



Office of the City Manager

Date: November 9, 2022
To: Budget & Finance Policy Committee
From: Dee Williams-Ridley, City Manager
Submitted by: Sharon Friedrichsen, Budget Manager
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Subject: Preliminary Fiscal Year 2022 Year-End Financial Status

INTRODUCTION

This budget update presents the preliminary Fiscal Year 2022 (FY 2022) Year-End financial status. The FY 2022 Year-End budget summary covers the period starting July 1, 2021, through June 30, 2022 (FY 2022) and is based on unaudited estimated actuals. The information is considered preliminary and subject to change as the citywide financial statements and annual comprehensive financial report are being finalized.

CURRENT SITUATION AND ITS EFFECTS

FY 2022 Year-End Summary

General Fund

On June 29, 2021, the City Council adopted the FY 2022 budget (Adopted Budget).¹ The FY 2022 adopted General Fund revenues totaled \$236.1 million. The unaudited estimated actual FY 2022 year-end General Fund revenues generated \$284.5 million.

The FY 2022 Adopted Budget included General Fund expenditures totaling \$234.8 million. During the fiscal year, two Adjustments to the Appropriation Ordinance occurred totaling \$32 million, which increased the total FY 2022 General Fund expenditure budget to \$266.7 million². As part of the FY 2022 year-end process, encumbrances, or planned expenditures for services and goods that did not materialize by June 30, 2022, are carried forward to the next fiscal year. This process results in two outcomes: (1) the FY 2022 year-end expenditure budget is adjusted to \$254.9 and (2) the FY 2023 Adopted Budget increases by \$12.2 million. However, due to underspending, the FY 2022 year-end unaudited General Fund expenditures totaled \$249.3 million.

¹ <https://berkeleyca.gov/sites/default/files/documents/2021-06-29%20Item%2029%20FY%202022%20Budget%20Adoption.pdf> (Items 29 & 30)

² <https://berkeleyca.gov/sites/default/files/2022-04/2022-05-10%20Item%2007%20Amendment%20%20FY%202022%20Annual.pdf>

Revenues

At FY 2022 year-end, unaudited actual General Fund revenues generated \$284.5 million, or \$48.4 million more than the adopted budget of \$236.1 million.

During FY 2022, General Fund revenue and transfers increased by \$52,499,805 or 22.6% from FY 2021, from \$232,028,200 to \$284,528,005, despite Transfers of \$11.4 million from the City's reserve funds (\$6.9 million from the Stabilization Reserve Fund and \$4.5 million from the Catastrophic Reserve Fund in FY 2021) to mitigate the negative impacts of the COVID-19 pandemic in FY 2021. This increase was primarily due to the following:

- 1) A recovery of some business-related revenues from huge drops related to the pandemic: Sales Taxes (+3,135,973); Transient Occupancy Tax (TOT) (+3,434,566); Business License Taxes (+2,594,642); and Parking Fines (+1,194,428);
- 2) Extraordinary increases in Property Transfer Tax revenue (+21,431,795) and Measure P Tax revenue (+9,671,737);
- 3) Receipt of American Rescue Plan transfer of \$22,969,355; and,
- 4) Expected growth from other property-related tax revenue: Secured Property Taxes (+3,441,406); and, Vehicle in Lieu Tax revenue (+625,550).

Attachment 1 includes a detailed chart on General Fund Revenues and Transfers in FY 2022 compared to FY 2021 to accompany the narrative below.

Secured Property Tax (+\$3,441,406 more than FY 2021 Actual)

During FY 2022, Secured Property Tax revenues totaled \$71,607,561, which was \$3,441,406 or 5.05% more than the \$68,166,155 received for FY 2021. This was consistent with the County's Certification of Assessed Valuation growth of 4.48%. The difference between the growth reflected on the County's Certification of Assessed Valuation and the actual amount received is typically the difference in the amount of uncollected tax at the end of the two years (receivable). The FY 2022 total of \$71,607,561 was \$225,561 more than the adopted budget amount of \$71,382,000.

Unsecured Property Tax (+\$23,922 more than FY 2021 Actual)

During FY 2022, Unsecured Property Tax revenues totaled \$3,472,334, which was \$23,922 or .69% more than the \$3,448,412 received in FY 2021. The County's Certification of Assessed Valuation reflected growth of 1.96% for FY 2022. The difference between the growth reflected on the County's Certification of Assessed Valuation and the actual amount received is typically the difference in the amount of uncollected tax at the end of the two years (receivable). The FY 2022 total of \$3,472,334 was \$847,334 more than the adopted budget amount of \$2,625,000.

