



Office of the City Manager

SUPPLEMENTAL AGENDA MATERIAL for Supplemental Packet 2

Meeting Date: April 26, 2022

Item Number: 32

Item Description: Issuance of \$40,000,000 General Obligation Bonds for Measure O – Affordable Housing

Submitted by: Henry Oyekanmi, Director of Finance

This supplemental material contains the most current Preliminary Official Statement and the S&P rating that was issued on 4/21/2022 for the bond. The Disclosure Working Group has reviewed and approved all the preliminary Official Statements.

CITY OF BERKELEY DEBT MANAGEMENT AND DISCLOSURE POLICY JANUARY 2017

I. INTRODUCTION

The policies set forth in this Debt Management Policy (the “Policy”) have been developed to provide clear and comprehensive guidelines for the issuance and financial management of the debt portfolio of the City of Berkeley and any other entity for which the City Council acts as legislative body, and the term “City” shall refer to each of such entities. This policy confirms the commitment of the City Council, management and staff and other decision makers to adhere to sound financial management practices, including full and timely repayment of borrowings, achieving the lowest possible cost of capital within prudent risk parameters. This Policy is not intended to be so restrictive that it interferes with the City’s legitimate efforts to prudently provide public services and facilities.

This Policy is intended to comply with Government Code Section 8855(i), effective January 1, 2017.

Purpose and Goals:

The purpose of the Policy is to provide a functional tool for debt management and capital planning, as well as to enhance the Cities ability to manage its debt obligations and lease financings (collectively referred to as “debt” in this Policy) in a conservative and prudent manner. In following this Policy, the Cities shall pursue the following goals:

- The City shall endeavor to attain the best possible credit rating for each debt issue in order to reduce interest costs while preserving financial flexibility and meeting capital funding requirements.
- The City shall take all practical precautions and proactive measures to avoid any financial decision that will negatively impact current credit ratings on existing or future debt issues.
- The City shall remain mindful of its statutory debt limit in relation to assessed value growth and the tax burden needed to meet long-term capital requirements.
- The City shall consider market conditions and City cash flows when timing the issuance of debt.
- The City shall determine the amortization (maturity) schedule which will best fit with the overall debt structure of the City at the time the new debt is issued.
- The City shall match the term of the issue to the useful lives of assets whenever practicable and economic, while considering repair and replacement costs of those assets to be incurred in the future.
- The City shall, when planning for the issuance of new debt, consider the impact of such new debt on overlapping debt of local, state and other governments that overlap with the City.
- The City shall, when issuing debt, assess financial alternatives to include new and innovative financing approaches, including whenever feasible categorical grants, revolving loans or other State/federal aid, so as to minimize the contribution from the City’s General Fund.

- The City shall, when planning for the sizing and timing of debt issuance, consider its ability to expend the funds obtained in a timely, efficient and economical manner.

II. SCOPE

The guidelines established by this policy will govern the issuance and management of all debt funded for short and long term capital financing needs and cash flow needs. The Finance Department recognizes that changes in the capital markets and other unforeseen circumstances may require exception to this Policy, for which approval from the City Council will be necessary for implementation. The Policy may be amended by the City Council as it deems appropriate from time to time in the prudent management of the debt of the City. Any approval of debt by the City Council that is not consistent with this Policy shall constitute a waiver of this Policy.

III. DELEGATION OF AUTHORITY

Pursuant to the provisions of Sections 37209 and 40805.5 of the Government Code of the State of California, the Finance Director (Director of Finance) shall be the head of the finance department and shall be responsible for all of the financial affairs of the City. This Policy grants the Finance Director the authority to select the financing team, coordinate the administration and issuance of debt, communicate with the rating agencies, as well as to fulfill all the pre-issuance and post-issuance disclosure information.

The Finance Director or designee will select various Financing Team Members. Below is a brief description of the main Financing Team, along with their functions.

1. Municipal Advisor

- Assists with capital planning and long term planning
- Coordinates the financing and debt issuance process
- Helps evaluate underwriter proposals and provides financial analysis and recommendations
- Assists with the securing of other professional services and other members of the financing team
- Monitors and evaluates market conditions for opportunities to issue debt at low interest rates
- Works with the City and Underwriter to develop investor outreach and market approach
- Manages competitive bid process
- Ensures negotiated prices are “fair” and reasonable in the marketplace.

2. Bond Counsel

- Prepare an approving legal opinion
- Provide expert and objective legal opinion and advice
- Prepare and review documents necessary to authorize, issue sale and delivery of the bonds as well as coordination of the authorization and execution of closing documents
- Review legal issues relating to the structure of the bond issue
- Prepare election proceedings or pursue validation proceedings if necessary
- Review or prepare those sections of the official statement that relate to the Bonds, financing documents, bond counsel opinion and tax exemption
- Assist the City in presenting information to bond rating organizations and credit enhancements providers relating to legal issues affecting the issuance of the Bonds
- Review or prepare the Notice of Sale of Bond Purchase Contract for the Bonds and review or draft the continuing disclosure undertaking of the City
- Post-issuance advice for bond covenant compliance, when requested

3. Disclosure Counsel

- Assists the City with preparing a disclosure document in connection with a public offering of debt.
- Provide expert and objective legal opinion and advice on federal securities laws
- Post-issuance advice for bond covenant compliance, when requested

4. Underwriter

- Provide the City with market knowledge
- Assist with credit analysis and preparation
- Premarketing of the Bonds
- Pricing and Sale of Bonds
- Trading of the Bonds

5. Trustee/Fiscal Agent/Paying Agent

- Establishes and holds the funds and account relating to the bond issue
- Maintains the list of names and addresses of all registered owners of the bonds and recordings of transfers and exchanges of the bonds
- Acts as the authenticating agent
- Acts as the paying agent
- Protects the interests of the bondholders by monitoring compliance with covenants and acts on behalf of the bondholders in the event of default.
- As the escrow agent holds the investments acquired with the proceeds of an advance refunding and uses those funds for payments on those investments to pay debt service of the refunding bonds
- As a dissemination agent, acts on behalf of the issuer or other obligated person to disseminate annual reports and event notices to repositories under SEC Rule 15c12-12

IV. TYPES OF DEBT

The following are types of debt the City could issue:

1. New Money Debt

New money debt is debt issued to finance the cost of capital improvement project or other large or extraordinary costs as approved by the City Council.

2. Refunding Debt

Refunding debt is debt issued to refinance (refund) previously issued outstanding debt. The City may issue refunding debt to refinance the principal and of and interest on outstanding bonds or other debt to achieve debt service savings, restructure schedule debt service or convert from variable to fixed interest rate, change or modify the source(s) of payment and security for the refunded debt, or modify covenants otherwise binding upon the City. Refunding may be issued on either on a current or advance basis under federal tax law.

3. Revenue Debt

Revenue debt is generally issued for enterprise funds that are financially self-sustaining without the use of general fund revenue sources and therefore rely on the revenues collected by the enterprise fund to repay the debt.

4. Land-Secured Debt

Examples of land-secured debt include special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under

applicable assessment statutes. Land-secured debt is payable from special taxes or assessments that the City will levy on the secured property tax roll.

5. General Obligation (GO) Bonds

In California, GO Bonds require a supermajority voter approval. Most GO bonds are backed by the issuer's ability to level ad valorem tax in amounts sufficient to meet debt service.

6. Lease Financings

Lease revenue bonds, certificates of participation (also known as "COPs") and lease-purchase transactions are examples of lease financings. Lease financings are typically used when the City wishes to pay for debt with its general fund.

7. Bond Anticipation Notes, Grant Anticipation Notes

This type of debt is issued to finance a project in anticipation of other funding sources becoming available at a later time.

8. Tax and Revenue Anticipation Notes (TRAN)

A TRAN is issued when the City's anticipated operating revenues are not available when the City's operating expenses need to be paid, which is a common operational challenge for California cities given the irregular distribution of sales tax and property tax revenues.

9. Tax Increment Financings

Tax increment financing may be used to the extent available under California law.

10. Conduit Financings

The City may agree to provide conduit financing for specific public purposes, such as financings for affordable rental housing and qualified 501c3 organizations. In a conduit financing, the debt is typically repaid with non-City revenues.

V. DEBT TERM

The City Council recognizes that new debt obligations may impact the long-term affordability of all outstanding debt and any future planned debt, as well as budgetary impacts associated with the maintenance and operating costs of debt-financed facilities.

Term of Debt – Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future beneficiaries or users. Debt shall not be issued for a term that exceeds the useful life of the debt-financed asset.

Debt Repayment – Typically the City desires level debt service payments over the term of the debt. However, the cost of capital, financial risk, current economic conditions, future financial flexibility, credit rating and available cash flow will be evaluated to determine the most appropriate method of debt amortization for each debt issue. Notwithstanding the above, back loading of debt service will be evaluated as the circumstances dictate. Back loading occurs when debt service payments are lower in the initial years of a debt term and higher toward the later years of a debt term.

VI. DEBT ISSUANCE

The City has the capacity to issue long and short-term debt and to refund any outstanding debt. The following section details the purposes for debt issuance, the method of sale for such debt and the practices for obtaining professional assistance in the debt issuance process.

Long-term debt – Long-term debt may be used to finance the acquisition or improvement of land, infrastructure, facilities or equipment for which it is appropriate to spread the costs of such over more than one budget year. Long-term debt may be used to fund capitalized interest, cost of issuance, required reserves and any other financing related costs that may be legally capitalized. Long-term debt should not be used to fund City operating costs.

Short-term debt – Short-term debt will be considered as an interim source of funding in anticipation of long-term debt. Short-term may be issued for any purpose for which long-term debt may be issued, including capitalized interest and financing-related costs. Short-term debt is also appropriate to address legitimate short-term cash flow requirements during a given fiscal year to fund the operating costs of the City to provide necessary public services. The City will not engage in short-term borrowing solely for the purpose of generating investment income.

Refunding – Refunding opportunities will be identified by periodic review of outstanding debt obligations. Refunding will be considered when there is a net economic benefit from the refunding. Non-economic refundings may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer or other non-economic factors related to the debt.

Method of sale – Debt is typically issued under either a competitive or a negotiated sale, but also may be sold in a private placement. The City shall have the flexibility to determine which method of sale is appropriate for each debt issuance. Determination of the appropriate method of sale will rest collectively with the City Manager, Finance Director and City Attorney. There are a number of market factors that will affect the success of a debt offering and each should be carefully considered before selecting a method of sale. These factors include, but are not limited to, 1) market perception of the City’s credit quality, 2) interest rate volatility, 3) size of the proposed issue, 4) complexity of the proposed issue and 5) competition with other issuers for investor interest (bond supply).

Pooled Financing – The City may also consider the use of pooled financing as a method of accessing the capital markets. Use of pooled financing will be evaluated collectively by the City Manager, Finance Director and City Attorney on a case-by-case basis.

VII. DEBT CAPACITY

The City is subject to debt capacity limit for its general obligation bonds: 15% of assessed value.

For non-general obligation bonds, determining what the City’s debt capacity is at any point in time is difficult. It depends on a number of factors including market conditions, amount of undesignated fund balance in the General Fund, fluctuating cash balances, financial policies, management and staff experience, new or existing revenues to support additional debt and availability of financial consultants to assist in the financial analysis. In the development of this Policy, the goal is to serve as a framework within which the City can evaluate each potential debt issuance.

VIII. PERFORMANCE STANDARDS

The City of Berkeley strives to maintain “investment grade” standings in the municipal market. Below is an Investment Grade Table of the three (3) major rating agencies:

Moody’s Investors Service Inc.	Standard & Poor’s Corporation	Fitch Investors Service Inc.	Definition
Aaa	AAA	AAA	Highest rating assigned Very

			Strong security
Aa	AA	AA	Very strong security, Only slightly below the best rating
A	A	A	Average security but more subject to adverse financial and economic developments
Baa	BBB	BBB	Adequate capacity to secure debt. Adverse developments may affect ability to meet debt service requirements.

Note: Mood's use the designation "1" to indicate a greater strength with the "Baa" "A" and "Aa" categories. Standard and Poor's and Fitch use "+" and "-" to indicate relative strength or weakness in the "BBB", "A", and "AA" categories.

IX. RELATIONSHIP OF DEBT TO OTHER CITY POLICIES

A. Relationship of Debt to Capital Improvement Program and Budget

The City is committed to long-term capital planning. The City intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the City's capital budget and the capital improvement plan.

The City will integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the City's public purposes.

The City shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

B. Policy Goals Related to Planning Goals and Objectives

The City is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The City intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the City's annual operations budget.

X. ON-GOING DEBT ADMINISTRATION

The Finance Director will regularly review the City's outstanding obligations, particularly in declining interest rate environment. When rates begin to approach levels at which refunding is cost effective, the City shall select a financing team to begin preparations for a refunding issue.

Use of Debt Proceeds

The Finance Director and other appropriate City personnel shall:

- Monitor the use of debt proceeds and the use of debt-financed assets (e.g., facilities, furnishings or equipment) throughout the term of the debt (and in some cases beyond the term of the debt) to ensure compliance with covenants and restrictions set forth in applicable City resolutions and Tax Certificates;

- Maintain records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of debt;
- Employ appropriate internal controls and redundancy of review to ensure all approved contracts and expenditures are consistent with the terms of the bond sale and ballot language by following the City's established work flow procedures;
- Consult with Bond Counsel and other professional expert advisers in the review of any contracts or arrangements involving use of debt-financed facilities to ensure compliance with all covenants and restrictions set forth in applicable City resolutions and Tax Certificates;
- Maintain records for any contracts or arrangements involving the use of debt-financed facilities as might be necessary or appropriate to document compliance with all covenants and restrictions set forth in applicable City resolutions and Tax Certificates; and
- Meet at least annually with personnel responsible for debt-financed assets to identify and discuss any existing or planned use of debt-financed assets to ensure that those uses are consistent with all covenants and restrictions set forth in applicable City resolutions and Tax Certificates.

All relevant records and contracts shall be maintained as described below.

Record Keeping Requirements

Unless otherwise specified in applicable City resolutions or Tax Certificates, the City shall maintain the following documents for the term of each issue of debt (including refunding debt, if any) plus at least three years:

- A copy of the debt closing transcript(s) and other relevant documentation delivered to the City at or in connection with closing of the issue of debt;
- A copy of all material documents relating to capital expenditures financed by debt proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, as well as documents relating to costs reimbursed with debt proceeds and records identifying the assets or portion of assets that are financed or refinanced with debt proceeds;
- Copies of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements.

Arbitrage Rebate

The use and investment of tax-exempt debt proceeds must be monitored to ensure compliance with arbitrage restrictions. Existing regulation require that issuers calculate rebate liabilities related to tax-exempt debt issues, with rebates paid to the Federal Government every five years and otherwise required by applicable provisions of the Internal Revenue Code and regulations. The Finance Director shall contract with a specialist to ensure that proceeds and investments are tracked in a manner that facilitates accurate, complete calculations and if necessary timely rebate payments.

XI. Disclosure Policy

Purpose

These disclosure policies and procedures are intended to (a) ensure that the City complies with federal securities laws as they relate to initial disclosure, (b) ensure that the City's Continuing Disclosure Documents (as defined below) are accurate and comply with all applicable federal and state securities laws, and (c) promote best practices regarding the preparation of the City's initial disclosure documents and Continuing Disclosure Documents.

Definitions

1. "Continuing Disclosure Documents" means (a) annual continuing disclosure reports filed with the MSRB and (b) event notices and any other filings with the MSRB.
2. "EMMA" means the MSRB's Electronic Municipal Market Access website.
3. "MSRB" means the Municipal Securities Rulemaking Board.
4. "Official Statements" means preliminary and final official statements, private placement memoranda and remarketing memoranda relating to the City's securities, together with any supplements, for which a continuing disclosure obligation is required.

Disclosure Working Group

Composition. The Disclosure Working Group consists of the Finance Director, who is designated as the Chief Disclosure Officer, the Accounting Manager, who is the Disclosure Coordinator and other internal City staff that are pertinent to the disclosures. The Finance Director has general oversight over the entire continuing disclosure process. Membership in the Disclosure Working Group shall be augmented by the Finance Director and consist of persons relevant to the disclosure process.

The Disclosure Working Group shall consult with external professionals (such as those with expertise as bond counsel, tax counsel, disclosure counsel and municipal advisor) or other interested parties as the Disclosure Working Group determine is advisable related to continuing disclosure issues and practices. Meetings of the Disclosure Working Group may be held in person or via conference call.

The Disclosure Working Group is an internal working group of City staff.

Responsibilities. The Disclosure Working Group is responsible for:

- a. Reviewing and approving all Preliminary and Final Official Statements before such documents are posted;
- b. Reviewing and approving all continuing disclosure undertakings as contained in the City's Preliminary and Final Official Statements before such documents are posted;
- c. Reviewing annually the City's status and compliance with continuing disclosure undertakings including filings of Annual Reports and Notices of Listed Events;
- d. Reviewing any items referred to the Disclosure Working Group; and
- e. Evaluating the effectiveness of this Disclosure Policy.

Official Statements. The Disclosure Coordinator of the City shall review any Official Statement prepared in connection with any debt issuance by the City in order to ensure there are no

misstatements or omissions of material information in any sections that contain descriptions of information prepared by the City.

In connection with its review of the Official Statement, the Disclosure Coordinator shall consult with third parties, including outside professionals assisting the City, and all members of City staff, to the extent that the Disclosure Coordinator concludes they should be consulted so that the Official Statement will include all “material” information (as defined for purposes of federal securities law).

As part of the review process, the Disclosure Coordinator shall submit all Official Statements to the Disclosure Working Group. The Disclosure Working Group, after determining that it meets the requirements of federal tax law, shall instruct the Disclosure Coordinator to send the Official Statement to the City Council for approval. The cover letter used by the Disclosure Coordinator to submit the Official Statements shall be in substantially the form of Attachment 1.

The approval of an Official Statement by the City Council shall be docketed as a new business matter and shall not be approved as a consent item. The City Council shall undertake such review as deemed necessary by the City Council, following consultation with the Disclosure Coordinator, to fulfill the City Council’s responsibilities under applicable federal and state securities laws. In this regard, the Disclosure Coordinator shall consult with the City’s disclosure counsel to the extent the Disclosure Coordinator considers appropriate.

Continuing Disclosure Filings

Overview of Continuing Disclosure Filings

1. Under its continuing disclosure undertakings it has entered into in connection with its debt offerings, the City is required to file annual reports (“Annual Reports”) with the MSRB’s EMMA system. Such Annual Reports are required to include the City’s audited financial statements and certain updated financial and operating information (or may incorporate by reference publicly-available documents that contain such information).
2. In accordance with each continuing disclosure undertaking, if audited financial statements are not available by the date the Annual Report is required to be filed, unaudited financial statements are to be included in such Annual Report and audited financial statements shall be filed when such statements become available. If unaudited financial statements are filed, the cover page may include a disclaimer stating that such financial statements are unaudited and are subject to adjustments and modifications, the result of which will be presented in the audited financial statements. In addition, in accordance with the applicable continuing disclosure undertaking, the City shall file or cause to be filed a notice of any failure to provide its Annual Report on or before the date specified in a Continuing Disclosure Document.
3. The City is also required under its continuing disclosure undertakings to file notices of certain events on EMMA (“Notices of Listed Events”).

