



Office of the City Manager

INFORMATION CALENDAR
May 10, 2022

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Sharon Friedrichsen, Budget Manager

Subject: Fiscal Year 2022 Mid-Year Budget Update

INTRODUCTION

This report presents the Fiscal Year (“FY”) 2022 Mid-Year Budget Update and presents actual General Fund and Special Fund expenditures incurred from July 1, 2021 to December 31, 2021. It also presents projected General Fund revenues and expenditures for FY 2022 and projected expenditures for All Funds by department.

CURRENT SITUATION AND ITS EFFECTS

The City of Berkeley is currently in Fiscal Year 2022 (FY 2022). On June 29, 2021, the City Council adopted the FY 2022 budget, which included the General Fund being balanced through the use of American Rescue Plan Funds. FY 2022 runs from July 1, 2021 through June 30, 2022.

As depicted in the table below, as of December 31, 2021, while General Fund revenues are on track to exceed initial estimates, General Fund expenses are also somewhat higher than anticipated but are projected to finish FY 2022 with a savings of \$5.3 million. Given these trends and the fiscal uncertainty attributed to the COVID-19 pandemic, Staff will carefully monitor revenues and expenses in the second half of FY 2022.

Table 1: FY 2022 Mid-Year Budget at a Glance

<i>\$'s in Millions</i>	FY 2022 Adjusted Budget	FY 2022 Mid-Year Actuals	Percentage of Revenue Received/ Expensed and Encumbered
Revenues	\$236.0	\$128.2	54%
Expenditures	(\$259.8)	(\$118.3)	53%
Carryover and Excess Equity	\$25.0		
Balance	\$1.2		

The carryover and excess equity are carried forward from FY 2021. Additional information on the carryovers and excess equity allocation is discussed later in this report under the General Fund Expenditures section.

FY 2021 Mid-Year Summary

On December 14, 2021, Council was provided the [FY 2021 Year-End Results and FY 2022 First Quarter Budget Update](#) report. At the time, both the General Fund revenues and the General Fund expenditures were tracking within budget.

The chart below shows FY 2022 General Fund Revenues through the first six months of the current fiscal year and compares the year-to-date revenues received to the first six months of FY 2021.

General Fund Revenues (Adopted and Year to Date Actual thru December 31)

Revenue Categories	FY 2022				FY 2021				Comparison FY22 vs FY 21		Mid Year Revised FY 2022 Projections
	Adopted	Actual	Variance	% Received	Adopted	Actual	Variance	% Received	Amount	%	
	(a)	(b)	c=(b) - (a)	(d) = (b)/(a)	(e)	(f)	g=(f) - (e)	(h) = (f)/(g)	(i) = (b) - (f)	(j) = (i)/(f)	
Secured Property	\$71,382,000	\$36,349,204	(\$35,032,796)	50.92%	\$61,165,454	\$34,731,618	(\$26,433,836)	56.78%	\$1,617,586	4.66%	\$71,382,000
Redemptions - Regular	831,441	415,104	(416,337)	49.93%	534,512	432,291	-102,221	80.88%	(17,187)	-3.98%	831,441
Supplemental Taxes	2,000,000	608,905	(1,391,095)	30.45%	1,260,000	855,050	-404,950	67.86%	(246,145)	-28.79%	2,000,000
Unsecured Property Taxes	2,625,000	3,048,386	423,386	116.13%	2,250,000	2,995,351	745,351	133.13%	53,035	1.77%	3,516,000
Property Transfer Tax	21,000,000	21,710,019	710,019	103.38%	16,500,000	10,665,913	-5,834,087	64.64%	11,044,106	103.55%	39,437,743
Property Transfer Tax-Measure P (New December 21, 2018)	8,500,000	8,626,946	126,946	101.49%	4,747,414	4,254,324	-493,090	89.61%	4,372,622	102.78%	17,070,110
Sales Taxes	18,287,215	9,533,614	(8,753,601)	52.13%	15,786,200	8,069,851	-7,716,349	51.12%	1,463,763	18.14%	18,287,215
Soda Taxes	990,210	519,699	(470,511)	52.48%	970,794	530,328	-440,466	54.63%	(10,629)	-2.00%	990,210
Utility Users Taxes	13,000,000	6,534,425	(6,465,575)	50.26%	12,750,000	6,304,755	-6,445,245	49.45%	229,670	3.64%	13,800,000
Transient Occupancy Taxes	2,173,000	2,471,311	298,311	113.73%	5,070,000	1,084,961	-3,985,039	21.40%	1,386,350	127.78%	4,300,000
Short-term Rentals	630,000	586,569	(43,431)	93.11%	676,260	218,590	-457,670	676,260	367,979	168.34%	900,000
Business License Tax	18,498,146	1,393,760	(17,104,386)	7.53%	12,984,192	390,253	-12,593,939	3.01%	1,003,507	257.14%	19,000,000
Recreational Cannabis	1,643,739	600,770	(1,042,969)	36.55%	1,300,000	355,641	-944,359	27.36%	245,129	68.93%	1,800,000
U1 Revenues	5,120,350	153,243	(4,967,107)	2.99%	2,700,000	53,389	-2,646,611	1.98%	99,854	187.03%	5,120,350
Other Taxes	1,761,714	1,052,445	(709,269)	59.74%	922,048	705,675	-216,373	76.53%	346,770	49.14%	1,800,000
Vehicle In-Lieu Taxes	14,959,837	7,503,002	(7,456,835)	50.15%	12,421,597	7,190,227	-5,231,370	57.88%	312,775	4.35%	15,024,697
Parking Fines- Regular Collections	3,726,450	2,451,293	(1,275,157)	65.78%	5,049,000	1,714,828	-3,334,172	33.96%	736,465	42.95%	4,326,450
Parking Fines-Booting Collections			-				-		-		
Moving Violations	132,600	83,533	(49,067)	63.00%	190,000	42,277	-147,723	22.25%	41,256	97.58%	132,600
Ambulance Fees	3,154,002	1,715,639	(1,438,363)	54.40%	5,103,208	1,414,206	-3,689,002	27.71%	301,433	21.31%	3,268,275
Interest Income	4,462,320	3,107,784	(1,354,536)	69.65%	2,851,200	2,627,359	-223,841	92.15%	480,425	18.29%	4,462,320
Franchise Fees	1,613,283	350,085	(1,263,198)	21.70%	1,551,696	370,029	-1,181,667	23.85%	(19,944)	-5.39%	1,613,283
Other Revenue	6,729,977	3,275,856	(3,454,121)	48.68%	6,246,348	5,631,071	-615,277	90.15%	(2,355,215)	-41.83%	6,729,977
IDC Reimbursement	5,490,000	2,470,002	(3,019,998)	44.99%	5,490,000	2,683,137	-2,806,863	48.87%	(213,135)	-7.94%	5,490,000
Transfers	27,354,923	13,677,462	(13,677,461)	50.00%	17,274,293	8,865,281	-8,409,012	51.32%	4,812,181	54.28%	27,354,923
Total Revenue:	\$236,066,207	\$128,239,056	-\$107,827,151	54.32%	\$195,794,216	\$102,186,405	-\$93,607,811	52.19%	\$26,052,651	25.50%	\$268,637,594

