



Office of the City Manager

Date: May 4, 2020  
To: Budget and Finance Policy Committee  
From: Dee Williams-Ridley, City Manager  
Submitted by: Henry Oyekanmi, Director, Finance  
Subject: FY 2020 - 2024 Revenue Projections

Presented here is an updated 5 year revenue projection, in response to the Budget and Finance Policy Committee questions from April 27, 2020. The committee requested the assumptions utilized to create the projection and the effects of the current crisis on fiscal years 2020-2024. It should be noted that these assumptions are made using current available information, and our projection is a snapshot as of the March 31 accounting period close. The projection will be updated on a monthly basis, as actual revenues are realized and recorded. The City records revenues on a cash basis, and the actuals presented below thus reflect funds received as of March 31.

As the longer-term impacts of COVID-19 on the local economy become more apparent, we will be able to make more certain predictions about the effects on City revenues. The Commerce Department on Wednesday, April 29 reported that the national economy shrank by -4.8% in the first calendar quarter (Jan-Mar) of 2020, and that the second quarter is expected to be much worse. As we learn more about how the overall economic impacts will apply specifically to the City of Berkeley, we will refine our projections, so that management and Council can make informed policy decisions.

**General Fund Revenues FY 2020 and 2021**  
**HISTORICAL AND PROJECTED GENERAL FUND REVENUES**

					Projected General Fund Revenue FY 2020 and FY 2021								
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	20 YTD MAR	FY 2020 Rev	Chg	%	FY 2021	FY 2021 Rev	Chg	%
<b>Undesignated Revenues</b>													
Secured Property Taxes	48,046,765	51,474,746	56,038,218	59,178,773	63,199,622	40,758,347	56,835,096	(6,364,526)	-10%	65,417,599	58,875,839	(6,541,760)	-10%
Supplemental Taxes	1,469,993	1,874,630	2,237,649	2,174,903	1,400,000	808,127	1,281,625	(118,375)	-8%	1,400,000	1,260,000	(140,000)	-10%
Unsecured Property Taxes	2,661,235	2,568,891	2,687,198	2,878,275	2,500,000	3,189,177	3,189,177	689,177	28%	2,500,000	2,250,000	(250,000)	-10%
Property Transfer Taxes	17,452,190	17,151,793	18,911,368	19,952,981	12,500,000	15,904,620	17,404,620	4,904,620	39%	12,500,000	12,500,000	0	0%
Property Transfer Tax - Measure P				2,932,313	1,509,218	7,429,885	7,929,885	6,420,667	425%	2,716,796	4,747,414	2,030,618	75%
Sales Taxes	15,944,001	20,105,287	17,435,591	18,663,550	18,238,000	14,496,962	15,502,300	(2,735,700)	-15%	18,572,000	15,786,200	(2,785,800)	-15%
Soda Tax	1,712,892	1,550,222	1,457,003	1,547,349	1,459,057	1,097,768	1,329,377	(129,680)	-9%	1,429,876	970,794	(459,082)	-32%
Utility Users Taxes	14,211,318	15,109,305	14,828,120	13,973,744	15,000,000	10,579,868	13,672,814	(1,327,186)	-9%	15,000,000	12,750,000	(2,250,000)	-15%
