

Office of the City Manager

REVISED AGENDA MATERIAL for Supplemental Packet 2

Meeting Date: December 14, 2021

Item Number: 44

Item Description: FY 2021 Year-End and FY 2022 First Quarter Report

Submitted by: Rama Murty, Senior Management Analyst

Based on discussions with the Budget & Finance Policy Committee at their December 9, 2021 meeting and action taken by the City Council during Closed Session held on December 9, 2021, there were adjustments that needed to be made to the Excess Equity calculations that were in the original report submitted to the City Council.

The changes were the following:

The changes are as follows:

1. Added to the list of mandated items that must be removed from the General Fund available balance was funding for the Fair Labor Standards Act Settlement Agreements in the amount of \$207,452. This was approved by the City Council in Closed Session on December 9, 2021
2. Moved the R2 Training/R2 Shift Cancellation funding request from the Tier 1 Funding List to mandated items that must be removed from the General Fund available balance. This item was approved by the City Council on July 29, 2021 with adoption of new labor contract with 1021 Community Services and Part-Time Recreation Leaders Association. Therefore, it is a mandated cost that must be funded.
3. Moved the Enterprise Zoom License funding request for \$68,832 from Tier 2 to Tier 1 based on discussions during the December 9, 2021 Budget & Finance Policy Committee meeting

These changes are represented in updated tables in the report for the Excess Equity Calculations and the allocation to General Fund Reserves.

Attachment #6 has been revised to provide the updated November 2021 General Fund Budget Recommendations.



Office of the City Manager

ACTION CALENDAR

December 14, 2021

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Rama Murty, Senior Management Analyst

Subject: FY 2021 Year-End Results and FY 2022 First Quarter Budget Update

RECOMMENDATION

Discuss and determine funding allocations for FY 2022 based on the FY 2021 General Fund Excess Equity and Excess Property Transfer Tax for the following: 1) the General Fund Reserves 2) City Manager Budget Recommendations and 3) the Council's Budget Referrals approved during FY 2022 to be considered in November 2021.

INTRODUCTION

This budget update presents the FY 2021 Year-End (Year-End) results as well as reports on the FY 2022 First Quarter. The FY 2021 Year-End budget summary covers the period starting July 1, 2020, through June 30, 2021 (FY 2021). This report also provides preliminary revenue information for the first quarter of the current fiscal year, 2022. The FY 2022 First Quarter Budget Update covers the period July 1, 2021, through September 30, 2021. The FY 2021 General Fund Year-End balance was \$~~37.3~~32.2 million. Amounts restricted, committed, and assigned totaled \$~~26.5~~22.4 million. Allocations to the General Fund reserves totaled \$~~4.87~~4.41 million¹. The amount of Unassigned Excess Equity totaled \$~~5.87~~5.41 million.

The information in this report should be reviewed in conjunction with the Amendment to the FY 2022 Annual Appropriations Ordinance (AAO) also on tonight's agenda. The AAO#1 establishes the expenditure limits by fund for FY 2022. The adopted budget is amended annually to reflect the re-appropriation of prior year funds for contractual commitments (i.e. encumbrances) as well as unencumbered carryover of unexpended funds previously authorized for one-time, non-recurring purposes. These budget modifications are presented to the Council twice a year in the form of an AAO. The first AAO is on tonight's agenda. The second and final AAO will go to Council in May 2022.

¹ Starting in FY 2018, to achieve the City's intermediate and long-term Reserves goals, 50% of Excess Equity above the first \$1M is allocated to Reserves. The General Fund Reserve consists of the total of the Stability Reserve and the Catastrophic Reserve.

Included on tonight's agenda is the First Amendment to the FY 2022 Annual Appropriations Ordinance report (AAO#1). The information included in this Year-End report is supplemented by the detailed information included in the AAO#1.

Recommendations in the AAO#1 augments the adopted General Fund budget by \$ 23.8 million. The \$23.8 million includes encumbrances of \$8.5 million, unencumbered carry-over requests of \$4.4 million, and adjustments of \$10.9 million.

CURRENT SITUATION AND ITS EFFECTS

FY 2021 Year-End Summary

General Fund

On June 30, 2020, the City Council adopted the FY 2021 budget (Adopted Budget).² The FY 2021 adopted General Fund revenues were \$195.8 million. The actual FY 2021 year-end General Fund revenues were \$232.0 million.

Included in the FY 2021 Adopted Budget were General Fund expenditures of \$194.7 million. During the fiscal year, there were two Adjustments to the Appropriation Ordinance totaling \$42.4 million, thus the total FY 2021 General Fund adjusted expenditure budget was \$237.2 million³. At the end of FY 2021, \$8.5 million was encumbered and rolled into FY 2022 resulting in an FY 2021 year-end adjusted expenditure budget of \$228.4. Not all of the budgeted funds were expended in FY 2021, so the FY 2021 year-end actual General Fund expenditures were \$226.9 million.

