



Office of the City Manager

ACTION CALENDAR

November 27, 2018

To: Honorable Mayor and Members of the City Council  
 From: Dee Williams-Ridley, City Manager  
 Submitted by: Teresa Berkeley-Simmons, Budget Manager  
 Subject: FY 2018 Year-End Results and FY 2019 First Quarter Budget Update

RECOMMENDATION

Discuss and determine funding allocations based on the FY 2018 General Fund Excess Equity for: 1) the General Fund Reserves and 2) the Mayor's June 26, 2018, Supplemental Budget Recommendations and the Council's Budget Referrals that were deferred to November 2018.

INTRODUCTION

This budget update presents the FY 2018 Year-End (Year-End) results as well as reports on the FY 2019 First Quarter. The FY 2018 Year-End budget summary covers the period starting July 1, 2017 through June 30, 2018 (FY 2018). This report also provides preliminary revenue information for the first quarter of the current fiscal year, 2019. The FY 2019 First Quarter Budget Update covers the period July 1, 2018 through September 30, 2018. The FY 2018 General Fund Year-End balance was \$45.48 million. Amounts restricted, committed, and assigned totaled \$24.13 million. Allocations to the General Fund reserves totaled \$10.18 million<sup>1</sup>. The amount of Unassigned Excess Equity totaled \$11.18 million.

The information in this report should be reviewed in conjunction with the Amendment to the FY 2019 Annual Appropriations Ordinance (AAO) also on tonight's agenda. The AAO establishes the expenditure limits by fund for FY 2019. The adopted budget is amended annually to reflect the re-appropriation of prior year funds for contractual commitments (i.e. encumbrances) as well as unencumbered carryover of unexpended funds previously authorized for one-time, non-recurring purposes. These budget modifications are presented to the Council twice a year in the form of an AAO. Included on tonight's agenda is the First Amendment to the FY 2019 Annual Appropriations Ordinance report (AAO#1). Information included in this Year-End report is supplemented by the detailed information included in the AAO#1.

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<sup>1</sup> Starting in FY 2018, to achieve the City's intermediate and long-term Reserves goals, 50% of Excess Equity above the first \$1M is allocated to Reserves. The General Fund Reserve consists of the total of the Stability Reserve and the Catastrophic Reserve.

Recommendations in the AAO#1 augments the adopted General Fund budget by \$13.1 million. The \$13.1 million includes encumbrances of \$5.45 million, unencumbered carry-over requests of \$4.99 million, and adjustments of \$2.65 million.

## CURRENT SITUATION AND ITS EFFECTS

### **FY 2018 Year-End Summary**

#### General Fund

On June 27, 2017, the City Council adopted the FY 2018 budget.<sup>2</sup> The FY 2018 adopted General Fund revenues were \$172.9 million, and the General Fund adopted expenditures were \$172.9 million, a balanced budget.

At FY 2018 year-end the General Fund actual revenues were \$198.6 million and the General Fund actual expenditures were \$182.1 million. The General Fund revenues exceeded the General Fund expenditures by \$16.5 million.

#### Revenues

At FY 2018 year-end, actual General Fund revenues were \$198.6 million. This was \$25.7 million above the adopted budget of \$172.9 million. The largest contributors to the revenue increase were Secured Property Tax, Property Transfer Tax, and Business License Tax generated from U1<sup>3</sup>. Together, these three revenue streams generated \$16.9 million over the FY 2018 adopted revenue budget amounts.

#### Expenditures

Actual FY 2018 General Fund expenditures were \$182.1 million. This was \$9.2 million above the initial adopted budget of \$172.9 million and \$11.6 million below the adjusted budget of \$193.7 million.<sup>4</sup>

The actual General Fund expenditures came in below the adjusted budget primarily due to salary savings and ongoing capital projects. Details of the carryover requests are included in the AAO#1 on tonight's agenda.

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<sup>2</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2017/06\\_June/City\\_Council\\_06-27-2017\\_-\\_Regular\\_Meeting\\_Agenda.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2017/06_June/City_Council_06-27-2017_-_Regular_Meeting_Agenda.aspx) (Items #47 & 48)

<sup>3</sup> Business License Tax of five or more units (U1)

<sup>4</sup> There were two FY 2018 Amendments to the Appropriation Ordinance one [December 5, 2017 \(Item A\)](#) and a second on [May 15, 2018 \(Item 4\)](#).

### Funding for Capital Improvements

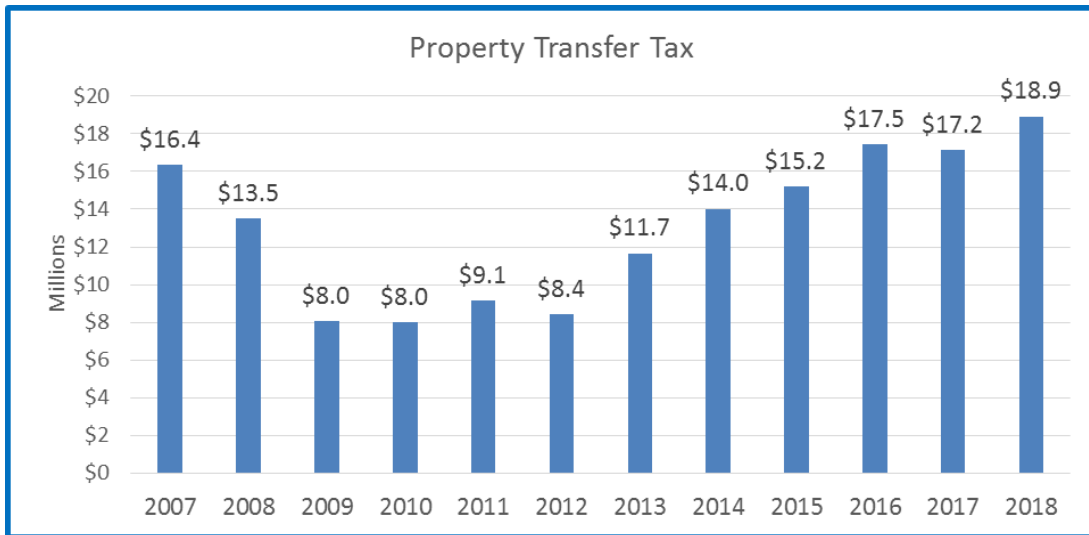
#### Property Transfer Tax

One of Council’s fiscal policies stipulates that the Property Transfer Tax in excess of the operating baseline will be treated as one-time revenue to be used for the City’s capital infrastructure needs. In FY 2018, as a balancing measure, the Council increased the operating baseline from \$10.5 million to \$12.5 million.

In FY 2018 the Property Transfer Tax included in the Adopted Budget was \$12.5 million. By year-end the actual Property Transfer Tax was \$18.9 million. This is \$6.4 million over the \$12.5 million operating baseline threshold established by Council.

Of the \$6.4 million in excess Property Transfer Tax, we are recommending one-time allocations totaling \$3.2 million. Included in the one-time recommended allocations are a \$2.1 million allocation to continue the Shattuck Reconfiguration Project, which was approved by Council on June 12, 2018<sup>5</sup>, as well as a \$642,000 allocation to fund the agreement with the Berkeley Unified School District for the use of their Board Room. Finally, the \$406,952 repayment allocation for the Premier Cru (University Center) purchase loan from the Worker’s Compensation fund should also be included in the allocations from the FY 2018 excess Property Transfer Tax. Additional information on the proposed repayment schedule to the Worker’s Compensation fund is discussed later in this report. The available unallocated cash balance of excess Property Transfer Tax totaling \$2.8 million should be allocated to one-time Council priority projects.

The chart below displays the historical trend of the City’s Property Transfer Tax from FY 2007 through FY 2018.



<sup>5</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2018/06\\_June/City\\_Council\\_06-12-2018\\_-\\_Regular\\_Meeting\\_Agenda.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2018/06_June/City_Council_06-12-2018_-_Regular_Meeting_Agenda.aspx) (Item #46)

In prior years the majority of the excess Property Transfer Tax was used to finance the \$15.1 million required to replace the City's obsolete financial system, FUND\$. However, with the adoption of the FY 2018 budget, funding that would have been allocated to replace FUND\$ was redirected to support other Council priorities projects.

#### Enterprise Resource Planning (ERP) Software (FUND\$ Replacement)

Not included in the AAO#1 is the final \$1.5 million<sup>6</sup> funding allocation to replace FUND\$ with Enterprise Resource Planning (ERP) Software core financial and human resource components of City work. The total estimated cost for the project is \$15.1 million. This estimate also includes systems for work orders, business licensing, facilities and fleet management, performance evaluation, and refuse billing software solutions.

Additionally, staff determined that there is a need to implement performance evaluation software and there will be some current solutions that will no longer work with a new ERP and will also require replacement. The solutions for these services will either be through expansion of the ERP system or an additional technology based service for staff to maintain the service we deliver currently. The \$15.1 million costs also includes 8.3 dedicated ERP implementation staff for three years.

