

CITY OF BERKELEY

FY 2022 BUDGET UPDATE

MARTIN LUTHER KING JR
CIVIC CENTER

OVERVIEW

- Budget Strategies Principles
- FY 2022 General Fund Budget Status
- Budget Calendar & Timeline
- Schedule of Budget & Finance Policy Committee Meetings
- Questions

BUDGET STRATEGIES PRINCIPLES

1. *Continue serving the community.* Public health and safety functions, as well as essential municipal services will be preserved to the maximum extent possible. In so doing, the City will make every effort to avoid service and workforce reductions.
2. *Live within our means.* Strive for long-term sustainability that aligns available resources with needs and the City's values that embrace a commitment to advancing racial, social, and just equity, serving those who are most in need, and environmental sustainability.
3. *Identify expenditures that can be deferred.* Take a deferment first approach by thoroughly assessing expenditures with a special emphasis on large capital projects, equipment purchases, and new projects.
4. *Pursue other revenue and assistance.* Vigorously pursue cost recovery efforts, secure alternative sources of revenue, and be positioned to capitalize on federal and state assistance.
5. *Manage use of, and replenish, reserves.* In drawing on reserves, the City will adopt a long-term orientation to ensure that funds are available for the duration of the economic downturn. The City will look to its existing policies to ensure that any reserves that are utilized are restored when the economy improves.
6. *Be data-driven and transparent.* Budget decisions will be informed by data and be transparent. Staff will work collaboratively with the Budget and Finance Committee with on-going communication and updates provided to the entire City Council.

FY 2022 General Fund Budget Status

		Notes
Projected Revenue	\$186,509,201	Excludes Measures P and U1
Less: Project Expenditures	210,769,077	Includes FY 21 Deferrals/ Items allocated to Measure P
Plus: Expenditure Items Allocated to Measure P		
5150 Transports	2,400,000	
Finance: Accountant II	158,458	
HHCS: Community Services Specialist II	175,168	
Surplus / (Deficit)	(\$21,526,250)	

FY 2022 General Fund Budget Items in the Budget

Restore FY 2021 Deferrals	\$19.8M
Digital Communications Positions	\$355,000
Measure JJ Funding	\$620,000
Wildfire Mitigation	\$300,000
Vegetation Management	\$250,000
Solano Avenue Revitalization Plan	\$300,000
EOC Covid-19 Response	\$1,000,000
FY 2020 and FY 2021 Mayor and Council Allocations	\$1,000,000

FY 2022 Items NOT in General Fund Budget

		Notes
Office of the Dir. Of Police Accountability	\$400,000	Estimated additional expenses
Police Reimagining	TBD	
Cost of Living Adjustments	TBD	
Fire Dept. Funding Needs	\$1,076,184	Could be covered by Measure FF
IT Cost Allocation Increases	TBD	
Property Tax Replacement	\$400,000	
Increase in CIP Fund Transfer	\$1,300,000	
Parking Fund Capital	\$3,355,000	
Waterfront and Marina Operating Needs	\$1,083,751	

FY 2022 Items NOT in General Fund Budget

		Notes
Cybersecurity for Telecommuting Needs	\$1,640,500	
Section 115 Trust	\$4,000,000	
Shattuck / Berkeley Way Intersection	\$650,000	
Echo Lake ADA Improvements	\$700,000	
West Campus Pool	\$350,000	Tile and plaster
Increased Legal Costs	\$500,000	
Summer Program Living Wage	\$400,000	
Increased Transfer to Catastrophic Loss Fund	TBD	For insurance
Fair Chance Ordinance	TBD	
Equity Cannabis Program	TBD	

FY 2022 General Fund Budget Revised Status

FY 2022 Surplus/ (Deficit) BEFORE Add.L Items Not Budgeted	(\$21,526,250)
Add.'l Expenditures Requiring Funding (from previous slides) (1) (2)	(14,783,251)
Revised Surplus / (Deficit)	(\$35,809,501)

1. Excludes potential costs associated with cost of living adjustments, police reimagining, IT cost allocation plan increases, increases in funds needed for insurance.