Revenues

At FY 2021 year-end, actual General Fund revenues were \$232.0 million. This was \$36.2 million above the adopted budget of \$195.8 million. The largest contributors to the revenue increase were the following items:

- Real Property Tax revenues, which exceeded the budgeted amount by \$7.0 million
- Measure P – Transfer Tax⁴, which exceeded the budgeted amount by \$6.2 million
- Property Transfer Tax revenue, which exceeded the budgeted amount by \$5 million⁵

² https://www.cityofberkeley.info/Clerk/City_Council/2020/06_June/Documents/2020-06-30_Item_40_FY_2021_Mid-Biennial_Budget_pdf.aspx (Items #40 & #41)

³ https://www.cityofberkeley.info/Clerk/City_Council/2021/05_May/Documents/2021-05-11_Item_02_Amendment_FY_2021_Annual.aspx

⁴ https://www.cityofberkeley.info/Clerk/Elections/Ballot_Measure_Archive_Page.aspx

⁵ This amount will be reduced to \$4.5 million for the payment to the Workers Compensation Fund for the purchase of the University Avenue property

- Business License Tax, which exceeded the budgeted amount by \$4.7 million
- Other revenues, which exceeded the budgeted amount by \$4.1 million

Together, these three revenue streams generated \$27.6 million above FY 2021 adopted revenues for the General Fund.

Details on the FY 2021 General Fund revenues can be found in Attachment 1.

Expenditures

Actual FY 2021 General Fund expenditures were \$226.9 million. This was \$32.2 million above the initial adopted budget of \$194.7 million and \$1.5 million below the adjusted budget of \$228.4 million.

The FY 2021 General Fund budget contained \$26.5 million in budget deferrals that were built into the budget to help balance the \$39.1 million deficit the City faced due to the pandemic.

Of the \$26.5 million in budget deferrals, almost \$16 million were personnel deferrals. During the year, departments were allowed to hire General Fund vacancies on a case by case basis after a detailed review by the City Manager.

While these vacancies generated salary savings during the year, the saving was not enough to offset the total personnel deferrals and possible payroll coding errors that occurred in the transition to payroll moving to the new system. In the end, the General Fund personnel budget finished over budget by \$10.5 million.

The overage in General Fund personnel was offset by non-personnel savings of \$12 million in departments. Some of the non-personnel saving was due to departments not fully spending their non-personnel budgets while the rest was for projects that were not completed in FY 2021. Funding allocations for ongoing projects are being carried over to FY 2022.

Details of the variances are included in Attachment 2 of this report.

Details of the carryover requests are included in the AAO#1 on tonight's agenda.

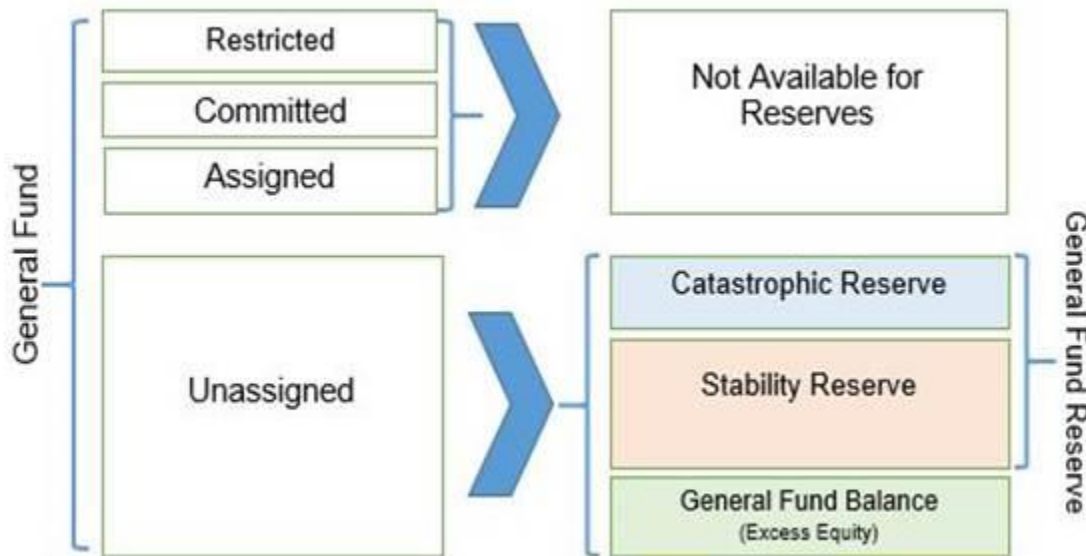
Excess Equity

Starting in FY 2018 to achieve the City's intermediate and long-term General Fund Reserves goals, 50% of Excess Equity above the first \$1 million is allocated to General Fund Reserves. The chart below illustrates the FY 2021, ~~\$4.87~~ 4.20 million reserve calculation as well as the ~~\$5.87~~ 5.20 million calculation for the unassigned excess equity.

GENERAL FUND EXCESS EQUITY CALCULATION			
FY 2021 Beginning Balance		\$	40,594,945
FY 2021 Revenues (Includes \$11.4 million from Reserve Funds)		\$	232,028,202
FY 2021 Expenditures			(226,901,811)
G. F. Encumbrances Restricted (AAO #1)		\$	(8,451,781)
Available Balance		\$	37,269,555
Less:			
Measure U1 Ending Fund Balance		\$	(973,695)
Measure P Ending Fund Balance		\$	(17,032,253)
FY 2022 General Fund COLAs		\$	(3,775,783)
FY 2022 PEPRAs Ramp Down		\$	(339,008)
G.F. Carryover (AAO #1)		\$	(4,405,774)
Total Restricted & Carryovers		\$	(26,526,513)
FY 2022 Available Excess Equity*		\$	10,743,042
Allocation to Reserves		\$	4,871,521
Excess Equity Balance		\$	5,871,521
<i>*Includes excess FY 2021 Excess Property Transfer Tax revenue of \$4,969,955. \$406,952 to repay loan to the Workers Compensation fund for the purchase of Premier Cru will be included in AAO#1.</i>			

