



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

**Thursday, October 13, 2022  
10:00 AM**

Committee Members:

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

**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://us02web.zoom.us/j/85481506493>. 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 **1-669-900-9128 or 1-877-853-5257 (Toll Free)** and Enter Meeting ID: **854 8150 6493**. 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 - June 23, 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. **Budget Referral and Updated Guidelines and Procedures for City Council Office Staff Expenditures**  
**From: Councilmember Bartlett (Author), Councilmember Robinson (Co-Sponsor), Councilmember Harrison (Co-Sponsor), Councilmember Taplin (Co-Sponsor)**  
**Referred: May 24, 2022**  
**Due: November 8, 2022**  
**Recommendation:** Refer to the Budget and Finance Committee to consider updates to the guidelines and procedures for City Council office budget expenditure accounts with regards to City Council staff salaries and fringe benefits expenditures and an accompanying Budget Referral of approximately \$1,226,619.52 for the FY 22-23 June Budget process.  
**Financial Implications:** See report  
Contact: Ben Bartlett, Councilmember, District 3, (510) 981-7130

## Committee Action Items

- 3. 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
- 4. Outcomes Based Funding, Pay-For-Success and Social Impact Bonds**  
**From: Councilmember Bartlett (Author)**  
**Referred: July 11, 2022**  
**Due: January 30, 2023**  
**Recommendation:** Referral to the City Attorney to provide guidance on how the City can implement an Outcomes Based Funding initiative.  
**Financial Implications:** Staff time  
Contact: Ben Bartlett, Councilmember, District 3, (510) 981-7130
- 5. Investment Report Update - Investment Policies of Other Jurisdictions**  
**From: City Manager**  
Contact: Henry Oyekanmi, Finance, (510) 981-7300
- 6. 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

## 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.*

### 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.

*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

## 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, October 6, 2022.



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](mailto:policycommittee@cityofberkeley.info).*



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

**Thursday, June 23, 2022  
10:00 AM**

Committee Members:

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## MINUTES

**Roll Call:** 10:05 am. Councilmembers Kesarwani, Harrison, and Mayor Arreguin present.

**Public Comment on Non-Agenda Matters:** 5 speakers.

### Minutes for Approval

*Draft minutes for the Committee's consideration and approval.*

1. **Minutes - June 9, 2022**

**Action:** M/S/C (Arreguin/Harrison) to approve the June 9, 2022 minutes.

**Vote:** All Ayes.

### 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. **City Manager's Funding Recommendations for the FY 2023 and FY 2024 Biennial Budget Discussion and Possible Action**

**From: City Manager**

**Recommendation:** Discuss and provide comments and recommendations on the City Manager's FY 2023 and FY 2024 Proposed Biennial Budget and consider taking action to provide recommendations on the FY 2023 and FY 2024 Proposed Budget to the City Council.

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

**Action:** 11 speakers. Discussion held. M/S/C (Arreguin/Harrison) to recommend the Mayor's Supplemental Funding Recommendations be sent to the Council, as modified to reduce the 5150 Transports Non-Homeless Related line item to provide an amount sufficient for the Police Overtime Reserve and to include the DEI Administrative Assistant in FY 2023 and FY 2024.

**Vote:** Ayes – Harrison, Arreguin; Noes – None; Absent – None; Abstain – Kesarwani.



## Committee Action Items

### 3. City Manager's Recommendations to the Council Fiscal Policies

**From: City Manager**

**Recommendation:** Discuss the recommended changes to the existing Council fiscal policies pertaining to the Fiscal Years 2023 and 2024 Biennial Budget; discuss other concepts related to policies to address unfunded liabilities, provide direction to staff and refer the revised fiscal policies to Council for adoption as part of the Fiscal Year 2023 and 2024 Budget.

**Financial Implications:** See report

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

**Action:** 0 speakers. Discussion held. M/S/C (Arreguin/Kesarwani) to recommend to Council the proposed modifications to the Fiscal Policies up to Policy #12, amending #11 to reflect up to \$5.5 million per year to the City's Section 115 pension trust or as advised by the actuary and staff; and amending #12 to reflect 1/3 of General Fund Reserves up to 30% or up to the percent set under Council policy.

Vote: All Ayes.

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

**From: Energy Commission**

**Referred: April 11, 2022**

**Due: September 26, 2022**

**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

Item continued to a future meeting of the Budget & Finance Committee.

## Committee Action Items

5. **Budget Referral and Updated Guidelines and Procedures for City Council Office Staff Expenditures**  
**From: Councilmember Bartlett (Author), Councilmember Robinson (Co-Sponsor), Councilmember Harrison (Co-Sponsor), Councilmember Taplin (Co-Sponsor)**  
**Referred: May 24, 2022**  
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**Financial Implications:** See report  
Contact: Ben Bartlett, Councilmember, District 3, (510) 981-7130

Item continued to a future meeting of the Budget & Finance Committee.

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

Item continued to a future meeting of the Budget & Finance Committee.

## Unscheduled Items

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**Financial Implications:** None

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

## Items for Future Agendas

- None

## Adjournment

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

**Vote:** All Ayes.

Adjourned at 1:00 pm.

I hereby certify that this is a true and correct record of the Budget & Finance Committee meeting held on June 23, 2022.

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Sarah K. Bunting, Assistant City Clerk





CONSENT CALENDAR  
May 24, 2022

To: Honorable Mayor and Members of the City Council

From: Councilmember Ben Bartlett (Author), Councilmember Rigel Robinson, Kate Harrison, and Terry Taplin (Co-Sponsors)

Subject: Budget Referral and Updated Guidelines and Procedures for City Council Office Staff Expenditures

RECOMMENDATION

Refer to the Budget and Finance Committee to consider updates to the guidelines and procedures for City Council office budget expenditure accounts with regards to City Council staff salaries and fringe benefits expenditures and an accompanying Budget Referral of approximately \$1,226,619.52 for the FY 22-23 June Budget process.

CURRENT SITUATION

As of March of 2022, four of eight Council Offices retain more than one Legislative Assistant, while the Mayor retains four Legislative Assistants in addition to a Chief of Staff. This reflects the trend over the last two decades of an increase in demand faced by Council Offices for constituent services and legislative policy output. Despite this increase, Council budget policy still assumes a staff level fixed at one Legislative Assistant per Council Office, though recent adjustments provide for budgeting the Mayor's Office at actual staff costs.

The most recent adjustment to Council staff budgeting policy was made in response to the 2019 unionization of Legislative Assistants with the SEIU 1021 Community Services & Part-Time Recreation Leaders Association Chapter. The City officially ratified a contract with the new unit on June 15, 2021 that, among other things, provided an increased hourly wage for Legislative Assistants more closely commensurate with internal comparators as determined by a 2006 report from the City Manager, and placed Legislative Assistants on a salary schedule based on annual steps like other unionized positions in the City. After the adoption of the contract, Resolution No. 65.540-N.S. which provided for and regulated Council Office budgets was replaced by Resolution No. 70,054-N.S. This new Resolution adjusted Council budgets to allow for one full-time Legislative Assistant per office under the new agreement but did not account for the reality that half of Council Offices currently have had more than one Legislative Assistant. Because the new contract provides for annual step increases, Council Offices which now use their staff funds to retain two part time Legislative Assistants will be forced to reduce hours or terminate staff as they progress through annual steps.

BACKGROUND

The Berkeley City Council and the people of Berkeley take great pride in their extremely active, engaged, and forward thinking legislative branch. This is directly tied to the expectations of Berkeley's residents, who have through their votes on ballot measures and their vocal advocacy demanded this level of activity. Additionally, this demand has risen over time. The population of Berkeley has increased by more than 20,000 since 2000, and interest in critical legislative issues including affordable housing, climate change, homelessness, transit, and public safety reimagining has increased substantially. Simultaneously, the City's budget and the total number of employees have steadily increased. The Council provides legislative output, municipal oversight, and constituent services that are more comparable to neighboring cities and counties with substantially larger populations and budgets than Berkeley. The Council's legislative assistants are key to providing these services. Legislative Assistants aid with the management of a Councilmember's policy initiatives and district projects, write legislation, provide administrative office support, research and analyze policy and legislation, guide constituents in accessing critical public and nonprofit assistance, and may be called upon to represent their Councilmember before constituents, community groups, business interests, city staff and other elected officials.

Until recently, the Mayor, Councilmembers, and their aides have been significantly underpaid as compared to external and internal comparators.

