



Office of the City Manager

INFORMATION CALENDAR
January 16, 2024

To: Honorable Mayor and Members of the City Council
 From: Dee Williams-Ridley, City Manager
 Submitted by: Sharon Friedrichsen, Budget Manager
 Subject: FY 2023 Preliminary Year-End Status

INTRODUCTION

This budget update presents the preliminary Fiscal Year 2023 (FY 2023) Year-End financial status. The FY 2023 Year-End budget summary covers the period starting July 1, 2022, through June 30, 2023 (FY 2023) and is based on unaudited estimated actuals. The information is considered preliminary and subject to change as the citywide financial statements and annual comprehensive financial report are being finalized.

CURRENT SITUATION AND ITS EFFECTS

FY 2023 Year-End Summary

General Fund

On June 28, 2022, the City Council adopted the FY 2023 budget (Adopted Budget)¹. The FY 2023 adopted General Fund revenues totaled \$258.6 million. The unaudited estimated actual FY 2023 year-end General Fund revenues generated \$275.1 million.

The FY 2023 Adopted Budget included General Fund expenditures totaling \$280.7 million. During the fiscal year, two Adjustments to the Appropriation Ordinance occurred totaling \$27 million, which increased the total FY 2023 General Fund expenditure budget to \$305.6 million². As part of the FY 2023 year-end process, encumbrances, or planned expenditures for services and goods that did not materialize by June 30, 2023, are carried forward to the next fiscal year. This process results in two outcomes: (1) the FY 2023 year-end expenditure budget is adjusted to \$289.1 and (2) the FY 2024 Adopted Budget increases by \$16.8 million. However, due to underspending, the FY 2023 year-end unaudited General Fund expenditures totaled \$258.2 million.

¹ <https://berkeleyca.gov/sites/default/files/documents/2022-06-28%20Item%2044%20Biennial%20Budget%20Adoption.pdf> (Items 44 & 45)

² <https://berkeleyca.gov/sites/default/files/documents/2023-05-09%20Item%2003%20Amendment%20%20FY%202023%20Annual.pdf>

Revenues

At FY 2022 year-end, unaudited actual General Fund revenues generated \$275.1 million, or \$16.5 million more than the adopted budget of \$258.6 million.

During FY 2023, General Fund revenue and transfers decreased \$9,377,271 or 3.30%, from \$284,519,452 in FY 2022, to \$275,142,181 in FY 2023. Notable declines were the following:

1. Property Transfer Taxes	\$20,023,414
2. Measure P Property Transfer Taxes	10,391,733
3. Transfers In	10,508,338

- The declines in Property Transfer Taxes and Measure P Property Transfer Taxes were especially troubling because they appeared to be due to a collapse in the real estate market in Berkeley in the third and fourth quarter of FY 2023.
- The decline in Transfers In was due to a decline of \$10,947,306 in transfers from the American Rescue Plan Fund.

Attachment 1 includes a detailed chart on General Fund Revenues and Transfers in FY 2022 compared to FY 2021 to accompany the narrative below.

Expenditures

Unaudited actual FY 2023 General Fund expenditures total \$258.2 million, or \$22.5 million more than the initial adopted budget of \$280.7 million and \$30.9 million less than the adjusted budget of \$289.1 million.

In the end, the General Fund personnel budget finished under budget by only \$606,822. Non-personnel savings totaled approximately \$30.3 million, primarily due to delays in projects. Funding for several ongoing projects was requested to carry into FY 2024 as part of the FY 2024 AAO#1 presented and adopted by Council on December 12, 2023.

The chart below summarizes unaudited expenditures compared to the budget by department.