The implementation of the new system provides the City with a suite of modern software that will work in harmony to support efficiency and transparency in our work and allow staff to dedicate more time addressing community priorities. Over the past few years the excess Property Transfer Tax was dedicated to substantially fund ERP. However, when Council adopted the FY 2018 & FY 2019 Biennial Budget additional priorities were identified and the excess Property Transfer Taxes that would have been allocated to the ERP program were redirected to support the new needs. As of the end of FY 2018, \$1.5 million was still needed to fully fund the \$15.1 million ERP project.

#### **Other Funding Needs For Council's Consideration**

##### Excess Transfer Occupancy Tax (Short Term Rentals)

Included in Council's fiscal policies is the methodology to allocate General Fund revenues generated from Short Term Rentals. Starting in FY 2019, staff costs as approved by the City Council that exceed the enforcement fees and penalties shall be appropriated from the short term rental taxes collected pursuant to BMC Section 23C.22.050, Section H, with primary allocation of the rental tax to the purposes listed below:

- Two thirds (66.7%) allocated to the Affordable Housing Trust Fund.
- One third (33.3%) allocated to the Civic Arts Grant Fund.

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<sup>6</sup> Includes the \$210,000 allocation from the Auditor's Office included in the AAO#1

Included in the FY 2018 Adopted budget was \$800,000 of General Fund revenue from short-term rentals. Actual revenue was \$0.91 million. In accordance with Council's fiscal policy and the Mayor's budget referral staff is recommending that the excess of \$111,015 be allocated to the Civic Arts Grant Fund (\$75,000) and the Affordable Housing Trust Fund (\$36,015). The recommended allocations are currently not included in AAO#1.

#### Unfunded Liabilities

On April 4, 2017, there was a Council Worksession in which the City's outside actuary presented the [Projections of Future Liabilities - Options to Address Unfunded Liabilities Tied to Employee Benefits](#). The actuary provided several options for Council's consideration that would reduce the City's unfunded liabilities tied to post-employee benefits. Included in the recommendations were the following:

- 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.

The City is currently in the process of establishing an irrevocable supplemental trust (Trust) for CalPERS. Staff has received three bids and is in the process of reviewing the proposals that will establish and manage the Trust. However, ongoing funding of the Trust has not yet been identified. Included in the AAO#1 on tonight's agenda is a \$300,000 General Fund carryover request to hire a consultant to work with Council and staff on budget strategies that would include a plan to reduce the City's unfunded liabilities as well as identify new revenue opportunities. In our ongoing effort to address our unfunded liabilities, staff is recommending that \$4.0 million of the FY 2018 Excess Equity be allocated to the Trust. The additional \$4.0 million allocation will match current available funding and better align the City with the annual funding amount recommended by the actuary. The recommended allocation is currently not included in AAO#1.

Workers' Compensation Repayment for Purchase of University Avenue Property  
As mentioned briefly above, the City appropriated \$6.7 million from the Workers' Compensation fund for the [Acquisition of Real Property at 1001 University Avenue, 1007 University Avenue, 1011 University Avenue, and 1925 Ninth Street](#) (formerly Premier Cru) with the purpose of redeveloping the majority of the site for below market rate housing. In addition, a portion of the property was identified for use as an interim City Council Chamber with a seating capacity of 150-200 persons. Meetings of the City Council, the Rent Board, and the Zoning Adjustments Board would utilize the interim Council Chamber.<sup>7</sup>

Proposed repayment to the Worker's Compensation fund was to be made with revenue generated from a combination of the Business License Tax of five or more units (U1) and excess Property Transfer Tax. The proposed repayment schedule is illustrated below.

*Summary of Proposed Funds for Repayment*

Total Purchase Price: \$6,650,000

Repayment Source	Principal Repayment Amount	Percent of Purchase Price
General Fund Excess Property Transfer Tax	\$ 2,000,000	30%
Measure U1 Business Tax Revenue	\$ 4,650,000	70%

*Annual Repayment Amounts by Source (with interest)*

Total Repayment Amount: \$6,765,575

Repayment Source	General Fund Excess Property Transfer Tax*	Measure U1 Business Tax Revenue**
FY 2017-18	406,952	946,163
FY 2018-19	406,952	946,163
FY 2019-20	406,952	946,163
FY 2020-21	406,952	946,163
FY 2021-22	406,952	946,163
<b>Total</b>	<b>\$2,034,760</b>	<b>\$4,730,815</b>

\* Total General Fund excess Property Transfer Tax has averaged \$5.8 million over the last two years.

\*\* Total Measure U1 Business Tax revenue is estimated at \$3 million annually.

<sup>7</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2017/03\\_Mar/City\\_Council\\_03-28-2017\\_-\\_Regular\\_Meeting\\_Agenda.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2017/03_Mar/City_Council_03-28-2017_-_Regular_Meeting_Agenda.aspx) (Item #32)

On March 28, 2017, Council authorized the City Manager to acquire Premier Cru (University Center) for \$6.7 million borrowed from the Workers' Compensation Fund. However, repayment to the Workers' Compensation Fund for the portion of the property to be used as Council Chambers was to be paid from excess property transfer tax, and the remainder was to be paid from an appropriate source after the use of the building was determined and the repayment plan was reviewed by the Housing Advisory Commission.

Included in the FY 2019 Adopted Budget is a \$406,952 allocation to repay the Workers' Compensation Fund for the portion of the property that will be used for the Council Chambers. However, the \$4.7 million repayment due to the Workers' Compensation Fund for the portion of the property proposed for below market rate housing has not been identified. Thus, the recommended FY 2018, \$946,163 allocation is currently not included in AAO#1.

#### Negotiations with Labor

In FY 2018, salary and benefit costs made up approximately 54% of the citywide budget on an All Funds basis and 77% of the General Fund operating budget. As such, labor costs is a major factor for budgetary stability. Most of the Labor contracts have been updated and approved by Council. Although it appears that personnel costs which default to the General Fund appear to be sustainable through FY 2019, the personnel costs tied to certain Special Funds could be unsustainable. Staff recommends that \$1.5 million of the FY 2018 Excess Equity be set aside to address the impacts of the COLAs placing undue pressure on key Special Funds. We are in the process of analyzing these Special Funds for sustainability and will continue to monitor them throughout the fiscal year. Not included in the AAO#1 is the recommended \$1.5 million funding augmentation to address the authorized COLAs.

#### **Council Budget Referrals Deferred to November 2018**

On June 26, 2018, the Mayor's presented the following Supplemental Budget Recommendations deferred to November 2018 budget process.

<b>TABLE 3: COUNCIL REFERRALS DEFERRED TO NOVEMBER 2018 PROCESS</b>	
<b>Item Title</b>	<b>Amount</b>
Develop Plan for San Pablo Avenue	Recommended that staff complete for regional grants
Temporary Staff Position to Support Undergrounding Project	\$200,000
Police Foot Patrol Downtown	\$343,532. Address with overtime due to current staffing shortage.
ADU Pilot Program for Homeless Housing	\$550,000. Could be funded through housing funds (Measure U1, Housing Bond)
Expanded Secure Storage Program	\$100,000
2nd Year Funding for STAIR Center	\$2,400,000
ERMA Additional Funding	1,700,000
<b>Total</b>	<b>\$5,293,532</b>
<b>TABLE 4: CAPITAL PROJECTS DEFERRED TO NOVEMBER 2018 PROCESS</b>	
<b>Item Title</b>	<b>Amount</b>
California/Dwight Traffic Calming	Up to \$400,000
Pedestrian Activated Crosswalk at Cedar/Rose Park	\$100,000
Pedestrian Activated Crosswalk at Grant/University	\$100,000
RFFP Light at Eton/Claremont - Partially Funded	\$50,000
Hawk Light at Claremont/Russell - Partially Funded	\$50,000 RFFB; \$350,000 for Hawk Light
Hopkins Corridor Study	\$200,000
California/Ashby Traffic Calming	\$400,000
Ohlone Greenway Improved Lighting through Cedar Rose Park	\$50,000
Pedestrian Activated Crosswalk at Peralta/Gilman	\$100,000
Enhanced Lighting Along Ohlone Park	\$120,000. Look at Parks Tax Funding
<b>Total</b>	<b>\$1,870,000</b>
<b>TOTAL UNFUNDED ITEMS DEFERRED TO NOVEMBER 2018</b>	<b>\$7,163,532</b>

In addition, between June 26, 2018 and November 13, 2018, nine Council items were referred to the budget process for consideration in November 2018. These budget referrals are listed below.



