



Office of the City Manager

Date: May 19, 2022
To: Budget and Finance Policy Committee
From: Dee Williams-Ridley, City Manager
Submitted by: Henry Oyekanmi, Finance Director
Subject: Updated FY 2022-2026 Projections

Finance Department staff have revised General Fund revenue projections for FY 2022 – 2026. The revised projections are based on the current nine months (three quarters of actual receipts) and new macroeconomic data concerning overall growth rates. Explanations of new projections for each revenue category are included below in the projections.

5 YEARS PROJECTED GENERAL FUND REVENUES

	Projected General Fund Revenue					
	FY 2022 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Undesignated Revenues						
Secured Property Taxes	71,382,000	71,382,000	75,664,920	78,691,517	83,019,550	87,585,625
Supplemental Taxes	2,000,000	2,000,000	2,000,000	2,000,000	2,110,000	2,226,050
Unsecured Property Taxes	2,625,000	3,637,247	3,516,000	3,516,000	3,709,380	3,913,396
Property Transfer Taxes	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000
Property Transfer Tax - Measure P	8,500,000	20,054,687	14,073,750	14,073,750	14,355,225	14,642,329
Sales Taxes	18,287,215	17,686,255	19,016,546	19,790,997	20,186,817	20,590,553
Soda Tax	990,210	990,210	990,210	990,210	1,010,014	1,030,214
Utility Users Taxes	13,000,000	13,800,000	13,800,000	13,800,000	14,076,000	14,357,520
Transient Occupancy Taxes(TOT)	2,173,500	4,200,000	5,000,000	5,200,000	5,304,000	5,410,080
Short-term Rentals	630,000	1,000,000	1,000,000	1,000,000	1,020,000	1,040,400
Business License Taxes	18,498,146	19,000,000	19,000,000	19,000,000	19,380,000	19,767,600
Recreational Cannabis	1,643,739	1,400,000	1,400,000	1,400,000	1,428,000	1,456,560
Measure U1	5,120,350	4,900,000	4,900,000	4,900,000	4,998,000	5,097,960
Other Taxes	2,593,155	2,631,441	2,631,441	2,631,441	2,684,070	2,737,751
Vehicle In Lieu Taxes	14,959,837	15,024,697	15,926,168	16,563,215	17,474,192	18,435,272
Parking Fines - Regular Collections	3,726,450	4,326,450	4,326,450	4,326,450	4,412,979	4,501,239
Parking Fines - Booting Collections	-	-	-	-	-	-
Moving Violations	132,600	132,600	132,600	132,600	135,252	137,957
Ambulance Fees	3,154,002	3,268,275	3,880,779	3,880,779	3,958,395	4,037,562
Interest Income	4,462,320	5,766,586	6,000,000	6,000,000	6,120,000	6,242,400
Franchise Fees	1,613,283	1,613,283	1,613,283	1,613,283	1,645,549	1,678,460
Other Revenues	6,729,977	6,729,977	6,729,977	6,729,977	6,864,577	7,001,868
Indirect cost reimbursements	5,490,000	5,490,000	5,490,000	5,490,000	5,599,800	5,711,796
Transfers	27,354,923	27,354,923	27,354,923	4,384,923	4,472,621	4,562,074
Total Undesignated Revenues	227,566,707	244,888,631	246,947,047	228,615,141	236,464,420	244,664,667
Designated Revenues						
Prop. Transfer Taxes for capital improvements	8,500,000	27,396,465	16,462,172	16,462,172	17,041,415	17,632,244
Total Designated Revenues	8,500,000	27,396,465	16,462,172	16,462,172	17,041,415	17,632,244
TOTAL REVENUES AND TRANSFERS	236,066,707	272,285,096	263,409,219	245,077,313	253,505,835	262,296,911

Secured Property Tax (\$2,058,646 more than FY 2021 Actual)

During the nine months of FY 2022, Secured Property Tax revenues totaled \$46,074,107, which was \$2,058,646 or 4.68% more than the \$44,015,461 received for the same period in FY 2021. The FY 2022 Adopted Budget assumes a 4.72%% increase for the year, while the County’s Certification of Assessed Valuation reflects growth of 4.48%.

Unsecured Property Tax (\$145,169 more than FY 2021 Actual)

During the nine months of FY 2022, Unsecured Property Tax revenues totaled \$3,637,247, which was \$145,169 or 4.16% more than the \$3,492,078 in the same period in FY 2021. The FY 2022 Adopted Budget reflected a decline of 31.4%, while the County’s Certification of Assessed Valuation reflected growth of 1.96% for FY 2022. Staff increased the FY 2022 Unsecured Property Tax revenue projection to \$3,637,247.

