



Office of the City Manager

WORK SESSION

March 16, 2021

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Rama Murty, Acting Budget Manager

Subject: FY 2021 Mid-Year Budget Update

INTRODUCTION

This report presents the FY 2021 Mid-Year Budget Update and focuses on projected General Fund revenues and actual General Fund and Special Fund expenditures from July 2020 to December 2020.

CURRENT SITUATION AND ITS EFFECTS

The City of Berkeley is currently in Fiscal Year 2021 (FY), the second of two fiscal years in the FY 2020 & FY 2021 biennial budget cycle, which Council adopted on June 30, 2020¹. In June 2020, the City Council adopted a significant revision to the FY 2021 budget due to the loss of anticipated revenue from the COVID-19 pandemic. FY 2021 runs from July 1, 2020 through June 30, 2021.

As depicted in the table below, as of December 31, 2020, while General Fund revenues are on track to exceed initial estimates, General Fund expenses are also somewhat higher than anticipated.. Given these trends and the fiscal uncertainty attributed to the COVID-19 pandemic, Staff will carefully monitor revenues and expenses in the second half of FY 2021.

\$'s in Millions

	Adjusted Budget	FY 2021 Mid-Year Actuals	% Received/ Expensed and Encumbered
Revenues	\$195.8	\$102.2	52%
Expenditures	(\$224.1)	(\$118.3)	53%
Carryover and Excess Equity	\$ 29.4		
Balance	\$ 1.1		

¹ https://www.cityofberkeley.info/Clerk/City_Council/2020/06_June/Documents/2020-06-30_Item_40_FY_2021_Mid-Biennial_Budget_pdf.aspx

The carryover and excess equity are carried forward from FY 2020. Additional information on the carryovers and excess equity allocation is discussed later in this report under the General Fund Expenditures section.

FY 2021 Mid-Year Summary

On November 17, 2020, Council was provided the [FY 2020 Year-End Results and FY 2021 First Quarter Budget Update](#) report. At the time, both the General Fund revenues and the General Fund expenditures were tracking within budget.

The chart below shows FY 2021 General Fund Revenues through the first six months and compares them to the first six months of FY 2020.

General Fund Revenues (Adopted and Year to Date Actual thru December 31)

Revenue Categories	FY 2021				FY 2020				Comparison FY21 vs FY 20	
	Adopted	Actual	Variance	% Received	Adopted	Actual	Variance	% Received	Amount	%
	(a)	(b)	c=(b) - (a)	(d) = (b)/(a)	(e)	(f)	g=(f) - (e)	(h) = (f)/(g)	(i) = (b) - (f)	(j) = (i)/(f)
Secured Property	\$61,165,454	\$34,731,618	(\$26,433,836)	56.78%	\$63,199,622	\$32,175,526	(\$31,024,096)	50.91%	2,556,092	7.94%
Redemptions - Regular	534,512	432,291	(102,221)	80.88%	668,140	356,477	(\$311,663)	53.35%	75,814	21.27%
Supplemental Taxes	1,260,000	855,050	(404,950)	67.86%	1,400,000	808,127	(\$591,873)	57.72%	46,923	5.81%
Unsecured Property Taxes	2,250,000	2,995,351	745,351	133.13%	2,500,000	2,705,126	\$205,126	108.21%	290,225	10.73%
Property Transfer Tax	16,500,000	10,665,913	(5,834,087)	64.64%	12,500,000	15,043,643	\$2,543,643	120.35%	(4,377,730)	-29.10%
Property Transfer Tax-Measure P (New December 21, 2018)	4,747,414	4,254,324	(493,090)	89.61%	1,509,218	7,046,430	\$5,537,212	466.89%	(2,792,106)	-39.62%
Sales Taxes	15,786,200	8,069,851	(7,716,349)	51.12%	18,238,000	9,430,533	(\$8,807,467)	51.71%	(1,360,682)	-14.43%
Soda Taxes	970,794	530,328	(440,466)	54.63%	1,459,057	765,628	(\$693,429)	52.47%	(235,300)	-30.73%
Utility Users Taxes	12,750,000	6,304,755	(6,445,245)	49.45%	15,000,000	6,327,260	(\$8,672,740)	42.18%	(22,505)	-0.36%
Transient Occupancy Taxes	5,070,000	1,084,961	(3,985,039)	21.40%	7,800,000	4,483,409	(\$3,316,591)	57.48%	(3,398,448)	-75.80%
Short-term Rentals	676,260	218,590	(457,670)	32.32%	1,020,000	867,507	(\$152,493)	1,020,000	(648,917)	-74.80%
Business License Tax	12,984,192	390,253	(12,593,939)	3.01%	19,584,000	1,166,980	(\$18,417,020)	5.96%	(776,727)	-66.56%
Recreational Cannabis	1,300,000	355,641	(944,359)	27.36%	510,000	702,857	\$192,857	137.82%	(347,216)	-49.40%
U1 Revenues	2,700,000	53,389	(2,646,611)	1.98%	1,000,000	187,700	(\$812,300)	18.77%	(134,311)	-71.56%
Other Taxes	922,048	705,675	(216,373)	76.53%	1,116,860	769,335	(\$347,525)	68.88%	(63,660)	-8.27%
Vehicle In-Lieu Taxes	12,421,597	7,190,227	(5,231,370)	57.88%	13,333,826	6,678,022	(\$6,655,804)	50.08%	512,205	7.67%
Parking Fines-Regular Collections	5,049,000	1,714,828	(3,334,172)	33.96%	6,600,000	2,337,328	(\$4,262,672)	35.41%	(622,500)	-26.63%
Parking Fines-Booting Collections			0		200,000	8,685	(\$191,315)	4.34%	(8,685)	-100.00%
Moving Violations	190,000	42,277	(147,723)	22.25%	190,000	114,850	(\$75,150)	60.45%	(72,573)	-63.19%
Ambulance Fees	5,103,208	1,414,206	(3,689,002)	27.71%	4,200,000	2,392,802	(\$1,807,198)	56.97%	(978,596)	-40.90%
Interest Income	2,851,200	2,627,359	(223,841)	92.15%	3,500,000	3,019,829	(\$480,171)	86.28%	(392,470)	-13.00%
Franchise Fees	1,551,696	370,029	(1,181,667)	23.85%	2,068,928	421,414	(\$1,647,514)	20.37%	(51,385)	-12.19%
Other Revenue	6,246,348	5,631,071	(615,277)	90.15%	8,044,544	4,494,527	(\$3,550,017)	55.87%	1,136,544	25.29%
IDC Reimbursement	5,490,000	2,683,137	(2,806,863)	48.87%	6,100,000	2,525,542	(\$3,574,458)	41.40%	157,595	6.24%
Transfers	17,274,293	8,865,281	(8,409,012)	51.32%	5,266,688	2,633,344	(\$2,633,344)	50.00%	6,231,937	236.65%
			-				-		-	
Total Revenue:	\$195,794,216	\$102,186,405	-\$93,607,811	52.19%	\$197,008,883	\$107,462,881	-\$89,546,002	54.55%	(\$5,276,476)	-4.91%