The CAFR will serve as the repository for statements of indebtedness. The fiscal year debt statements in each CAFR certify the amount of (i) new debt issued, (ii) debt outstanding, (iii) debt authorized but not issued (iv) assessed valuation and (v) outstanding debt expressed as a percentage of assessed valuation, each as of the end of the fiscal year to which the CAFR relates.

The City shall prepare or cause to be prepared appropriate disclosures as required by Securities and Exchange Commission Rule 15c2-12, the federal government, the State of California, rating agencies, bond insurers, underwriters, bond counsel, investors, taxpayers, and other persons or entities entitled

to disclosure to ensure compliance with applicable laws and regulations and agreements to provide ongoing disclosure.

Public Statements Intended to Reach Financial Markets

Whenever the City makes statements or releases information relating to its finances to the public that are reasonably expected to reach investors and the trading markets, the City is obligated to ensure that such statements and information are complete, true, and accurate in all material respects.

Training

The Disclosure Coordinator shall ensure that the members of the City staff involved in the initial or continuing disclosure process and the City Council are properly trained to understand and perform their responsibilities.

The Disclosure Coordinator shall arrange for disclosure training sessions conducted by the City's disclosure counsel. Such training sessions shall include education on these Disclosure Procedures, the City's disclosure obligations under applicable federal and state securities laws and the disclosure responsibilities and potential liabilities of members of the City's staff and members of the City Council. Such training sessions may be conducted using a recorded presentation.

XII. DEBT MANAGEMENT AND DISCLOSURE POLICY REVIEW

The Finance Director shall review this Debt Management and Disclosure Policy at a minimum of every five (5) years or as required by law and recommend any changes to the City Manager and City Council.

RatingsDirect®

Summary:

Berkeley, California; Appropriations; General Obligation

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Berkeley, California; Appropriations; General Obligation

Credit Profile

US\$40.0 mil GO bnds (2018 Election Measure O: Affordable Hsg)(Federally Taxable) ser 2022B dtd 05/24/2022 due 09/01/2052

Long Term Rating

AA+/Stable

New

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Berkeley, Calif.'s anticipated \$40 million 2022 series B general obligation (GO) bonds (2018: Election Measure O: Affordable Housing; federally taxable). In addition, S&P Global Ratings affirmed its 'AA+' long-term rating and underlying rating (SPUR) on Berkeley's general obligation (GO) debt outstanding, and its 'AA' long-term rating on the city's certificates of participation (COPs) and lease revenue bonds (LRBs) outstanding. The outlook is stable.

Revenue from an unlimited ad valorem tax on all taxable property in the city secures the 2022 GO bonds and GO bonds outstanding. The city has the power and obligation to annually levy these taxes for the bonds. Proceeds from the 2022 GO bonds will be used to finance the improvement and acquisition of affordable housing.

The LRBs and COPs outstanding, are payable from any source of available funds from the city to the Berkeley Joint Powers Financing Authority for use of real property in the city. The LRBs are a lease-leaseback agreement, whereby the city leases the property to the authority and the authority leases it back to the city. Our ratings on the city's LRBs and COPs are one notch below the city GO rating to reflect appropriation risk.

We calculate that the city will have approximately \$285 million in governmental debt outstanding, including institutionally linked tax increment and special assessment debt, at the end of fiscal 2022.

Credit overview

The city's location on the San Francisco Bay in Alameda County anchors credit quality, with participation in the broad and diverse San Francisco-Oakland-Hayward metropolitan statistical area helping strengthen the city's robust local economy. In addition, the presence of the University of California, Berkeley, campus serves as a stabilizing institutional influence for the local economy. However, the COVID-19 economic impact had direct financial effects on the city, leading the city to initially forecast a general fund shortfall in fiscal 2021. Revenue sources, such as transient occupancy taxes and sales taxes, recognized declines beginning in 2020 but have begun to recover to pre-pandemic levels as a result of high COVID-19 vaccination rates, which eased the lifting of most public health controls in March 2022, and an increase in economic activities, which has bolstered sales tax revenue. The city expects to receive the second half of its federal stimulus allocation in May 2022, which should provide additional revenue flexibility and support the maintenance of a strong financial position for the next two years.

The rating further reflects our view of the city:

- Extraordinarily strong income profile and resilient residential real estate demand during the past two years despite pandemic conditions' with property tax revenue growing nearly 5% in fiscal 2021;
- Strong management, with multiple reserve-filling mechanisms and robust financial planning practices; and
- Weak debt and contingent liability profile characterized by a large pension and other postemployment benefit (OPEB) obligation and the likelihood of additional GO issuances under existing authorizations.

Environmental, social, and governance

We believe that exposure to environmental risks is elevated, specifically with regard to earthquakes and sea level rise. The city has managed seismic risk through the use of robust building codes along with a program that allows residential property owners to use certain taxes payable to the city to retrofit properties, and is managing sea level rise through a project that will consider responses to various sea-level rise scenarios. Social risk is also above average, in our view, with individuals experiencing homelessness and high housing costs that put more people at risk of homelessness, especially during economic downturns. We believe that housing and services for individuals experiencing homelessness will continue to affect expenditures and remain a factor in budget decisions. We consider the city's governance risks in line with the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if performance and budgetary flexibility were to weaken or if reserves were to fall to levels we no longer considered comparable to those of similarly rated peers.

Upside scenario

We could raise the ratings if the debt burden was to moderate and if the city significantly reduced its unfunded pension liability while maintaining strong financial performance and very strong reserves.

Credit Opinion

Robust local economy anchored by the University of California, Berkeley

Berkeley is located on the east side of the San Francisco Bay, approximately 10 miles northeast of San Francisco. The University of California, on the eastern side of the city, acts as a stabilizing institution and serves as a major component of the city's economy given its status as one of the largest employers. In our view, the University of California's student population lowers income levels within the city.

The shelter-in-place orders in response to the COVID-19 pandemic directly affected the city's local economy, but economic activities and revenue are beginning to return to pre-pandemic levels. A high local vaccination rate has brought back leisure and hospitality activities, and a low COVID-19 case rate enabled local officials to lift most public health restrictions in March 2022, helping restaurant dining rooms and retail streets fill up again. A new hotel recently opened within the city's boundaries, and the University of California returned to in-person instruction spring 2022, and

this will likely allow the city to continue its trend of increasing economic activity that has been recognized through the spring.

On a macro level, S&P Global Economics expects the strong housing market may moderate in the future given continued supply chain disruptions and increases in mortgage rates, which could affect demand. For more information, see "Economic Outlook U.S. Q2 2022: Spring Chills," published March 29, 2022, on Ratings Direct.

Robust institutionalized policies and practices help the city identify long-term challenges and appear to have helped the city manage the implications of the pandemic.

Highlights of the city's approach to financial management include:

- A budget formation process that incorporates historical revenue and expenditure trends, as well as some independent revenue forecasts;
- A biannual budget process with formal revision twice per calendar year, coupled with management monitoring of budget-to-actual results on a monthly basis;
- A five-year financial forecast that is updated annually;
- A five-year capital improvement plan, updated annually as part of the budget process, that identifies all known revenue sources to support potential projects;
- A formal investment policy that details permitted instruments and portfolio objectives and includes monitoring requirements with quarterly presentations to the council;
- A basic debt policy that includes some quantitative limits but does not include robust quantitative measures or benchmarks; and
- A minimum reserve and fund balance policy of 13.8% of general fund revenue, with a longer-term goal of 30%.

Management reports that the city has adopted a five-year digital information technology strategic plan, which is intended to be updated every five years to help management implement the technological and cybersecurity needs for the city.

Resilient property values, federal support helped blunt revenue losses associated with the hospitality and retail sectors

In our opinion, Berkeley's budgetary performance profile is strong, with general fund surpluses the past three past audited fiscal years. The general fund is primarily made up of property taxes (47%), followed by business license taxes (10%) and sales taxes (8%). However, the COVID-19 economic impact had direct financial effects on the city. Revenue sources, such as transient occupancy taxes and sales taxes, recognized declines beginning in 2020. While the city adopted a formal biennial budget for fiscal years 2020 and 2021, its formal midbiennial budget update incorporated specific adjustments in response to the projected \$39 million deficit for 2021, which was resolved primarily through capital project deferrals, implementation of a hiring freeze, and use of reserves. The city has been allocated about \$68 million from the American Rescue Plan Act and has used it to help offset revenue declines. The city expects to receive the second half of its allocation in May 2022.

Based on the city's fiscal 2022 adopted budget, the city expects to finish the year with a deficit of \$14.1 million, or 6.1% of budgeted expenditures. Central to the city's budgetary challenge going into the pandemic was a local economy

strongly bolstered by the presence of the University of California, Berkeley, and a revenue structure with a significant portion of economically sensitive revenue, including business taxes, a portion of which depend on work occurring on site, transient occupancy taxes, and sales taxes. But with activity underlying core tax revenue sources recovering and estimates of an 18% sales tax increase relative to the first half of fiscal 2021, officials are increasingly confident in the long-term budgetary outlook. We expect the city to outperform its adopted fiscal 2022 budget as a result of positive revenue growth and one-time federal stimulus that should result in additional revenue flexibility.

To capture a clearer picture of routine governmental fund operations, we have adjusted general fund expenditures to support ongoing general fund transfers that support operations and maintenance in other funds.

Weak debt burden with additional debt plans in the immediate term

The city's 2022 GO bonds are the second issuance under the Measure O authorization. Following this issuance, the city will have \$57 million left under this authorization. The city plans to issue the remaining amount by 2027.

In addition, the city has \$20 million remaining under its 2016 Measure T1 authorization. According to management, the city will likely issue the remaining amount in 2024. However, the sizing has not been determined, and will likely be finalized based on capital needs.

Management also confirmed that the city has no private placement debt.

Large pension and OPEB liability could hurt financial performance in the coming years, but management is evaluating additional trust investment opportunities that could provide contribution relief

The city participated in the following plans as of June 30, 2021:

- California Public Employees' Retirement System (CalPERS) miscellaneous plan: about \$328.1 million in net liability, or 70.6% funded
- CalPERS police plan: \$169 million in net liability, or 62% funded
- CalPERS fire plan: \$80 million in net liability, or 72% funded
- Retiree Health Plan: single-employer OPEB plan with about \$41.8 million in net liability, or 43% funded

We view the city's pension and OPEB liabilities as large, partly because of the size of combined pension and OPEB carrying charges relative to operations and partly because of the low funded ratio of the OPEB and CalPERS liabilities. 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 escalation. The city is evaluating opportunities to invest more into its Section 115 Trust, which could help reduce OPEB and pension liabilities.

Strong institutional framework

The institutional framework score for California municipalities required to submit a federal single audit is strong. The city is subject to the federal single-audit requirement because it receives federal awards across at least two programs that collectively exceed \$750,000 annually. These two conditions trigger enhanced financial reporting requirements under state law.

Berkeley Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI as % of U.S.	163			
Market value per capita (\$)	200,036			
Population		116,761	121,279	121,797
County unemployment rate (%)			8.8	
Market value (\$000s)	23,356,393	22,382,522	20,787,913	
Ten largest taxpayers as % of taxable value	4.8			
Strong budgetary performance				
Operating fund result as % of expenditures		7.0	2.4	9.6
Total governmental funds result as % of expenditures		(2.2)	0.4	21.1
Very strong budgetary flexibility				
Available reserves as % of operating expenditures		38.3	45.8	49.8
Total available reserves (\$000s)		75,942	93,249	89,539
Very strong liquidity				
Total government cash as % of governmental funds expenditures		91	101	109
Total government cash as % of governmental funds debt service		2,555	2,770	2,477
Strong management				
Financial management assessment	Good			
Very weak debt and long-term liabilities				
Debt service as % of governmental funds expenditures		3.6	3.7	4.4
Net direct debt as % of governmental funds revenue	70			
Overall net debt as % of market value	3.4			
Direct debt 10-year amortization (%)	47			
Required pension contribution as % of governmental funds expenditures		14.6		
OPEB actual contribution as % of governmental funds expenditures		0.9		
Strong institutional framework				

Note: Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2021 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of April 21, 2022)

Berkeley GO		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of April 21, 2022) (cont.)		
Berkeley GO bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Berkeley GO (BAM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Berkeley Jt Pwrs Fing Auth, California		
Berkeley, California		
Berkeley Jt Pwrs Fing Auth lse rev bnds (2010 animal shelter COP refinancing)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Berkeley Jt Pwrs Fing Auth (Berkeley) 2012 rfdg lse rev bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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NEW ISSUE - FULL BOOK-ENTRY

RATING:
S&P: "AA+"

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, under existing law, the interest on the Bonds is not excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "LEGAL MATTERS – No Federal Tax Exemption."



\$ _____ *
CITY OF BERKELEY
2022 General Obligation Bonds, Series B
(2018 Election Measure O: Affordable Housing)
(Federally Taxable)

Dated: Date of Delivery

Due September 1, as shown on inside front cover

Issuance. The general obligation bonds captioned above (the "Bonds") are being issued by the City of Berkeley (the "City") under provisions of the California Government Code and under a Resolution adopted by the City Council of the City (the "City Council") on April 26, 2022 (the "Bond Resolution"). The Bonds were authorized at an election of the registered voters of the City held on November 6, 2018, which authorized the issuance of general obligation bonds for the purpose of financing the improvement and acquisition of affordable housing (the "2018 Authorization"). The Bonds are the second series of bonds to be sold and issued under the 2018 Authorization. See "THE BONDS – Authority for Issuance."

Purpose. The Bonds are being issued for the purpose of financing the improvement and acquisition of affordable housing. See "PLAN OF FINANCE – Purpose of Issue."

Security. The Bonds are general obligations of the City, payable solely from ad valorem property taxes levied by the City and collected by Alameda County (the "County"). The City Council is empowered and is obligated to annually levy ad valorem taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the City, without limitation of rate or amount (except certain personal property that is taxable at limited rates). See "SECURITY FOR THE BONDS."

Book-Entry Only. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). The Bonds are issuable as fully registered securities in denominations of \$5,000 or any integral multiple of \$5,000. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical certificates representing their interest in the Bonds. See "THE BONDS" and "APPENDIX E – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Payments. Interest on the Bonds accrues from the date of delivery and is payable semiannually on March 1 and September 1 of each year, commencing September 1, 2022. Payments of principal and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as Paying Agent, to DTC for subsequent disbursement to DTC Participants, which will remit such payments to the Beneficial Owners of the Bonds. See "THE BONDS - Description of the Bonds."

Redemption. The Bonds are subject to optional and mandatory redemption prior to maturity. See "THE BONDS – Redemption."

The following firm, serving as municipal advisor to the City, has structured this issue.



Maturity Schedule
(See inside cover)

Cover Page. This cover page contains certain information for general reference only. It is not a summary of all the provisions of the Bonds. Prospective investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to the approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the City, and subject to certain other conditions. Jones Hall is also serving as Disclosure Counsel to the City. Certain legal matters are being passed upon for the City by the City Attorney. It is anticipated that the Bonds, in book entry form, will be available for delivery by DTC in New York, New York, on or about May 24, 2022*.

The date of this Official Statement is _____, 2022.

* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

MATURITY SCHEDULE
(Base CUSIP†: _____)

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>
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C: Priced to first par optional call date of September 1, 20__.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc on behalf of The American Bankers Association. Neither the City nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond owner and the City or the Underwriter. This Official Statement and the information contained herein are subject to completion or amendment without notice.

No Offering Except by This Official Statement. No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations relating to the Bonds other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or the Underwriter.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Estimates and Projections. When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Information in Official Statement. The information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by the City.

Involvement of Underwriter. The Underwriter (as defined in “UNDERWRITING”) has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Document Summaries. All summaries of the Bond Resolution or other documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

No Securities Laws Registration. The Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Bonds have not been registered or qualified under the securities laws of any state.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the City, or the other parties described in this Official Statement, or the condition of the property within the City since the date of this Official Statement.

Website. The City maintains a website; however, the information presented on the website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

CITY OF BERKELEY

ELECTED OFFICIALS

Jesse Arreguín, Mayor
Rashi Kesarwani, Councilmember District 1
Terry Taplin, Councilmember District 2
Ben Bartlett, Councilmember District 3
Kate Harrison, Councilmember District 4
Sophie Hahn, Councilmember District 5
Susan Wengraf, Councilmember District 6
Rigel Robinson, Councilmember District 7
Lori Droste, Councilmember District 8

CITY OFFICIALS

Dee Williams-Ridley
City Manager

LaTanya Bellow
Interim Deputy City Manager

Henry Oyekanmi
Director of Finance

Paul Buddenhagen
Deputy City Manager

Farimah Brown
City Attorney

Jenny Wong
City Auditor

PROFESSIONAL SERVICES

BOND AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

MUNICIPAL ADVISOR

NHA Advisors, LLC
San Rafael, California

BOND REGISTRAR, TRANSFER AGENT, AND PAYING AGENT

The Bank of New York Mellon Trust Company, N.A.
Dallas, Texas

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APPENDIX A - FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE CITY OF BERKELEY AND ALAMEDA COUNTY

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APPENDIX C - PROPOSED FORM OF OPINION OF BOND COUNSEL

APPENDIX D - FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX E - DTC AND THE BOOK-ENTRY ONLY SYSTEM

OFFICIAL STATEMENT

\$ _____*

CITY OF BERKELEY
2022 General Obligation Bonds, Series B
(2018 Election Measure O: Affordable Housing)
(Federally Taxable)

The purpose of this Official Statement, which includes the cover page, inside cover page and attached appendices, is to set forth certain information concerning the sale and delivery of the bonds captioned above (the “**Bonds**”) by the City of Berkeley (the “**City**”). All capitalized terms used in this Official Statement, unless noted otherwise, have the meanings set forth in the Bond Resolution (as defined below).

INTRODUCTION

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The offering of Bonds to potential investors is made only by means of the entire Official Statement.

The City. The City is located in Alameda County (the “**County**”) on the east side of the San Francisco Bay, approximately 10 miles northeast of San Francisco. The City encompasses a total area of approximately 19 square miles and had an estimated January 1, 2021, population of 116,761, giving it the highest population density of any city in the East Bay. The City is defined to a large degree, both culturally and economically, by the presence of the University of California campus located on the eastern side of the City. The University of California is a major component of the City's economy, employing more than 232,500 full and part-time workers across all University of California campuses.

