BERKELEY CITY COUNCIL BUDGET & FINANCE COMMITTEE SPECIAL MEETING

Tuesday, May 16, 2023
9:00 AM

2180 Milvia Street, 6th Floor – Redwood Room

Committee Members:

Mayor Jesse Arreguin, Councilmembers Rashi Kesarwani and Kate Harrison
Alternate: Councilmember Sophie Hahn

This meeting will be conducted in a hybrid model with both in-person attendance and virtual participation. For in-person attendees, face coverings or masks that cover both the nose and the mouth are encouraged. If you are feeling sick, please do not attend the meeting in person.

Remote participation by the public is available through Zoom. To access the meeting remotely using the internet: Join from a PC, Mac, iPad, iPhone, or Android device: Use URL - https://cityofberkeley-info.zoomgov.com/j/1615029400. If you do not wish for your name to appear on the screen, then use the drop down menu and click on "rename" to rename yourself to be anonymous. To request to speak, use the "raise hand" icon on the screen. To join by phone: Dial **1-669-254-5252 or 1-833-568-8864 (Toll Free)** and Enter Meeting ID: **161 502 9400.** If you wish to comment during the public comment portion of the agenda, press *9 and wait to be recognized by the Chair.

To submit a written communication for the Committee's consideration and inclusion in the public record, email policycommittee@berkeleyca.gov.

Written communications submitted by mail or e-mail to the Budget & Finance Committee by 5:00 p.m. the Friday before the Committee meeting will be distributed to the members of the Committee in advance of the meeting and retained as part of the official record.

AGENDA

Roll Call

Public Comment on Non-Agenda Matters

Minutes for Approval

Draft minutes for the Committee's consideration and approval.

1. **Minutes – May 4, 2023 (special)**

Committee Action Items

The public may comment on each item listed on the agenda for action as the item is taken up. The Chair will determine the number of persons interested in speaking on each item. Up to ten (10) speakers may speak for two minutes. If there are more than ten persons interested in speaking, the Chair may limit the public comment for all speakers to one minute per speaker.

Following review and discussion of the items listed below, the Committee may continue an item to a future committee meeting, or refer the item to the City Council.

2. **FY 2024 Mid-Biennial Budget Update** *(Item contains supplemental material)*
From: City Manager
Recommendation: Receive a presentation on the FY 2024 Mid-Biennial Budget Update and provide direction.
Financial Implications: See report
Contact: Sharon Friedrichsen, Budget Manager, (510) 981-7000

3. **Measure P FY 24 Mid-Biennial Update** *(Item contains supplemental material)*
From: City Manager
Recommendation: Receive a presentation on recommended changes to the Measure P program budget for FY 2024 and provide direction.
Financial Implications: See report
Contact: Peter Radu, City Manager's Office, (510) 981-7000

4. **Russell Street Residence Update**
From: City Manager
Recommendation: Receive a presentation on funding options to support the requisition of the Russell Streets Residence and provide direction to staff.
Financial Implications: See report
Contact: Lisa Warhuus, Health, Housing, and Community Services, (510) 981-5400

Committee Action Items

5a. Recommendation for RV Lot and Waste Management on Streets for RVs
From: Homeless Services Panel of Experts
Referred: April 11, 2023
Due: September 26, 2023
Recommendation: The Homeless Services Panel of Experts recommends to Council that they refer to staff to expedite all efforts to identify a location for another RV lot(s) to take the place of the now closed SPARK lot at 742 Grayson and that the new lot identified require mandatory safety inspections and fire extinguishers to be provided. The Homeless Services Panel of Experts further recommends that Council refer to staff to develop a waste management plan to be implemented for RVs currently on the streets.
Financial Implications: See report
Contact: Josh Jacobs, Commission Secretary, (510) 981-5400

5b. Companion Report to Recommendation for RV Lot and Waste Management on Streets for RVs
From: City Manager
Referred: April 11, 2023
Due: September 26, 2023
Recommendation: Refer the Homeless Services Panel of Experts' recommendation to identify and expedite a new safe RV parking location/program and develop a waste management plan for RVs on the streets to the Budget and Finance Policy Committee for consideration alongside all other homeless services priorities in the budget process.
Financial Implications: See report
Contact: Peter Radu, City Manager's Office, (510) 981-7000

Unscheduled Items

These items are not scheduled for discussion or action at this meeting. The Committee may schedule these items to the Action Calendar of a future Committee meeting.

6. Additional Allocation of Measure P Funding to "Step Up Housing" Project
From: Councilmember Bartlett (Author), Councilmember Wengraf (Co-Sponsor), Councilmember Kesarwani (Co-Sponsor)
Referred: August 3, 2022
Due: May 31, 2023
Recommendation: Adopt a resolution allocating an additional $114,660 per year for 10 years, from Measure P transfer tax receipts to support the increased costs for the lease and operation of a new permanent supportive housing project for the unhoused at the Step-Up Housing Project at 1367 University Avenue. In addition, refer to the next meeting of the Budget and Finance Policy Committee to confirm the availability of requested funding.
On August 3, 2022, the City Council adopted Resolution No. 70,491-N.S. as amended and referred to the Budget & Finance Committee to consider future General Fund needs for this project and confirm availability of funds for the operating budget.
Financial Implications: See report
Contact: Ben Bartlett, Councilmember, District 3, (510) 981-7130

7a. Referral of two health educator positions to the COB FY 2024 budget process
From: Peace and Justice Commission
Referred: April 11, 2023
Due: September 26, 2023
Recommendation: Refer to the budget process a request for estimated $150,000 annually, beginning in FY 2024 or as early as the AAO #2 process in spring 2023, for staffing, materials, and supplies to be able to more broadly and flexibly conduct health education, prevention, and outreach to reduce health disparities, as proposed by the Peace and Justice Commission.
Financial Implications: See report
Contact: Okeya Vance-Dozier, Commission Secretary, (510) 981-7100

7b. Companion Report: Referral of two health educator positions to the COB FY 2024 budget process
From: City Manager
Referred: April 11, 2023
Due: September 26, 2023
Recommendation: Refer to the Peace and Justice Commission's request for $150,000 annually for staffing, materials, and supplies for health education and outreach to the Budget and Finance Policy Committee for further deliberation.
Financial Implications: None
Contact: Peter Radu, City Manager's Office, (510) 981-7000

Unscheduled Items

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

9. **COVID-19 Emergency Rental Assistance; Presentation from the Eviction Defense Center**
From: City Manager
Contact: Lisa Warhuus, Health, Housing, and Community Services, (510) 981-5400

10. **Accept the Risk Analysis for Long-Term Debt (Bonding Capacity) Report provided by Government Finance Officers Association** *(Item contains supplemental material)*
From: City Manager
Referred: April 26, 2022
Due: May 31, 2023
Recommendation: Accept the report titled 'Risk-Based Analysis and Stress Test of Long-Term Debt Affordability' as provided by the Government Finance Officers Association (GFOA). This report is based on their research and development of a risk-modeling tool to address issuing long-term debt related to City of Berkeley Vision 2050.
On April 26, 2022, the City Council referred this item to the City Manager and Budget & Finance Committee to return to Council with recommendations or analysis on as many of the following items as possible by October 2022, if feasible. 1) Consideration of reserves policies for operational funds other than the General Fund; 2) Potential reduction of the maximum indebtedness rate from 15% of assessed property value down to 4-8% range; 3) A new policy to not incur indebtedness when interest rates go above 5% or a different specific threshold; 4) Tools for increased transparency for taxpayers; 5) Updated report and discussion of pension and healthcare costs; 6) Refer the full Report to the Budget & Finance Committee for consideration.
Financial Implications: None
Contact: Henry Oyekanmi, Finance, (510) 981-7300

Items for Future Agendas

- **Requests by Committee Members to add items to future agendas**

Adjournment

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Written communications addressed to the Budget & Finance Committee and submitted to the City Clerk Department will be distributed to the Committee prior to the meeting.

This meeting will be conducted in accordance with the Brown Act, Government Code Section 54953 and applicable Executive Orders as issued by the Governor that are currently in effect. Members of the City Council who are not members of the standing committee may attend a standing committee meeting even if it results in a quorum being present, provided that the non-members only act as observers and do not participate in the meeting. If only one member of the Council who is not a member of the committee is present for the meeting, the member may participate in the meeting because less than a quorum of the full Council is present. Any member of the public may attend this meeting. Questions regarding this matter may be addressed to Mark Numainville, City Clerk, (510) 981-6900.

COMMUNICATION ACCESS INFORMATION:
This meeting is being held in a wheelchair accessible location. To request a disability-related accommodation(s) to participate in the meeting, including auxiliary aids or services, please contact the Disability Services specialist at (510) 981-6418 (V) or (510) 981-6347 (TDD) at least three business days before the meeting date. Attendees at public meetings are reminded that other attendees may be sensitive to various scents, whether natural or manufactured, in products and materials. Please help the City respect these needs.

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I hereby certify that the agenda for this meeting of the Standing Committee of the Berkeley City Council was posted at the display case located near the walkway in front of the Maudelle Shirek Building, 2134 Martin Luther King Jr. Way, as well as on the City's website, on Thursday, May 11, 2023.

Mark Numainville, City Clerk

Communications

Communications submitted to City Council Policy Committees are on file in the City Clerk Department at 2180 Milvia Street, 1st Floor, Berkeley, CA, and are available upon request by contacting the City Clerk Department at (510) 981-6908 or policycommittee@berkeleyca.gov.

BERKELEY CITY COUNCIL BUDGET & FINANCE COMMITTEE SPECIAL MEETING MINUTES

Thursday, May 4, 2023
9:00 AM

2180 Milvia Street, 1st Floor – Cypress Room

Committee Members:

Mayor Jesse Arreguin, Councilmembers Rashi Kesarwani and Kate Harrison
Alternate: Councilmember Sophie Hahn

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MINUTES

Roll Call: 9:08 p.m. All present.

Public Comment on Non-Agenda Matters – 1 speaker

Minutes for Approval

Draft minutes for the Committee's consideration and approval.

1. **Minutes – April 20, 2023 (special) and April 27, 2023 (regular)**
Action: M/S/C (Harrison/Arreguin) to approve the minutes of 4/27/23.
Vote: All Ayes.

Committee Action Items

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Following review and discussion of the items listed below, the Committee may continue an item to a future committee meeting, or refer the item to the City Council.

Committee Action Items

2. **Measure T1 Funding Gap** *(Item contains supplemental material)*
From: City Manager
Recommendation: Receive a presentation on Measure T1 Phase 2 Project funding recommendations and update on the City's capital improvement projects, and provide direction to staff.
Financial Implications: See report
Contact: Sharon Friedrichsen, Budget Manager, (510) 981-7000; Scott Ferris, Parks, Recreation and Waterfront, (510) 981-6700; Liam Garland, Public Works, (510) 981-6300

Action: 23 speakers. Presentation made by Staff. Discussion held. M/S/C (Kesarwani/Harrison) to address the Measure T1 funding gap with the adjustments noted below.

Item	Dollar Amount
NBSC Solar Batteries	-500,000
Security Cameras	-643,899
Paperless Contract System	-400,000
Fire Station #6	-666,101
Hopkins Bike/Ped*	-2,800,000
Workers Comp Fund	-4,050,000
Total	-9,060,000

*Awaiting staff guidance on feasibility of delivering pedestrian safety improvements and placemaking

Vote: All Ayes.

3. **Second Amendment to the FY 2023 Annual Appropriations Ordinance** *(Item contains supplemental material)*
From: City Manager
Recommendation: Receive a report on the City's second amendment to the FY 2023 Annual Appropriations Ordinance and provide comment to staff prior to the report being submitted for the May 9, 2023 Council meeting.
Financial Implications: See report
Contact: Sharon Friedrichsen, Budget Manager, (510) 981-7000
Action: 1 speaker. Presentation made by Budget Director. No action taken.

4. **FY 2024 Mid-Biennial Budget Update** *(Item contains supplemental material)*
From: City Manager
Recommendation: Receive a presentation on the FY 2024 Mid-Biennial Budget Update and provide direction.
Financial Implications: See report
Contact: Sharon Friedrichsen, Budget Manager, (510) 981-7000
Action: Rescheduled to next meeting of the Budget & Finance Committee.

Committee Action Items

5. **Measure P FY 24 Mid-Biennial Update** *(Item contains supplemental material)*
From: City Manager
Recommendation: Receive a presentation on recommended changes to the Measure P program budget for FY 2024 and provide direction.
Financial Implications: See report
Contact: Peter Radu, City Manager's Office, (510) 981-7000
Action: Rescheduled to next meeting of the Budget & Finance Committee.

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Financial Implications: See report
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Unscheduled Items

7b. **Companion Report to Recommendation for RV Lot and Waste Management on Streets for RVs**
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Financial Implications: None
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9. **Investment Report Update - Investment Policies of Other Jurisdictions**
From: City Manager
Contact: Henry Oyekanmi, Finance, (510) 981-7300

10. **COVID-19 Emergency Rental Assistance; Presentation from the Eviction Defense Center**
From: City Manager
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Unscheduled Items

11. **Russell Street Residence Update**
From: City Manager
Recommendation: Receive a presentation on funding options to support the requisition of the Russell Streets Residence and provide direction to staff.
Financial Implications: See report
Contact: Lisa Warhuus, Health, Housing, and Community Services, (510) 981-5400

12. **Accept the Risk Analysis for Long-Term Debt (Bonding Capacity) Report provided by Government Finance Officers Association** *(Item contains supplemental material)*
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Recommendation: Accept the report titled 'Risk-Based Analysis and Stress Test of Long-Term Debt Affordability' as provided by the Government Finance Officers Association (GFOA). This report is based on their research and development of a risk-modeling tool to address issuing long-term debt related to City of Berkeley Vision 2050.
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Financial Implications: None
Contact: Henry Oyekanmi, Finance, (510) 981-7300

Items for Future Agendas

- **None**

Adjournment

Action: M/S/C (Arreguin/Kesarwani) to adjourn the meeting.
Vote: Ayes – Kesarwani, Arreguin; Noes – None; Abstain – None; Absent – Harrison.

Councilmember Harrison absent at 11:57 a.m.

Adjourned at 12:05 p.m.

I hereby certify that the foregoing is a true and correct record of the Budget & Finance Committee meeting held on May 4, 2023.

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Mark Numainville, City Clerk

Communications

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Summary of FY 2024 Request		
Unfunded Tier II & III Requests	$	22,667,837
New Department General Fund Requests	$	13,644,010
New Unfunded Council Referrals	$	12,665,512
Total	**$**	**48,977,360**

Fiscal Years 2023 and 2024 Adopted Budget
Funding Requests Tiers 2 & 3

Item #	Requestor and Funding Category	Budget Referral	Expenditure Type/Description	Requesting Amount	FY 23 Request	FY 24 Request	Reason for Request
	Reimaging Public Safety						
	Tier 2						
1	Police		5 Parking Enforcement Officers	1,283,950	641,975	641,975	Address parking/traffic matters that do not necessitating a sworn officer response. Expanded Preferential Parking Program
2	Police		1 Parking Enforcement Supervisor	300,700	150,350	150,350	Required supervision for added Parking Enforcement Officers
	Subtotal Tier 2 Unfunded Requests			**1,584,650**	**792,325**	**792,325**	
	Total Unfunded Reimaging Public Safety Requests			**1,584,650**	**792,325**	**792,325**	
	Staffing Augmentation						
	Tier 2						
3	City Manager's Office		Communications Specialist	417,552	208,776	208,776	Backup PIO coverage for emergencies
4	City Manager's Office		Code Enforcement Officer I	312,200	156,100	156,100	Reduce response time to complaints
5	Office of Economic Development		Sr Economic Development Project Coordinator	549,328	274,664	274,664	Work on special projects and Council identified priorities
6	Office of Director of Police Accountability		Police Accountability Investigator	385,360	192,680	192,680	Meet work demands of department
7	Parks, Recreation & Waterfront		CIP staffing: 40% Associate Civil Engineer	169,308	84,654	84,654	To offset existing staff costs to implement CIP funded projects
8	Parks, Recreation & Waterfront		CIP staffing: 60% Associate Civil Engineer	288,493	144,247	144,247	To offset staff costs to implement proposed CIP Waterfront projects
9	Public Works		Engineering: AOSIII	26,778	13,389	13,389	Support Real Property, lease tracking and agreements, payment collection
10	Public Works		Transportation: OSII - Parking Citation Review	220,000	110,000	110,000	Support citation review program, address backlog
11	Public Works		CIP Manager	150,686	75,343	75,343	Will coordinate CIP efforts for Transportation/Engineering. Contingent on passage of revenue measure.
12	Councilmember Harrison	x	Community Development Project Coordinator	209,726	104,863	104,863	To assist HHCS with Workforce Standards and Enforcement
13	Councilmember Taplin	x	West Berkeley Park Ambassadors	600,000	300,000	300,000	Funding for Park Ambassadors:2-3 part time positions for one year at San Pablo Park, Strawberry Creek Park and Aquatic Park seven days a week
	Subtotal Tier 2 Unfunded Requests			**3,329,431**	**1,664,716**	**1,664,716**	
	Tier 3						
14	Planning		50% GIS Specialist	147,087	73,544	73,544	Assistant Planner/Geographic Information Systems Analyst. 2 year term
15	Public Works		Applications Programmer Analyst I	52,078	26,039	26,039	Streets & Utilities: Implement NexGen and Assetworks
16	Public Works		Transportation Manager	278,392	139,196	139,196	Restoring Transportation Division Manager classification after Reclass of previous Transportation Manager to Deputy Director
17	Councilmember Droste, Parks and Waterfront & Public Works Commission	x	Adopt-A-Spot Program	1,000,000	500,000	500,000	Volunteer coordinator and entry level position coordinator- Recommending partial funding for 1 position in Tier 1
	Subtotal Tier 3 Unfunded Requests			**1,477,557**	**738,779**	**738,779**	
	Total Unfunded Personnel Requests			**4,806,989**	**2,403,494**	**2,403,494**	
	Non-Personnel Operating Budget						
	Tier 2						
18	Public Works		Updating Engineering Standard Specifications	100,000	100,000		$100k add'l split across other funds to update specifications
19	Councilmember Harrison	x	Fund Mayoral Budgetary Analyses	200,000	100,000	100,000	Certified public accountant to provide supplemental budgetary assistance
20	Councilmember Taplin	x	West Berkeley Transportation Plan	300,000	300,000	-	Consultant to conduct a study and draft a comprehensive plan for transportation in West Berkeley through 2050
	Subtotal Tier 2 Unfunded Requests			**600,000**	**500,000**	**100,000**	
	Tier 3						
21	City Manager's Office		Web producers to help transition launch	70,000	70,000	-	Website launch assistance/website contingency
22	Planning		Equitable Engagement for Climate Action	20,000	20,000		Facility rental, food, and facilitation services for Climate Action events
23	Planning		Racial Equity in Planning services and staffing	75,000	75,000	-	Workplan for services centered on racial equity; recruit/retain diverse staff
24	Landmarks Preservation Commission	x	City-wide Historic Context Statement	275,000	275,000	-	Berkeley's first City-wide Historic Context Statement.
	Subtotal Tier 3 Unfunded Requests			**440,000**	**440,000**	**-**	
	Total Unfunded Operating Requests			**1,040,000**	**940,000**	**100,000**	
	Capital						
	Tier 2						
25	Parks, Recreation & Waterfront		J&K Parking Lot	1,150,000	1,150,000		To complete J&K parking lot, which needs full reconstruction. Will support revenue generation for berthers, charters and restaurants
26	Public Works		Fire Truck Lease Payment	1,300,000	1,300,000		FY 21 deferral of payment Equipment Replacement Fund for fire truck
27	Public Works		CIP Project Management & Planning Software	200,000	200,000	-	One time funding, 5 Year cost of $1.2M; cost share PW/PRW/T1 or bond
28	Public Works		Parking Meters Replacement	7,000,000	3,000,000	4,000,000	Replacement of outdated meters, assist in generating new revenue
29	Public Works		Equipment Replacement Funding	4,000,000	2,000,000	2,000,000	$18M needed to fund at appropriate level. Ongoing request for 10 years
30	Councilmembers Taplin, Droste, and Wengraf	x	Automated license plate readers (ALPR)				ALPRs- amount to be determined based on number of vehicles
31	Councilmember Taplin	x	Pedestrian Crossing Improvements at Ashby and Acton	100,000	100,000	-	Rectangular Rapid Flashing Beacons at Ashby Avenue and Acton Street; an estimated $50,000 and an estimated $50,000 for 10 years of maintenance
32	Councilmember Taplin	x	Russell Street Improvements	360,000	360,000	-	Bicycle and pedestrian improvements along Russell Street
33	Councilmember Harrison	x	Transportation Network Company User Tax to Support Priority Mobility Infrastructure,	1,800,000	1,800,000	-	Transportation Network Company User Tax General Fund revenue for the construction and maintenance of Tier 1 protected bicycle lanes and crossings, Priority pedestrian street crossings and quick-build public transit projects under the Street Repair Program.
34	Councilmember Taplin	x	West Berkeley Residential Preferential Parking Program	2,092,018	1,046,009	1,046,009	Staffing (6 Officers and 1 Supervisor) 6 new parking enforcement vehicles with automated license plate recognition systems and signage installation
	Subtotal Tier 2 Unfunded Requests			**18,002,018**	**10,956,009**	**7,046,009**	
	Tier 3						

