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Kate Harrison
Vice Mayor, District 4

CONSENT CALENDAR
May 24, 2022

To: Honorable Mayor and Members of the City Council

From: Vice Mayor Harrison

Subject: Referral to the Budget and Finance Policy Committee and Budget Referral to Consider General Fund Strategies and Related Fiscal Policies for Funding Capital Improvements, in Particular Street, Sidewalk, Micromobility and Transit Infrastructure

RECOMMENDATION

1. Refer to the Council Budget and Finance Policy Committee to explore specific options for improving how and to what extent the City's Capital Improvement Program (CIP) is funded, to include but not limited to the following potential strategies:
   a. investigate historic assumptions and policies regarding secured-property and transfer tax revenues;
   b. consider a one-time allocation of a certain percentage of salary savings accruing from historic vacancies that are not likely to be filled in the short-term;
   c. consider prospective Public Works plan to charge utilities for pavement impact.

2. Refer to the June 2022 Budget process $8 million per year to be transferred to the CIP based on Committee consideration and any conclusions.

POLICY COMMITTEE RECOMMENDATION

On April 19, 2022, the Budget & Finance Policy Committee sent the item to Council (M/S/C Harrison/Arreguin) with a qualified positive recommendation removing item 1 (c) consider the sale of underutilizes city-owned property.
Vote: Ayes – Harrison, Arreguin; Noes – None; Abstain – Droste; Absent –None.

CURRENT SITUATION, EFFECTS, AND RATIONALE FOR RECOMMENDATION

The City is facing a historic crisis of underinvestment in its infrastructure. The Mayor formed the Vision 2050 Task Force and spearheaded placing the $100 million T1 Infrastructure Bond (leveraging millions more in other funding) to begin to address these long-standing capital needs. To date, $40M in T1 bonds were spent, with an additional $23M from grants and special funds. Nonetheless, the City's infrastructure needs remain vast with perhaps the most visible area of underinvestment being in the City's streets and sidewalks.

A Metropolitan Transportation Commission report warns that Berkeley's overall paving condition is "At Risk," meaning on the cusp of falling into "Failing" category. The current five-year paving plan is the result of historic deferred maintenance and underfunding.

Residential streets across the entire city are largely categorized as failing and bicycle, pedestrian, and Vision Zero projects are severely underfunded. Meanwhile, neighboring cities in the Bay Area, such as Richmond, El Cerrito, San Francisco have "Excellent/Very Good" to "Fair/Good" streets conditions.

The Public Works Department has advised that ongoing funding under the rolling 5-Year Street Plan will not be enough to stabilize Berkeley's streets. In fact, if street investment is not increased, Public Works warns that the City could face $1 billion in future repair costs as the cost of deferred paving maintenance increases exponentially each year. In March of 2022, the Department reported that the City needs an additional $8 million in funding per year to maintain the current street condition and to maintain any future investments, including the revenue measure. Addressing the ongoing maintenance gap, regardless of new bonding for on-time fixes, is key to addressing the crisis.

At the Council's direction, the Facilities, Infrastructure, Transportation, Environment & Sustainability (FITES) Policy Committee has spent two years investigating, the overall paving situation, paving policies, and multi-faceted paving funding/bonding solutions. From this work, a number of potential solutions have arisen including allocating the TNC tax for priority bike, pedestrian, and transit street upgrades and exploring charging fees to garbage collection agencies and private companies for road damage. Public Works recently conducted a five-year rate study for zero waste rates that would raise $1 million in the first year and $2 million thereafter to address paving impacts of the City's Zero Waste fleet. The outcome of this funding stream is dependent on a Proposition 218 process scheduled for 2023.

In addition, the FITES committee explored the idea of bonding to stabilize citywide PCI. The Council is also currently considering placing an infrastructure bond and/or parcel tax on the November, 2022 ballot. However, long-term bonds are not the best way to pay for road maintenance as opposed to capital reconstruction and every day we wait, more roads fall into an unusable state. From discussion with City staff and the Public Works Commission, it is clear that in addition to other funding strategies, the maintenance problem cannot be solved without additional investment from the City's General Fund.

