



City of Emeryville

CALIFORNIA

MEMORANDUM

DATE: June 7, 2022

TO: Christine Daniel, City Manager

FROM: Brad Farmer, Finance Director

SUBJECT: **Resolution Of The City Council Of The City Of Emeryville Adopting The Operating Budget For Fiscal Year 2022-23 (“Operating Budget”), And Appropriating Funds For Fiscal Year 2022-2023**

RECOMMENDATION

Staff recommends that the City Council review and adopt the above-entitled Resolution approving the proposed Operating Budget for the City of Emeryville, and appropriating funds, for Fiscal Year (FY) 2022-23.

BACKGROUND

The City of Emeryville weathered the COVID-19 pandemic without touching any of its General Fund Reserve, without laying off any City staff, and without making any material reductions to primary programs and services for the community. During the pandemic, the City delivered the long-awaited South Bayfront Bridge further connecting the east and west sides of town, established a well-received “slow street” on Doyle, and designed and bid out several important community improvement projects including Rail Safety/Quiet Zone, Point Emery Shoreline Protection Project and Davenport Park. Mid-pandemic, the City commenced its Paid Parking Program which includes not only meters and kiosks for paid parking, but also dedicated enforcement staff who issue citations for street sweeping, red curb and disabled zone parking violations. Reflective of its identity as the City of Art and Innovation, the City unveiled a new mural program including a large, iconic mural at Horton and Sherwin Streets depicting the Emeryville community by way of a “treasure map.”

While the City’s primary revenue streams (sales tax, hotel tax, business license tax and cardroom tax), were all negatively affected by the pandemic, in late FY 2021-2022 they began to recover. None of these revenues has yet regained its pre-pandemic level; nevertheless, thanks to that incipient growth, careful expenditure controls by City Departments, and the strategic use of some one-time funds, the City ended Fiscal Year 2021-2022 without having to rely on accumulated General Fund - Fund Balance to cover any gaps between revenues and expenditures. This bodes well for the 2022-2023 Fiscal Year.

The proposed FY 2022-23 Budget is the second single year budget since the onset of the pandemic. In the past, the City has adopted budgets in two-year cycles to provide stability in the budgetary process. However, given the uncertainties surrounding the economic

recovery, the Budget & Governance Committee supported two single year budgets (FY 2021-22, and FY 2022-23) to offer more time to assess the vigor of the recovery before making significant budget modifications. That was a prudent decision because, despite signs of economic recovery, a gap between revenues and expenditures is still projected for FY 2022-2023. This gap is due in large part to expenses increasing at a rate that exceeds revenue growth. Thus, the proposed Budget relies on \$1.4 million in one-time funding from the federal ARPA program and \$2.3 million from the accumulated General Fund - Fund Balance to close the projected gap between revenues and expenditures in FY 2022-23.

THE LOCAL ECONOMY—Opportunities and Challenges

Local Economy:

Retail activity in Emeryville remains strong, with low vacancy rates (1.83% as of Q2 2022) compared to the 10-year average vacancy rate in the City (2.45%) and the East Bay region (5.0%). Retail rents are correspondingly higher in Emeryville than the region (\$3.39 per square foot per month vs. \$2.70 per square foot per month). For office space, the vacancy rate of 17.1% at Q2 2022 continues to reflect market shifts due to the pandemic. This level of vacancy is higher than the 10-year average rate of 11.72%, however, demand for research and development space has been extraordinarily strong leading to a robust pipeline of new lab buildings as well as conversions of existing office and industrial space to life science uses. As of February 2022, the City was processing applications for over 2.7 million square feet of new research and development space, with over 800,000 square feet of these projects replacing existing office buildings. The City's ability to quickly respond to changes in real estate market demands is allowing the City to capture significant capital investments in biotechnology companies, which will support the City's economic growth.

According to Local Area Unemployment Statistics provided by the California Employment Development Department, in March 2022, Emeryville's unemployment rate stood at 2.3%, which compares favorably with Alameda County and the State, which were 3.2% and 4.2%, respectively.

