



Office of the City Manager

WORKSESSION

March 19, 2019

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Teresa Berkeley-Simmons, Budget Manager

Subject: FY 2019 Mid-Year Budget Update

INTRODUCTION

This report presents the FY 2019 Mid-Year Budget Update and focuses on projected General Fund revenues and expenditures. This report also provides information on expenditure projections for the City's special funds.

CURRENT SITUATION AND ITS EFFECTS

The City of Berkeley is currently in FY 2019, the second of two fiscal years in the FY 2018 & FY 2019 biennial budget cycle, which Council adopted on June 27, 2017¹ and updated on June 26, 2018². Fiscal Year 2019 runs from July 1, 2018 through June 30, 2019.

As of December 31, 2018, both the General Fund revenues and the General Fund expenditures were on track and within budget.

| | Adjusted Budget | FY 2019 Mid-Year Actuals | % Received/ Expensed and Encumbered |
|--|-----------------|--------------------------|-------------------------------------|
| Revenues | \$184.8 | \$91.7 | 50% |
| Expenditures | (\$225.2) | (\$108.8) | 48% |
| Carryover and Excess Equity (Revenues) | \$ 40.9 | | |
| Balance | \$ 0.5 | | |

The carryover and excess equity revenues are carried forward from FY 2018. Additional information on the carryovers and excess equity allocation is discussed later in this report under the General Fund Expenditures section.

¹ https://www.cityofberkeley.info/Clerk/City_Council/2017/06_June/City_Council_06-27-2017_-_Regular_Meeting_Agenda.aspx (Item #47)

² https://www.cityofberkeley.info/Clerk/City_Council/2018/06_June/City_Council_06-26-2018_-_Regular_Meeting_Agenda.aspx (Item #40)

FY 2019 Mid-Year Summary

On November 27, 2018, Council was provided the [FY 2018 Year-End Results and FY 2019 First Quarter Budget Update](#) report. At the time, both the General Fund revenues and the General Fund expenditures were tracking within budget.

General Fund Revenues

During the first half of FY 2019, General Fund revenues and transfers increased \$3.9 million or 4.45%, from \$87.8 million in FY 2018 to \$91.7 million in FY 2019.