GENERAL FUND EXCESS EQUITY CALCULATION			
FY 2021 Beginning Balance		\$	40,594,945
FY 2021 Revenues (Includes \$11.4 million from Reserve Funds)		\$	232,028,202
FY 2021 Expenditures		\$	(226,901,811)
G. F. Encumbrances Restricted (AAO #1)		\$	(8,451,781)
City Manager Salary Increase		\$	(52,958)
Salary Adjustments for Department Head		\$	(127,430)
Legislative Assistants Salary & Fringe Benefit		\$	(709,695)
Mayor and Council Annual Salary per Measure JJ		\$	(30,121)
FY 2022 General Fund COLAs		\$	(3,775,783)
FY 2022 PEPRA Ramp Down		\$	(339,008)
R2 Shift Training; R2 Shift Cancellation		\$	(214,000)
Fair Labor Standards Act Settlement Agreements		\$	(207,452)
Available Balance		\$	31,813,108
Less:			
Measure U1 Ending Fund Balance		\$	(973,695)
Measure P Ending Fund Balance		\$	(17,032,253)
G.F. Carryover (AAO #1)		\$	(4,405,774)
Total Restricted & Carryovers		\$	(22,411,722)
FY 2022 Available Excess Equity*		\$	9,401,386
Allocation to Reserves		\$	4,200,693
Excess Equity Balance		\$	5,200,693
<i>*Includes excess FY 2021 Excess Property Transfer Tax revenue of \$4,969,955. \$406,952 to repay loan to the Workers Compensation fund for the purchase of Premier Cru will be included in AAO#1.</i>			

Excess equity is and the calculation for excess equity is documented in the graphic below.



The graphic above shows the relation between excess equity as well as other restricted, committed, and assigned General Fund monies.

- The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority.
- Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.
- Unassigned fund balance is the residual classification for the government’s general fund and includes all spendable amounts not contained in the other classifications

General Fund Reserve

The General Fund Reserve is distinctly separate from the General Fund Balance (Excess Equity). On January 24, 2017, the City Council established [Resolution No.](#)

67.821 – N.S., a policy for the General Fund Reserves.⁶ The General Fund reserves are comprised of two elements: a Stability Reserve and a Catastrophic Reserve.

The Stability Reserve was established to mitigate the 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. Fifty-five percent of the General Fund Reserve is allocated to the Stability Reserve.

The Catastrophic Reserve was established to sustain the General Fund operations in the case of a public emergency such as a natural disaster or other catastrophic event. The Catastrophic Reserve may be used to respond to extreme onetime events, such as earthquakes, fires, floods, civil unrest, and terrorist attacks. The policy was revised to include public health emergencies and pandemics⁷. Forty-five percent of the General Fund Reserve is allocated to the Catastrophic Reserve.

When the Council adopted the General Fund Reserve Policy the target level established for the Reserve was a minimum of 13.8% of Adopted General Fund Revenues with an Intermediate Goal of a minimum of 16.7% by the end of Fiscal Year 2020, if financially feasible. In addition, the Council adopted a Long-Term Goal of 30% of General Fund revenues, to be achieved within no more than 10 years. The Council demonstrated their commitment to these goals in the policy by assigning 50% of the General Fund Excess Equity above the first \$1 million to be allocated to the Stability and Catastrophic Reserves (Reserves). Additional Excess Equity may be allocated to Reserves by a majority vote of the Council.

As part of the FY 2021 Mid-Biennial Budget Adoption, the Council approved the use of approximately \$11.4 million to help balance the General Fund deficit. During FY 2021, the Council approved an allocation of \$1.8 million in FY 2020 excess property transfer tax revenues to help repay the loan to the General Fund.

The chart directly below illustrates the use of these reserves and the FY 2021 allocation of the ~~\$4.87~~ 4.20 million distributed to the General Fund Reserves, resulting in an actual Reserves level of ~~14.29~~ 13.95%⁸.

⁶ <https://www.cityofberkeley.info/recordsonline/export/17153922.pdf>

⁷ [https://www.cityofberkeley.info/Clerk/City_Council/2020/06_June/Documents/2020-06-16_\(Special_230pm\)_2020-06-16_Special_Item_03_Amendments_to_the_General_Fund_pdf.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2020/06_June/Documents/2020-06-16_(Special_230pm)_2020-06-16_Special_Item_03_Amendments_to_the_General_Fund_pdf.aspx)

⁸ Based on the FY 2021 Adopted General Fund Revenues of \$195.8 million.

General Fund Reserves	Stability Reserve	Catastrophic Reserve	Reserve %
Beginning Cash Balance -	\$ 15.81	\$ 10.60	
FY 2021 Allocation to Reserves	\$ 2.68	\$ 2.19	
% Allocation	55%	45%	
Reserve Balance	\$ 18.49	\$ 12.79	
Reserved for Camps Fund - Tuolumne Camp		\$ (3.30)	
Ending Cash Balance - Reserves	\$ 18.49	\$ 9.49	14.29%

General Fund Reserves	Stability Reserve	Catastrophic Reserve	Reserve %
Beginning Cash Balance -	\$ 15.81	\$ 10.60	
FY 2021 Allocation to Reserves	\$ 2.31	\$ 1.89	
% Allocation	55%	45%	
Reserve Balance	\$ 18.12	\$ 12.49	
Reserved for Camps Fund - Tuolumne Camp		\$ (3.30)	
Ending Cash Balance - Reserves	\$ 18.12	\$ 9.19	13.95%