Fiscal Years 2023 and 2024 Adopted Budget
Funding Requests Tiers 2 & 3

Item #	Requestor and Funding Category	Budget Referral	Expenditure Type/Description	Requesting Amount	FY 23 Request	FY 24 Request	Reason for Request
35	Parks, Recreation & Waterfront		Bike Park on University Ave.	600,000	600,000		Install a bike park adjacent to University Ave at the Waterfront; establishes the City's only bike park and creates a destination to attract more people to the Waterfront. $100,000 currently available for design; conceptual process finished by FY22. Request for design development and construction.
	Subtotal Tier 3 Unfunded Requests			**600,000**	**600,000**	**-**	
	Total Unfunded Capital Requests			**18,602,018**	**11,556,009**	**7,046,009**	
	Grand Total			**26,033,657**	**15,691,828**	**10,341,828**	
	Remaining Unfunded Requests			**22,667,837**			

City of Berkeley
FY 2024 NEW General Fund Resources Funding Request

Department	Expenditure Type	Requesting Amount	Type of Request	Reason for Request
PERSONNEL				
City Attorney	Deputy City Attorney IV (7 FTEs)	$ 377,359	On-Going	Reallocation of 7 DCA III to DCA IV position
CMO - Neighborhood Svcs.	Community Services Specialist I	$ 167,595	On-Going	Homeless Response Team Unit
CMO - Neighborhood Svcs.	Community Services Specialist III	$ 235,458	On-Going	Homeless Response Team Unit
HHCS	Senior Community Development Project Coordinator	$ 215,121	On-Going	HCS staffing study recommendation
HHCS	Program Manager II	$ 238,121	On-Going	HCS staffing study recommendation
Human Resources	Assistant HR Analyst	$ 180,952	On-Going	Position request through Employer of Choice Initiative to support Workers' Compensation
Human Resources	HR Technician	$ 170,652	On-Going	Position request through Employer of Choice Initiative to support Training / Workforce Development
Human Resources	HR Technician	$ 170,652	On-Going	Position request through Employer of Choice Initiative to support Transactions
ODPA	Police Accountability Investigator	$ 220,916	On-Going	To reach parity with the IAB and have 2 dedicated full-time investigators for the highly complex misconduct investigations.
ODPA	Communications Specialist	$ 211,456	On-Going	To assist the DPA in the outreach to the community as referenced in section (14)(m) of the charter
PRW	Associate Civil Engineer	$ 266,968	On-Going	To cover project management costs of CIP Funded projects
PRW	DEI Internships	$ 101,000	On-Going	To cover costs of 6 DEI / Connectedness internships
Planning	Green Building Program Manager	$ 128,671	On-Going	Convert position from temporary to permanent. Full Cost of the position - $257,342; General Fund portion is $128,671
Public Works	Parking Enforcement Personnel -Parking Meter Fund	$ 2,800,000	On-Going	Shifting PEO direct personnel costs from on-street parking fund to General Fund
Public Works	OS II - (100% GF)	$ 123,137	On-Going	Transportation: Parking Citation Review. Support to citation review program, continuing backlog with current staffing levels
Public Works	Applications Programmer Analyst I (GF - 15%)	$ 29,459	On-Going	Streets & Utilities: To support implementation of NexGen, Assetworks, Zonar and Mobile Device Management.
Public Works	Transportation Manager (GF - 12.5%, 501 - 12.5%)	$ 79,593	On-Going	Transportation - Restoring Transportation Division Manager classification after Reclass of previous Transportation Manager to Dept Deputy Director over Transportation and Engineering. Funded for 1/2 year in FY 23 with Department only funds. Request for GF/CIP reduced from 50 to 25%
Sub-Total Personnel		$ 5,717,110		
NON-PERSONNEL				
CMO - Communications	Replacement for Citywide Email system	$ 100,000	One-Time	IT and Communications have developed requirements to match capabilities of current system with refinements to upgrade system
CMO - Neighborhood Svcs.	Traffic barricades rental	$ 75,000	On-Going	for large street closures on special events
Fire	Motorola Radio Lease	$ 177,796	On-Going	Required funding per Council resolution
Fire	Personnel Protective Equipment	$ 88,310	On-Going	Operational necessity
Fire	Gurneys	$ 34,286	On-Going	Operational necessity
Fire	Fire Department Training Academy	$ 353,658	On-Going	Operational necessity
Fire	Recruitment & Retention- Priority 1	$ 45,000	One-Time	First-in Fire Camp (Women's Focused 2-Day Fire Camp)
Fire	Recruitment & Retention- Priority 2	$ 48,600	One-Time	Counseling Services Retainer
Fire	Recruitment & Retention- Priority 3	$ 30,000	One-Time	Paid Tuition for Five Members to Attend Post Trauma Retreat
Fire	Recruitment & Retention- Priority 4	$ 70,000	One-Time	Budget for Recruitment Marketing
Fire	Recruitment & Retention- Priority 5	$ 200,000	One-Time	Retention & Referral Program (Paramedic)- based on 10
Fire	Recruitment & Retention- Priority 6	$ 200,000	One-Time	Retention & Referral Program (Firefighter)- based on 10
HHCS	Supplies, Equipment, Cubicles, etc.	$ 10,000	On-Going	Costs associated with adding new staff
Human Resources	LEARN Module for Training	$ 50,000	One-Time	Training Citywide
Human Resources	Consulting Fee - data analysis	$ 50,000	On-Going	Threat Assessment and Workplace Violence Prevention
Human Resources	Consulting Fee - data analysis	$ 100,000	One-Time	Class & Comp, Recruitment Project Management, Data Analysis
Information Technology	Berkeley Community Media	$ 54,000	On-Going	BCM's operations funding has remained static since 2005. Increase requested due to increase in operational expenditures.
Information Technology	City-wide Facilities Wi-Fi	$ 350,000	One-Time	Improve connectivity for all City facilities, including outdoor areas, such as, Marina and other offsite facilities
Information Technology	MS Teams and SharePoint	$ 100,000	One-Time	Enterprise solution for collaboration on broader scale to increase productivity and efficiencies.
OED	Civic Arts Grants	$ 41,685	On-Going	Increases Civic Arts Grants Budget to annual amount of $200,000

City of Berkeley FY 2024 NEW General Fund Resources Funding Request				
Department	**Expenditure Type**	**Requesting Amount**	**Type of Request**	**Reason for Request**
PRW	Camp Scholarships / DEI Programs	$ 154,450	On-Going	FY 24 budget at $75,000. Request for additional funding to cover the cost of camp scholarships, per new policy, and DEI programs
PRW	Utilities: PG&E/EBMUD	$ 150,000	On-Going	To cover higher-than-expected PG&E rate increases; afterschool rec programs and sports field esp. hard hit by PG&E peak pricing
PRW	Marina Fund	$ 1,500,000	On-Going	To cover gap in FY24 operations costs; fund balance is depleted
PRW	Training, conferences, certifications	$ 128,115	On-Going	Training for PRW staff
PRW	Online registration software	$ 28,000	On-Going	To cover costs of new server and doc mgmt. system, required to meet increased online recreation registration needs
Planning	Historic Context Statement OR Historic Resource Evaluation	$ 275,000	One-Time	Provide funding for a citywide Historic Context Statement (HCS) per Landmarks Preservation Commission budget request in 2022
Police	Police Training Academy	$ 480,000	On-Going	Estimated Academy cost, Body Armor and equipment, Hotel, Per Diem, various training supplies, etc. per recruit (12 recruits)
Police	Police Recruitment and Retention Pilot Program	$ 307,000	On-Going	Costs for retention and referral pilot programs
Public Works	Maintenance for (3) new public restrooms	$ 48,000	On-Going	FY24 for all three bathrooms is $48,000 for Jan – June 2024 for two new restrooms + Channing Restroom
Public Works	Sewer Low Income Discount/Subsidy	$ 55,000	One-Time	FY24 EBMUD Berkeley participation CIP low income cap program
Public Works	Parking enforcement non-personnel- Parking Meter Fund	$ 700,000	On-Going	Shifting PEO non-personnel costs from on-street parking fund to General Fund
Public Works	Zero Waste Low Income Discount/Subsidy	$ 100,000	On-Going	Proposed ZW rate discount for low income customers
Public Works	ISF Request	$ 1,603,000	On-Going	Projected General Fund impact of all four ISF funds updated for FY 24 at full levels. Future costs to be determined
Sub-Total Non-Personnel		**$ 7,706,900**		
CAPITAL				
Police	Jail Bus Replacement	$ 220,000	One-Time	Shortfall to support the anticipated replacement cost. Researching cost for an electric or hybrid option as well.
Sub-Total Capital		**$ 220,000**		
TOTAL DEPARTMENT FUNDING REQUEST		**$ 13,644,010**		

Summary of Council Referrals to the Budget Process

For the Period July 1, 2022 to June 30, 2023

Item#	Title	Council Date	2023	2024	Funding Details	Funding Allocation	Referred By
1	Restoring and Improving Access to City of Berkeley Website and Archival Materials	9/20/2022	$ 50,000		Refer to the November 2022 Budget Update up to $50,000 for staff support for Council/Mayor offices to locate documents previously accessed via now-expired links, and request that the City Manager consult Councilmembers and the Mayor to offer the scope of assistance available and identify potential needs.	funded through CMO Salary Savings	Hahn, Taplin, and Bartlett
2	Additional Traffic Calming at MLK and Addison	10/11/2022	$ 50,000		Referral to the November 2022 AAO1 Budget Process for $50,000 in additional traffic calming at MLK and Addison.	AAO1 (Mayor's recommendation)	Harrison
3	Reconsideration of Hopkins Corridor Plan in Light of Newly Available Material Information	10/11/2022		$ 400,000	Refer $400,000 to the FY 2024 budget process to fund a comprehensive, independent study of the McGee to Gilman portion of Hopkins Street, as specified below under Alternatives to be Considered and Independent Study Specifications.		Hahn and Wengraf
4	No Right on Red Signs	11/3/2022	$ 135,000		Implementation of "No Right on Red" signs to all intersections with traffic lights. Refer the necessary appropriations of $135,000 to the 2022 November Annual Appropriations Ordinance.		Taplin and Wengraf
5	Down Payment Assistance (DPA) and Closing Cost Assistance Revolving Loan Fund Pilot	11/3/2022	$ 500,000		Refer to the budget process $500,000 for a local Down Payment Assistance (DPA) and Closing Cost Assistance Revolving Loan Fund Pilot Program, providing third-lien shared appreciation loans (SALs) to cover down payments and closing costs for qualifying applicants in a racial equity and reparative justice framework consistent with regulations for local, state, federal, and nonprofit DPA programs including, but not limited to: California Dream For All (CalHFA), AC Boost (Alameda County), Community Seconds (Fannie Mae), and Black Wealth Builders Fund.		Taplin, Harrison, and Hahn
6	Commitment to La Peña Cultural Center	11/3/2022	$ 150,000		Refer to the AAO#1 Budget Process $150,000 to support the recovery and renovations of La Peña Cultural Center, a cultural hub and historic community building space within the city of Berkeley.	AAO1 (Mayor's recommendation)	Bartlett, Mayor Arreguin, and Hahn
7	Commitment to the Completion of Affordable Housing at 1638 Stuart Street	11/3/2022	$ 50,000		Refer to the AAO#1 Budget Process $50,000 to support the Completion of Affordable Housing at 1638 Stuart Street so it can complete exterior renovations and continue to provide eight units of permanently affordable housing for households earning less than 80% of area median income.	AAO1 **Measure U1** per Mayor's recommendation)	Bartlett, Mayor Arreguin, Harrison, and Hahn

Summary of Council Referrals to the Budget Process

For the Period July 1, 2022 to June 30, 2023

Item#	Title	Council Date	2023	2024	Funding Details	Funding Allocation	Referred By
8	Harriet Tubman Terrace Tenant Support	11/3/2022	$ 100,000		Budget referral of up to $100,000 to fund a tenant advocate position for Harriet Tubman Terrace	AAO1	Housing Advisory Commission
9	Adopt an Ordinance Adding a Chapter 11.62 to the Berkeley Municipal Code to Regulate the Use of Carryout and Produce Bags and Promote the Use of Reusable Bags	11/15/2022	$ 350,000		Refer to the Fiscal Year 2023 AAO #1 Budget Process up to $350,000 per year for staffing for this ordinance and other plastic reduction ordinances.		Harrison and Hahn
10	Establishing an Electric Bike Rebate Program and Expanding Low-Income E-Bike Ownership through the Climate Equity Action Fund	11/15/2022	$ 500,000		Refer $500,000 to the FY 2023 AAO #1 process as follows: •$400,000 for the point of sale rebate program •$100,000 in supplementary funding towards the Climate Equity Action Fund (CEAF) to further facilitate e-bike ownership among low-income Berkeley residents.		Robinson, Harrison, Taplin, and Hahn
11	Closing the Southside Complete Streets Funding Gap	11/15/2022	$ 1,000,000		Refer $1,000,000 to the FY 2023 AAO #1 process to contribute to closing the funding gap for the Southside Complete Streets project to ensure that construction on Bancroft, Dana, & Fulton can proceed on schedule and to prevent the loss of $7.3M in federal funding.	AAO1 (Mayor's recommendation)	Robinson, Mayor Arreguin, and Hahn
12	Berkeley Junior Jackets Field Use Expenses	11/15/2022	$ 6,000		To provide Berkeley Junior Jackets' the necessary funds to cover expenses associated with the use of Berkeley Unified School District facilities in the operation of their youth sports program.	AAO1 (Mayor's recommendation)	Taplin
13	Fair Workweek Ordinance; Adding Berkeley Municipal Code Chapter 13.102	11/21/2022	$ 280,000	$ 390,000	**FY23:** $50,000 for outreach and technical assistance; $230,000 for a Community Development Project Coordinator in HHCS to assist with enforcement of Citywide labor laws and regulations and the Fair Work Week legislation. **FY24**: $240,000 for citywide predictability pay (up to $218,000 for PRW and up to $22,000 for other departments); $150,000 for a PRW Accounting Office Specialist III to implement scheduling systems.	AAO1 (Mayor's recommendation)	Harrison
14	Strawberry Creek Lodge Food Program	11/29/2022	$ 50,000		Budget referral for Strawberry Creek Lodge Food Program.	AAO1 (Mayor's recommendation)	Mayor Arreguin and Taplin
15	Office of Racial Equity: Re-Entry Employment and Guaranteed Income Programs	12/6/2022		$ 50,000	Refer $50,000 to the Budget Process to engage a consultant to recommend a Universal Income Pilot for Berkeley.		Taplin, Harrison, Hahn, and Robinson

Summary of Council Referrals to the Budget Process

For the Period July 1, 2022 to June 30, 2023

Item#	Title	Council Date	2023	2024	Funding Details	Funding Allocation	Referred By
16	Parking/Towing Fines & Fees Reform	1/31/2023		$ 383,512	Ongoing annual funding to the FY 2024 Mid-Biennial Budget Update for 2 Associate Management Analyst FTEs to administer and expand the indigent payment plan program.		Robinson, Harrison, Bartlett, and Hahn
17	Southside Impact Fee Nexus Study	2/14/2023		$ 250,000	Consultant to be engaged over a two-year process, starting in 2024, to assist with the vision, capital list, nexus study, fee schedule, and other requirements.		Robinson, Bartlett, Harrison, and Humbert
18	Vision 2050 Complete Streets Parcel Tax Community Engagement and Program Plan	3/14/2023		$ 400,000	$400,000 in General Fund impacts with an estimated $100,000 in cost to conduct community outreach, and an additional $300,000 to develop a final 2050 Program Plan.		Taplin
19	Post COVID-19 Rental Assistance/Anti-Displacement	3/21/2023		$ 2,000,000	Augment the Housing Retention Program, (administered by the Eviction Defense Center, EDC) as part of the City's anti-displacement programs (launched in 2017), for the purpose of providing rental assistance to tenants due to the COVID-19 eviction moratorium expiration and rent debt due to inflation and rental increases. (Measure P - proposed funding source)		Mayor Arreguin
20	Grant Program for Retaining and Improving Creative Spaces	3/21/2023		$ 300,000	Annual allocation of $300,000 for funding the Civic Arts program to administer an annual Capital Projects Grant Program for Berkeley-based nonprofit arts and cultural organizations in order to retain and sustain the vitality of Berkeley's arts sector though real estate and capital project support.		Civic Arts Commission
21	Pedestrian Safety Upgrades for Arlington Avenue	3/21/2023		$ 35,000	Allocation of $35,000 for traffic control measures on Arlington Avenue from The Circle to Mendocino Avenue, to enhance pedestrian safety at hidden crosswalks and where paths cross mid-block, and refresh painted markings that narrow lanes and encourage reduced speeds.		Hahn and Taplin
22	Speed Feedback Signs for Arlington Avenue	3/21/2023		$ 40,000	Allocation of $40,000 for two Speed Feedback Signs on Arlington Avenue between The Circle and Mendocino Avenue, to encourage slower speeds on a stretch with numerous hidden and mid-block crosswalks.		Hahn and Taplin
23	Funds to Study Berkeley's Affordable and Social Housing Needs and Programmatic and Funding Opportunities	4/11/2023		$ 250,000	Study and report to include a plan to meet Berkeley's Affordable and Social Housing needs and requirements and recommendations for additional funds, programs, and other measures to meet needs over the next decade.		Hahn, Bartlett, and Taplin