The City is among the oldest in California. The City was founded in 1864, incorporated as a town in 1878, and incorporated as a city in 1909. The City's charter was adopted in 1895.

See “APPENDIX A – FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE CITY OF BERKELEY AND ALAMEDA COUNTY” and “APPENDIX B – COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR YEAR ENDED JUNE 30, 2021,” for demographic and financial information regarding the City. However, it is important to understand that the Bonds described herein are voter-approved general obligations of the City payable solely from the levy and collection of ad valorem property taxes, unlimited as to rate or amount, and are not payable from the general fund of the City.

* Preliminary; subject to change.

COVID-19 Statement. The COVID-19 pandemic has resulted in a public health crisis that is fluid and unpredictable with financial and economic impacts that cannot be predicted. As such, investors are cautioned that the City cannot at this time predict the impacts that the ongoing pandemic or other public health emergencies may have on its operations and finances, property values in the City, and economic activity in the City, the State of California (the “**State**”) and the nation, among others. For more disclosure regarding the COVID-19 emergency, see “SECURITY FOR THE BONDS – COVID-19 Pandemic.”

Authority for Issuance. The Bonds are being issued under Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, and pursuant to and consistent with the Charter of the City. The City authorized the issuance of the Bonds under a Resolution adopted by the City Council of the City (the “**City Council**”) on April 26, 2022 (the “**Bond Resolution**”). The Bonds are the second series of bonds issued under the 2018 Authorization. Following the issuance of the Bonds, there will be \$_____ remaining under the 2018 Authorization.” See “THE BONDS – Authority for Issuance.”

Purpose for Issuance. The net proceeds of the Bonds will be used to finance affordable housing projects, as approved by the voters at an election held in the City on November 6, 2018 (the “**Bond Election**”) with respect to the bond measure known as Measure O. See “PLAN OF FINANCE – Purpose of Issue.”

Security and Sources of Payment for the Bonds. The Bonds are general obligations of the City payable solely from ad valorem property taxes levied by the City and collected by the County. The City Council is empowered and is obligated to annually levy ad valorem taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property that is taxable at limited rates). See “SECURITY FOR THE BONDS.”

The impact that the current COVID-19 outbreak might have on the assessed valuation of property located in the City is uncertain at this time. See “PROPERTY TAXATION – Assessed Valuations” and “SECURITY FOR THE BONDS – COVID-19 Pandemic.”

Payment and Registration of the Bonds. The Bonds will be dated their date of original issuance and delivery (the “**Dated Date**”) and will be issued as fully registered bonds, without coupons, in the denominations of \$5,000 or any integral multiple of \$5,000, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“**DTC**”), and will be available under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described below. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See “THE BONDS” and “APPENDIX E – DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Interest on the Bonds accrues from the Dated Date and is payable semiannually on March 1 and September 1 of each year, commencing September 1, 2022. See “THE BONDS – Description of the Bonds.”

Early Redemption. The Bonds are subject to optional and mandatory redemption prior to their maturity as described in “THE BONDS - Redemption.”

* Preliminary; subject to change.

Other Information. This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to in this Official Statement and information concerning the Bonds are available from the City of Berkeley City Clerk, 2180 Milvia Street, Berkeley, California 94704, (510) 981-7000. The City may impose a charge for copying, mailing and handling.

PLAN OF FINANCE

Purpose of Issue

The proceeds of the Bonds will be used to finance projects approved by more than the requisite 2/3 of City voters at the Bond Election. The abbreviated form of the ballot measure for Measure O was:

“Shall the measure to issue \$135 million in bonds to create and preserve affordable housing for low-income households, working families, and individuals including teachers, seniors, veterans, the homeless, and persons with disabilities; subject to citizen oversight and independent audits, be adopted?”

The Bonds will be the second series of bonds issued pursuant to the authority received at the Bond Election.

Sources and Uses of Funds

The estimated sources and uses of funds with respect to the Bonds will be applied as follows:

Sources of Funds

Principal Amount of Bonds
Plus: Net Original Issue Premium
Less: Underwriter’s Discount
Total Sources

Uses of Funds

Deposit to Project Fund
Deposit to Debt Service Fund
Costs of Issuance⁽¹⁾
Total Uses

(1) Includes Municipal Advisor fees, Bond Counsel and Disclosure Counsel fees, printing costs, rating agency fees and other related costs.

THE BONDS

Authority for Issuance

The Bonds are issued under Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the “**Act**”) and other applicable law, and pursuant to the City’s powers under and consistent with the Charter of the City. The City Council authorized the issuance of the Bonds pursuant to the Bond Resolution.

The net proceeds of the Bonds will be used to finance affordable housing projects, as approved by the voters at an election held in the City on November 6, 2018 (the “**Bond Election**”) with respect to the bond measure known as Measure O.

The City received authorization at the Bond Election, by an affirmative vote of more than 2/3 of the eligible voters within the City (the “**2018 Authorization**”) to issue \$135,000,000 of general obligation bonds. The Bonds are the second series of Bonds to be sold and issued under the 2018 Authorization.

Description of the Bonds

Book-Entry Form. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“**DTC**”). Purchasers of the Bonds (the “**Beneficial Owners**”) will not receive physical certificates representing their interest in the Bonds. Payments of principal of and interest on the Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants which will remit such payments to the Beneficial Owners of the Bonds.

As long as DTC’s book-entry method is used for the Bonds, the Paying Agent will send any notice of prepayment or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Bonds called for prepayment or of any other action premised on such notice.

The Paying Agent, the City, and the Underwriter of the Bonds have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Bonds.

See “APPENDIX E – DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Interest. Interest on the Bonds is payable semiannually on March 1 and September 1 of each year (the “**Interest Payment Dates**”), commencing September 1, 2022.

Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

1. a Bond is authenticated as of an Interest Payment Date, in which event it will bear interest from such date,
2. a Bond is authenticated prior to an Interest Payment Date and after the close of business on the 15th day of the month preceding the Interest Payment Date (each,

a “**Record Date**”), in which event it will bear interest from such Interest Payment Date,

3. a Bond is authenticated on or before August 15, 2022, in which event it shall bear interest from the Closing Date, or
4. at the time of authentication of a Bond, interest is in default thereon, in which event it will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Interest on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Denominations and Maturity. The Bonds shall be issued in denominations of \$5,000 each or any integral multiple of \$5,000. The Bonds mature on September 1 in the years and amounts set forth on the inside cover page hereof.

See the maturity schedule on the inside cover page hereof and “DEBT SERVICE SCHEDULE” below.

Payment

Interest on the Bonds (including the final interest payment upon maturity) is payable by check of the Paying Agent mailed to the owner thereof at such owner’s address as it appears on the Registration Books (as defined below) at the close of business on the preceding Record Date, except that at the written request of the Owner of at least \$1,000,000 aggregate principal amount of the Bonds, which written request is on file with the Paying Agent as of any Record Date, interest on such Bonds shall be paid by wire transfer on the succeeding Interest Payment Date to an account in the United States of America as shall be specified in such written request.

Principal of and premium (if any) on the Bonds is payable in lawful money of the United States of America upon presentation and surrender at the principal office of the Paying Agent.

Redemption*

Optional Redemption. The Bonds maturing on or before September 1, 20__, are not subject to redemption prior to their respective stated maturities. The Bonds maturing on or after September 1, 20__, are subject to redemption prior to maturity, at the option of the City, in whole or in part among maturities on such basis as designated by the City and by lot within a maturity, from any available source of funds, on September 1, 20__, and on any date thereafter, at a redemption price equal to 100% of the principal amount of Bonds to be redeemed together with accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Term Bonds maturing on September 1, 20__ and September 1, 20__ (the “**Term Bonds**”) are subject to redemption prior to their stated maturity date, without a redemption premium, in part by lot, from mandatory sinking fund payments on each September 1, on and after September 1, 20__, in the principal amounts as set forth in the following tables:

* Preliminary; subject to change.

\$ _____ Term Bond Due September 1, 20__

Payment Date (September 1)	Payment Amount
-------------------------------	-------------------

(Maturity)

\$ _____ Term Bond Due September 1, 20__

Payment Date (September 1)	Payment Amount
-------------------------------	-------------------

(Maturity)

If some but not all of the Term Bonds have been optionally redeemed, the aggregate principal amount of Term Bonds to be subject to Mandatory Sinking Fund Redemption in each year will be reduced on a pro rata basis in integral multiples of \$5,000, as designated in written notice filed by the City with the Paying Agent.

Redemption Procedure. The Paying Agent will cause notice of any redemption to be mailed, first class mail, postage prepaid, at least 20 days but not more than 60 days prior to the date fixed for redemption, (i) to the Securities Depositories and the Municipal Securities Rulemaking Board, and (ii) to the respective Owners of any Bonds designated for redemption, at their addresses appearing on the Registration Books (as defined below) maintained by the Paying Agent. Such mailing will not be a condition precedent to such redemption and failure to mail or to receive any such notice will not affect the validity of the proceedings for the redemption of such Bonds.

The City is entitled to send a redemption notice that declares that the redemption is conditional upon the availability of moneys to accomplish the redemption, and the City may rescind any notice of optional redemption of the Bonds by written notice to the Paying Agent on or prior to the date fixed for redemption, and the Paying Agent shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under this section. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption. The City and the Paying Agent have no liability to the Owners or any other party related to or arising from such rescission.

A redemption notice will state the redemption date and the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption, will designate the serial numbers of the Bonds to be redeemed by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, or by stating that all of the Bonds of one or more maturities have been called for redemption, and will require that such Bonds be then surrendered at the principal office of the Paying Agent for redemption at the said redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

Partial Redemption. Upon surrender of Bonds redeemed in part only, the City will execute and the Paying Agent will authenticate and deliver to the owner, at the expense of the

City, a new Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

Effect of Redemption. From and after the date fixed for redemption, if notice of such redemption has been duly given and funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption have been duly provided, such Bonds so called will cease to be entitled to any benefit under the Bond Resolution other than the right to receive payment of the redemption price, and no interest will accrue thereon on or after the redemption date specified in such notice.

Registration, Transfer and Exchange of Bonds

If the book-entry system as described above and in Appendix E is no longer used with respect to the Bonds, the following provisions will govern the registration, transfer, and exchange of the Bonds.

Registration Books. The Paying Agent will keep or cause to be kept sufficient books for the registration and transfer of the Bonds (the “**Registration Books**”), which will at all times be open to inspection by the City upon reasonable notice; and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the Bonds.

Transfer. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the principal office of the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The City may charge a reasonable sum for each new Bond issued upon any transfer.

Whenever any Bond or Bonds are surrendered for transfer, the City will execute and the Paying Agent will authenticate and deliver a new Bond or Bonds, for like aggregate principal amount.

Exchange. Bonds may be exchanged at the principal office of the Paying Agent for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The City may charge a reasonable sum for each new Bond issued upon any exchange.

Defeasance

The City has the option to pay and discharge the entire indebtedness on all or any portion of the outstanding Bonds in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of and interest on such Bonds, as and when the same become due and payable;
- (b) by irrevocably depositing, in trust, at or before maturity:
 - (i) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity;
 - or

(ii) Federal Securities (as defined below), the principal of and interest on, which when due, in the opinion of a certified public accountant delivered to the City, will provide money sufficient to pay the principal of and all unpaid interest to maturity on the Bonds to be paid, as such principal and interest become due.

(c) by delivering such Bonds to the Paying Agent for cancellation by it.

“Federal Securities” means United States Treasury notes, bonds, bills or certificates of indebtedness, or any other obligations, the timely payment of which is directly or indirectly guaranteed by the faith and credit of the United States of America.

DEBT SERVICE SCHEDULES

The following table shows the debt service schedule with respect to the Bonds (assuming no optional redemptions).

<u>Year Ending September 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
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Total

Combined Debt Service Schedule. In addition to the Bonds described herein, the City has other series of general obligation bonds and refunding bonds outstanding. The following table shows the combined debt service schedule for outstanding general obligation bonds and refunding bonds of the City following the issuance of the Bonds, assuming no optional redemptions. The following table does not show debt service for bonds that are not general obligation bonds and that are payable from other sources of funds.

Year Ending September 1	2014 Bonds	2015 Refunding Bonds	2016 Bonds	2017 Bonds	2020 Measure O Bonds	2020A Refunding Bonds	2020B Refunding Bonds	2021 Measure T-1 Bonds	The Bonds	Total Debt Service
2022	\$905,250.00	\$3,106,587.50	\$748,112.50	\$1,748,806.26	\$2,020,340.00	\$543,700.00	\$814,187.50	\$2,795,825.00		
2023	901,750.00	3,103,087.50	747,112.50	1,747,306.26	2,020,740.00	540,450.00	814,437.50	2,970,825.00		
2024	902,500.00	3,099,087.50	745,362.50	1,749,056.26	2,023,790.00	536,700.00	813,687.50	2,053,325.00		
2025	905,350.00	3,104,337.50	747,862.50	1,748,806.26	2,020,790.00	537,450.00	811,937.50	2,052,325.00		
2026	902,225.00	3,108,087.50	748,062.50	1,746,556.26	2,021,915.00	537,450.00	819,187.50	2,049,075.00		
2027	903,250.00	3,105,287.50	752,662.50	1,746,156.26	2,021,990.00	541,700.00	814,937.50	2,053,575.00		
2028	905,450.00	2,140,087.50	756,462.50	1,749,356.26	2,021,015.00	544,950.00	814,687.50	2,050,325.00		
2029	901,850.00	1,001,287.50	764,462.50	1,748,956.26	2,023,990.00	542,200.00	813,187.50	2,049,575.00		
2030	902,650.00	399,887.50	770,962.50	1,746,906.26	2,020,740.00	548,700.00	815,437.50	2,051,075.00		
2031	902,650.00	399,975.00	771,862.50	1,746,906.26	2,021,440.00	543,950.00	816,187.50	2,051,875.00		
2032	901,850.00	399,737.50	772,312.50	1,746,006.26	2,023,452.50	547,550.00	816,587.50	2,053,475.00		
2033	904,575.00	398,768.76	772,312.50	1,749,206.26	2,024,327.50	550,350.00	815,987.50	2,048,875.00		
2034	906,268.76	397,043.76	774,437.50	1,746,356.26	2,024,065.00	549,100.00	814,387.50	2,053,225.00		
2035	901,931.26	399,968.76	781,187.50	1,747,606.26	2,022,665.00	555,300.00	818,687.50	2,051,225.00		
2036	905,243.76	397,368.76	786,750.00	1,747,806.26	2,020,127.50	557,100.00	817,600.00	2,052,425.00		
2037	902,243.76	398,956.26	791,787.50	1,746,956.26	2,020,502.50	557,250.00	815,700.00	2,053,025.00		
2038	903,150.00	--	795,562.50	1,748,518.76	2,024,190.00	556,950.00	816,950.00	2,053,025.00		
2039	902,743.76	--	798,787.50	1,748,831.26	2,021,002.50	556,200.00	818,850.00	2,052,425.00		
2040	906,025.00	--	806,462.50	1,747,893.76	2,021,127.50	--	--	2,051,225.00		
2041	901,825.00	--	813,450.00	1,749,018.76	2,024,377.50	--	--	2,049,425.00		
2042	906,275.00	--	819,750.00	1,748,681.26	2,020,565.00	--	--	2,052,025.00		
2043	903,925.00	--	828,600.00	1,746,881.26	2,024,877.50	--	--	2,048,925.00		
2044	--	--	836,550.00	1,748,618.76	2,021,940.00	--	--	2,050,225.00		
2045	--	--	843,600.00	1,748,731.26	2,022,540.00	--	--	2,053,675.00		
2046	--	--	849,750.00	1,747,218.76	2,021,270.00	--	--	2,051,275.00		
2047	--	--	--	1,747,037.50	2,023,130.00	--	--	2,050,887.50		
2048	--	--	--	--	2,022,950.00	--	--	2,049,600.00		
2049	--	--	--	--	2,020,730.00	--	--	2,052,412.50		
2050	--	--	--	--	2,021,470.00	--	--	2,049,212.50		
2051	--	--	--	--	--	--	--	2,050,112.50		
Total	\$19,878,981.30	\$24,959,556.30	\$19,624,225.00	\$45,444,181.50	\$58,642,060.00	\$9,847,050.00	\$14,682,625.00	\$63,204,500.00		

SECURITY FOR THE BONDS

Ad Valorem Taxes

Bonds Payable from Ad Valorem Property Taxes. The Bonds are general obligations of the City, payable solely from ad valorem property taxes levied by the City and collected by the County. The City is empowered and is obligated to annually levy ad valorem taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City, without limitation of rate or amount (except certain personal property that is taxable at limited rates).

Levy and Collection. The City will levy and the County will collect such ad valorem taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service. Such taxes, when collected, will be deposited into a debt service fund for the Bonds, which is maintained by the City and which is irrevocably pledged for the payment of principal of and interest on the Bonds when due.

City property taxes are assessed and collected by the County in the same manner, at the same time and in the same installments as other ad valorem taxes on real property and will have the same priority, become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the other ad valorem taxes on real property. As described below, although the County has adopted the Teeter Plan, the City has elected not to participate in the Teeter Plan, meaning that the City receives all of the property taxes that are actually collected, and the City also receives any penalties and interest on delinquent taxes. See “PROPERTY TAXATION – Alternative Method of Tax Apportionment – Teeter Plan.”

Annual Tax Rates. The amount of the annual ad valorem tax levied by the City to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the City and the amount of debt service due on the Bonds. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the City may cause the annual tax rate to fluctuate.

Economic and other factors beyond the City’s control, such as economic recession, deflation of land values, a relocation out of the City or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within the City and necessitate a corresponding increase in the annual tax rate. See “PROPERTY TAXATION – Assessed Valuation – Factors Relating to Increases/Decreases in Assessed Value.” See also “— COVID-19 Global Pandemic.”

Debt Service Fund

The City will establish the Debt Service Fund for the Bonds (the “**Debt Service Fund**”), which will be established as a separate fund to be maintained distinct from all other funds of the City. All taxes levied by the City pursuant to the Bond Resolution for the payment of the principal of and interest and premium (if any) on the Bonds will be deposited in the Debt Service Fund by the City promptly upon receipt from the County. The Debt Service Fund is pledged for the payment of the principal of and interest and premium (if any) on the Bonds when and as the same become due. The City will transfer amounts in the Debt Service Fund, to the extent necessary to

pay the principal of and interest on the Bonds as the same become due and payable, to the Paying Agent, as required to pay the principal of and interest and premium (if any) on the Bonds.

If, after payment in full of the Bonds, any amounts remain on deposit in the Debt Service Fund, the City shall transfer such amounts to its General Fund, to be applied solely in a manner that is consistent with the requirements of applicable state and federal tax law.