In 2020, the adoption of Measure JJ by nearly two thirds of Berkeley voters<sup>1</sup> affirmed that residents have high expectations of their local government and that the work required to deliver on those expectations should be compensated fairly and accurately. Measure JJ changed the status of City Councilmembers from part-time to full-time to reflect the increased demands of the position from when it was first created, and increased the salary for Councilmember and the Mayor to one sufficient for working class residents to be able to afford to run for office.<sup>2</sup>

Alongside the trend of increased demand on Council Offices for legislative and constituent services, the inauguration of the Council Policy Committee system in 2018<sup>3,4</sup> and the transition to full time Council positions in 2020 have both driven an increase in the workload for legislative staff. Half of Council Offices now maintain more than one Legislative Assistant, reflecting that the volume of legislative work per Council Office often exceeds 40 hours of labor per week. There are currently six Council Policy Committees, four interagency committees, and a varying number of Mayoral task

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<https://www.cityofberkeley.info/uploadedFiles/Clerk/Elections/Summary%20Results%20Nov.%202020.pdf>, pg. 3

<sup>2</sup> <https://www.cityofberkeley.info/uploadedFiles/Clerk/Elections/2020%20Ballot%20Measures.pdf>, pg. 33

<sup>3</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2018/12\\_Dec/Documents/2018-12-11\\_Item\\_C\\_Structure\\_for\\_City\\_Council\\_-\\_Supp.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2018/12_Dec/Documents/2018-12-11_Item_C_Structure_for_City_Council_-_Supp.aspx)

<sup>4</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2018/12\\_Dec/Documents/12-11\\_Annotated\\_Agenda.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2018/12_Dec/Documents/12-11_Annotated_Agenda.aspx)

forces.<sup>5</sup> Many Councilmembers also sit on regional boards, commissions, working groups and task forces, including, for example, the Association of Bay Area Governments Executive Board, Alameda County Transportation Commission, and the East Bay Community Energy Board of Directors among numerous others.

These committees and other bodies provide vital legislative functions, but also add significant workload in both staffing and preparing for these meetings each week. In addition to two regular meetings a month, Policy Committees have additional special meetings scheduled on an ad hoc basis, especially during the bi-annual budget processes, and additional work conducted by the staff, especially when a Councilmember chairs a Committee. Critically, committee members are now responsible for writing more detailed and comprehensive legislative briefs and memos as well as shepherding amended legislative matters referred from Commissions and other bodies. Due to the enhanced demand for legislative work, full and part-time Legislative Assistants regularly work hours substantially beyond their scheduled appointment.

Over the past two decades, Council has attempted to address Legislative Assistant compensation, resulting in incremental improvement.

In 2006, in recognition of Legislative Assistant salary and classification disparities, the Council passed Resolution No. 63,259-N.S. directing the City Manager to conduct a salary equity study for the City Council Legislative Assistants and report the findings to the Council to include “a comparison with their peers in neighboring jurisdictions...[and] the salary range, qualifications and responsibilities for this job class.”<sup>6</sup>

The resulting 2006 study<sup>7</sup> from the City Manager found that Legislative Assistants were significantly underpaid as compared to external and internal comparators—namely the Assistant Management Analyst in the City Manager’s office. The City Manager recommended an increase to Council office salary budgets, at the time \$44,433 excluding benefits, to the minimum salary level of an Assistant Management Analyst (AMA), which would have increased the annual salary allocation by approximately \$10,248 per Council office. In 2015, nearly a decade after the City Manager’s study was submitted to Council, the Mayor and Council voted to implement the 2006 Study recommendation and also acknowledged certain structural deficiencies including that Council Offices had to pull from their discretionary budgets “intended for office supplies and other office-related costs” in order to sufficiently fund staff costs.<sup>8</sup> Council ultimately referred an additional \$80,000 total to be split between the 8 Council offices. This

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<sup>5</sup>[https://www.cityofberkeley.info/Clerk/City\\_Council/City\\_Council\\_Committee\\_and\\_Regional\\_Body\\_Appointees.aspx](https://www.cityofberkeley.info/Clerk/City_Council/City_Council_Committee_and_Regional_Body_Appointees.aspx)

<sup>6</sup><https://www.cityofberkeley.info/citycouncil/agenda-committee/2006/packet/041006/2006-04-18%20Draft%20Item%2019%20MOORE%20-%20Salary%20Equity.pdf>

<sup>7</sup><https://www.cityofberkeley.info/recordsonline/api/Document/AQwW5T053smoW4FSgoqqfPzrtx2b5Xyd2Wp12sEq9AYYtJ0JDbJ32ymekuaq6i5xy%C3%89%C3%8117rVEBYmrBFWpzKvwec%3D/>

<sup>8</sup>[https://www.cityofberkeley.info/Clerk/City\\_Council/2015/03\\_Mar/Documents/2015-03-10\\_Item\\_10\\_Refer\\_\\$80,000.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2015/03_Mar/Documents/2015-03-10_Item_10_Refer_$80,000.aspx)

increased staff capacity but only to the bottom end of the AMA classification range for one position.

In 2019, the Legislative Assistants across Council and Mayoral offices unionized as part of the SEIU 1021 Community Services & Part-Time Recreation Leaders Association. The contract approved in June 2021<sup>9</sup> provided for a wage step range roughly commensurate with the AMA classification. As part of that range, Legislative Assistants now receive annual pay increases along the established range like other City employees. In order to effectuate the new labor agreement, Council modified the guidelines that regulate Council Office budgets, replacing Resolution No. 65.540-N.S. with Resolution No. 70,054–N.S.<sup>10</sup>

While the wage floor for Legislative Assistants has increased under the contract, historic budget deficiencies persist. Indeed, the current budget policy artificially constrains certain Council appointments to less than full-time appointments in cases where two Legislative Assistants are needed. As a result, offices with multiple Legislative Assistants have to ration one full-time salary between two people, a fraught situation that create awkward and precarious work schedules, inequitable compensation, burnout, high turnover, less diverse staff, less thorough legislative and constituent services, and the siphoning of office funds intended for supplies and other office-related costs. In addition, since the Legislative Assistant contract now provides for yearly step increases pursuant to favorable performance reviews like most other City positions, the Mayor and Council offices with multiple Legislative Assistants will quickly overshoot their budgets, which were designed for only one Legislative Assistant per office.

Adequately and equitably funding these positions is key to meeting the City’s Strategic Plan goal of attracting and retaining a talented and diverse City government workforce. The two alternatives considered would address these shortcomings and respond to the change in legislative conditions by providing offices that wish to hire two full-time Legislative Assistants the opportunity to do so.

#### ALTERNATIVES CONSIDERED

Maintaining the status quo would result in those Council Offices which retain more than one Legislative Assistant encountering structural budget deficits within one to three years. For example, an Office budgeted at the FY 2023 rate of \$109,539 for staff salaries with two staff, one for 30 hours a week and one for 20, would have a \$12,224.89 surplus in their salaries fund. The surplus would drop annually, to \$7,370.43 in the second year and \$2,239.85 in the third, and finally become negative in the fourth year at -\$3,111.47. In this scenario, Offices will be forced to cut hours or lay off staff. Though this can be remediated by reallocating non-personnel funds towards staff costs,

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<sup>9</sup>[https://www.cityofberkeley.info/Clerk/City\\_Council/2021/06\\_June/Documents/06-01\\_AC\\_Time\\_Critical\\_Item\\_Leg\\_Assistants\\_MOU.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2021/06_June/Documents/06-01_AC_Time_Critical_Item_Leg_Assistants_MOU.aspx)

<sup>10</sup>[https://www.cityofberkeley.info/Clerk/City\\_Council/2021/10\\_Oct/Documents/2021-10-12\\_Item\\_06\\_Council\\_Office\\_Expense\\_Account.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2021/10_Oct/Documents/2021-10-12_Item_06_Council_Office_Expense_Account.aspx)



doing so would delay but not prevent structural issues in most circumstances and results in other challenges and inequities associated with insufficient office funds.

The Budget and Finance Committee should instead consider pooling individual Council Staff Office Budgets together into a single Council Office Staff Budget, and fund it sufficient for each Office to hire two FTEs. This would raise funding to a level reflective of the demonstrated demand for Legislative Assistant work and stabilize those Offices with multiple Legislative Assistants, while simultaneously enabling budgeting practices and cost savings not practical with individual Council Staff Office Budgets. In this scenario each Council Office would be able to draw funding for up to 2 FTEs or their equivalent from the fund, with the precise dollar amount fluctuating from Office to Office based on the tenure of an Office's staff and the breakdown of fulltime and part-time positions.