Property Transfer Tax (\$16,203,005 more than FY 2021 Actual)

During the nine months of FY 2022, Property Transfer Tax totaled \$32,558,537, which was \$16,203,005 or 99.1% more than the \$16,355,532 received for the same period of FY 2021. However, \$3,384,375 of that increase resulted from the late payment by the County of the May 2021 Property Transfer Taxes, which should have been received in FY 2021. Staff increased the FY 2022 projection of \$21,000,000 to \$39,896,465. However, please note the decline in the growth rate of Property Transfer Tax sales transactions in the third quarter of FY 2022 in Table 2, which may be the first sign of a slowdown in the real estate market.

The primary reasons for the remaining \$12,818,630 (\$16,203,005-\$3,384,375) increase in Property Transfer Tax were (1) The dollar value of property sales increased by \$903.5 million or 84.3% during the nine months of FY 2022, as illustrated in Table 1 below; (2) The number of property sales transactions increased by 134 or 18.9% during the nine months of FY 2022, as illustrated in Table 2 below; and (3) Seismic rebates increased from \$524,200 in the nine months of FY 2021 to \$773,216 for the same period in FY 2022.

Table 1 In Million \$

Property Sales Under \$1.5 million	July	Aug	Sept	Oct	Nov	Dec	Subtotal Property Sales \$
FY 2022	\$179.7	\$194.3	\$209.9	204.5	252.9	200.2	\$1,241.5
FY 2021	74.0	115.0	106.4	129.7	139.0	118.4	682.5
Change	105.7	79.3	103.5	74.8	113.9	81.8	559.0
% Change	142.7%	69.0%	97.3%	57.7%	81.9%	69.1%	81.9%

Property Sales Under	Jan	Feb	Mar	Apr	May	June	Nine-Month Property Sales \$

\$1.5 million							
FY 2022	\$302.6	\$284.2	\$147.5				\$1,975.8
FY 2021	111.1	187.0	91.7				1,072.3
Change	191.5	97.2	55.8				903.5
% Change	172.4%	52.0%	60.9%				84.3%

Table 2

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

Property Transfer Transactions	Jan	Feb	Mar	Apr	May	Jun	Nine-Month Total
FY 2022	62	65	105				844
FY 2021	53	74	112				710
Change	9	(9)	(7)				134
% Change	17.0%	(12.2)%	(6.3)%				18.9%

Measure P-Property Transfer Tax (\$7,883,771 more than FY 2021 Actual)

In addition, \$14,670,038 in Measure P taxes (a tax which took effect on December 21, 2018) were collected during the nine months of FY 2022, which was \$7,883,771 or 116.2% more than the \$6,786,267 collected during the same period of FY 2021. The increase was a result of (1) 116.4% increase in the property sales amount in the nine months of FY 2022 versus those for the same period in FY 2021, as reflected in the Table 3 below; (2) As reflected in Table 4, there was an 73.6% increase in the number of property sales transactions with a value of \$1.5 million or more; and (3) there were 10 property sales transactions with a value of \$10 million or more (average of \$19.7 million) in FY 2022 versus one such transaction in FY 2021 (\$12 million).

Staff increased the FY 2022 projection of \$8,500,000 to \$20,054,687. However, please note the decline in the growth rate of Measure P property sales transactions in the third quarter of FY 2022 in Table 4, which may be the first sign of a slowdown in the real estate market.

Table 3

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

Property Sales \$1.5 million+	Jan	Feb	Mar	Apr	May	June	Total
FY 2022	\$234.7	\$253.7	\$115.9				1,468.6
FY 2021	55.2	149.3	48.7				678.6
Change	179.5	104.4	67.2				790.0
% Change	325.2%	69.9%	138.0%				116.4%

Table 4

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

Measure P Transactions	Jan	Feb	Mar	Apr	May	Jun	Nine-Month Total
FY 2022	27	29	47				401
FY 2021	6	27	39				231
Change	21	2	8				170
% Change	350.0%	7.4%	20.5%				73.6%

Sales Tax (\$1,787,555 more than FY 2021 Actual)

For the nine months of FY 2022, Sales Tax revenue totaled \$13,885,146, which was \$1,787,555 or 14.8% more than the \$12,097,591 received for the same period of FY 2021. The increase was consistent with the following revised projection made by the City's Sales Tax Consultant:

Sales Tax Category	Revenue Projection
General Retail	\$ 4,073,099
Food Products	4,698,212
Transportation	2,305,303
Construction	1,543,840
Business-to-business	1,564,308
Miscellaneous	607,268
Subtotal	14,792,030
County pool	3,960,607
State pool	2,378
County sharing	(937,751) ¹
CDTFA adm.	(131,009) ²
Total	\$17,686,255

Staff decreased the FY 2022 Sales Tax revenue projection to \$17,686,255, from \$18,287,215.