	<b>Title and Item #</b>	<b>Council Date</b>	<b>Description (Purpose)</b>	<b>Amount</b>	<b>Referred by: Council Member Name</b>
1)	<a href="#">City-Sponsored Emergency Preparedness Training and Emergency Preparedness Program</a> <sup>8</sup>	July 10, 2018	Budget Referral for the Emergency Preparedness Program and the Emergency Planning Coordinator position to oversee program. <i>(continued from June 26, 2018 Council Meeting)</i>	\$382,994	Davila and Harrison
2)	<a href="#">Companion Report: Immediate Priorities For Fire Safety, Education, Prevention and Overall Disaster Preparedness</a> <sup>9</sup>	July 10, 2018	Consider the attached prioritizations made by the Fire Department and the Disaster and Fire Safety Commission in referring issues regarding fire safety, education, prevention and overall disaster preparedness to the budget process and the RRV process.	unknown	Dave Brannigan
3)	<a href="#">RRFB Light at San Pablo Avenue &amp; Addison Street</a> <sup>10</sup>	July 24, 2018	Refer to the budget process an allocation for Rectangular Rapid Flash Beacon (RRFB) at the crosswalk at San Pablo and Addison Street.	\$100,000	Davila
4)	<a href="#">City-Sponsored Emergency Preparedness Training and Emergency Preparedness Program</a> <sup>11</sup>	July 24, 2018	Budget Referral for the Emergency Preparedness Program and the Emergency Planning Coordinator position to oversee program. <i>(Continued from July 10, 2018 Council Meeting. Items contain supplemental material)</i>	unknown	Davila and Harrison
5)	<a href="#">Small Sites Loan Program Recommendations</a> <sup>12</sup>	September 25, 2018	Refer the small sites program to the November budget update and next biannual budget planning cycle in 2019.	\$1,000,000	Igor Tregub, Housing Advisory Commission

<sup>8</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2018/07\\_Jul/Documents/2018-07-10\\_Item\\_39\\_City-Sponsored\\_Emergency\\_Preparedness.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2018/07_Jul/Documents/2018-07-10_Item_39_City-Sponsored_Emergency_Preparedness.aspx)

<sup>9</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2018/07\\_Jul/Documents/2018-07-10\\_Item\\_29b\\_Companion\\_Report\\_Immediate\\_Priorities.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2018/07_Jul/Documents/2018-07-10_Item_29b_Companion_Report_Immediate_Priorities.aspx)

<sup>10</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2018/07\\_Jul/Documents/2018-07-24\\_Item\\_54\\_Budget\\_Referral\\_RRFB\\_Light.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2018/07_Jul/Documents/2018-07-24_Item_54_Budget_Referral_RRFB_Light.aspx)

<sup>11</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2017/11\\_Nov/Documents/2017-11-28\\_Item\\_24b\\_Companion\\_Report\\_Recommendation\\_for\\_Audit.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2017/11_Nov/Documents/2017-11-28_Item_24b_Companion_Report_Recommendation_for_Audit.aspx)

<sup>12</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2018/09\\_Sep/Documents/2018-09-25\\_Item\\_33a\\_Small\\_Sites\\_Loan\\_Program\\_Recommendations.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2018/09_Sep/Documents/2018-09-25_Item_33a_Small_Sites_Loan_Program_Recommendations.aspx)

	<b>Title and Item #</b>	<b>Council Date</b>	<b>Description (Purpose)</b>	<b>Amount</b>	<b>Referred by: Council Member Name</b>
6)	<a href="#">Small Sites Loan Program Recommendations</a> <sup>13</sup>	October 2, 2018	Refer the small sites program to the November budget update and next biannual budget planning cycle in 2019. <i>(Continued from Sept. 25, 2018 Council Meeting. Item contain supplemental material.)</i>		<i>Igor Tregub, Housing Advisory Commission</i>
7)	<a href="#">Increasing Safety at San Pablo Park</a> <sup>14</sup>	October 30, 2018	Refer to the FY19 (2018/2019) November 2018 AAO Budget Process for the following four items to improve safety at San Pablo Park in light of recent shootings and traffic incidents.	unknown	Davila
8)	<a href="#">RFP to address gaps for marginalized youth in Berkeley</a> <sup>15</sup>	November 13, 2018	Budget referral to the FY19(2018/2019) November 2018 AAO Budget Process to set aside \$50,000 to create a plan and pilot program to address the needs of marginalized youth and young adults in Berkeley	\$50,000	Davila
9)	<a href="#">Increasing Safety at San Pablo Parks</a> <sup>16</sup>	November 13, 2018	<i>Continued from October 30, 2018. Item contains revised material.</i>	unknown	Davila

Funding for these budget referral has not been included in AAO#1.

<sup>13</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2018/10\\_Oct/Documents/2018-10-02\\_Item\\_Ga\\_Small\\_Sites\\_Loan\\_Program.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2018/10_Oct/Documents/2018-10-02_Item_Ga_Small_Sites_Loan_Program.aspx)://[www.cityofberkeley.info/Clerk/City\\_Council/2017/12\\_De c/Documents/2017-12-05\\_Item\\_13\\_Budget\\_Referral\\_Funding\\_a\\_Pedestrian.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2017/12_De c/Documents/2017-12-05_Item_13_Budget_Referral_Funding_a_Pedestrian.aspx)

<sup>14</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2018/10\\_Oct/Documents/2018-10-30\\_Item\\_23\\_Budget\\_Referral\\_Increasing\\_Safety\\_at\\_San\\_Pablo\\_Park.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2018/10_Oct/Documents/2018-10-30_Item_23_Budget_Referral_Increasing_Safety_at_San_Pablo_Park.aspx)

<sup>15</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2018/11\\_Nov/Documents/2018-11-13\\_Item\\_08\\_Budget\\_Referral\\_RFP\\_to\\_Address.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2018/11_Nov/Documents/2018-11-13_Item_08_Budget_Referral_RFP_to_Address.aspx)

<sup>16</sup> [https://www.cityofberkeley.info/Clerk/City\\_Council/2018/11\\_Nov/Documents/2018-11-13\\_Item\\_24\\_Budget\\_Referral\\_Increasing\\_Safety.aspx](https://www.cityofberkeley.info/Clerk/City_Council/2018/11_Nov/Documents/2018-11-13_Item_24_Budget_Referral_Increasing_Safety.aspx)

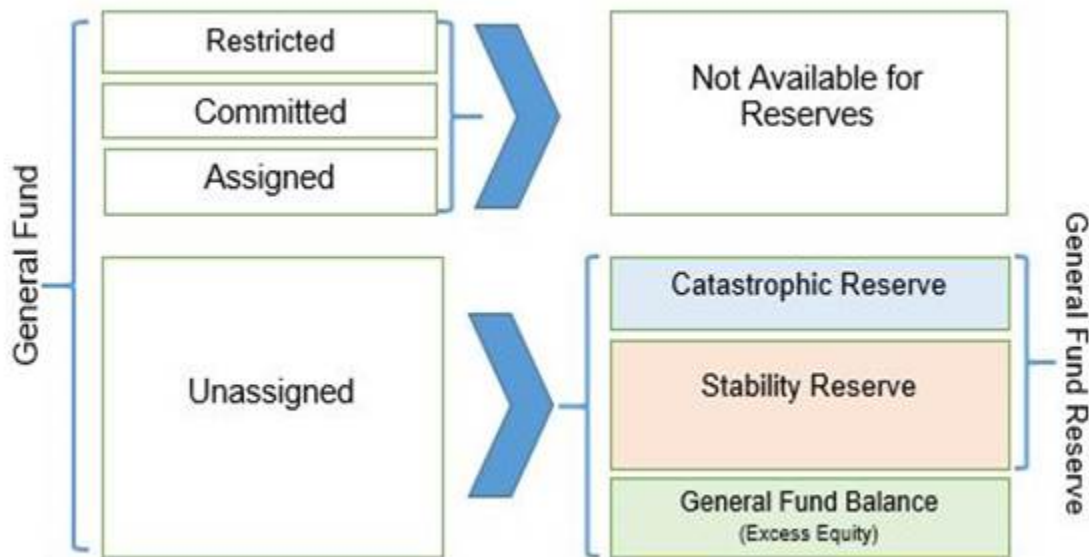
**Excess Equity**

The chart below illustrates the \$10.18 million contribution reserve calculation as well as the \$11.18 million calculation for the unassigned excess equity that is subject to Council's discretion.

