax, are not keeping up with the increase of labor or project costs. Staff retention has resulted in approximately 3% increases per year since the recession ended, pension costs continue to increase, and our revenues have not kept up.

Residents see the median house price climbing and assume that covers the cost of inflation, however, the median price only impacts 2.6% of our housing stock per year – 200 home sales out of 7,500. If none of the homes sold in the last ten years were resold during that time, that would mean 2,000 homes (only a quarter of our housing stock) would be assessed since the recession. With over a quarter of our homes assessed at pre-1990 levels, the City's tax revenues do not climb as fast as is commonly thought when you look at the climbing median home value.

The City expects to receive our annual audited financial statements for the close of Fiscal Year 2018-19 sometime this month. Staff will be providing the City Council and the public with this information and an update on our financial position shortly thereafter. Many residents have suggested a community meeting to discuss the budget, and staff would also like to host a series of meetings to discuss budget priorities. We are holding a town hall meeting on Saturday, February 1st from 10:00 a.m. to 1:00 p.m. in Council Chambers and will send out further details soon.