



**BERKELEY CITY COUNCIL BUDGET & FINANCE COMMITTEE
SPECIAL MEETING**

**Wednesday, November 3, 2021
10:00 AM**

Committee Members:

Mayor Jesse Arreguin, Councilmembers Kate Harrison and Lori Droste
Alternate: Councilmember Rashi Kesarwani

**PUBLIC ADVISORY: THIS MEETING WILL BE CONDUCTED EXCLUSIVELY THROUGH
VIDEOCONFERENCE AND TELECONFERENCE**

Pursuant to Government Code Section 54953(e) and the state declared emergency, this meeting of the City Council Budget & Finance Committee will be conducted exclusively through teleconference and Zoom videoconference. The COVID-19 state of emergency continues to directly impact the ability of the members to meet safely in person and presents imminent risks to the health of attendees. Therefore, no physical meeting location will be available.

To access the meeting remotely using the internet: Join from a PC, Mac, iPad, iPhone, or Android device: Use URL - <https://us02web.zoom.us/j/83144440922>. If you do not wish for your name to appear on the screen, then use the drop down menu and click on "rename" to rename yourself to be anonymous. To request to speak, use the "raise hand" icon on the screen.

To join by phone: Dial **1-669-900-9128** or **1-877-853-5257 (Toll Free)** and Enter Meeting ID: **831 4444 0922**. If you wish to comment during the public comment portion of the agenda, press *9 and wait to be recognized by the Chair.

Written communications submitted by mail or e-mail to the Budget & Finance Committee by 5:00 p.m. the Friday before the Committee meeting will be distributed to the members of the Committee in advance of the meeting and retained as part of the official record.

AGENDA

Roll Call

Public Comment on Non-Agenda Matters

Minutes for Approval

Draft minutes for the Committee's consideration and approval.

1. Minutes - October 28, 2021

Committee Action Items

The public may comment on each item listed on the agenda for action as the item is taken up. The Chair will determine the number of persons interested in speaking on each item. Up to ten (10) speakers may speak for two minutes. If there are more than ten persons interested in speaking, the Chair may limit the public comment for all speakers to one minute per speaker.

Following review and discussion of the items listed below, the Committee may continue an item to a future committee meeting, or refer the item to the City Council.

2. **Budget Referral and Resolution Establishing a Pilot Existing Building Electrification Installation Incentives and Just Transition Program with Pre-Qualified Contractors Meeting Minimum Labor Standards to Assist New Property Owners, Renters and Existing Property Owners with Transition to Zero-Carbon Buildings**

From: Councilmember Harrison (Author), Councilmember Bartlett (Co-Sponsor)

Referred: May 17, 2021

Due: March 1, 2022

Recommendation: 1. Adopt a Resolution establishing: a. a referral to Office of Energy and Sustainable Development (OESD) staff to design and launch a two-year Pilot Existing Building Electrification Installation Incentives and “Just Transition” Program, using pre-qualified contractors meeting minimum labor standards to assist new property owners, renters and existing property owners with transition to zero-carbon buildings, with a preference for assisting households at or below 120% of the Area Median Income; and b. an annual process for the Energy (or successor) Commission and the Facilities, Infrastructure, Transportation, Environment & Sustainability Policy Committee (FITES), in consultation with community and labor groups, to provide input to staff and Council about eligible categories of fund expenditures to maximize equitable emissions reductions and impacts for eligible households while leaving the mechanisms for doing so to staff discretion.

2. Refer to the November, 2021 AAO budget process: \$1,500,000 of general fund monies from excess equity as seed funding for the two-year pilot, inclusive of staff costs, for FY 2022.

Financial Implications: See report

Contact: Kate Harrison, Councilmember, District 4, (510) 981-7140

Committee Action Items

3. **Cash v. Accrual Basis Accounting**
From: City Manager
Contact: Henry Oyekanmi, Finance, (510) 981-7300
4. **Discussion and Development of Criteria and Timing for AAO Process**
From: Mayor Arreguin
Contact: Jesse Arreguin, Mayor, (510) 981-7100

Unscheduled Items

These items are not scheduled for discussion or action at this meeting. The Committee may schedule these items to the Action Calendar of a future Committee meeting.

5. **Review of Council's Fiscal Policies**
From: City Manager
Contact: Rama Murty, Budget Office, (510) 981-7000

Items for Future Agendas

- **Discussion of items to be added to future agendas**

Adjournment

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*Written communications addressed to the Budget & Finance Committee and submitted to the City Clerk Department will be distributed to the Committee prior to the meeting.*

*This meeting will be conducted in accordance with the Brown Act, Government Code Section 54953. Members of the City Council who are not members of the standing committee may attend a standing committee meeting even if it results in a quorum being present, provided that the non-members only act as observers and do not participate in the meeting. If only one member of the Council who is not a member of the committee is present for the meeting, the member may participate in the meeting because less than a quorum of the full Council is present. Any member of the public may attend this meeting. Questions regarding this matter may be addressed to Mark Numainville, City Clerk, (510) 981-6900.*



### COMMUNICATION ACCESS INFORMATION:

To request a disability-related accommodation(s) to participate in the meeting, including auxiliary aids or services, please contact the Disability Services specialist at (510) 981-6418 (V) or (510) 981-6347 (TDD) at least three business days before the meeting date.

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I hereby certify that the agenda for this meeting of the Standing Committee of the Berkeley City Council was posted at the display case located near the walkway in front of the Maudelle Shirek Building, 2134 Martin Luther King Jr. Way, as well as on the City's website, on October 28, 2021.



Mark Numainville, City Clerk

Communications

Communications submitted to City Council Policy Committees are on file in the City Clerk Department at 2180 Milvia Street, 1st Floor, Berkeley, CA, and are available upon request by contacting the City Clerk Department at (510) 981-6908 or policycommittee@cityofberkeley.info.

**BERKELEY CITY COUNCIL BUDGET & FINANCE COMMITTEE
REGULAR MEETING MINUTES**

**Thursday, October 28, 2021
10:00 AM**

Committee Members:

Mayor Jesse Arreguin, Councilmembers Kate Harrison and Lori Droste
Alternate: Councilmember Rashi Kesarwani

**PUBLIC ADVISORY: THIS MEETING WILL BE CONDUCTED EXCLUSIVELY THROUGH
VIDEOCONFERENCE AND TELECONFERENCE**

Pursuant to Government Code Section 54953(e) and the state declared emergency, this meeting of the City Council Budget & Finance Committee will be conducted exclusively through teleconference and Zoom videoconference. The COVID-19 state of emergency continues to directly impact the ability of the members to meet safely in person and presents imminent risks to the health of attendees. Therefore, no physical meeting location will be available.

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To join by phone: Dial **1-669-900-9128 or 1-877-853-5257 (Toll Free)** and Enter Meeting ID: **859 9322 2513**. If you wish to comment during the public comment portion of the agenda, press *9 and wait to be recognized by the Chair.

Written communications submitted by mail or e-mail to the Budget & Finance Committee by 5:00 p.m. the Friday before the Committee meeting will be distributed to the members of the Committee in advance of the meeting and retained as part of the official record.

AGENDA

Roll Call: 10:03 a.m. All present.

Public Comment on Non-Agenda Matters – 9 speakers

Minutes for Approval

Draft minutes for the Committee's consideration and approval.

1. Minutes - September 23, 2021

Action: M/S/C (Harrison/Droste) to approve the minutes of September 23, 2021.

Vote: All Ayes.

Committee Action Items

The public may comment on each item listed on the agenda for action as the item is taken up. The Chair will determine the number of persons interested in speaking on each item. Up to ten (10) speakers may speak for two minutes. If there are more than ten persons interested in speaking, the Chair may limit the public comment for all speakers to one minute per speaker.

Following review and discussion of the items listed below, the Committee may continue an item to a future committee meeting, or refer the item to the City Council.

2. Presentation from Budget Office on Budget Process Survey

From: City Manager

Contact: Rama Murty, Budget Office, (510) 981-7000

Action: 2 speakers. Presentation made and discussion held.

3. Review of Council's Fiscal Policies

From: City Manager

Contact: Rama Murty, Budget Office, (510) 981-7000

Action: 0 speakers. Moved to Unscheduled items.

4. Cash v. Accrual Basis Accounting

From: City Manager

Contact: Henry Oyekanmi, Finance, (510) 981-7300

Item continued to next meeting on November 3, 2021.

Committee Action Items

5. Housing Trust Fund Resources

From: City Manager

Contact: Lisa Warhuus, Housing and Community Services, (510) 981-5400

Action: 4 speakers. Presentation made and discussion held.

Unscheduled Items

These items are not scheduled for discussion or action at this meeting. The Committee may schedule these items to the Action Calendar of a future Committee meeting.

6. Budget Referral and Resolution Establishing A Pilot Existing Building Electrification Incentive Program to Assist New Homeowners, Renters and Existing Homeowners with Transition to Zero-Carbon Buildings

From: Councilmember Harrison (Author), Councilmember Bartlett (Co-Sponsor)

Referred: May 17, 2021

Due: March 1, 2022

Recommendation: 1. Adopt a Resolution establishing: a. a two-year Pilot Existing Building Electrification Incentive Program to Assist New Homeowners, Renters and Existing Homeowners with Transition to Zero-Carbon Buildings; and b. an annual process for the Energy (or successor) Commission and the Facilities, Infrastructure, Transportation, Environment & Sustainability Policy Committee (FITES), in consultation with community groups, to provide input to staff and Council about eligible categories of fund expenditures to maximize equitable emissions reductions and impacts for eligible households while leaving the mechanisms for doing so to staff discretion. 2. Refer to the June, 2021 budget process: a. \$1,500,000 of general fund monies from excess equity as seed funding for the two-year pilot, inclusive of staff costs, for FY 2022.