Department	FY 2023 Adopted	FY 2023 Adjusted	Year-End Actuals	Balance	Percent Expended
Mayor & Council	4,785,155	4,912,933	3,939,049	973,884	80%
Auditor	3,006,058	2,905,412	2,633,228	272,184	91%
Rent Board	550,000	670,000	568,412	101,588	85%
Police Accountability	1,120,676	1,218,549	909,307	309,242	75%
City Manager	11,628,466	14,075,447	13,385,434	690,013	95%
City Attorney	4,010,250	4,711,297	3,701,943	1,009,354	79%
City Clerk	2,590,414	2,954,492	2,550,698	403,794	86%
Finance	8,022,118	8,354,606	7,075,972	1,278,634	85%
Human Resources	2,980,172	3,447,973	2,971,640	476,333	86%
Information Technology	1,526,760	1,398,069	882,432	515,637	63%
Health, Housing & Community Services	24,795,803	34,976,799	28,154,026	6,822,773	80%
Parks, Recreation and Waterfront	8,879,746	9,967,131	9,694,847	272,284	97%
Planning	3,062,324	6,326,119	2,924,669	3,401,450	46%
Public Works	5,783,759	15,302,097	7,102,952	8,199,145	46%
Police	79,269,594	80,248,184	84,895,064	(4,646,880)	106%
Fire	41,626,945	41,217,457	40,875,362	342,095	99%
Non-Departmental	77,033,053	56,404,818	45,909,230	10,495,588	81%
Total	280,671,293	289,091,383	258,174,266	30,917,117	89%

Significant General Fund Variances

- City Manager's Office (+\$690,013) due to non-personnel savings
- Finance (+\$1,278,634) due to salary savings from vacant positions (\$1,184,494).
- Health, Housing and Community Services (+\$6,822,773) due to staffing vacancies during the year close to \$2.3 million in FY 2023. The remainder was due to unspent non-personnel funds. Some of the non-personnel funds for critical priority projects were carried over to FY 2024 as part of AAO#1.
- Planning (+\$3,401,450) was due to salary savings from vacant positions (\$100,624) and unspent non-personnel funds (\$3,300,825) most of which were project funds carried over to FY 2024 in AAO #1 including \$1.5 million for the Just Transition project.
- Public Works (+\$8,199,145) primarily due to non-personnel and capital project funds not being completely spent in FY 2023. A significant amount of these funds was carried over to FY 2024 as part of the AAO#1 for the following projects:
 - Cameras in Public Right of Way (+\$1,293,889)
 - EV Charging Stations (\$1,450,000)
 - Southside Complete Streets (\$1,000,000)
 - AC-Durant Transit Lane Project (\$330,120)
 - West Berkeley Senior Center Improvements (\$163,306)
 - Traffic Calming (\$153,200)
 - Fire Safety Prevention (\$109,894)

- \$100,000 Dwight Triangle Traffic Circle
- Police (-\$4,646,880) began FY 2023 with a General Fund salary savings deferral target of \$3,738,019, which was deducted at the beginning of the fiscal year. During the year, salary savings from vacant Sworn Police Office positions generated \$2,757,238. However, overtime expenses were almost \$2 million over budget due to maintaining essential public safety service with vacancies. In addition, at the end of FY 2023, Accounting made a correction related to the FY 2023 Police PERS costs that added an additional \$2.7 million in expenditures. In total, the personnel budget finished over budget by \$4.4 million. The Non-Personnel budget finished over budget by \$231,915 with most of the overage due to actuals for internal service charges being higher than the budgeted amounts, especially for fuel and other vehicle costs.
- Fire (\$342,931) is projected to be under budget by \$80,984 in personnel costs. Salaries were over budget by almost \$1.1 million and overtime was over budget by \$1.2 million. Similar to the Police Department, Accounting made a correction for FY 2023 Fire PERS costs that resulted in a reduction of \$2.6 million in expenditures. Other benefits finished over budget by \$236,257. All this combined for the personnel savings of \$80,984. Non-personnel line items finished under budget \$261,948 and resulted in the total savings of \$342,931.
- Non-Departmental (\$10,495,588) was due to savings for Reimagining Public Safety personnel and non-personnel allocations, Tier 1 personnel positions, Tier 1 operations costs, and Council allocations made during AAO #1 not being fully spent in FY 2023. Some of these allocations were carried over to FY 2024 in AAO #1.