Note: This statement is presented on a budgetary basis.

The Mid-year review generally focuses on the major revenue fluctuation and changes that have occurred that might result in significant changes in future projections. However, in light of the disruptions created by the COVID-19 pandemic, Staff believes it would be prudent, where possible, to indicate where revisions to revenue projections maybe needed based on mid-year trends and macro-economic indicators. Staff have identified this in the detailed discussions of the specific revenue streams below. Staff will continue to monitor the actual revenues received over the next two quarters and then provide revised projections as appropriate.

During the first six months of FY 2021, General Fund revenue and transfers decreased from the first half of FY 2020 by \$5,276,476 or 4.91%, from \$107,462,881 in the first half of FY 2020 to \$102,186,405 during the first half of FY 2021. This is primarily due to decreases in the following:

- Property Transfer Tax - \$4,377,730,
- Property Transfer Taxes- Measure P - \$2,792,106,
- Sales Tax - \$1,360,682,
- Transient Occupancy Taxes (TOT) decline of \$3,398,448,
- Parking Fines - \$622,500,
- Ambulance Fees - \$978,596, and
- Interest Income - \$392,470.

These decreases were partially offset by increases in the following:

- Transfers In of \$6,231,937,
- Secured Property Tax - \$2,556,092,
- Vehicle in Lieu Taxes - \$512,205,
- Other Income - \$1,136,544.

Based on results from the first six (6) months of the Fiscal Year, Staff is increasing the total projected General Fund revenues for FY 2021 by \$9,056,121 or 4.6% to \$204,850,337 from the \$195,794,216 reflected in the Adopted Budget.

The following table summarizes the Adopted FY 2021 forecast and the Revised FY 2021 forecast.

FY 2021 Revenue Comparison			
	FY 2021 Adopted	FY 2021 Revised	Change
Undesignated Revenues			
Secured Property Taxes	61,165,455	68,058,514	6,893,059
Regular Redemptions	534,511		
Unsecured Property Taxes	2,250,000	3,000,000	750,000
Supplemental Taxes	1,260,000	2,000,000	740,000
Property Transfer Taxes	16,500,000	16,500,000	0
Sales Taxes	15,786,200	16,727,492	941,292
Soda Tax	970,794	970,794	0
Utility Users Taxes	12,750,000	12,750,000	0
Transient Occupancy Taxes(TOT)*	5,746,260	3,546,260	(2,200,000)
Business License Taxes**	14,284,192	14,284,192	0
Vehicle In Lieu Taxes	12,421,597	14,384,459	1,962,862
Other Taxes	922,048	1,456,560	534,512
Parking Fines	5,049,000	4,049,000	(1,000,000)
Moving Violations	190,000	190,000	0
Interest Income	2,851,200	4,051,200	1,200,000
Ambulance Fees	5,103,208	3,342,159	(1,761,049)
Franchise Fees	1,551,696	1,581,650	29,954
Indirect cost reimbursements	5,490,000	5,490,000	0
Transfers	17,274,293	17,274,293	0
Other Revenues	6,246,348	6,246,348	0
Total Undesignated Revenues	\$188,346,802	\$195,902,922	\$8,090,631
*TOT for Short-Term Rentals	676,260	476,260	
**Business License Taxes for Cannabis Recreational	1,300,000	1,300,000	
Designated Revenues			
Prop. Transfer Taxes for capital improvements	0	0	
Prop. Transfer Taxes-Measure P	4,747,414	6,247,414	
Measure U1 for low income housing	2,700,000	2,700,000	
Total Designated Revenues			
TOTAL REVENUES AND TRANSFERS	\$195,794,216	\$204,850,336	\$9,056,120

These projections will be reviewed and analyzed every quarter as more data is collected and revenue trends are determinable.

After the COVID-19 pandemic started and the shelter in place orders were implemented, the economic activities that drives some of the General Fund's major revenue streams caused a sharp decline in the growth rate for the first six months of FY 2021. However, some revenue streams were impacted differently than others.