2. Assumes Fire Department items are allocated to Measure FF.

FY 2022 General Fund Budget Balancing Strategies

Federal Stimulus Package (1)	\$68M
Restore FY 2021 Deferrals	\$19,771,142
Recurring 19% Cuts	\$35,827,800
Use of Reserve Funds	TBD
Revise Revenue Projections	TBD

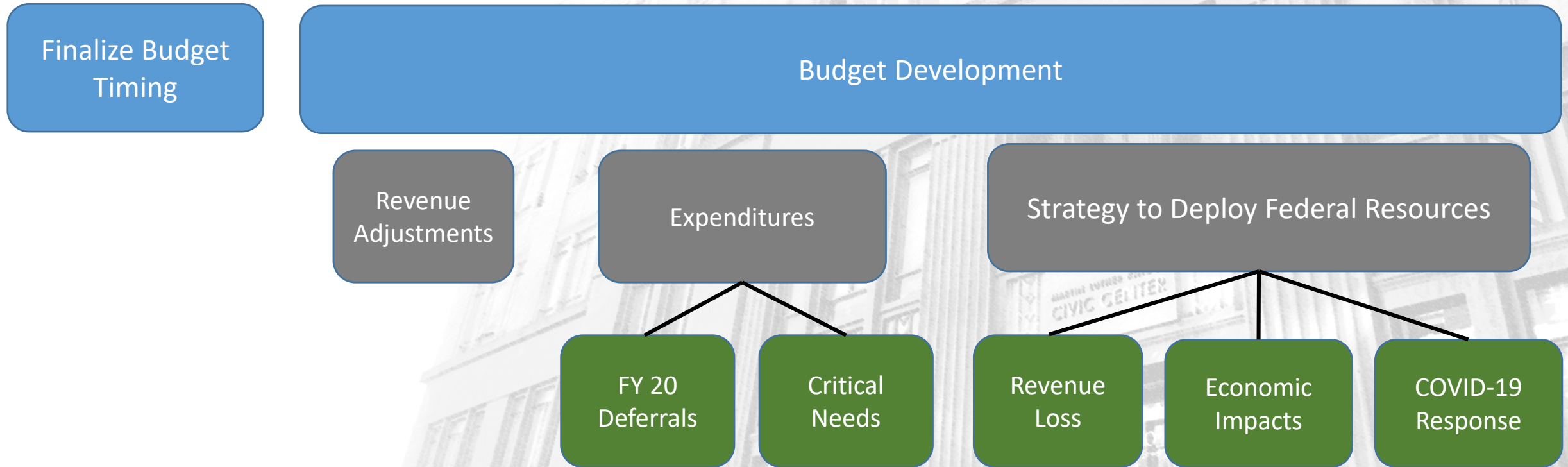
1. Federal stimulus bill has been adopted by Congress and now awaits signature by the President on Friday afternoon.

American Rescue Plan Act of 2021 Coronavirus State and Local Fiscal Recovery Funds*

Estimated Amount	<ul style="list-style-type: none"> • \$68,258,828
Timing	<ul style="list-style-type: none"> • Two payments (12 months apart) • Cover costs incurred by December 31, 2024
Allowable Uses	<ul style="list-style-type: none"> • Respond to the COVID-19 emergency and address its economic effects including assistance to small businesses, households, non-profits and hard-hit industries • Revenue replacement for the provision of government services • Premium pay for essential workers • Water, sewer, and broadband infrastructure
Ineligible Uses	<ul style="list-style-type: none"> • Offset revenue resulting from a tax cut • Deposits into pension fund
Unknowns	<ul style="list-style-type: none"> • Guidance / regulations • Monitoring, certification and reporting requirements

* Excludes \$2,777,361 in Homelessness Assistance Grants to develop affordable rental housing, to help acquire non-congregate shelter to be converted into permanent affordable housing or used as emergency shelter.