General Fund Reserve

The General Fund Reserve is distinctly separate from the General Fund Balance (Excess Equity). On January 24, 2017, the City Council established Resolution No. 67,821 – N.S., a policy for the General Fund Reserves. The General Fund reserves are comprised of two elements: (1) a Stability Reserve and (2) a Catastrophic Reserve:

- The Stability Reserve was established to mitigate the loss of service delivery and financial risks associated with unexpected revenue shortfalls during a single fiscal year or during a prolonged recessionary period. The purpose of the Stability Reserve is to provide fiscal stability in response to unexpected downturns or revenue shortfalls. Fifty-five percent of the General Fund Reserve is allocated to the Stability Reserve.
- The Catastrophic Reserve was established to sustain the General Fund operations in the case of a public emergency such as a natural disaster or other catastrophic event. The Catastrophic Reserve may be used to respond to extreme onetime events, such as earthquakes, fires, floods, civil unrest, and terrorist attacks. The policy was revised to include public health emergencies and

pandemics. Forty-five percent of the General Fund Reserve is allocated to the Catastrophic Reserve.

When the City Council adopted the General Fund Reserve Policy the target level established for the Reserve was set at a minimum of 13.8% of Adopted General Fund Revenues with an Intermediate Goal of a minimum of 16.7% by the end of Fiscal Year 2020, if financially feasible. In addition, the Council adopted a Long-Term Goal of 30% of General Fund revenues, to be achieved within no more than 10 years. The Council demonstrated their commitment to these policy goals by assigning 50% of the General Fund Excess Equity above the first \$1 million to the Stability and Catastrophic Reserves (Reserves). Additional Excess Equity may be allocated to Reserves by a majority vote of the Council.

During the FY 2023 & FY 2024 Biennial Budget process, the Council allocated a pre-funding amount of \$1.5 million in FY 2022 Excess Property Transfer Tax revenues to the reserves plus \$1.5 million from projected FY 2023 & FY 2024 Excess Property Transfer Tax revenues. This funding was in addition to the budgeted baseline amount of \$2.5 million each fiscal year to the reserves.

In June 2022, the Council also revised their fiscal policies and added the following language that 1/3 of any additional revenue earned from investments that is over the annual (fiscal year) baseline of \$6 million is allocated to reserves (with 1/3 allocated to the Section 115 Trust and 1/3 allocated to capital needs).

The chart directly below illustrates the current status of the reserve funds after adding \$1 million in revenues over the interest investment baseline and the FY 2023 year-end excess equity amount of \$10.8 million and shows a reserve percentage resulting in an actual Reserves level of 18.22%³.

General Fund Reserves	Stability Reserve	Catastrophic Reserve	Reserve %
Beginning Cash Balance -	\$ 23.32	\$ 13.45	
FY 2023 Allocation to Reserves	\$ 6.47	\$ 5.30	
% Allocation	55%	45%	
Ending Cash Balance - Reserves	\$ 29.79	\$ 18.75	18.22%

Unfunded Liabilities- Section 115 Trust

Council held a Worksession on April 4, 2017 on the Projections of Future Liabilities - Options to Address Unfunded Liabilities Tied to Employee Benefits. The City’s outside actuary provided options for Council’s consideration to help reduce the City’s unfunded liabilities tied to post-employee benefits including the following recommendations:

³ Catastrophic Reserve Fund Balance includes \$3.3 million loan to Camps Fund - Tuolumne Camp Project. Reserve Percentage based on the FY 2023 Adopted General Fund Revenues of \$258.7 million.

- Investing for the long-term to generate more earning to meet long-term funding targets,
- Increase annual contribution by approximately \$4.5 million per year and fully pre-fund the plans, and
- Establish an irrevocable supplemental trust for CalPERS to stabilize the increasing employer contribution rates.

On June 26, 2018, Council authorized the City Manager to establish an IRS Section 115 Pension Trust Fund (Trust) to be used to help pre-fund pension obligations. On May 14, 2019, Council authorized the City Manager to execute a contract with Keenan Financial Services to establish, maintain, and invest the pension Section 115 Trust.

