



**BERKELEY CITY COUNCIL BUDGET & FINANCE COMMITTEE
REGULAR MEETING**

**Thursday, February 9, 2023
10:00 AM**

Committee Members:

Mayor Jesse Arreguin, Councilmembers Rashi Kesarwani and Kate Harrison
Alternate: Councilmember Sophie Hahn

**PUBLIC ADVISORY: THIS MEETING WILL BE CONDUCTED EXCLUSIVELY THROUGH
VIDEOCONFERENCE AND TELECONFERENCE**

Pursuant to Government Code Section 54953(e) and the state declared emergency, this meeting of the City Council Budget & Finance Committee will be conducted exclusively through teleconference and Zoom videoconference. The COVID-19 state of emergency continues to directly impact the ability of the members to meet safely in person and presents imminent risks to the health of attendees. Therefore, no physical meeting location will be available.

To access the meeting remotely using the internet: Join from a PC, Mac, iPad, iPhone, or Android device: Use URL - <https://cityofberkeley-info.zoomgov.com/j/1619021675>. If you do not wish for your name to appear on the screen, then use the drop down menu and click on "rename" to rename yourself to be anonymous. To request to speak, use the "raise hand" icon on the screen.

To join by phone: Dial **1-669-254-5252 or 1-833-568-8864 (Toll Free)** and Enter Meeting ID: **161 902 1675**. If you wish to comment during the public comment portion of the agenda, press *9 and wait to be recognized by the Chair.

Written communications submitted by mail or e-mail to the Budget & Finance Committee by 5:00 p.m. the Friday before the Committee meeting will be distributed to the members of the Committee in advance of the meeting and retained as part of the official record.

AGENDA

Roll Call

Public Comment on Non-Agenda Matters

Minutes for Approval

Draft minutes for the Committee's consideration and approval.

1. Minutes - December 8, 2022

Committee Action Items

The public may comment on each item listed on the agenda for action as the item is taken up. The Chair will determine the number of persons interested in speaking on each item. Up to ten (10) speakers may speak for two minutes. If there are more than ten persons interested in speaking, the Chair may limit the public comment for all speakers to one minute per speaker.

Following review and discussion of the items listed below, the Committee may continue an item to a future committee meeting, or refer the item to the City Council.

2. Election of Chairperson

3. State of California Encampment Resolution Funding Program

From: City Manager

Recommendation: Receive a presentation on a proposal for the State of California Encampment Resolution Funding Program and provide direction regarding the submittal of a grant application to the State, including a local match of up to roughly \$5 million in City Measure P revenue.

Financial Implications: See report

Contact: Peter Radu, City Manager's Office, (510) 981-7000

4. Update on Measure P

From: City Manager

Recommendation: Receive an update on the Measure P budget, recommendations on possible new programs and projects and provide direction to staff regarding homelessness funding priorities.

Financial Implications: See report

Contact: Sharon Friedrichsen, Budget Manager, (510) 981-7000

Committee Action Items

**5a. Allocation of \$3 Million Over Two Years, FY 2024 and FY 2025, to Reduce Consumption and Health Impacts of Sugar-Sweetened Beverages (SSBs).
From: Sugar Sweetened Beverage Product Panel of Experts**

Referred: January 4, 2023

Due: June 5, 2023

Recommendation: Adopt a Resolution allocating \$3 million from the General Fund in FY24 (July 1, 2023 through June 30, 2024) and FY25 (July 1, 2024 through June 30, 2025) that shall be invested in a grant program administered and coordinated by the Department of Health, Housing, and Community Services' (HHCS) Public Health Division (HHCS/PHD) consistent with the Sugar-Sweetened Beverage Product Panel of Experts (SSBPPE) Commission's goals to reduce the consumption of sugar sweetened beverages (SSB) in Berkeley and to address the health effects of SSB consumption. The total of \$3 million will be distributed in two installments of \$1.5 million per year for FY24 and FY25. In each of these years, the funds will be distributed as follows:

a. Direct the City Manager to award up to 42.5% of the allocated funds to Berkeley Unified School District (BUSD) through a grant proposal to reduce the consumption of sugar-sweetened beverages (SSBs) through the implementation and enhancement of the BUSD cooking and gardening programs. The BUSD funding process is separate from the RFP process for the general community-based organization funding process and shall be guided by the SSBPPE Commission's Criteria for BUSD Funding.

b. Direct the City Manager to award at least 42.5% of the allocated funds through an RFP process managed by HHCS/PHD for grants to community-based organizations consistent with the SSBPPE Commission's goals to reduce the consumption of SSBs and to address the effects of SSB consumption. The community-based organization funding RFP process is separate from the BUSD funding process and shall be guided by the SSBPPE Commission's Criteria for Community Agency Grants.

c. Direct the City Manager to utilize up to 15% of the allocated funds to support HHCS/PHD to coordinate and monitor the grant process, coordinate the overall program evaluation, and produce an annual report that disseminates process and outcome data from the epidemiologist resulting from the SSBPPE Commission funding program as well as pay certain City of Berkeley Finance Department costs related to the sugary drink tax.

Financial Implications: See report

Contact: Roberto Terrones, Commission Secretary, (510) 981-5400

Committee Action Items

5b. Companion Report: Allocation of \$3 Million Over Two Years, FY24 and FY25, to Reduce Consumption and Health Impacts of Sugar-Sweetened Beverages (SSBs).

From: City Manager

Referred: January 4, 2023

Due: June 5, 2023

Recommendation: Adopt a Resolution allocating \$2 million from the General Fund in FY24 (July 1, 2023 through June 30, 2024) and FY25 (July 1, 2024 through June 30, 2025) that shall be invested in a grant program administered and coordinated by the Department of Health, Housing, and Community Services' (HHCS) Public Health Division (HHCS/PHD) consistent with the Sugar-Sweetened Beverage Product Panel of Experts (SSBPPE) Commission's goals to reduce the consumption of sugar sweetened beverages (SSB) in Berkeley and to address the health effects of SSB consumption. The total of \$2 million will be distributed in two installments of \$1 million per year for FY24 and FY25. The funds will be distributed as follows:

a. Direct the City Manager to award up to \$712,000 of the allocated funds to Berkeley Unified School District (BUSD) for the period, July 1, 2023 to June 30, 2025 through a grant proposal to reduce the consumption of sugar-sweetened beverages (SSBs) through the implementation and enhancement of the BUSD cooking and gardening programs. The BUSD funding process is separate from the RFP process for the general community-based organization funding process and shall be guided by the SSBPPE Commission's Criteria for BUSD Funding (Attachment 1).

b. Direct the City Manager to award at least \$712,000 of the allocated funds for the period, July 1, 2023 to June 30, 2025 through an RFP process managed by HHCS/PHD for grants to community-based organizations consistent with the SSBPPE Commission's goals to reduce the consumption of SSBs and to address the effects of SSB consumption. The community-based organization funding RFP process is separate from the BUSD funding process and shall be guided by the SSBPPE Commission's Criteria for Community Agency Grants (Attachment 2).

c. For the period, July 1, 2023 to June 30, 2025, direct the City Manager to allocate \$125,000 to fund Finance Department costs for staffing and MuniServices fees and \$451,000 to HHCS/PHD for staffing, operating and consulting costs to coordinate and monitor the grant process, manage resulting contracts awarded, support activities aligned with the goal of the sugary beverage tax, including the Healthy Retail Checkout ordinance, and provide an annual presentation to the SSBPPE Commission that includes process and outcome data and updates on Finance Department fees related to the sugary drink tax for the SSBPPE Commission to inform the development of the Commission's annual report.

d. Carryover any sugary drink tax revenue received in excess of \$2 million during FY24 and FY25 to be awarded for related services in FY25 – FY27.

Financial Implications: See report

Contact: Henry Oyekanmi, Finance, (510) 981-7300, Lisa Warhuus, Health, Housing, and Community Services, (510) 981-5400

Unscheduled Items

These items are not scheduled for discussion or action at this meeting. The Committee may schedule these items to the Action Calendar of a future Committee meeting.

6. Investment Report Update - Investment Policies of Other Jurisdictions

From: City Manager

Contact: Henry Oyekanmi, Finance, (510) 981-7300

7. Accept the Risk Analysis for Long-Term Debt (Bonding Capacity) Report provided by Government Finance Officers Association

From: City Manager

Referred: April 26, 2022

Due: March 31, 2023

Recommendation: Accept the report titled 'Risk-Based Analysis and Stress Test of Long-Term Debt Affordability' as provided by the Government Finance Officers Association (GFOA). This report is based on their research and development of a risk-modeling tool to address issuing long-term debt related to City of Berkeley Vision 2050.

On April 26, 2022, the City Council referred this item to the City Manager and Budget & Finance Committee to return to Council with recommendations or analysis on as many of the following items as possible by October 2022, if feasible. 1)

Consideration of reserves policies for operational funds other than the General Fund; 2) Potential reduction of the maximum indebtedness rate from 15% of assessed property value down to 4-8% range; 3) A new policy to not incur indebtedness when interest rates go above 5% or a different specific threshold; 4) Tools for increased transparency for taxpayers; 5) Updated report and discussion of pension and healthcare costs; 6) Refer the full Report to the Budget & Finance Committee for consideration.

Financial Implications: None

Contact: Henry Oyekanmi, Finance, (510) 981-7300

8. Additional Allocation of Measure P Funding to "Step Up Housing" Project

From: Councilmember Bartlett (Author), Councilmember Wengraf (Co-Sponsor), Councilmember Kesarwani (Co-Sponsor)

Referred: August 3, 2022

Due: February 13, 2023

Recommendation: Adopt a resolution allocating an additional \$114,660 per year for 10 years, from Measure P transfer tax receipts to support the increased costs for the lease and operation of a new permanent supportive housing project for the unhoused at the Step-Up Housing Project at 1367 University Avenue. In addition, refer to the next meeting of the Budget and Finance Policy Committee to confirm the availability of requested funding.

On August 3, 2022, the City Council adopted Resolution No. 70,491-N.S. as amended and referred to the Budget & Finance Committee to consider future General Fund needs for this project and confirm availability of funds for the operating budget.

Financial Implications: See report

Contact: Ben Bartlett, Councilmember, District 3, (510) 981-7130

Unscheduled Items

9. Recommendation on Climate, Building Electrification, and Sustainable Transportation Budget Priorities for Fiscal Year 2023 and 2024

From: Energy Commission

Referred: November 3, 2022

Due: April 25, 2023

Recommendation: The Energy Commission recommends that the Berkeley City Council prioritize and include in the City's budget for the Fiscal Years Ending (FYE) 2023 and 2024 several staff positions, pilot projects, investments in electric vehicles and charging infrastructure, and other measures to ensure that the City's budget is aligned with and provides adequate and needed funding to implement the City's adopted Climate Action Plan, Electric Mobility Roadmap, Building Emissions Saving Ordinance, 2019 ban on gas in new construction, and the Existing Buildings Electrification Strategy.

Financial Implications: See report

Contact: Billi Romain, Commission Secretary, (510) 981-7400

Items for Future Agendas

- Discussion of items to be added to future agendas

Adjournment

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*Written communications addressed to the Budget & Finance Committee and submitted to the City Clerk Department will be distributed to the Committee prior to the meeting.*

*This meeting will be conducted in accordance with the Brown Act, Government Code Section 54953. Members of the City Council who are not members of the standing committee may attend a standing committee meeting even if it results in a quorum being present, provided that the non-members only act as observers and do not participate in the meeting. If only one member of the Council who is not a member of the committee is present for the meeting, the member may participate in the meeting because less than a quorum of the full Council is present. Any member of the public may attend this meeting. Questions regarding this matter may be addressed to Mark Numainville, City Clerk, (510) 981-6900.*



### COMMUNICATION ACCESS INFORMATION:

To request a disability-related accommodation(s) to participate in the meeting, including auxiliary aids or services, please contact the Disability Services specialist at (510) 981-6418 (V) or (510) 981-6347 (TDD) at least three business days before the meeting date.

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I hereby certify that the agenda for this meeting of the Standing Committee of the Berkeley City Council was posted at the display case located near the walkway in front of the Maudelle Shirek Building, 2134 Martin Luther King Jr. Way, as well as on the City's website, on Thursday, February 2, 2023.



Mark Numainville, City Clerk

Communications

Communications submitted to City Council Policy Committees are on file in the City Clerk Department at 2180 Milvia Street, 1st Floor, Berkeley, CA, and are available upon request by contacting the City Clerk Department at (510) 981-6908 or policycommittee@cityofberkeley.info.

**BERKELEY CITY COUNCIL BUDGET & FINANCE COMMITTEE
REGULAR MEETING MINUTES**

**Thursday, December 8, 2022
10:00 AM**

Committee Members:

Mayor Jesse Arreguín, Councilmembers Kate Harrison and Lori Droste
Alternate: Councilmember Rashi Kesarwani

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MINUTES

Roll Call: 10:04 a.m.

Present: Harrison, Arreguín

Absent: Droste

Public Comment on Non-Agenda Matters: 3 speakers

Minutes for Approval

Draft minutes for the Committee's consideration and approval.

1. Minutes - November 10, 2022

Action: M/S/C (Arreguín/Harrison) to approve the November 10, 2022 minutes.

Vote: Ayes – Harrison, Arreguín; Noes – None; Abstain – None; Absent – Droste.

Committee Action Items

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Following review and discussion of the items listed below, the Committee may continue an item to a future committee meeting, or refer the item to the City Council.

2. Amendment: FY 2023 Annual Appropriations Ordinance

From: City Manager

Recommendation: Request that the Budget & Finance Policy Committee:

1. Discuss the City Manager's recommended carryover and adjustment items and determine funding allocations for inclusion in the Amendment to the FY 2023 Annual Appropriations Ordinance based on re-appropriation of committed FY 2022 funding and other adjustments since July 1, 2022; and
2. Authorize staff to present the approved Amendment to the FY 2023 Annual Appropriations Ordinance to the full City Council on December 13, 2022, for consideration and adoption.

Financial Implications: See report

Contact: Sharon Friedrichsen, Budget Manager, (510) 981-7000

Action: 9 speakers. M/S/C (Harrison/Arreguín) to recommend adoption of the staff proposal with the adjustment of \$327,293 – Equitable Clean Streets to be funded through the Measure P tax receipts, and to include the Mayor's budget recommendations that were provided as supplemental materials.

Vote: Ayes – Harrison, Arreguín; Noes – None; Abstain – None; Absent – Droste.

Committee Action Items

- 3. Presentation on Mental Health Transports and Update on the Implementation of the Specialized Care Unit and Community Crisis Response Services**
From: City Manager
Contact: David Sprague, Fire, (510) 981-3473; Lisa Warhuus, Health, Housing, and Community Services, (510) 981-5400; Sharon Friedrichsen, Budget Manager, (510) 981-7000
Action: 3 speakers. Presentation made and discussion held. The committee suggested the topic be forwarded to the City Council as an off-agenda item.
- 4. Recommendation on Climate, Building Electrification, and Sustainable Transportation Budget Priorities for Fiscal Year 2023 and 2024**
From: Energy Commission
Referred: November 3, 2022
Due: April 25, 2023
Recommendation: The Energy Commission recommends that the Berkeley City Council prioritize and include in the City's budget for the Fiscal Years Ending (FYE) 2023 and 2024 several staff positions, pilot projects, investments in electric vehicles and charging infrastructure, and other measures to ensure that the City's budget is aligned with and provides adequate and needed funding to implement the City's adopted Climate Action Plan, Electric Mobility Roadmap, Building Emissions Saving Ordinance, 2019 ban on gas in new construction, and the Existing Buildings Electrification Strategy.
Financial Implications: See report
Contact: Billi Romain, Commission Secretary, (510) 981-7400
Action: 2 speakers. Discussion held. Item continued to a future meeting.

Unscheduled Items

These items are not scheduled for discussion or action at this meeting. The Committee may schedule these items to the Action Calendar of a future Committee meeting.

- 5. Investment Report Update - Investment Policies of Other Jurisdictions**
From: City Manager
Contact: Henry Oyekanmi, Finance, (510) 981-7300

Unscheduled Items

6. **Additional Allocation of Measure P Funding to “Step Up Housing” Project**
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Referred: August 3, 2022
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Recommendation: Adopt a resolution allocating an additional \$114,660 per year for 10 years, from Measure P transfer tax receipts to support the increased costs for the lease and operation of a new permanent supportive housing project for the unhoused at the Step-Up Housing Project at 1367 University Avenue. In addition, refer to the next meeting of the Budget and Finance Policy Committee to confirm the availability of requested funding.
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Financial Implications: See report
Contact: Ben Bartlett, Councilmember, District 3, (510) 981-7130
7. **Accept the Risk Analysis for Long-Term Debt (Bonding Capacity) Report provided by Government Finance Officers Association**
From: City Manager
Referred: April 26, 2022
Due: January 30, 2023
Recommendation: Accept the report titled ‘Risk-Based Analysis and Stress Test of Long-Term Debt Affordability’ as provided by the Government Finance Officers Association (GFOA). This report is based on their research and development of a risk-modeling tool to address issuing long-term debt related to City of Berkeley Vision 2050.
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Financial Implications: None
Contact: Henry Oyekanmi, Finance, (510) 981-7300

Items for Future Agendas

- None

Adjournment

Action: M/S/C (Arreguín/Harrison) to adjourn the meeting.

Vote: Ayes – Harrison, Arreguín; Noes – None; Abstain – None; Absent – Droste.

Adjourned at 11:50 a.m.

I hereby certify that the foregoing is a true and correct record of the Budget & Finance Committee meeting held on December 8, 2022.

Sarah K. Bunting, Assistant City Clerk

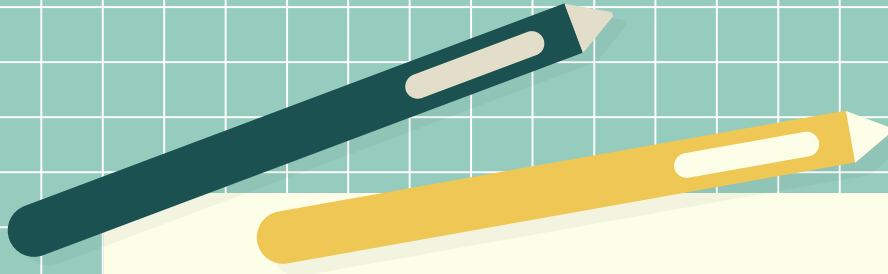


There is no material for this item.

City Clerk Department
2180 Milvia Street
Berkeley, CA 94704
(510) 981-6900

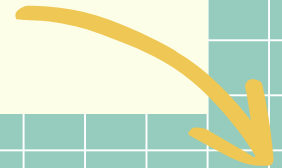
The City of Berkeley Budget and Finance Policy Committee Webpage:

<https://berkeleyca.gov/your-government/city-council/council-committees/policy-committee-budget-finance>

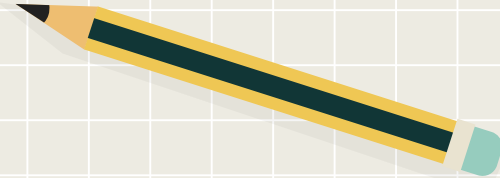


Encampment Resolution Funding (ERF) Round 2

California Interagency Council on Homelessness (Cal ICH)



Overview



Provides grants to Local Jurisdictions to resolve critical encampment concerns and transition individuals into safe and stable housing.

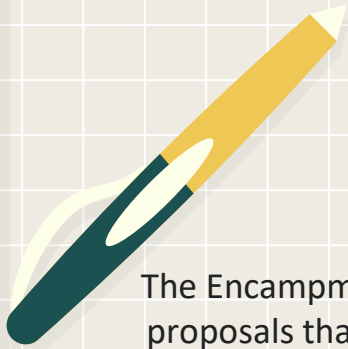
Target Population

- People experiencing homelessness in encampments

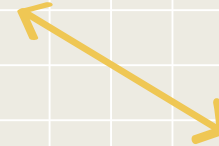
Prioritized Factors

- Applicants showing cross-systems collaboration, including collaborations with state and federal entities, and innovative efforts to resolve encampment issues, while focusing on protecting the health and well-being of the individuals living in those encampments.
- Applications that represent the diversity of communities across the state, including, but not limited to, rural, urban, and suburban communities.





Objective



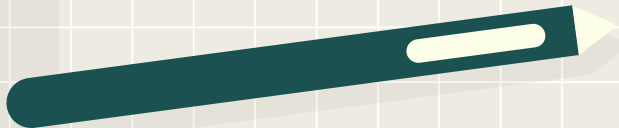
The Encampment Resolution Funding (ERF) Program will fund actionable, person centered proposals that resolve the experience of unsheltered homelessness for people residing in encampments. Resolving these experiences of homelessness will necessarily address the safety and wellness of people within encampments, resolve critical encampment concerns, and transition individuals into interim shelter with clear pathways to permanent housing or directly into permanent housing, using **data informed, non-punitive, low-barrier, person-centered, Housing First, and coordinated approaches**.

Proposals may bolster existing, successful models and/or support new approaches that provide safe stable, and ultimately permanent housing for people experiencing homelessness in encampments.

Eligible Uses

Proposal design may include any combination of the following ten Eligible Use categories:

Eligible Use Category	Non-Exhaustive List of Eligible Activities Applied to the Eligible Population
(1) Rapid Rehousing	Housing identification services, rental subsidies, security deposits, incentives to landlords, and holding fees for eligible persons, housing search assistance, case management and warm hand offs to access to other community-based services.
(2) Operating Subsidies	Subsidies in new and existing affordable or supportive housing units, emergency shelters, and navigation centers that may include operating reserves.
(3) Street Outreach	Facilitate access to crisis services, interim housing options, and permanent housing and services.
(4) Services Coordination	Facilitate access to workforce, education, and training programs, or other services needed to improve and promote housing stability for eligible persons, as well as direct case management services being provided to personsr
(5) Systems Support	Activities that improve, strengthen, augment, complement, and/or are necessary to create regional partnerships and a homeless services and housing delivery system that resolves persons' experiences of unsheltered homelessness.



