



Office of the City Manager

Date: October 21, 2024
 To: City Council/Budget and Finance Policy Committee
 From: Paul Buddenhagen, City Manager
 Submitted by: Henry Oyekanmi, Finance Director
 Subject: FY 2024 End Of-Year Revenue Report

General Fund Revenue and Transfer In FY 2024 vs FY 2023 Comparison

Revenue Categories	FY 2024				FY 2023				Comparison FY24 vs FY23	
	Adopted (a)	Actual (b)	Variance c=(b) - (a)	% Received (d) = (b)/(a)	Adopted (e)	Actual (f)	Variance g=(f) - (e)	% Received (h) = (f)/(g)	Amount (i) = (b) - (f)	% (j) = (i)/(f)
Secured Property	\$84,725,717	\$84,850,061	\$124,344	100.15%	\$75,664,920	\$79,260,689	\$3,595,769	104.75%	5,589,372	7.05%
Redemptions -Regular	831,441	842,794	11,353	101.37%	831,441	738,032	-93,409	88.77%	104,762	14.19%
Supplemental Taxes	3,400,000	2,842,273	(557,727)	83.60%	2,000,000	3,561,752	1,561,752	178.09%	(719,479)	-20.20%
Unsecured Property Taxes	3,806,995	4,506,444	699,449	118.37%	3,516,000	3,830,697	314,697	108.95%	675,747	17.64%
Property Transfer Tax	22,873,786	17,549,598	(5,324,188)	76.72%	34,462,172	22,878,336	-11,583,836	66.39%	(5,328,738)	-23.29%
Property Transfer Tax-Measure P (New December 21, 2018)	10,189,500	6,272,861	(3,916,639)	61.56%	14,073,750	10,199,580	-3,874,170	72.47%	(3,926,719)	-38.50%
Sales Taxes	19,654,225	18,717,040	(937,185)	95.23%	19,016,546	19,194,971	178,425	100.94%	(477,931)	-2.49%
Soda Taxes	1,147,387	1,101,210	(46,177)	95.98%	990,210	1,162,310	172,100	117.38%	(61,100)	-5.26%
Utility Users Taxes	17,454,320	17,209,441	(244,879)	98.60%	13,800,000	17,634,565	3,834,565	127.79%	(425,124)	-2.41%
Transient Occupancy Taxes	8,374,588	8,224,852	(149,736)	98.21%	5,000,000	8,671,689	3,671,689	173.43%	(446,837)	-5.15%
Less: TOT rebates owed (3)		(1,245,529)				(1,193,778)			(51,751)	4.34%
Short-term Rentals	1,400,000	1,475,488	75,488	105.39%	1,000,000	1,372,439	372,439	1,000,000	103,049	7.51%
Business License Tax	21,560,783	23,755,728	2,194,945	110.18%	19,000,000	21,854,193	2,854,193	115.02%	1,901,535	8.70%
Recreational Cannabis	1,000,000	152,834	(847,166)	15.28%	1,400,000	997,572	-402,428	71.26%	(844,738)	-84.68%
U1 Revenues	5,900,000	6,322,118	422,118	107.15%	4,900,000	5,844,564	944,564	119.28%	477,554	8.17%
Other Taxes (excluding Redemptions-Regular)	2,593,129	4,460,116	1,866,987	172.00%	1,800,000	4,717,855	2,917,855	262.10%	(257,739)	-5.46%
Vehicle In-Lieu Taxes	17,811,134	17,875,821	64,687	100.36%	15,926,168	16,659,665	733,497	104.61%	1,216,156	7.30%
Parking Fines-Regular Collections	5,800,000	6,034,375	234,375	104.04%	4,326,450	5,875,858	1,549,408	135.81%	158,517	2.70%
Parking Fines-Booting Collections			0				0	#DIV/0!	-	#DIV/0!
Moving Violations	132,600	166,152	33,552	125.30%	132,600	149,420	16,820	112.68%	16,732	11.20%
Ambulance Fees	5,350,779	7,910,668	2,559,889	147.84%	3,880,779	5,143,120	1,262,341	132.53%	2,767,548	53.81%
Interest Income	8,826,211	15,155,999	6,329,788	171.72%	6,000,000	12,117,025	6,117,025	201.95%	3,038,974	25.08%
Franchise Fees	1,720,056	2,008,162	288,106	116.75%	1,613,283	1,822,528	209,245	112.97%	185,634	10.19%
Other Revenue	7,668,797	6,889,503	(779,294)	89.84%	6,729,977	9,043,937	2,313,960	134.38%	(2,154,434)	-23.82%
IDC Reimbursement	6,104,970	6,720,690	615,720	110.09%	5,490,000	6,758,577	1,268,577	123.11%	(37,887)	-0.56%
Transfers	13,591,924	13,591,924	0	100.00%	17,096,148	16,846,585	-249,563	98.54%	(3,254,661)	-19.32%
Total Revenue:	\$271,918,342	\$273,390,623	\$1,472,281	100.54%	\$258,650,444	\$275,142,181	\$16,491,737	106.38%	(\$1,751,558)	-0.64%

Notes: (1) This statement is presented on a budgetary basis (i.e., cash).
 (2) Current vendor no longer breaks out Regular and Booting Parking Fines Collections
 (3) Includes the amount of TOT rebates paid or owed for the period
 (4) Redemptions are Other Taxes that are shown separately on this spreadsheet

1. Summary of General Fund FY 2024 Revenue Comparative Results

General Fund revenue and transfers decreased \$1,751,558 or -.64%, from \$275,142,181 in FY 2023, to \$273,390,623 in FY 2024.

