



Office of the City Manager

ACTION CALENDAR

May 26, 2020

(Continued from May 12, 2020)

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Teresa Berkeley-Simmons, Budget Manager

Subject: FY 2020 Mid-Year Budget Update

INTRODUCTION

This report presents the FY 2020 Mid-Year Budget Update and focuses on projected General Fund revenues and expenditures. This report also provides information on expenditure projections for the City's special funds.

CURRENT SITUATION AND ITS EFFECTS

The City of Berkeley is currently in FY 2020, the first of two fiscal years in the FY 2020 & FY 2021 biennial budget cycle, which Council adopted on June 25, 2019¹. Fiscal Year 2020 runs from July 1, 2019 through June 30, 2020.

As of December 31, 2019, both the General Fund revenues and the General Fund expenditures were on track and within budget.

	Adjusted Budget	FY 2020 Mid-Year Actuals	% Received/ Expensed and Encumbered
Revenues	\$197.0	\$107.7	55%
Expenditures	(\$229.5)	(\$107.0)	47%
Carryover and Excess Equity	\$ 32.5		
Balance	\$ 0		

The carryover and excess equity are carried forward from FY 2019. Additional information on the carryovers and excess equity allocation is discussed later in this report under the General Fund Expenditures section.

¹ https://www.cityofberkeley.info/Clerk/City_Council/2019/06_June/Documents/2019-06-25_Item_39_FY_2020_and_FY_2021_Biennial_Budget.aspx

FY 2020 Mid-Year Summary

On November 19, 2019, Council was provided the [FY 2019 Year-End Results and FY 2020 First Quarter Budget Update](#) report. At the time, both the General Fund revenues and the General Fund expenditures were tracking within budget.