Property Transfer Tax (+\$21,431,795 more than FY 2021 Actual)

Property Transfer Taxes totaling \$42,901,750 was received during FY 2022, which was \$21,431,795 or 99.8% more than the \$21,469,955 received in FY 2021.

The increase was a result of an 88.6% increase in the property sales amount in FY 2022 versus those in FY 2021, which resulted from an increase of 14% in the number of property sales transactions, from 1,108 in FY 2021 to 1,263 in FY 2022. In addition, this included 25 property sales transactions with a value of \$10 million or more (average of \$26.9 million) in FY 2022 versus 10 such transactions in FY 2021 (average of \$33.8 million). Another factor is that \$3,384,375 of that \$21,431,795 increase resulted from the late payment of the May 2021 Property Transfer Taxes by the County, which should have been received in FY 2021. The amount of \$42,901,750 received in FY 2022 was \$21,901,750 more than the adopted budget amount of \$21,000,000.

Measure P Tax (+\$9,671,737 more than FY 2021 Actual)

Measure P taxes (a tax which took effect on December 21, 2018) of \$20,591,313 was collected during FY 2022, which was \$9,671,737 or 88.6% more than the \$10,919,576 collected during FY 2021. The increase was a result of (1) a 88.6% increase in the property sales amount of \$2.06 billion in FY 2022 versus \$1.09 billion in FY 2021; (2) a 44.0% increase in the number of property sales transactions with a value of \$1.5 million or more, from 399 in FY 2021 to 575 in FY 2022; and (3) 25 property sales transactions with a value of \$10 million or more (average of \$26.9 million) in FY 2022 versus 10 such transactions in FY 2021 (average of \$33.8 million), accounting for an increase of \$8,353,228 in FY 2022 related to these transactions. The amount of \$20,591,313 received in FY 2022 was \$12,091,313 more than the adopted budget amount of \$8,500,000.

Sales Tax (+\$3,135,973 more than FY 2021 Actual)

During FY 2022, Sales Tax revenue totaled \$18,928,278, which was \$3,135,973 or 19.9% more than the \$15,792,305 received in FY 2021. The amount of \$18,928,278 received in FY 2022 put Sales Tax revenue above the pre-pandemic level and was \$641,063 more than the adopted budget amount of \$18,287,215. The increase in FY 2022 was primarily due to increases in the following categories:

- Restaurants (+1,060,405);
- Service Stations (+378,555);
- Apparel Stores (+148,380);
- Auto Sales-New (+292,911);
- Building materials-retail (+127,379);
- Building materials-wholesale (+260,485);
- Furniture/Appliances (+179,442);
- Miscellaneous Retail (+308,844); and,
- County Pool (+327,493).

Utility Users Taxes (+\$857,866 more than FY 2021 Actual)

Utility Users Tax (UUT) revenue for FY 2022 totaled \$14,750,065, which was \$857,865 or 6.18% more than the \$13,892,200 received in FY 2021. The increase in FY 2022 was primarily attributable to decreases in Telephone (-\$100,183), Cellular (-\$160,037) and Cable (-\$136,800), which were more than offset by increases in Gas (+\$164,499) and Electric (+\$616,825), as shown on the chart on the next page.

UUT revenue in FY 2022 was above pre-pandemic levels and was \$1,750,065 or 13.5% more than the adopted budget amount of \$13,000,000.

FY 2022 UUT Actual Revenues and FY 2021 Actual Revenues

	FY2022	FY 2021	Dollar Change	Percent Change
Telephone	\$ 1,178,972	\$ 1,279,924	\$ -100,952	-7.89%
Cable	1,051,052	993,986	57,065	5.74%
Cellular	1,677,723	1,690,798	- 13,075	-.77%
Electric	7,432,925	7,115,383	317,541	4.46%
Gas	3,409,394	2,812,107	597,287	21.24%
Total	\$ 14,750,065	\$13,892,199	\$ 857,866	6.18%

Transient Occupancy Tax (+\$3,434,566 more than FY 2021 Actual)

Transient Occupancy Tax (TOT) revenue for FY 2022 totaled \$5,727,046, which was \$3,434,566 or 149.8% more than the \$2,292,480 received in FY 2021. The increase in FY 2022 was primarily attributable to an increase of 124.9% at the five largest hotels in Berkeley and the addition of another large hotel mid-year FY 2022. The increases (including the new hotel in the fourth quarter) were 142.8% in the first quarter, 157.1% in the second quarter, 151.0% in the third quarter and 203.9% in the fourth quarter. The range of increases at the five largest individual hotels was 9.1% to 362.5%, with an average increase of 168.7%. TOT revenue in FY 2022 was \$3,554,046 or 263.6% more than the adopted budget amount of \$2,173,000.