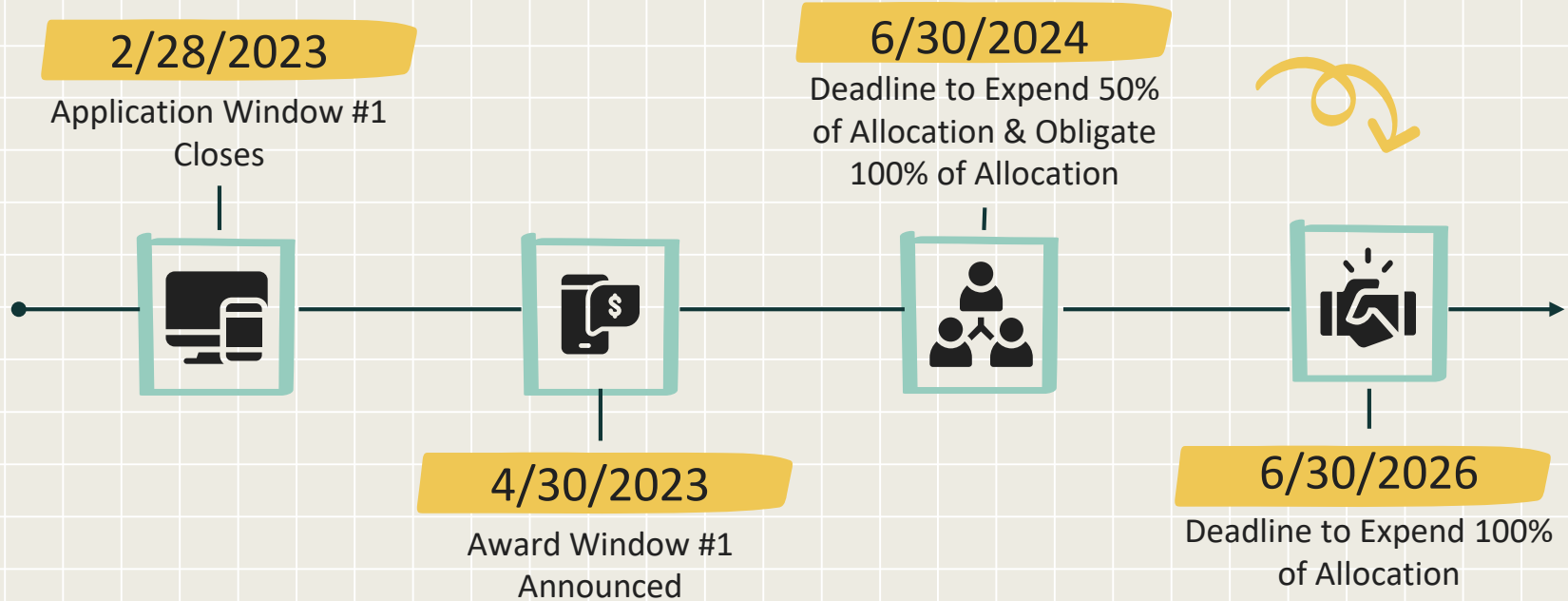
Eligible Uses



Proposal design may include any combination of the following ten Eligible Use categories:

Eligible Use Category	Non-Exhaustive List of Eligible Activities Applied to the Eligible Population
(6) Permanent Housing	Innovative housing solutions, such as unit conversions that are well suited for eligible persons.
(7) Prevention & Shelter Diversion	Diversion to permanent housing, including flexible forms of financial assistance, problem solving assistance, and other services to prevent people that have been placed into permanent housing from losing their housing and falling back into unsheltered homelessness. This category is only available to serve people who were formerly residing in the prioritized ERF encampment site.
(8) Interim Sheltering	Limited to newly developed clinically enhanced congregate shelters, new or existing noncongregate shelters, and operations of existing navigation centers and shelters based on demonstrated need that are well suited for eligible persons.
(9) Improvements to Existing Emergency Shelters	Improvements to existing emergency shelters to lower barriers, increase privacy, better address the needs of eligible persons, and improve outcomes and exits to permanent housing
(10) Administrative Costs	Administrative costs incurred by the city, county, continuum of care, to administer its program allocation. Up to 5% of grant funds may be applied to administrative costs.

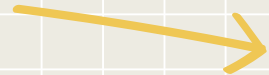
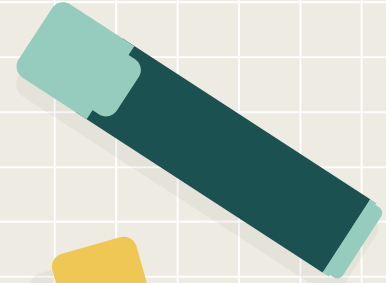
Application and Expenditure Deadlines

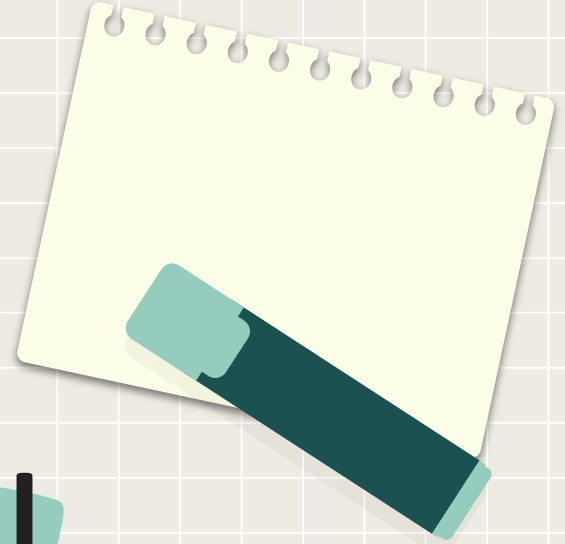
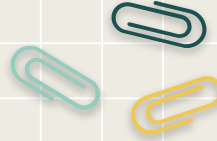
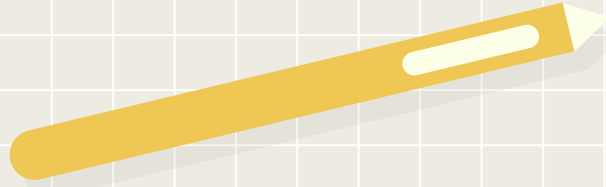


Available Funding

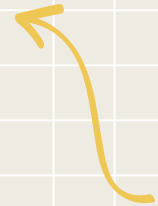
Up to \$237,301,738 are available for award through ERF-2-R.

- Applications will be accepted on a rolling basis until June 30, 2023, or until funds are exhausted, whichever is sooner.
- Up to 50% of the \$300 million authorized for ERF-2 shall be prioritized for proposals that address encampments on state right-of-ways





Staff Proposal

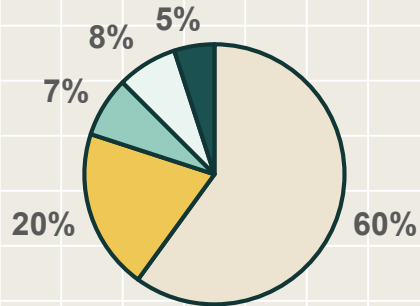


Encampment Zones

The encampment area includes two zones in Northwest Berkeley. The first zone ranges from four blocks from Harrison and 10th to 6th. The second zone ranges from three blocks from 2nd street and Gilman to Page.

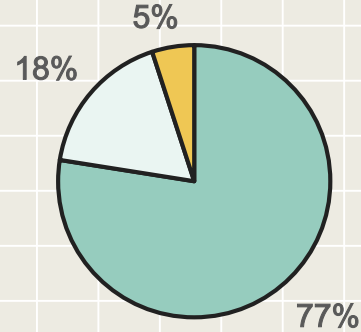
Demographic Information

Racial Background



- White
- Black, African American, or African
- American Indian, Alaska Native, or Indigenous
- Multi-Racial
- Unknown

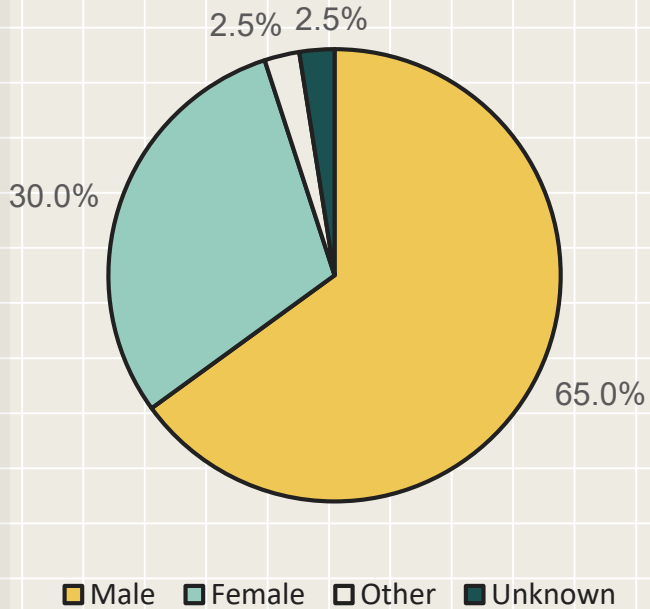
Ethnic Background



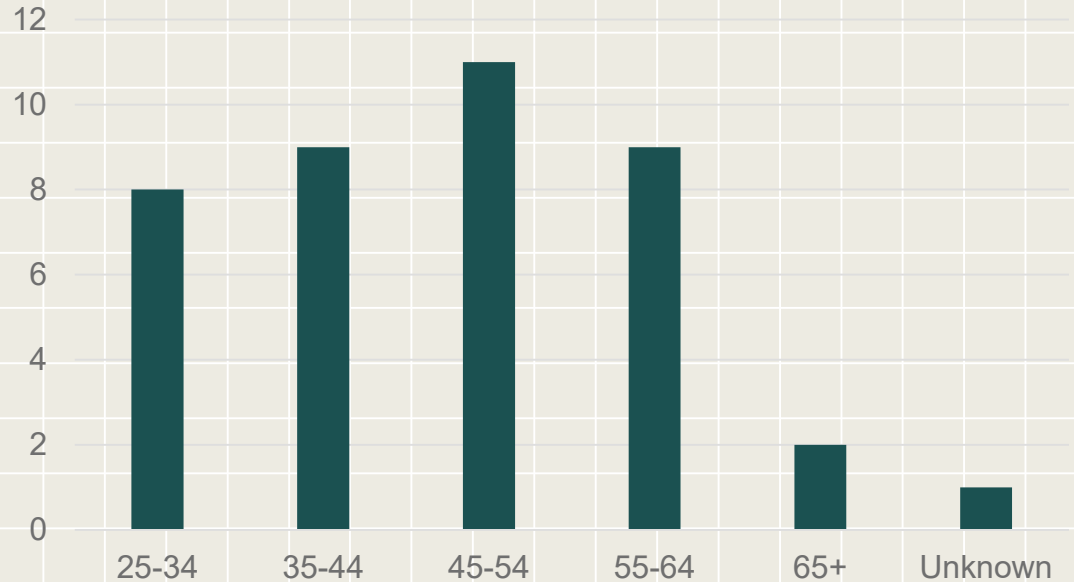
- Non-Hispanic/Non-Latin(a)(o)(x)
- Hispanic/Latin(a)(o)(x)
- Unknown

Demographic Information

Gender

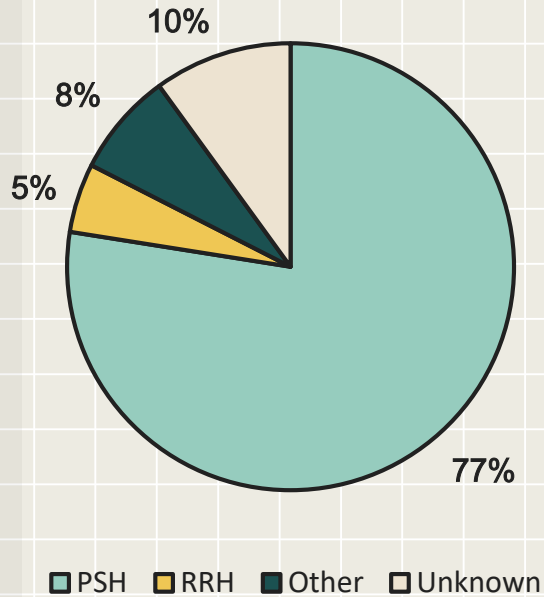


Age Distribution

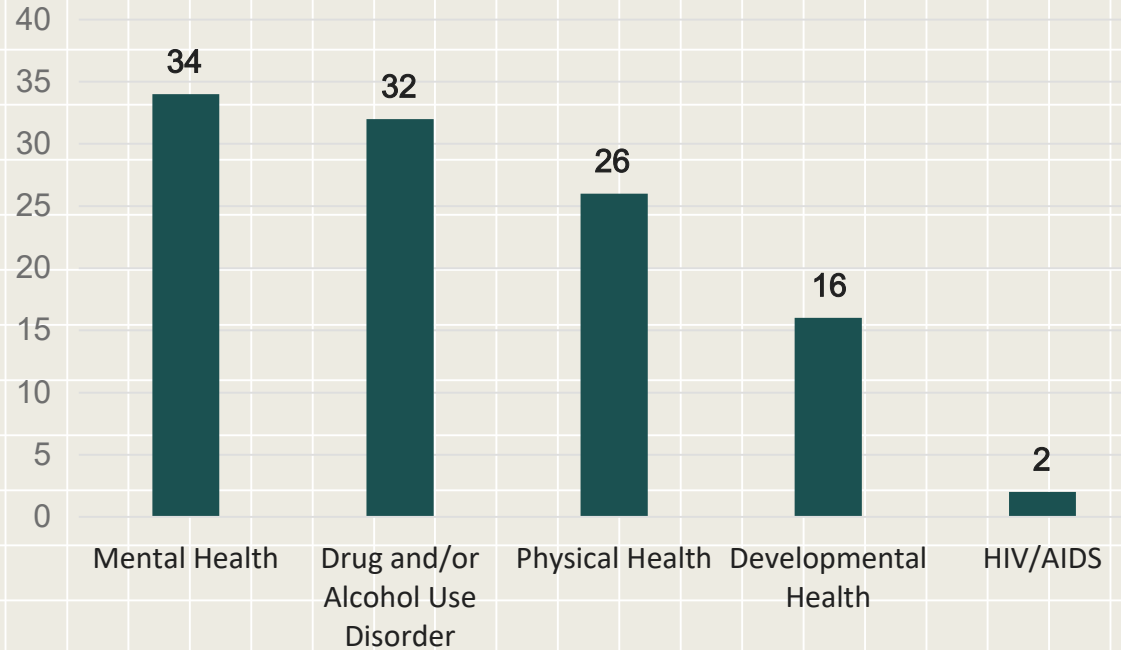


Demographic Information

Housing Service Needs

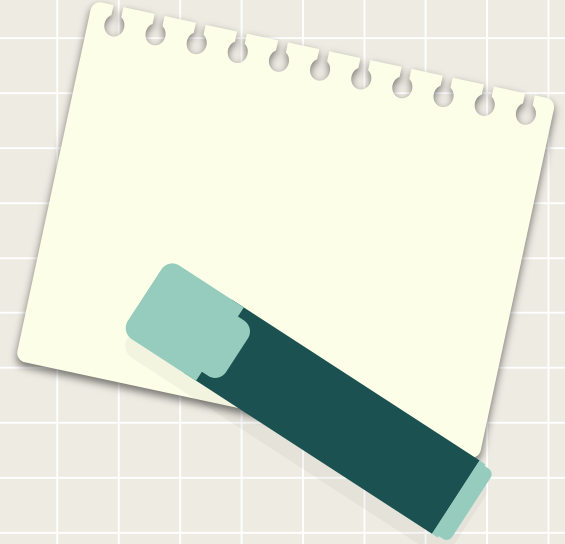
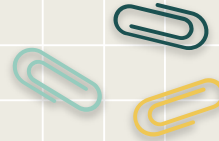
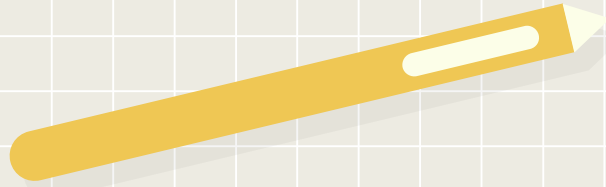


Health Conditions

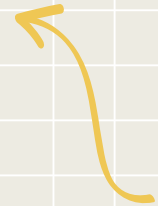


Shelter - Master Lease Super 8





Proposal Cost



Personnel – 2 Year Cost

TITLE	SALARY	FTE	COST
Program Manager	76,000.00	1.00	152,000.00
Program Coordinator	58,905.00	1.00	117,810.00
Senior Program Manager	85,000.00	0.05	8,500.00
Regional Director Residential Services	140,000.00	0.05	14,000.00
Lead RA	58,905.00	1.00	117,810.00
RA -day	55,000.00	1.00	110,000.00
RA-Swing	55,000.00	2.00	220,000.00
RA-Night	55,000.00	1.00	110,000.00
RA -Weekend	55,000.00	0.40	44,000.00
Clinical Case Manager	76,000.00	1.00	152,000.00
Housing Navigator	59,000.00	1.00	118,000.00
Housing Navigator	59,000.00	1.00	118,000.00
Meal program manager	76,000.00	0.05	7,600.00
Cook	52,000.00	1.00	104,000.00
Maintance	56,721.00	1.00	113,442.00
Personnel Expenses	7,648.00		15,296.00
Benefits and taxes	150,792.00		301,584.00
TOTAL		12.55	\$ 1,824,042.00

Non-Personnel – 2 Year Cost

Super 8 Master Lease	\$1,874,603.50
Room repair/maintenance	\$101,200.00
Direct Client Assistance to PH	\$92,000.00
Food	\$159,672.90
Household Furniture & Equipment	\$22,000.00
Household Supplies	\$11,500.00
Program Supplies	\$4,600.00
Security	\$336,000.00
Travel and Transport	\$17,654.00
Facilities	\$160,510.00
Office expenses	\$10,700.00
Computer Equipment and software	\$37,576.00
Insurance	\$1,386.00
Audit and Tax Preparation	\$1,560.00
TOTAL	\$2,830,962.40

Total – 4 Year Cost

ERF (Years 1-2)

Personnel	\$1,824,042.00
Non-Personnel	\$2,837,616.30
Admin.	\$269,400.00
TOTAL	\$4,931,058.30


Measure P (Years 3-4)

Personnel	\$1,808,746.00
Non-Personnel	\$2,945,848.36
Admin.	\$269,400.00
TOTAL	\$5,023,994.36

Recommendation

- Approve that staff apply for a second round of Encampment Resolution Funding (ERF-2) from the California Interagency Council on Homelessness (Cal ICH) that is due on February 28, 2023.
- Authorize staff to include in the application a match commitment funded with Measure P dollars to continue the program in fiscal years 26-27, if awarded.

Questions?



No Material
Available for
this Item

There is no material for this item.

City Clerk Department
2180 Milvia Street
Berkeley, CA 94704
(510) 981-6900

The City of Berkeley Budget and Finance Policy Committee Webpage:

<https://berkeleyca.gov/your-government/city-council/council-committees/policy-committee-budget-finance>



Sugar-Sweetened Beverage
Product Panel of Experts (SSBPPE)

ACTION CALENDAR

January 17, 2023

To: Honorable Mayor and Members of the City Council

From: Sugar-Sweetened Beverage Product Panel of Experts Commission

Submitted by: Joy Moore, Chairperson, SSBPPE Commission

Subject: Allocation of \$3 Million Over Two Years, FY 2024 and FY 2025, to Reduce Consumption and Health Impacts of Sugar-Sweetened Beverages (SSBs).

RECOMMENDATIONS

Adopt a Resolution allocating \$3 million from the General Fund in FY2024 (July 1, 2023 through June 30, 2024) and FY2025 (July 1, 2024 through June 30, 2025) that shall be invested in a grant program administered and coordinated by the Department of Health, Housing, and Community Services' (HHCS) Public Health Division (HHCS/PHD) consistent with the Sugar-Sweetened Beverage Product Panel of Experts (SSBPPE) Commission's goals to reduce the consumption of sugar sweetened beverages (SSB) in Berkeley and to address the health effects of SSB consumption. The total of \$3 million will be distributed in two installments of \$1.5 million per year for FY2024 and FY2025. In each of these years, the funds will be distributed as follows:

- a. Direct the City Manager to award up to 42.5% of the allocated funds to Berkeley Unified School District (BUSD) through a grant proposal to reduce the consumption of sugar-sweetened beverages (SSBs) through the implementation and enhancement of the BUSD cooking and gardening programs. The BUSD funding process is separate from the RFP process for the general community-based organization funding process and shall be guided by the SSBPPE Commission's Criteria for BUSD Funding (Attachment 2).
- b. Direct the City Manager to award at least 42.5% of the allocated funds through an RFP process managed by HHCS/PHD for grants to community-based organizations consistent with the SSBPPE Commission's goals to reduce the consumption of SSBs and to address the effects of SSB consumption. The community-based organization funding RFP process is separate from the BUSD funding process and shall be guided by the SSBPPE Commission's Criteria for Community Agency Grants (Attachment 3).
- c. Direct the City Manager to utilize up to 15% of the allocated funds to support HHCS/PHD to coordinate and monitor the grant process, coordinate the overall program evaluation, and produce an annual report that disseminates

process and outcome data from the epidemiologist resulting from the SSBPPE Commission funding program as well as pay certain City of Berkeley Finance Department costs related to the sugary drink tax.

FISCAL IMPACTS OF RECOMMENDATION

Measure D, passed in November of 2014, created two provisions, namely: a) a 1 cent per ounce tax on sugary drinks distributed in Berkeley and b) creation of a Panel of Experts Commission. The collection of this tax commenced in May of 2015 and is being deposited into the City's General Fund. The SSBPPE Commission's recommendation to Council for allocation of \$3 million for FY2024 and FY2025 is independent of the amount of tax collected from the distribution of SSB in Berkeley. This request will create a liability of \$3 million for the City's General Fund in FY2024 and FY2025.

CURRENT SITUATION AND ITS EFFECTS

On October 20, 2022, the SSBPPE Commission approved the recommendation to the Berkeley City Council for allocation of \$3 million for the period FY2024 and FY2025, to be made available to invest in grants programs to reduce the consumption of sugary drinks and address the health consequences of the consumption of sugary drinks and moved to adopt their recommendation to Council as follows:

Key elements of the resolution include:

- 1) Direct the City Manager to award up to 42.5% of the allocated funds to BUSD through a grant proposal to reduce the consumption of SSBs.
- 2) Direct the City Manager to award at least 42.5% of the allocated funds through an RFP process managed by the HHCS/PHD for grants to community-based organizations consistent with the SSBPPE Commission's goals.
- 3) Direct the City Manager to utilize up to 15% of the allocated funds to support HHCS/PHD to:
 - a. Coordinate and monitor the grant process,
 - b. coordinate the overall program evaluation, and
 - c. produce an annual report that disseminates process and outcome data from the epidemiologist resulting from the SSBPPE Commission funding program as well as,
 - d. pay certain City of Berkeley Finance Department costs related to the sugary drink tax.

Action: Motion to update the SSBPPE Commission City Council recommendation from December 15th, 2020: 1) update dates; 2) background as needed, and recommendations; 3) maintain the same recommendation for funding; 4) and recommending the City Manager to utilize up to 15% of the allocated funds to support the COB Public Health Division and Finance Department fees related to the Sugar-Sweetened Beverage Soda Tax.