- 1-The cities in Alameda County share 5% of their Bradley Burns sales taxes with the County; and,
- 2-The CDTFA administrative fees are a percentage of taxes CDTFA charges to administer the sales tax program.

Utility Users Taxes (\$461,598 more than FY 2021 Actual)

Utility Users Tax (UUT) revenue for the nine months of FY 2022 totaled \$10,835,311, which was \$461,598 or 4.45% more than the \$10,373,713 received for the same period in FY 2021. This increase of \$461,598 resulted from the following:

FY 2022 Actual Nine Month Revenues and FY 2021 Actual Nine Month Revenues

	FY2022	FY 2021	\$ Change	% Change
Telephone	\$ 1,020,843	\$ 1,111,712	\$ -90,869	-8.17%
Cable	782,504	740,462	42,042	5.68%
Cellular	1,125,805	1,132,378	- 6,573	-.58%
Electric	5,531,038	5,394,468	136,570	2.53%
Gas	2,375,122	1,994,693	380,429	19.07%
Total	\$ 10,835,311	\$10,373,713	\$461,598	4.45%

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

Transient Occupancy Tax (\$2,037,957 more than FY 2021 Actual)

Transient Occupancy Tax (TOT) revenue for the nine of FY 2022 totaled \$3,588,199, which was \$2,037,957 or 131.5% more than the \$1,550,242 received for the same period of FY 2021. The increase in FY 2022 was primarily attributable to an increase of 133.8% at the five largest hotels in Berkeley during the nine months of FY 2022 (155.8% in the first quarter, 134.1% in the second quarter and 124.2% in the third quarter). Staff increased the FY 2022 TOT projection from \$2,173,000 to \$4,200,000.

Short-Term Rentals (\$519,408 more than FY 2021 Actual)

Short-Term Rentals revenue for the nine of FY 2022 totaled \$886,762 which was \$519,408 or 141.4% more than the \$367,359 received for the same period of FY 2021. Based on the nine-month results, staff increased the FY 2022 projection from \$630,000 to \$1,000,000.

Business License Taxes (\$2,229,714 less than FY 2021 Actual)

Business license Taxes (BLT) revenue for the nine months of FY 2022 totaled \$11,267,370, which was \$2,229,714 or 16.5% less than the \$13,497,084 received for the same period of FY 2021. This decline results from the timing of the processing and recording of the BLT remittances in the nine months of FY 2022 versus the same period of FY 2021. The FY 2022 year-end total will exceed the \$18,498,146 reflected in the Adopted Budget, and staff increased the projection to \$19,000,000.

U 1 Revenues (\$1,174,978 less than FY 2021 Actual)

U 1 revenue for the nine months of FY 2022 totaled \$2,719,252, which was \$1,174,978 or 30.2% less than the \$3,894,230 received in the same period of FY 2021. This decline results from the timing of the processing and recording of the U1 remittances in the nine months of FY 2022 versus the same period of FY 2021. The FY 2022 year-end total will come in under the \$5,120,350 reflected in the Adopted Budget. Staff has lowered the projection to \$4,900,000.

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

Vehicle in Lieu Taxes (VLF) for the nine months of FY 2022 totaled \$7,503,002, which was \$312,775 or 4.4% more than the \$7,190,227 received in the same period of FY 2021. This increase is consistent with the County's Certification of Assessed Valuation, which reflects growth of 4.48%. Changes in VLF revenues are based on the growth in assessed values.

Parking Fines (\$1,133,986 more than FY 2021 Actual)

Parking Fines revenue for the nine months of FY 2022 totaled \$3,855,090, which was \$1,133,986 or 41.7% more than the \$2,721,104 received for the same period of FY 2021. The primary reasons for the increase were a significant increase in ticket writing and a higher collection rate on outstanding citations.