Business License Taxes (+\$2,594,642 more than FY 2021 Actual)

Business license Taxes (BLT) revenue for FY 2022 totaled \$20,403,974, which was \$2,594,642 or 14.6% more than the \$17,809,332 received in FY 2021. This increase primarily resulted from the increase of \$1,427,361 in Rental of Real Property, from \$7,383,968 in FY 2021 to \$8,811,329; and the increase of \$979,925 in the Professional/Semi Professional category, from \$5,165,139 in FY 2021 to \$6,145,064 in FY 2022. BLT revenue in FY 2022 was \$1,905,828 or 10.3% more than the adopted budget amount of \$18,498,146.

U1 Business License Taxes (+\$95,132 more than FY 2021 Actual)

During FY 2022, U1 Business License Tax revenue totaled \$4,913,872 which was \$95,132 more than the \$4,818,740 received in FY 2021. The \$4,913,872 collected in FY 2021 was \$206,478 less than the adopted budget amount of \$5,120,350.

Vehicle In Lieu Taxes (+\$625,550 more than FY 2021 Actual)

Vehicle in Lieu Taxes (VLF) for FY 2022 totaled \$15,006,003, which was \$625,550 or 4.35% more than the \$14,380,453 received in FY 2021. This increase is consistent with the County's Certification of Assessed Valuation, which reflects growth of 4.48%. Changes in VLF revenues are based on the growth in assessed values. The amount of \$15,006,003 received in FY 2022 was \$46,166 or .3% more than the adopted budget amount of \$14,959,837.

Parking Fines (+\$1,194,428 more than FY 2021 Actual)

Parking Fines revenue for FY 2022 totaled \$4,765,819, which was \$1,194,428 or 33.4% more than the \$3,571,391 received in FY 2021. The primary reasons for the increase were (1) a significant increase in ticket writing: During FY 2022, ticket writing increased by 16,133 or 14.9% from 108,352 in FY 2021 to 124,485 in FY 2022; and (2) a decrease in outstanding citations receivable. The Ticket Aging Report showed a decline in the unpaid citations receivable balance from \$2,749,950 at FY 2021 year end to \$2,265,646 at June 30, 2022. The amount of \$4,765,819 received in FY 2022 was \$1,039,369 or 27.8% more than the adopted budget amount of \$3,726,450.

Interest Income (+\$776,400 more than FY 2021 Actual)

Interest income for FY 2022, totaled \$6,694,122, which was \$776,400 or 13.1% more than the total of \$5,917,722 received in FY 2021. This increase was primarily attributable to (1) A 15.9% increase in the average book value of investments from \$512,070,969 in FY 2021 to \$593,670,627 in FY 2022; and (2) A slight increase in the average net interest rate earned by the City. This increase of \$776,400 occurred despite the Fed's actions to keep short-term rates near zero up until Mid-March 2022. Up to that point in time, the net interest rate earned by the City had declined from a monthly average of 1.08% in FY 2021 to .99% in FY 2022.

Starting in mid-March 2022, the Federal Reserve then raised the Federal Funds rate three times before the end of FY 2022, in order to deal with the very high inflation (.25% on March 17, 2022; .50% on May 5, 2022; and .75% on June 16, 2022, for a total of 1.50%). After the Federal Reserve made these moves, the City's average net interest rate earned increased to 1.06% by year end, versus 1.01% for FY 2021. The amount of \$6,694,122 received in FY 2022 was \$2,231,802 or 50.0% more than the adopted budget amount of \$4,462,320.

Ambulance Fees (+\$752,526 more than FY 2021 Actual)

For FY 2022, Ambulance Fee revenue totaled \$3,833,730, which was \$752,526 or 24.4% more than the \$3,081,204 received in FY 2021. This increase was primarily due to a recovery from the impact of the COVID-19 pandemic, which resulted in more transports in FY 2022 than there were in FY 2021. The total of \$3,833,730 collected was \$679,728 more than the FY 2022 adopted budget amount of \$3,154,002.