The mid-year review generally focuses primarily on the major revenue fluctuations and changes that have occurred that might result in significant changes in future projections.

Typically, Staff waits until the mid-year to identify General Fund revenue projections that should be revised.

During the first half of FY 2022, General Fund revenues and transfers increased by \$26,052,651 or 25.50%, from \$102,186,405 in the first half of FY 2021, to \$128,239,056 in the first half of FY 2022, primarily due to the following increases (decreases):

• Secured Property Taxes	\$ 1,617,586
• Property Transfer Taxes	11,044,106
• Measure P	4,372,622
• Sales Taxes	1,463,763
• Transient Occupancy Taxes (TOT)	1,386,350
• Business License Taxes	1,003,507
• Parking Fines	895,662
• Transfers In	(840,890)
• Other Income	(2,339,677)

Secured Property Tax (\$1,617,586 more than FY 2021 Actual)

During the first half of FY 2022, Secured Property Tax revenues totaled \$36,349,204, which was \$1,617,586 or 4.66% more than the \$34,731,618 received for the same period in FY 2021. The FY 2022 Adopted Budget assumes a 4.72% increase for the year, while the County's Certification of Assessed Valuation reflects growth of 4.48%.

Unsecured Property Tax (\$53,035 more than FY 2021 Actual)

During the first half of FY 2022, Unsecured Property Tax revenues totaled \$3,048,386, which was \$53,035 or 1.77% more than the \$2,995,351 in the same period in FY 2021. The FY 2022 Adopted Budget reflected a decline of 31.4%, while the County's Certification of Assessed Valuation growth reflected growth of 1.96% for FY 2022. Staff will be increasing the FY 2022 Unsecured Property Tax revenue projection to \$3,516,000.

Property Transfer Tax (\$11,044,106 more than FY 2021 Actual)

During the first half of FY 2022, Property Transfer Tax totaled \$21,710,019, which was \$11,044,106 or 103.5% more than the \$10,665,913 received for the first half of FY 2021. However, \$3,384,375, or 15.6%, of that increase resulted from the late payment by the County of the May 2021 Property Transfer Taxes, which should have been received in FY 2021. A payment of \$4,630,461 was received by the County in January 2022. Assuming no growth over the total received in the last five months of FY 2021 (\$13,097,203), the FY 2022 total would be \$39,437,743 (including the May 2021 payment of \$3,384,375 received in FY 2022). Staff is increasing the FY 2022 projection of \$21,000,000 to \$39,437,743.

The primary reasons for the remaining \$7,659,731 (\$11,044,106-\$3,384,375) increase in Property Transfer Tax were (1) The dollar value of property sales increased by \$559 million or 81.9% during the first half of FY 2022, as illustrated in Table 2 below; (2) The number of property sales transactions increased by 141 or 29.9% during the first half of FY 2022, as illustrated in Table 3 below; and (3) Seismic rebates increased from \$365,976 in the first half of FY 2021 to \$515,478 for the same period in FY 2022.

Table 2: FY 2022 and FY 2021 6 Month Comparison of Property Sales

Property Sales (In Million \$)	July	Aug	Sept	Oct	Nov	Dec	Total Property Sales \$
FY 2022	\$179.7	\$194.3	\$209.9	\$204.5	\$252.9	\$200.2	\$1,241.5
FY 2021	74.0	115.0	106.4	129.7	139.0	118.4	682.5
Change	105.7	79.3	103.5	74.8	113.9	81.8	559.0
% Change	142.7%	69.0%	97.3%	57.7%	81.9%	69.1%	81.9%

Table 3: FY 2022 and FY 2021 6 Month Comparison of Property Transfer Transactions

Property Transfer Transactions	July	Aug	Sept	Oct	Nov	Dec	Total
FY 2022	114	84	74	104	120	116	612
FY 2021	50	82	73	86	93	87	471
Change	64	2	1	18	27	29	141
% Change	128.0%	2.4%	1.4%	20.9%	29.0%	33.3%	29.9%

