FY26 Proposed Mid-Biennial Budget Update

City Council

20 May 2025

AGENDA

1. Situational Overview
2. Citywide All Funds Summary
3. General Fund Summary
4. Budget Balancing Options
5. Other Fiscal Challenges and Funding Needs
6. Next Steps and Timeline

SITUATIONAL OVERVIEW

Reliance on one-time resources / actions

- Vacancies (hiring freeze, salary savings)
- Project deferrals
- Use of fund balance and/or reserves
- Federal resources deployed ($66M in ARPA)

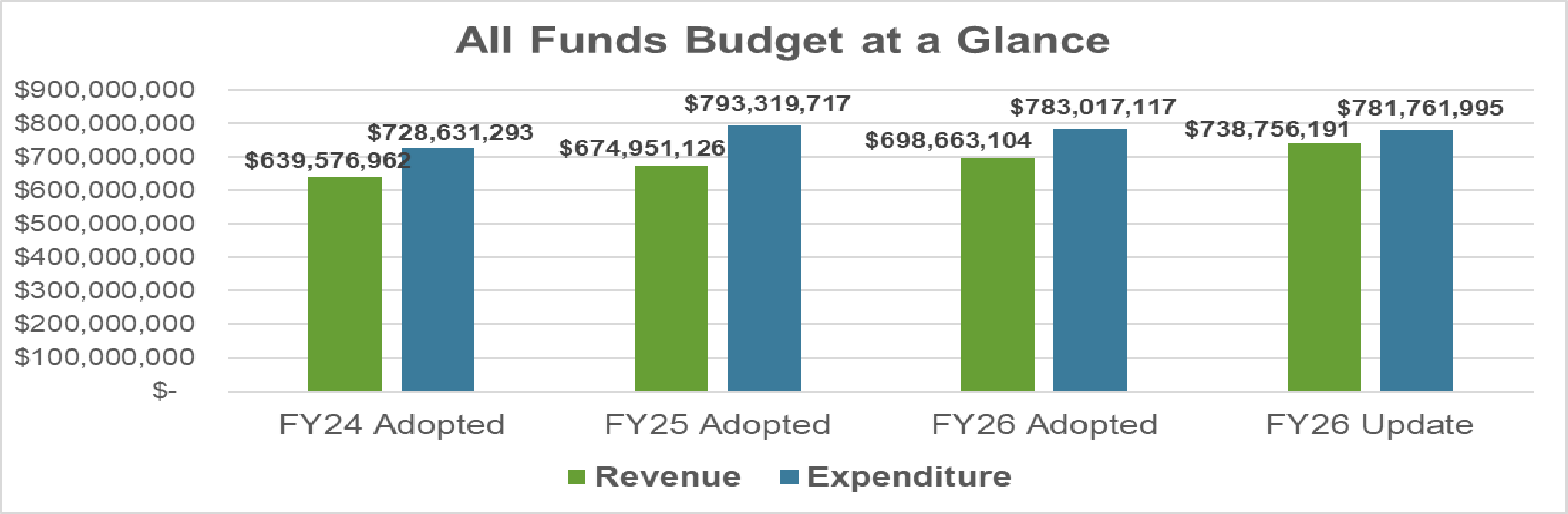
Resource Constraints

- Available resources **<** Need

Federal and economic uncertainty

- Status of federal grants?
- Increased costs and supply and demand issues?
- Probability of a recession?

