



CONSENT CALENDAR
Tuesday, April 28, 2026

To: Honorable Mayor and Members of the City Council

From: Jenny Wong, City Auditor *zw*

Subject: Berkeley's Financial Condition (FY 2016-FY 2025): Structural Deficit Poses Risk to Financial Sustainability

RECOMMENDATION

We recommend City Council request that the City Manager report back by Fall 2026, and annually thereafter, regarding the status of our audit recommendations until reported fully implemented by the Finance Department, Budget Office, and other relevant departments. This audit includes 9 recommendations to formalize the use of more sustainable budget strategies, ensure funds withdrawn from the Section 115 Trust are replenished, improve financial reporting, and develop a capital financing plan that proposes future funding mechanisms beyond existing sources to help address the City's growing unfunded capital needs. City management agreed or partially agreed to our recommendations. Please see our report for their complete response.

FISCAL IMPACTS OF RECOMMENDATION

The audit recommendations intend to help the City achieve long-term financial sustainability and address the financial risks identified in the report. This audit is especially relevant as the City will need to make difficult decisions to close the FY 2027 and FY 2028 structural General Fund deficit.

CURRENT SITUATION AND ITS EFFECTS

This audit assessed Berkeley's financial condition between FY 2016 and FY 2025 using various financial indicators. Overall, Berkeley's long-term financial condition is facing ongoing challenges, similar to the findings from our [2022 audit](#). In the near-term, Berkeley's structural deficit poses additional risk to the City's long-term financial sustainability. As we stated in our 2022 audit, it will continue to be important for the City to balance its near-term needs and long-term financial obligations.

Near-Term Financial Indicators

1. **Revenues and Expenses:** Despite budgetary challenges, the City's revenues for governmental activities generally covered actual expenses in the past ten fiscal years, except for FY 2020. Berkeley's largest source of revenue was property taxes. While a smaller portion of revenue, investment earnings saw the largest percentage increase and lease revenue decreased by nearly one half.

2. **Budgetary Practices:** The City's previous one-time balancing strategies can put the long-term sustainability of some funds at risk. Some enterprise funds also faced structural deficits and received millions of dollars from the General Fund and other funds to balance. The City is considering placing a sales and use tax measure on the 2026 ballot to generate new revenues to help address its projected General Fund deficit.
3. **Demographic and Economic Indicators:** The City's economy improved after the pandemic but experienced recent declines. Property value continues to grow, while median household income has not substantially grown. Unemployment recovered to pre-pandemic levels but has trended upward again.
4. **Net Position, Liquidity, and Reserves:** The City's net position increased, and its liquidity ratio is strong. The City is on track to meet its updated General Fund reserves goal.

Long-Term Financial indicators

5. **Long-Term Debt and Liabilities:** The City's long-term liabilities have grown. General obligation bond debt per resident peaked in FY 2022 and declined in recent years. The City's general obligation bond debt remained at or less than one percent of taxable assessed property value.
6. **Net Pension and Retiree Healthcare Liabilities:** The City's unfunded pension liability is still considered high risk and totaled \$694.8 million as of FY 2025. However, the City made progress in decreasing its unfunded retiree healthcare liability by more than \$100 million. According to the Government Financial Officers Association, Berkeley would have the highest bond rating, and as a result cheaper borrowing, if not for its pension liabilities. The City has not consistently met its annual contribution goal to the Section 115 Trust.
7. **Capital Assets:** The City's unfunded capital and deferred maintenance needs have grown to \$1.8 billion in FY 2024 despite some increased investment. Compared to other jurisdictions, Berkeley lacks advanced planning to finance capital needs in the long term. Advanced planning could help the City better anticipate and communicate plans for future bond measures. Without sufficient investment, these unfunded capital needs will continue to grow. To help address some of these capital needs, the City is considering placing a \$300 million bond measure on the 2026 ballot.

BACKGROUND

This audit provides an update on Berkeley's financial condition since our last financial condition audit in 2022. The audit's purpose is to provide a clear, accessible report for the public and City leadership to better understand the City's near-term and long-term financial condition and help inform decision making, especially ahead of difficult budget decisions.

ENVIRONMENTAL SUSTAINABILITY

There are no identifiable environmental effects or opportunities associated with this report.

RATIONALE FOR RECOMMENDATION

Implementing our recommendations will improve the City's long-term financial sustainability. If the City uses more sustainable budget strategies rather than one-time solutions to pass future budgets, the City is more likely to have recurring revenues cover recurring expenses to sustain ongoing operations. If the City explicitly requires the Section 115 Trust to be replenished after Trust funds are withdrawn, the City is more prepared to meet its future pension obligations. If the City develops a capital financing plan that includes proposals to raise new funding, the City is more likely to have sufficient funding to address its unfunded capital and deferred maintenance needs.

CONTACT PERSON

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Attachments:

- 1: Audit Report: Berkeley's Financial Condition (FY 2016-FY 2025): Structural Deficit Poses Risk to Financial Sustainability

Audit Report
April 8, 2026

Berkeley's Financial Condition (FY 2016-FY 2025): Structural Deficit Poses Risk to Financial Sustainability



BERKELEY CITY AUDITOR

Jenny Wong, City Auditor

Caitlin Palmer, Audit Manager

Manami Suenaga, Auditor I



Berkeley's Financial Condition (FY 2016-FY 2025): Structural Deficit Poses Risk to Financial Sustainability

Report Highlights

April 8, 2026



Findings

Overall, Berkeley is facing ongoing challenges regarding its long-term financial condition, similar to the findings from our 2022 audit. In the near term, the City faces a structural deficit, which poses additional risk to the City's long-term financial sustainability.

Near-Term

Revenues and Expenses: Governmental activities revenues generally exceeded expenses, but the General Fund still faced a structural deficit.

Budgetary Practices: The City's one-time balancing strategies can put the long-term sustainability of some funds at risk. Some enterprise funds also have structural deficits and receive transfers from the General Fund and other funds to balance.

Demographic and Economic Indicators: The City's economy improved after the pandemic but experienced recent declines. Property value continues to grow, while median household income has not substantially grown. Unemployment recovered to pre-pandemic levels but has trended upward again.

Net Position, Liquidity, and Reserves: The City's net position increased, and its liquidity ratio is strong. The City is on track to meet its updated reserves goal.

Long-Term

Long-Term Debt and Liabilities: The City's long-term liabilities have grown. General obligation bond debt per resident peaked in FY 2022 and declined in recent years. The City's general obligation bond debt remained at or less than one percent of taxable assessed property value.

Net Pension and Retiree Healthcare Liabilities: The City's net pension liability is still high risk. Net pension liability peaked in FY 2021 and decreased thereafter. Net retiree healthcare liability decreased. The City set aside resources to pre-fund pension obligations in a Section 115 Trust but has not consistently met its annual contribution goal.

Capital Assets: The City's unfunded capital and deferred maintenance needs have grown to \$1.8 billion despite some increased investment. The City lacks advanced planning to finance its capital plan in the long term. Without sufficient investment, these unfunded capital needs will continue to grow.

Objective

Our objective was to assess Berkeley's financial condition using indicators for the following categories:

1. Revenues and Expenses
2. Budgetary Practices
3. Demographics and Economic Indicators
4. Net Position, Liquidity, and Reserves
5. Long-Term Debt and Liabilities
6. Net Pension and Retiree Healthcare Liabilities
7. Capital Assets

Why This Audit Is Important

The audit's purpose is to provide a clear, accessible report for the public and City leadership to better understand the City's near-term and long-term financial condition and help inform decision making. This audit is especially relevant as the City will need to make difficult decisions to close the projected \$32 million General Fund deficit in FY 2027 and \$33 million in FY 2028.¹

¹This is the structural deficit estimate as of January 22, 2026.



BERKELEY CITY AUDITOR

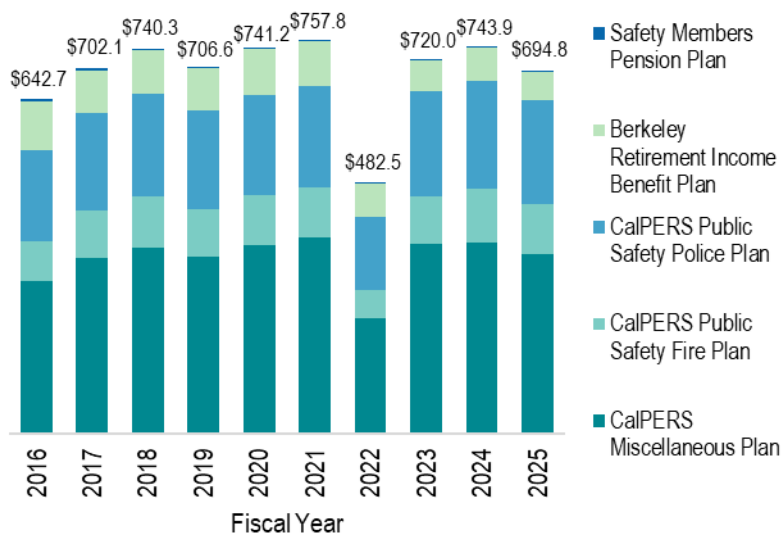
For the full report, visit [the City Auditor's website](#).

Report Highlights

April 8, 2026

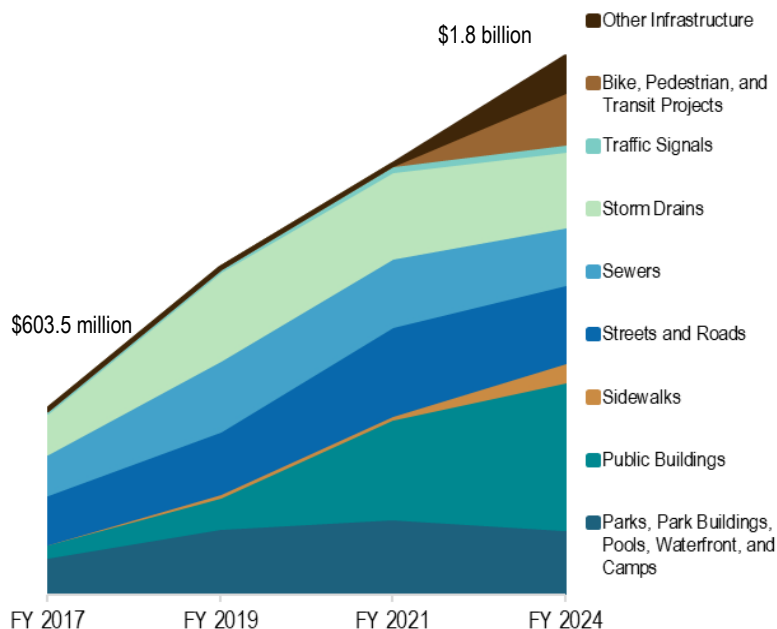
Findings

Net Pension Liability Per Plan (in millions, in 2025 dollars)



Source: Finance Department data

Unfunded Capital and Deferred Maintenance Needs (in 2025 dollars)



Source: Berkeley’s unfunded liability reports (FY 2017-FY 2021); Capital Improvement Program (FY 2024)

Summary of Recommendations

To help the City pass a structurally balanced budget, we recommend City management propose a fiscal policy to City Council to assess whether recurring revenues and recurring expenditures are balanced, and to formalize developing the baseline budget using the prior year’s actual expenditures and projected needs.

To improve the financial sustainability of enterprise funds, we recommend the City adopt a citywide policy to regularly evaluate enterprise fees and establish reserves for each enterprise fund.

To continue to strengthen the Section 115 Trust, we recommend City management amend the fiscal policies to explicitly require the City replenish the Trust after funds are withdrawn.

To improve the City’s ability to anticipate capital infrastructure needs, we recommend City management extend the Capital Improvement Program (CIP) beyond five years.

To address the City’s long-term capital infrastructure needs, we recommend City management develop a capital financing plan that covers a period at least as long as the CIP and proposes future funding mechanisms beyond existing sources.

City management agreed or partially agreed with these recommendations.



For the full report, visit [the City Auditor’s website](#).

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Introduction

This audit provides an update on Berkeley's financial condition since our last financial condition audit in 2022.¹ The audit's purpose is to provide a clear, accessible report for the public and City leadership to better understand the City's near-term and long-term financial condition and help inform decision making, especially ahead of difficult budget decisions. This audit does not assess the state of the national economy or project the potential impact of recent economic events.

Overall, Berkeley is facing ongoing challenges regarding its long-term financial condition, similar to the findings from our 2022 audit. Berkeley's net pension liability is still considered high risk. The City's unfunded capital and deferred maintenance need has grown to \$1.8 billion. In the near-term, the City faces a structural deficit, which poses additional risk to the City's long-term financial sustainability. As we stated in our 2022 audit, it will continue to be important for the City to balance its near-term needs and long-term financial obligations.

Throughout the report, we compared some of Berkeley's financial indicators to other California cities with similar characteristics. For all the financial indicators that we benchmarked to peer cities, Berkeley is not an outlier and mostly falls in the middle of the range.

Objective

Our objective was to assess Berkeley's financial condition using financial indicators for the following categories:

1. Revenues and Expenses
2. Budgetary Practices
3. Demographic and Economic Indicators
4. Net Position, Liquidity, and Reserves
5. Long-Term Debt and Liabilities
6. Net Pension and Retiree Healthcare Liabilities
7. Capital Assets

Scope and Methodology

This audit is an update to our previous financial condition audit, and we relied on a similar methodology for consistency. We used financial indicators included in the International

¹ [Berkeley's Financial Condition \(FY 2012-FY 2021\): Pension Liabilities and Infrastructure Need Attention](#)

City/County Management Association's (ICMA) *Evaluating Financial Condition* handbook for local governments. We also included some indicators used by peer cities in their financial condition audits. We do not provide an in-depth analysis of causes and impact, but we point out areas of financial risk for the City to evaluate further.

For our audit scope, we examined Berkeley's financial data within the past 10 fiscal years, from FY 2016 to FY 2025, except for a few indicators for which data was only available for limited years. We relied mainly on data from Berkeley's Annual Comprehensive Financial Reports (ACFRs). For some indicators, we also analyzed other sources of city financial data. Where appropriate, we adjusted financial indicators for inflation using the Bay Area Consumer Price Index calculated by the U.S. Bureau of Labor Statistics to express values in 2025 dollars.

