CITY OF BERKELEY

FY 2021
UNFUNDED LIABILITIES / INFRASTRUCTURE NEEDS

OVERVIEW

- Purpose of the Report
- CalPERS/Retiree Medical/Workers' Compensation Plans
- City Debt Obligations & Bonding Capacity
- Capital Assets & Infrastructure
- General Fund Revenues & Expenditure Projections
- Questions

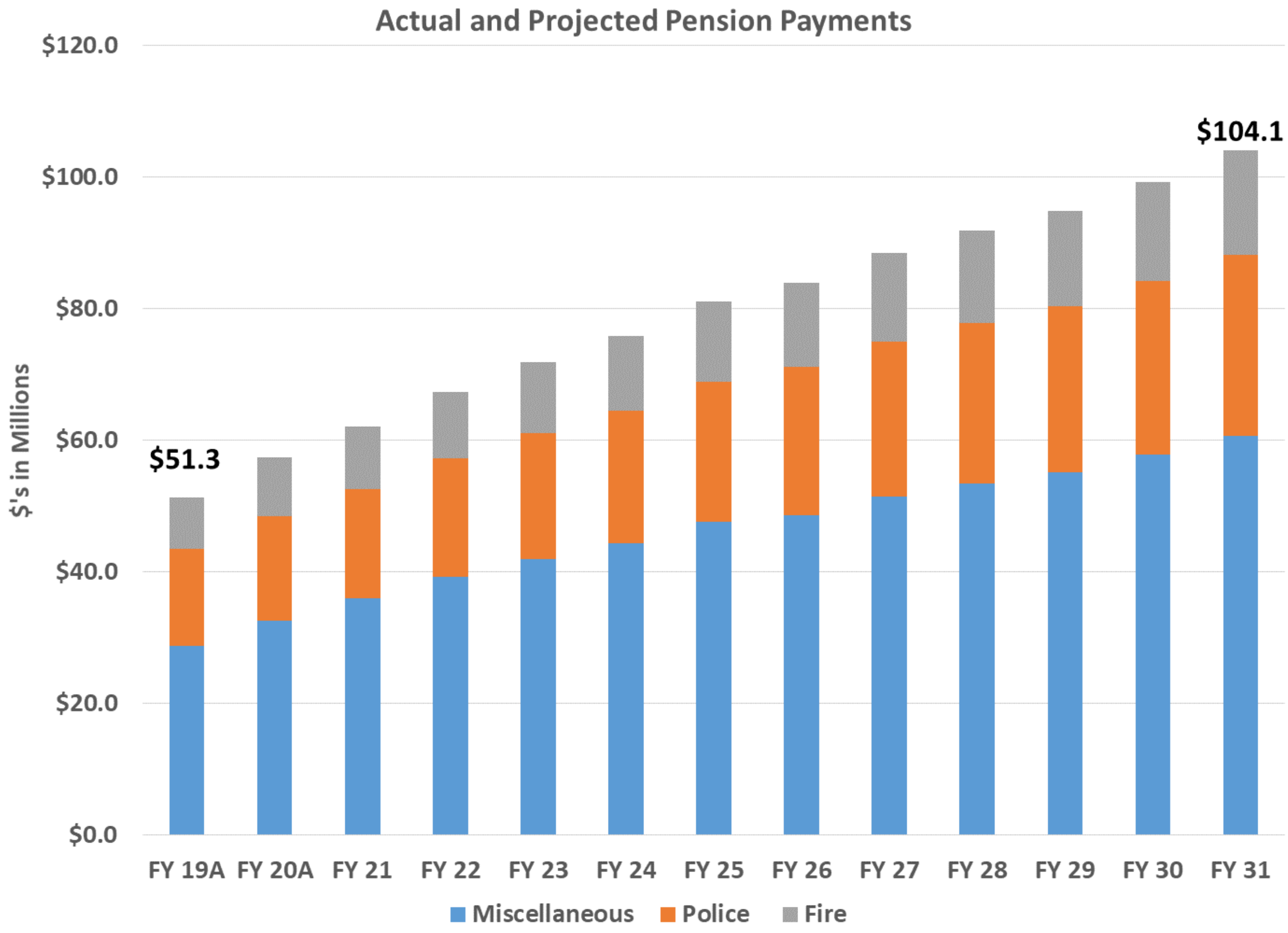
PURPOSE OF REPORT

- Comply with Resolution No. 65,748-N.S.
- Provide a thorough overview of the City’s long-term expenditure obligations in a format that is easily understandable in a single report.
- Review current and projected financial condition
- Provide long-term revenue and expenditure forecast

CALPERS

- As of June 30, 2019, CalPERS plans funding status:
  - Miscellaneous - 70%
  - Police - 61%
  - Fire - 71%

- $52.8M increase in PERS costs from FY 19A to FY 31*



*Excludes additional pension contributions estimated at $69M over 20 years that will result from FY 2020 CalPERS return of 4.5%, 2.5% less than 7.0% assumed return.