Other Revenues (-\$2,808,669 less than FY 2021 Actual)

Other Revenues consists of licenses and permits; grants; preferential parking fees; general government charges for services; public safety charges for services; health charges for services; culture and recreation charges for services; rents and royalties; and other miscellaneous revenues that are not considered major. Other Revenues for FY 2022 totaled \$7,546,099 which was \$2,808,669 or 27.1% less than the \$10,354,768 received in FY 2021. This decrease resulted primarily from the FY 2021 receipt of (1) \$1,500,000 from the COVID Relief Program; (2) \$704,000 from the East Bay Community Foundation for the Berkeley Relief Fund, to finance grant payments to assist businesses and nonprofit organizations impacted by the COVID-19 pandemic; and, (3) \$465,000 in operating grants received in FY 2021.

The amount of \$7,538,980 received in FY 2022 was \$816,122 or 12.1% more than the adopted budget amount of \$6,729,977.

Indirect Cost Reimbursements (-\$270,319 less than FY 2021 Actual)

Indirect Cost Reimbursements (IDC) for FY 2022 totaled \$5,074,695, which was \$270,319 or 5.06% less than the \$5,345,014 received in FY 2021. This decrease was primarily accounted for by a decline in the indirect cost rates calculated for FY 2022 (a range of 17-18%) compared to the rates calculated in FY 2021 (a range of 19.18%-20.44%). The amount of \$5,074,695 received in FY 2022 was \$415,305 or 7.6% less than the adopted budget amount of \$5,490,000.

Transfers (+\$6,174,161 more than FY 2021 Actual)

Transfers from other funds for FY 2022 totaled \$27,354,923, which was \$6,174,161 or 29.1% more than the \$21,180,762 (including transfers from the Reserve Funds) received in FY 2021. This was primarily attributable to the Transfer of \$22,969,355 from the American Rescue Plan Fund in FY 2022 compared to transfers from the Reserve Funds of \$11,400,000 in FY 2021.

Expenditures

Unaudited actual FY 2022 General Fund expenditures total \$249.3 million, or \$20.2 million more than the initial adopted budget of \$234.8 million and \$5.7 million less than the adjusted budget of \$255 million. The FY 2022 General Fund budget contained \$8.7 million in budget deferrals to help balance the \$27.2 million deficit the City faced as a result of the pandemic. The majority of deferrals, totaling \$8.5 million, consisted of personnel deferrals. During the year, departments were allowed to hire General Fund vacancies on a case by case basis after a detailed review by the City Manager. However, the salary savings achieved during the fiscal year did not fully offset total personnel deferrals largely due to overtime costs incurred in the Police and Fire Departments primarily related to the pandemic. In the end, the General Fund personnel budget finished under budget by only \$271,549. Non-personnel savings totaled approximately \$5.4 million, primarily due to delays in projects. (Funding for several ongoing projects is requested to carry into FY 2023 as part of a separate agenda item related to the FY 2023 AAO#1.) The chart below summarizes unaudited expenditures compared to the budget by department.

Department	FY 2022 Adopted	FY 2022 Adjusted	Year-End Actuals	Balance (Adjusted- Actual)	Percent Expended
Mayor & Council	3,096,559	3,861,710	3,334,707	527,003	86%
Auditor	2,705,379	2,823,432	2,627,179	196,253	93%
Police Accountability	1,114,235	1,153,125	808,594	344,531	70%
City Manager	10,912,354	13,709,023	12,034,753	1,674,270	88%
City Attorney	3,434,164	2,782,943	2,648,007	134,936	95%
City Clerk	2,396,737	2,641,057	2,235,191	405,866	85%
Finance	7,041,962	7,549,640	6,827,435	722,205	90%
Human Resources	2,407,724	2,780,494	2,052,892	727,602	74%
Information Technology	1,526,760	2,813,978	1,446,932	1,367,046	51%
Health, Housing & Community Services	23,455,690	36,062,989	32,619,368	3,443,621	90%
Parks, Recreation and Waterfront	7,675,564	9,676,531	8,755,061	921,470	90%
Planning	2,325,367	2,844,995	2,629,757	215,238	92%
Public Works	4,742,625	10,666,639	6,859,823	3,806,816	64%
Police	73,228,172	75,821,558	77,916,629	(2,095,071)	103%
Fire	37,023,939	39,532,664	43,406,931	(3,874,267)	110%
Non-Departmental	51,669,260	40,261,139	43,112,577	(2,851,438)	107%
Total	234,756,491	254,981,917	249,315,837	5,666,080	98%

