



SUPPLEMENTAL AGENDA MATERIAL for Supplemental Packet 2

Meeting Date: April 28, 2026

Item Number: 9

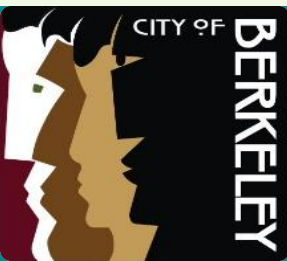
Item Description: Berkeley's Financial Condition (FY 2016-FY 2025): Structural Deficit Poses Risk to Financial Sustainability

Submitted by: Jenny Wong, City Auditor

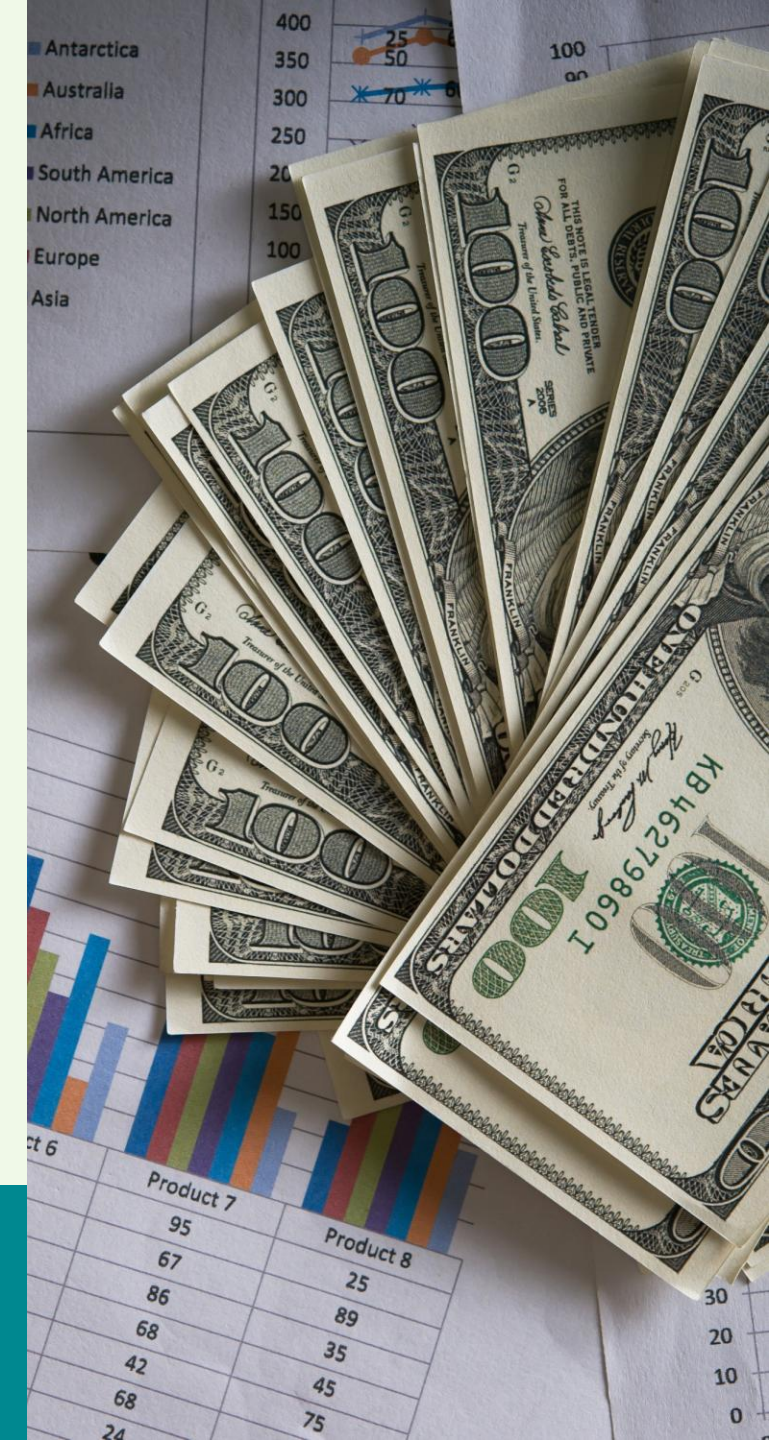
This supplemental material consists of the presentation the City Auditor will share with the City Council during the meeting.