Emeryville's population on April 1, 2020 was 12,905. This represents an increase of more than 8% over the California Department of Finance's 2019 population estimate of 11,885, and a 22% increase from the 2010 population of 10,080. Emeryville's population growth between 2010 and 2019 has significantly outpaced growth both in the neighboring cities of Oakland and Berkeley as well as Alameda County. The Association of Bay Area Governments (ABAG) projects continued growth in Emeryville through 2040, at which time the city's population is expected to reach 34,130.

According to a rent study conducted by Zumper, in 2021, rents in Emeryville were similar to other East Bay cities which were still showing declines due to the ongoing pandemic. One-bedroom apartments in June 2021 were \$2,200 in Emeryville, compared with \$2,190 in Berkeley and \$2,000 in Oakland. The state median rent for one-bedroom homes at that

time was approximately \$1,800. Compared to rents in 2020, Emeryville's median one-bedroom rent had decreased by 12%. By comparison, rents in Berkeley and Oakland decreased by 8% and 7%, respectively, during the same time. The median rent for two-bedroom apartments in Emeryville was \$3,200 in June 2021, a decrease of 5.3% over the prior year. Despite these pandemic-induced rent decreases, housing affordability remains a regional concern, particularly for lower income households.

Development:

Major residential development activity in FY 2021-2022 included continued construction of The Emery Apartments on the former Sherwin Williams property, which includes 500 residential units, 85 of which are deed-restricted affordable units and 3.5 acres of park space. Construction also continued for the Bayview Emeryville Apartments, a 186-unit building at the former Nady Site, including eight units for Very Low-Income households (i.e. earning up to 50% of the Area Median Income). The City partnered with Resources for Community Development to assist with the financing of the Nellie Hannon Gateway Project, including 90 units of affordable housing and space for the Emeryville Citizens Assistance Project (ECAP); this project received planning approvals in October 2020 and submitted plans for building permits in November 2021. The City also partnered with EAH Housing for the development of an innovative intergenerational affordable housing project on City-owned property at 4300 San Pablo Avenue. This project will include 68 units of affordable housing set aside for seniors and transition aged youth and was made possible by the passage of SB 591; which was legislation supported by the City of Emeryville.

Major commercial developments include the commencement of construction of the Emeryville Center of Innovation on portions of the former Chiron campus, which will include over 911,000 square feet of new office and lab space among four buildings and a 1,991-space parking structure. The Bay Street shopping center also received approvals for the construction of a new 48,500 square-foot grocery store with rooftop parking, and construction of the revitalized "food terrace" continued. Additional notable commercial development applications currently in progress include the EmeryStation Overland Project (300,000 square feet of life science space, and affordability commitments for 10 existing live-work units); the Marketplace Redevelopment Project Parcels A, B and F (396,000 square feet of life science space), the Christie Avenue Mixed Use Project (464,000 square feet of life science space and 98 units of housing), the 5850 Shellmound Way Project (385,000 square feet of life science space, 6 housing units, 2,300 square feet of ground floor retail/amenity space), and the Bay Center Life Science Building project (210,000 square feet of life science space).

The magnitude of the development pipeline in Emeryville is indicative of the City's desirability for innovative companies. Emeryville's existing business community continued to advance the City's reputation as the birthplace of world-changing innovations. UPSIDE Foods celebrated the opening of their Engineering, Production, and Innovation Center (EPIC), the world's most advanced cultivated meat production facility, Krauss Hamdani Aerospace developed a zero-emissions drone that stays aloft longer

than any other electric aircraft in its size and weight category, and Lucira launched the first and only FDA-authorized single-use, rapid molecular COVID-19 test available over-the counter.

In 2021, over \$1.34 billion in venture capital was invested in Emeryville firms, representing over 12.9% of total venture capital flows to the East Bay Region (Alameda and Contra Costa counties). Notable investments included \$253 million to Bolt Threads, a material solutions company that applies biology to design environmentally sustainable materials for the fashion and beauty industries; \$144.5 million to Nutcracker Therapeutics, a company that has developed a platform for the discovery and manufacture of mRNA therapies and vaccines; and \$75 million to Metagenomi, a company that uses a natural microbial platform to develop next-generation therapeutics. This is a small sampling of the companies receiving investor interest due to the diverse array of innovations being produced in Emeryville.