The primary advantage of a pooled approach is in allowing more accurate budgeting practices. Normally, variation in seniority and temporary vacancies within a department create a high probability of actual costs falling close to the middle of the step range per budgeted position. It is therefore more accurate to budget staff costs at that median range, which frees some money for other priorities. The small size of each Council Office Staff Budget prevents this, instead requiring that they be budgeted at the top of the range. A pooled budget for 16 FTEs would likely be large enough to budget at the middle, allowing for more accurate budgeting and possible relocation of resources.

A pooled fund would allow for budgeting practices more reflective of the City's policies for other departments. The Budget and Finance Committee should consider what additional restrictions and policies should govern use of the fund. These should include a restriction on initial step placements for new hires at the first four steps of the Legislative Assistant salary range, and a requirement that the 80 hours available to each department be split between no more than three individual staff members. These restrictions are important for maintaining the stability of the fund while allowing for the hiring discretion necessary of political positions. While these limits would place some restrictions on Councilmembers, they would retain their ability to supplement their allocation from the fund with expenditures from their non-personnel budget.

This pooled approach is a significant change from current practices and will require input and guidance from Budget staff to create and implement. Additionally, it could allow one Council Office to draw significantly more or less from the pool than others, though this would reflect variation in funding but not actual staff resources. For example, an office with two new staff at the first step would pull more from the fund than an office with staff both at the final step, though each Office would still only be receiving the benefit of 2 FTEs.

A second alternative to address this issue would be to simply increase the amount allocated per council office from one FTE to two. While this would achieve short term stabilization of Council Staff Office Budgets and be simpler and easier to implement

than the pooled approach, it would not achieve long-term stabilization and cost control features.

FINANCIAL IMPLICATIONS

The current baseline allocation for each Council Office Staff budget for FY 2023 is approximately \$187,663. This includes \$109,539 for salary and \$78,124 for fringe benefits, the largest share of which is health insurance costs. This totals \$1,501,305 across the eight Council Offices, not accounting for additional voluntary contributions from Councilmembers' own salaries.

Pooling the Council Office Staff Budgets and budgeting at the median of the step range would cost approximately \$2,727,925 in total. This would be \$1,226,620 more than current spending but \$274,686 less than the prior alternative.

Individually allocating each Council Office Staff Budget funding for two FTEs would increase costs to \$375,326 per Office or \$3,002,612 total, representing an increased allocation of \$1,501,305.

It is important to consider that these numbers represent allocations and not actual expenditures. Adopting a prohibition on the rollover of surplus funds budgeted for salaries alongside the current prohibition for fringe benefits could reduce the actual cost of the individual proposal.

Finally, these cost estimates are based on projections for salary costs given scheduled raises per already agreed labor contracts for FY 2023, but assume FY 2022 allocations for fringe benefits. This may slightly underestimate the cost for both the status quo and the first alternative, and significantly overestimate cost for the pooled alternative. Some fringe benefits, like healthcare, are unrelated to the salary of the position, while some rise with compensation. While the pooled approach budgets salaries at the median of the range, it assumes the full cost of 16 positions regardless of step for fringe benefits. Additional information from staff concerning the breakdown and calculation of fringe benefits cost would help to refine these figures.

ENVIRONMENTAL SUSTAINABILITY

No discernible impact.

CONTACT

Councilmember Ben Bartlett  
James Chang

510-981-7130  
510-981-7131

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.<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup> 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](mailto: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 light blue circular stamp.

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 Dorn

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





CONSENT CALENDAR  
July 26, 2022

To: Honorable Mayor and Members of the City Council  
From: Councilmember Ben Bartlett  
Subject: Outcomes Based Funding, Pay-For-Success and Social Impact Bonds

### RECOMMENDATION

Referral to the City Attorney to provide guidance on how the City can implement an Outcomes Based Funding initiative.

### BACKGROUND

Outcome Based Funding is a financing strategy in which Government allocates funding to vendors only upon the demonstrable achievement of specific outcomes. Under an Outcome Based Funding approach, Government enters into Contracts with non-internal-government organizations to deliver services intended to result in positive measurable outcomes. Often, in outcomes based fundings, private investors provide the funding and are repaid later by the government only if the service meets agreed-on performance benchmarks.<sup>1</sup> Outcomes Based Funding, Social Impact Bonds, or Pay for Success (PFS) Contracts can be an effective way for Government to reduce its spending while simultaneously achieving better social outcomes.

Outcomes Based Funding initiatives often work in close collaboration with Community Development Finance Institutions ("CDFI"). CDFI's direct resources in communities with the potential for high social returns but with a lack of resources.

Outcomes-based funding supports evidence-based strategies to create better community outcomes and save taxpayer money.

Pay For Success was introduced by the Obama Administration; and is a strategy of obtaining positive social or environmental outcomes by paying, in part or in whole, for an intervention only once it produces those outcomes. Through PFS, government (or another entity) enters into a contract to pay for concrete, measurable outcomes once they are achieved for specific people or communities in need. Instead of funding services regardless of the results, payments are made only if interventions actually achieve the outcomes agreed upon in advance. For example, instead of paying for job training simply to be provided, a community might use PFS to pay only when individuals gain stable employment in good jobs. Where government employs PFS strategies, taxpayers no longer bear the risk of paying for services that are ineffective because resources are not expended until the services have produced a specific benefit<sup>2</sup>.

Social Impact Bonds are an innovative financing mechanism in which governments or commissioners enter into agreements with social service providers, such as social enterprises or non-profit organizations, and investors to pay for the delivery of pre-defined social outcomes. More precisely, a bond-issuing organization raises funds from private-sector investors, charities or foundations. These

<sup>1</sup> Kasturi Rangan & Lisa A. Chase. "The Payoff of Pay-for-Success (SSIR)." <https://ssir.org/>, Stanford Social Innovation Review, 2015, [https://ssir.org/up\\_for\\_debate/article/the\\_payoff\\_of\\_pay\\_for\\_success#](https://ssir.org/up_for_debate/article/the_payoff_of_pay_for_success#)

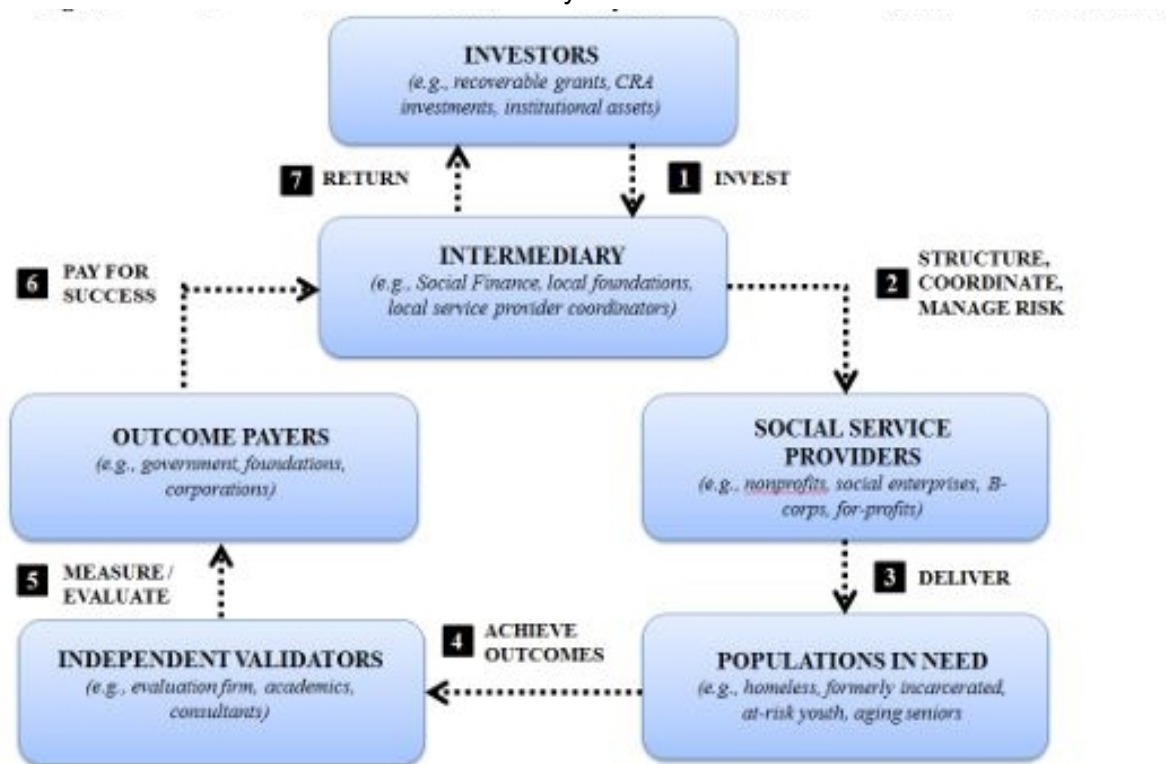
<sup>2</sup> "Pay for Success:" The White House, 2012, <https://obamawhitehouse.archives.gov/administration/eop/sicp/initiatives/pay-for-success>

funds are distributed to service providers to cover their operating costs. If the measurable outcomes agreed upfront are achieved, the government or the commissioner proceeds with payments to the bond-issuing organization or the investors. In reality, the term “bond” is more of a misnomer. In financial terms, SIBs are not real bonds but rather future contracts on social outcomes. They are also known as Payment-for-Success bonds (USA) or Pay-for-Benefits bonds<sup>3</sup>. There is healthy appetite for Social Impact Investing, currently there is more than \$700 billion in impact investment capital seeking deployment<sup>4</sup>.