For some indicators, we benchmarked Berkeley to other California cities. We selected Long Beach, Oakland, Pasadena, Santa Clara, Santa Monica, and Palo Alto because these cities were similar to Berkeley across one or more criteria, such as population, general fund expenditures per resident, services provided, and presence of a large university.

For more information on our methodology, see page 43.

Background

According to the ICMA, financial condition refers to a local government's ability to finance its services on an ongoing basis. To understand Berkeley's financial condition, this audit considers a series of financial indicators tracked over time. These indicators reflect Berkeley's financial decisions as well as external factors outside of Berkeley's control, such as changes in economic conditions, financial markets, and federal funding decisions.

To provide a broad overview of Berkeley's financial condition, our primary source was government-wide financial statements from the City's ACFRs. Government-wide financial statements are also categorized into governmental and business-type activities. This audit report mainly focuses on governmental activities, which fund citywide operations that serve all Berkeley residents and are supported mostly by taxes. Governmental activities include service areas such as general government, public safety, transportation, community development, and culture and leisure. Business-type activities operate like businesses and are supported by enterprise funds, such as the Berkeley Marina and Parking Meter funds.

This audit also takes into consideration Berkeley's unique characteristics. Berkeley has the highest population density of any city in the East Bay. Berkeley's economy is shaped by the

presence of the University of California, Berkeley campus, the high assessed value of property, and a diverse tax base. The City provides residents a full range of services beyond those offered by most similarly-sized cities in California. The City offers its own sanitation, sewer, and waste management services; parks, recreation, and the Berkeley Marina; health, housing, and community services, including city-funded health clinics and mental health services; animal control; and library. Berkeley is also a relatively older city and faces challenges with aging infrastructure.

Revenues and Expenses: Governmental activities revenues generally exceeded expenses, but the General Fund still faced a structural deficit.

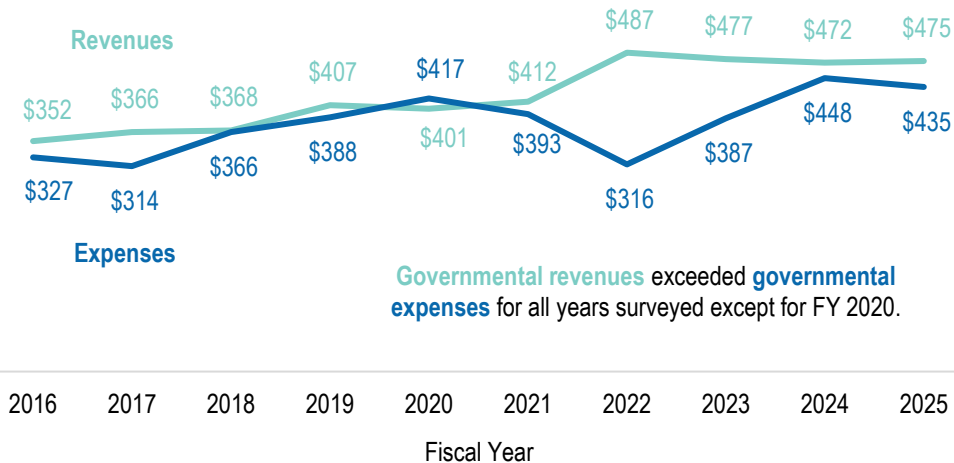
Berkeley's governmental activities revenues exceeded expenses for all years in the audit scope except FY 2020. Governmental activities revenues increased overall, primarily from growth in revenues from property taxes, state and local taxes, and investment earnings. Governmental activities expenses also increased overall, primarily from growth in community development and housing as well as health and welfare. However, the General Fund still faced a structural deficit.

Revenues

Governmental activities revenues generally exceeded expenses.

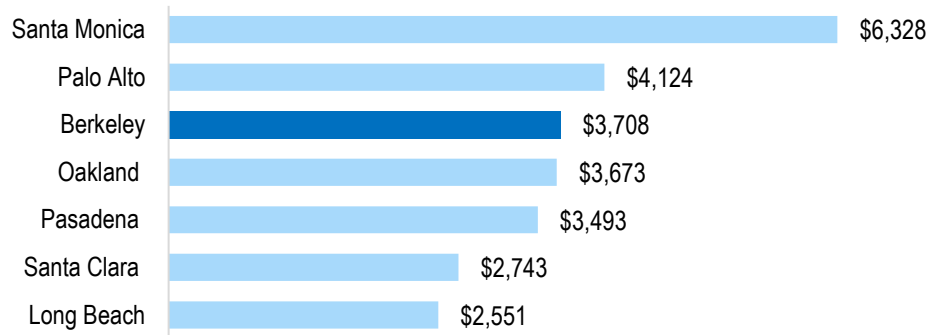
Governmental activities revenues exceeded governmental activities expenses for all years except FY 2020 (Figure 1). The exception in FY 2020 was because of revenue shortfalls due to the COVID-19 pandemic.

Figure 1. Governmental Activities Revenues and Expenses (in millions, in 2025 dollars)



Source: Berkeley ACFRs

Compared to benchmark cities in FY 2024, Berkeley's governmental revenues per resident were in the middle of the range and nearly the same as Oakland (Figure 2). Similarly, Berkeley was in the middle of the range relative to benchmark cities in our 2022 financial condition audit.

Figure 2. Governmental Activities Revenues per Resident, FY 2024

Source: Cities' FY 2024 ACFRs

Note: Not all cities reported population data by fiscal year. Santa Monica and Oakland's ACFR population figures are from calendar year 2024. Pasadena's population figure is from calendar year 2023.

However, the General Fund still faced a structural deficit.

The General Fund is the largest of all governmental funds and is the City's primary operating fund which pays for services provided by the City. City leaders focus on the General Fund because it is a flexible source of funding and can help address the City's most pressing needs.

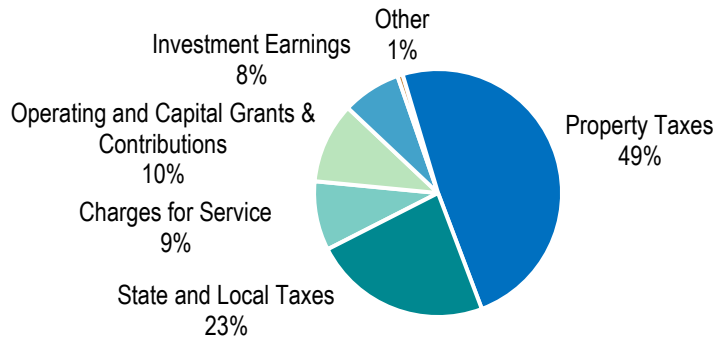
While the City's governmental activities revenues generally exceeded expenses, the City still faced a structural General Fund deficit, with deficits ranging from \$12 million to \$40 million. This is because the City determines whether it has a structural deficit at the start of the budget process. A structural deficit occurs when budgeted revenues are projected to be less than budgeted expenditures. However, Berkeley can balance its budget through one-time measures, such as moving surpluses from other funds into the General Fund. These transfers are recorded as General Fund revenue. The City's actual revenues generally cover its actual expenditures due in part to these balancing measures and adjustments to the City's revenues and expenditure over the fiscal year. Therefore, while the General Fund still faced a structural deficit, the City's governmental activities revenues generally exceeded expenses.

In the next section starting on page 13, we discuss Berkeley's budgetary practices in the context of the structural budget deficit in further detail.

Where do revenues for Berkeley's governmental activities come from?

In FY 2025, the largest source of revenue was property taxes (49 percent), followed by state and local taxes (23 percent) and operating and capital grants and contributions (10 percent) (Figure 3).

Figure 3. Revenues for Governmental Activities by Source, FY 2025



Source: Berkeley FY 2025 ACFR

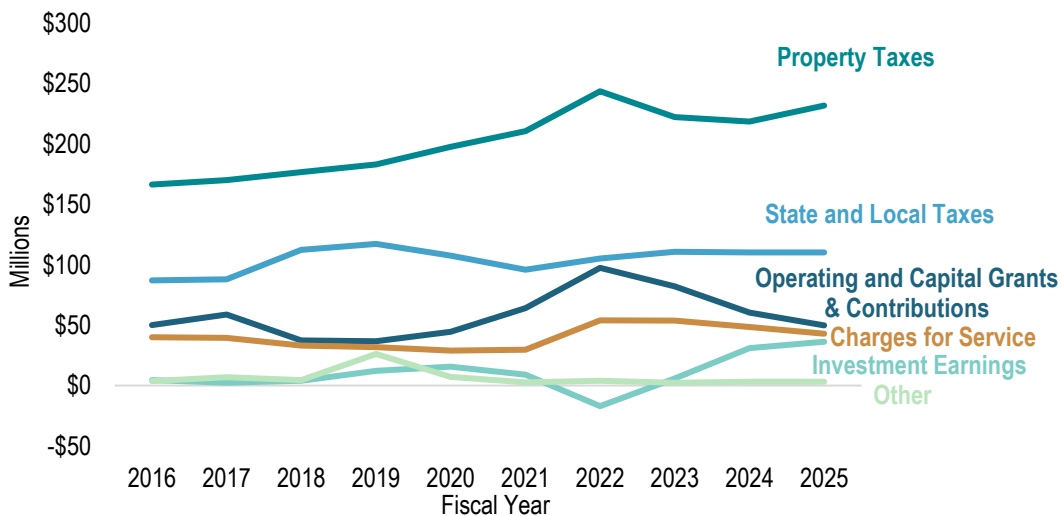
Note: “Other” includes revenues from contributions not restricted to specific programs, revenues (or losses) from the gain or loss on the sale of capital assets, miscellaneous revenues, and revenues from other unrestricted state subventions.

How have revenues changed over time?

In total, governmental activities revenues increased by 35 percent, from \$352.0 million in FY 2016 to \$474.5 million in FY 2025, adjusted for inflation.

Berkeley’s largest source of revenue was property taxes, which grew substantially and reached a peak in FY 2022. Between FY 2016 to FY 2025, revenue from property taxes increased by 39 percent, from \$166.5 million to \$231.9 million, adjusted for inflation (Figure 4). The peak in FY 2022 is explained by multiple factors, including increased assessed value of property, increased value of property sales, and the passage of Measure FF in 2020, a special tax to support fire services which was effective in FY 2022, adding more property based tax revenues.

Figure 4. Revenues for Governmental Activities by Source (in millions, in 2025 dollars)



Source: Berkeley ACFRs

Berkeley's next largest source of revenue was state and local taxes, which also grew during the audit period. Between FY 2016 to FY 2025, revenue from state and local taxes increased by 27 percent, from \$87.1 million to \$110.3 million, adjusted for inflation (Figure 4).

Operating and capital grants and contributions more than doubled from FY 2019 to FY 2022, but these revenues have since declined (Figure 4). The increase was due in large part to the City receiving American Rescue Plan Act (ARPA) grant funds.

Of all revenue streams, revenues from investment earnings had the largest percentage increase (693 percent) between FY 2016 and FY 2025. Investment earnings dipped in FY 2022, due to increased interest rates set by the Federal Reserve, but recovered above pre-pandemic levels by the end of the audit period.

The Finance Department (Finance) updates City Council on the status of the City's investment portfolio through quarterly investment reports. These quarterly investment reports include the City's investment rate of return for the quarter, indicating the outcomes of the City's investment approach, policies, and other external factors. The reports evaluate performance changes from quarter to quarter within the past fiscal year and do not cover trends across multiple years. Other cities cover past trends across years. For example, the City of Palo Alto's FY 2025 fourth quarter investment report showed their investment portfolio's rate of return for the past twenty three years.

Berkeley's Investment Policy requires Finance to provide an annual investment report to Council in addition to quarterly reports. Finance currently does not submit an annual investment report to Council. However, Finance produced annual investment reports to Council in the past that covered key investment results, such as the rate of return on the City's investments, and compared these results to the previous five fiscal years.

According to the City's Investment Policy, the City's primary investment objective is to achieve a reasonable rate of return on public funds while minimizing the potential for losses. Without reporting that covers the City's investment rate of return over a longer time span, it is difficult for the public to easily access information about past trends in the City's investment performance.

How have revenues from leases changed over time?

During the audit period, Berkeley's revenues from leases decreased by nearly one half. The City receives revenue from rent payments from tenants who lease City-owned properties. Between FY 2016 to FY 2025, the City's revenue from leases decreased by 48 percent, from \$4.9 million

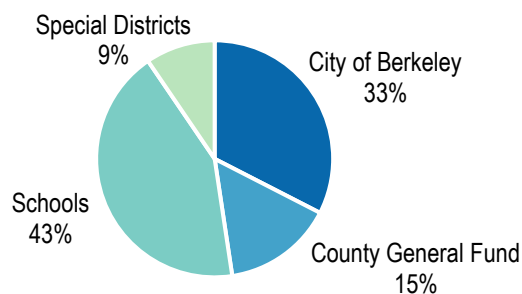
to \$2.5 million, adjusted for inflation.

While we did not investigate the cause of Berkeley's decreased lease revenue, we do know that City management has opportunities to improve lease management, such as regularly monitoring leases to prevent them from going into holdover. From our Leases Audit Follow-Up report, released in January 2025, we found that the City lacks a clear approach to lease management and lacks a complete repository of leases.² By improving tracking of leases, the City could improve revenue generation from leases on City-owned properties.

Where do your property taxes go?

Alameda County collects property tax revenue from Berkeley taxpayers and distributes them among multiple entities. Ad valorem taxes are one part of the property tax bill and are based on a percentage of the assessed value of property. There are two types of ad valorem taxes: the countywide 1 percent tax and voter-approved debt service taxes. The countywide 1 percent ad valorem property tax amounts to roughly one-half of the total property tax bill.³ However, this may differ for individual properties based on a variety of factors, such as assessed value and square footage. The other part of the property tax bill is fixed charges and/or special assessments, which include parcel taxes. In FY 2025, Berkeley received an estimated one-third of the countywide 1 percent ad valorem property tax revenue generated within the City limits (Figure 5).