Limited Obligation

The Bonds are payable solely from the proceeds of an ad valorem tax levied by the City, and collected by the County, for the payment of principal and interest on the Bonds. Although the County is obligated to collect the ad valorem tax for the payment of the Bonds, the Bonds are not a debt of the County.

COVID-19 Global Pandemic

General. The spread of the novel strains of coronavirus that causes the disease known as COVID-19 (“**COVID-19**”) and local, state, and federal actions in response to COVID-19, is having a significant impact on the economy and on the City’s operations and finances. On February 11, 2020, the World Health Organization (“**WHO**”) announced the official name for the outbreak of COVID-19, an upper respiratory tract illness. COVID-19 has since spread across the globe. The COVID-19 pandemic has had an adverse effect on, among other things, the world economy, global supply chain, international travel, and a number of travel-related industries. The temporary and permanent business closures caused by the COVID-19 pandemic have led to a stark increase in unemployment across the County and the nation. Depending on the length and the breadth of the impacts of the COVID-19 pandemic, the economic costs may be very significant for the City and the region’s economy. On June 8, 2020, the National Bureau of Economic Research announced that the United States of America (the “**U.S.**”) officially entered into a recession in February 2020. In addition, capital markets in the United States and globally have been volatile.

In mid-March 2020, based on guidance and directives from the State and public health agencies, all counties in the Bay Area and the City implemented and revised Shelter-in-Place (“**Shelter-in-Place**”) emergency orders or directives, which directed individuals to stay home, except for limited travel for the conduct of essential services. Most retail establishments (including restaurants, bars and nightclubs, entertainment venues and gyms) were closed in response to the Shelter-in-Place orders or directives. The Governor of the State announced similar Shelter-in-Place emergency orders effective for the entire State, which were lifted in June 2021.

In December 2020, two vaccines were approved for emergency use in the United States and vaccinations began in California. A third vaccine was approved for emergency use in February 2021. In July 2021, as a result of the Delta variant, all Bay Area counties and the City issued recommendations that all persons wear masks in indoor settings, regardless of vaccination status, and the recommendation became mandatory in August 2021. Also in August 2021, booster shots became available to all Americans. In January 2022, the Omicron variant surged in the State, and began to wane in February 2022 and on February 16, 2022, the State and the City lifted the indoor mask mandate in most public settings for vaccinated people.

Impacts of COVID-19 Emergency Uncertain. The COVID-19 pandemic is still ongoing, however, indications are strong that the pandemic is transitioning to its endemic stage though its dynamic nature leads to uncertainties. There are many variables that will continue to contribute

to the economic impact of the COVID-19 pandemic and the recovery, including the length of time social distancing measures are in place, the effectiveness of State and Federal governments' relief programs and the timing for the containment and treatment of COVID-19. The ultimate impact of COVID-19 on the City's operations and finances is not fully known, and it may be some time before the full impact of the COVID-19 pandemic is known.

General Obligation Bonds Secured by Ad Valorem Tax Revenues. Notwithstanding the impacts the COVID-19 emergency may have on the economy in the State, the County and the City or on the City's general purpose revenues, the Bonds described herein are voter-approved general obligations of the City payable solely from the levy and collection of *ad valorem* property taxes, unlimited as to rate or amount, and are not payable from the general fund of the City. The City cannot predict the impacts that the Coronavirus emergency might have on local property values or tax collections. See "SECURITY FOR THE BONDS – *Ad Valorem* Taxes" and "PROPERTY TAXATION – Tax Levies and Delinquencies" herein.

PROPERTY TAXATION

Property Tax Collection Procedures

In California, property that is subject to ad valorem taxes is classified as "secured" or "unsecured." The "secured roll" is that part of the assessment roll containing state assessed public utilities' property and property, the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

Property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. A bill enacted in 1983, SB813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, SB813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the January 1 lien date and result in increased assessed value.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A 10% penalty is also attached to delinquent

taxes in respect of property on the unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

Taxation of State-Assessed Utility Property

The State Constitution provides that most classes of property owned or used by regulated utilities are assessed by the State Board of Equalization (“SBE”) and taxed locally. Property valued by the SBE as an operating unit in a primary function of the utility taxpayer is known as “unitary property,” a concept designed to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and “operating nonunitary” property (which excludes nonunitary property of regulated railways) is allocated to the counties based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special county-wide rates and tax proceeds are distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

Assessed Valuation

Assessed Valuation History. The following is a table summarizing the historical assessed valuation of the taxable property in the City.

**Table 1
CITY OF BERKELEY
Assessed Valuations of All Taxable Property
Fiscal Years 2012-13 to 2021-22**

<u>Fiscal Year</u>	<u>Local Secured⁽¹⁾</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>	<u>Percent Change</u>
2012-13	\$12,834,926,300	\$555,664	\$673,174,230	\$13,508,656,194	--%
2013-14	13,686,258,913	555,664	677,170,723	14,363,985,300	6.33
2014-15	14,116,003,890	630,615	658,143,878	14,774,778,383	2.86
2015-16	15,224,697,461	388,860	702,428,523	15,927,514,844	7.80
2016-17	16,200,483,693	388,860	711,062,469	16,911,935,022	6.18
2017-18	17,376,072,698	443,960	809,921,331	18,186,437,989	7.54
2018-19	18,696,664,672	443,960	731,012,747	19,428,121,379	6.82
2019-20	19,926,615,530	424,880	860,872,387	20,787,912,797	7.00
2020-21	21,450,331,604	424,880	931,765,413	22,382,521,897	7.67
2021-22	22,405,866,300	513,120	950,013,132	23,356,392,552	4.35

(1) Amounts are net of homeowners' exemption.
Source: California Municipal Statistics, Inc.

Factors Relating to Increases/Decreases in Assessed Value. As indicated in the previous table, assessed valuations are subject to change in each year. Increases or decreases

in assessed valuation result from a variety of factors including but not limited to general economic conditions, supply and demand for real property in the area, government regulations such as zoning, and natural disasters such as earthquakes, fires, floods and droughts.

Earthquakes. According to the HayWired Earthquake Scenario - Earthquake Hazards Report by the U.S. Geological Survey, there is a 33% chance that an earthquake with a magnitude of 6.7 or greater will occur in the Bay Area before 2043. Such an earthquake would cause severe shaking and three types of ground failure in the City. Resulting landslides are expected in the Berkeley Hills, which could range from a few inches to tens of feet. Liquefaction, which could occur in much of the City's flat areas could destroy pavement and dislodge foundations.

If an earthquake with a 6.9 magnitude occurs on the Hayward Fault, the City estimates that over 600 buildings in the City will be completely destroyed and over 20,000 more will be damaged. The City's General Plan estimates that building damage in the City could exceed \$2 billion, with losses to business activity and infrastructure adding to this figure.

Wildfires. Wildfires have occurred in recent years in different regions of the State, the most destructive of which have burned thousands of acres and destroyed thousands of homes and structures. Many of these fires have originated in wildlands adjacent to urban areas. Although the recent wildfires have not included territory within the City's boundaries, the City is vulnerable to a wind-driven fire starting along the City's eastern border.

The City cannot predict or make any representations regarding the effects that natural disasters including but not limited to earthquakes, fires, floods, droughts and related conditions may have on the value of taxable property within the City, or to what extent the effects said disasters might have had on economic activity in the City or throughout the State. See also "SECURITY FOR THE BONDS – COVID-19 Global Pandemic."

Property Tax Base Transfer Ballot Measure. On November 3, 2020, State voters approved a constitutional amendment entitled Property Tax Transfers, Exemptions and Revenue for Wildfire Agencies and Counties Amendment ("**Proposition 19**"), which will: (i) expand special rules that give property tax savings to homeowners that are over the age of 55, severely disabled, or whose property has been impacted by a natural disaster or contamination, when they buy a different home; (ii) narrow existing special rules for inherited properties; and (iii) broaden the scope of legal entity ownership changes that trigger reassessment of properties. The City cannot make any assurance as to what effect the implementation of Proposition 19 will have on assessed valuation of real property in the City.

Assessed Valuation by Land Use. The following table shows the land use of parcels in the City, according to assessed valuation. As shown, the majority of land in the City is used for residential purposes.

Table 2
CITY OF BERKELEY
Assessed Valuation and Parcels by Land Use
Fiscal Year 2021-22

	2021-22	% of	No. of	% of
Non-Residential:	<u>Assessed Valuation</u> ⁽¹⁾	<u>Total</u>	<u>Parcels</u>	<u>Total</u>
Commercial/Office	\$2,401,859,634	10.72%	1,576	5.39%
Vacant Commercial	138,464,146	0.62	53	0.18
Industrial	1,118,271,198	4.99	407	1.39
Vacant Industrial	12,591,284	0.06	21	0.07
Recreational	46,321,029	0.21	18	0.06
Government/Social/Institutional	<u>22,454,524</u>	<u>0.10</u>	<u>650</u>	<u>2.22</u>
Subtotal Non-Residential	\$3,739,961,815	16.69%	2,725	9.33%
Residential:				
Single Family Residence	\$11,586,512,407	51.71%	17,476	59.81%
Condominium/Townhouse	1,108,274,649	4.95	2,919	9.99
Cooperative	29,994,404	0.13	103	0.35
2-4 Residential Units	2,340,096,872	10.44	4,015	13.74
5+ Residential Units/Apartments	3,516,689,332	15.70	1,496	5.12
Miscellaneous Residential	2,781,068	0.01	10	0.03
Vacant Residential	<u>81,555,753</u>	<u>0.36</u>	<u>474</u>	<u>1.62</u>
Subtotal Residential	\$18,665,904,485	83.31%	26,493	90.67%
Total	\$22,405,866,300	100.00%	29,218	100.00%

(1) Local Secured Assessed Valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Assessed Valuation of Single-Family Residential Parcels. The following table shows a breakdown of the assessed valuations of improved single-family residential parcels in the City, according to assessed valuation.

**Table 3
CITY OF BERKELEY
Per Parcel 2021-22 Assessed Valuation
of Single-Family Homes**

Single Family Residential	No. of Parcels	2021-22 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
	17,476	\$11,586,512,407	\$662,996	\$534,309

2021-22 Assessed Valuation	No. of Parcels ⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$99,999	1,748	10.002%	10.002%	\$ 115,560,420	0.997%	0.997%
\$100,000 - \$199,999	2,215	12.675	22.677	318,532,509	2.749	3.747
\$200,000 - \$299,999	1,543	8.829	31.506	385,069,141	3.323	7.070
\$300,000 - \$399,999	1,518	8.686	40.192	530,159,402	4.576	11.646
\$400,000 - \$499,999	1,301	7.444	47.637	584,231,052	5.042	16.688
\$500,000 - \$599,999	1,211	6.930	54.566	664,791,253	5.738	22.426
\$600,000 - \$699,999	1,135	6.495	61.061	737,188,649	6.362	28.788
\$700,000 - \$799,999	1,005	5.751	66.812	755,266,910	6.519	35.307
\$800,000 - \$899,999	985	5.636	72.448	835,665,228	7.212	42.519
\$900,000 - \$999,999	938	5.367	77.815	889,830,161	7.680	50.199
\$1,000,000 - \$1,099,999	709	4.057	81.872	742,356,825	6.407	56.606
\$1,100,000 - \$1,199,999	543	3.107	84.979	624,830,658	5.393	61.999
\$1,200,000 - \$1,299,999	458	2.621	87.600	570,887,184	4.927	66.926
\$1,300,000 - \$1,399,999	449	2.569	90.169	604,399,143	5.216	72.142
\$1,400,000 - \$1,499,999	349	1.997	92.166	505,298,881	4.361	76.503
\$1,500,000 - \$1,599,999	285	1.631	93.797	440,216,230	3.799	80.303
\$1,600,000 - \$1,699,999	228	1.305	95.102	375,364,942	3.240	83.542
\$1,700,000 - \$1,799,999	166	0.950	96.052	290,068,774	2.504	86.046
\$1,800,000 - \$1,899,999	139	0.795	96.847	256,403,310	2.213	88.259
\$1,900,000 - \$1,999,999	96	0.549	97.396	186,705,703	1.611	89.870
\$2,000,000 and greater	455	2.604	100.000	1,173,686,032	10.130	100.000
	<u>17,476</u>	<u>100.000%</u>		<u>\$11,586,512,407</u>	<u>100.000%</u>	

(1) Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.
Source: California Municipal Statistics, Inc.

Alternative Method of Tax Apportionment - Teeter Plan

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “**Teeter Plan**”), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to participating political subdivisions, for which the County acts as the tax-levying or tax-collecting agency. In return, the County receives and retains delinquent payments, penalties and interest as collected that would have been due the local agency in the absence of the Teeter Plan. The City has elected not to participate in the Teeter Plan, so the City receives property taxes actually collected, as well as any penalties and interest on delinquent taxes.

The property tax levies and collections for the City for fiscal years 2011-12 through 2020-21 are shown in the following table:

Table 4
CITY OF BERKELEY
SECURED TAX CHARGES AND DELINQUENCIES
2011-12 TO 2020-21
(Dollar amounts in thousands)

Fiscal Year	Secured Tax Charge ⁽¹⁾	Amount Delinquent June 30	% Delinquent June 30
2011-12	\$40,085,111.77	\$814,536.14	2.03%
2012-13	40,863,072.01	588,607.19	1.44
2013-14	43,482,172.03	491,490.18	1.13
2014-15	45,452,269.29	477,676.28	1.05
2015-16	48,936,168.63	607,465.93	1.24
2016-17	52,097,423.06	562,295.75	1.08
2017-18	56,317,983.19	488,950.31	0.87
2018-19	59,739,122.88	512,267.28	0.86
2019-20	63,775,410.84	663,946.24	1.04
2020-21	68,573,256.97	647,280.27	0.94

(1) 1% General Fund apportionment.
Source: California Municipal Statistics, Inc.

Appeals of Assessed Value

There are two types of appeals of assessed values that could adversely impact property tax revenues within the City.

Appeals may be based on Proposition 8 of November 1978, which requires that for each January 1 lien date, the taxable value of real property must be the least of its base year value, annually adjusted by the inflation factor pursuant to Article XIII A of the State Constitution, or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value.

Under California law, property owners may apply for a Proposition 8 reduction of their property tax assessment by filing a written application, in form prescribed by the SBE, with the County board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. Proposition 8 reductions may also be unilaterally applied by the County Assessor.

Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. These reductions are subject to yearly reappraisals and are adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

A second type of assessment appeal involves a challenge to the base year value of an assessed property. Appeals for reduction in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter.

The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

In certain recent years, Proposition 8 appeals resulted in changes to assessed valuation, as shown below.

<u>Year</u>	<u>Changes in Assessed Valuation</u>
2017-18	\$367,662,854
2018-19	1,125,587,690
2019-20	1,359,907,418
2020-21	1,233,243,959
2021-22	(1,335,630,976)

The City cannot predict the changes in assessed values that might result from pending or future appeals by taxpayers. Any reduction in aggregate City assessed valuation due to appeals, as with any reduction in assessed valuation due to other causes, will cause the tax rate levied to repay the Bonds to increase accordingly, so that the fixed debt service on the Bonds (and other outstanding general obligation bonds, if any) may be paid.

Tax Rates

The table below shows historical property tax rates within the City:

Table 5
CITY OF BERKELEY
TYPICAL TAX RATE PER \$100 ASSESSED VALUATION
(TRA 13-000 – 2021-22 Assessed Valuation: \$21,754,831,318 ⁽¹⁾)

	Fiscal Year <u>2017-18</u>	Fiscal Year <u>2018-19</u>	Fiscal Year <u>2019-20</u>	Fiscal Year <u>2020-21</u>	Fiscal Year <u>2021-22</u>
Countywide Rate	\$1.0000	\$1.0000	\$1.0000	\$1.0000	\$1.0000
Alameda County	--	.0112	.0108	.0036	.0041
Berkeley Unified School District Bonds	.1218	.1264	.1204	.0999	.1451
Peralta Community College District	.0310	.0269	.0257	.0452	.0407
Bay Area Rapid Transit	.0084	.0070	.0120	.0139	.0060
East Bay Municipal Utility District	.0021	--	--	--	--
East Bay Regional Park District	.0011	.0057	.0060	.0014	.0020
City of Berkeley	<u>.0492</u>	<u>.0507</u>	<u>.0435</u>	<u>.0540</u>	<u>.0529</u>
Total	\$1.2136	\$1.2279	\$1.2184	\$1.2180	\$1.2508

(1) Net of homeowners' exemption.
Source: California Municipal Statistics, Inc.

Major Taxpayers

The following table shows the twenty largest taxpayers in the City as determined by their secured assessed valuations in 2021-22.

**Table 6
CITY OF BERKELEY
Largest 2021-22 Local Secured Taxpayers**

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2021-22 Assessed Valuation</u>	<u>% of Total ⁽¹⁾</u>
1.	Bayer Healthcare LLC	Industrial	\$ 332,826,295	1.49%
2.	1500 San Pablo LLC	Apartments	158,742,094	0.71
3.	Berkeley Multifamily I Property Owner LLC	Apartments with Retail	101,471,374	0.45
4.	Granite Library Gardens LP	Apartments	93,002,964	0.42
5.	Kaiser Foundation Health Plan Inc.	Industrial/Commercial Land	81,786,607	0.37
6.	MCREF Acheson LLC	Apartments	80,732,905	0.36
7.	Hanumandla R. & Hanumandla J. Reddy, Trustees	Apartments	77,712,768	0.35
8.	CVBAF ACQ LLC	Apartments	77,591,422	0.35
9.	Parkershattuck Owner LLC	Apartments	62,246,369	0.28
10.	CLPF Hillside Village LP	Apartments	59,521,830	0.27
11.	RI Berkeley LLC	Apartments	57,673,242	0.26
12.	1950 Addison Apartment Joint Venture LLC	Apartments	56,628,028	0.25
13.	Enclave Partners DH LLC	Apartments with Retail	55,751,663	0.25
14.	CPF Berkeley Varsity LLC	Apartments	55,687,639	0.25
15.	Essex Berkeley 4th Street LP	Condominiums with Retail	53,546,305	0.24
16.	Higby JV LLC	Apartments	52,082,927	0.23
17.	Berkeley Downtown Hotel Owner LLC	Hotel	50,953,230	0.23
18.	Garr Land & Resource Management, Inc.	Industrial	45,785,259	0.20
19.	Sterling Berkeley Haste LP	Apartments	44,277,219	0.20
20.	University Park Berkeley LLC	Apartments	43,443,953	0.19
			\$1,641,464,093	7.33%

(1) 2020-21 Local Secured Assessed Valuation: \$22,405,866,300.

Source: *California Municipal Statistics, Inc.*

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the “**Debt Report**”) prepared by California Municipal Statistics, Inc. and effective March 1, 2022. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the City; (2) the second column shows the percentage that the City’s assessed valuation represents of the total assessed valuation of each public agency identified in the first column; and the third column is an apportionment of the dollar amount of each public agency’s outstanding debt to property in the City, as determined by multiplying the total outstanding debt of each agency by the percentage of the City’s assessed valuation represented in the second column.

