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City of San Gabriel

Its Ongoing Deficit Is Inhibiting Its Financial Recovery

Summary

Our audit of the city of San Gabriel revealed significant concerns related to the city's financial condition and operational management. The city has been overspending for several years, has depleted its general fund reserves, and has relied on borrowing from other city funds to cover its short-term expenses. As of June 2020, the city's general fund reserves had a deficit of \$8.1 million.

Key Risks

Poor Financial Management: City leadership allowed the city to deplete its financial reserves and has no available cash in its general fund.

- The city council entered into a loan in 2014 restricting the use of \$7.8 million of its general fund cash causing the city to borrow from other city funds to cover expenses.
- The city council did not exercise sufficient financial oversight and the former city management did not clearly disclose revenue shortfalls and expenditure overruns and continued to overspend.
- The city must consider the continuing impact of the pandemic and other key factors in its financial projections, such as lower hotel tax revenues.
- The city lacks a comprehensive financial recovery plan and continues to subsidize activities it cannot afford.

More Expenditure Reductions and Revenue Increases Still Needed: Its growing employee retirement benefit costs will likely put additional pressure on its general fund and it has not updated the majority of the fees it charges for services since 2016, and thus may be undercharging for services or activities.

Gaps in Management Controls: The city does not monitor contract costs or ensure that it received the best value for its procurements—the city has not competitively bid its waste collection contract for more than 70 years.

Key Recommendations | *San Gabriel should do the following:*

- Develop a financial recovery plan with short-term and long-term goals, strategies to build the general fund reserves, analysis of factors affecting its finances, and actions and timelines.
- Strengthen financial projections by including analyses of key revenue sources and future costs.
- Examine the costs of its services and the related fees it charges to identify opportunities for reducing costs and adjusting fees.
- Strengthen and enforce its contracting policies to utilize competitive bidding when possible and better monitor contract costs to ensure that it receives the best value when procuring goods and services.



Risk Designation: HIGH RISK

- 2019 Population: **Over 39,800**
- 2019 Median Income: **\$62,541**
- 2020 Unemployment Rate: **13.3%**