Summary of Council Referrals to the Budget Process

For the Period July 1, 2022 to June 30, 2023

Item#	Title	Council Date	2023	2024	Funding Details	Funding Allocation	Referred By
24	Fully Fund the City's 50-50 Sidewalk Repair Program	4/11/2023		$ 2,200,000	Fully funding clearance of the existing backlog in Berkeley's 50-50 Sidewalk Repair Program. Refer an additional $1 million per year (above the existing $1 million baseline funding for sidewalk repair) to future budget processes to ensure all of Berkeley's sidewalks are kept in a state of good repair.		Humbert and Robinson
25	Harold Way Placemaking Project Schematic Design	4/11/2023		$ 100,000	Fund Harold Way Placemaking Project Schematic Design.		Harrison
26	Staffing Costs Associated with Acquisition of and Prevention of Displacement from Multi-Family Housing	4/11/2023		$ 579,000	Refer $579,000 to the June 2023 Budget Process for annual City staffing costs and for allied non-profits to implement and administer programs associated with acquisition and prevention of displacement from multi-family housing including the Small Sites Program, and implementation of other programs to allow purchases by the city, non-profits and or residents to maintain affordability		Harrison
27	Yield Signs at Two Unmarked Intersections	4/11/2023		$ 30,000	Install "YIELD" signs at two unmarked intersections at Shasta and Queens and Quail and Queens.		Wengraf
28	Handrails, Lights and Signage for City Pedestrian Path Network	4/11/2023		$ 150,000	Installation of lighting, handrails and signage on paths deemed most critical for safe evacuation throughout Berkeley.		Wengraf, Hahn, Humbert, and Taplin
29	Design a Comprehensive Berkeley Police Early Intervention and Risk Management System	4/11/2023		$ 100,000	Contract to design and assist with implementing a comprehensive Berkeley Police Department Early Intervention and Risk Management System to provide necessary data and help in implementing fair and impartial policing policies and public safety reimagining		Harrison and Bartlett
30	Increase Capacity for Berkeley Community Media	4/11/2023		$ 54,000	Increase personnel funding for Berkeley Community Media advancing two current part time employees to full time.		Harrison and Bartlett
31	Sole source procurement contract for Two Full-Time Social Workers for Social Justice Collaborative	4/11/2023		$ 147,000	Sole source procurement contract for annual staffing costs associated with funding two social workers to provide low-income immigrants, asylum seekers, unaccompanied children, young dreamers, and displaced families with direct legal services and legal representation.		Harrison
32	Two health educator positions to the COB FY 2024 budget process	4/11/2023		$ 150,000	Request for estimated $150,000 annually, beginning in FY 2024 or as early as the AAO #2 process in spring 2023, for staffing, materials, and supplies to be able to more broadly and flexibly conduct health education, prevention, and outreach to reduce health disparities, as proposed by the Peace and Justice Commission		George Lippman, Chairperson, Peace and Justice Commission

Summary of Council Referrals to the Budget Process

For the Period July 1, 2022 to June 30, 2023

Item#	Title	Council Date	2023	2024	Funding Details	Funding Allocation	Referred By
33	Staffing Costs Associated with Administering the Empty Homes Tax	4/25/2023		$ 372,000	Refer $372,000 to the June 2023 Budget Process for annual City staffing costs to administer the Empty Homes Tax: Accounting Office Specialist III (Finance) 0.25 FTE - $38,750 Associate Planner (Rent Stabilization Board) 1 FTE - $185,670 Office Specialist II (Rent Stabilization Board) 1 FTE - $115,000 Mailing Costs for Outreach and Noticing (Rent Stabilization Board) $10,000 7.4% Overhead Costs for Counselors, General Counsel, and Office of Executive Director (Rent Stabilization Board) $22,250		Harrison
34	Berkeley Waterfront Bike Park	4/25/2023		$ 800,000	Design and implement the construction of a Berkeley Waterfront Bike Park		Taplin
35	Dreamland for Kids Playground Design	4/25/2023		$ 300,000	Conceptual design of the reconstruction of the Dreamland for Kids Playground at Aquatic Park		Taplin
36	Berkeley Marina J&K Parking Lot	4/25/2023		$ 1,500,000	Design and implementation of the Marina’s J&K Parking Lot reconstruction.		Taplin
37	Shorebird Park Playground Design	4/25/2023		$ 200,000	Conceptual design of the reconstruction of the Shorebird Park Playground.		Taplin
38	Traffic Safety Upgrades for the MLK and Haste Intersection	4/25/2023		$ 100,000	Referral to the June 2023 Budget Process for $100,000 in traffic safety improvements at MLK and Haste.		Harrison
	Request Total		**$ 3,221,000**	**$ 11,280,512**			
	Funded Council Referrals		**$ 1,836,000**	**$ -**			
	TOTAL UNFUNDED COUNCIL REFERRRAL		**$ 1,385,000**	**$ 11,280,512**			

FY 2024 Mid-Biennial Update
(FY 2024 Proposed Budget)

Budget and Finance Policy Committee

27 April 2023

OVERVIEW

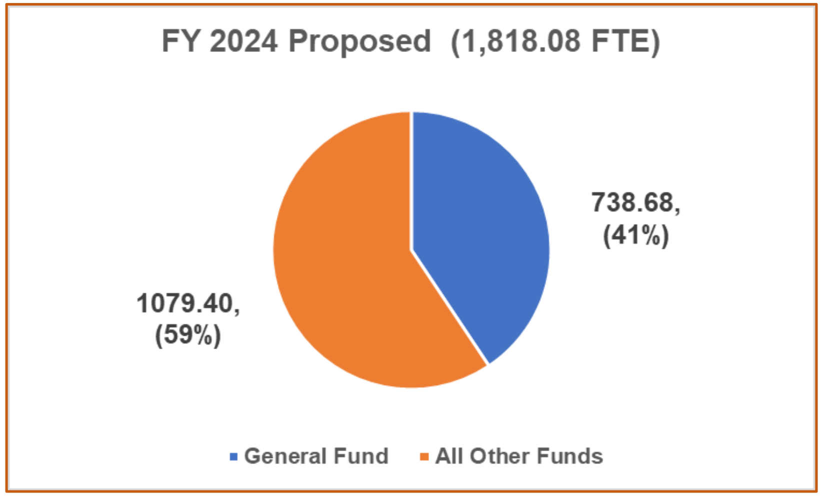
- **Citywide All Funds Update**
  - Summary of FY 2024 Adopted & Proposed
  - Summary of FY 2024 Expenditures by Department
- **General Fund Update**
  - General Fund Revenues
  - General Fund Expenditures by Department
  - Existing and New Funding Requests
- **Recommendations and Next Steps**
- **Discussion**

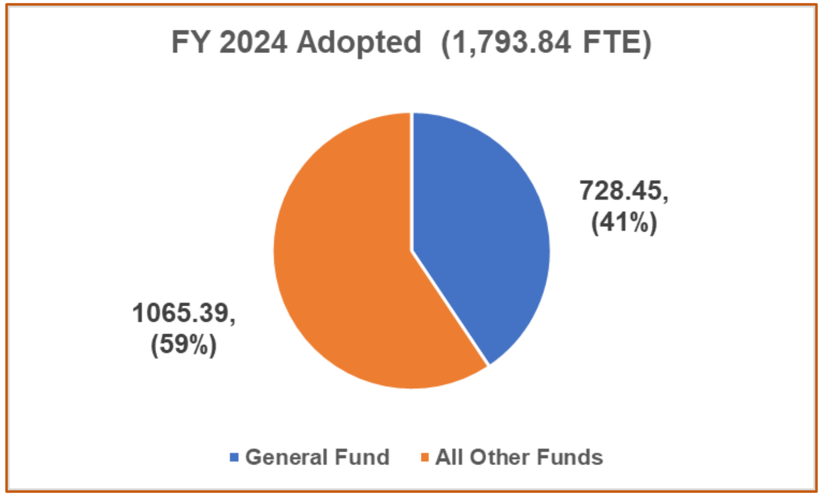
FY 2024 ALL FUNDS SUMMARY

	FY 24 Adopted	FY 24 Proposed
Revenues Total	$603,820,083	$615,840,590
Use of Fund Balance	122,152,907	102,301,908
Expenditures Total	725,972,990	718,142,498

FY 2024 SUMMARY STAFFING BY DEPARTMENT

DEPARTMENT	FY 2024	FY 2024 Proposed		
	Adopted	Total	General Fund	All Other Funds
City Attorney	17.00	17.00	15.5	1.50
City Auditor	14.75	14.75	14.25	0.50
City Clerk	10.00	10.00	9.47	0.53
City Manager	45.50	46.50	45.50	1.00
Economic Development	8.00	8.00	7.12	0.88
Finance	56.00	56.00	45.75	10.25
Fire Department	203.00	203.00	129.11	73.89
Health, Housing & Community Services	265.58	274.68	79.37	195.31
Human Resources	22.00	25.00	16.70	8.30
Information Technology	52.00	51.00	0.00	51.00
Library	115.60	119.35	0.00	119.35
Mayor and Council	19.00	19.00	19.00	0.00
Office of the Director of Police Accountability	5.00	5.00	5.00	0.00
Parks, Recreation & Waterfront	165.62	166.62	28.74	137.88
Planning & Development	118.04	119.04	15.99	103.05
Police Department	313.20	313.20	282.00	288.02
Public Works	340.00	344.94	25.18	62.94
Rent Board	23.55	25.00	0.00	25.00
Full Time Equivalent Employee (FTE) Total	**1793.84**	**1818.08**	**738.68**	**1079.40**





FY 2024 ALL FUNDS EXPENDITURES

Department/Agency	FY 2024 Adopted	FY 2024 Proposed
Library	$25,182,279	25,024,425
Rent Board	7,406,431	7,450,280
Mayor and Council	4,835,380	4,772,190
City Auditor	3,124,862	3,231,099
Office of Director of Police Accountability	1,374,911	1,142,593
City Attorney	8,553,021	8,106,984
City Manager	11,763,275	9,833,653
Office of Economic Development	6,380,895	6,526,434
City Clerk	3,190,547	3,159,486
Finance	11,669,774	10,607,143
Human Resources	5,124,741	5,442,688
Information Technology	22,500,474	22,237,720

FY 2024 ALL FUNDS EXPENDITURES

Department/Agency	FY 2024 Adopted	FY 2024 Proposed
Fire	$63,450,868	61,509,205
Health, Housing & Community Services	93,913,527	99,294,430
Non-Departmental	96,618,910	88,003,369
Parks, Recreation & Waterfront	53,954,977	51,977,645
Planning	27,993,361	31,267,162
Police	88,658,439	88,181,161
Public Works	190,276,318	190,374,829
Total	**725,972,990**	**718,142,498**

CONTEXT ON GENERAL FUND BUDGET

FY 20-21 Budget

- Projected $40M General Fund deficit
  - Hiring freeze/maintaining vacant positions
  - Delay capital
  - One-time use of $11M in reserves

FY 22 Budget

- Projected General Fund deficit of $27M
  - One-time use of $23M in ARPA funds
  - $4M in expenditure reductions

FY 23-24 Budget

- Projected General Fund deficit of $22M in FY23 and $12M in FY24
  - Salary savings target to 8.5% for most departments
  - One-time use of fund balance from projected FY 22 Excess Property Transfer Tax
  - Use of fund balance for Measure P and U1 related expenditures

FY 2024 GENERAL FUND SUMMARY

BASELINE GENERAL FUND	FY 24 Adopted	FY 24 Proposed
Revenues Total	$242,752,565	$248,225,496
FY 22 Excess Property Transfer Tax/Fund Balance	9,860,280	0
Expenditures Total	252,612,845	247,825,076

MEASURE P	FY 24 Adopted	FY 24 Proposed
Revenues Total	$14,073,750	$14,073,750
Fund Balance	2,361,767	11,211,678*
Expenditures Total	17,085,243	24,563,015*

MEASURE U1	FY 24 Adopted	FY 24 Proposed
Revenues Total	$4,900,000	$4,900,000
Fund Balance	1,016,963	952,006
Expenditures Total	5,916,963	5,852,006

FY 2024 GENERAL FUND REVENUES

	Adopted FY 2024	Proposed FY 2024	Projected FY 2025	Projected FY 2026	Projected FY 2027
Secured Property	$78,691,517	$81,859,450	$84,724,531	$86,689,889	$90,759,035
Unsecured Property	3,516,000	3,516,000	3,516,000	3,516,000	3,516,000
Supplemental Taxes	2,000,000	2,300,000	2,300,000	2,300,000	2,300,000
Property Transfer Tax	18,000,000	18,000,000	16,000,000	16,000,000	16,000,000
Property Transfer Tax for Capital Improvements	16,462,172	10,962,172	13,541,415	13,541,415	14,132,244
Property Transfer Tax - Measure P	*14,073,750*	*14,073,750*	*14,073,750*	*14,073,750*	*14,073,750*
Sales Tax	19,790,997	19,391,714	20,231,914	21,146,495	22,043,410
Soda Tax	990,210	1,025,800	1,025,800	1,025,800	1,025,800
Business License	19,000,000	19,000,000	19,380,000	19,767,600	19,767,600
Business License - Cannabis Recreation	1,400,000	1,400,000	1,428,000	1,456,560	1,456,560
Measure U1	*4,900,000*	*4,900,000*	*4,998,000*	*5,097,960*	*5,097,960*
Utility Users Tax	13,800,000	15,000,000	15,000,000	15,000,000	15,000,000
Hotel Tax	4,900,000	7,725,000	7,956,750	8,195,453	8,441,316
Vehicle In-Lieu	16,563,215	17,208,584	17,810,884	18,434,265	19,079,464
Parking Fines	4,326,450	4,800,000	4,800,000	4,800,000	4,800,000
Moving Violations	132,600	132,600	135,252	137,957	137,957
Interest	6,000,000	7,000,000	7,000,000	7,000,000	7,000,000
Ambulance Fees	3,880,779	5,350,779	3,880,779	3,880,779	3,880,779
Franchise Fees	1,613,283	1,720,056	1,720,056	1,720,056	1,720,056
Other Revenue	10,661,418	18,251,417	18,251,418	19,251,418	17,738,518
Transfers	21,023,924	13,581,924	4,472,621	4,562,074	4,562,074
TOTAL	**$261,726,315**	**$267,199,246**	**$262,247,170**	**$267,597,471**	**$272,532,523**

FY 2024 GENERAL FUND EXPENDITURES

Department	FY 2024 Adopted	FY 2024 Proposed
Mayor and Council	4,835,380	4,772,190
City Auditor	3,124,862	3,136,323
Office of Director of Police Accountability	1,374,911	1,142,593
City Attorney	4,741,679	4,304,039
City Manager	11,763,275	9,433,592
Office of Economic Development	3,343,968	3,4522,094
City Clerk	2,676,728	2,547,276
Finance	9,213,830	8,179,370
Human Resources	3,113,206	3,467,541
Information Technology	1,526,760	1,526,760

FY 2024 GENERAL FUND EXPENDITURES

Department/Agency	FY 2024 Adopted	FY 2024 Proposed
Fire	$42,304,032	39,546,063
Health, Housing & Community Services	27,412,701	31,679,102
Non-Departmental	55,945,792	53,112,659
Parks, Recreation & Waterfront	9,353,573	9,136,433
Planning	3,380,891	3,277,246
Police	83,845,693	83,606,570
Public Works	6,504,892	6,558,529
Total	**273,948,362**	**269,428,380**

FY 2024 FUNDING REQUESTS

Category	Amount
Unfunded Tier 2 & 3 FY 23 & FY 24 Requests	$22,667,837
New Department Requests	13,644,010
New Council Budget Referrals	12,665,512
Total Requests	**48,977,360**

FY 2024 OTHER FUNDING NEEDS

- City General Liability & Property Insurance Premium Increases
- Operational Expenses for Public Safety
- Personnel/Labor Costs
- Measure T1 Funding Shortfall
- Additional funding for actuarial recommendation of Section 115 Trust (Goal of an additional $3.5M over current $2.0M in budget for $5.5M)
- Additional funding for actuarial recommendation to fully-fund OPEB (Goal of an additional $8.8M over current $6.5M in budget for goal of $15M)

RECOMMENDATIONS AND NEXT STEPS

Next Steps

- Update FY 23 Projections for Revenues and Expenditures
- Review and update FY 24 Revenue Projections
- Review and discuss funding requests and budget referrals starting in May
- Council receive FY 24 Proposed Budget on May 9
- Committee and Council meetings in May and June
- FY 24 AAO Adoption June 27, 2023

Recommendations

- Defer new funding requests until AAO#1 unless critical to fund on 7/1

03

DRAFT, SUBJECT TO CHANGE

TRANSFER TAX -- MEASURE P PROGRAM LONG-TERM FORECAST-----DRAFT

	Category of Spending	FY 2019 Actuals	FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Adopted	FY 2023 Projected	FY 2024 Adopted
Revenues								
Beginning Fund Balance			$ 2,932,313	$ 9,859,779	$ 17,032,464	$ 22,783,216	$ 22,783,216	$ 12,236,186
*Measure P Revenues**		$ 2,932,313	$ 9,512,603	$ 10,919,576	$ 20,591,313	$ 14,073,750	$ 14,073,750	$ 14,073,750
Total Revenues and Balance of Funds		$ 2,932,313	$ 12,444,916	$ 20,779,355	$ 37,623,777	$ 36,856,966	$ 36,856,966	$ 26,309,936
LESS: Total Expenses			$ 2,585,137	$ 3,746,891	$ 14,840,561	$ 16,371,646	$ 24,620,780	$ 17,085,243
Personnel Costs		*$ -*	*$ 118,521*	*$ 155,753*	*$ 309,483*	*$ 695,730*	*$ 592,010*	*$ 722,413*
CMO: Homeless Services Coordinator	Staffing/Infrastructure					$ 196,348	$ 196,348	$ 202,899
Finance: Accountant II	Staffing/Infrastructure			$ 70,784	$ 200,380	$ 178,858	$ 178,858	$ 193,441
Finance: Contract Staffing	Staffing/Infrastructure		$ 38,266		$ -			
HHCS: Community Services Specialist II	Staffing/Infrastructure		$ 80,255	$ 84,969	$ 109,103			
HHCS: 50% Senior Management Analyst	Staffing/Infrastructure					$ 113,085	$ 113,085	$ 116,560
HHCS: 2 Year Limited Term Community Services Specialist II	Staffing/Infrastructure					$ 207,439	$ 103,719	$ 209,513
Non-Personnel Costs/ Program Expenses		*$ -*	*$ 2,466,616*	*$ 3,591,138*	*$ 14,531,078*	*$ 15,675,916*	*$ 24,028,770*	*$ 16,362,830*
Fire: 5150 Response & Transport	Immediate Street Conditions and Hygiene	$ -	$ 846,616	$ 1,601,639	$ 1,003,931	$ 1,321,605	$ 1,321,605	$ 1,556,857
Dorothy Day House Shelter	Emergency Shelter	$ -		$ 300,000	$ 566,000	$ 566,000	$ 566,000	$ 566,000
Dorothy Day House Drop In	Immediate Street Conditions and Hygiene	$ -		$ 21,340	$ 182,000	$ 182,000	$ 182,000	$ 182,000
Pathways STAIR Center	Emergency Shelter	$ -		$ 1,200,000	$ 1,499,525	$ 2,499,525	$ 2,499,525	$ 2,499,525
No Place Like Home - Scattered Unit Supportive Services	Permanent Housing	$ -				$ 128,750	$ -	$ 105,000
Hope Center - Mental Health Services	Permanent Housing					$ 71,250	$ 71,250	$ 95,000
Coordinated Entry System (BACs HRC)	Immediate Street Conditions and Hygiene				$ 1,000,000	$ 1,000,000	$ 150,000	$ 1,000,000
Permanent Housing Subsidies / Shallow Subsidies	Permanent Housing				$ 650,000	$ 1,600,000	$ -	$ 1,600,000
Berkeley Food and Housing Project - Men's Housing Program	Emergency Shelter							
COVID-19 Emergency Housing Assistance - Housing Retention Program (EDC)	Homelessness Prevention					$ 1,000,000	$ 1,300,000	
Anti-Displacement Programs (Legal Assistance, Housing Retention Program, Flexible Housing Funds) (100k to BACS HRC; 275K to EDC and remaining to EBCLC) - tranferred to U1	Homelessness Prevention					$ 900,000	$ 900,000	$ 900,000
BDIC Locker Program	Immediate Street Conditions and Hygiene			$ 25,000	$ 47,944	$ 50,000	$ 50,000	$ 50,000
LifeLong Medical - Street Medicine	Immediate Street Conditions and Hygiene					$ 525,000	$ 525,000	$ 525,000
YSA Tiny Home	Emergency Shelter			$ 117,000	$ 56,074	$ 78,000	$ 78,000	$ 78,000
DBA- Homeless Outreach Worker	Immediate Street Conditions and Hygiene		$ 20,000	$ 40,000	$ 20,000	$ 40,000	$ 40,000	$ 40,000
Downtown Streets Team	Immediate Street Conditions and Hygiene			$ 111,243	$ 299,643	$ 225,000	$ 225,000	$ 225,000
Shelter at 742 Grayson Street	Emergency Shelter			$ 86,633	$ 1,154,681	$ 1,011,900	$ 1,011,900	
Shelter at 1720 San Pablo Ave Lease	Emergency Shelter						$ 883,200	$ 908,796
Shelter at 1720 San Pablo Ave Supportive Services	Emergency Shelter						$ 612,559	$ 950,000
Safe RV Parking Program	Emergency Shelter				$ 287,359			
Project Homekey- Golden Bear Inn	Permanent Housing	$ -			$ 7,325,341			
Project Homekey Reservation (round 3)	Permanent Housing						$ 8,500,000	
1367 University Avenue Step Up Housing Project*	Permanent Housing	$ -						$ 539,330
Russell Street Residence Acquisition	Permanent Housing							
HHCS: Square One Hotel Vouchers	Emergency Shelter	$ -						
Training and Evaluation	Staffing/Infrastructure	$ -				$ 133,334	$ -	$ 133,334
Homeless Response Team	Immediate Street Conditions and Hygiene	$ -		88,283	415,999	$ 918,149	$ 918,149	$ 920,085
Berkeley Relief Fund	Homelessness Prevention	$ -	$ 1,600,000					
Portable Toilets	Immediate Street Conditions and Hygiene					$ 96,000	$ 96,000	$ 96,000
Berkeley Emergency Storm Shelter (Winter Shelter)	Emergency Shelter				$ 22,582	$ 186,500	$ 216,201	$ 350,000
Old City Hall Sprinkler system	Emergency Shelter							
Inclement Weather Shelter	Emergency Shelter						$ 412,185	
One-Time Use of Measure P for Nexus Community Programs	Permanent Housing					$ 578,164	$ 578,164	$ 578,164
One-Time Use of Measure P for Nexus Community Programs	Immediate Street Conditions and Hygiene					$ 976,207	$ 976,207	$ 976,207
One-Time Use of Measure P for Nexus Community Programs	Emergency Shelter					$ 882,480	$ 882,480	$ 882,480
One-Time Use of Measure P for Nexus Community Programs	Staffing/Infrastructure					$ 23,837	$ 23,837	$ 23,837
One-Time Use of Measure P for Nexus Community Programs	Homelessness Prevention					$ 262,215	$ 262,215	$ 262,215
Reimagining Public Safety-Expand Downtown Streets Teams as placement for low-level violations	Immediate Street Conditions and Hygiene					$ 50,000	$ 50,000	$ 50,000
Equitable Clean Streets	Immediate Street Conditions and Hygiene						$ 327,293	

