



Office of the City Manager

Date: June 23, 2020
To: Honorable Mayor and Members of the City Council
From: Dee Williams-Ridley, City Manager
Submitted by: Henry Oyekanmi, Director, Finance
Subject: FY 2020 - 2024 Revenue Projections

In response to City Council request, the Finance Department has prepared an updated projection of FY 2020 General Fund revenues, based on actual cash receipts through May 31 (11 months operations for FY20) and estimates for what will be collected in the final month of the fiscal year (June).

After discussions with the Mayor and Council Members about the impacts of potential shortfalls, the Finance Department took efforts to maximize the collection of taxes and fees owed to the City. We did this, in part, by refocusing our tax audit operations on businesses that likely had sufficient resources but may have had administrative disruptions preventing timely payment of amounts due. We also instituted a deferment programs for local taxes such as Transient Occupancy (Hotel) Taxes and Business License Taxes, to encourage partial payments where possible, while allowing a delay of full payment for businesses seriously affected by the COVID-19 pandemic.

The Finance Department is also in discussions with Alameda County for a reduction in the amount of Property Tax remittance to the City being withheld due to concerns regarding payment by City property owners. The County has been withholding an additional 5% (on top of their normal reserve) from all municipalities. As the collection rate from Berkeley property owners has historically been consistently higher than the County average, we believe this additional withholding to be excessive.

Fortunately, some of our biggest concerns about remittances by our largest customers have not materialized. Berkeley businesses have been extremely helpful, and have proved themselves loyal corporate citizens. Many have worked with our staff to make timely payments and, in some cases, withdraw deferment requests when they determined they no longer needed them.

Thanks to this, and to the efforts of the Finance staff in the Revenue Collections and Revenue Development divisions, we can now project that FY 2020 General Fund revenue will exceed the original adopted budget by over \$9 million. For context, please be aware that these taxes generated in FY 2020 were almost completely the result of economic activity that occurred before the COVID-19 pandemic and associated restrictions. The overall economy before the onset of COVID-19 was performing extremely well, the labor

market was strong and the GDP was on pace to grow over 2% for the current four quarters. The Federal Reserve's concern at that time was inflationary pressure from the growth being generated.

The City still faces significant fiscal pressure in the coming years due to depressed local economic activity, business closures, heightened unemployment and the effects of UC Berkeley's reopening plans. The additional FY20 resources will help reduce the impact on City services and City's overall fiscal health.