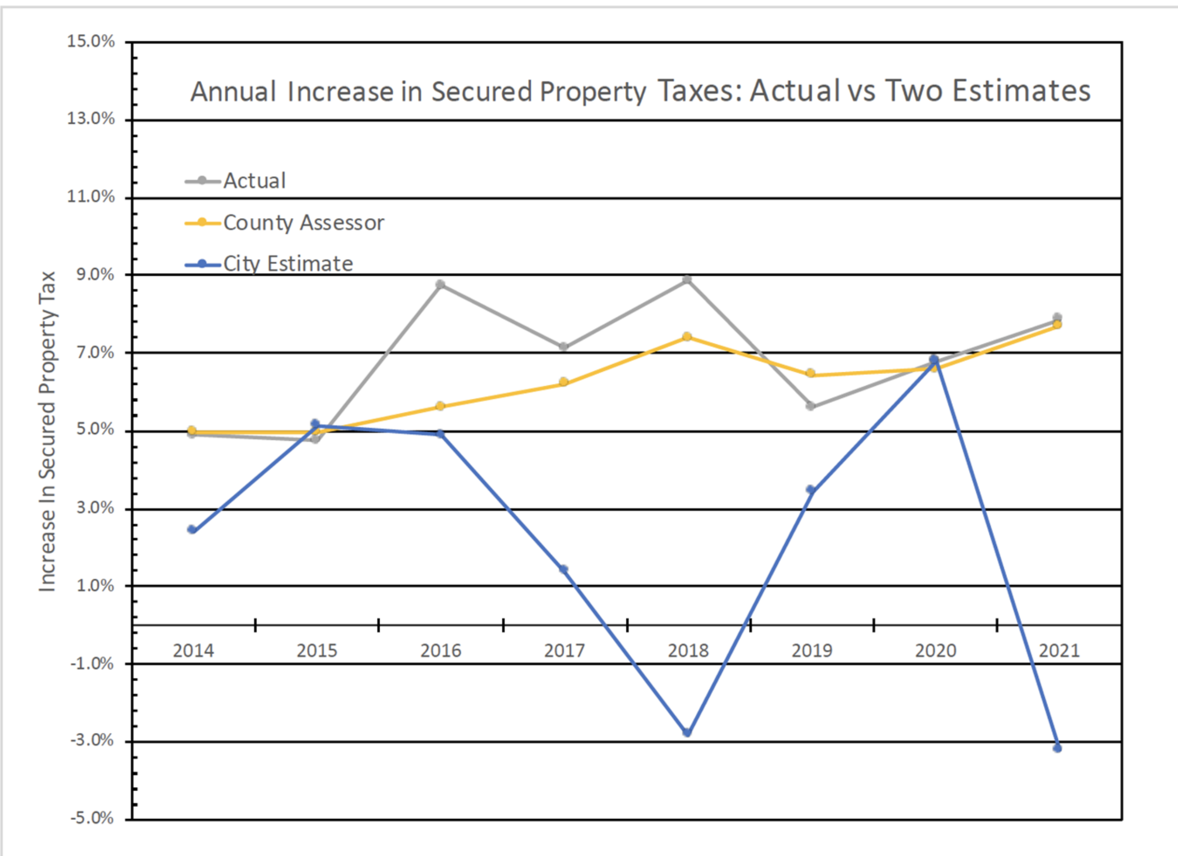
It is therefore in the public interest to provide instructions to the Budget and Finance Policy Committee to explore specific avenues for identifying appropriate General Fund monies.

<u>BACKGROUND</u>
In preparing its biannual budgets, there appears to be some underestimation of City secured-property and transfer tax revenues. While there is merit to conservative

estimates, current needs – especially one-time capital needs – should be considered for prioritization if funding is in fact available.

Future year estimates should include data of historical trends, for example for the past three years. In fact, the City has a vast data set of historic revenue numbers going back much further than that which should be used to provide it with a rough sense of future performance.

For example, the secured-property tax is one of the City's more consistent revenue streams; it has remained relatively steady even during recessions. The County Assessor's estimates have been closer to actual performance than those from the City, and they are available in June when the budget is finalized.