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

Berkeley City Council Meeting
April 28, 2026

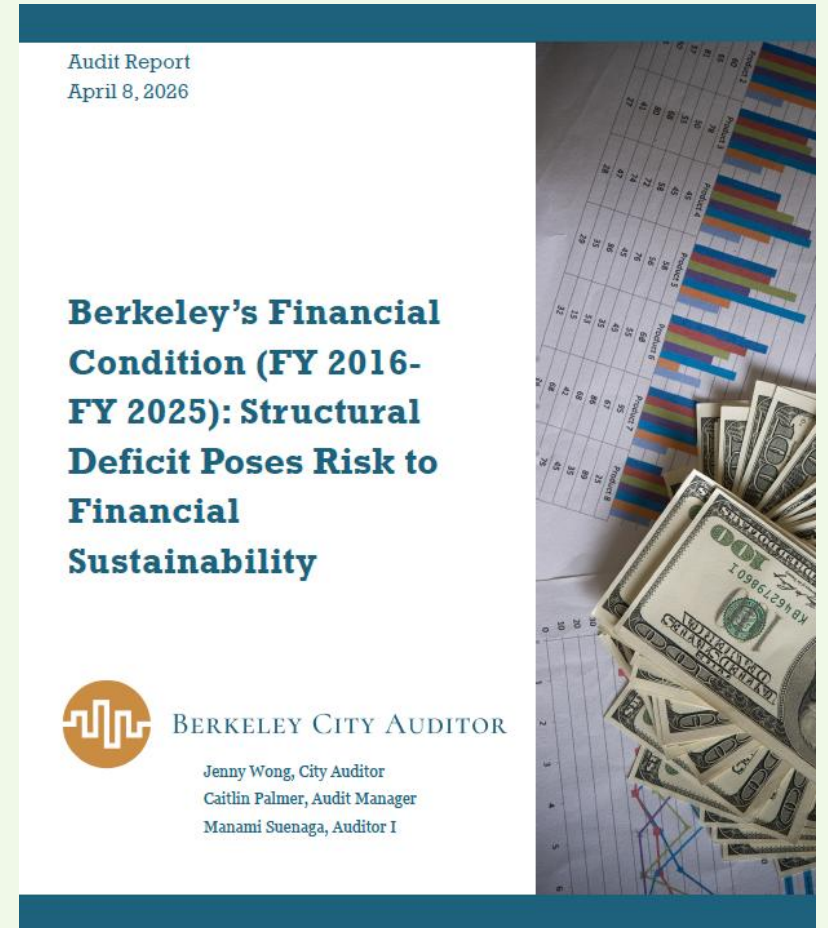


BERKELEY CITY AUDITOR



Why we did this audit

- To provide an update since our first financial condition audit in 2022.
- Financial condition analysis can highlight strengths and risks in the near term and long term. This can be helpful in advance of budget deliberations.
- We wanted to make complex financial information easier to understand.



Objective, Scope and Methodology

Objective: To assess Berkeley's financial condition using 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

Audit Scope: FY 2016 to FY 2025

Methodology:

- Produced financial indicators primarily using data from Annual Comprehensive Financial Reports (ACFRs)
- Assessed some other sources of city data



This report is a high-level overview of the City's financial condition. It does not provide an in-depth analysis of the causes of all financial trends.