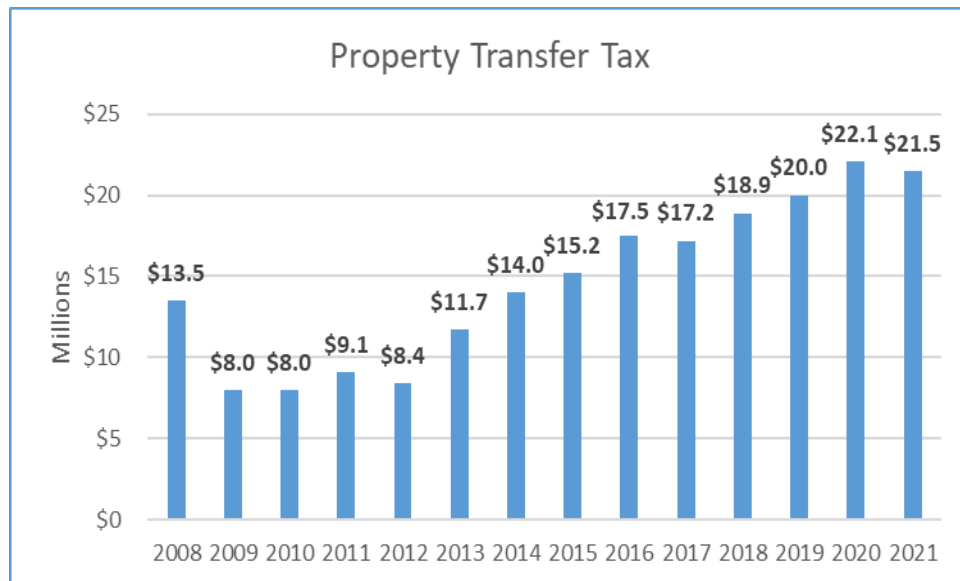
The allocations to the General Fund reserves are not included in AAO#1.

Funding for Capital Improvements

Property Transfer Tax

One of Council’s fiscal policies stipulates that the Property Transfer Tax in excess of the \$12.5 million operating baseline will be treated as one-time revenue to be used for the City’s capital infrastructure needs.

The chart below documents the historical trend of the City’s Property Transfer Tax from FY 2008 through FY 2021.



In FY 2021 the Property Transfer Tax included in the Adopted Budget was increased to \$16.5 million. By year-end, the actual Property Transfer Tax was \$21.5 million. This is \$5.0 million over the \$16.5 million operating baseline threshold established by Council.

Of the \$5.0 million in excess Property Transfer Tax, \$406,952 is being allocated for a transfer to the Workers’ Compensation Fund to repay the loan for purchase of Premier Cru. The balance of \$5.0 million can be transferred to the Capital Improvement Fund or Council can suspend the policy to use these funds for FY 2022 funding priorities. Funding that has been transferred to the Capital Improvement Fund has been allocated to infrastructure needs such as sidewalk repairs, street maintenance, transportation, and other types of capital projects.

Measure U1 and Measure P

In November 2018 voters approved the passage of Measure P and in November 2016 the voters approved the passage of Measure U1. Measure P increased funding for general municipal purposes such as navigation centers, mental health support, rehousing and other services for the homeless, including homeless seniors and youth. Measure U1 also makes available funding to support affordable housing. Although these are general fund revenues, the City tracks these revenue streams separately as Council has assigned these funds to homeless services and affordable housing. In FY 2021, a separate Measure U1 fund was established for expenditures of these funds and gets its revenues through a transfer of the U1 revenues from the General Fund.

The charts below summarize FY 2021 Measure U1 and Measure P revenues and expenditures.

Measure P	
FY 2021 Beginning Measure P Balance	\$ 9,859,779
FY 2021 Measure P Revenues	\$ 10,919,576
FY 2021 Measure P Expenditures	\$ (3,747,102)
FY 2021 Ending Measure P Balance	\$ 17,032,253
Measure U1	
FY 2021 Beginning U1 Balance	\$ -
FY 2021 Measure U1 Revenues	\$ 4,818,740
FY 2021 Measure U1 Expenditure Transfer	\$ (3,845,045)
FY 2021 Ending Measure U1 Balance	\$ 973,695

Below are the FY 2022 preliminary calculations for the Measure U1 Fund and Measure P.

Measure U1	
FY 2022 Beginning Measure U1 Balance	\$ 11,189,667
FY 2022 U1 Revenues	\$ 5,120,350
FY 2022 U1 Appropriated & Planned Expenditures	\$ 10,338,046
FY 2022 Projected Ending U1 Fund Balance	\$ 5,971,971
Measure P	
FY 2022 Beginning Measure P Balance	\$ 17,032,254
FY 2022 Measure P Revenues	\$ 8,500,000
FY 2022 Measure P Appropriated & Planned Expenditures	\$ 15,688,170
FY 2022 Ending Measure P Balance	\$ 9,844,084

Workers' Compensation Repayment for Purchase of University Avenue Property

The City appropriated \$6.7 million from the Workers' Compensation Fund for the [Acquisition of Real Property at 1001 University Avenue, 1007 University Avenue, 1011 University Avenue, and 1925 Ninth Street](#) (formerly Premier Cru) with the purpose of redeveloping the majority of the site for below market-rate housing. In addition, a portion of the property was identified for use as an interim City Council Chamber with a seating

capacity of 150-200 persons. Meetings of the City Council, the Rent Board, and the Zoning Adjustments Board would utilize the interim Council Chamber.⁹

Proposed repayment to the Worker’s Compensation fund was to be made with revenue generated from a combination of the Business License Tax of five or more units (U1) and excess Property Transfer Tax. The repayment schedule is illustrated below.