General Fund Revenues FY 2020 and 2021

HISTORICAL AND PROJECTED GENERAL FUND REVENUES

					Projected General Fund Revenue FY 2020 through FY 2024								
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	20 YTD MAY	FY 2020 Rev	Chg	%	FY 2021	FY 2021 Rev	Chg	%
Undesignated Revenues													
Secured Property Taxes	48,046,765	51,474,746	56,038,218	59,178,773	63,199,622	56,842,496	58,842,496	(4,357,126)	-7%	65,417,599	58,875,839	(6,541,760)	-10%
Supplemental Taxes	1,469,993	1,874,630	2,237,649	2,174,903	1,400,000	2,251,615	2,308,127	908,127	65%	1,400,000	1,260,000	(140,000)	-10%
Unsecured Property Taxes	2,661,235	2,568,891	2,687,198	2,878,275	2,500,000	3,176,443	3,189,177	689,177	28%	2,500,000	2,250,000	(250,000)	-10%
Property Transfer Taxes	17,452,190	17,151,793	18,911,368	19,952,981	12,500,000	12,500,000	12,500,000	0	0%	12,500,000	12,500,000	0	0%
Property Transfer Tax - Measure P				2,932,313	1,509,218	9,213,238	9,363,238	7,854,020	520%	2,716,796	4,747,414	2,030,618	75%
Sales Taxes	15,944,001	20,105,287	17,435,591	18,663,550	18,238,000	16,376,384	16,576,384	(1,661,616)	-9%	18,572,000	15,786,200	(2,785,800)	-15%
Soda Tax	1,712,892	1,550,222	1,457,003	1,547,349	1,459,057	1,253,490	1,303,490	(155,567)	-11%	1,429,876	970,794	(459,082)	-32%
Utility Users Taxes	14,211,318	15,109,305	14,828,120	13,973,744	15,000,000	12,501,882	12,874,576	(2,125,424)	-14%	15,000,000	12,750,000	(2,250,000)	-15%
Transient Occupancy Taxes(TOT)	7,813,366	7,810,884	7,807,273	7,995,188	7,800,000	5,980,662	6,000,000	(1,800,000)	-23%	7,800,000	5,070,000	(2,730,000)	-35%
Short-term Rentals			911,015	1,830,983	1,020,000	1,278,390	1,281,390	261,390	26%	1,040,400	676,260	(364,140)	-35%
Business License Taxes	18,089,403	18,829,739	19,878,912	19,848,803	19,584,000	20,623,080	20,923,080	1,339,080	7%	19,975,680	12,984,192	(6,991,488)	-35%
Recreational Cannabis				1,168,794	510,000	1,249,831	1,299,831	789,831	155%	520,200	1,300,000	779,800	150%
Measure U1			5,161,615	5,828,443	1,000,000	5,589,971	5,644,971	4,644,971	464%	1,000,000	2,700,000	1,700,000	170%
Other Taxes				2,278,496	1,785,000	1,924,663	1,934,663	149,663	8%	1,820,700	1,456,560	(364,140)	-20%
Vehicle In Lieu Taxes	10,308,802	10,994,452	11,822,917	12,540,784	13,333,826	13,356,044	13,356,044	22,218	0%	13,801,774	12,421,597	(1,380,177)	-10%
Parking Fines - Regular Collections	6,134,785	6,120,474	6,608,001	6,002,211	6,600,000	3,747,153	3,747,153	(2,852,847)	-43%	6,600,000	5,049,000	(1,551,000)	-24%
Parking Fines - Booting Collections				211,913	200,000	8,685	8,685	(191,315)	-96%	190,000	0	(190,000)	-100%
Moving Violations	252,752	232,523	188,443	177,824	190,000	194,888	196,812	6,812	4%	190,000	190,000	0	0%
Ambulance Fees	4,102,074	4,183,673	4,343,453	4,424,808	4,200,000	4,441,068	4,482,762	282,762	7%	4,200,000	5,103,208	903,208	22%
Interest Income	2,465,654	2,385,492	3,636,989	4,334,404	3,500,000	6,032,463	6,387,463	2,887,463	82%	3,500,000	2,800,000	(700,000)	-20%
Franchise Fees	1,916,975	1,988,589	2,009,931	1,821,316	2,068,928	1,839,101	1,844,101	(224,827)	-11%	2,110,307	1,551,696	(558,610)	-26%
Other Revenues	10,544,787	9,414,370	10,736,326	8,116,908	8,044,544	7,302,507	7,352,507	(692,037)	-9%	8,784,991	7,027,993	(1,756,998)	-20%
Indirect cost reimbursements	4,298,457	4,855,213	6,149,619	5,223,725	6,100,000	4,830,042	5,450,042	(649,958)	-11%	6,100,000	5,490,000	(610,000)	-10%
Transfers	4,515,979	4,562,675	5,792,575	5,356,132	5,266,688	5,165,915	5,385,915	119,227	2%	4,562,675	4,106,408	(456,268)	-10%
Total Undesignated Revenues	171,941,428	181,212,958	198,642,216	208,462,620	197,008,884	197,680,011	202,252,907	5,244,023	2.7%	201,732,998	177,067,160	(24,665,838)	-12%
Designated Revenues													
Prop. Transfer Taxes for capital improvements					4,500,000	8,564,668	9,064,668	4,564,668	0%	4,500,000	3,928,465	(571,535)	-13%
Total Designated Revenues					4,500,000	8,564,668	9,064,668	4,564,668	0%	4,500,000	3,928,465	(571,535)	-13%
TOTAL REVENUES AND TRANSFERS	171,941,428	181,212,958	198,642,216	208,462,620	201,508,884	206,244,679	211,317,575	9,808,692	4.9%	206,232,998	180,995,625	(25,237,373)	-12%