As staff warned in the FY 2023 General Fund Revenue report to Council, the City General Fund has, at least for the near term, lost at least two of its three primary drivers of annual growth (For the last two years, Property Transfer Taxes and Measure P Property Transfer Taxes experienced negative growth, and that led to lower growth for Secured Property Taxes and Vehicle in Lieu Taxes in FY 2024 and will lead to lower growth in FY 2025), as they've continued to decline sharply in FY 2024. The Secured Property Tax and Vehicle in Lieu revenue growth in FY 2024 and FY 2025 in the City's assessed value has dropped sharply from 10.8% in FY 2023 to 7.256% in FY 2024 and 6.39% for FY 2025.

In addition, the City is starting to see weakness in two other key General Fund business categories: Sales Taxes and TOT. The City's Sales Tax Consultant has noted softening in sales activity in several sales tax categories since the FY 2024 Adopted Budget was passed, and this has resulted in a decline in Sales Tax revenue and TOT revenue in FY 2024.

Notable General Fund Revenue Declines and Increases

A. Notable declines during FY 2024 were the following:

- 1. Supplemental Taxes \$ -719,479
- 2. Property Transfer Taxes -5,328,738
- 3. Measure P Property Transfer Taxes -3,926,719
- 4. Transfers In -3,254,661
- 5. Sales Taxes -477,931
- 6. TOT (after rebates) -498,588
- 7. Recreational Cannabis -844,738
- 8. Other Revenue -2,154,434

B. Notable increases during FY 2024 were the following:

- 1. Secured Property Taxes \$ +5,589,372
- 2. Unsecured Property Taxes +675,747
- 3. Business License Taxes +1,901,535
- 4. Ambulance Fees +2,767,548

5. Vehicle In Lieu Taxes	+1,216,156
6. Interest Income	+3,038,974

Several of these notable increases/decreases resulted in increases and decreases in the FY 2024 revenue projections for those revenue categories after the Adopted Budget was passed.

Excluding Transfers, General Fund revenue increased \$1,503,103 or .58%, from \$258,295,596 in FY 2023, to \$259,798,699 in FY 2024.

2. Continuing General Fund Revenue Challenges

Before getting into the FY 2024 General Fund revenue details, I also want to point out that the City's General Fund revenue challenges have not ended now that the Fed's has apparently started lowering short-term rates, for the following reasons:

1. The Fed's lowered the Federal Funds rate by .50% on September 18, 2024 and forecast that more rate cuts are on the way. The Fed's had previously said that it would not make that move until it was convinced that its favored method to measure inflation, the core Personal Consumption Expenditures index (Core PCE), was on a sustainable path to its policy goal of 2%. That rate fell to a level of 2.7% at the end of August 2024, still significantly above the Fed's target of 2%). It should be pointed out that after the Fed's lowered short-term rates by .50% on September 18, 2024, mortgage rates have actually risen, not declined, by approximately .50%.

One challenge is that if the core PCE move down to 2% is slow, then the Fed's will be reluctant to move rates significant lower (i.e., rates will stay higher for a longer period of time). As a result, mortgage and other consumer interest rates will remain high, resulting in lower consumer spending and property sales. Lower consumer spending will result in lower Sales Tax revenue, and lower property sales will result in less Property Transfer Tax revenue to the City. In addition, it will result in lower growth in assessed values, which will result in less Secured Property Tax revenue and Vehicle In Lieu Tax revenue to the City, since they change based on the changes in assessed value each year.

2. Increasing interest rates wasn't the only monetary tightening by the Fed's between March 17, 2022- July 26, 2023, when it raised the Federal Funds rate from a range of 0%-.25% to 5.25%-5.50%. At the same time, it also initiated a program called "quantitative tightening", whereby it sold \$95 billion/month of Treasury Bonds and Mortgage-backed securities from its mammoth Balance Sheet. By selling these securities, the Fed's increased the supply of Treasury Bonds and Mortgage-backed Bonds, thereby simultaneously lowering the market price of the bonds and increasing long-term rates, including mortgages. Another challenge facing the bond market is that the Fed's Balance Sheet has grown from \$.9 trillion right before the 2008 financial crisis to \$4.4 trillion after the crisis, and to \$9 trillion after the COVID-19 pandemic, as a result of the federal deficit spending done to respond to these crises. The Balance Sheet balance currently stands at a still staggering amount of \$7.4 trillion and needs to continue to be unwound. The problem is that when the Fed's sells these securities, they are purchased by investment banks and other financial institutions. When this happens, the banks and other financial institutions have less cash and reserves to lend money to companies and individuals, thereby negatively impacting the economy.

Fortunately, the Fed's partially alleviated this problem in June 2024 by slowing the pace of asset paring to \$60 billion/month and eliminating the securities as they matured (instead of selling them), without reinvesting the proceeds.

3. Another challenge is the proposed \$1.8 trillion federal budget deficit for the upcoming fiscal year. This will require the issuance of additional \$1.8 trillion in Treasury Bonds to fund the deficit. This will put upward pressure on long-term interest rates, including mortgage rates.

4. Another challenge is the potential impacts from the November 2024 presidential election. Specifically, both candidates have promised huge tax cuts and credits, which if enacted, could significantly increase the federal budget deficit and put even more upward pressure on interest rates.

The additional huge amount of bonds that will need to be issued as a result of these macroeconomic challenges will probably overwhelm demand for long-term bonds and continue to put pressure on long-term interest rates, including mortgage rates and rates on General Obligation Bonds the City may need to issue in the future. In addition to reducing consumer spending and slowing down the economy, it will keep mortgage rates high. Keep in mind that the Fed's can only control short-term rates. The impact of its actions on long-term interest rates is controlled solely by the bond market.

One positive note is that the negative impacts on the City of rising interest rates is partially offset by a significant increase in Interest Income the City generated through its investment portfolio.

3. FY 2024 GENERAL FUND REVENUE DETAILS

Secured Property Tax (+\$5,589,372 more than FY 2023 Actual)

During FY 2024, Secured Property Tax revenues totaled \$84,850,061, which was \$5,589,372 or 7.05% more than the \$79,260,689 received in FY 2023. This result was consistent with the County's Certification of Assessed Valuation (received from the County in August 2023 after the Adopted Budget was passed), which reflected growth of 7.256%. Changes in Secured Property Tax revenues are based on the growth in assessed values.