Outcomes Based Funding and Social Impact Bonds are very similar in practice. They both include the practice of entering into a conditional contract with an organization to address social welfare programs. The payment to the organization is derived from the budgetary savings and other proceeds stemming from the resulting reduction in spending. This transfer of risk from Government to the vendor helps overcome resistance to funding innovative projects within a constrained budgetary environment.

The Benefits of Outcomes Based Funding, Pay for Success, and Social Impact Bonds include:

1. Spurs Innovation
2. Saves Money
3. Transfers Risk from Tax Payer to Vendor
4. Better Outcomes for the Community



5

<sup>3</sup> Organisation for Economic Co-operation and Development, et al. “Understanding Social Impact Bonds.” OECD Working Papers, 2016, <https://www.oecd.org/cfe/leed/UnderstandingSIBsLux-WorkingPaper.pdf>

<sup>4</sup> SG Analytics. “Impact Investing Market Size Is \$715 Billion: What Is the Future of Our Planet?” SG Analytics, SG Analytics, 2 Mar. 2021, <https://us.sganalytics.com/blog/impact-investing-market-size-is-715-billion-what-is-the-future-of-our-planet/>

<sup>5</sup> Organisation for Economic Co-operation and Development, et al. “Understanding Social Impact Bonds.” OECD Working Papers, 2016, <https://www.oecd.org/cfe/leed/UnderstandingSIBsLux-WorkingPaper.pdf>

Here are a few examples of Outcomes Based Funding, Pay for Success, and Social Impact Bonds Models:

1. New York (1990s) – New York City dramatically changed the way it bought workforce development services from nonprofit providers working around the city. Instead of paying for the cost of services up front and hoping for the best, the city tied 100 percent of funding to measured performance. Job placement providers got paid only if they achieved clearly defined milestones (e.g., job placement, retention after set periods of time). The innovative focus on results yielded a number of benefits including, but not limited to, providers being incentivized to achieve outcomes that aligned with the city’s policy objectives, allowing the city to flexibly price (and re-price) outcomes it cared about while avoiding a more prescriptive, top-down approach to program design that can stymie innovation, and performance data helping the city make course corrections to the system as a whole. (When early program data showed poor job retention results, the city doubled down by changing payment formulas to incentivize longer-term retention outcomes.)<sup>6</sup>
2. Salt Lake City, Utah (2015) – Salt Lake County policymakers implemented innovative funding strategies to reduce incarceration and recidivism rates. In this particular case, a suite of evidence-based programs were funded through a social impact financing mechanism. If incarceration rates drop by an agreed-upon threshold percentage over a certain time frame, the county will repay the funders who provided the upfront bridge financing. If the programs are not successful, the county won’t pay.<sup>7</sup>
3. USA (2008-2016) - President Barack Obama Administration’s in Pay For Success<sup>8</sup> initiative: The administration dedicated nearly \$100 million in funding to advance PFS through eight federal agencies. These federal dollars leveraged at least \$65 million in philanthropic, state and local funds for PFS. Among other important priorities, the Administration’s PFS awards have been provided to help connect veterans with jobs<sup>9</sup>, build brighter futures for at-risk youth, support English language learners<sup>10</sup>, increase access to high-quality pre-K<sup>11</sup>, reduce childhood asthma, support at-risk moms and their children, reduce homelessness, incarceration, and recidivism, and even promote natural resources conservation<sup>12</sup>. Participants performed

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<sup>6</sup> Keele, Jeremy, and Sarah Peters. “HOW OUTCOMES-BASED FUNDING MODELS CAN IMPROVE THE EFFECTIVENESS OF STATE AND LOCAL GOVERNMENTS.” Sorenson Impact Center, 2017, pp. 134–37. [https://investinresults.org/sites/default/files/book-chapter/WM\\_14\\_Keele-Peters\\_0.pdf](https://investinresults.org/sites/default/files/book-chapter/WM_14_Keele-Peters_0.pdf)

<sup>7</sup> Keele, Jeremy, and Sarah Peters. “HOW OUTCOMES-BASED FUNDING MODELS CAN IMPROVE THE EFFECTIVENESS OF STATE AND LOCAL GOVERNMENTS.” Sorenson Impact Center, 2017, pp. 134–37. [https://investinresults.org/sites/default/files/book-chapter/WM\\_14\\_Keele-Peters\\_0.pdf](https://investinresults.org/sites/default/files/book-chapter/WM_14_Keele-Peters_0.pdf)

<sup>8</sup>“Pay for Success:” The White House, 2012, <https://obamawhitehouse.archives.gov/administration/eop/sicp/initiatives/pay-for-success>

<sup>9</sup>“New VA – CNCS Collaboration to Connect Funding to Better Outcomes For.” Whitehouse.Gov, 5 Jan. 2017, <https://obamawhitehouse.archives.gov/blog/2016/11/11/new-va-%E2%80%93-cnccs-collaboration-connect-funding-better-outcomes-veterans>

<sup>10</sup> Office of the Press Secretary. “FACT SHEET: New Commitments Announced in Support of the My Brother’s.” Whitehouse.Gov, 17 Oct. 2016, <https://obamawhitehouse.archives.gov/the-press-office/2016/10/11/fact-sheet-new-commitments-announced-support-my-brothers-keeper>

<sup>11</sup> US Department of Education (ED). “Pay for Success.” U.S. Department of Education, <https://www2.ed.gov/about/inits/ed/pay-for-success/index.html>. Accessed 2 July 2022.

<sup>12</sup> Goldfuss, Christy, and David Wilkinson. “Pay for Success: New Resources for Better Conservation Outcomes.” Whitehouse.Gov, the White House, 5 Jan. 2017, <https://obamawhitehouse.archives.gov/blog/2015/12/17/pay-success>

validation tests, feasibility studies<sup>13</sup>, transaction structuring, outcomes evaluation, outcomes payments, and cross-system data integration<sup>14</sup>. The U.S. is now the largest PFS market the world, with greater total outcome payment scale and impact investment dollars committed to projects than any other nation<sup>15</sup>.

4. Massachusetts (2014) Social Impact Bond Initiatives:

- a. The Juvenile Justice Pay for Success Initiative was a managed Social Impact Bond project. The program's aim was to reduce recidivism and increase employment through intensive street outreach, targeted life skills training, education, and employment programming. The target group was 929 at-risk young men aged 17 to 23. Philanthropic grantors included The Kresge Foundation, Living Cities, Laura and John Arnold Foundation, New Profit Inc., and the Boston Foundation. Third Sector Capital Partners acted as the financial intermediary and prime contractor. Third Sector was responsible for arranging project funding, overseeing project implementation, distributing funding to Roca and managing repayment to funders. It is worth noting that Third Sector Capital Partners is deferring \$50 000 USD of its management fees; it will only be paid that portion of its fees if results are achieved. New Profit Inc. The Juvenile Justice Pay for Success Initiative is an individual SIB, but it is also part of the Massachusetts Social Innovation Financing Trust Fund.<sup>16</sup>
- b. The State of Massachusetts, the nonprofit Roca, the financial intermediary Third Sector Capital Partners, and a group of investors entered into a contract under which Roca was paid by investors to operate a program designed to prevent formerly incarcerated young people from returning to jail. Under an Outcomes Based Funding and Pay for Success Model, the state would repay the investors only if Roca met or exceeded the contract goals. Massachusetts was willing to repay the loan with interest to investors because the program saved even more money by keeping young people out of prison. While the result of this program was inconclusive, the State of Massachusetts will only have to pay Roca if the model is successful.<sup>17</sup>

5. New York State (2012) – New York implemented a Social Impact Bond model where the State of New York partnered with Social Finance, a nonprofit social impact financing and advisory firm, to reduce recidivism through a Social Impact Bond contract. After analyzing the needs of high-risk formerly incarcerated individuals and conducting thorough due diligence on interventions and social service providers, Social Finance selected CEO, a nonprofit employment service agency for formerly incarcerated individuals, as the entity to deliver the