Votes: Ayes – Rose, Moore, Hecht, Morales, Scheider; Noes – None; Abstain – None; Absent – Browne, Crawford, Rodriguez.

BACKGROUND

A Brief History of Measure D

In November of 2014, the Berkeley voters passed Measure D, which requires both the collection of a 1 cent per ounce tax on the distribution of sugary drinks in the City of Berkeley AND the convening of a Panel of Experts (the Sugar Sweetened Beverage Products Panel of Experts--SSBPPE) to recommend investments to both reduce the consumption of sugary drinks as well as to address the health consequences of the consumption of sugary drinks.

In addition to nearly three years of a global pandemic, our nation, our state, and our community face a major public health crisis. Diabetes, obesity, and tooth decay have been on the rise for decades. Although no group has escaped these epidemics, children, as well as low income communities and communities of color have been and continue to be disproportionately affected. While there is no single cause for the rise in diabetes, obesity, and tooth decay, there is overwhelming evidence of the link between the consumption of sugary drinks and the incidence of diabetes, obesity, heart disease, and tooth decay.

Sugary drinks such as soft drinks, energy drinks, sweetened teas, and sport drinks offer little or no nutritional value, but contribute massive quantities of added sugar. A single 20-ounce bottle of soda, for instance, typically contains the equivalent of approximately 16 teaspoons of sugar. Before the 1950s, the standard soft-drink bottle was 6.5 ounces. In the 1950s, larger size containers were introduced, including the 12-ounce can, which became widely available in 1960. By the early 1990s, 20-ounce plastic bottles had become the norm. At the same time, hundreds of millions of dollars have been spent in an ongoing massive marketing campaign, which particularly targets children and people of color. In 2006 alone, nearly \$600 million was spent in advertising to children under 18. African American and Latinx children are also aggressively targeted with advertisements to promote sugar-laden drinks.

The resulting impact on consumption should not be surprising. The average American now drinks nearly 40 gallons of sugary drinks a year. In the past 20 years, the prevalence of obesity in adults increased from 30.5% to 42.4%, and the prevalence of severe obesity increased from 4.7% to 9.2%. During this time, the prevalence of obesity among youth (aged 2–19 years) increased from 13.9% to 19.3%, and the prevalence of severe obesity increased from 3.6% to 6.1%. The problem is especially acute with children in California. From 1989 to 2008, the percentage of children consuming sugary drinks increased from 79% to 91% and the percentage of total calories obtained from sugary drinks increased by 60% in children ages 6 to 11. This level of consumption has had tragic impacts on community health. Type 2 Diabetes –previously only seen among adults –is now increasing among children. If the current obesity trends are not reversed, it is predicted that one in three children and nearly one-half of Latinx and

African American children born in the year 2000 will develop type 2 diabetes in their lifetimes.

Our community has not been immune to the challenge of unhealthy weight gain and obesity. According to the 2018 City of Berkeley Health Status Report, over a quarter of Berkeley's 5th and 7th grade students (all race/ethnicities) are overweight or obese. Berkeley has a lower proportion of 5th and 7th grade children who are overweight or obese (29.4%) compared to children in Alameda County (35.3%) but has a higher proportion compared to California (26.8%). However, a higher proportion of African-American children are overweight or obese in Berkeley compared to Alameda County or California.

Tooth decay has meaningful impact on health, especially for children. In fact, tooth decay is the most common childhood disease, experienced by over 70% of California's 3rd graders. Children who frequently or excessively consume beverages high in sugar are at increased risk for dental cavities. Dental problems are a major cause of missed school days and poor school performance as well as pain, infection, and tooth loss in California.

COVID-19

Of relevance today are the jarring statistics on the higher risk and severity of COVID-19 related to the social determinates of health for persons of color. Latinx and Black communities are disproportionately affected by COVID-19. Health disparities, as documented in the Annual Health Reports from the Berkeley Health Department, were an important impetus in the rationale for Measure D as well as the proposed use of revenues from Measure D. SSB consumption is directly related to the health conditions observed with higher rates of COVID-19. The link between SSB consumption and diabetes, obesity and heart disease and the relationship of these conditions to increased risk of COVID-19 makes heightens the critical nature of the SSB tax and its revenues to the reduction of health disparities in Berkeley.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

When sugary drink consumption decreases due to the direct investments in programs and activities, the SSBPPE Commission expects that there will be a reduction to the City's waste stream.

RATIONALE FOR RECOMMENDATION

This two-year grant period supports comprehensive strategies to: a) reduce access to SSBs, b) improve access to water, c) limit marketing of SSBs to children, and d) implement education and awareness campaigns with specific populations. The two-year grant period will also indicate the City of Berkeley's commitment to reducing the consumption of SSBs and improving the health of Berkeley residents, particularly those most impacted by obesity, diabetes, tooth decay, and heart disease. The funding will allow grantees to develop interventions that include education, policy, systems and

environmental changes with measurable outcome data and evaluation to show the rise in public awareness about the harmful impacts of SSBs, reduce consumption of SSBs over time, and decrease the health risks among residents of Berkeley.

To have the greatest impact, the SSBPPE Commission recommends that the following populations be prioritized:

- a) Children and their families with a particular emphasis on young children who are in the process of forming lifelong habits,
- b) Children and young adults living in households with limited resources,
- c) Groups exhibiting higher than average population levels of type 2 diabetes, obesity, heart disease, and tooth decay rates,
- d) Groups that are disproportionately targeted by the beverage industry marketing,
- e) Pregnant women,
- f) Berkeley-based organizations that serve any or all of the above populations.

ALTERNATIVE ACTIONS CONSIDERED

The Commission did not identify an alternative action which is consistent with the City's

CITY MANAGER

See City Manager companion report.

CONTACT PERSON

Roberto Terrones, MPH, Commission Secretary, HHCS, (510) 510-981-5324

ATTACHMENTS

1. Resolution
2. SSBPPE Commission's Criteria for BUSD Funding
3. SSBPPE Commission's Criteria for Community Agencies Funding

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RESOLUTION NO. ##,###-N.S.

ALLOCATION: \$3 MILLION TOTAL FOR SUGAR-SWEETENED BEVERAGE CONSUMPTION AND REDUCTION GRANT PROGRAM IN FY2024 AND FY2025

WHEREAS, the consumption of sugar-sweetened beverages (“SSB”) in Berkeley is impacting the health of the people in Berkeley; and

WHEREAS, in FY2024 and FY2025, the City Council awarded a total of \$3 million upon the recommendation of the SSBPPE Commission to demonstrate the City’s long-term commitment to decreasing the consumption of SSB and mitigate the harmful impacts of SSB on the population of Berkeley; and

WHEREAS, many studies demonstrate that high intake of SSB is associated with risk of Type 2 Diabetes, obesity, tooth decay, and coronary heart disease; and

WHEREAS, the above conditions are all demonstrated to increase both the severity of COVID19 related illness and risk of death; and

WHEREAS Latinx and Black communities are disproportionately affected by COVID-19; and

WHEREAS, hundreds of millions of dollars have been spent in an ongoing massive marketing campaign, which particularly targets children and people of color; and

WHEREAS, an African American resident of Berkeley is 14 times more likely than a White resident to be hospitalized for diabetes; and

WHEREAS, 40% of 9th graders in Berkeley High School are either overweight or obese; and

WHEREAS, tooth decay is the most common childhood disease, experienced by over 70% of California’s 3rd graders; and

WHEREAS, in 2012, a U.S. national research team estimated levying a penny-per-ounce tax on sweetened beverages would prevent nearly 100,000 cases of heart disease, 8,000 strokes, and 26,000 deaths over the next decade and 240,000 cases of diabetes per year nationwide.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Manager is hereby authorized to allocate \$3 million from the General Fund to be disbursed in two (2) installments of \$1.5 million in FY2024 and \$1.5 million in FY2025 and invested as follows:

1. Allocate up to 42.5% of the allocated funds to Berkeley Unified School District (BUSD) through a grant proposal to reduce the consumption of sugar-sweetened

beverages (SSBs) through the implementation and enhancement of the BUSD cooking and gardening programs for the period, July 1, 2023 to June 30, 2025; and

2. Allocate at least 42.5% of the allocated funds through a RFP process managed by the Public Health Division for grants to community-based organizations consistent with the SSBPPE Commission's goals to reduce the consumption of SSB and to address the effects of SSB consumption for the period, July 1, 2023 to June 30, 2025; and
3. Allocate up to 15% of the allocated funds to support the Berkeley Public Health Division (BPHD) to coordinate and monitor the grant process, coordinate the overall program evaluation, and produce an annual report that disseminates process and outcome data resulting from the SSBPPE Commission funding program as well as City of Berkeley Finance Department fees related to the sugary drink tax.

A records signature copy of the said agreement and any amendments to be on file in the Office of the City Clerk.

SSBPPE Commission's Criteria for BUSD Funding

The Berkeley Unified School District will be required to provide the following information and comply with the requirements listed in order to receive funding.

- A. Describe how you will reach the following priority populations:
- a. Children and their families; preschool through high school;
 - b. Children and young adults living in households with limited resources;
 - c. Groups exhibiting higher than average population levels of type 2 diabetes, obesity, and tooth decay;
 - d. Groups that are disproportionately targeted by the beverage industry marketing.
- B. Include how the proposal meets the following requirements:
- a. Proposal reflects approval from the BUSD School Board.
 - b. BUSD will not sell or serve sugar-sweetened beverages (as defined by the SSB tax) at any BUSD schools or campuses.
 - c. Awarded funding will not supplant BUSD FY22 and FY23 General Fund allocations.
 - d. Funded projects will publicly reflect support from Healthy Berkeley Program.
 - e. Funded projects and programs will include evaluation of their process and outcomes.
 - f. The proposal timelines and budgets will be specific, measurable, achievable, realistic, and time bound (SMART).
- C. Include specific goals for how the BUSD proposal meets the following scoring criteria:
- a. Decrease access to SSBs and/or improve access to drinking water. (15%)
 - b. Increase or strengthen SSB policies in school and outside of school. (15%)
 - c. Support the annual administration of the Berkeley adapted Youth Risk Behavior Survey to evaluate student's SSB knowledge, consumption, access, and policy perceptions. (20%)
 - d. To document how students at all grade levels and in priority populations are included. (10%)
 - e. To document policy elements that will last beyond the grant period. (15%)
 - f. Proposal budget matches the work plan and is appropriate. (10%)
 - g. To document how BUSD will be able to communicate SSB educational and policy efforts to parents and/or the Berkeley community (15%)

SSBPPE Commission's Criteria for Community Agencies Funding

Community-based organizations will be required to provide the following information in order to be considered for funding.

- A. Describe your strategies that address the goals and objectives of this funding including:

 - a. Transforming the systems, policies, environments, structures, and norms that underlie sugary drink consumption.
 - b. Developing community capacity to improve health by transforming systems, policies, environments, structures, and norms through increasing leadership potential of community members and young people, especially those serving priority populations.
 - c. Supporting community programming designed to change norms to support consumption of healthy food and beverages.
 - d. Providing health screenings and chronic disease prevention with a focus on dental health.
 - e. Impacting sugary drink marketing and retail environments (i.e., availability, promotion, price, placement in convenient stores, and advertising), especially those that disproportionately target priority populations.

- B. Include specific goals for how your project will meet the following scoring criteria

 - a. The proposal aims to decrease consumption of sugary drinks, increase access to drinking water, and/or address health effects from consumption of sugary drinks (25%).
 - b. The proposal reaches people and communities in the priority populations. (25%).
 - c. Project provides lasting impact beyond the grant period: i.e. builds organizational and community capacity and/or changes systems and policies, and environments related to SSBs. (25%).
 - d. The proposal includes a plan for communicating efforts, activities, and/or successes to the larger Berkeley community. (15%).
 - e. Proposal budget matches the work plan and is appropriate. (10%)



Office of the City Manager

ACTION CALENDAR

January 17, 2023

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Henry Oyekanmi, Director of Finance
Lisa Warhuus, Director of Health, Housing and Community Services

Subject: Companion Report: Allocation of \$3 Million Over Two Years, FY2024 and FY2025, to Reduce Consumption and Health Impacts of Sugar-Sweetened Beverages (SSBs).

RECOMMENDATIONS

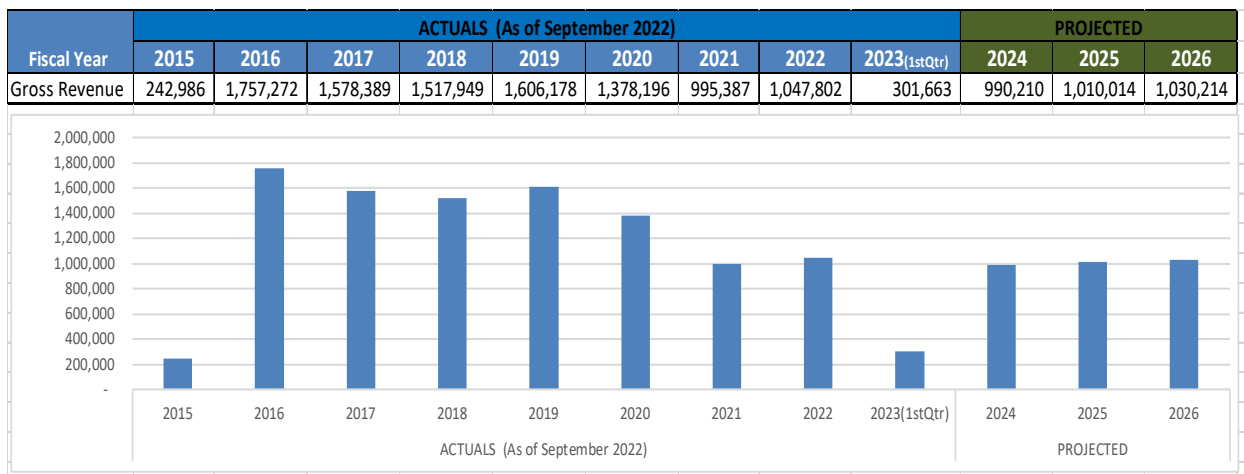
Adopt a Resolution allocating \$2 million from the General Fund in FY2024 (July 1, 2023 through June 30, 2024) and FY2025 (July 1, 2024 through June 30, 2025) that shall be invested in a grant program administered and coordinated by the Department of Health, Housing, and Community Services' (HHCS) Public Health Division (HHCS/PHD) consistent with the Sugar-Sweetened Beverage Product Panel of Experts (SSBPPE) Commission's goals to reduce the consumption of sugar sweetened beverages (SSB) in Berkeley and to address the health effects of SSB consumption. The total of \$2 million will be distributed in two installments of \$1 million per year for FY2024 and FY2025. The funds will be distributed as follows:

- a. Direct the City Manager to award up to \$712,000 of the allocated funds to Berkeley Unified School District (BUSD) for the period, July 1, 2023 to June 30, 2025 through a grant proposal to reduce the consumption of sugar-sweetened beverages (SSBs) through the implementation and enhancement of the BUSD cooking and gardening programs. The BUSD funding process is separate from the RFP process for the general community-based organization funding process and shall be guided by the SSBPPE Commission's Criteria for BUSD Funding (Attachment 1).
- b. Direct the City Manager to award at least \$712,000 of the allocated funds for the period, July 1, 2023 to June 30, 2025 through an RFP process managed by HHCS/PHD for grants to community-based organizations consistent with the SSBPPE Commission's goals to reduce the consumption of SSBs and to address the effects of SSB consumption. The community-based organization funding RFP process is separate from the BUSD funding process and shall be guided by the SSBPPE Commission's Criteria for Community Agency Grants (Attachment 2).

- c. For the period, July 1, 2023 to June 30, 2025, direct the City Manager to allocate \$125,000 to fund Finance Department costs for staffing and MuniServices fees and \$451,000 to HHCS/PHD for staffing, operating and consulting costs to coordinate and monitor the grant process, manage resulting contracts awarded, support activities aligned with the goal of the sugary beverage tax, including the Healthy Retail Checkout ordinance, and provide an annual presentation to the SSBPPE Commission that includes process and outcome data and updates on Finance Department fees related to the sugary drink tax for the SSBPPE Commission to inform the development of the Commission’s annual report.
- d. Carryover any sugary drink tax revenue received in excess of \$2 million during FY2024 and FY2025 to be awarded for related services in FY2025 – FY2027.

FISCAL IMPACTS OF RECOMMENDATION

Based on the recent trends of the sugar-sweetened beverage tax (shown below), the projections for the upcoming Fiscal Years 2024 and 2025 indicate that the expected revenue would be approximately \$1 Million for each year (projections will be revised after the mid-year revenue numbers are analyzed). This trend is consistent with the expected success of the sugar-sweetened beverage tax, as it encourages Berkeley residents and consumers to purchase and consume less sugar-sweetened beverages.



The \$3 million allocation recommended by the Commission would require the City to identify \$1 million in City General Funds in addition to the sugar-sweetened beverage tax revenue projected to support related programs.

CURRENT SITUATION AND ITS EFFECTS

In November of 2014, the Berkeley voters passed Measure D, which requires both the collection of a 1 cent per ounce tax on the distribution of sugary drinks in the City of Berkeley and the convening of a Panel of Experts —(SSBPPE) to recommend

investments to both reduce the consumption of sugary drinks as well as to address the health consequences of the consumption of sugary drinks.

As the revenues decrease due to the success of the sugar-sweetened beverage tax, it is essential to continue strategies to further promote healthier behaviors and decrease the consumption of sugar sweetened beverages. Community based partnerships have been a positive force in health education and changes in policy, systems, and environmental changes that support the goals and mission of the SSBPPE.

The associated annual costs for the Finance Department's administration of the Sugar Sweetened Beverage Tax as well as Public Health Division's coordination and management of the RFP, the resulting contracts, and policies resulting from this work, such as the Healthy Checkout Ordinance (No. 7,734-N.S.) are outlined below. The SSBPPE's proposed allocation amount would not be sufficient to provide the level of staffing for the evaluation recommended. Therefore, staff recommend a smaller evaluation scope using contracted evaluation resources.

Projected annual costs to address the minimum mandated activities (Finance and HHCS)	Amount
Finance Department Staff (.30FTE)	41,544
MuniServices Fees (@ 2%)	20,956
<i>Finance Department Subtotal</i>	<i>62,500</i>
HHCS: Administrative Staff (estimated salary including benefits)	120,166
HHCS: Nutritionist @ 20% (estimated salary including benefits)	39,388
HHCS: Contracted Program Evaluation Consulting Services	34,000
HHCS: Other Operational Expenses (i.e. software maintenance, Commission stipends, supplies, printing, etc.)	31,946
<i>HHCS costs subtotal</i>	<i>225,500</i>
Total	\$288,000

BACKGROUND

Measure D, the Sugar Sweetened Beverage tax, was passed on July 1, 2014 to support the increased consumption of water and decrease the consumption of sugar sweetened beverages. As a result, allocations from the City General Fund associated with Measure D were identified for PHD to support the development and oversight of SSBPE community agency contracts, provide secretary support for the SSBPE, conduct program evaluation activities, and support any programmatic initiatives that were aligned with the purpose of Measure D.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

There are no environmental impacts.

RATIONALE FOR RECOMMENDATION

This recommendation would allow the City to continue its ongoing commitment to public health, specifically reducing the consumption of sugar-sweetened beverages in Berkeley, while aligning program investment with the level of funding projected to be available. Modifying the City's scope of work, and calculating the level of funding for City services based on the actual cost to provide those services rather than an assumed percentage of tax revenue will allow the City to implement and sustain this program.

ALTERNATIVE ACTIONS CONSIDERED

Staff appreciate the SSBPPE's commitment to supporting programming at BUSD and the important work of community-based organizations to provide needed services. Staff did not identify an alternative recommendation which is consistent with both the projected amount of sugary beverage tax revenue and the current City costs to implement this program.

CONTACT PERSON

Henry Oyekanmi, Director of Finance (510) 981-7200

Lisa Warhuus, Director, Health Housing and Community Services (510) 981-5404

Attachments:

1. Resolution
2. SSBPPE Commission's Criteria for BUSD Funding
3. SSBPPE Commission's Criteria for Community Agencies Funding
4. Healthy Checkout Ordinance No. 7,734-N.S.
5. Resolution NO. 66,969-NS

RESOLUTION NO. ##,###-N.S.

ALLOCATION: \$2 MILLION TOTAL FOR SUGAR-SWEETENED BEVERAGE CONSUMPTION AND REDUCTION GRANT PROGRAM IN FY2024 AND FY2025

WHEREAS, the consumption of sugar-sweetened beverages (“SSB”) in Berkeley is impacting the health of the people in Berkeley; and

WHEREAS, in FY2022 and FY2023, the City Council awarded a total of \$2,662,506 by Resolution #66,969-NS upon the recommendation of the SSBPPE Commission to demonstrate the City’s long-term commitment to decreasing the consumption of SSB and mitigate the harmful impacts of SSB on the population of Berkeley; and

WHEREAS, many studies demonstrate that high intake of SSB is associated with risk of Type 2 Diabetes, obesity, tooth decay, and coronary heart disease; and

WHEREAS, the above conditions are all demonstrated to increase both the severity of COVID19 related illness and risk of death; and

WHEREAS Latinx and Black communities are disproportionately affected by COVID-19; and

WHEREAS, hundreds of millions of dollars have been spent in an ongoing massive marketing campaign, which particularly targets children and people of color; and

WHEREAS, an African American resident of Berkeley is 14 times more likely than a White resident to be hospitalized for diabetes; and

WHEREAS, 40% of 9th graders in Berkeley High School are either overweight or obese; and

WHEREAS, tooth decay is the most common childhood disease, experienced by over 70% of California’s 3rd graders; and

WHEREAS, in 2012, a U.S. national research team estimated levying a penny-per-ounce tax on sweetened beverages would prevent nearly 100,000 cases of heart disease, 8,000 strokes, and 26,000 deaths over the next decade and 240,000 cases of diabetes per year nationwide.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Manager is hereby authorized to allocate \$2 million from the General Fund to be disbursed in two (2) installments of \$1 million in FY24 and \$1 million in FY25 and invested as follows:

1. Allocate up to \$712,000 to Berkeley Unified School District (BUSD) through a grant proposal to reduce the consumption of sugar-sweetened beverages (SSBs)

through the implementation and enhancement of the BUSD cooking and gardening programs for the period, July 1, 2023 to June 30, 2025; and

2. Allocate at least \$712,000 through a RFP process managed by the Public Health Division for grants to community-based organizations consistent with the SSBPPE Commission's goals to reduce the consumption of SSB and to address the effects of SSB consumption for the period, July 1, 2023 to June 30, 2025; and
3. For the period, July 1, 2023 to June 30, 2025, direct the City Manager to allocate \$125,000 to fund Finance Department costs and \$451,000 to HHCS/PHD for staffing, operating and consulting costs to coordinate and monitor the grant process, manage resulting contracts awarded, support activities aligned with the goal of the sugary beverage tax, including the Healthy Retail Checkout ordinance, and provide an annual presentation to the SSBPPE Commission that includes process and outcome data and updates on Finance Department fees related to the sugary drink tax for the SSBPPE Commission to inform the development of the Commission's annual report.
4. Carryover any sugary drink tax revenue received in excess of \$2 million during FY2024 and FY2025 to be awarded for related services in FY2025 – FY2027.