| Revenue Categories | FY 2019 | | | | FY 2018 | | | | Comparison FY2019 vs FY2018 | |
|---|----------------------|---------------------|---------------------|---------------|----------------------|---------------------|---------------------|---------------|-----------------------------|--------------|
| | Adopted | Mid-Year | Variance | % Received | Adopted | Mid-Year | Variance | % Received | Amount | % |
| Secured Property | \$57,966,998 | \$30,220,695 | (\$27,746,303) | 52.13% | \$50,018,636 | \$28,546,920 | (\$21,471,716) | 57.07% | 1,673,775 | 5.86% |
| Redemptions -Regular | 668,140 | 317,903 | (350,237) | 47.58% | 1,443,800 | 390,388 | (1,053,412) | 27.04% | (72,485) | -18.57% |
| Supplemental Taxes | 1,400,000 | 741,314 | (658,686) | 52.95% | 1,100,000 | 719,601 | (380,399) | 65.42% | 21,713 | 3.02% |
| Unsecured Property Taxes | 2,500,000 | 2,483,983 | (16,017) | 99.36% | 2,767,684 | 2,352,744 | (414,940) | 85.01% | 131,239 | 5.58% |
| Property Transfer Tax | 12,500,000 | 11,911,150 | (588,850) | 95.29% | 12,500,000 | 10,773,512 | (1,726,488) | 86.19% | 1,137,638 | 10.56% |
| Sales Taxes | 18,140,977 | 9,399,650 | (8,741,327) | 51.81% | 18,000,000 | 8,901,161 | (9,098,839) | 49.45% | 498,489 | 5.60% |
| Soda Taxes (new in May 2015) | 1,500,000 | 818,879 | (681,121) | 54.59% | 1,721,456 | 740,610 | (980,846) | 43.02% | 78,269 | 10.57% |
| Utility Users Taxes | 15,000,000 | 6,307,679 | (8,692,321) | 42.05% | 14,282,375 | 7,130,469 | (7,151,906) | 49.92% | (822,790) | -11.54% |
| Transient Occupancy Taxes | 7,800,000 | 4,331,381 | (3,468,619) | 55.53% | 8,769,633 | 4,022,524 | (4,747,109) | 45.87% | 308,857 | 7.68% |
| Short-term Rentals | 840,000 | 870,987 | 30,987 | 103.69% | 800,000 | 35,332 | (764,668) | 4.42% | 835,655 | 2365.15% |
| Business License Tax, ex Recr. Cannabis | 18,360,000 | 1,381,343 | (16,978,657) | 7.52% | 17,651,191 | 1,637,688 | (16,013,503) | 9.28% | (256,345) | -15.65% |
| Recreational Cannabis | 500,000 | 267,674 | (232,326) | 53.53% | - | - | 0 | - | 267,674 | - |
| U1 revenues | 1,000,000 | 166,131 | (833,869) | 16.61% | 650,000 | 68,343 | (581,657) | 10.51% | 97,788 | 143.08% |
| Other Taxes | 1,889,800 | 757,746 | (1,132,054) | 40.10% | 1,466,381 | 683,583 | (782,798) | 46.62% | 74,163 | 10.85% |
| Vehicle In-Lieu Taxes | 12,381,128 | 6,241,142 | (6,139,986) | 50.41% | 10,320,402 | 5,879,550 | (4,440,852) | 56.97% | 361,592 | 6.15% |
| Parking Fines-Regular Collections | 5,818,123 | 3,614,649 | (2,203,474) | 62.13% | 6,299,322 | 3,264,087 | (3,035,235) | 51.82% | 350,562 | 10.74% |
| Parking Fines-Booting Collections | 200,000 | 97,879 | (102,121) | 48.94% | 204,000 | 115,710 | (88,290) | 56.72% | (17,831) | -15.41% |
| Moving Violations | 235,000 | 64,055 | (170,945) | 27.26% | 239,770 | 97,117 | (142,653) | 40.50% | (33,062) | -34.04% |
| Ambulance Fees | 4,613,194 | 2,127,332 | (2,485,862) | 46.11% | 4,823,720 | 2,113,838 | (2,709,882) | 43.82% | 13,494 | 0.64% |
| Interest Income | 2,500,000 | 1,399,709 | (1,100,291) | 55.99% | 2,211,000 | 1,617,767 | (593,233) | 73.17% | (218,058) | -13.48% |
| Franchise Fees | 1,984,643 | 467,254 | (1,517,389) | 23.54% | 1,955,314 | 518,412 | (1,436,902) | 26.51% | (51,158) | -9.87% |
| Other Revenue | 7,620,152 | 3,985,112 | (3,635,040) | 52.30% | 5,916,158 | 3,206,450 | (2,709,708) | 54.20% | 778,662 | 24.28% |
| IDC Reimbursement | 4,952,317 | 2,448,433 | (2,503,884) | 49.44% | 4,553,189 | 2,827,184 | (1,726,005) | 62.09% | (378,751) | -13.40% |
| Transfers | 4,385,568 | 1,316,665 | (3,068,903) | 30.02% | 5,197,771 | 2,183,613 | (3,014,158) | 42.01% | (866,948) | -39.70% |
| Total Revenue: | \$184,756,040 | \$91,738,745 | \$93,017,295 | 49.65% | \$172,891,802 | \$87,826,608 | \$85,065,199 | 50.80% | \$3,912,142 | 4.45% |

The information below outlines the variances in key revenue areas.

- Secured property tax increased 5.86 percent compared with the same period in FY 2018. This is less than the 6.9 percent increase in FY 2019 assessed values reported by the County. Since the Adopted Budget assumed an increase of 5.0 percent, the projection for this revenue source is being monitored and might be increased by about 1 percent from \$57.8 million to reflect that increase in assessed values.
- Property transfer tax is trending 10.56 percent more than the same period last fiscal year. The number of property transactions decreased by 12 or 2.1 percent. However, the average sales price increased by \$246,041 or 12.1 percent.

According to Council's fiscal policy, \$12.5 million is to be included in the General Fund operating baseline. Any excess above \$12.5 million will be transferred to the Capital Improvement Fund. Staff is closely monitoring this revenue source for a possible increase in the revenue projection.