Expand the scope of services for the Downtown Streets Team to address the need for enhanced services around commercial and industrial areas in the Gilman District twice weekly	Immediate Street Conditions and Hygiene					$ 50,000	$ 50,000	$ 50,000
Reimagining Public Safety: Conduct a service needs assessment based on 911 and non-911 calls for service, dispatch, and response and capacity assessment of crisis response and crisis-related services	Staffing/Infrastructure					$ 100,000	$ 100,000	
Reimagining Public Safety: Funding to organizations for Respite from Gender/Domestic Violence	Emergency Shelter					$ 220,000	$ 220,000	$ 220,000
1654 5th Street Operations	Emergency Shelter							
701 Harrison Transition - Site Security	Emergency Shelter							
Public facilities improvement	Staffing/Infrastructure							
Encampment Resolution Fund 2 grant match	Emergency Shelter							
Fiscal Year Surplus (Shortfall)		$ 2,932,313	$ 6,927,466	$ 7,172,686	$ 5,750,752	$ (2,297,896)	$ (10,547,030)	$ (3,011,493)
Ending Fund Balance		**$ 2,932,313**	**$ 9,859,779**	**$ 17,032,464**	**$ 22,783,216**	**$ 20,485,320**	**$ 12,236,186**	**$ 9,224,693**

Measure P Staff Recommendations
FY2024 Mid Bienniel Budget

BUDGET AND FINANCE POLICY COMMITTEE

APRIL 27, 2023

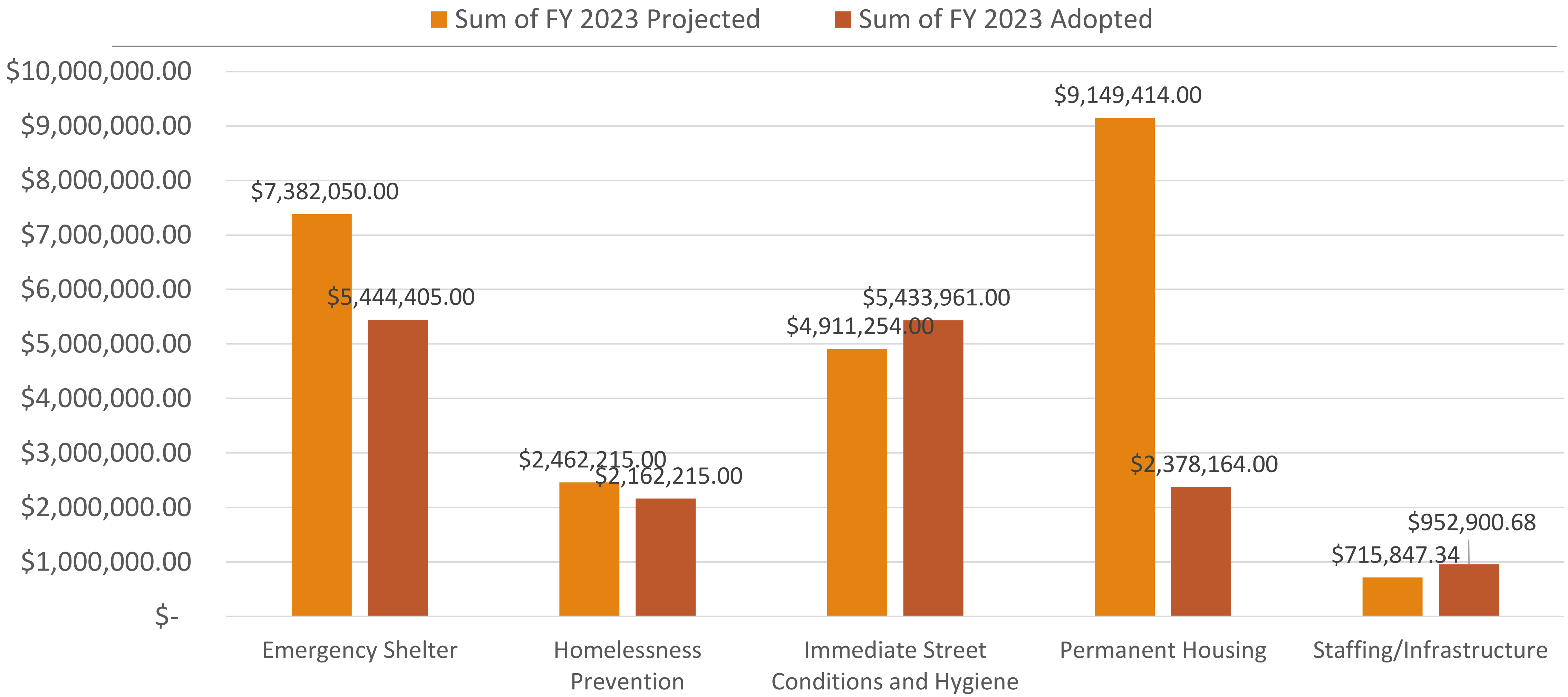
Overview of Presentation

Provide an update on FY2023 projected expenditures

Provide staff recommendations for FY2024 Measure P budget adjustments:

- Update on new programs
- Overview key changes
- Discuss financial projections

FY2023 Projected Expenditures



New Programs/Staff Recommendations

- $4.5M to acquire RSR
- $412,185 for inclement weather shelter needs
- $2M for additional emergency eviction defense/homeless prevention support
- Continuing funding for a temp CSSII in HHCS
- $400k for Old City Hall sprinklers
- $88k to cover security costs for the trailers at 701 Harrison
- $800k for capital improvements

Update on New and Recommended Programs

- Safe RV Parking Lot (per 4/11/23 Homeless Panel of Experts Council report)
- New Grayson-style shelter
- Super 8 Motel

Full Staff Recommendations and Budget Picture

No Material Available for this Item

There is no material for this item.

City Clerk Department
2180 Milvia Street
Berkeley, CA 94704
(510) 981-6900

The City of Berkeley Budget and Finance Policy Committee Webpage:

https://berkeleyca.gov/your-government/city-council/council-committees/policy-committee-budget-finance

Homeless Services
Panel of Experts

ACTION CALENDAR
April 11, 2023

To: Honorable Mayor and Members of the City Council

From: Homeless Services Panel of Experts

Submitted by: Carole Marasovic, Chair, Homeless Services Panel of Experts

Subject: Recommendation for RV Lot and Waste Management on Streets for RVs

RECOMMENDATION

The Homeless Services Panel of Experts recommends to Council that they refer to staff to expedite all efforts to identify a location for another RV lot(s) to take the place of the now closed SPARK lot at 742 Grayson and that the new lot identified require mandatory safety inspections and fire extinguishers to be provided. The Homeless Services Panel of Experts further recommends that Council refer to staff to develop a waste management plan to be implemented for RVs currently on the streets.

FISCAL IMPACTS OF RECOMMENDATION

This two-part recommendation needs to be evaluated by City staff and the Council Budget and Finance Committee to assess the costs of implementation.

CURRENT SITUATION AND ITS EFFECTS

The SPARK RV lot at 742 Grayson closed at the same time that Horizon at 742 Grayson closed at the end of December, 2022. While arrangements were made for the residents of Horizon to move into the Berkeley Inn, no lot could be identified to hold the residents of the SPARK lot.

The SPARK lot was a successful endeavor with a capacity of 40 RVs. Safety inspections were not required which may have led to a fire of a vehicle.

RVs formerly in the lot have been left to roam the streets with health and safety risks to the dwellers who formerly resided there and with complaints from the larger community.

RV dwellers have the legal right to shelter in their vehicles. They require a lot to do so. Despite the land limitations, the City needs to amp up efforts to identify another lot to be overseen by a social services provider. Fire extinguishers must be provided and there should be safety inspections.

For health and sanitation purposes, remaining RVS on the street should have waste management services provided. Waste management services were provided at SPARK, should be provided at the new RV lot and for the health and sanitation of the RV dwellers and the larger community should be provided to RV dwellers living on the streets given the limited capacity of the RV lot provided.

BACKGROUND

On February 1, 2023, the Homeless Services Panel of Experts recommended as follows:

Action: M/S/C Marasovic/Johnson recommends to Council that they refer to staff to expedite all efforts to identify a location for another RV lot(s) to take the place of the now closed SPARK lot at 742 Grayson and that the new lot identified require mandatory safety inspections and fire extinguishers to be provided. The Homeless Services Panel of Experts further recommends that Council refer to staff to develop a waste management plan to be implemented for RVs currently on the streets.

Vote: Ayes: Johnson, Jones, Marasovic, Feller, Kealoha-Blake, and Meany.
Noes: None. Abstain: None. Absent: Bookstein.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

The benefits to the environment in terms of health and safety for the RV dwellers and the larger community, as to both recommendations, are indisputable.

RATIONALE FOR RECOMMENDATION

The need for the RV lot for the health and safety of the RV dwellers and larger community is stated above.

ALTERNATIVE ACTIONS CONSIDERED

Overnight lots, City or faith-based, could be explored but they are difficult to manage particularly by a single provider. In addition, they leave RV dwellers to wander the Berkeley streets during the day.

CITY MANAGER

See Companion Report.

CONTACT PERSON

Josh Jacobs, Homeless Services Coordinator, Neighborhood Services, (510) 981-5435

Office of the City Manager

ACTION CALENDAR
April 11, 2023

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Peter Radu, Assistant to the City Manager

Subject: Companion Report to Recommendation for RV Lot and Waste Management on Streets for RVs

RECOMMENDATION

Refer the Homeless Services Panel of Experts' recommendation to identify and expedite a new safe RV parking location/program and develop a waste management plan for RVs on the streets to the Budget and Finance Policy Committee for consideration alongside all other homeless services priorities in the budget process.

FISCAL IMPACTS OF RECOMMENDATION

As the Homeless Services Panel of Experts mention in their report, this recommendation needs to be evaluated by City staff and the Council Budget and Finance Committee to assess the costs of implementation. Costs will vary depending on locations, number of vehicles served, and breadth of social services offered to participants.

CURRENT SITUATION AND ITS EFFECTS

Staff do not disagree with the spirit of the Homeless Services Panel of Experts recommendation to quickly identify a location for another RV lot(s) to take the place of the now closed SPARK lot at 742 Grayson, that the new lot identified require mandatory safety inspections and fire extinguishers, and to develop a management plan to be implemented for RVs currently on the streets. However, this plan would require funding that is not currently identified. Moreover, as staff presented to the Budget and Finance Policy Committee on February 9, 2023, Measure P (the most likely source for implementing this recommendation) is projecting serious structural deficiencies over the remaining 5 years of its lifespan, and staff have recommended new shelter programs (such as the proposed master lease of the Super 8 at 1619 University Ave, which has the opportunity to leverage State funding on a 1:1 match basis) be prioritized first.

For these reasons, and given the limited staff capacity to identify, design, lease up and contract multiple new programs at once, we recommend sending this request to the Budget and Finance Committee for consideration in the budget process.

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E-mail: manager@CityofBerkeley.info Website: http://www.CityofBerkeley.info/Manager

BACKGROUND

On February 1, 2023, the Homeless Services Panel of Experts recommended as follows:

Action: M/S/C Marasovic/Johnson recommends to Council that they refer to staff to expedite all efforts to identify a location for another RV lot(s) to take the place of the now closed SPARK lot at 742 Grayson and that the new lot identified require mandatory safety inspections and fire extinguishers to be provided. The Homeless Services Panel of Experts further recommends that Council refer to staff to develop a waste management plan to be implemented for RVs currently on the streets.

Vote: Ayes: Johnson, Jones, Marasovic, Feller, Kealoha-Blake, and Meany.
Noes: None. Abstain: None. Absent: Bookstein.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

There are no environmental concerns with the recommendation to refer this item to the Budget and Finance Policy Committee. This recommendation is consistent with emergency preparedness needs for the unhoused community.

RATIONALE FOR RECOMMENDATION

The resources available to the unhoused community are extremely limited and spending funding on a recreational vehicle lot needs to be weighed against the other funding priorities for our homeless services.

ALTERNATIVE ACTIONS CONSIDERED

Alternative sites could also be identified to expand current shelter capacity which may alleviate the need for additional lot space.

CONTACT PERSON

Josh Jacobs, Homeless Services Coordinator, Neighborhood Services, (510) 225-8035

BEN BARTLETT
CITY COUNCILMEMBER, DISTRICT 3

CONSENT CALENDAR
August 3, 2022

To: Honorable Mayor and Members of the City Council
From: Councilmember Ben Bartlett (Author), Councilmember Susan Wengraf and Councilmember Rashi Kesarwani (Co-Sponsors)
Subject: Additional Allocation of Measure P Funding to "Step Up Housing" Project

RECOMMENDATION
Adopt a resolution allocating an additional $114,660 per year for 10 years, from Measure P transfer tax receipts to support the increased costs for the lease and operation of a new permanent supportive housing project for the unhoused at the Step-Up Housing Project at 1367 University Avenue. In addition, refer to the next meeting of the Budget and Finance Policy Committee to confirm the availability of requested funding.

BACKGROUND
California has the highest real world poverty rate of any state, 17.2% over the previous three years and much higher than the national rate.[1] A major contributing factor to the state's high poverty indices is that many California residents spend much of their income on housing due to high construction costs.[2] Throughout the state, many affordable housing development projects are stalled, burdened, and have incurred higher than the median costs for development.

For example, in Alameda, CA, Everett Commons, which is a low-income development that provides housing for only 20 families, costs $947,000 per unit.[3] The notoriously high price of land and the rising cost of construction materials are contributing factors. On the other hand, the Step-Up Housing Initiative uses an efficient and cost-effective modular construction model that provides 39 individuals with not only stable housing, but a safe and supportive environment where they can access critical employment, health, substance abuse, and community resources and services. Berkeley can help address the shortage of homes and effectively alleviate the City's homelessness crisis through this innovative and practical project.

CURRENT SITUATION
On October 13, 2020 the Council unanimously passed Resolution # 69,586-N.S. to authorize use of $900,000 a year to fund a new 39-unit Step Up Supportive Housing project at 1367 University Ave. (See attachment.) BOSS is the operator of the facility, and Panoramic Interests/Swinerton Builders would construct and furnish it.

Since then, dramatic increases in construction prices and materials, supply chain complications and dramatic increases in interest fees have caused the project construction costs to rise more than 50%. At current rents of $1,400 per unit per month, the project is infeasible and cannot be financed. If, however, rents can be raised to $1,645 per month, the project can proceed. The higher rents would justify a larger construction loan to finance the additional costs.

To cover these increased rents, additional Measure P funds of $114,660 per year are needed, beyond the $900,000 already allocated. This is an increase of 12.7%.

A RECAP OF THE PROJECT -

The project will include 39 fully furnished studio apartments, private bathrooms for each studio, a 400-square-foot community room, a community kitchen, two offices for support staff and services, permanent on-site property management, and 24/7 security. The building will be constructed with modular units built around an approximately 615-square foot private central courtyard.

BOSS will provide services for Step-Up Supportive Housing including connecting residents to mental health resources, substance abuse recovery services, employment, education, and legal services and will accompany them to service providers when appropriate. The program will ensure participants obtain health insurance coverage and connect them to primary care providers. Opportunities for socialization and peer support will be provided through the organization of on-site support groups, learning workshops, social activities, community meals, and service visits by outside providers. BOSS will also manage an on-site food pantry in collaboration with Alameda County Community Food Bank. These services will help residents maintain stable housing, improve mental and physical health, and decrease social isolation. On-site service hours will be provided Monday-Friday, 9 am-5 pm, but the case manager or designated staff will be on-call as needed at all times.

The program will be staffed by several employees, including a program manager, housing manager, property manager, cook, maintenance worker, and overnight monitor.

REVIEW OF EXISTING POLICIES AND PLANS

Berkeley voters overwhelmingly passed Measure P in November 2018 with 72% of the vote. The Measure raised the transfer tax on property sales over $1.5 million from 1.5% to 2%, which is expected to generate approximately $6-8 million annually. These funds were intended to be allocated towards various homeless services, including permanent housing, supportive services, and navigation centers.

Measure P also created an independent commission, the Homeless Services Panel of Experts, to provide recommendations on funding allocations to the City Council. In December 2019, the Homeless Services Panel of Experts published its first set of recommendations for initial investments from the General Fund to address homelessness in Berkeley. The Panel's recommendations prioritized certain categories of activities and set forth a percentage of funding for each category. Permanent housing was listed as the top priority, with 30% of the funds recommended to be allocated towards such projects. The remainder was recommended to be allocated towards shelter and temporary accommodations, immediate street conditions and hygiene, supportive services, flexible housing subsidies, and infrastructure. The City Council approved on June 30, 2020, Measure P allocations for FY 2020-21 that included $2.5 million for permanent housing subsidy.