A records signature copy of the said agreement and any amendments to be on file in the Office of the City Clerk.

SSBPPE Commission's Criteria for BUSD Funding

The Berkeley Unified School District will be required to provide the following information and comply with the requirements listed in order to receive funding.

- A. Describe how you will reach the following priority populations:
- a. Children and their families; preschool through high school;
 - b. Children and young adults living in households with limited resources;
 - c. Groups exhibiting higher than average population levels of type 2 diabetes, obesity, and tooth decay;
 - d. Groups that are disproportionately targeted by the beverage industry marketing.
- B. Include how the proposal meets the following requirements:
- a. Proposal reflects approval from the BUSD School Board.
 - b. BUSD will not sell or serve sugar-sweetened beverages (as defined by the SSB tax) at any BUSD schools or campuses.
 - c. Awarded funding will not supplant BUSD FY2022 and FY2023 General Fund allocations.
 - d. Funded projects will publicly reflect support from Healthy Berkeley Program.
 - e. Funded projects and programs will include evaluation of their process and outcomes.
 - f. The proposal timelines and budgets will be specific, measurable, achievable, realistic, and time bound (SMART).
- C. Include specific goals for how the BUSD proposal meets the following scoring criteria:
- a. Decrease access to SSBs and/or improve access to drinking water. (15%)
 - b. Increase or strengthen SSB policies in school and outside of school. (15%)
 - c. Support the annual administration of the Berkeley adapted Youth Risk Behavior Survey to evaluate student's SSB knowledge, consumption, access, and policy perceptions. (20%)
 - d. To document how students at all grade levels and in priority populations are included. (10%)
 - e. To document policy elements that will last beyond the grant period. (15%)
 - f. Proposal budget matches the work plan and is appropriate. (10%)
 - g. To document how BUSD will be able to communicate SSB educational and policy efforts to parents and/or the Berkeley community (15%)

SSBPPE Commission's Criteria for Community Agencies Funding

Community-based organizations will be required to provide the following information in order to be considered for funding.

- A. Describe your strategies that address the goals and objectives of this funding including:
- a. Transforming the systems, policies, environments, structures, and norms that underlie sugary drink consumption.
 - b. Developing community capacity to improve health by transforming systems, policies, environments, structures, and norms through increasing leadership potential of community members and young people, especially those serving priority populations.
 - c. Supporting community programming designed to change norms to support consumption of healthy food and beverages.
 - d. Providing health screenings and chronic disease prevention with a focus on dental health.
 - e. Impacting sugary drink marketing and retail environments (i.e., availability, promotion, price, placement in convenient stores, and advertising), especially those that disproportionately target priority populations.
- B. Include specific goals for how your project will meet the following scoring criteria
- a. The proposal aims to decrease consumption of sugary drinks, increase access to drinking water, and/or address health effects from consumption of sugary drinks (25%).
 - b. The proposal reaches people and communities in the priority populations. (25%).
 - c. Project provides lasting impact beyond the grant period: i.e. builds organizational and community capacity and/or changes systems and policies, and environments related to SSBs. (25%).
 - d. The proposal includes a plan for communicating efforts, activities, and/or successes to the larger Berkeley community. (15%).
 - e. Proposal budget matches the work plan and is appropriate. (10%)

ORDINANCE NO. 7,734-N.S.

|
 ADDING CHAPTER 9.82 TO THE BERKELEY MUNICIPAL CODE "HEALTHY
 CHECKOUT"

BE IT ORDAINED by the Council of the City of Berkeley as follows:

Section 1. That the Berkeley Municipal Code is amended to read as follows:

9.82.010. Findings and Purpose.

The City of Berkeley hereby finds and declares as follows:

- A. Diets with an excess of added sugars and sodium are correlated to chronic health issues including diabetes, high blood pressure, and stroke.
- B. Food choices are strongly affected by the environments in which they are made. The placement of unhealthy snacks near a register increases the likelihood that consumers will purchase those foods and drinks, thus undermining consumer health choices and public health initiatives.
- C. It is in the interest of the health, safety, and welfare of all who live, work, and do business in the City that large stores offer healthy options and do not actively encourage the purchase of unhealthy foods.
- D. This Chapter is consistent with the General Provisions of Environmental Health of the City (Berkeley Municipal Code 11.04).

9.82.020. Definitions.

- A. "Added Sugars" means sugars added during the processing of food and beverages, or are packaged as such, and include sugars (free, mono and disaccharides), sugars from syrups and honey, and sugars from concentrated fruit or vegetable juices that are in excess of what would be expected from the same volume of 100 percent fruit or vegetable juice of the same type, as defined in Section 101.9 of Title 21 of the Code of Federal Regulations.
- B. "Artificial Sweetener" means sweeteners with few to no calories that have a higher intensity of sweetness per gram than sucrose.
- C. "Category List" means the list of foods and beverages which meet the standards of BMC 9.82.030.
- D. "Checkout Area" means any area that is accessible to a customer of the Large Retail Store that is either:
 - i. within a 3-foot distance of any Register; or
 - ii. designated primarily for or utilized primarily by customers to wait in line to make a purchase at a Register, up to and including the Checkout Endcap.
- E. "Checkout Endcap" means product displays placed at endpoints of areas designated primarily for or utilized primarily by customers to wait in line to make a purchase.
- F. "Register" means a device used for monetary transactions that calculates the sales of goods and displays the amount of sales for the customer.
- G. "Large Retail Store" means a commercial establishment selling goods to the public with a total floor area over 2,500 square feet and selling 25 linear feet or

more of food.

9.82.030. Healthy Checkout Areas.

Each Large Retail Store shall, at all hours during which the Large Retail Store is open to the public, ensure that all foods and beverages sold in all Checkout Areas meet the standards in Sec 9.82.030 A-C and comply with the list of qualifying food and beverage categories:

- A. Beverages with no added sugars and no artificial sweeteners.
- B. Food items with no more than 5 grams of added sugars, and 200 milligrams of sodium per labeled serving.
- C. Food items must be in the following categories: chewing gum and mints with no added sugars, fruit, vegetables, nuts, seeds, legumes, yogurt or cheese and whole grains.

City staff will provide technical assistance for implementation. Bi-annual review of qualifying food and beverage categories will be done by the Public Health Division. There will be a 120 day phase-in period if any changes are made.

9.82.040. Enforcement.

- A. The City is hereby authorized to issue all rules and regulations consistent with this ordinance, including, but not limited to, fees for re-inspection.
- B. Compliance with this Chapter shall be administered by the City during regular inspections of qualifying Large Retail Stores. The City may require a Large Retail Store to provide such information as may be necessary to determine the Large Retail Store's compliance with this Chapter.

9.82.050. Violation--Penalty.

- A. A Large Retail Store that violates any provision of this chapter may be subject to administrative citations pursuant to Chapter 1.28 of this Code.
- B. This section shall not limit the City from recovering all costs associated with implementing this chapter or investigating complaints pursuant to fee resolution.
- C. Remedies and penalties under this chapter are cumulative and not exclusive.

9.82.060. Effective Date.

This ordinance and the legal requirements set forth herein shall take effect and be in force March 1, 2021. Enforcement pursuant to 9.82.040 shall commence no sooner than January 1, 2022.

Section 2. Copies of this Ordinance shall be posted for two days prior to adoption in the display case located near the walkway in front of the Maudelle Shirek Building, 2134 Martin Luther King Jr. Way. Within 15 days of adoption, copies of this Ordinance shall be filed at each branch of the Berkeley Public Library and the title shall be published in a newspaper of general circulation.

At a regular meeting of the Council of the City of Berkeley held on September 22, 2020, this Ordinance was passed to print and ordered published by posting by the following vote:

Ayes: Bartlett, Davila, Droste, Hahn, Harrison, Kesarwani, Robinson, Wengraf, and Arreguin.

Noes: None.

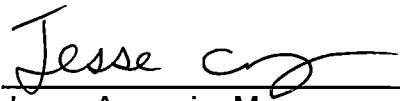
Absent: None.

At a regular meeting of the Council of the City of Berkeley held on October 13, 2020, this Ordinance was adopted by the following vote:

Ayes: Bartlett, Davila, Droste, Hahn, Harrison, Kesarwani, Robinson, Wengraf, and Arreguin.

Noes: None.

Absent: None.



Jesse Arreguin, Mayor

ATTEST: 

Mark Numainville, City Clerk

Date signed: October 20, 2020

RESOLUTION NO. 69,669-N.S.

ALLOCATION: \$2,662,506 MILLION TOTAL FOR SUGAR-SWEETENED BEVERAGE CONSUMPTION AND REDUCTION GRANT PROGRAM IN FY22 AND FY23

WHEREAS, the consumption of sugar-sweetened beverages ("SSB") in Berkeley is impacting the health of the people in Berkeley; and

WHEREAS, in FY22 and FY23, the City Council awarded a total of \$3 million upon the recommendation of the SSBPPE Commission to demonstrate the City's long-term commitment to decreasing the consumption of SSB and mitigate the harmful impacts of SSB on the population of Berkeley; and

WHEREAS, many studies demonstrate that high intake of SSB is associated with risk of Type 2 Diabetes, obesity, tooth decay, and coronary heart disease; and

WHEREAS, the above conditions are all demonstrated to increase both the severity of COVID19 related illness and risk of death; and

WHEREAS Latinx and Black communities are disproportionately affected by COVID-19; and

WHEREAS, hundreds of millions of dollars have been spent in an ongoing massive marketing campaign, which particularly targets children and people of color; and

WHEREAS, an African American resident of Berkeley is 14 times more likely than a White resident to be hospitalized for diabetes; and

WHEREAS, 40% of 9th graders in Berkeley High School are either overweight or obese; and

WHEREAS, tooth decay is the most common childhood disease, experienced by over 70% of California's 3rd graders; and

WHEREAS, in 2012, a U.S. national research team estimated levying a penny-per-ounce tax on sweetened beverages would prevent nearly 100,000 cases of heart disease, 8,000 strokes, and 26,000 deaths over the next decade and 240,000 cases of diabetes per year nationwide.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Manager is hereby authorized to allocate \$2,662,506 million from the General Fund to be disbursed in two (2) installments of \$1,331,253 million in FY22 and \$1,331,253 million in FY23 and invested as follows:

1. Allocate up to 42.5% of the allocated funds to Berkeley Unified School District (BUSD) through a grant proposal to reduce the consumption of sugar-

sweetened beverages (SSBs) through the implementation and enhancement of the BUSD cooking and gardening programs for the period, July 1, 2021 to June 30, 2023; and

- 2. Allocate at least 42.5% of the allocated funds through a RFP process managed by the Public Health Division for grants to community-based organizations consistent with the SSBPPE's goals to reduce the consumption of SSB and to address the effects of SSB consumption for the period, July 1, 2021 to June 30, 2023; and
- 3. Allocate 15% of the allocated funds to support the Berkeley Public Health Division (BPHD) to coordinate and monitor the grant process, coordinate the overall program evaluation, and produce an annual report that disseminates process and outcome data resulting from the SSBPPE funding program.

A records signature copy of the said agreement and any amendments to be on file in the Office of the City Clerk.

The foregoing Resolution was adopted by the Berkeley City Council on December 15, 2020 by the following vote:

Ayes: Bartlett, Droste, Hahn, Harrison, Kesarwani, Robinson, Taplin, Wengraf, and Arreguin.

Noes: None.

Absent: None.



 Jesse Arreguin, Mayor

Attest: 

 Mark Numainville, City Clerk



Office of the City Manager

Date: June 23, 2022
To: Budget and Finance Policy Committee
From: Dee Williams-Ridley, City Manager
Submitted by: Henry Oyekanmi, Finance Director
Subject: Investment Policies of Other Jurisdictions

The City's investment policy is a formal document which provides the guidelines for investments and operational structure in the management of public funds and is confirmed annually by the City Council.

One of the components of the City's investment policy is the section for responsible investing. This provides a list of identified restrictions that were ratified by the City Council. It is extremely important that the investment officer regards these as requirements when making decisions for investment purchase.

Each year the City's investment policy is updated to add all the responsible investing policies passed by city council throughout the year. Throughout the many years, the City has accumulated seven policy restrictions for responsible investing.

Most cities' have the three main statutory objectives in managing the investment programs which are safety, liquidity and return. However, due to the restrictions in City of Berkeley's investment, the investment program considers responsible investing as an additional objective. Compliance to these restrictions is highly regarded as a requirement for its investments. These results in limiting the type of investment offering the investment officer can purchase. Restrictions has a direct impact on diversification of funds and the rate of returns on investments.

On January 27, 2022 while discussing the Fourth Quarter Investment report, the Budget and Finance Committee asked that Finance conduct a comparison study in investment restriction for other cities in California. The Finance Department researched and reviewed the investment policies of the various cities to identify the investment restrictions for their investment program. Finance took the cities that it currently uses to benchmark the rate of returns on the City's quarterly investment report and identified the restrictions on their cities' investment policies.

Below is a summary of the findings from the research:

VARIOUS CALIFORNIA CITIES INVESTMENT RESTRICTIONS											
City	Rates Earned	DIVESTMENT FROM COMPANIES/MANUFACTURERS								INTEGRATE	
		Tobacco Products	Firearms	Fossil Fuels	Nuclear Power	Private Prison and Immigration Detention	Weapons	Oppressive States	Companies for Mexico Border Wall	Environment, social and governance principle	Investing Community Well Being
Palo Alto	1.58%	X	X	X							
Los Angeles	1.09%										
San Jose	1.08%										X
Sacramento	0.99%										
Torrance	0.98%										
San Diego	0.83%										
Berkeley	0.80%	X	X	X	X	X	X	X	X	X	
Santa Monica	0.54%	X	X	X	X						
San Francisco	0.48%	X	X		X						
Oakland	0.19%	X	X	X							

Research Analysis:

The study shows that there is a direct correlation between the number of restrictions to the rate of returns for various jurisdictions. The cities that have no restrictions or encouraged restrictions without it being mandated are the cities that have higher rate of return on their investment. Cities with restrictions are the ones who have lower rate of return. The City of Berkeley rate of returns still remains fairly high amidst the restrictions in the investment policy.

As a result of the differences in the investment policies of different cities, including responsible investing policies, maturity restrictions, investment restrictions, etc., it is difficult for any City to come up with a reasonable performance measure for pooled cash investments. In order to provide some measure of the relative performance of the City’s investment returns, past City Councilmembers requested that information about the rates earned by other California cities be included in the quarterly investment reports for comparison purposes, despite the differences in the investment policies of the various cities.



Office of the City Manager

ACTION CALENDAR
April 26, 2022

To: Honorable Mayor and Members of the City Council
 From: Dee Williams-Ridley, City Manager
 Submitted by: Henry Oyekanmi, Director, Finance
 Subject: Accept the Risk Analysis for Long-Term Debt (Bonding Capacity) Report provided by Government Finance Officers Association

RECOMMENDATION

Accept the report titled 'Risk-Based Analysis and Stress Test of Long-Term Debt Affordability' as provided by the Government Finance Officers Association (GFOA). This report is based on their research and development of a risk-modeling tool to address issuing long-term debt related to City of Berkeley Vision 2050.

FISCAL IMPACTS OF RECOMMENDATION

There are no fiscal impacts of accepting the report

CURRENT SITUATION AND ITS EFFECTS

The Risk-Based Analysis and Stress Test of Long-Term Debt Affordability (Bonding Capacity) report is a Strategic Plan Priority Project, advancing our goal to:

- Provide an efficient and financially-healthy City government

The City engaged GFOA to conduct this analysis of the City's bonding capacity through their risk-modeling approach. This analysis will support the City's later development of a thirty-year borrowing plan, which will enable the City to replace its aging infrastructure assets, maintain its General Obligation Bond rating at AA+ at S & P Global and Aa1 at Moody's, and keep the bond property tax rate at an affordable level (which was .0540% at June 30, 2020). The GFOA's risk model and report look at a comprehensive financial analysis with particular focus on options to maintain the City's debt affordability within the framework of the City's huge unfunded pensions and other post-employment benefits (OPEB) and overall City operations.

The study and report are intended to help develop recommendations for a combination of infrastructure-focused revenue measures slated for November 2022 and beyond.

The context provided for GFOA to build the risk model and draft the subsequent report was framed through initially providing these items to GFOA:

1. Vision 2050
2. Unfunded Liabilities Report
3. Capital Improvement Plan in the most recent biennial budget and five-year planning horizon
4. Annual Comprehensive Financial Reports (ACFR)
5. GO Bonds, Revenue Bonds, and Certificates of Participation Debt Repayment Schedules
6. Current Bond Authority and Outstanding Amounts (GO Bonds for the past 20 years as of 7/12/21)
7. City's Debt Policy
8. S and P Global Ratings Letter Re: GO Bonds
9. S and P Global Ratings Letter Re: Lease Revenue Bonds
10. Analysis of City's Debt and Contingent Liability Profile
11. GO Rating Report – April 2021
12. GO Rating Report – February 2020

The GFOA report details these and additional factors that GFOA researched and incorporated into their construction of the risk model and their drafting of the final report.

BACKGROUND

The City has an extensive portfolio of capital assets and infrastructure, including 95 public buildings; 254 miles of public sanitary sewer mains and 130 miles of public sewer laterals; 52 parks, two pools; three camps; and 42 different facilities served by the City's IT systems. Maintaining these assets is costly and requires significant resources and constant attention. As an older city, 50% of Berkeley's \$837 million of capital assets have exceeded their useful life.

The City's FY 2021 Capital Plan called for spending of \$57 million/year on capital and maintenance needs. Even at this increased level of funding, Berkeley's infrastructure will deteriorate faster than it is being repaired and replaced, and construction cost escalation at four (4) percent/year will significantly increase replacement costs.

To modernize these old physical structures with resilient, durable, and climate-smart infrastructure will require substantial new investments. To adequately address the \$882 million in unfunded infrastructure liabilities, the City needs to double its annual capital spending over the next decade to \$80 million/year. Capital expenditures are typically funded through a combination of debt financing (pay-as-you-use) and cash (pay-as-you-go). Paying in cash avoids the cost of interest, but requires the City to accumulate sufficient cash to fund the project, while construction costs escalate. Using debt to finance capital projects incurs interest expense but allows the project to start earlier, thereby avoiding escalation costs.

The City has an infrastructure system that has allowed it to thrive for over 100 years. Now, the City wants to incorporate new technologies and be able to adapt to meet environmental trends so that the infrastructure systems can continue to support the City for another 100 years. The risk analysis report shows the potential impact of multiple factors on the City's capacity to issue debt during the next thirty years.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

There are no identifiable effects or opportunities associates with this item.

RATIONALE FOR RECOMMENDATION

The City administered Request for Proposals #21-11459-C for consulting services to determine the City's bonding capacity. The RFP was published twice with neither publication generating responses from the market. In the course of staff researching why no responses were received, staff met with GFOA. GFOA provided their relatively new risk-modeling approach to the bonding capacity topic. Thus, it was determined, since a traditional RFP was not generating market response, that it would be advantageous to contract with GFOA for their services to research and develop the risk-model for City of Berkeley to evaluate its capacity for issuance of long-term debt.

ALTERNATIVE ACTIONS CONSIDERED

Not conducting the study

CONTACT PERSON

Henry Oyekanmi, Director, Finance, 981-7326

Attachments:

1: Report: Risk-Based Analysis and Stress Test of Long-Term Debt Affordability (from GFOA, 2022)

A Risk-Based Analysis and Stress Test of Long-Term Debt Affordability for the City of Berkeley, California

April 2022

Produced by:

The Government Finance Officers Association



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Section 1 – Introduction

Long-term debt is an important tool for municipal governments to invest in long-term assets that serve their community. The City of Berkeley, California (City) is considering seeking authorization from its voters on a large amount of long-term debt, perhaps up to \$600 million, to support the City of Berkeley's infrastructure needs included in its Vision 2050 plan. The debt would be used to fund assets like streets, public buildings, and more. This would be the largest amount of debt the City has sought to authorize in at least the last 20 years.¹ Therefore, the City has, prudently, decided to analyze the long-term affordability of this debt and has engaged the Government Finance Officers Association (GFOA) to perform this analysis.

GFOA is a non-profit association of more than 21,000 state and local government finance professionals and elected officials from across the United States and Canada. A key part of GFOA's mission is to promote best practices in public finance, including analyzing important financial risks like the affordability of long-term debt. GFOA's approach to risk analysis is distinctive because we use the same basic methods used by insurance companies and climate scientists to evaluate risk. We use computer simulation to build hundreds, if not thousands, of scenarios of how the City's financial situation could play out over 30 years. Each scenario changes important variables that influence how affordable the City's debt might be. For example, each scenario features a different interest rate environment. The variation in these variables is governed by parameters we set, where the parameters keep the variation within the realm of possibility. To continue our interest rate example, we gathered data on the rate of change in bond interest rates since 1970. This information was used to create the parameters for the interest rate environments generated for each scenario. We then see how often the City's debt remains affordable over those thousands of scenarios. If the debt is shown to be affordable under a high proportion of those scenarios, then that suggests there is a good chance that the debt will ultimately be affordable in the real world. Conversely, if the debt is not affordable under a high portion of the scenarios that suggests the debt is unlikely to be affordable in the real world. This computer simulation is built in Microsoft Excel using open standards for the data.² We'll refer to this computer simulation as the GFOA "Risk Model". The Risk Model is completely available to the City to use as it sees fit, including the ability to adjust many of the assumptions utilized for the simulations.

The rest of this report is divided into the following sections:

- **Defining What is "Affordable" Debt.** This section describes our rationale for using a typical bond ratings analysis as the basis for determining what is "affordable" for the City government.
- **Key Financial Indicators and Assumptions.** This section examines the key indicators of debt affordability that are taken into consideration by bond ratings companies and our method of approximating how the indicators suggest debt affordability in our simulation of the City government's future.

¹ History of the City's bond issuances compiled with the help of the City Clerk.

² Visit probabilitymanagement.org for more information on the standards we use.

- **Results of the Analysis and Recommendations.** In this section, we will address the findings from our analysis, including recommendations to help the City retain its credit rating.

Section 2 – Defining What is “Affordable” Debt

The definition of what is “affordable” debt is at the foundation of this analysis.