Citywide Operational Budget

The annual budget is the single most important policy that the City Council reviews and approves, as it represents the City's priorities for making resource investments, both for the upcoming year and the long-term future. As such, the budget process must include effective participation from the Mayor and City Council, our community, key stakeholders, and City staff. Working together, we strive for progressive investment in our community's future, as well as in our organization and staff, so that we can operate efficiently and effectively.

Revenues for the City are projected to be \$130.3 million, including \$26.7 million or 20.5 percent in Successor Agency revenues. The City's General Fund revenues total \$45.5 million or 34.9 percent of the City's total revenues. The City's expenditures are projected to be \$190.5 million, of which \$29.8 million or 15.7 percent is Successor Agency expenditures. The City's General Fund expenditures total \$47.8 million or 25.1 percent of the City's expenses. The General Fund is the City's main source of unrestricted funds. This proposed budget funds 169.2 full-time equivalent employees, including the addition of an Assistant City Manager and a Building Inspector. This Budget follows the reserve requirements, which set a minimum reserve for the General Fund at 50% of Operational Costs.

Overview of the General Fund Proposed Operating Budget for FY 2022-23

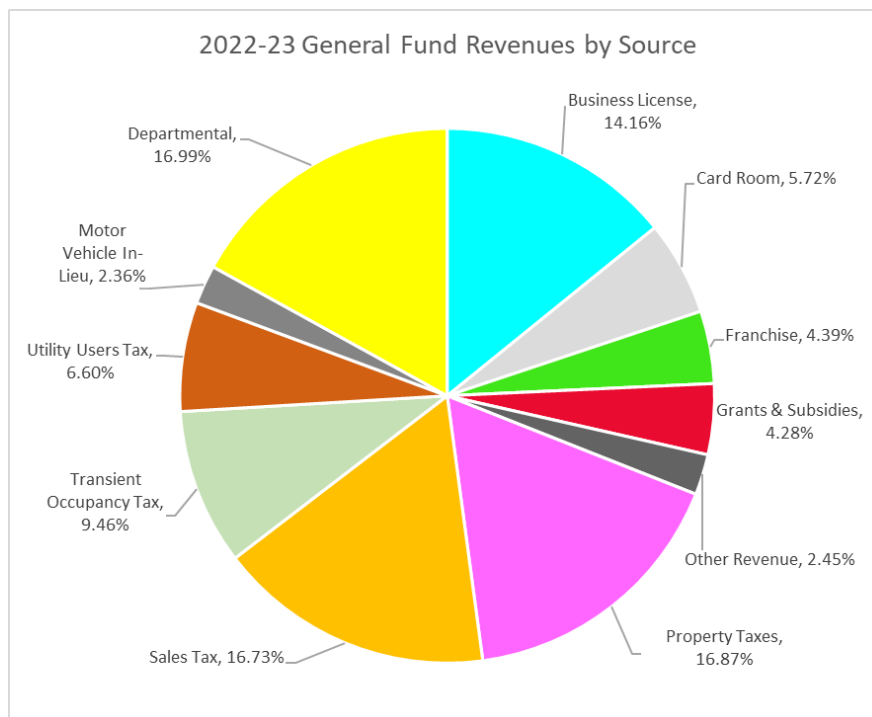
In FY 2022-23, General Fund revenues are projected to be \$45.5 million, and expenditures are projected to be \$47.8 million. Revenues incorporate several one-time funding sources including: \$1.4 million in American Recovery Act Funds, continued deferred funding of the litigation revenue fund, maintain the current allocation for Residual Property Tax consistent with FY 2021-22 and the use of \$2.36 million unallocated General Fund – Fund Balance. These strategies are not sustainable for the long term but are sufficient to bridge the City through to the next fiscal year as the recovery continues.