WHAT'S NEXT



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

Budget & Finance Policy Committee Meetings

Date		Action/Topic
March 11, 2021	Budget & Finance Policy Committee	<ul style="list-style-type: none"> • PRW & PW Capital (CIP) • Unfunded Liabilities • FY 2021 Mid-Year Report • Disposition of Referrals, Projects, & Audits
March 25, 2021	Budget & Finance Policy Committee	<ul style="list-style-type: none"> • Police OT
April 8, 2021	Budget & Finance Policy Committee	<ul style="list-style-type: none"> • Fire • Legal • HR
April 22, 2021	Budget & Finance Policy Committee	<ul style="list-style-type: none"> • HHCS • PW • PRW • Police
April 29, 2021 (special meeting)	Budget & Finance Policy Committee	<ul style="list-style-type: none"> • IT • City Auditor • City Clerk • OED • Planning

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**FY 2021
UNFUNDED LIABILITIES /
INFRASTRUCTURE NEEDS**

OVERVIEW

- Purpose of the Report
- CalPERS/Retiree Medical/Workers' Compensation Plans
- City Debt Obligations & Bonding Capacity
- Capital Assets & Infrastructure
- General Fund Revenues & Expenditure Projections
- Questions

PURPOSE OF REPORT

- Comply with Resolution No. 65,748-N.S.
- Provide a thorough overview of the City's long-term expenditure obligations in a format that is easily understandable in a single report.
- Review current and projected financial condition
- Provide long-term revenue and expenditure forecast

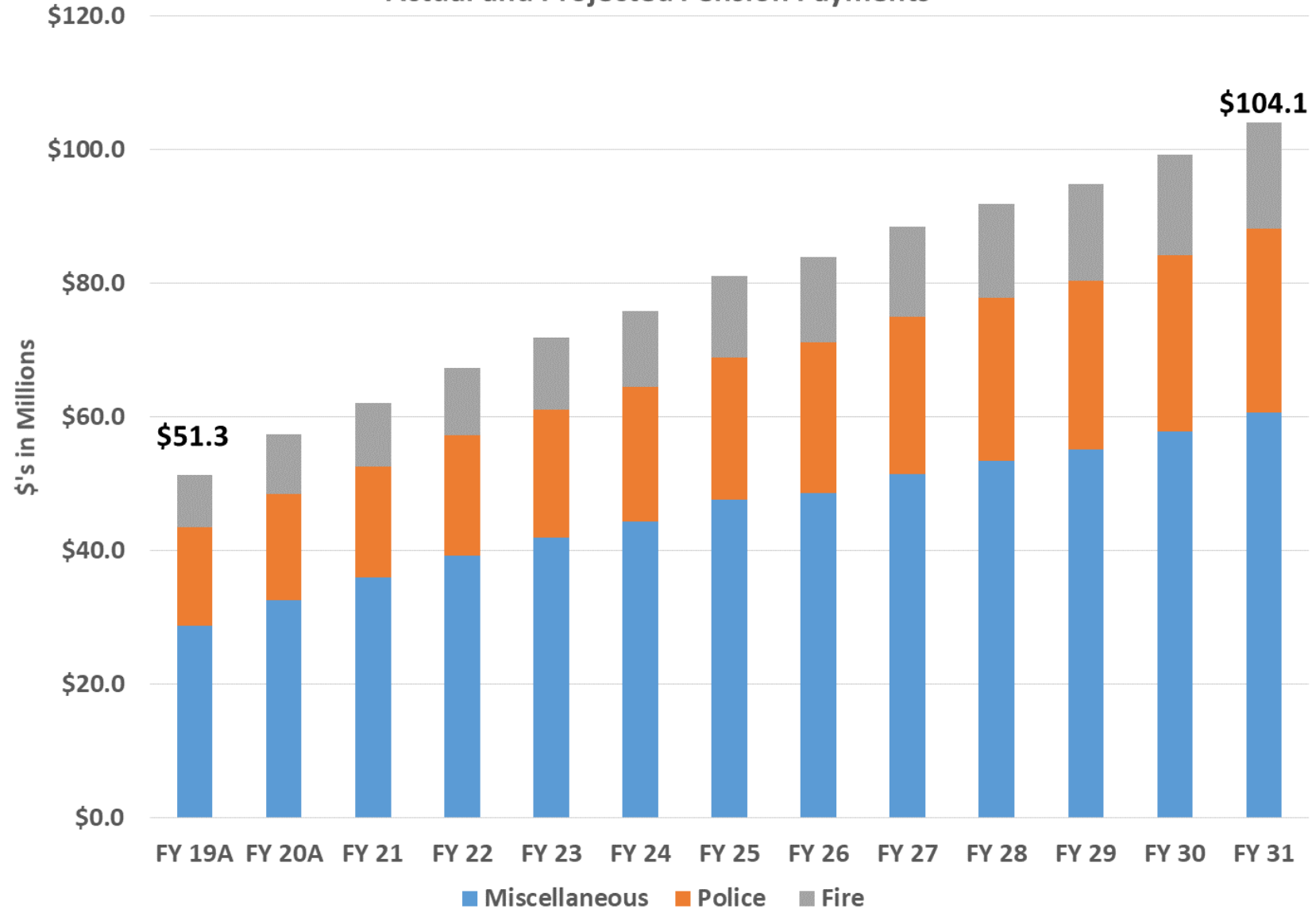
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CALPERS