Summary of Funds for Repayment

Total Purchase Price: \$6,650,000

Repayment Source	Principal Repayment Amount	Percent of Purchase Price
General Fund Excess Property Transfer Tax	\$ 2,000,000	30%
Measure U1 Business Tax Revenue	\$ 4,650,000	70%

Annual Repayment Amounts by Source (with interest)

Total Repayment Amount: \$6,765,575

Repayment Source	General Fund Excess Property Transfer Tax*	Measure U1 Business Tax Revenue**
FY 2017-18	406,952	946,163
FY 2018-19	406,952	946,163
FY 2019-20	406,952	946,163
FY 2020-21	406,952	946,163
FY 2021-22	406,952	946,163
Total	\$2,034,760	\$4,730,815

* Total General Fund excess Property Transfer Tax has averaged \$7.3 million over the last two years.

** Total Measure U1 Business Tax revenue is estimated at \$3 million annually.

Included in the AAO#1 on tonight’s agenda is a \$406,952 General Fund allocation to repay the Workers’ Compensation Fund for the portion of the property that will be used for the Council Chambers. The FY 2022 U1 funds for the \$946,163 payment are being appropriated in the FY 2022 AAO #1 report

Unfunded Liabilities

On April 4, 2017, there was a Council Worksession in which the City’s outside actuary presented the [Projections of Future Liabilities - Options to Address Unfunded Liabilities Tied to Employee Benefits](#). The actuary provided several options for Council’s consideration that would reduce the City’s unfunded liabilities tied to post-employee benefits. Included in the recommendations were the following:

⁹ https://www.cityofberkeley.info/Clerk/City_Council/2017/03_Mar/City_Council_03-28-2017_-_Regular_Meeting_Agenda.aspx (Item #32)

- Investing for the long-term to generate more earning to meet long-term funding targets,
- Increase annual contribution by approximately \$4.5 million per year and fully pre-fund the plans, and
- Establish an irrevocable supplemental trust for CalPERS to stabilize the increasing employer contribution rates.

On June 26, 2018, Council authorized the City Manager to establish an IRS Section 115 Pension Trust Fund (Trust) to be used to help pre-fund pension obligations¹⁰. On May 14, 2019, Council authorized the City Manager to execute a contract with Keenan Financial Services to establish, maintain, and invest the pension Section 115 Trust¹¹. The Section 115 Trust currently has a balance of \$12,494,756.87.

On February 27, 2020 the Budget & Finance Policy Committee discussed ongoing funding into the 115 Pension Trust. The following was recommended:

1. Raise the Property Transfer Tax baseline from \$12.5M to \$15M. The additional \$2.5M will be allocated to the Trust
2. Property Transfer Tax in excess of \$15M would be used to fund the City's capital infrastructure need. However, revenue generated from Measure P is excluded from this transfer.
3. Savings generate by prefunding CalPERS will be contributed to the 115 Pension Trust. On an annual basis, staff will analyze the impact of prefunding CalPERS. If the analysis determines that pre-funding CalPERS will result in budgetary savings, the net savings will be contributed to the Trust.

Staff requested Council to delay adopting these policies because the City was facing the financial fallout of the pandemic.

No additional funding of the Trust is included in the AAO#1 on tonight's agenda. However, Council may vote to allocate additional Excess Equity to fund the Trust.

Council Budget Pre-Funded Items for AAO #1 and Council Budget Referrals

On June 29, 2021, Council referred the following items for Pre-Funding consideration in the November 2021 AAO #1 Report.

¹⁰ https://www.cityofberkeley.info/Clerk/City_Council/2018/06_June/Documents/2018-06-26_Item_19_Authorization_to_Establish_IRS.aspx

¹¹ https://www.cityofberkeley.info/Clerk/City_Council/2019/05_May/City_Council_05-14-2019_-_Regular_Meeting_Agenda.aspx (Item #5)

June 2021 Budget Items Approved for Pre-Funding in November 2021 AAO #1		
Department	Item	Amount
City Manager	Community Survey	85,000
Information Technology	IT Move to 1947 Center Street	770,000
Information Technology	IT 2180 Milvia/4th Floor Rent	106,017
Parks, Recreation & Waterfront	West Campus Pool Filters/Plaster	510,000
Police	Police Overtime	1,000,000
Police	Portable Radio Replacement	600,000
Public Works	Ped Xing Signal @ intersection of Shattuck &	100,000
Public Works	Traffic Calming at MLK and Stuart Street	100,000
Public Works	George Florence Park/10th Street Traffic Calming	220,000
Total		3,491,017

In addition, between September 14 and November 30, 2021, there were 2423 Council referrals are listed in Attachment 5 and total up to about \$8 million.

November General Fund Budget Recommendations

As was noted earlier in the report, the FY 2021 Excess Equity Amount was ~~\$5.9~~5.2 million. With Pre-Funded AAO #1 items at \$3.5 million, Council budget referrals at ~~\$7.5~~8 million, and department operational requests at close to \$9.9 million, it was clear that not everything could be funded with the remaining funds.

Staff carefully reviewed all the requests and items and prioritized all the items into three tiers for funding as shown in Attachment 6.

The criteria used to group items into the tiers was as follows:

- Tier 1: Council Approved Items, Critical Operational Needs, Public Safety Items, or Legislative Mandates
- Tier 2: Non-Critical Operational Needs that maybe on hold or have existing funding
- Tier 3: Non-Urgent Operational Needs Recommend FY 2023 & FY 2024 Budget Consideration

Items recommended for Pre-Funding in AAO #1 have been highlighted so it is clear where these items were placed.