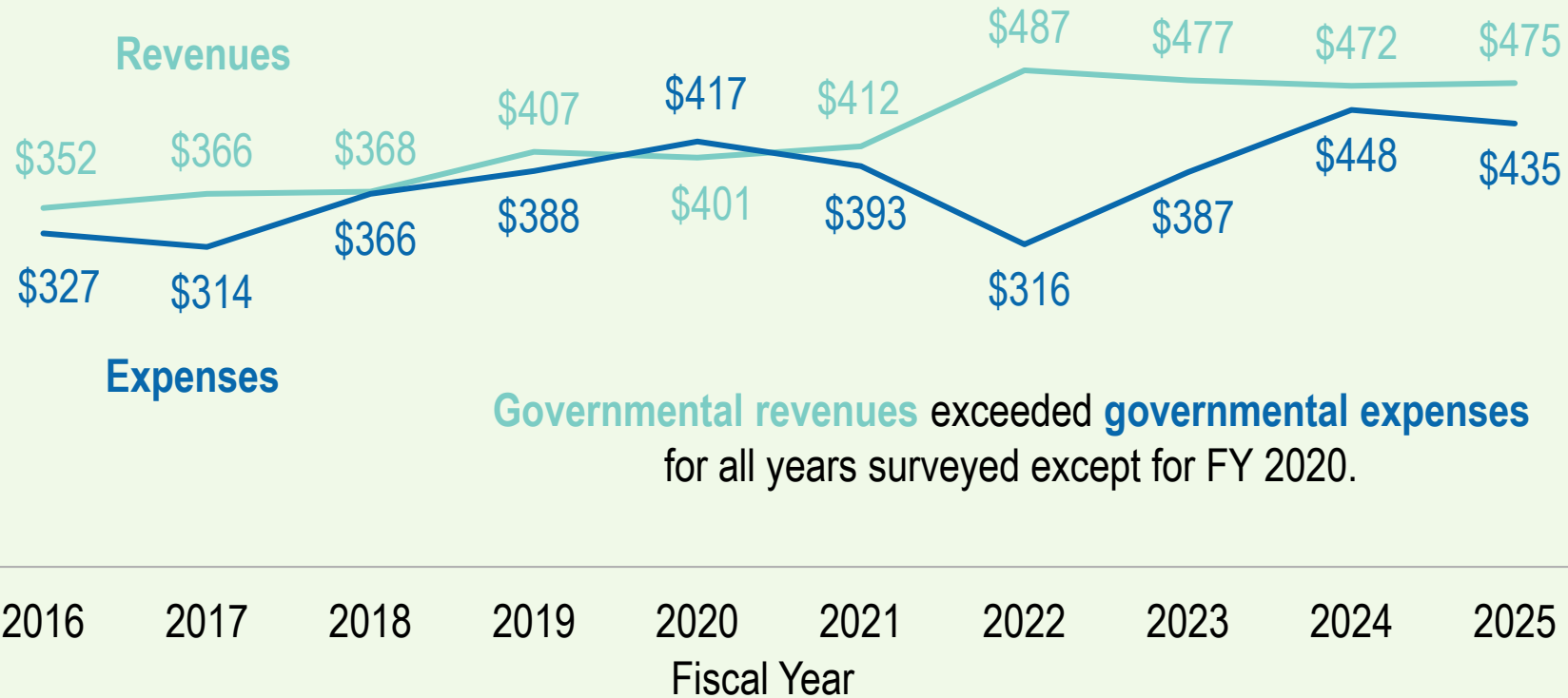
What we found:

- Berkeley is facing ongoing challenges with 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 financial sustainability.



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

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



Source: Berkeley ACFRs



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

General Fund: For several years, the City used one-time balancing measures to address the structural General Fund (GF) deficit rather than making structural changes to the budget.

- For example, the City redirected \$4.7 million intended for the workers' compensation fund to the GF to help balance the FY 2025 budget.

Enterprise Funds: Enterprise funds are intended to be primarily self-supporting, but some enterprise funds have structural deficits and received transfers from the GF to balance. Some enterprise funds also made annual transfers to the GF.