Transient Occupancy Taxes(TOT)	7,813,366	7,810,884	7,807,273	7,995,188	7,800,000	5,665,433	6,000,000	(1,800,000)	-23%	7,800,000	5,070,000	(2,730,000)	-35%
Short-term Rentals			911,015	1,830,983	1,020,000	1,268,938	1,321,581	301,581	30%	1,040,400	676,260	(364,140)	-35%
Business License Taxes	18,089,403	18,829,739	19,878,912	19,848,803	19,584,000	15,727,782	17,727,782	(1,856,218)	-9%	19,975,680	12,984,192	(6,991,488)	-35%
Recreational Cannabis				1,168,794	510,000	1,363,366	1,563,366	1,053,366	207%	520,200	1,300,000	779,800	150%
Measure U1			5,161,615	5,828,443	1,000,000	3,453,815	3,600,000	2,600,000	260%	1,000,000	2,700,000	1,700,000	170%
Other Taxes				2,278,496	1,785,000	1,685,464	1,885,464	100,464	6%	1,820,700	1,456,560	(364,140)	-20%
Vehicle In Lieu Taxes	10,308,802	10,994,452	11,822,917	12,540,784	13,333,826	6,678,022	12,000,444	(1,333,383)	-10%	13,801,774	12,421,597	(1,380,177)	-10%
Parking Fines - Regular Collections	6,134,785	6,120,474	6,608,001	6,002,211	6,600,000	4,080,123	4,080,123	(2,519,877)	-38%	6,600,000	5,049,000	(1,551,000)	-24%
Parking Fines - Booting Collections				211,913	200,000	8,685	8,685	(191,315)	-96%	190,000	0	(190,000)	-100%
Moving Violations	252,752	232,523	188,443	177,824	190,000	149,210	149,210	(40,790)	-21%	190,000	190,000	0	0%
Ambulance Fees	4,102,074	4,183,673	4,343,453	4,424,808	4,200,000	3,776,353	4,971,889	771,889	18%	4,200,000	5,103,208	903,208	22%
Interest Income	2,465,654	2,385,492	3,636,989	4,334,404	3,500,000	4,669,116	4,669,116	1,169,116	33%	3,500,000	2,800,000	(700,000)	-20%
Franchise Fees	1,916,975	1,988,589	2,009,931	1,821,316	2,068,928	620,888	1,779,320	(289,608)	-14%	2,110,307	1,551,696	(558,610)	-26%
Other Revenues	10,544,787	9,414,370	10,736,326	8,116,908	8,044,544	6,591,941	7,091,941	(952,603)	-12%	8,784,991	7,027,993	(1,756,998)	-20%
Indirect cost reimbursements	4,298,457	4,855,213	6,149,619	5,223,725	6,100,000	4,005,719	5,583,934	(516,066)	-8%	6,100,000	5,490,000	(610,000)	-10%
Transfers	4,515,979	4,562,675	5,792,575	5,356,132	5,266,688	4,039,641	4,819,367	(447,321)	-8%	4,562,675	4,106,408	(456,268)	-10%
<b>Total Undesignated Revenues</b>	<b>171,941,428</b>	<b>181,212,958</b>	<b>198,642,216</b>	<b>208,462,620</b>	<b>197,008,884</b>	<b>158,049,250</b>	<b>194,397,116</b>	<b>(2,611,767)</b>	<b>-1.3%</b>	<b>201,732,998</b>	<b>177,067,160</b>	<b>(24,665,838)</b>	<b>-12%</b>
<b>Designated Revenues</b>													
Prop. Transfer Taxes for capital improvements					4,500,000	4,500,000	4,500,000	0	0%	4,500,000	3,928,465	(571,535)	-13%
<b>Total Designated Revenues</b>					<b>4,500,000</b>	<b>4,500,000</b>	<b>4,500,000</b>	<b>0</b>	<b>0%</b>	<b>4,500,000</b>	<b>3,928,465</b>	<b>(571,535)</b>	<b>-13%</b>
<b>TOTAL REVENUES AND TRANSFERS</b>	<b>171,941,428</b>	<b>181,212,958</b>	<b>198,642,216</b>	<b>208,462,620</b>	<b>201,508,884</b>	<b>162,549,250</b>	<b>198,897,116</b>	<b>-2,611,767</b>	<b>-1.3%</b>	<b>206,232,998</b>	<b>180,995,625</b>	<b>-25,237,373</b>	<b>-12%</b>