Financial Implications: See report

Contact: Kate Harrison, Councilmember, District 4, (510) 981-7140

Items for Future Agendas

- **Discussion of items to be added to future agendas**

1. Discussion and development of criteria and timing for AAO process

Adjournment

Action: M/S/C (Arreguin/Droste) to adjourn the meeting.

Vote: All Ayes.

Adjourned at 12:23 p.m.

I hereby certify that this is a true and correct record of the Budget & Finance Committee meeting held on October 28, 2021.

April Richardson, Assistant City Clerk

Communications

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Kate Harrison
Councilmember District 4

02

ACTION-CONSENT
CALENDAR

June 1, 2021 November 30, 2021

To: Honorable Mayor and Members of the City Council

From: Councilmember Harrison (Author), Councilmember Bartlett (Co-Sponsor)

Subject: Budget Referral and Resolution Establishing a Pilot Existing Building Electrification Installation Incentives and Just Transition Program with Pre-Qualified Contractors Meeting Minimum Labor Standards to Assist New HomeownersProperty Owners, Renters and Existing Property OwnersHomeowners with Transition to Zero-Carbon Buildings

RECOMMENDATION

1. Adopt a Resolution establishing:
 - a. a referral to Office of Energy and Sustainable Development (OESD) staff to design and launch a two-year Pilot Existing Building Electrification Installation Incentives and "Just Transition" Program, using pre-qualified contractors meeting minimum labor standards to assist new homeownersproperty owners, renters and existing homeowners-property owners with transition to zero-carbon buildings, with a preference for assisting households at or below 120% of the Area Median Income; and
 - b. an annual process for the Energy (or successor) Commission and the Facilities, Infrastructure, Transportation, Environment & Sustainability Policy Committee (FITES), in consultation with community and labor groups, to provide input to staff and Council about eligible *categories* of fund expenditures to maximize equitable emissions reductions and impacts for eligible households while leaving the mechanisms for doing so to staff discretion.
2. Refer to the JuneNovember, 2021 AAO budget process:
 - a. \$1,500,000 of general fund monies from excess equity as seed funding for the two-year pilot, inclusive of staff costs, for FY 2022.

CURRENT SITUATION, EFFECTS, AND RATIONALE FOR RECOMMENDATION

The world is facing a grave climate emergency, requiring municipalities to rapidly transition towards zero carbon economy by 2030. Transitioning Berkeley's economy will require significant investment on the part of both government and residents. It is in the

Budget Referral and Resolution Establishing a Pilot Existing Building Electrification Installation Incentives and “Just Transition” Program with Pre-Qualified Contractors Meeting Minimum Labor Standards to Assist New HomeownersProperty Owners, Renters and Existing HomeownersProperty Owners with Transition to Zero-Carbon Buildings

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June 1November 30, 2021

public interest to establish a direct install financial incentive and “just transition” program using pre-qualified contractors meeting minimum labor standards to assist new homeownersproperty owners, renters and existing homeowners-property owners with the transition to zero-carbon buildings. This item establishes the general scope of a two-year Existing Building Electrification Incentive Program Pilot and refers to staff to design an equitable program with \$1,500,000 for FY22, inclusive of staffing costs, and contingent on the availability of excess equity, from the General Fund. It also asks the Energy (or successor) Commission and FITES Committee, in consultation with community groups, to provide input to staff and Council on at least an annual basis about categories of fund expenditures that would provide the most benefit for lower-income households, and to maximize equitable emissions reduction impacts, and support residential construction contractors who will reliably perform high-quality work and provide high-road careers for workers. The establishment of this program is consistent with staff and Council goals and budgetary priorities.

BACKGROUND

According to the best available science, a 50% reduction in emissions must happen worldwide by 2030 or earlier in order to delay extremely catastrophic warming. To meet the U.N.’s global 2050 target to keep emissions as close as possible to 1.5 degrees Celsius, wealthy nations and cities must approach zero by 2030.¹

As a result of the scientific and economic realities of climate change, and despite the people of Berkeley’s average relative wealth, it is not realistic to expect the owners and renters of the city’s approximately 46,000 residential housing units to electrify their buildings in a decade without significant government co-investment. Low-carbon technology can often be out of reach of many lower-income households and, without direct assistance, many will be left behind. Transitioning Berkeley’s economy will require significant investment on the part of both residents and the government. Following Berkeley’s 2019 landmark prohibition on natural gas infrastructure, staff have released a Draft Berkeley Existing Buildings Electrification Strategy that is currently unfunded. Although the City recently invested \$600,000 to seed the Climate Equity Action Fund, the funding is extremely limited and may not be enough for certain electrification retrofit projects.

¹ IPCC, 2018: Summary for Policymakers. In: *Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty* [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)]. *World Meteorological Organization, Geneva, Switzerland, 32 pp.* <https://www.ipcc.ch/sr15/chapter/spm/>.

Budget Referral and Resolution Establishing a Pilot Existing Building Electrification Installation Incentives and “Just Transition” Program with Pre-Qualified Contractors Meeting Minimum Labor Standards to Assist New Homeowners/Property Owners, Renters and Existing Homeowners/Property Owners with Transition to Zero-Carbon Buildings

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Such Additional investments would significantly lower Berkeley’s carbon emissions, at least 37% of which are from buildings, and provide residents with a plethora of health and safety benefits that will likely outweigh upfront costs. The program can be crafted in a way that supports good paying jobs, for example including unionized contractors, workforce development and local hire requirements. The transition to a zero-carbon city thus has the potential to uplift both workers and residents.

Existing Buildings Electrification Strategy

In January 2021, the City’s Office of Energy and Sustainable Development reported to the Energy Commission that the cost of electrifying the City’s entire low-rise building stock (approximately 36,000 units, or 90% of all Berkeley buildings and 65% of floor area) would be between \$700 and \$880 million. An additional \$120 million is needed for efficiency improvements and solar.

Item 9 - Communications
Energy Commission
January 27, 2021
1/27/2021

Draft Total Costs

Approximate total modeled costs for converting Berkeley’s low-rise housing stock today:

- Covers 36,000 1-3 floor homes (90% of all Berkeley buildings and 65% of floor area)
- \$280-430 Million more than business-as-usual gas replacements (no solar or envelope improvements)
- Additional \$220-660 Million for envelope efficiency and solar PV

	No Solar	Minimum Solar (Offset)	Maximum Solar (Net Zero Energy)
Economy Appliances	\$700 Million	\$930 Million	\$1.2 Billion
Mid-Tier Appliances	\$880 Million	\$1 Billion	\$1.2 Billion
Mid-Tier + Envelope Improvements	\$1 Billion	\$1.2 Billion	\$1.4 Billion

Table 3-4. Average Results for All Measure Packages

#	Electrification Package	Energy Bill Savings (\$/yr)	Energy Bill Savings (%)	Gross Cost (\$)	Incremental Cost (\$)	Incremental Cost with Current Incentives (\$)	Incremental Cost with Incentives + Financing (\$)
1.1	Economy Appliances	-\$540	-33%	\$19,870	\$7,930	\$7,930	\$12,290
1.2	Economy Appliances + Offset Solar	\$540	33%	\$26,160	\$14,220	\$14,220	\$5,610
1.3	Economy Appliances + NZE Solar	\$1,480	89%	\$32,270	\$20,330	\$20,330	\$1,470
2.1	Mid-Tier Appliances	\$5	0%	\$24,750	\$12,110	\$9,910	\$9,880
2.2	Mid-Tier Appliances + Offset Solar	\$590	35%	\$28,200	\$15,560	\$13,360	\$6,090
2.3	Mid-Tier Appliances + NZE Solar	\$1,510	91%	\$34,270	\$21,630	\$19,430	\$1,700
3.1	Mid-Tier Appliances + Envelope	\$90	5%	\$29,320	\$16,690	\$13,240	\$12,540
3.2	Mid-Tier Appliances + Envelope + Offset Solar	\$600	36%	\$32,350	\$19,720	\$16,720	\$9,470
3.3	Mid-Tier Appliances + Envelope + NZE Solar	\$1,510	91%	\$38,410	\$25,780	\$22,320	\$4,520

Note: Modeled costs are averages and electrification costs may be higher or lower depending on individual building characteristics

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Clearly, this relatively modest pilot program paired with the Climate Equity Action Fund would only make a small dent in the City’s retrofit challenge, perhaps facilitating 400-500 retrofits per year. However, the success of this pilot program will likely spur the Council and residents to seek additional federal, state and local funds to expand the program in subsequent years. The expertise and lessons learned through this pilot will help guide future efforts aimed at closing the 46,000 gas-powered residential unit challenge.

Since 2018, the Council has explored opportunities to increase public investment in building electrification retrofits. Councilmember Harrison’s November 27, 2018 referral, following the passage of the Climate Emergency Declaration, requested that the City Manager draft an ordinance expanding eligibility for the existing Seismic Transfer Tax Rebate Program to include electrification and other resiliency measures. Staff subsequently presented the draft ordinance to Council in July of 2020 at the outset of the COVID-19 pandemic with a recommendation to take no action for a year due to COVID-19-related fiscal uncertainty, and the item was held over at the Facilities, Infrastructure, Transportation, Environment & Sustainability Policy Committee (FITES).

At the same time, staff also presented to FITES a related referral to design a companion Resilient Homes Equity Pilot Program that would provide funding for home retrofit improvements to low-income residents. FITES and Council agreed to move the Resilient Homes Equity Pilot Program design and research process forward in November, 2020. The program remains underfunded.

In early 2021, Councilmember Harrison’s office and the FITES Committee worked with City staff to explore opportunities to fund retrofits through general fund transfer tax revenues and establishing a cap on total and per beneficiary allocations. In working with the City Manager, Councilmember Harrison concluded that while the existing transfer tax rebate system is a good vehicle for allocating at point of sale, it does not necessarily provide funding for existing homeownersproperty owners who may need to replace a broken appliance or who want to make voluntary retrofits. A better vehicle is a two-year direct install pilot; this requires fewer staff resources to administer and builds on significant staff experience and expertise administering incentive programs.