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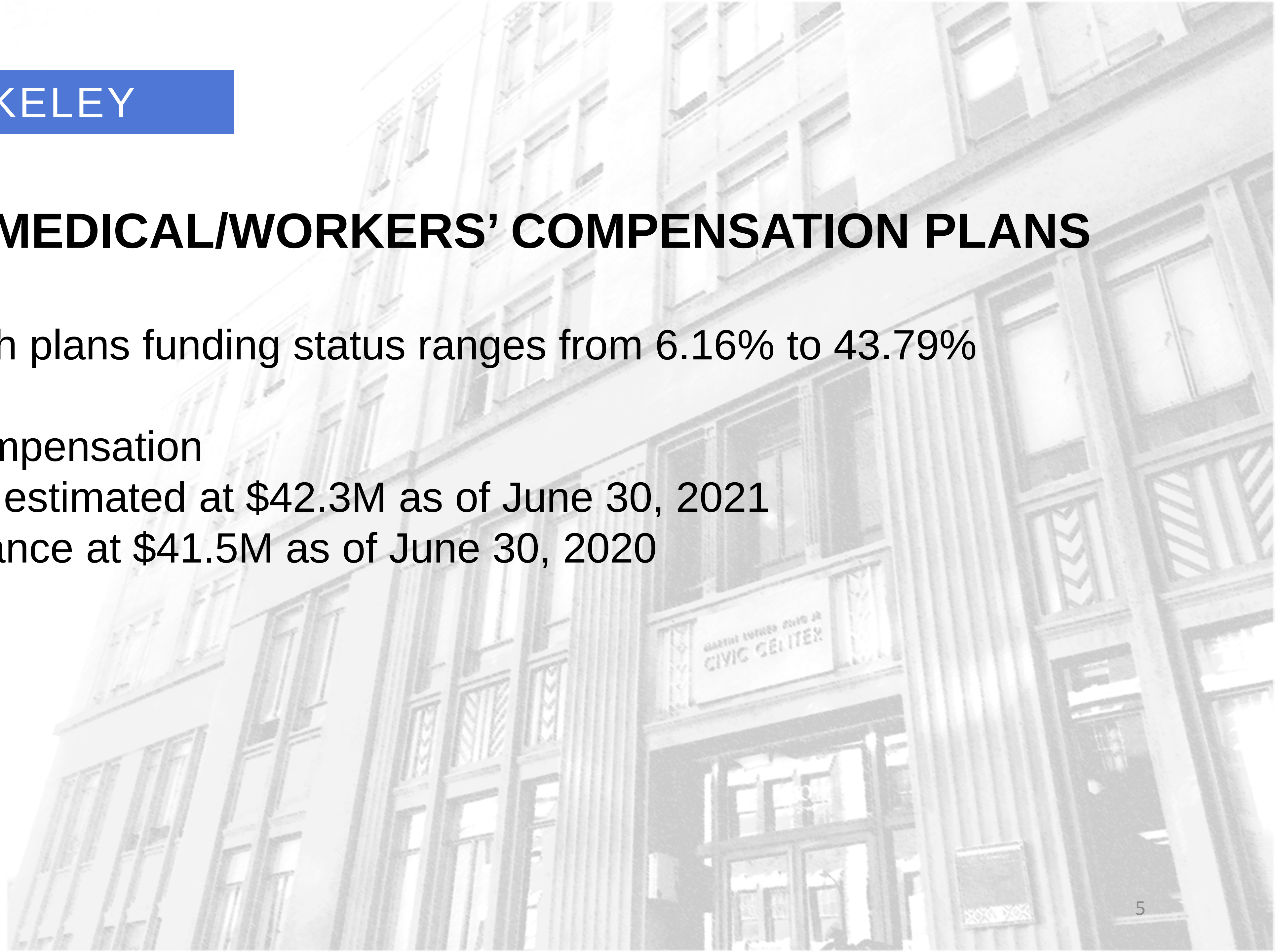
RETIREE MEDICAL/WORKERS’ COMPENSATION PLANS