	FY 2021-22 YE Estimate	FY 2022-23 Budget	Percentage Inc/(Dec)
Revenues	\$ 49,341,947	\$ 45,467,138	(7.85%)
Expenditures	<u>47,458,516</u>	<u>47,828,173</u>	.78%
Projected Surplus (Use) of General Fund Balance	\$ 1,883,431	\$ (2,361,035)	

Projected FY 2022-23 ending General Fund Balance \$10,150,618
Projected FY 2022-23 ending Reserve for Economic Uncertainty \$23,129,230

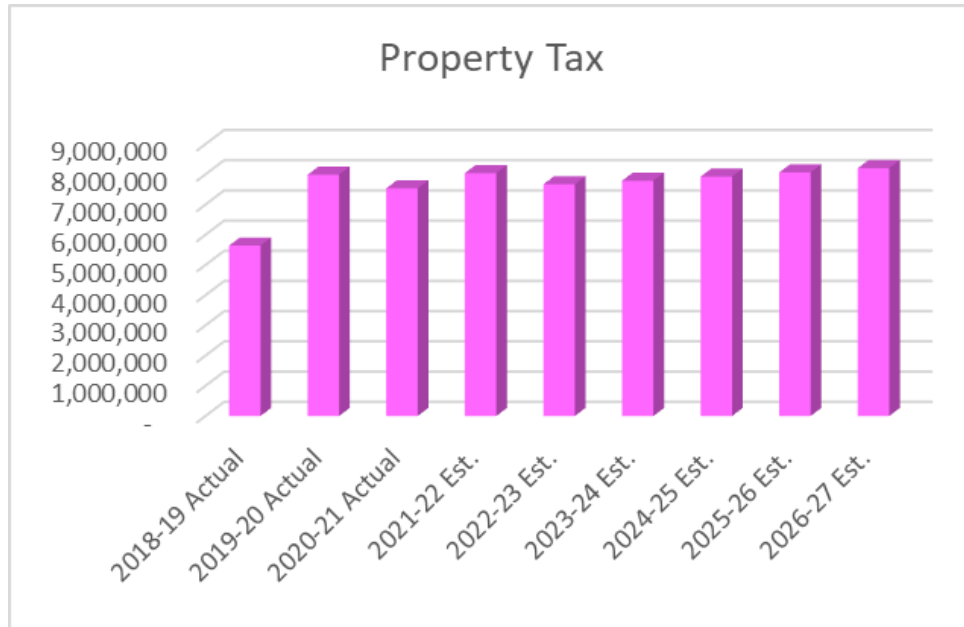
Revenues

The City's revenue streams are influenced by overall economic conditions. Total General Fund revenue projections for FY 2022-23 are approximately \$3.9 million less than FY 2021-22 year-end estimates. These reductions are primarily due to not transferring in \$1 million from the PERS Liability Fund, not transferring in \$1.5 million from Measure F to fund the Emeryville Child Development costs, and reduced development departmental revenues of \$1.4 million. The General Fund major revenue sources include business licenses, departmental, property, sales tax, and transient occupancy taxes (TOT). Together the major sources comprise 74.2 percent of total General Fund revenues for FY 2022-23, as shown on the graph below. The remaining 25.8 percent includes revenues such as card room, franchise fees, grants, motor vehicle in-lieu, other revenues, and utility user's tax.