Property Tax Revenue Streams:

Because of the way property taxes are assessed, due and paid, the major property tax revenue sectors were only mildly impacted or not impacted at all. For example:

For Secured Property Taxes in FY 2021, assessed values were determined and taxes were liened on January 1, 2020, before the start of the COVID-19 pandemic. Therefore, the taxes could only be significantly affected by a lower collection rate. (i.e., a higher level of taxpayers who are delinquent in paying the taxes).

In addition, assessed values for Unsecured Property Taxes were determined and taxes were liened on January 1, 2020, before the pandemic started; and, these taxes are due and primarily paid during the first quarter. Therefore, revenues in this tax category will be unaffected by the COVID-19 pandemic in FY 2021.

Revenue Streams Reliant Upon Business and Other Activity:

As a result of the initial shelter in place orders to close all non-essential businesses and the stops and starts since then, business-related activity declined sharply and resulted in significant negative impacts on the following revenue streams in the first six months of FY 2021 compared to the first six months of FY 2020:

- Transient Occupancy Taxes (TOT)- Decline of 75.8%;
- Short-Term Rentals – Decline of 74.8%
- Property Transfer Taxes- Decline of 29.1%;
- Measure P Property Transfer Taxes-Decline of 39.6%
- Parking fines – Decline of 26.6%;
- Sales Taxes -Decline of 14.4%;
- Ambulance fees -Decline of 40.9%; and
- Interest Income -Decline of 13.0%

Secured Property Tax (+\$2,556,092 more than FY 2020 Actual). Increase projections by \$6,893,062

During the first half of FY 2021, Secured Property Tax revenues totaled \$34,731,618, which was \$2,556,092 or 7.94% more than the \$32,175,526 received for the same period in FY 2020. The Staff revenue projection reflected in the FY 2021 Adopted Budget assumes a 3.22% decline for the year, while the County's Certification of Assessed Valuation reflects growth of 7.70%. The receipts in the first half of FY 2021 are consistent with the County's Certification of Assessed Value growth of 7.70%.

Since assessed values for Secured Property Taxes were determined as of January 1, 2020, and they were liened as of that date, the only material factor that could impact Secured Property Tax revenues as a result of COVID-19 would be a significant increase in delinquent property taxes, resulting in a significant reduction in the collection rate, and Staff does not expect that to occur. As indicated in the table below, the collection rate for

the City of Berkeley has been high and rising for many years. In addition, the COVID-19 pandemic had little, if any, impact on the second Secured Property Tax payment for FY 2020, which was due February 1, 2020 and was delinquent on April 10, 2020 (i.e., The total Secured Property Tax revenues in FY 2020 was the amount expected based on the actual growth in assessed value for FY 2020).

**Percentage of Secured Property Tax Levy Collected Within the Fiscal Year of Levy
Fiscal Year Ended June 30**

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
96.71%	97.27%	97.47%	98.16%	98.57%	98.73%	98.58%	98.92%	98.89%	98.97%

Staff is revising the FY 2021 projection to \$68,058,516 from the \$61,165,454 reflected in the FY 2021 Adopted Budget, consistent with the County's Certification of Assessed Value growth of 7.70%.

Unsecured Property Tax (+\$290,225 more than FY 2020 Actual). Increase projections by \$750,000

During the first half of FY 2021, Unsecured Property Tax revenues totaled \$2,995,351, which was \$290,225 or 10.73% more than the \$2,705,126 received for the same period in FY 2020. The Staff revenue projection reflected in the FY 2021 Adopted Budget assumes a 15.2% decline for the year, versus the County's Certification of Assessed Valuation growth of 8.23%.

Since unsecured property taxes lien on January 1, 2020, were due July 1, 2020, and were mostly collected in the first half, these taxes do not appear to be impacted by COVID-19 in FY 2021. As a result, staff is increasing the projection from the \$2,250,000 reflected in the Adopted Budget to \$3,000,000.

Property Transfer Tax (-\$4,377,730 less than FY 2020 Actual)

During the first half of FY 2021, Property Transfer Tax totaled \$10,665,913, which was \$4,377,730 or 29.1% less than the \$15,043,643 received for the first half of FY 2020. The primary reasons for the \$4,377,730 decrease in Property Transfer Tax were

- The FY 2020 total includes the sale of a small group of properties that resulted in huge Property Transfer Taxes in August 2019 and October 2019;
- The dollar value of property sales declined by 34.5% during the first half of FY 2021, as illustrated in the table below; and
- The number of property sales transactions declined by 25 or 5.1% during the first half of FY 2021, as illustrated in the table below.

In Millions \$

Property Sales \$	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
FY 2021	\$ 74.0	\$115.0	\$106.4	\$127.2	\$139.1	\$118.4	\$ 680.1
FY 2020	113.4	234.1	112.8	317.2	119.5	142.0	1,039.0
Change	-39.4	-119.1	-6.4	-190.0	19.6	-23.6	-358.9
% Change	-34.7%	-50.9%	-5.7%	-59.9%	16.4%	-16.6%	34.5%

Transactions	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
FY 2021	50	82	73	89	91	85	470
FY 2020	86	86	84	68	85	86	495
Change	-36	-4	-11	21	6	-1	-25
% Change	-41.9%	-4.7%	-13.1%	-30.9%	7.1%	11.1%	-5.1%

Measure P Property Transfer Tax (-\$2,792,106 less than FY 2020 Actual). Increase projections by \$1,500,000

In addition, \$4,254,324 in Measure P Property Transfer taxes (a tax which took effect on December 21, 2018) was collected during the first half of FY 2021 compared to \$7,046,430 collected during the first half of FY 2020, a decline of \$2,792,106 or 39.6%. The decline was for the same reasons identified for Property Transfer Taxes above. Staff is revising the projected amount for FY 2021 to \$6,247,414.