Of the items for Pre-Funding in AAO #1 listed above, the only item being recommended for immediate funding in the AAO #1 report is the West Campus Pool Filters/Plaster. This work cannot be delayed at this point otherwise it may impact summer programming or result in the pool being closed for an indefinite period of time.

Included in the Tier 1 list were several important Council budget referrals.

The total amount for Tier 1 items is at ~~\$5.5~~ 4.4 million and this leaves ~~\$397,193~~ 791,737 that has not been allocated to any items.

All Funds

On an All Funds basis, the City finished FY 2021, \$110 million (16%) under the adjusted budget. These fund balances are largely dedicated to projects, capital improvements that have not yet been completed, and personnel cost savings. For example, \$51 million is in the Department of Public Works. A sampling of the \$51 million underspending includes the following:

- Capital Improvement Fund (+\$7.1 million): \$0.7 million in salary savings and \$5.1 million in project fund carryover for transportation, street, facilities project funds to FY 2022 due to project timing, including ADA Transition Plan Update, EV Charging Station Infrastructure, FY 21 Street Rehabilitation, and Sidewalk Repair projects.
- Zero Waste (+\$6.8 million) \$0.9 million in salary savings and \$5.9 million in carried over projects into FY 2022, including the Transfer Station Replacement project environmental review and permitting.
- Sewer Fund (+\$6.0 million): \$1.8 million in personnel savings due to vacancies, \$4.0 million in continuing and deferred sewer projects scheduled for completion in FY 2022.
- Measure T1 (+\$4.6 million) \$4.6 million in carryover for various Measure T1 projects with work continuing into FY 2022.

In addition, the Department of Health Housing and Community Services had \$31 million in underspending. The vast majority of Health, Housing & Community Services' year-end fund balance consists of funds allocated to projects and programs not fully expended by the end of the fiscal year which will be carried forward to FY 2022, new positions being filled after the start of the fiscal year and vacancies throughout the department.

Of the \$31 million, half (\$15.4M) are funds designated for affordable housing. More than \$8.8 million is already allocated for housing development contracts to be encumbered in FY 2022 and approximately \$6.6 million are in the Housing Trust Fund to be disbursed for various affordable housing developments at a later date. Also, in the Housing and Community Services Division, over \$2 million in ESG-CARES Acts funds were committed to specific homeless-serving programs and were included in the carryforward request for FY 2022.

Information Technology had \$5.1 million in underspending due to FUNDS Replacement Funds and IT Cost Allocation Funds not being fully spent in FY 2021. Only funds for active projects will be carried over to FY 2022.

Parks Recreation and Waterfront had \$9.7 million in underspending due to personnel savings and unexpended project funds in the Playground Camp Fund, Parks Tax Fund, Capital Improvement Fund, and Measure T1 Fund. Only certain unspent project funds will be carried over to FY 2022.

Finally, the Library Fund had underspending of \$4.7 million due in large part to aggregated savings from miscellaneous department budget savings, staffing vacancies, deferment of Central Library stucco restoration and window resealing work to FY 2022, as well as the Central Library’s replacement of rooftop air conditioning HVAC units, and the postponement of replacement of information system network switches.

Attachment 1 provides information on the FY 2021 Year-End General Fund Revenues and includes a variance analysis.

Attachment 2 provides information on unspent FY 2021 Year-End Expenditures.

Additional detailed information on unspent funds can be found in the AAO#1 on tonight’s agenda.

FY 2022 First Quarter Summary

General Fund Revenues

The first quarter review generally focuses primarily on the major revenue fluctuation 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. Staff will monitor these revenues for one more quarter and make the determination of revising the projections at the half year point.

During the first quarter of FY 2022, General Fund revenue and transfers increased by \$15,445,993 or 52.3%, from \$29,529,079 in the first quarter of FY 2021, to \$44,975,072 in the first quarter of FY 2022, due primarily to the following increases:

- Property Transfer Taxes \$ 7,552,196
- Measure P 2,921,408
- Sales Taxes 1,069,319
- Transient Occupancy Taxes (TOT) 667,247
- Parking Fines 748,312
- Transfers In 2,406,090

The increases in revenues is in a number of categories and can be seen in more detail in Attachment 3

General Fund Expenditures

General Fund expenditures are currently tracking close to within budget as departments tend to encumber funds purchase orders for the entire year in the first few months of the year. Staff will continue to monitor the budget and report back at mid-year on the impacts of the key challenges discussed earlier in this report.

Attachment 4 provides additional information on the FY 2022 First Quarter Expenditures by department and includes a variance analysis.

American Rescue Plan

The City is receiving \$66.6 million in American Rescue Plan Act (“ARPA”) Funds. Through the use of ARPA Funds to cover General Fund revenue losses suffered in FY 2020 and FY 2021, the City was able to balance the FY 2022 General Fund budget.

The following chart provides an overview of the ARPA Funds and how they will be spent in FY 2022 and FY 2023:

	FY 2021	FY 2022	FY 2023
Beginning Fund Balance	0	\$33,323,145	\$20,345,935
Projected Revenues	\$33,323,145	\$33,323,145	0
Projected Expenditures	0	\$46,300,355	\$4,050,000
Ending Fund Balance	\$33,323,145	\$20,345,935	\$16,295,935

The FY 2022 Budget also uses American Rescue Plan Funds to address significant revenue losses to the Marina Fund, both the On-Street and Off-Street Parking Funds, Camps Fund, and the Gilman Sports Field Fund. The chart below demonstrates the ARPA Fund allocations for the provision of government services:

FUND	FY 2022	FY 2023
General Fund	\$22,969,355	TBD
Marina Fund	\$1,400,000	\$1,150,000
Parking Meter Fund	\$4,340,000	\$2,700,000
Off-Street Parking Fund	\$3,940,000	\$200,000
Camps Fund	\$1,000,000	0

Sports Field Fund	\$196,000	0
Total	\$33,880,355	\$4,050,000

Through September 2021, the City has transferred \$8,470,089 in ARPA funds to the funds listed above.