The first step to defining what is affordable is defining the type of debt the City is considering. The City is considering “general obligation (GO) debt”. This debt is paid for by a dedicated property tax levy. Thus, the City **does not** have to pay for this debt out of its existing revenue streams. This means that taking on more general obligation debt **will not** have a **direct** impact on the City’s operating budget. There is **indirect** impact – for example, perhaps the higher tax bills faced by taxpayers would cause them to vote against future tax measures intended to support the operating budget. Or, maybe residents or businesses feel the impact of higher taxes in their businesses or personal finances and decide to move. These are important considerations, but are outside the scope of this analysis, which is focused on the **direct** impacts to City government. That said, the financial indicators we will examine do include measures of personal income and the size of the tax base relative to the size of the population, which do provide some insight into affordability to taxpayers. It is also worth remembering that, according to California law, debt like the City is considering must be approved by two-thirds of voters in an election. If approval is not obtained, the debt cannot be issued. Thus, taxpayers evaluate the affordability of the proposed debt themselves by choosing to approve it or not. However, affordability to the taxpayers might not be that simple. We’ll have more to say on this topic later in the report.

The impact of general obligation debt on the City government’s finances is to add to the City’s total debt burden. Generally, the more debt a City takes on the less attractive its debt becomes to investors, all else being equal.³ This is because, in theory, the more debt a City has, the less likely it is that it will be able to pay it all back. This is important because if the City’s debt becomes too unattractive, it will need to offer higher interest rates to investors. That would make it more expensive to borrow and, thus, more expensive for the City to make future investments in long-term assets. **Thus, we will define debt affordability as the extent to which issuing more debt in support of any City Council program might cause the City’s debt to cross a threshold point where the City has to offer a higher interest rate to attract investors.**

Threshold points where higher interest rates must be offered are known as bond ratings. There are three major agencies that issue bond ratings: Moody’s Investors Service, Standard and Poor’s, and Fitch Ratings. Each rating agency has its own approach, but there are broad similarities between all three. For purposes of this analysis, we will focus on Moody’s approach. This is because Moody’s method is: A) well documented; and B) makes use of quantitative financial information to help standardize the approach to issuing ratings. This means we can collect the same financial information Moody’s would collect and evaluate it in a similar, albeit much simplified, manner. By doing this, our Risk Model was able to essentially duplicate the City’s current rating, which is “Aa”, according to Moody’s. Aa is the second best rating on Moody’s scale (which is similar to the scales used by the other rating agencies). The complete scale is shown in the accompanying table. The reader should note that rating agencies also make finer grained distinctions within the rating tiers. For example, technically, the City’s rating is “Aa1”, which

³ Municipal governments might issue more debt, but their tax base and revenues might also continue to grow. In this case, all else has not remained equal so the debt of that municipality may not become less attractive.

indicates the City is a strong Aa or at the upper end of what is considered Aa. An Aa2 would be in the middle and Aa3 would be considered a weak Aa. For the majority of this report we will not refer to these finer grained distinctions. This is, first, in the interest of simplicity. Using just the ratings scale showing in our accompanying table, the reader will be required to track six different categories of ratings. Multiplying the number of categories by three might make this analysis much more difficult to follow. Second, we do not have access to reliable historical data on how big a difference these finer distinctions would make on the interest rate the City could obtain for its bonds. We have data back to 1970 for the differences between the tiers shown in our table. Therefore, most the analysis will take place at the level of these six tiers. Occasionally, though, we will refer to the finer distinctions (e.g., Aa1 vs. Aa2 vs. Aa3) to discuss how the City’s credit rating could change in response to different conditions.

If the City’s debt were to be downgraded to an “A” we would expect the City to have to pay a higher interest rate on future debt. How much more would depend on the interest rate environment at the time. Historically, the difference between the interest rate of Aa and A has ranged from 1.05 to 0.08 percentage points, with an average of 0.26 percentage points. If, for example, a \$100 million 30-year bond sold at 2.26% interest rather than 2.00% interest, this would translate to \$5 million more in total interest cost over the life of the bond.

Moody’s Rating Scale	
The best->	Aaa
	Aa
	A
	Baa
	Ba
The worst->	B or below

To evaluate the affordability of the City of Berkeley’s borrowing plan including its Vision 2050 debt issuance plan we can do the following:

1. Update the key financial indicators used within the Moody’s rating system to reflect what the indicators would look like with the additional debt over the 30-year analysis period covered by our Risk Model.
2. Use computer simulation to vary key variables that impact the financial indicators over the 30-year analysis period. We’ll describe what these variables are and the assumptions our analysis makes in the next section.

Section 3 – Key Financial Indicators and Assumptions

The purpose of this section is to summarize the key financial indicators used to help frame bond ratings and to describe key assumptions we have made with respect to future values of the important variables that go into the analysis. Our analysis considers the next 30 years, so we had to make assumptions about how key variables would behave. Before we delve into these topics, we’d like to bring five important points to the attention of the reader:

1. The amount of debt the City takes on is not the only, or even primary, factor that determines bond ratings. Bond ratings take into account a number of factors besides debt. Therefore, our analysis include other factors that impact bond ratings, such as pensions, fund balance and tax base, along with debt.
2. Bond ratings are intended, primarily, to help investors decide how risky it is to invest in a municipality’s debt. Though many of the factors bond ratings take into account are reflective of

the general financial health of a municipality, the ratings are not a perfect measure of financial health. This is because ratings are intended to judge the ability of the City to pay back its bondholders and nothing more. This is a limited perspective on financial health.⁴

3. Bond ratings method are not a purely mechanical exercise where a given value for the financial indicators leads to a perfectly predictable bond rating. For example, Moody's rating method includes "notching factors", which are essentially the wiggle room to adjust a municipality's rating up or down, based on local circumstances and the judgment of bond rating analysts. Nevertheless, given that our approximation of the financial indicators that Moody's uses did produce the City's current rating in our Risk Model, we can assume that the financial indicators will produce useful insights into what the City's rating might be under different circumstances.
4. Our analysis is based largely on the future looking a lot like the past in many important respects. For example, we will see that the size of the City's tax base is regarded as a big strength by the Moody's evaluation method. We will assume it will continue to be. Of course, it is plausible that that a large natural disaster, like an earthquake, could severely damage property stock in Berkeley to the point where the tax base is seriously impaired and is no longer the strength it once was. These kinds of extreme scenarios (e.g., natural catastrophes) are not within the scope of our analysis. This is not to say such scenarios are not important. In fact, GFOA analyzes the impact of catastrophic scenarios on municipal financial health on a regular basis. However, given the scope for this project we focused on the key financial indicators of the City's financial health that are described in the following pages and not on catastrophe events. The Risk Model is not intended as a perfect representation of reality. It has been said "all models are wrong, but some are useful". We would suggest that focusing on the trajectory of key financial indicators given the decisions that City makes is a useful perspective on the affordability of its debt plan.
5. Readers who are not interested in the details of the Moody's methods and the assumptions we made about the future of the City's finances are invited to skip the rest of this section and go directly to the next section for our findings and recommendations.

The rest of this section will delve into key financial indicators that are salient to bond ratings and which underlies how we are defining "debt affordability" for this study.

The key financial indicators Moody's considers are described by what Moody's calls its "scorecard". Moody's has four broad factors for its bond rating scorecard and a number of sub-factors, which are shown in Exhibit 3.1.⁵ We will summarize each immediately following. With respect to the overview provided by Exhibit 3.1, the reader should note the factor weightings. We see that measures of the City's debt constitute only 10% of the total scorecard. Thus, the City's plan to issue more debt, by itself, can only have a marginal impact on the score. The City's actions with respect to its financial position, in whole, will be what really matters for debt affordability.

⁴ A comprehensive approach can be found in GFOA's Financial Foundations for Thriving Communities.

⁵ Our primary source on Moody's methods is "US Local Government General Obligation Debt" dated January 26, 2021, published by Moody's Investors Service.

Exhibit 3.1 – Moody’s Scorecard Factors and Weights (for Local Governments)

Broad Scorecard Factors	Factor Weighting	Sub-factors	Sub-factor Weighting
Economy/Tax Base	30%	Tax Base Size (full value)	10%
		Full Value Per Capita	10%
		Wealth (median family income)	10%
Finances	30%	Fund Balance (% of revenues)	10%
		Fund Balance Trend (5-year change)	5%
		Cash Balance (% of revenues)	10%
		Cash Balance Trend (5-year change)	5%
Management	20%	Institutional Framework	10%
		Operating History	10%
Debt/Pensions	20%	Debt to Full Value	5%
		Debt to Revenue	5%
		Moody's-adjusted Net Pension Liability (3-year average) to Full Value	5%
		Moody's-adjusted Net Pension Liability (3-year average) to Revenue	5%

Source: Moody's Investor Service

Economy / Tax Base

The tax base ultimately determines if a city can pay back its debt. There are three sub-factors considered:

Tax-base size: The size of the property tax base is where a municipality draws its revenue from. Currently, full value of the property in the City’s tax base is almost double what is necessary to receive the highest possible score on Moody’s scorecard. We did not find a reason to think that a radical decline in the value of property in the tax base was a probable risk. Of course, events like the 2008 recession and bursting of the housing bubble can cause a temporary decline. These kinds of variations are captured in the Risk Model. The Risk Model assumes that tax base will grow (and occasionally shrink) at rate that is broadly consistent with historical patterns, but the Risk Model does not assume a constant rate of growth. For example, the Risk Model simulates market pullbacks like the Great Recession (and worse). However, we did not find a reason to think that a dramatic, long-term decline in the City’s property values was a high-probability risk. The Risk Model does provide the user with the ability to easily change growth rate assumptions in order to see the effect of more optimistic or pessimistic outlooks.

Full-value per capita: This indicator adds in population size to the size of the tax base. The per resident property wealth shows the availability of tax-generating resources relative to the users of public services. This measure is almost 1/3 above what is necessary to receive the highest score on Moody’s scorecard. We did not find reason to believe that the City’s population would outpace the growth in property values to the point where it would risk the City falling below the Moody’s threshold for the best score. In fact, a long-term forecast sourced from Association of Bay Area Governments (ABAG) shows the City’s population forecasted to grow just over 1% per year over the next 30 years. This growth does not seem to be so great that it puts a strain on City finances and, thus, pose a risk to the City’s bond ratings.

Median Family Income: A community with high-income taxpayers may have greater ability to cover the cost of debt. The City is almost exactly in the middle of the two threshold values that bound the second highest score on Moody's scale. Presumably, the large number of college students in Berkeley exert downward pressure on this measure. That said, we did not uncover a high probability risk that the City would fall out of the second-highest category over the next 30 years.

Finances

This factor considers a local government's cushion against the unexpected, the City's ability to meet existing financial obligations, and its flexibility to adjust to new ones. There are four sub-factors considered:

Fund Balance: Fund balance describes the net financial resources available to a municipality in the short term. It is essentially the "rainy day fund" or "self-insurance" to react to unplanned, unavoidable costs (like natural disasters). More fund balance would presumably reduce the risk of a local government failing to repay debt because of a natural disaster or other catastrophe. For the City, this measure is currently almost 2/3 above what is necessary to receive the highest score on Moody's scorecard (Aaa). That said, fund balance is not nearly as stable a quantity as the economic forces we reviewed above. For example, in the years 2007 to 2013 the City's annually available reserves were less than half of what they've been in the last few years. In fact, the City would have been in the Aa, rather than Aaa, equivalent tier for six of the last 15 years (though not too far below the Aaa tier, at least). This means that we shouldn't take for granted that the City will continue to maintain reserves high enough to receive Moody's highest scores for the entire 30-year analysis period. The Risk Model assumes the City has a chance of falling out of the Aaa equivalent tier for fund balance. That chance is determined by the City's historical experience. Over the last 15 years the City was below the Aaa threshold six times. So, the Risk Model assumes a six in 15 chance (or two in five chance) per year that the City falls below the Aaa tier.

Five-Year Dollar Change in Fund Balance as % of Revenues: The reason for this measure is much the same as stated above, except this takes longer-term perspective on fund balance. Fund balance can change fairly rapidly, year to year, compared to some of the other indicators in the Moody's scorecard. So, this measure checks to see if fund balance is growing or shrinking and by how much. Currently, the City is just above the threshold required for the highest score. However, this is an example of a measure that is highly relevant to the interest of bondholders, but not as well aligned with the interests of the people who live in Berkeley. From the perspective of bondholders, it would not be a bad thing if the City continued to build its fund balance indefinitely. That continues to reduce the risk of a default. However, from the citizens' perspective there is a clear upper limit on the amount of fund balance a local government should hold. At some point the opportunity cost (in terms of higher taxes or foregone services) is not worth the benefit the public receives from the City having a larger fund balance. Thus, given that the City already, by Moody's own standards, has a large fund balance, it is questionable whether the City would continue to grow the fund balance in the future at the same rate it has in the past. Thus, it seems unlikely the City would continue to achieve the highest score under the Moody's rating system. However, that said, Moody's documentation does imply that local governments with a strong fund balance might be given consideration for maintaining that fund balance rather than continuing to grow it - Moody's might adjust ratings upwards to reward maintaining stability of a high level of fund balance. This means that the City

may not enjoy the top-rated scores it had gotten in the past on this measure, but if it maintains a high level of fund balance, it might only drop to the second highest score. The Risk Model gives the user the option to choose the growth rate, from maintaining a rate of growth equivalent to Aaa to remaining flat (equivalent to an A rating). For the purposes of this report, we chose to make this indicator equivalent to an Aa rating. The rationale is that the City probably can't keep historic levels of growth indefinitely, but the high amount of fund balance the City usually carries would, hopefully, be enough to avoid falling down to an A rating.

Cash Balance: Cash is a similar measure to fund balance – but focuses on “money in the bank”, whereas fund balance can include some non-liquid resources. For the City, this measure is currently almost three times above what is necessary to receive the highest score on Moody's scorecard. At the City, cash balances and fund balance levels tend to mirror each other. So, just as the City did not have nearly the same level of fund balance in the past as it does today, it did not have the same level of cash either. Thus, like fund balance, this means that we shouldn't take for granted that the City will continue to maintain cash high enough to receive Moody's highest scores for the entire 30-year analysis period. That said, given that cash appears to be so far above what Moody's is looking for that it would take much more extraordinary circumstances for the City's cash to fall below Aaa equivalence. The Risk Model assumes that the City has a 2 in 15 chance of falling to the Aa tier, each year. This chance is smaller than fund balances falling to the Aa tier. The rationale is the City's cash amounts are very high above the Aaa threshold, so would have a long way to fall to reach Aa territory.

Five-Year Dollar Change in Cash Balance as % of Revenues: The rationale and issues related to this measure are much the same as discussed above. Cash is a more liquid resource for dealing with unplanned, unavoidable expenditures and this measure shows the rate and direction of growth. The City is currently well above the amount required for Moody's highest score, but, again, the same rate of growth probably cannot keep up indefinitely. Like fund balance, though, it seems possible that Moody's might not penalize the City for mere stability in its amounts of cash on hand, if the amounts on hand were kept high. The Risk Model uses identical assumptions for this measure as for the fund balance trend, described above.

Management

The legal structure of a local government and management under which it operates influence the government's ability to maintain a balanced budget, fund services, and continue to derive resources from the local economy. There are two measures in this category.

Institutional Framework: This factor measures the municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. For example, a local government with many mandated responsibilities, but with little ability to raise revenues would score poorly on this measure. Our examination of the City's prior Moody's bond ratings suggest that the City, for this measure, was rated consistently with its overall rating: Aa. In other words, the second best possible score. We found no high probability risk that the City's legal powers and responsibilities would change dramatically in the coming years, so we assume the City's score on this measure will remain constant throughout the analysis period.

Operating History: Operating history is essentially the extent to which the City runs annual surpluses or deficits. The City's current measure is well above what is required for Moody's highest score. However, because surpluses and deficits are determined annually, we shouldn't assume stability in this measure over a long-term period. We looked at the last 15 years of the City's history to see the size of surpluses (there were no deficits) and used those to simulate what surpluses will be in the future. This results in a more conservative assumption than simply continuing the most recent trends indefinitely into the future.

Debt / Pensions

Debt and pension burdens are measures of the financial leverage of a community. The more leveraged a tax base is, the more difficult it is to service existing debt and to afford additional debt, and the greater the likelihood there will be difficulties funding debt service. There are four measures in this category.

We gave this category the most analytical attention for a number of reasons. First, debt was the primary focus of the City in commissioning this study. The amount of debt the City is considering issuing will have a direct impact on some of the measures in this category. Second, as we will see, the City's current performance on debt indicators is already weak compared to the other indicators we have reviewed. Third, this section includes pensions, which, as we will see, are the weak spot in the City's performance on the Moody's scorecard.

We will first briefly overview the four measures in this category and then go into details on the assumptions made for future values of these indicators.

Debt to Full Value: This evaluates net direct debt relative to full value of the property in the City's tax base. This metric tells us how onerous future debt service payments could be to the tax base. Currently, the City is in the second best category for scoring on this measure.

Debt to Revenues: This compares debt to the City's regular revenue stream. Moody's does not subtract from the calculation any debt whose principal and interest is paid by taxes, even if those costs are external to the General Fund. Under this definition, the City gets a score on the Moody's scorecard equivalent to an "A" rating.

Three-year Average of Moody's-Adjusted Net Pension Liability to Full Value. This measures the magnitude of a local government's pension obligations relative to its tax base.⁶ Similar to the debt burden evaluation, the tax base serves as a proxy for future revenue-generating capacity to amortize accrued pension obligations. The City's score here is equivalent to a "Baa" bond rating.

Three-year Average of Moody's-Adjusted Net Pension Liability to Operating Revenues. This metric seeks to measure pension obligations relative to the size of the local government's budget. The metric attempts to reflect that amortization of accrued net pension obligations could divert revenues out of future budgets and lead to funding shortfalls. The City's score here is equivalent to a "Ba" bond rating (the second worst rating).

⁶ Note that Moody's adjusts the standard net pension liability measure found in government financial reports to include less favorable assumptions on the discount rate for pension investments. The details behind these calculations are available in the Risk Model supplied to the City by GFOA.

Assumptions for Future Indebtedness:

- The Risk Model includes all repayment schedules for the City’s existing debt and assumes debt will be repaid in the times and amounts currently scheduled.
- The Risk Model includes three categories of “new” debt. The detailed assumptions behind the new debt are described in more detail later, but the general categories of new debt are:
 - Debt that the voters have previously authorized, but which the City has not issued. This is in the amount of \$117 million in principal.
 - Debt issued to support Vision 2050 or other programs. The user defines the amount of principal in the Risk Model. The Risk Model assumes that the number entered by the user will be approved by the voters.
 - Debt issued in the far future. Given we are taking a long-term (30 years) perspective, we should not assume that future City Councils will not issue any more debt. The amounts and timings of these simulate future debt issues are described as part of the following bullets.
- For all new debt, the user can choose the length of the repayment schedule. For the purposes of this report, we assumed 30 years. This is consistent with the City’s past practices and current plans. We assume level repayment schedules (i.e., no front or back loading of repayment schedules). We assume no debt refunding, refinancing, etc.
- For all new debt, we simulate the interest rate, where historical rates are used as a model. Here are some key points:
 - We use forecasts of the yield on ten-year US Treasuries for the next two years to simulate the interest rate environment for the next two years. We do this so that the Risk Model does not generate short-term results that are divergent from short-term expectations.
 - After two years, the Risk Model randomly generates future interest rates, where the rate of change in the rates is entirely consistent with the rate of change in the interest rates for Aaa-rated GO bonds and US Treasuries since 1977. We used the historical rate of change to simulate downward, upward, and stable trajectories for long-term interest rates.
 - The Risk Model assumes bond interest rates will not go below zero. The user has the option to adjust this rate floor.
 - The Risk Model includes the City’s informal policy that the City will not borrow if rates are above 5%. If rates are simulated to go above 5% in any year any simulated, then borrowing is deferred until rates go back below 5%.
 - For the purpose of this report, the Risk Model assumes that rates are just as likely to go up in the future as they are to go down, with the exception of the first two years. As discussed above, the next first years are determined by the 10-year US Treasury forecasts produced by other organizations. For the years after that, the user is able to adjust how likely rates are to go up or down to explore assumptions other than what we assumed for this report. So, if the user wanted the Risk Model to simulate an interest environment where it is twice as likely rates would go up, then that assumption could be entered. In no case will the rates rise at a greater rate of change than has been observed historically.

- The Risk Model assumes that the City will issue new debt that has been previously authorized by voters, but which have not yet been issued. This amounts to \$117 million in additional principal that is added to the City's debt burden over the next five years. The debt is issued according to a user-defined schedule.
- For the debt to support more borrowing, including the City of Berkeley Vision 2050, in the Risk Model, the user can choose the amount of debt the City will issue. The Risk Model allows the user to choose between the options below. The options are completely user definable so the City can add, change, or delete options as it likes:
 - An option for \$300 million in debt, which represents the lower end of what the City Council has discussed. Note that the City Council has discussed supplementing this amount of debt with a parcel tax. The parcel tax would not impact the City government's performance on the key indicators in the Moody's scorecard other than requiring the City issue less debt. Hence, the parcel tax is not included in the Risk Model.
 - An option for \$600 million in debt, which represents the upper end of what the City Council has discussed.
 - An option for \$900 million in debt. This is included just for demonstration purposes, so the user can see what a larger amount of debt would do to the model results.
- Debt issued to support more borrowing for the 2050 Vision Plan are assumed to be issued in increments evenly throughout the 30-year analysis period. The user can change this assumption and make the debt issued on any schedule they would like.
- We should not assume that the debt issued to support the City of Berkeley Vision 2050 will be the last debt the City issues for 30 years. Since 2000, the City has tried to gain voters' approval to issue new debt in seven of ten election years. Thus, we must assume that future City Councils will have plans to issue debt to support future projects. The model simulates this under the following assumptions:
 - The City will not try to issue new debt again until 2028. This assumption can be easily changed by the user.
 - For any election year after 2028, there is a 70% chance that the City will try to gain approval to issue new debt. This is based on the fact the City has historically tried in 70% of election years, though this assumption can be adjusted by users.
 - The amount of debt the City attempts to issue in any given election year varies between \$13 million and \$150 million. This is based on the inflation adjusted amounts the City has tried to issue in the past. The Risk Model adjusts this amount upwards in future years to account for the effects of inflation.
 - The public approves proposed new issues at the same rate it has in the past, including partial approvals.

Assumptions for Future Pension Liabilities

For pension liabilities, we developed a single alternative pension assumption, based on the work of the City's CPA firm. This assumption assumes a negative 1 percentage point adjustment to the discount rate applied to pension investments. So, if the baseline, status quo assumption is 7.15%, then the alternative would be 6.15%. The user can activate or deactivate the alternative assumption on the Risk Model

dashboard. If activated, the alternative assumption is applied across all of the thousands of scenarios the risk model produces. If is not activated, it is not applied to any of the scenarios.