Measure P-Property Transfer Tax (\$4,372,622 more than FY 2021 Actual)

In addition, \$8,626,946 in Measure P taxes (a tax which took effect on December 21, 2018) were collected during the first half of FY 2022, which was \$4,372,622 or 102.8% more than the \$4,254,324 collected during the first half of FY 2021. The increase was a result of (1) 103.2% increase in the property sales amount in FY 2022 versus those for the same period in FY 2021, as reflected in the Table 4 below; (2) As reflected in Table 5, there was an 87.4% increase in the number of property sales transactions with a value of \$1.5 million or more; and (3) there were 10 property sales transactions with a value of \$10 million or more (average of \$19.7 million) in FY 2022 versus one such transaction in FY 2021 (\$12 million).

A payment of \$2,347,440 was received by the County in January 2022. Assuming no growth over the total received in the last five months of FY 2021 (\$6,095,724), the FY 2022 total would be \$17,070,110. Staff is increasing the FY 2022 projection of \$8,500,000 to \$17,070,110.

Table 4: FY 2022 and FY 2021 6 Month Comparison-Property Sales of \$1.5 Million or More

Property Sales \$1.5 million+	July	Aug	Sept	Oct	Nov	Dec	Total
FY 2022	\$117.7	\$128.5	\$147.9	\$145.5	\$190.7	\$134.0	\$864.3
FY 2021	39.3	61.0	58.6	67.8	82.9	115.8	425.4
Change	78.4	65.8	89.3	77.7	107.8	18.2	438.9
% Change	199.8%	107.9%	152.4%	114.6%	130.0%	15.7%	103.2%

Table 5: FY 2022 and FY 2021 6 Month Comparison of Measure P Transactions

Measure P Transactions	July	Aug	Sept	Oct	Nov	Dec	Total
FY 2022	53	42	49	44	59	51	298
FY 2021	10	26	27	30	38	28	159
Change	43	16	22	14	21	23	139
% Change	430.0%	61.5%	81.5%	46.7%	55.3%	82.1%	87.4%

Sales Tax (\$1,463,763 more than FY 2021 Actual)

For the first half of FY 2022, Sales Tax revenue totaled \$9,533,614, which was \$1,463,763 or 18.1% more than the \$8,069,851 received for the first half of FY 2021.

The increase was consistent with the following projection made by the City's Sales Tax Consultant in Table 6 below:

Table 6: Sales Tax Categories and FY 22 Revenue Projection

Sales Tax Category	Revenue Projection
General Retail	\$ 3,582,787
Food Products	5,573,760
Transportation	2,482,737
Construction	1,227,280
Business-to-business	1,782,010
Miscellaneous	786,424
Subtotal	15,434,998
County pool	3,956,336
State pool	9,966
County sharing	(970,065) ¹

¹ The cities in Alameda County share 5% of their Bradley Burns sales taxes with the County; and,

CDTFA admin. fee	(144,019) ²
Total	\$18,287,216

Utility Users Taxes (\$229,670 more than FY 2021 Actual)

Utility Users Tax (UUT) revenue for the first half of FY 2022 totaled \$6,534,425, which was \$229,670 or 3.6% more than the \$6,304,755 received for the same period in FY 2021. This increase of \$229,670 is shown in Table 7 below:

Table 7: FY 2022 and FY 2021 6 Month Comparison of UUT Revenues

Utility	FY2022	FY 2021	\$ Change	% Change
Telephone	\$ 584,334	\$ 626,608	\$ -42,274	-6.75%
Cable	515,651	487,938	27,713	5.68%
Cellular	848,280	669,829	178,451	26.64%
Electric	3,551,297	3,655,820	-104,523	-2.86%
Gas	1,034,863	864,560	170,303	19.70%
Total	\$6,534,425	\$6,304,755	\$ 229,670	3.64%

Staff is increasing the FY 2022 UUT projection from \$13,000,000 to \$13,800,000.

Transient Occupancy Tax (\$1,386,350 more than FY 2021 Actual)

Transient Occupancy Tax (TOT) revenue for the first half of FY 2022 totaled \$2,471,311, which was \$1,386,350 or 127.78% more than the \$1,084,961 received for the first half of FY 2021. The increase in FY 2022 was primarily attributable to an increase of 138.2% at the five largest hotels in Berkeley during the first half of the year (155.8% in the first quarter and 134.1% in the second quarter). Staff is increasing the FY 2022 TOT projection from \$2,173,000 to \$3,800,000 to accommodate the new downtown hotel that came online during the second quarter of the fiscal year.

Short-Term Rentals (\$367,979 more than FY 2021 Actual)

Short-Term Rentals revenue for the first half of FY 2022 totaled \$586,569, which was \$367,979 or 168.3% more than the \$218,590 received for the first half of FY 2021. Based on the mid-year results, staff is increasing the FY 2022 projection to \$900,000.

Business License Taxes (\$1,003,507 more than FY 2021 Actual)

Business license Taxes (BLT) revenue for the first half of FY 2022 totaled \$1,393,760, which was \$1,003,507 or 257.1% more than the \$390,253 received for the first half of FY 2021. BLT are not due yet, so it is too soon to gauge the FY 2022 trend. However, the increase so far is partly due to the following: (1) Business license applications, which generated \$21,400 in additional revenue; (2) More than 200 more business license renewals were received, due to the delinquent notices sent out in September 2021; and (3) The business license revenue for retail and rental classifications

² The CDTFA administrative fees are a percentage of taxes CDTFA charges to administer the sales tax program.

increased in FY 2022 by \$31,000 and \$165,000, respectively. Based on the mid-year results, staff is increasing the FY 2022 projection to \$19,000,000.