1. Secured Property Taxes- Assumes an additional 10% of uncollectable amounts due (on top of 5% previous reserve) for FY 2020 and FY 2021, due to concerns over property owners ability to remit. FY 2021 valuations assumed to increase by 3.5%, resulting in a net change of 6.5% from FY 2020 to FY 2021.
2. Supplemental Taxes- Historical revenues have been flat for several years, and were expected to remain so. For FY 2020, we are now projecting to collect only 80% of the remaining budgeted amount for the last quarter, and project a 10% decline in revenue for FY 2021.
3. Unsecured Property Taxes- FY 2020 actuals as of March 2020 are presumed to be the full amount that will be received for all of FY 2020. FY 2021 expected to drop back to the original \$2.5M, less a 10% reserve for uncollectable amounts.
4. Property Transfer Taxes- FY 2020 based on actual collected amount through March 2020, plus an additional \$1.5M expected during the final quarter. The baseline \$12.5M is projected to be realized in FY 2021, while the excess will only be approximately \$3.9M. Very volatile revenue stream.
5. Property Transfer Tax - Measure P- included \$1.6M from multiple exceptionally high-value property sales in FY 2020. FY 2021 expected to be down 25% from FY 2020 level.
6. Sales Taxes- Projections based on economic activity of the city's various business categories. FY 2020 was lowered 15% based on shelter-in-place closures and CDTFA deferral program. For FY 2021 -15% due to shelter-in-place reductions in business activity in Q1 (three month lag in remittances), and possible lingering economic effects through the remainder of FY 2021.
7. Soda Taxes- This revenue source was always expected to decline. Revised 2020 down 10% and 2021 down 30% due to shelter-in-place closings and the fact that the main consumers (students) are gone due to school and university campus closures.
8. Utility Users Tax- Due to commercial customers reduction in utility usage, FY 2020 projected to be down by 9%. Expect FY 2021 to be down 15% due to continued closures, possible permanent business closures and declines in energy usage.
9. Transient Occupancy Taxes- FY 2020 based on actuals as of March 2020, plus an additional \$0.3M for the final quarter, due to travel restrictions associated with COVID-19. FY 2021 reduced by 35% due to potentially deteriorating economic conditions, event cancellations, and consumer concern regarding the safety of travel.
10. Short-term Rentals- FY 2020 actuals were trending more than 150% of original projection, but sharp decline predicted in final quarter due to COVID-19 movement restrictions. FY 2021 revised to 30% below 19/20 average due to expectation of depressed demand.
11. Business License Taxes (excluding Cannabis Recreational)- FY 2020 projection revised based on actuals received through March 2020, plus an additional \$2.0M in expected collections. FY 2021 revised to drop 35% from original projections due to temporarily or permanently closed businesses, resulting from COVID-19.
12. Business License Taxes- Cannabis Recreational- Assumes a 2% annual growth rate.
13. Enhanced Business License Taxes (Measure U1)- FY 2020 vastly outpaced original projections. For FY 2021, expect 25% decrease due to general economic decline, inability of tenants to pay rent, and potential for UC closure to affect off-campus housing demand.
14. Vehicle In Lieu Taxes- Based on real property valuations. Assumes an additional 10% of uncollectable amounts due (on top of 5% previous reserve) for FY 2020 and FY 2021, due to concerns over property owners ability to remit. FY 2021 valuations assumed to increase by 3.5%, resulting in a net change of 6.5% from FY 2020 to FY 2021.
15. Parking Fines- Ticket writing has been decreasing for many years. Revised FY 2020 reduced by 80% of remaining unrealized budgeted revenue amount as of the end of March 2020 (annualized decrease of 38%), due to decreased auto usage. FY 2021 revised to -25% from 2020 original projection.
16. Ambulance Fees- Fire Department expect increased services in FY 2020 and FY 2021.
17. Interest Income- Fed continues to lower interest rates. Revised 2020 projection based on higher actuals through March 2020. 2021 revised down 10% because of continued lowering of rates, combined with City's hesitancy to buy longer-term investments, due to uncertainty regarding liquidity needs in addressing COVID-19.
18. Franchise Fees- Initial projections of 2% annual growth revised down 14% for FY 2020, and 26% for FY 2021, due to decreased commercial usage.
19. Indirect Cost Reimbursements- Reimbursement increases result from increases in the indirect cost allocation base (i.e., total direct salaries and wages in the fund), an increase in the indirect cost rate or both. Revised FY 2020 down 8% and FY 2021 down 10%.