The Risk Model also includes an assumption for annual increase in pension liability and the current annual rate of 3.96%. GFOA would like to acknowledge the assistance of Dan Matusiewicz, Senior Finance Consultant, at GovInvest for providing assistance on formulating this assumption, which is based on a 6.8% discount rate and wage growth of 2.5%.

Section 4 – Results of the Analysis and Recommendations

In this section, we will address the finding from our analysis, including recommendations to help the City retain its credit rating.

Let's Put Debt in Context of the Financial Indicators Used to Estimate Debt Affordability

The City's level of debt only impacts the financial indicators that comprise a total of 10% of the Moody's scorecard. Put another way, 90% of the scorecard result is determined by factors other than the City's debt! That means that long-term affordability of the City's debt will be influenced by things like how the City manages its tax base, fund balance, its pensions, and its budget. Exhibit 3.1 provided details on the relative importance of the different factors in the Moody's scorecard. To recap some of the more notable items:

- Pensions are equal to 10% of the scorecard result, or the same as debt.
- Fund balance and cash are equal to 30% or are three times the importance of debt.
- A balanced budget is equal to 10% of the scorecard result.
- Economic factors, like full value and median family income, are equal to 30% of the scorecard result.

According to our re-creation of the Moody's scoring method, today, the City is just short of a score that would be consistent with an Aaa rating. The City's pension liabilities are the main culprit for keeping the City from that score. This conclusion seems consistent with what bond analysts have conveyed to the City: that the City would have an Aaa rating if not for its pension situation. This means that the City has some "distance to fall" in order to get down to an A rating, at least according to the quantified scoring system and the assumptions we described in this report.

All this means that the City's decision to issue debt must be done in the context of the other factors that impact affordability when trying to determine the chance that additional debt will reduce the City's bond rating.

So, to review, the City's strengths are:

- The City's economic base is firmly in Aaa territory and there does not seem to be a plausible risk of it falling out of that tier. The economic base accounts for almost 1/3 of the rating.
- The City's fund balance and cash are firmly in Aaa territory as well. Even though these measures are, by nature, more volatile than the measures of the economic base there seems to be low risk that they would fall completely out of Aaa territory much less all the way down to an A-rating territory (assuming the City maintains a strong reserve policy, as further described in our recommendations). Fund balance and cash measures also constitute almost one-third of the rating.
- The City has also consistently maintained a balanced budget.

And, the City's weaknesses are:

- The City’s pensions are in Baa territory currently. Some observers believe there is a case for a lower discount rate to estimate the City’s pension liability. A lower discount rate would make the liability to go up substantially. The City’s CPA firm produced the calculation for a 1 percentage point reduction and we included it in the Risk Model as an option for the user to activate, if they wish. If this scenario came to fruition, pensions would become an even greater drag on the City. In fact, the Risk Model shows a good chance that pensions reach B territory (the worst rating) well before the end of the 30-year analysis period. Finally, it is worth noting that the Risk Model shows that one of the pension measures in the scorecard (pension liabilities compared to revenues) is at risk of slipping down to a score equivalent to the next lower rating tier (Ba) within in the next five years. As we will discuss more later, a continued downward trajectory on pensions could influence bond ratings analysts to give the City a lower rating.
- Though the City’s current indebtedness is not nearly the problem that pensions are, it is not helping the City’s bond rating either. Currently, debt measures sit between Aa and A territory.

More debt reduces the City’s score on the indicators. We can illustrate with the table below. The table shows the City’s scores under different simulations, starting with the City’s current score and ending with the City’s simulated score at the end of 30 years. The simulation does not produce a single score for the end of 30 years, but rather produces a range of possible scores. For this reason, we show the average, optimistic, and pessimistic outcomes.⁷ The table uses assumptions identical to that described earlier in this report and assumes \$600 million of new debt in support of the City’s programs, including Vision 2050, plus debt issued by future City Councils, as described earlier. We can see that the score at the end of the 30 years is worse than the City’s current score under all three perspectives in the table (average, optimistic, pessimistic). The good news is that when we consider just debt, at least the scores do remain broadly consistent with an Aa rating. But, what about if we consider more than just debt? Other factors do enter into the final bond rating of course.

Exhibit 4.1 – Simulated Results on Moody’s Scorecard under the Assumptions Described Earlier in the Report

Rating	Score for Each Rating		City's Current Score	Average Score at end of 30 years	Optimistic Score at end of 30 years	Pessimistic Score at end of 30 years
	Min	Max				
Aaa	0.05	1.5				
Aa	1.5	2.5	1.65	2.14	2.00	2.30
A	2.5	3.5				
Baa	3.5	4.5				
Ba	4.5	5.5				
B or below	5.5	6.5				

⁷ Optimistic and pessimistic are defined as the points at which 5% of the outcomes produced by the model are above or below the point indicated on the table.

To examine the other considerations that go into a rating, Exhibit 4.2 changes the assumptions in the Risk Model to be less favorable for the City, including: a lower discount rate on pensions (1 percentage point) and performance equivalent to an Aa rating for fund balances, cash balances, and operating history (which would be less favorable than the City’s recent history would suggest). We can see that the City’s scores now deteriorate enough that the pessimistic outcome places the City in the “A” rating equivalent scoring tier. What the table does not show is how the scores change for periods less than 30 years. The Risk Model tells us that the risk of a downgrade is present in the near-term future, not just the long-term future. This is because the City is close enough to the next lower tier of scoring for its debt and pension measures that it is plausible that the City will reach these lower tiers in five to ten years. We’ll discuss this more detail in the next section. Over the long-term, the City’s strong property tax base (and growth in that base) can balance out some of the nearer-term challenges (assuming the challenges don’t also get worse).

Exhibit 4.2 – Simulated Results on Moody’s Scorecard under Less Favorable Assumptions

Rating	Score for Each Rating		City’s Current Score	Average Score at end of 30 years	Optimistic Score at end of 30 years	Pessimistic Score at end of 30 years
	Min	Max				
Aaa	0.05	1.5				
Aa	1.5	2.5	1.65	2.39	2.30	
A	2.5	3.5				2.50
Baa	3.5	4.5				
Ba	4.5	5.5				
B or below	5.5	6.5				

The reader will notice that even on this second table, the scores are certainly not disastrous, by any means: the average score is still within the Aa equivalent tier. That said, we must remember that the final bond rating a municipality receives is not a purely mechanical exercise, where the key financial indicators dictate the bond rating. According to Moody’s: “The scorecard is not a calculator. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to begin viewing and comparing local government credits. It therefore acts as a starting point for a more thorough and individualistic analysis.” Put another way, the rest of the rating is subject to a human element: the rating analyst. In a real-life scenario characterized by unfavorable performance across the indicators that Moody’s looks at we can’t discount the possibility that the analyst might decide to “put a thumb on the scale” and raise the chance of a downgrade. For example, perhaps a significant amount of new debt along with further deterioration in the City’s pension situation dampens the rating analyst’s enthusiasm for the City of Berkeley’s debt even more than the Moody’s scorecard suggests. Finally, it could be possible that rating agencies could change the weightings of the indicators they consider. GFOA has observed that the measures favored by rating agencies and the relative weight placed on them has evolved over time. It seems unlikely that debt and pensions would come to occupy a less important place in rating considerations given that they currently constitute a relatively small consideration compared to fund balance / cash and tax base. Given that pensions and debt are biggest risk to future debt affordability, we’ll examine this risk more in the next subsection.

Finally, the model can address different interest rate environments and property markets. Some observers believe that sustained higher interest rates may result from efforts to combat inflation. This would result in economic stagnation and impact on the housing market. In fact, the Federal Reserve Bank of Dallas recently stated that the property market is showing "signs of a brewing U.S. housing bubble". The implication is that bubbles pop, with the types of consequences we saw in the 2008. To explore these concerns further, we adjusted the model assumptions to give more weight to a rising interest rate environment and to reduce, by half, the chances of growth in the City's revenue and property values. Note that the baseline assumptions in the Risk Model **did not** assume uninterrupted growth in property values, but did assume a good chance of a long-term upward trajectory. These new assumptions result in a good chance of long-term stagnation. Under these assumptions, unsurprisingly, the City's is at significantly greater risk of slipping below an Aa equivalent score. Interestingly, the City's informal policy of not borrowing at rates above 5% makes a noticeable difference in the high interest rate environment: the City stops borrowing at a certain point and pays back existing debt, which helps its score. The take-away is that unfavorable turns in the economic environment will have a noticeable impact on the financial indicators and increase the risk of a ratings downgrade.

Pension, Debt and the Risk Posed to the City's Bond Rating

Though pension and debt do not dominate the Moody's scorecard and are not the most important consideration in bond ratings, they still can influence bond ratings. For example, especially poor performance or notable deterioration from previous performance might capture the attention of the bond ratings analyst. To illustrate, the table below displays results from one of thousands of simulations the Risk Model produced, using the more unfavorable assumptions described in the previous section. We chose to illustrate using the more unfavorable assumptions because it helps make the point we wish to make more clearly. Also, keep in mind this is just one of the thousands of simulations we developed, so it's not intended to show generalizable results (unlike the tables in the last section which summarized results from across the thousands of simulations).

The top set of rows in the table shows the City's current values for the key financial indicators associated with debt and pension in the Moody's scorecard. The next set of rows shows the scores the indicators receive under the Moody's methodology. The scores can range from 1 to 6, where 1 is the best (Aaa equivalent) and 6 is the worst (equivalent to B or below). The final row is the average of all indicators in the Moody's scorecard, which includes indicators not shown in the rows above (e.g., tax base, fund balance, etc.). Remember that the average is weighted towards the indicators Moody's deems most important (see Exhibit 3.1).

We see that the City's current score across all indicators is a 1.65 (bottom left corner), consistent with a strong Aa rating. However, as we move to right and further into the future, we see City's score on debt and pensions deteriorate (the numbers on the 1 through 6 scale get higher). We can also see the average score move upwards. The movement upwards is not as dramatic because debt and pensions only account for 20% of the total score. The measures that account for the other 80% perform well, often in Aaa territory. Nevertheless, we see that although the City's score remains consistent with an Aa rating, it has become consistent with a weak Aa (or Aa3 in Moody's terminology). It should be noted that the cutoff

points used in the table to differentiate strong from weak come directly from Moody’s documentation.⁸ With this in mind, it becomes more understandable why an analyst might decide to downgrade the City to an A rating, if they observe the City’s scorecard result fall from a strong to a weak Aa. They might conclude that the possibility of continued decline, for example, merits a lower rating.

Exhibit 4.3 – Example Results from a Simulation the Risk Model Produced

	Now	Years into the Future									
		3	4	5	6	7	8	9	10	11	12
VALUES FOR INDICATORS											
Net Direct Debt / Full Value	1.3%	2.2%	2.3%	2.2%	3.0%	2.9%	2.7%	3.5%	3.8%	3.8%	3.8%
Net Direct Debt / Operating revenues (x)	0.76	1.29	1.34	1.86	1.78	1.69	2.08	2.28	2.20	2.10	2.01
Adjusted Net Pension Liability (3-Year Average) to Full Value (%)	8.7%	13.7%	13.7%	13.8%	14.0%	14.1%	14.7%	15.2%	16.4%	17.7%	18.8%
Adjusted Net Pension Liability (3-Year Average) to Revenues (x)	5.24	7.73	8.26	8.49	8.72	8.90	8.80	9.17	9.44	9.67	9.93
SCORE FOR DEBT & PENSION INDICATORS (1 THRU 6 SCALE)											
Net Direct Debt / Full Value	2	3	3	3	3	3	3	3	3	3	3
Net Direct Debt / Operating revenues (x)	3	3	3	3	3	3	3	3	3	3	3
Adjusted Net Pension Liability (3-Year Average) to Full Value (%)	4	5	5	5	5	5	5	5	5	5	6
Adjusted Net Pension Liability (3-Year Average) to Revenues (x)	4	5	5	6	6	6	6	6	6	6	6
SCORE FOR TOTAL OF ALL INDICATORS (1 THRU 6 SCALE)											
	1.65	2.2	2.2	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.3
	^	^	^	^	^	^	^	^	^	^	^
	Strong	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak
	Aa	Aa	Aa	Aa	Aa	Aa	Aa	Aa	Aa	Aa	Aa

Finally, the Risk Model can be used to explore different weightings on financial indicators. For instance, we could give greater weight to pensions and debt and less to cash and fund balances (perhaps because cash and fund balance measures are very similar, so weighting both heavily in the analysis could be seen as “double counting”). This feature of the Risk Model could be used to mimic how a ratings analyst might decide to weigh the indicators differently than Moody’s standard documentation suggests. Unsurprisingly, weighting debt and pensions more puts downward pressure on the City’s scores.

Develop and Maintain Strong Financial Policies

Financial policies can help the City maintain its good bond rating. An example is the City’s General Fund Reserve Policy. GFOA’s review of the City’s policy finds that it includes all the critical features of a good policy and calls for a reserve equal to Moody’s Aaa equivalent threshold. That said, it is important to recall that Moody’s looks across all “operating funds”, which includes more than the General Fund. **Hence, there could be an argument for defining reserve policies for other critical operating funds.**

The City also has a debt policy. The policy has many of the features of a good policy, but there may be some opportunities for improvement. Particularly salient to our discussion of bond ratings is debt affordability. The City’s debt policy notes that “the City is subject to debt capacity limit for its general obligation bonds: 15% of assessed value.” This amount of debt would be equivalent to the second lowest rating, Ba, under Moody’s scoring. **Hence, there may be a case for defining a more locally appropriate debt affordability policy.** For example, even under the most aggressive assumptions of how much debt the City might issue, the Risk Model did not show that there was a high chance that debt issued in support of the Vison 2050 would bring the City’s scorecard result below an “A” equivalent score on the measure

⁸ Note that Moody’s doesn’t use the terms “strong” and “weak”, but rather a numeric code. We elected to use the more descriptive terms of “strong” and “weak” in order to make the table more understandable.

comparing debt to property value of the tax base. The A rating is defined as debt equal to between 1.75% and 4% of property value. This might be a good starting point for defining a locally affordable limit. The City could “stress test” affordability by simulating larger issues to see how much pressure is placed on the scorecard result by increasing the amount of debt. It could be that the City’s strong tax base and fund balance / cash practices would make it practical to incur debt beyond 4% of property value without putting the score at too much risk, but perhaps 15% is still too much. Of course, we must remind ourselves that bond ratings consider only the interest of the City’s creditors. Just because creditors are willing to lend does not mean the City should borrow. More debt also places more of a burden on taxpayers. Taxpayer burden should be analyzed as part of developing a debt affordability policy. We’ll discuss this more in one of our other recommendations, later in this report.

Another opportunity for improvement of the City’s debt policy might be to define interest rate ceilings for issuing debt. GFOA understands that the City has an informal policy that considers “5%” the interest rate ceiling beyond which the City will not issue debt. Formalizing this policy, or something like it, could help make a positive impression on rating analysts. The GFOA Risk Model can be used to help the City stress test different policy choices because the user can customize the interest rate ceiling the Risk Model uses and adjust assumed behavior of the interest rate environment.

Finally, **a structurally balanced budget policy could be helpful.** The City has a good history of running budget surpluses. A municipal government is subject to legislative requirements to pass a balanced budget. However, the definition of a balanced budget is just that inflows equal outflows for the year and says nothing about the long-term sustainability of how the budget is balanced. For example, according to the law, an asset could be sold to pay for the compensation of permanent City staff positions. An asset is a one-time revenue while staff compensation is a recurring expenditure, so this strategy would not be advisable even if it is legal. A structurally balanced budget policy commits a local government to adopting a budget that is balanced using sustainable strategies. GFOA is happy to provide the City with templates for such a policy, if the City is interested in pursuing it. This kind of policy would support both a strong score in the “operating history” and, perhaps, the “institutional framework” measures in the Moody’s system. For example, Moody’s recognizes “unusually strong budget management and planning” as a “notching factor” that could justify a higher score for a municipality than the ratios in the scorecard might suggest. A structurally balanced budget policy could be an illustration strong budget management and planning.

Manage the Risk Posed by Pensions

As we've discussed, pensions are the Achilles' heel of the City's bond rating. The City has been considering strategies to manage its pension risk and has established an irrevocable supplemental (Section 115) pension trust. This could help support a good bond rating. This is supported by conversations the City's Finance Director has had with bond rating agencies: the City's current pension challenges has kept it from achieving an Aaa rating and continued deterioration in pension position could even lead to the City slipping to an A or a lower rating.

Support a Strong Tax Base

If pensions are the City's Achilles heel, then its aegis is its tax base. Not only is the tax base directly responsible for 30% of the City's score on the Moody's scorecard, it directly impacts other measures as well. For example, the Moody's scorecard method compares debt and pensions to the full value of taxable property in the City. Of course, the tax base also determines how much revenue the City can raise, which influences fund balances and the City's ability to balance its budget. Therefore, the City should take active steps to preserve and to enhance its tax base. GFOA has found that there are unrealized opportunities for municipal governments to better reflect the financial interests of municipal government in land use planning. After all, land use planning will have an important influence on how the tax base develops and how the tax base develops will have an important impact on the quality of life in Berkeley (like the City's ability to invest in infrastructure!). The City can learn more about GFOA's findings and recommendations for how to make the connection between land use planning and city finances in [this report \[Note to reader: as of the date the City of Berkeley's report was posted the GFOA report on the intersection between land use planning and municipal finances has not be released to the public. It will be available soon\]](#).

Develop and Maintain Measures of Tax Burden

General Obligation (GO) debt is paid for by a special tax levy. Therefore, more GO debt does not place a direct pressure on the City's budget. It does, however, place burden on the City's taxpayers. Voters approve the City's ability to authorize debt. In that way, voters are speaking as to whether debt is affordable to them or not. However, voters are unlikely to have a perfect understanding of the long-term implications of debt for their tax burden. In the past, the City has developed measures that show the average tax burden for a City of Berkeley homeowner. It may be wise to develop the ongoing capacity to monitor and project tax burden, especially if the City plans to continue making use of GO bonds and tax measures. The scope of the GFOA Risk Model covers only City government finances, but the Risk Model does provide much of the information that the City would need to examine the tax burden placed on residents and businesses by future debt. For example, it gives the full range of principal and interest that would need to be covered by taxes every year of the 30-year analysis period. It also provides range of the potential size of the tax base.

Be Strategic about Debt Issuance

The City already has \$117 million in previously authorized debt that it plans to issue in the next few years. This is included in the Risk Model and in the information we've presented in this report. What the risk model doesn't capture is the City staff's capacity to manage the debt issuance and, critically, to manage

the projects that the debt is intended to finance. Prioritizing projects to make sure the City doesn't take on more than it can handle will not only make the best use of limited staff capacity it will help limit the total amount of debt the City takes on. The City has old debt that will gradually be paid down in the coming years. There is some opportunity to moderate the increase in the City's total debt burden by timing the issuance of new debt with expiration of old debt. That said, we must recognize that the amounts of new debt being contemplated do significantly exceed the amount by which old debt will decrease in the next number of years. So, a total increase in the City's debt burden would be inevitable under the assumption that there \$117 million would be issued along with some significant additional amount to support other projects including the Vision 2050 project.

Section 5 – Conclusion and Summary

In conclusion, the City's performance on the key financial indicators used in the Moody's scorecard appears to be robust under a variety of circumstances. That said, the final bond rating the City receives is not purely a function of these indicators. Human judgment, applied by bond ratings analysts, determine the final score. Their judgment could be swayed, negatively, by the risks posed by debt and pensions, which we described earlier in this report. We have outlined a number of opportunities for the City to take proactive measures to preserve and protect its bond rating and, thus, its capacity to borrow at favorable interest rates.

To conclude, let's recap the key take-aways from this report.

- The City has important strengths that bolster its ability to borrow, including a strong tax base, fund balances, and a history of balanced budgets. That said, the City's current policy identifies a limit on borrowing equal to 15% of assessed value. Borrowing this much would place the City at the equivalent of a Ba score or the second lowest score for the key financial indicator of debt compared to the value of property in the City. That would, of course, exert strong downward pressure on the City's bond rating. The City should develop a more locally appropriate debt limit, rather than relying on statutory limits (which are set without regard to local context). For example, debt equal to 4% of property value would still provide room for the City to issue more debt (the City is currently at less than 2%), while keeping that measure with the scoring tier equivalent to an A rating. The GFOA Risk Model can be used to "stress test" different policies.
- An unfavorable turn in the economic environment could impact the City's bond rating. The Risk Model can be used to simulate high interest rate environments and stagnant (or even declining) housing markets. Unsurprisingly, these conditions increase the chances that the key financial indicators we analyzed will slip into territory associated with a lower bond rating. This is important because some observers believe that a higher interest rate environment and stagnant or declining property market are real possibilities.
- Growth in the City's tax base supports borrowing and repayment of debt. Hence, the City should consider how it can use the City's land use planning capabilities to support the financial capacity of City government. Land use planning could be used to improve the revenue productivity of the land uses in the City's jurisdiction.
- The City's pension liabilities are a drag on the City and its capacity to borrow. Pensions are clearly the weak spot in the City's bond rating given how the pensions stand today. Some observers believe that the current discount rates assumed for the pensions' investments may be too optimistic. Lower discount rates would increase the size of the liability even further. This emphasizes the need for the City to find ways to manage its pension debt.
- The City can adopt certain financial policies to maintain good management practices. This will help make a positive impression on bond rating analysts. It is important to remember that even though our Risk Models shows the City is likely to perform consistently with an Aa rating in most scenarios: A) in many scenarios the City's position deteriorates from strong Aa to a weak Aa; and B) ratings are ultimately the product of the judgment of the bond ratings analyst. An analyst's

enthusiasm for the City's debt might dampened enough by this deterioration that the analyst decides on a ratings downgrade for the City.

- Though our analysis focused on the direct impact of debt on the finances of City government, the City should also be mindful of the burden on taxpayers. The Risk Model provides much of the information the City would need to estimate burdens on taxpayers under different scenarios.
- The City already has \$117 million in previously authorized debt that it plans to issue in the next few years. Given the City's interest in issuing more debt to support the Vision 2050 and other programs, the City should remain mindful of the City staff's capacity to manage new debt issuance and, critically, to manage the projects that the debt is intended to finance. Prioritizing projects to make sure the City doesn't take on more than it can handle will not only make the best use of limited staff capacity, it will help limit the total amount of debt the City takes on.
- By following a prudent borrowing strategy, managing pensions, and following other recommendations in this report the City should have a good chance of making a positive impression on bond ratings analysts and maintaining its ratings, all while preserving some additional capacity for the City to borrow.

Appendix 1 – Limitations of GFOA’s Analysis

This section highlights the most important limitations of our analysis.

Our analysis is not predictive. GFOA does not forecast bond ratings. Rather, our model generates hundreds or even thousands of different scenarios to show how the future could unfold. This helps the City think more broadly about risk so that it can be more prepared for whatever future event does eventually come to pass. Finally, it is important to note that low probability events are still possible events. Hence, even if our model says an event has a low probability, then that does not mean it won’t occur.