General Fund Revenues

Revenue Categories	FY 2020				FY 2019				FY20 vs FY19		Revised	
	Adopted (a)	Mid-Year Actual (b)	Variance c=(b - a)	% Received (d) = (b)/(a)	Adopted (e)	Mid-Year Actual (f)	Variance g=(e) - (f)	% Received (h) = (f)/(g)	Amount (i) = (b) - (f)	% (j) = (i)/(f)	Mid-Year FY 2020 Difference	Mid-Year FY 2020 Projections
Secured Property	\$63,199,622	\$32,175,526	(\$31,024,096)	50.91%	\$57,966,998	\$30,220,695	\$27,746,303	52.13%	1,954,831	6.47%		\$63,199,622
Redemptions -Regular	668,140	356,477	(\$311,663)	53.35%	668,140	317,903	350,237	47.58%	38,574	12.13%		668,140
Supplemental Taxes	1,400,000	808,127	(\$591,873)	57.72%	1,400,000	741,314	658,686	52.95%	66,813	9.01%	400,000	1,800,000
Unsecured Property Taxes	2,500,000	2,705,126	\$205,126	108.21%	2,500,000	2,483,983	16,017	99.36%	221,143	8.90%	200,000	2,700,000
Property Transfer Tax	12,500,000	15,043,643	\$2,543,643	120.35%	12,500,000	11,911,150	588,850	95.29%	3,132,493	26.30%	7,500,000	20,000,000
Property Transfer Tax-Measure P	1,509,218	7,046,430	\$5,537,212	466.89%			-		7,046,430		8,000,000	9,509,218
Sales Taxes	18,238,000	9,430,533	(\$8,807,467)	51.71%	18,140,977	9,399,650	8,741,327	51.81%	30,883	0.33%		18,238,000
Soda Taxes	1,459,057	789,196	(\$669,861)	54.09%	1,500,000	818,879	681,121	54.59%	(29,683)	-3.62%		1,459,057
Utility Users Taxes	15,000,000	6,327,611	(\$8,672,389)	42.18%	15,000,000	6,307,679	8,692,321	42.05%	19,932	0.32%	(1,000,000)	14,000,000
Transient Occupancy Taxes	7,800,000	4,483,409	(\$3,316,591)	57.48%	7,800,000	4,331,381	3,468,619	55.53%	152,028	3.51%		7,800,000
Short-term Rentals	1,020,000	867,507	(\$152,493)	85.05%	840,000	870,987	(30,987)	901.974	(3,480)	-0.40%	700,000	1,720,000
Business License Tax	19,584,000	1,166,980	(\$18,417,020)	5.96%	19,200,000	1,381,343	17,818,657	7.19%	(214,363)	-15.52%		19,584,000
Recreational Cannabis	510,000	702,857	\$192,857	137.82%	500,000	267,674	232,326	53.53%	435,183	162.58%	790,000	1,300,000
U1 Revenues	1,000,000	187,700	(\$812,300)	18.77%	1,000,000	166,131	833,869	16.61%	21,569	12.98%	4,500,000	5,500,000
Other Taxes	1,116,860	776,645	(\$340,215)	69.54%	1,049,800	757,746	292,054	72.18%	18,899	2.49%	500,000	1,616,860
Vehicle In-Lieu Taxes	13,333,826	6,678,022	(\$6,655,804)	50.08%	12,381,128	6,241,142	6,139,986	50.41%	436,880	7.00%		13,333,826
Parking Fines-Regular Collections	6,600,000	3,151,728	(\$3,448,272)	47.75%	5,818,123	3,614,649	2,203,474	62.13%	(462,921)	-12.81%	(600,000)	6,000,000
Parking Fines-Booting Collections	200,000	8,685	(\$191,315)	4.34%	200,000	97,879	102,121	48.94%	(89,194)	-91.13%	(100,000)	100,000
Moving Violations	190,000	114,850	(\$75,150)	60.45%	235,000	64,055	170,945	27.26%	50,795	79.30%	(20,000)	170,000
Ambulance Fees	4,200,000	2,392,802	(\$1,807,198)	56.97%	4,613,194	2,127,332	2,485,862	46.11%	265,470	12.48%		4,200,000
Interest Income	3,500,000	3,019,829	(\$480,171)	86.28%	2,500,000	2,429,507	70,493	97.18%	590,322	24.30%	1,500,000	5,000,000
Franchise Fees	2,068,928	421,414	(\$1,647,514)	20.37%	1,984,643	467,254	1,517,389	23.54%	(45,840)	-9.81%		2,068,928
Other Revenue	8,044,544	4,296,552	(\$3,747,992)	53.41%	7,620,152	3,985,112	3,635,040	52.30%	311,440	7.82%		8,044,544
IDC Reimbursement	6,100,000	2,525,542	(\$3,574,458)	41.40%	4,952,317	2,448,433	2,503,884	49.44%	77,109	3.15%	(700,000)	5,400,000
Transfers	5,266,688	2,192,784	(\$3,073,904)	41.63%	4,385,568	1,316,665	3,068,903	30.02%	876,119	66.54%		5,266,688
Total Revenue:	\$197,008,883	\$107,669,975	\$89,338,908	54.65%	\$184,756,040	\$92,768,543	\$91,987,497	50.21%	\$14,901,432	16.06%	\$21,670,000	\$218,678,883

Note: This statement is presented on a budgetary basis.

For the first half of FY 2020, revenues and transfers in totaled \$107,669,975, an increase of \$14,901,432 or 16.06% increase over the \$92,768,543 during the same period of FY 2019.

FY 2020 Year-end General Fund revenues projection appear to be \$21.7 million above the FY 2020 Adopted Budget of \$197.0 million. However, if we remove the General Fund revenue streams that have been programed for priority projects and programs including Excess Property Transfer Tax (\$7.5 million), Measure P (\$8.0 million), and U1 (\$4.5 million), the General Fund revenues above the FY 2020 Adopted Budget is only \$1.7 million. If Council decides to program excess Short-Term Rentals (\$700,000) and excess Recreational Cannabis (\$790,000) only \$180,000 of unallocated General Fund revenues will be available for allocation at FY 2020 year-end, assuming expenses do not exceed budget estimates.

The first half review focuses primarily on the major revenue fluctuation, and changes that have occurred that might result in significant changes in future projections or on revenue sources that warrant close monitoring.