Sales Tax (- \$1,360,682 less than FY 2020 Actual). Increase projections by \$941,292)

For the first half of FY 2021, Sales Tax revenue totaled \$8,069,851, which is \$1,360,682 or 14.43% less than the \$9,430,533 received for the first half of FY 2020. Staff is revising the projection for Sales Taxes from the \$15,786,200 reflected in the FY 2021 Adopted Budget to \$16,727,492, based on the latest sales tax return and collection trends compiled by the City's Sales Tax Consultant:

FY 2020 Actual Revenues and FY 2021 Projected Revenues

Tax Quarter	FY2021 Projected	FY 2020 Actual	\$ Change	% Change
Quarter:				
3 rd Quarter	\$ 4,058,762	\$ 4,680,703	-\$621,941	-13.29%
4 th Quarter	4,787,297	4,764,553	+ 22,744	+ 0.48%
1 st Quarter	4,562,188	5,067,679	-505,491	- 9.97%
2 nd Quarter	3,319,245	3,063,078	+256,167	+ 8.36%
Total	\$16,727,492	\$17,576,013	-\$848,521	-4.83%

Utility Users Taxes (- \$22,506 less than FY 2020 Actual)

Utility Users Tax revenue for the first half of FY 2021 totaled \$6,304,755, which is \$22,506 or .36% less than the \$6,327,260 received for the same period in FY 2020. This decline of \$22,506 was primarily a result of a \$208,686 increase in electric charges that were offset by declines in telephone charges (\$12,899), cable charges (\$90,565), and cellular charges (\$152,578) as follows:

FY 2021 Actual First Half Revenues versus FY 2020 Actual First Half Revenues

	FY2021	FY 2020	\$ Change	% Change
Telephone	\$ 778,162	\$ 765,263	\$ 12,899	-1.69%
Cable	487,938	578,502	- 90,565	-15.66%
Cellular	518,275	670,853	-152,578	- 22.74%
Electric	3,655,820	3,447,134	208,686	6.05%
Gas	864,560	865,507	-948	-.11%
Total	\$6,304,755	\$6,327,260	-\$ 22,506	-.36%

Staff expects Utility Users Tax revenue in FY 2021 to meet or slightly exceed the FY 2021 revenue projection of \$12,750,000.

Transient Occupancy Tax (-\$3,398,448 less than FY 2020 Actual). Lowering projections by \$2,000,000

Transient Occupancy Tax (TOT) revenue for the first half of FY 2021 totaled \$1,084,961, which is \$3,398,448 or 75.8% less than the \$4,483,409 received for the first half of FY 2020. The decrease in FY 2021 is primarily attributable to a decline of 77.0% at the five largest hotels in Berkeley during the first half of the fiscal year. The declines ranged from

50.3% to 97.4%. During FY 2020, there were remittances made by all five hotels for all six months. However, during FY 2021, in addition to remittances being significantly lower, there were months where there were no remittances or a small remittance for some of the hotels. Given the lack of activity at our hotels/motels, Staff is lowering the FY 2021 projection of \$5,070,000 reflected in the Adopted Budget to \$3,070,000.

Short-Term Rentals (-\$648,917 less than FY 2020 Actual). Lowering projections by \$200,000

Short-Term Rentals revenue for the first half of FY 2021 totaled \$218,590, which is \$648,917 or 74.8% less than the \$867,507 received for the first half of FY 2020. This decline was consistent with the percentage decline in TOT for the period. Staff is lowering the FY 2021 projection of \$676,260 in the FY 2021 Adopted Budget to \$476,260.

Business License Taxes (-\$776,727 less than FY 2020 Actual)

Business license Taxes (BLT) revenue for the first half of FY 2021 totaled \$390,253, which is \$776,727 or 66.6% less than the \$1,166,980 received for the first half of FY 2020. BLT are not due yet, so it is too soon to gauge the effect COVID-19 has had on FY 2021 Business License Tax revenue.

Recreational Cannabis (-\$347,216 less than FY 2020 Actual)

Recreational Cannabis revenue for the first half of FY 2021 totaled \$355,641, which is \$347,216 or 49.4% less than the \$702,857 received in the first half of FY 2020. This decline is partially attributable to \$160,250 of FY 2019 Recreational Cannabis revenues which were recorded in the first quarter of FY 2020. Recreational Cannabis taxes are not yet due, so it is too soon to gauge the effect COVID-19 has had on FY 2021 Recreational Cannabis.

U1 Revenues (-\$134,311 less than FY 2020 Actual)

U1 revenues for the first half of FY 2021 totaled \$53,389, which is \$134,311 or 71.6% less than the \$187,700 received in the first half of FY 2020. U1 revenues are not yet due, so it is too soon to gauge the effect COVID-19 has had on FY 2021 U1 revenues.

Vehicle In Lieu Taxes (+\$512,205 more than FY 2020 Actual). Increase projections by \$1,962,862

Vehicle in Lieu Taxes (VLF) received during the first half of FY 2021 totaled \$7,190,227, which is \$512,205 or 7.67% more than the total of \$6,678,022 received for the same period in FY 2020. However, the Staff revenue projection reflected in the FY 2021 Adopted Budget assumes a 6.8% decline for the year, while the County's Certification of Assessed Valuation reflects growth of 7.70%.