In June 2022, the Council added a policy that 1/3 of interest investment over the annual baseline of \$6 million be allocated to the Section 115 Trust up to \$5.5 million per fiscal year, or as advised by the City's actuarial and staff. Approximately \$2.0 million will be allocated to the Trust in FY 2024 as a result of this policy and augment the \$2.0 million that has already been included within the Adopted FY 2023 & FY 2024 Biennial Budget.

The Section 115 Trust currently has a balance of \$19,133,331 as of June 30, 2023.

All Funds

On an All Funds basis, the City is projected to finish FY 2023, \$198 million (23%) under the adjusted budget of \$849.4 million. These fund balances are largely due to uncompleted projects and personnel cost savings. The chart below summarizes unaudited expenditures compared to the budget by department.

Department	FY 2023 Adopted	FY 2023 Adjusted	Year-End Actuals	Balance	Percent Expended
Mayor & Council	4,785,155	4,920,433	3,943,449	976,984	80%
Auditor	3,101,376	3,000,730	2,711,754	288,976	90%
Rent Board	7,247,755	7,392,711	6,784,837	607,874	92%
Police Accountability	1,120,676	1,218,549	909,307	309,242	75%
City Manager	15,066,824	22,190,972	19,826,928	2,364,044	89%
Library	24,918,604	24,213,814	19,956,135	4,257,680	82%
City Attorney	7,807,548	8,120,722	7,880,613	240,109	97%
City Clerk	3,101,282	3,465,360	2,876,231	589,129	83%
Finance	10,425,037	10,781,787	8,872,348	1,909,439	82%
Human Resources	4,939,883	5,423,103	4,588,217	834,886	85%
Information Technology	22,287,156	23,682,401	15,454,604	8,227,797	65%
Health, Housing & Community Services	92,548,598	142,639,547	102,103,272	40,536,275	72%
Parks, Recreation and Waterfront	53,173,498	64,369,528	44,548,310	19,821,218	69%
Planning	27,166,905	30,745,053	24,148,378	6,596,675	79%
Public Works	200,373,196	229,008,011	133,049,554	95,958,457	58%
Police	83,997,178	86,737,154	89,672,154	(2,935,000)	103%
Fire	63,233,225	67,822,949	62,873,512	4,949,437	93%
Non-Departmental	128,882,728	113,644,407	101,008,818	12,635,589	89%
Total	754,176,624	849,377,231	651,208,420	198,168,811	77%

Significant All Funds Variances

- Library (+\$4,257,680) due in large part to salary savings from vacant positions and underspending of non-personnel funds in FY2023.
- Information Technology (+\$8,227,797) was due to FUND\$ Replacement Funds and the IT Cost Allocation Fund not being fully spent in FY 2023.
- Health, Housing & Community Services (+\$40,536,275):
 - Of this amount, \$11.2 million in state grant funds designated for specific public and mental health activities. These funds were unspent due to vacancies throughout the Mental Health and Public Health Divisions, including both existing difficult-to-fill positions and new positions budgeted for the full year but not filled until later in the fiscal year.
 - The next largest cluster of funds are the \$15.3 million in federal, state, and local funds designated for affordable housing activities.
- Parks Recreation and Waterfront (+\$15,269,634) had unspent funds due to personnel savings and unexpended project funds in the Playground Camp Fund, Parks Tax Fund, Measure T1 Fund, and the Marina Fund. Only certain unspent project funds will be carried over to FY 2024.
- Public Works (+\$95,958,457) were largely due to the following:
 - State Transportation Tax (+\$3.3 million): \$2.6 million in continuing projects for completion in FY 2024