1. Secured Property Taxes- Assumes an additional 10% of uncollectable amounts due (on top of 5% previous reserve) for FY 2020 and FY 2021, due to concerns over property owner's ability to remit. FY 2021 valuations assumed to increase by 3.5%, resulting in a net change of 6.5% from FY 2020 to FY 2021.
2. Supplemental Taxes- Historical revenues have been flat for several years, and were expected to remain so.
3. Unsecured Property Taxes- FY 2021 expected to drop back to the original \$2.5M, less a 10% reserve for uncollectable accounts.
4. Property Transfer Taxes- FY 2020 based on actual collected amount through May 2020, plus an additional \$0.5M expected during the final month. The baseline \$12.5M is projected to be realized in FY 2021, while the excess will only be approximately \$3.9M. Very volatile revenue stream.
5. Property Transfer Tax - Measure P- included \$1.6M from multiple exceptionally high-value property sales in FY 2020. FY 2021 assumption is for a marginal growth in this revenue.
6. Sales Taxes- Projections based on economic activity of the city's various business categories. FY 2020 was lowered 10% based on shelter-in-place closures and CDTFA deferral program. For FY 2021 -15% due to shelter-in-place reductions in business activity in Q1 (three-month lag in remittances), and possible lingering economic effects through the remainder of FY 2021.
7. Soda Taxes- This revenue source was always expected to decline. Revised 2020 down 10% and 2021 down 30% due to shelter-in-place closings and the fact that the main consumers (students) are gone due to school and university campus closures.
8. Utility Users Tax- Due to commercial customers reduction in utility usage, FY 2020 projected to be down by 14%. Expect FY 2021 to be down 15% due to continued closures, possible permanent business closures and declines in energy usage.
9. Transient Occupancy Taxes- FY 2020 based on actuals as of May 2020, plus an additional nominal amount in the final month, due to travel restrictions associated with COVID-19. FY 2021 reduced by 35% due to potentially deteriorating economic conditions, event cancellations, and consumer concern regarding the safety of travel.
10. Short-term Rentals- FY 2020 actuals were trending more than 150% of original projection, but sharp decline predicted in final quarter due to COVID-19 movement restrictions. FY 2021 revised to 30% below 19/20 average due to expectation of depressed demand.
11. Business License Taxes (excluding Cannabis Recreational and U1 (Landlord Enhanced))- FY 2020 projection revised based on actuals received through May 2020, plus an additional \$0.3M in expected collections. FY 2021 revised to drop 35% from original projections due to temporarily or permanently closed businesses, resulting from COVID-19.
12. Business License Taxes- Cannabis Recreational- Assumes a 2% annual growth rate.
13. Enhanced Business License Taxes (Measure U1)- FY 2020 vastly outpaced original projections. For FY 2021, project 25% decrease due to general economic decline, inability of tenants to pay rent, and potential for UC closure to affect off-campus housing demand.
14. Vehicle In Lieu Taxes- Based on real property valuations. Assumes an additional 10% of uncollectable amounts due (on top of 5% previous reserve) for FY 2021, due to concerns over property owners ability to remit. FY 2021 valuations assumed to increase by 3.5%, resulting in a net change of 6.5% from FY 2020 to FY 2021.
15. Parking Fines- Ticket writing has been decreasing for many years. Revised FY 2020 reduced by 80% of remaining unrealized budgeted revenue amount as of the end of April 2020 (annualized decrease of 43%), due to decreased auto usage. FY 2021 revised to -25% from 2020 original projection.
16. Ambulance Fees- Fire Department expect increased services in FY 2020 and FY 2021.
17. Interest Income- Fed continues to lower interest rates. Revised 2020 projection based on higher actuals through May 2020. 2021 revised down 10% because of continued lowering of rates, combined with City's hesitancy to buy longer-term investments, due to uncertainty regarding liquidity needs in addressing COVID-19.
18. Franchise Fees- Initial projections of 2% annual growth revised down 11% for FY 2020, and 26% for FY 2021, due to decreased commercial usage.
19. Indirect Cost Reimbursements- Reimbursement increases result from increases in the indirect cost allocation base (i.e., total direct salaries and wages in the fund), an increase in the indirect cost rate or both. Revised FY 2020 down 11% and FY 2021 down 10%.