Supplemental Taxes (-\$719,479 less than FY 2023 Actual)

Supplemental taxes come into play where there is a reassessment of property value triggered by changes such as new ownership, significant upgrades, or the completion of new construction. The County Assessor's Office determines the updated assessed value, calculates the difference between the previous and new assessed values, and prorates the difference, based on the remaining months in the fiscal year after the ownership transfer or the completion of improvements.

During FY 2024, Supplemental Taxes totaled \$2,842,273, which was \$719,479 or 20.2% less than the \$3,561,752 received in FY 2023, likely due to the significant decline in property sales during FY 2023 and FY 2024.

Unsecured Property Tax (+\$675,747 more than FY 2023 Actual)

During FY 2024, Unsecured Property Tax revenues totaled \$4,506,444, which was \$675,747 or 17.6% more than the amount of \$3,830,697 received in FY 2023. This amount is greater than the County's Certification of Assessed Valuation growth of 9.1% for FY 2024.

The Unsecured Property Tax Revenue projection was increased after the Mid-year budget report from \$3,806,995 to \$4,648,038.

Property Transfer Tax (-\$5,328,738 less than FY 2023 Actual)

During FY 2024, Property Transfer Tax totaled \$17,549,598, which was \$5,328,738 or 23.29% less than the \$22,878,336 received in FY 2023.

The primary reasons for the \$5,328,738 decrease in Property Transfer Tax were the following:

- (1) The dollar value of property sales decreased by \$.433.2 billion or 26.2%, from \$1.655.8 billion in FY 2023 to \$1.222.6 billion in FY 2024, as illustrated in Table 1 below.
- (2) There were 11 property sales of \$10 million or more, with total sales of \$421 million in FY 2023 compared to five property sales of \$10 million or more, with total sales of \$89.9 million in FY 2024; and,
- (3) The number of property sales transactions decreased by 83 or 10.0% from 833 in FY 2023 to 750 in FY 2024, as illustrated in the Table 2 below.

This decline in real estate activity was generally attributed to high mortgage rates and a slowing economy resulting from the Federal Reserve Board's aggressive actions to reduce the money supply and slow down the US economy in order to reduce inflation, by sharply raising interest rates and selling \$95 billion/month of Agency and Mortgage-Backed Bonds from its Balance Sheet.

Table 1- Property Sales In Million \$

	July	Aug	Sept	Oct	Nov	Dec	Subtotal
FY 2024	\$129.2	\$152.5	\$99.9	\$95.7	\$95.8	\$94.4	\$667.5
FY 2023	188.9	320.0	134.6	113.9	254.9	142.4	1,154.7
Change	-59.7	-167.5	-34.7	-18.2	159.1	-48.0	-487.2
% Change	-31.6%	-52.3%	-25.8%	-16.0%	-62.4%	-33.7%	-42.2%

Table 1- Property Sales In Million \$

	Jan	Feb	Mar	Apr	May	June	Total
FY 2024	65.8	49.8	66.3	93.2	123.3	156.7	\$1,222.6
FY 2023	86.5	72.2	53.4	96.3	73.8	118.9	1,655.8
Change	-20.7	-22.4	12.9	-3.1	49.5	37.8	-433.2
% Change	-23.9%	-31.0%	24.2%	3.2%	-67.1	31.8	-26.2%

Table 2-Number of Property Sales Transactions

	July	Aug	Sept	Oct	Nov	Dec	Subtotal
FY 2024	79	73	64	61	67	62	406
FY 2023	113	101	108	79	74	57	532
Change	-34	-28	-44	-18	-7	5	-126
% Change	-.30.1%	-27.7%	40.7%	-22.8%	-9.5%	8.8%	-23.7%

Table 2-Number of Property Sales Transactions

	Jan	Feb	Mar	Apr	May	June	Total
FY 2024	41	34	45	61	77	86	750
FY 2023	40	37	31	64	50	79	833
Change	1	-3	14	-3	27	7	-83
f% Change	2.5%	-8.1%	45.2%	-4.7%	54%	8.9%	-10.0%

The Property Transfer Tax Revenue projection was decreased from the Adopted Budget amount of \$22,873,786 to \$16,873,786.

Measure P-Property Transfer Tax (-\$3,926,719 less than FY 2023 Actual)

Measure P taxes totaling \$6,272,861 was collected during FY 2024, which was \$3,926,719 or 38.5% less than the \$10,199,580 collected during FY 2023. This decrease resulted primarily from the following: (1) A decrease of 40.0% in the dollar value of property sales amount in FY 2024 versus those in FY 2023 as reflected in Table 3; (2) The number of property sales transactions decreased by 99 or 34.1% in FY 2024, as illustrated in the Table 4 below; and,(3) There were only five property sales of \$10 million or more totaling \$89.9 million in FY 2024, compared to 11 transactions with total property sales of \$421 million in FY 2023.

Table 3- Property Sales \$1.5 million+ In Million \$

	July	Aug	Sept	Oct	Nov	Dec	Subtotal
FY 2024	\$62.8	\$87.2	\$48.5	\$51.9	\$33.6	\$42.5	\$326.5
FY 2023	114.4	271.1	84.1	63.3	203.7	99.8	836.4
Change	- 51.6	-183.9	-35.6	-11.4	-170.1	-57.3	-509.9
% Change	-45.1%	-67.8%	-42.3%	-18.0%	-83.5%	-57.4%	-61.0%

Table 3- Property Sales \$1.5 million+ In Million \$

	Jan	Feb	Mar	Apr	May	June	Total
FY 2024	20.5	22.3	31.4	54.0	67.8	99.8	\$622.3
FY 2023	34.3	28.0	20.2	49.9	30.8	37.6	1,037.2
Change	-13.8	-5.7	11.2	4.1	37.0	62.2	-414.9
% Change	40.2%	-20.4%	55.4%	8.2%	120.1%	165.4	-40.0%