**Table 7
CITY OF BERKELEY
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
(As of March 1, 2022)**

2021-22 Assessed Valuation: \$23,356,392,552

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/1/22</u>
Alameda County	6.738%	\$ 12,380,738
Bay Area Rapid Transit District	2.625	48,164,550
Peralta Community College District	18.303	73,069,237
Berkeley Unified School District	99.997	332,345,029
City of Berkeley	100.000	177,140,000⁽¹⁾
East Bay Regional Park District	4.192	7,775,741
City of Berkeley Thousand Oaks Heights AFUU Assessment District	100.000	910,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$651,785,295
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Alameda County and Coliseum Obligations	6.738%	\$50,842,590
Alameda-Contra Costa Transit District Certificates of Participation	7.978	929,836
Peralta Community College District Pension Obligation Bonds	18.303	23,428,688
City of Berkeley Lease Revenue Bonds and Certificates of Participation	100.000	20,420,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$95,621,114
COMBINED TOTAL DEBT		\$747,406,409⁽²⁾

Ratios 2021-22 Assessed Valuation:

Direct Debt (\$177,140,000)	0.76%
Total Direct and Overlapping Tax and Assessment Debt.....	2.79%
Combined Direct Debt (\$197,560,000)	0.85%
Combined Total Debt	3.20%_

(1) Excludes Bonds to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS

Principal of and interest on the Bonds are payable from the proceeds of an ad valorem tax levied by the City for the payment thereof. See “THE BONDS” and “SECURITY FOR THE BONDS” above. Articles XIII A, XIII B, XIII C and XIII D of the State Constitution, Propositions 62, 111, and 218 and 1A, and certain other provisions of law discussed below are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the City to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the City to levy taxes for payment of the Bonds. The tax levied by the City for payment of the Bonds was approved by the City’s voters in compliance with Article XIII A and all applicable laws.

Article XIII A of the State Constitution

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the State Constitution. Article XIII A, as amended, limits the amount of any ad valorem tax on real property to one percent of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service (i) on indebtedness approved by the voters prior to July 1, 1978, (ii) on bonded indebtedness approved by a two-thirds vote on or after July 1, 1978, for the acquisition or improvement of real property or (iii) bonded indebtedness incurred by a school district, community college district or county office of education for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities, approved by 55 percent of the voters voting on the proposition. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under “full cash value,” or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster, and in other minor or technical ways.

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100 percent of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Article XIII B of the State Constitution

In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual "appropriations limit" imposed by Article XIII B which effectively limits the amount of such revenues those entities are permitted to spend. Article XIII B, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to "proceeds of taxes," which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." "Proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds. Article XIII B also does not limit appropriation of local revenues to pay debt service on Bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity have their own appropriations limits. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Proposition 111 requires that each agency's actual appropriations be tested against its limit every two years.

If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency's taxpayers through tax rate or fee reductions over the following two years.

The City has never exceeded its appropriations limit. Because the issuance of the Bonds has been approved by the voters, the tax levy that is required to pay debt service on the Bonds is not subject to the limitations of Article XIII B.

Articles XIII C and XIII D of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 adds Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a

number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. The voter approval requirements of Proposition 218 reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

Article XIII D also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a "special benefit," as defined in Article XIII D, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. If the City is unable to continue to collect these revenues, the services and programs funded with these revenues would have to be curtailed and/or the City's General Fund might have to be used to support them. The City is unable to predict whether or not in the future it will be able to continue all existing services and programs funded by the fees, charges and assessments in light of Proposition 218 or, if these services and programs are continued, which amounts (if any) would be used from the City's General Fund to continue to support these activities.

Article XIII C also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund.

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election and (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the City be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

California appellate court cases have overturned the provisions of Proposition 62 pertaining to the imposition of taxes for general government purposes. However, the California Supreme Court upheld Proposition 62 in its decision on August 28, 1995, in *Fresno County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities. The City has not experienced any substantive adverse financial impact as a result of the passage of this initiative.

Proposition 1A

Proposition 1A, proposed by the Legislature in connection with the State's Fiscal Year 2004-05 Budget, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the motor vehicle license fee rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the City.

Proposition 22

Proposition 22, entitled "The Local Taxpayer, Public Safety and Transportation Protection Act," was approved by the voters of the State in November 2010. Proposition 22 amended the state Constitution to eliminate or reduce the State's authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues. Notwithstanding the passage of Proposition 22, the State successfully dissolved redevelopment agencies.

Possible Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D and Propositions 62, 111, 218 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

LEGAL MATTERS

No Federal Tax Exemption

Federal Tax Status. Interest on the Bonds is not excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal individual alternative minimum tax.

California Tax Status. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Other Tax Considerations. Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

Form of Opinion. A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX C.

Continuing Disclosure

The City will covenant for the benefit of owners of the Refunding Bonds to provide certain financial information and operating data relating to the City by not later than April 1 after the end of each fiscal year of the City (currently June 30), commencing April 1, 2023, with the report for the 2021-22 fiscal year (the "**Annual Report**"), and to provide notices of the occurrence of certain enumerated events.

The specific nature of the information to be contained in an Annual Report or the notices of enumerated events is set forth in the form of Continuing Disclosure Certificate attached as APPENDIX D. These covenants will be made in order to assist the Purchaser (as defined below) in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "**Rule**").

The City and its related governmental entities have previously entered into numerous disclosure undertakings under the Rule in connection with the issuance of long-term obligations. See Note 8 of the City's Comprehensive Annual Financial Report attached to this Official Statement as APPENDIX B.

In the previous five years, the City failed to timely file a material event notice in connection with changes to the credit rating for one series of the City's bonds. [TO BE UPDATED/CONFIRMED]

To ensure future compliance with its continuing disclosure undertakings, the City has developed procedures for including all required continuing disclosure information in the supplementary section of its audited financial statements. In addition, the City has engaged NHA Advisors, LLC, to review this information annually to ensure compliance with its continuing disclosure undertakings, including the undertaking to be entered into in connection with the Refunding Bonds.

Neither the County nor any other entity other than the City shall have any obligation or incur any liability whatsoever with respect to the performance of the City's duties regarding continuing disclosure.

Absence of Material Litigation

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished to the purchasers at the time of the original delivery of the Bonds. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the City's ability to receive ad valorem taxes or to collect other revenues or contesting the City's ability to issue and repay the Bonds.

The City is routinely subject to lawsuits and claims. In the opinion of the City, the aggregate amount of the uninsured liabilities of the City under these lawsuits and claims will not materially affect the financial position or operations of the City. The City may be or may become a party to lawsuits and claims which are unrelated to the Refunding Bonds or actions taken with respect to the Bonds and which have arisen in the normal course of operating the City, including as a result of the COVID-19 pandemic. The City maintains certain insurance policies which provide coverage under certain circumstances and with respect to certain types of incidents. The City cannot predict what types of claims may arise in the future.

RATING

Upon issuance of the Bonds, S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("**S&P**"), will assign the Bonds a rating of "AA+."

The City has furnished to S&P information and material which has not been included in this Official Statement. Generally, rating agencies base their ratings on information and material so furnished and on investigations, studies and assumptions made by the rating agencies. The ratings reflect only the view of such organization and an explanation of the significance of such rating may be obtained from S&P.

There is no assurance that the rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

MUNICIPAL ADVISOR

The City has retained NHA Advisors, LLC, San Rafael, California, as its municipal advisor (the "**Municipal Advisor**") in connection with the preparation of this Official Statement and with respect to the issuance of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. NHA Advisors, LLC, is an independent registered municipal advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The Municipal Advisor's compensation is contingent upon the delivery of the Bonds.

UNDERWRITING

Purchase of the Bonds. Under the terms of a competitive bid, _____ (the "**Underwriter**") has agreed to purchase the Bonds at a price of \$_____ (which is equal to the aggregate principal amount of the Bonds (\$_____), plus a [net] original issue premium of \$_____, less an Underwriter's discount of \$_____). The Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the "Official Notice of Sale," including the approval of certain legal matters by counsel and certain other conditions.

Offering of the Bonds. The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

EXECUTION

The execution of this Official Statement and its delivery have been approved by the City Council.

CITY OF BERKELEY

By: _____
Director of Finance

APPENDIX A

FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE CITY OF BERKELEY AND ALAMEDA COUNTY

Introduction

The City of Berkeley, California (the “**City**”) is located in Alameda County (the “**County**”) on the east side of the San Francisco Bay, approximately 10 miles northeast of San Francisco. The City encompasses a total area of approximately 19 square miles and had an estimated population of 116,761 as of January 1, 2021, giving it the highest population density of any city in the East Bay. The City is defined to a large degree, both culturally and economically, by the presence of the University of California campus located on the eastern side of the City. The University of California is a major component of the City's economy, employing more than 232,500 full and part-time workers across all University of California campuses statewide.

The City is among the oldest in California. The City was founded in 1864, incorporated as a town in 1878, and incorporated as a city in 1909. The City's first charter was adopted in 1895.

Population

Population figures for the City, County and State for the last five years are shown in the following table.

CITY OF BERKELEY Population Estimates As of January 1

Year	City of Berkeley	County of Alameda	State of California
2017	121,210	1,644,303	39,352,398
2018	121,763	1,651,760	39,519,535
2019	122,297	1,659,608	39,605,361
2020	122,364	1,663,114	39,648,938
2021	116,761	1,656,591	39,466,855

Source: State Department of Finance estimates (as of January 1).

City Government

The City operates under a Council-Manager form of government. The City is governed by a nine-member City Council, eight of whom are elected by district, plus the Mayor, who is elected on a city-wide basis. The Mayor and the City Council members serve four-year terms. The Council appoints a City Manager who is responsible for daily administration of City affairs and preparation and submission of the annual budget under the direction of the Mayor and the City Council for the Mayor's submission to the City Council. The City Manager appoints a Director of Finance to supervise the City's financial affairs. The Director of Finance also serves as the City's Treasurer.

The City Attorney, City Clerk and Director of Finance are appointed by the City Manager subject to City Council approval. The City Auditor is elected at the same time as the Mayor. Current member of the City Council are shown below:

<u>Member</u>	<u>District</u>	<u>Term Expires</u>
Jesse Arreguín	Mayor	11/30/2024
Rashi Kesarwani	1	11/30/2022
Terry Taplin	2	11/30/2024
Ben Bartlett	3	11/30/2024
Kate Harrison	4	11/30/2022
Sophie Hahn	5	11/30/2024
Susan Wengraf	6	11/30/2024
Rigel Robinson	7	11/30/2022
Lori Droste	8	11/30/2022

CITY FINANCIAL INFORMATION

Although the City is including information about the City’s finances in this Appendix A, it is important to understand that the Bonds described in this Official Statement are voter-approved general obligations of the City payable solely from the levy and collection of ad valorem property taxes, unlimited as to rate or amount, and are not payable from the general fund of the City.

Possible Impacts of COVID-19

As described in this Official Statement, while indications are that the COVID-19 pandemic is transitioning to its endemic stage, many variables will continue to contribute to the economic impact of the COVID-19 pandemic and the recovery. The ultimate impact of COVID-19 on the City’s operations and finances is not fully known, and it may be some time before the full impact of the COVID-19 pandemic is known. The Bonds described in this Official Statement are not secured by the City’s general fund, but rather are voter-approved general obligations of the City payable solely from the levy and collection of *ad valorem* property taxes, unlimited as to rate or amount, and are not payable from the general fund of the City. See “SECURITY FOR THE BONDS – COVID-19 Global Pandemic.”

Accounting Policies and Financial Reporting

The accounts of the City are organized on the basis of funds and account groups, to account for different activities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. The City’s general fund and other governmental fund types use the modified accrual basis of accounting. All of the City’s other funds, including proprietary fund types and fiduciary fund types use the accrual basis of accounting. The basis of accounting for all funds is more fully explained in the “Notes to the Financial Statements” contained in APPENDIX B.

The City Council employs, at the beginning of each fiscal year, an independent certified public accountant who, at such time or times as specified by the City Council, at least annually, and at such other times as he or she shall determine, examines the combined financial statements of the City in accordance with generally accepted auditing standards, including such tests of the accounting records and such other auditing procedures as such accountant considers necessary.

As soon as practicable after the end of the fiscal year, a final audit and report is submitted by such accountant to the City Council and a copy of the financial statements as of the close of the fiscal year is published.

The City, all its funds and the funds of certain other component entities of the City are audited annually by a certified public accounting firm. The firm of Badawi and Associates, Certified Public Accounts, Oakland, California, is the City's current auditor (the "**Auditor**"). The annual comprehensive financial report of the City for fiscal year 2020-21 is attached hereto as APPENDIX B. *The City's financial statements are public documents and are included within this Official Statement without the prior approval of the Auditor.*

The Governmental Accounting Standards Board ("**GASB**") published its Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) government-wide financial statements prepared using the economic measurement focus and the accrual basis of accounting and fund financial statements prepared using both the current financial resources measurement focus and the modified accrual method of accounting (governmental funds) and funds using the economic measurement focus and the accrual basis of accounting (proprietary funds) and (iii) required supplementary information. The City's financial statements are prepared in conformance with the requirements of Statement No. 34.

Comparative Financial Statements

The following tables provide a recent history of the City's Comparative Balance Sheet, and both a recent history of General Fund revenues, expenditures, transfers, and ending fund balances and recently budgeted amounts.

**CITY OF BERKELEY
GENERAL FUND BALANCE SHEET
(Fiscal Year Ending June 30)
(Dollar amounts in thousands)**

	<u>Actual 2017-18</u>	<u>Actual 2018-19</u>	<u>Actual 2019-20</u>	<u>Actual 2020-21</u>
ASSETS:				
Cash and investments in treasury*	\$108,058	\$107,360	\$100,577	\$146,849
Receivables (net of allowance as applicable)				
Accounts	6,951	4,980	3,131	4,782
Interest	763	778	398	834
Taxes	8,623	9,953	6,502	13,092
Subventions/grants	180	450	1,582	1
Due from other funds	6,659	6,973	7,533	12,814
Notes receivable	3,755	3,697	4,820	6,197
Other	5	320	5	5
Prepaid Items	142	--	--	--
Total assets	<u>135,136</u>	<u>134,512</u>	<u>160,020</u>	<u>184,574</u>
LIABILITIES:				
Accounts payable	3,610	6,736	8,755	10,444
Accrued salaries and wages	5,473	5,989	7,009	8,081
Accrued interest payable	--	--	694	740
Advances from other funds	6,287	4,059	3,113	1,760
Deposits held	974	781	770	921
Unearned revenue	--	--	--	--
Tax and revenue anticipation notes	25,550	14,000	34,780	42,405
Other liabilities	3,755	3,899	3,975	4,955
Total liabilities	<u>45,649</u>	<u>35,463</u>	<u>59,095</u>	<u>69,307</u>
Deferred Inflows of Resources	5,601	5,813	2,856	3,385
FUND BALANCES				
Reserved for:				
Assigned to	33,373	42,667	44,705	19,577
Nonspendable	143	--	--	--
Restricted and Committed	3,755	3,697	4,820	35,941
Unreserved/Unassigned, report in:				
General fund	46,614	46,872	48,544	56,364
Total fund balances	<u>83,885</u>	<u>92,236</u>	<u>98,069</u>	<u>111,882</u>
Total liabilities and fund balances	<u>\$135,136</u>	<u>\$135,512</u>	<u>\$160,020</u>	<u>\$184,574</u>

* Cash and investments in treasury includes restricted cash and investments.
Source: City of Berkeley, Annual Comprehensive Financial Reports.

CITY OF BERKELEY
STATEMENT OF GENERAL FUND
REVENUES, EXPENDITURES, TRANSFERS AND BALANCES
(Fiscal Year Ending June 30)
(Dollar amounts in thousands)

	<u>Actual</u> <u>2017-18</u>	<u>Actual</u> <u>2018-19</u>	<u>Actual</u> <u>2019-20</u>	<u>Actual</u> <u>2020-21</u>
REVENUES:				
Taxes	\$161,666	\$173,216	\$182,470	\$187,395
Licenses and Permits	834	1,405	2,099	1,805
Subvention and Grants/Intergovernmental	1,129	1,868	1,771	3,700
Service Fees	9,862	8,433	8,597	6,990
Fines and Forfeitures	6,933	5,443	4,166	3,579
Rents	284	289	203	189
Franchises	1,990	1,800	1,812	1,714
Private contribution	--	--	179	184
Interest	2,416	6,915	9,287	8,110
Other	237	1,722	356	74
TOTAL REVENUES	<u>185,351</u>	<u>201,090</u>	<u>210,941</u>	<u>213,740</u>
EXPENDITURES:				
General Government	30,143	27,410	24,693	27,357
Public Safety	95,503	103,084	118,793	120,179
Highways and Streets	1,900	2,904	2,289	3,163
Health and Human Services	9,725	13,319	20,423	19,320
Culture-Recreation	5,476	5,943	7,014	7,362
Community Development	7,153	8,264	9,041	9,258
Economic Development	2,576	2,845	5,879	2,534
Debt Service	252	270	473	139
TOTAL EXPENDITURES	<u>152,728</u>	<u>164,040</u>	<u>188,605</u>	<u>189,313</u>
Excess Revenues Over (Under) Expenditures	32,623	37,050	22,334	24,427
Transfers In(out)/Other	(12,396)	(27,699)	(17,502)	(10,614)
Net Change in Fund Balance	20,227	9,351	4,883	13,813
Fund Balance, July 1	63,658	83,885	93,236	98,069
Prior Period Adjustment	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance, June 30*	<u><u>\$83,885</u></u>	<u><u>\$93,236</u></u>	<u><u>\$98,069</u></u>	<u><u>\$111,882</u></u>

* Totals may not sum due to rounding.
Source: City of Berkeley Annual Comprehensive Financial Reports

General Fund Budget

Budgetary Process and Administration. The City employs a two-year budget process. In year one of the biennial budget cycle, the City Council formally adopts authorized appropriations for the first fiscal year and approves “planned” appropriations for the second fiscal year. In year two, the City Council considers revisions and formally adopts authorized appropriations for the second fiscal year. Although the budget cycle covers a two-year period, the City Charter requires that the City Council adopt an annual appropriations ordinance for each budget year.

From January to May of each year, the City Council meets publicly to discuss policies and priorities for the upcoming budget. The City Manager prepares a proposed budget based on input from department heads, and presents this to the City Council by the first Monday in May of a budget year or as fixed by the City Council. The City also maintains additional budgetary controls to ensure compliance with the annual appropriated budget. The City Manager is authorized to transfer budgeted amounts within funds as deemed necessary to meet the City’s needs; however, revisions that alter the total budget or move amounts from one fund to another must be approved by the City Council.