Recreational Cannabis (\$245,129 more than FY 2021 Actual)

Recreational Cannabis revenue for the first half of FY 2022 totaled \$600,770, which was \$245,129 or 68.9% more than the \$355,641 received in the first half of FY 2021.

Recreational Cannabis taxes are not due yet, so it is too soon to gauge the trend in FY 2022 revenue.

Vehicle In Lieu Taxes (\$312,775 more than FY 2021 Actual)

Vehicle in Lieu Taxes (VLF) for the first half of FY 2022 totaled \$7,503,002, which was \$312,775 or 4.35% more than the \$7,190,227 received in the first half of FY 2021. This increase is consistent with the County's Certification of Assessed Valuation, which reflects growth of 4.48%. Changes in VLF revenues are based on the growth in assessed values.

Parking Fines (\$736,465 more than FY 2021 Actual)

Parking Fines revenue for the first half of FY 2022 totaled \$2,451,293, which was \$736,465 or 42.95% more than the \$1,714,828 received for the first half of FY 2021.

The primary reasons for the increase was a significant increase in ticket writing and a higher collection rate on outstanding citations.

During the first half, ticket writing increased from 55,734 or 10.5% in the first half of FY 2021 to 61,603 in the first half of FY 2022, as shown in Table 8 below:

Table 8: FY 2022 and FY 2021 6 Month Comparison of Parking Tickets Written

Tickets	July	August	Sept.	Oct	Nov	Dec	Total
FY 2022	9,231	9,362	11,401	11,021	10,434	10,154	61,603
FY 2021	6,810	7,654	9,093	12,519	10,357	9,301	55,734
Difference	+2,421	+1,708	+2,308	-1,498	77	853	+5,869
% Difference	+35.6%	+22.3%	+25.4%	-12.0%	-0.7%	9.2%	+10.5%

Staff has increased the Parking Fines projection from \$3,726,450 to \$4,326,450.

Ambulance Fees (\$301,433 more than FY 2021 Actual)

Ambulance Fees revenue for FY 2022 totaled \$1,715,639, which was \$301,433 or 21.3% more than the \$1,414,206 received for the same period during FY 2021. This increase was primarily due to an increase in the number of transports in FY 2022. The City's Ambulance Fees vendor projects that the total number of transports for FY 2022 will be 4,500, an increase of 400 over the 4,100 transports in FY 2021.

Interest Income (\$480,425 more than FY 2021 Actual)

For the first half of FY 2022, interest income totaled \$3,107,784, which was \$480,425 or 18.29% more than the total of \$2,627,359 received for the same period in FY 2021. This

increase was primarily attributable to an increase in the proportion of the portfolio that was invested in long-term (i.e., one year or more) securities than in short-term securities (i.e., less than one year, which paid rates ranging from .01%-.25%), despite the decline in average interest rates. The City moved a significant portion of its short-term funds from its Fidelity money market fund, that paid a rate of .01% into other short-term alternatives, like Commercial Paper.

This increase of \$480,425 occurred despite the Fed's actions to keep short-term rates near zero, and the net interest rate earned by the City dropped from a range of 1.13%-1.17% during the first half of FY 2021, to a range of .96%-1.08% during the first half of FY 2022, as follows:

Table 9: FY 2022 and FY 2021 6 Month Comparison of Monthly Net Interest Rate Earned

Interest	July	August	Sept	Oct	Nov	Dec
FY 2022	.91%	1.03%	1.06%	1.08%	1.02%	.96%
FY 2021	1.17%	1.13%	1.14%	1.12%	1.16%	1.14%

Transfers (\$4,812,181 more than FY 2021 Actual)

Transfers from other funds for the first quarter of FY 2022 totaled \$13,677,462 which was \$4,812,181 or 54.28% more than the \$8,865,281 received for the same period in FY 2021. This was primarily attributable to the Transfer of \$11,484,678 from the American Rescue Plan Fund in the first half of FY 2022, to recover from the impact of the COVID-19 pandemic, compared to the Transfer of \$3,450,000 from the Stabilization Reserve Fund and the \$2,250,000 from the Catastrophic Reserve Fund during the FY 2021 first half, to mitigate the negative impact of COVID-19. In addition, there was a one-time Shelter Plus Care County grant of \$1,600,000 received during the first half of FY 2021.

Other Revenues (\$2,355,215 less than FY 2021 Actual)

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

Other Revenues for the first half of FY 2022 totaled \$3,275,856 which was \$2,355,215 or 41.8% less than the \$5,631,071 received for the first half of FY 2021. This decrease resulted primarily from the FY 2021 receipt of \$1,500,000 from the COVID Relief Program, and \$704,000 from the East Bay Community Foundation for the Berkeley Relief Fund, to finance grant payments to assist businesses and nonprofit organizations impacted by the COVID-19 pandemic.

General Fund Revenue Projections (FY 2022 to FY 2026)

The following chart shows projected General Fund revenues for FY 2022 and the current projections for FY 2023 through FY 2026.