GFOA is not a risk management consultant. We worked with the City to find out which risks to bond ratings are most salient and then modeled those risks quantitatively to judge the potential impact. It is not our place to determine what the City’s attitude towards risk should be or to substitute GFOA’s attitude towards risk for the City’s. GFOA builds models to help you explore the questions, but ultimately you have to make the decisions.

Our analysis is based on historical records. Historical data is often a good way to model potential future outcomes. However, historical data will not be perfect.

Our analysis is not inclusive of every risk the City could possibly face. We examined the City’s past history and worked with City staff to identify the risks that posed the most clear and present danger to the City’s bond rating. However, it is possible that the City could experience a shock that no one was expecting or that the City could be impacted by a low probability, but high consequence event.

The calculation of the key indicators is subject to some interpretation. Though Moody’s does produce detailed documentation of their methods, there is still some interpretation required. For example, the measure of fund balance is supposed to include all “operating funds”. It is ultimately up to the analyst to decide which funds are operating funds and which aren’t. It could be that GFOA would have a different interpretation than Moody’s. That said, given that our Risk Model did duplicate the City’s current score, our interpretation should at least be close.

Good decisions do not always lead to good outcomes. Excel simulation tools can enhance one’s perception and understanding of uncertainty and risk.⁹ However, when dealing with uncertainty, even the best decision may not lead to a good outcome, if luck goes against you.¹⁰

⁹ “To survive in an increasingly unpredictable world, we need to train our brains to embrace uncertainty,” Emre Soyer, Quartz Magazine, January 9, 2017 <https://qz.com/879162/to-survive-in-an-increasingly-unpredictable-world-we-need-to-train-our-brains-to-embrace-uncertainty/>.

¹⁰ This is one of the primary lessons in: Annie Duke. *Thinking in Bets: Making Smarter Decisions When You Don’t Have All the Facts*. Portfolio. 2019.

CONSENT CALENDAR

August 3, 2022

To: Honorable Mayor and Members of the City Council
 From: Councilmember Ben Bartlett (Author), Councilmember Susan Wengraf and
 Councilmember Rashi Kesarwani (Co-Sponsors)
 Subject: Additional Allocation of Measure P Funding to “Step Up Housing” Project

RECOMMENDATION

Adopt a resolution allocating an additional \$114,660 per year for 10 years, from Measure P transfer tax receipts to support the increased costs for the lease and operation of a new permanent supportive housing project for the unhoused at the Step-Up Housing Project at 1367 University Avenue. In addition, refer to the next meeting of the Budget and Finance Policy Committee to confirm the availability of requested funding.

BACKGROUND

California has the highest real world poverty rate of any state, 17.2% over the previous three years and much higher than the national rate.¹ A major contributing factor to the state’s high poverty indices is that many California residents spend much of their income on housing due to high construction costs.² Throughout the state, many affordable housing development projects are stalled, burdened, and have incurred higher than the median costs for development.

For example, in Alameda, CA, Everett Commons, which is a low-income development that provides housing for only 20 families, costs \$947,000 per unit.³ The notoriously high price of land and the rising cost of construction materials are contributing factors. On the other hand, the Step-Up Housing Initiative uses an efficient and cost-effective modular construction model that provides 39 individuals with not only stable housing, but a safe and supportive environment where they can access critical employment, health, substance abuse, and community resources and services. Berkeley can help address the shortage of homes and effectively alleviate the City’s homelessness crisis through this innovative and practical project.

CURRENT SITUATION

On October 13, 2020 the Council unanimously passed Resolution # 69,586-N.S. to authorize use of \$900,000 a year to fund a new 39-unit Step Up Supportive Housing project at 1367 University Ave. (See attachment.) BOSS is the operator of the facility, and Panoramic Interests/Swinerton Builders would construct and furnish it.

Since then, dramatic increases in construction prices and materials, supply chain complications and dramatic increases in interest fees have caused the project construction costs to rise more than 50%. At current rents of \$1,400 per unit per month, the project is infeasible and cannot be financed. If, however, rents can be raised to \$1,645 per month, the project can proceed. The higher rents would justify a larger construction loan to finance the additional costs.

To cover these increased rents, additional Measure P funds of \$114,660 per year are needed, beyond the \$900,000 already allocated. This is an increase of 12.7%.

A RECAP OF THE PROJECT -

The project will include 39 fully furnished studio apartments, private bathrooms for each studio, a 400-square-foot community room, a community kitchen, two offices for support staff and services, permanent on-site property management, and 24/7 security. The building will be constructed with modular units built around an approximately 615-square foot private central courtyard.

BOSS will provide services for Step-Up Supportive Housing including connecting residents to mental health resources, substance abuse recovery services, employment, education, and legal services and will accompany them to service providers when appropriate. The program will ensure participants obtain health insurance coverage and connect them to primary care providers. Opportunities for socialization and peer support will be provided through the organization of on-site support groups, learning workshops, social activities, community meals, and service visits by outside providers. BOSS will also manage an on-site food pantry in collaboration with Alameda County Community Food Bank. These services will help residents maintain stable housing, improve mental and physical health, and decrease social isolation. On-site service hours will be provided Monday-Friday, 9 am-5 pm, but the case manager or designated staff will be on-call as needed at all times.

The program will be staffed by several employees, including a program manager, housing manager, property manager, cook, maintenance worker, and overnight monitor.

REVIEW OF EXISTING POLICIES AND PLANS

Berkeley voters overwhelmingly passed Measure P in November 2018 with 72% of the vote. The Measure raised the transfer tax on property sales over \$1.5 million from 1.5% to 2%, which is expected to generate approximately \$6-8 million annually. These funds were intended to be allocated towards various homeless services, including permanent housing, supportive services, and navigation centers.

Measure P also created an independent commission, the Homeless Services Panel of Experts, to provide recommendations on funding allocations to the City Council. In December 2019, the Homeless Services Panel of Experts published its first set of recommendations for initial investments from the General Fund to address homelessness in Berkeley. The Panel's recommendations prioritized certain categories of activities and set forth a percentage of funding for each category. Permanent housing was listed as the top priority, with 30% of the funds recommended to be allocated towards such projects. The remainder was recommended to be allocated towards shelter and temporary accommodations, immediate street conditions and hygiene, supportive services, flexible housing subsidies, and infrastructure. The City Council approved on June 30, 2020, Measure P allocations for FY 2020-21 that included \$2.5 million for permanent housing subsidy.

In 2017, the City Council also referred staff to create a 1000 Person Plan, which seeks to end homelessness for 1000 people in Berkeley. In 2019, City staff responded to this referral and concluded that the Council needed to provide up-front investments in targeted homelessness prevention, light-touching housing problem-solving, rapid rehousing, and permanent subsidies. This proposal to lease and operate the StepUp Housing initiative at 1367 University would help move forward the 1000 Person Plan and accomplish the Homeless Services Panel's top priority of providing stable and permanent supportive housing for individuals experiencing homelessness.

In addition, this project also fulfills the goals of the original StepUp Housing initiative, which passed unanimously on February 14, 2017.

CONSULTATION/OUTREACH OVERVIEW

Councilmember Bartlett's office collaborated with BOSS and Panoramic Interests to ensure the long-term success of this new permanent supportive housing project, the StepUp Housing initiative. By bringing together BOSS's expertise in the field of supportive services and Panoramic's efficient modular construction model, this project can be operational and begin providing stable housing to 39 individuals within twelve months of receiving this funding commitment, resulting in dramatic savings in costs and delivery time.

BOSS was founded in Berkeley in 1971 to serve severe and persistent mentally ill homeless individuals and their families, and has since expanded to serve over 3,000 families and individuals per year across Alameda County, including persons experiencing homelessness, mental illness, former incarceration/justice system involvement, domestic or community violence, unemployment, and other crises. BOSS has 49 years of experience serving the target population, and 45 years of experience operating emergency, transitional, and permanent housing programs. Panoramic Interests has been building high density infill development projects in the Bay Area since 1990. Its work in downtown Berkeley and San Francisco includes 15 projects, adding more than 1,000 new units of housing, and 100,000 square feet of commercial space. From 1998-2004, Panoramic built seven new mixed-use apartment buildings in downtown Berkeley. During this time, Panoramic housed more than 80 Section 8 tenants, making it the largest private provider of Section 8 housing in the city.

This collaborative effort between the city, the service provider, and the developer can serve as a regional model for future permanent supportive housing projects in Berkeley and throughout the Bay Area.

RATIONALE FOR RECOMMENDATION

The City committed to funding a Step-Up Supportive Housing facility in October of 2020. The project was expected to be completed sometime in 2021-2022 but saw escalating prices, supply chain complications and rising interest rates as the final budgets were established.

The additional project costs rose by more than 50% making the project infeasible, at the original rents of \$1,400 per unit per month. (See attached documents.)

The City's additional funding commitment will enable the project to be completed as planned. It will help the homelessness crisis by allowing for the long-term and stable housing of 39 individuals experiencing homelessness as well as the provision of on-site services to help those individuals retain housing, improve their mental and physical health, connect with employment and education opportunities, and decrease social isolation. In addition, this project will serve as a regional model for other jurisdictions to consider when dealing with the homelessness crisis in their cities.

FISCAL IMPACTS

The new permanent supportive housing project, known as the Step-Up Housing at 1367 University

is requesting an additional \$114,660 per year for 10 years to cover an increase in the rental rate from \$1,400 per unit per month to \$1,645 per unit per month. The \$114,660 allocation represents a 12.74% increase from the original allocation of \$900,000 per year.

ENVIRONMENTAL SUSTAINABILITY

The project itself was determined by the Planning Department to be categorically exempt from the provisions of the California Environmental Quality Act pursuant to Section 15332 (In-Fill Development Projects) of the CEQA Guidelines.

CONTACT PERSON

Councilmember Ben Bartlett

510-981-7130

James Chang

jchang@cityofberkeley.info

ATTACHMENTS AND MATERIALS

1. Proposed Resolution
2. Letter from Donald Frazier, Exec. Dir. BOSS to Mayor Arreguin, 6-6-22
3. Budget from Swinerton Builders, June 3, 2002 showing cost increases of \$3M+.
4. Past Resolution NO. 69,586-N.S. October 13, 2020
5. Articles: “Soaring material prices, supply chain delays spook owners and developer.” Construction Dive, 4-12-21. “Mortgage rates spike to their highest level in nearly 13 years.” Washington Post, 5-5-22. Step Up Housing Council Item from February 14, 2017:
6. Additional Links
 - a. <https://www.census.gov/content/dam/Census/library/publications/2020/demo/p60-272.pdf>
 - b. <https://www.sacbee.com/article245815115.html>
 - c. <https://www.latimes.com/homeless-housing/story/2020-04-09/california-low-income-housing-expensive-apartment-coronavirus>
 - d. <https://drive.google.com/file/d/1sUgEAKJfpRaNMBAzSFdd9ajV9CA06HOe/view?usp=sharing>

RESOLUTION NO. ##,###-N.S.

ALLOCATING AN ADDITIONAL \$114,660 ANNUALLY FOR 10 YEARS OF MEASURE P FUNDS TO LEASE AND OPERATE THE NEW PERMANENT SUPPORTIVE HOUSING PROJECT FOR THE HOMELESS AT 1367 UNIVERSITY AVE.

WHEREAS, the City Council passed unanimously the original Step Up Housing Initiative introduced by Councilmember Bartlett, Councilmember Wengraf, Councilmember Kesarwani, and Mayor Arreguin on October 13, 2020; and

WHEREAS, Measure P was passed by Berkeley voters in November 2018 to raise the transfer tax on roughly the top-third of properties from 1.5% to 2% and allocate those funds towards various homeless services, including permanent housing, supportive services, and navigation centers; and

WHEREAS, Measure P designated the Homeless Services Panel of Experts to advise the Council on expenditures for homeless services; and

WHEREAS, in December 2019 the Homeless Services Panel of Experts published their recommendations for initial allocations under Measure P, including highlighting permanent housing as the City's top priority and recommending 30% of Measure P funds be allocated to permanent housing; and

WHEREAS, the City Council approved on June 30, 2020 Measure P allocations for FY 2020-21 that included \$2.5 million for permanent housing subsidy; and

WHEREAS, the Berkeley Zoning Adjustments Board approved the permanent supportive housing development project at 1367 University on July 9, 2020.

WHEREAS, construction costs, materials costs, and interest rates have increased dramatically in the past 18 months, making the project infeasible at the current rent of \$1,400 per unit per month

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the following be approved for the StepUp Housing at 1367 University Ave:

- A reservation of approximately an additional \$114,660 year in ongoing funds annually for 10 years for the leasing and operation of the proposed project, with funding adjusted annually based on the Consumer Price Index for Oakland-Hayward-Berkeley, CA.
- In the event BOSS is unable to perform its function as the service provider, an alternative qualified service provider may operate the project with the review and approval of the City Manager, or her designee.
- Further, the City's commitment is contingent upon the funding of the balance of the project.

BE IT FURTHER RESOLVED that the City Manager, or her designee, is hereby authorized to execute all original or amended documents or agreements to effectuate this action; a signed copy of said documents, agreements, and any amendments will be kept on file in the Office of the City Clerk.



June 6, 2022

Mayor Jesse Arreguin
2180 Milvia St.
Berkeley, CA 94704

Re: Permanent supportive housing at 1367 University Avenue, Resolution No. 69,586-N.S.

Dear Mayor Arreguin,

I am writing to request an additional **\$245 per unit, per month**, for our permanent supportive housing project for the homeless at 1367 University Ave.

Since the Resolution was signed in October of 2020, construction costs have skyrocketed. Our development partner has experienced a 65% increase in construction costs since we signed our master lease with them 3 years ago. Additionally, interest rates for construction loans have almost doubled. In order to keep this housing project moving ahead, we are requesting that an additional \$245/unit/month be made available to BOSS as an amendment to Resolution No. 69,586-N.S.

1. \$245/unit/month: $\$245 \times 39 \text{ units} \times 12 \text{ months} = \$114,660/\text{year}$
2. Exhibit 1: Actual construction costs are on the following page (produced by Swinerton)
 - a. 2019: Construction costs = \$5,929,731
 - b. 2022: Construction costs = \$9,860,277
3. Exhibit 2: Resolution No. 69,586-N.S. is included for your reference
4. Exhibit 3: Recent news clippings about construction costs and interest rates

Please let me know what else you need from us to make this amendment to the Resolution.

Most Respectfully,

A handwritten signature in blue ink, appearing to read 'Donald Frazier', is written over a faint, light blue circular stamp or watermark.

Donald Frazier
Executive Director

Cc: Colleen Chawla, Alameda County Health Care Service

Exhibit 2

RESOLUTION NO. 69,586-N.S.

ALLOCATING APPROXIMATELY \$900,000 ANNUALLY FOR 10 YEARS AND A ONE-TIME AMOUNT OF APPROXIMATELY \$32,975 OF MEASURE P FUNDS TO LEASE AND OPERATE THE NEW PERMANENT SUPPORTIVE HOUSING PROJECT FOR THE HOMELESS AT 1367 UNIVERSITY AVE.

WHEREAS, the City Council passed unanimously the original Step Up Housing Initiative introduced by Councilmember Bartlett on February 14, 2017; and

WHEREAS, Measure P was passed by Berkeley voters in November 2018 to raise the transfer tax on roughly the top-third of properties from 1.5% to 2% and allocate those funds towards various homeless services, including permanent housing, supportive services, and navigation centers; and

WHEREAS, Measure P designated the Homeless Services Panel of Experts to advise the Council on expenditures for homeless services; and

WHEREAS, in December 2019 the Homeless Services Panel of Experts published their recommendations for initial allocations under Measure P, including highlighting permanent housing as the City's top priority and recommending 30% of Measure P funds be allocated to permanent housing; and

WHEREAS, the City Council approved on June 30, 2020 Measure P allocations for FY 2020-21 that included \$2.5 million for permanent housing subsidy; and

WHEREAS, the Berkeley Zoning Adjustments Board approved the permanent supportive housing development project at 1367 University on July 9, 2020.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that it approves the following for the project at 1367 University Ave:

- A reservation of approximately \$32,975 in Measure P funds for start-up costs associated with the project.
- A reservation of approximately \$900,000 in ongoing funds annually for 10 years for the leasing and operation of the proposed project, with funding adjusted annually based on the Consumer Price Index for Oakland-Hayward-Berkeley, CA.
- In the event BOSS is unable to perform its function as the service provider, an alternative qualified service provider may operate the project with the review and approval of the City Manager, or her designee.
- Further, the City's commitment is contingent upon the funding of the balance of the project.


BE IT FURTHER RESOLVED that the City Manager, or her designee, is hereby authorized to execute all original or amended documents or agreements to effectuate this action; a signed copy of said documents, agreements, and any amendments will be kept on file in the Office of the City Clerk.

The foregoing Resolution was adopted by the Berkeley City Council on October 13, 2020 by the following vote:

Ayes: Bartlett, Davila, Droste, Hahn, Harrison, Kesarwani, Robinson, Wengraf, and Arreguin.

Noes: None.

Absent: None.



Jesse Arreguin, Mayor

Attest: 

Mark Numainville, City Clerk

DEEP DIVE

Soaring material prices, supply chain delays spook owners and developers

The rising cost of many materials and increased sourcing headaches have project owners rethinking their return to normalcy and threaten to derail construction's expected resurgence.

Published April 12, 2021



Joe Bousquin
Senior Reporter



The Washington Post

Mortgage rates spike to their highest level in nearly 13 years

The 30-year fixed average hasn't been this high since August 2009



By Kathy Dismore

May 5, 2022 at 10:12 a.m. EDT





Energy Commission

ACTION CALENDAR

November 3, 2022

To: Honorable Mayor and Members of the City Council
 From: Energy Commission
 Submitted by: Bentham Paulos, Chairperson, Energy Commission
 Subject: Recommendation on Climate, Building Electrification, and Sustainable Transportation Budget Priorities for Fiscal Year 2023 and 2024

RECOMMENDATION

The Energy Commission recommends that the Berkeley City Council prioritize and include in the City's budget for the Fiscal Years Ending (FYE) 2023 and 2024 several staff positions, pilot projects, investments in electric vehicles and charging infrastructure, and other measures to ensure that the City's budget is aligned with and provides adequate and needed funding to implement the City's adopted Climate Action Plan, Electric Mobility Roadmap, Building Emissions Saving Ordinance, 2019 ban on gas in new construction, and the Existing Buildings Electrification Strategy.

POLICY COMMITTEE RECOMMENDATION

No action was taken by the Budget & Finance Committee. Item is automatically returning to the Council agenda pursuant to the 120-day time limit for items referred to policy committees.

SUMMARY

In this memo, the Energy Commission (which disbanded March 31, 2022, and was merged with the Community Environmental Advisory Commission in April 2022) provides details on specific budget and funding priorities for: staffing an Electric Mobility Coordinator and the Green Buildings Program Manager; fully funding the Building Electrification and Just Transition pilot project (especially to avoid risking loss of state funding); accelerate funding for the City's delayed fleet replacement with electric vehicles, residential electric vehicle charging infrastructure, and electric bike parking infrastructure; expanding public engagement and outreach; leveraging street maintenance budgets to incorporate and promote low-carbon mobility; and adopting policies and creating incentive programs to advance transportation and building electrification such as using the Transportation Network Company (TNC) User Tax General Fund revenue to fund bike and pedestrian projects and using a portion of the Transfer Tax to create an incentive program for residential building electrification.

FISCAL IMPACTS OF RECOMMENDATION

The specific fiscal impacts are detailed in the budget recommendations below. At least one of our priority budget recommendations – to fully fund the Building Electrification and Just Transition pilot – is urgent and time-sensitive and cannot wait until the June

budget process. Any delay risks Berkeley losing access to substantial state funding that could support this pilot.

CURRENT SITUATION AND ITS EFFECTS

Berkeley has been a world leader on climate change and building electrification, as well as on zero waste. The City has already adopted an ambitious climate action plan and greenhouse gas (GHG) emission reduction goals.¹ Between our Building Emissions Savings Ordinance², 2019 ban on gas in new construction, the 100% renewable option with East Bay Community Energy, and the Existing Buildings Electrification Strategy³ (BEBES), approved by the Council last year⁴, we continue to lead the world with our thoughtfulness and action.

However, the task in front of us is daunting. With 60% of the City's emissions coming from the transportation sector and 36% from the building sector,⁵ we must redouble our efforts to reduce climate emissions from transportation and buildings through electrification of buildings and transportation, sustainable low- and zero-carbon transportation modes, and other efforts. With the upcoming budget processes, we have ample opportunity to take necessary next steps to reach our zero emissions goals.

The Energy Commission has identified the following priority items related to climate, buildings, and transportation in the City's Fiscal Year (FY) 2023 budget to ensure that

¹ In 2006, voters overwhelmingly passed ballot Measure G and established Berkeley's goal to *Reduce our entire community's greenhouse gas emissions by 80% below 2000 levels by 2050*. Since then, the City has adopted a Climate Action Plan (2009).

On June 12, 2018, the Council passed item 30 which adopted a resolution establishing the goal of becoming a Fossil Fuel-Free City. Of the recommendations in the resolution, one was that "All future City government procurements of vehicles should minimize emissions and set a goal of transitioning the city's vehicle fleet to all electric vehicles."

Also, on June 12, 2018, the Council passed item 49 "Declaration of a Climate Emergency" which refers "to the Energy Commission to study and report back to Council on a path for Berkeley to become a "Carbon Sink" as quickly as possible, and to propose a deadline for Berkeley to achieve this goal" ideally by 2030.

² <https://www.cityofberkeley.info/BESO/>

³ https://www.cityofberkeley.info/uploadedFiles/Planning_and_Development/Level_3_-_Energy_and_Sustainable_Development/Berkeley%20Existing%20Bldg%20Elect%20Strategy_Final_102021.pdf

⁴ https://www.cityofberkeley.info/Clerk/City_Council/2021/12_Dec/Documents/2021-12-14_Item_06_Minutes_for_Approval.aspx

⁵ https://www.cityofberkeley.info/Clerk/City_Council/2022/02_Feb/Documents/2022-02-08_Presentations_Item_17_Pres_Planning_pdf.aspx

the budget aligns with the City's adopted climate action plan and greenhouse gas (GHG) emission reduction goals.

At least one of our priority budget recommendations – to fully fund the Building Electrification and Just Transition pilot – is urgent and time-sensitive and cannot wait until the June budget process. Any delay risks Berkeley losing access to substantial state funding that could support this pilot.

At its meeting of February 23, 2022, the Energy Commission voted to send this recommendation to the City Council by a vote of 6-0-0-1 [Moved Tahara, Second Paulos. Ayes: Paulos, Wolf, Tahara, Moore, Guliasi, Zuckerman. Noes: None. Abstain: None. Absent: de Tournay Birkhahn].