- ❑ Measure BB – Local Streets & Roads (+\$9.3 million): \$5.9 million in continuing projects for completion in FY 2024
- ❑ Capital Grants – State (+\$10.2 million): \$2 million in continuing projects for completion in FY 2024
- ❑ Capital Improvement Fund (+\$14.8 million): \$11 million in project fund carryover for transportation, street, facilities project funds in FY 2024
- ❑ Measure T1 (+\$6.6 million): \$6.2 million in continuing projects in FY 2024
- ❑ Sanitary Sewer (+\$14.1 million): \$1.7 million in continuing projects in FY 2024 were carried over in AAO #1
- ❑ Clean Storm Water (+\$3.2 million): \$2.7 million in continuing projects in FY 2024

Next Steps

Staff will present second-quarter revenue and expenditure projections as part of the FY 2024 Mid-Year Update in February/March 2024.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

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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ATTACHMENT

Attachment 1: General Fund Revenues and Transfers in FY 2023 compared to FY 2022

General Fund Revenue and Transfer In FY 2023 vs FY 2022 Comparison

Revenue Categories	FY 2023				FY 2022				Comparison FY23 vs FY22	
	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	\$75,664,920	\$79,260,689	\$3,595,769	104.75%	\$71,382,000	\$71,077,973	(\$304,027)	99.57%	8,182,716	11.51%
Redemptions - Regular	831,441	738,032	(93,409)	88.77%	831,441	759,808	-71,633	91.38%	(21,776)	-2.87%
Supplemental Taxes	2,000,000	3,561,752	1,561,752	178.09%	2,000,000	2,317,723	317,723	115.89%	1,244,029	53.67%
Unsecured Property Taxes	3,516,000	3,830,697	314,697	108.95%	2,625,000	4,001,922	1,376,922	152.45%	(171,225)	-4.28%
Property Transfer Tax	34,462,172	22,878,336	(11,583,836)	66.39%	21,000,000	42,901,750	21,901,750	204.29%	(20,023,414)	-46.67%
Property Transfer Tax-Measure P (New December 21, 2018)	14,073,750	10,199,580	(3,874,170)	72.47%	8,500,000	20,591,313	12,091,313	242.25%	(10,391,733)	-50.47%
Sales Taxes	19,016,546	19,194,971	178,425	100.94%	18,287,215	18,928,278	641,063	103.51%	266,693	1.41%
Soda Taxes	990,210	1,162,310	172,100	117.38%	990,210	1,025,800	35,590	103.59%	136,510	13.31%
Utility Users Taxes	13,800,000	17,634,565	3,834,565	127.79%	13,000,000	14,750,065	1,750,065	113.46%	2,884,500	19.56%
Transient Occupancy Taxes	5,000,000	7,477,911	2,477,911	149.56%	2,173,000	5,727,046	3,554,046	263.55%	1,750,865	30.57%
Short-term Rentals	1,000,000	1,372,439	372,439	137.24%	630,000	1,295,798	665,798	630,000	76,641	5.91%
Business License Tax	19,000,000	21,854,193	2,854,193	115.02%	18,498,146	20,404,397	1,906,251	110.31%	1,449,796	7.11%
Recreational Cannabis	1,400,000	997,572	(402,428)	71.26%	1,643,739	1,250,792	-392,947	76.09%	(253,220)	-20.24%
U1 Revenues	4,900,000	5,844,564	944,564	119.28%	5,120,350	4,913,872	-206,478	95.97%	930,692	18.94%
Other Taxes (excluding Redemptions-Regular)	1,800,000	4,717,855	2,917,855	262.10%	1,761,714	2,430,032	668,318	137.94%	2,287,823	94.15%
Vehicle In-Lieu Taxes	15,926,168	16,659,665	733,497	104.61%	14,959,837	15,006,003	46,166	100.31%	1,653,662	11.02%
Parking Fines-Regular Collections	4,326,450	5,875,858	1,549,408	135.81%	3,726,450	4,764,121	1,037,671	127.85%	1,111,737	23.34%
Moving Violations	132,600	149,420	16,820	112.68%	132,600	156,253	23,653	117.84%	(6,833)	-4.37%
Ambulance Fees	3,880,779	5,143,120	1,262,341	132.53%	3,154,002	3,833,730	679,728	121.55%	1,309,390	34.15%
Interest Income	6,000,000	12,117,025	6,117,025	201.95%	4,462,320	6,694,122	2,231,802	150.01%	5,422,903	81.01%
Franchise Fees	1,613,283	1,822,528	209,245	112.97%	1,613,283	1,720,056	106,773	106.62%	102,472	5.96%
Other Revenue	6,729,977	9,043,937	2,313,960	134.38%	6,729,977	7,538,980	809,003	112.02%	1,504,957	19.96%
IDC Reimbursement	5,490,000	6,758,577	1,268,577	123.11%	5,490,000	5,074,695	-415,305	92.44%	1,683,882	33.18%
Transfers	17,096,148	16,846,585	(249,563)	98.54%	27,354,923	27,354,923	0	100.00%	(10,508,338)	-38.41%
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Total Revenue:	\$258,650,444	\$275,142,181	\$16,491,737	106.38%	\$236,066,207	\$284,519,452	\$48,453,245	120.53%	(\$9,377,271)	-3.30%