Changes in VLF revenues are based on the growth in assessed values.

Since assessed values for VLF Taxes were determined as of January 1, 2020, and they were lienied as of that date, the only material factor that could impact revenues as a result

of COVID-19 would be a significant increase in delinquent property taxes, resulting in a significant reduction in the collection rate. Staff does not expect this to occur. As indicated in the table below, the collection rate for the City of Berkeley has been high and rising for many years. In addition, the COVID-19 pandemic had little, if any, impact on the second payment of Property Taxes for FY 2020, which was due February 1, 2020 and was delinquent on April 10, 2020.

**Percentage of Secured Property Tax Levy Collected Within the Fiscal Year of Levy
Fiscal Year Ended June 30**

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
96.71%	97.27%	97.47%	98.16%	98.57%	98.73%	98.58%	98.92%	98.89%	98.97%

Staff is revising the FY 2021 projection from \$12,421,597 reflected in the Adopted Budget to \$14,384,459, consistent with the County's Certification of Assessed Value growth of 7.70% for FY 2021.

Parking Fines (-\$622,500 less than FY 2020 Actual). Lowering projections by \$1,000,000

Parking Fines revenue for the first half of FY 2021 totaled \$1,714,828, which is \$622,500 or 26.6% less than the \$2,337,328 received for the first half of FY 2020. The primary reason for the decline is the reduction in ticket writing, due to the shelter in place orders. From March 17, 2020 to approximately July 1, 2020, Parking Enforcement was directed to only enforce Street Sweeping violations, and violations that impacted safety or impeded access to essential services. In addition, during this period of time, the City Manager's Office informed customers that if the citation received for Street Sweeping represented a hardship during the shelter in place period that they could contact the City and one citation per household would be dismissed/voided. On July 1st, meters returned with a pay rate of 50 cents per hour, but parking was not in high demand due to the shelter in place orders. The Residential parking enforcement program did not begin again until October 1st. In addition, the Traffic and Parking Bureau was in quarantine from December 24th to January 7th.

During the first half of the fiscal year, ticket writing declined from 58,900 in the first half of FY 2020 to 55,824 in the first half of FY 2021, as follows:

	July	August	Sept.	Oct.	Nov.	Dec.	Total
FY 2020	8,640	9,888	9,122	9,431	10,667	11,152	58,900
FY 2021	6,810	7,744	9,093	12,519	10,357	9,301	55,824
Difference	-1,830	-2,144	-29	-3,088	-310	-1,851	-2,976
% Difference	-21.2%	-21.7%	-.3%	-32.7%	-2.9%	-16.6%	-5.1%

Staff has lowered the Parking Fines projection to \$4,049,000 from the \$5,049,000 reflected in the FY 2021 Adopted Budget.

Ambulance Fees (-\$978,596 less than FY 2020 Actual). Lowering projections by \$1,761,049

Revenue from Ambulance Fees for the first half of FY 2021 totaled \$1,414,206, which is \$978,596 or 40.9% less than the \$2,392,802 received for the same period during FY 2020. Prior to the COVID-19 pandemic, the City’s Ambulance Fees vendor was projecting 6,541 transports and \$4,774,200 in Ambulance Fees revenues on a cash basis. Currently, they are projecting that transports and Ambulance Fees revenue for FY 2021 will decline to 4,579 transports and \$3,342,159 in revenue.

As a result, Staff is lowering the FY 2021 projection from the \$5,103,208 reflected in the Adopted Budget to \$3,342,159.

Interest Income (-\$392,470 less than FY 2020 Actual). Increase projections by \$1,200,000

For the first half of FY 2021, interest income totaled \$2,627,359, which is \$392,470 or 13.0% less than the total of \$3,019,829 received for the same period in FY 2020. This decrease is primarily attributable to a sharp drop in short-term and long-term interest rates, as a result of the Federal Reserve Board’s (the Fed) vote on March 15, 2020 to cut interest rates back to zero, in order to mitigate the negative impact of the COVID-19 pandemic on the US economy. The Fed subsequently also announced that it expects to keep rates at this low level through FY 2023.

Primarily as a result of the Fed’s actions, the net interest rate earned by the City dropped from a range of 1.97%-2.33% during the first half of FY 2020, to a range of 1.12%-1.17% during the first half of FY 2021, as follows:

Monthly Net Interest Rate Earned

FY	July	August	September	October	November	December
2020	2.33%	2.29%	2.23%	1.97%	2.25%	2.09%
2021	1.17%	1.13%	1.14%	1.12%	1.16%	1.14%

As a result of the sharp decline in the net interest rate being earned by the City, interest income in FY 2021 and beyond will be significantly lower than the total earned in FY 2020. Staff expected a sharp decline in interest rates. However, the impact thus far has not been as negative as anticipated, and Staff has increased the FY 2021 Interest Income projection to \$4,051,200 from the \$2,851,200 level reflected in the FY 2021 Adopted Budget (Down from the \$6,696,279 received in FY 2020).