**Excess Equity Calculation**

<b>General Fund</b>		(dollars in millions)
FY 2018 Beginning Balance	\$	<b>28.96</b>
FY 2018 Revenues	\$	198.64
FY 2018 Expenditures	\$	(182.12)
	<b>Available Balance</b>	<b>\$ 45.48</b>
<b>Less</b>		
<i>Committed</i>		
Excess Property Transfer Tax	\$	(6.41)
Excess Short Term Rental	\$	(0.11)
Encumbered Rollovers (AAO#1)	\$	(5.46)
<i>Assigned</i>		
Business License Tax (U1)	\$	(4.51)
Carryovers and Adjustments (AAO#1)	\$	(7.64)
	<b>Total Committed &amp; Assigned</b>	<b>\$ (24.13)</b>
<b>FY 2018 Excess Equity</b>	<b>\$</b>	<b>21.35</b>
	<b>* Allocation to Reserves</b>	<b>\$ 10.18</b>
	<b>Excess Equity</b>	<b>\$ 11.18</b>
<b>Less</b>		
<b>Recommended Allocation of Excess Equity</b>		
Negotiated COLAs	\$	(1.50)
CalPERS Supplemental Trust (Unfunded Liabilities)	\$	(4.00)
	<b>Unassigned Excess Equity</b>	<b>\$ 5.67</b>
<b>*Starting in FY 2018, to achieve the City's intermediate and long-term Reserves goals, 50% of Excess Equity above the first \$1M is allocated to Reserves. Additional Excess Equity may be allocated to Reserves by a majority vote of the City Council.</b>		

The calculation for excess equity is documented in the graphic below.



The graphic above shows 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.<sup>17</sup> The General Fund reserves are comprised of two elements: a Stability Reserve and a Catastrophic Reserve.

The Stability Reserve was established to mitigate 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. Forty-five percent of the General Fund Reserve is allocated to the Catastrophic Reserve.

When the Council adopted the General Fund Reserve Policy the target level established for the Reserve was 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 goals in the policy by assigning 50% of the General Fund Excess Equity above the first \$1 million to be allocated to Reserves. Additional Excess Equity may be allocated to Reserves by a majority vote of the Council. The chart directly below illustrates the FY 2018 allocation of the \$10.18 million distributed to the General Fund Reserves, resulting in an actual Reserves target level of 18.04%<sup>18</sup>.

General Fund Reserves	Stability Reserve	Catastrophic Reserve	Reserve %
Beginning Cash Balance - Reserves	\$ 14.65	\$ 11.81	
FY 2018 Allocation	\$ 5.60	\$ 4.58	
<b>Reserve Balance</b>	\$ 20.25	\$ 16.39	
	55%	45%	
<i>Reserved for Camp Fund - Tuolumne Camp</i>		\$ (3.30)	
<b>Ending Cash Balance - Reserves</b>	<b>\$ 20.25</b>	<b>\$ 13.09</b>	<b>18.04%</b>

<sup>17</sup> <https://www.cityofberkeley.info/recordsonline/export/17153922.pdf>

<sup>18</sup> Based on the FY 2019 Adopted General Fund Revenues of \$184,756,040.

### All Funds

On an All Funds basis, the City finished FY 2018, \$85.9 million (14%) under the adjusted budget. These fund balances are largely dedicated to projects, capital improvements that have not yet been completed, and personnel cost savings. For example, \$37.0 million is in the Department of Public Works. A sampling of the \$37 million underspending includes the following:

- ❑ \$6.60 million is tied to Measure M funding. \$5.7 million in Measure M funds is being carried over to FY 2019 for street paving projects and green infrastructure projects now scheduled for completion in FY 2019, balance to be re-appropriated in FY 2019 to street paving or green infrastructure projects.
- ❑ \$5.7 million is tied to the Off Street Parking Fund. Funding is being carried over to FY 2019 for the completion of the Center Street Garage project
- ❑ \$5.2 million is tied to the Sewer Fund: \$2.0 million in personnel savings due to vacancies, and \$2.0 million in continuing and deferred sewer projects scheduled for completion in FY 2019
- ❑ \$2.2 million is tied to the Equipment Replacement Fund to replace purchases initially scheduled for FY 2018 that will be completed in FY 2019.

In addition, the Department of Health Housing and Community Services had \$13.4 million in underspending resulting from unspent funds allocated to the Berkeley Way project, renovation of the Adult Mental Health Clinic, and the creation of the Wellness Center in partnership with Alameda County in addition to other unspent grant funds.

Parks Recreation and Waterfront had \$10 million in underspending resulting from personnel savings and unexpended project funds in the Parks Tax Fund, Measure T1 Fund, and Measure WW Parks Bond Grant Fund. Only certain unspent project funds will be carried over to FY 2018.

Planning had \$2.3 million in underspending resulting from unspent FEMA Funds for the Hazard Mitigation Grant Program. These funds will be carried over to FY 2019. The Permit Service Center Fund also had personnel and non-personnel savings of \$936,694 in FY 2018.

Finally, the Library Fund had underspending of \$3.5 million from unexpected delays to the Central Library Improvement Project. The Central Library capital improvement project did not advance to construction as was expected. Budgeted unspent funds were generated from design, engineering, and construction time lags; and personnel costs too contributed significant savings as a result of staffing vacancies.

Attachment 1 provides information on the FY 2018 Year-End General Fund Revenues and includes a variance analysis.

Attachment 2 provides information on unspent FY 2018 Year-End Expenditures. Additional detailed information on unspent funds can be found in the AAO#1 on tonight's agenda.

## **FY 2019 First Quarter Summary**

### General Fund Revenues

The first quarter review focuses primarily on the major General Fund revenue fluctuations, and changes that have occurred that might significantly impact future projections. FY 2019 General Fund revenue was tracking slightly under what was received in FY 2018. During the first quarter of FY 2019 we received 16.09% of the adopted revenues compared to 17.07% received during the same period in FY 2018. Staff will present a more refined revenue projection based on additional information during the mid-year update.

Several of the underlying revenue assumptions for FY 2019 are sensitive to economic changes. Staff will continue to monitor these revenue streams and report on the impact of economic changes on revenue projections. For additional information on the First Quarter General Fund Revenues please see Attachment 3.

### General Fund Expenditures

General Fund expenditures are currently tracking within budget. Staff will continue to monitor the budget and report back at mid-year on the impacts of the key challenges discussed earlier in this report.

Attachment 3 provides additional information on the FY 2019 First Quarter General Fund Revenues and includes a variance analysis

Attachment 4 provides additional information on the FY 2019 First Quarter Expenditures by department and includes a variance analysis

## **Next Steps**

Staff will present second quarter revenue and expenditure projections at the FY 2019 mid-year update in March 2019.

## 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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**Attachments:**

- 1: FY 2018 Year End General Fund Revenues
- 2: FY 2018 Year End General Fund and All Funds Expenditures
3. FY 2019 1<sup>st</sup> Quarter General Fund Revenues
4. FY 2019 1<sup>st</sup> Quarter General Fund and All Funds Expenditures



### General Fund Revenue for FY18 and FY 2017 and Comparison of FY 2018 VS FY 2017

Revenue Categories	FY 2018				FY 2017				FY 2018 v FY 2017	
	Adopted	For the Year	Variance	% Received (d) = (b)/(a)	Adopted	For the Year	Variance	% Received (h) = (f)/(g)	Amount	% (j) = (i)/(f)
	(a)	(b)	c=(b) - (a)		(e)	(f)	g=(f) - (e)		(i) = (b) - (f)	(j)/(f)
Secured Property	\$50,018,636	\$56,038,218	\$6,019,582	112.03%	\$48,715,854	\$51,474,746	\$2,758,892	105.66%	4,563,472	8.87%
Redemptions -Regular	1,443,800	680,975	(762,825)	47.17%	1,415,490	668,140	(747,350)	47.20%	12,835	1.92%
Supplemental Taxes	1,100,000	2,237,649	1,137,649	203.42%	843,422	1,874,630	1,031,208	222.26%	363,019	19.36%
Unsecured Property Taxes	2,767,684	2,687,198	(80,486)	97.09%	2,936,296	2,568,891	(367,405)	87.49%	118,307	4.61%
Property Transfer Tax	12,500,000	18,911,368	6,411,368	151.29%	10,500,000	17,151,793	6,651,793	163.35%	1,759,575	10.26%
Sales Taxes	18,000,000	17,435,591	(564,409)	96.86%	17,801,700	20,105,288	2,303,588	112.94%	(2,669,697)	-13.28%
Soda Taxes (new in May 2015)	1,721,456	1,457,003	(264,453)	84.64%	1,600,000	1,550,222	(49,778)	96.89%	(93,219)	-6.01%
Utility Users Taxes	14,282,375	14,828,120	545,745	103.82%	14,291,500	15,108,710	817,210	105.72%	(280,590)	-1.86%
Transient Occupancy Taxes	7,969,633	7,807,273	(162,360)	97.96%	7,152,440	7,810,884	658,444	109.21%	(3,611)	-0.05%
Short-term Rentals	800,000	911,015	111,015		-	-	-		911,015	
Business License Tax	18,451,191	19,878,912	1,427,721	107.74%	16,483,200	18,829,744	2,346,544	114.24%	1,049,168	5.57%
U1 Taxes	650,000	5,161,615	4,511,615		-	-	-		5,161,615	
Other Taxes	1,466,381	933,462	(532,919)	63.66%	1,437,628	1,049,800	(387,828)	73.02%	(116,338)	-11.08%
Vehicle In-Lieu Taxes	10,320,402	11,822,917	1,502,515	114.56%	10,269,057	10,994,452	725,395	107.06%	828,465	0.00%
Parking Fines-Regular Collections	6,299,322	6,376,463	77,141	101.22%	6,817,500	5,900,383	(917,117)	86.55%	476,080	8.07%
Parking Fines-Booting Collections	204,000	231,538	27,538	113.50%	200,000	220,091	20,091	110.05%	11,447	5.20%
Moving Violations	239,770	188,443	(51,327)	78.59%	235,069	232,523	(2,546)	98.92%	(44,080)	-18.96%
Ambulance Fees	4,823,720	4,343,453	(480,267)	90.04%	4,386,000	4,183,673	(202,327)	95.39%	159,780	3.82%
Interest Income	2,211,000	3,636,989	1,425,989	164.50%	2,200,000	2,385,494	185,494	108.43%	1,251,495	52.46%
Franchise Fees	1,955,314	2,009,931	54,617	102.79%	1,826,892	1,988,589	161,697	108.85%	21,342	1.07%
Other Revenue	5,916,158	9,121,889	3,205,731	154.19%	5,558,293	11,198,640	5,640,347	201.48%	(2,076,751)	-18.54%
IDC Reimbursement	4,553,189	6,149,619	1,596,430	135.06%	4,530,536	5,659,155	1,128,619	124.91%	490,464	8.67%
Transfers	5,197,771	5,792,575	594,804	111.44%	4,455,337	3,758,732	(696,605)	84.36%	2,033,843	54.11%
<b>Total Revenue:</b>	<b>\$172,891,802</b>	<b>\$198,642,216</b>	<b>\$25,750,414</b>	<b>114.89%</b>	<b>\$163,656,214</b>	<b>\$184,714,580</b>	<b>\$21,058,366</b>	<b>112.87%</b>	<b>\$13,927,636</b>	<b>7.54%</b>