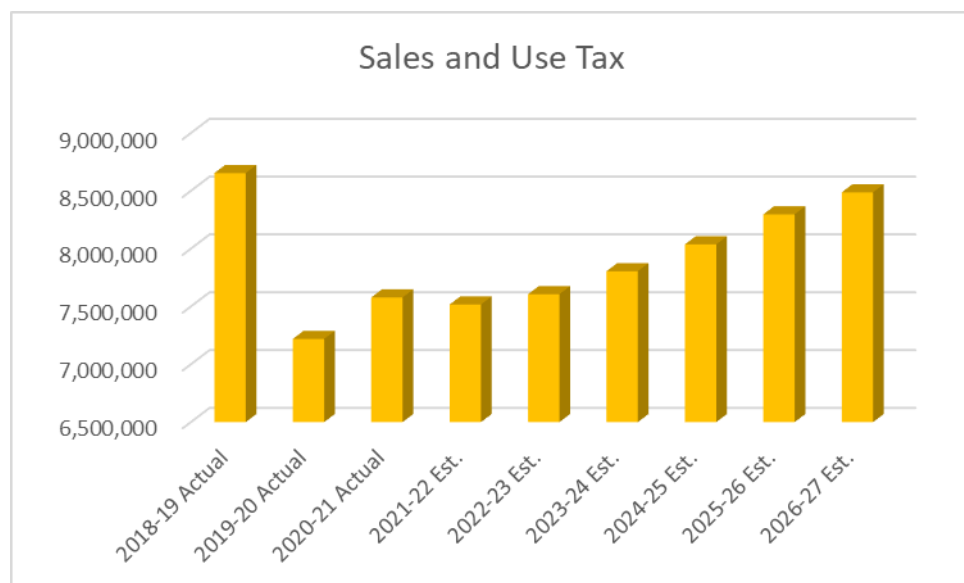
Property Tax

Based on the Property Assessment Value (AV) report from Alameda County, the City anticipates property tax revenues to remain consistent at \$7.6 million in FY2022-23.



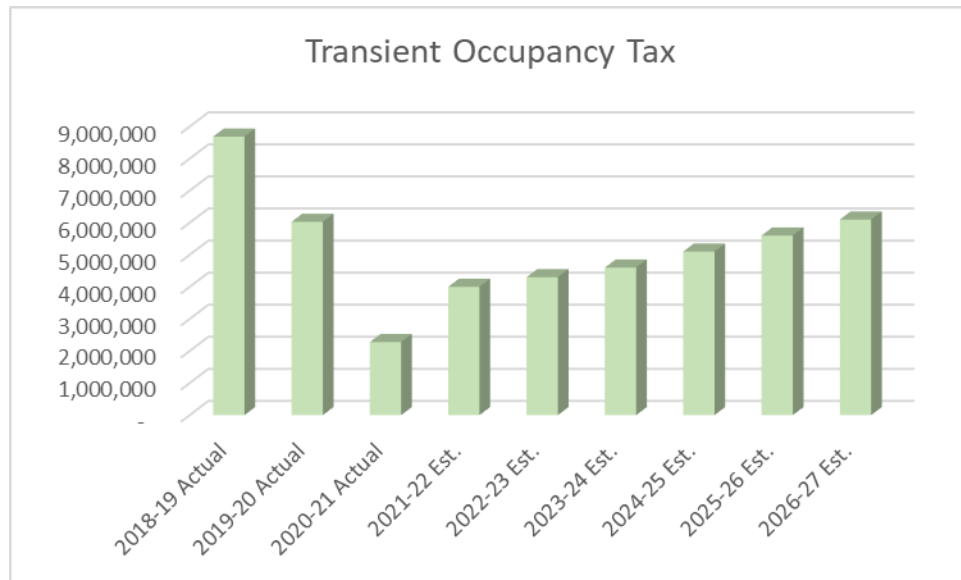
Sales Tax

Sales Tax revenues are projected to be \$7.6 million in FY 2022-2023 which is an increase of 1.2 percent from FY 2021-2022, but still \$1 million less than received in FY 2018-19.



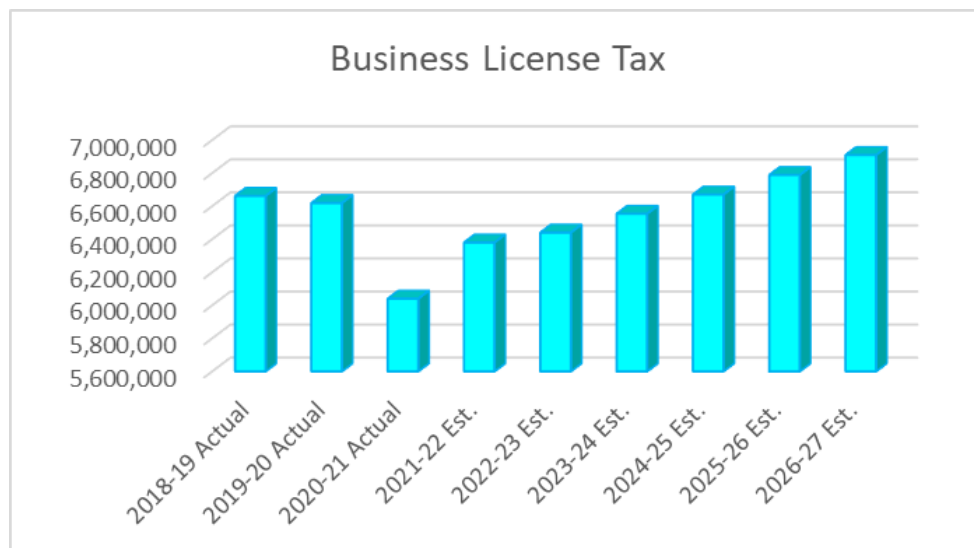
Transient Occupancy Tax (TOT)