Significant General Fund Variances

- City Manager's Office (+\$1,674,270) due to salary savings from vacant positions (\$704,533) and under spending of non-personnel funds (\$969,737).
- Finance (+\$722,205) due to salary savings from vacant positions (\$658,600).
- Human Resources (+\$727,605) due to salary savings from vacant positions (\$530,955).
- Information Technology (+\$1,367,046) due to project funds not being fully spent in FY 2022 as the department had significant staffing vacancies.
- Health, Housing and Community Services (+\$3,443,521) due to staffing vacancies during the year close to \$2 million in FY 2022. The remainder was due to unspent non-personnel funds. Some of the non-personnel funds for critical priority projects are being carried over to FY 2023 as part of AAO#1.
- Parks, Recreation & Waterfront (+\$921,470) due to salary savings from vacant positions (\$542,208) and the remainder was unspent non-personnel funds.
- Public Works (+\$3,806,816) primarily due to non-personnel and capital project funds not being completely spent in FY 2022. A significant amount of these funds will be carried over to FY 2023 as part of the AAO#1 for the following projects:
 - Cameras in Public Right of Way (+\$1,293,889)
 - EV Charging Stations (\$300,000)
 - Measure T1 Phase 2 Pathway Repairs/Improvements (\$99,897)
 - Council Budget Referral to the City Manager to improve Pedestrian Safety where Sidewalks are not provided (\$100,000)

- Equitable Clean Streets (+\$327,293)
- Clean & Livable Commons Initiative (+\$180,754)
- Dwight & California Intersection Improvements (+\$84,370)
- Budget Referral – Bike & Pedestrian Safety – Oxford Street (+\$75,000)
- Budget Referral – Bike & Pedestrian Safety Improvement Reservation (+\$100,000)
- FY 2022 Tier 1 Request – Dwight Triangle (+\$100,000)
- Budget Referral Traffic Calming Pedestrian Access – Cragmont (\$150,000)
- Police (-\$2,095,071) began FY 2022 with a General Fund salary savings deferral target of \$6,699,464, which was deducted at the beginning of the fiscal year to help balance the FY 2022 General Fund budget. During the year, salary savings from vacant Sworn Police Office positions generated \$5,065,634. However, overtime expenses were almost \$2 million over budget despite the addition of \$3.5 million to the overtime budget as part of the FY 2022 Adopted Budget due to maintaining essential public safety service during the pandemic and with vacancies. The overall General Fund personnel budget exceeded the budgeted amount almost \$2.5 million. Non-personnel savings of approximately \$361,000 reduced the overage to final amount of \$2,095,071.
- Fire (-\$3,874,267) primarily due to the personnel budget being over budget by almost \$3.8 million. Timing related to implementation of the FY 2022 labor contracts contributed about \$2.9 million toward the overage. In FY 2022, funds were budgeted for cost of living increases as part of the new labor contract; however, the amount was insufficient to cover prior year payroll corrections, the total cost of salary increases, step increases, new additional pays and retirement costs. Uniform Fire Overtime was over budget by almost \$1.4 million in FY 2022 due to maintaining staffing levels despite vacancies and the pandemic. Savings in other personnel and non-personnel line items reduced the total overage to \$3.9 million.
- Non-Departmental (-\$2,851,438) includes savings for community agencies as a result of budgeting the allocation for Sugar Sweetened Beverage agencies at \$1.9 million, but only allocating \$1.2 million. In addition, various Council Budget Referrals were approved in FY 2022, and, due to timing, will carry into FY 202 as part of AAO#1:
 - Phase 2 of Civic Center District Visioning - \$200,000
 - Consultant for Implementation of Fair and Impartial Policing Recommendations - \$50,000
 - Durant Parklet and Telegraph Plaza Improvements - \$60,000
 - Berkeley Ceasefire - \$200,000
 - George Florence Park/10th Street Traffic Calming - \$220,000
 - Improve Pedestrian Safety where Sidewalks are Not Provided - \$100,000
 - Pilot Existing Building Electrification Installation Incentives and Just Transition Program - \$1,500,000