Figure 5. Berkeley's Countywide 1 percent Ad Valorem Property Tax Distribution by Entity, FY 2025



Source: Auditor analysis of data from the Alameda County Auditor-Controller/Clerk-Recorder's Office

Note: This figure is an estimate of the distribution of countywide 1 percent property tax revenue within City limits. Special districts include AC Transit, East Bay Regional Park, East Bay Municipal Utility District, Bay Area Rapid Transit and other regional entities. According to Alameda County, this does not include any amount that may be shifted due to the dissolution of Berkeley's former redevelopment agency.

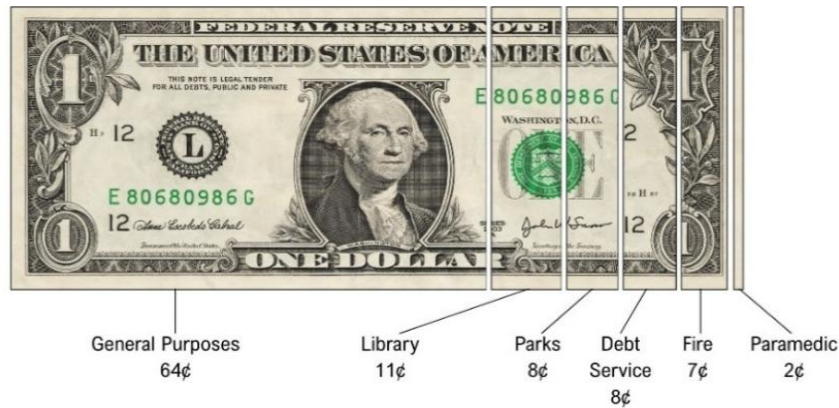
² [2009 Leases Audit Follow-Up: Berkeley Faces the Same Risks 16 Years Later](#)

³ According to a 2025 City management report to Council, this estimate is based on a single-family residence with an assessed value of \$550,000 and 1,900 square feet with a \$7,000 homeowner's exemption.

What are your property taxes levied for?

Berkeley receives revenues from property taxes that are levied for specific purposes. For every dollar of property tax revenue Berkeley received in FY 2025, a portion was levied for general purposes, library services, city parks, debt service for voter-approved bond measures, fire department services, and paramedic services. The largest portion was levied for general purposes (Figure 6).

Figure 6. What are your property taxes levied for? (FY 2025)



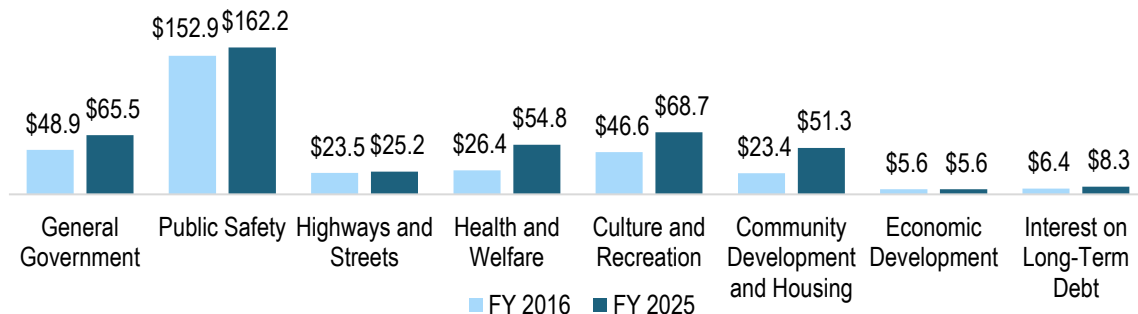
Source: Berkeley FY 2025 ACFR

Expenses

How have Berkeley's expenses changed over time?

Overall, Berkeley's government activities expenses increased by 33 percent from \$327.1 million in FY 2016 to \$435.0 million in FY 2025, adjusted for inflation. In FY 2025, public safety represented the City's largest expense by function (Figure 7). Between FY 2016 and FY 2025, City functions with the largest increases in spending were community development and housing (119 percent) and health and welfare (107 percent), adjusted for inflation.

Figure 7. Expenses for Governmental Activities by Function (in millions, in 2025 dollars)

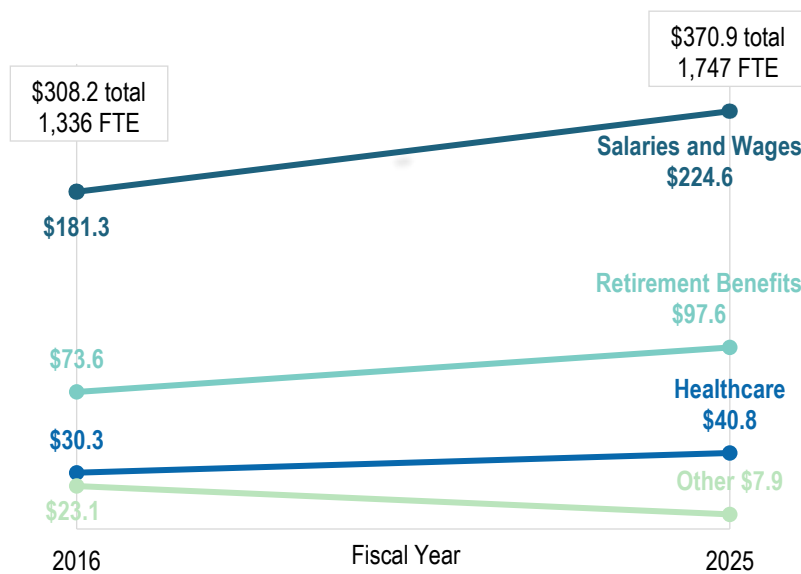


Source: Berkeley ACFRs

How has personnel expenditure changed over time?

Salaries and benefits represent a large portion of Berkeley's spending and have increased over time. Salaries and benefits represent approximately half of the citywide budget and about two-thirds of the General Fund budget. Between FY 2016 and FY 2025, Berkeley's total personnel expenditure increased by 20 percent from \$308.2 million to \$370.9 million, adjusted for inflation (Figure 8). Berkeley's budgeted full-time equivalent (FTE) employee count increased by approximately 30 percent from FY 2016 to FY 2025, despite total personnel expenditure only increasing by approximately 20 percent.

Figure 8. Personnel Expenditures by Category (in millions, in 2025 dollars)



Source: Berkeley City Manager, Budget Office data; Berkeley FY 2025 ACFR

Note: This graphic includes budgeted FTE counts, which include the number of filled and vacant FTEs. "Salaries and wages" include regular and hourly pay, overtime pay, stipends, and workers' compensation pay. "Healthcare" includes healthcare benefits, such as medical, dental, and vision insurance. "Retirement benefits" include retirement income, such as pensions, and retiree healthcare benefits. "Other" includes life insurance, commuter benefits, terminal payout, contributions to the workers' compensation fund, and other fringe benefits.

The City's growth in personnel expenditure is driven by increased spending on salaries and wages, retirement benefits, and healthcare. The City's spending on salaries and wages had the largest dollar increase (\$43.3 million) from FY 2016 to FY 2025, followed by retirement benefits (\$23.9 million) and healthcare (\$10.6 million) (Figure 8).

Salaries and wages increased from FY 2016 to FY 2025 primarily due to a \$33.3 million increase in regular salary expenditures for employees other than Police, and a \$10.6 million increase in Police and Fire overtime expenditures, adjusted for inflation. Notably, regular salary expenditures for Police decreased by \$4.8 million from FY 2016 to FY 2025, adjusted for

inflation. In our 2022 audit of police overtime, we found the Berkeley Police Department (BPD) relied on overtime to achieve its staffing levels.⁴ Consistent with this audit's findings, BPD's actual overtime expenditures exceeded its overtime budget for the last three fiscal years, according to the BPD's FY 2025 budget presentation to the Budget and Finance Committee.

What is contributing to General Fund expenditure growth?

In January 2026, the Budget Office highlighted General Fund expenditures that have substantially grown, including salaries, pension costs, overtime pay, and public liability insurance. However, these costs vary in their contribution to the General Fund baseline overall. For FY 2027, salaries are projected to represent 34.8 percent of the General Fund baseline, compared to pension costs representing 17.7 percent, overtime pay representing 4.2 percent, and public liability insurance representing 3.6 percent.

According to the City Attorney's Office, cost increases for public liability insurance reflect a statewide trend of increasing insurance or self-insurance costs for public entities. The City's public liability insurance is a self-insurance pool administered by the Bay Cities Joint Power Insurance Authority (BCJPIA), whose members consist of cities, towns, and other public agencies located in the Bay Area. In FY 2025, the City's public liability insurance cost through BCJPIA was \$10.46 million, which included risk management support, claims handling, and general liability coverage, involving the payout of general liability claims.

Recommendation

- 1.1 To present clear information regarding the City's investment performance, we recommend the Finance Department provide an investment report to Council that compares the City's investment rate of return for the most recent fiscal year to at least the previous five fiscal years, similar to the City's past annual investment reports.

⁴ [Berkeley Police: Improvements Needed to Manage Overtime and Security Work for Outside Entities](#)

Budgetary Practices: One-time balancing strategies can put the long-term sustainability of some funds at risk.

General Fund Deficit

Berkeley's General Fund faces a structural deficit. As mentioned previously, a structural deficit occurs when budgeted revenues are projected to be less than budgeted expenditures. Berkeley has faced a structural General Fund deficit for multiple years. The City currently faces a projected structural General Fund deficit that is estimated at \$32 million in FY 2027 and \$33 million in FY 2028.⁵

Berkeley relied on one-time balancing measures to address its structural deficit in the past.

Berkeley faces an ongoing structural General Fund deficit due in part to one-time balancing measures. For several years, the City used one-time balancing measures to address the structural deficit rather than making structural changes to budgetary practices. While one-time solutions relying on other funds can be appropriate to balance the General Fund temporarily, they do not address the General Fund structural deficit in the long run and can put long-term sustainability of these other funds at risk.

For example, to help balance the General Fund in FY 2025, the City redirected \$4.7 million intended for the workers' compensation fund to the General Fund. At the time, an external actuarial report had previously stated that the City's workers' compensation program did not have enough assets to cover its estimated future liabilities by approximately \$2 million as of June 2024. Using funds intended for the workers' compensation fund put the City at risk of not having enough assets to cover workers' compensation benefits for employees who have suffered a work-related injury or illness. It also did not help address the structural deficit in the General Fund in the long run.

The City also relied on the Section 115 Trust to help balance the General Fund in FY 2025. The City pulled \$3 million from the Section 115 Trust to pay for its pension expenses instead of the General Fund. The Section 115 Trust is a rainy-day fund that allows the City to set aside resources to pay its pension obligations. While the City was authorized to use the Section 115 Trust to pay for pension expenses, it is not sustainable for the City to continuously rely on the

⁵ This is the structural deficit estimate as of January 22, 2026.

Section 115 Trust to meet its pension obligations. By transferring funds out of the Section 115 Trust, the City may be less prepared to meet its required pension contributions in the long term, which can negatively impact the City's financial condition. We discuss the Section 115 Trust in further detail on page 32.

City Council's fiscal policies for budget development can be strengthened.

City Council's fiscal policies for budget development can be strengthened. By law, the City must pass a balanced budget. However, the City can meet the statutory definition of a balanced budget by using one-time solutions rather than sustainable strategies. In a 2022 risk analysis report commissioned by the City, the Government Finance Officers Association (GFOA) recommended the City adopt a policy that commits to using sustainable strategies to pass a structurally balanced budget, where recurring revenues are equal to or exceed recurring expenditures. GFOA also recommends that city budget policies call for communicating whether recurring revenues and recurring expenditures are balanced. While City Council has a fiscal policy that requires the budget to primarily allocate one-time revenue for one-time expenditures, the Council's fiscal policies do not require a separate assessment of recurring revenues and recurring expenditures.

Some cities have adopted this GFOA best practice in different ways. For example, the City of Long Beach adopted a policy that requires the General Fund budget to be structurally balanced for the fiscal year. If the General Fund is structurally unbalanced, the policy requires the City to explain their approach and time frame for achieving structural balance in the General Fund.

City management has recently used some more sustainable strategies to develop the budget. For the fiscal year 2027 and 2028 budget, the Budget Office used the prior year's actual expenditures and projected needs to develop the baseline budget, rather than using the prior year's adopted budget, which had been the practice for many years. According to the Budget Office, this new baseline budget approach aims to more accurately project the real cost of service. GFOA also states that budgeting based on the estimated cost of services rather than assuming the prior year's budget helps to avoid mid-year budget increases. However, this initiative from the Budget Office has not yet been formally adopted as a requirement for future budgets.

In addition, the City is considering placing a sales and use tax measure on the 2026 ballot to help address its projected General Fund structural deficit and support essential City services. The potential 0.5 percent increase in the City's sales and use tax would provide about \$9 to \$10

million annually for general governmental use until ended by voters, according to sample ballot language for the proposed sales and use tax measure.

Enterprise Fund Deficits

Some enterprise funds have structural deficits and receive transfers from other funds to balance.

Some enterprise funds have structural deficits. For example, the Off-Street Parking Fund has a deficit due in part to decreased parking revenues because of the pandemic and increased expenditures from debt service costs for the Center Street Garage Reconstruction Project. The Off-Street Parking Fund uses parking fees to support capital, operation, and maintenance costs of three off-street parking facilities owned by the City: the Center Street Garage, the Oxford Garage, and the Telegraph Channing Garage. In addition, some of the City's parking fees have not been updated in five or more years, which may have slowed down Off-Street Parking Fund revenues. The Off-Street Parking Fund depleted its fund balance in FY 2020 and relies on surplus from the Parking Meter Fund to continue operations. In FY 2025, \$1 million was transferred from the Parking Meter Fund to the Off-Street Parking Fund. The Off-Street Parking Fund also received \$1.9 million in General Fund support in FY 2022 and a total of \$4.1 million in ARPA funds in FY 2022 and FY 2023.