Budget Priorities Recommended by the Energy Commission

I. Budget Priorities to Increase Staff Capacity to Implement the City's Established Climate, Transportation, and Clean Energy Policies and Priorities

- 1. Fund and Hire Staff to Implement the Electric Mobility Roadmap.** The City had previously approved the hiring of an Electric Mobility Coordinator within the Public Works Department⁶ to assist with implementation of the Berkeley Electric Mobility Roadmap adopted in July 2020⁷; but, at the time of writing, no position has been posted, now a year and a half after approval of the Roadmap.

The Council has been a leader in adopting resolutions acknowledging the need for a prompt transition away from fossil fuels and strategies for how to do so.⁸ But, without additional staff capacity, and exacerbated by recent staff departures and necessary pandemic re-assignments, the City has not been able to make adequate progress on implementing initiatives to reduce global warming pollution from the transportation sector, which is the largest emitter of global warming pollution in Berkeley.⁹ Existing staff's capacity is simply inadequate to lead implementation of the groundbreaking, transformative Roadmap in addition to their current responsibilities, and relying only on existing staff to implement will continue to cause unacceptable delays. **To**

⁶ Budget Referral from Councilwoman Harrison, March 30, 2021. The Energy Commission's understanding is that this position was included in the FY21-22 Budget to commence half-way through the fiscal year or as an "unfunded council referral," which was supposed to be funded via savings from other cuts or delayed expenses.

https://www.cityofberkeley.info/Clerk/City_Council/2021/03_Mar/Documents/2021-03-30_Item_25_Budget_Referral_Allocate_Funding.aspx

⁷ On July 21, 2020, the Council passed item 1, adopting the [Berkeley Electric Mobility Roadmap](#).

⁸ *Ibid.*

⁹ 59% of GHG emissions in Berkeley come from transportation, followed by 39% from buildings..

https://www.cityofberkeley.info/Clerk/City_Council/2020/07_Jul/Documents/2020-07-21_Special_Item_05_Climate_Action_Plan_pdf.aspx (July 21, 2020).

implement the Electric Mobility Roadmap, it is critical that the City fund and hire additional staff beginning in the FY 2023 budget.¹⁰

- 2. Increase Staff Necessary to Implement the Berkeley Existing Buildings Electrification Strategy, and Ensure Durable Funding for Critical Staff Positions.** In addition to the Electric Mobility Coordinator position, the Energy Commission believes it should also be a priority for the City to enhance staff capacity for implementing other climate and clean energy initiatives, such as, but not limited, to the Berkeley Existing Building Electrification Strategy¹¹ and Climate Equity Action Fund.¹²

City staff has and continues to do impressive work with limited staff. However, the scope of the task ahead of us is massive. As laid out by the BEBES, there are no fewer than 57 policy actions (Table 3-5, BEBES) that the City should take in order to decarbonize the building sector by 2045, let alone by 2030, which the science demands of comparatively wealthy municipalities such as ours. Many of these actions involve substantial education and regulatory initiatives, which can only be achieved with the addition of dedicated, skilled staff.

Although we defer to staff with respect to the specifics of what additional positions might be most useful, some critical actions include:

- Ensuring durable, long-term funding for the Green Buildings Program Manager. Although hiring has only recently begun, this role was approved as part of the 2019 gas ban,¹³ and its extension will be critical in helping to develop future code

¹⁰ This single staff person will have an outsized impact, as they will be responsible for establishing and coordinating the Electric Mobility Roadmap Implementation Working Group as called for in the Roadmap. This Working Group was supposed to be convened within six months of the Roadmap's approval, but in the absence of staff capacity, it still has not been done. The Working Group's mandate includes tracking and evaluating Roadmap implementation progress. Without the Working Group, there is no accountability for the City to deliver against its stated electric mobility plans.

¹¹ On November 30, 2021, the Council passed item 13, adopting the [Berkeley Existing Building Electrification Strategy](#). Phase 1 (2021-2025) actions for the Berkeley Existing Building Electrification Strategy will lay the groundwork to support wide-spread transition to electrified buildings in Berkeley. Policies included in Phase 1 will involve continued community engagement, pilot projects, education campaigns to demonstrate the benefits and feasibility of electrification, collaboration with labor and workforce organizations to advance inclusive high road jobs, alignment of existing programs and incentives, and the development of additional incentive programs as well as larger scale funding and financing programs such as tariffed on-bill financing. The City of Berkeley will work with partners such as East Bay Community Energy and Pacific Gas & Electric to develop larger scale Phase 2 projects. There will also be a need to collaborate with regional and State partners to align State policies to support Phase 2 actions. (Berkeley Existing Building Electrification Strategy, p. 95.)

¹² The City recently issued an [RFP](#) for the Climate Equity Action Fund. but existing staff do not have the capacity to maximize program impact and collect lessons learned from this innovative fund.

¹³ https://www.cityofberkeley.info/Clerk/City_Council/2019/12_Dec/Documents/2019-12-03_Supp_2_Reports_Item_24_Supp_Arrequin_pdf.aspx

amendments and help to reduce permitting overhead, improve compliance, and address the myriad other regulatory questions identified in the BEBES.

- Supporting and expanding staffing across the City for programs related to tenant protections and anti-displacement, such as those listed in Appendix C of the BEBES. As we electrify our existing building stock, we will need to evolve and augment our existing policies to protect marginalized communities at risk of displacement (CC-9, BEBES). We cannot afford for these policies to lag behind the pace and scale of electrification measures in the city.
- Supporting and expanding OESD staff to facilitate updates to the 2009 Climate Action Plan as appropriate and programs to facilitate Berkeley's ambitious new greenhouse gas limit goals. For example, last year the Council passed a Resolution establishing a 2030 emission reduction target that reflects Berkeley's fair share of the 50% global reduction in CO₂e – 60.5% from 2018 levels by 2030.¹⁴ Council is also actively considering more stringent and binding targets across its sector-based and consumption inventories. These new initiatives will have significant implications for the City's approach to building decarbonization. While we fully support these ambitious targets, efforts to implement them have been largely unfunded and understaffed. Achieving these targets will require a significant expansion of the City's climate staff capacity.

II. Budget Priorities to Advance Clean Transportation in Berkeley

1. **Fund City Fleet Electrification and Charging.** On June 29, 2021, the City adopted item 25 approving the recommendations in the City Auditor's report "Fleet Replacement Fund Short Millions"¹⁵, which directed staff to adjust the fleet replacement funding model and budget, ensuring that the City's transition to electric vehicles (EVs) aligns with its adopted GHG emissions goals. On September 14, 2021, the Council adopted the recommendation from item 27 "Recommendations for Fleet Electrification Policy and Financing",¹⁶ made by the Energy Commission, which referred to the City Manager to update the Municipal Fleet Electrification Assessment and EV charging funding priorities to respond to the City Auditor's Report and align with the objectives stated in the Electric Mobility Roadmap and prioritize municipal fleet modal shift to electric bicycles and other forms of zero-emissions mobility where feasible.

¹⁴https://www.cityofberkeley.info/Clerk/City_Council/2021/11_Nov/Documents/2021-11-30_Item_14_Cities_Race_to_Zero_Campaign__2030_emission_reduction_target.aspx

¹⁵ Fleet Replacement Fund Short Millions, Berkeley City Auditor, June 29, 2021. https://www.cityofberkeley.info/Clerk/City_Council/2021/06_June/Documents/2021-06-29_Supp_2_Reports_Item_25_Supp_Auditor_pdf.aspx.

¹⁶ Recommendations for Fleet Electrification Policy and Financing, From Energy Commission, Sept 14, 2021. https://www.cityofberkeley.info/Clerk/City_Council/2021/09_Sep/City_Council__09-14-2021_-_Regular_Meeting_Agenda.aspx - Item 27

The Fleet EV Plan identified 32 vehicles to replace with EVs in FY 2021, requiring an estimated \$1.16 million; but, as of June 2021, Public Works had only \$747,000 to replace 29 vehicles scheduled to be replaced with EVs in FY 2021. The Energy Commission's recommendation noted that delaying replacement of these vehicles in 2021 would result in greater GHG emissions:

“For example, per the Fleet EV Plan, if the City does not replace light-duty internal combustion cars with EVs as scheduled in 2021, it will produce an estimated additional 10.6 MT of GHG emissions in 2021; if not replaced as planned in 2022 an additional 19.5 MT of GHGs would be emitted in 2022; and so on.” (page 4).

It is the Energy Commission's understanding that East Bay Community Energy (EBCE) has offered to provide substantial investments in the City of Berkeley for EV charging infrastructure, which would support progress on the City's fleet electrification and free up City funds that would otherwise have been spent on EV charging infrastructure. The Energy Commission urges the Council to resolve the budget gaps identified in the Auditor's report and explore additional funding sources so that the City can accelerate its purchases of EVs and the associated EV charging infrastructure in FY 2023.

A global microchip shortage resulting in prolonged supply chain delays and long wait times for the delivery of EVs is compounding the necessity for the City to take immediate action on fleet replacement. These delays are being exacerbated by the recent surge in demand for EVs. As more municipalities similarly pass electrification plans, Berkeley will see increasing competition for the same vehicles. The City must thus plan and order ahead if it wants to have a smooth fleet transition. The City should also commence its purchase of e-bikes for the years ahead, as replacements to existing City vehicles where appropriate. E-bikes are both highly cost effective and may not face the same supply chain delays as electric cars and trucks. The Energy Commission recommends that the Council prioritize these municipal fleet EV replacements, along with the associated EV charging infrastructure, in the FY 2023 budget.

2. **Expand Infrastructure for Residential EV Charging and E-Bike Parking.** The City should prioritize funds to address solutions for residential curbside EV charging. The City's Residential Curbside EV Charging Pilot Program¹⁷ sunset in 2020. The development model the pilot used – private ownership of a charger on the side of a public street – was not successful. While 62 residents applied for the program, only four on-site and seven curbside chargers were installed - high permitting fees, restrictive engineering requirements, lack of control of the parking space adjacent to

¹⁷ https://www.cityofberkeley.info/uploadedFiles/Planning_and_Development/Level_3_-_Energy_and_Sustainable_Development/Manual%20with%20attachments%2012-1-14.pdf

the charger, and poor access to electrical supply resulted in high costs.¹⁸ Given the number of Berkeley residents who do not have access to a driveway or garage, the Electric Mobility Roadmap identified as a high priority the need to deploy curbside charging for electric cars, particularly in neighborhoods with high rates of multifamily and rental housing. The next phase of curbside charging will incorporate lessons learned from the Pilot, investigate alternative strategies, identify state and federal funding sources, and explore partnerships with EBCE and EV charging companies.

The City should also investigate the potential to provide public secure parking for other types of fossil fuel-free vehicles, namely e-bikes and cargo bikes, for apartment dwellers. E-bikes and cargo bikes tend to be larger and heavier than regular bicycles, making them difficult to carry up steps. A paid, public parking system, such as the BikeLink lockers at BART stations, may be adapted to street parking near apartment buildings.

The Council should allocate funds in the budget for an electric mobility staff person who would oversee new projects — research other cities' approaches, evaluate Berkeley's codes, standards, and permitting processes, and conduct feasibility studies — along with funds for the pilot projects themselves.

3. **Incorporate Low-Carbon Mobility into Street Maintenance Budget.** While Council is considering a bond measure that would make capital investments in our transportation system, the City should also revisit how the maintenance budget can be used to promote low-carbon mobility.

The Council has approved multiple plans to promote safe, equitable, and low-carbon mobility for all. These “complete streets” concepts are captured in the Bicycle Plan, Pedestrian Plan, Vision Zero Action Plan, and analysis of Safe Routes to School.¹⁹ But many of the measures in these plans have been implemented slowly, if at all. The Council should direct the Public Works Department to follow these plans to the letter, and integrate all low-cost and rapidly deployable concepts from the plans into their ongoing maintenance. The timing of deploying higher cost measures may necessarily depend on funding.²⁰

¹⁸ https://www.cityofberkeley.info/Clerk/City_Council/2018/02_Feb/Documents/2018-02-27_Item_16_Residential_Curbside_Electric.aspx

¹⁹ See [Bicycle Plan](#), [Pedestrian Plan](#), [Vision Zero Action Plan](#), [Safe Routes to School](#).

²⁰ A related concept is that the Council should consider giving a more formal policy status to Bicycle Boulevards. While the Boulevards serve as a useful wayfinding tool for cyclists, their designation does not give the streets a meaningful status, and no prioritization when it comes to City planning or operations. For example, places where Bicycle Boulevards cross busy streets, such as at California/Dwight or Channing/San Pablo, face years of delay before safe crossing solutions can be implemented. Numerous Bicycle Boulevards suffer from extremely poor pavement condition. Stop signs often favor cars instead of the Boulevards, and lighting can often be sub-standard. All of these factors undermine achievement of City plans, threaten public safety, and lock in carbon pollution. Direction from the Council to staff could

On January 18, 2022, the Council adopted item 19, referring a budget item to use Transportation Network Company (TNC) User Tax General Fund revenue to build and maintain protected bicycle lanes and crossings, pedestrian street crossings, and quick-build public transit projects under the Street Repair Program. The Energy Commission recommends that the Council follow through on its plan to use this revenue to benefit transportation projects in Berkeley.

III. Budget Priorities and Financial Incentives to Advance Building Decarbonization in Berkeley

1. **Fully Fund the Building Electrification and Just Transition Pilot Project.** In the December 2021 Annual Adjustment Ordinance (AAO) budget process, the Mayor declared, and the Council approved, that the Building Electrification and Just Transition pilot (“the pilot”)²¹ be a first priority to be funded in the May 2022 AAO.²² Consistent with the City’s “targeted universalism” approach to building electrification,²³ the pilot intends to kick-start electrification among affordable housing and low income (LMI) communities through incentives, and develop high-road jobs through labor standards and contractor prequalification.

Funding for this item in the May AAO is critical, and cannot wait until the June budget process. Any delay risks losing access to substantial state funding that could multiply the reach and impact of the pilot. The California TECH initiative, an \$120 million initiative established by SB 1477, recently began offering incentives for heat pump space and water heating that can defray nearly \$10,000 of cost per home,²⁴ including the cost of an electric panel upgrade. These incentives are accessible to contractors via the BayREN Home+ programs, which will simplify administration of the pilot due to its use of pre-qualified contractors.

There is additional urgency as well. The Bay Area Air Quality Management District (BAAQMD) is looking at phasing out the sale of NOx-emitting appliances by the end of the decade,²⁵ which will significantly affect the availability of non-electric space

take the form of a formal designation of the Boulevards as a category of street, just as Public Works delineates “arterials” and “collectors” when it comes to planning and operations.

²¹ https://www.cityofberkeley.info/Clerk/City_Council/2021/11_Nov/City_Council_11-30-2021_-_Regular_Meeting_Agenda.aspx

²² https://www.cityofberkeley.info/Clerk/City_Council/2021/12_Dec/Documents/2021-12-14_Supp_2_Reports_Item_44_Supp_Mayor_pdf.aspx

²³ According to the BEBES: “Targeted Universalism is the practice of setting a universal policy goal...while identifying targeted strategies and actions specifically for marginalized communities to ensure that those communities can benefit from the policy goal.”

²⁴ For single-family homes (up to 4 units), including “enhanced” incentives for HPWH. See: <https://energy-solution.com/wp-content/uploads/2021/12/TECH-Single-and-Multifamily-Incentives.pdf>

²⁵ <https://www.baaqmd.gov/rules-and-compliance/rule-development/building-appliances>

and water heating. However, BAAQMD recognizes that such a rule can only be effective if there is sufficient financial support for disadvantaged communities and a robust installer network (things the BEBES also calls out) so that everyone can reap the benefits of zero-pollution appliances without facing substantial costs. **These costs cannot be borne by cities alone, but Berkeley can lay the groundwork to leverage state and federal money with its pilot and thus significantly contribute to the regional effort to improve air quality and GHG emissions.**

2. **Use Transfer Tax Revenues to Provide Incentives for Electrification.** With soaring home prices, the transfer tax represents a durable source of funds that the City should leverage to accelerate our building electrification goals. There are two potential models to consider.

First, would be to model a rebate program after the Seismic Retrofit Refund Program²⁶ that would rebate a percentage of the transfer tax with a value up to the cost of a typical electrification package for electrification measures completed within one year of transfer. This would incentivize electrification at a time when there is large access to capital, and could lay the groundwork for an ultimate requirement to retrofit at time of sale. OESD staff have already provided Council with a draft ordinance and indicate that each year on average 800 units would qualify through this mechanism.²⁷

The Energy Commission recommends that Council move forward with this ordinance but with a cap on the amount of eligible homeowner rebates per year. These rebates are critical to the City's long-term strategy of phasing in potential electrification mandates as feasible.

At the same time, as a diverse and majority renter city, it is critical that electrification subsidies are also available for units occupied by rent controlled or below market rate tenants. As a second model option, a percentage of the transfer tax refund program (for example, the difference between the reserved and actual rebate amounts) might be simultaneously allocated to expand electrification work among those LMI and minority communities most affected by inequality, pollution, climate change, or at risk of displacement. This could come in the form of expanding the Building Electrification and Just Transition pilot and Climate Equity Fund to reach more households, or other incentive programs targeted at those same communities.

3. **Adopt Policies to Promote Implementation of Low-cost, Partial Electrification measures.** In addition to enacting full retrofit programs, we recommend that the Council consider low-cost, partial electrification measures to maximize the

²⁶ https://www.cityofberkeley.info/Finance/Home/Real_Property_Transfer_Tax_Seismic_Refunds.aspx

²⁷ https://www.cityofberkeley.info/Clerk/City_Council/2020/07_Jul/Documents/2020-07-21_Special_Item_03_Referral_Response_Ordinance_pdf.aspx

immediate climate and health impacts of electrification measures. For example, a requirement that any AC installation instead be a heat pump (TR-7, BEBES) could be coupled with a subsidy for LMI communities to pay for the cost difference between an AC and an equivalent heat pump model, which is estimated to be between just \$200 and \$500 wholesale.²⁸ An installer subsidy of \$676 alone could be enough to nearly double heat pump market share even absent a mandate²⁹. Other low-cost measures might include the purchasing and distribution of portable heat pumps to provide cooling to households on our increasing number of hot days (newer inverter models offer substantial energy savings over traditional portable ACs³⁰), portable induction units as both a gateway into electric cooking and a mechanism to reduce indoor NOx pollution that has been demonstrated to cause asthma in small children,³¹ as well as weatherization work to make homes safer, more comfortable, and to reduce energy use. Council might also consider rebates for electrification at time of replacement, or provide access to equipment purchased under bulk purchasing agreements as part of the Building Electrification and Just Transition pilot program.

IV. Budget Priorities to Educate and Engage Berkeley Residents in Implementing Transportation and Building Electrification

- 1. Expand Sustainability Outreach Events.** In conjunction with implementation of the Electric Mobility Roadmap and Existing Building Electrification Strategy, it is appropriate for the City to continue and expand public engagement on alternative transportation and green building solutions.

Increasing electric mobility awareness and education is a key strategy in the Electric Mobility Roadmap for achieving the City's zero net carbon goals. Berkeley has already organized four highly successful annual Ride Electric events, which brought the public together to learn about and, in certain cases, test drive EVs and e-bikes. The City has also partnered successfully with other local groups to organize in-person and virtual green building tours that feature clean energy, energy and water conservation, gray water, electric appliances, and garden features.

As technologies and incentives evolve, more members of the public consider adopting electric mobility and building electrification technologies, and as the City increases its e-mobility expertise through additional staffing, these events can and should continue to play an important role in getting Berkeley residents to transition away from fossil fuels. The Roadmap states that the City will expand electric mobility

²⁸ <https://www.clasp.ngo/research/all/3h-hybrid-heat-homes-an-incentive-program-to-electrify-space-heating-and-reduce-energy-bills-in-american-homes/>

²⁹ *ibid*

³⁰ <https://www.midea.com/us/air-conditioners/portable-air-conditioners/midea-duo-smart-inverter-portable-air-conditioner-map12s1tbl>

³¹ <https://cfpub.epa.gov/ncea/isa/recordisplay.cfm?deid=310879>

education and outreach activities, with a goal of increasing awareness of electric mobility options and incentives.³² To deliver on this commitment, the City must allocate funds for these events in its next budget.

With its recent adoption of the Existing Building Electrification Strategy, the Council must expand funding for sustainability outreach events to also address needs identified in the Strategy. For example, the Strategy identified a need for education to address the steep learning curve and cultural sensitivity around cooking with electric stoves, as cooking is a cultural asset and many feel strongly about cooking with gas stoves.³³ While the City has hosted building electrification events, including loan programs for residents to try out electric induction cooktops, it will need to do more to engage residents in adopting electric heat pumps, induction stoves, and other technologies.

BACKGROUND

The City has existing mandated climate goals and emissions reductions commitments, and already-adopted strategies, such as the Electric Mobility Roadmap and the Existing Buildings Electrification Strategy. Furthermore, the City has already approved certain staff positions and investments, such as an Electric Mobility Coordinator position and commitments to replace the City's vehicle fleet with electric vehicles on a schedule. The City is falling behind in hiring and filling needed positions and in executing on needed investments. The budget recommendations proposed by the Energy Commission in this memo seek to ensure the City stays on track to meet its goals.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

If the Council further delays investments or doesn't include our recommended priorities in the upcoming budget, it puts at risk the health and safety of Berkeley's residents, the City's achievement of its adopted and mandated climate, clean energy, and transportation goals, and its national and global leadership on addressing climate change in innovative ways.

RATIONALE FOR RECOMMENDATION

The Energy Commission commends the Council for its many years of leadership to reduce Berkeley's global warming pollution and to advance clean energy solutions for the transportation and building sectors. Our budget is a declaration of our values. We have a tremendous opportunity to accelerate building decarbonization while improving equity through targeted universalism, and we must seize the moment to secure a safer, healthier, more resilient future.

However, if the Council further delays investments in staffing, fleet electrification and electric vehicle charging infrastructure, building maintenance and retrofits, and public

³² Berkeley Electric Mobility Roadmap, p. 43.

³³ Berkeley Existing Building Electrification Strategy, p. 42.

education in the FYE 2023 and 2024 budget, it puts at risk the health and safety of Berkeley's residents, the City's achievement of its adopted and mandated climate, clean energy, and transportation goals, and its national and global leadership on addressing climate change in innovative ways. The Energy Commission thus urges the City Council to incorporate the above stated priorities into its FYE 2023 and 2024 budget.

ALTERNATIVE ACTIONS CONSIDERED

We did not consider excluding these items from the budget.

CITY MANAGER

The City Manager recommends that the content and recommendations of the Commission's Report be referred to the budget process.

CONTACT PERSON

Billi Romain, Energy Commission Secretary, 510-981-7432