FY26 CITYWIDE BUDGET SUMMARY



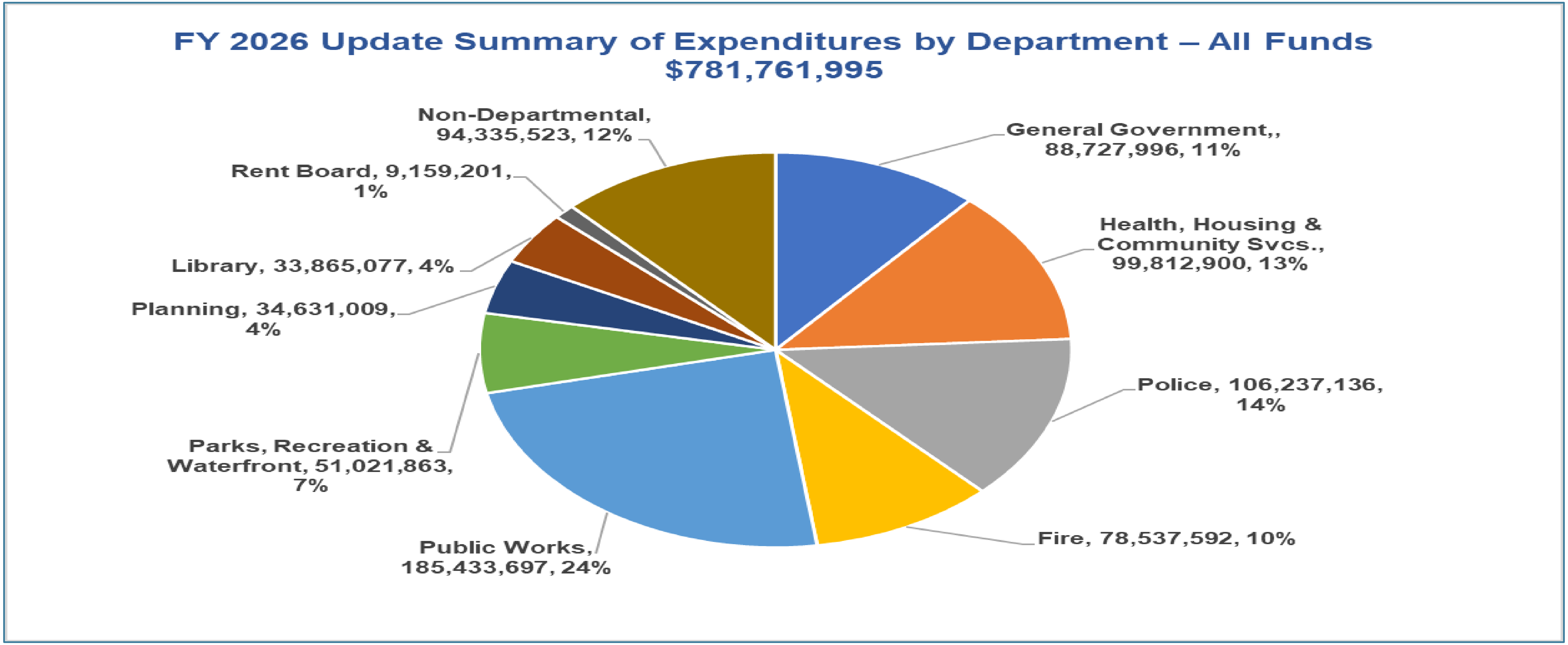
- **Revenue growth of $40M, or 6%, in FY26 Update over Adopted reflects $7M in General Fund revenue including vacancy tax, special revenue funds inflationary increase as well as new Measure FF (Streets) funding approved by the voters in November 2024.**
- **Expenditures reflect increase primarily in personnel costs with adoption of labor MOUS.**
- **Fund balance (prior years' savings) will be used by most funds to offset expenses.**

FY26 ALL FUNDS SUMMARY BY DEPARTMENT

	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Adopted	FY 2026 Adopted	FY 2026 Update
Mayor and Council	3,334,706	3,943,449	4,203,792	5,929,940	5,975,686	7,936,134
City Auditor	2,691,656	2,711,752	3,157,444	3,759,532	3,838,168	3,934,495
Rent Stabilization Board	5,803,126	6,784,836	7,028,903	8,489,208	8,597,595	9,159,201
Police Accountability (a)	808,594	909,307	1,210,483	1,484,847	1,524,120	1,522,348
City Manager's Office	18,417,010	19,826,926	22,096,549	18,116,987	18,383,457	18,949,471
Berkeley Public Library	18,476,578	19,951,914	24,026,043	29,196,378	29,606,293	33,865,077
City Attorney	6,200,456	7,880,612	9,112,692	9,290,707	9,425,305	9,825,142
City Clerk	2,398,903	2,876,230	2,823,822	3,518,483	3,576,397	3,709,023
Finance	8,738,585	8,872,348	8,938,144	11,823,352	11,963,574	12,026,929
Human Resources	3,574,288	4,588,216	5,551,340	5,993,013	6,198,864	6,804,564
Information Technology	16,446,318	15,454,602	15,298,230	23,471,574	23,651,297	24,019,890
Health, HSG & Community Svc	91,780,017	102,059,650	108,295,302	137,886,421	138,029,239	99,812,900
Parks, Recreation & Waterfront	63,534,473	45,578,024	48,266,958	47,477,378	47,713,333	51,021,863
Planning & Development	22,433,636	24,148,382	26,533,191	33,307,721	33,268,672	34,631,009
Public Works	140,757,034	133,012,197	149,296,617	196,515,790	181,881,632	185,433,697
Police	82,753,749	89,672,154	90,716,174	91,311,450	94,797,598	106,237,136
Fire & Emergency Services	58,014,195	62,872,373	68,731,246	71,480,646	73,060,880	78,537,592
Non-Departmental (b)	126,738,115	119,779,636	133,946,419	94,266,290	91,525,011	94,335,523
Total All Funds	**672,901,439**	**670,922,608**	**729,233,350**	**793,319,717**	**783,017,121**	**781,761,995**

- Nearly 200 funds that make up the citywide budget, with majority housed in Public Works Department ($185M) and HHCS ($99M).
- HHCS decrease in FY26 Update due to timing of housing development projects.

FY26 ALL FUNDS SUMMARY BY DEPARTMENT



General Government includes Mayor/Council, City Attorney, City Auditor, City Clerk, City Manager, Finance, and Human Resources. Non-Departmental consists of operational overhead costs such as Property Insurance and School Board Salaries, General Fund allocation for Community Based Organizations, Workers' Compensation costs, Debt Service, and Interfund Transfers.

