

STAFF REPORT

DATE: April 9, 2019
TO: City Council
FROM: Nitish Sharma, Director of Finance/Treasurer
SUBJECT: City of Davis Mid-Year Financial Outlook

Recommendation

Receive and provide any direction on the City of Davis financial outlook.

Fiscal Impact

The information presented in this report provides the budgetary projections for FY 2018/19, FY 2019/20, and FY 2020/21. The FY 2018/19 ending unrestricted General Fund balance, net of the reserve, is estimated at \$2.6 million for FY 2019/20 and FY 2020/21. The current General Fund Reserve policy suggests that the amount of the reserve between 10% and 15% could be applied by City Council to one-time capital expenditures.

Council Goal(s)

The objectives established under the Council strategic goal “*Ensure Fiscal Resilience*” are:

1. Revenue: Ensure fair City Tax rates and fees while investigating new and sustainable sources of revenue to strengthen the economic base and to provide the services desired by the community.
2. Cost Containment: Seek increased cost efficiency and containment in service delivery, while maintaining high quality city services.
3. Transparency: Take actions to enhance and promote fiscal transparency.

Summary

This report provides an overview of the financial cornerstones of the City of Davis, a summary of the financial outlook for the next 20 years pursuant to the City of Davis Long Term Financial Model, and a fiscal summary of short term and long-term challenges and opportunities for the City.

Background & Projections

Cities across California continue to face mounting short and long-term budgetary challenges. Local contributions to PERS costs are escalating because of lower than expected returns on investment and retirees living longer, costs of providing municipal services have outpaced revenue growth, the emergence of online retail has introduced uncertainty for local sales tax projections, deferred maintenance of aging infrastructure looms on the horizon, and instability at the federal level threatens to undermine both longstanding and new local funding sources.

Davis is not immune to these and other financial challenges, but the City is fortunate to have a solid budgetary foundation that should allow it to better withstand the impacts. This cautiously

optimistic outlook is thanks to a number of factors—a stable and fiscally responsible City Council, stable property value or assessment base, one voter-approved one cent tax measure providing revenue to carry out strategic initiatives and leverage limited General Fund dollars, two parcel tax measures, a successful record in competing for state and federal grants, a burgeoning cannabis industry that will pay its fair share to support City operations, and most importantly, a very limited and strategic increase to ongoing increase in costs to provide the ongoing services.

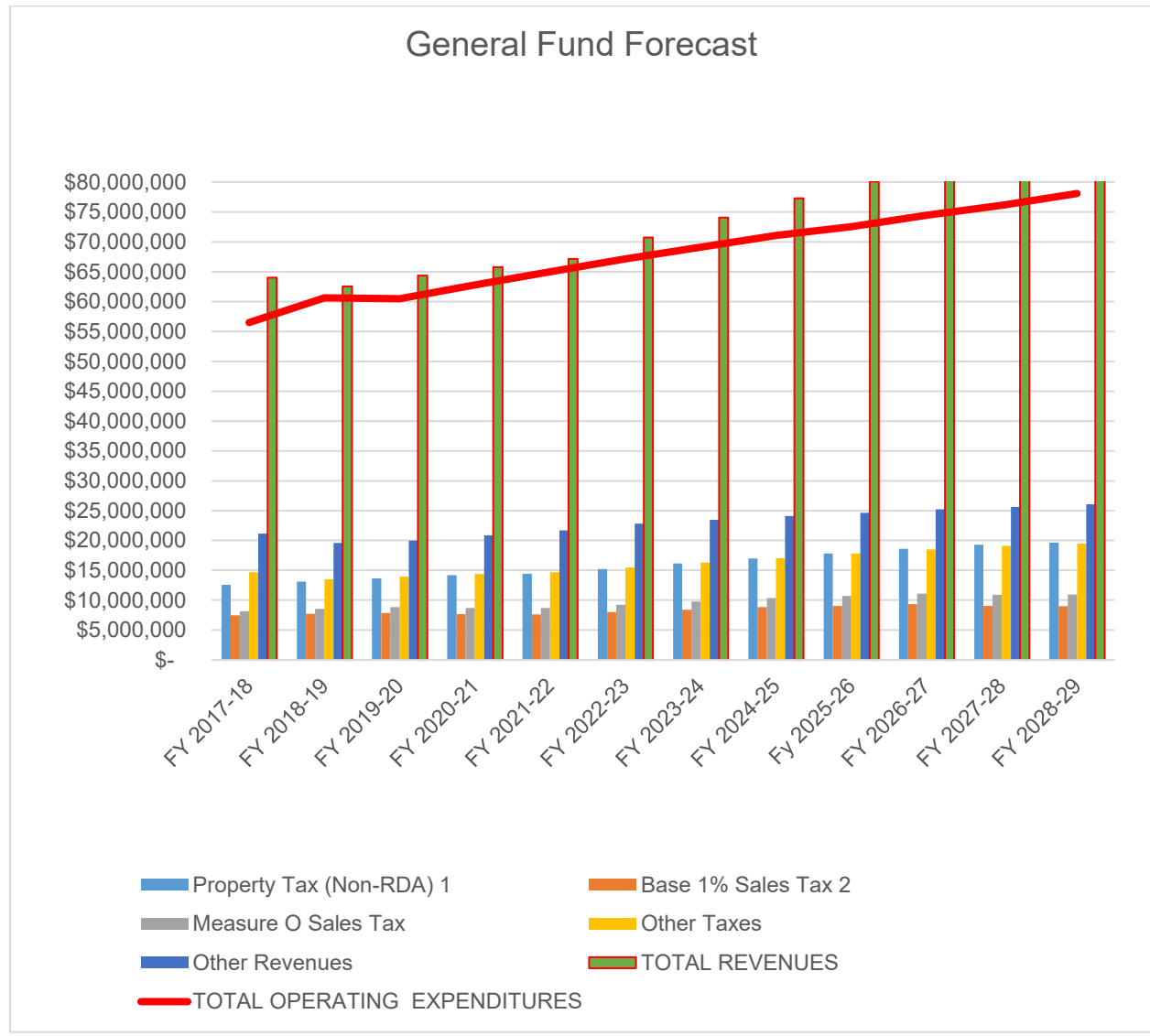
However, the financial upside associated with some of these favorable factors is unlikely to be sufficient to meet the substantial increase projected in the expenditures for the next 5 to 10 years. Therefore, the City’s ability to manage through impending General Fund challenges necessitates a comprehensive long-term budget assessment and strategy, as opposed to attempting to manage these issues through the current two-year budget cycle. The purpose of this report is to present the Finance Director’s analysis of a 20-year General Fund outlook, identifying problems before they occur and recommending solutions that aim to balance the fiscal outlook. The City of Davis short-term and long-term financial outlook is based on fiscal cornerstones that are consistent from year over year and achieve the goals and vision of the City Council. The four fiscal cornerstones are described below:

1. Adequate funding to meet required service levels
 - a. Promote economic development;
 - b. Secure grant opportunities and expand the use of local funds;
 - c. Invest excess funds over current reserve balance to create capacity or opportunities;
 - d. Seeking new revenue to continue to fund the aging infrastructure needs.
2. Cost Containment: Making efficient use of existing tax dollars
 - a. Continue to implement efficiencies and innovations to reduce operating costs;
 - b. Continue to look for opportunities to reduce or limit the increase in City’s long-term obligations (labor costs, including pension and other-post employment benefits);
 - c. Continue to monitor and look for opportunities to reduce spending by departments by reorganization or review of the cost allocation plan for general city services to ensure sufficient revenues are generated to reduce the burden on the General Fund; and
 - d. Invest in employee professional training to better utilize technology to create efficiencies and innovation.
3. Build and maintain a prudent reserve fund balance
 - a. Review and evaluate the current reserve policy and return to the City Council with any recommendations for adjustments to ensure adequate funding for emergencies or economic downturns; and
 - b. Set reserve requirements for the utility funds consistent w/ the costs of service study used to develop the rate structures.
4. Foster a climate of sincerity, transparency, and accountability
 - a. Enhance customer service, using metrics when possible, to ensure the funds are allocated and spent accordingly;
 - b. Enhance and promote open data and use results to communicate to Council and citizens on financial matters; and
 - c. Promote accountability of the allocation of resources.

Current General Fund Outlook

The financial forecast in **Attachment A** presents a 20-year summarized version of the budget model of the General Fund, including actual figures from the past five years and projections for the next 15 years. The chart is labeled “Status Quo” because it is generally based on continuing the City’s current budget approach.

Chart 1: Current General Fund Outlook



The above **Chart 1** above illustrates the net operating surplus for the next 10 years. It is important to note that the General Fund forecast includes the continuation of the Measure O district tax to pay for ongoing services of the general government. Measure O generates approximately \$8.5 million each year in revenues. The net operating surplus, before investment in capital assets, is approximately \$3.8 million for Fiscal Year 2019/20 and \$3.0 million in Fiscal Year 2020/21.

In the summary below, staff have highlighted key assumptions, challenges and opportunities for the current outlook and a more detail analysis of the key assumptions are described in **Attachment B. Attachment C** of the packet provides a detail version of the forecast model for the next 20 years.

General Fund Revenue Assumptions:

Property Tax Revenue

The model assumes a 4% growth rate for the portion of City property taxes that accrue to the General Fund for the next biennial fiscal years. It is important to note that most new property tax in Davis is generated from the Sterling Project, a multi-family development on 5th Street, construction of Marriott Residence Inn, Hyatt House and 41 new single-family homes. Secured property tax revenues received through February 2019 are reported at \$6,743,901; whereas, for the same period ending February 2018 were at \$6,444,003. It is prudent to estimate that the actual property tax revenues for the current fiscal year will exceed budget expectations by \$204,000 or slightly higher after adjustments.