5 YEARS PROJECTED GENERAL FUND REVENUES					
	Projected General Fund Revenue				
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Undesignated Revenues					
Secured Property Taxes	71,382,000	75,308,010	79,449,951	83,819,698	88,429,781
Supplemental Taxes	2,000,000	2,110,000	2,226,050	2,348,483	2,477,649
Unsecured Property Taxes	3,516,000	3,709,380	3,913,396	4,128,633	4,355,707
Property Transfer Taxes	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000
Property Transfer Tax - Measure P	17,070,110	11,810,614	12,283,038	12,774,360	13,285,334
Sales Taxes	18,287,215	19,827,678	20,660,832	21,528,995	22,433,638
Soda Tax	990,210	1,010,014	1,030,214	1,050,819	1,071,835
Utility Users Taxes	13,800,000	14,076,000	14,357,520	14,644,670	14,937,564
Transient Occupancy Taxes(TOT)	4,300,000	4,515,000	4,740,750	4,977,788	5,226,677
Short-term Rentals	900,000	945,000	992,250	1,041,863	1,093,956
Business License Taxes	19,000,000	19,950,000	20,947,500	21,994,875	23,094,619
Recreational Cannabis	1,800,000	1,836,000	1,872,720	1,910,174	1,948,378
Measure U1	5,120,350	5,222,757	5,327,212	5,433,756	5,542,432
Other Taxes	2,631,441	2,684,070	2,737,751	2,792,506	2,848,356
Vehicle In Lieu Taxes	15,024,697	15,851,055	16,722,863	17,642,621	18,612,965
Parking Fines - Regular Collections	4,326,450	4,542,773	4,769,911	5,008,407	5,258,827
Parking Fines - Booting Collections	-	-	-	-	-
Moving Violations	132,600	135,252	137,957	140,716	143,531
Ambulance Fees	3,268,275	3,333,641	3,400,313	3,468,320	3,537,686
Interest Income	4,462,320	4,411,120	4,411,120	4,411,120	4,411,120
Franchise Fees	1,613,283	1,645,549	1,678,460	1,712,029	1,746,269
Other Revenues	6,729,977	6,200,000	6,200,000	6,200,000	6,200,000
Indirect cost reimbursements	5,490,000	5,490,000	5,490,000	5,490,000	5,490,000
Transfers	27,354,923	4,966,745	4,966,745	4,966,745	4,966,745
Total Undesignated Revenues	241,699,851	222,080,657	230,816,554	239,986,576	249,613,069
Designated Revenues					
Prop. Transfer Taxes for capital improvements	26,937,743	10,721,903	11,650,779	12,616,811	13,621,483
Total Designated Revenues	26,937,743	10,721,903	11,650,779	12,616,811	13,621,483
TOTAL REVENUES AND TRANSFERS	268,637,594	232,802,560	242,467,334	252,603,387	263,234,552

**Property Transfer Tax Revenues are set at a baseline amount of \$12.5 million. The Council Fiscal Policies require any excess property transfer tax revenues over the baseline to be allocated to capital improvements. Council may waive this policy as needed to balance the budget or prioritize these funds for other critical needs*

Property Taxes

Given the continued high collection rate, and the resilience of property values in the City, as well as a large volume of recent property sales (which bring assessed values to market value), we are projecting that annual growth will be approximately 5.5% over the next several years. The persistence of strong growth of property valuations in recent years, as well as the spike in current year sales (which bring properties assessed valuations to market value), have caused staff to increase the projected growth rate from the 3.5% that we have used in prior long-term projections.

Sales Taxes

We project that the immense effects of COVID-19 on sales tax revenue in FY 2021 to be largely reversed in FY 2022, with revenue levels almost back to FY 2019 levels, and project growth to then level off to approximately 4% in FY 2024. There is still some potential risk that an overall slowdown in underlying economic recovery will be reflected in reduced growth in consumer spending and sales tax collections.

Business License Taxes

We are projecting a 5% growth in Business License Tax revenue from heavily impacted FY 2021 levels, as economic activity recovers from the recession caused by the pandemic. Long-term projections will be adjusted as the post-pandemic economic environment becomes clearer. 2022 business license returns (for 2021 gross receipts) are just now being received, so we will know more about how revenues are trending once they are processed over the next month or so.

Transient Occupancy Tax (“TOT”)

With recovery of business at the City’s hotels expected to lag behind general economic recovery, and relying on industry guidance regarding predicted occupancy levels, we are currently projecting only 5% annual growth from current revenue levels. Even after taking into consideration the new downtown hotel, we will continue to monitor the major hotels’ projections of future occupancies and will adjust long-term projections as necessary.

Utility Users Tax

We expect UUT revenue to rise marginally from FY 2022 through FY 2024, after increasing slightly in the current year due to rate increases approved by the Public Utilities Commission. Revenues are expected to remain flat after FY 2024 and beyond after all the rate increases have been actualized.

Transfer Tax

Given the continued strength in property values and in sales activity, we expect Transfer Tax revenues to increase 4% per year from FY 2023 – FY 2026, calculated based on FY 2021 revenue. The spike in revenue being seen in FY 2022 is likely due to sales triggered by looming interest rate increases that have been signaled by the Federal Reserve, as well as some pent-up demand from mildly depressed sales during the

pandemic. Over the 5 years prior to the pandemic, transfer tax revenues grew 6% per year on average, but interest rate increases will probably negatively impact sales prices and volumes somewhat in the next few years. We similarly expect revenues from Measure P supplemental tax on high value property transfers to increase at the 4% rate.

Conclusion

The FY 2022 Revised Projections are, as the name implies, projections. It assumes the economic performance experienced thus far in the first half of the fiscal year will continue until the end of the fiscal year on June 30, 2022. At this point in time, only certain revenues (unsecured property tax, preparty transfer tax, Measure P and TOT) totaling approximately \$1.6 million have already exceeded the adopted revenue targets. However, there is a great deal of uncertainty that lays ahead as explained in more detail below. Accordingly, the revised projections are not a guarantee that additional revenue will be received by the City. The actual revenues will be known after the completion of the FY 2022 financial audit in the latter part of calendar year 2022.