- As of June 30, 2019, CalPERS plans funding status:
 - Miscellaneous - 70%
 - Police - 61%
 - Fire - 71%
- \$52.8M increase in PERS costs from FY 19A to FY 31*

*Excludes additional pension contributions estimated at \$69M over 20 years that will result from FY 2020 CalPERS return of 4.5%, 2.5% less than 7.0% assumed return.

Actual and Projected Pension Payments



RETIREE MEDICAL/WORKERS' COMPENSATION PLANS

- Retiree health plans funding status ranges from 6.16% to 43.79%
- Workers' Compensation
 - Liabilities estimated at \$42.3M as of June 30, 2021
 - Fund balance at \$41.5M as of June 30, 2020

CITY DEBT OBLIGATIONS & BONDING CAPACITY

- Aggregate bond tax rate for FY 2020 is 0.0540% (\$54 for each \$100,000 in assessed value)
- Unfunded liabilities negatively impact ability to borrow

S&P Credit Rating Excerpt (February 14, 2020)

Pension and OPEB highlights

- In our view, the city has a large pension and OPEB liability that is pressuring the city's operations, and while the city has made progress planning—including establishing a Section 115 trust—we don't yet believe the city has adequately planned for expected cost escalation.
- The city's pension funded status, combined with recent changes to assumed discount rate and amortization methods, will likely lead to accelerating costs in the medium term. However, we believe this approach will help the city make timely progress reducing pension liabilities.
- While the city is not making full actuarially determined contributions (ADCs) toward its OPEB liability, which will lead to significant contribution volatility over time, we believe Berkeley's pension costs represent a more urgent source of adverse credit pressure.

CAPITAL ASSETS & INFRASTRUCTURE

- Unfunded infrastructure needs have increased over the years and is anticipated to range around \$1.1 billion from FY 2022 to FY 2026
- Breakdown of the unfunded needs:
 - Parks Recreation & Waterfront - \$230M
 - Public Works - \$935M
 - Information Technology - \$15.1M

GENERAL FUND REVENUE AND EXPENDITURE PROJECTIONS ASSUMPTIONS

- Revenues
 - Excludes Measure P and Measure U1
 - Property Transfer Tax Revenues at \$12.5M annually

- GF Expenditures
 - No cost of living adjustments
 - 12% medical increases annually
 - 10% dental Increases
 - Estimated pension contributions from City's actuarial agency
 - 2-3% increases in non-personnel categories.

GENERAL FUND REVENUE PROJECTIONS

General Fund Revenues Projections (dollar in millions)						
	FY 2021 Projected	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenues						
Baseline	\$ 195.9	\$ 186.5	\$ 192.1	\$ 197.0	\$ 201.9	\$ 206.6

GENERAL FUND REVENUE & EXPENDITURE PROJECTIONS

General Fund Revenues v.s. Expenditures - Demonstrative Comparison (dollars in millions)						
	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenues Baseline	\$ 188.35	\$ 186.50	\$ 192.10	\$ 197.00	\$ 201.90	\$ 206.60
GF Expenditures - Zero COLA	\$ 187.04	\$ 208.77	\$ 216.55	\$ 221.62	\$ 227.70	\$ 233.11
Surplus/(Deficit)	\$ 1.30	\$ (22.27)	\$ (24.45)	\$ (24.62)	\$ (25.80)	\$ (26.51)