Secured Property Tax (+\$1,954,831 more than FY 2019 Actual)

During the first half of FY 2020, Secured Property Tax revenues totaled \$32,175,526, which was \$1,954,831 or 6.47% more than the \$30,220,695 received during the same period in FY 2019. This increase was consistent with the County's Certification of Assessed Valuation growth of 6.62%.

Property Transfer Tax (+\$3,132,493 more than FY 2019 Actual)

During the first half of FY 2020, Property Transfer Tax totaled \$15,043,643 (after seismic rebates of \$492,506), which was \$3,132,493 or 26.30% more than the \$11,911,150 (after \$276,935 in seismic rebates) received for the first half of FY 2019. The number of property sales increased by 37 or 6.9%, to 574 in the first half of FY 2020 from 537 for the same period in FY 2019. However, the primary reason for the \$3,132,493 increase in Property Transfer Tax was the sale of a group of five properties totaling \$172.9 million that resulted in Property Transfer Tax of \$2,593,898. Staff will closely monitor this revenue for a probable increase in the FY 2020 projection.

In addition, \$7,046,430 in Measure P taxes was collected during the first half of FY 2020 compared to zero collected during the first half of FY 2019, as the tax took effect December 21, 2018.

Sales Tax (+\$30,883 more than FY 2019 Actual)

For the first half of FY 2020, Sales Tax revenue totaled \$9,430,533, which is \$30,883 or 0.33% more than the \$9,399,650 received for the first half of FY 2019.

Utility Users Taxes (+ \$19,932 more than FY 2019 Actual)

Utility Users Taxes revenue for the first half of FY 2020 totaled \$6,327,611, which is \$19,932 or 0.32% more than the \$6,307,679 received for the same period in FY 2019. Staff is monitoring this revenue source closely for a probable projection reduction because of a sharp decline in FY 2019 from the \$15 million level generated in recent years. That decline resulted from significant declines in cellular, gas/electric and cable charges. During the first half of FY 2020, Cable charges declined by \$56,202 or 8.9%; Cellular charges increased by \$98,344 or 10.3%; Electric charges declined by \$84,144 or 2.7%; Gas charges increased by \$125,133 or 16.6%; and Telephone charges declined by \$59,503 or 7.3%. However, overall, there was no rebound during the first half of FY 2020. Therefore, the FY 2020 projection for the UUT revenue source will likely be lowered to \$14 million from \$15 million.

Transient Occupancy Tax (+\$152,028 more than FY 2019 Actual)

Transient Occupancy Tax (TOT) revenue for the first half of FY 2020 totaled \$4,483,409 which is \$152,028 or 3.51% more than the \$4,331,381 received for the first half of FY 2019. The increase in FY 2020 is attributable to growth at the five largest hotels in Berkeley ranging from -2.9% to +6.30% (average of 2.1%) during the first half of the fiscal year plus a \$49,207 receipt during the first half of the fiscal year that was applicable to FY 2019

Vehicle In-Lieu Taxes (+\$436,880 over FY 2019 Actual)

Vehicle In-Lieu Taxes increased by \$436,880 or 7.00% in the first half of FY 2020 to \$6,678,022 from \$6,241,142 for the same period in FY 2019. This increase was consistent with the County's Certification of Assessed Valuation growth of 6.62%.

Interest Income (+\$590,322 over FY 2019 Actual)

For the first half of FY 2020, interest income totaled \$3,019,829 which is \$590,322 or 24.30% more than the total of \$2,429,507 received for the same period in FY 2019. This increase is primarily attributable to a significant rise in short-term interest rates, as the Federal Reserve began raising the Federal Funds rate from very low levels. However, the Federal Reserve reversed course on July 31, 2019 and cut interest rates on that date, September 18, 2019, and October 31, 2019 by 25 basis points on each date.

Indirect Cost Reimbursements (+\$77,109 over FY 2019 Actual)

IDC Reimbursement for the first half of FY 2020 totaled \$2,525,542 which is \$77,109 or 3.15% more than the \$2,448,433 received for the same period in FY 2019. Since the Indirect cost rates were the same for FY 2020 and FY 2019, the increase of 3.15% in the total is attributable to an increase in direct salaries and wages. IDC Reimbursement increases result from increases in the indirect cost allocation base (i.e., total direct salaries and wages in the fund), an increase in the indirect cost rate or both.