During the nine months of FY 2022, ticket writing increased from 84,711 or 11.2% in the nine months of FY 2021 to 94,165 in the nine months of FY 2022, as follows:

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

	Jan	Feb	Mar	Apr	May	Jun	Nine-Month Total
FY 2022	9,015	11,136	12,411				94,165
FY 2021	9,197	9,736	10,044				84,711
Difference	-182	+1,400	+2,367				+9,454
% Difference	+9.8%	+14.4%	+23.6%				+11.2%

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

Ambulance Fees (\$518,777 more than FY 2021 Actual)

Ambulance Fees revenue for the nine months of FY 2022 totaled \$2,736,858, which was \$518,777 or 23.4% more than the \$2,218,081 received for the same period during FY 2021. This increase was primarily due to an increase in the number of transports in FY 2022. The City's Ambulance Fees vendor projects that the total number of transports for FY 2022 will be 4,500, an increase of 400 over the 4,100 transports in FY 2021.

Interest Income (\$1,108,230 more than FY 2021 Actual)

For the nine months of FY 2022, interest income totaled \$4,800,122, which was \$1,108,230 or 30.0% more than the total of \$3,691,892 received for the same period in FY 2021. This increase was primarily attributable to an increase in the proportion of the portfolio that was invested in long-term (i.e., one year or more) securities than in short-term securities (i.e., less than one year, which paid rates ranging from .01%-.25%), despite the decline in average interest rates. The City moved a significant portion of its short-term funds from its Fidelity money market fund, that paid a rate of .01% into other short-term alternatives, like Commercial Paper.

This increase of \$1,108,230 occurred despite the Fed's actions to keep short-term rates near zero, and the net interest rate earned by the City dropped from a range of .86%-1.17% during the nine months of FY 2021, to a range of .91%-1.08% during the first half of FY 2022, as follows:

Monthly Net Interest Rate Earned

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

FY	Jan	Feb	Mar	Apr	May	June
2022	.94%	.95%	1.00%			
2021	1.02%	.94%	.86%			

Transfers (\$7,218,270 more than FY 2021 Actual)

Transfers from other funds for the nine months of FY 2022 totaled \$20,516,193 which was \$7,218,270 or 54.3% more than the \$13,297,923 received for the same period in FY 2021. This was primarily attributable to the Transfer of \$17,227,017 from the American Rescue Plan Fund in the nine months of FY 2022, to recover from the impact of the COVID-19 pandemic, compared to the Transfer of \$5,175,000 from the Stabilization Reserve Fund and the \$3,375,000 from the Catastrophic Reserve Fund during the nine months of FY 2021, to mitigate the negative impact of COVID-19. In addition, there was a one-time Shelter Plus Care County grant of \$1,600,000 received during the first half of FY 2021.

Other Revenues (\$2,314,752 less than FY 2021 Actual)

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

Other Revenues for the nine months of FY 2022 totaled \$5,585,280 which was \$2,314,752 or 29.3% less than the \$7,900,032 received for the same period of FY 2021. This decrease resulted primarily from the FY 2021 receipt of \$1,500,000 from the COVID Relief Program, and \$704,000 from the East Bay Community Foundation for the Berkeley Relief Fund, to finance grant payments to assist businesses and nonprofit organizations impacted by the COVID-19 pandemic.

Conclusion

In order to provide the most accurate projections possible, staff have incorporated three additional months of FY 2022 actual revenues and new information regarding leading economic indicators into its forecast. However, future economic conditions remain difficult to predict and changes could substantially impact future revenues.

While most of the public health mandates regarding social distancing and vaccination requirements in public spaces have expired, virus mutation and community spread across large portions of the state continues, and future restrictions affecting local economic activity and the national economy as a whole remain a possibility.

Also, the risk of inflationary effects on the economy has become more acute since staff's mid-year projections. Consumer prices are rising at the fastest rates since the early 1980s. In response, the Federal Reserve Board has raised interest rates by the largest amount for a single increase in 20 years. It remains to be seen whether this is a temporary spike in prices or a longer-term phenomenon. The influx of stimulus funds into the economy and the effects of the Russian invasion of Ukraine on energy prices are at least partially driving overall inflation. Absent additional federal legislation, the

impact of federal stimulus will likely recede fairly quickly, but the availability of Russian oil and gas in the global market and the long-term impacts of its absence are difficult to predict at this time. Also, regardless of the proximate causes, inflation can become difficult to control, as rising consumer prices and wages begin to reinforce one another. If the Fed's responding interest rate increases are too tame, the inflationary spiral might continue unabated, and if too aggressive, could send the economy into recession. The Fed's will have to try and balance its response so as not to tilt the balance either way.

Staff will continue to monitor the economic environment and update revenue projections as new information becomes available.