The hotel sector has been significantly impacted by the pandemic and is not expected to recover within the next budget cycle. Projected revenues for FY 2022-23 are \$4.3 million, but still \$4.4 million less than received in FY 2018-19.



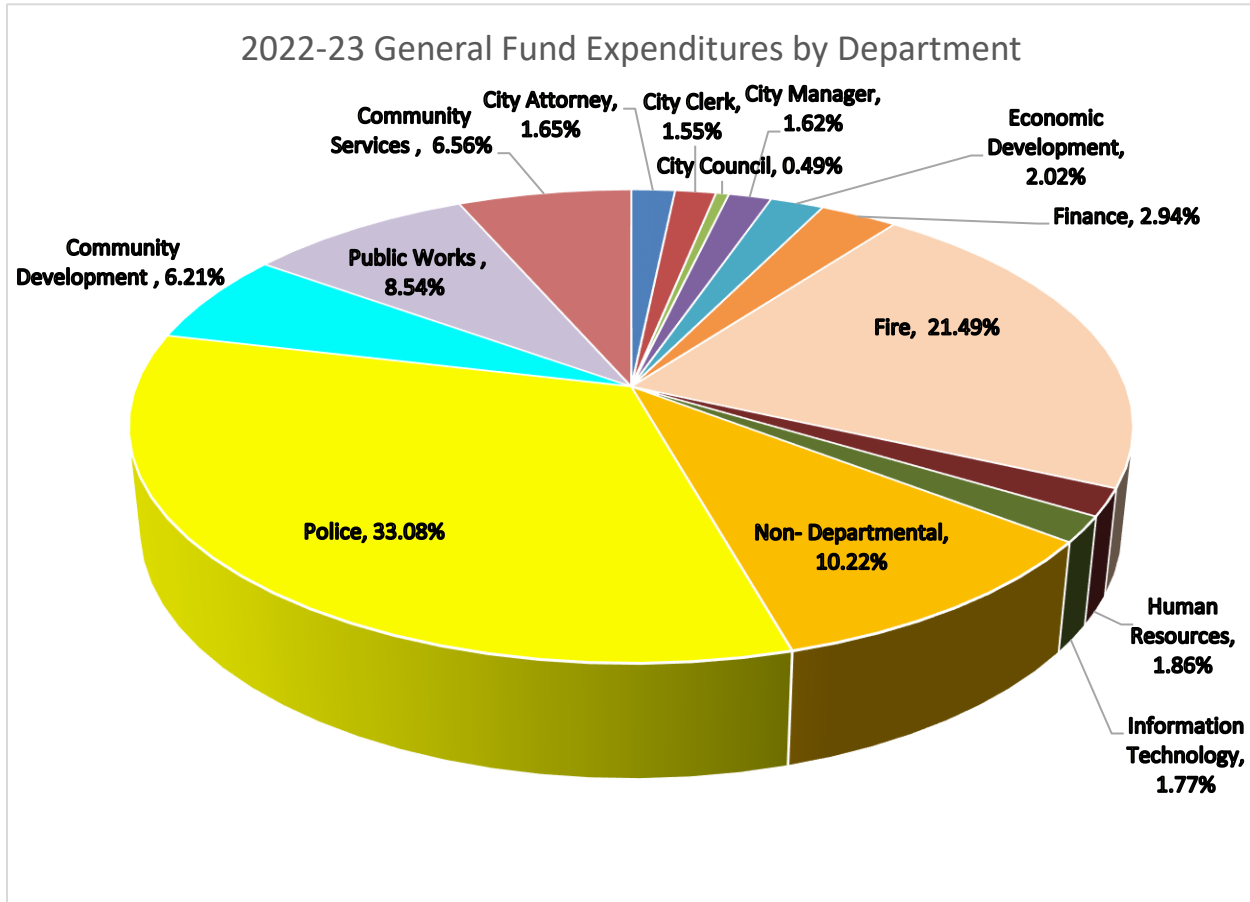
Business License Tax

The City of Emeryville currently has 3,198 business license taxpayers. Even with a reduction of 179 businesses in FY 2021-22 and 150 businesses in FY 2020-21, the business license tax revenues are still projected to generate \$6.4 million on FY 2022-23.



Expenditures

General Fund projected expenditures have increased by \$370,000 in FY 2022-23 compared to FY 2021-22 year-end estimates. For the FY 2022-23 budget, Departments were asked to maintain operational costs as close to FY 2021-22 as possible.

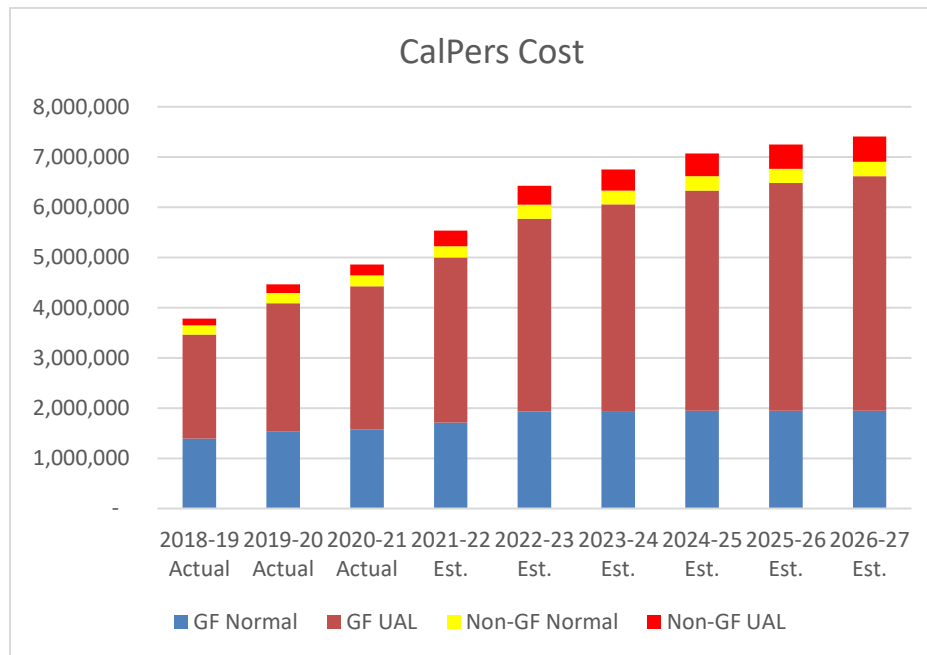


The current budget includes projected labor costs of a one-year contract extension for all bargaining units through the end of FY 2022-23, supporting the provision of core services to both residents and businesses during the upcoming fiscal year.

Reserve Policy – The City continues to develop the annual budget under the guidelines of the City’s Reserve Policy. The Reserve Fund’s projected balance at the end of FY 2022-23 is over fifty percent of the General Fund operating expenditures as required by the policy.

Pension - One of the benefits offered to employees is participation in the CalPERS pension program. Following significant losses during the great recession and lower than projected returns on assets held for the past several years, CalPERS changed the assumptions it applied to the funding requirements of the program. These assumptions changed the term of recovery from 30 years to 15 years, lowering the discount rate

(projected annual earnings rate) from 7.375 percent to 7.0 percent and shortening the amortization life from 30 years to 20 years for future years. The resulting financial impacts of these changes will significantly increase future pension obligations, possibly resulting in reduced service levels throughout the City in the future. The following is the actual and projected costs of the CalPERS through FY 2026-27 based upon current information available.