Franchise Fees (-\$51,385 less than FY 2020 Actual). Increasing projections by \$29,954

Franchise Fees for the first half of FY 2021 totaled \$370,820, which is \$51,385 or 12.2% less than the \$421,414 received for the same period in FY 2020. Staff is slightly increasing the FY 2021 Franchise Fees revenues projection to \$1,581,650 from the \$1,551,696 reflected in the Adopted Budget (but down from the \$1,839,102 received in FY 2020), based on the projected COVID-19 impact below:

Category	FY 2020 Actuals	Est. FY 2021 COVID Impact %	Est. FY 2021 COVID Impact \$	FY 2021 Revised Projection
Cable	\$ 791,663	-20%	-\$158,333	\$ 633,330
Electric	598,023	-5%	-29,901	568,122
Gas	422,442	-10%	-42,244	380,198
Total	\$1,812,128	-13%	-\$230,478	\$1,581,650

Transfers (+\$6,231,937 more than FY 2020 Actual)

Transfers from other funds for the first half of FY 2021 totaled \$8,865,281 which is \$6,231,937 or 236.7% more than the \$2,633,344 received for the same period in FY 2020. This is primarily attributable to the transfer of \$3,450,000 from the Stabilization Reserve Fund and the transfer of \$2,250,000 from the Catastrophic Reserve Fund during the first half of FY 2021, to mitigate the negative impact of COVID-19. It should be noted that as part of the FY 2021 Adopted Budget, a total of \$6,900,000 and \$4,500,000 was authorized by City Council to be transferred from the Stabilization Reserve Fund and Catastrophic Reserve Fund to support General Fund operations in FY 2021.

Other Revenues (+\$1,136,544 more than FY 2020 Actual)

Other Revenues consists of licenses and permits; grants; preferential parking fees; general government charges for services; public safety charges for services; health charges for services; culture and recreation charges for services; rents and royalties; and other miscellaneous revenues that are not considered major.

Other Revenues for the first half of FY 2021 totaled \$5,631,071 which is \$1,136,544 or 25.3% more than the \$4,494,527 received for the first half of FY 2020, This increase resulted from the receipt of \$1,513,511 received from the State (Cares Act Funds) and \$936,500 from East Bay Community Foundation for the Berkeley Relief Fund, to finance grant payments to assist businesses and nonprofit organizations impacted by the COVID-19 pandemic. Even though the Other Revenue projections includes the implementation of the TNC tax that is effective January 1, 2021, the projection is unchanged as the \$200,000 projected for the tax will be offset by the projected decrease in other revenues.

General Fund Expenditures

On January 19, 2021, the City Council approved General Fund recommended rollovers, carryovers, and adjustments totaling \$29.4 million in the [Amendment to the FY 2021 Annual Appropriations Ordinance](#)²(AAO).

The changes to the FY 2021 General Fund Budget from the AAO are shown below:

FY 2021 Adopted Budget	Encumbered Recommended	Unencumbered Recommended	Other Adjustments	FY 2021 Revised Budget
\$ 194,718,710	\$ 7,191,365	\$ 4,702,740	\$ 17,489,694	\$ 224,102,509

The encumbered rollovers reflect contractual obligations entered into in FY 2020, which had not been paid as of June 30, 2020. Unencumbered carryovers are approved by Council for specific purposes that had not been completed by the end of FY 2020. Funding for these commitments is brought forward into the current fiscal year to provide for payment of these obligations. Adjustments are new allocations for projects and Council priorities as detailed in the AAO.

Included in the other adjustments of \$17.5 million are Council authorized allocations for the following items:

1. \$13,389,336 for the Mayor's Proposed Supplemental Recommendations for the Allocation of General Fund Excess Equity
2. \$719,017 for a transfer to the Public Liability Fund for outside counsel, court costs, and claims and judgements in FY 2021
3. \$411,270 for Wittman Enterprises LLC contract to provide emergency response billing, fire inspection billing, and related hardware, software, and program oversight
4. \$406,952 for transfer of Excess Property Transfer Tax Revenue to the Workers' Compensation Fund to repay loan to purchase Premier Cru (University Center)
5. \$360,437 for a survey of the Underground Utility District (UUD) No. 48 at Grizzly Peak
6. \$234,881 for Measure JJ for the Mayor and Councilmember Salaries and Benefit increases approved by voters on November 3, 2020
7. \$270,000 for contract with the National Institute for Criminal Justice Reform to Manage and Lead a Community Engagement Process to Develop a New Paradigm of Public Safety in Berkeley.

² https://www.cityofberkeley.info/Clerk/City_Council/2021/01_Jan/Documents/2021-01-19_Item_01_Ordinance_7748.aspx

General Fund expenditures are tracking slightly over budget as of December 31, 2020 as shown in the chart below.

Some departments that are tracking over 50 percent spent in personnel is due to staff time charged to the General Fund instead of to other funds. These departments will process personnel corrections to adjust labor charges from the General Fund to other funds. These corrections will be processed in the second half of FY 2021.

Departments that are over 50 percent in non-personnel is due to encumbrances for contractual obligations entered into in FY 2021 in which payment might not be currently due as good or services might be in progress or not yet complete.