- Sales tax revenue for the first half of FY 2019 is 5.6 percent more than the first half of FY 2018. Staff is monitoring this revenue source closely for a possible increase in the projection. The City's Sales Tax consultant will not have the details of year-over-year revenue changes by revenue segment until late March 2019. Because of that, Staff is currently unable to determine the segments that account for the increase
- Utility Users Taxes revenue for the first half of FY 2019 totaled \$6,307,679, which is \$822,790 or 11.54 percent less than the \$7,130,469 received for the first half of FY 2018. The decrease in the first half of FY 2019 is attributable to a decrease in gas and electricity receipts totaling \$1,046,278. Staff is investigating the shortfall, and also attempting to determine any potential effects of the PG&E filing bankruptcy recently. Finance staff requested an explanation from PG&E and received the following response about the UUT variance and future payments of UUT and Franchise Fees: "We will get back to you by the end of March with an analysis on the variance between July-December for FY 2019 vs. FY 2018. Additionally, PG&E is continuing operations while under Chapter 11, and therefore we expect to continue to meet our future franchise fee and utility users' tax and similar obligations to cities and counties, as normal."
- Transient Occupancy Tax (TOT) revenue for the first half of FY 2019 totaled \$4,331,381 which is \$308,857 or 7.68 percent more than the \$4,022,524 received for the first half of FY 2018. The reasons for the increase in revenue in FY 2019 are that (1) The actual increase was \$185,878 or 4.4 percent, instead of \$308,857 or 7.7 percent, due to the November 2017 receipt totaling \$122,979 for one of the five largest hotels being recorded in period seven instead of period six; (2) The remittances from the five largest hotels increased \$133,919 or 4.1 percent in the first half of FY 2019, with increases ranging between .12 percent and 5.83 percent
- Business License Taxes decreased by \$256,345 or 15.7 percent in the first half of FY 2019 to \$1,381,343 from \$1,637,687 for the same period in FY 2018. This increase primarily reflects the timing of the processing of Business License Tax remittances. It is too early to determine the performance of this revenue source as the deadline for payments is February 28th. Staff will monitor the revenue receipts closely.
- Vehicle In-Lieu Taxes increased by \$361,592 or 6.1 percent in the first half of FY 2019 to \$6,241,142 from \$5,879,550 for the same period in FY 2018. This is consistent with the 6.9 percent increase in FY 2019 assessed values reported by

the County. Since the Adopted Budget assumed an increase of 5.0 percent, the projection for this revenue source is being monitored and might be increased by about 1 percent from \$12,381,128 to reflect that increase in assessed values.

- Parking fines revenue for the first half of FY 2019 totaled \$3,614,649 which is \$350,562 or 10.7 percent more than the \$3,264,087 received for the first half of FY 2018. This is partially attributable to an increase of 3,571 tickets issued, from 71,638 in the first half of FY 2018 to 75,209 issued in the first half of FY 2019. Staff continues to monitor this revenue closely.
- For the first half of FY 2019, interest income totaled \$1,399,745 which is \$218,022 or 13.4 percent less than the total of \$1,617,767 received for the same period in FY 2018. This decline is primarily attributable to the City holding a much larger balance of the Fidelity Money Market Fund in FY 2018, which makes interest payments on a monthly basis versus a larger holding of longer-term securities in FY 2019, which make payments on a semi-annual basis.
- For the first half of FY 2019, other income totaled \$3,985,112 which is \$778,662 or 24.3 percent more than the total of \$3,206,450 received for the same period in FY 2018. This increase is primarily due to an increase of \$305,733 in reimbursements for mutual aid for the 2017 wildfire; an increase of \$83,347 in preferential parking fees; an increase of \$42,934 in fire inspection services; an increase of \$34,111 in rents; an increase of \$40,025 in Police Support Services charges for miscellaneous services; and an increase of \$44,446 in miscellaneous property tax allocations
- Indirect cost reimbursement for the first half of FY 2019 totaled \$2,448,433 which is \$378,751 or 13.3 percent less than the \$2,827,184 received for the first half of FY 2018. This is primarily attributable to decreases in the following funds: Street Light Assessment District (\$9,264); Zero Waste (\$167,312); Marina (\$66,548); Sanitary Sewer (\$133,218); Clean Storm Water (\$35,049). These decreases were partially offset by increases in the following funds: CDBG (\$7,272); and Permit Service Center (\$40,963). Indirect cost 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. During the period reported, a decrease in salaries recorded was the primary cause of the decline in indirect cost reimbursements.