Notes: (1) This statement is presented on a budgetary basis (i.e., cash).

(2) Includes all TOT rebates owed through June 30, 2023

(3) Total Other Taxes includes Redemptions-Regular

General Fund revenue and transfers decreased \$9,377,271 or 3.30%, from \$284,519,452 in FY 2022, to \$275,142,181 in FY 2023. Notable declines were the following:

1. Property Transfer Taxes	\$20,023,414
2. Measure P Property Transfer Taxes	10,391,733
3. Transfers In	10,508,338

- The declines in Property Transfer Taxes and Measure P Property Transfer Taxes were especially troubling because they appeared to be a collapse in the real estate market in Berkeley in the third and fourth quarter of FY 2023.
- The decline in Transfers In was due to a decline of \$10,947,306 in transfers from the American Rescue Plan Fund.

The large declines in Property Transfer Taxes, Measure P Property Transfer Taxes and Transfers were cushioned by increases in the following revenue sources: Secured Property Taxes (+\$8,182,716), Utility Users Tax (+\$2,884,500), Transient Occupancy Taxes (+\$1,750,865 net of rebates), Business License Taxes (+\$1,449,796), Other Taxes (+\$2,287,823), Vehicle in Lieu Taxes (+\$1,111,737), Ambulance Fees (+\$1,309,390), Interest Income (+\$5,422,903), IDC Reimbursements (+\$1,683,882), and Other Revenue (+\$1,504,957).

Excluding Transfers, General Fund revenue increased \$1,131,067 or .4%, from \$257,164,529 in FY 2022, to \$258,295,596 in FY 2023.

Clearly, the City General Fund has, at least for the near term, lost two of its three primary drivers of annual growth (Property Transfer Taxes and Measure P Property Transfer Taxes). This will make it difficult for significant overall growth in General Fund revenue.

Before getting into the FY 2023 General Fund revenue details, I also want to point out that the City's General Fund revenue challenges will not end when the Fed stops raising short-term rates and starts lowering them, for two reasons:

1. The Fed's monetary tightening includes a program to sell \$95 billion/month (or \$1.14 trillion per year) of Agency and Mortgage-Backed securities from its Balance Sheet, which increases the supply of these securities and puts additional upward pressure on long-term rates, including mortgage rates. Prior to the monetary policy change, the Fed was the major purchaser of these long-term securities; and,

2. The proposed \$1.8 trillion federal budget deficit for the upcoming fiscal year will require the issuance of an additional \$1.8 trillion in Treasury Bonds to fund the deficit.

The additional huge supply of bonds from these two macroeconomic factors will overwhelm demand for long-term bonds and continue to put upward pressure on long-term interest rates, including mortgage rates. In addition to reducing consumer spending and slowing down the economy, it has already pushed mortgage rates up from around 4% to 8%.

The other unknown is how the war in the Middle East will impact the economy, the oil market which is already volatile will probably see more volatility which might put more pressure on inflation.

Bottomline from a Macro Economic view is we are in for a turbulence environment and we need to be prudent in our financial decisions in the near to mid-term.