Property Taxes

We had previously decreased our expected revenue by 10% in FY 2020 and FY 2021 to account for anticipated additional uncollectable amounts due from property owners. As we now expect that Alameda County's increased reserve for non-collectable accounts (applied countywide) is too conservative for Berkeley specifically, we now project final annual revenue to be only 7% less than originally budgeted. We continue to assume a 3.5% increase in property valuations, as we do not expect impacts to valuations in the near term. Staff will closely monitor all economic activities that drive this revenue stream, including reports from the County when available and make adjustments as necessary.

Sales Taxes

Sales Taxes are collected by the State, and remitted to the City one quarter in arrears. Sales Tax revenue was stronger than expected in April, indicating little impact thus far from a deferral program from the California Department of Tax and Fee Administration (CDTFA). We have adjusted our full year projection for FY 2020 to be down 9% (instead of down 15%) from the original budgeted amount, due to the expected impact on retail sales from business closures. We maintain our projections for FY 2021 to be down 15% from the originally budgeted amount, based on estimates of activity in the City's business categories. While most of the impact of the closures will affect FY 2021 due to the 3-month lag in remittances to the City, businesses taking advantage of the deferral program could shift some remaining FY 2020 revenues into FY 2021. This revenue stream will be monitored closely on a quarterly basis as remittances are received and projection assumptions changes.

Business License Tax

Business License Tax is due in February each year, based on the gross receipts from the previous calendar year. Consequently, most of this revenue is recorded in the third quarter of the fiscal year. Some amounts, however, are received later due to late payments. April and May receipts were stronger than expected, at \$3.5M and \$1.4M for the months, respectively, with fewer businesses than expected deferring or failing to pay amounts due. These remittances were based entirely on pre-COVID-19 sales by these businesses, however. We continue to project that mandated closures and the broader economy will affect FY 2021 revenues significantly and all assumptions will be reviewed regularly and adjustments made appropriately.

Transient Occupancy Tax

Transient Occupancy Tax receipts fell dramatically, as expected, with only \$0.3M collected in April and May. We maintain our full-year projection of \$6.0M for FY 2020, due to COVID-19 travel restrictions. This is \$1.8M less than we originally anticipated for this fiscal year. For FY 2021, due to potentially deteriorating economic conditions, event cancellations, and consumer concern regarding the safety of travel, TOT revenues are projected to reduce by 35% from pre-COVID-19 estimates. These estimates will be augmented as we receive projections from the Hotels about their occupancy and revenue expectations.

Utility Users Tax

Utility Users Tax is paid by residential and commercial customers, based on their usage of several categories of utilities. Roughly 70% of the UUT revenue is generated from utility usage by commercial and industrial customers, and we project an 50% decline in this

portion for the duration of FY 2020, due to mandated closures of businesses. This amounts to a 9% annualized reduction in overall UUT revenue. As any recovery in usage will be gradual, we are projecting a 15% reduction from previous estimates in FY 2021.