The ARPA Funds are also being used to support economic recovery and the COVID-19 response as shown in the following chart:

Program	FY 2022 Allocation
Emergency Operations Center	\$1,500,000
Programs Addressing Community Safety and Crisis Response (Specialized Care Unit)	\$8,000,000
Program to Support Arts in their Re-Opening	\$2,000,000
Visit Berkeley	\$500,000
Business Retention Program / Small Business Technical Assistance	\$100,000
#DiscoveredinBerkeley Campaign	\$50,000
“Berkeley Ventures Berkeley Values” Initiative	\$20,000
Funding for Health Equity & Innovation District Consultant	\$250,000

With the exception of the Emergency Operations Center program that spent \$1,583 in the first three months of FY 2022, none of the other projects have incurred any expenditures yet. The program to support the arts has just begun the application process and several others are beginning to start work.

An update on the American Rescue Plan programs and expenditures will be provided in the FY 2022 Mid-Year Report.

Next Steps

Staff will present second-quarter revenue and expenditure projections at the FY 2022 Mid-Year Update in February/March 2022. We are also beginning the development of the FY 2023 & FY 2024 Biennial Budget.

ENVIRONMENTAL SUSTAINABILITY

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

CONTACT PERSON

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Attachments:

1. FY 2021 Year End General Fund Revenues
2. FY 2021 Year End General Fund and All Funds Expenditures
3. FY 2022 1st Quarter General Fund Revenues
4. FY 2022 1st Quarter General Fund and All Funds Expenditures
5. Summary of Council Referrals to the Budget Process
6. November 2021 General Fund Budget Recommendations [\(Revised\)](#)

November 2021 General Fund Budget Recommendations

Tier 1 Funding Requests (Council Approved Items, Critical Operational Needs, Public Safety Items, or Legislative Mandates)

Department Items

Department	Item	Amount	Comments
City Clerk	Konica Minolta Business Systems/OnBase Version Upgrade and Training	50,000	For agenda review and packet creation software; Project to start in February 2022
City Manager	Data Entry to input pages into Website project	70,000	Funds needed to complete website project in January 2022
Finance	Deputy Director of Finance	268,812	Position is essential to managing the operations of the Finance Department and provide support to the Director of Finance
Fire	Priority Dispatching	83,000	Funding needed for the development of a Priority Dispatching program in Fire
Fire	FY 2015 Ground Emergency Medical Transport Overpayment	150,660	City was overpaid by the State in FY 2015 for Ground Emergency Medical Transport program and must now return those funds to the State.
Fire	Gurneys	39,714	Funds needed to maintain the City's lease contract for ambulance gurneys
Health, Housing & Community Svcs.	African American Holistic Resource Center	52,037	Funds needed for development of the African American Holistic Resource Center
Health, Housing & Community Svcs.	COLA/CalPERS PEPPRA coverage	179,551	Allocation for COLA's, CalPERS, and bonuses for HHCS that cannot be absorbed by grant funds in FY 2022 for labor contracts approved by Council.
Information Technology	Enterprise Zoom License	68,832	Funds for Enterprise for Zoom Government License pilot program
Non-Departmental	Transfer to Workers' Compensation Fund for Premier Cru loan repayment	406,952	Loan from Workers' Compensation Fund and repayment plan approved by Council on 3/28/17
Parks, Recreation & Waterfront	West Campus Pool Filters/Plaster	510,000	Approved for Pre-Funding in AAO #1 in June 2021. Work can not be delayed, otherwise we may impact summer programming or may be subject to an indefinite closure at West Campus pool.
Planning	Deputy Director of Planning	32,163	Restoring the Deputy Director position in the Planning Department is necessary to improve operations, customer service and succession planning.
Public Works	Dwight-California Intersection Improvements	323,807	Appropriate balance of Mayor/Council Budget referral from FY 2019 AAO#1 process so that project can continue. Project was put on hold.
Public Works	BerkDOT	100,000	To continue the study of potential BerkDOT or alternate organizational structure (Council referral)

Public Works	Public Restroom People's Park	83,428	Appropriate funds received from Enclave Partners for a public restroom at People's Park
Total Department Requests		2,418,956	

Council Referrals

Referred By	Item	Amount	Comment
Taplin and Kesarwani	Security Cameras in the Public Right Of Way at Intersections Experiencing Increased Violent Crime, and Environmental Safety Assessment for High Crime Areas	1,330,000	
Taplin, Mayor Arreguin, Harrison, and Hahn	Resolution Recognizing Housing as Human Right; Referring to City Manager Several Measures to Begin Developing Social Housing in the City of Berkeley	300,000	
Bartlett	Homeless Outreach Coordinator for South Shattuck Avenue and Adeline Street	100,000	
Robinson and Mayor Arreguin	Durant Parklet and Telegraph Plaza Improvements	60,000	
Taplin, Bartlett, Mayor Arreguin, and Wengraf	Berkeley Ceasefire	200,000	
Total Council Referrals		1,990,000	
Total Tier 1 Funding Requests		4,408,956	
Unspent Excess Equity Funds		791,737	

Tier 2 (Non-Critical Operational Needs that maybe on hold or have existing funding)