- Retiree health plans funding status ranges from 6.16% to 43.79%

- Workers’ Compensation
  - Liabilities estimated at $42.3M as of June 30, 2021
  - Fund balance at $41.5M as of June 30, 2020



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CITY DEBT OBLIGATIONS & BONDING CAPACITY

- Aggregate bond tax rate for FY 2020 of 0.0540% ($54 for each $100,000 in assessed value)
- Unfunded liabilities negatively impact ability to borrow

S&P Credit Rating Excerpt (February 14, 2020)

Pension and OPEB highlights

- In our view, the city has a large pension and OPEB liability that is pressuring the city's operations, and while the city has made progress planning--including establishing a Section 115 trust--we don't yet believe the city has adequately planned for expected cost escalation.
- The city's pension funded status, combined with recent changes to assumed discount rate and amortization methods, will likely lead to accelerating costs in the medium term. However, we believe this approach will help the city make timely progress reducing pension liabilities.
- While the city is not making full actuarially determined contributions (ADCs) toward its OPEB liability, which will lead to significant contribution volatility over time, we believe Berkeley's pension costs represent a more urgent source of adverse credit pressure.

CAPITAL ASSETS & INFRASTRUCTURE

- Unfunded infrastructure needs have increased over the years and is anticipated to range around $1.1 billion from FY 2022 to FY 2026

- Breakdown of the unfunded needs:

  - Parks Recreation & Waterfront - $230M
  - Public Works - $935M
  - Information Technology - $15.1M

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GENERAL FUND REVENUE AND EXPENDITURE PROJECTIONS ASSUMPTIONS

- Revenues
  - Excludes Measure P and Measure U1
  - Property Transfer Tax Revenues at $12.5M annually

- GF Expenditures
  - No cost of living adjustments
  - 12% medical increases annually
  - 10% dental Increases
  - Estimated pension contributions from City’s actuarial agency
  - 2-3% increases in non-personnel categories.

GENERAL FUND REVENUE PROJECTIONS

General Fund Revenues Projections (dollar in millions)						
	FY 2021 Projected	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenues Baseline	$ 195.9	$ 186.5	$ 192.1	$ 197.0	$ 201.9	$ 206.6

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GENERAL FUND REVENUE & EXPENDITURE PROJECTIONS

General Fund Revenues v.s. Expenditures - Demonstrative Comparison (dollars in millions)						
	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF Revenues Baseline	$ 188.35	$ 186.50	$ 192.10	$ 197.00	$ 201.90	$ 206.60
GF Expenditures - Zero COLA	$ 187.04	$ 208.77	$ 216.55	$ 221.62	$ 227.70	$ 233.11
Surplus/(Deficit)	$ 1.30	$ (22.27)	$ (24.45)	$ (24.62)	$ (25.80)	$ (26.51)

GENERAL FUND REVENUE & EXPENDITURE PROJECTIONS

Dollars in Millions	Base Case (1) FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	Illustrative Alternative Scenario (2) (3) FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Total Undesignated Revenues	$186.5	$192.1	$197.1	$201.9	$206.6	$192.8	$201.5	$209.4	$217.2	$221.5
Total Expenses	208.8	216.6	221.6	227.7	233.0	208.8	216.6	221.6	227.7	233.0
Surplus / (Deficit)	($22.3)	($24.4)	($24.6)	($25.8)	($26.4)	($15.9)	($15.1)	($12.2)	($10.5)	($11.5)

(1). No changes to Base Case Revenue Forecast.

(2). Increase Baseline Property Transfer Tax from $12.5M to $16.5M from FY 22 - FY 26

(3). Assume TOT, TOT for Short-term rentals, Business License Tax, and Parking Fines return to FY 2019 levels by FY 2025 in equal increments.

CONCLUSION

- Maintaining a careful balance between cash on hand to fund daily operations and liquidity to cover unfunded liabilities is a key challenge for all governments.

- Significant unfunded liabilities requires attention:
  - Total liabilities tied to Other Post Employment benefits total $751 million
  - Unfunded infrastructure needs total $1.1 billion

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QUESTIONS?