The Marina Fund also has a structural deficit and has received transfers from other funds to help cover operational and capital needs for many years. According to the adopted FY 2025 and FY 2026 budget, the Marina Fund received over \$30 million in total capital funding from the T1 Bond Measure, grants, and General Fund over the previous three years.⁶ While not a transfer, the Marina Fund also received approximately \$2.6 million in ARPA funds in FY 2022 and FY 2023 to help balance the fund. According to Parks, Recreation and Waterfront (PRW) leadership, despite an investment in capital funding of more than \$50 million over the last 10 years, unfunded capital infrastructure needs at the waterfront still exceed an estimated \$163 million. Marina Fund revenues primarily come from fees generated from vessels that berth at the Marina, commercial building and ground leases, and recreation programs. According to PRW leadership, revenues have suffered because several commercial tenants have struggled to pay rent, and berth occupancy has not recovered from a safety- and infrastructure-related exodus starting in 2016.

City Council's fiscal policies require enterprise funds to balance. Enterprise funds are intended

⁶ Measure T1 was a \$100 million infrastructure bond passed in 2016 to fund improvements to City infrastructure and facilities.

to be primarily self-supporting and are used for activities which charge fees to customers for goods or services. When enterprise funds have structural deficits, they may rely on transfers from the General Fund to balance and may worsen the overall City budget deficit.

Some enterprise funds make annual transfers out to the General Fund.

Some enterprise funds also make annual transfers out to the General Fund. In FY 2025, the Parking Meter Fund transferred approximately \$1 million to the General Fund for the Public Commons for Everyone Initiative. This initiative was intended to improve Berkeley's public areas and increase access to public toilets, public seating, trash cans, as well as housing and outreach services. The annual transfer out of the Parking Meter Fund to the General Fund may not be sustainable when the Parking Meter Fund surplus is also used to help balance the Off-Street Parking Fund. Other transfers from enterprise funds to the General Fund include indirect cost reimbursements related to the operations of the City as a whole, such as administrative support.

The City can further strengthen its policies to address enterprise fund deficits.

The City has taken some steps to address enterprise fund deficits. For example, for the fiscal year 2027 and 2028 budget, the Budget Office required departments to submit structural balancing plans for any fund projecting a deficit. Another example is that the Budget Office asked departments to evaluate current fees and propose adjustments where appropriate. However, the City does not have a documented citywide policy to regularly evaluate and adjust enterprise fees where appropriate. The City also has not regularly evaluated transfers out of enterprise funds and how these transfers impact the financial sustainability of these funds.

In response to a GFOA recommendation, City management started but did not complete plans to develop reserve policies for enterprise funds. Reserves for enterprise funds can promote operational stability and lessen the need for transfers from other funds. On the other hand, according to department staff and leadership, reserves may not be feasible for some enterprise funds that do not have additional funds to set aside. Some jurisdictions have developed separate reserve goals for their enterprise funds. For example, the City of San Diego has different reserve goals for their enterprise funds based on a percentage of operating revenues or the minimum balance needed to support a specific number of days of operation.

Recommendations

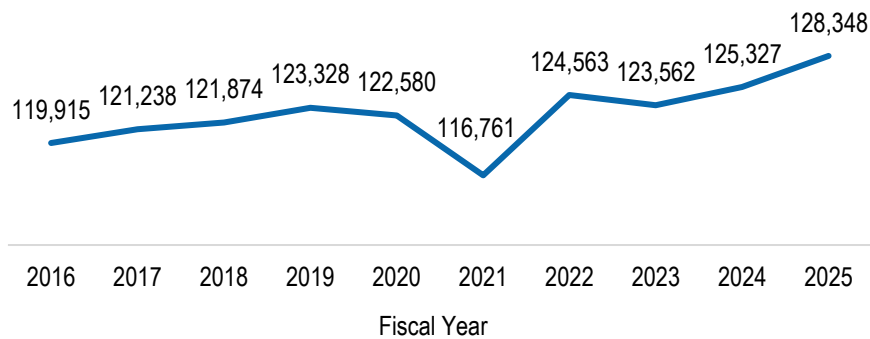
- 2.1 To help the City pass a structurally balanced budget, we recommend City management propose a fiscal policy to City Council to assess whether recurring revenues and recurring expenditures are balanced, and communicate this information to City Council. We recommend this policy also formalize City management's initiative to develop the baseline budget using the prior year's actual expenditures and projected needs.
- 2.2 To ensure sustainable budgetary strategies continue, we recommend the City publicly report in the adopted budget book that departments are required to submit a structural balancing plan to the Budget Office for enterprise funds that project a deficit. As part of this process, we recommend the Budget Office and departments work together to regularly assess the transfers in and out of these enterprise funds.
- 2.3 To improve the financial sustainability of enterprise funds, we recommend the City adopt a citywide policy to regularly evaluate enterprise fees and propose adjustments where appropriate to strengthen revenues and help mitigate the future risk of enterprise fund deficits.
- 2.4 To further improve the financial sustainability of enterprise funds, we recommend the City adopt a policy to establish a reserve for each enterprise fund as appropriate and legally permitted. We recommend the Budget Office and departments work together to determine the appropriate reserve goal for each enterprise fund.

Demographic and Economic Indicators: Berkeley's economy improved after the pandemic but experienced recent declines.

Berkeley's population returned to pre-pandemic levels and continued to grow.

Berkeley's population grew during the audit period between FY 2016 and FY 2025 (Figure 9). Population has exceeded pre-pandemic levels after the decline between FY 2020 and FY 2021 that coincided with the onset of the COVID-19 pandemic.

Figure 9. Population



Source: Berkeley FY 2025 ACFR

UC Berkeley is the City's largest employer and attracts thousands of students and staff to the City.

During the audit period, University of California, Berkeley (UC Berkeley) brought an average of about 44,000 students to Berkeley each year. Between 2016 and 2025, the student population increased by about 6,000 students. UC Berkeley was the City's largest employer, employing approximately one-fifth of the City's workforce, or an average of 14,000 people each year over the audit period. University students and staff have contributed to local consumer spending and increased sales and use tax revenues. The university presence also generates expenses for the City of Berkeley due to students and staff using city services.⁷ In 2021, UC Berkeley agreed to pay the City \$82.6 million over 16 years to support city expenses, including fire and other city services.

⁷ UC Berkeley is a tax-exempt organization under the Internal Revenue Code Section 501(c)(3).

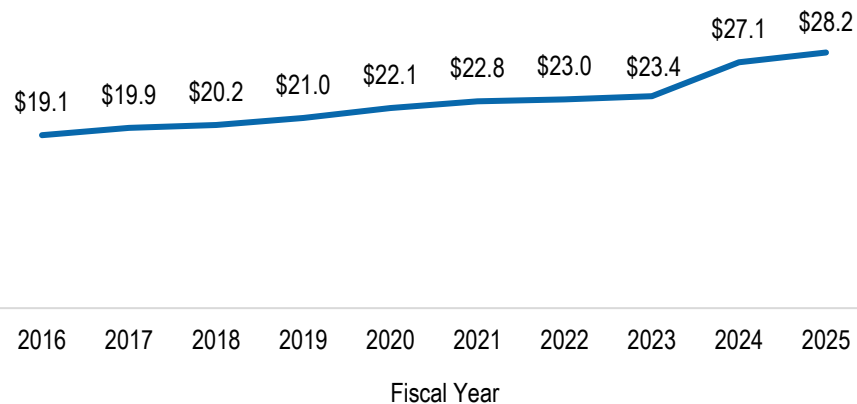
Unemployment recovered to pre-pandemic levels but has trended upward again.

The City's unemployment rate increased more than three-fold from 3.1 to 13.5 percent between FY 2019 and FY 2020. However, the unemployment rate recovered to pre-pandemic levels in FY 2022. More recently, the unemployment rate has trended upward again, from 3.1 percent in FY 2022 to 5.0 percent in FY 2025.

Property value continues to grow, while median household income has not substantially grown.

Property values remain a strong and growing source of city revenues. Between FY 2016 and FY 2025, the assessed value of taxable property in Berkeley increased by 48 percent, from \$19.1 billion to \$28.2 billion, adjusted for inflation (Figure 10).

Figure 10. Total Taxable Assessed Property Value (in billions, in 2025 dollars)



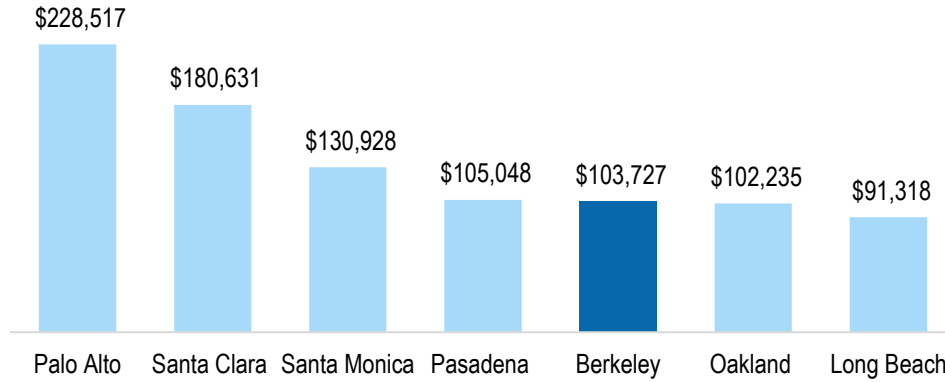
Source: Berkeley FY 2025 ACFR

Property values are integral to Berkeley's overall financial health. Growth in taxable assessed property value corresponds to growth in property tax revenues because a portion of property taxes are based on a percentage of the assessed value of property, otherwise known as ad valorem property taxes. Berkeley residents who are renters and do not benefit from increased property values may also face higher rents passed down from property owners as a result of increased taxes on property.

While property value grew, median household income has not substantially grown. The median household income in Berkeley increased by only 1 percent between 2016 and 2024, after adjusting for inflation. In 2024, Berkeley's median household income fell roughly in the middle of benchmark cities (Figure 11). This may mean that some Berkeley households, especially new homeowners, are paying higher ad valorem property taxes while their incomes may have not

substantially grown after adjusting for inflation. Due in part to Proposition 13, owners of identical properties may pay different amounts of property taxes depending on their time of purchase. Under Proposition 13, the assessed value of property is generally determined by the purchase price and year of purchase. Therefore, new homeowners, whose properties have been recently reassessed at current market value, tend to have higher ad valorem property taxes.

Figure 11. Median Household Income, 2024



Source: 2024 American Community Survey (reported in calendar year)

Net Position, Liquidity, and Reserves: Berkeley's net position, liquidity, and reserves indicate improvements.

Net position measures the difference between the City's assets (what it owns) and its liabilities (what it owes). The City's assets include cash and investments as well as resources such as capital assets that are not easily converted into cash. The City's liabilities include debt and other obligations, such as accounts payable, accrued salaries and wages, and unfunded pension and retiree healthcare liabilities. Net position reflects a government's financial condition at a point in time and can be thought of as the City's remaining resources after its debts are accounted for.

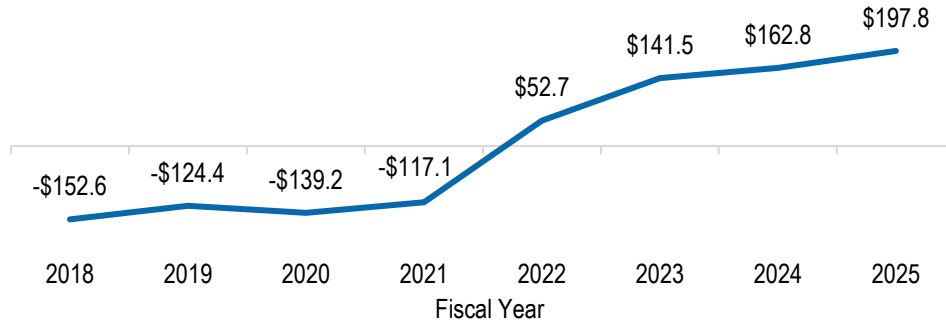
Liquidity measures the City's cash position, which includes cash on hand and in the bank, as well as other assets that can easily be converted into cash, such as short-term investments. Liquidity tells us about the City's ability to pay its short-term obligations, while net position represents a longer-term view of the City's financial condition because it includes assets not easily converted into cash.

Reserves are funds set aside for future use and are built up over time from operating surpluses. Strong reserves allow cities to weather economic downturns more effectively, manage the consequences of outside agency actions that may result in revenue reductions, and address unexpected emergencies like natural disasters and other catastrophic events such as pandemics.

The City's net position related to governmental activities increased, indicating an improvement.

The City's growth in net position indicates an improvement but may also reflect factors outside of the City's control, such as changes in the financial market. Between FY 2018 and FY 2025, Berkeley's net position related to governmental activities increased significantly from -\$152.6 million in FY 2018 to \$197.8 million in FY 2025. Specifically, the largest change in net position took place between FY 2021 and FY 2022, when the City's net position increased by \$169.8 million (Figure 12). The large increase in net position between FY 2021 and FY 2022 was specifically due in part to a decrease in net pension and retiree healthcare liabilities from a gain in net investment income. In a later section of this report, we cover the City's net pension and retiree healthcare liabilities in greater detail (see page 30).

Figure 12. Governmental Activities Net Position (in millions, in 2025 dollars)



Source: Berkeley ACFRs

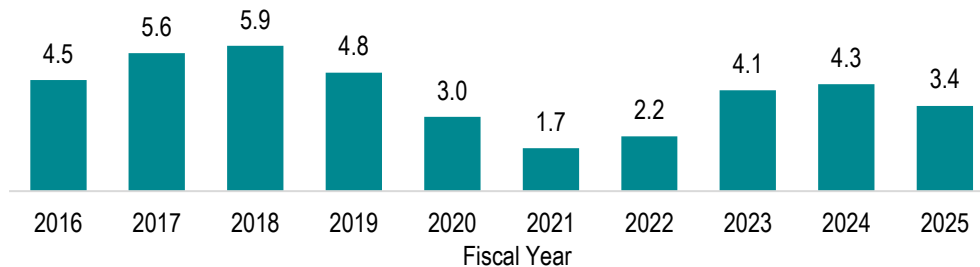
Note: We modified the scope of this figure to start in FY 2018, instead of FY 2016, to take into consideration a GASB accounting change that impacted net position beginning in FY 2018.

Berkeley's liquidity ratio, or cash position, is strong and has increased since a dip in FY 2021.