This item is a companion to the Seismic Transfer Tax Rebate model in the form of a budget referral and resolution establishing two-year pilot incentive program funded via general fund allocations, which are currently partially funded by transfer tax revenue.

Budget Referral and Resolution Establishing a Pilot Existing Building Electrification Installation Incentives and “Just Transition” Program with Pre-Qualified Contractors Meeting Minimum Labor Standards to Assist New Homeowners/Property Owners, Renters and Existing Homeowners/Property Owners with Transition to Zero-Carbon Buildings

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Existing Building Electrification Direct Install Incentive and Just Transition Program Pilot

This item proposes a direct install incentive and Just Transition pilot program that is consistent with recent workforce-focused building decarbonization developments initiatives at the state, regional and local levels that benefit labor, minimize cost, and maximize climate benefits.

On February 22, 2021 the California Workforce Development Board announced a \$8.9 million grant as part of the High Road Training Partnership (H RTP) for “sector-based workforce development projects in several industries and areas that are critical to the state’s strategy for a just recovery from the COVID-19 pandemic and economic crisis while addressing climate change and community resilience.”² According to the California Workforce Development Board, “high road” employers include those firms “that compete based on quality of product and service achieved through innovation and investment in human capital, and can thus generate family-supporting jobs where workers have agency and voice.”³

Bay Area-based Rising Sun Center for Opportunity received \$600,000 from the grant to launch a “High Road to Residential Building Decarbonization” project to convene more than 20 Bay Area cities, government agencies, unions, employers, and advisors.⁴ The City of Berkeley along with the Construction Trades Workforce Initiative (CTWI), the non-profit arm of the Building & Construction Trades Councils of Alameda and Contra Costa Counties, were invited to participate in ongoing discussions about ensuring equitable access to high-road jobs in the building decarbonization industry.

To date, these and other ongoing collaborative efforts have been extremely productive—in May 2021 CTWI and the Alameda County Building Trades Council provided helpful feedback and recommendations to the City’s OESD staff regarding the City’s Existing Buildings Electrification Strategy. However, the state grant did not include funding to do the physical work of electrification retrofits. Significantly, CTWI and Trades Council committed to:

“...supporting the City of Berkeley in its goals of reducing greenhouse gas emissions while ensuring that people who live and work in Berkeley—especially those from

² California Workforce Development Board, “CWDB Announces Grants to Invest in Building Back Better with Equity, Climate and Jobs, February 22, 2021, https://cwdb.ca.gov/wp-content/uploads/sites/43/2021/03/CWDB-PressRelease-HRTP-Open-FINAL-021821_ACCESSIBLE.pdf

³ California Workforce Development Board, “High Road Training Partnerships,” Rising Sun Center for Opportunity, “Rising Sun Convenes Partnership to Promote Equitable Job Access in the Bay Area’s Post-Carbon Economy,” March 29, 2021, <https://cwdb.ca.gov/initiatives/high-road-training-partnerships/>.

⁴ <https://risingsunopp.org/wp-content/uploads/Rising-Sun-HRTP-Press-Release.pdf>.

Budget Referral and Resolution Establishing a Pilot Existing Building Electrification Installation Incentives and “Just Transition” Program with Pre-Qualified Contractors Meeting Minimum Labor Standards to Assist New Homeowners/Property Owners, Renters and Existing Homeowners/Property Owners with Transition to Zero-Carbon Buildings

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historically disadvantaged populations—have access to high-road, family-sustaining careers in union construction associated with existing building electrification and decarbonization.”⁵

In addition, their key recommendations to the City of Berkeley’s building electrification strategy include:

1. Address decarbonization overall—building electrification as well as energy efficiency measures—when planning strategies for a “Just Transition” in consultation with all crafts affected, including but not limited to Sheet Metal, Electricians, Carpenters, Plumbers and Pipefitters.
2. Create programs and identify funding sources to incentivize Berkeley property owners to replace, upgrade and install systems that will achieve energy efficiency goals.
3. Require the use of pre-qualified residential construction contractors who will reliably perform high-quality work and provide high-road careers for workers.
4. Link disadvantaged Berkeley residents to training programs that prepare them to enter and succeed in union construction careers by working with and budgeting for ongoing City funding for local Multi-Craft Core Curriculum (MC3) workforce partners, school districts/community colleges and CBOs to develop and sustain a long-term pipeline of work in the residential building retrofit market that carries high-road labor standards.
5. Develop public education campaigns and resources to promote new City programs and the benefits of energy efficient systems and appliances; provide information on systems and requirements; and link property owners to a list of pre-qualified contractors.

Since this item was deferred to the November AAO following the June 2021 budget process, Councilmember Harrison’s office has engaged with the CTWI and the Trades to expand the item to incorporate specific recommendations to further refine the proposed incentive program and to enhance benefits to workers and residents.

This Budget Referral and Resolution now support each of the above CTWI and Trades recommendations.

⁵ CTWI Policy Recommendations City of Berkeley Existing Buildings Electrification Strategy.

Budget Referral and Resolution Establishing a Pilot Existing Building Electrification Installation Incentives and “Just Transition” Program with Pre-Qualified Contractors Meeting Minimum Labor Standards to Assist New Homeowners Property Owners, Renters and Existing Homeowners Property Owners with Transition to Zero-Carbon Buildings

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With respect to recommendations 1-3, the \$1.5 million budget allocation would create a “direct install” incentive program. Direct install programs eliminate the need for households to find and manage their own contractors, and therefore can achieve significant cost savings. They also equitably eliminate or reduce the amount of upfront money needed by property owners to conduct retrofits, and eliminate the need to retroactively apply or wait for rebates (e.g., at tax time etc.). For example, the Sacramento Municipal Utility District (SMUD) recently reported the following significant advantages of direct install strategies to the California Energy Commission:

“SMUD has achieved significant societal cost savings by using direct installation in low-income single-family homes. For example, SMUD’s average low-income direct installation cost for a heat pump water heater is \$2,200 whereas for our market rate program, in which SMUD incentivizes \$2,500 and the customer is responsible for hiring a contractor, the average total cost is close to \$3,800. The cost savings may be even greater if the direct-install contractor is able to go door-to-door and convert multiple adjacent homes. Direct installation has only been used for low-income programs to date but could be equally beneficial when applied to any home or neighborhood. While labor costs associated with direct installation can be greater given prevailing wage considerations, direct installation can nevertheless be cost-competitive for the utility in sufficient volume.”⁶

Further, OESD’s draft electrification strategy recommends direct install programs because they streamline permitting and lower barriers to residents:

“One of the major hurdles many community members face is lack of knowledge regarding incentives and rebates for electric equipment. When an appliance like a hot water heater breaks, there is rarely time to conduct extensive research on the programs available. This action would tie these resources directly to the permit for the appliance. When a permit is pulled for a heat pump hot water heater, that incentive would be given directly to the installer. This would lower the upfront costs for consumers and further incentivize electrification. Furthermore, this action would help remove the procedural inequities currently experienced by marginalized communities who may not have the time to conduct research or resources to pay the full price of the equipment while they wait for rebates to arrive.”⁷

Such a direct install program could also include energy efficiency upgrades if paired with utility-based and regional incentives for insulation and other building envelope improvement programs potentially employing the labor of additional trades.

⁶ Sacramento Municipal Utility District, “SMUD Comments on Building Decarbonization and Energy Efficiency,” 21-IEPR-06 and Building Decarbonization, July 27, 2021,

<https://efiling.energy.ca.gov/GetDocument.aspx?tn=239016&DocumentContentId=72448>

⁷ OESD, Draft Existing Buildings Electrification Strategy, April, 2021,

https://www.cityofberkeley.info/uploadedFiles/Planning_and_Development/Level_3_-_Energy_and_Sustainable_Development/Draft_Berkeley_Existing_Bldg_Electrification_Strategy_20210415.pdf

https://www.cityofberkeley.info/uploadedFiles/Planning_and_Development/Level_3_-_Energy_and_Sustainable_Development/Draft_Berkeley_Existing_Bldg_Electrification_Strategy_20210415.pdf

Budget Referral and Resolution Establishing a Pilot Existing Building Electrification Installation Incentives and “Just Transition” Program with Pre-Qualified Contractors Meeting Minimum Labor Standards to Assist New Homeowners/Property Owners, Renters and Existing Homeowners/Property Owners with Transition to Zero-Carbon Buildings

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Importantly for workers, the direct install program would incorporate pre-qualified contractors meeting minimum quality and labor standards, similar to the City’s existing project labor agreements. The City would also achieve economies of scale on permitting and inspection processes and ensure workers are properly trained and licensed/certified. Staff should consider the following pre-qualification requirements:

1. Certification that the contractor is in compliance with all applicable licensing, bonding, and insurance requirements;
2. Certification that the Contractor participates in, makes training fund contributions to, and sponsors apprenticeships from a state-approved apprenticeship program that partners with an MC3 pre-apprenticeship program;
3. Certification that the contractor provides family health benefits and pension benefits to its workers;
4. Certification that the contractor has not been convicted of, fined, or penalized for any violation of wage, labor, safety, or building standard requirements within the last five years;
5. Certification that no surety firm has had to complete a contract or pay for completion of a contract on behalf of the contractor or subcontractor within the last five years;
6. Certification that the contractor has not had any licenses revoked within the past five years;
7. Certification that the contractor is not ineligible to bid, be awarded or subcontract on a public works project pursuant to either Labor Code section 1777.1 or Labor Code section 1777.7;
8. Certification that the contractor has not been cited for any serious, willful or repeat OSHA violations within the last five years as defined under Title 8 of the California Code of Regulations.
9. Certification that the contractor has a Better Business Bureau rating of “B” or higher.