Revenues and expenditures relating to the City’s general governmental operations are budgeted and accounted for in the City’s general fund, including public safety, highways and streets, health, housing and human services, culture and recreation, community development and economic development. General taxes and fees support most of these activities. The “business” or proprietary activities of the City are accounted for in each of eight enterprise funds, which include those established for Refuse Collection, Marina Operations, Sanitary Sewers, Clean Storm Water, Permit Service Center, Off-Street Parking, Parking Meter, and Building Purchases & Management. These activities are intended to be completely or largely self-supporting through user fees and charges.

The balance of this Appendix is concerned with the operations and performance of the City’s General Fund, unless otherwise noted.

Adopted Biennial Budget. The City generally adopts a biennial budget. For Fiscal Year 2021-22 only, on June 29, 2021, the City adopted a one year budget that authorized expenditures of \$234.8 million based on revenues of \$__236M__ and was later adjusted to authorize expenditures of \$259.8 million based on additional revenues received for the end of fiscal 2021. At the time of this Official Statement, the City expects to end Fiscal Year 2021-22 with a small surplus.

The General Fund comprises less than one-half of the total budget, with the remainder of the budget consisting of various special funds that are restricted in purpose. Fifty-five percent of the City’s General Fund revenue is derived from real and unsecured property, sales and soda taxes, and business license taxes.

On April 13, 2022, The Budget and Finance Policy Committeeil was presented with a report regarding the revenue and expenditure projections and assumptions being used to develop the biennial budget for Fiscal Years 2022-23 and 2023-24. For Fiscal Year 2022-23, baseline revenues are projected to be \$232.8million, while baseline expenditures are projected to be \$247.7 million, resulting in a deficit of \$14.9llion. The City expects local revenues to continue to improve in Fiscal Year 2023-24, while expenditures are expected to remain fairly constant, resulting in a projected deficit of approximately \$18 million in Fiscal Year 2023-24.

The City is projecting a structural deficit and is in the process of developing solutions on how to close the gap.

Preliminary Five-Year Forecast

Also on April 13, 2022, the Budget and Finance Policy Committee was presented with a preliminary five-year forecast, showing a structural deficit in Fiscal Years 2022-23 and 2023-24. If the City’s revenues continue to grow while expenditures stay relatively flat, the City could lessen the likelihood of a deficit by Fiscal Year 2025-26. The following table shows the projected revenues and expenditures over the next five fiscal years for the City’s General Fund and Special Funds.

CITY OF BERKELEY Preliminary Five-Year Forecast Fiscal Year 2023-2026

	<u>2021-2022</u>	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>
Beginning Fund Balance	\$36,838,797	\$38,150,513	\$23,800,863	\$16,127,157	\$16,414,380
Total Revenues	236,066,207	232,802,561	242,467,333	252,603,388	263,234,553
Total Expenditures	234,754,491	247,152,211	250,141,039	252,316,165	255,040,928
Annual Surplus/(Shortfall)	1,311,716	(14,349,650)	(7,673,706)	287,223	8,193,625
Projected Ending Balance	38,150,513	23,800,863	16,127,157	16,414,380	24,608,005

Source: City of Berkeley Annual Comprehensive Financial Reports

Given the decreasing level of precision to be expected in the later years of a multi-year forecast, the significance of the projections in the out years is not so much in terms of their absolute amounts, but rather in the relative size of the decrease or increase from the prior year. This information should be used to provide a multi-year perspective to budgetary decision-making, rather than as a precise prediction of what will occur.

General Fund Reserves

Establishment of General Fund Reserve. On December 13, 2016, the City Council adopted a General Fund reserve policy, establishing a General Fund reserve (the “Reserve”), to prepare for the impact of economic cycles and catastrophic events and assure fluctuations in revenue do not impede the City’s ability to meet expenditure obligations. When revenues fail to meet the City’s normal operating requirements, or the need for disbursements temporarily exceeds receipts, the Reserve, upon a 2/3 vote of the City Council, may be used in accordance with the standards set forth therein.

The Reserve is composed of two elements, a Stability Reserve and a Catastrophic Reserve:

- 1) A Stability Reserve is maintained to mitigate loss of service delivery and financial risks associated with unexpected revenue shortfalls during a single fiscal year or during a prolonged recessionary period. The purpose of the Stability Reserve is to provide fiscal stability

in response to unexpected downturns or revenue shortfalls, and not to serve as a funding source for new programs or projects.

2) A Catastrophic Reserve is maintained for the purpose of sustaining General Fund operations in the case of a public emergency, such as a natural disaster or other catastrophic event. The Catastrophic Reserve will be used to respond to extreme, onetime events, such as earthquakes, fires, floods, civil unrest, and terrorist attacks. The Catastrophic Reserve will not be accessed to meet operational shortfalls or to fund new programs or projects.

The Reserve is accounted for in the Unassigned fund balance of the City's balance sheet.

Target Reserve Levels. 55% of the Reserve is allocated to the Stability Reserve and 45% to the Catastrophic Reserve.

The long-term goal for the Reserve is a minimum of 30% of the adopted General Fund revenues, to be achieved by 2026-27 ("**Long-Term Goal**"). Based on a risk assessment (according to best practices), to be updated at least every five years, the City Council may consider increasing or lowering the Reserve level.

As of March 31, 2022, the Stability Reserve has \$19,235,236, and the Catastrophic Reserve has \$14,419,828, which total 13.7% of adopted General Fund revenues, significantly below the long-term goal.

Replenishment of the General Fund Reserve. The City Manager will recommend a replenishment schedule for all monies proposed for appropriation from the Reserve. The replenishment schedule will be adopted simultaneous with the appropriation to withdraw Reserve funds or, if infeasible due to emergency circumstances, no more than three months from the date of the withdrawal appropriation. Repayment shall begin no more than five years from the date of withdrawal and be completed within 10 years from the date of withdrawal.

While staff envisions that, in most cases, repayment will start as soon as possible, the repayment guidelines are meant to reflect a commitment to maintain a sufficient Reserve, while also recognizing that a use of Reserve amounts may occur during an economic downturn and it may be necessary to postpone repayment while the economy improves. In Fiscal Year 2020-21, the City repaid \$1,836,309 to the Stability Reserve, and \$3,636,005 was repaid in Fiscal Year 2021-22. In Fiscal Year 2020-21, the City repaid \$1,502,434 to the Catastrophic Reserve and \$2,974,913 was repaid in Fiscal Year 2021-22.

Unfunded Liability Obligations and Unfunded Infrastructure Needs

General. On March 16, 2021, the City Manager presented a biennial report of the City's unfunded liability obligations and unfunded infrastructure needs (the "**Report**"). The Report includes, among other things:

1. Employee and retiree benefit costs over a 10-year horizon
2. Costs for current active employees including:
 - a. total payroll costs for active employees during the current year;
 - b. projected payroll costs for the same number of employees for the next 10-year period.

3. A summary of all current City obligations including:
 - a. general obligation bonds;
 - b. certificates of participation;
 - c. loans;
 - d. all other current long-term obligations.

4. Summary of all capital assets and infrastructure including:
 - a. Appraisal of Public Buildings valued at \$5 million or more
 - b. Condition of Streets and Roads, projecting costs to bring streets and roads condition to an average Pavement Condition Index of 75 within 5 years.
 - c. Sewers: updated asset management plan for public sewers including projected costs for succeeding 5 years and projected revenue from sewer fees for the succeeding 5 years.

Certain provisions of the Report, which is available on the City's internet website but is not incorporated by reference herein, are described below. The link to the Report on the City's internet website is the following:

<https://www.cityofberkeley.info/uploadedFiles/Clerk/FY%202021%20Unfunded%20Liability%20Obligations%20and%20Unfunded%20Infrastructure%20Needs%20Report.pdf>.

The Report concludes that 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, and reports that liabilities tied to benefits total \$751 million (of which only 63.1% is funded), and the City's unfunded infrastructure needs total \$1.1 billion.

Unfunded Liabilities. Due to projected increases in expenses, primarily pension and medical expenses, the City is projecting a General Fund structural deficit.

The City provides retirement benefits to its employees through three plans in the California Public Employees' Retirement System ("CalPERS"). See "- Retirement Programs" below for additional information. The City has a significant pension liability that is anticipated to grow, increasing by more than \$40 million over the next ten years, which will put a strain on resources and services.

In addition, the City's retiree health plans are significantly underfunded, as detailed in the Report.

Unfunded Infrastructure Needs. The City has an extensive portfolio of capital assets and infrastructure, including 95 buildings, 254 miles of public sanitary mains and 130 miles of sewer laterals, 216 centerline miles (450 lane miles) of public streets, 52 parks, 2 pools, 3 camps and 42 facilities served by the City's IT systems. In addition, Berkeley is a relatively older city, and faces related challenges with its aging infrastructure. Despite the passage of several local bond measures to support capital facilities, there are significant unfunded needs related to parks, pools, camps, waterfront property, streets, sidewalks, storm drain/watershed, sewer, transportation and buildings/facilities. As needed improvements continue to be deferred, operating and maintenance costs rise and rehabilitation and replacement costs increase substantially. The Report details available annual funding and unfunded needs for capital and major maintenance.

As a result of the age of the City's infrastructure and limited resources allocated to infrastructure, the projected costs of the City's aging infrastructure needs are anticipated to reach more than \$1.1 billion by Fiscal Year 2025-26.

The Report also highlights that the City is located on the east side of the San Francisco bay, and has waterfront property with docks, pilings, parking lots and streets that have reached the end of their useful life. The City's mechanism for managing its waterfront revenues and expenditures (the "**Marina Fund**") is projected to be insolvent during Fiscal Year 2021-22 due to decreasing revenues and increasing expenditures, a trend that could be aggravated by failure to maintain the marina infrastructure. The City has created the Berkeley Marina Area Specific Plan to address an estimated \$113 million in infrastructure repairs, but has not identified any specific funding sources.

State Budget and its Impact on the City

Fiscal Year 2022-2023 State Budget. On January 10, 2022, the Governor released the proposed State budget for fiscal year 2022-23 (the "**Proposed 2022-23 State Budget**"). The Proposed 2022-2023 State Budget is anticipated to represent a \$286.4 billion operating budget that is balanced.

Impact of State Budget on City. The City receives a portion of its funding from the State. The City's projects that approximately [__%] of the City's General Fund revenues will come from State sources.

Voters approved Proposition 1A in November 2004 to amend the State Constitution to place constraints on the State's ability to divert certain specified revenues from local agencies to the State. Subsequently, in November 2010, voters approved Proposition 22 to amend the State Constitution to further constrain or eliminate the State's ability to redirect revenues from local agencies. "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS – Proposition 1A" and "– Proposition 22."

Additional Information. Information about the Proposed 2022-23 State Budget and other State budgets is available at www.ebudget.ca.gov. An impartial analysis of the budget is posted by the Legislative Analyst Office at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. *The information referred to in this paragraph is prepared by the respective State agency maintaining each website and not by the City. The City takes no responsibility for the continued accuracy of the Internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated in this Official Statement by these references.*

Ad Valorem Property Taxes

Tax Levies and Collections. Property taxes collected by the City increased \$11.7 million, or 11.6%, to \$112.6 million in fiscal year 2020-21, up from \$100.9 million in fiscal year 2019-20, primarily as a result of increases in the following revenue sources:

- Real property taxes increased \$4.2 million, or 7.1%, to \$63.3 million in fiscal year 2020-21, up from \$59.1 million in fiscal year 2019-20. This increase was consistent with the fiscal year 2002-21 increase in assessed valuation of 7.7%.
- Property transfer taxes increased \$4.9 million, or 22.8%, to \$26.4 million in fiscal year 2020-21, up from \$21.5 million in fiscal year 2019-20. This

resulted primarily from a significant increase in the dollar value of property sales during fiscal year 2020-21.

- Property transfer tax-Measure P increased \$1.8 million, or 18.2%, to \$11.7 million in fiscal year 2020-21, from \$9.9 million in fiscal year 2019-20. This increase resulted from a significant increase in the number of properties selling for more than \$1.5 million in fiscal year 2020-21.
- Vehicle in-lieu taxes increased \$1.0 million, or 7.7%, in fiscal year 2020-21, to \$14.4 million from \$13.4 million in fiscal year 2019-20. This was consistent with the 7.7% increase in fiscal year 2020-21 assessed values reported by the County.

Taxes are levied for each fiscal year on taxable real and personal property that is situated in the City as of the preceding January 1. A supplemental roll is developed when property changes hands, which produces additional revenue.

A ten percent penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll with respect to which taxes are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County Tax Collector.

In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer; (3) filing a certificate of delinquency for recording in the County Recorder's office in order to obtain a lien on specified property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

The County levies (except for levies to support prior voter-approved indebtedness) and collects all property taxes for property falling within that county's taxing boundaries.

See Table 1 of the forepart of this Official Statement for a table summarizing the historical and current assessed valuation of the taxable property in the City.

The City does not participate in the Teeter Plan. See Table 4 of the forepart of this Official Statement for a history of secured tax charges and delinquencies within the City during the past 10 years.

Other General Fund Revenues and Transfers

In addition to property taxes, the City has several other major tax and fee revenue sources, as described below. The following table summarizes the City's actual audited general fund revenues and transfers from fiscal year 2017-18 through fiscal year 2020-21 and budgeted general fund revenues and transfers for fiscal year 2021-22.

**CITY OF BERKELEY
GENERAL FUND REVENUES AND TRANSFERS**

	Actual Revenue <u>FY 2018</u>	Actual Revenue <u>FY 2019</u>	Actual Revenue <u>FY 2020</u>	Actual Revenue <u>FY 2021</u>
Real Property	\$56,038,218	\$59,178,773	\$63,192,678	\$68,166,155
Unsecured Property	2,687,198	2,878,275	3,164,168	3,448,412
Supplemental Taxes	2,237,649	2,174,903	2,334,597	2,249,517
Property Transfer Tax	18,911,368	19,952,981	22,095,507	21,469,955
Property Transfer Tax-Measure P	--	2,932,313	9,512,603	10,919,576
Sales Tax	17,435,591	18,663,550	17,557,539	15,792,305
Soda Tax	1,457,003	1,547,349	1,331,313	953,069
Business License	19,878,912	19,848,804	20,863,685	17,809,332
Business License – Cannabis Recreation	--	1,168,794	1,300,887	1,712,641
Measure U1	4,511,615	4,828,443	5,597,359	4,818,740
Utility Users Tax	14,828,120	13,973,744	13,475,915	13,892,200
Hotel Tax	7,807,273	7,995,188	6,387,495	2,292,480
Vehicle In-Lieu	11,822,917	12,540,784	13,356,044	14,380,453
Parking Fines	6,608,001	6,002,211	3,900,595	3,571,391
Moving Violations	188,443	177,824	200,894	131,756
Interest	3,638,989	4,334,404	6,702,564	5,917,722
Ambulance Fees	4,343,453	4,424,808	4,996,193	3,081,204
Franchise Fees	2,009,931	1,821,316	1,839,102	1,726,470
Other Revenue	18,446,960	18,662,025	20,074,732	18,514,060
Transfers	<u>5,792,575</u>	<u>5,356,132</u>	<u>5,386,188</u>	<u>21,180,762</u>
TOTAL	<u>\$198,642,216</u>	<u>\$208,462,620</u>	<u>\$223,364,309</u>	<u>\$232,028,200</u>

Source: City of Berkeley Budget Office. Revenues were recorded using the budget basis of accounting (i.e., Cash).

Sales and Use Tax. The sales tax is an excise tax imposed on retailers for the privilege of selling or leasing tangible personal property. The use tax is an excise tax imposed for the storage, use, or other consumption of tangible personal property purchased from any retailer. The total sales tax rate within the City is currently 9.25%. The proceeds of sales and uses taxes imposed within the City are distributed by the State to various agencies, with the City receiving 1.0% of the amount collected.

Collection of the sales and use tax is administered by the California Department of Tax and Fee Administration (the “**CDTFA**”). This process was formerly administered by the State Board of Equalization. The Taxpayer Transparency and Fairness Act of 2017, which took effect July 1, 2017, restructured the State Board of Equalization and separated its functions among three separate entities: the State Board of Equalization, the CDTFA and the Office of Tax Appeals. The State Board of Equalization will continue to perform the duties assigned to it by the state Constitution, while all other duties will be transferred to the newly established CDTFA and the Office of Tax Appeals. CDTFA will handle most of the taxes and fees previously collected by the State Board of Equalization, including sales and use tax. According to the CDTFA, it distributes quarterly tax revenues to local jurisdictions (like the City) using the following method:

Using the prior year’s like quarterly tax allocation as a starting point, the CDTFA first eliminates nonrecurring transactions such as fund transfers, audit payments and refunds, and then adjusts for growth, in order to establish the estimated base amount. The CDTFA disburses 90% of the base amount to each local jurisdiction in three monthly installments (advances) prior to the final computation of the quarter’s actual receipts. Ten percent is withheld as a reserve against unexpected occurrences that can affect tax

collections (such as earthquakes, fire or other natural disaster) or distributions of revenue such as unusually large refunds or negative fund transfers. The first and second advances each represent 30% of the 90% distribution, while the third advance represents the remaining 40%. One advance payment is made each month, and the quarterly reconciliation payment (clean-up) is distributed in conjunction with the first advance for the subsequent quarter. Statements showing total collections, administrative costs, prior advances and the current advance are provided with each quarterly clean-up payment.

The CDTFA receives an administrative fee based on the cost of services provided by the Board to the City in administering the City's sales tax, which is deducted from revenue generated by the sales and use tax before it is distributed to the City.

Sales tax revenues increased \$0.7million or 4.1% to \$17.6 million in in fiscal year 2020-21 from \$16.9 million in fiscal year 2019-20, and were being significantly impacted by the Governor's shelter in place orders issued in March 2020, as almost all business-related activity came to a halt. The City currently projects that sales tax revenue will increase by 14.4% and 8.4%, respectively in fiscal years 2021-22 and 2022-23.

**CITY OF BERKELEY
TAXABLE TRANSACTIONS
(Figures in Thousands)**

	2017	2018	2019	2020	2021
Retail and Food Services:					
Apparel Stores	\$52,645	\$52,991	\$42,772	\$20,385	\$37,002
Gen. Merchandise Stores	17,178	20,782	21,434	16,902	19,066
Food Stores	150,894	149,662	155,025	169,569	162,717
Eating and Drinking Places	371,299	374,792	391,474	208,146	282,810
Home Furnishings and Appliances	72,358	69,746	66,188	45,479	69,016
Bldg. Materials, Farm Implements	107,333	109,052	101,937	113,116	141,793
Auto Dealers, Auto Supplies	117,513	119,883	119,679	94,927	114,160
Gas/Service Stations	84,041	93,694	94,217	57,950	87,761
Other Retail Stores	<u>243,881</u>	<u>262,209</u>	<u>261,020</u>	<u>188,434</u>	236,204
Total Retail and Food Services	1,217,142	1,252,813	1,263,746	914,910	1,150,530
All Other Outlets	<u>364,736</u>	<u>361,292</u>	<u>372,108</u>	<u>315,081</u>	341,752
TOTAL ALL OUTLETS	<u>\$1,581,878</u>	<u>1,614,105</u>	<u>\$1,635,854</u>	<u>\$1,229,990</u>	<u>\$1,492,282</u>

Source: State Department of Tax and Fee Administration.