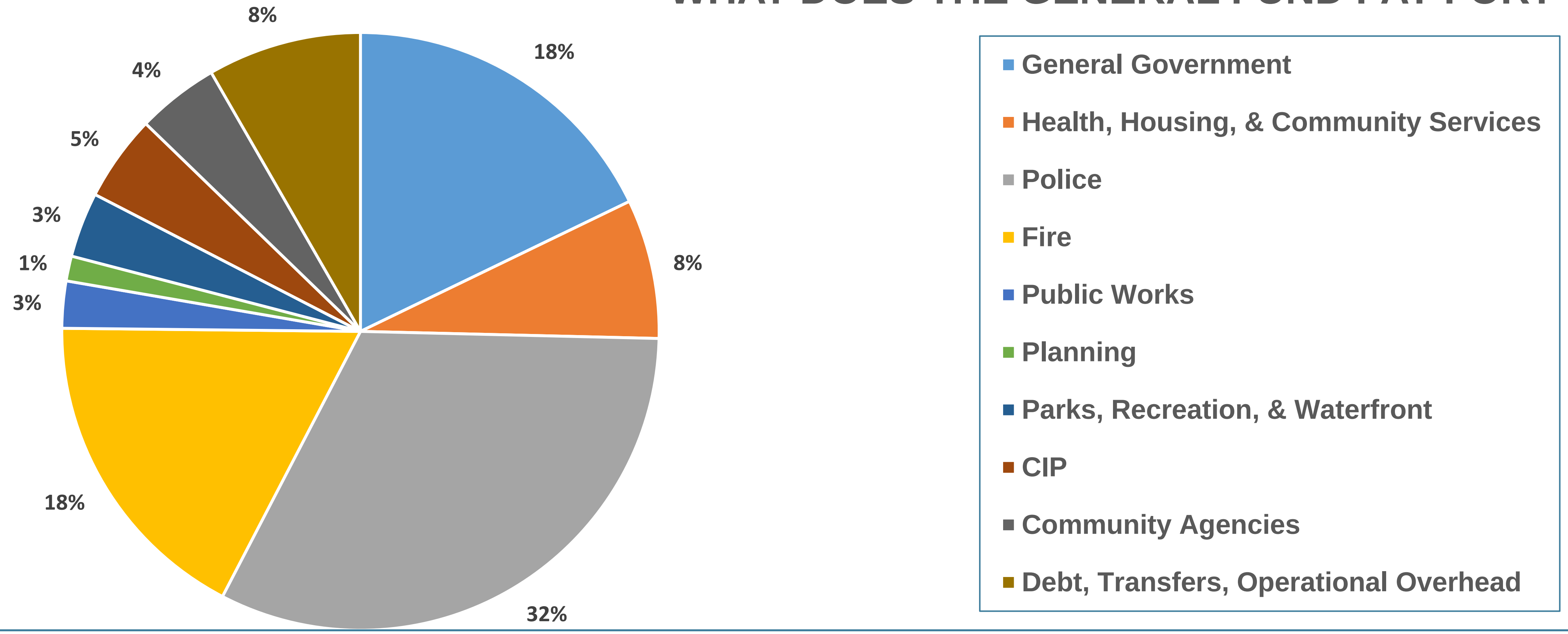
FY26 GENERAL FUND BY DEPARTMENT

	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Adopted	FY 2026 Adopted	FY 2026 Update
Mayor and Council	3,334,706	3,939,049	4,203,792	5,929,940	5,975,686	7,936,134
City Auditor	2,627,178	2,633,227	3,078,425	3,657,880	3,734,615	3,891,057
Rent Stabilization Board	-	568,412	554,214	-	-	-
Police Accountability	808,594	909,307	1,210,483	1,484,847	1,524,120	1,522,348
City Manager's Office	12,034,751	13,385,432	15,438,698	14,352,200	14,591,829	15,383,455
City Attorney	2,648,008	3,701,943	5,332,589	5,612,249	5,662,267	6,065,046
City Clerk	2,231,818	2,550,697	2,114,865	2,867,551	2,918,529	3,044,270
Finance	6,827,434	7,075,971	7,188,353	9,302,267	9,415,265	9,544,384
Human Resources	2,052,893	2,971,640	3,819,103	3,928,242	4,073,809	4,696,613
Information Technology	1,446,933	882,432	1,077,796	1,580,760	1,580,760	1,580,760
Health, HSG & Community Svc	32,619,369	28,154,030	36,867,755	31,950,903	33,283,018	34,039,371
Parks, Recreation & Waterfront	8,757,651	9,693,628	12,640,006	9,625,120	9,719,820	10,345,805
Planning & Development	2,629,757	2,924,671	3,153,666	3,745,098	3,802,944	3,731,131
Public Works	6,859,822	7,066,623	7,100,535	7,046,369	7,209,627	7,545,711
Police	77,916,629	84,895,063	85,926,952	86,427,222	89,849,214	101,282,782
Fire & Emergency Services	43,406,934	40,874,529	48,392,171	47,108,481	48,628,122	49,810,350
Non-Departmental	43,112,577	52,800,630	69,050,828	50,930,926	54,151,147	49,842,415
Total	**249,315,054**	**265,027,284**	**307,150,230**	**285,550,055**	**296,120,772**	**310,261,633**