Note: This statement is presented on a budgetary basis.

During FY 2018, General Fund revenues and transfers increased \$13,927,636 or 7.54%, from \$184,714,580 in FY 2017 to \$198,642,216 in FY 2018.

The following FY 2018 review focuses primarily on the major revenue fluctuation.

#### **Secured Property Tax (+\$4,563,472 over FY 2017 Actual)**

During FY 2018, Secured Property Tax revenues totaled \$56,038,218 which was \$4,563,472 or 8.87% more than the \$51,474,746 received for FY 2017. This is consistent with the 7.40% increase in FY 2018 assessed values reported by the County. As a result, the projection for this revenue source was increased in the mid-year report to \$55,206,665 to reflect that increase in assessed values.

#### **Property Transfer Tax (+\$1,759,575 over FY 2017 Actual)**

During FY 2018, Property Transfer Tax totaled \$18,911,368, which was \$1,759,575 or 10.26% more than the \$17,151,793 received in FY 2017. This resulted primarily from a \$109,122,867 increase in the dollar value of property sales to \$1,626,626,000 in FY 2018 from \$1,217,503,133 in FY 2017. The number of property transactions increased by 89 or 10.6% from 837 in FY 2017 to 926 in FY 2018. The average sales price declined by \$21,963 or 1.5%, from \$1,454,604 in FY 2017 to \$1,432,641 in FY 2018. The projection for this revenue source was increased in the mid-year report by \$4,500,000 to \$17 million but according to Council policy only \$12.5 million is to be included in the recurring General Fund revenue budget. Any excess above that amount will be transferred to the Capital Improvement Fund the following fiscal year.

#### **Sales Tax (- \$2,669,697 under FY 2017 Actual)**

For FY 2018, Sales Tax revenue totaled \$17,435,591, which is \$2,669,697 or 13.28% less than the \$20,105,288 received in FY 2017. The primary reason for the decrease in Sales Tax revenue of

\$2,669,697 in FY 2018 was that \$2,311,802 of the Triple Flip deducted in FY 2016 was not paid in FY 2016, but instead paid in the first quarter of FY 2017 and the Triple Flip program ended in FY 2017.

To provide a little background about the State Triple Flip program, in 2004, voters approved [Proposition 57](#), which authorized the State to issue up to \$15 billion in deficit financing bonds (also known as economic recovery bonds, or ERBs). \$11.3 billion of these bonds were issued in 2004 and an additional \$3.3 Billion were issued in 2008. Proceeds from these bonds were used to address the state's budget shortfall. To repay the ERBs, the state pledged one-quarter cent of the local Bradley-Burns sales tax. In particular, it reduced by one-quarter cent the Bradley-Burns sales tax, which cities and counties use for general and transportation purposes, and replaced it with a one-quarter cent state special fund sales tax for repayment of the bonds. To hold local governments harmless, the state initiated a complex series of revenue exchanges commonly referred to as the "triple flip".

**Utility Users Taxes (- \$280,590 under FY 2017 Actual)**

Utility Users Taxes revenue for FY 2018 totaled \$14,828,120, which is \$280,590 or 1.86% less than the \$15,108,710 received in FY 2017. The decrease in FY 2018 is attributable to a \$273,209 or 11.4% decrease in Cellular charges, a \$292,889 or 10.0% decrease in Gas charges, which was offset by a \$288,980 or 4.4% increase in Electricity charges.

**Transient Occupancy Tax (-\$3,611 less than FY 2017 Actual)**

Transient Occupancy Tax (TOT) revenue for FY 2018 totaled \$7,807,273 which is \$3,611 or .05% less than the \$7,810,884 received in FY 2017. The FY 2018 results reflect the continuing slowdown in the growth rate of the City's major hotels. The decline resulted from three of the five largest hotels showing a decrease of \$174,923 or 2.2% in FY 2018, with results ranging between -1.81% and 4.48%. Hotel operators attribute the lower growth to the impact of short term rentals.

**Business License Tax (+\$1,049,168 over FY 2017 Actual)**

Business License Taxes increased by \$1,049,168 or 5.57% in FY 2018 to \$19,878,912 from \$18,829,744 in FY 2017. Approximately \$1,300,000 of this increase resulted primarily from the following:

(1) An increase of approximately \$600,000 in cannabis revenue.

(2) An increase of approximately \$700,000 in Business License Tax-Residential Units: On November 8, 2016, Berkeley voters passed a measure to permanently increase the business license tax from gross receipts on owners of five or more residential rental units. The original 1.081% tax applies to parcels with three or more dwelling units as well as commercial rental property. The enhanced license tax increased by 1.799%, from 1.081% to 2.880%. The enhanced business license tax was implemented on January 1, 2018 for receipts earned in calendar year 2017.

U1 revenue discussion below:

In addition, to the 1.799% rate increase, the business license tax expanded the number of taxable properties in the City. Prior to the implementation, single family homes and duplexes were not subject to a business license tax. After implementation, if an owner directly or indirectly owned five or more residential rental units, all units and parcels are subject to both the original and enhanced taxes.

In FY17, prior to the implementation of enhanced business license tax, total taxes collected from rental of real property was approximately \$7.7M.

In FY 18, after the implementation of the enhanced business license tax, total taxes collected from rental property was approximately \$13.5M, an increase of \$5.8M from the previous year. The \$5.8M increase is composed of two main items: 1.) \$5.1M from the enhanced 1.799% enhanced business license tax rate on property owners of five or more residential units; and 2.) \$700K from all residential rental units that became subject to the original 1.081% business license tax on rental property as a result of the broadened tax base.

For FY 2018, U1 revenue totaled \$5,161,615 which is \$4,511,615 more than the FY 2018 Adopted Budget total of \$800,000. The projection for this revenue source was increased in the mid-year report to \$4,700,000.

**Vehicle In-Lieu Taxes (+\$828,465 over FY 2017 Actual)**

Vehicle In-Lieu Taxes increased by \$828,465 or 7.54% in FY 2018 to \$11,822,917 from \$10,994,452 in FY 2017. This is consistent with the 7.40% increase in FY 2018 assessed values reported by the County. As a result, the projection for this revenue source was increased in the mid-year report to \$11,791,550 to reflect that increase in assessed values.

**Parking Fines (+\$476,080 more than FY 2017 Actual)**

Parking fines revenue in FY 2018 totaled \$6,376,463 which is \$476,080 or 8.07% more than the \$5,900,383 received in FY 2017. This increase was generated despite a decrease in ticket writing of 769 tickets issued, from 146,055 in FY 2017 to 145,286 issued in FY 2018.

**Interest Income (+\$1, 251,495 over FY 2017 Actual)**

For FY 2018, interest income totaled \$3,636,989 which is \$1,251,495 more than the total of \$2,385,494 received in FY 2017. This is primarily attributable to a significant increase in longer-term investment purchases since the first quarter of FY 2017, and a significant increase in short-term interest rates as the Federal Reserve increased short-term interest rates from a level near zero.

**Short-term Rentals (New in FY 2018)**

This is a new tax on Berkeley residents who host short-term rentals. They are required to register with the City and pay a 12% Transient Occupancy Tax on such rentals.