Factors that have historically affected sales tax revenues include the overall economic growth of the Bay Area, competition from neighboring cities, the growth of specific industries within the City, the City's business attraction and retention efforts, and catalog and Internet sales.

Utility Users Tax. The City imposes a 7.5% tax on users of gas, electricity and telephone, as well as cellular telephone services for billing addresses within the City. The tax is not applicable to State, County, or City agencies, or to insurance companies and banks. Some of the factors affecting this revenue stream include consumer demand for these utilities, legislative and regulatory action, rate changes, and the evolution of technology. Approximately 62% of the utility users tax revenue is generated from utility usage from gas and electric services and 38% from telecommunications during fiscal year 2019-20. For fiscal year 2020-21, utility users tax revenue totaled \$13.8 million, which was \$0.3 million or 2.4% more than the \$13.5 million received in fiscal year 2019-20. Utility users tax is projected to level off in fiscal years 2021-22 and 2022-23, respectively.

Business License Tax. The City requires all businesses within the City to be licensed and imposes a business license tax on all business locations and a new license registration fee on applicants for a new license. The annual tax is generally determined based on the type of business and the business's gross receipts. The tax rate varies between \$0.60 per \$1,000 gross receipts for grocers, on the low end, and \$50.00 per \$1,000 gross receipts for adult cannabis sales on the high end. Most types of businesses are required to pay a minimum tax of at least \$51 per year. The overall revenue from this tax is dependent on the number of license renewals each year and the growth of businesses and industries within the City and the Bay Area more generally. The City is currently projecting an increase by 5% in fiscal year 2022-23.

Property Transfer Tax. The City's transfer tax rate is 1.5% for properties with a consideration up to \$1.5 million and 2.5% for transferred properties with a consideration over \$1.5 million. The \$1.5 million threshold will be adjusted annually to capture approximately the top 33% of such transfers based on transfers that occurred in the 12 months preceding September 1 of the preceding year. However, the threshold cannot be reduced below \$1.5 million, meaning that the tax on properties transferred for \$1.5 million or less would remain at 1.5%, notwithstanding any adjustment. The tax is due when the transfer is recorded with the County. Title companies collect the tax as part of the sale closing process and remit the funds to the County when sales or transfers are finalized. The County remits the amounts due monthly, and the amounts are credited to the general fund. A buyer of residential housing built before 1989 may voluntarily choose to reserve up to one-third of the transfer tax to perform seismic upgrades. Buyers typically have up to one year to complete the work and file for a rebate. Previously, title companies held the reserved amount in escrow until the work was completed, but since May 2007, the City has held the money in escrow accounts, with the interest going to the City.

Prior to fiscal year 2017-18, it was the City Council's policy that property transfer tax in excess of \$10.5 million was treated as one-time revenue to be transferred to the Capital Improvement Fund for capital infrastructure needs, but that amount was increased to \$12.5 million in fiscal year 2017-18.

Parking Fines. The City issues and adjudicates citations and civil penalties for parking violations through its own administrative structure. It has a great degree of control over the administration of parking fines, although issuing agencies within the County try to standardize parking penalties to the extent possible. Revenue from parking fines is affected by the penalties imposed for violations, the number of employees issuing tickets, how many tickets employees are able to issue, and the number of working parking meters, among other factors. Currently, the City must remit an additional \$12.50 per citation to the State/County for State and County construction funds, Maddy emergency medical fund, and DNA identification fund.

Vehicle in Lieu Fees. Vehicle license fees ("VLF") imposed for the operation of vehicles on state highways are collected by the State Department of Motor Vehicles in lieu of personal property taxes on vehicles. In connection with the offset of the VLF, the State Legislature authorized appropriations from the State General Fund to "backfill" the offset so that local governments, which receive all of the vehicle license fee revenues, would not experience any loss of revenues. The legislation that established the VLF offset program also provided that if there were insufficient State General Fund moneys to fully "backfill" the VLF offset, the percentage offset would be reduced proportionately (i.e., the license fee payable by drivers would be increased) to assure that local governments would not be underfunded.

As part of the 2004 Budget Act negotiations, an agreement was made between the State and local government officials under which the VLF rate was permanently reduced from 2% to

0.65%. In order to protect local governments, the reduction in VLF revenue to cities and counties from this rate change was replaced by an increase in the amount of property tax they receive. Commencing in fiscal year 2004-05, local governments began to receive their full share of replacement property taxes, and those replacement property taxes now enjoy constitutional protection against certain transfers by the State because of the approval of Proposition 1A at the November 2004 election.

As a part of its fiscal year 2009-10 budget, California increased the vehicle license fee from 0.65% to 1.15% for registration fees due on or after the May 19, 2009 special election. This provision expired on July 1, 2011. On July 1, 2011, vehicle license fees returned to 0.65%, and the City is unaware of any current State legislative efforts likely to increase these in fees in the future.

Vehicle in-lieu taxes increased \$1.0 million or 7.7% in fiscal year 2020-21 to \$14.4 million from \$13.4 million in fiscal year 2020-21. This was consistent with the 7.7% increase in fiscal year 2020-21 assessed values reported by the County.

Other Revenues. The City also collects additional general fund revenues from franchise fees, transient occupancy taxes, ambulance fees, a tax on sugar-sweetened beverages, and other more minor sources. Under the City's cable and electric and gas franchise fee arrangements, the local cable provider pays an annual franchise fee of 5% of gross revenues, and the electricity and gas providers pay the greater of 2% of gross receipts attributable to miles of line operated or 0.5% of gross receipts. The transient occupancy tax, also known as the hotel tax, is a 12% tax on the room charge for rental of transient lodging, which was significantly reduced due to restrictions on travel and events due to COVID-19. The City also has an agreement with the County to be the exclusive provider of all emergency ground ambulance services within the City; the specific ambulance fee depends on the type of service delivered and is billed to clients or their insurance companies. Finally, other more minor revenue sources include payments for moving violations, interest on existing funds, and other service fees.

Retirement Programs

PERS Plan Description. The City contributes to three plans in California Public Employees' Retirement System ("PERS"). The first plan covers all of the City's full-time and part-time benefited sworn uniformed fire employees and all chiefs (and is referred to as the Safety Fire Plan in this Official Statement). The second covers all of the City's full-time and part-time benefited sworn uniformed police employees and all chiefs (and is referred to as the Safety Police Plan in this Official Statement). The third plan covers all remaining eligible City employees (and is referred to as the Miscellaneous Plan in this Official Statement). These plans are agent multiple-employer defined benefit pension plans administered by PERS, which acts as a common investment and administrative agent for participating public employers within the State of California.

PERS Plan Eligibility. For a more detailed discussion of the eligibility requirements for the City's PERS retirement plans, see Appendix B, Note 12.

PERS Plan Contributions. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration (the "**Board of Administration**"). For the measurement period ended June 30, 2021 (the measurement date), the average active employee contribution rate is 8.0% of annual pay for the Miscellaneous Plan and 9.0% of annual pay for the Safety Plan (Fire and Police), and the employer contribution rate

is 32.500% of annual payroll for the Miscellaneous Plan, 48.200% of annual payroll for the Public Safety Fire Plan, and 66.600% of annual payroll for the Public Safety Police Plan. The contribution requirements of the plan members are established by State statute, and the employer contribution rates are established and may be amended by PERS.

Implementation of GASB Nos. 68. Commencing with fiscal year ended June 30, 2015, the City implemented the provisions of GASB Statement Nos. 68, which require certain new pension disclosures in the notes to its audited financial statements commencing with the audit for fiscal year 2014-15. Statement No. 68 generally requires the City to recognize its proportionate share of the unfunded pension obligation by recognizing a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. As a result of the implementation of GASB Statement Nos. 68, the City reflected a restatement of its beginning net position as of July 1, 2014.

For a more detailed discussion of the eligibility requirements for the City's retirement plans, see Appendix B, Note 12 for detailed information about the actuarial assumptions underlying the contributions. The City's fiscal year 2020-21 contributions to the pension plans and the funded status of the pension plans are set forth below.

Fiscal Year Ended	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	Covered Employee Payroll	Plan Net Pension Liability as a Percentage of Covered Employee Payroll	Contributions Employer
PERS – Miscellaneous Plan							
6/30/2020	\$1,115,293,404	\$787,103,725	\$328,189,679	70.57%	\$100,639,199	326.11%	\$24,065,716
PERS – Public Safety Fire Plan							
6/30/2020	\$290,583,174	\$207,608,776	\$82,974,398	71.45%	\$17,619,953	470.91%	\$8,703,901
PERS – Public Safety Police Plan							
6/30/2020	\$444,977,237	\$275,649,869	\$169,327,368	61.95%	\$21,101,838	802.43%	\$10,777,599

Recent Actions by PERS. At its April 17, 2013, meeting, the Board of Administration approved a recommendation to change the PERS amortization and smoothing policies. Prior to this change, PERS employed an amortization and smoothing policy that spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, PERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The new amortization and smoothing policy were used for the first time in the June 30, 2013, actuarial valuations in setting employer contribution rates for fiscal year 2015-16.

On February 18, 2014, the Board of Administration approved new demographic actuarial assumptions based on a 2013 study of recent experience. The largest impact, applying to all benefit groups, is a new 20-year mortality projection reflecting longer life expectancies and that longevity will continue to increase. Because retirement benefits will be paid out for more years, the cost of those benefits will increase as a result. The Board of Administration also assumed earlier retirements for Police 3%@50, Fire 3%@55, and Miscellaneous 2.7%@55 and 3%@60,

which will increase costs for those groups. As a result of these changes, rates will increase beginning in fiscal year 2016-17 (based on the June 30, 2014 valuation) with full impact in fiscal year 2020-21.

On November 18, 2015, the Board of Administration adopted a funding risk mitigation policy intended to incrementally lower its discount rate - its assumed rate of investment return - in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. The policy establishes a mechanism to reduce the discount rate by a minimum of 0.05 percentage points to a maximum of 0.25 percentage points in years when investment returns outperform the existing discount rate, currently 7.5%, by at least four percentage points. PERS staff modeling anticipates the policy will result in a lowering of the discount rate to 6.5% in about 21 years, improve funding levels gradually over time and cut risk in the pension system by lowering the volatility of investment returns. More information about the funding risk mitigation policy can be accessed through PERS' web site at the following website address: <https://www.calpers.ca.gov/page/newsroom/calpers-news/2015/adopts-funding-risk-mitigation-policy>. *The reference to this Internet website is provided for reference and convenience only. The information contained within the website may not be current, has not been reviewed by the City and is not incorporated in this Official Statement by reference.*

On December 21, 2016, the Board of Administration voted to lower its discount rate from the current 7.5% to 7.0% over three years according to the following schedule.

<u>Fiscal Year</u>	<u>Discount Rate</u>
2018-19	7.375%
2019-20	7.250
2020-21	7.000

For public agencies like the City, the new discount rate would take effect July 1, 2018. Lowering the discount rate means employers that contract with PERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under the Public Employees' Pension Reform Act will also see their contribution rates rise. The three-year reduction of the discount rate will result in average employer rate increases of about 1 percent to 3 percent of normal cost as a percent of payroll for most miscellaneous retirement plans, and a 2 percent to 5 percent increase for most safety plans. Additionally, many PERS employers will see a 30 to 40 percent increase in their current unfunded accrued liability payments. These payments are made to amortize unfunded liabilities over 20 years to bring the pension fund to a fully funded status over the long-term.

Dollar Contribution Based on Projected PERS Rate Increases. The City's projected annual financial contributions as a result of the PERS rate changes for the next four years are shown in the table below, with dollar amounts shown in millions:

	2019-20	2020-21	2021-2022 Projected	2022-2023 Projected
Miscellaneous ⁽¹⁾	\$33.67	\$36.55	\$41.83	\$43.30
Police	16.27	17.6	18.58	19.16
Fire	8.78	9.46	9.55	9.90
Total	\$58.72	\$63.61	\$69.96	\$72.36

(1) Miscellaneous includes the 8% employee share paid by the City on behalf of the employees and negotiated employee contributions to the City's rate.

Berkeley Police Retirement Income Benefit Plan. Prior to December 22, 2012, the City maintained the Berkeley Police Retirement Income Benefit Plan (“**BPRIBP**”), a single-employer defined benefit income plan, for its police retirees and surviving spouses. Effective September 19, 2012, police retired on or after this date are no longer covered by BPRIBP. The City replaced this plan with the “Retiree Health Premium Assistance Coverage Plan.”

The City's fiscal year 2020-21 contribution to the BPRIBP and the funded status of the BPRIBP is set forth below.

Fiscal Year Ended	Total Pension Liability	Plan Fiduciary Net Position	Plan Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	Covered Payroll	Plan Net Pension Liability as a Percentage of Covered Employee Payroll	Contributions Employer
6/30/2021	\$81,521,206	\$5,623,753	\$75,897,453	6.90%	\$21,718,842	379.40%	\$2,150,175

For a more detailed discussion of the BPRIBP, see APPENDIX B to this Official Statement.

Peace Officers Research Association of California. Effective December 23, 2012, the City established a new sick leave program called Peace Officers Research Association of California (“**PORAC**”). If a sworn member of the Berkeley Police department has an accrued sick leave balance on December 23, 2012 that exceeds 200 hours, one half of all those hours in excess of 200 shall be maintained in a separate account. The financial value of those hours shall be converted and deposited into the employee's PORAC medical trust account over five successive years in equal installments commencing on January 1, 2013. The conversion was at the employee's rate of pay on December 23, 2012. The City may accelerate the payment of hours to be converted. The remaining fifty percent of the sick leave balance in excess of 200 hours was credited into the employee's separate “catastrophic/service time” bank no later than February 1, 2013, up to a maximum of 500 hours.

The City's contribution to PORAC for the calendar year ending December 31, 2021 was \$420,828.

Safety Members Pension Fund. In addition, the City maintains the Safety Members Pension Fund (“**SMPF**”), a defined benefit plan for fire and police officers who retired prior to March 1973. In March 1973, all active fire and police officers were transferred from SMPF to PERS. The City pays the benefits to SMPF members on a pay-as-you-go basis, primarily through a Funding Agreement, purchased by the Berkeley Civic Improvement Corporation on behalf of the City in 1989. For the fiscal year ended June 30, 2021, the City's contribution to SMPF was \$480,630.

The funded status of the SMPF as of June 30, 2021, the most recent actuarial date, is set forth below:

Actuarial Valuation Date	Plan Fiduciary Net Position	Total Pension Liability	Plan Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	Covered Payroll	Plan Net Pension Liability as a Percentage of Covered Employee Payroll
6/30/2021	--	\$1,548,284	\$1,548,284	--%	N/A	N/A

For a more detailed discussion of the SMPF, see APPENDIX B of this Official Statement.

Post-Employment Health Benefits

The City offers certain post-employment health benefits to retirees. There are three plans: (i) the City of Berkeley Fire Employees Retiree Health Plan (“**FRHF**”), (ii) the City of Berkeley Miscellaneous Employees Retiree Health Plan (“**RHPAP**”) and (iii) the Police Retiree Premium Assistance Plan (“**PRPAP**”).

The City has adopted Government Accounting Standards Board Statement 75 which requires governmental agencies to change their accounting for Other Post-Employment Benefits (“**OPEB**”) from pay-as-you-go to an accrual basis.

See Appendix B, Note 3 for information about the City’s OPEB liabilities.

City of Berkeley Fire Employees Retiree Health Plan. The FRFH is a single-employer defined benefit medical plan. To be eligible for benefits, sworn Fire employees must retire from the City on or after July 1, 1997, be vested in a PERS pension, and retire from the City on or after age 50. Benefits commence immediately upon retirement. Benefits are payable for the retiree’s lifetime and continue for his or her covered spouse’s/domestic partner’s lifetime. The amount the City contributes toward the Fire Employees Retiree Health Plan is 4.5% per year regardless of the amount of increase in the underlying premium rate. The establishment and amendments of benefit provisions are negotiated between the employee bargaining units and the City Labor Negotiating Team, and are approved by the City Manager and City Council. As of June 30, 2021, there were 124 active employees, 65 retirees deferred and 30 retirees receiving benefits.

The City’s targeted funding policy is equal to the service cost for active employees plus an amount to amortize unfunded liabilities over 30 years (rolling 30-year amortization) as a level percentage of payroll. The City strives to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45.

For the FRFH, the City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for fiscal year 2020-21 and the four preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability
6/30/2017	\$1,991,925	43%	\$17,530,174
6/30/2018	2,163,028	34	17,251,382
6/30/2019	2,326,493	36	19,633,312
6/30/2020	2,104,622	36	21,177,486
6/30/2021	2,575,970	35	23,873,248

The funded status of the FRFH as of June 30, 2021, the date of the most recent actuarial report, is set forth below:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL)-Unit Credit	Unfunded Actuarial Liability-UAAL	Funded Ratio	Covered Payroll	UAAL as Percentage of covered Payroll
7/1/2020	\$12,657,941	\$36,531,189	\$23,873,248	34.6%	\$15,282,868	156.21%

City of Berkeley Miscellaneous Employees Retiree Health Premium Assistance Plan. The RHPAP is a single-employer defined benefit medical plan. It provides retiree health benefits to eligible retirees and his/her spouse or domestic partner. The establishment and amendments of benefit provisions are negotiated between the employee bargaining units and the City, and are approved by the City Council.

Retirees who are at least age 50, with at least 8 years of service with the City at the time of separation from service are eligible to receive retiree health benefits commencing at age 55. Benefits are payable for the retiree's lifetime and continue for his or her covered spouse's/domestic partner's lifetime. The City pays the monthly cost of the monthly premiums up to a participant's applicable percentage of the base dollar amount and subject to annual 4.5% increases regardless of the amount of increase in the underlying premium rate. As of June 30, 2021, there were 1,086 active employees.

The City's targeted funding policy is equal to the normal cost for active employees plus an amount to amortize unfunded liabilities over 30 years as a level percentage of payrolls. The City is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. Any changes to the contribution requirements of the plan are negotiated by the bargaining units and City negotiating staff, and approved by the City Council.