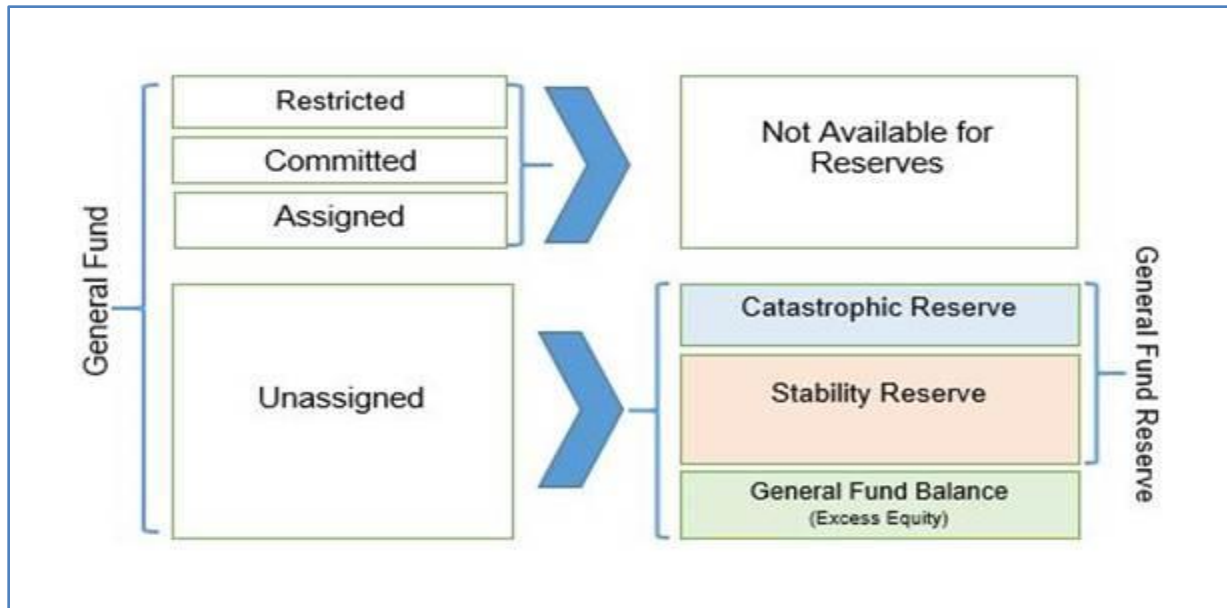
The savings was offset at the end of the year by an almost \$7 million transfer from the General Fund to other funds to cover negative cash balances that are considered a General Fund liability. This is an annual adjustment done as part of the year-end closing process and the amount being transferred is not something that can be anticipated until the year end closing process is completed by Finance.

Excess Equity

As part of a strategy that commenced in FY 2018 to help achieve the City’s intermediate and long-term General Fund Reserves goals, 50% of Excess Equity above the first \$1 million is allocated to General Fund Reserves. The chart below illustrates the FY 2022, \$1.60 million reserve calculation as well as the \$2.60 million calculation for the unassigned excess equity. An illustration of the excess equity in relation to the General Fund and reserves is also included on the next page for reference.

GENERAL FUND EXCESS EQUITY CALCULATION (EXCLUDES MEASURE P)*		
FY 2022 Beginning Balance	\$	19,806,333
FY 2022 Revenues	\$	263,936,692
FY 2022 Expenditures	\$	(236,342,638)
Available Balance	\$	<u>47,400,387</u>
Less:		
FY 2022 G. F. Encumbrances Restricted (AAO #1)	\$	(8,980,951)
FY 2022 G.F. Carryover (AAO #1)	\$	(6,263,403)
FY 2023 Other Adjustments (AAO #1)	\$	(673,412)
	\$	<u>(15,917,766)</u>
Available Balance After AAO #1 Items	\$	<u>31,482,621</u>
Less:		
Excess Property Transfer Tax to Balance FY 23 & 24 Operating Budget	\$	(17,268,170)
Excess Property Transfer Tax to Replenish Reserves	\$	(1,500,000)
Excess Property Transfer Tax Available for Capital	\$	(8,569,573)
	\$	<u>(27,337,743)</u>
Available Balance After Pre-Funding of Excess Property Transfer Tax	\$	<u>4,144,878</u>
Allocation to Reserves	\$	1,572,439
Excess Equity Balance	\$	2,572,439

* FY 2022 revenue and expenditure amounts differ from the totals referenced earlier due the removal of Measure P related dollars. Measure P has been deducted from the beginning balance, FY 2022 revenue and expenditures and encumbrances, carryovers and adjustments.



This diagram illustrates the relation between excess equity as well as other restricted, committed, and assigned General Fund monies.