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

First, while the health emergency related to the COVID-19 pandemic is finally receding, and while many of the restrictions that had constrained economic activity have been or soon will be lifted, there is a possibility that the local economy has been reshaped in ways that will not return to a pre-pandemic “normal.” The increase in telecommuting that occurred in the past couple of years may not fully recede. This could have effects on spending activities of residents and employees of City businesses and institutions, as well as the desirability of certain locations for home purchases. These trends will have to be studied and analyzed and adjustments made as more data comes in.

Second, after being kept at manageable levels for many years, there are signs that inflationary pressure is driving prices higher. It is not yet clear if this is the temporary effect of disrupted supply chains caused by COVID-19 or a more long-lasting phenomenon. The Federal Reserve Board has indicated and the markets are adjusting to the fact that interest rates will be raised as the Fed’s start to tighten monetary policy to combat inflation. This will have immediate effects on economic activities in all sectors of the economy.

Third, the outbreak of war in Europe between Ukraine and Russia has the potential to dramatically reshape global markets, especially if Russian oil and natural gas are cut off

from the rest of the world. This would drive fuel and transportation prices higher, with downstream effects on the prices of most goods.

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

General Fund Expenditures

On December 14, 2021, the City Council approved General Fund recommended rollovers, carryovers, and adjustments totaling \$25 million in the [Amendment to the FY 2022 Annual Appropriations Ordinance](#)³(AAO).

On July 29, 2021, Council adopted the FY 2022 Budget, which authorized General Fund expenditures of \$234.8 million. Subsequently, Council authorized adjustments to the adopted budget through the Annual Appropriations Ordinance as shown in the table below:

Table 11: FY 2022 General Fund Revised Budget

FY 2022 Adopted Budget	Encumbered Recommended	Unencumbered Recommended	Other Adjustments	FY 2022 Revised Budget
\$234,754,491	\$8,451,781	\$4,405,774	\$12,151,842	\$259,763,888

The encumbered rollovers of \$8.5 million reflect contractual obligations entered into in FY 2021, which had not been paid as of June 30, 2021. Unencumbered carryovers of \$4.4 million are approved by Council for specific purposes that had not been completed by the end of FY 2021. Funding for these commitments is brought forward into the current fiscal year to provide for payment of these obligations. Adjustments are new allocations for projects and Council priorities as detailed in the AAO.

Included in the other adjustments of \$12.2 million are Council authorized allocations for the following items:

1. \$5,069,609 for the Mayor's Proposed Supplemental Recommendations for the Allocation of General Fund Excess Equity
2. \$3,775,783 for FY 2022 General Fund Cost of Living Adjustments
3. \$339,008 for FY 2022 General Fund PEPRA Ramp Down
4. \$439,420 for the off-street safe parking program for Recreational Vehicles at 742 Grayson Street and other shelter operational costs

³ https://www.cityofberkeley.info/Clerk/City_Council/2021/12_Dec/Documents/2021-12-14_Supp_3_Reports_Item_45_Rev_CMO_pdf.aspx

5. \$179,551 in Health, Housing & Community Services for COLA's, CalPERS, and bonuses that cannot be absorbed by grant funds in FY 2022 for labor contracts approved by Council

General Fund expenditures incurred by department as of December 31, 2021 are shown in the chart below along with projections regarding the expenditures likely to be incurred through June 30, 2022. The projected savings/ deficit column in the chat below is an estimate of whether the department will likely be under or over the adopted budget and their respective appropriation limit based upon the first six months of the year. The General Fund is currently projected to finish FY 2022 with a balance of \$5.4 million. However, there is some fluidity in the projection as currently most of the savings are based upon vacant positions. Projected expenditures will fluctuate as departments either (1) fill vacant positions throughout the course of the fiscal year; (2) increase overtime spending to provide services despite vacancies and/or (3) spend more on consultants and other professional services (“non-personnel costs”) to mitigate vacant staff positions.