- **Growth in every department in FY26 Update due to increases in personnel costs.**
- **Expenditures reflect recommended savings by not budgeting some vacant positions.**

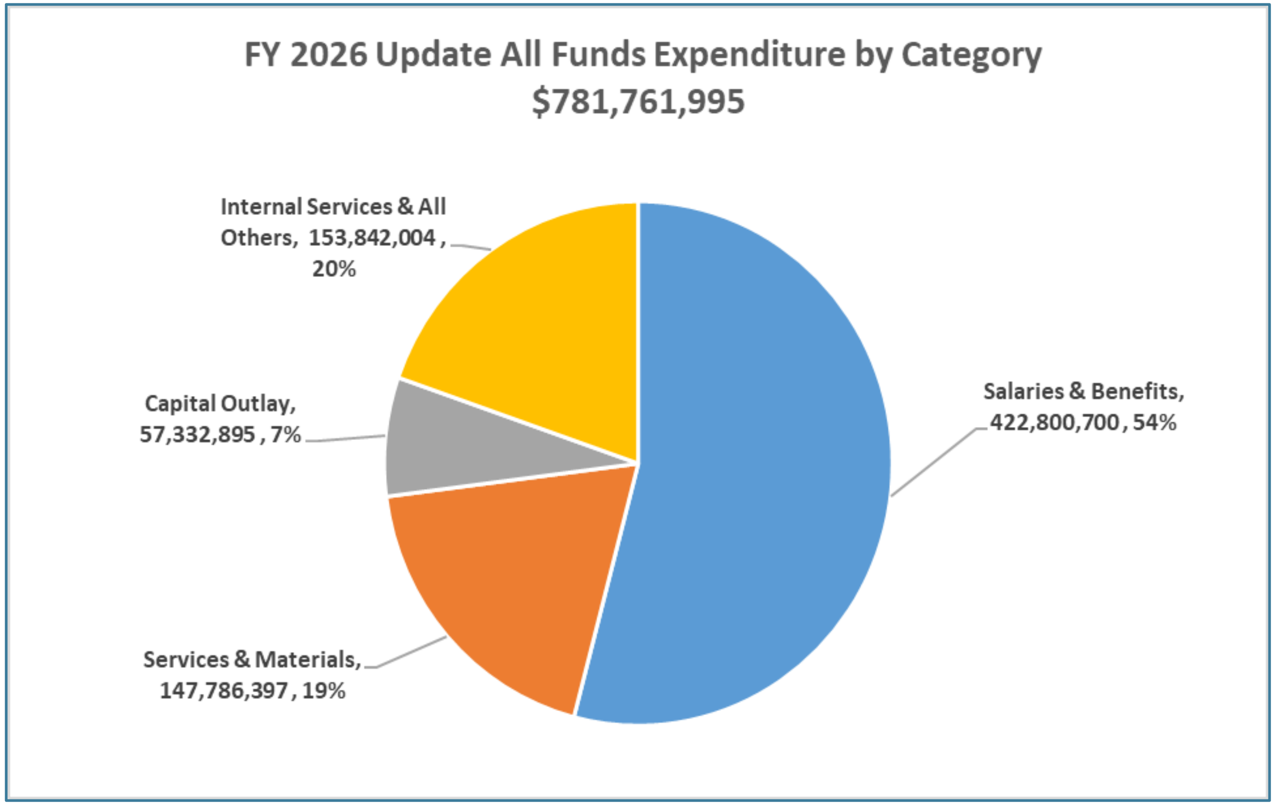
FY26 GF EXPENDITURES AT A GLANCE

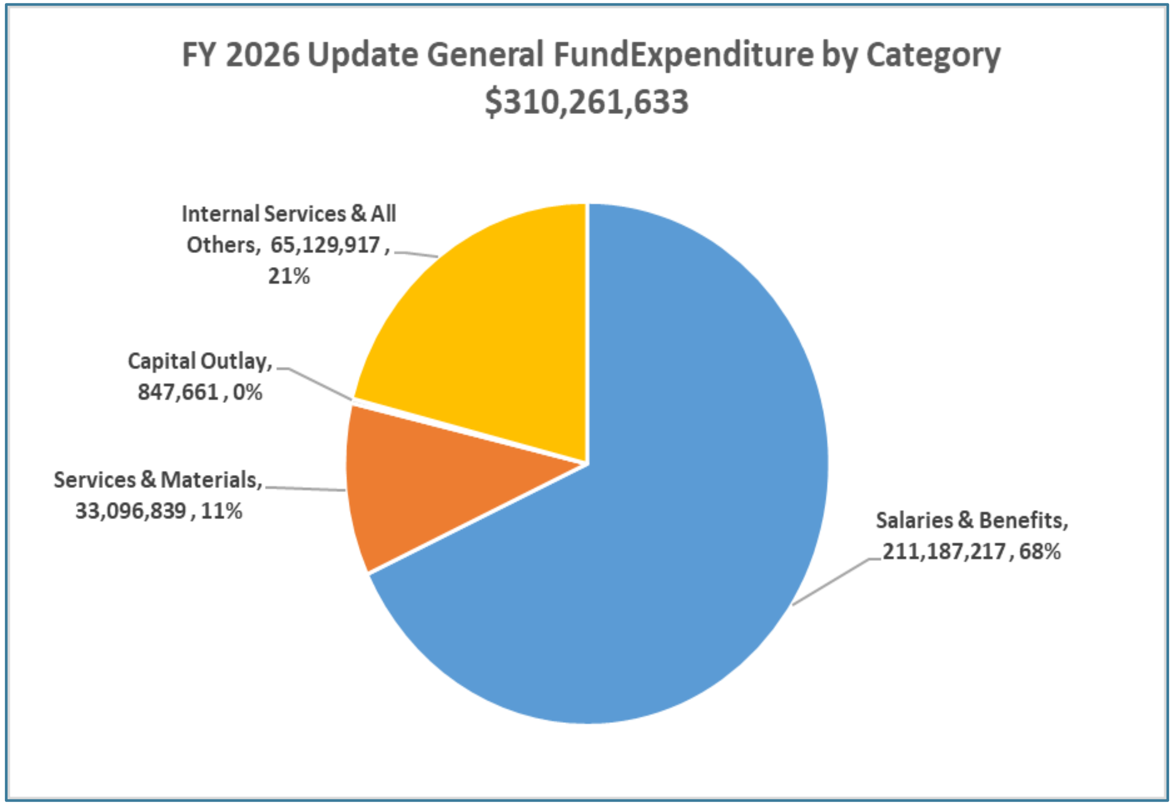
WHAT DOES THE GENERAL FUND PAY FOR?