In 2017, the City Council also referred staff to create a 1000 Person Plan, which seeks to end homelessness for 1000 people in Berkeley. In 2019, City staff responded to this referral and concluded that the Council needed to provide up-front investments in targeted homelessness prevention, light-touching housing problem-solving, rapid rehousing, and permanent subsidies. This proposal to lease and operate the StepUp Housing initiative at 1367 University would help move forward the 1000 Person Plan and accomplish the Homeless Services Panel's top priority of providing stable and permanent supportive housing for individuals experiencing homelessness.

In addition, this project also fulfills the goals of the original StepUp Housing initiative, which passed unanimously on February 14, 2017.

CONSULTATION/OUTREACH OVERVIEW

Councilmember Bartlett's office collaborated with BOSS and Panoramic Interests to ensure the long-term success of this new permanent supportive housing project, the StepUp Housing initiative. By bringing together BOSS's expertise in the field of supportive services and Panoramic's efficient modular construction model, this project can be operational and begin providing stable housing to 39 individuals within twelve months of receiving this funding commitment, resulting in dramatic savings in costs and delivery time.

BOSS was founded in Berkeley in 1971 to serve severe and persistent mentally ill homeless individuals and their families, and has since expanded to serve over 3,000 families and individuals per year across Alameda County, including persons experiencing homelessness, mental illness, former incarceration/justice system involvement, domestic or community violence, unemployment, and other crises. BOSS has 49 years of experience serving the target population, and 45 years of experience operating emergency, transitional, and permanent housing programs.
Panoramic Interests has been building high density infill development projects in the Bay Area since 1990. Its work in downtown Berkeley and San Francisco includes 15 projects, adding more than 1,000 new units of housing, and 100,000 square feet of commercial space. From 1998-2004, Panoramic built seven new mixed-use apartment buildings in downtown Berkeley. During this time, Panoramic housed more than 80 Section 8 tenants, making it the largest private provider of Section 8 housing in the city.

This collaborative effort between the city, the service provider, and the developer can serve as a regional model for future permanent supportive housing projects in Berkeley and throughout the Bay Area.

RATIONALE FOR RECOMMENDATION

The City committed to funding a Step-Up Supportive Housing facility in October of 2020. The project was expected to be completed sometime in 2021-2022 but saw escalating prices, supply chain complications and rising interest rates as the final budgets were established.
The additional project costs rose by more than 50% making the project infeasible, at the original rents of $1,400 per unit per month. (See attached documents.)

The City's additional funding commitment will enable the project to be completed as planned. It will help the homelessness crisis by allowing for the long-term and stable housing of 39 individuals experiencing homelessness as well as the provision of on-site services to help those individuals retain housing, improve their mental and physical health, connect with employment and education opportunities, and decrease social isolation. In addition, this project will serve as a regional model for other jurisdictions to consider when dealing with the homelessness crisis in their cities.

FISCAL IMPACTS

The new permanent supportive housing project, known as the Step-Up Housing at 1367 University is requesting an additional $114,660 per year for 10 years to cover an increase in the rental rate from $1,400 per unit per month to $1,645 per unit per month. The $114,660 allocation represents a 12.74% increase from the original allocation of $900,000 per year.

ENVIRONMENTAL SUSTAINABILITY

The project itself was determined by the Planning Department to be categorically exempt from the provisions of the California Environmental Quality Act pursuant to Section 15332 (In-Fill Development Projects) of the CEQA Guidelines.

CONTACT PERSON

Councilmember Ben Bartlett 510-981-7130
James Chang jchang@cityofberkeley.info

ATTACHMENTS AND MATERIALS

1. Proposed Resolution
2. Letter from Donald Frazier, Exec. Dir. BOSS to Mayor Arreguin, 6-6-22
3. Budget from Swinerton Builders, June 3, 2002 showing cost increases of $3M+.
4. Past Resolution NO. 69,586-N.S. October 13, 2020
5. Articles: “Soaring material prices, supply chain delays spook owners and developer.” Construction Dive, 4-12-21. “Mortgage rates spike to their highest level in nearly 13 years.” Washington Post, 5-5-22. Step Up Housing Council Item from February 14, 2017:
6. Additional Links
    a. https://www.census.gov/content/dam/Census/library/publications/2020/demo/p60-272.pdf
    b. https://www.sacbee.com/article245815115.html
    c. https://www.latimes.com/homeless-housing/story/2020-04-09/california-low-income-housing-expensive apartment-coronavirus
    d. https://drive.google.com/file/d/1sUgEAKJfpRaNMBAzSFdd9ajV9CA06HOe/view?usp=sharing

RESOLUTION NO. ##,###-N.S.

ALLOCATING AN ADDITIONAL $114,660 ANNUALLY FOR 10 YEARS OF MEASURE P FUNDS TO LEASE AND OPERATE THE NEW PERMANENT SUPPORTIVE HOUSING PROJECT FOR THE HOMELESS AT 1367 UNIVERSITY AVE.

WHEREAS, the City Council passed unanimously the original Step Up Housing Initiative introduced by Councilmember Bartlett, Councilmember Wengraf, Councilmember Kesarwani, and Mayor Arreguin on October 13, 2020; and

WHEREAS, Measure P was passed by Berkeley voters in November 2018 to raise the transfer tax on roughly the top-third of properties from 1.5% to 2% and allocate those funds towards various homeless services, including permanent housing, supportive services, and navigation centers; and

WHEREAS, Measure P designated the Homeless Services Panel of Experts to advise the Council on expenditures for homeless services; and

WHEREAS, in December 2019 the Homeless Services Panel of Experts published their recommendations for initial allocations under Measure P, including highlighting permanent housing as the City's top priority and recommending 30% of Measure P funds be allocated to permanent housing; and

WHEREAS, the City Council approved on June 30, 2020 Measure P allocations for FY 2020-21 that included $2.5 million for permanent housing subsidy; and

WHEREAS, the Berkeley Zoning Adjustments Board approved the permanent supportive housing development project at 1367 University on July 9, 2020.

WHEREAS, construction costs, materials costs, and interest rates have increased dramatically in the past 18 months, making the project infeasible at the current rent of $1,400 per unit per month

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the following be approved for the StepUp Housing at 1367 University Ave:

- A reservation of approximately an additional $114,660 year in ongoing funds annually for 10 years for the leasing and operation of the proposed project, with funding adjusted annually based on the Consumer Price Index for Oakland-Hayward-Berkeley, CA.
- In the event BOSS is unable to perform its function as the service provider, an alternative qualified service provider may operate the project with the review and approval of the City Manager, or her designee.
- Further, the City's commitment is contingent upon the funding of the balance of the project.

BE IT FURTHER RESOLVED that the City Manager, or her designee, is hereby authorized to execute all original or amended documents or agreements to effectuate this action; a signed copy of said documents, agreements, and any amendments will be kept on file in the Office of the City Clerk.

June 6, 2022

Mayor Jesse Arreguin
2180 Milvia St.
Berkeley, CA 94704

Re: Permanent supportive housing at 1367 University Avenue, Resolution No. 69,586-N.S.

Dear Mayor Arreguin,

I am writing to request an additional **$245 per unit, per month**, for our permanent supportive housing project for the homeless at 1367 University Ave.

Since the Resolution was signed in October of 2020, construction costs have skyrocketed. Our development partner has experienced a 65% increase in construction costs since we signed our master lease with them 3 years ago. Additionally, interest rates for construction loans have almost doubled. In order to keep this housing project moving ahead, we are requesting that an additional $245/unit/month be made available to BOSS as an amendment to Resolution No. 69,586-N.S.

1. $245/unit/month: $245 x 39 units x 12 months = $114,660/year
2. Exhibit 1: Actual construction costs are on the following page (produced by Swinerton)
    a. 2019: Construction costs = $5,929,731
    b. 2022: Construction costs = $9,860,277
3. Exhibit 2: Resolution No. 69,586-N.S. is included for your reference
4. Exhibit 3: Recent news clippings about construction costs and interest rates

Please let me know what else you need from us to make this amendment to the Resolution.

Most Respectfully,

Donald Frazier
Executive Director

Cc: Colleen Chawla, Alameda County Health Care Service

Exhibit 1

2022-05 1367 University Ave - GMP

1367 University Ave, Berkeley CA

Berkeley

SWINERTON

Panoramic Development June 03, 2022

Description Division > MasterForm	Quantity	2019	2022
Total		$5,929,731	$9,860,277

Exhibit 2

RESOLUTION NO. 69,586-N.S.

ALLOCATING APPROXIMATELY $900,000 ANNUALLY FOR 10 YEARS AND A ONE-TIME AMOUNT OF APPROXIMATELY $32,975 OF MEASURE P FUNDS TO LEASE AND OPERATE THE NEW PERMANENT SUPPORTIVE HOUSING PROJECT FOR THE HOMELESS AT 1367 UNIVERSITY AVE.

WHEREAS, the City Council passed unanimously the original Step Up Housing Initiative introduced by Councilmember Bartlett on February 14, 2017; and

WHEREAS, Measure P was passed by Berkeley voters in November 2018 to raise the transfer tax on roughly the top-third of properties from 1.5% to 2% and allocate those funds towards various homeless services, including permanent housing, supportive services, and navigation centers; and

WHEREAS, Measure P designated the Homeless Services Panel of Experts to advise the Council on expenditures for homeless services; and

WHEREAS, in December 2019 the Homeless Services Panel of Experts published their recommendations for initial allocations under Measure P, including highlighting permanent housing as the City's top priority and recommending 30% of Measure P funds be allocated to permanent housing; and

WHEREAS, the City Council approved on June 30, 2020 Measure P allocations for FY 2020-21 that included $2.5 million for permanent housing subsidy; and

WHEREAS, the Berkeley Zoning Adjustments Board approved the permanent supportive housing development project at 1367 University on July 9, 2020.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that it approves the following for the project at 1367 University Ave:

- A reservation of approximately $32,975 in Measure P funds for start-up costs associated with the project.
- A reservation of approximately $900,000 in ongoing funds annually for 10 years for the leasing and operation of the proposed project, with funding adjusted annually based on the Consumer Price Index for Oakland-Hayward-Berkeley, CA.
- In the event BOSS is unable to perform its function as the service provider, an alternative qualified service provider may operate the project with the review and approval of the City Manager, or her designee.
- Further, the City's commitment is contingent upon the funding of the balance of the project.

BE IT FURTHER RESOLVED that the City Manager, or her designee, is hereby authorized to execute all original or amended documents or agreements to effectuate this action; a signed copy of said documents, agreements, and any amendments will be kept on file in the Office of the City Clerk.

The foregoing Resolution was adopted by the Berkeley City Council on October 13, 2020 by the following vote:

Ayes: Bartlett, Davila, Droste, Hahn, Harrison, Kesarwani, Robinson, Wengraf, and Arreguin.

Noes: None.

Absent: None.

Jesse Arreguin, Mayor

Attest: Mark Numainville, City Clerk

Exhibit 3

CONSTRUCTION**DIVE** Deep Dive Opinion Data Library Events Topics

DEEP DIVE

Soaring material prices, supply chain delays spook owners and developers

The rising cost of many materials and increased sourcing headaches have project owners rethinking their return to normalcy and threaten to derail construction's expected resurgence.

Published April 12, 2021

Joe Bousquin
Senior Reporter

The Washington Post

Mortgage rates spike to their highest level in nearly 13 years

The 30-year fixed average hasn't been this high since August 2009

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

CITY OF BERKELEY
Peace and Justice Commission

ACTION CALENDAR
APRIL 11, 2023

To: Honorable Mayor and Members of the City Council

From: Peace and Justice Commission

Submitted by: George Lippman, Chairperson, Peace and Justice Commission

Subject: Referral of two health educator positions to the COB FY 2024 budget process

RECOMMENDATION:
Refer to the budget process a request for estimated $150,000 annually, beginning in FY 2024 or as early as the AAO #2 process in spring 2023, for staffing, materials, and supplies to be able to more broadly and flexibly conduct health education, prevention, and outreach to reduce health disparities, as proposed by the Peace and Justice Commission.

FISCAL IMPACTS OF RECOMMENDATION
Estimated annual cost: $150,000. This estimate was given by Dr. Lisa Warhuus, HHCS Director, for staffing, materials, and supplies to be able to more broadly and flexibly conduct health education, prevention, and outreach to reduce health disparities.

CURRENT SITUATION AND ITS EFFECTS:
According to HHCS Director Dr. Lisa Warhuus, “the overriding health challenge in Berkeley are health disparities....For many years, we have seen significant disparities between the health status of our white community members (generally well above national averages), and our BIPOC community members. Geographically, this shows up with generally excellent health outcomes for people living in the hills, with less ideal outcomes in zip codes in South and West Berkeley (although this is shifting somewhat with gentrification). In recent years, other high-risk populations would include people experiencing homelessness and, to some extent, the LGBTQ+ community (though we need more research on the latter as it can very dependent upon circumstances).

“One of the biggest challenges we have in addressing health disparities is in the communications and outreach (prevention) component of the work. We need to do more culturally responsive outreach to those most negatively impacted by disparities, **engage and listen to what people feel is most needed**, and work with them to fill that gap. In doing so over the years, our Public Health division has often found that what is most missing is trust in the system, information and education done in a culturally responsive way, and clear access points for medical insurance, coverage, and a medical home.

"For instance, in a health assessment conducted by the Public Health Division in 2018, the highest priority identified by Berkeley participants to achieve a healthy community was communities that had access to basic needs and services (i.e. healthcare, housing, healthy food, transportation, etc.), felt connected and was treated with openness, tolerance, and inclusion, and had resources and up to date information on services. "The greatest threats to optimal health that community members identified were high costs of living, food security, and stress/mental wellness with recurring barriers being lack of or limited information and resources available to community members."

At its regular meeting January 9, 2023, the Peace and Justice Commission adopted the following recommendation proposing the hiring of two health educator positions for the next fiscal year.

M/S/C: Bohn, Jaqulin.

Ayes: Lippman, Jacqulin, Bohn, Lee, Morizawa, Gussmann.

Noes: None.

Abstain: Maran.

Absent: Leon-Maldonado.

ENVIRONMENTAL SUSTAINABILITY
N/A

BACKGROUND
Peace and Justice commissioners, along with members of the Commission on the Status of Women and the Community Health Commission, recently met with HHCS Director Dr. Lisa Warhuus and Public Health Manager Janice Chin, at Council's request, to discuss resources for and obstacles to reproductive health services and education. Dr. Warhuus clarified that "from the lens of HHCS, the work in Berkeley needs to be centered on health disparities in the larger context first," and to "ensure that our Public Health Division continuously includes Reproductive and Sexual Health (RSH) work as a part of their broader health education, prevention, and outreach strategy."

HHCS is bringing on a consultant who will organize and engage community members and other stakeholders to create a Community Health Assessment and a Community Health Improvement Plan, including a pilot program to create a health innovation zone to work toward remedying severe health inequities. Performance measures will be tracked through a new web-based population data health platform that will be rolled out as part of this process.

RATIONALE FOR RECOMMENDATION
HHCS would benefit from hiring staff and paying for materials and supplies out of general fund to be able to more broadly and flexibly conduct health education, prevention, and outreach to reduce health disparities.

The department is facing the lack of sufficient resources to do culturally responsive outreach, engagement, and prevention on an unconstrained basis. Engagement of these educators would assist with Reproductive and Sexual Health (RSH) outreach as part of the larger health outreach program.

ALTERNATIVE ACTIONS CONSIDERED
None

CITY MANAGER
See companion report.

CONTACT PERSON
George Lippman, Chairperson, Peace and Justice Commission
Okeya Vance-Dozier, Commission Secretary, (510) 684-0503

Office of the City Manager

ACTION CALENDAR
April 11, 2023

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Peter Radu, Assistant to the City Manager

Subject: Companion Report: Referral of two health educator positions to the COB FY 2024 budget process

RECOMMENDATION:

Refer to the Peace and Justice Commission's request for $150,000 annually for staffing, materials, and supplies for health education and outreach to the Budget and Finance Policy Committee for further deliberation.

FISCAL IMPACTS OF RECOMMENDATION

There are no fiscal impacts associated with this recommendation.

CURRENT SITUATION AND ITS EFFECTS:

The Peace and Justice Commission has requested $150,000 annually to fund two health educator positions. The City Manager does not disagree with the potential merit of this request, but rather recommends that Council clearly identify concrete impacts and outcomes for the positions, as well as a budget source, before referring them for funding. Moreover, further deliberation allows Council to work with staff to identify any existing baseline services that could be supplemented, which may provide a more cost-efficient means of meeting outstanding needs than hiring new staff.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

There are no environmental benefits nor challenges associated with this recommendation.

BACKGROUND

At its regular meeting January 9, 2023, the Peace and Justice Commission adopted the following recommendation proposing the hiring of two health educator positions for the next fiscal year.

M/S/C: Bohn, Jaqulin.

Ayes: Lippman, Jacqulin, Bohn, Lee, Morizawa, Gussmann.

Noes: None.

Abstain: Maran.

Absent: Leon-Maldonado.

RATIONALE FOR RECOMMENDATION
A clearer picture of desired impacts and outcomes associated with this request compared to baseline services, as well as financial implications, should be identified at the Committee level before recommending them to the full Council for funding.

ALTERNATIVE ACTIONS CONSIDERED
Council could refer this request directly to the budget process.

CONTACT PERSON
Peter Radu, Assistant to the City Manager, (510) 981-7045.

Office of the City Manager

Date: June 23, 2022

To: Budget and Finance Policy Committee

From: Dee Williams-Ridley, City Manager

Submitted by: Henry Oyekanmi, Finance Director

Subject: Investment Policies of Other Jurisdictions

The City's investment policy is a formal document which provides the guidelines for investments and operational structure in the management of public funds and is confirmed annually by the City Council.

One of the components of the City's investment policy is the section for responsible investing. This provides a list of identified restrictions that were ratified by the City Council. It is extremely important that the investment officer regards these as requirements when making decisions for investment purchase.

Each year the City's investment policy is updated to add all the responsible investing policies passed by city council throughout the year. Throughout the many years, the City has accumulated seven policy restrictions for responsible investing.

Most cities' have the three main statutory objectives in managing the investment programs which are safety, liquidity and return. However, due to the restrictions in City of Berkeley's investment, the investment program considers responsible investing as an additional objective. Compliance to these restrictions is highly regarded as a requirement for its investments. These results in limiting the type of investment offering the investment officer can purchase. Restrictions has a direct impact on diversification of funds and the rate of returns on investments.

On January 27, 2022 while discussing the Fourth Quarter Investment report, the Budget and Finance Committee asked that Finance conduct a comparison study in investment restriction for other cities in California. The Finance Department researched and reviewed the investment policies of the various cities to identify the investment restrictions for their investment program. Finance took the cities that it currently uses to benchmark the rate of returns on the City's quarterly investment report and identified the restrictions on their cities' investment policies.

Below is a summary of the findings from the research:

VARIOUS CALIFORNIA CITIES INVESTMENT RESTRICTIONS											
City	Rates Earned	DIVESTMENT FROM COMPANIES/MANUFACTURERS								INTEGRATE	
		Tobacco Products	Firearms	Fossil Fuels	Nuclear Power	Private Prison and Immigration Detention	Weapons	Oppressive States	Companies for Mexico Border Wall	Environment, social and governance principle	Investing Community Well Being
Palo Alto	1.58%	X	X	X							
Los Angeles	1.09%										
San Jose	1.08%										X
Sacramento	0.99%										
Torrance	0.98%										
San Diego	0.83%										
Berkeley	0.80%	X	X	X	X	X	X	X	X	X	
Santa Monica	0.54%	X	X	X	X						
San Francisco	0.48%	X	X		X						
Oakland	0.19%	X	X	X							

Encouraged Not Required

Discouraged Not Required

Research Analysis:

The study shows that there is a direct correlation between the number of restrictions to the rate of returns for various jurisdictions. The cities that have no restrictions or encouraged restrictions without it being mandated are the cities that have higher rate of return on their investment. Cities with restrictions are the ones who have lower rate of return. The City of Berkeley rate of returns still remains fairly high amidst the restrictions in the investment policy.