### **Property Taxes**

We have decreased our expected Property Tax revenue by 10% in FY 2020 and FY 2021 to account for anticipated additional uncollectable amounts due from property owners. We maintain our assumption of a 3.5% increase in property valuations, as we do not expect impacts to valuations in the near term. Staff will closely monitor all economic activities that drive this revenue stream, including reports from the County when available and make adjustments as necessary.

### **Sales Taxes**

Sales Taxes are collected by the State, and remitted to the City quarterly. Sales Tax revenue is assumed to be down 15% in the current and next fiscal year, based on estimates of activity in the City's business categories, and have been revised downward due to closures affecting retail sales and the potential impact of a deferral program being considered by the California Department of Tax and Fee Administration (CDTFA). While most of the impact of the closures will affect FY 2021 due to the 3 month lag in remittances to the City, businesses taking advantage of the deferral program could shift some remaining FY 2020 revenues into FY 2021. This revenue stream will be monitored closely on a quarterly basis as remittances are received and projection assumptions changes.

### **Business License Tax**

Business License Tax is due in February each year, based on the gross receipts from the previous calendar year. Consequently, most of this revenue is recorded in the third quarter of the fiscal year. Some amounts, however, are received later due to late payments. After an analysis of payments received to date, we expect an additional \$2.0M to be recorded during the remainder of FY 2020. This is a 9% reduction from previous (pre-COVID-19) estimates. Mandated closures and the broader economy will affect FY 2021 revenues significantly and all assumptions will be reviewed regularly and adjustments made appropriately.

### **Transient Occupancy Tax**

We are projecting an additional \$0.3M in Transient Occupancy Tax (Hotel Tax) during the remainder of FY 2020, due to COVID-19 travel restrictions. This is \$1.8M less than we originally anticipated for this fiscal year. For FY 2021, due to potentially deteriorating economic conditions, event cancellations, and consumer concern regarding the safety of travel, TOT revenues are projected to reduce by 35% from pre-COVID-19 estimates. These estimates will be augmented as we receive projections from the Hotels about their occupancy and revenue expectations.

### **Utility Users Tax**

Utility Users Tax is paid by residential and commercial customers, based on their usage of several categories of utilities. Roughly 70% of the UUT revenue is generated from utility usage by commercial and industrial customers, and we project an 50% decline in this portion for the duration of FY 2020, due to mandated closures of businesses. This amounts to a 9% annualized reduction in overall UUT revenue. As any recovery in usage will be gradual, we are projecting a 15% reduction from previous estimates in FY 2021.