- **$151M (48%) of General Fund is for public safety; $14M (4%) for Capital (CIP) including streets and $12M (4%) for community agencies**

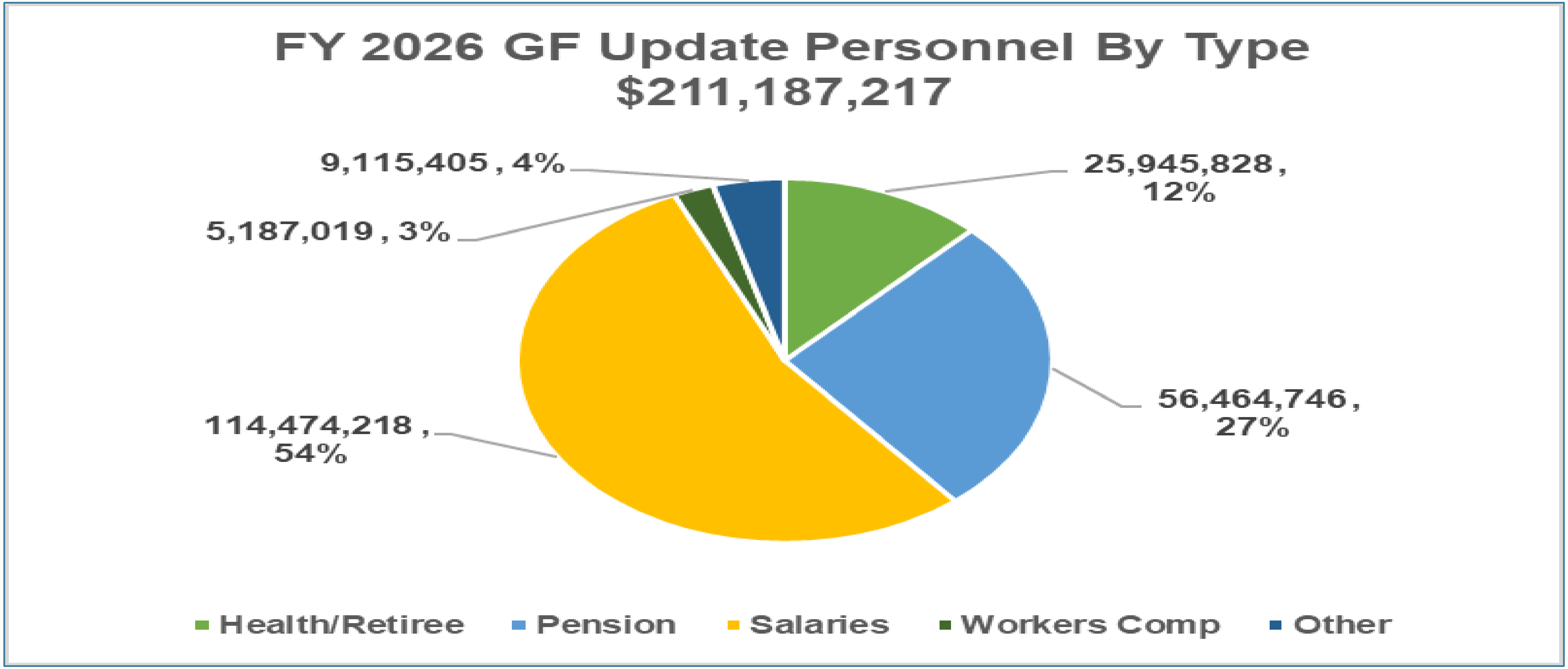
FY26 CATEGORY OF EXPENDITURES





- **Personnel expenditures represent 54% of citywide expenditures. However, for the General Fund, salaries and benefits are 68% of expenditures.**