For the RHPAP, the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2020-21 and the four preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$4,610,828	72.7%	\$37,900,578
6/30/2018	4,729,448	42.3	34,215,614
6/30/2019	5,051,655	43.3	37,219,746
6/30/2020	5,534,572	32.7	60,659,492
6/30/2021	4,871,995	42.9	41,895,470

The funded status of the RHPAP as of June 30, 2021, the most recent actuarial report, is set forth below:

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability- UAAL	Funded Ratio	Covered Payroll	UAAL as Percentage of covered Payroll
7/1/2021	\$73,385,473	\$31,490,003	\$41,895,470	42.9%	\$99,542,579 ⁽¹⁾	42.09%

Police Retiree Premium Assistance Plan. Effective September 19, 2012, the City replaced the “Berkeley Police Retirement Income Benefit Plan” with the “Retiree Health Premium Assistance Coverage Plan” for any police employees hired on or after that date, as well as any current employees who retire on or after such date. Under the newly established retiree health premium assistance plan, benefits will be the paid by the City directly to the provider who is providing retiree health coverage to the retiree or his or her surviving spouse. The maximum amount will be equal in value to the City sponsored health plan.

In order to be eligible for the Retiree Health Premium Assistance Coverage a “Retiree” must meet all of the following criteria:

- (a) A person who is vested in, and
- (b) Has reached the age of 50, and
- (c) Has retired from the City at age 50 or thereafter, and
- (d) Has applied for and is receiving a pension from at the time of retirement.

The maximum amount the City will contribute toward the payment of medical insurance premiums is based on the employee’s years of service as a sworn member of the Berkeley Police Department at time of retirement. The retiree must have at least 10 years of service as a sworn member of the Berkeley Police Department to qualify for this benefit.

<u>Years of Service</u>	<u>City Percentage</u>
10 to 14	25%
15 to 19	50
20 or more	100

Beginning September 19, 2012, each month after the employee retires the City will pay the health care service provider an appropriate percentage based on years of service above an amount equal to \$1,200 per month for two-party coverage for the retiree and a qualifying spouse/domestic partner or \$600 per month for single party coverage. Upon death of either the retiree or the retiree’s spouse, the City will only pay the appropriate percentage of the single party rate to the provider on behalf of the surviving retiree or spouse/domestic partner. If there is no spouse/domestic partner at the time of retirement, the City shall only pay the single party rate. The retiree and/or surviving spouse/domestic partner will be responsible for payment of the difference between the amount the City contributes toward payment of the premium and the actual premium cost. The funds for this difference will come from the retirees retirement account and the retiree must authorize such withdrawal of funds.

Beginning July 1, 2013 and effective each July 1 thereafter, the base rates the City contributes toward payment of the premium amount described in the preceding paragraph shall be increased by either the amount Kaiser increases the retiree medical premium for that year, or 6%, whichever is less. The retiree and/or surviving spouse/domestic partner shall pay the difference between the amount the City contributes toward payment of the premium and the actual premium cost. As of June 30, 2020, there were 158 active employees, 16 active retirees, and 15 retirees entitled to, but not yet receiving, benefits.

For the retiree health premium assistance plan, the City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for fiscal year 2020-21 and the four preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability
6/30/2017	\$5,105,429	11.0%	\$45,508,847
6/30/2018	4,929,429	6.0	41,652,588
6/30/2019	5,155,293	6.0	46,252,565
6/30/2020	4,432,549	4.0	57,472,394
6/30/2021	5,076,625	4.0	49,355,501

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for current actives and retirees and is calculated based on the assumptions and census data described this report. The Actuarial Accrued Liability (AAL) is the actuarial present value of benefits attributed to employee service rendered prior to the valuation date. The AAL equals the present value of benefits multiplied by a fraction equal to service to date over service at expected retirement. The Normal Cost is the actuarial present value of benefits attributed to one year of service. This equals the present value of benefits divided by service at expected retirement. Since retirees are not accruing any more service, their normal cost is zero. In determining the Annual Required Contribution, the Unfunded AAL is amortized as a level percentage of payroll over 30 years.

As of July 1, 2020, the most recent actuarial valuation date, the plan was 5.0% funded. The actuarial accrued liability for benefit was \$51.9 million, and the actuarial value of assets was \$2.6 million, resulting in an unfunded accrued liability of \$49.4 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$21.7 million. The fair value of the assets was determined using market values as of the date of the actuarial report. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Funded status of the plan as of June 30, 2021, the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)- Unit Credit	Unfunded Actuarial Accrued Liability- UAAL	Funded Ratio	Covered Payroll	UAAL as Percentage of covered Payroll
7/1/2021	\$2,581,188	\$51,936,689	\$49,355,501	5.0%	\$21,718,889	227.2%

Defined Contribution Plans

The City offers certain supplemental retirement and income plans to retirees. See Appendix B, Note 12 for information about the City's defined contribution plans.

Labor Relations

As of February 28, 2022, the City employed approximately 1,794.91 full-time equivalent budgeted employees. There are six employee unions as shown below. In addition, the City employs approximately 519 unrepresented employees that include Executive Management, Confidential professional or Confidential Office support positions. The City has not experienced any work stoppages or strikes by its employees.

CITY OF BERKELEY Labor Relations

<u>Labor Organization</u>	<u>Employees</u>	<u>Contract Expiration Date (1)</u>
Berkeley Fire Fighters Association/I.A.F.F. Local 1227	132	6/30/2023
Berkeley Police Association	150	6/30/2023
I. B. E. W. Local 1245	8	6/27/2022
Service Employees International Local 1021 Maintenance and Clerical Chapters	444	6/26/2024
Service Employees International Local 1021 Community Services and Part-Time Recreation Leaders Association Chapters	493	6/26/2024
Public Employees Local 1	187	6/27/2024
Unrepresented Employees	<u>519</u>	n/a

Source: City of Berkeley.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or restriction of assets; errors or omissions; injuries to employees; or acts of God.

The City is self-insured for liability claims below \$350,000. The City is a member of the Bay Cities Joint Powers Insurance Authority (“**BCJPIA**”). The BCJPIA consists of 20 municipal or public agency members, all located within the metropolitan San Francisco Bay Area. The BCJPIA provides general liability, auto liability, and errors and omissions coverage between \$350,000 and \$1,000,000. The California Affiliated Risk Management Authority (“**CARMA**”) provides additional coverage to the BCJPIA and its member entities for claims in excess of \$1,000,000, up to \$29,000,000.

The City is self-insured for workers’ compensation. Payments are made to the Workers’ Compensation Self-Insurance Internal Service Fund by transfers from the City’s general fund and other funds of the City on a pay-as-you-go basis.

The City requires pre-employment physical examinations for high risk, high hazard employees as well as annual examination for all uniformed officers. As part of its workers’ compensation program, copies of all injured employee medical reports are monitored by a third-party agent to ensure that injured employees receive proper care.

At June 30, 2021, \$4,923,541 and \$36,538,000 have been accrued for public liability, and workers’ compensation claims, respectively. These accruals represent estimates of amounts to

ultimately be paid for reported claims and, upon past experience, recent claim settlement trends and other information. It is the City's practice to obtain an actuarial study on an annual basis. Although the amount of actual losses incurred through June 30, 2021 are dependent on future developments, based upon information from the administrators and others involved with the administration of the programs, the City's management believes that the aggregate accrual is adequate to cover such losses.

City Debt Structure

Short-Term Debt. The City has issued Tax and Revenue Anticipation Notes ("TRANS") in each recent year. The City's TRANS are a general obligation of the City, payable from the City's general fund and any other lawfully available moneys. The fiscal year 2021-22 TRANS have an outstanding principal amount of \$44,660,000 and mature on July 25, 2022.

General Fund Obligations. The City currently has outstanding long-term General Fund debt and lease obligations described below. The City has never defaulted on the payment of principal or interest on any of its indebtedness.

Certificates of Participation. On June 2, 2021, Berkeley Joint Powers Financing Authority (the "**Authority**") executed and delivered certificates of participation in the aggregate principal amount of \$3,975,000 (the "**Certificates of Participation**"). The City's underlying rental obligation is a general fund obligation of the City. The bonds bear interest at rates between 2.00%-5.00%, and the final maturity date is October 1, 2031. As of April 1, 2022, the principal balance outstanding was \$3,975,000.

Lease Revenue Bonds. In October 2012, Authority issued lease revenue bonds on behalf of the City in the aggregate principal amount of \$27,260,000 to refund the Authority's 1999 Lease Revenue Bonds and 2003 Certificates of Participation. The City's underlying rental obligation is a general fund obligation of the City. The bonds bear interest at rates between 3.00%-5.00%, and the final maturity date is October 1, 2037. As of April 1, 2022, the principal balance outstanding was \$16,445,000.

General Obligation Bonds. The City has previously issued general obligation and general obligation refunding bonds that are secured by ad valorem taxes levied and collected in the City. See "DEBT SERVICE SCHEDULES.- Combined Debt Service Schedule" in the front part of this Official Statement for a summary of the City's outstanding general obligations.

Employment

The unemployment rate in the Oakland-Hayward-Berkeley MD was 3.3% in March 2022, down from a revised 3.9% in February 2022, and below the year-ago estimate of 7.3%. This compares with an unadjusted unemployment rate of 4.2% for California and 3.8% for the nation during the same period. The unemployment rate was 3.2% in the County and 3.5% in Contra Costa County.

The table below list employment by industry group for Alameda and Contra Costa Counties for the years 2017 to 2021.

**OAKLAND- HAYWARD-BERKELEY MD
(Alameda and Contra Costa Counties)
Annual Averages Civilian Labor Force, Employment and Unemployment,
Employment by Industry
(March 2021 Benchmark)**

	2017	2018	2019	2020	2021
Civilian Labor Force ⁽¹⁾	1,396,000	1,401,700	1,403,400	1,362,300	1,352,300
Employment	1,343,400	1,357,700	1,360,500	1,239,100	1,268,700
Unemployment	52,600	44,000	42,900	123,200	83,600
Unemployment Rate	3.8%	3.1%	3.1%	9.0%	6.2%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	1,400	1,300	1,400	1,500	1,600
Mining and Logging	200	200	200	200	200
Construction	71,200	74,900	75,500	70,700	73,000
Manufacturing	95,700	100,600	101,000	98,700	105,200
Wholesale Trade	48,700	47,500	45,400	42,100	41,300
Retail Trade	114,400	114,500	111,800	101,100	105,300
Transportation, Warehousing, Utilities	41,300	42,300	43,700	45,200	48,600
Information	26,900	27,600	27,600	25,800	25,000
Finance and Insurance	38,900	37,500	37,200	35,900	34,700
Real Estate and Rental and Leasing	17,400	17,800	18,100	16,700	16,800
Professional and Business Services	184,500	189,500	193,200	184,800	189,900
Educational and Health Services	191,500	194,300	198,400	191,300	198,200
Leisure and Hospitality	114,900	117,700	121,000	84,700	91,700
Other Services	40,200	41,000	41,200	33,100	35,000
Federal Government	13,800	13,400	13,400	14,200	13,500
State Government	39,300	39,400	39,600	38,200	37,900
Local Government	121,500	121,800	121,800	113,500	111,900
Total, All Industries ⁽³⁾	1,161,800	1,181,300	1,190,300	1,097,700	1,129,700

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

The following tables show the major employers in the City and the County.

**CITY OF BERKELEY
Major Employers
2021**

<u>Employer</u>	<u>Number of Employees</u>	<u>% of Total Employment</u>
University of California Berkeley	13,699	20.26%
Lawrence Berkeley National Laboratory	3,836	5.67
Sutter East Bay Medical Foundation/Hospitals	2,040	3.02
City of Berkeley	1,480	2.19
Bayer Corporation	1,082	1.60
Berkeley Unified School District	865	1.28
Kaiser Permanente Medical Group	771	1.14
Siemens Corporation/Healthcare Diagnostics, Inc.	678	1.00
Berkeley Bowl Produce	558	0.83
Lifelong Medical Care	441	0.65

Source: City of Berkeley, Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2021.

**COUNTY OF ALAMEDA
Major Employers (Listed Alphabetically)
April 2022**

Employer Name	Location	Industry
Alameda County Law Enforcement	Oakland	Government Offices-County
Alameda County Sheriff's Ofc	Oakland	Sheriff
Alameda Health System	San Leandro	Health Care Management
Alta Bates Summit Med Ctr Alta	Berkeley	Hospitals
BART PD	Oakland	Transit Lines
California State Univ East Bay	Hayward	Schools-Universities & Colleges Academic
Cooper Vision Inc	Pleasanton	Optical Goods-Wholesale
Dell EMC	Pleasanton	Computer Storage Devices (mfrs)
East Bay Mud	Oakland	Water & Sewage Companies-Utility
Ebmud	Oakland	Utilities
Grifols Diagnostic Solutions	Emeryville	Pharmaceutical Research Laboratories
Highland Hospital	Oakland	Hospitals
Kaiser Permanente Oakland Med	Oakland	Hospitals
Lawrence Berkeley Lab	Berkeley	Laboratories-Research & Development
Lawrence Livermore Natl Lab	Livermore	University-College Dept/Facility/Office
Oakland Police Patrol Div	Oakland	Police Departments
Sanfrancisco Bayarea Rapid	Oakland	Transit Lines
Transportation Dept-California	Oakland	Government Offices-State
UCSF Benioff Children's Hosp	Oakland	Hospitals
University of CA Berkeley	Berkeley	Schools-Universities & Colleges Academic
University of CA-BERKELEY	Berkeley	University-College Dept/Facility/Office
University-Ca-Berkeley Dept	Berkeley	University-College Dept/Facility/Office
Valley Care Health System	Livermore	Health Services
Washington Hospital Healthcare	Fremont	Health Care Management
Western Digital Corp	Fremont	Computer Storage Devices (mfrs)

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2022 2nd Edition.

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the City of Berkeley, the County of Alameda, the State and the United States for the period 2018 through 2022.

CITY OF BERKELEY AND COUNTY OF ALAMEDA
Effective Buying Income
As of January 1, 2018 through 2022

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2018	Berkeley	\$5,070,468	\$66,382
	Alameda County	61,987,949	73,633
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735
2019	Berkeley	\$5,517,451	\$72,412
	Alameda County	67,609,653	79,446
	California	1,183,264,399	62,637
	United States	9,017,967,563	52,841
2020	Berkeley	\$5,843,576	\$76,294
	Alameda County	72,243,436	84,435
	California	1,243,564,816	65,870
	United States	9,487,165,436	55,303
2021	Berkeley	\$6,203,796	\$79,437
	Alameda County	77,794,202	88,389
	California	1,290,894,604	67,956
	United States	9,809,944,764	56,790
2022	Berkeley	\$6,646,946	\$88,676
	Alameda County	85,225,529	99,940
	California	1,452,426,153	77,058
	United States	11,208,582,541	64,448

Source: The Nielsen Company (US), Inc for 2018; Claritas, LLC for 2019 through 2022.

Construction Activity

Provided below are the building permits and valuations for the City of Berkeley for calendar years 2016 through 2020. Annual figures are not yet available for calendar year 2021.

CITY OF BERKELEY Total Building Permit Valuations (Valuations in Thousands)

Permit Valuation	2016	2017	2018	2019	2020
New Single-family	\$5,469.1	\$14,776.2	\$13,808.7	\$9,666.3	\$6,444.7
New Multi-family	9,835.5	47,723.2	24,506.9	7,513.6	12,643.5
Res. Alterations/Additions	<u>45,295.9</u>	<u>45,215.9</u>	<u>80,130.0</u>	<u>40,596.9</u>	<u>26,204.9</u>
Total Residential	60,600.5	107,715.3	118,445.6	57,776.8	45,293.1
New Commercial	32,109.7	24,576.3	18,732.1	10,816.3	25,867.1
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	3,315.8	3,636.5	3,236.6	4,718.7	272.0
Com. Alterations/Additions	<u>47,485.2</u>	<u>26,597.7</u>	<u>52,522.6</u>	<u>12,885.4</u>	<u>23,290.5</u>
Total Nonresidential	82,910.7	54,810.5	74,491.3	28,420.4	49,429.6
<u>New Dwelling Units</u>					
Single Family	20	43	63	46	21
Multiple Family	<u>69</u>	<u>402</u>	<u>129</u>	<u>42</u>	<u>117</u>
TOTAL	89	445	192	88	138

Source: Construction Industry Research Board, Building

APPENDIX B
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR YEAR ENDED
JUNE 30, 2021

APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the City of Berkeley (the “City”) in connection with the issuance of the bonds captioned above (the “Bonds”). The Bonds are being issued under the Constitution and laws of the State of California, including but not limited to, Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, under a resolution adopted by the City Council of the City on April 26, 2022 (the “Bond Resolution”) and pursuant to and consistent with the Charter of the City.

The City hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Bond Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4.

“*Annual Report Date*” means the date not later than April 1 after the end of each fiscal year of the City (currently June 30th).

“*Dissemination Agent*” means the City or any other Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. As of the date of this Disclosure Certificate, the City is acting as Dissemination Agent.

“*Listed Events*” means any of the events listed in Section 5(a).

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

“*Official Statement*” means the final official statement executed by the City in connection with the issuance of the Bonds.

“*Participating Underwriter*” means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing April 1, 2023, with the report for the 2021-22 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

- (i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and
- (ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) The City's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the preceding fiscal year, substantially similar to that provided in the Official Statement:

- (i) Assessed value of taxable property within the jurisdiction of the City;

- (ii) Summary of property tax rates for all taxing entities within the City expressed as a percentage of assessed valuation in the form of Table 5 of the Official Statement;
- (iii) Top ten property tax assessesees for current fiscal year, taxable value and percentage of total assessed value in substantially the form of Table 6 of the Official Statement;
- (iv) If and to the extent such information is available from the County, property tax collection delinquencies for the City; and
- (v) Amount of all general obligation debt of the City outstanding, and total scheduled debt service on such general obligation debt.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.

- (12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (15) Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material.
- (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Resolution.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14), and (a)(15) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the City obtains knowledge of the occurrence of any of these Listed Events, the City will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the City will cause a notice to be filed as set forth in paragraph (b) above.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Resolution.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 3 contain the qualifier "if material." The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event's occurrence is material for purposes of U.S. federal securities law.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days' written notice to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Bond Resolution for amendments to the Bond Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant

hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Bond Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Berkeley (the "City")

Name of Bond Issue: City of Berkeley 2022 General Obligation Bonds, Series B
(2018 Election Measure O: Affordable Housing)

Date of Issuance: _____, 2022

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated _____, 2022. The City anticipates that the Annual Report will be filed by _____.

Date: [DISSEMINATION AGENT]

By: _____
Name:
Title:

APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

*Neither the issuer of the Bonds (the “**Issuer**”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “**Agent**”) take any responsibility for the information contained in this Appendix.*

*No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “**Rules**” applicable to DTC are on file with the Securities and Exchange Commission and the current “**Procedures**” of DTC to be followed in dealing with DTC Participants are on file with DTC.*

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “**Securities**”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust

companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as

possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.