GENERAL FUND REVENUE & EXPENDITURE PROJECTIONS

<i>Dollars in Millions</i>	Base Case (1)					Illustrative Alternative Scenario (2) (3)				
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Total Undesignated Revenues	\$186.5	\$192.1	\$197.1	\$201.9	\$206.6	\$192.8	\$201.5	\$209.4	\$217.2	\$221.5
Total Expenses	208.8	216.6	221.6	227.7	233.0	208.8	216.6	221.6	227.7	233.0
Surplus / (Deficit)	(\$22.3)	(\$24.4)	(\$24.6)	(\$25.8)	(\$26.4)	(\$15.9)	(\$15.1)	(\$12.2)	(\$10.5)	(\$11.5)

(1). No changes to Base Case Revenue Forecast.

(2). Increase Baseline Property Transfer Tax from \$12.5M to \$16.5M from FY 22 - FY 26

(3). Assume TOT, TOT for Short-term rentals, Business License Tax, and Parking Fines return to FY 2019 levels by FY 2025 in equal increments.

CONCLUSION

- Maintaining a careful balance between cash on hand to fund daily operations and liquidity to cover unfunded liabilities is a key challenge for all governments.
- Significant unfunded liabilities requires attention:
 - Total liabilities tied to Pension and Other Post Employment Benefits total \$751 million
 - Unfunded infrastructure needs total \$1.1 billion

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QUESTIONS?

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FY 2021 MID-YEAR REPORT

OVERVIEW

- FY 2021 Mid-Year General Fund Summary
- FY 2021 Mid-Year General Fund Revenues
- FY 2021 Mid-Year General Fund Expenditures
- FY 2021 All Funds
- Budget Calendar
- Questions

FY 2021 GENERAL FUND MID-YEAR BUDGET SUMMARY

\$'s in Millions	Adjusted Budget	FY 2021 Mid-Year Actuals	FY 2021 % Received/ Expensed & Encumbered
Revenues	\$195.8	\$102.2	52%
Less: Expenditures	224.1	118.3	53%
Plus: Carryover / Excess Equity	29.4		
Surplus / (Deficit)	\$1.1		

FY 2021 General Fund Mid-Year Revenues

- Through first 6 months of FY 2021 revenues down by 4.91% compared to the same period for FY 2020

Category	FY 2020 YTD	FY 2021 YTD	% Change
Transient Occupancy Tax	\$4.5M	\$1.1M	-76%
Short-Term Rentals	\$0.9M	\$0.2M	-75%
Measure P	\$7M	\$4M	-40%
Property Transfer Tax	\$15M	\$11M	-29%
Parking Fines	\$2.4M	\$1.7M	-27%

FY 2021 General Fund Mid-Year Revenues

- FY 2021 Projected Revenues adjusted to \$204.9M from FY 2021 Adopted Amount of \$195.8M or a 4.6% increase

Annual Projected Increases	
Secured Property Tax	\$6.9M
Vehicle In-Lieu	\$2.0M
Sales and Use Tax	\$0.9M
Interest Income	\$1.2M

Annual Projected Decreases	
Transient Occupancy Tax	\$2.0M
Short-Term Rental	\$0.2M
Parking Fines	\$1.0M
Ambulance Fees	\$1.8M

FY 2021 General Fund Mid-Year Expenditure Budget Issues

- Police and Fire Overtime
- Citywide legal expenses
- Meeting Target Deferral Amount

FY 2021 Mid-Year All Funds Budget

- At 52% spent through December 2020
- Funds being watched:
 - Marina Fund
 - Permit Service Center Fund
 - Parking Meter Fund
 - Public Liability Fund

Impacts of COVID-19

Category	FY 2020	FY 2021
Marina Fund	\$6.1M	\$5.1M
Parking Funds	\$9.6M	\$2.2M*

*FY 2021 Year-To-Date Actuals

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