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<sup>13</sup> Munoz, Cecilia, and Shaun Donovan. "Administration Nearly Doubles Number of 'Pay for Success' Feasibility." Whitehouse.Gov, the White House, 19 Apr. 2016, <https://obamawhitehouse.archives.gov/blog/2016/04/19/administration-nearly-doubles-number-pay-success-feasibility-studies>

<sup>14</sup> Wilkinson, David, and Wendy Spencer. "How Data and Innovation Can Help People." National Service Archived Blog, 13 Oct. 2016, <https://nationalservice.tumblr.com/post/151761667357/how-data-and-innovation-can-help-people>

<sup>15</sup> "Pay for Success:" The White House, 2012, <https://obamawhitehouse.archives.gov/administration/eop/sicp/initiatives/pay-for-success>

<sup>16</sup> Organisation for Economic Co-operation and Development, et al. "Understanding Social Impact Bonds." OECD Working Papers, 2016, <https://www.oecd.org/cfe/leed/UnderstandingSIBsLux-WorkingPaper.pdf>

<sup>17</sup> Kasturi Rangan & Lisa A. Chase. "The Payoff of Pay-for-Success (SSIR)." <https://ssir.org/>, Stanford Social Innovation Review, 2015, [https://ssir.org/up\\_for\\_debate/article/the\\_payoff\\_of\\_pay\\_for\\_success#](https://ssir.org/up_for_debate/article/the_payoff_of_pay_for_success#)



intervention. The State of New York, Social Finance, and CEO worked together over the next year to structure the project with the help of law firm Jones Day. The State of New York also obtained pro bono technical assistance from the Harvard Kennedy School Social Impact Bond Technical Assistance Lab ("SIB Lab") to develop and implement the project<sup>18</sup> This Social Impact Bond managed to reduce the number of bed days for former inmates therefore directly reducing the State of New York's public spending and increasing the well being for the participants.

6. Ohio State (2014) – Cuyahoga County, Ohio, the local government entered into a Social Impact Bond contract with FrontLine to reduce time spent in foster care for children of homeless mothers. FrontLine had devoted 26 years to providing comprehensive services to mentally ill homeless people, with the goal of transitioning its clients to permanent supportive housing. FrontLine had also demonstrated that moving homeless mothers to stable housing increased their chances of recovering and regaining custody of their children from foster care. The county's data revealed that children of homeless mothers spent considerably more time in foster care than other children (724 days compared to 440 days) at a daily cost of \$75 per child. Keeping mothers in stable housing with their children therefore represented significant savings for the county.<sup>19</sup>
7. Saskatchewan, Canada (2014) – The Canadian Province of Saskatchewan Sweet Dreams, implemented a Social Impact Bond to increase the well being of lowincome families. The Government of Saskatchewan and the Ministry of Social Services, held direct contracts with the investors and the service provider, Saskatoon Downtown Youth Centre (EGADZ). The investors provided in May 2014 \$1 million CAD for a period of 60 months to the EGADZ to offer to single mothers with children under the age of eight, who are at risk of requiring services from Child and Family Services, with affordable housing and support. At the same time, the mothers can complete their education, secure employment, or participate in pre-employment activities, such as life skills training and parenting classes. In the end, the SIB succeeded in helping keep single mothers in the schools and helped keep those families together.<sup>20</sup>

The City's budgetary constraints are becoming more pronounced. Meanwhile a looming recession is poised to exacerbate the City's growing social needs. Berkeley should explore new tools to drive innovation to more cheaply achieve greater community outcomes.

## CURRENT SITUATION

The City has many challenges from homelessness, health, environmental impact, public safety, and many more that demands financial and external costs that could use more preventative measures to save on costs. The guidance on how the City can implement an Outcomes Based Funding and Social Impact Bond Initiative would allow the City to have more options to achieve greater outcomes for less money.

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<sup>18</sup> The State of New York, et al. "Investing in What Works: 'Pay for Success' in New York State Increasing Employment and Improving Public Safety." Harvard Kennedy School Government Performance Lab, 2014. <https://govlab.hks.harvard.edu/>, [https://govlab.hks.harvard.edu/files/govlabs/files/nys\\_ceo\\_pfs\\_project\\_summary.pdf](https://govlab.hks.harvard.edu/files/govlabs/files/nys_ceo_pfs_project_summary.pdf)

<sup>19</sup> Kasturi Rangan & Lisa A. Chase. "The Payoff of Pay-for-Success (SSIR)." <https://ssir.org/>, Stanford Social Innovation Review, 2015, [https://ssir.org/up\\_for\\_debate/article/the\\_payoff\\_of\\_pay\\_for\\_success#](https://ssir.org/up_for_debate/article/the_payoff_of_pay_for_success#)

<sup>20</sup> "Sweet Dreams Supported Living Project." The Government Outcomes Lab, Sept. 2020, <https://golab.bsg.ox.ac.uk/knowledge-bank/indigo/project-database/sweet-dreams-supported-living-project/>

FINANCIAL IMPLICATIONS

Staff time from the City Attorney's Office.

CONTACT PERSONS

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James Chang

[jchang@cityofberkeley.info](mailto:jchang@cityofberkeley.info)

Marcelo Garcia-Sarraf

510-981-7130



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 & Finance Policy Committee Webpage:**  
<https://berkeleyca.gov/your-government/city-council/council-committees/policy-committee-budget-finance>





# Mental Health Transport

Data, Analysis & Recommendations

Berkeley Fire Department

Health, Housing, and Community Services

City Manager's Office

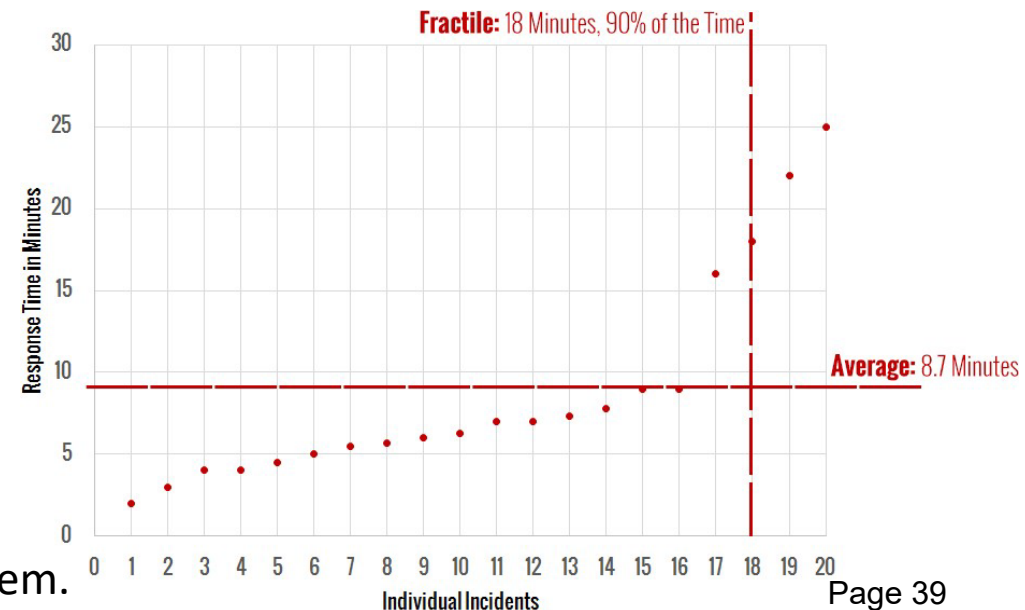
# Data Identifications

---

- Computer Aided Dispatch (CAD) Export: 7/1/19 – 6/30/22
- 5,002 Total Incidents
- 4.32 incidents per day
- Reporting Years (RY) 19/20, 20/21, 21/22 (July – June)
- Incident vs Transport