FY 2021 MID-YEAR GENERAL FUND EXPENDITURES (AS OF DECEMBER 31, 2020)							
DEPARTMENT	FY 2021 ADOPTED	FY 2021 REVISED*	YTD ACTUAL + ENCUMBRANCES	AVAILABLE BUDGET	% USED	PERSONNEL % USED	NON- PERSONNEL % USED
11 MAYOR AND COUNCIL	2,559,046	2,626,468	1,174,065.03	1,452,403	45%	45%	44%
12 CITY AUDITOR	2,657,863	2,640,324	1,204,953.27	1,435,371	46%	45%	49%
21 CITY MANAGER'S OFFICE	10,450,066	12,059,855	5,960,474.58	6,099,380	49%	47%	54%
31 CITY ATTORNEY	2,587,273	2,668,059	1,313,780.08	1,354,279	49%	51%	41%
32 CITY CLERK	2,338,047	3,149,587	1,471,479.11	1,678,108	47%	51%	43%
33 FINANCE	5,978,002	7,503,046	4,087,713.61	3,415,333	54%	51%	61%
34 HUMAN RESOURCES	2,280,207	2,910,875	1,297,727.30	1,613,148	45%	41%	51%
35 INFORMATION TECHNOLOGY	580,710	2,153,885	1,162,287.43	991,598	54%		54%
51 HEALTH, HSG & COMMUNITY SVC	14,850,382	26,346,918	18,152,732.41	8,194,186	69%	49%	82%
52 PARKS, RECREATION & WATERFR	6,831,086	7,746,386	3,566,581.29	4,179,804	46%	43%	51%
53 PLANNING & DEVELOPMENT	2,178,037	2,361,990	1,375,928.85	986,062	58%	55%	66%
54 PUBLIC WORKS	4,408,589	6,688,258	3,162,558.33	3,525,700	47%	48%	47%
71 POLICE	65,460,524	64,843,729	37,976,902.73	26,866,826	59%	57%	70%
72 FIRE & EMERGENCY SERVICES	32,272,610	36,964,113	20,836,524.83	16,127,589	56%	54%	63%
99 NON DEPARTMENTAL	39,286,268	41,691,072	15,540,911.71	26,150,160	37%	100%	37%
Grand Total	194,718,710	222,354,566	118,284,621	104,069,945	53%	54%	53%

**FY 2021 Revised does not reflect as of December 31, 2020 all Council approved allocations included in the FY 2021 AAO #1.*

Some of the significant overages in departments that need further explanation are the following:

- **Health, Housing & Community Services (HHCS):** In the first 6 months of FY 2021, HHCS has encumbered and spent almost \$9.4 million in General Fund community agency contract funds. The department also had \$1.1 million in FY 2020 Measure U1 Funds loan encumbrances that were carried over to FY 2021. These two items along with other regular expenditures led to General Fund Non-Personnel expenditures being at 82 percent spent through the first six months.
- **Police:** Through December 2020, Police overtime is \$3,459,236. This represents about 2/3 of what has been allocated to the department after adjusting for the

\$3.5 million allocated to the department in December 2020 but excluding the \$1.0 million set aside in reserves. A portion of overtime reserves (approximately \$180,000) has been allocated to enable the downtown bike patrol team to operate 7 days/week. The Department's use of overtime is due to a number of factors including, but not limited to, mutual aid requests, reimbursable overtime requested by third-parties, COVID-19, and training. Staff is monitoring Police Department expenditures and working with the Department on these to develop strategies to ensure that Police Department expenditures are consistent with appropriated funds.

- Fire: Fire Department overtime is anticipated to exceed budgeted amounts due a number of factors such as observing COVID-19 isolation and quarantine protocols, being deployed to multiple wildfires, and staffing up for red-flag events, the vaccination clinic, and COVID-19 testing sites. Offsetting the increase in overtime are reimbursement requests for the wildfires totaling \$640,554.

Staff is carefully monitoring the FY 2021 General Fund budget to make sure the City stays within budget and is also watching to make sure that savings realized as part of the adopted budget deferrals for FY 2021 are met by the end of the year.

Additional information regarding General Fund revenues and expenditures will be presented in May with the FY 2022 Proposed Budget. Final FY 2021 year-end General Fund revenues and expenditures information will be included in the **FY 2021 Year-End Report and FY 2022 First Quarter Update** that will be presented to Council in November 2021.

All Funds Expenditures

The General Fund comprises 30.1 percent of the total adjusted budget. The rest of the budget consists of various Special Funds. Special Funds are collected for a specific purpose; therefore, are not discretionary. Only costs associated with the Special Fund activity may be charged to a Special Fund. Included in the FY 2021 Mid-Year All Fund Expenditures by Department chart below are both the General Fund expenditures to date and the Special Funds expenditures to date. On an All Funds basis, the City is tracking over budget as of December 31, 2020 as can be seen in the following chart:

FY 2021 MID-YEAR ALL FUNDS EXPENDITURES (AS OF DECEMBER 31, 2020)						
DEPARTMENT	YTD ACTUAL +			AVAILABLE BUDGET	% USED	
	FY 2021 ADOPTED	FY 2021 REVISED	ENCUMBRANCES			
11 MAYOR AND COUNCIL	2,559,046	2,641,468	1,174,065	1,467,403	44%	
12 CITY AUDITOR	2,786,499	2,768,960	1,260,217	1,508,743	46%	
13 RENT STABILIZATION BOARD	6,646,209	6,772,560	3,592,645	3,179,915	53%	
21 CITY MANAGER'S OFFICE	13,515,943	15,666,114	7,570,305	8,095,809	48%	
22 BERKELEY PUBLIC LIBRARY	21,846,159	25,044,555	12,822,260	12,222,295	51%	
31 CITY ATTORNEY	4,509,824	6,159,772	3,399,452	2,760,320	55%	
32 CITY CLERK	2,839,880	3,651,420	1,783,808	1,867,612	49%	
33 FINANCE	8,555,177	10,088,120	4,806,945	5,281,175	48%	
34 HUMAN RESOURCES	4,072,239	4,815,202	2,208,374	2,606,828	46%	
35 INFORMATION TECHNOLOGY	20,647,410	27,513,549	11,909,300	15,604,249	43%	
51 HEALTH, HSG & COMMUNITY SVC	53,834,105	116,663,573	64,341,785	52,321,788	55%	
52 PARKS, RECREATION & WATERFR	32,561,123	83,753,434	42,819,299	40,934,134	51%	
53 PLANNING & DEVELOPMENT	25,022,338	27,284,553	11,836,192	15,448,361	43%	
54 PUBLIC WORKS	138,631,154	207,439,781	106,212,507	101,227,274	51%	
71 POLICE	70,325,114	69,882,747	40,415,183	29,467,564	58%	
72 FIRE & EMERGENCY SERVICES	41,254,373	47,812,600	27,138,762	20,673,838	57%	
99 NON DEPARTMENTAL	83,711,926	86,480,963	41,146,263	45,334,699	48%	
Grand Total	533,318,519	744,439,372	384,437,364	360,002,008	52%	