With respect to recommendation 4, the Resolution also refers to staff to design the program in consultation with labor partners to facilitate apprenticeship opportunities for Berkeley residents, including historically disadvantaged populations. The program would be integrated into the City’s website and existing communications channels pursuant to recommendation 5.

The item also supports the concept of “just transition” off fossil fuels and towards a zero-carbon economy. According to a report by the Climate Equity Network, a just transition includes moving away from fossil fuels “in a manner that protects workers and communities economically dependent on the fossil fuel industry” and involves “those who have historically been excluded from the jobs and economic benefits of the

Budget Referral and Resolution Establishing a Pilot Existing Building Electrification Installation Incentives and “Just Transition” Program with Pre-Qualified Contractors Meeting Minimum Labor Standards to Assist New Homeowners/Property Owners, Renters and Existing Homeowners/Property Owners with Transition to Zero-Carbon Buildings

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extractive economy and expand the populations who have access to future jobs and economic opportunities.”⁸

While the City of Berkeley and Alameda County are not known for their petroleum extraction industries, the Alameda County Building Trades include Pipefitters, who stand to lose natural gas infrastructure installation and maintenance jobs over time as part of the City’s implementation of the natural gas prohibition (BMC 12.80) ordinance and other electrification initiatives. A 2019 UCLA Luskin Institute study found that 3,100-3,600 jobs statewide could be lost as a result of new construction electrification policies alone. Meanwhile, the study estimated a statewide increase of 64,232-104,060 building electrification jobs, including retrofits.⁹ By partnering with organized labor through this pilot program, the City can help support impacted workers new work opportunities and workforce development opportunities, including the electrification of existing buildings.

In addition, this item supports expanding opportunities to historically excluded populations in Berkeley through labor apprenticeship programs that recruit directly from impacted populations. It also would provide electrification benefits to lower and moderate-income residents with a preference for those at or below 120% of the Area Median Income.

Budgetary Opportunities

Many economic and public health indicators suggest that the City is entering a more optimistic phase in the pandemic, to include the influx of substantial—but temporary—federal stimulus monies through the 2021 American Rescue Plan Act and the anticipation of a fairly rapid rebound in revenues to pre-pandemic levels. Transfer tax revenues for FY21 are estimated at \$20 million (compared with \$20 million in FY 19) and the city expects to receive a one-time two-year allocation of approximately ~~\$68-66~~ million from the 2021 American Rescue Plan Act.

As a result, it is in the public interest to revisit the July 2020 item to see how the City can best move forward with providing residents with critical greenhouse gas reduction incentives in order to address our larger and longer-term crisis: climate change.

⁸ The Climate Equity Network, “A Roadmap to an Equitable Low-carbon Future: Four Pillars for a Just Transition, April, 2019,

https://dornsife.usc.edu/assets/sites/242/docs/Just_Transition_Final_Report_2019.pdf

⁹ UCLA Luskin Center, “California Building Decarbonization: Workforce Needs and Recommendations,” November, 2019, https://innovation.luskin.ucla.edu/wp-content/uploads/2019/11/California_Building_Decarbonization.pdf.

Budget Referral and Resolution Establishing a Pilot Existing Building Electrification Installation Incentives and "Just Transition" Program with Pre-Qualified Contractors Meeting Minimum Labor Standards to Assist New HomeownersProperty Owners, Renters and Existing HomeownersProperty Owners with Transition to Zero-Carbon Buildings

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According to recent 2020 transfer tax data from OESD, on average between 2014-2019, 845 residential units were transferred per year, generating approximately an average of \$4.6 million total per year in eligible rebates for the Seismic Transfer Tax Program. The city has approximately 46,000 occupied housing units, with the vast majority being gas-powered.

Existing Building Electrification Incentive Program Pilot

~~Since early 2021, Councilmember Harrison's office and the FITES Committee have been working with City staff to explore opportunities to fund retrofits through general fund transfer tax revenues and establishing a cap on total and per beneficiary allocations. In working with the City Manager, we have concluded that while the existing transfer tax rebate system is a good vehicle for allocating at point of sale, it does not provide funding for existing homeowners who may need to replace a broken appliance or who want to make voluntary retrofits. A better vehicle is a two-year pilot; this requires fewer staff resources to administer and builds on significant staff experience and expertise administering incentive programs.~~

~~This item provides an alternative to the Seismic Transfer Tax Rebate model in the form of a budget referral and resolution establishing two-year pilot incentive program funded via general fund allocations, which are currently partially funded by transfer tax revenue.~~

Currently, the Council approved amount in transfer tax revenues is allocated to the General Fund (as in the past, at \$12.5 million) and some portion is typically set aside for capital projects (generally at \$2 million). For the first year of this pilot program this item proposes to allocate a total of \$1.5 million in excess Transfer Tax equity which would be inclusive of staff's administrative costs.¹⁰ On adoption of this proposal, total transfer tax expenditures would amount to approximately \$17 million, including the \$12.5 million typically allocated to the General Fund programs and the \$2 million to capital programs.

While the program will ultimately be designed by OESD staff through administrative regulation, this item also includes a resolution officially establishing the program and providing general parameters for how staff should allocate the proposed \$1.5 million retrofit fund. This program and the \$1.5 million allocation ~~are already~~were originally included as a line item in the Planning & Development Department's Fiscal Year 2022 proposed budget.

New property owners are most likely to remodel their units shortly completing the purchase. Thus, the Draft Berkeley Existing Buildings Electrification Strategy

¹⁰ This amount would be in addition to ~~the~~ separate \$~~500~~600,000 Climate Equity Action incentive fund proposed by Councilmember Harrison, Mayor Arreguín, and Councilmembers Taplin and Robinson.

Budget Referral and Resolution Establishing a Pilot Existing Building Electrification Installation Incentives and “Just Transition” Program with Pre-Qualified Contractors Meeting Minimum Labor Standards to Assist New Homeowners/Property Owners, Renters and Existing Homeowners/Property Owners with Transition to Zero-Carbon Buildings

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June 1-November 30, 2021

recommends allocating some portion of the fund for transferees of residential properties within two years of point of sale. The City is also exploring opportunities to adopt certain mandatory electrification requirements for transferees of new buildings through its BESO program.

Equitably supporting existing homeowners/property owners and renters whose appliances, e.g., their water heater, break down suddenly, and those who wish to embark upon voluntary electrification projects to include new appliances, electrical work (e.g., panel upgrades) are also elements of the Building Electrification strategy. This part of the program would be similar to Marin County’s Electrify Marin program which provides residents with income-qualified incentives for building electrification and panel upgrades. Since 2019, Marin has disbursed over \$100,000 in rebates.

Electrify Marin

Appliance Type	Standard Rebate	Income Qualified Rebate
Heat Pump Water Heater	\$1,000	\$2,000
Heat Pump Space Heater		
Central Heat Pump	\$1,000	\$4,500
Mini-Split Heat Pump	\$800	\$3,000
Induction Cooking		
Range (Cooktop & Oven)	\$500	\$500
Cooktop only	\$250	\$250
Service Panel Upgrade	\$500	\$1,200

These incentives would be paired with rebates available through BayRen and EBCE, which are helpful but fall far short of the actual cost. For example, BayRen and EBCE offer \$2,000 for water heaters, which typically cost approximately \$5,000-\$10,000 when one includes the cost of potential electrical and panel upgrades. Berkeley’s incentive program is also needed to pay for space heating electrification, and needed panel and other electrical upgrades for which there are currently no incentives. Electrical, panel and space heating upgrades are typically the most expensive part of any electrification project.

Staff have indicated that they believe an additional incentive of approximately \$2,500 per property owner would be significant to persuade many property owners to electrify.

Alternatives Considered

FITES discussed whether to expand this program beyond building electrification to include fire safety and resilience upgrades. However, at this time, fire programs have separate revenue sources and greenhouse gas reduction is a top priority given the need to reduce emissions to near zero by 2030 per the 2018 IPCC report. For example, fire

Budget Referral and Resolution Establishing a Pilot Existing Building Electrification Installation Incentives and “Just Transition” Program with Pre-Qualified Contractors Meeting Minimum Labor Standards to Assist New ~~Homeowners~~Property Owners, Renters and Existing ~~Homeowners~~Property Owners with Transition to Zero-Carbon Buildings

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safety measures have received generous support from the voters through Measure FF, whereas climate is still severely underfunded. In addition, global warming is one of the chief causes of increased fire threats.

FINANCIAL IMPLICATIONS

This item would result in a one-time investment of \$1,500,000 from excess equity to provide initial funding for a two-year Existing Building Electrification Incentive Program Pilot to assist property owners and renters with the transition to a zero-carbon economy. This investment includes staff costs to run the program.

ENVIRONMENTAL SUSTAINABILITY

Supporting incentives for building decarbonization will complement and accelerate Berkeley’s ongoing efforts to reduce carbon emissions at an emergency and equitable pace in line with the Climate Action Plan, Climate Emergency Declaration, and Existing Building Electrification Strategy.

CONTACT PERSON

Councilmember Kate Harrison, Council District 4, 510-981-7140

ATTACHMENTS

1. Resolution

RESOLUTION NO. ##,###-N.S.