As a result of the differences in the investment policies of different cities, including responsible investing policies, maturity restrictions, investment restrictions, etc., it is difficult for any City to come up with a reasonable performance measure for pooled cash investments. In order to provide some measure of the relative performance of the City's investment returns, past City Councilmembers requested that information about the rates earned by other California cities be included in the quarterly investment reports for comparison purposes, despite the differences in the investment policies of the various cities.

No Material Available for this Item

There is no material for this item.

City Clerk Department
2180 Milvia Street
Berkeley, CA 94704
(510) 981-6900

The City of Berkeley Budget and Finance Policy Committee Webpage:

https://berkeleyca.gov/your-government/city-council/council-committees/policy-committee-budget-finance

Office of the City Manager

Date: April 25, 2023

To: Budget & Finance Policy Committee

From: Dee Williams-Ridley, City Manager

Submitted by: Sharon Friedrichsen, Budget Manager
Henry Oyekanmi, Finance Director

Subject: Risk Analysis for Long-Term Debt (Bonding Capacity) Report

RECOMMENDATION

Receive a status update on recommendations and analysis related to the Risk Analysis for Long-Term Debt (Bonding Capacity) Report and provide direction to staff.

BACKGROUND

On April 26, 2022, the City Council considered accepting a report titled 'Risk-Based Analysis and Stress Test of Long-Term Debt Affordability' as provided by the Government Finance Officers Association (GFOA). Upon receiving the report, City Council referred this item to the City Manager and Budget & Finance Policy Committee to return to Council with recommendations or analysis on as many of the following items as possible by October 2022, if feasible. The purpose of this action item is to receive an update on the status of these items.

1. Consideration of reserves policies for operational funds other than the General Fund

   Status: The City Manager's Office is working with the GFOA on a risk-based probability model to assess the appropriate level of General Fund reserves. The outcome of this model will be used to help establish reserve policies for other citywide funds. An internal working group comprised of the City Manager's Office, Finance, Planning, PRW and Public Works has been formed to develop reserve policies for enterprise funds. The draft policies will be presented to the Budget and Finance Policy Committee and then Council for adoption once completed.

2. Potential reduction of the maximum indebtedness rate from 15% of assessed property value down to 4-8% range

   Status: The analysis is currently being conducted and completion is targeted for the June 27, 2023 Council date in conjunction with the statutory Annual GAAN Limit and Investment policy changes.

3. A new policy to not incur indebtedness when interest rates go above 5% or a different specific threshold

   Status: This scope is also being reviewed especially with the current interest rate regime of the Federal Reserve Board and the markets. The target of completion is June 27, 2023.

4. Tools for increased transparency for taxpayers

   Status: The City Manager's Office has begun research on cloud-based budget and performance management software systems that would allow a more interactive interface and transparency regarding the City's budget. However, additional time is needed to continue to explore these systems as well as other tools for increased transparency.

5. Updated report and discussion of pension and healthcare costs

   Status: The Unfunded Liability Obligations and Unfunded Infrastructure Needs report, which includes a discussion on pension and other-post employment benefits, including retiree healthcare costs, was placed on the April 11, 2023 Council agenda. The item is being rescheduled for a future meeting date.

6. Refer the full Report to the Budget & Finance Committee for consideration

   Status: The report has been submitted to the Committee for consideration.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS
There are no identifiable environmental effects or opportunities associated with receiving an update on the bonding capacity report.

CONTACT PERSON
Sharon Friedrichsen, Budget Manager, City Manager's Office, 981-7000
Henry Oyekanmi, Finance Director, 981-7200

Office of the City Manager

ACTION CALENDAR
April 26, 2022

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Henry Oyekanmi, Director, Finance

Subject: Accept the Risk Analysis for Long-Term Debt (Bonding Capacity) Report provided by Government Finance Officers Association

RECOMMENDATION
Accept the report titled 'Risk-Based Analysis and Stress Test of Long-Term Debt Affordability' as provided by the Government Finance Officers Association (GFOA). This report is based on their research and development of a risk-modeling tool to address issuing long-term debt related to City of Berkeley Vision 2050.

FISCAL IMPACTS OF RECOMMENDATION
There are no fiscal impacts of accepting the report

CURRENT SITUATION AND ITS EFFECTS
The Risk-Based Analysis and Stress Test of Long-Term Debt Affordability (Bonding Capacity) report is a Strategic Plan Priority Project, advancing our goal to:

- Provide an efficient and financially-healthy City government

The City engaged GFOA to conduct this analysis of the City's bonding capacity through their risk-modeling approach. This analysis will support the City's later development of a thirty-year borrowing plan, which will enable the City to replace its aging infrastructure assets, maintain its General Obligation Bond rating at AA+ at S & P Global and Aa1 at Moody's, and keep the bond property tax rate at an affordable level (which was .0540% at June 30, 2020). The GFOA's risk model and report look at a comprehensive financial analysis with particular focus on options to maintain the City's debt affordability within the framework of the City's huge unfunded pensions and other post-employment benefits (OPEB) and overall City operations.

The study and report are intended to help develop recommendations for a combination of infrastructure-focused revenue measures slated for November 2022 and beyond.

The context provided for GFOA to build the risk model and draft the subsequent report was framed through initially providing these items to GFOA:

1. Vision 2050
2. Unfunded Liabilities Report
3. Capital Improvement Plan in the most recent biennial budget and five-year planning horizon
4. Annual Comprehensive Financial Reports (ACFR)
5. GO Bonds, Revenue Bonds, and Certificates of Participation Debt Repayment Schedules
6. Current Bond Authority and Outstanding Amounts (GO Bonds for the past 20 years as of 7/12/21)
7. City's Debt Policy
8. S and P Global Ratings Letter Re: GO Bonds
9. S and P Global Ratings Letter Re: Lease Revenue Bonds
10. Analysis of City's Debt and Contingent Liability Profile
11. GO Rating Report – April 2021
12. GO Rating Report – February 2020

The GFOA report details these and additional factors that GFOA researched and incorporated into their construction of the risk model and their drafting of the final report.

<u>BACKGROUND</u>
The City has an extensive portfolio of capital assets and infrastructure, including 95 public buildings; 254 miles of public sanitary sewer mains and 130 miles of public sewer laterals; 52 parks, two pools; three camps; and 42 different facilities served by the City's IT systems. Maintaining these assets is costly and requires significant resources and constant attention. As an older city, 50% of Berkeley's $837 million of capital assets have exceeded their useful life.

The City's FY 2021 Capital Plan called for spending of $57 million/year on capital and maintenance needs. Even at this increased level of funding, Berkeley's infrastructure will deteriorate faster than it is being repaired and replaced, and construction cost escalation at four (4) percent/year will significantly increase replacement costs.

To modernize these old physical structures with resilient, durable, and climate-smart infrastructure will require substantial new investments. To adequately address the $882 million in unfunded infrastructure liabilities, the City needs to double its annual capital spending over the next decade to $80 million/year. Capital expenditures are typically funded through a combination of debt financing (pay-as-you-use) and cash (pay-as-you-go). Paying in cash avoids the cost of interest, but requires the City to accumulate sufficient cash to fund the project, while construction costs escalate. Using debt to finance capital projects incurs interest expense but allows the project to start earlier, thereby avoiding escalation costs.

The City has an infrastructure system that has allowed it to thrive for over 100 years. Now, the City wants to incorporate new technologies and be able to adapt to meet environmental trends so that the infrastructure systems can continue to support the City for another 100 years. The risk analysis report shows the potential impact of multiple factors on the City's capacity to issue debt during the next thirty years.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

There are no identifiable effects or opportunities associates with this item.

RATIONALE FOR RECOMMENDATION

The City administered Request for Proposals #21-11459-C for consulting services to determine the City's bonding capacity. The RFP was published twice with neither publication generating responses from the market. In the course of staff researching why no responses were received, staff met with GFOA. GFOA provided their relatively new risk-modeling approach to the bonding capacity topic. Thus, it was determined, since a traditional RFP was not generating market response, that it would be advantageous to contract with GFOA for their services to research and develop the risk-model for City of Berkeley to evaluate its capacity for issuance of long-term debt.

ALTERNATIVE ACTIONS CONSIDERED

Not conducting the study

CONTACT PERSON

Henry Oyekanmi, Director, Finance, 981-7326

Attachments:
1: Report: Risk-Based Analysis and Stress Test of Long-Term Debt Affordability (from GFOA, 2022)

A Risk-Based Analysis and Stress Test of Long-Term Debt Affordability for the City of Berkeley, California

April 2022

Produced by:

The Government Finance Officers Association

Table of Contents

Section 1 – Introduction

Long-term debt is an important tool for municipal governments to invest in long-term assets that serve their community. The City of Berkeley, California (City) is considering seeking authorization from its voters on a large amount of long-term debt, perhaps up to $600 million, to support the City of Berkeley's infrastructure needs included in its Vision 2050 plan. The debt would be used to fund assets like streets, public buildings, and more. This would be the largest amount of debt the City has sought to authorize in at least the last 20 years.[1] Therefore, the City has, prudently, decided to analyze the long-term affordability of this debt and has engaged the Government Finance Officers Association (GFOA) to perform this analysis.

GFOA is a non-profit association of more than 21,000 state and local government finance professionals and elected officials from across the United States and Canada. A key part of GFOA's mission is to promote best practices in public finance, including analyzing important financial risks like the affordability of long-term debt. GFOA's approach to risk analysis is distinctive because we use the same basic methods used by insurance companies and climate scientists to evaluate risk. We use computer simulation to build hundreds, if not thousands, of scenarios of how the City's financial situation could play out over 30 years. Each scenario changes important variables that influence how affordable the City's debt might be. For example, each scenario features a different interest rate environment. The variation in these variables is governed by parameters we set, where the parameters keep the variation within the realm of possibility. To continue our interest rate example, we gathered data on the rate of change in bond interest rates since 1970. This information was used to create the parameters for the interest rate environments generated for each scenario. We then see how often the City's debt remains affordable over those thousands of scenarios. If the debt is shown to be affordable under a high proportion of those scenarios, then that suggests there is a good chance that the debt will ultimately be affordable in the real world. Conversely, if the debt is not affordable under a high portion of the scenarios that suggests the debt is unlikely to be affordable in the real world. This computer simulation is built in Microsoft Excel using open standards for the data.[2] We'll refer to this computer simulation as the GFOA "Risk Model". The Risk Model is completely available to the City to use as it sees fit, including the ability to adjust many of the assumptions utilized for the simulations.

The rest of this report is divided into the following sections:

- **Defining What is "Affordable" Debt.** This section describes our rationale for using a typical bond ratings analysis as the basis for determining what is "affordable" for the City government.
- **Key Financial Indicators and Assumptions.** This section examines the key indicators of debt affordability that are taken into consideration by bond ratings companies and our method of approximating how the indicators suggest debt affordability in our simulation of the City government's future.

[1] History of the City's bond issuances compiled with the help of the City Clerk.
[2] Visit probabilitymanagement.org for more information on the standards we use.

- **Results of the Analysis and Recommendations.** In this section, we will address the findings from our analysis, including recommendations to help the City retain its credit rating.

Section 2 – Defining What is "Affordable" Debt

The definition of what is "affordable" debt is at the foundation of this analysis.

The first step to defining what is affordable is defining the type of debt the City is considering. The City is considering "general obligation (GO) debt". This debt is paid for by a dedicated property tax levy. Thus, the City **does not** have to pay for this debt out of its existing revenue streams. This means that taking on more general obligation debt **will not** have a **direct** impact on the City's operating budget. There is **indirect** impact – for example, perhaps the higher tax bills faced by taxpayers would cause them to vote against future tax measures intended to support the operating budget. Or, maybe residents or businesses feel the impact of higher taxes in their businesses or personal finances and decide to move. These are important considerations, but are outside the scope of this analysis, which is focused on the **direct** impacts to City government. That said, the financial indicators we will examine do include measures of personal income and the size of the tax base relative to the size of the population, which do provide some insight into affordability to taxpayers. It is also worth remembering that, according to California law, debt like the City is considering must be approved by two-thirds of voters in an election. If approval is not obtained, the debt cannot be issued. Thus, taxpayers evaluate the affordability of the proposed debt themselves by choosing to approve it or not. However, affordability to the taxpayers might not be that simple. We'll have more to say on this topic later in the report.

The impact of general obligation debt on the City government's finances is to add to the City's total debt burden. Generally, the more debt a City takes on the less attractive its debt becomes to investors, all else being equal.[3] This is because, in theory, the more debt a City has, the less likely it is that it will be able to pay it all back. This is important because if the City's debt becomes too unattractive, it will need to offer higher interest rates to investors. That would make it more expensive to borrow and, thus, more expensive for the City to make future investments in long-term assets. **Thus, we will define debt affordability as the extent to which issuing more debt in support of any City Council program might cause the City's debt to cross a threshold point where the City has to offer a higher interest rate to attract investors**.

Threshold points where higher interest rates must be offered are known as bond ratings. There are three major agencies that issue bond ratings: Moody's Investors Service, Standard and Poor's, and Fitch Ratings. Each rating agency has its own approach, but there are broad similarities between all three. For purposes of this analysis, we will focus on Moody's approach. This is because Moody's method is: A) well documented; and B) makes use of quantitative financial information to help standardize the approach to issuing ratings. This means we can collect the same financial information Moody's would collect and evaluate it in a similar, albeit much simplified, manner. By doing this, our Risk Model was able to essentially duplicate the City's current rating, which is "Aa", according to Moody's. Aa is the second best rating on Moody's scale (which is similar to the scales used by the other rating agencies). The complete scale is shown in the accompanying table. The reader should note that rating agencies also make finer grained distinctions within the rating tiers. For example, technically, the City's rating is "Aa1", which

[3] Municipal governments might issue more debt, but their tax base and revenues might also continue to grow. In this case, all else has not remained equal so the debt of that municipality may not become less attractive.

indicates the City is a strong Aa or at the upper end of what is considered Aa. An Aa2 would be in the middle and Aa3 would be considered a weak Aa. For the majority of this report we will not refer to these finer grained distinctions. This is, first, in the interest of simplicity. Using just the ratings scale showing in our accompanying table, the reader will be required to track six different categories of ratings. Multiplying the number of categories by three might make this analysis much more difficult to follow. Second, we do not have access to reliable historical data on how big a difference these finer distinctions would make on the interest rate the City could obtain for its bonds. We have data back to 1970 for the differences between the tiers shown in our table. Therefore, most the analysis will take place at the level of these six tiers. Occasionally, though, we will refer to the finer distinctions (e.g., Aa1 vs. Aa2 vs. Aa3) to discuss how the City's credit rating could change in response to different conditions.

If the City's debt were to be downgraded to an "A" we would expect the City to have to pay a higher interest rate on future debt. How much more would depend on the interest rate environment at the time. Historically, the difference between the interest rate of Aa and A has ranged from 1.05 to 0.08 percentages points, with an average of 0.26 percentage points. If, for example, a $100 million 30-year bond sold at 2.26% interest rather than 2.00% interest, this would translate to $5 million more in total interest cost over the life of the bond.

Moody's Rating Scale	
The best->	Aaa
	Aa
	A
	Baa
	Ba
The worst->	B or below

To evaluate the affordability of the City of Berkeley's borrowing plan including its Vision 2050 debt issuance plan we can do the following:

1. Update the key financial indicators used within the Moody's rating system to reflect what the indicators would look like with the additional debt over the 30-year analysis period covered by our Risk Model.
2. Use computer simulation to vary key variables that impact the financial indicators over the 30-year analysis period. We'll describe what these variables are and the assumptions our analysis makes in the next section.

Section 3 – Key Financial Indicators and Assumptions

The purpose of this section is to summarize the key financial indicators used to help frame bond ratings and to describe key assumptions we have made with respect to future values of the important variables that go into the analysis. Our analysis considers the next 30 years, so we had to make assumptions about how key variables would behave. Before we delve into these topics, we'd like to bring five important points to the attention of the reader:

1. The amount of debt the City takes on is not the only, or even primary, factor that determines bond ratings. Bond ratings take into account a number of factors besides debt. Therefore, our analysis include other factors that impact bond ratings, such as pensions, fund balance and tax base, along with debt.
2. Bond ratings are intended, primarily, to help investors decide how risky it is to invest in a municipality's debt. Though many of the factors bond ratings take into account are reflective of

the general financial health of a municipality, the ratings are not a perfect measure of financial health. This is because ratings are intended to judge the ability of the City to pay back its bondholders and nothing more. This is a limited perspective on financial health.[4]

3. Bond ratings method are not a purely mechanical exercise where a given value for the financial indicators leads to a perfectly predictable bond rating. For example, Moody's rating method includes "notching factors", which are essentially the wiggle room to adjust a municipality's rating up or down, based on local circumstances and the judgment of bond rating analysts. Nevertheless, given that our approximation of the financial indicators that Moody's uses did produce the City's current rating in our Risk Model, we can assume that the financial indicators will produce useful insights into what the City's rating might be under different circumstances.
4. Our analysis is based largely on the future looking a lot like the past in many important respects. For example, we will see that the size of the City's tax base is regarded as a big strength by the Moody's evaluation method. We will assume it will continue to be. Of course, it is plausible that that a large natural disaster, like an earthquake, could severely damage property stock in Berkeley to the point where the tax base is seriously impaired and is no longer the strength it once was. These kinds of extreme scenarios (e.g., natural catastrophes) are not within the scope of our analysis. This is not to say such scenarios are not important. In fact, GFOA analyzes the impact of catastrophic scenarios on municipal financial health on a regular basis. However, given the scope for this project we focused on the key financial indicators of the City's financial health that are described in the following pages and not on catastrophe events. The Risk Model is not intended as a perfect representation of reality. It has been said "all models are wrong, but some are useful". We would suggest that focusing on the trajectory of key financial indicators given the decisions that City makes is a useful perspective on the affordability of its debt plan.
5. Readers who are not interested in the details of the Moody's methods and the assumptions we made about the future of the City's finances are invited to skip the rest of this section and go directly to the next section for our findings and recommendations.

The rest of this section will delve into key financial indicators that are salient to bond ratings and which underlies how we are defining "debt affordability" for this study.

The key financial indicators Moody's considers are described by what Moody's calls its "scorecard". Moody's has four broad factors for its bond rating scorecard and a number of sub-factors, which are shown in Exhibit 3.1.[5] We will summarize each immediately following. With respect to the overview provided by Exhibit 3.1, the reader should note the factor weightings. We see that measures of the City's debt constitute only 10% of the total scorecard. Thus, the City's plan to issue more debt, by itself, can only have a marginal impact on the score. The City's actions with respect to its financial position, in whole, will be what really matters for debt affordability.

[4] A comprehensive approach can be found in GFOA's Financial Foundations for Thriving Communities.

[5] Our primary source on Moody's methods is "US Local Government General Obligation Debt" dated January 26, 2021, published by Moody's Investors Service.