The liquidity ratio, otherwise known as cash position, measures the City's ability to pay its short-term obligations. According to the ICMA, the liquidity ratio is calculated by dividing cash and short-term investments (assets that can be easily converted to cash) by current liabilities (short-term obligations). A liquidity ratio of greater than one indicates that cash and short-term investments exceed current liabilities. A ratio of one or less than one would be a cause for concern, particularly if this trend persists for more than three years.

Berkeley's liquidity ratio is strong and has increased since a dip in FY 2021. Between FY 2021 and FY 2025, the liquidity ratio increased because cash and short-term investments increased while current liabilities have decreased. Berkeley's increased liquidity ratio suggests that Berkeley's capacity to pay its bills in the short term has improved. However, Berkeley's liquidity ratio in FY 2025 was not as strong as it was in FY 2019, which suggests Berkeley's capacity to pay its bills in the short-term has not fully recovered to pre-pandemic levels (Figure 13).

Figure 13. Governmental Activities Liquidity Ratio (Current Assets Compared to Current Liabilities)



Source: Berkeley ACFRs

Berkeley has contributed annually to its reserves since our 2022 audit.

In FY 2017, the City created the Catastrophic Reserve and the Stability Reserve following a city audit of the General Fund reserve policy. The Catastrophic Reserve is intended to support General Fund operations in the event of a public emergency defined as extreme, one-time events, such as an earthquake, fire, flood, civil unrest, terrorist attack, public health emergencies, and pandemics. The Stability Reserve is intended to help the City maintain services and reduce financial risks associated with unexpected revenue shortfalls during a single fiscal year or prolonged period of recession.

Since our 2022 financial condition audit, the City has contributed annually to its reserves. Our previous audit found that the City was not on track to meet its previous reserve balance goal of 30 percent of budgeted General Fund revenues by FY 2027. This was due in part to the City borrowing from the reserves to balance a General Fund deficit caused by COVID-19. Since then, the City has made annual contributions and increased its overall reserve levels.


The City updated its reserves goal to balance the need to save with the need to use funds for alternative uses.

In July 2025, the City Council passed a resolution to update its General Fund Reserves policy based on a GFOA risk assessment of the City’s reserves. GFOA used a risk model to recommend a reserves goal that would enable Berkeley to cover projected risks within a ten-year period with sufficient confidence. GFOA recommended a range of 20 to 30 percent for the new reserve goal to balance the need to save with the need to use funds for alternative uses. Following GFOA’s recommendation, the City Council set a new reserves goal to achieve 20 to 30 percent of budgeted General Fund revenues within ten years. The new goal starts in FY 2026.

The City is on track to meet its updated reserves goal.

The City is on track to meet its updated reserves goal. As of FY 2025, the reserves level was at 21.3 percent of General Fund revenues (Table 1).

Table 1. The City is on track to meet its new reserves goal in FY 2026.

New reserves level goal	FY 2025 reserves level	On track to meet goal in FY 2026?
20 – 30 percent of adopted General Fund revenues	21.3 percent of adopted General Fund revenues	YES 

Source: Berkeley City Manager, Budget Office data; Council Resolution No. 71,908-N.S.

While FY 2026 is outside of our audit scope, City management estimates that the City is on track to achieve its new reserves goal in FY 2026, with reserves projected to be at 22.1 percent of adopted General Fund revenues. However, the City's reserves level may change before the end of FY 2026 if the City decides to use the Stability Reserve to help address the FY 2027 and FY 2028 structural General Fund deficit.

Long-Term Debt and Liabilities: Long-term debt and liabilities have grown overall but general obligation bond debt per resident has decreased in recent years.

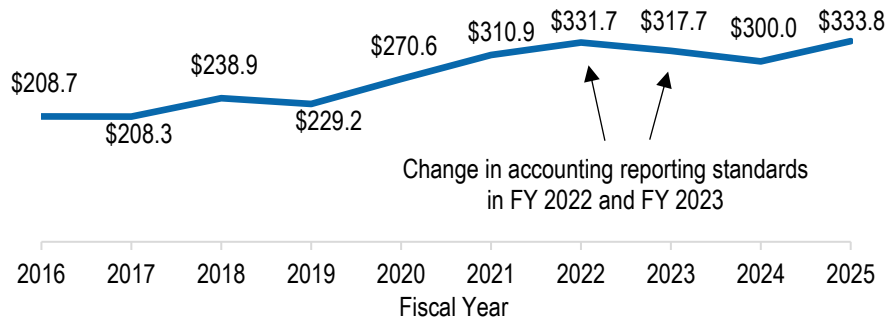
(Not Including Pension and Retiree Healthcare Liabilities)

An accounting liability is an obligation to make a payment in the future as a result of a past event. Long-term liabilities include debts, in addition to other long-term obligations like accrued vacation and sick leave, accrued workers’ compensation claims and judgments, and accrued public liability claims and judgments. Long-term liabilities can include unfunded pension and retiree healthcare liabilities, but they are not included in this section and instead discussed starting on page 30.

Berkeley’s long-term liabilities have grown but still fall in the middle of the range compared to benchmark cities.

Between FY 2016 and FY 2025, the City’s total long-term liabilities increased by 60 percent from \$208.7 million to \$333.8 million, adjusted for inflation (Figure 14).

Figure 14. Governmental Activities Long-Term Liabilities (in millions, in 2025 dollars)

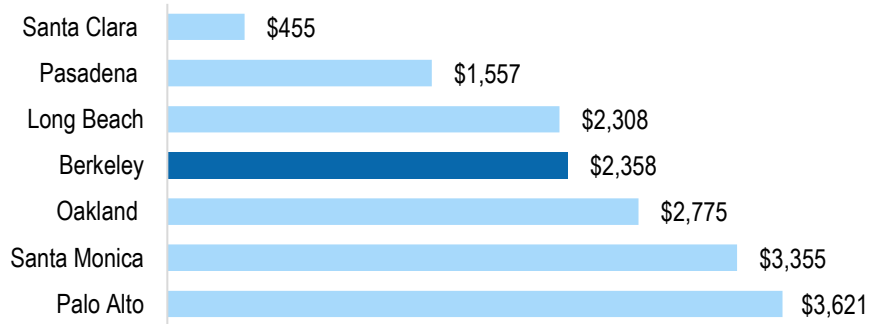


Source: Berkeley ACFRs

In FY 2022, a change in Governmental Accounting Standards Board (GASB) standards required government entities to report leases payable as a long-term liability. In FY 2023, another change in GASB accounting standards required government entities to also report Information Technology (IT) subscriptions, such as software licenses, as a long-term liability. The addition of leases and IT subscriptions did not substantially alter the City’s total long-term liabilities, except in FY 2025 when the addition of new leases accounted for more than half of the increase from FY 2024 to FY 2025 (Figure 14).

Compared to benchmark cities, Berkeley’s long-term liabilities were in the middle of the range at \$2,358 per resident in FY 2024 (Figure 15). In our 2022 financial condition audit, Berkeley was also in the middle of the range.

Figure 15. Governmental Activities Long-Term Liabilities per Resident, FY 2024



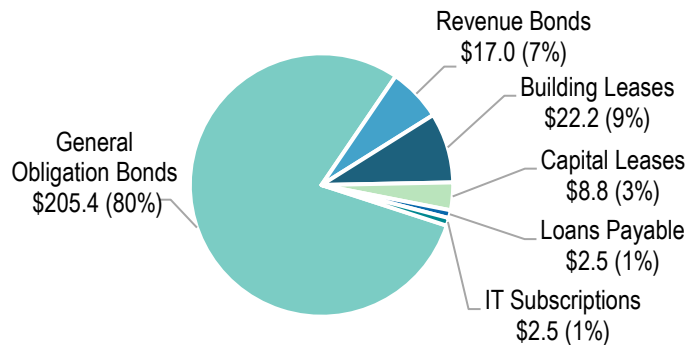
Source: Cities' FY 2024 ACFRs

Between FY 2016 and FY 2025, Berkeley’s long-term liabilities increased primarily due to increased bond debt from general obligation bonds. General obligation bonds are a form of long-term debt that cities use to finance capital infrastructure projects and are paid back through property taxes based on assessed value. General obligation bonds are approved through bond measures that must have at least two-thirds voter approval to pass.

Most of Berkeley’s debt comes from general obligation bonds.

In FY 2025, debt represented more than three-fourths of Berkeley's long-term liabilities. Eighty percent of Berkeley’s debt comes from general obligation bonds (Figure 16). The remaining twenty percent of Berkeley's debt comes from revenue bonds, building leases, capital equipment leases, loans payable, and IT subscriptions.

Figure 16. Governmental Activities Debt by Type, FY 2025 (in millions)



Source: Berkeley FY 2025 ACFR

Note: This figure does not include unfunded pension and retiree healthcare liabilities, workers' compensation, or other long-term obligations.

Berkeley's general obligation bond rating remained favorable.

Berkeley's general obligation bond ratings have been consistently favorable. The City's general obligation bond ratings from Standard and Poor's remained at its second highest rating of AA+ over the audit period (Table 2). The City's general obligation bond ratings from Moody's improved from Aa2 to Aa1 in FY 2019, the second highest rating offered by Moody's. Bond ratings issued by credit agencies are a measure of the certainty that the City will pay all interest and principal owed to investors. The higher the bond rating, the lower the cost of borrowing. The lower the cost of borrowing, the more savings the City can pass on to taxpayers.

Table 2. Berkeley's General Obligation Bond Ratings

	Fiscal Year									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Standard and Poors' Rating	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+
Moody's Rating	Aa2	Aa2	Aa2	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1

Source: Berkeley ACFRs

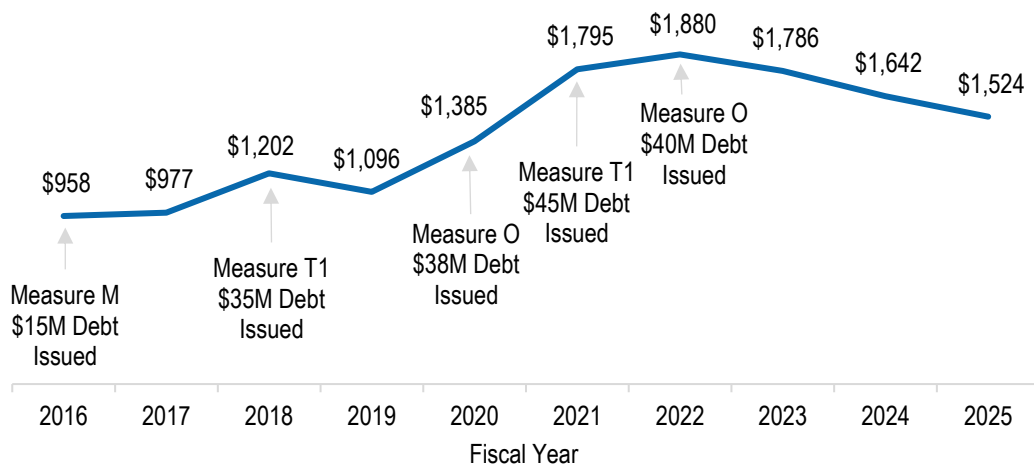
Berkeley's general obligation bond debt remained at or less than one percent of taxable assessed property value.

To help ensure proper debt management, cities can limit how much general obligation bond debt they issue based on a set percentage of total taxable assessed property value.

During the audit period, the City's general obligation bond debt remained at or less than one percent of taxable assessed property value. In our previous financial condition audit, Berkeley's general obligation debt as a percentage of taxable assessed property value was significantly lower than the City's threshold of 15 percent at the time. As a result, we recommended the City update its debt management policy to set the general obligation threshold to a more locally appropriate level. The Finance Department then decreased the general obligation bond threshold from 15 percent of assessed value to a more locally appropriate threshold of 6 percent.

Berkeley's general obligation bond debt per resident peaked in FY 2022 and declined in recent years.

General obligation bond debt per resident peaked in FY 2022 and declined after the City did not issue more general obligation bond debt (Figure 17).

Figure 17. General Obligation Bond Debt per Resident (in 2025 dollars)

Source: Berkeley ACFRs

If Berkeley issued more general obligation bonds, debt service tax rates would increase in the near term.

Debt can be a reasonable financing strategy for local governments. General obligation bond debt allows Berkeley to borrow money for capital projects and spreads the cost burden over time so that taxpayers who will benefit from the asset now and in the future can help pay for it. Debt service is the amount that borrowers are required to pay back for issued debt. Voters approve general obligation bonds that are paid back through specific property tax rates based on assessed value, which are known as voter-approved ad valorem debt service taxes.

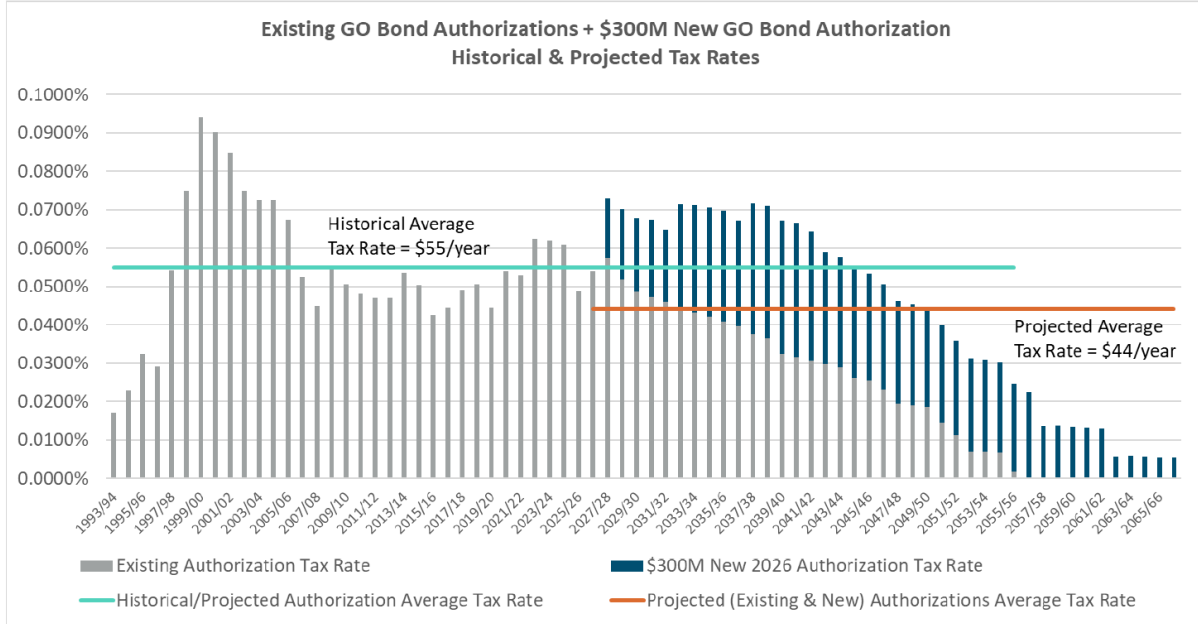
With current resources alone, Berkeley does not have sufficient funding to fully address its unfunded capital and deferred maintenance needs, as we will cover in greater detail starting on page 34. The longer the City leaves unfunded capital needs unaddressed, the more expensive they will be to address in the future.