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

General Fund Reserve

The General Fund Reserve is distinctly separate from the General Fund Balance (Excess Equity). On January 24, 2017, the City Council established Resolution No. 67,821 – N.S., a policy for the General Fund Reserves. The General Fund reserves are comprised of two elements: (1) a Stability Reserve and (2) a Catastrophic Reserve:

- The Stability Reserve was established to mitigate the loss of service delivery and financial risks associated with unexpected revenue shortfalls during a single fiscal year or during a prolonged recessionary period. The purpose of the Stability Reserve is to provide fiscal stability in response to unexpected downturns or revenue shortfalls. Fifty-five percent of the General Fund Reserve is allocated to the Stability Reserve.

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

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

During the FY 2023 & FY 2024 Biennial Budget process, the Council allocated a pre-funding amount of \$1.5 million in FY 2022 Excess Property Transfer Tax revenues to the reserves plus \$1.5 million from projected FY 2023 & FY 2024 Excess Property Transfer Tax revenues. This funding is in addition to the budgeted baseline amount of \$2.5 million each fiscal year to the reserves. The chart directly below illustrates the current status of the reserve funds and shows a reserve percentage of resulting in an actual Reserves level of 13.62%³.

General Fund Reserves	Stability Reserve	Catastrophic Reserve	Reserve Percentage
Beginning Cash Balance -	\$ 19.45	\$ 10.28	
FY 2023 Allocation to Reserves	\$ 3.03	\$ 2.48	
Allocation Percentage	55%	45%	
Ending Cash Balance - Reserves	\$ 22.48	\$ 12.76	13.62%

Measure U1 and Measure P

In November 2016 voters approved the passage of Measure U1 to support affordable housing. In November 2018 voters approved the passage of Measure P that increased funding for general municipal purposes such as navigation centers, mental health support, rehousing and other services for the homeless, including homeless seniors and youth. Although these are general fund revenues, the City keeps these revenue streams separate.

³ Catastrophic Reserve Fund Balance includes \$3.3 million loan to Camps Fund - Tuolumne Camp Project. Reserve Percentage based on the FY 2023 Adopted General Fund Revenues of \$258.7 million.

In FY 2021, a separate Measure U1 fund was established for expenditures using these funds with revenues occurring through a transfer of the U1 revenues from the General Fund to the U1 fund. The charts below summarize FY 2022 revenues and expenditures for these measures in the General Fund.

Measure U1	
FY 2022 Beginning U1 Balance	\$ 973,695
FY 2022 Actual Measure U1 Revenues	\$ 4,913,872
FY 2021 Measure U1 Expenditure Transfer	\$ (5,887,567)
FY 2021 Ending Measure U1 Balance	\$ -

Measure P	
FY 2022 Beginning Measure P Balance	\$ 17,032,464
FY 2022 Measure P Revenues	\$ 20,591,313
FY 2022 Measure P Expenditures	\$(13,179,677)
FY 2022 Encumbrances Restricted (AAO #1)	\$ (3,181,552)
FY 2022 Carryover (AAO #1)	\$ (88,566)
FY 2023 Other Adjustments (AAO #1)	\$ (1,660,885)
FY 2022 Ending Measure P Balance	\$ 19,513,097

Unfunded Liabilities- Section 115 Trust

Council held a Worksession on April 4, 2017 on the Projections of Future Liabilities - Options to Address Unfunded Liabilities Tied to Employee Benefits. The City’s outside actuary provided options for Council’s consideration to help reduce the City’s unfunded liabilities tied to post-employee benefits including the following recommendations:

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

On June 26, 2018, Council authorized the City Manager to establish an IRS Section 115 Pension Trust Fund (Trust) to be used to help pre-fund pension obligations. On May 14, 2019, Council authorized the City Manager to execute a contract with Keenan Financial Services to establish, maintain, and invest the pension Section 115 Trust. **The Section 115 Trust currently has a balance of \$14,762,850.42 as of June 30, 2022.**

All Funds

On an All Funds basis, the City is projected to finish FY 2022, \$134 million (17%) under the adjusted budget of \$793.1 million. These fund balances are largely due to uncompleted projects and personnel cost savings. The chart below summarizes unaudited expenditures compared to the budget by department.