For FY 2018, Short-term Rentals totaled \$911,015 which is \$111,015 more than the FY 2018 Adopted Budget total of \$800,000.

**Other Income (-\$2,076,751 under FY 2017 Actual)**

For FY 2018, other income totaled \$9,121,889 which is \$2,076,751 or 18.54% less than the total of \$11,198,640 received in FY 2017. That increase is primarily due to closing the case of the Arntz Builders lawsuit (\$1,016,657) in FY 2017 and the sale of 2031 6<sup>th</sup>. Street to Lifelong Medical (\$750,000) in FY 2017.

**IDC Reimbursement (+\$490,464 over FY 2017 Actual)**

IDC Reimbursement for FY 2018 totaled \$6,149,619 which is \$490,464 or 8.67% more than the \$5,659,155 received in FY 2017. This is primarily attributable to an increase in charges to the Zero Waste Fund (\$137,305), Marina Operations Fund (\$65,828) Sanitary Sewer Operation (\$47,441) and Permit Service Center (\$161,386), as a result of increase in direct salaries. IDC Reimbursement

increases result from increases in the indirect cost allocation base (i.e., total direct salaries and wages in the fund), an increase in the indirect cost rate or both.

## FY 2018 Year End Expenditures

## General Fund

Department	FY 2018 Adopted	FY 2018 Adjusted	Year-End Actuals	Balance	Percent Expended
Mayor & Council	2,028,441	2,048,441	1,938,448	109,993	95%
Auditor	2,261,463	2,275,383	2,025,138	250,245	89%
City Manager	5,883,194	7,060,988	5,857,267	1,203,721	83%
Police Review Commission	722,180	720,260	720,978	(718)	100%
City Attorney	2,398,356	2,398,334	2,275,139	123,195	95%
City Clerk	2,059,366	2,605,149	1,658,990	946,159	64%
Information Technology	5,770,103	7,760,015	5,847,105	1,912,910	75%
Finance	5,756,160	6,181,867	4,913,318	1,268,549	79%
Human Resources	1,977,674	2,593,956	2,069,530	524,426	80%
Health, Housing & Community Services	15,049,190	14,926,015	14,708,068	217,947	99%
Public Works	3,276,300	4,921,621	3,711,215	1,210,406	75%
Parks, Recreation and Waterfront	5,689,002	5,930,397	5,491,709	438,688	93%
Fire	30,984,535	31,739,579	31,494,300	245,279	99%
Police	61,378,677	62,446,964	62,628,518	(181,554)	100%
Planning	1,923,055	2,066,492	1,691,487	375,005	82%
Economic Development	2,691,403	2,955,036	2,575,749	379,287	87%
Rent Board	0	486,955	476,161	10,794	98%
Non-Departmental	23,042,703	34,581,170	32,035,766	2,545,404	93%
<b>Total</b>	<b>172,891,802</b>	<b>193,698,622</b>	<b>182,118,886</b>	<b>11,579,736</b>	<b>94%</b>

## All Funds (including General Fund)

Department	FY 2018 Adopted	FY 2018 Adjusted	Year-End Actuals	Balance	Percent Expended
Mayor & Council	2,028,441	2,048,441	1,938,448	109,993	95%
Auditor	2,424,263	2,438,183	2,157,055	281,128	88%
City Manager	6,637,466	7,876,179	6,501,609	1,374,570	83%
Police Review Commission	722,180	720,260	720,978	(718)	100%
City Attorney	4,343,771	4,991,088	4,737,620	253,468	95%
City Clerk	2,059,366	2,605,149	1,658,990	946,159	64%
Information Technology	16,291,888	19,333,729	13,279,709	6,054,020	69%
Finance	7,727,093	8,118,718	6,653,713	1,465,005	82%
Human Resources	3,810,616	4,547,734	3,796,400	751,334	83%
Health, Housing & Community Services	47,355,255	59,672,242	46,222,473	13,449,769	77%
Public Works	151,198,065	179,434,952	142,399,501	37,035,451	79%
Parks, Recreation and Waterfront	28,271,481	41,860,090	31,875,289	9,984,801	76%
Fire	39,091,308	41,177,446	40,329,408	848,038	98%
Police	66,747,004	68,327,478	66,351,534	1,975,944	97%
Planning	18,201,442	21,198,872	18,917,631	2,281,241	89%
Economic Development	5,626,805	7,004,497	5,783,523	1,220,974	83%
Rent Board	5,525,740	5,975,899	5,057,290	918,609	85%
Library	20,990,466	21,066,213	17,541,858	3,524,355	83%
Non-Departmental	47,343,920	104,941,431	101,470,872	3,470,559	97%
<b>Total</b>	<b>476,396,570</b>	<b>603,338,601</b>	<b>517,393,901</b>	<b>85,944,700</b>	<b>86%</b>

## FY 2018 Year End Expenditures Variance Analysis

### Significant General Fund Variances

- City Auditor (+\$250,245) was due to salary savings in FY 2018 from vacant positions and underspending of non-personnel funds.
- City Manager (+1,203,721) was due to salary savings from vacant positions and underspending of non-personnel funds. Approximately \$364,000 in unspent funds for a project based Senior Management Analyst position for special projects including the Strategic Plan and other Council priorities and \$300,000 for the Budget Strategies Consultant project will be carried over to FY 2019.
- City Clerk (+\$946,159), and Finance (+\$1,339,114) was due to salary savings from vacant positions and under spending of non-personnel funds. The City Clerk's Office will carryover \$250,352 in unspent election funds for the November 2018 Elections and \$308,891 in Fair Election Campaign Funds to FY 2019.
- Information Technology (+\$1,912,910) was primarily due to non-personnel savings for a number of Digital Strategic Plan projects that were not completed in FY 2018. Most of the unspent funds will be carried over to FY 2019 to pay for these ongoing projects.
- Public Works (\$1,210,406) was due to salary savings and fund allocated for the new Council Chambers project that were not spent in FY 2019.
- Non-Departmental (+2,545,404) was due to \$476,139 for FY 2018 Community Agency contracts not being fully spent. Almost \$400,000 of that amount were funds for Bay Area Community Services for the Pathways Project were not allocated in FY 2018. These funds will be carried over to FY 2019. A General Fund allocation of \$433,038 for a side letter agreement with SEIU Local 1021 Maintenance & Clerical related to the impact of requiring employees to share in the cost for retirement benefits; and extending similar provisions to unrepresented, non-safety, miscellaneous benefitted employees was allocated but not transferred out to department budgets. Funds were also budgeted and not spent for the following items:
  - Web Design (\$200,000)
  - Body Worn Cameras (\$226,00)
  - Legal & Mental Health Support for Immigrants & Religious Communities (\$50,000)
  - Berkeley Age Friendly Continuum (\$20,000)
  - Berkeley Housing Authority Damage Claim Program (\$50,000)
  - Downtown Storage Pilot Program (\$50,000)
  - California/Dwight Traffic Calming (\$100,000)
  - Cedar/Rose Traffic Calming (\$100,000)
  - Claremont/Eton RFFB Light (\$50,000)
  - Small Sites Program (\$950,000)
  - Step Up Housing RFP (\$45,000)

The funds for the Berkeley Age Friendly Continuum and the Web Design will be carried over to FY 2019.

### Significant All Funds Variances

- Information Technology (+\$6,054,020) was due to General Fund, FUNDS\$ Replacement Funds, and the Capital Improvement Funds, and not being fully spent in FY 2018. These funds will be carried over to FY 2019.
- Health, Housing & Community Services fund balance (+\$13,449,769) was the result of vacancies throughout the department, new positions being filled into the fiscal year and dollars allocated to projects and programs not fully expended by the end of the fiscal year. \$863,948 were CDBG funds committed to programs in the Housing and Community Services division that were due to be issued in FY 2019, and over \$3 million were funds that were planned for the Berkeley Way project in FY 2019. In Mental Health, there was over \$3.5 million in unspent Mental Health Service Act Funds. These funds include \$1.2 million for the renovation of the Adult Mental Health Clinic and the creation of the Wellness Center in partnership with Alameda County. Over \$600,000 in realignment funding was unspent in an effort to create a fund balance to be used as an audit liability reserve as more and more programs are being rigorously audited by state and federal funding sources. Finally, almost \$800,000 in reduced expenditures was from the State Health Grant fund which includes 16 unique grants from the state to support our public health efforts and reflects various vacancies and cost shifts throughout those programs and about \$200,000 in cost reductions to match a reduction in revenue.
- Public Works (+\$37,035,451) were largely due to the following:
  - General Fund (+\$1.2 million): \$0.7 million in unspent funds due to the discontinuation of the University Avenue Center council chambers project, \$0.2 million in personnel salary savings due to vacancies and project charges, \$0.1 million in carryover for projects to be completed in FY 19.
  - Sewer Fund (+\$5.2 million): \$2.0 million in personnel savings due to vacancies, \$2.0 million in continuing and deferred sewer projects scheduled for completion in FY 2019.
  - Zero Waste (+\$0.7 million): \$0.7 million in personnel savings due to vacancies.
  - State Transportation Tax (+\$1.0 million) \$0.2 million in salary savings and \$0.8 million in project funding for various street and storm drain program projects continued for completion in FY 2019.
  - Capital Improvement Fund (+\$3.3 million): \$3.0 million in project fund carryover for transportation, street, facilities project funds to FY 2019 due to project timing, including ADA Transition Plan, Shattuck Reconfiguration, FY 18 Street Rehab and FY 18 Sidewalk Repair projects.
  - Measure B (+1.3 million) \$1.3 million in project carryover into FY 2019 for street paving and maintenance projects
  - Measure BB (+1.9 million) \$1.9 million in project savings, to be carried over into FY 2019 for street improvement projects
  - Measure M Fund (+\$6.6 million): \$5.7 million in Measure M funds carried over for street paving projects and green infrastructure projects now scheduled for