Department	Item	Amount	Comments
Finance	Tax Assessment System Replacement	300,000	Project on hold till FY 2023
Information Technology	IT Move to 1947 Center Street	770,000	Adjustment to FY 2022 General Fund Baseline recommended for Pre-Funding in AAO #1. Move is currently on hold
Information Technology	IT 2180 Milvia/4th Floor Rent	106,017	Adjustment to FY 2022 General Fund Baseline recommended for Pre-Funding in AAO #1. Could possibly fund from existing budget
Information Technology	Cybersecurity for Telecommuting Needs	819,000	2nd Half of \$1.638 million allocation; Initial funds still have not been fully spent yet in FY 2022
Police	Police Overtime	1,000,000	Adjustment to FY 2022 General Fund Baseline recommended for Pre-Funding in AAO #1. Baseline funding for overtime may be sufficient for overtime costs in FY 2022
Police	School Crossing Guards	77,156	Hire 4 School Crossing Guard positions to fully cover all 18 Crossing Guard posts
Public Works	Ped Xing Signal @ intersection of Shattuck & Prince	100,000	Adjustment to FY 2022 General Fund Baseline recommended for Pre-Funding in AAO #1.
Public Works	Traffic Calming at MLK and Stuart Street	100,000	Adjustment to FY 2022 General Fund Baseline recommended for Pre-Funding in AAO #1.
Public Works	George Florence Park/10th Street Traffic Calming	220,000	Approved for Pre-Funding in AAO #1 in June 2021.
Total Department Items		3,492,173	

Council Referrals

Referred By	Item	Amount	Comment
Bartlett	Infrastructure and Affordable Housing Finance Plan for Adeline Corridor	200,000	
Robinson, Mayor Arreguin, and Hahn	Telegraph Public Realm Plan Implementation	500,000	
Hahn	Solano-Peralta Park restoration and improvements	80,000	
Taplin	Strawberry Creek Lodge Food Program	100,000	
Taplin	Curtis Street Traffic Diverters	100,000	
Bartlett and Mayor Arreguin	Commitment to Habitat Recovery	100,000	
Wengraf	Budget Referral to the City Manager to Improve Pedestrian Safety where Sidewalks are Not Provided	100,000	
Taplin	Pedestrian Crossing Improvements at Ashby and Acton	100,000	
Taplin	Russell Street Bicycle and Pedestrian Improvements	360,000	
Total Council Referrals		1,640,000	
Total Tier 2 Funding Requests		5,132,173	

Tier 3 (Non-Urgent Operational Needs Recommend FY 2023 & FY 2024 Budget Consideration)

Department	Item	Amount	Comments
City Manager	Community Survey	85,000	Approved for Pre-Funding in AAO #1 in June 2021. Funds not needed as funds for community survey were approved with allocation for Vision 2050 plan
City Manager	Communications Specialist	116,854	Department request to add additional staff person to to meet a baseline need for community engagement, daily and emergency PIO response, as well as multi-department and multi-agency coordination.
City Manager	Office of Diversity & Equity: Assistant to the City Manager	268,812	Funding to address Council referral
Fire	Medical Supplies for Life Assist	90,200	Funds for additional medical supplies for ambulances
Finance	Grant Writer	TBD	Funding to address Council referral
Police	Portable Radio Replacement	600,000	Approved for Pre-Funding in AAO #1 in June 2021. Funds not needed till FY 2023 when first payment occurs.
Public Works	Restore Deferral	1,283,765	FY 2021 General Fund Budget Deferral. Could be funded through ARPA Funds as deferral was due to General Fund budget deficit caused by COVID-19
Public Works	Citation Appeals Assistance	109,861	Funding to add an Office Specialist II position to support the Citation Appeals process
Total Tier 3 Items		2,554,492	

Referred By	Item	Amount	Comment
Mayor Arreguin	Supply Bank	25,000	
Harrison	Allocate General Fund Revenues to Support Pilot Program Offering Free AC Transit on Sundays in Berkeley	500,000	
Robinson	Public Bank East Bay	50,000	
Taplin	Sidewalk Repair on Arterial Streets	600,000	
Taplin	Reckless Driving and Sideshow Deterrence Improvements	unknown	
Taplin	West Berkeley Residential Preferential Parking (RPP)	1,590,151	

Harrison and Bartlett	Budget Referral and Resolution Establishing a Pilot Existing Building Electrification Installation Incentives and Just Transition Program with Pre-Qualified Contractors Meeting Minimum Labor Standards to Assist New Property Owners, Renters and Existing Property Owners with Transition to Zero-Carbon Buildings	1,500,000	
Bartlett and Mayor Arreguin	Commitment to Habitat Recovery	100,000	
Mayor Arreguin	Berkeley Age-Friendly Continuum	20,000	
Taplin, Droste, and Wengraf	Automated license plate readers for community safety improvement.	unknown	
Total Council Referrals		4,385,151	
Total Tier 3 Funding Requests		6,939,643	

Measure P

Department	Item	Amount	Comments
City Manager's Office	Homeless Response Team Vehicle	33,120	Vehicle purchase was included in FY 2021 Measure P allocations. Purchase not made till FY 2022.
City Manager's Office	Off-street safe parking program for Recreational Vehicles at 742 Grayson Street and other shelter operational costs	439,420	Funding approved by Council on 10/26/21
Total Measure P Adjustments		472,540	

Measure U1

Department	Item	Amount	Comments
Non-Departmental	Transfer to U1 Fund	973,695	
Total Measure U1 Adjustments		973,695	