FY 26 GF PERSONNEL EXPENDITURES



- **After salaries, leading drivers of growth are pension (almost 1/3 of the budget) and health insurance.**

CONTEXT ON GENERAL FUND BUDGET

- FY26 Update projected deficit of $29M prior to updated GF revenue projection.
- The General Fund has been struggling with a structural deficit.

FY 20-21 Budget: $40M	Hiring freeze, no capital spending and $11M reserves
FY 22 Budget: $27M	$23M in ARPA, $4M reductions
FY23-24: $22M/$12M	Increase salary savings, use of fund balance, $11M ARPA
FY25-26: $12M/FY	Salary savings, $11M ARPA, use of fund balance, use of Section 115 Trust for pension, worker comp holiday

- Cost increases more than projected in FY26
- Continue to use one-time options to balance FY26
- Sustainable solutions needed for FY27-28 to address structural deficit

BUDGET BALANCING STRATEGIES OVERVIEW

	April 2025 (1)	As of May 2025	
			Staff Recommendation
	All Vacant Positions Budgeted / 3% Salary Savings	All Vacant Positions Budgeted / 3% Salary Savings (2)	Limited Vacant Positions Budgeted / No Salary Savings (3)
Revenues	$284,047,716	$291,583,351	$291,583,351
Expenditures	312,999,561	312,999,561	310,261,633
Surplus/(Deficit)	**($28,951,845)**	**($21,416,210)**	**($18,678,282)**
Adopted Budget Balancing Strategies			
Workers Compensation Transfer to the General Fund			5,187,019
Section 115 Trust for Pension			3,000,000
Proposed Additional Budget Balancing Options			
Section 115 Trust for Pension			3,000,000
Transfer Fund Balance from IT Cost Allocation Plan			6,164,889
Small Sites Reallocation			2,500,000
Revised Surplus/(Deficit)			**$1,173,626**
Less: Transfer to Marina Fund to Offset Projected Deficit			1,300,000
Revised Surplus/(Deficit) After Support for Marina Fund			**($126,374)**

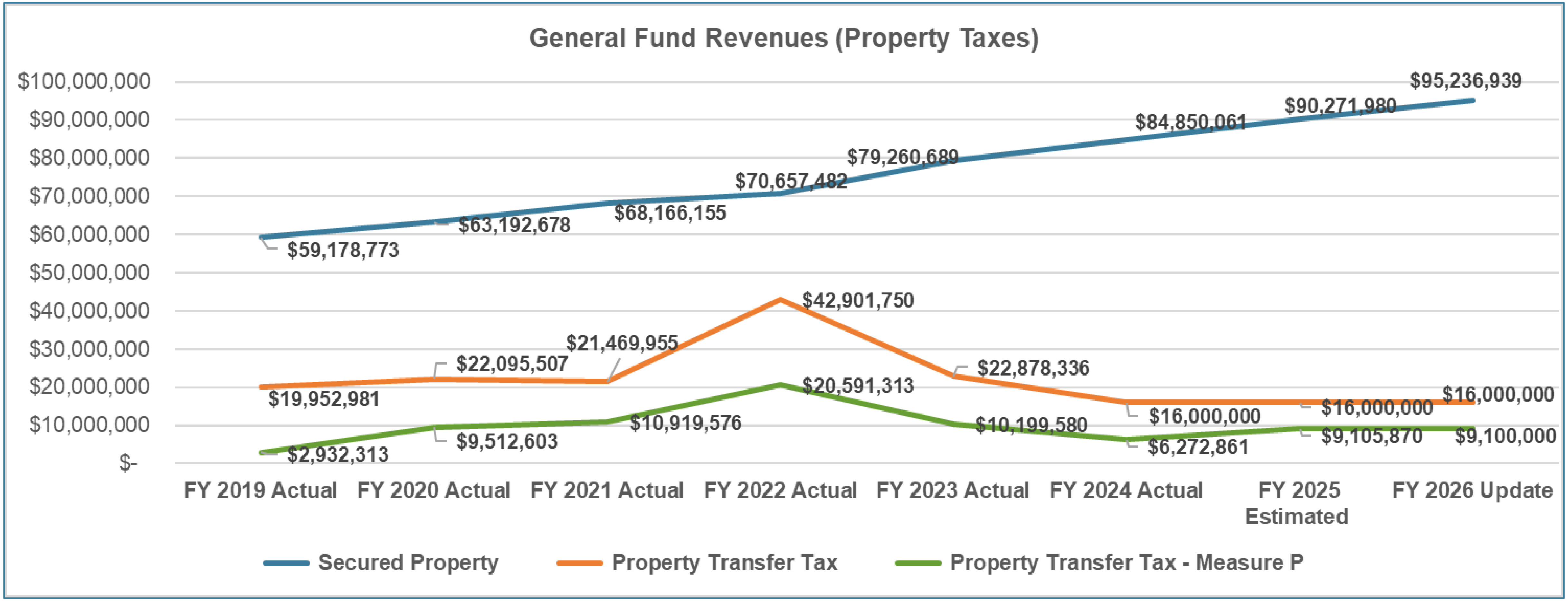
- **Increased revenues of $7.5M help offset the projected deficit. Additional strategies are needed to balance the budget. There are tradeoffs with some options.**