Sales Tax Revenue- Local 1% (Bradley Burns)

The model assumes a conservative annual growth rate of one percent for the City's share of sales tax. Although there has been recent decrease in sales tax related to the loss of La Mesa RV, staff recommends a guarded approach to this major revenue source due to the increasingly competitive environment among cities for sales tax and the continued rise of online retail. For the biennial fiscal year, the sales tax revenues from the Bradley Burns are projected to increase 2.18% in Fiscal Year 2019/20 and decrease of 1% in Fiscal Year 2020/21 from the current year projections. These estimates are prepared by Avenu Insights and Analytics, City's sales tax consultant, and are based on the sales tax data received through December 31, 2018.

- Sales tax revenues received through February 2019 are reported at \$4,126,431. The prior year amount at this time was \$3,365,853, a variance of \$829,400. The variance is primarily due to the change in tax distribution at the California Department of Tax and Fee Administration. After accounting for the change in revenue distributions from prior year to current year, the current receipts are meeting or slightly exceeding projections. It is important to note that sales tax projections are very difficult due to the impact of online sales taxes after the Wayfair vs. South Dakota decision. Staff will continue to monitor receipts and will report to Council if a significant decrease in anticipated receipts is experienced.

District Tax- Measure O

Measure O, a one-cent sales tax override, generates approximately \$8.5 million each year. It is important to note that Measure O is scheduled to sunset at December 31, 2020, absent other action by the City Council. The model assumes a conservative annual growth rate of 3.98% in Fiscal Year 2019/20 and a decrease of 1.95% in Fiscal Year 2020/21. City staff has begun the process to gather information so the City Council can make a decision about whether to place a renewal of Measure O on the March 2020 ballot

- District tax (Measure O) revenues received through February 2019 are reported at \$4,495,216; whereas, for the same period ending February 2018 were at \$3,356,426. The

change is primarily due to the distribution of revenues from prior year to current year; however, staff is projecting that the actual sales tax revenues for the current fiscal year will exceed budget by \$288,000.

Other Taxes and Revenues

This general category compiles all other revenue streams that are directed to the General Fund. This includes revenue from franchise agreements, vehicle license fee property tax swap revenue, AB 1290 property tax pass-through revenue, municipal service taxes, document transfer taxes, fines, facility use fees, cell tower leases, and other sources. The other taxes including vehicle license fees, AB1290 distribution from the former Redevelopment Agency are projected to increase approximately 4% or approximately \$400,000 each year in Fiscal Year 2019/20 and Fiscal Year 2020/21. Fees from service charges, primarily parks and recreation fees are projected to increase by the cost of living adjustment of 4.5% from prior year.

The current year projection will slightly exceed budget based on the increase in the assessed valuations as discussed under property tax revenue assumptions.

Transient Occupancy Tax (TOT) Revenue

TOT revenue has remained relatively flat until Fiscal Year 2017 and 2018, but it will increase substantially upon completion of the Marriott Residence Inn (estimated completion in FY 2019/20) and Hyatt House (estimated completion in FY 2020/21). Notably, the City receives the majority of its TOT from the franchise or brand hotels/motels.

- Transient occupancy taxes received through February 2019 are reported at \$1,114,437; whereas, for the same period ending February 2018 were at \$1,033,155. It is prudent to estimate that the actual sales tax revenues for the current fiscal year will exceed budget by \$240,000.

Cannabis Development Agreement Base Revenue

Projections for revenue related to approve Development Agreements with cannabis industry businesses are tenuous until more of the approved businesses actually begin operations. For purposes of this status quo model, only revenue that is currently being received is included in the General Fund. Staff will update the Commission and Council once the fiscal year is substantially complete on the actual receipts of the cannabis revenues.

- Cannabis revenues received through February 2019 are reported at \$480,028; whereas, for the same period ending February 2018 were at \$68,751. Staff will continue to monitor this revenue source during the fiscal year.

General Fund Expense Assumptions:

Salaries and Benefits

Anticipated increases to the City's PERS contributions pose the greatest threat to the long-term viability of the General Fund. The model aggregates the impact of the estimated PERS increases over the ten-year period, while also building in room for modest growth in personnel costs for staff positions funded by the General Fund. An annual fixed increase of 2% is assumed in the model to account for the combined total of these costs. The current model estimates an addition of 1 full time equivalent position in each year of the next biennial year budget. The summary below

illustrates the funding level of pension and other post-employment benefits and the projected increases in the next few years as addressed in the forecast model.

- A. Pension Expense: The total normal accrued liability based on the latest PERS valuation as of June 30, 2017 is \$352.8 million, the market value of the plan asset is \$231.3 million, and the total unfunded liability is \$121.5 million. The plan is 65.6% funded as of June 30, 2017. The cumulative increase in pension expense for the next 5 years is approximately \$4.01 million for the unfunded portion and a 3% increase in the normal cost portion. This results in a 50% increase in pension costs based on the current year. **Attachment D** provides a more detailed analysis of the various plan funding status and the pension costs for the next 5 years.
- B. Other Post-Employment Benefits (OPEB) Expense: The OPEB liability projected for Fiscal Year 2018/19 is \$97.5 million while the value of the plan assets is projected at \$39.6 million; a net of \$57.9 million in unfunded liability (40.58% funded). The OPEB contribution is projected to increase by \$440,000 in Fiscal Year 2019. **Attachment E** provides a more detailed analysis of the OPEB liability for last few valuation years.
 - Actual salaries and benefits posted through March 31, 2019 were \$27,407,974 or 69.61% of the approved budget. There are 7 vacant positions that may not be filled in the current fiscal year, which will result in a savings of approximately \$350,000 after accounting for projected overtime costs primarily in the public safety group.

