



Status Report Update
Berkeley's Financial Condition
(FY 2012 – FY 2021): Pension Liabilities
and Infrastructure Need Attention Audit

City Council
10 October 2023

OVERVIEW

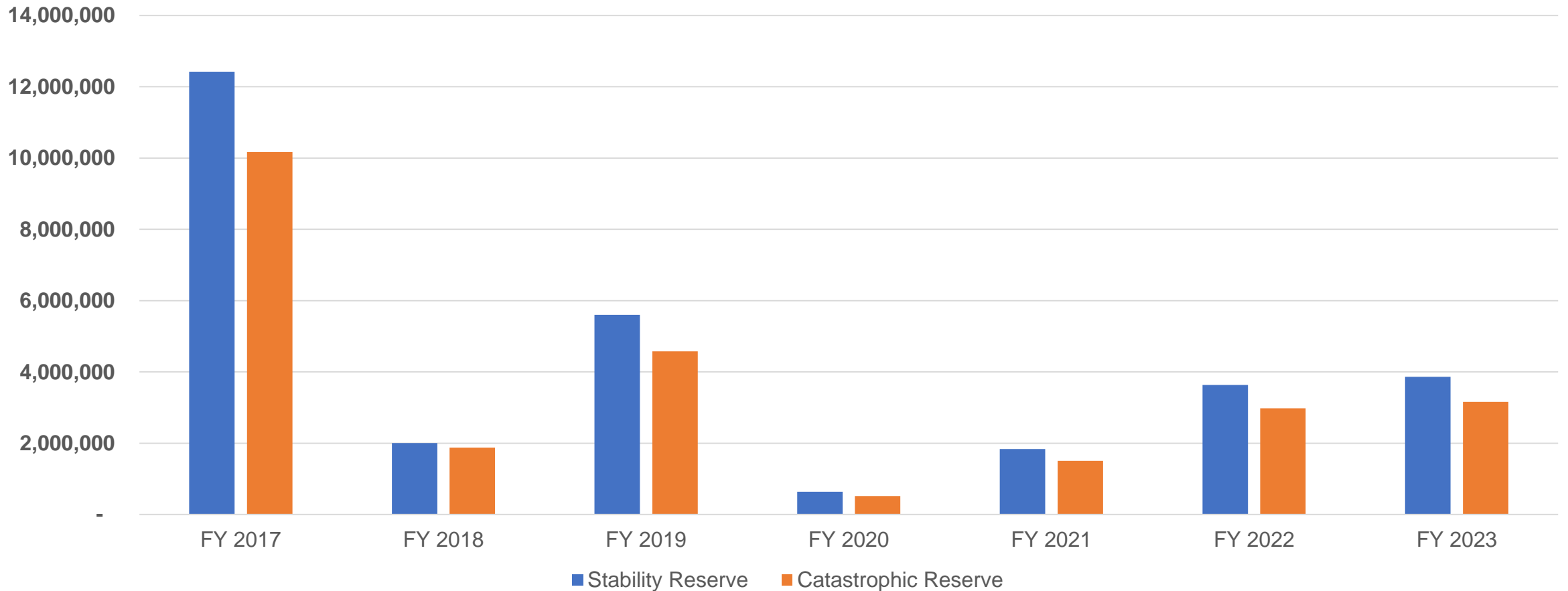
- City Auditor released report on Financial Conditions on 5/2/22
- Audit Findings
 - Near-term indicators are generally positive
 - Long-term indicators reveal some challenges
 - Long-Term Debt and Liabilities
 - Unfunded Pension and OPEB Liabilities
 - Capital Assets
- Audit includes five recommendations
- First report on implementation status to Council on 1/17/23
- Second (180 day) report on status rescheduled to 10/3/23
- Next report due in May 2024