Table 4- Property Transactions \$1.5 Million and Above

	July	Aug	Sept	Oct	Nov	Dec	Subtotal
FY 2024	18	17	12	15	12	10	84
FY 2023	52	41	48	31	24	19	215
Change	-34	-24	-36	-16	-12	-9	-131
% Change	-.65.4%	-58.5%	-75.0%	-51.6%	-50.0%	-47.4%	-60.9%

Table 4- Property Transactions \$1.5 Million and Above

	Jan	Feb	Mar	Apr	May	June	Total
FY 2024	3	8	13	24	26	33	191

FY 2023	12	10	9	19	11	14	290
Change	-9	-2	4	5	15	19	-99
% Change	-75.0%	-20.0%	44.4%	26.3%	136.4%	135.7%	-34.1%

The Measure P1 Property Transfer Tax Revenue projection was decreased after the Mid-year budget report from \$10,189,500 to \$4,500,000.

Sales Tax (-\$477,931 less than FY 2023 Actual)

For FY 2024, Sales Tax revenue totaled \$18,717,040, which was \$477,931 or 2.5% less than the \$19,194,971 received in FY 2023. This was better than the revised FY 2024 projection of \$18,540,921 during the mid year results. After the first quarter of FY 2024, the City's Sales Tax Consultant noticed a significant softening of sales in several categories since the Adopted Budget was passed, and revised revenue projections to \$18,540,921.

Fiscal Year 2024 decrease were in the following categories: General Retail was down 7.8%; Food Products was down 1.1%; Transportation was down 15.7%; Construction was down 3.7%; and, Business To Business was down 4.9%.

Utility Users Taxes (-\$425,124 less than FY 2023 Actual)

Utility Users Tax revenue for FY 2024 totaled \$17,209,441, which was \$425,124 or 2.41% less than the \$17,634,565 received for FY 2023.

This decrease of \$425,124 resulted from increases/decreases in the following categories:

FY 2024 Actual Revenues Compared to FY 2023 Actual Revenues				
	FY2024	FY 2023	\$ Change	% Change
Telephone	\$ 997,098	\$ 1,070,064	\$ -72,966	-6.82%
Cellular	1,750,399	1,792,979	-42,580	-2.37%
Cable	956,816	1,009,980	-53,165	-5.26%
Electric	9,975,518	9,175,141	800,376	8.72%
Gas	3,529,611	4,586,401	-1,056,789	-23.04%
Total	\$17,209,441	\$17,634,565	\$-425,124	2.41%

Franchise Fees (+\$185,634 more than FY 2023 Actual)

Franchise Fees revenue for FY 2024 totaled \$2,008,162, which was \$185,634 or 10.2% more than the \$1,822,528 received for FY 2023.

This increase of \$185,634 resulted from increases/decreases in the following categories:

FY 2024 Actual Revenues Compared to FY 2023 Actual Revenues				
	FY2024	FY 2023	\$ Change	% Change
Cable TV	\$ 603,692	\$ 526,332	\$ 77,360	14.7%
Electric	851,258	741,123	110,135	14.9%
Gas	553,212	555,073	-1,861	-.3%
Total	\$2,008,162	\$1,822,528	\$185,634	10.2%

Transient Occupancy Tax (-\$446,837 less than FY 2023 Actual)

Gross Transient Occupancy Tax (TOT before rebates are subtracted) revenue in FY 2024 totaled \$8,224,852, a decline of \$446,837 or 5.2% from the gross TOT of \$8,671,689 received in FY 2023. The primary reason for the decline of \$446,837 was that the gross TOT reported in FY 2024 for the six largest hotels in Berkeley increased by only \$48,661 or .7%, from \$7,256,856 in FY 2023 to \$7,305,517.

In addition, TOT rebates paid totaled \$1,245,529 in FY 2024, an increase of \$51,751 or 4.34% from the \$1,193,778 TOT rebates paid in FY 2023.

Short-Term Rentals (+\$103,049 more than FY 2023 Actual)

Short-Term Rentals revenue in FY 2024 totaled \$1,475,488, which was \$103,049 or 7.51% more than the \$1,372,439 received in FY 2023.

Business License Taxes (+1,901,535 more than FY 2023 Actual)

Business license Taxes (BLT) revenue in FY 2024 totaled \$23,755,728, which was \$1,901,535 or 8.7% more than the \$21,854,193 received in FY 2023. This increase was due primarily to the following: (1) Staff renewed 13,138 license applications in FY 2024 versus 12,799 in FY 2023; 2) A check at the nine month point of FY 2024 showed the average Business License Tax renewal averaging approximately nine percent and, (3) The average Business License tax renewal (including U1 monies) was approximately \$2,322 in FY 2024 versus \$2,335 in FY 2023.

After the FY2024 Mid-year budget results, the Business License Tax revenue projection was increased from \$21,560,783 to \$23,200,000.

Recreational Cannabis Taxes (-\$844,738 less than FY 2023 Actual)

Recreational Cannabis Taxes (BLT) revenue in FY 2024 totaled \$152,834, which was \$844,738 or 84.6% less than the \$997,572 received in FY 2023. This decline was due to Council adopting a temporary exemption from the collection of taxes under BMC Chapter 9.04.136(D) from non-medical and medical cannabis businesses. This temporary exemption was retroactive to January 2023.

As a result, the FY 2024 Recreational Cannabis Taxes projection was decreased from \$1,000,000 to \$112,000 after the FY2024 Mid-year budget results.

U1 Revenues (+\$477,554 more than FY 2023 Actual)

U1 revenues in FY 2024 totaled \$6,322,118, which was \$477,554 or 8.17% more than the \$5,844,564 received in FY 2023.