Operations and Maintenance (O&M)

The model assumes a 2% annual growth rate for the non-personnel side of the General Fund budget, which includes the operations and maintenance budgets of the Parks, Police, and Fire Departments and half of the City Manager’s Office. Expenses for recreation programs and other City programs are also included, net of costs recovered through fees.

- Total O&M expenditures reported through March 31, 2019 were \$12,013,830, 30.18% of the approved budget. Staff does not anticipate any extraordinary expenditures for the remainder of fiscal year 2019. The O&M adjusted budget includes Capital Improvement Project carryover from the prior fiscal year plus the new funding approved for the current fiscal year.

Source: OpenGov

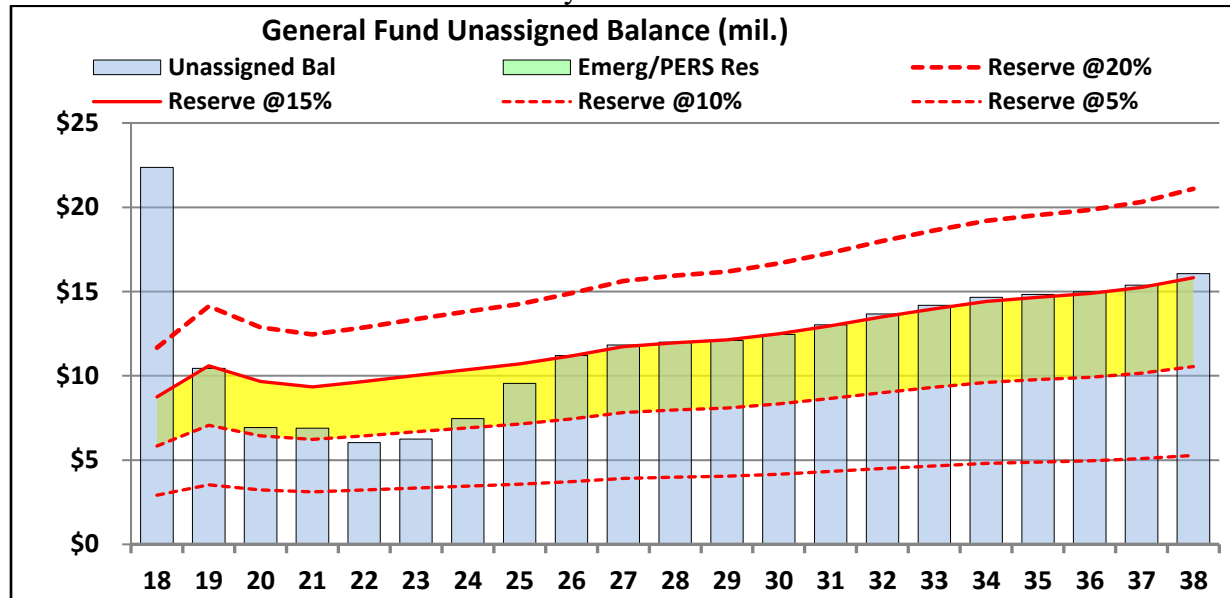
		FY 2018/19			
		Adjusted Budget	Actual as of 3/31/2019	Remaining Budget (\$)	Remaining Budget (%)
Personnel		\$ 39,372,009	\$ 27,407,974	\$ 11,964,035	30.39%
Non-Personnel		\$ 39,812,312	\$ 12,013,830	\$ 27,798,482	69.82%
Totals:		\$ 79,184,321	\$ 39,421,804	\$ 39,762,517	

General Fund: Fund Balance

Chart 2 below illustrates the net General Fund balance over the next 20 years, assuming the continuation of Measure O. Current projections show the General Fund Reserve dipping slightly

below the 10% level in fiscal years 2021-22 and 2022-23 before increasing in 2023-24. Staff will continue to monitor revenues and expenditures and will recommend adjustments to Council as necessary should there be a concern about not meeting a 10% reserve target in future years.