RESOLUTION ESTABLISHING A BUILDING ELECTRIFICATION INSTALLATION INCENTIVES AND JUST TRANSITION PILOT PROGRAM

WHEREAS, the world is facing a grave climate emergency, requiring municipalities to rapidly transition towards a zero-carbon economy by 2030; and

WHEREAS, transitioning Berkeley's economy will require significant investment on the part of both government and residents as staff have estimated that converting Berkeley's approximately 46,000 residential housing units will likely cost hundreds of millions of dollars; and

WHEREAS, low-carbon technology and infrastructure can often be out of reach for many households and, without direct assistance, many will be left behind; and

WHEREAS, moderate and lower-income communities are most impacted by global climate change and have the least financial ability to address it; and

WHEREAS, City's Draft Existing Building Electrification ~~strategy~~ Strategy both ~~cites~~ the importance of ensuring equity in access to carbon-free technology; and

WHEREAS, by partnering with labor the City of Berkeley can cost effectively meet its goals of reducing greenhouse gas emissions while supporting elements of a just transition such as ensuring that people who live and work in Berkeley—especially those from historically disadvantaged populations—have access to high-road, family-sustaining careers in union construction associated with existing building electrification; and

WHEREAS, the program would help support Pipefitters and other tradespeople who may be acutely impacted by Berkeley's building electrification policies; and

WHEREAS, direct install programs using pre-qualified contractors meeting quality and labor standards eliminate the need for households to find and manage their own contractors, and therefore can achieve significant cost savings and socioeconomic benefits; and

WHEREAS, it is in the public interest to establish a two-year Existing Building Electrification Direct Install and Just Transition Incentive Program to assist residents with ~~the cost of~~ transitioning from a carbon-based city; and

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Manager establish an Existing Building Electrification Installation Incentives and Just Transition Program to invest in the following priorities, to be further defined by staff:

1. a preference for assisting the following households at or below 120% of the Area Median Income:

- a. transferees of residential property to include appliance retrofits and electrical upgrades as appropriate;
- ~~1.b.~~ existing residential property owners and renters pursuing electrification retrofits or replacing broken or outdated appliances, to include electrical upgrades as appropriate;

2. a nexus with high-road jobs, including:

- a. use of pre-qualified residential construction contractors that will reliably perform high-quality work and provide high-road careers for workers and meet minimum labor standards;
- b. consideration of leveraging other local, regional, state or federal climate or energy efficiency incentives, such as building efficiency, to maximize climate benefits and to include other crafts, including but not limited to Sheet Metal, Electricians, Carpenters, Plumbers and Pipefitters;
- c. linkings Berkeley residents who are disadvantaged or disproportionately impacted by climate and environmental injustices to training programs that prepare them to enter and succeed in union construction careers by working with and budgeting for ongoing City funding for local Multi-Craft Core Curriculum (MC3) workforce partners, school districts/community colleges and CBOs to develop and sustain a long-term pipeline of work in the residential building retrofit market that carries high-road labor standards.

- ~~1. incentives for transferees of residential property to include appliance retrofits and electrical upgrades (including panel upgrades);~~
- ~~2. equitable incentives for existing residential property owners and renters pursuing electrification retrofits or replacing broken or outdated appliances, to include electrical upgrades (including panel upgrades);~~
- ~~3. a nexus with good paying jobs, for example use of unionized contractors, workforce development programs and local hire requirements.~~

BE IT FURTHER RESOLVED that the Berkeley Energy Commission, or successor, and the Facilities, Infrastructure, Transportation, Environment & Sustainability Policy Committee, in consultation with community groups, provide input to staff and Council on at least an annual basis about eligible categories of fund expenditures to maximize equitable emissions reductions and impacts for eligible households.

BE IT FURTHER AND FINALLY RESOLVED that any unexpended funds shall carry over from year to year.



Kate Harrison
Councilmember District 4

ACTION CALENDAR
June 1, 2021

To: Honorable Mayor and Members of the City Council
From: Councilmember Harrison (Author), Councilmember Bartlett (Co-Sponsor)
Subject: Budget Referral and Resolution Establishing a Pilot Existing Building Electrification Incentive Program to Assist New Homeowners, Renters and Existing Homeowners with Transition to Zero-Carbon Buildings

RECOMMENDATION

1. Adopt a Resolution establishing:
 - a. a two-year Pilot Existing Building Electrification Incentive Program to Assist New Homeowners, Renters and Existing Homeowners with Transition to Zero-Carbon Buildings; and
 - b. an annual process for the Energy (or successor) Commission and the Facilities, Infrastructure, Transportation, Environment & Sustainability Policy Committee (FITES), in consultation with community groups, to provide input to staff and Council about eligible *categories* of fund expenditures to maximize equitable emissions reductions and impacts for eligible households while leaving the mechanisms for doing so to staff discretion.
2. Refer to the June, 2021 budget process:
 - a. \$1,500,000 of general fund monies from excess equity as seed funding for the two-year pilot, inclusive of staff costs, for FY 2022.

CURRENT SITUATION, EFFECTS, AND RATIONALE FOR RECOMMENDATION

The world is facing a grave climate emergency, requiring municipalities to rapidly transition towards zero carbon economy by 2030. Transitioning Berkeley's economy will require significant investment on the part of both government and residents. It is in the public interest to establish a financial incentive program to assist new homeowners, renters and existing homeowners with the transition to zero-carbon buildings. This item establishes the general scope of a two-year Existing Building Electrification Incentive Program Pilot and refers to staff to design an equitable program with \$1,500,000 for FY22, inclusive of staffing costs, and contingent on the availability of excess equity, from the General Fund. It also asks the Energy (or successor) Commission and FITES Committee, in consultation with community groups, to provide input to staff and Council on at least an annual basis about categories of fund expenditures that would provide the

most benefit for low-income households and to maximize equitable emissions reduction impacts. The establishment of this program is consistent with staff and Council goals and budgetary priorities.

BACKGROUND

According to the best available science, a 50% reduction in emissions must happen worldwide by 2030 or earlier in order to delay extremely catastrophic warming. To meet the U.N.'s global 2050 target to keep emissions as close as possible to 1.5 degrees Celsius, wealthy nations and cities will near zero by 2030.¹

As a result of the scientific and economic realities of climate change, and despite the people of Berkeley's average relative wealth, it is not realistic to expect the owners of the City's approximately 46,000 residential housing units to electrify their buildings in a decade without significant government co-investment. Low-carbon technology can often be out of reach of many low-income households and, without direct assistance, many will be left behind. Transitioning Berkeley's economy will require significant investment on the part of both residents and the government. Following Berkeley's 2019 landmark prohibition on natural gas infrastructure, staff have released a Draft Berkeley Existing Buildings Electrification Strategy that is currently unfunded.

Such investments would significantly lower Berkeley's carbon emissions, at least 37% of which are from buildings, and provide residents with a plethora of health and safety benefits that will likely outweigh upfront costs. The program can be crafted in a way that supports good paying jobs, for example including unionized contractors, workforce development and local hire requirements. The transition to a zero-carbon city thus has the potential to uplift both workers and residents.


In January 2021, the City's Office of Energy and Sustainable Development reported to the Energy Commission that the cost of electrifying the City's entire low-rise building stock (approximately 36,000 units, or 90% of all Berkeley buildings and 65% of floor area) would be between \$700 and \$880 million. An additional \$120 million is needed for efficiency improvements and solar.

¹ IPCC, 2018: Summary for Policymakers. In: *Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty* [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)]. *World Meteorological Organization, Geneva, Switzerland, 32 pp.* <https://www.ipcc.ch/sr15/chapter/spm/>.

Item 9 - Communications
Energy Commission
January 27, 2021

1/27/2021

Draft Total Costs



Approximate total modeled costs for converting Berkeley's low-rise housing stock today:

- Covers 36,000 1-3 floor homes (90% of all Berkeley buildings and 65% of floor area)
- \$280-430 Million more than business-as-usual gas replacements (no solar or envelope improvements)
- Additional \$220-660 Million for envelope efficiency and solar PV

	No Solar	Minimum Solar (Offset)	Maximum Solar (Net Zero Energy)
Economy Appliances	\$700 Million	\$930 Million	\$1.2 Billion
Mid-Tier Appliances	\$880 Million	\$1 Billion	\$1.2 Billion
Mid-Tier + Envelope Improvements	\$1 Billion	\$1.2 Billion	\$1.4 Billion

	Single-family			Multi-family	
	Under 1,500 ft ²	1,500-3,500 ft ²	Over 3,500 ft ²	Under 1,000 ft ²	1,000 ft ² and over
1.1: Economy Appliances	\$12,770	\$15,350	\$19,220	\$9,730	\$11,980
1.2: Economy Appliances + Offset Solar	\$5,710	\$4,130	\$2,770	\$6,550	\$5,940
1.3: Economy Appliances + NZE Solar	\$1,190	\$0	\$0	\$2,770	\$1,300
2.1: Mid-Tier Appliances	\$10,090	\$10,620	\$11,850	\$9,190	\$9,790
2.2: Mid-Tier Appliances + Offset Solar	\$6,100	\$3,970	\$1,990	\$7,550	\$6,500
2.3: Mid-Tier Appliances + NZE Solar	\$1,720	\$0	\$0	\$3,990	\$1,780
3.1: Mid-Tier Appliances + Envelope	\$12,010	\$16,180	\$22,500	\$9,700	\$13,020
3.2: Mid-Tier Appliances + Envelope + Offset Solar	\$8,930	\$10,960	\$14,190	\$8,270	\$10,150
3.3: Mid-Tier Appliances + Envelope + NZE Solar	\$4,300	\$4,310	\$4,870	\$4,550	\$5,090

Clearly, this relatively modest pilot program would only make a small dent in the City's retrofit challenge, perhaps facilitating 400-500 retrofits per year. However, the success of this pilot program will likely spur the Council and residents to seek additional federal, state and local funds to expand the program in subsequent years. The expertise and lessons learned through this pilot will help guide future efforts aimed at closing the 46,000 gas-powered residential unit challenge.

Since 2018, the Council has explored opportunities to increase public investment in building electrification retrofits. Councilmember Harrison's November 27, 2018 referral, following the passage of the Climate Emergency Declaration, requested that the City Manager draft an ordinance expanding eligibility for the existing Seismic Transfer Tax Rebate Program to include electrification and other resiliency measures. Staff subsequently presented the draft ordinance to Council in July of 2020 at the outset of the COVID-19 pandemic with a recommendation to take no action for a year due to COVID-19-related fiscal uncertainty, and the item was held over at the Facilities, Infrastructure, Transportation, Environment & Sustainability Policy Committee (FITES).