RECOMMENDATION AND STATUS

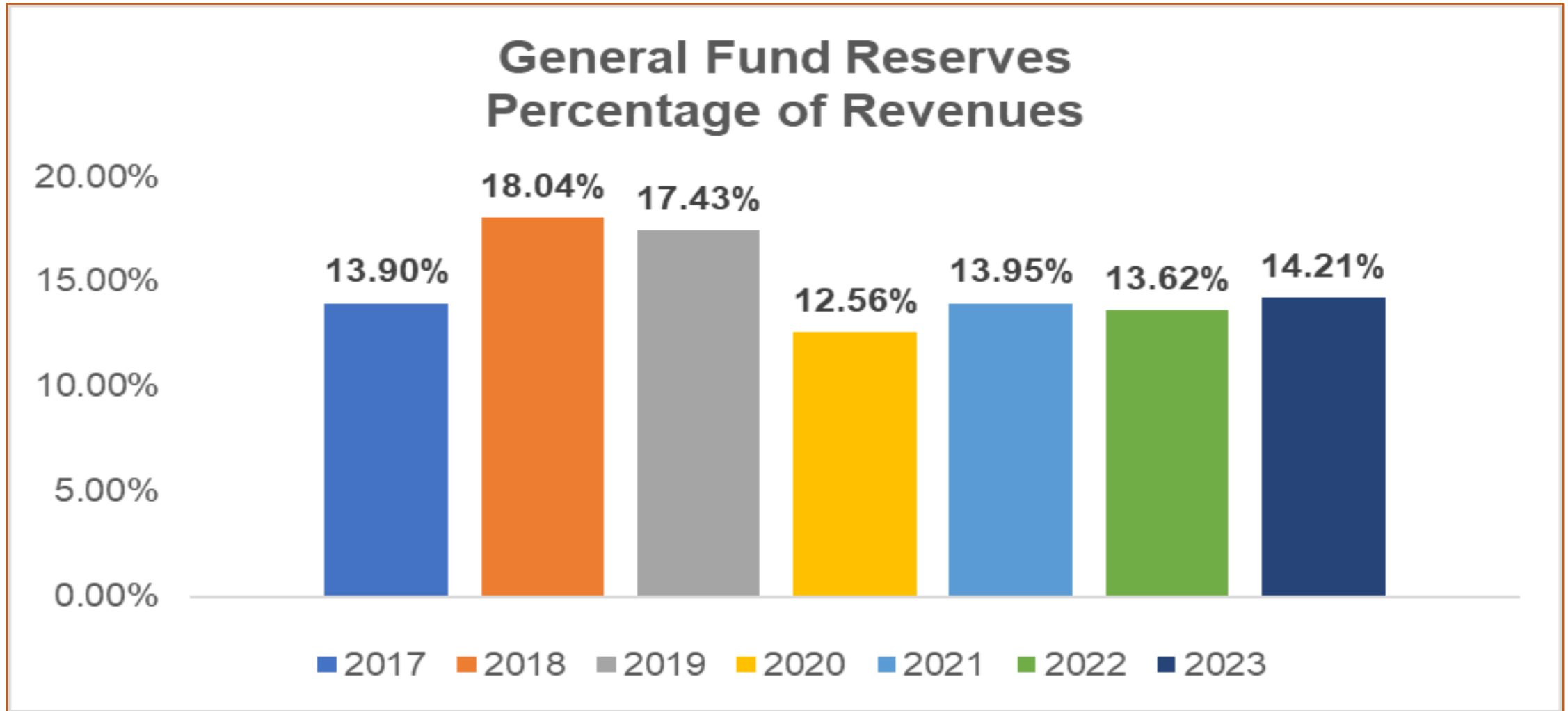
Recommendation	Complete a risk assessment and propose a plan to City Council to replenish the reserves.
Current Policy	Goal of 30% of General Fund revenue by 2027
Status	Started
Update	<p>Updating reserve policy:</p> <ul style="list-style-type: none">▪ Working with the GFOA on risk-based approach to analyzing level of reserves that considers specific risk conditions.▪ Model for exposure to extreme natural events and financial impact to City and reserves near completion. Developing model of revenue volatility. <p>Developed additional strategies for replenishing reserves:</p> <ul style="list-style-type: none">▪ Excess property transfer tax over baseline for reserves▪ 1/3 of investment revenue over baseline of \$6M to reserves <p>Contributions to Reserves:</p> <ul style="list-style-type: none">▪ Pre-funded reserves in FY 23 of \$5.5M; unable to fund in FY 24▪ FY 22 excess equity calculation added \$1.5M in FY 23▪ 1/3 of investment over baseline anticipated to reserves in FY 23

GENERAL FUND RESERVE CONTRIBUTION

General Fund Contribution to Reserves



GENERAL FUND RESERVE STATUS



RECOMMENDATION AND STATUS

Recommendation	Assess appropriate fund balance for enterprise funds, report findings to Council, and explore financial policy options.
Current Policy	No policy at this time
Status	Started
Update	<ul style="list-style-type: none">Formed working group with affected departments to begin research on best practices and development of policies. Different approaches based on percentage of revenue, percentage of expenditures, cost to sustain operations