## Long-Term Projections

### PROJECTED GENERAL FUND REVENUES, 2020-2024

	FY 2020 Rev	FY 2021 Rev	FY 2022	FY 2023	FY 2024
<b>Undesignated Revenues</b>					
Secured Property Taxes	56,835,096	58,875,839	60,053,356	61,254,423	62,479,511
Supplemental Taxes	1,281,625	1,260,000	1,285,200	1,310,904	1,337,122
Unsecured Property Taxes	3,189,177	2,250,000	2,295,000	2,340,900	2,387,718
Property Transfer Taxes	17,404,620	12,500,000	12,500,000	12,500,000	12,500,000
Property Transfer Tax - Measure P	7,929,885	4,747,414	3,000,000	3,060,000	3,121,200
Sales Taxes	15,502,300	15,786,200	16,101,924	16,423,962	16,752,442
Soda Tax	1,329,377	970,794	1,401,278	1,373,252	1,345,787
Utility Users Taxes	13,672,814	12,750,000	13,005,000	13,265,100	13,530,402
Transient Occupancy Taxes(TOT)	6,000,000	5,070,000	4,968,600	5,067,972	5,169,331
Short-term Rentals	1,321,581	676,260	662,735	675,989	689,509
Business License Taxes	17,727,782	12,984,192	13,243,876	13,508,753	13,778,928
Recreational Cannabis	1,563,366	1,300,000	1,326,000	1,352,520	1,379,570
Measure U1	3,600,000	2,700,000	2,754,000	2,809,080	2,865,262
Other Taxes	1,885,464	1,456,560	1,427,429	1,398,880	1,370,903
Vehicle In Lieu Taxes	12,000,444	12,421,597	12,670,029	12,923,429	13,181,898
Parking Fines - Regular Collections	4,080,123	5,049,000	4,948,020	4,849,060	4,752,078
Parking Fines - Booting Collections	8,685	0	90,000	100,000	102,000
Moving Violations	149,210	190,000	170,000	173,400	176,868
Ambulance Fees	4,971,889	5,103,208	4,200,000	4,200,000	4,200,000
Interest Income	4,669,116	2,800,000	2,600,000	2,500,000	2,500,000
Franchise Fees	1,779,320	1,551,696	1,520,662	1,490,249	1,460,444
Other Revenues	7,091,941	7,027,993	6,676,593	6,476,295	6,346,769
Indirect cost reimbursements	5,583,934	5,490,000	5,200,000	5,304,000	5,410,080
Transfers	4,819,367	4,106,408	4,188,536	4,272,306	4,357,752
<b>Total Undesignated Revenues</b>	<b>194,397,116</b>	<b>177,067,160</b>	<b>176,288,237</b>	<b>178,630,476</b>	<b>181,195,576</b>
<b>Designated Revenues</b>					
Prop. Transfer Taxes for capital imp	4,500,000	3,928,465	3,000,000	3,060,000	3,121,200
<b>Total Designated Revenues</b>	<b>4,500,000</b>	<b>3,928,465</b>	<b>3,000,000</b>	<b>3,060,000</b>	<b>3,121,200</b>
<b>TOTAL REVENUES AND TRANSFERS</b>	<b>198,897,116</b>	<b>180,995,625</b>	<b>179,288,237</b>	<b>181,690,476</b>	<b>184,316,776</b>

### Property Taxes

Considering the extended impact of the current crisis on overall economic growth, and the expected slow pace of the subsequent recovery, we have lowered our forecasted increases in Property Tax revenue for FY 2022 to FY 2024 from 3.5% per year to 2.0%, calculated from the lowered expected FY 2021 baseline.

### Sales Taxes

Due to the expected extreme impact on FY 2021, we are revising our expected growth in Sales Taxes to 2% from 1% for FY 2022 to FY 2024. While this still amounts to significant reductions in the total revenue expected in these years from previous estimates, we are including some recovery in these years, in addition to nominal year-over-year growth rate.

### **Business License Taxes**

We expect 2% growth in Business License Tax revenue in FY 2022 to FY 2024 from the heavily impacted revised estimates for FY 2021.

### **Transient Occupancy Tax**

With recovery of business at the City's hotels expected to lag behind general economic recovery, we expect a further decline in Hotel Tax revenues of 2% in FY 2022, and then for those revenues to turn upward, increasing by 2% in FY 2023 and FY 2024.

### **Utility Users Tax**

We expect 2% annual growth in UUT for FY 2022 through FY 2024, from revised FY 2021 estimates.

### **Transfer Tax**

Due to potential impact on sales transactions and decreased valuations of transferred properties, we expect overall base transfer tax (including amounts available to transfer to capital improvement projects) to be reduced to \$15.5M in FY 2022, and then grow 2% annually in FY 2023 and FY 2024. Similarly, we expect Measure P revenues to go down to \$3.0M in FY 2022, and then increase by the same 2% factor in FY 2023 and FY 2024.

### **Conclusion**

It is clear that the COVID-19 emergency will have significant impacts on City revenues. It is certain that those impacts will outlast the current restrictions related to the shelter-in-place orders issued by local health authorities. Based on our analysis of payments received to date and current economic conditions, as well as current economic forecasts, we have provided General Fund revenue projections to enable this committee and Council to make appropriate decisions in the current fiscal climate. However, the economic situation is in constant flux. Predictions about the future are changing as the balance between public safety and restoring economic activity is managed by local, state, and national policymakers. We will continue to revise our assumptions as we get more current information so that the committee can have the most up to date information for its deliberations.