Transfers (+\$876,119 over FY 2019 Actual)

Transfers for the first half of FY 2020 totaled \$2,192,784 which is \$876,119 or 66.54% more than the \$1,316,665 received for the same period in FY 2019. The increase of \$876,119 was due to the timing of the recording of more of the State Realignment transfer to the General Fund during the first half of FY 2020, than in the first half of FY 2019.

General Fund Expenditures

On December 3, 2019 the City Council approved General Fund recommended rollovers, carryovers, and adjustments totaling \$32.5 million in the [Amendment to the FY 2020 Annual Appropriations Ordinance²](#) (AAO).

The changes to the FY 2020 General Fund Budget from the AAO are shown below:

FY 2020 Adopted Budget	Encumbered Recommended	Unencumbered Recommended	Other Adjustments	FY 2020 Revised Budget
\$ 196,913,849	\$ 5,512,512	\$ 4,177,247	\$ 22,903,541	\$ 229,507,149

The encumbered rollovers reflect contractual obligations entered into in FY 2019, which had not been paid as of June 30, 2019. Unencumbered carryovers are approved by Council for specific purposes that had not be completed by the end of FY 2019. Funding for these commitments is brought forward into the current fiscal year to provide for payment of these obligations. Adjustments are new allocations for projects and Council priorities as detailed in the AAO.

Included in the other adjustments of \$22.9 million are Council authorized allocations for the following items:

1. Transfer of \$4,371,879 from the General Fund to the Capital Improvement Fund of FY 2019 Excess Property Transfer Tax Revenues for restricted items approved by Council on 6/25/19 (\$3,411,933) and new requests added to AAO #1 on 11/19/19 (\$959,946)
2. Item #80: Transfer of \$275,000 from the General Fund to the Capital Improvement Fund of FY 2019 Excess Property Tax Revenues for Capital Allocations in the Mayor's Budget Allocation Proposal presented to the Budget & Finance Policy Committee on 11/22/19 and approved to be added as part of staff's supplemental item for 12/3/19 Council meeting
3. Item #81: Appropriation of \$2,900,000 in the General Fund for Measure P allocations, which includes an allocation of \$78,000 for Youth Spirit Artworks Tiny House Village Services
4. Item #82: Appropriation of \$1,630,923 in the General Fund for Mayor's Budget Allocation Proposal Non-Capital Item Funds presented to the Budget & Finance Policy Committee on 11/22/19 and approved to be added as part of staff's supplemental item for 12/3/19 Council meeting

² https://www.cityofberkeley.info/Clerk/City_Council/2019/12_Dec/Documents/2019-12-03_Supp_1_Reports_Item_25_Rev_Budget_pdf.aspx

5. Item #83: Allocation of \$1,160,000 in the General Fund of FY 2019 Allocation to the Reserves as follows (\$0.64 Million to Stability Reserve and \$0.52 Million to Catastrophic Reserves)
6. Item #89: Appropriation of \$16,266 in the General Fund for a payment of excess FY 2019 additional Transient Occupancy Tax revenues to comply with Visit Berkeley allocation above the 1% FY 2019 Adopted TOT Budget contract amount

General Fund expenditures are tracking under budget as of December 31, 2019 as shown in the chart below. This is primarily due to salary savings and funds that were added as part of the AAO that were not spent yet. Departments that are tracking over 50 percent spent is due to encumbrances for contractual obligations entered into in FY 2020 in which payment might not be currently due as good or services might be in progress or not yet complete.