Vehicle In Lieu Taxes (+\$1,216,156 more than FY 2023 Actual)

Vehicle in Lieu Taxes (VLF) in FY 2024 totaled \$17,875,821, which was \$1,216,156 or 7.30% more than the \$16,659,665 received in FY 2023. This result was consistent with the County’s Certification of Assessed Valuation (received in August 2022), which reflects growth of 7.256%. Changes in VLF revenues are based on the growth in assessed values.

Other Taxes (-\$257,739 less than FY 2023 Actual)

Other Taxes (excluding Redemptions-Regular) in FY 2024 totaled \$4,460,116, which was \$257,739 or 5.46% less than the \$4,717,855 received in FY 2023. The decrease was accounted for by the following: (1) an increase of \$352,722 in Parking Lot Taxes; (2) a decline of \$668,253 in BLT penalties; (3) a decline of \$111,768 in BLT interest; and, (4) and an increase of \$170,427 in Transportation Network Company User Tax (i.e., a tax on ride sharing companies enacted during the height of the COVID-19 pandemic).

The FY 2024 Other Taxes projection was increased after the FY2024 Mid-year budget results from \$2,593,129 to \$4,621,618.

Parking Fines (+\$158,517 more than FY 2023 Actual)

Parking Fines revenue in FY 2024 totaled \$6,034,375, which was \$158,517 or 2.7% more than the \$5,875,858 received in FY 2023. The primary reason for the increase was the increase in ticket writing in FY 2024.

For FY 2024, ticket writing increased by 18,520 or 14.9% from 124,603 in FY 2023 to 143,123 in FY 2024, as follows:

	July	Aug	Sept	Oct	Nov	Dec	Subtotal
FY 2024	12,582	14,180	13,235	13,063	12,472	11,688	77,220
FY 2023	8,939	9,706	9,430	10,916	10,965	10,250	60,206
Difference	3,643	4,474	3,805	2,147	1,507	1,438	17,014
% Difference	40.8%	46.1%	40.3%	19.7%	13.7%	14.0%	28.3%

	Jan	Feb	Mar	Apr	May	June	Total
FY 2024	11,270	11,657	12,278	13,002	11,593	6,103	143,123
FY 2023	9,742	9,764	11,514	10,717	11,576	11,084	124,603
Difference	1,528	1,893	764	2,285	17	-4,981	18,520
% Difference	15.7%	19.4%	6.6%	21.3%	.1%	-44.9%	14.9%

Ambulance Fees (+\$2,767,548 more than FY 2023 Actual)

Ambulance Fees revenue in FY 2024 totaled \$7,910,668, which was \$2,767,548 or 53.8% more than the \$5,143,120 received in FY 2023. This increase was primarily due to (1) an increase of 495 or 8.4% in the number of transports in FY 2024, from 5,879 to 6,374; and (2) the Public Provider Ground Emergency Medical Transportation (PPGEMT) program replaced the Quality Assurance Fee Program (QAF); The MEDI-CAL and MCAL HMO reimbursement rate increased to \$1,062 under the PPGEMT Program from \$339 under the QAF Program in FY 2023; There were additional rate increases effective April 1, 2023 and November 1, 2023.

As a result, the FY 2024 Ambulance Fee revenue projection was increased after the FY2024 Mid-year budget results from \$5,350,779 to \$7,234,813.

Interest Income (+\$3,038,974 more than FY 2023 Actual)

For the FY 2024, Interest Income totaled \$15,155,999, which was \$3,038,974 or 25.1% more than the total of \$12,117,025 received in FY 2023. This increase was primarily attributable to a significant increase in average interest rates earned after the Federal Reserve raised interest rates sharply between March 17, 2022-July 26, 2023. Primarily as a result of the Fed’s actions, the net interest rate earned by the City increased from a range of 1.84%-3.06% during FY 2023, to a range of 2.84%-3.44% during FY 2024, as reflected in the Monthly Net Interest Rate Earned table below. In addition, the increase was partially attributable to an increase in interest income received from its short-term balances in its Fidelity Money Market Fund and interest earned from the Custodial Bank, as a result of the inversion of the yield curve for most of the year (i.e, where short-term rates were greater than long-term rates):

Monthly Net Interest Rate Earned:

FY	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
2024	3.10%	3.02%	2.95%	2.95%	2.88%	2.84%	3.18%	3.05%	3.11%	3.24%	3.33%	3.44%
2023	1.84%	2.03%	1.97%	2.26%	2.39%	2.62%	2.74%	2.71%	2.83%	2.94%	3.06%	3.04%

The FY 2024 Interest Income projection was increased from \$8,826,211 to \$14,000,000 after the FY2024 Mid-year budget results.

Indirect Cost Reimbursements (-\$37,887 less than FY 2023 Actual)

IDC Reimbursement (IDC) decreases result from decreases in the indirect cost allocation base (i.e., total direct salaries and wages in the fund), a decrease in the indirect cost rate or a combination of decreases or increases in both factors.

Indirect Cost Reimbursements (IDC) in FY 2024 totaled \$6,720,690, which was \$37,887 or .56% less than the \$6,758,577 received in FY 2023. This decrease was primarily accounted for by the decrease in the indirect cost allocation rate for the Marina Fund from 25% to 17%, which more than offset an increase of 3.9% in the total indirect cost allocation base (total direct salaries and wages) from \$30,332,425 in FY 2023 to \$31,515,239 in FY 2024.

The FY 2024 IDC revenue projection was increased after the FY2024 Mid-year budget results from \$6,104,970 to \$6,893,749.

Transfers (-\$3,254,661 less than FY 2023 Actual)

Transfers from other funds in FY 2024 totaled \$13,591,924 which was \$3,254,661 or 19.3% less than the \$16,846,585 received in FY 2023. This was primarily attributable to (1) a decline of \$8,766,305 in the Transfer from the American Rescue Plan Fund to recover from the impact of the COVID-19 pandemic from \$12,022,049 in FY 2023, to \$3,255,744 in FY 2024; and, (2) an increase of \$5,500,000 in transfers from the Workers’ Compensation Fund in FY 2024.