FY 2022 MID-YEAR GENERAL FUND EXPENDITURES (AS OF DECEMBER 31, 2021)									
DEPARTMENT	FY 2022 ADOPTED	FY 2022 REVISED*	YEAR-TO-DATE EXPENDED	YEAR-TO-DATE ENCUMBRANCES	AVAILABLE BUDGET (YEAR-TO-DATE LESS ENCUMBRANCES)	PERCENT OF PERSONNEL BUDGET SPENT	PERCENT OF NON-PERSONNEL BUDGET SPENT	FY 2022 PROJECTED EXPENDITURES	PROJECTED BALANCE/(DEFICIT)
MAYOR & COUNCIL	3,096,559	3,828,949	1,563,198	49,091	2,216,660	42%	46%	3,828,949	(0)
CITY AUDITOR	2,705,379	2,712,758	1,216,853	7,230	1,488,675	45%	50%	2,503,615	209,143
POLICE ACCOUNTABILITY	1,114,235	1,149,235	382,012	33,712	733,511	36%	38%	883,925	265,310
CITY MANAGER	10,912,354	12,811,793	6,119,195	718,409	5,974,189	45%	70%	12,344,803	466,990
CITY ATTORNEY	3,434,164	3,711,854	1,185,801	25,752	2,500,301	33%	30%	2,502,657	1,209,197
CITY CLERK	2,396,737	2,762,298	1,224,689	200,851	1,336,759	45%	60%	2,653,075	109,223
FINANCE	7,041,962	8,908,286	3,228,885	1,164,527	4,514,874	42%	63%	8,226,859	681,427
HUMAN RESOURCES	2,407,724	2,594,692	1,116,086	99,283	1,379,324	46%	51%	2,466,850	127,842
INFORMATION TECHNOLOGY	1,526,760	2,362,181	877,061	793,040	692,080	0%	71%	2,361,061	1,120
HEALTH HOUSING & COMMUNITY SERVICES	23,455,690	32,345,797	10,898,278	7,182,622	14,264,898	38%	68%	28,540,438	3,805,359
PARKS RECREATION & WATERFRONT	7,675,564	10,059,050	3,887,713	767,195	5,404,142	44%	49%	10,059,050	0
PLANNING & DEVELOPMENT	2,325,367	2,950,953	1,238,880	60,009	1,652,064	45%	42%	2,950,953	0
PUBLIC WORKS	4,742,625	10,296,492	2,781,682	1,239,766	6,050,044	37%	42%	8,438,147	1,858,345
POLICE	73,228,172	74,257,431	37,451,561	1,060,381	35,745,489	52%	55%	75,587,892	(1,330,461)
FIRE & EMERGENCY SERVICES	37,021,939	42,244,587	20,756,846	4,886,856	16,600,885	54%	80%	44,294,587	(2,050,000)
NON-DEPARTMENTAL	51,669,260	38,018,841	21,022,210	194,772	16,801,858	41%	56%	38,018,841	-
GRAND TOTAL	234,754,491	251,015,198	114,950,950	18,483,496	117,355,753	49%	60%	245,661,702	5,353,496
<i>*FY 2022 Revised does not reflect as of December 31, 2021 all Council approved allocations included in the FY 2021 AAO #1.</i>									

With 50 percent of the fiscal year elapsed, most departments are tracking under 50 percent spent in personnel due to vacant positions. Conversely, there is an increased spending in non-personnel for some departments related to the use of professional

services to provide services despite vacancies. Some departments that are over 50 percent in non-personnel expenditures is related to encumbrances, meaning that departments have set aside funds to meet contractual obligations entered into in FY 2022, for services that may not be completed rendered by June 30, 2022.

Explanations for significant projected savings and overages are as follows:

- City Attorney (\$1,209,197): Projected savings resulting from several vacant positions that have occurred during the year and that may not be fully filled by the end of the fiscal year.
- Health, Housing & Community Services (\$3,805,359): Projected savings due to vacancies and staff redeployed to COVID-19 activities, which are funded by grants and other revenues rather than the General Fund.
- Public Works (\$1,858,345): Projected savings is tied to General Fund project funds that will not be fully spent by the end of FY 2022. These funds will be carried over to FY 2023.
- Police (-\$1,330,461): The projected overage in the Police Department is due several factors, including the use of overtime to address staffing shortages.
- Fire (-\$2,050,000): Fire is projected to finish FY 2022 over budget by \$2 million. The department has incurred COVID-19 impacts on staffing levels. In addition, the Department is still recovering from the nine deferred positions that were part of the hiring freeze and has experienced challenges in recruiting and retaining qualified firefighter/paramedics.
- In addition, the City Auditor, the Office of the Director of Police Accountability, the City Manager's Office, the City Clerk, the Finance Department, and Human Resources are expected to finish the year under budget, largely due to savings attributed to vacant positions. The project surplus for these departments combined is \$1,859,935.

Projected General Fund Budget Summary

Based on the General Fund revenue and expenditure projections that have been provided above, the following chart provides a projected FY 2022 ending fund balance for the General Fund:

FY 2022 Beginning General Fund Balance					\$ 36,838,797
FY 2022 Revenues and Expenditures					
		Adopted	Actual YTD	Revised Projections	
Revenues					
	Property Taxes and Vehicle In-Lieu	91,798,278	47,924,601	92,754,138	
	Real Estate Transfer Taxes	29,500,000	30,336,965	56,507,853	
	Sales Taxes	19,277,425	10,053,313	19,277,425	
	Utility Users Taxes and Franchise Fees	14,613,283	6,884,510	15,413,283	
	Hotel and STR Taxes	2,803,000	3,057,880	5,200,000	
	Business License Taxes	25,262,235	2,147,773	25,920,350	
	Fines and Fees	7,013,052	4,250,465	7,727,325	
	Interest and Other Revenue	18,444,011	9,906,087	18,482,297	
	Transfers from Other Funds	27,354,923	13,677,462	27,354,923	
	Total Revenues	\$ 236,066,207	\$ 128,239,056	\$ 268,637,594	
Expenditures					
	Total Personnel Costs	148,035,070	73,355,772	149,898,761	
	Total Non-Personnel Costs	86,719,421	40,626,797	95,762,940	
	Total Expenditures	\$ 234,754,491	\$ 113,982,570	\$ 245,661,701	
	Net Change	\$ 1,311,716	\$ 14,256,486	\$ 22,975,893	
Projected FY 2022 Ending General Fund Balance					\$ 59,814,690

It is important to emphasize two things in the above table: (1) that the Transfers from other funds of \$27,354,923 includes \$11,484,678 that was transferred from the American Rescue Plan Fund and (2) that the revenue and expenditure projections provided are the best estimates staff has at this time for how the General Fund is projected to end FY 2022. Between now and the end of the year, a number of assumptions could change that will impact these projections.

Staff is carefully monitoring the FY 2022 General Fund budget to make sure the City stays within budget and is also reviewing and analyzing data to make sure that savings realized as part of the adopted budget deferrals for FY 2022 are met by the end of the year.