FY26 GENERAL FUND REVENUE

Revenue increase from $284.1M to $291.6M largely due to property related taxes

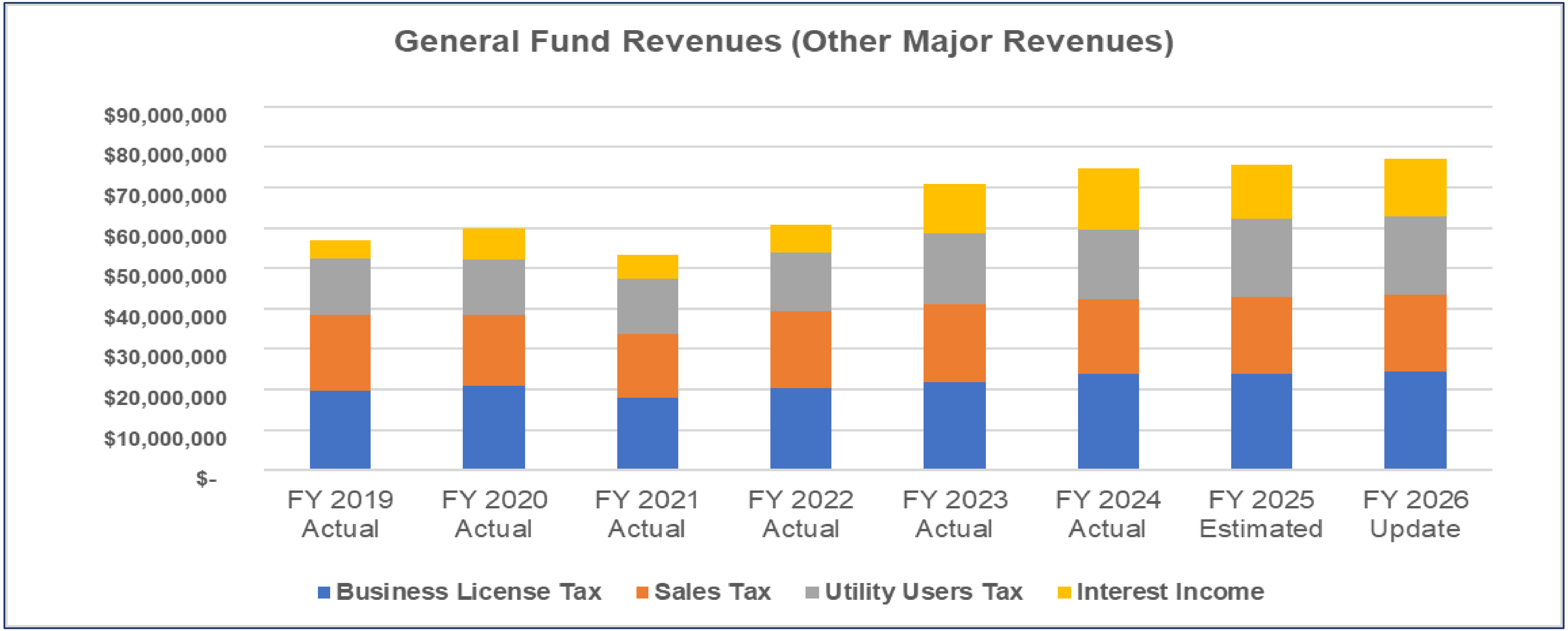
- Secured property tax **up** from $89.9M to $90.3M
- Property Transfer Tax **up** from $19 million to $22.6 million
- Measure P Property Transfer Tax **up** from $6.2 million to $9.1 million
- Utility Taxes **up** from $17.7 million to $19.4 million
- Business license taxes **up** from $23.8 million to $24 million
- Ambulance Fees **up** from $7.7 million to $8.16 million
- Supplemental Tax **down** from $3.4 million to $2.9 million
- Transient Occupancy Tax **down** from $7.7 million to $6.5 million

PROPERTY-RELATED TAXES



- These three revenues make up 41% of projected General Fund revenues in FY26.
- Flat revenue from FY 2026 through FY 2029 due to the high uncertainty related to trade policy and the potential impacts on consumer spending, interest rates and the economy.

OTHER MAJOR REVENUES



- These four sources are ~26% of projected revenue in FY26.