Chart 2: General Fund- Fund Balance Analysis



City Council Direction: General Fund Outlook with Challenges and Proposed Solutions

Short and long-term budget recommendations are identified earlier and restated, with additional detail, below:

- *Measure O Sales Tax:*
The task to put a ballot measure in front of the Council and citizen has started internally. Staff will present to Council results of the City conducted survey and other strategies in a future meeting. The current Measure O revenue to fund vital city services amounts to approximately \$8.5 million a year. The City Council will need to decide whether to place a renewal measure on the March 2020 ballot.
- *Pension and OPEB Costs:*
Council may direct staff to pursue opportunities related to the funding of the substantial increase projected in the pension and OPEB costs. Some of the opportunities the Council may consider to direct staff to evaluate are listed below:
 1. Section 115 Trust: A section 115 Trust is an avenue to segregate city funds from the general purpose of funding essential governmental functions. For example, 115 trust can be used to set aside monies to meet future pension contributions or liabilities. There is no cost to the City to set up these funds and any monies allocated to them will be controlled by the City, including investments. The budget savings from vacant positions may provide an opportunity to set the funds aside in the Section 115 Trust Fund to pension and other post-employment benefits expense.

2. Lump Sum Payment: One Time Money or excess General Fund beyond the minimum reserve requirement and Other Operating Funds, including Utility Funds to pay down the pension obligation. This will allow the revaluation of the annual pension cost based on the current assumptions.
 3. Additional PAYGO: Council may direct staff to analyze the result of making additional annual payments that are greater than the required amount. PAYGO is an additional small contribution toward the principal payment that over time will positively impact the annual pension expense.
 4. Labor Agreements- Continue to cost share the increases in the annual pension costs and other post-employment benefits pursuant to the MOU's for bargaining groups. It is important to note that this may result in a very minor savings to the City funds due to the fact that majority of the increase is picked up by the City.
- *Reserve Fund:*
The City Council current established reserve policy is in the range of 10% to 15%. The Council has directed staff to use the reserve fund in excess of the 10% floor for one-time strategic investments/obligations. The City Council may provide additional guidance to staff to establish some guiding principles on the current reserve policy. For example:
 1. Budget Stabilization Fund: One Time Money or excess General Fund from each fiscal year based on savings in the operations and maintenance budget may be allocated to this fund to mitigate substantial increases projected in annual pension expense, other post-employment benefits, and maintenance of aging facilities and infrastructure. These funds are totally unrestricted and can be used for any functions/programs of the General Fund.
 2. One-time Expenditures: Set aside funds in excess of the minimum reserve requirement to fund one-time capital expenditures or provide match to grant funded projects. The result of the investment may not affect the ongoing costs of the General Fund or other funds; however, may reduce maintenance costs built in the budget.
 3. Council strategic projects: Set funds aside for City Council strategic projects including economic development, investment in strategic infrastructure projects, and innovative projects. The funds set aside in this category may be tied to an increase in General Fund Revenues, attract investments from private companies or other government agencies, promote job growth, create a vibrant downtown, and support local businesses.
 - *Separate General CIP Fund:*
Staff is recommending recording the revenues and expenditures related to General Fund in a separate General Capital Projects Fund to reduce the significant changes to the approved budget and ensure that operating revenues and expenditures are properly accounted for and reported accordingly.
 - *Accountability and Transparency:*
 1. OpenGov Platform
Staff implemented OpenGov in the prior month (source: <https://cityofdavis.org/Home/Components/News/News/5421/2985?backlist=%2f>). OpenGov is a transparency software that allows the citizens to view how the City revenues are allocated to functions of the City government. Although this is a major

step forward, below are some of the future initiatives staff is working on in relation to OpenGov:

- a. Summary report of the data illustrated on the OpenGov platform. This summary report will include revenue and expenditure analysis for the prior fiscal years plus the current year quarterly reports. This will help the citizens understand the sources and uses of City funds.
- b. Charts and Other reports from the OpenGov platform will be used to present the financial information to the stakeholders. For example, a budget to actual report for each department will be readily available to each Department Head on a daily basis.
- c. Timing of current year information: the current year report will include transactions that are as of a prior day.
2. GovInvest Pension and OPEB Module
 - a. Staff will implement this tool in the current calendar year to assist with the analysis of the pension costs, OPEB costs and MOU cost analysis.
3. Quarterly Report to the Finance & Budget Commission and City Council: Staff will provide a quarterly budget to actual report, projections for the current year and list of challenges and opportunities on a quarterly basis on the premises of the financial cornerstones as presented above. The report will also include an update on the key initiatives the department is pursuing to achieve efficiencies, innovations, and new revenue potentials.

Attachments

- A.** Financial Forecast Summary Version
- B.** Narrative on the Detail Financial Forecast Model
- C.** Detail version of the Long Term Financial Forecast Model
- D.** Pension Analysis
- E.** Other Post-Employment Benefits Analysis