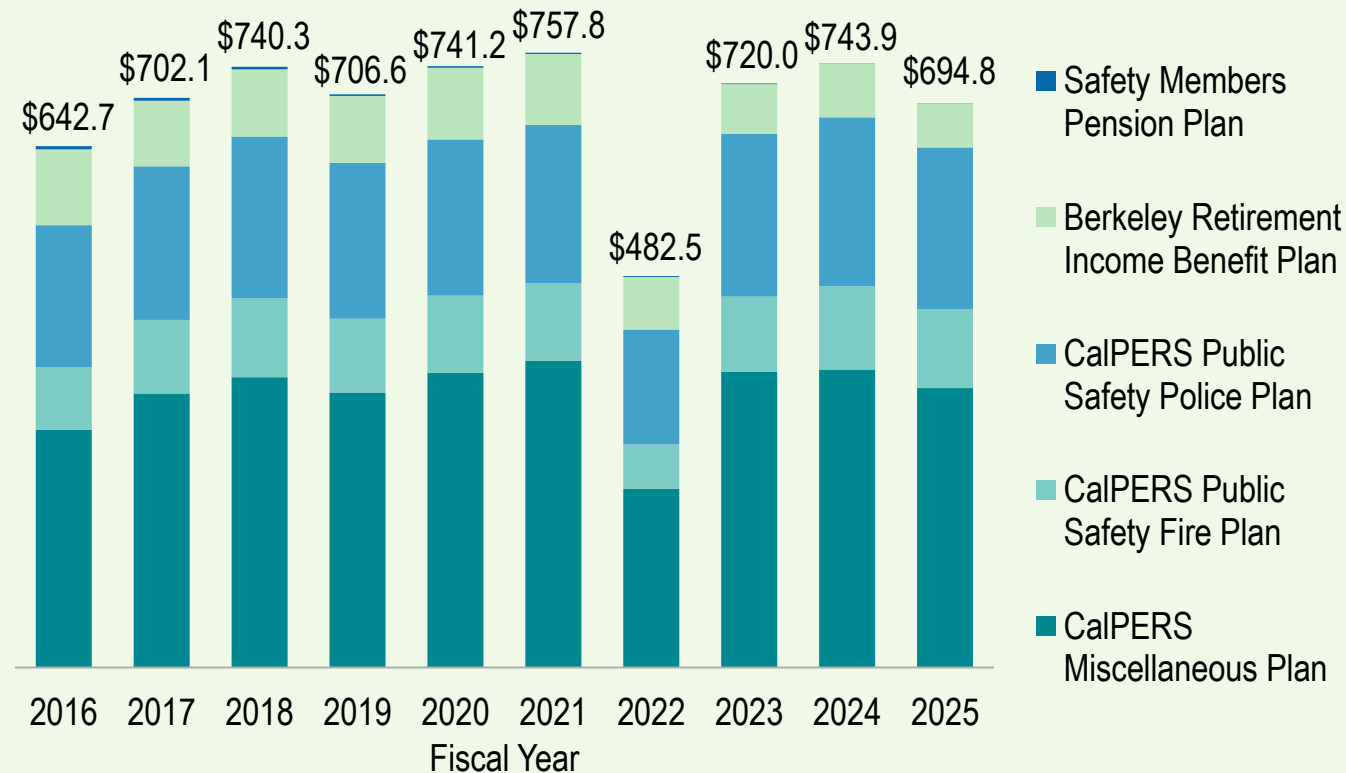
Source: Budget books, budget development instructions, and interviews with City staff



Net Pension and Retiree Healthcare Liabilities:

Berkeley's net pension liability is still high risk and retiree healthcare liability decreased.

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



- Net pension liability totaled \$694.8 million in FY 2025.
- Net retiree healthcare liability decreased to \$43.4 million in FY 2025.

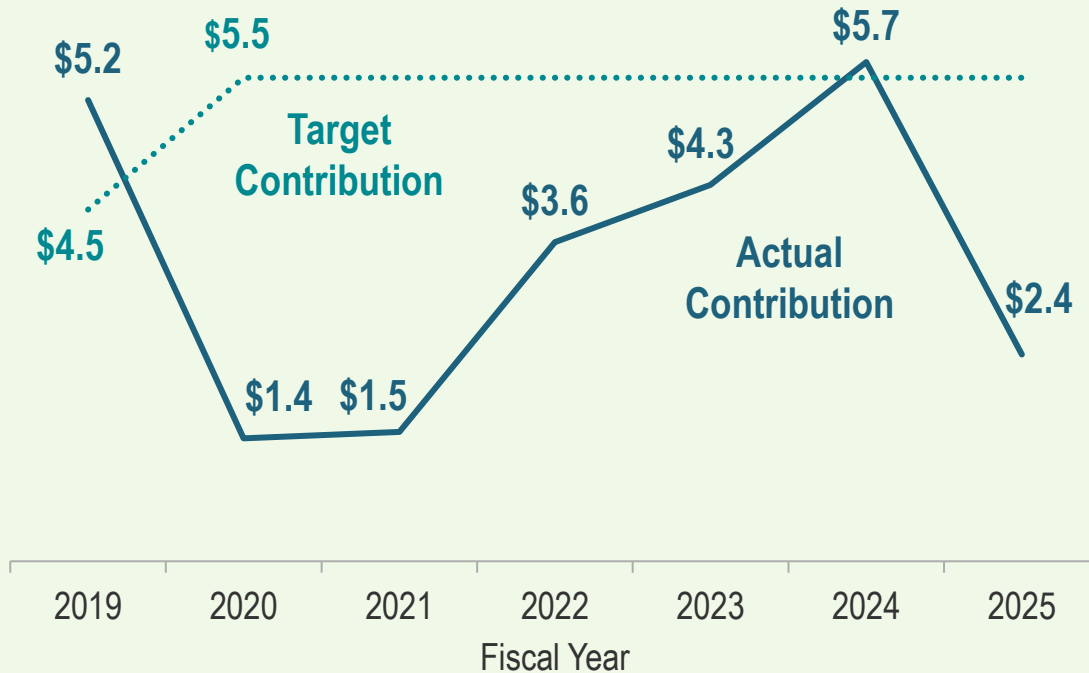
Source: Berkeley ACFRs



Net Pension and Retiree Healthcare Liabilities, pt. 2:

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

Contributions to the Section 115 Trust (in millions)



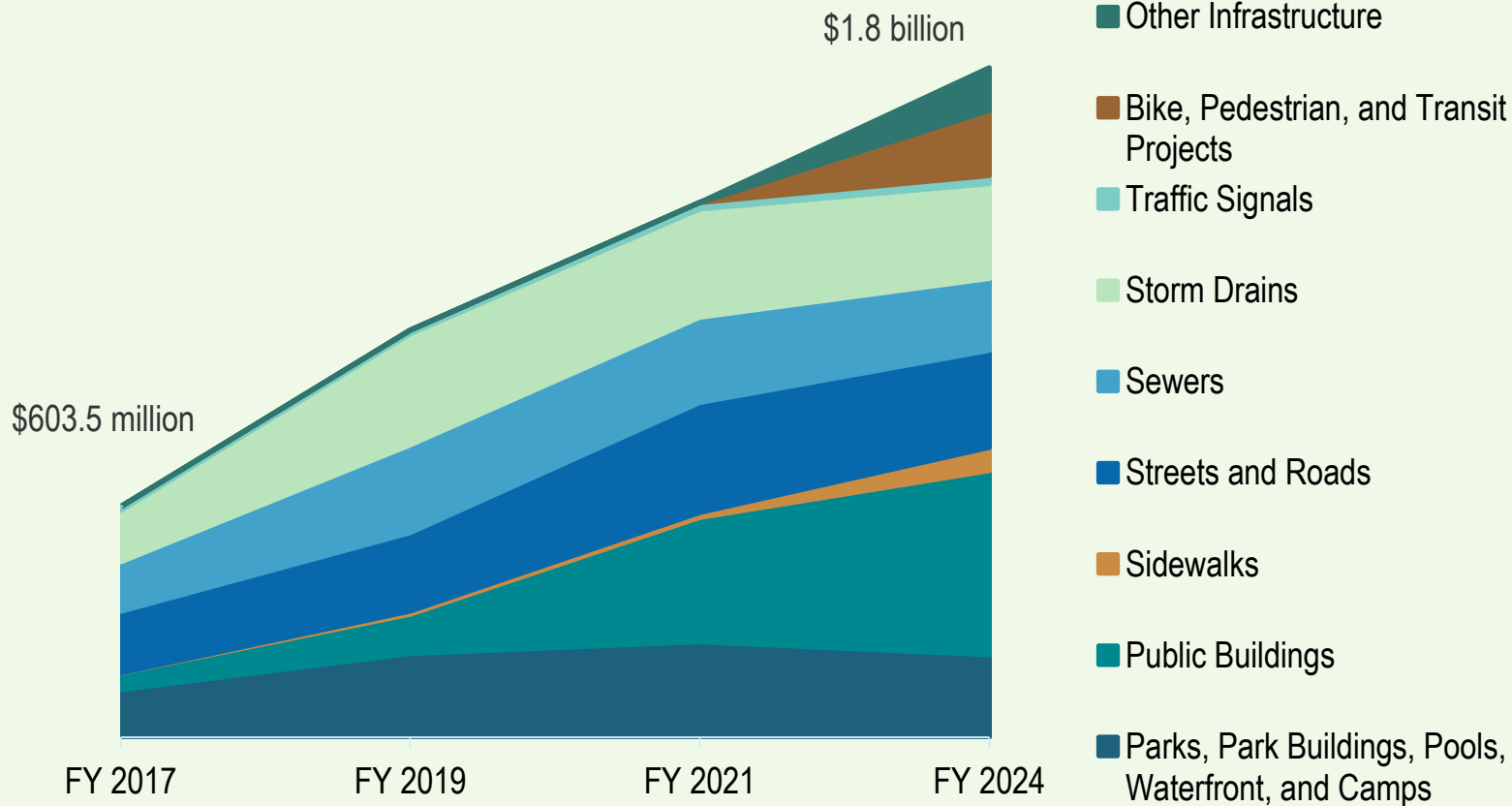
- The City used \$3 million from the Trust to cover CalPERS contributions to help balance the FY 2025 General Fund budget.
- Council’s fiscal policies do not explicitly require the City to replenish the Trust after funds are withdrawn.

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



Capital Assets: Unfunded capital needs have grown to \$1.8 billion despite some increased investment.