- completion in FY 2019, balance to be reappropriated in FY 19 to street paving or green infrastructure projects.
- ❑ Off Street Parking (+6.5 million) and Parking Meter (+0.3 million): \$5.7M Off Street Parking Fund savings due to project budget carryover to FY 2019 for the completion of the Center Street Garage project.
  - ❑ SOSIP (+\$0.4 million) \$0.4 million in carryover into FY 2019 for the Shattuck Avenue Reconfiguration project
  - ❑ UCLRP (+\$0.4 million) \$0.4 million of project carryover into FY 2019 for completion of various capital projects
  - ❑ MTC (+\$0.4 million) \$0.4 million in project carryover for transportation projects.
  - ❑ FEMA (+\$1.5 million) \$1.5 million in carryover to FY 2019 for the North Berkeley Senior Center project.
  - ❑ T1 (+\$0.4 million) \$0.4 million in carryover for various T1 projects begun in FY 2018 with work continuing into FY 2019.
  - ❑ Streetlight Assessment (+\$1.1 million) \$0.5 million in salary savings, and \$0.6 million in capital project carryover/deferral for Shattuck Avenue Reconfiguration and City Streetlight Replacement and Maintenance Program.
  - ❑ Building Maintenance (+\$0.5 million) \$0.5 million in salary savings due to vacancies.
  - ❑ Equipment Replacement (+\$2.2 million) \$2.2 million for replacement purchases initially scheduled for FY 2018 but to be completed in FY 2019.
  - ❑ Equipment Maintenance (+\$0.4): \$0.2 million in non-personnel savings, including parts, fuel and oil, and \$0.2 million in personnel savings due to vacancies
- 
- ❑ Parks Recreation and Waterfront (+\$9,984,801) due to personnel savings and unexpended project funds in the Parks Tax Fund, Measure T1 Fund, and Measure WW Parks Bond Grant Fund. Only certain unspent project funds will be carried over to FY 2018.
  - ❑ Planning (+\$2,281,241) due to unspent FEMA Funds for the Hazard Mitigation Grant Program not being fully spent in FY 2018. These funds will be carried over to FY 2019. The Permit Service Center Fund also had personnel and non-personnel savings of \$936,694 in FY 2018.
  - ❑ Library (+\$3,524,355) due was impacted by unexpected delays to the Central Library Improvement Project. The Central Library capital improvement project did not advance to construction as was expected. Budgeted savings were realized from design, engineering, and construction time lags; and personnel costs too contributed significant savings as a result of staffing vacancies throughout the organization.



General Fund Revenue for 1<sup>st</sup> Quarter FY19 and Comparison With 1<sup>st</sup> Quarter of FY18

Revenue Categories	FY 2019				FY 2018				Comparison FY19 vs FY 18	
	Adopted	1st Qtr- Actual	Variance	% Received	Adopted	1st Qtr- Actual	Variance	% Received	Amount	%
	(a)	(b)	c=(a) - (b)	(d) = (b)/(a)	(e)	(f)	g=(e) - (f)	(h) = (f)/(g)	(i) = (b) - (f)	(j) = (i)/(f)
Secured Property	\$57,966,998	\$365,288	\$57,601,710	0.63%	\$50,018,636	\$388,517	\$49,630,119	0.78%	(\$23,229)	-5.98%
Redemptions -Regular	668,140	72,176	595,964	10.80%	1,443,800	106,676	1,337,124	7.39%	(34,500)	-32.34%
Supplemental Taxes	1,400,000	275,075	1,124,925	19.65%	1,100,000	222,117	877,883	20.19%	52,958	23.84%
Unsecured Property Taxes	2,500,000	2,439,085	60,915	97.56%	2,767,684	2,322,531	445,153	83.92%	116,554	5.02%
Property Transfer Tax	12,500,000	5,722,325	6,777,675	45.78%	12,500,000	6,175,794	6,324,206	49.41%	(453,469)	-7.34%
Sales Taxes	18,140,977	4,352,090	13,788,887	23.99%	18,000,000	4,473,872	13,526,128	24.85%	(121,782)	-2.72%
Soda Taxes (new in May 2015)	1,500,000	384,903	1,115,097	25.66%	1,721,456	266,329	1,455,127	15.47%	118,574	44.52%
Utility Users Taxes	15,000,000	3,365,240	11,634,760	22.43%	14,282,375	3,671,928	10,610,447	25.71%	(306,688)	-8.35%
Transient Occupancy Taxes	7,800,000	2,223,554	5,576,446	28.51%	8,769,633	2,144,104	6,625,529	24.45%	79,450	3.71%
Business License Tax	19,200,000	825,389	18,374,611	4.30%	19,101,191	829,232	18,271,959	4.34%	(3,843)	-0.46%
Other Taxes	3,389,800	855,142	2,534,658	25.23%	1,466,381	226,926	1,239,455	15.48%	628,216	276.84%
Vehicle In-Lieu Taxes	12,381,128	-	12,381,128	0.00%	10,320,402	-	10,320,402	0.00%	-	0.00%
Parking Fines-Regular Collection	5,818,123	1,602,343	4,215,780	27.54%	6,299,322	1,593,191	4,706,131	25.29%	9,152	0.57%
Parking Fines-Booting Collection	200,000	47,378	152,622	23.69%	204,000	53,807	150,193	26.38%	(6,429)	-11.95%
Moving Violations	235,000	33,124	201,876	14.10%	239,770	33,717	206,053	14.06%	(593)	-1.76%
Ambulance Fees	4,613,194	1,039,816	3,573,378	22.54%	4,823,720	1,113,585	3,710,135	23.09%	(73,769)	-6.62%
Interest Income	2,500,000	858,556	1,641,444	34.34%	2,211,000	709,205	1,501,795	32.08%	149,351	21.06%
Franchise Fees	1,984,643	238,480	1,746,163	12.02%	1,955,314	258,220	1,697,094	13.21%	(19,740)	-7.64%
Other Revenue	7,620,152	2,407,038	5,213,114	31.59%	5,916,158	2,402,204	3,513,954	40.60%	4,834	0.20%
IDC Reimbursement	4,952,317	1,522,489	3,429,828	30.74%	4,553,189	1,428,901	3,124,288	31.38%	93,588	6.55%
Transfers	4,385,568	1,096,392	3,289,176	25.00%	5,197,771	1,091,807	4,105,964	21.01%	4,585	0.42%
			-				-		-	
<b>Total Revenue:</b>	<b>\$184,756,040</b>	<b>\$29,725,883</b>	<b>\$155,030,157</b>	<b>16.09%</b>	<b>\$172,891,802</b>	<b>\$29,512,663</b>	<b>\$143,379,139</b>	<b>17.07%</b>	<b>\$213,220</b>	<b>0.72%</b>

Note: This statement is presented on a budgetary basis.

The first quarter review focuses primarily on the major revenue fluctuation, and changes that have occurred that might result in significant changes in future projections. Staff will present a more refined revenue projections based on additional information during the mid-year update.

#### **Secured Property Tax (-\$23,229 under FY 2018 Actual)**

During the first quarter of FY 2019, Secured Property Tax revenues totaled \$365,288, which was \$23,229 or 5.98% less than the \$388,517 received for FY 2018. This first quarter reflects a relatively small amount received from the previous year's levy that was unpaid during that fiscal year. The amount received is typical of what is historically received in the first quarter. Staff revenue projection reflected in the Adopted Budget assumes a 5% growth for the year; however, the County's Certification of Assessed Valuation shows a growth of over 6.9%. Staff will monitor this revenue stream closely for a likely increase in the projection.

#### **Property Transfer Tax (-\$453,469 under FY 2018 Actual)**

During the first quarter of FY 2019, Property Transfer Tax totaled \$5,722,325, which was \$453,469 or 7.34% less than the \$6,175,794 received for the first quarter of FY 2018. Property sales decreased by \$48,533,133, from \$422,222,599 in the first quarter of FY 2018 to \$373,689,466 for the same period in FY 2019. The number of property transactions increased by 4 or 1.5% from 261 in the first quarter of FY 2018 to 265 for the same period in FY 2019. The average sales price declined by \$207,562 or 12.8%, from \$1,617,711 in the first quarter of FY 2018 to \$1,410,149 for the same period in FY 2019.