At the same time, staff also presented to FITES a related referral to design a companion Resilient Homes Equity Pilot Program that would provide funding for home retrofit improvements to low-income residents. FITES and Council agreed to move the Resilient Homes Equity Pilot Program design and research process forward in November, 2020.

Many economic and public health indicators suggest that the City is entering a more optimistic phase in the pandemic, to include the influx of substantial – but temporary – federal stimulus monies through the 2021 American Rescue Plan Act and the anticipation of a fairly rapid rebound in revenues to pre-pandemic levels. Transfer tax revenues for FY21 are estimated at \$20 million (compared with \$20 million in FY 19) and the city expects to receive a one-time two-year allocation of approximately \$68 million from the 2021 American Rescue Plan Act.

As a result, it is in the public interest to revisit the July 2020 item to see how the City can best move forward with providing residents with critical greenhouse gas reduction incentives in order to address our larger and longer-term crisis: climate change.

According to recent 2020 transfer tax data from OESD, on average between 2014-2019, 845 residential units were transferred per year, generating approximately an average of \$4.6 million total per year in eligible rebates for the Seismic Transfer Tax Program. The city has approximately 46,000 occupied housing units, with the vast majority being gas-powered.

Existing Building Electrification Incentive Program Pilot

Since early 2021, Councilmember Harrison's office and the FITES Committee have been working with City staff to explore opportunities to fund retrofits through general fund transfer tax revenues and establishing a cap on total and per beneficiary allocations. In working with the City Manager, we have concluded that while the existing transfer tax rebate system is a good vehicle for allocating at point of sale, it does not provide funding for existing homeowners who may need to replace a broken appliance or who want to make voluntary retrofits. A better vehicle is a two-year pilot; this requires fewer staff resources to administer and builds on significant staff experience and expertise administering incentive programs.

This item provides an alternative to the Seismic Transfer Tax Rebate model in the form of a budget referral and resolution establishing two-year pilot incentive program funded via general fund allocations, which are currently partially funded by transfer tax revenue.

Currently, the Council approved amount in transfer tax revenues is allocated to the General Fund (as in the past, at \$12.5 million) and some portion is typically set aside for capital projects (generally at \$2 million). For the first year of this pilot program this item proposes to allocate a total of \$1.5 million in excess Transfer Tax equity which would be inclusive of staff's administrative costs.² On adoption of this proposal, total transfer tax expenditures would amount to approximately \$17 million, including the \$12.5 million typically allocated to the General Fund programs and the \$2 million to capital programs.

While the program will ultimately be designed by OESD staff through administrative regulation, this item also includes a resolution officially establishing the program and providing general parameters for how staff should allocate the proposed \$1.5 million retrofit fund. This program and the \$1.5 million allocation are already included as a line item in the Planning & Development Department's Fiscal Year 2022 proposed budget.

New property owners are most likely to remodel their units shortly completing the purchase. Thus, the Draft Berkeley Existing Buildings Electrification Strategy recommends allocating some portion of the fund for transferees of residential properties within two years of point of sale. The City is also exploring opportunities to adopt certain mandatory electrification requirements for transferees of new buildings through its BESO program, starting with the largest buildings.

² This amount would be in addition to a separate \$500,000 Climate Equity Action incentive fund proposed by Councilmember Harrison, Mayor Arreguin, and Councilmembers Taplin and Robinson.

Equitably supporting existing homeowners and renters whose appliances, e.g., their water heater, break down suddenly, and those who wish to embark upon voluntary electrification projects to include new appliances, electrical work (e.g., panel upgrades) are also elements of the Building Electrification strategy. This part of the program would be similar to Marin County’s Electrify Marin program which provides residents with income-qualified incentives for building electrification and panel upgrades. Since 2019, Marin has disbursed over \$100,000 in rebates.

Electrify Marin

Appliance Type	Standard Rebate	Income Qualified Rebate
Heat Pump Water Heater	\$1,000	\$2,000
Heat Pump Space Heater		
Central Heat Pump	\$1,000	\$4,500
Mini-Split Heat Pump	\$800	\$3,000
Induction Cooking		
Range (Cooktop & Oven)	\$500	\$500
Cooktop only	\$250	\$250
Service Panel Upgrade	\$500	\$1,200

These incentives would be paired with rebates available through BayRen and EBCE, which are helpful but fall far short of the actual cost. For example, BayRen and EBCE offer \$2,000 for water heaters, which typically cost approximately \$5,000-\$10,000 when one includes the cost of potential electrical and panel upgrades. Berkeley’s incentive program is also needed to pay for space heating electrification, and needed panel and other electrical upgrades for which there are currently no incentives. Electrical, panel and space heating upgrades are typically the most expensive part of any electrification project.

Staff have indicated that they believe an additional incentive of approximately \$2,500 per property owner would be significant to persuade many property owners to electrify.

Alternatives Considered

FITES discussed whether to expand this program beyond building electrification to include fire safety and resilience upgrades. However, at this time, fire programs have separate revenue sources and greenhouse gas reduction is a top priority given the need to reduce emissions to near zero by 2030 per the 2018 IPCC report. For example, fire safety measures have received generous support from the voters through Measure FF, whereas climate is still severely underfunded. In addition, global warming is one of the chief causes of increased fire threats.

FINANCIAL IMPLICATIONS

This item would result in a one-time investment of \$1,500,000 from excess equity to provide initial funding for a two-year Existing Building Electrification Incentive Program Pilot to assist property owners and renters with the transition to a zero-carbon economy. This investment includes staff costs to run the program.

ENVIRONMENTAL SUSTAINABILITY

Supporting incentives for building decarbonization will complement and accelerate Berkeley's ongoing efforts to reduce carbon emissions at an emergency and equitable pace in line with the Climate Action Plan, Climate Emergency Declaration, and Existing Building Electrification Strategy.

CONTACT PERSON

Councilmember Kate Harrison, Council District 4, 510-981-7140

ATTACHMENTS

1. Resolution

RESOLUTION NO. ##,###-N.S.

RESOLUTION ESTABLISHING A BUILDING ELECTRIFICATION INCENTIVE PILOT PROGRAM

WHEREAS, the world is facing a grave climate emergency, requiring municipalities to rapidly transition towards a zero-carbon economy by 2030; and

WHEREAS, transitioning Berkeley's economy will require significant investment on the part of both government and residents as staff have estimated that converting Berkeley's approximately 46,000 residential housing units will likely cost hundreds of millions of dollars; and

WHEREAS, low-carbon technology and infrastructure can often be out of reach for many households and, without direct assistance, many will be left behind; and

WHEREAS, moderate and lower-income communities are most impacted by global climate change and have the least financial ability to address it; and

WHEREAS, City's Draft Existing Building Electrification strategy both cite the importance of ensuring equity in access to carbon-free technology; and

WHEREAS, it is in the public interest to establish a two-year Existing Building Electrification Incentive Program to assist residents with the cost of transitioning from a carbon-based city; and

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Manager establish an Existing Building Electrification Incentive Program to invest in the following priorities, to be further defined by staff:

1. incentives for transferees of residential property to include appliance retrofits and electrical upgrades (including panel upgrades);
2. equitable incentives for existing residential property owners and renters pursuing electrification retrofits or replacing broken or outdated appliances, to include electrical upgrades (including panel upgrades);
3. a nexus with good paying jobs, for example use of unionized contractors, workforce development programs and local hire requirements.

BE IT FURTHER RESOLVED that the Berkeley Energy Commission, or successor, and the Facilities, Infrastructure, Transportation, Environment & Sustainability Policy Committee, in consultation with community groups, provide input to staff and Council on at least an annual basis about eligible categories of fund expenditures to maximize equitable emissions reductions and impacts for eligible households.

BE IT FURTHER AND FINALLY RESOLVED that any unexpended funds shall carry over from year to year.



Kate Harrison
Councilmember District 4

ACTION CALENDAR
June 1, 2021

To: Honorable Mayor and Members of the City Council

From: Councilmember Harrison (Author), Councilmember Bartlett (Co-Sponsor)

Subject: Budget Referral and Resolution Establishing A Pilot Existing Building Electrification Incentive Program to Assist New Homeowners, Renters and Existing Homeowners with Transition to Zero-Carbon Buildings

RECOMMENDATION

1. Adopt a Resolution establishing:
 - a. a two-year Pilot Existing Building Electrification Incentive Program to Assist New Homeowners, Renters and Existing Homeowners with Transition to Zero-Carbon Buildings; and
 - b. an annual process for the Energy (or successor) Commission and the Facilities, Infrastructure, Transportation, Environment & Sustainability Policy Committee (FITES), in consultation with community groups, to provide input to staff and Council about eligible *categories* of fund expenditures to maximize equitable emissions reductions and impacts for eligible households while leaving the mechanisms for doing so to staff discretion.
2. Refer to the June, 2021 budget process:
 - a. \$1,500,000 of general fund monies from excess equity as seed funding for the two-year pilot, inclusive of staff costs, for FY 2022.

CURRENT SITUATION, EFFECTS, AND RATIONALE FOR RECOMMENDATION

The world is facing a grave climate emergency, requiring municipalities to rapidly transition towards zero carbon economy by 2030. Transitioning Berkeley's economy will require significant investment on the part of both government and residents. It is in the public interest to establish a financial incentive program to assist new homeowners, renters and existing homeowners with the transition to zero-carbon buildings. This item establishes the general scope of a two-year Existing Building Electrification Incentive Program Pilot and refers to staff to design an equitable program with \$1,500,000 for FY22, inclusive of staffing costs, and contingent on the availability of excess equity, from the General Fund. It also asks the Energy (or successor) Commission and FITES Committee, in consultation with community groups, to provide input to staff and Council on at least an annual basis about categories of fund expenditures that would provide the

most benefit for low-income households and to maximize equitable emissions reduction impacts. The establishment of this program is consistent with staff and Council goals and budgetary priorities.