Health, Housing, & Community Services, Parks, Recreation & Waterfront, and Public Works carried over funds for projects and grants started in FY 2020. These departments also appropriated new grant funds that support programs and services as well as special funds for capital improvements. Details of these carryover requests can be found in the December 15, 2020, [Amendment to the FY 2020 Annual Appropriations Ordinance³](#) (AAO) discussed earlier in this report.

The following key special funds need further discussions regarding their current status:

Marina Fund

The Marina Fund is experiencing revenue shortages in lease revenues and berth rentals revenues in FY 2021 and is still facing exhausting all reserves by the end of FY 2022. A detailed presentation on the fund and potential solutions to address the deficit were included in an update on the Berkeley Marina Area Specific Plan that was presented to Council on February 16, 2021⁴

³ https://www.cityofberkeley.info/Clerk/City_Council/2020/12_Dec/Documents/2020-12-15_Item_43_Amendment_FY_2021_Annual.aspx

⁴ https://www.cityofberkeley.info/Clerk/City_Council/2021/02_Feb/Documents/2021-02-16_WS_Item_02_Berkeley_Marina_Area_Specific_Plan_pdf.aspx

Permit Service Center Fund

The Permit Service Center Fund began FY 2021 with a fund balance of approximately \$14.75 million. Due to the COVID-19 pandemic, the Planning Department staff is concerned about a potential slowdown in development activity that could result in the need to rely on reserves to sustain operations. A detailed presentation on the fund was presented to the Budget & Finance Policy Committee on February 25, 2021⁵.

Parking Meter Fund

Due to the pandemic related revenue loss to the parking program, a General Fund allocation of \$3.2 million was approved by the Council on December 15, 2020 to cover some FY 2021 operational costs. In addition to that, the Parking Meter Fund utilized a significant amount of its reserves thereby depleting resources that had been set aside for future capital replacement. As a result of these balancing measures, the Parking Meter Fund will need an allocation of \$3,355,000 over the next two fiscal years (FY 2022 – FY 2023) to fund the replacement of the elevator at the Telegraph/Channing Garage and to upgrade and replace parking meters.

Public Liability Fund

The Public Liability Fund pays for all of the City's legal costs including costs for outside counsel and claims and judgements paid out by the City. The fund also pays for 75 percent of a Deputy City Attorney III position, 75 percent of a Senior Legal Secretary position, and 100 percent of another Senior Legal Secretary position in the City Attorney's Office. The fund is supported by an annual transfer from the General Fund of approximately \$1.7 million.

The City's legal costs have been steadily increasing over the last several years. Council allocated an additional General Fund allocation of \$719,017 in the First Amendment to the FY 2021 Annual Appropriations Ordinance to the Public Liability Fund to cover additional legal costs in FY 2021. Recent award settlements and additional legal costs may require additional funds in FY 2021 or a possible increase in the General Fund transfer amount in FY 2022. Staff is working with the City Attorney's Office to determine how much and the timing of when the funds may be needed.

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<https://www.cityofberkeley.info/uploadedFiles/Clerk/Item%204%202.25.21%20PSC%20Fund%20Status%20Update%20for%20Budget%20and%20Finance%20Committee.pdf>

Next Steps:

Staff is currently in the process of preparing the FY 2022 Budget approved which will be presented to Council on May 11, 2021.

The table below outlines key Council meeting dates at which budget information will be provided.

FY 2022 Budget Calendar	
Date	Action/Topic
March 16, 2021	<ul style="list-style-type: none"> FY 2021 Mid-Year Update & Projections of Future Liabilities Report (includes preliminary budget challenges)
April 27, 2021	<ul style="list-style-type: none"> Public Hearing on CDBG & ESG Annual Action Plan and proposed funding allocations to community agencies
May 11, 2021	<ul style="list-style-type: none"> FY 2022 Proposed Budget Presentation Public Hearing #1: Budget Proposed Fee Increases FY 2021 Annual Appropriations Ordinance Amendment #2
May 25, 2021	<ul style="list-style-type: none"> Public Hearing #2: Budget
June 1, 2021	<ul style="list-style-type: none"> Council recommendations on budget due to the City Manager
June 15, 2021	<ul style="list-style-type: none"> Council discussion on budget recommendations
June 29, 2021	<ul style="list-style-type: none"> Adopt FY 2022 Proposed Budget Update & FY 2022 Annual Appropriations Ordinance

The FY 2021 Mid-Year Budget Update is a Strategic Plan Priority, advancing our goal to provide an efficient and financially-healthy City government.

ENVIRONMENTAL SUSTAINABILITY

Actions included in the budget will be developed and implemented in a manner that is consistent with the City's environmental sustainability goals and requirements.

CONTACT PERSON

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