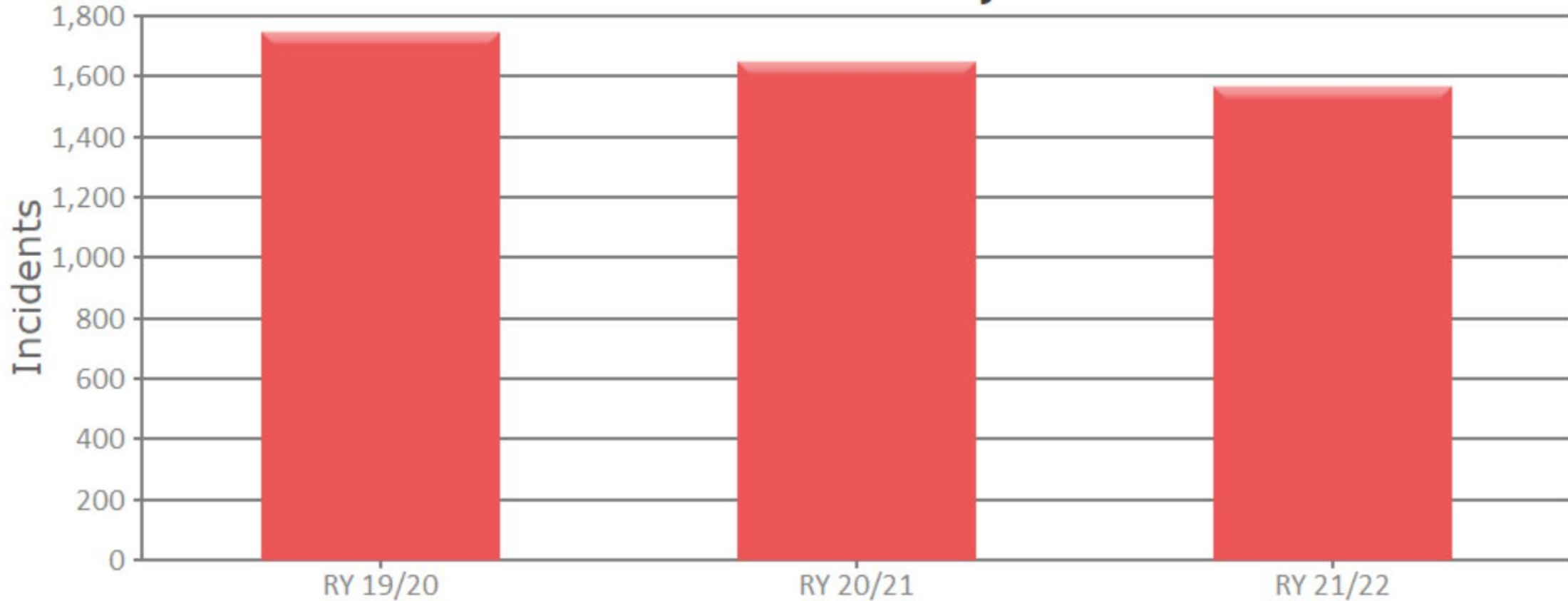
# 90<sup>th</sup> % vs Average

- National best practice is to measure percent completion of a goal (e.g., 90 percent of responses) instead of an average measure.
- Measuring the average only identifies the central or middle point of response time performance for all calls for service in the data set, making it impossible to know how many incidents had response times that were far above the average or nominally above.
- Average response time as a fire service delivery measurement is simply not sufficient. This is a significant issue in larger cities if hundreds or thousands of calls are answered far beyond the average point.
- Example (right):
  - Hypothetical City Running 20 Incidents/Month
  - Average Response Time: 8.7m, Fractile: 18m
  - Average response time fails to properly account for four calls for service with response times far exceeding a threshold in which positive outcomes could be expected.
  - 20 percent of responses are far too slow, and this hypothetical jurisdiction has a potentially life-threatening service delivery problem.



# Incidents per Year (19/20, 20/21, 21/22 )

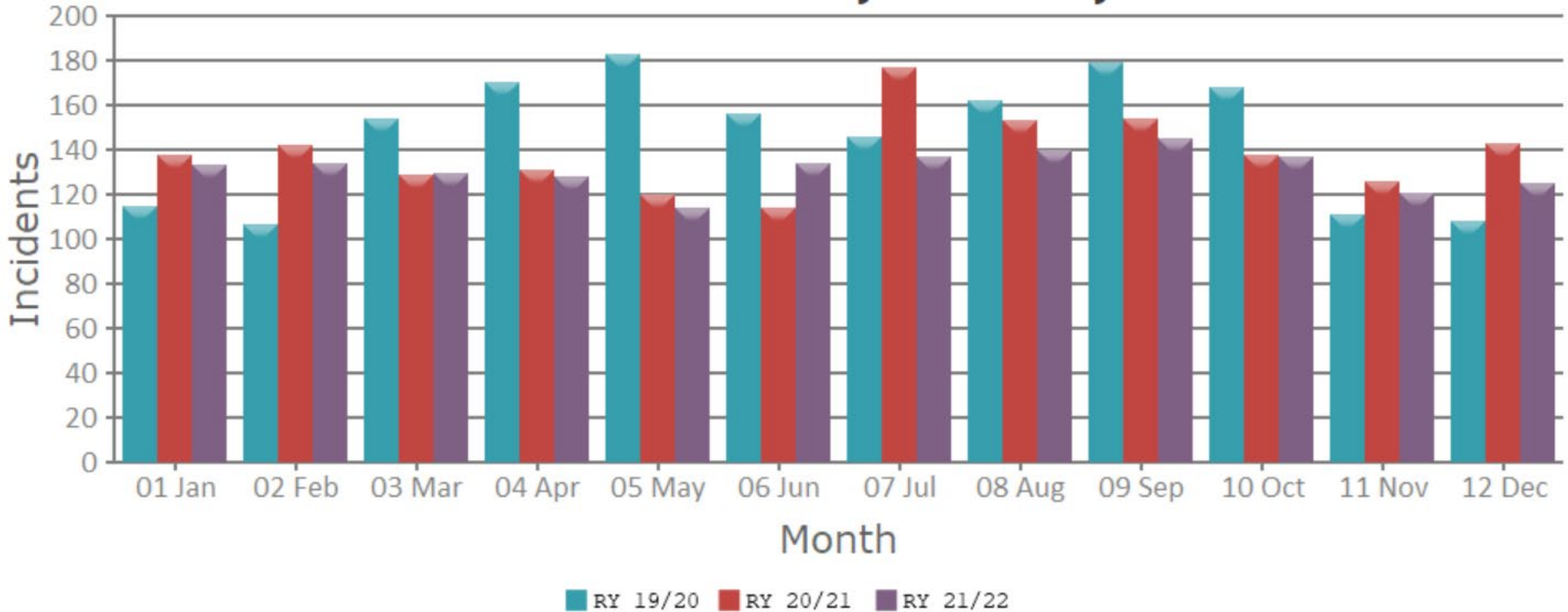
## Number of Incidents by Year





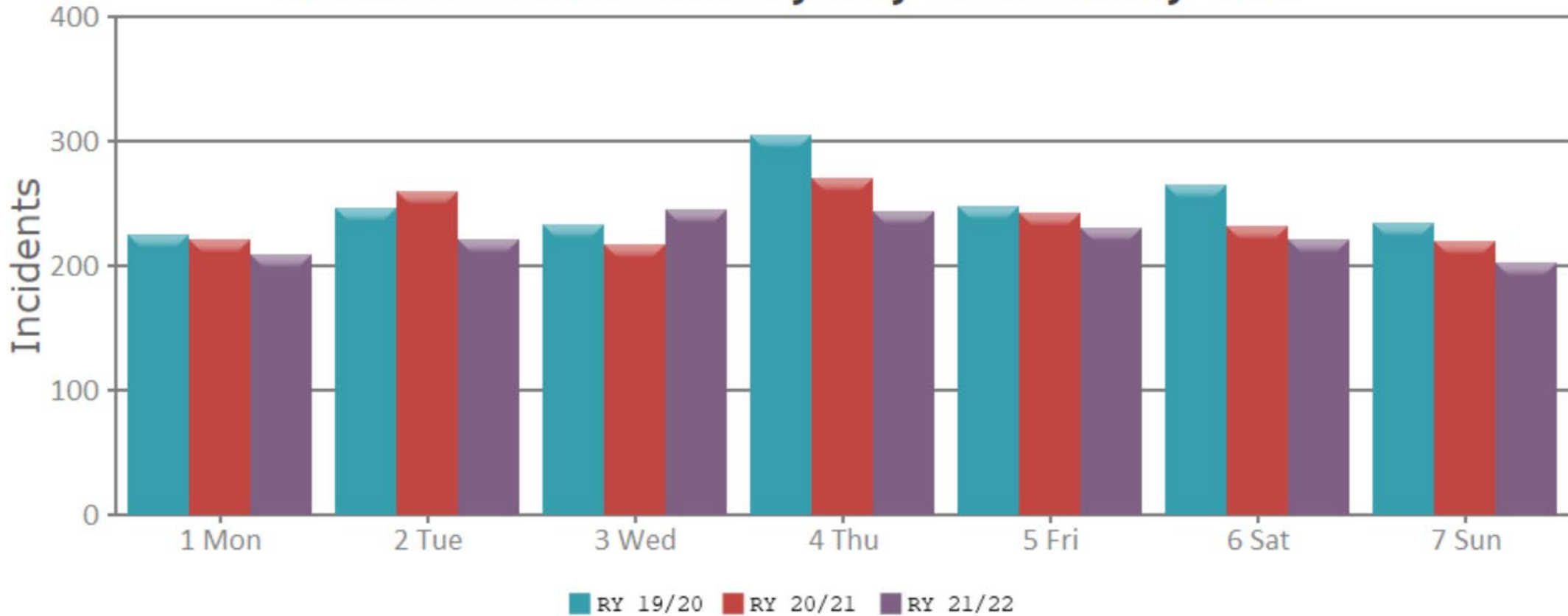
# Incidents per Month (19/20, 20/21, 21/22)