Long-Term Projections

PROJECTED GENERAL FUND REVENUES, 2020-2024

	FY 2020 Rev	FY 2021 Rev	FY 2022	FY 2023	FY 2024
Undesignated Revenues					
Secured Property Taxes	58,842,496	58,875,839	60,053,356	61,254,423	62,479,511
Supplemental Taxes	2,308,127	1,260,000	1,285,200	1,310,904	1,337,122
Unsecured Property Taxes	3,189,177	2,250,000	2,295,000	2,340,900	2,387,718
Property Transfer Taxes	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000
Property Transfer Tax - Measure P	9,363,238	4,747,414	3,000,000	3,060,000	3,121,200
Sales Taxes	16,576,384	15,786,200	16,101,924	16,423,962	16,752,442
Soda Tax	1,303,490	970,794	1,401,278	1,373,252	1,345,787
Utility Users Taxes	12,874,576	12,750,000	13,005,000	13,265,100	13,530,402
Transient Occupancy Taxes(TOT)	6,000,000	5,070,000	4,968,600	5,067,972	5,169,331
Short-term Rentals	1,281,390	676,260	662,735	675,989	689,509
Business License Taxes	20,923,080	12,984,192	13,243,876	13,508,753	13,778,928
Recreational Cannabis	1,299,831	1,300,000	1,326,000	1,352,520	1,379,570
Measure U1	5,644,971	2,700,000	2,754,000	2,809,080	2,865,262
Other Taxes	1,934,663	1,456,560	1,427,429	1,398,880	1,370,903
Vehicle In Lieu Taxes	13,356,044	12,421,597	12,670,029	12,923,429	13,181,898
Parking Fines - Regular Collections	3,747,153	5,049,000	4,948,020	4,849,060	4,752,078
Parking Fines - Booting Collections	8,685	0	90,000	100,000	102,000
Moving Violations	196,812	190,000	170,000	173,400	176,868
Ambulance Fees	4,482,762	5,103,208	4,200,000	4,200,000	4,200,000
Interest Income	6,387,463	2,800,000	2,600,000	2,500,000	2,500,000
Franchise Fees	1,844,101	1,551,696	1,520,662	1,490,249	1,460,444
Other Revenues	7,352,507	7,027,993	6,676,593	6,476,295	6,346,769
Indirect cost reimbursements	5,450,042	5,490,000	5,200,000	5,304,000	5,410,080
Transfers	5,385,915	4,106,408	4,188,536	4,272,306	4,357,752
Total Undesignated Revenues	202,252,907	177,067,160	176,288,237	178,630,476	181,195,576
Designated Revenues					
Prop. Transfer Taxes for capital imp	9,064,668	3,928,465	3,000,000	3,060,000	3,121,200
Total Designated Revenues	9,064,668	3,928,465	3,000,000	3,060,000	3,121,200
TOTAL REVENUES AND TRANSFERS	211,317,575	180,995,625	179,288,237	181,690,476	184,316,776

Property Taxes

Considering the extended impact of the current crisis on overall economic growth, and the expected slow pace of the subsequent recovery, we have lowered our forecasted increases in Property Tax revenue for FY 2022 to FY 2024 from 3.5% per year to 2.0%, calculated from the lowered expected FY 2021 baseline.

Sales Taxes

Due to the expected extreme impact on FY 2021, we are revising our expected growth in Sales Taxes to 2% from 1% for FY 2022 to FY 2024. While this still amounts to significant reductions in the total revenue expected in these years from previous estimates, we are including some recovery in these years, in addition to nominal year-over-year growth rate.

Business License Taxes

We expect 2% growth in Business License Tax revenue in FY 2022 to FY 2024 from the heavily impacted revised estimates for FY 2021.

Transient Occupancy Tax

With recovery of business at the City's hotels expected to lag behind general economic recovery, we expect a further decline in Hotel Tax revenues of 2% in FY 2022, and then for those revenues to turn upward, increasing by 2% in FY 2023 and FY 2024.

Utility Users Tax

We expect 2% annual growth in UUT for FY 2022 through FY 2024, from revised FY 2021 estimates.

Transfer Tax

Due to potential impact on sales transactions and decreased valuations of transferred properties, we expect overall base transfer tax (including amounts available to transfer to capital improvement projects) to be reduced to \$15.5M in FY 2022, and then grow 2% annually in FY 2023 and FY 2024. Similarly, we expect Measure P revenues to go down to \$3.0M in FY 2022, and then increase by the same 2% factor in FY 2023 and FY 2024.

Conclusion

It is clear that the COVID-19 emergency will have significant impacts on City revenues both in FY20 and FY 21. The impacts in fiscal year 2020 is being mitigated in large part by the economic activities that already happened before the emergence of COVID-19. It is certain that those impacts will outlast the current restrictions related to the shelter-in-place orders issued by local health authorities. Based on our analysis of payments received to date and current economic conditions, as well as current economic forecasts, we have provided General Fund revenue projections to enable this committee and Council to make appropriate decisions in the current fiscal climate. However, the economic situation is in constant flux. Predictions about the future are changing as the balance between public safety and restoring economic activity is managed by local, state, and national policymakers. We will continue to revise our assumptions as we get more current information so that the committee can have the most up to date information for its deliberations.