GENERAL FUND: LONG-TERM FINANCIAL MODEL
CHART A: STATUS QUO BUDGET

SOURCE/USE	1	2	3	4	5	6	7	8	9	10	11
	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
GENERAL FUND REVENUES											
Property Tax (Non-RDA) ¹	\$ 12,579,961	\$ 13,120,400	\$ 13,643,049	\$ 14,186,270	\$ 14,432,874	\$ 15,201,912	\$ 16,133,387	\$ 16,965,268	\$ 17,839,425	\$ 18,599,339	\$ 19,302,239
Base 1% Sales Tax ²	\$ 7,467,564	\$ 7,721,616	\$ 7,889,972	\$ 7,647,504	\$ 7,608,425	\$ 8,006,450	\$ 8,402,099	\$ 8,824,448	\$ 9,047,144	\$ 9,318,446	\$ 9,043,799
Measure O Sales Tax	\$ 8,136,086	\$ 8,544,948	\$ 8,848,762	\$ 8,676,484	\$ 8,715,775	\$ 8,715,775	\$ 9,244,997	\$ 9,782,045	\$ 10,356,719	\$ 10,708,758	\$ 11,115,357
Other Taxes	\$ 14,675,615	\$ 13,520,730	\$ 13,949,515	\$ 14,392,616	\$ 14,687,457	\$ 15,449,332	\$ 16,285,241	\$ 17,043,833	\$ 17,807,462	\$ 18,514,657	\$ 19,090,587
Transient Occupancy Tax ³	\$ 2,146,184	\$ 2,263,400	\$ 2,331,302	\$ 2,833,949	\$ 3,275,718	\$ 3,945,299	\$ 4,108,043	\$ 4,277,499	\$ 4,405,824	\$ 4,537,999	\$ 4,560,689
Cannabis DA Revenues: Base ⁴	\$ 24,131	\$ 170,000	\$ 250,000	\$ 255,000	\$ 260,100	\$ 265,302	\$ 270,608	\$ 276,020	\$ 281,541	\$ 287,171	\$ 292,915
Other Revenues	\$ 16,199,817	\$ 13,331,933	\$ 13,930,163	\$ 14,202,915	\$ 14,533,065	\$ 14,908,216	\$ 15,292,439	\$ 15,675,818	\$ 16,045,075	\$ 16,414,954	\$ 16,674,778
TOTAL REVENUES	\$ 61,229,358	\$ 58,673,027	\$ 60,842,764	\$ 62,194,738	\$ 63,513,413	\$ 66,492,285	\$ 69,736,813	\$ 72,844,932	\$ 75,783,191	\$ 78,381,326	\$ 80,080,363
GENERAL FUND EXPENSES											
Salaries & Benefits ⁷	\$ 36,799,196	\$ 37,719,736	\$ 40,746,723	\$ 42,688,847	\$ 44,503,442	\$ 46,254,961	\$ 47,785,597	\$ 49,328,709	\$ 50,389,072	\$ 51,859,196	\$ 53,070,467
Operations & Maintenance ⁸	\$ 19,261,581	\$ 21,842,836	\$ 19,457,446	\$ 19,841,189	\$ 20,232,607	\$ 20,631,853	\$ 21,039,084	\$ 21,454,460	\$ 21,878,144	\$ 22,310,301	\$ 22,751,101
Capital Outlay	\$ 421,188	\$ 1,055,034	\$ 250,000	\$ 255,000	\$ 260,100	\$ 265,302	\$ 270,608	\$ 276,020	\$ 281,541	\$ 287,171	\$ 292,915
Transfers	\$ (2,784,943)	\$ (3,839,810)	\$ (3,482,414)	\$ (3,552,062)	\$ (3,623,103)	\$ (3,695,566)	\$ (3,769,476)	\$ (3,844,866)	\$ (3,921,763)	\$ (4,000,199)	\$ (4,080,203)
TOTAL EXPENDITURES	\$ 53,697,022	\$ 56,777,796	\$ 56,971,755	\$ 59,232,973	\$ 61,373,046	\$ 63,456,551	\$ 65,325,813	\$ 67,214,324	\$ 68,626,993	\$ 70,456,470	\$ 72,034,281
OPERATING SURPLUS (DEFICIT)	\$ 7,532,336	\$ 1,895,231	\$ 3,871,009	\$ 2,961,765	\$ 2,140,367	\$ 3,035,734	\$ 4,411,000	\$ 5,630,609	\$ 7,156,197	\$ 7,924,856	\$ 8,046,082
Investment in Capital Rehab/Replacement	\$ 4,619,218	\$ 13,816,804	\$ 7,383,260	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,730,800	\$ 4,112,724	\$ 5,863,084	\$ 7,699,386	\$ 7,654,161
NET G.F. SURPLUS (DEFICIT)	\$ 2,913,118	\$ (11,921,572)	\$ (3,512,250)	\$ (38,235)	\$ (859,633)	\$ 35,734	\$ 680,200	\$ 1,517,885	\$ 1,293,114	\$ 225,470	\$ 391,922
Fund Balance (Net of Reserves of 10%)	\$ 15,164,670	\$ 18,077,788	\$ 6,156,216	\$ 2,643,966	\$ 2,605,731	\$ 1,746,098	\$ 1,781,832	\$ 2,462,032	\$ 3,979,917	\$ 5,273,031	\$ 5,498,501
Ending Unrestricted G.F. Fund Balance	\$ 18,077,788	\$ 6,156,216	\$ 2,643,966	\$ 2,605,731	\$ 1,746,098	\$ 1,781,832	\$ 2,462,032	\$ 3,979,917	\$ 5,273,031	\$ 5,498,501	\$ 5,890,422