BACKGROUND

According to the best available science, a 50% reduction in emissions must happen worldwide by 2030 or earlier in order to delay extremely catastrophic warming. To meet the U.N.'s global 2050 target to keep emissions as close as possible to 1.5 degrees Celsius, wealthy nations and cities will near zero by 2030.¹

As a result of the scientific and economic realities of climate change, and despite the people of Berkeley's average relative wealth, it is not realistic to expect the owners of the City's approximately 46,000 residential housing units to electrify their buildings in a decade without significant government co-investment. Low-carbon technology can often be out of reach of many low-income households and, without direct assistance, many will be left behind. Transitioning Berkeley's economy will require significant investment on the part of both residents and the government. Following Berkeley's 2019 landmark prohibition on natural gas infrastructure, staff have released a Draft Berkeley Existing Buildings Electrification Strategy that is currently unfunded.

Such investments would significantly lower Berkeley's carbon emissions, at least 37% of which are from buildings, and provide residents with a plethora of health and safety benefits that will likely outweigh upfront costs. The program can be crafted in a way that supports good paying jobs, for example including unionized contractors, workforce development and local hire requirements. The transition to a zero-carbon city thus has the potential to uplift both workers and residents.

In January 2021, the City's Office of Energy and Sustainable Development reported to the Energy Commission that the cost of electrifying the City's entire low-rise building stock (90% of all Berkeley buildings and 65% of floor area) would be between \$700 and \$880 million. An additional \$120 million is needed for efficiency improvements and solar.

¹ IPCC, 2018: Summary for Policymakers. In: *Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty* [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)]. *World Meteorological Organization, Geneva, Switzerland, 32 pp.* <https://www.ipcc.ch/sr15/chapter/spm/>.

Item 9 - Communications
Energy Commission
January 27, 2021
1/27/2021

Draft Total Costs

Approximate total modeled costs for converting Berkeley's low-rise housing stock today:

- Covers 36,000 1-3 floor homes (90% of all Berkeley buildings and 65% of floor area)
- \$280-430 Million more than business-as-usual gas replacements (no solar or envelope improvements)
- Additional \$220-660 Million for envelope efficiency and solar PV

	No Solar	Minimum Solar (Offset)	Maximum Solar (Net Zero Energy)
Economy Appliances	\$700 Million	\$930 Million	\$1.2 Billion
Mid-Tier Appliances	\$880 Million	\$1 Billion	\$1.2 Billion
Mid-Tier + Envelope Improvements	\$1 Billion	\$1.2 Billion	\$1.4 Billion

Clearly, this relatively modest pilot program would only make a small dent in the City's retrofit challenge, perhaps facilitating 400-500 retrofits per year. However, the success of this pilot program will likely spur the Council and residents to seek additional federal, state and local funds to expand the program in subsequent years. The expertise and lessons learned through this pilot will help guide future efforts aimed at closing the 46,000 gas-powered residential unit challenge.

Since 2018, the Council has explored opportunities to increase public investment in building electrification retrofits. Councilmember Harrison's November 27, 2018 referral, following the passage of the Climate Emergency Declaration, requested that the City Manager draft an ordinance expanding eligibility for the existing Seismic Transfer Tax Rebate Program to include electrification and other resiliency measures. Staff subsequently presented the draft ordinance to Council in July of 2020 at the outset of the COVID-19 pandemic with a recommendation to take no action for a year due to COVID-19-related fiscal uncertainty, and the item was held over at the Facilities, Infrastructure, Transportation, Environment & Sustainability Policy Committee (FITES).

At the same time, staff also presented to FITES a related referral to design a companion Resilient Homes Equity Pilot Program that would provide funding for home retrofit improvements to low-income residents. FITES and Council agreed to move the Resilient Homes Equity Pilot Program design and research process forward in November, 2020.

Many economic and public health indicators suggest that the City is entering a more optimistic phase in the pandemic, to include the influx of substantial – but temporary - federal stimulus monies through the 2021 American Rescue Plan Act and the anticipation of a fairly rapid rebound in revenues to pre-pandemic levels. Transfer tax revenues for FY21 are estimated at \$20 million (compared with \$20 million in FY 19) and the city expects to receive a one-time two-year allocation of \$68 from the 2021 American Rescue Plan Act.

As a result, it is in the public interest to revisit the July 2020 item to see how the City can best move forward with providing residents with critical greenhouse gas reduction incentives in order to address our larger and longer-term crisis: climate change.

According to recent 2020 transfer tax data from OESD, on average between 2014-2019, 845 residential units were transferred per year, generating approximately an average of \$4.6 million total per year in eligible rebates for the Seismic Transfer Tax Program. The city has approximately 46,000 occupied housing units, with the vast majority being gas-powered.

Existing Building Electrification Incentive Program Pilot

Since early 2021, Councilmember Harrison's office and the FITES Committee have been working with City staff to explore opportunities to fund retrofits through general fund transfer tax revenues and establishing a cap on total and per beneficiary allocations. In working with the City Manager, we have concluded that while the existing transfer tax rebate system is a good vehicle for allocating at point of sale, it does not provide funding for existing homeowners who may need to replace a broken appliance or who want to make voluntary retrofits. A better vehicle is a two-year pilot; this requires fewer staff resources to administer and builds on significant staff experience and expertise administering incentive programs.

This item provides an alternative to the Seismic Transfer Tax Rebate model in the form of a budget referral and resolution establishing two-year pilot incentive program funded via general fund allocations, which are currently partially funded by transfer tax revenue.

Currently, the Council approved amount in transfer tax revenues is allocated to the General Fund (as in the past, at \$12.5 million) and some portion is typically set aside for capital projects (generally at \$2 million). For the first year of this pilot program this item proposes to allocate a total of \$1.5 million in excess Transfer Tax equity which would be inclusive of staff’s administrative costs.² On adoption of this proposal, total transfer tax expenditures would amount to approximately \$17 million, including the \$12.5 million typically allocated to the General Fund programs and the \$2 million to capital programs.

While the program will ultimately be designed by OESD staff through administrative regulation, this item also includes a resolution officially establishing the program and providing general parameters for how staff should allocate the proposed \$1.5 million retrofit fund. This program and the \$1.5 million allocation are already included as a line item in the Planning & Development Department’s Fiscal Year 2022 proposed budget.

New property owners are most likely to remodel their units shortly completing the purchase. Thus, the Draft Berkeley Existing Buildings Electrification Strategy recommends allocating some portion of the fund for transferees of residential properties within two years of point of sale. The City is also exploring opportunities to adopt certain mandatory electrification requirements for transferees of new buildings through its BESO program, starting with the largest buildings.

Equitably supporting existing homeowners and renters whose appliances, e.g., their water heater, break down suddenly, and those who wish to embark upon voluntary electrification projects to include new appliances, electrical work (e.g., panel upgrades) are also elements of the Building Electrification strategy. This part of the program would be similar to Marin County’s Electrify Marin program which provides residents with income-qualified incentives for building electrification and panel upgrades. Since 2019, Marin has disbursed over \$100,000 in rebates.

Electrify Marin

Appliance Type	Standard Rebate	Income Qualified Rebate
Heat Pump Water Heater	\$1,000	\$2,000
Heat Pump Space Heater		
Central Heat Pump	\$1,000	\$4,500
Mini-Split Heat Pump	\$800	\$3,000
Induction Cooking		
Range (Cooktop & Oven)	\$500	\$500
Cooktop only	\$250	\$250
Service Panel Upgrade	\$500	\$1,200

² This amount would be in addition to a separate \$500,000 Climate Equity Action incentive fund proposed by Councilmember Harrison, Mayor Arreguin, and Councilmembers Taplin and Robinson.

These incentives would be paired with rebates available through BayRen and EBCE, which are helpful but fall far short of the actual cost. For example, BayRen and EBCE offer \$2,000 for water heaters, which typically cost approximately \$5,000-\$10,000 when one includes the cost of potential electrical and panel upgrades. Berkeley's incentive program is also needed to pay for space heating electrification, and needed panel and other electrical upgrades for which there are currently no incentives. Electrical, panel and space heating upgrades are typically the most expensive part of any electrification project.

Staff have indicated that they believe an additional incentive of approximately \$2,500 per property owner would be significant to persuade many property owners to electrify.

Alternatives Considered

FITES discussed whether to expand this program beyond building electrification to include fire safety and resilience upgrades. However, at this time, fire programs have separate revenue sources and greenhouse gas reduction is a top priority given the need to reduce emissions to near zero by 2030 per the 2018 IPCC report. For example, fire safety measures have received generous support from the voters through Measure FF, whereas climate is still severely underfunded. In addition, global warming is one of the chief causes of increased fire threats.

FINANCIAL IMPLICATIONS

This item would result in a one-time investment of \$1,500,000 from excess equity to provide initial funding for a two-year Existing Building Electrification Incentive Program Pilot to assist property owners and renters with the transition to a zero-carbon economy. This investment includes staff costs to run the program.

ENVIRONMENTAL SUSTAINABILITY

Supporting incentives for building decarbonization will complement and accelerate Berkeley's ongoing efforts to reduce carbon emissions at an emergency and equitable pace in line with the Climate Action Plan, Climate Emergency Declaration, and Existing Building Electrification Strategy.

CONTACT PERSON

Councilmember Kate Harrison, Council District 4, 510-981-7140

RESOLUTION NO. ##,###-N.S.