General Fund Expenditures

On November 27, 2018, the City Council approved General Fund recommended rollovers, carryovers, and adjustments totaling \$40.9 million in the [Amendment to the FY 2019 Annual Appropriations Ordinance³](#) (AAO).

The changes to the FY 2019 General Fund Budget from the AAO are shown below:

| FY 2019 Adopted Budget | Encumbered Recommended | Unencumbered Recommended | Other Adjustments | FY 2019 Revised Budget |
|------------------------|------------------------|--------------------------|-------------------|------------------------|
| \$ 184,250,048 | \$ 5,455,350 | \$ 4,986,454 | \$ 30,526,753 | \$ 225,218,605 |

The encumbered rollovers reflect contractual obligations entered into in FY 2018, which had not been paid as of June 30, 2018. Unencumbered carryovers are approved by Council for specific purposes that had not be completed by the end of FY 2018. Funding for these commitments is brought forward into the current fiscal year to provide for payment of these obligations. Adjustments are new allocations for projects and Council priorities as detailed in the AAO.

Included in the total adjustments of \$30.5 million are Council authorized \$21.4 million in FY 2018 General Fund Excess Equity allocations for the following items:

1. Pursuant to the adopted General Fund Reserve Policy, allocate \$10,180,000 to the General Fund Reserves as follows (\$5.60 Million to the Stability Reserve Fund and \$4.58 Million to the Catastrophic Reserve Fund);
2. Allocate \$1,500,000 to be reserved for Negotiated COLAs in Bargaining Unit Memoranda Agreements;
3. Allocate \$4,000,000 to the CALPERS Section 115 Supplemental Trust to address Unfunded Liabilities;
4. Allocate the remaining \$5.67 Million in Unassigned Excess Equity as follows:
 - \$200,000 for a Temporary Staff Position to support the Undergrounding Project
 - \$100,000 for Secure Storage at an additional location
 - \$1,500,000 to fully fund the Enterprise Resource Software Project
 - \$117,737.50 (half from GF, remainder from Permit Fund) for a 2-year Senior Planner for the LRDP project and other Land Use Planning work
 - \$400,000 for Traffic Calming at the California and Dwight Intersection (Dist 3 and 4)

³ https://www.cityofberkeley.info/Clerk/City_Council/2018/12_Dec/Documents/2018-12-4_Item_B_FY_2019_Annual_Appropriations.aspx

- \$100,000 for a Pedestrian Activated Crosswalk at Cedar/Rose Park (District 1)
- \$100,000 for a Pedestrian Activated Crosswalk at Grant and University (Dist 4 and 1)
- \$50,000 for a Rectangular Rapid Flashing Beacons (RRFB) at Eton and Claremont (Partially Funded, District 8)
- \$50,000 for a RRFB at Claremont and Russell (Partially Funded, District 8)
- \$200,000 for the Hopkins Corridor Study (District 5)
- \$575,000 set aside for implementation of Fire Safety, Education, Prevention and Disaster Preparedness Recommendations
- \$50,000 for RFP to address gaps for marginalized youth in Berkeley
- \$25,000 to extend the hours that the Frances Albrier Community Center is open
- \$86,924 to pay full city Minimum Wage to YouthWorks employees for FY 2019
- \$250,000 to fully fund Environmental Impact Report for Southside area land use changes (implementing the More Student Housing Now Resolution).
- \$1,820,338.50 to repay the Workers Compensation Fund for payment of part of the outstanding principal for the purchase of the 1001, 1007, 1011 University and 1925 Ninth Street properties
- \$25,000 for project manager for major planning initiatives: Pacific Steel Casting and North Berkeley BART
- \$20,000 for Age Friendly Berkeley Study