GENERAL FUND: LONG-TERM FINANCIAL
CHART A: STATUS QUO BUDGET

SOURCE/USE	12 2028-29	13 2029-30	14 2030-31	15 2031-32	16 2032-33	17 2033-34	18 2034-35	19 2035-36	20 2036-37	21 2037-38
GENERAL FUND REVENUES										
Property Tax (Non-RDA) ¹	\$ 19,644,919	\$ 20,190,248	\$ 21,135,895	\$ 22,125,979	\$ 23,162,003	\$ 24,038,253	\$ 24,947,841	\$ 25,391,949	\$ 26,098,095	\$ 27,321,910
Base 1% Sales Tax ²	\$ 9,000,483	\$ 9,385,172	\$ 9,786,718	\$ 10,205,881	\$ 10,413,822	\$ 10,626,469	\$ 10,312,614	\$ 10,266,310	\$ 10,497,302	\$ 10,949,269
Measure O Sales Tax	\$ 10,891,674	\$ 10,942,037	\$ 11,512,406	\$ 12,112,627	\$ 12,744,268	\$ 13,122,230	\$ 13,511,532	\$ 13,236,936	\$ 13,298,968	\$ 13,598,194
Other Taxes	\$ 19,494,968	\$ 20,084,779	\$ 20,921,175	\$ 21,793,885	\$ 22,669,868	\$ 23,463,484	\$ 24,212,305	\$ 24,734,757	\$ 25,488,353	\$ 26,560,317
Transient Occupancy Tax ³	\$ 4,640,501	\$ 4,831,922	\$ 5,031,239	\$ 5,238,777	\$ 5,395,941	\$ 5,557,819	\$ 5,585,608	\$ 5,683,356	\$ 5,917,794	\$ 6,161,903
Cannabis DA Revenues: Base ⁴	\$ 298,773	\$ 304,749	\$ 310,844	\$ 317,060	\$ 323,402	\$ 329,870	\$ 336,467	\$ 343,196	\$ 350,060	\$ 357,062
Other Revenues	\$ 16,976,861	\$ 17,362,381	\$ 17,761,878	\$ 18,174,113	\$ 18,556,042	\$ 18,944,147	\$ 19,242,765	\$ 19,593,248	\$ 20,039,726	\$ 20,501,162
TOTAL REVENUES	\$ 80,948,180	\$ 83,101,288	\$ 86,460,154	\$ 89,968,323	\$ 93,265,346	\$ 96,082,272	\$ 98,149,132	\$ 99,249,753	\$ 101,690,299	\$ 105,449,817
GENERAL FUND EXPENSES										
Salaries & Benefits ⁷	\$ 54,576,763	\$ 56,117,073	\$ 57,692,512	\$ 58,693,300	\$ 60,021,360	\$ 61,138,913	\$ 62,386,223	\$ 63,489,786	\$ 64,432,728	\$ 65,725,736
Operations & Maintenance ⁸	\$ 23,200,717	\$ 23,659,326	\$ 24,127,107	\$ 24,604,243	\$ 25,090,922	\$ 25,587,335	\$ 26,093,676	\$ 26,610,144	\$ 27,136,941	\$ 27,674,274
Capital Outlay	\$ 298,773	\$ 304,749	\$ 310,844	\$ 317,060	\$ 323,402	\$ 329,870	\$ 336,467	\$ 343,196	\$ 350,060	\$ 357,062
Transfers	\$ (4,161,807)	\$ (4,245,043)	\$ (4,329,944)	\$ (4,416,542)	\$ (4,504,873)	\$ (4,594,971)	\$ (4,686,870)	\$ (4,780,608)	\$ (4,876,220)	\$ (4,973,744)
TOTAL EXPENDITURES	\$ 73,914,447	\$ 75,836,104	\$ 77,800,518	\$ 79,198,062	\$ 80,930,810	\$ 82,461,147	\$ 84,129,496	\$ 85,662,518	\$ 87,043,510	\$ 88,783,328
OPERATING SURPLUS (DEFICIT)	\$ 7,033,733	\$ 7,265,183	\$ 8,659,636	\$ 10,770,261	\$ 12,334,536	\$ 13,621,125	\$ 14,019,636	\$ 13,587,235	\$ 14,646,789	\$ 16,666,489
Investment in Capital Rehab/Replacement	\$ 6,992,770	\$ 7,459,680	\$ 8,700,596	\$ 10,758,898	\$ 12,187,878	\$ 13,545,377	\$ 13,567,890	\$ 13,501,123	\$ 14,550,477	\$ 16,683,555
NET G.F. SURPLUS (DEFICIT)	\$ 40,963	\$ (194,497)	\$ (40,960)	\$ 11,363	\$ 146,657	\$ 75,748	\$ 451,746	\$ 86,113	\$ 96,312	\$ (17,066)
Fund Balance (Net of Reserves of 10%)	\$ 5,890,422	\$ 5,931,385	\$ 5,736,888	\$ 5,695,928	\$ 5,707,291	\$ 5,853,948	\$ 5,929,697	\$ 6,381,443	\$ 6,467,555	\$ 6,563,867
Ending Unrestricted G.F. Fund Balance	\$ 5,931,385	\$ 5,736,888	\$ 5,695,928	\$ 5,707,291	\$ 5,853,948	\$ 5,929,697	\$ 6,381,443	\$ 6,467,555	\$ 6,563,867	\$ 6,546,802