## Number of Incidents by Month by Year

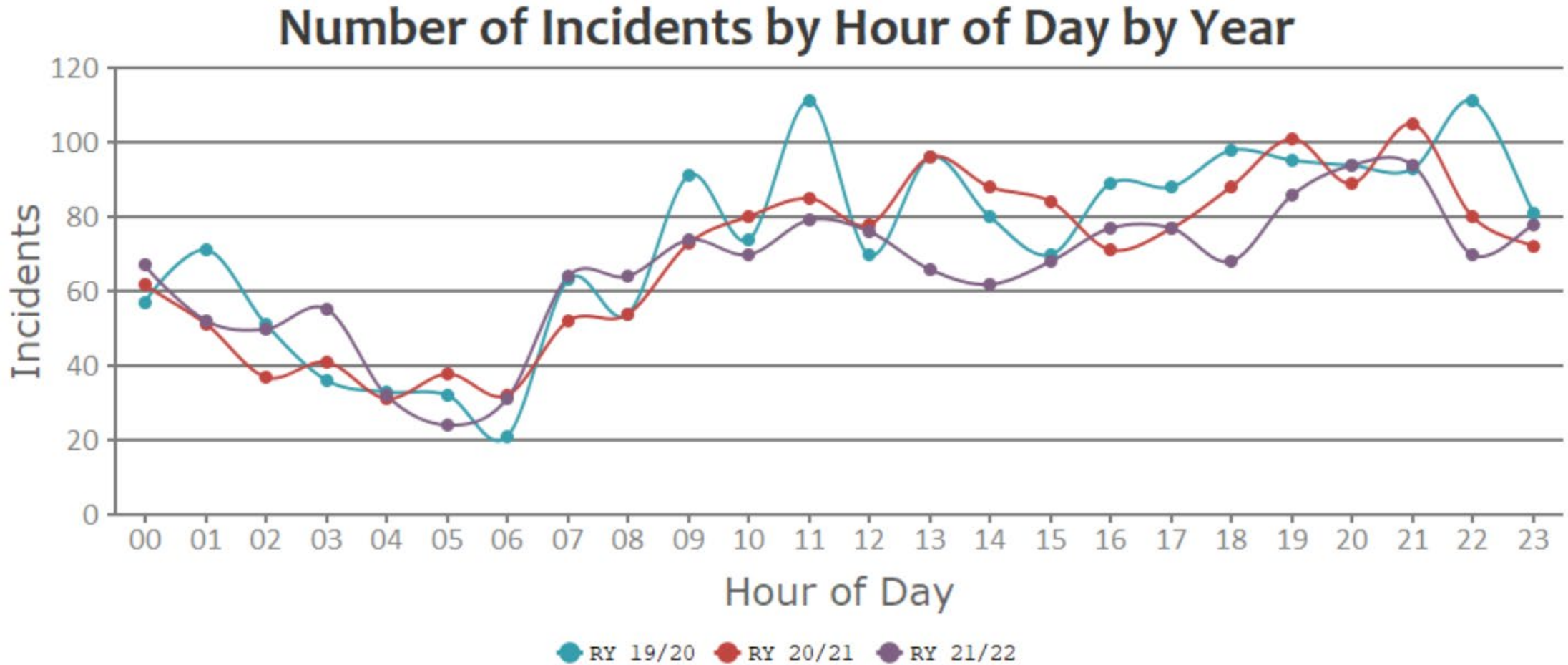


# Incidents by Day of Week (19/20, 20/21, 21/22 )

### Number of Incidents by Day of Week by Year



# Incidents by Time of Day (19/20, 20/21, 21/22)



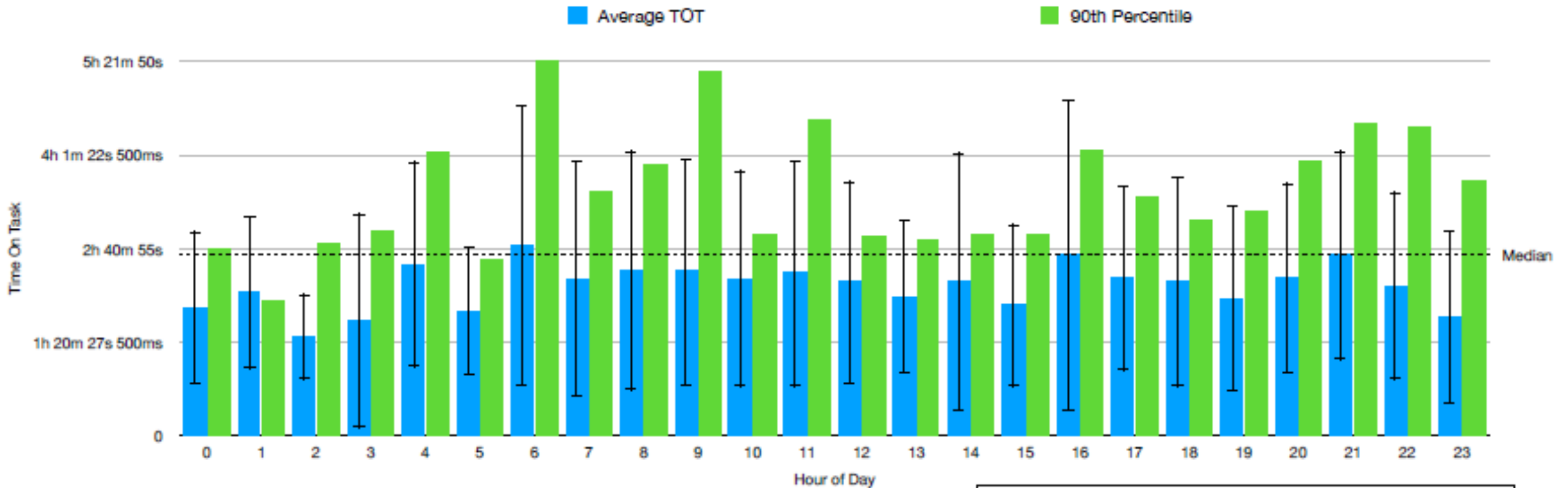
# Time on Task: Summary (2021)

The needs to ensure there is a resource to respond to the **1482** calls for service. **1131** of those calls resulted in a transport.

The average time it takes to handle a mental health transport is **2h 10m (+/- 90 minutes)**.

2021	
# Mental Health Dispatches	1482
# Mental Health Transports	1131
90 <sup>th</sup> %ile Task Time	3h 45m
Average	2h 10m
STDEV for 2021 Total	1h 29m

# Time on Task (2021)



The Error Bars represent the variability in Task-Time for any single 5150 call.