RESOLUTION ESTABLISHING A BUILDING ELECTRIFICATION INCENTIVE PILOT PROGRAM

WHEREAS, the world is facing a grave climate emergency, requiring municipalities to rapidly transition towards a zero-carbon economy by 2030; and

WHEREAS, transitioning Berkeley's economy will require significant investment on the part of both government and residents as staff have estimated that converting Berkeley's approximately 46,000 residential housing units will likely cost hundreds of millions of dollars; and

WHEREAS, low-carbon technology and infrastructure can often be out of reach for many households and, without direct assistance, many will be left behind; and

WHEREAS, moderate and lower-income communities are most impacted by global climate change and have the least financial ability to address it; and

WHEREAS, City's Draft Existing Building Electrification strategy both cite the importance of ensuring equity in access to carbon-free technology; and

WHEREAS, it is in the public interest to establish a two-year Existing Building Electrification Incentive Program to assist residents with the cost of transitioning from a carbon-based city; and

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Manager establish an Existing Building Electrification Incentive Program to invest in the following priorities, to be further defined by staff:

1. incentives for transferees of residential property to include appliance retrofits and electrical upgrades (including panel upgrades);
2. equitable incentives for existing residential property owners and renters pursuing electrification retrofits or replacing broken or outdated appliances, to include electrical upgrades (including panel upgrades);
3. a nexus with good paying jobs, for example use of unionized contractors, workforce development programs and local hire requirements.

BE IT FURTHER RESOLVED that the Berkeley Energy Commission, or successor, and the Facilities, Infrastructure, Transportation, Environment & Sustainability Policy Committee, in consultation with community groups, provide input to staff and Council on at least an annual basis about eligible categories of fund expenditures to maximize equitable emissions reductions and impacts for eligible households.

BE IT FURTHER AND FINALLY RESOLVED that any unexpended funds shall carry over from year to year.



Office of the City Manager

Date: October 28, 2021
 To: Budget and Finance Policy Committee
 From: Dee Williams-Ridley, City Manager
 Submitted by: Henry Oyekanmi, Director, Finance
 Subject: Cash vs. Accrual Based Accounting and Budgeting

City management and fiscal staff use several different analysis methods to plan for Berkeley's fiscal and financial health, as well as to measure its past financial performance. This is done to make sure we are comparing the right amounts when examining the success and cost-effectiveness of City programs. It is also done to ensure we have the short and long-term resources available to meet our obligations to our citizens, customers, vendors, and employees. To see how these different methods apply to different situations, it is useful to understand the ways to account for financial transactions.

Basis of Accounting

Cash basis accounting is where transactions are recorded in a given period based on the movement of the actual funds. Recording of expenses occurs when invoices are paid, and revenues are recorded when payments are received from customers and taxpayers (Money is in the bank and can be spent). Using cash basis accounting gives you the current, real-time picture of available resources.

Accrual basis accounting is where transactions are recorded in a given period based on when the goods or services are provided. Expenses are recorded upon receipt of items purchased or when a vendor performs the services being paid for. The expense is *accrued* even though no funds have exchanged hands. The accrual principle also dictates that expenses for goods with a long useful life be recorded over the term of that life. Revenues are also recorded when services are provided, not when payment is made. In accrual accounting, both expenses and revenues are recorded when the *obligation* to pay is created, regardless of the timing of the ultimate payment. Accrual accounting takes into account future liabilities and amounts owed to the City, so that existing obligations can be factored in to analyses of current resources.

The **modified accrual basis** is a combination of the other two, in which cash basis revenues are supplemented by certain unreceived funds deemed "measurable and

available,” and where unpaid expenses that will need to be paid in the near future are added to cash basis expenses.

The Governmental Accounting Standards Board (GASB) mandates which accounting basis should be used in different parts of our year-end financial statements by adopting Generally Accepted Accounting Principles (GAAP). These rules ensure all organizations apply the same accounting treatment to similar transactions, and that the official financial reports produced by different agencies can be easily compared. GAAP requires that our financial statements present certain transactions recoded on cash basis, while others must be recorded on an accrual basis. This determination is based on the type of activity underlying the financial transaction in question.

For purposes of deciding which basis of accounting is appropriate, we generally engage in two types of activities: governmental services, where we provide services to citizens as a part of our obligation to serve City residents; and business-type (or proprietary) activities, where the City provides services in exchange for payments meant to fund those services. The financial reporting of business-type activities must be done using the accrual basis. Governmental activities must be reported using the modified accrual basis.

Budget Preparation and Adoption

GASB governs how all transactions are recorded and financial statements are compiled. These rules are totally governed by GASB. For budget purposes, GASB gives great latitude to Municipalities to choose which method they want to utilize. There are two major options: (I) Cash/Budgetary basis and (II) Accrual basis. Since GASB does not mandate a particular budgetary basis, municipalities have discretion to use the method best suited to its fiscal management. The different bases of accounting provide different perspectives that each have relevance in the planning of all City revenues and expenses.

We must ultimately ensure that our ongoing tax and other governmental revenues fund government service provision in the long-term. We plan capital expenditures to enable the provision of some governmental services knowing that there will be a long-term benefit received for the up-front cost. We must ensure that business-type activities have adequate resources to pay their bills when they come due, as well as looking at their long-term viability as ongoing enterprises. The City’s budget process must necessarily take both of these perspective into account.

However, while the budgeting of City revenues and expenses must be done with consideration of its long-term fiscal health, the biennial budget is most essentially a plan for the inflows and outflows of cash in that specific 2-year period. City management and Council must make sure there are adequate financial resources available to pay the amounts the City will owe its vendors and creditors. The fact that a new parking garage will provide benefits for decades does not change the fact that construction contractors will have to be paid immediately. To ensure the resources will exist to pay city employee salaries and vendor invoices, the City uses a conservative basis for budgeting.

One of the major responsibilities of a bond rating agency is to identify policies or practices in an entity that can create major risks to the effective and efficient functioning of that

entity, and assess and evaluate the risk to purchasers of bonds. As City's management discovered many years ago, aggressive budgeting practices is one such risk. The major risk that was discovered was that if you allow accounts receivable (especially grants receivable) to be a primary basis for determining the budgeted revenues in a fund (and thereby the budgeted expenditures), you risk not having enough resources to pay all the actual expenditures in that fund during the fiscal year. In other words, the risk was that budgeted revenues could be overstated. The reason it is a risk is because no one can guarantee that the amount of the receivable expected will be collected timely or even collected at all. As discussed below, City management found many instances over several years where many grant funds had deficit fund balances for this very reason. The problem was so serious that a full-time grants coordinator position was created to help control the situation, but it was not enough because the City has so many grant funds.

One sign of strong management is that when internal control risks are discovered, procedures and practices are put in place to prevent the risk in the future. That's what Berkeley's management did: They developed a conservative basis for determining the fund balance that could be used for budgeting purposes—a basis that could not be intentionally or unintentionally misrepresented.

That revised budget basis fund balance excludes receivables until they have been collected. This takes away the incentive and opportunity to intentionally or unintentionally misrepresent the fund balance used for the budget. You can't misrepresent the cash and investments balance, and there are no collectability problems.

These practices are among the reasons the City maintains a strong credit rating from credit ratings agencies. Standard & Poor's rated our recent T1 bond offering AA+ (one notch lower than its highest rating of AAA), in part, due to the City's "good financial policies and practices under [their] Financial Management Assessment (FMA) methodology."

The reason this practice is applauded is because it precludes the possibility of a major risk entering into the budget process. The City itself can attest to the fact that it is a risk. If the City goes back to this aggressive method of budgeting, which it knows has significant internal control weaknesses, then the City is unlikely to be applauded for its conservative budgeting practices and, the City might not be able to maintain the AA+ rating from S&P Global and the Aa1 rating from Moody's. If this happens, then the City's taxpayers will be paying higher bond taxes whenever the City issues General Obligation Bonds or Revenue Bonds.

Berkeley's budget basis consists of the following:

1. Expenditures/expenses: The City uses the modified accrual/accrual basis for expenditures/expenses, which includes the check and electronic payment disbursements actually made during the year, and the unpaid accounts payable and accrued salaries/wages and employee benefits liabilities incurred as of June 30th. The Budget Office also subtracts outstanding encumbrances from the available budget amounts.

2. Revenues: Only the cash expected to be received is budgeted and only the actual cash received is reflected as actual revenues. If the fund balance is used to balance a fund's budget, the available cash balance (budget basis fund balance) is used

This way, the City is assured of having adequate resources. Budgeting for accrued expenses ensures that we can pay our bills even if future revenue predictions are modified. Using a cash basis for revenue planning also prevents any concerns related to the timing of amounts owed to the City leaving us short on liquidity when we need to pay salaries or invoices. Using this conservative practice doesn't deprive management of anything, as the City uses the accrual basis/modified accrual basis for accounting, so the amount of the receivables are recorded in the City's general ledger for accounting purposes. City management has the same accounting information that a city that budgets on an accrual basis has. The only difference is that one practice is conservative and the other one isn't, perhaps because those cities that use the accrual basis for budgeting don't have a large grants receivable balance like Berkeley does.

In the past, departments were allowed to use the fund balance to make up for an anticipated shortfall in cash revenues. Since unpaid receivables were added to the revenue totals for budgeting purposes, however, they were counting on cash receipts which had no guarantee of materializing. Specific instances of this were what caused the City's management to tighten up on its budget practices and develop a more conservative method of budgeting, namely:

1. Numerous grant funds had significant deficit fund balances because they incurred more expenditures than revenues. They had no resources to make up for the shortfall. As a result, the City's General Fund had to make large transfers for several years to these funds to eliminate the deficits.
2. In one situation, the department reflected a grants receivable from the County of nearly \$2 million that was never received. The staff made an error, and the General Fund took the nearly \$2 million hit to its fund balance.

Using a more cautious and conservative budgeting method, whereby we only include revenues for which we actually expect to receive payment during the budgeted year, prevents such occurrences, and ensures that Berkeley maintains its fiscal health and can provide uninterrupted service to its citizens and other customers.



There is no material for this item.

City Clerk Department
2180 Milvia Street
Berkeley, CA 94704
(510) 981-6900

The City of Berkeley Budget & Finance Policy Committee Webpage:
https://www.cityofberkeley.info/Clerk/Home/Policy_Committee_Budget_Finance.aspx