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



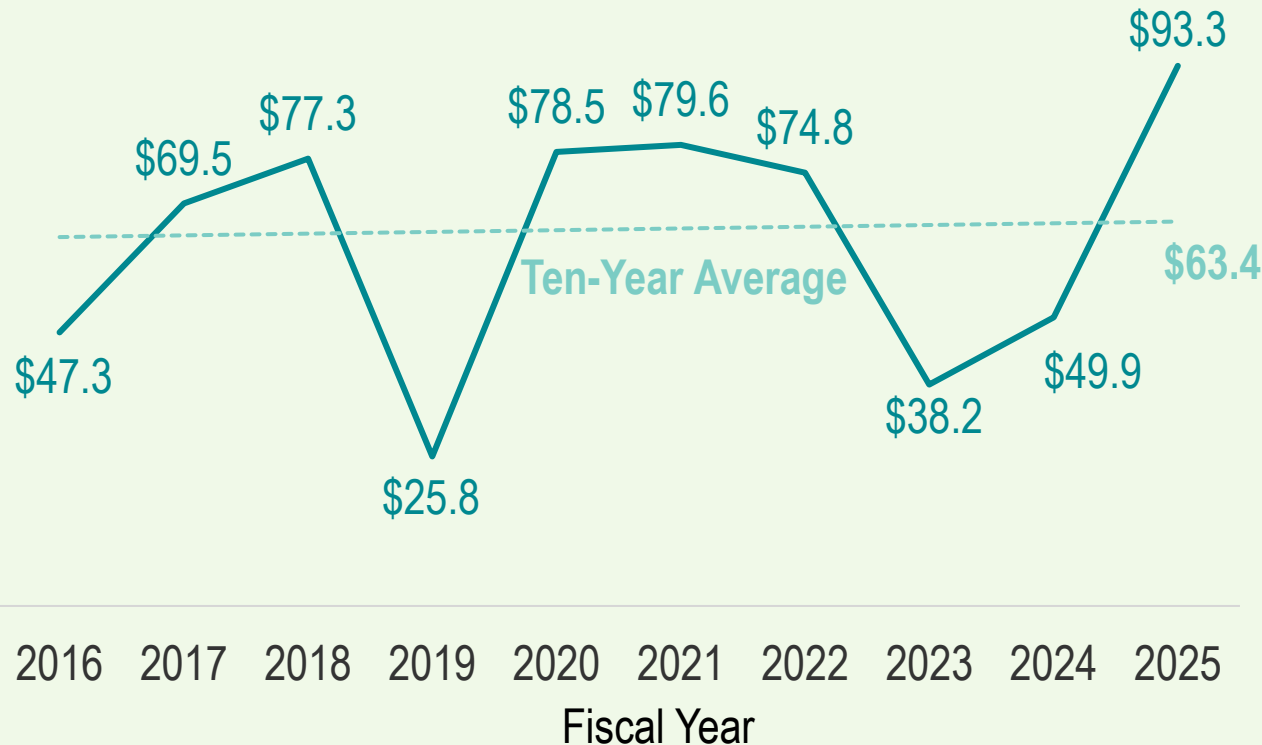
Without sufficient investment, capital needs will continue to grow and get more expensive to address down the line.

Source: *Unfunded Liability Reports (FY 2017-FY 2021); FY 2025-FY 2029 Capital Improvement Program (FY 2024)*



Capital Assets, pt. 2: The City lacks advanced planning to finance its capital plan in the long term.

Capital Investments (in millions, in 2025 dollars)



Source: Berkeley ACFRs

Berkeley's Capital Improvement Program (CIP) does not include advanced planning to determine if and when the City should propose new bond measures to address capital needs.



Key Recommendations

We recommend that the City:

- Propose a fiscal policy to Council **to formalize the use of more sustainable budget strategies.**
- Adopt a citywide policy to **regularly evaluate enterprise fees and establish reserves** for each enterprise fund.
- Provide investment reports to Council that includes the **city's investment return rate for at least the past five fiscal years.**
- Propose an amendment to the Council fiscal policies to **explicitly require the City to replenish the Section 115 Trust after funds are withdrawn.**
- **Develop a capital financing plan that proposes future funding sources** beyond existing sources.



Management Response

City management **agreed or partially agreed** to our findings, conclusions, and recommendations, and provided an action plan to address our recommendations.



We would like to thank the City Manager, Budget Office, Finance, Public Works, and City Attorney for their contributions to this audit.