General Fund expenditures are tracking under budget as of December 31, 2018 as shown in the chart below. This is primarily due to salary savings and funds that were added as part of the AAO that were not spent yet. Departments that are tracking over 50 percent spent is due to encumbrances for contractual obligations entered into in FY 2019 in which payment might not be currently due as good or services might be in progress or not yet complete.

| FY 2019 MID-YEAR GENERAL FUND EXPENDITURES (AS OF DECEMBER 31, 2018) | | | | |
|--|--------------------|--------------------|--------------------|-----------|
| DEPARTMENT | YTD ACTUALS + | | | |
| | FY 2019 ADOPTED | FY 2019 REVISED | ENCUMBRANCES | % USED |
| 11 MAYOR AND COUNCIL | 2,020,693 | 2,007,648 | 946,552 | 47 |
| 12 CITY AUDITOR | 2,322,174 | 2,361,661 | 981,418 | 42 |
| 13 RENT STABILIZATION BOARD | 0 | 306,640 | 306,640 | 100 |
| 21 CITY MANAGER'S OFFICE | 10,109,574 | 11,706,818 | 5,393,323 | 46 |
| 31 CITY ATTORNEY | 2,186,657 | 2,189,679 | 1,070,750 | 49 |
| 32 CITY CLERK | 2,534,266 | 2,607,068 | 1,079,151 | 41 |
| 33 FINANCE | 6,080,806 | 7,110,935 | 3,232,679 | 46 |
| 34 HUMAN RESOURCES | 2,016,349 | 2,294,837 | 1,024,604 | 45 |
| 35 INFORMATION TECHNOLOGY | 7,711,017 | 3,243,574 | 651,653 | 20 |
| 51 HEALTH, HSG & COMMUNITY SVC | 14,766,894 | 20,227,292 | 6,912,937 | 34 |
| 52 PARKS, RECREATION & WATERFR | 5,747,738 | 6,119,439 | 2,973,317 | 49 |
| 53 PLANNING & DEVELOPMENT | 1,975,461 | 2,203,625 | 769,932 | 35 |
| 54 PUBLIC WORKS | 3,307,978 | 4,397,863 | 2,418,641 | 55 |
| 71 POLICE | 62,219,080 | 62,655,296 | 30,018,434 | 48 |
| 72 FIRE & EMERGENCY SERVICES | 31,800,695 | 32,683,719 | 16,149,374 | 49 |
| 99 NON DEPARTMENTAL | 29,450,664 | 62,678,630 | 34,910,118 | 56 |
| Grand Total | 184,250,046 | 224,794,724 | 108,839,523 | 48 |

Additional information of the General Fund revenues and expenditures will be presented in May with the FY 2020 & FY 2021 Proposed Biennial Budget. Final FY 2019 year-end General Fund revenues and expenditures information will be included in the **FY 2019 Year-End Report and FY 2020 First Quarter Update** that will be presented to Council in November 2019.

All Funds Expenditures

The General Fund comprises 36.6 percent of the total adjusted budget. The rest of the budget consists of various Special Funds. Special Funds are collected for a specific purpose; therefore, are not discretionary. Only costs associated with the Special Fund activity may be charged to a Special Fund. Included in the FY 2019 Mid-Year All Fund Expenditures by Department chart below are both the General Fund expenditures to date and the Special Funds expenditures to date. On an All Funds basis, the City is tracking under budget as of December 31, 2018 as can be seen in the following chart:

| FY 2019 MID-YEAR ALL FUNDS EXPENDITURES AS OF DECEMBER 31, 2018 | | | | |
|---|--------------------|--------------------|--------------------|-----------|
| DEPARTMENT | YTD ACTUALS + | | | |
| | FY 2019 ADOPTED | FY 2019 REVISED | ENCUMBRANCES | % USED |
| 11 MAYOR AND COUNCIL | 2,020,693 | 2,007,648 | 946,552 | 47 |
| 12 CITY AUDITOR | 2,419,749 | 2,459,236 | 1,046,790 | 43 |
| 13 RENT STABILIZATION BOARD | 5,231,605 | 5,588,210 | 2,664,293 | 48 |
| 21 CITY MANAGER'S OFFICE | 13,767,449 | 17,086,037 | 9,032,208 | 50 |
| 22 BERKELEY PUBLIC LIBRARY | 23,333,610 | 24,292,997 | 10,038,568 | 41 |
| 31 CITY ATTORNEY | 4,224,401 | 5,314,974 | 2,895,147 | 55 |
| 32 CITY CLERK | 2,534,266 | 2,607,068 | 1,079,151 | 41 |
| 33 FINANCE | 7,924,435 | 9,065,650 | 4,008,489 | 44 |
| 34 HUMAN RESOURCES | 3,888,726 | 4,201,062 | 1,823,217 | 43 |
| 35 INFORMATION TECHNOLOGY | 17,537,825 | 26,516,771 | 12,554,342 | 37 |
| 51 HEALTH, HSG & COMMUNITY SVC | 49,197,874 | 64,826,959 | 26,755,312 | 41 |
| 52 PARKS, RECREATION & WATERFR | 28,150,223 | 46,349,709 | 23,402,759 | 47 |
| 53 PLANNING & DEVELOPMENT | 21,372,934 | 22,884,069 | 8,958,720 | 39 |
| 54 PUBLIC WORKS | 115,819,678 | 177,187,343 | 99,797,357 | 47 |
| 71 POLICE | 67,277,591 | 68,158,848 | 32,164,689 | 47 |
| 72 FIRE & EMERGENCY SERVICES | 40,008,265 | 41,329,058 | 20,738,500 | 50 |
| 99 NON DEPARTMENTAL | 56,940,782 | 93,767,950 | 65,529,065 | 67 |
| Grand Total | 461,650,106 | 613,643,588 | 323,435,157 | 49 |

Health, Housing, & Community Services, Parks, Recreation & Waterfront, and Public Works carried over funds for projects and grant started in FY 2018. These departments also appropriated new grant funds that support programs and services as well as special funds for capital improvements. Details of these carryover requests can be found in the November 27, 2018, [Amendment to the FY 2019 Annual Appropriations Ordinance⁴](#) (AAO) discussed earlier in this report.

Next Steps:

The FY 2020 & FY 2021 Budget Development process began in December with the budget instructions being issued to departments. Departments have prepared their budget submittals and have been meeting with the City Manager. The information gathered from these meeting is being used to develop budget recommendations to be included in the FY 2020 & FY 2021 Proposed Biennial Budget.

The table below outlines key Council meeting dates at which budget information will be provided.

⁴ https://www.cityofberkeley.info/Clerk/City_Council/2018/11_Nov/Documents/2018-11-27_Item_45_Amendment_FY_2019_Annual.aspx

| FY 2020 & FY 2021 Proposed Budget Calendar | |
|---|---|
| Date | Action/Topic |
| March 19, 2019 | <ul style="list-style-type: none"> • Projection of Future Liabilities • FY 2019 Mid-Year Update |
| TBD | <ul style="list-style-type: none"> • Department Budget & Capital Improvement Program Presentations to Budget & Finance Policy Committee and City Council |
| April 23, 2019 | <ul style="list-style-type: none"> • Public Hearing on CDBG & ESG Annual Action Plan and proposed funding allocations to community agencies |
| May 7, 2019 | <ul style="list-style-type: none"> • FY 2020 & FY 2021 Proposed Biennial Budget |
| May 14, 2019 | <ul style="list-style-type: none"> • Public Hearing #1: Budget • FY 2019 Annual Appropriations Ordinance Amendment #2 • Proposed Fee Increases • Council Budget Referrals due to City Manager |
| May 28, 2019 | <ul style="list-style-type: none"> • Public Hearing #2: Budget • Council recommendations on budget due to the City Manager |
| June 11, 2019 | <ul style="list-style-type: none"> • Council discussion on budget recommendations |
| June 25, 2019 | <ul style="list-style-type: none"> • Adopt FY 2020 & FY 2021 Biennial Budget and the FY 2020 Appropriations Ordinance |

The FY 2019 Mid-Year Budget Update is a Strategic Plan Priority, advancing our goal to provide an efficient and financially-healthy City government.

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

Teresa Berkeley-Simmons, Budget Manager, City Manager's Office, 981-7000
Henry Oyekanmi, Finance Director, Department of Finance, 981-7300
Rama Murty, Senior Management Analyst, City Manager's Office, 981-7000