RECOMMENDATION AND STATUS

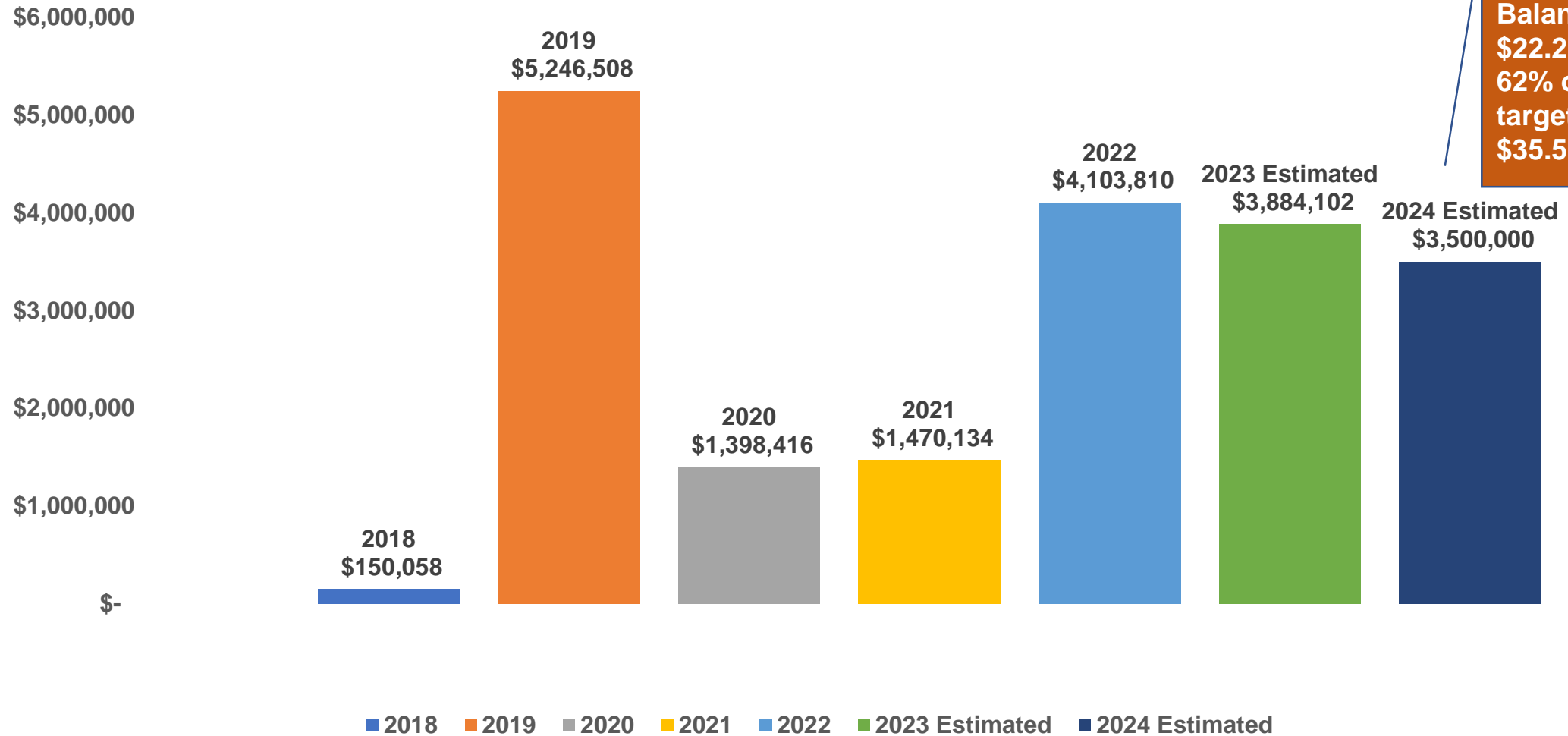
Recommendation	Update the Debt Management Policy.
Current Policy:	The City is subject to debt capacity limit for its general obligation bonds: 6% of assessed value
Status	Completed
Update	<ul style="list-style-type: none"><li data-bbox="861 625 2433 743">▪ Council adopted revisions to Debt Management and Disclosure Policy on 6/27/23 that changed debt capacity from 15% to 6%

RECOMMENDATION AND STATUS

Recommendation	Present a plan for adoption by the City Council to assure sufficient contributions to the Section 115 Trust.
Current Policy:	Savings from prepayment of CalPERS unfunded liability payment to Trust; 1/3 of investment revenue over baseline of \$6M to Trust
Status	Partly implemented
Update	<ul style="list-style-type: none">▪ Council adopted fiscal policies on 6/28/22 to fund the Trust▪ Consulted with actuarial on contribution goal of \$5.5M annually▪ Started initial research to develop a policy on use of Trust

SECTION 115 TRUST STATUS

Section 115 Trust Contributions by Fiscal Year



RECOMMENDATION AND STATUS

Recommendation	Implement a funding plan to reduce unfunded capital and deferred maintenance needs and prevent excessive deferred maintenance costs in the future.
Current Policy:	1/3 of investment revenue over baseline of \$6M to capital; increase of \$8M of General Fund to street maintenance over baseline
Status	Partly implemented
Update	<ul style="list-style-type: none">▪ Council adopted fiscal policies on 6/28/22 to allocate 1/3 of investment revenue over baseline for capital infrastructure plan.▪ Council adopted a fiscal policy for street maintenance allocation from the General Fund on 7/26/22.

CONCLUSION

■ **Implementation status**

- Continuing work on General Fund Reserves analysis and updated policy
- Maintained contribution to Trust in FY 23 & FY 24; pre-fund reserves in FY 23
- Utilize fiscal policies that were adopted on 6/28/22 with Biennial Budget
- Updated debt management policy

■ **Next steps**

- Determine contributions to reserves and trust based on FYE 2023
- Update and develop policies with Budget and Finance Policy Committee
- Continue to explore funding strategies for liabilities and infrastructure needs
- Next report in May 2024

■ **Questions and Discussion**