# Simultaneous Incidents (1 or More)

	1 Mon	2 Tue	3 Wed	4 Thu	5 Fri	6 Sat	7 Sun	Total
00:00-00:59	11	17	7	11	15	12	9	82
01:00-01:59	10	7	4	12	11	5	10	59
02:00-02:59	5	10	10	13	6	9	4	57
03:00-03:59	8	9	7	8	8	5	5	50
04:00-04:59	5	2	9	7	2	5	4	34
05:00-05:59	2	7	2	4	4	7	8	34
06:00-06:59	9	4	7	6	3	4	3	36
07:00-07:59	5	6	9	15	14	12	11	72
08:00-08:59	7	7	16	16	14	7	4	71
09:00-09:59	17	19	11	22	17	13	9	108
10:00-10:59	11	15	17	21	16	14	6	100
11:00-11:59	20	21	8	13	18	16	18	114
12:00-12:59	18	16	10	16	8	9	18	95
13:00-13:59	24	23	16	18	16	12	14	123
14:00-14:59	17	17	12	14	15	10	14	99
15:00-15:59	14	18	13	22	5	18	10	100
16:00-16:59	17	13	16	22	14	15	2	99
17:00-17:59	12	5	17	23	13	23	7	100
18:00-18:59	10	10	19	16	12	17	16	100
19:00-19:59	16	11	13	25	23	16	27	131
20:00-20:59	10	19	9	24	17	17	17	113
21:00-21:59	14	19	23	20	27	11	12	126
22:00-22:59	10	13	21	14	18	15	19	110
23:00-23:59	13	15	15	10	19	15	14	101
Total	285	303	291	372	315	287	261	2,114

(19/20, 20/21, 21/22 )

# Simultaneous Incidents (2 or More)

	1 Mon	2 Tue	3 Wed	4 Thu	5 Fri	6 Sat	7 Sun	Total
00:00-00:59	3	4	2	3	0	4	3	19
01:00-01:59	2	0	2	4	2	2	2	14
02:00-02:59	2	1	1	4	3	3	0	14
03:00-03:59	2	3	1	2	0	2	0	10
04:00-04:59	0	0	1	2	0	0	2	5
05:00-05:59	1	0	0	0	0	0	0	1
06:00-06:59	2	0	1	1	0	0	0	4
07:00-07:59	1	0	0	3	3	1	0	8
08:00-08:59	3	0	5	2	4	0	1	15
09:00-09:59	3	8	2	8	7	2	2	32
10:00-10:59	2	5	5	10	5	5	1	33
11:00-11:59	7	7	1	3	10	6	8	42
12:00-12:59	6	7	3	6	1	4	6	33
13:00-13:59	9	5	9	3	9	1	5	41
14:00-14:59	11	8	1	8	7	2	2	39
15:00-15:59	6	4	4	10	1	4	3	32
16:00-16:59	4	4	5	6	3	5	0	27
17:00-17:59	2	3	6	12	5	6	1	35
18:00-18:59	3	4	8	10	4	4	3	36
19:00-19:59	5	4	7	9	7	5	11	48
20:00-20:59	3	10	2	10	4	10	7	46
21:00-21:59	4	8	4	10	7	9	5	47
22:00-22:59	0	2	3	3	6	4	6	24
23:00-23:59	6	9	6	7	8	3	5	44
Total	87	96	79	136	96	82	73	649

(19/20, 20/21, 21/22 )

# Problem Statement

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There will be a sustained need for the transport of mental health patients for the foreseeable future.

SCU nor the Fire Department is able to absorb this volume without additional funding and implementation time.



BERKELEY FIRE

PARAMEDIC

M5

CA EXEMPT  
1601616

NORTH STAR

# Potential Solutions

Developed by: Berkeley Fire Department, Health, Housing, and Community Services, & the City Manager's Office

# Specialty Care Unit (SCU)

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- Unknown what impact SCU will have on transport volume
- Inefficient use of an expensive, specialized resource
- Additional funds would be required to increase the number of units staffed
- Unknown implementation time

# Fire Department

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- Additional funds would be required to increase number of ambulances and staffing
  - Purchase of additional ambulances
  - Recruitment and hiring of Emergency Medical Technicians (EMT)
- Ramp up period of 18 – 24 months
- Challenged for storage and deployment

# External Contractor

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- Contract already in place
- Primary unit is backed up by system ambulances
- More easily phased out than internal resources

# Recommendations

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- Maintain private contract funded by Measure P
- Allow SCU to be implemented
- Monitor incident and transport volume
- Return to Council annually with updated data, analysis, and recommendations



Health, Housing & Community Services  
Office of the Director

October 13, 2022

To: Budget & Finance Policy Committee  
From: Lisa Warhuus, Director, Health, Housing and Community Services  
Subject: Update on the Implementation of the Specialized Care Unit and Community Crisis Response Services

### CURRENT SITUATION AND ITS EFFECTS

This report provides an update to the implementation of the Specialized Care Unit (SCU) and community crisis response services (Bridge Services) as well as outlines the proposed project plan to evaluate both programs.

### BACKGROUND

As part of the larger effort to Reimagine Public Safety, the City of Berkeley contracted with Resource Development Associates (RDA) to conduct a feasibility study for a Specialized Care Unit (SCU), an alternative behavior health model, which includes mental health and substance use crises, and does not involve law enforcement. After additional analysis by the SCU Steering Committee, a group consisting of City staff and community members representing the Mental Health Commission and Berkeley Community Safety Coalition, the design for a Berkeley-specific Specialized Care Unit was complete. HHCS presented on behalf of the Specialized Care Unit at multiple City Council Meetings to confirm the design of the team prior to moving forward.

Concurrent to this design process, in July 2021, the Mayor and City Council allocated \$1.2 million of American Rescue Plan Act (ARPA SLFRF) funds to create community crisis response services, which would serve as a bridge to the SCU. Three community providers were awarded contracts to provide specific behavioral health services to underserved Berkeley populations. Contracted organizations include:

- Options Recovery Services received \$640,000 to create outreach teams of Substance Use Disorder (SUD) navigators and provide referrals to various SUD and Mental Health services.
- Alameda County Network of Mental Health Clients, Berkeley Drop-In Center (BDIC) received \$390,000 to provide post-crisis counseling services, wellness space, and outreach in a 5-block radius around the Drop-In Center.
- Women's Daytime Drop-In Center (WDDC) received \$120,000 to hire a mental health counselor who provides both individual as well as group counseling to WDDC clients.

### Community Crisis Response (Bridge) Services

All three of the community partners have ramped up their community crisis response services for the Berkeley community. The following is an update on the cumulative services provided since the onset of these programs:

- Options Recovery Services: The Options Recovery Substance Use Disorder (SUD) Navigators have made over 200 contacts, some duplicated, and provided over 170 referrals. Options SUD Navigators are performing outreach at various encampments and homeless shelters around Berkeley. Some locations include Civic Center Park, Horizon Center, 8<sup>th</sup> and Harrison, Aquatic Park, and many other locations. Options provided referrals to the Berkeley Drop-In Center, LifeLong Street Medicine, Bay Area Community Services, and the Department of Veteran's Affairs among others.
- Women's Daytime Drop-In Center: WDDC hired their Mental Health Counselor in summer 2022. Since starting in June, the Counselor has held over 65 counseling meetings with over 40 unique clients. WDDC will be expanding their services to also facilitate group counseling sessions in the coming months.
- Berkeley Drop-In Center: BDIC continues to make facility improvements for their respite and wellness spaces while also training staff to perform outreach services in the 5-block radius of the drop-in center.

#### Specialized Care Unit Implementation Update

The City of Berkeley released a Request for Proposals (RFP) to contract with a local community organization to serve as the provider for the SCU. The RFP was open from June 30 to August 23, and a review panel is currently reviewing responses to select a provider for the Mayor and City Council to approve before the end of the calendar year.

#### Program Evaluation

The City of Berkeley will be working with Resource Development Associates (RDA) to perform a program evaluation of the Community Crisis Response Services and design performance metrics and evaluation plan for the Specialized Care Unit.

In Fall 2020, RDA was selected through a competitive bid process to provide an extensive research, community engagement, and recommendations to create the framework for the Specialized Care Unit. This process involved working across multiple Berkeley stakeholder groups, including service utilizers, and in-depth research regarding crisis response systems to best inform a behavioral crisis response model to meet Berkeley's needs.

Working with RDA will allow for a quick turnaround of deliverables to create an evaluation program for both the SCU Bridge Services as well as the SCU pilot program given their preexisting work to support this initiative.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

There are no identifiable environmental effects or opportunities associated with the subject of this report.

CONTACT PERSON

Lisa Warhuus, Director, Health, Housing & Community Services Department, (510) 981-5404.





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.<sup>1</sup> 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.<sup>2</sup> 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.

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<sup>1</sup> History of the City's bond issuances compiled with the help of the City Clerk.

<sup>2</sup> Visit [probabilitymanagement.org](http://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.<sup>3</sup> 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

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<sup>3</sup> 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 percentages 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.<sup>4</sup>

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.<sup>5</sup> 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.

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

<sup>5</sup> 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.<sup>6</sup> 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).

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<sup>6</sup> 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.<sup>7</sup> 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				

<sup>7</sup> 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.<sup>8</sup> 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	3	4	5	6	7	8	9	10	11	12
<b>VALUES FOR INDICATORS</b>											
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
<b>SCORE FOR DEBT &amp; PENSION INDICATORS (1 THRU 6 SCALE)</b>											
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
<b>SCORE FOR TOTAL OF ALL INDICATORS (1 THRU 6 SCALE)</b>											
	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

<sup>8</sup> 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.<sup>9</sup> However, when dealing with uncertainty, even the best decision may not lead to a good outcome, if luck goes against you.<sup>10</sup>

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<sup>9</sup> “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/>.

<sup>10</sup> 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.