FY 2020 MID-YEAR GENERAL FUND EXPENDITURES (AS OF DECEMBER 31, 2019)							
DEPARTMENT	FY 2020 ADOPTED	FY 2020 REVISED*	YTD ACTUAL + ENCUMBRANCES	AVAILABLE BUDGET	% USED	PERSONNEL % USED	NON-PERSONNEL % USED
11 MAYOR AND COUNCIL	2,398,876	2,628,583	1,127,465.71	1,501,117	43%	43%	43%
12 CITY AUDITOR	2,625,103	2,701,278	1,096,399.67	1,604,878	41%	41%	41%
13 RENT STABILIZATION BOARD	0	602,015	52,015.00	550,000	9%	0%	9%
21 CITY MANAGER'S OFFICE	11,037,283	13,015,673	6,351,194.55	6,664,478	49%	42%	61%
31 CITY ATTORNEY	2,516,581	3,000,854	1,047,624.81	1,953,230	35%	34%	42%
32 CITY CLERK	3,004,901	3,348,417	1,076,165.83	2,272,251	32%	41%	25%
33 FINANCE	6,797,353	8,703,293	4,267,217.86	4,436,075	49%	38%	71%
34 HUMAN RESOURCES	2,329,292	3,354,046	1,038,696.56	2,315,349	31%	36%	24%
35 INFORMATION TECHNOLOGY	213,210	2,744,355	1,371,647.08	1,329,306	50%	0%	50%
51 HEALTH, HSG & COMMUNITY SVC	17,553,283	28,070,111	17,253,385.72	10,816,725	61%	42%	79%
52 PARKS, RECREATION & WATERFR	7,105,343	8,005,458	4,068,812.89	3,936,645	51%	49%	54%
53 PLANNING & DEVELOPMENT	2,426,051	3,625,616	1,431,320.31	2,194,295	39%	34%	49%
54 PUBLIC WORKS	4,404,030	5,382,250	2,619,061.60	2,763,188	49%	47%	51%
71 POLICE	70,622,557	71,110,036	34,841,279.30	36,268,757	49%	48%	61%
72 FIRE & EMERGENCY SERVICES	36,019,089	39,344,297	20,109,184.51	19,235,113	51%	47%	70%
99 NON DEPARTMENTAL	27,860,897	31,134,686	9,228,725.12	21,905,961	30%	98%	28%
Grand Total	196,913,849	226,770,966	106,980,197	119,747,367	47%	46%	50%

*FY 2020 Revised does not reflect as of December 31, 2019 all Council approved allocations included in the FY 2020 AAO #1.

There might be additional one-time savings resulting from the reduction in expenditures; however, much of these saving will be allocated to the items already identified in the Fiscal Years 2020 & FY 2021 Biennial Budget adopted by Council on June 25, 2019³, including a \$5.3 million loan to Measure T1 for capital projects (Resolution 68.802 N.S.).

³ https://www.cityofberkeley.info/Clerk/City_Council/2019/06_June/City_Council_06-25-2019_-_Regular_Meeting_Agenda.aspx (Item #39)

This loan is to be paid back to the General Fund in January 2021 from the second issuance of Measure T1⁴.

Additional information of the General Fund revenues and expenditures will be presented in May with the FY 2021 Mid-Biennial Budget Update. Final FY 2020 year-end General Fund revenues and expenditures information will be included in the **FY 2020 Year-End Report and FY 2021 First Quarter Update** that will be presented to Council in November 2020.

All Funds Expenditures

The General Fund comprises 34.1 percent of the total adjusted budget. The rest of the budget consists of various Special Funds. Special Funds are collected for a specific purpose; therefore, are not discretionary. Only costs associated with the Special Fund activity may be charged to a Special Fund. Included in the FY 2020 Mid-Year All Fund Expenditures by Department chart below are both the General Fund expenditures to date and the Special Funds expenditures to date. On an All Funds basis, the City is tracking under budget as of December 31, 2019 as can be seen in the following chart:

FY 2020 MID-YEAR ALL FUNDS EXPENDITURES (AS OF DECEMBER 31, 2019)					
DEPARTMENT	YTD ACTUAL +				
	FY 2020 ADOPTED	FY 2020 REVISED	ENCUMBRANCES	AVAILABLE BUDGET	% USED
11 MAYOR AND COUNCIL	2,398,876	2,628,583	1,127,466	1,501,117	43%
12 CITY AUDITOR	2,714,111	2,790,286	1,150,939	1,639,347	41%
13 RENT STABILIZATION BOARD	5,334,943	6,099,664	2,771,892	3,327,772	45%
21 CITY MANAGER'S OFFICE	14,548,957	18,023,786	8,288,486	9,735,300	46%
22 BERKELEY PUBLIC LIBRARY	26,114,585	26,830,114	11,188,043	15,642,071	42%
31 CITY ATTORNEY	4,594,533	6,357,659	2,884,711	3,472,948	45%
32 CITY CLERK	3,004,901	3,348,417	1,076,166	2,272,251	32%
33 FINANCE	8,766,934	10,745,163	5,161,213	5,583,949	48%
34 HUMAN RESOURCES	4,240,103	5,269,839	1,874,172	3,395,667	36%
35 INFORMATION TECHNOLOGY	19,404,413	35,617,289	8,797,175	26,820,114	25%
51 HEALTH, HSG & COMMUNITY SVC	54,597,950	80,909,554	39,098,972	41,810,582	48%
52 PARKS, RECREATION & WATERFR	46,600,585	70,873,935	30,342,361	40,531,574	43%
53 PLANNING & DEVELOPMENT	24,506,913	26,924,099	11,573,342	15,350,757	43%
54 PUBLIC WORKS	133,015,850	202,008,355	111,140,495	90,867,861	55%
71 POLICE	74,979,834	76,472,499	37,265,580	39,206,919	49%
72 FIRE & EMERGENCY SERVICES	44,379,144	48,240,718	24,953,631	23,287,087	52%
99 NON DEPARTMENTAL	56,654,177	60,878,499	24,143,164	36,735,335	40%
Grand Total	525,856,809	684,018,460	322,837,810	361,180,650	47%

⁴ Measure T1 was approved by Berkeley voters in November 2016. These General Obligation Bonds are not-to-exceed \$100 million and will be used to repair, renovate, replace, or reconstruct the City's aging infrastructure and facilities including sidewalks, storm drains, parks, streets, senior centers and other important City facilities and buildings

Health, Housing, & Community Services, Parks, Recreation & Waterfront, and Public Works carried over funds for projects and grants started in FY 2019. These departments also appropriated new grant funds that support programs and services as well as special funds for capital improvements. Details of these carryover requests can be found in the December 3, 2019, [Amendment to the FY 2020 Annual Appropriations Ordinance⁵](#) (AAO) discussed earlier in this report.

Next Steps:

Staff is currently in the process of updating the FY 2021 Adopted Budget approved by Council on June 25, 2019.

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

FY 2021 Mid-Biennial Budget Calendar	
Date	Action/Topic
March 24, 2020	<ul style="list-style-type: none"> FY 2020 Annual Appropriations Ordinance Amendment #2 FY 2020 Mid-Year Update
April 28, 2020	<ul style="list-style-type: none"> Public Hearing on CDBG & ESG Annual Action Plan and proposed funding allocations to community agencies
May 5, 2020	<ul style="list-style-type: none"> FY 2021 Proposed Mid-Biennial Budget Update
May 12, 2020	<ul style="list-style-type: none"> Public Hearing #1: Budget Proposed Fee Increases FY 2020 Annual Appropriations Ordinance Amendment #3
May 26, 2020	<ul style="list-style-type: none"> Public Hearing #2: Budget
June 2, 2020	<ul style="list-style-type: none"> Council recommendations on budget due to the City Manager
June 16, 2020	<ul style="list-style-type: none"> Council discussion on budget recommendations
June 30, 2020	<ul style="list-style-type: none"> Adopt FY 2021 Mid-Biennial Budget Update & FY 2021 Annual Appropriations Ordinance

The FY 2020 Mid-Year Budget Update is a Strategic Plan Priority, advancing our goal to provide an efficient and financially-healthy City government.

⁵ https://www.cityofberkeley.info/Clerk/City_Council/2019/12_Dec/Documents/2019-12-03_Supp_1_Reports_Item_25_Rev_Budget_pdf.aspx

ENVIRONMENTAL SUSTAINABILITY

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

CONTACT PERSON

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