Exhibit 3.1 – Moody's Scorecard Factors and Weights (for Local Governments)

Broad Scorecard Factors	Factor Weighting	Sub-factors	Sub-factor Weighting
Economy/Tax Base	30%	Tax Base Size (full value)	10%
		Full Value Per Capita	10%
		Wealth (median family income)	10%
Finances	30%	Fund Balance (% of revenues)	10%
		Fund Balance Trend (5-year change)	5%
		Cash Balance (% of revenues)	10%
		Cash Balance Trend (5-year change)	5%
Management	20%	Institutional Framework	10%
		Operating History	10%
Debt/Pensions	20%	Debt to Full Value	5%
		Debt to Revenue	5%
		Moody's-adjusted Net Pension Liability (3-year average) to Full Value	5%
		Moody's-adjusted Net Pension Liability (3-year average) to Revenue	5%

Source: Moody's Investor Service

Economy / Tax Base

The tax base ultimately determines if a city can pay back its debt. There are three sub-factors considered:

Tax-base size: The size of the property tax base is where a municipality draws its revenue from. Currently, full value of the property in the City's tax base is almost double what is necessary to receive the highest possible score on Moody's scorecard. We did not find a reason to think that a radical decline in the value of property in the tax base was a probable risk. Of course, events like the 2008 recession and bursting of the housing bubble can cause a temporary decline. These kinds of variations are captured in the Risk Model. The Risk Model assumes that tax base will grow (and occasionally shrink) at rate that is broadly consistent with historical patterns, but the Risk Model does not assume a constant rate of growth. For example, the Risk Model simulates market pullbacks like the Great Recession (and worse). However, we did not find a reason to think that a dramatic, long-term decline in the City's property values was a high-probability risk. The Risk Model does provide the user with the ability to easily change growth rate assumptions in order to see the effect of more optimistic or pessimistic outlooks.

Full-value per capita: This indicator adds in population size to the size of the tax base. The per resident property wealth shows the availability of tax-generating resources relative to the users of public services. This measure is almost 1/3 above what is necessary to receive the highest score on Moody's scorecard. We did not find reason to believe that the City's population would outpace the growth in property values to the point where it would risk the City falling below the Moody's threshold for the best score. In fact, a long-term forecast sourced from Association of Bay Area Governments (ABAG) shows the City's population forecasted to grow just over 1% per year over the next 30 years. This growth does not seem to be so great that it puts a strain on City finances and, thus, pose a risk to the City's bond ratings.

Median Family Income: A community with high-income taxpayers may have greater ability to cover the cost of debt. The City is almost exactly in the middle of the two threshold values that bound the second highest score on Moody's scale. Presumably, the large number of college students in Berkeley exert downward pressure on this measure. That said, we did not uncover a high probability risk that the City would fall out of the second-highest category over the next 30 years.

Finances

This factor considers a local government's cushion against the unexpected, the City's ability to meet existing financial obligations, and its flexibility to adjust to new ones. There are four sub-factors considered:

Fund Balance: Fund balance describes the net financial resources available to a municipality in the short term. It is essentially the "rainy day fund" or "self-insurance" to react to unplanned, unavoidable costs (like natural disasters). More fund balance would presumably reduce the risk of a local government failing to repay debt because of a natural disaster or other catastrophe. For the City, this measure is currently almost 2/3 above what is necessary to receive the highest score on Moody's scorecard (Aaa). That said, fund balance is not nearly as stable a quantity as the economic forces we reviewed above. For example, in the years 2007 to 2013 the City's annually available reserves were less than half of what they've been in the last few years. In fact, the City would have been in the Aa, rather than Aaa, equivalent tier for six of the last 15 years (though not too far below the Aaa tier, at least). This means that we shouldn't take for granted that the City will continue to maintain reserves high enough to receive Moody's highest scores for the entire 30-year analysis period. The Risk Model assumes the City has a chance of falling out of the Aaa equivalent tier for fund balance. That chance is determined by the City's historical experience. Over the last 15 years the City was below the Aaa threshold six times. So, the Risk Model assumes a six in 15 chance (or two in five chance) per year that the City falls below the Aaa tier.

Five-Year Dollar Change in Fund Balance as % of Revenues: The reason for this measure is much the same as stated above, except this takes longer-term perspective on fund balance. Fund balance can change fairly rapidly, year to year, compared to some of the other indicators in the Moody's scorecard. So, this measure checks to see if fund balance is growing or shrinking and by how much. Currently, the City is just above the threshold required for the highest score. However, this is an example of a measure that is highly relevant to the interest of bondholders, but not as well aligned with the interests of the people who live in Berkeley. From the perspective of bondholders, it would not be a bad thing if the City continued to build its fund balance indefinitely. That continues to reduce the risk of a default. However, from the citizens' perspective there is a clear upper limit on the amount of fund balance a local government should hold. At some point the opportunity cost (in terms of higher taxes or foregone services) is not worth the benefit the public receives from the City having a larger fund balance. Thus, given that the City already, by Moody's own standards, has a large fund balance, it is questionable whether the City would continue to grow the fund balance in the future at the same rate it has in the past. Thus, it seems unlikely the City would continue to achieve the highest score under the Moody's rating system. However, that said, Moody's documentation does imply that local governments with a strong fund balance might be given consideration for maintaining that fund balance rather than continuing to grow it - Moody's might adjust ratings upwards to reward maintaining stability of a high level of fund balance. This means that the City may not enjoy the top-rated scores it had gotten in the past on this measure, but if it maintains a high level of fund balance, it might only drop to the second highest score. The Risk Model gives the user the option to choose the growth rate, from maintaining a rate of growth equivalent to Aaa to remaining flat (equivalent to an A rating). For the purposes of this report, we chose to make this indicator equivalent to an Aa rating. The rationale is that the City probably can't keep historic levels of growth indefinitely, but the high amount of fund balance the City usually carries would, hopefully, be enough to avoid falling down to an A rating.

Cash Balance: Cash is a similar measure to fund balance – but focuses on "money in the bank", whereas fund balance can include some non-liquid resources. For the City, this measure is currently almost three times above what is necessary to receive the highest score on Moody's scorecard. At the City, cash balances and fund balance levels tend to mirror each other. So, just as the City did not have nearly the same level of fund balance in the past as it does today, it did not have the same level of cash either. Thus, like fund balance, this means that we shouldn't take for granted that the City will continue to maintain cash high enough to receive Moody's highest scores for the entire 30-year analysis period. That said, given that cash appears to be so far above what Moody's is looking for that it would take much more extraordinary circumstances for the City's cash to fall below Aaa equivalence. The Risk Model assumes that the City has a 2 in 15 chance of falling to the Aa tier, each year. This chance is smaller than fund balances falling to the Aa tier. The rationale is the City's cash amounts are very high above the Aaa threshold, so would have a long way to fall to reach Aa territory.

Five-Year Dollar Change in Cash Balance as % of Revenues: The rationale and issues related to this measure are much the same as discussed above. Cash is a more liquid resource for dealing with unplanned, unavoidable expenditures and this measure shows the rate and direction of growth. The City is currently well above the amount required for Moody's highest score, but, again, the same rate of growth probably cannot keep up indefinitely. Like fund balance, though, it seems possible that Moody's might not penalize the City for mere stability in its amounts of cash on hand, if the amounts on hand were kept high. The Risk Model uses identical assumptions for this measure as for the fund balance trend, described above.

Management

The legal structure of a local government and management under which it operates influence the government's ability to maintain a balanced budget, fund services, and continue to derive resources from the local economy. There are two measures in this category.

Institutional Framework: This factor measures the municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. For example, a local government with many mandated responsibilities, but with little ability to raise revenues would score poorly on this measure. Our examination of the City's prior Moody's bond ratings suggest that the City, for this measure, was rated consistently with is overall rating: Aa. In other words, the second best possible score. We found no high probability risk that the City's legal powers and responsibilities would change dramatically in the coming years, so we assume the City's score on this measure will remain constant throughout the analysis period.

Operating History: Operating history is essentially the extent to which the City runs annual surpluses or deficits. The City's current measure is well above what is required for Moody's highest score. However, because surpluses and deficits are determined annually, we shouldn't assume stability in this measure over a long-term period. We looked at the last 15 years of the City's history to see the size of surpluses (there were no deficits) and used those to simulate what surpluses will be in the future. This results in a more conservative assumption than simply continuing the most recent trends indefinitely into the future.

Debt / Pensions

Debt and pension burdens are measures of the financial leverage of a community. The more leveraged a tax base is, the more difficult it is to service existing debt and to afford additional debt, and the greater the likelihood there will be difficulties funding debt service. There are four measures in this category.

We gave this category the most analytical attention for a number of reasons. First, debt was the primary focus of the City in commissioning this study. The amount of debt the City is considering issuing will have a direct impact on some of the measures in this category. Second, as we will see, the City's current performance on debt indicators is already weak compared to the other indicators we have reviewed. Third, this section includes pensions, which, as we will see, are the weak spot in the City's performance on the Moody's scorecard.

We will first briefly overview the four measures in this category and then go into details on the assumptions made for future values of these indicators.

Debt to Full Value: This evaluates net direct debt relative to full value of the property in the City's tax base. This metric tells us how onerous future debt service payments could be to the tax base. Currently, the City is in the second best category for scoring on this measure.

Debt to Revenues: This compares debt to the City's regular revenue stream. Moody's does not subtract from the calculation any debt whose principal and interest is paid by taxes, even if those costs are external to the General Fund. Under this definition, the City gets a score on the Moody's scorecard equivalent to an "A" rating.

Three-year Average of Moody's-Adjusted Net Pension Liability to Full Value. This measures the magnitude of a local government's pension obligations relative to its tax base.[6] Similar to the debt burden evaluation, the tax base serves as a proxy for future revenue-generating capacity to amortize accrued pension obligations. The City's score here is equivalent to a "Baa" bond rating.

Three-year Average of Moody's-Adjusted Net Pension Liability to Operating Revenues. This metric seeks to measure pension obligations relative to the size of the local government's budget. The metric attempts to reflect that amortization of accrued net pension obligations could divert revenues out of future budgets and lead to funding shortfalls. The City's score here is equivalent to a "Ba" bond rating (the second worst rating).

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[6] Note that Moody's adjusts the standard net pension liability measure found in government financial reports to include less favorable assumptions on the discount rate for pension investments. The details behind these calculations are available in the Risk Model supplied to the City by GFOA.

Assumptions for Future Indebtedness:

- The Risk Model includes all repayment schedules for the City's existing debt and assumes debt will be repaid in the times and amounts currently scheduled.
- The Risk Model includes three categories of "new" debt. The detailed assumptions behind the new debt are described in more detail later, but the general categories of new debt are:
  - Debt that the voters have previously authorized, but which the City has not issued. This is in the amount of $117 million in principal.
  - Debt issued to support Vision 2050 or other programs. The user defines the amount of principal in the Risk Model. The Risk Model assumes that the number entered by the user will be approved by the voters.
  - Debt issued in the far future. Given we are taking a long-term (30 years) perspective, we should not assume that future City Councils will not issue any more debt. The amounts and timings of these simulate future debt issues are described as part of the following bullets.
- For all new debt, the user can choose the length of the repayment schedule. For the purposes of this report, we assumed 30 years. This is consistent with the City's past practices and current plans. We assume level repayment schedules (i.e., no front or back loading of repayment schedules). We assume no debt refunding, refinancing, etc.
- For all new debt, we simulate the interest rate, where historical rates are used as a model. Here are some key points:
  - We use forecasts of the yield on ten-year US Treasuries for the next two years to simulate the interest rate environment for the next two years. We do this so that the Risk Model does not generate short-term results that are divergent from short-term expectations.
  - After two years, the Risk Model randomly generates future interest rates, where the rate of change in the rates is entirely consistent with the rate of change in the interest rates for Aaa-rated GO bonds and US Treasuries since 1977. We used the historical rate of change to simulate downward, upward, and stable trajectories for long-term interest rates.
  - The Risk Model assumes bond interest rates will not go below zero. The user has the option to adjust this rate floor.
  - The Risk Model includes the City's informal policy that the City will not borrow if rates are above 5%. If rates are simulated to go above 5% in any year any simulated, then borrowing is deferred until rates go back below 5%.
  - For the purpose of this report, the Risk Model assumes that rates are just as likely to go up in the future as they are to go down, with the exception of the first two years. As discussed above, the next first years are determined by the 10-year US Treasury forecasts produced by other organizations. For the years after that, the user is able to adjust how likely rates are to go up or down to explore assumptions other than what we assumed for this report. So, if the user wanted the Risk Model to simulate an interest environment where it is twice as likely rates would go up, then that assumption could be entered. In no case will the rates rise at a greater rate of change than has been observed historically.

- The Risk Model assumes that the City will issue new debt that has been previously authorized by voters, but which have not yet been issued. This amounts to $117 million in additional principal that is added to the City's debt burden over the next five years. The debt is issued according to a user-defined schedule.
- For the debt to support more borrowing, including the City of Berkeley Vision 2050, in the Risk Model, the user can choose the amount of debt the City will issue. The Risk Model allows the user to choose between the options below. The options are completely user definable so the City can add, change, or delete options as it likes:
    - An option for $300 million in debt, which represents the lower end of what the City Council has discussed. Note that the City Council has discussed supplementing this amount of debt with a parcel tax. The parcel tax would not impact the City government's performance on the key indicators in the Moody's scorecard other than requiring the City issue less debt. Hence, the parcel tax is not included in the Risk Model.
    - An option for $600 million in debt, which represents the upper end of what the City Council has discussed.
    - An option for $900 million in debt. This is included just for demonstration purposes, so the user can see what a larger amount of debt would do to the model results.
- Debt issued to support more borrowing for the 2050 Vision Plan are assumed to be issued in increments evenly throughout the 30-year analysis period. The user can change this assumption and make the debt issued on any schedule they would like.
- We should not assume that the debt issued to support the City of Berkeley Vision 2050 will be the last debt the City issues for 30 years. Since 2000, the City has tried to gain voters' approval to issue new debt in seven of ten election years. Thus, we must assume that future City Councils will have plans to issue debt to support future projects. The model simulates this under the following assumptions:
    - The City will not try to issue new debt again until 2028. This assumption can be easily changed by the user.
    - For any election year after 2028, there is a 70% chance that the City will try to gain approval to issue new debt. This is based on the fact the City has historically tried in 70% of election years, though this assumption can be adjusted by users.
    - The amount of debt the City attempts to issue in any given election year varies between $13 million and $150 million. This is based on the inflation adjusted amounts the City has tried to issue in the past. The Risk Model adjusts this amount upwards in future years to account for the effects of inflation.
    - The public approves proposed new issues at the same rate it has in the past, including partial approvals.

Assumptions for Future Pension Liabilities

For pension liabilities, we developed a single alternative pension assumption, based on the work of the City's CPA firm. This assumption assumes a negative 1 percentage point adjustment to the discount rate applied to pension investments. So, if the baseline, status quo assumption is 7.15%, then the alternative would be 6.15%. The user can activate or deactivate the alternative assumption on the Risk Model dashboard. If activated, the alternative assumption is applied across all of the thousands of scenarios the risk model produces. If is not activated, it is not applied to any of the scenarios.

The Risk Model also includes an assumption for annual increase in pension liability and the current annual rate of 3.96%. GFOA would like to acknowledge the assistance of Dan Matusiewicz, Senior Finance Consultant, at GovInvest for providing assistance on formulating this assumption, which is based on a 6.8% discount rate and wage growth of 2.5%.

Section 4 – Results of the Analysis and Recommendations

In this section, we will address the finding from our analysis, including recommendations to help the City retain its credit rating.

Let's Put Debt in Context of the Financial Indicators Used to Estimate Debt Affordability

The City's level of debt only impacts the financial indicators that comprise a total of 10% of the Moody's scorecard. Put another way, 90% of the scorecard result is determined by factors other than the City's debt! That means that long-term affordability of the City's debt will be influenced by things like how the City manages its tax base, fund balance, its pensions, and its budget. Exhibit 3.1 provided details on the relative importance of the different factors in the Moody's scorecard. To recap some of the more notable items:

- Pensions are equal to 10% of the scorecard result, or the same as debt.
- Fund balance and cash are equal to 30% or are three times the importance of debt.
- A balanced budget is equal to 10% of the scorecard result.
- Economic factors, like full value and median family income, are equal to 30% of the scorecard result.

According to our re-creation of the Moody's scoring method, today, the City is just short of a score that would be consistent with an Aaa rating. The City's pension liabilities are the main culprit for keeping the City from that score. This conclusion seems consistent with what bond analysts have conveyed to the City: that the City would have an Aaa rating if not for its pension situation. This means that the City has some "distance to fall" in order to get down to an A rating, at least according to the quantified scoring system and the assumptions we described in this report.

All this means that the City's decision to issue debt must be done in the context of the other factors that impact affordability when trying to determine the chance that additional debt will reduce the City's bond rating.

So, to review, the City' strengths are:

- The City's economic base is firmly in Aaa territory and there does not seem to be a plausible risk of it falling out of that tier. The economic base accounts for almost 1/3 of the rating.
- The City's fund balance and cash are firmly in Aaa territory as well. Even though these measures are, by nature, more volatile than the measures of the economic base there seems to be low risk that they would fall completely out of Aaa territory much less all the way down to an A-rating territory (assuming the City maintains a strong reserve policy, as further described in our recommendations). Fund balance and cash measures also constitute almost one-third of the rating.
- The City has also consistently maintained a balanced budget.

And, the City's weaknesses are:

- The City's pensions are in Baa territory currently. Some observers believe there is a case for a lower discount rate to estimate the City's pension liability. A lower discount rate would make the liability to go up substantially. The City's CPA firm produced the calculation for a 1 percentage point reduction and we included it in the Risk Model as an option for the user to activate, if they wish. If this scenario came to fruition, pensions would become an even greater drag on the City. In fact, the Risk Model shows a good chance that pensions reach B territory (the worst rating) well before the end of the 30-year analysis period. Finally, it is worth noting that the Risk Model shows that one of the pension measures in the scorecard (pension liabilities compared to revenues) is at risk of slipping down to a score equivalent to the next lower rating tier (Ba) within in the next five years. As we will discuss more later, a continued downward trajectory on pensions could influence bond ratings analysts to give the City a lower rating.
- Though the City's current indebtedness is not nearly the problem that pensions are, it is not helping the City's bond rating either. Currently, debt measures sit between Aa and A territory.

More debt reduces the City's score on the indicators. We can illustrate with the table below. The table shows the City's scores under different simulations, starting with the City's current score and ending with the City's simulated score at the end of 30 years. The simulation does not produce a single score for the end of 30 years, but rather produces a range of possible scores. For this reason, we show the average, optimistic, and pessimistic outcomes.[7] The table uses assumptions identical to that described earlier in this report and assumes $600 million of new debt in support of the City's programs, including Vision 2050, plus debt issued by future City Councils, as described earlier. We can see that the score at the end of the 30 years is worse than the City's current score under all three perspectives in the table (average, optimistic, pessimistic). The good news is that when we consider just debt, at least the scores do remain broadly consistent with an Aa rating. But, what about if we consider more than just debt? Other factors do enter into the final bond rating of course.

Exhibit 4.1 – Simulated Results on Moody's Scorecard under the Assumptions Described Earlier in the Report

Rating	Score for Each Rating Min	Max	City's Current Score	Average Score at end of 30 years	Optimistic Score at end of 30 years	Pessimistic Score at end of 30 years
Aaa	0.05	1.5				
Aa	1.5	2.5	**1.65**	**2.14**	**2.00**	**2.30**
A	2.5	3.5				
Baa	3.5	4.5				
Ba	4.5	5.5				
B or below	5.5	6.5				

[7] Optimistic and pessimistic are defined as the points at which 5% of the outcomes produced by the model are above or below the point indicated on the table.