Other Revenues (-\$2,154,434 less than FY 2023 Actual)

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

Other Revenues in FY 2024 totaled \$6,889,503 which was \$2,154,434 or 23.82% less than the \$9,043,937 received in FY 2023. This decrease of \$2,154,434 was primarily attributable to (1) operating grants of \$1,062,914 received in FY 2023, but not in FY 2024; (2) a total of \$415,872 for work for private parties received in FY 2023 versus \$2,197 received in FY 2024; and (3) an increase of \$687,680 in the premium received on the issuance of the Tax and Revenue Anticipation Notes (TRAN) in FY 2023. The premium paid to the City was not actually revenue; it was a liability that was paid by the purchaser of the City's Notes when the coupon interest rate was higher than the market rate when the Notes were issued. It was appropriately used to offset the interest expense paid by the City on the Notes, rather than being recorded as revenue.

5 YEARS PROJECTED GENERAL FUND REVENUES

	Projected General Fund Revenue						
	FY 2024 Adopted	FY 2024 Actual	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Undesignated Revenues							
Secured Property Taxes	84,725,717	84,850,061	90,271,980	95,236,939	98,570,232	102,020,190	105,590,896
Supplemental Taxes	3,400,000	2,842,273	2,700,000	3,400,000	3,400,000	3,400,000	3,400,000
Unsecured Property Taxes	3,806,995	4,506,444	4,648,038	4,648,038	4,648,038	4,648,038	4,648,038
Property Transfer Taxes	12,500,000	17,549,598	18,000,000	18,900,000	19,845,000	20,837,250	21,879,113
Property Transfer Tax - Measure P	10,189,500	6,272,861	8,199,600	8,609,580	9,040,059	9,492,062	9,966,665
Sales Taxes	19,654,225	18,717,040	18,490,000	19,025,000	19,321,000	19,597,000	19,840,000
Soda Tax	1,147,387	1,101,210	1,147,387	1,147,387	1,147,387	1,147,387	1,147,387
Utility Users Taxes	17,454,320	17,209,441	17,200,000	17,200,000	17,200,000	17,200,000	17,200,000
Transient Occupancy Taxes(TOT)	8,374,588	8,224,852	8,624,591	8,797,083	8,973,024	9,152,485	9,335,535
TOT Rebates		-1,245,529	-1,160,450	-1,195,264	-1,231,122	-1,268,055	-1,306,097
Short-term Rentals	1,400,000	1,475,488	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
Business License Taxes	21,560,783	23,755,728	23,700,000	23,700,000	23,700,000	23,700,000	23,700,000
Recreational Cannabis	1,000,000	152,834	160,000	160,000	160,000	160,000	160,000
Measure U1	5,900,000	6,322,118	6,300,000	6,300,000	6,300,000	6,300,000	6,300,000
Vacancy Tax					5,000,000	5,150,000	5,304,500
Other Taxes	3,424,570	5,302,910	5,453,059	5,453,059	5,453,059	5,453,059	5,453,059
Vehicle In Lieu Taxes	17,811,134	17,875,821	19,172,891	20,227,400	20,935,359	21,668,096	22,426,479
Parking Fines - Regular Collections	5,800,000	6,034,375	6,100,000	6,100,000	6,100,000	6,100,000	6,100,000
Parking Fines - Booting Collections	-	-	-	-	-	-	-
Moving Violations	132,600	166,152	132,600	132,600	135,252	137,957	137,957
Ambulance Fees	5,350,779	7,910,668	7,856,365	7,856,365	7,856,365	7,856,365	7,856,365
Interest Income	8,826,211	15,155,999	14,000,000	13,500,000	12,500,000	12,500,000	12,500,000
Franchise Fees	1,720,056	2,008,162	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Other Revenues	7,668,797	6,889,503	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
Indirect cost reimbursements	6,104,970	6,720,690	6,855,104	6,992,206	7,132,050	7,274,691	7,420,185
Transfers	8,091,924	13,591,924	10,355,777	4,472,621	4,562,074	4,562,074	4,653,315
Total Undesignated Revenues	256,044,556	273,390,623	278,606,941	281,063,013	291,147,777	297,488,599	304,113,397
Designated Revenues							
Prop. Transfer Taxes for capital imp	10,373,786		1,000,000	3,000,000	5,000,000	5,000,000	5,000,000
Total Designated Revenues	10,373,786	0	1,000,000	3,000,000	5,000,000	5,000,000	5,000,000
TOTAL REVENUES AND TRANSFERS	266,418,342	273,390,623	279,606,941	284,063,013	296,147,777	302,488,599	309,113,397

Secured Property Taxes

The collapse in the real estate market during the third and fourth quarters of FY 2023 continued throughout FY 2024 (discussed below in the Property Transfer Tax section), and resulted in a decline in Secured Property Tax revenue growth from 10.8% in FY 2023 to 7.256% in FY 2024. Staff projects growth of 6.39% in FY 2025, growth of 5.5% in FY 2026, and growth for FY 2027 through FY 2029 of 3.5%.

Sales Taxes

This revenue source is back to pre-pandemic levels. However, for FY 2024, Sales Tax revenue totaled \$18,717,040, which was \$477,931 or 2.5% less than the \$19,194,971 received in FY 2023. After the first quarter of FY 2024, the City's Sales Tax Consultant noticed a significant softening of sales in several categories since the FY 2024 Adopted Budget was passed, and the Sales Tax revenue projection was lowered. The \$18,717,040 actual revenue was better than the City's Sales Tax Consultant's revised FY 2024 projection of \$18,540,921. Key FY 2024 Sales Tax Category declines were the following: General Retail was down 7.8%; Food Products was down 1.1%; Transportation was down 15.7%; Construction was down 3.7%; and, Business to Business was down 4.9%.