If Berkeley issued more general obligation bonds, debt service tax rates would increase in the near term. City management submitted staff recommendations in December 2025 regarding a potential \$300 million bond measure in 2026 to help address unfunded capital needs. According to City management's analysis, if Berkeley issued this proposed general obligation bond, the projected 40-year average debt service tax rate for property owners would be less than the historical average debt service tax rate (Figure 18).⁸ This average debt service tax rate assumes that no other general obligation bonds will be issued other than the proposed \$300 million bond. In the near term, Figure 18 shows that debt service tax rates are likely to increase

⁸ City management's analysis assumes \$100 million would be issued every five years.

initially. Figure 18 also shows that property owners will not see decreased debt service tax rates in their property tax bill until about 20 years have passed.

Figure 18. Historical and Projected Average Tax Rates to Pay Back General Obligation Bond Debt



Source: City Manager's Office

Note: The historical and projected average tax rates are per \$100,000 in assessed property value.

Net Pension and Retiree Healthcare Liabilities: Berkeley's net pension liability is still high risk and retiree healthcare liability decreased.

What is a net pension or net retiree healthcare liability?

Berkeley contributes to various employee retirement benefit plans including pensions through the California Public Employees Retirement System (CalPERS). Pension benefits are earned by employees each year to be paid out after they retire. In addition, Berkeley provides other post-employment benefits (OPEB), or earned compensation other than pensions, for employees when they retire. In Berkeley, OPEB refers to retiree healthcare coverage.

A net pension or net retiree healthcare liability occurs when the estimated cost of benefits exceeds the value of the assets that have been set aside to pay for those benefits. The net pension liability or net retiree healthcare liability is the unfunded portion of the City's total pension or retiree healthcare liability, also referred to as an unfunded liability.

Pension and retiree healthcare contributions can place significant pressure on a city's budget. Some factors, such as yearly required contributions for CalPERS plans, are set by CalPERS and are outside the City's control, posing a widespread challenge for California cities. Cities that do not have substantial funds set aside today will likely face impacts to their credit rating and have to make higher contributions to plans later, which could limit funding for other priorities.

Net Pension Liability

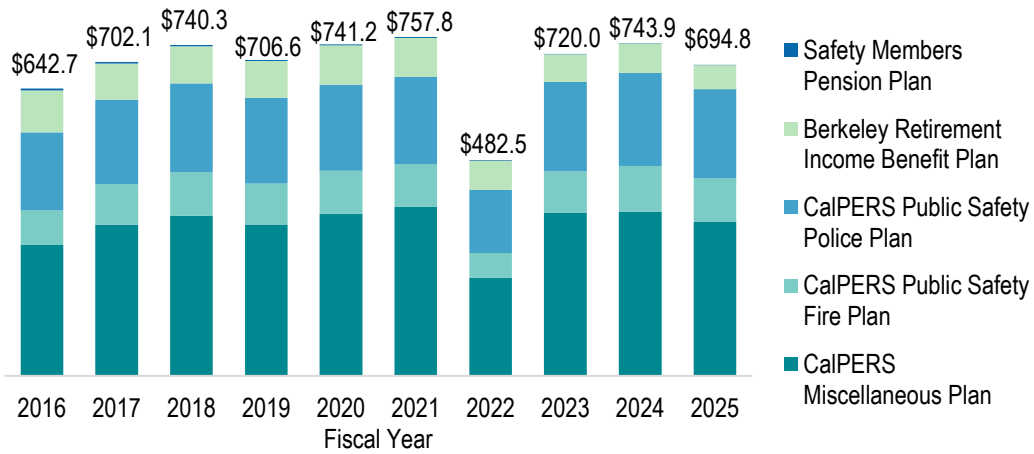
Berkeley has three pension plans administered through CalPERS, which are the Miscellaneous Plan, the Public Safety Fire Plan, and the Public Safety Police Plan. Berkeley also has two older city-sponsored plans that are closed to new members and being phased out: the Berkeley Retirement Income Benefit Plan and Safety Members Pension Plan.

The City's net pension liability reached a peak in FY 2021 and decreased thereafter.

The City's net pension liability reached a peak in FY 2021, then decreased after the peak as pension assets increased more than pension liabilities. There was also considerable dip in the City's net pension liability in FY 2022 likely due to a large increase in net investment income from the City's CalPERS pension plans (Figure 19). According to the GFOA, Berkeley would have

the highest bond rating, and as a result cheaper borrowing, if not for its pension liabilities.

Figure 19. Net Pension Liability by Plan (in millions, in 2025 dollars)



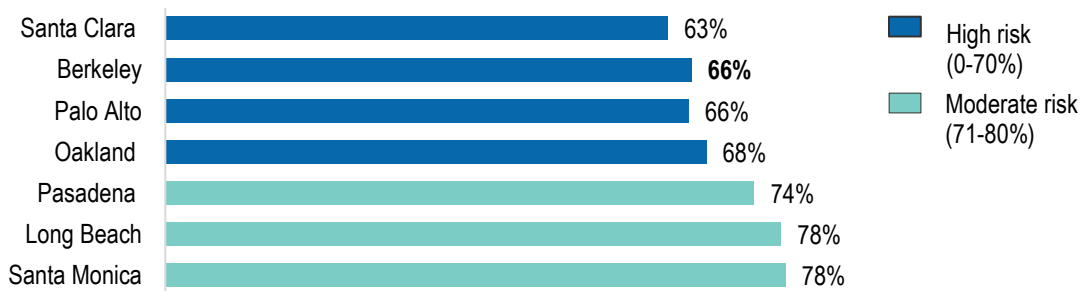
Source: Finance Department data

Decisions from the CalPERS Board impact the City’s net pension liability and required pension contributions. According to the City’s 2023 unfunded liability report, the City’s annual pension payment is estimated to increase from \$76 million in FY 2025 to \$108 million in FY 2034.

Berkeley’s funded ratio is still high risk.

Berkeley’s funded ratio is high risk according to past methodology from the California State Auditor’s Fiscal Health of California Cities dashboard, which is no longer published. The pension funded ratio compares the City’s pension plan assets to its accrued pension liabilities. Berkeley’s funded ratio, tied with Palo Alto, is ranked the second highest in risk among benchmark cities (Figure 20). In our 2022 financial condition audit, Berkeley’s funded ratio was also at 66 percent in FY 2020.

Figure 20. Funded Ratio of Pension Plans, FY 2024



Source: Cities' FY 2024 ACFRs and previous methodology from California State Auditor's Fiscal Health Dashboard

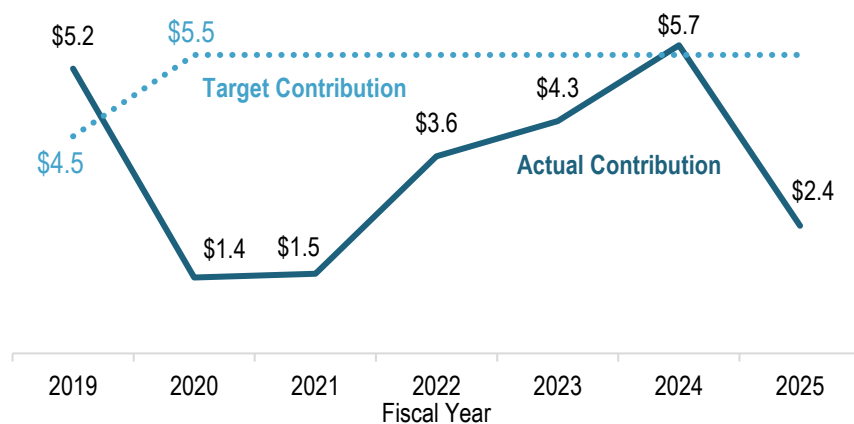
Note: Funded ratios from 81 percent to 100 percent are considered low risk according to past criteria from the California State Auditor's dashboard. None of the benchmark cities had funded ratios in this range in FY 2024, so this category is not represented in the figure.

The City has increased its pension savings but has not consistently met its annual savings goal.

Following a city audit of unfunded liabilities, the City authorized an IRS Section 115 Trust Fund (Trust) in FY 2018 to help pre-fund its pension obligations. The Trust acts as a rainy-day fund that allows the City to set aside resources restricted for payment of pension obligations and is intended to prepare for and partially offset increases in contributions in the coming years.

It is important for the City to meet its Trust contribution goal to adequately prepare for projected increases in required pension contributions in the coming years. While the City has made Trust contributions every year since FY 2019, the City has only met its annual Trust contribution goal two out of the seven years (Figure 21). As of June 2025, the City's Trust had a balance of \$29.5 million.

Figure 21. Contributions to the Section 115 Trust (in millions)



Source: Berkeley ACFRs; May 14, 2019 staff report to City Council

Since our previous audit, City Council adopted a new fiscal policy to increase Trust contributions. In June 2022, the City Council adopted a new fiscal policy to allocate one-third of additional revenue earned from the City's investments that is over the annual baseline of \$6 million to the Trust. Previously, Trust contributions primarily came from annual savings derived from prepayments to CalPERS and transfers from the General Fund and Capital Improvement Fund. This new fiscal policy added a new funding source for Trust contributions starting in FY 2023.

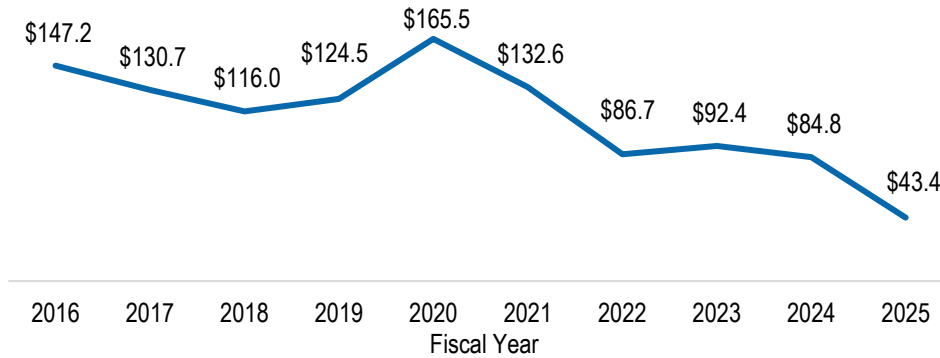
However, City Council's fiscal policies do not explicitly require the City to replenish the Trust after funds are withdrawn. As previously mentioned, in FY 2025, to help balance the General Fund, the City used \$3 million from the Trust to cover CalPERS contributions. This substantially decreased the net contribution made in that year. While the City's contributions to the Trust are important, the City also needs to balance its contribution goals with operational needs.

Net Retiree Healthcare Liability

Net retiree healthcare liability decreased.

Overall, net retiree healthcare liability decreased by \$103.8 million between FY 2016 and FY 2025 (Figure 22). The City's net retiree healthcare liability decreased because retiree healthcare assets increased while the liabilities decreased from FY 2016 to FY 2025. Notably, the City's net investment income for retiree healthcare substantially increased within the audit period. If the City does not pay its retiree healthcare obligations, this could negatively impact the retirees receiving these benefits and the City's bond rating, according to the Finance Director.

Figure 22. Net Retiree Healthcare Liability (in millions, in 2025 dollars)



Source: Finance Department data

Recommendation

3.1 To continue to strengthen the Section 115 Trust, we recommend City management propose an amendment to the current Council fiscal policies to explicitly require the City to replenish the Trust after funds are withdrawn, as long as contributions to the Trust are needed to address increased pension costs and the City's operational needs are taken into consideration. The policy may be modeled off the City's General Fund Reserve Policy, which requires repayment to begin no more than five years from the date of withdrawal and to be completed within ten years from the date of withdrawal.

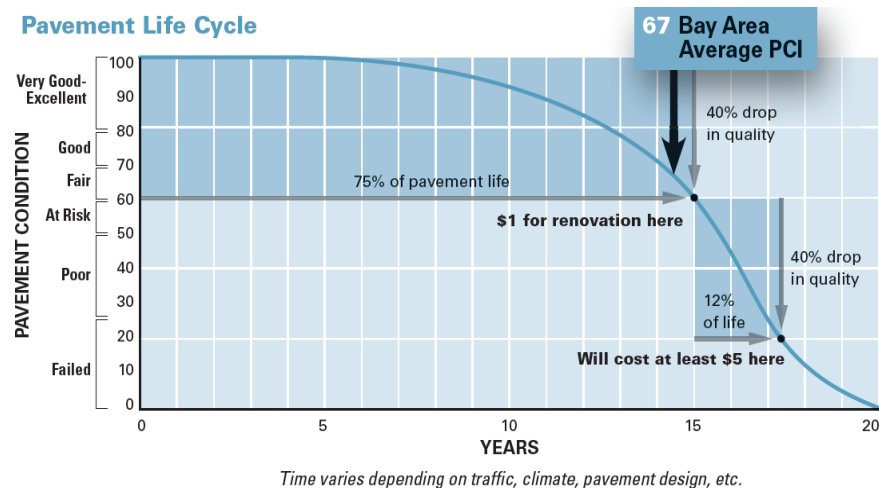
Capital Assets: Unfunded capital needs have grown despite some increased investment.

How do the City's capital assets impact its financial condition?