The primary reason for the \$453,469 decrease in Property Transfer Tax and the decrease in the average sales price in the first quarter of FY 2019 was one \$50 million transaction in FY 2018 that resulted in Property Transfer Tax of \$750,000. Staff will closely monitor this revenue.

**Sales Tax (- \$121,782 under FY 2018 Actual)**

For the first quarter of FY 2019, Sales Tax revenue totaled \$4,352,090, which is \$121,782 or 2.72% less than the \$4,473,872 received for the first quarter of FY 2018. Finance staff is working with the City's Sales Tax consultant to determine the cause of the decline in Sales Tax revenue during the quarter.

**Utility Users Taxes (- \$306,688 under FY 2018 Actual)**

Utility Users Taxes revenue for the first quarter of FY 2019 totaled \$3,365,240, which is \$306,688 or 8.35% less than the \$3,671,928 received for the same period in FY 2018. The decrease in the first quarter of FY 2019 is attributable to a \$273,209 or 11.4% decrease in Cellular charges, a \$292,889 or 10.0% decrease in Gas charges, which was offset by a \$288,980 or 4.4% increase in Electricity charges.

**Transient Occupancy Tax (+\$79,450 more than FY 2018 Actual)**

Transient Occupancy Tax (TOT) revenue for the first quarter of FY 2019 totaled \$2,223,554 which is \$79,450 or 3.7% more than the \$2,144,104 received for the first quarter of FY 2018. The increase in FY 2019 is attributable to moderate growth at four of the five largest hotels in Berkeley during the quarter.

**Other Taxes (+\$628,216 over FY 2018 Actual)**

Other Taxes increased by \$628,216 or 276.8% in the first quarter of FY 2019 to \$855,142 from \$226,926 for the same period in FY 2018. This increase resulted primarily from the collection of three new taxes during the first quarter of FY 2019: Short-term Rentals of \$485,528; U1 revenue of \$23,328; and Recreational Cannabis BLT revenue of \$129,724.

**Interest Income (+\$149,351 over FY 2018 Actual)**

For the first quarter of FY 2019, interest income totaled \$858,556 which is \$149,351 more than the total of \$709,205 received for the same period in FY 2018. This increase is attributable to a significant increase in staff purchases of longer-term investments as interest rates started to rise.

**Indirect Cost Reimbursements (+\$93,588 over FY 2018 Actual)**

IDC Reimbursement for the first quarter of FY 2019 totaled \$1,522,489 which is \$93,588 or 6.55% more than the \$1,428,901 received for the same period in FY 2018. This is primarily attributable to an increase in charges to the Zero Waste Fund (\$55,615) and the Permit Service Center (\$77,443), as a result of increases in direct salaries. IDC Reimbursement increases result from increases in the indirect cost allocation base (i.e., total direct salaries and wages in the fund), an increase in the indirect cost rate or both.

## FY 2019 First Quarter Expenditures (7/1/18 – 9/30/18)

## General Fund

Department	FY 2019 Adopted	FY 2019 Adjusted*	Year-To-Date		Percent Expended
			Actuals + Encumbrances	Balance	
Mayor & Council	2,020,693	2,000,320	484,149	1,516,171	24%
Auditor	2,322,174	2,322,307	478,105	1,844,202	21%
City Manager	6,894,178	7,116,562	1,796,292	5,320,270	25%
Police Review Commission	731,132	735,040	173,715	561,325	24%
City Attorney	2,186,657	2,186,679	559,718	1,626,961	26%
City Clerk	2,534,266	2,607,068	605,482	2,001,586	23%
Information Technology	7,711,017	1,065,031	836,864	228,167	79%
Finance	6,080,806	7,110,935	2,340,884	4,770,051	33%
Human Resources	2,016,349	2,144,837	537,204	1,607,633	25%
Health, Housing & Community Services	14,766,894	15,406,200	4,108,166	11,298,034	27%
Public Works	3,303,978	3,866,068	1,566,732	2,299,336	41%
Parks, Recreation and Waterfront	5,747,738	5,986,439	2,184,950	3,801,489	36%
Fire	31,800,695	31,970,504	8,014,629	23,955,875	25%
Police	62,219,080	62,666,589	14,802,983	47,863,606	24%
Planning	1,975,461	2,034,141	393,000	1,641,141	19%
Economic Development	2,484,264	2,520,290	1,444,985	1,075,305	57%
Rent Board	0	306,640	306,640	-	100%
Non-Departmental	29,450,664	37,659,746	20,742,607	16,917,139	55%
<b>Total</b>	<b>184,246,046</b>	<b>189,705,396</b>	<b>61,377,105</b>	<b>128,328,291</b>	<b>32%</b>

\*FY 2019 Adjusted includes FY 2018 Encumbrance Rollover

## All Funds (including General Fund)

Department	FY 2019 Adopted	FY 2019 Adjusted*	Year-To-Date		Percent Expended
			Actuals + Encumbrances	Balance	
Mayor & Council	2,020,693	2,000,320	484,149	1,516,171	24%
Auditor	2,419,749	2,419,882	509,058	1,910,824	21%
City Manager	7,638,613	7,862,276	2,134,756	5,727,520	27%
Police Review Commission	731,132	735,040	173,715	561,325	24%
City Attorney	4,224,401	4,953,974	2,224,673	2,729,301	45%
City Clerk	2,534,266	2,607,068	605,482	2,001,586	23%
Information Technology	17,537,825	10,352,727	4,771,841	5,580,886	46%
Finance	7,924,435	9,065,650	2,800,499	6,265,151	31%
Human Resources	3,888,726	4,051,062	970,359	3,080,703	24%
Health, Housing & Community Services	49,197,874	52,163,118	19,572,650	32,590,468	38%
Public Works	115,819,678	128,399,574	50,705,852	77,693,722	39%
Parks, Recreation and Waterfront	28,150,223	33,967,540	16,121,501	17,846,039	47%
Fire	40,008,265	40,324,503	10,764,469	29,560,034	27%
Police	67,277,591	67,920,141	16,018,492	51,901,649	24%
Planning	21,372,934	22,641,714	5,366,796	17,274,918	24%
Economic Development	5,397,704	5,813,603	3,022,500	2,791,103	52%
Rent Board	5,231,605	5,588,210	1,790,696	3,797,514	32%
Library	23,333,610	23,727,997	6,103,104	17,624,893	26%
Non-Departmental	56,940,782	67,356,946	35,041,904	32,315,042	52%
<b>Total</b>	<b>461,650,106</b>	<b>491,951,345</b>	<b>179,182,496</b>	<b>312,768,849</b>	<b>36%</b>

\*FY 2019 Adjusted includes FY 2018 Encumbrance Rollover

## FY 2019 First Quarter Expenditures Variance Analysis

### First Quarter Assumptions

- Personnel year-to-date actuals are through 09/30/18 and represent 23.08% expended. All departments are tracking at or below 23.08% in personnel expenditures. General Fund personnel costs represent almost 77% of the total City's General Fund budget and are tracked on a monthly basis. As in prior years, Police overtime continues to be a concern and is being monitored by staff.

Generally, on an all funds basis, expenditures over 23.08% are related to non-personnel costs, such as encumbrances for contracts, supplies, and materials.

### First Quarter Variances

#### General Fund

- Information Technology: A significant portion of the General Fund budget is being moved to the new Information Technology Cost Allocation Plan Fund. The remaining funds were encumbered for professional services contracts, computer maintenance, and software licenses.
- Health, Housing & Community Services: First three months is when summer youth workers are hired.
- Public Works: Funds were encumbered for gas and electricity payments.
- Parks Recreation & Waterfront: 1<sup>st</sup> quarter was peak season for Recreation programs.
- Economic Development: Funds for the Visit Berkeley contract and the Civic Arts Grants are encumbered in the 1<sup>st</sup> Quarter.
- Non-Departmental: Funds for community agency contracts (managed by the Health, Housing & Community Services Department and Parks Recreation & Waterfront) were encumbered in first quarter.

#### All Funds

- City Attorney: Funds for outside counsel contracts were encumbered at the start of the fiscal year.
- Information Technology: Funds in the Information Technology Cost Allocation Plan fund were encumbered as well as funds in the FUNDS\$ Replacement Fund.
- Public Works: Funds were encumbered for capital improvement projects early in the fiscal year.
- Parks Recreation and Waterfront: Funds encumbered for food and supplies at Camps, utilities and supplies, and capital improvement projects.
- Planning: Funds for outside plan check and expedited permit review contracts were encumbered at the start of the year.
- Economic Development: Funds for business improvement district contracts were encumbered at the start of the fiscal year.
- Non-Departmental: Debt service payments were made in August