Sales Tax revenue is projected to decrease 1.2% in FY 2025, increase 2.9% in FY 2026, increase 1.6% in FY 2027, increase 1.4% in FY 2028 and increase 1.2% in FY 2029.

Business License Taxes

Business license Taxes (BLT) revenue in FY 2024 totaled \$23,755,728, which was \$1,901,535 or 8.7% more than the \$21,854,193 received in FY 2023. This increase was due primarily to the following: (1) Staff renewed 13,138 license applications in FY 2024 versus 12,799 in FY 2023; (2) A check at the nine month point of FY 2024 showed the average Business License Tax renewal averaging

approximately nine percent and, (3) The average Business License tax renewal (including U1 monies) was approximately \$2,322 in FY 2024 versus \$2,335 in FY 2023.

Staff is projecting flat growth in Business License Tax revenue from FY 2025 through FY 2029. Long-term projections will be adjusted as the impact of the recent dramatic interest rates changes on the post-pandemic economic environment becomes clearer.

Transient Occupancy Tax

Gross Transient Occupancy Tax (TOT before rebates are subtracted) revenue in FY 2024 totaled \$8,224,852, a decline of \$446,837 or 5.2% from the gross TOT revenue of \$8,671,689 received in FY 2023. The primary reason for the decline of \$446,837 was that the gross TOT reported in FY 2024 for the six largest hotels in Berkeley increased by only \$48,661 or .7%, from \$7,256,856 in FY 2023 to \$7,305,517. Staff is projecting annual gross growth (TOT revenue increase (TOT before deducting rebates owed) of 4.9% in FY 2025, and 2% from FY 2026 through FY 2029. Staff will continue to monitor the major hotels' projections of future occupancies and will adjust long-term projections as necessary.

Utility Users Tax

Staff projects UUT revenue to be flat in FY 2025 through FY 2029, after jumping to a significantly higher level in FY 2023 due to rate increases approved by the Public Utilities Commission and higher usage due to colder-than-normal temperatures.

Property Transfer Tax

The dramatic slowdown in the real estate market that began in the third and fourth quarters of FY 2023 continued throughout FY 2024, primarily due to the Federal Reserve Board keeping the Federal Funds rate at a range of 5.25%-5.50%. This kept mortgage rates high and significantly slowed real estate activity.

During FY 2024, Property Transfer Tax totaled \$17,528,223, which was \$5,350,113 or 23.4% less than the \$22,878,336 received in FY 2023.

The primary reasons for the \$5,350,113 decrease in Property Transfer Tax were the following: The dollar value of property sales decreased by \$.433.2 billion or 26.2%, from \$1.655.8 billion in FY 2023 to \$1.222.6 billion in FY 2024; There were 11 property sales of \$10 million or more, with total sales of \$421 million in FY 2023 compared to five property sales of \$10 million or more, with total sales of \$89.9 million in FY 2024; and, The number of property sales transactions decreased by 83 or 10.0% from 833 in FY 2023 to 750 in FY 2024.

This decline in real estate activity was generally attributed to high mortgage rates and a slowing economy resulting from the Federal Reserve Board's aggressive actions to reduce the money supply and slow down the US economy in order to reduce inflation, by sharply raising interest rates and selling \$95 billion/month of Agency and Mortgage-Backed Bonds from its Balance Sheet.

Over the 5 years prior to the pandemic, Property Transfer Tax revenues grew 6% per year on average, but the high level of mortgage rates makes potential real estate buyers and sellers reluctant; the reduced activity will continue to negatively impact sales prices and volumes somewhat in the next few years. After the sharp decline in FY 2023 and FY 2024, staff projects an 8.26% increase in FY 2025, an increase of 15.26% in FY 2026, an increase of 13.45% in FY 2027, and 4.0% increases in FY 2028 and FY 2029.

Staff expects growth in revenues from Measure P supplemental tax on high value property transfers of 30.7% in FY 2025 and then increases at a rate of 5% from FY 2026 through FY 2029.

Interest Income

The sharp rise in interest rates triggered by the Feds is a double-edged sword: While the rise in interest rates negatively impacts the City's Property Transfer Taxes (through less property sales) and Secured Property Taxes and Vehicle In Lieu Taxes (through lower assessed values), it results in an increase in Interest Income. For FY 2024, Interest Income totaled \$15,155,999, which was \$3,038,974 or 25.1% more than the \$12,117,025 received in FY 2023. It was also \$6,329,788 more than the adopted budget amount of \$8,826,211.

The Feds changed monetary policy and started by lowering the Federal Funds rate by .50%, from a range of 5.25%-5.50% to 4.75%-5.00% on September 18, 2024. The Fed's economic model projects that the Federal Funds rate will be at 4.4% by the end of CY 2024 (which assumes a .50% decline at the November 2024 Fed meeting), drop to 3.4% by the end of CY 2025, and be at 2.9% by the end of CY 2026 and CY 2027. However, staff believes the following: (1) the Feds will lower the Federal Funds rate by .25%, instead of .50%, at the November 2024 Feds meeting, and be at a range of 4.50%-4.75% by the end of CY 2024; or (2) the Feds will leave the Federal Funds rate unchanged at the November 2024 Feds meeting, at a rate of 4.75%-5.00% by the end of CY 2024. Staff locked in a significant portion of the City's portfolio at rates ranging between 4% and 5%. Those securities will be unaffected by the Fed's moves to lower short-term interest rates. Staff's projected interest income assumes a 7.6% decline in FY 2025, a decline of 3.57% in FY 2026, a decline of 7.4% in FY 2027 and flat growth in FY 2028 and FY 2029.