Capital assets are used in city operations and have a life that extends beyond a single financial reporting period. Berkeley owns a wide range of capital assets, including public buildings, streets, sidewalks, sewers and storm drains, traffic signals, and parking infrastructure. The City's responsibility for managing capital assets requires considerable resources and ongoing attention, which impacts the City's financial condition. As a relatively older city, Berkeley faces the added challenges of aging infrastructure.

If a city does not regularly maintain its capital assets, it can face deferred maintenance costs down the line. Addressing capital assets once their condition has severely deteriorated is often more expensive than regular preventative care or maintenance. According to the Metropolitan Transportation Commission, regular maintenance of roads is five to ten times cheaper than allowing roads to fail and then paying for the necessary rehabilitation (Figure 23).

Figure 23. Pavement Maintenance Costs



Source: Metropolitan Transportation Commission, Pothole Report III 2018

As we reported in our 2020 audit of Berkeley's streets, Berkeley needs significant additional funding to address the growing backlog of deteriorating streets.⁹ Since this finding, in November 2024, voters approved Measure FF, a parcel tax expected to generate \$15 million annually for 14 years, with about 45 percent dedicated to street paving. According to Public Works' analysis,

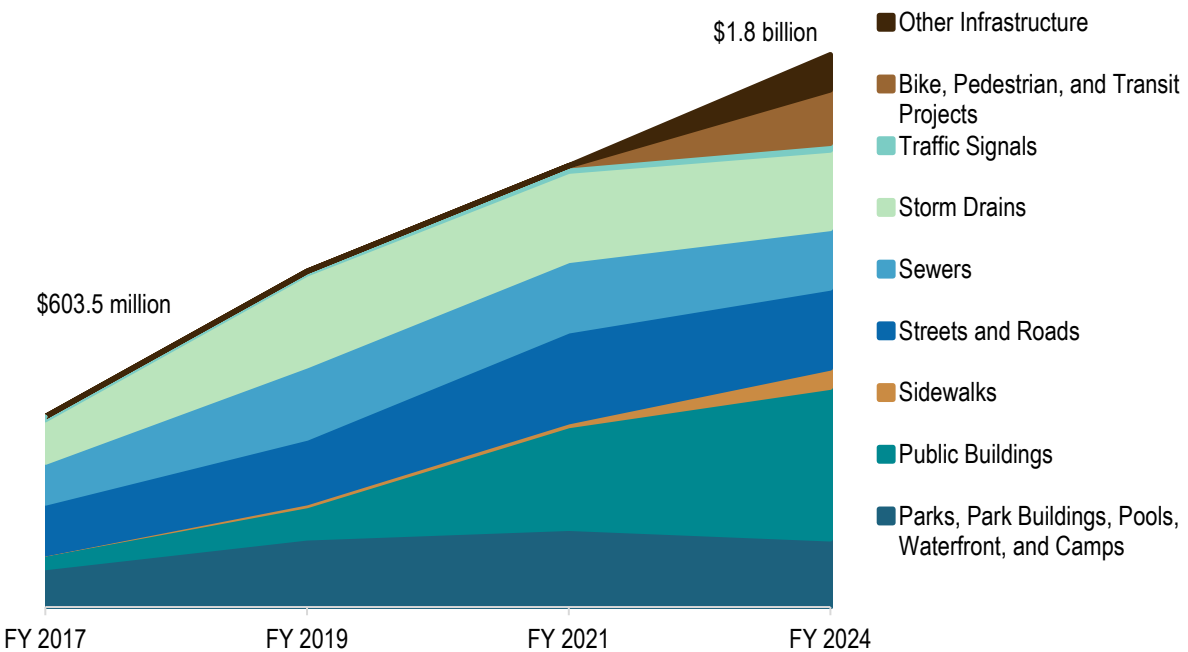
⁹ [Rocky Road: Berkeley Streets at Risk and Significantly Underfunded](#)

Measure FF would not generate sufficient revenue to help the City achieve the pavement condition index rating of 70 out of 100, which falls within the good condition range.¹⁰

Berkeley’s unfunded capital and deferred maintenance needs have grown to \$1.8 billion.

Unfunded capital and deferred maintenance needs have grown since our 2022 audit.¹¹ In FY 2024, the City reported about \$1.8 billion in unfunded capital and deferred maintenance needs in the FY 2025-FY 2029 Capital Improvement Program (Figure 24). Without sufficient investment, these unfunded capital needs will continue to grow.

Figure 24. Unfunded Capital and Deferred Maintenance Needs, FY 2017 to FY 2024 (in 2025 dollars)



Source: City of Berkeley’s Unfunded Liability Reports (FY 2017-FY 2021); FY 2025-FY 2029 Capital Improvement Program (FY 2024)

Note: We did not include IT-related assets due to incomplete data, and these costs would not significantly change the total amount of unfunded capital and deferred maintenance needs. Unfunded needs for sidewalks were reported starting in FY 2019. Similarly, unfunded needs for bike, pedestrian, and transit projects and other infrastructure were reported starting in FY 2024. Unfunded needs for public buildings included fire station rehabilitation projects but did not include full fire station renovations. Library facilities and facilities leased to other entities at the time of analysis were not included.

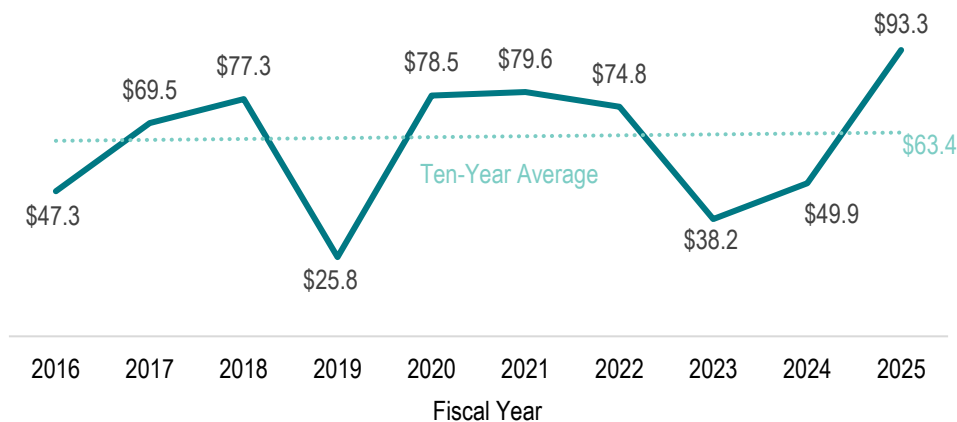
¹⁰ The pavement condition index is a measure that rates segments of paved roadways on a scale of 0 to 100 with condition categories ranging from a low of “failed” to a high of “excellent.” The “good” condition category is the third highest out of seven categories.

¹¹ Capital and deferred maintenance needs refer to a broad range of necessary activities, including investment in new capital assets, improving existing capital assets, replacing existing capital assets, and repairing existing capital assets.

Berkeley has increased investment in capital infrastructure, but it is not enough to cover all its unfunded capital needs.

Overall, Berkeley has increased investment in capital infrastructure. Over the last ten years, Berkeley spent an average of \$63.4 million each fiscal year on capital assets (Figure 25). In FY 2025, Berkeley spent \$93.3 million on capital assets, which was the highest level of investment in capital assets compared to prior fiscal years in our audit scope (Figure 25). While the City has overall increased its investment in capital assets since FY 2016, it does not cover the \$1.8 billion in unfunded capital needs, according to the current Capital Improvement Program.

Figure 25. Capital Investments (in millions, in 2025 dollars)



Source: Berkeley ACFRs

City management did not release an updated unfunded liability report for FY 2025 due to limited staff time.

An important part of Berkeley's planning process to address its unfunded capital need is City management's presentation of a biennial unfunded liabilities report to City Council. In 2012, City Council adopted a resolution requiring the City Manager to report every other year on the City's current liabilities and projections of future liabilities to provide accurate information to Council and the public ahead of the City's budget deliberations. Due to limited staff time and competing priorities, City management did not release an updated unfunded liability report for FY 2025. As a result, City Council and the public do not have complete information regarding the City's unfunded liabilities in a clear, easily accessible format to inform upcoming budget deliberations.

The City lacks advanced planning to finance its capital plan in the long term.

To ensure effective management of capital assets, the GFOA recommends that local governments prepare and adopt multi-year capital plans that cover a period of five to twenty-five years. The City has a Capital Improvement Program (CIP) that identifies capital needs and funding sources over five years, which is on the lower end of the recommended period. Given that capital assets have life cycles that can last decades, capital plans that cover longer time periods can help to anticipate and plan for these long-term costs.

The GFOA also recommends that local governments develop multi-year financing plans covering the multi-year period of their capital plan to ensure that their plan is achievable within expected funding sources. According to the most recent CIP, the City's local revenues have not kept pace with the investments needed to maintain or update aging infrastructure. This means the City will likely need to raise new funding, through sources such as bonds, to address its unmet capital needs. However, the CIP does not include advanced planning to determine if and when the City should propose new bond measures to address capital needs.

Other jurisdictions have advanced bond planning. For example, San Francisco has a ten-year capital plan that includes a planned general obligation bond schedule that considers the City's debt capacity, election schedule, and capital needs. Berkeley Unified School District (BUSD) has a ten-year Facilities Master Plan for school building improvements. Historically, BUSD proposes new general obligation bonds to Berkeley taxpayers every ten years, and the Master Plan helps to identify which capital projects will be financed through bond funding.

As mentioned previously, City management submitted staff recommendations in December 2025 regarding a potential \$300 million bond measure in 2026 to help address unfunded capital needs. Beyond this, developing a multi-year capital financing plan that includes advanced bond planning could help the City better anticipate and communicate long-term funding needs and the proposed timing of future bond measures.

Recommendations

- 4.1 To provide clear and accurate information on City's current liabilities and projections of future liabilities, we recommend City management resume providing the biennial unfunded liability report to City Council and the public ahead of the FY 2029 and FY 2030 budget.

- 4.2 To improve the City's ability to anticipate capital infrastructure needs, we recommend City management extend the Capital Improvement Program (CIP) beyond five years, such as a ten-year CIP.

- 4.3 To address the City's long-term capital infrastructure needs, we recommend City management develop a capital financing plan that covers a period at least as long as the CIP and proposes future funding mechanisms beyond existing sources. We recommend that the City plan the timing and amount of potential general obligation bonds multiple years in advance, taking into consideration the City's existing amount of authorized debt and capacity to borrow. The timing and amount of future bonds should aim to prevent sharp changes in debt service tax rates when possible.

Management Response

We provided a draft of this report to the City Manager, Finance, Public Works, and the City Attorney for review and comment. City management agreed or partially agreed with our findings, conclusions, and recommendations.

We will conduct our standard recommendation follow-up process after the audit is issued. We generally expect the City to implement audit recommendations within two years of report issuance. We have not yet confirmed to what extent any recommendations may have been implemented prior to the audit release date.

Recommendation 1.1: To present clear information regarding the City's investment performance, we recommend the Finance Department provide an investment report to Council that compares the City's investment rate of return for the most recent fiscal year to at least the previous five fiscal years, similar to the City's past annual investment reports.

Management Response: Partially Agree

Implementation Date: December 31, 2026

Corrective Action Plan: The city is required to file quarterly investment reports. For all 4th quarter reports, staff will add a table showing the rate of return for the previous 5 years.

Recommendation 2.1: To help the City pass a structurally balanced budget, we recommend City management propose a fiscal policy to City Council to assess whether recurring revenues and recurring expenditures are balanced, and communicate this information to City Council. We recommend this policy also formalize City management's initiative to develop the baseline budget using the prior year's actual expenditures and projected needs.

Management Response: Partially Agree

Implementation Date: June 30, 2028

Corrective Action Plan: As part of developing the budget, City management currently assesses projected revenues and expenditures to determine whether or not the budget is balanced. This information is communicated to the City Council as part of the budget adoption process and per the City Charter, the City must adopt a balanced budget. For this biennial budget, City management implemented a data driven approach by developing the baseline budget using prior year actuals and projected needs. This change in the process was included in the City's Budget Instructions and will remain part of the

budget process going forward. Staff will evaluate whether a formal City Council fiscal policy is necessary or whether the same objectives can be achieved through the Budget Instructions and possibly by adding a dedicated section in the Budget Book.

Recommendation 2.2: To ensure sustainable budgetary strategies continue, we recommend the City publicly report in the adopted budget book that departments are required to submit a structural balancing plan to the Budget Office for enterprise funds that project a deficit. As part of this process, we recommend the Budget Office and departments work together to regularly assess the transfers in and out of these enterprise funds.

Management Response: Agree

Implementation Date: Implemented for the FY 2027 and FY 2028 Biennial Budget Process

Corrective Action Plan: For this Biennial Budget, the City required the Departments that manages special funds experiencing structural deficits or projecting a deficit to submit a balancing plan and a five-year fund forecast. This step is also documented in the Budget Instructions. The Budget Book also has a dedicated section highlighting the City's major funds. Other funds that are projecting deficits not currently included can be added for better visibility.

Recommendation 2.3: To improve the financial sustainability of enterprise funds, we recommend the City adopt a citywide policy to regularly evaluate enterprise fees and propose adjustments where appropriate to strengthen revenues and help mitigate the future risk of enterprise fund deficits.

Management Response: Agree

Implementation Date: July 1, 2027

Corrective Action Plan: The City can evaluate when it is appropriate for each enterprise fund to adjust its fees by working closely with the relevant departments and fund managers. Because each enterprise fund is unique, establishing a single, coordinated adjustment schedule may not be feasible. However, the City can develop a set of criteria that would trigger a review and potential adjustments of fees.

Recommendation 2.4: To further improve the financial sustainability of enterprise funds, we recommend the City adopt a policy to establish a reserve for each enterprise fund as appropriate and legally permitted. We recommend the Budget Office and departments work together to determine the appropriate reserve goal for each enterprise fund.

Management Response: Agree

Implementation Date: June 30, 2028

Corrective Action Plan: The City can establish a Special Fund Reserve Study Working Group to evaluate and research best practices and industry standards. This group can apply those practices to the City's needs, fund specific needs and requirements to develop appropriate reserve targets and policies. Since each enterprise fund is unique, establishing a single reserve target for all funds is not feasible.