Staff is also in the process of developing a new 5 Year Forecast that combines both the revenue and expenditure projections that will easily summarize the General Fund

budget status for the upcoming FY 2023 & FY 2024 Biennial Budget and the following FY 2025 & FY 2026 Biennial Budget.

All Funds Expenditures

The General Fund comprises 30.5 percent of the total adjusted budget. The rest of the budget consists of various Special Funds. Special Funds are collected for a specific purpose; therefore, the projected balances are not considered to be discretionary and available to be re-allocated toward other programs, projects and services. Only costs associated with the Special Fund activity may be charged to a Special Fund.

Included in the FY 2022 Mid-Year All Fund Expenditures by Department chart below are both the General Fund expenditures to date and the Special Funds expenditures to date. On an All Funds basis, the City is tracking under budget as of December 31, 2021 as can be seen in the following chart:

FY 2022 MID-YEAR ALL FUNDS EXPENDITURES (AS OF DECEMBER 31, 2021)								
DEPARTMENT	FY 2022 ADOPTED	FY 2022 REVISED*	YTD EXPENDED	ENCUMBRANCES	AVAILABLE BUDGET	PERCENT OF BUDGET SPENT TO DATE	FY 2022 PROJECTED EXPENDITURES	PROJECTED BALANCE/(DEFICIT)
MAYOR & COUNCIL	3,096,559	3,836,449	1,563,198	49,091	2,224,160	42%	3,836,449	0
CITY AUDITOR	2,805,883	2,813,262	1,230,151	7,230	1,575,881	44%	2,530,891	282,371
RENT BOARD	6,825,535	7,502,298	2,520,539	1,214,837	3,766,922	50%	7,502,298	0
POLICE ACCOUNTABILITY	1,114,235	1,149,235	382,012	33,712	733,511	36%	883,925	265,310
CITY MANAGER	13,852,717	19,653,847	8,047,478	1,311,152	10,295,216	48%	18,900,613	753,234
LIBRARY	25,566,341	25,680,866	8,589,625	2,177,725	14,913,515	42%	20,325,974	5,354,892
CITY ATTORNEY	7,278,096	7,924,642	2,520,476	537,108	4,867,058	39%	6,643,110	1,281,532
CITY CLERK	2,901,739	3,267,300	1,269,182	200,851	1,797,268	45%	3,160,302	106,998
FINANCE	9,431,102	11,319,338	4,101,165	1,234,332	5,983,841	47%	10,495,041	824,297
HUMAN RESOURCES	4,438,053	4,651,435	1,797,375	125,697	2,728,363	41%	4,030,855	620,580
INFORMATION TECHNOLOGY	20,423,888	25,758,933	7,533,395	5,153,106	13,072,432	49%	24,438,828	1,320,105
HEALTH HOUSING & COMMUNITY SERVICES	84,514,926	129,182,820	37,250,059	31,234,274	60,698,488	53%	110,457,573	18,725,247
PARKS RECREATION & WATERFRONT	52,979,556	88,900,408	30,323,588	24,547,087	34,029,734	62%	83,434,951	5,465,457
PLANNING & DEVELOPMENT	25,252,729	27,774,725	10,647,422	1,247,297	15,880,006	43%	27,774,725	0
PUBLIC WORKS	147,438,656	229,036,144	60,612,570	52,028,114	114,444,862	49%	194,459,479	34,576,665
POLICE	77,807,443	80,581,579	39,464,967	1,713,694	39,402,918	51%	81,827,004	-1,245,425
FIRE & EMERGENCY SERVICES	60,351,430	66,013,514	26,260,403	8,261,635	31,491,476	52%	61,847,423	4,166,091
NON-DEPARTMENTAL	127,522,399	109,912,191	56,631,533	737,440	52,772,418	52%	109,912,191	0
GRAND TOTAL	673,601,287	844,958,987	300,745,138	131,814,381	410,678,071	51%	772,461,632	72,497,356

*FY 2022 Revised does not reflect as of December 31, 2021 all Council approved allocations included in the FY 2021 AAO #1.

On All Funds basis, the City is projected to finish FY 2022 with a balance of \$72.5 million.

Health, Housing, & Community Services, Parks, Recreation & Waterfront, and Public Works are expected to finish FY 2022 with significant balances that are tied to both vacancies and projects and grants started in FY 2021 that are not expected to be

finished by the end of the fiscal year. These departments also appropriated new grant funds that support programs and services as well as special funds for capital improvements.

Details of these carryover requests can be found in the [December 14, 2021, \(AAO\)](#)⁴ discussed earlier in this report.

Next Steps:

Staff is currently in the process of preparing the FY 2023 & FY 2024 Budget, which will be presented to Council on May 10, 2022. We are also in the process of developing a new 5 Year Forecast that will summarize the General Fund budget status for the upcoming FY 2023 & FY 2024 Biennial Budget and the following FY 2025 & FY 2026 Biennial Budget.

Final FY 2022 year-end General Fund revenues and expenditures information will be included in the “**FY 2022 Year-End Report and FY 2023 First Quarter Update**” that will be presented to Council in November 2022.

The FY 2022 Mid-Year Budget Update is a Strategic Plan Priority, advancing our goal to provide an efficient and financially-healthy City government.

ENVIRONMENTAL SUSTAINABILITY

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

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⁴ https://www.cityofberkeley.info/Clerk/City_Council/2021/12_Dec/Documents/2021-12-14_Supp_3_Reports_Item_45_Rev_CMO_pdf.aspx