Ambulance Fees

Ambulance Fees revenue in FY 2024 totaled \$7,910,668, which was \$2,767,548 or 53.8% more than the \$5,143,120 received in FY 2023. This increase was primarily due to (1) an increase of 495 or 8.4% in the number of transports in FY 2024, from 5,879 to 6,374; and (2) the Public Provider Ground Emergency Medical Transportation (PPGEMT) program replaced the Quality Assurance Fee Program (QAF); The MEDI-CAL and MCAL HMO reimbursement rate increased to \$1,062 under the PPGEMT Program from \$339 under the QAF Program in FY 2023; There were additional rate increases effective April 1, 2023 and November 1, 2023.

Staff is projecting flat Ambulance Fees revenue in FY 2025 through FY 2029.

Conclusion

Projecting revenues many years into the future is inherently difficult to do with accuracy, as shifts in the macroeconomic environment can cause asset valuations and economic output to fluctuate in ways not able to be anticipated at the time projections are made. Staff use the best assumptions available, based on historic trends, observation of leading economic indicators, and known changes in the regulatory environment. The current environment, however, presents heightened uncertainty due to several macroeconomic factors that could impact future City revenues.

First, while the health emergency related to the COVID-19 pandemic has finally receded, and the restrictions that had constrained economic activity have been lifted, there is a possibility that the local economy has been reshaped in ways that will not return to a pre-pandemic "normal." The increase in telecommuting that occurred in the past couple of years may not fully recede. This could have effects

on spending activities of residents and employees of City businesses and institutions, as well as the desirability of certain locations for home purchases. City management continues to study and analyze these trends, and will make adjustments as more data comes in.

Second, as reported last year, inflation rose to unacceptably high levels, causing the Federal Reserve Board to tighten monetary policy significantly to combat inflation. As a result, the Feds raised interest rates from a range of 0%-.25% in March 2022 to a range of 5.25%-5.50% before the Feds made the first move in four years to lower them by .50% on September 18, 2024. During this period the average mortgage rose from a little over 4.1% to as high as 8.0%; currently, a 15-year fixed mortgage is around 6.15% and a 30-year fixed mortgage is around 6.62%. In addition to raising interest rates between March, 2022 and July 2023, the Feds began a program to sell \$95 billion/month (or \$1.14 trillion) of Agency and Mortgage-Backed Bonds from its Balance Sheet, which increased the supply of these securities and put additional upward pressure on long-term rates, such as mortgage rates. This significantly reduced consumer spending and real estate market activity in the City and the Bay Area.

Fortunately, the Feds partially alleviated this problem in June 2024 by slowing the pace of asset paring to \$60 billion/month and eliminating the securities as they matured (instead of selling them), without reinvesting the proceeds. However, the Feds Balance Sheet currently consists of \$7.4 trillion of Treasury Bonds and Mortgaged-backed Bonds that need to be unwound to a level close to the \$.9 trillion level that existed before the federal government spending responses to the 2008 financial crisis and the COVID-19 pandemic.

Third, gigantic and ongoing federal budget deficits, stubborn inflation and the Federal Reserve Board's slowness in loosening monetary policy have replaced the COVID-19 pandemic as the biggest headwinds to economic growth in the City in the near term. The Feds Chairman previously said the Feds would keep interest rates at a high level until its preferred inflation index (i.e., Core Personal Consumption Expenditure Index or core PCE Index) declines at or below its target of 2%, and the Feds is convinced it will remain so. It reached 2.70% at the end of August 2024 (it was 3.88% at the same time last year), but it is still significantly above the Feds target rate. Despite that, the Feds lowered the Federal Funds rate by .50% on September 18, 2024.

Staff believes the Feds has engineered a soft landing for the economy (i.e., Reducing inflation, and slowing the economy by tightening the money supply, but not creating a recession), and that there will be no recession in the near future, assuming the US does not face some major, unexpected catastrophic event (s). However, the out-of-control federal deficit spending is concerning and staff believes this situation will not only impact major General Fund revenues in the future, but may start affecting federal and state grant funding for City programs: (1)The projected \$1.8 trillion federal budget deficit for the upcoming fiscal year will require the issuance of an additional \$1.8 trillion in Treasury Bonds to fund the deficit; and, (2) Another concern is the potential impact from the November 2024 presidential election. Specifically, both candidates have promised significant tax cuts and credits, which if enacted, could significantly increase the federal budget deficit and put even more upward pressure on long-term interest rates. This additional huge need to issue bonds will overwhelm demand for Treasury Bonds and put further upward pressure on long-term interest rates. Declines in short-term interest rates will not necessarily result in a decline in long-term interest rates, like mortgage rates. In fact, since the Fed lowered the Federal Funds rate by .50% on September 18, 2024, mortgage rates have actually increased by approximately .50%.

Although the Federal Reserve Board changed monetary policy and started the loosening process by lowering the Federal Funds rate by .50% on September 18, 2024, as discussed under Secured Property Taxes, Property Transfer Taxes and Interest Income, the upward pressure on mortgage rates will likely continue and will result in lower growth rates for projected Secured Property Taxes, Vehicle In Lieu Taxes and Property Transfer Taxes, until mortgage rates decline significantly. As a result, the City General Fund has, at least for the near term, lost its three primary drivers of significant annual growth, and the overall growth in General Fund revenue will struggle to remain positive. One positive outcome from this situation has been a significant surge in Interest Income in FY 2023 and FY 2024, and that is expected to continue at least in the near term.

Fourth, wars in the Middle East between Israel and Hamas in Palestine and Israel and Hezbollah in Lebanon, and maybe Israel and Iran in the coming weeks, have joined the continuing war in Europe between Ukraine and Russia. This situation and the manipulation of oil supplies by OPEC+ have the potential to dramatically reshape global markets, especially if Russian and/or Iranian oil and natural gas are cut off from the rest of the world. This would drive fuel and transportation prices higher, with downstream effects on the prices of most goods. This could keep the inflation rate and interest rates higher for a longer period of time, and negatively impact consumer spending.

Any one or a combination of these factors could necessitate further revision of the projections presented here. Staff will continue to monitor the revenues we actually receive and changes in the economic environment, so that we may update or revise our projections if changes in our forecasts are warranted.