Department	FY 2022 Adopted	FY 2022 Adjusted	Year-End Actuals (Adjusted-Actual)	Balance	Percent Expend
Mayor & Council	3,096,559	3,869,210	3,334,707	534,503	86%
Auditor	2,805,883	2,923,936	2,691,657	232,279	92%
Rent Board	6,825,535	6,891,959	5,803,127	1,088,832	84%
Police Accountability	1,114,235	1,153,125	808,594	344,531	70%
City Manager	13,852,717	21,985,234	18,417,011	3,568,223	84%
Library	25,566,341	25,111,400	18,476,577	6,634,823	74%
City Attorney	7,278,096	6,763,728	6,200,455	563,273	92%
City Clerk	2,901,739	3,146,059	2,402,277	743,782	76%
Finance	9,431,102	9,866,420	8,738,588	1,127,832	89%
Human Resources	4,438,053	4,810,823	3,574,288	1,236,535	74%
Information Technology	20,423,888	23,528,496	16,446,316	7,082,180	70%
Health, Housing & Community	84,514,926	115,301,717	91,780,016	23,521,701	80%
Parks, Recreation and Waterfront	52,979,556	78,811,600	63,541,966	15,269,634	81%
Planning	25,252,729	27,006,519	22,433,636	4,572,883	83%
Public Works	147,438,656	201,229,890	140,757,036	60,472,854	70%
Police	77,807,443	82,301,504	82,753,749	(452,245)	101%
Fire	60,351,430	62,807,578	58,014,192	4,793,386	92%
Non-Departmental	127,522,399	115,622,410	113,158,492	2,463,918	98%
Total	673,601,287	793,131,608	659,332,684	133,798,924	83%

Significant All Funds Variances

- Library (+\$6,634,823) due in large part to salary savings from vacant positions and supply chain issues delayed completion of purchases for circulation materials, facilities maintenance and Central Library renovation projects for FY2022.
- Information Technology (+\$7,082,180) was due to FUND\$ Replacement Funds and the IT Cost Allocation Fund not being fully spent in FY 2022.
- Health, Housing & Community Services (+\$23,521,701):
 - Of this amount, \$9.2 million in state grant funds designated for specific public and mental health activities, including \$6.6 million in Mental Health Services Act funds (Funds 156, 158, 315, and 316). These funds were unspent due to vacancies throughout the Mental Health and Public Health Divisions, including both existing difficult-to-fill positions and new positions budgeted for the full year but not filled until later in the fiscal year.
 - The next largest cluster of funds are the \$5.9 million in federal, state, and local funds designated for affordable housing and homeless activities (Funds 116, 128, 302, 310, 311, 333, and 347). Projects have been identified for virtually all of these funds.

- The relatively larger sums combined with lengthy and irregular timing inherent with affordable housing developments mean that expending these funds does not align with the fiscal year timing.
- Other funds include approximately \$2.2 million in COVID relief funds (Funds 312 and 336) which support the City's evolving pandemic response and have been carried over and added in FY 2023.
 - Parks Recreation and Waterfront (+\$15,269,634) had unspent funds due to personnel savings and unexpended project funds in the Playground Camp Fund, Parks Tax Fund, Measure T1 Fund, and the Marina Fund. Only certain unspent project funds will be carried over to FY 2023.
 - Public Works (+\$60,472,854) were largely due to the following:
 - State Transportation Tax (+\$4.2 million): \$0.6 million in salary savings and \$3.3 million in continuing projects for completion in FY 2023
 - Measure B – Local Streets & Roads (+\$2.5 million): \$0.6 million in salary savings and \$1.3 million in continuing projects for completion in FY 2023
 - Measure BB – Local Streets & Roads (+6.9 million): \$5.9 million in continuing projects for completion in FY 2023
 - Capital Improvement Fund (+\$7.3 million): \$0.7 million in salary savings and \$6.1 million in project fund carryover for transportation, street, facilities project funds in FY 2023
 - Measure T1 (+\$5.0 million): \$4.5 million in continuing projects in FY 2023
 - Sanitary Sewer (+\$9.4 million): \$1.5 million in salary savings and \$7.3 million in continuing projects in FY 2023
 - Equipment Maintenance (+\$1 million): \$0.8 million in salary savings
 - Building Maintenance (+\$1 million): \$0.7 million in salary savings

Next Steps

Staff will present second-quarter revenue and expenditure projections as part of the FY 2023 Mid-Year Update in February/March 2023.

ENVIRONMENTAL SUSTAINABILITY

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

CONTACT PERSON

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ATTACHMENT

Attachment 1: General Fund Revenues and Transfers in FY 2022 compared to FY 2021