Council needs accurate revenue estimates when it is finalizing the biennial budget in June. Learning after the fact, approximately 17 months later, that secured property tax revenues were underestimated is likely not conducive to good budgeting practices.[1]

[1] The 17 months, referred to is based on the following timeline:

Historically, Council policy has called for using the first $12.5 million in real property transfer taxes for general purposes, with the balance going to capital needs. In FY 2021, in order to account for unanticipated needs due to COVID, the Council dedicated the first $16.5 million in transfer taxes to general purposes. In other years, it is not clear if the entire amount over the $12.5 million was devoted to capital needs. The transfer tax, while more volatile than regular property taxes, has been on a significant upward trend, and the City enjoys equally robust historic data.

Historic Transfer Tax (TT) Variance in Context of CIP

	FY 2018	FY 2019	FY2020	FY2021
Adopted TT (June Budget Book)	$ 12,500,000	$12,500,000	$ 12,500,000	$ 16,500,000
Actual TT (Nov. Year End Update)	$ 18,911,368.00	$ 19,952,981	$ 22,095,507	$ 21,469,955
TT Variance	**$ 6,411,368.00**	**$ 7,452,981**	**$ 9,595,507**	**$ 4,969,955**

For the past decade, General Fund contributions to the CIP have been flat at $1.9 million despite inflation and steadily deteriorating road condition. An additional $5 million is typically allocated from special funds for paving.[2] Public Works staff report that at least $8 million more annually is needed to maintain current street conditions per year in addition to the $6.9 spent in FY22—regardless of whether voters pass a $300 million bond. Fortunately, an additional $8 million in Measure T1 street paving funds will be available in FY 23, but there is not enough to cover the full amount for FY 24. More funds need to be devoted to infrastructure at the adoption of the June budget rather than waiting for reconciliation in November. This will allow capital planning to be improved at the onset each budget cycle. Therefore, Council and staff would be less likely to defer further contributions to the CIP given operational priorities identified by the City Manager and Council priorities as has been the case in recent years when the policy of allocating excess Transfer Tax revenues to the CIP was suspended. For example, through the first amendment to the FY21 budget, the City Manager presented and Council approved an additional $2.7 million in operational expenses such as the relocation of the Information Technology Department, police overtime, public safety radio replacement, and upgrades to the West Campus pool. Council budget items totaled $2.3 million, including for surveillance cameras ($1.3 million), traffic calming and

1. On June 30, 2021 the FY21/22 is set. At that time Finance has the Assessed Values for FY21/22 and knows how much the secured property tax revenues will be based on the Assessor’s numbers.
2. One year later, the fiscal year closes on June 30, 2022, and FY21/22 closes.
3. 5-6 months later, the Year-End financials are presented to Council approximately 17 months after the budget was finalized.

[2] E.g., Measure B & BB, Gas Tax & SB1, and Vehicle Registration Fee.

pedestrian safety upgrades, and additional community support items. These items were funded in lieu of funding $5 million in the capital budget. While these items were justified, it meant that less funding was available for capital. Planning for these types of expenses should be completed before the adoption of the original budget in June.

This item refers to the Budget and Finance Committee to explore whether it is possible allocate all reasonably-derived revenue estimates ahead of the June 2022 bi-annual budget process rather than wait until the November Annual Appropriation Ordinance and to dedicate a certain amount of funding directly to the CIP for paving maintenance and other critical infrastructure needs. Reconsidering existing policies could result in better budgeting, and ultimately result in a more transparent budget process and conservative AAO process. This could encourage Council to rethink certain existing programs in light of new programs, visions or needs, as well as to encourage the community and Council to seek potential new revenue sources.

This also item encourages the Budget Committee to budget prospectively with respect to new revenues as a result of an ongoing Public Works initiative to charge utilities for their outsized impact on our roads.

