



Office of the Mayor

## **SUPPLEMENTAL AGENDA MATERIAL for Supplemental Packet 2**

**Meeting Date:** January 17, 2022

**Item Number:** # 19

**Item Description:** Status Report - Berkeley's Financial Condition (FY 2012 – FY 2021): Pension Liabilities and Infrastructure Need Attention

**Submitted by:** Mayor Arreguin

Submitting the presentation from the Budget Office that was presented to the Budget and Finance Policy Committee on November 10, 2022 for additional background.



**Status Report Update**  
**Berkeley's Financial Condition**  
**(FY 2012 – FY 2021): Pension Liabilities**  
**and Infrastructure Need Attention Audit**

Budget and Finance Policy Committee  
10 November 2022

# OVERVIEW

- City Auditor released report on Financial Conditions on 5/2/22
  - Presentation to Budget & Finance Committee on 5/12/22
  - Presentation to City Council on 5/24/22
- Audit Findings
  - Near-term indicators are generally positive
  - Long-term indicators reveal some challenges
    - Long-Term Debt and Liabilities
    - Unfunded Pension and OPEB Liabilities
    - Capital Assets
- Audit includes five recommendations
- First report on implementation status

# RECOMMENDATION AND STATUS

<b>Recommendation</b>	<b>Complete a risk assessment and propose a plan to City Council to replenish the reserves.</b>
Status	Started
Original Implementation Date	January 1, 2023
Revised Implementation Date	April 1, 2023
Update	<ul style="list-style-type: none"><li>▪ Coordinating with GFOA for assistance in conducting a risk assessment and policy recommendations.</li><li>▪ Council adopted fiscal policies on 6/28/22:<ul style="list-style-type: none"><li>▪ Excess property transfer tax over baseline for reserves</li><li>▪ 1/3 of investment revenue over baseline for reserves</li></ul></li><li>▪ Pre-funded reserves in FY 23 &amp; 24 (~\$4.2M each FY)</li></ul>
Next Steps	Continue efforts to conduct risk assessment. Once completed, bring assessment and policy recommendations to Budget Committee and then Council for adoption.

# RECOMMENDATION AND STATUS

Recommendation	Assess appropriate fund balance for enterprise funds, report findings to Council, and explore financial policy options.
Status	Started
Original Implementation Date	September 30, 2022
Revised Implementation Date	July 1, 2023
Update	<ul style="list-style-type: none"><li>Formed working group with affected departments to begin research on best practices and development of policies.</li></ul>
Next Steps	Continue to develop policy recommendations to bring to Budget Committee and then Council for adoption.

# RECOMMENDATION AND STATUS

<b>Recommendation</b>	<b>Update the Debt Management Policy.</b>
Status	Started
Original Implementation Date	September 30, 2022
Revised Implementation Date	July 1, 2023
Update	<ul style="list-style-type: none"><li>▪ GFOA review of City's debt capacity completed.</li><li>▪ Finance Department to stress test the City's debt threshold utilizing all the historical data to determine capacity.</li></ul>
Next Steps	Finance to determine appropriate debt threshold and update policy.

# RECOMMENDATION AND STATUS

Recommendation	Present a plan for adoption by the City Council to assure sufficient contributions to the Section 115 Trust.
Status	Partly implemented.
Original Implementation Date	August 31, 2022
Revised Implementation Date	June 30, 2023
Update	<ul style="list-style-type: none"><li>▪ Council adopted fiscal policies on 6/28/22:<ul style="list-style-type: none"><li>▪ Annual savings from prepayment of CalPERS unfunded liability payment to Trust</li><li>▪ 1/3 of investment revenue over baseline for Trust</li></ul></li><li>▪ Estimate \$4.5 to \$4.8M in FY 23 (target of up to \$5.5M)</li></ul>
Next Steps	Assess current fiscal policies in meeting objective; work with actuarial on updating estimate of cost of liabilities and develop additional strategies for funding the Trust.

# RECOMMENDATION AND STATUS

Recommendation	Implement a funding plan to reduce unfunded capital and deferred maintenance needs and prevent excessive deferred maintenance costs in the future.
Status	Partly implemented.
Original Implementation Date	June 30, 2023
Revised Implementation Date	June 30, 2023
Update	<ul style="list-style-type: none"><li>▪ Council adopted fiscal policies on 6/28/22 to allocate 1/3 of investment revenue over baseline for capital infrastructure plan.</li><li>▪ Council adopted a fiscal policy for street maintenance allocation from the General Fund on 7/26/22.</li></ul>
Next Steps	Assess current fiscal policies in meeting objectives. Explore additional funding strategies. Develop plan to ensure funding and regular maintenance of City assets.