To examine the other considerations that go into a rating, Exhibit 4.2 changes the assumptions in the Risk Model to be less favorable for the City, including: a lower discount rate on pensions (1 percentage point) and performance equivalent to an Aa rating for fund balances, cash balances, and operating history (which would be less favorable than the City's recent history would suggest). We can see that the City's scores now deteriorate enough that the pessimistic outcome places the City in the "A" rating equivalent scoring tier. What the table does not show is how the scores change for periods less than 30 years. The Risk Model tells us that the risk of a downgrade is present in the near-term future, not just the long-term future. This is because the City is close enough to the next lower tier of scoring for its debt and pension measures that it is plausible that the City will reach these lower tiers in five to ten years. We'll discuss this more detail in the next section. Over the long-term, the City's strong property tax base (and growth in that base) can balance out some of the nearer-term challenges (assuming the challenges don't also get worse).

Exhibit 4.2 – Simulated Results on Moody's Scorecard under Less Favorable Assumptions

	Score for Each Rating		City's Current Score	Average Score at end of 30 years	Optimistic Score at end of 30 years	Pessimistic Score at end of 30 years
Rating	Min	Max				
Aaa	0.05	1.5				
Aa	1.5	2.5	**1.65**	**2.39**	**2.30**	
A	2.5	3.5				**2.50**
Baa	3.5	4.5				
Ba	4.5	5.5				
B or below	5.5	6.5				

The reader will notice that even on this second table, the scores are certainly not disastrous, by any means: the average score is still within the Aa equivalent tier. That said, we must remember that the final bond rating a municipality receives is not a purely mechanical exercise, where the key financial indicators dictate the bond rating. According to Moody's: "The scorecard is not a calculator. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to begin viewing and comparing local government credits. It therefore acts as a starting point for a more thorough and individualistic analysis." Put another way, the rest of the rating is subject to a human element: the rating analyst. In a real-life scenario characterized by unfavorable performance across the indicators that Moody's looks at we can't discount the possibility that the analyst might decide to "put a thumb on the scale" and raise the chance of a downgrade. For example, perhaps a significant amount of new debt along with further deterioration in the City's pension situation dampens the rating analyst's enthusiasm for the City of Berkeley's debt even more than the Moody's scorecard suggests. Finally, it could be possible that rating agencies could change the weightings of the indicators they consider. GFOA has observed that the measures favored by rating agencies and the relative weight placed on them has evolved over time. It seems unlikely that debt and pensions would come to occupy a less important place in rating considerations given that they currently constitute a relatively small consideration compared to fund balance / cash and tax base. Given that pensions and debt are biggest risk to future debt affordability, we'll examine this risk more in the next subsection.

Finally, the model can address different interest rate environments and property markets. Some observers believe that sustained higher interest rates may result from efforts to combat inflation. This would result in economic stagnation and impact on the housing market. In fact, the Federal Reserve Bank of Dallas recently stated that the property market is showing "signs of a brewing U.S. housing bubble”. The implication is that bubbles pop, with the types of consequences we saw in the 2008. To explore these concerns further, we adjusted the model assumptions to give more weight to a rising interest rate environment and to reduce, by half, the chances of growth in the City’s revenue and property values. Note that the baseline assumptions in the Risk Model **did not** assume uninterrupted growth in property values, but did assume a good chance of a long-term upward trajectory. These new assumptions result in a good chance of long-term stagnation. Under these assumptions, unsurprisingly, the City’s is at significantly greater risk of slipping below an Aa equivalent score. Interestingly, the City’s informal policy of not borrowing at rates above 5% makes a noticeable difference in the high interest rate environment: the City stops borrowing at a certain point and pays back existing debt, which helps its score. The take-away is that unfavorable turns in the economic environment will have a noticeable impact on the financial indicators and increase the risk of a ratings downgrade.

Pension, Debt and the Risk Posed to the City’s Bond Rating

Though pension and debt do not dominate the Moody’s scorecard and are not the most important consideration in bond ratings, they still can influence bond ratings. For example, especially poor performance or notable deterioration from previous performance might capture the attention of the bond ratings analyst. To illustrate, the table below displays results from one of thousands of simulations the Risk Model produced, using the more unfavorable assumptions described in the previous section. We chose to illustrate using the more unfavorable assumptions because it helps make the point we wish to make more clearly. Also, keep in mind this is just one of the thousands of simulations we developed, so it's not intended to show generalizable results (unlike the tables in the last section which summarized results from across the thousands of simulations).

The top set of rows in the table shows the City’s current values for the key financial indicators associated with debt and pension in the Moody’s scorecard. The next set of rows shows the scores the indicators receive under the Moody’s methodology. The scores can range from 1 to 6, where 1 is the best (Aaa equivalent) and 6 is the worst (equivalent to B or below). The final row is the average of all indicators in the Moody’s scorecard, which includes indicators not shown in the rows above (e.g., tax base, fund balance, etc.). Remember that the average is weighted towards the indicators Moody’s deems most important (see Exhibit 3.1).

We see that the City’s current score across all indicators is a 1.65 (bottom left corner), consistent with a strong Aa rating. However, as we move to right and further into the future, we see City’s score on debt and pensions deteriorate (the numbers on the 1 through 6 scale get higher). We can also see the average score move upwards. The movement upwards is not as dramatic because debt and pensions only account for 20% of the total score. The measures that account for the other 80% perform well, often in Aaa territory. Nevertheless, we see that although the City’s score remains consistent with an Aa rating, it has become consistent with a weak Aa (or Aa3 in Moody’s terminology). It should be noted that the cutoff points used in the table to differentiate strong from weak come directly from Moody's documentation.[8] With this in mind, it becomes more understandable why an analyst might decide to downgrade the City to an A rating, if they observe the City's scorecard result fall from a strong to a weak Aa. They might conclude that the possibility of continued decline, for example, merits a lower rating.

Exhibit 4.3 – Example Results from a Simulation the Risk Model Produced

		Years into the Future									
	Now	3	4	5	6	7	8	9	10	11	12
VALUES FOR INDICATORS											
Net Direct Debt / Full Value	1.3%	2.2%	2.3%	2.2%	3.0%	2.9%	2.7%	3.5%	3.8%	3.8%	3.8%
Net Direct Debt / Operating revenues (x)	0.76	1.29	1.34	1.86	1.78	1.69	2.08	2.28	2.20	2.10	2.01
Adjusted Net Pension Liability (3-Year Average) to Full Value (%)	8.7%	13.7%	13.7%	13.8%	14.0%	14.1%	14.7%	15.2%	16.4%	17.7%	18.8%
Adjusted Net Pension Liability (3-Year Average) to Revenues (x)	5.24	7.73	8.26	8.49	8.72	8.90	8.80	9.17	9.44	9.67	9.93
SCORE FOR DEBT & PENSION INDICATORS (1 THRU 6 SCALE)											
Net Direct Debt / Full Value	2	3	3	3	3	3	3	3	3	3	3
Net Direct Debt / Operating revenues (x)	3	3	3	3	3	3	3	3	3	3	3
Adjusted Net Pension Liability (3-Year Average) to Full Value (%)	4	5	5	5	5	5	5	5	5	5	6
Adjusted Net Pension Liability (3-Year Average) to Revenues (x)	4	5	5	6	6	6	6	6	6	6	6
SCORE FOR TOTAL OF ALL INDICATORS (1 THRU 6 SCALE)	1.65	2.2	2.2	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.3
	^	^	^	^	^	^	^	^	^	^	^
	Strong Aa	Weak Aa	Weak Aa	Weak Aa	Weak Aa	Weak Aa	Weak Aa	Weak Aa	Weak Aa	Weak Aa	Weak Aa

Finally, the Risk Model can be used to explore different weightings on financial indicators. For instance, we could give greater weight to pensions and debt and less to cash and fund balances (perhaps because cash and fund balance measures are very similar, so weighting both heavily in the analysis could be seen as "double counting"). This feature of the Risk Model could be used to mimic how a ratings analyst might decide to weigh the indicators differently than Moody's standard documentation suggests. Unsurprisingly, weighting debt and pensions more puts downward pressure on the City's scores.

Develop and Maintain Strong Financial Policies

Financial policies can help the City maintain its good bond rating. An example is the City's General Fund Reserve Policy. GFOA's review of the City's policy finds that it includes all the critical features of a good policy and calls for a reserve equal to Moody's Aaa equivalent threshold. That said, it is important to recall that Moody's looks across all "operating funds", which includes more than the General Fund. **Hence, there could be an argument for defining reserve policies for other critical operating funds.**

The City also has a debt policy. The policy has many of the features of a good policy, but there may be some opportunities for improvement. Particularly salient to our discussion of bond ratings is debt affordability. The City's debt policy notes that "the City is subject to debt capacity limit for its general obligation bonds: 15% of assessed value." This amount of debt would be equivalent to the second lowest rating, Ba, under Moody's scoring. **Hence, there may be a case for defining a more locally appropriate debt affordability policy.** For example, even under the most aggressive assumptions of how much debt the City might issue, the Risk Model did not show that there was a high chance that debt issued in support of the Vison 2050 would bring the City's scorecard result below an "A" equivalent score on the measure

[8] Note that Moody's doesn't use the terms "strong" and "weak", but rather a numeric code. We elected to use the more descriptive terms of "strong" and "weak" in order to make the table more understandable.

comparing debt to property value of the tax base. The A rating is defined as debt equal to between 1.75% and 4% of property value. This might be a good starting point for defining a locally affordable limit. The City could “stress test” affordability by simulating larger issues to see how much pressure is placed on the scorecard result by increasing the amount of debt. It could be that the City’s strong tax base and fund balance / cash practices would make it practical to incur debt beyond 4% of property value without putting the score at too much risk, but perhaps 15% is still too much. Of course, we must remind ourselves that bond ratings consider only the interest of the City’s creditors. Just because creditors are willing to lend does not mean the City should borrow. More debt also places more of a burden on taxpayers. Taxpayer burden should be analyzed as part of developing a debt affordability policy. We’ll discuss this more in one of our other recommendations, later in this report.

Another opportunity for improvement of the City’s debt policy might be to define interest rate ceilings for issuing debt. GFOA understands that the City has an informal policy that considers “5%” the interest rate ceiling beyond which the City will not issue debt. Formalizing this policy, or something like it, could help make a positive impression on rating analysts. The GFOA Risk Model can be used to help the City stress test different policy choices because the user can customize the interest rate ceiling the Risk Model uses and adjust assumed behavior of the interest rate environment.

Finally, **a structurally balanced budget policy could be helpful**. The City has a good history of running budget surpluses. A municipal government is subject to legislative requirements to pass a balanced budget. However, the definition of a balanced budget is just that inflows equal outflows for the year and says nothing about the long-term sustainability of how the budget is balanced. For example, according to the law, an asset could be sold to pay for the compensation of permanent City staff positions. An asset is a one-time revenue while staff compensation is a recurring expenditure, so this strategy would not be advisable even if it is legal. A structurally balanced budget policy commits a local government to adopting a budget that is balanced using sustainable strategies. GFOA is happy to provide the City with templates for such a policy, if the City is interested in pursuing it. This kind of policy would support both a strong score in the “operating history” and, perhaps, the “institutional framework” measures in the Moody’s system. For example, Moody’s recognizes “unusually strong budget management and planning” as a “notching factor” that could justify a higher score for a municipality than the ratios in the scorecard might suggest. A structurally balanced budget policy could be an illustration strong budget management and planning.

Manage the Risk Posed by Pensions

As we've discussed, pensions are the Achilles' heel of the City's bond rating. The City has been considering strategies to manage its pension risk and has established an irrevocable supplemental (Section 115) pension trust. This could help support a good bond rating. This is supported by conversations the City's Finance Director has had with bond rating agencies: the City's current pension challenges has kept it from achieving an Aaa rating and continued deterioration in pension position could even lead to the City slipping to an A or a lower rating.

Support a Strong Tax Base

If pensions are the City's Achilles heel, then its aegis is its tax base. Not only is the tax base directly responsible for 30% of the City's score on the Moody's scorecard, it directly impacts other measures as well. For example, the Moody's scorecard method compares debt and pensions to the full value of taxable property in the City. Of course, the tax base also determines how much revenue the City can raise, which influences fund balances and the City's ability to balance its budget. Therefore, the City should take active steps to preserve and to enhance its tax base. GFOA has found that there are unrealized opportunities for municipal governments to better reflect the financial interests of municipal government in land use planning. After all, land use planning will have an important influence on how the tax base develops and how the tax base develops will have an important impact on the quality of life in Berkeley (like the City's ability to invest in infrastructure!). The City can learn more about GFOA's findings and recommendations for how to make the connection between land use planning and city finances in this report **[Note to reader: as of the date the City of Berkeley's report was posted the GFOA report on the intersection between land use planning and municipal finances has not be released to the public. It will be available soon]**.

Develop and Maintain Measures of Tax Burden

General Obligation (GO) debt is paid for by a special tax levy. Therefore, more GO debt does not place a direct pressure on the City's budget. It does, however, place burden on the City's taxpayers. Voters approve the City's ability to authorize debt. In that way, voters are speaking as to whether debt is affordable to them or not. However, voters are unlikely to have a perfect understanding of the long-term implications of debt for their tax burden. In the past, the City has developed measures that show the average tax burden for a City of Berkeley homeowner. It may be wise to develop the ongoing capacity to monitor and project tax burden, especially if the City plans to continue making use of GO bonds and tax measures. The scope of the GFOA Risk Model covers only City government finances, but the Risk Model does provide much of the information that the City would need to examine the tax burden placed on residents and businesses by future debt. For example, it gives the full range of principal and interest that would need to be covered by taxes every year of the 30-year analysis period. It also provides range of the potential size of the tax base.

Be Strategic about Debt Issuance

The City already has $117 million in previously authorized debt that it plans to issue in the next few years. This is included in the Risk Model and in the information we've presented in this report. What the risk model doesn't capture is the City staff's capacity to manage the debt issuance and, critically, to manage the projects that the debt is intended to finance. Prioritizing projects to make sure the City doesn't take on more than it can handle will not only make the best use of limited staff capacity it will help limit the total amount of debt the City takes on. The City has old debt that will gradually be paid down in the coming years. There is some opportunity to moderate the increase in the City's total debt burden by timing the issuance of new debt with expiration of old debt. That said, we must recognize that the amounts of new debt being contemplated do significantly exceed the amount by which old debt will decrease in the next number of years. So, a total increase in the City's debt burden would be inevitable under the assumption that there $117 million would be issued along with some significant additional amount to support other projects including the Vision 2050 project.

Section 5 – Conclusion and Summary

In conclusion, the City's performance on the key financial indicators used in the Moody's scorecard appears to be robust under a variety of circumstances. That said, the final bond rating the City receives is not purely a function of these indicators. Human judgment, applied by bond ratings analysts, determine the final score. Their judgment could be swayed, negatively, by the risks posed by debt and pensions, which we described earlier in this report. We have outlined a number of opportunities for the City to take proactive measures to preserve and protect its bond rating and, thus, its capacity to borrow at favorable interest rates.

To conclude, let's recap the key take-aways from this report.

- The City has important strengths that bolster its ability to borrow, including a strong tax base, fund balances, and a history of balanced budgets. That said, the City's current policy identifies a limit on borrowing equal to 15% of assessed value. Borrowing this much would place the City at the equivalent of a Ba score or the second lowest score for the key financial indicator of debt compared to the value of property in the City. That would, of course, exert strong downward pressure on the City's bond rating. The City should develop a more locally appropriate debt limit, rather than relying on statutory limits (which are set without regard to local context). For example, debt equal to 4% of property value would still provide room for the City to issue more debt (the City is currently at less than 2%), while keeping that measure with the scoring tier equivalent to an A rating. The GFOA Risk Model can be used to "stress test" different policies.
- An unfavorable turn in the economic environment could impact the City's bond rating. The Risk Model can be used to simulate high interest rate environments and stagnant (or even declining) housing markets. Unsurprisingly, these conditions increase the chances that the key financial indicators we analyzed will slip into territory associated with a lower bond rating. This is important because some observers believe that a higher interest rate environment and stagnant or declining property market are real possibilities.
- Growth in the City's tax base supports borrowing and repayment of debt. Hence, the City should consider how it can use the City's land use planning capabilities to support the financial capacity of City government. Land use planning could be used to improve the revenue productivity of the land uses in the City's jurisdiction.
- The City's pension liabilities are a drag on the City and its capacity to borrow. Pensions are clearly the weak spot in the City's bond rating given how the pensions stand today. Some observers believe that the current discount rates assumed for the pensions' investments may be too optimistic. Lower discount rates would increase the size of the liability even further. This emphasizes the need for the City to find ways to manage its pension debt.
- The City can adopt certain financial policies to maintain good management practices. This will help make a positive impression on bond rating analysts. It is important to remember that even though our Risk Models shows the City is likely to perform consistently with an Aa rating in most scenarios: A) in many scenarios the City's position deteriorates from strong Aa to a weak Aa; and B) ratings are ultimately the product of the judgment of the bond ratings analyst. An analyst's

enthusiasm for the City's debt might dampened enough by this deterioration that the analyst decides on a ratings downgrade for the City.

- Though our analysis focused on the direct impact of debt on the finances of City government, the City should also be mindful of the burden on taxpayers. The Risk Model provides much of the information the City would need to estimate burdens on taxpayers under different scenarios.
- The City already has $117 million in previously authorized debt that it plans it issue in the next few years. Given the City's interest in issuing more debt to support the Vision 2050 and other programs, the City should remain mindful of the City staff's capacity to manage new debt issuance and, critically, to manage the projects that the debt is intended to finance. Prioritizing projects to make sure the City doesn't take on more than it can handle will not only make the best use of limited staff capacity, it will help limit the total amount of debt the City takes on.
- By following a prudent borrowing strategy, managing pensions, and following other recommendations in this report the City should have a good chance of making a positive impression on bond ratings analysts and maintaining its ratings, all while preserving some additional capacity for the City to borrow.

Appendix 1 – Limitations of GFOA's Analysis

This section highlights the most important limitations of our analysis.

Our analysis is not predictive. GFOA does not forecast bond ratings. Rather, our model generates hundreds or even thousands of different scenarios to show how the future could unfold. This helps the City think more broadly about risk so that it can be more prepared for whatever future event does eventually come to pass. Finally, it is important to note that low probability events are still possible events. Hence, even if our model says an event has a low probability, then that does not mean it won't occur.

GFOA is not a risk management consultant. We worked with the City to find out which risks to bond ratings are most salient and then modeled those risks quantitatively to judge the potential impact. It is not our place to determine what the City's attitude towards risk should be or to substitute GFOA's attitude towards risk for the City's. GFOA builds models to help you explore the questions, but ultimately you have to make the decisions.

Our analysis is based on historical records. Historical data is often a good way to model potential future outcomes. However, historical data will not be perfect.

Our analysis is not inclusive of every risk the City could possibly face. We examined the City's past history and worked with City staff to identify the risks that posed the most clear and present danger to the City's bond rating. However, it is possible that the City could experience a shock that no one was expecting or that the City could be impacted by a low probability, but high consequence event.

The calculation of the key indicators is subject to some interpretation. Though Moody's does produce detailed documentation of their methods, there is still some interpretation required. For example, the measure of fund balance is supposed to include all "operating funds". It is ultimately up to the analyst to decide which funds are operating funds and which aren't. It could be that GFOA would have a different interpretation than Moody's. That said, given that our Risk Model did duplicate the City's current score, our interpretation should at least be close.

Good decisions do not always lead to good outcomes. Excel simulation tools can enhances one's perception and understanding of uncertainty and risk.[9] However, when dealing with uncertainty, even the best decision may not lead to a good outcome, if luck goes against you.[10]

[9] "To survive in an increasingly unpredictable world, we need to train our brains to embrace uncertainty," Emre Soyer, Quartz Magazine, January 9, 2017 https://qz.com/879162/to-survive-in-an-increasingly-unpredictable-world-we-need-to-train-our-brains-to-embrace-uncertainty/.

[10] This is one of the primary lessons in: Annie Duke. *Thinking in Bets: Making Smarter Decisions When You Don't Have All the Facts*. Portfolio. 2019.