Finally, given historic vacancies across the City (a national phenomenon), to the extent that vacancies will likely not be filled in short-term, the Committee should consider allocating a certain percentage to the CIP. While it is the first policy of the Council to support the community with services and to support understaffed workers, the City might not be able to fill some positions immediately. The City Manager’s office reported that as of December 2021 there were 233 FTE vacancies across the city, or a 14% vacancy rate for the city’s approximately 1658 positions. For example, the City Attorney, Finance, Human Resources and Public Works Departments respectively experienced 27%, 20%, 32%, and 14% vacancy rates.[3] For some departments, such as Public Works, significant vacancies predate the pandemic.

Departmental Vacancy Rate as of 12/21[4]

[3] Includes all funds. Information about General Fund specific vacancies is pending.
[4] Budget Committee Vacancy Materials, City Manager’s Office, December 13, 2021, https://www.cityofberkeley.info/uploadedFiles/Clerk/Item%205Attachment%201%20-%20Vacancy%20Report%20Revised.pdf; https://www.cityofberkeley.info/uploadedFiles/Clerk/Revised%20Vacancy%20Rate%20Chart%2012-13-21.pdf.

Department	Vacant Positions (# of FTE)	Vacancy Rate % for Each Department	% for Each Department of Total Vacancy Number
City Attorney's Office	4	27%	2%
City Auditor's Office	0	0%	0%
City Manager's Office	11	22%	4%
City Clerk's Office	1	10%	0%
Finance	10	20%	4%
Fire	11	7%	5%
Health, Housing and Community Services	25	10%	11%
Human Resources	7	32%	3%
Information Technology	6	13%	3%
Library	39	34%	17%
Mayor and Council	2	13%	1%
Parks, Recreation and Waterfront	12	8%	5%
Planning	9	8%	4%
Police	48	17%	21%
Public Works	46	14%	20%
Rent Board	3	12%	1%
Total	**233**		100%

Total Vacancy Rate Based on Total FTES **14%**

The FY 2022 budget was built on the assumption that there would be a 3% vacancy rate for non-safety operating departments when, in fact, rates are significantly higher than that.

Summary of Vacancy by Fund
As of December 8, 2021

Fund Name	Vacant Positions (# of FTE)
General Fund	114
Library Tax Fund	32
Permit Service Center	12
Zero Waste	11
Equipment Maintenance	7
Sanitary Sewer Operations	7
All Other Funds	50
Total	**233**

[5]

In FY 2021, approximately $62 million in General Fund monies were allocated for personal costs outside of public safety.[6] A 3% vacancy rate assumed by the City

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[5] Response to Questions from Budget and Finance Policy Committee, City Manager's Office, December 13, 2021, https://www.cityofberkeley.info/uploadedFiles/Clerk/Response%20to%20Questions%20Re%20December%202021%2012-13-21docx.pdf

[6] FY 2022 Budget Presentation, City Manager's Office, May 17, 2021,

Manager approximately equals $1.8 million, whereas a 5% vacancy assumption would be $3.1 million and 7% would be $4.3 million. This item asks that while hiring is being ramped up in the post-COVID period, some of the additional salary savings be allocated to capital expenses, particularly paving.

Given that the City of Berkeley routinely underestimates the amount of property and transfer taxes it will receive, on average understating them by $11 million per year, assuming that one third of these revenues should be allocated, an additional $3 million could be spent on roads – now when we need it. In addition, assuming only 93% of general fund positions are filled at any one-time, as opposed to 97% as is in the current budget, frees up $3 million in one-time revenue. Any adjustment would not apply to police, fire, and other public safety workers. This nearly $7 million could be combined with charging large trucks more for their greater impact on pavement, a potential revenue source estimated at $1-2 million/year starting in 2023 following a successful Proposition 218 process. It is in the public interest to these General Fund monies now to fund paving maintenance operations and stabilize paving condition ahead of a potential revenue measure.

FISCAL IMPACTS OF RECOMMENDATION

Impact on General Fund will be determined by any Committee recommendations and any Council allocations.

ENVIRONMENTAL SUSTAINABILITY

Depending on how funds are spent, a fully capitalized Capital Improvement Program can help further accelerate mode shifts away from fossil fuel vehicles.

CONTACT PERSON

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https://www.cityofberkeley.info/uploadedFiles/Clerk/FY%202022%20Proposed%20Budget%20Presentation.pdf