BUDGET BALANCING OPTION: KEEPING POSITIONS VACANT

	A (Exhibit 1) Adjusted Budgeted Vacancies		B (Exhibit 2) Corrections, Reallocations and Vacant Positions		C=A-B Remaining Budgeted Vacant Positions	
	FTE's	Amount	FTE's	Amount	FTE's	Amount
City Attorney	2.0	$401,598	1.0	$142,630	1.0	$258,968
City Clerk	1.0	137,101	1.0	137,101	0.0	0
City Manager	5.0	1,171,005	4.0	1,049,602	1.0	121,403
Finance	11.5	1,788,904	4.0	491,900	7.5	1,297,004
Health, Housing and Community Services	9.3	1,616,210	6.9	1,183,083	2.4	433,127
Human Resources	1.0	121,403	1.0	121,403	0.0	0
Information Technology	0.0	0	0.0	0	0.0	0
Planning	1.3	173,198	1.3	173,198	0.0	0
Parks, Recreation, & Waterfront	1.0	112,970	1.0	112,970	0.0	0
Public Works	3.0	532,973	3.0	532,973	0.0	0
Total Non-Sworn	35.1	$6,055,362	23.2	$3,944,860	11.9	$2,110,502
Police	51.0	$11,273,090	14.0	$3,148,139	37.0	$8,124,951
Fire (1)	18.0	2,561,170	18.0	2,261,170	0.0	300,000
Total Sworn	69.0	$13,834,260	32.0	$5,409,309	37.0	$8,424,951
Total Non-Sworn and Sworn	**104.1**	**$19,889,622**	**55.2**	**$9,354,169**	**48.9**	**$10,535,453**

(1) Amount in Column C reflects resources needed for overtime that results from positions held vacant.

- **Budget model originally included 104 FTE for a cost of ~$20M**
- **City Manager's Office and departments identified positions to be kept vacant**
- **Focus on positions with minimal impact to the community and services**

BUDGET BALANCING OPTION: WORKER COMPENSATION HOLIDAY

- The City is self-insured for worker compensation claims and all City funds contribute to the worker compensation fund.
- This approach means that the General Fund would not contribute to the fund for FY26.
- With FY25 holiday, expected to end FY 2025 with **$35-36M** in assets.
- **However,** City actuarial recommends a confidence level of 75%, which is equivalent to **$49.6M** in assets.
- City pays out approximately $6-8.4M in claims annually.
- City actuarial expects our discounted total outstanding liability to be **$44.3M**.

BUDGET BALANCING OPTION: SECTION 115 TRUST

- FY26 included use of $3M of the pension trust
- **Balancing option would increase the use of the Trust to $6M in FY26**
- Trust balance of $26.4M as of 6/30/2024
- Council policy sets goal of contributing $5.5M each fiscal year
- Use of Trust in the short-term balanced with future needs. $33.2M in 24-25 projected to increase by $12.4M to $45.6M in five years.

PLAN Citywide costs	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Fire	**$5,889,599**	$6,488,773	$6,977,100	$7,359,300	$8,208,820	**$8,413,800**
Police	**16,420,813**	17,867,757	18,906,000	19,796,000	21,479,000	**21,988,000**
Miscellaneous	**10,845,383**	11,471,522	12,441,960	13,168,4401	14,745,240	**15,156,720**

Source: CalPERS actuarial valuation as of 6/30/23. Assumes 6.80% rate of return.

BUDGET BALANCING OPTION: IT COST ALLOCATION

- City funds contribute to the IT Cost Allocation Fund to pay for IT services
- This approach means that the General Fund would reduce its funding by 50% in FY26
- Core services will remain intact, but delays in project implementation
- IT should be able to weather the outcome through FY26 with enough fund balance to account for any unforeseen expenditures, such as significant infrastructure and/or application failures or a cyber-event
- Not sustainable to reduce more in FY26 or future years without impacting fund balance

BUDGET BALANCING OPTION: U1/SMALL SITES

- FY26 includes $2.5M allocation for Small Sites program in U1 budget
- The $2.5M from U1 could support the required match for the State Encampment Resolution (ERF) grant and/or the overall General Fund deficit
- However, proposed U1 FY26 Revised Budget faces competing demands as well

FISCAL CHALLENGES

Operating / Other Funds (not exhaustive)

- General Fund
- Grant Funds (Federal and State pass thru funds)
- Parking Funds
- Marina Fund
- Camps Fund
- Internal Service Funds (Building Maintenance and Vehicles)

Deferred Maintenance ($2.5B in needs identified)

- Buildings
- Fleet
- Technology infrastructure
- Streets / Roads

Economic uncertainty

- Federal and State budget; local/state/national/international economy/events

TIMELINE

- Budget and Finance Policy Committee on May 22, 2025
    - Fire and Police Discussion on Overtime
    - Measure P and U1 Discussion
- Budget and Finance Policy Committee on June 12, 2025
    - Parking Meter Discussion
    - Council referrals
    - Overall budget discussion
- Council meeting on June 17, 2025 for fees and tax rates
- Council meeting on June 24, 2025 for FY26 Budget Adoption an AAO