Recommendation 3.1: To continue to strengthen the Section 115 Trust, we recommend City management propose an amendment to the current Council fiscal policies to explicitly require the City to replenish the Trust after funds are withdrawn, as long as contributions to the Trust are needed to address increased pension costs and the City's operational needs are taken into consideration. The policy may be modeled off the City's General Fund Reserve Policy, which requires repayment to begin no more than five years from the date of withdrawal and to be completed within ten years from the date of withdrawal.

Management Response: Agree

Implementation Date: To be determined

Corrective Action Plan: Council Approval Needed

Recommendation 4.1: To provide clear and accurate information on City's current liabilities and projections of future liabilities, we recommend City management resume providing the biennial unfunded liability report to City Council and the public ahead of the FY 2029 and FY 2030 budget.

Management Response: Agree

Implementation Date: June 30, 2028

Corrective Action Plan: The City will resume providing the biennial Unfunded Liability and Unfunded Capital Needs report to the City Council in the second half of FY 2028 and return to a regular biennial schedule thereafter.

Recommendation 4.2: To improve the City's ability to anticipate capital infrastructure needs, we recommend City management extend the Capital Improvement Program (CIP) beyond five years, such as a ten-year CIP.

Management Response: Partially Agree

Implementation Date: To be determined, will consider implementation of this recommendation as part of the FY 29 – FY 30 Biennial Budget.

Corrective Action Plan: Developing long-term projections is necessary to plan. For this reason, every two years the City develops a 5 Year Capital Improvement Program. Projections beyond five years can be unreliable. With that being said, as part of the FY 29 – FY 30 Biennial Budget, staff will evaluate the potential to extend the Capital Improvement Program beyond five years.

Recommendation 4.3: To address the City's long-term capital infrastructure needs, we recommend City management develop a capital financing plan that covers a period at least as long as the CIP and proposes future funding mechanisms beyond existing sources. We recommend that the City plan the timing and amount of potential general obligation bonds multiple years in advance, taking into consideration the City's existing amount of authorized debt and capacity to borrow. The timing and amount of future bonds should aim to prevent sharp changes in debt service tax rates when possible.

Management Response: Agree

Implementation Date: June 30, 2028

Corrective Action Plan: There is an existing City Council referral that is similar for the current budget cycle that will be implemented.

Methodology and Compliance

Methodology

We used financial indicators included in the International City/County Management Association's (ICMA) *Evaluating Financial Condition* handbook designed for local governments. Additionally, for a few indicators, we adapted methodology from the California State Auditor's Office used for their Fiscal Health of California Cities dashboard that is no longer available. We also included some indicators used by peer cities in their financial condition audits.

To better understand how some of Berkeley's financial indicators compared to peer cities, we benchmarked Berkeley to other California cities which were selected during our previous financial condition audit. Specifically, we benchmarked Berkeley against Long Beach, Oakland, Pasadena, Santa Clara, Santa Monica, and Palo Alto because they were similar to Berkeley across one or more criteria, such as population, general fund expenditures per resident, services provided, and presence of a large university. We included Palo Alto and did not include Davis in this audit, unlike our previous financial condition audit, because Davis did not publish a FY 2024 ACFR during the audit period. Due to variation in the availability of comparison cities' FY 2025 ACFRs, we used FY 2024 data for the comparisons where possible.

To meet our objective, we reviewed the following:

- Berkeley's Annual Comprehensive Financial Reports (ACFRs),
- Budget Office reports (Unfunded Liability Obligations and Unfunded Infrastructure Needs reports, city budgets),
- City Auditor reports on financial condition, leases, streets, and police overtime,
- City policies on reserves, debt management, and investments,
- Council reports and presentations related to the City's finances, and
- The City's bond rating in the Moody's 2025 Annual Comment Report.

We also conducted interviews with:

- The Director of Finance,
- Staff from the Office of Budget and Fiscal Management (Budget Office) responsible for overseeing the City's budget and spending,
- The Director of Public Works and Public Works staff responsible for overseeing city spending on capital assets and financial management of the Public Works enterprise funds, including the Off-Street Parking Fund and Parking Meter Fund,

- The Director of Parks, Recreation and Waterfront responsible for overseeing the financial management of the Marina Fund, and
- Staff at the City's external financial auditing firm, Badawi and Associates.

We analyzed financial data from the sources below. For all indicators where we adjusted for inflation, we used the inflation factor as of June 2025 from the Consumer Price Index: San Francisco-Oakland-Hayward Table, 2016-2025, U.S. Department of Labor, Bureau of Labor Statistics.

Report Sources
<p><u>Revenues and Expenses</u></p> <p>Revenues and Expenses (trends)</p> <ul style="list-style-type: none"> • City of Berkeley FY 2016 – FY 2025 ACFRs, Government-Wide Financial Statements: Statement of Activities <p>Revenue per Resident (benchmark)</p> <ul style="list-style-type: none"> • City of Berkeley, Oakland, Long Beach, Pasadena, Santa Clara, Santa Monica, and Palo Alto FY 2024 ACFRs, Government-Wide Financial Statements: Statement of Activities; Statistical Section: Demographic and Economic Statistics <p>Revenues by Source</p> <ul style="list-style-type: none"> • City of Berkeley FY 2025 ACFR, Government-wide Financial Statements: Statement of Activities <p>Revenues by Source (trends)</p> <ul style="list-style-type: none"> • City of Berkeley FY 2016 – FY 2025 ACFRs, Government-wide Financial Statements: Statement of Activities <p>Investment Reporting</p> <ul style="list-style-type: none"> • City of Berkeley Quarterly Investment Reports FY 2025 • City of Berkeley Annual Investment Reports • City of Palo Alto and San Jose Investment Reports <p>Revenues from Leases</p> <ul style="list-style-type: none"> • City of Berkeley Finance Department data FY 2016 – FY 2025 <p>Berkeley's Countywide 1 Percent Ad Valorem Property Tax Distribution</p> <ul style="list-style-type: none"> • Alameda County Auditor-Controller/Clerk-Recorder's Office data FY 2025 <p>What are your property taxes levied for?</p> <ul style="list-style-type: none"> • City of Berkeley FY 2025 ACFR, Government-wide Financial Statements, Statement of Activities <p>Expenses by Function</p> <ul style="list-style-type: none"> • City of Berkeley FY 2016 and FY 2025 ACFRs, Government-wide Financial Statements: Statement of Activities <p>Personnel Expenditures by Category</p> <ul style="list-style-type: none"> • City of Berkeley City Manager, Budget Office data FY 2016 and FY 2025 • City of Berkeley FY 2025 ACFR, Statistical Section: Full-time Equivalent City Governmental Employees by Function/Program <p>General Fund Expenditure Growth</p> <ul style="list-style-type: none"> • City of Berkeley City Manager, Budget Office's presentation to the Budget and Finance Committee (1/22/2026)
<p><u>Budgetary Practices</u></p> <p>General Fund Deficit</p> <ul style="list-style-type: none"> • City of Berkeley Budgets: FY 2020 and FY 2021, FY 2022, FY 2023 and FY 2024, FY 2024, FY 2025 and FY 2026 • City Council Resolutions to Adopt Budgets

Report Sources
<ul style="list-style-type: none"> City of Berkeley City Manager, Budget Office: FY 2027 and FY 2028 Budget Development Instructions Government Finance Officers Association Report: "A Risk-Based Analysis and Stress Test of Long-Term Debt Affordability for the City of Berkeley, California," 2022 <p>Enterprise Fund Deficits</p> <ul style="list-style-type: none"> City of Berkeley Budgets: FY 2020 and FY 2021, FY 2022, FY 2023 and FY 2024, FY 2024, FY 2025 and FY 2026 City of Berkeley Departments' presentations to the Budget and Finance Committee City of Berkeley City Manager, Budget Office: FY 2027 and FY 2028 Budget Development Instructions City of Berkeley FY 2025 ACFR, Financial Section: Notes to Basic Financial Statements, Interfund Transactions
<p><u>Demographic and Economic Indicators</u></p> <p>Population</p> <ul style="list-style-type: none"> City of Berkeley FY 2025 ACFR, Statistical Section: Demographic and Economic Statistics <p>UC Berkeley Presence</p> <ul style="list-style-type: none"> University of California website University of California Berkeley: Office of the Vice Chancellor website City of Berkeley Office of Economic Development 2024 Dashboard <p>Unemployment</p> <ul style="list-style-type: none"> City of Berkeley FY 2025 ACFR, Statistical Section: Demographic and Economic Statistics <p>Assessed Property Value</p> <ul style="list-style-type: none"> City of Berkeley FY 2025 ACFR, Statistical Section: Assessed Value and Estimated Values of Taxable Property <p>Median Household Income (benchmark)</p> <ul style="list-style-type: none"> 2016 American Community Survey, City of Berkeley 2024 American Community Survey, City of Berkeley, Oakland, Long Beach, Pasadena, Santa Clara, Santa Monica, and Palo Alto
<p><u>Net Position, Liquidity, and Reserves</u></p> <p>Net Position</p> <ul style="list-style-type: none"> City of Berkeley FY 2018 – FY 2025 ACFRs, Government-Wide Financial Statements: Statement of Net Position <p>Liquidity Ratio</p> <ul style="list-style-type: none"> City of Berkeley FY 2016 – FY 2025 ACFRs Government-Wide Financial Statements: Statement of Net Position <p>General Fund Reserves</p> <ul style="list-style-type: none"> City of Berkeley City Manager, Budget Office data, FY 2017 – FY 2025 City of Berkeley City Manager, Budget Office, First Amendment to the FY 2026 Annual Appropriations Ordinance Presentation to Budget and Finance Committee City Council Resolution Amending the General Fund Reserve Policy (7/29/2025)
<p><u>Long-Term Debt and Liabilities</u></p> <p>Governmental Activities Long-Term Liabilities</p> <ul style="list-style-type: none"> City of Berkeley FY 2016 – FY 2025 ACFRs, Notes to Basic Financial Statements: Governmental Activities Long-Term Liabilities Summary <p>Governmental Activities Long-Term Liabilities per Resident (benchmark)</p> <ul style="list-style-type: none"> City of Berkeley, Oakland, Long Beach, Pasadena, Santa Clara, Santa Monica, and Palo Alto FY 2024 ACFRs, Government-Wide Financial Statements: Statement of Net Position <p>Debt by Type</p> <ul style="list-style-type: none"> City of Berkeley FY 2025 ACFR, Notes to Basic Financial Statements: Governmental Activities Long-Term Liabilities Summary <p>Bond Ratings</p> <ul style="list-style-type: none"> City of Berkeley FY 2016 – FY 2025 ACFRs, Introductory Section

Report Sources
<ul style="list-style-type: none"> Standard and Poor's Ratings Guide Moody's Rating Definitions <p>General Obligation Bond Debt as a Proportion of Assessed Property Value</p> <ul style="list-style-type: none"> City of Berkeley FY 2025 ACFR, Statistical Section: Ratios of General Bonded Debt Outstanding City of Berkeley FY 2025 ACFR, Statistical Section: Assessed Value and Estimated Values of Taxable Property City of Berkeley Debt Management and Disclosure Policy <p>General Obligation Bond Debt per Resident</p> <ul style="list-style-type: none"> City of Berkeley FY 2021 and FY 2025 ACFR, Statistical Section: Ratios of General Bonded Debt Outstanding City of Berkeley FY 2021 and FY 2025 ACFR, Statistical Section: Demographic and Economic Statistics <p>General Obligation Debt Service</p> <ul style="list-style-type: none"> City Council Special Meeting Item (12/02/2025), "Discussion Regarding Potential Ballot Measures for the November 3, 2026, General Municipal Election"
<p><u>Net Pension and Retiree Healthcare Liabilities</u></p> <p>Net Pension Liability by Plan</p> <ul style="list-style-type: none"> City of Berkeley Finance Department data FY 2016 – FY 2025 <p>Funded Ratio Risk Level (benchmark)</p> <ul style="list-style-type: none"> City of Berkeley, Oakland, Long Beach, Pasadena, Santa Clara, Santa Monica, and Palo Alto FY 2024 ACFRs, Required Supplementary Information: Schedule of Changes in the Net Pension Liability and Related Ratios <p>Section 115 Trust Fund</p> <ul style="list-style-type: none"> City of Berkeley FY 2016 – FY 2025 ACFRs, Combining Financial Statements and Schedules: Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual PERS Savings Fund – Budgetary Basis City of Berkeley, May 14, 2019 staff report to City Council <p>Net Retiree Healthcare Liability</p> <ul style="list-style-type: none"> City of Berkeley Finance Department data FY 2016 – FY 2025
<p><u>Capital Assets</u></p> <p>Pavement Maintenance Costs</p> <ul style="list-style-type: none"> Metropolitan Transportation Commission, The Pothole Report: Bay Area Roads at Risk, September 2018 <p>Unfunded Capital and Deferred Maintenance Needs</p> <ul style="list-style-type: none"> City of Berkeley Unfunded Liability Reports (FY 2017, FY 2019, FY 2021) City of Berkeley FY 2025 – FY 2029 Capital Improvement Program <p>Capital Investments</p> <ul style="list-style-type: none"> City of Berkeley FY 2016 – FY 2025 ACFRs, Notes to the Basic Financial Statements: Capital Assets

Throughout the report, we use the terms *expenses* and *expenditures*. Government-wide financial statements (including governmental and business-type activities) use the accrual basis of accounting and refer to expenses. The accrual basis of accounting reports revenues and expenses in the period in which the underlying event occurs, regardless of the timing of cash flows. This means that revenues are recorded when earned and expenses are recorded when the liability is incurred, instead of when cash is actually received or disbursed. Governmental fund financial statements (including the General Fund) use the modified accrual basis of accounting and refer to expenditures. Under the modified accrual basis of accounting, revenues are recorded when

measurable and available, and expenditures are recorded when the liability is incurred, except for interest on long-term debt, judgments and claims, workers' compensation, and compensated absences, which are recorded when paid.

Data Reliability

We reviewed information for reasonableness and consistency, and we researched data that needed additional explanation. We did not, however, audit the accuracy of all source documents or the reliability of the data in computer-based systems. As nearly all financial information presented is from the City's ACFRs, we relied on the work performed by the City's external financial auditors.

Statement of Compliance

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Mission Statement

Promoting transparency and accountability in Berkeley government.

Contributors

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