The City established a Section 115 Trust Fund to accumulate funds that can only be used towards future pension costs in addition to paying the required CalPERS annual pension payments. For FY 2022-23, the City has budgeted \$300,000 from interest earnings in the Trust. The Section 115 Trust Fund is projected to have a balance of \$14.0 million at the end of FY 2022-23.

Looking Forward

Staff will continue to streamline the City's organizational processes and optimize existing programs to continue to meet the needs of residents and businesses throughout the City. Staff will also work with the City Council to identify new revenue streams to offset some of the losses experienced from the pandemic. By continuing to improve efficiency and focusing on the longer-term forecast for the City's General Fund, residents, business leaders and community partners will continue to invest in and strengthen the Emeryville community.

Capital Planning-Beyond 2023

The City has historically adopted a five-year Capital Improvement Program (CIP), which is then updated along with each two-year budget adoption. The current CIP was adopted in 2019. Given the impacts of the pandemic on City revenues, the CIP project list has not been updated since adoption. Instead, each subsequent City operating budget has appropriated new annual revenues, such as Measure B/BB, SB1 and other grant funds, to existing projects. The proposed focused FY 2022-23 Capital Project budget is approximately \$78 million, of which \$57.1 million is from previously authorized but uncompleted Capital Projects. Several significant infrastructure projects will be completed, commenced, or designed over the course of 2022-23 as set forth in the adopted 2019-24 Capital Improvement Program.

The City Council has supported staff completing existing, funded projects, rather than adding new projects into the CIP. The following major projects have been completed: South Bayfront Bridge and Horton Landing Park, Greenway Crossings, and the San Pablo Mid-Block Crossing. Additional major projects will be under construction in FY 2022-2023: Rail Safety/Quiet Zone, Point Emery Shoreline Protection, Lumec Pole/40th Street Bridge painting and Davenport Park. Additionally, there will be a 2022-2023 City-wide paving project which will include additional bicycle and pedestrian improvements. With all those projects completed or underway, a new CIP needs to be developed in FY 2022-2023 for adoption with the FY 2023-2025 budget. That process will commence in the fall for implementation in FY 2024 through FY 2028.

City Council Goals - The City Council has identified the following Goals and Priority Projects for the next fiscal year:

- Commence Old Corporation Yard remediation construction.
- Develop affordable housing: 3600 San Pablo, 4300 San Pablo, and Christie Sites
- Prioritize bicycle and pedestrian focused projects: 40th Street Redesign, San Pablo Avenue Corridor, Ashby Interchange.
- Construct Rail Safety/Quiet Zones.
- Continue advancing Art Center Project.
- Develop Revenue Generating Ballot Measure for 2022.
- Electrify the City's vehicle fleet.

Conclusion

The City must plan with care and make prudent fiscal decisions about how to best use its resources to sustain services for the long term. The proposed Budget for FY 2022-23 represents the thoughtful work of the Budget & Governance and Budget Advisory Committees over the last year, as well as staff throughout City Departments who prepared reasonable expenditure budgets that maintain services while respecting resource constraints.

Staff thanks the City Council, the Budget and Governance Committee and the Budget Advisory Committee for their guidance and support throughout the development of the budget. In addition, thank you to the staff in all City Departments that contributed to the Fiscal Year 2022-23 budget. Finally, special thanks to the Finance Department for their work and expertise throughout this year's budget process.

RECOMMENDATION

Staff recommends that the City Council review and adopt a Resolution approving the proposed Operating Budget for the City of Emeryville, and appropriating funds, for Fiscal Year (FY) 2022-23.

PREPARED BY: Brad Farmer, Finance Director

APPROVED AND FORWARDED TO THE CITY COUNCIL OF THE CITY OF EMERYVILLE:



Christine Daniel, City Manager

ATTACHMENTS

- Draft Resolution
- Proposed Fiscal Year 2022-23 Budget