04-0009 City
 GENERAL FUND - LONG-TERM FINANCIAL MODEL
 CHART A: STATUS QUO BUDGET

SOURCE/USE	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	2036-37	21
GENERAL FUND REVENUES																					
1 Property Tax (Non-RDA) ¹	\$ 12,679,961	\$ 13,120,400	\$ 13,643,049	\$ 14,186,270	\$ 14,432,874	\$ 15,201,912	\$ 16,133,387	\$ 16,985,268	\$ 17,639,425	\$ 18,699,339	\$ 19,302,239	\$ 19,644,919	\$ 20,180,248	\$ 21,135,895	\$ 22,125,979	\$ 23,182,093	\$ 24,038,253	\$ 24,847,841	\$ 25,591,949	\$ 26,098,095	\$ 27,321,910
2 Other 1% Sales Tax ¹	\$ 7,487,594	\$ 7,721,616	\$ 7,889,972	\$ 7,947,504	\$ 7,608,425	\$ 8,006,450	\$ 8,402,098	\$ 8,824,448	\$ 9,047,144	\$ 9,318,446	\$ 9,043,789	\$ 9,000,483	\$ 9,385,172	\$ 9,780,718	\$ 10,205,881	\$ 10,473,822	\$ 10,626,469	\$ 10,312,614	\$ 10,268,310	\$ 10,487,302	\$ 10,940,269
3 Measure O Sales Tax	\$ 8,136,086	\$ 8,544,948	\$ 8,846,762	\$ 8,876,484	\$ 8,715,775	\$ 9,244,997	\$ 9,782,045	\$ 10,356,719	\$ 10,708,758	\$ 11,115,357	\$ 10,891,674	\$ 10,942,037	\$ 11,516,406	\$ 12,126,827	\$ 12,744,888	\$ 13,122,230	\$ 13,236,896	\$ 13,511,532	\$ 13,298,968	\$ 13,698,194	\$ 14,307,956
4 Other Taxes	\$ 14,675,615	\$ 13,520,730	\$ 13,949,515	\$ 14,392,616	\$ 14,687,457	\$ 15,449,332	\$ 16,285,241	\$ 17,043,833	\$ 17,807,462	\$ 18,514,657	\$ 19,090,587	\$ 19,494,988	\$ 20,084,779	\$ 20,921,175	\$ 21,793,885	\$ 22,689,869	\$ 23,463,464	\$ 24,212,305	\$ 24,734,757	\$ 25,488,353	\$ 26,560,317
7 Other Revenues	\$ 21,155,075	\$ 19,605,143	\$ 19,993,879	\$ 20,843,926	\$ 21,691,986	\$ 22,814,382	\$ 23,440,666	\$ 24,074,204	\$ 24,654,203	\$ 25,240,324	\$ 25,606,584	\$ 26,077,942	\$ 26,744,094	\$ 27,433,804	\$ 28,146,493	\$ 28,900,259	\$ 29,426,806	\$ 29,851,710	\$ 30,400,408	\$ 31,183,801	\$ 31,993,871
TOTAL REVENUES	\$ 64,014,301	\$ 62,512,837	\$ 64,325,178	\$ 65,746,800	\$ 67,136,516	\$ 70,717,073	\$ 74,043,338	\$ 77,264,473	\$ 80,056,993	\$ 82,788,123	\$ 83,936,883	\$ 85,160,349	\$ 87,916,700	\$ 91,390,319	\$ 95,016,506	\$ 98,148,182	\$ 101,066,544	\$ 102,561,406	\$ 104,092,392	\$ 106,865,745	\$ 111,133,322
GENERAL FUND EXPENSES																					
8 Salaries & Benefits ⁷	\$ 36,799,196	\$ 37,179,736	\$ 40,746,723	\$ 42,688,847	\$ 44,593,442	\$ 46,254,961	\$ 47,785,897	\$ 49,328,709	\$ 50,389,072	\$ 51,859,196	\$ 53,070,487	\$ 54,576,763	\$ 56,117,073	\$ 57,692,512	\$ 58,693,300	\$ 60,021,360	\$ 61,138,913	\$ 62,386,223	\$ 63,489,786	\$ 64,432,728	\$ 65,725,736
9 Operations & Maintenance ⁸	\$ 19,692,769	\$ 22,897,870	\$ 19,707,446	\$ 20,096,189	\$ 20,492,707	\$ 20,897,155	\$ 21,309,692	\$ 21,730,481	\$ 22,159,684	\$ 22,697,472	\$ 23,044,016	\$ 23,499,491	\$ 23,964,075	\$ 24,437,650	\$ 24,921,304	\$ 26,414,324	\$ 26,917,205	\$ 26,430,143	\$ 26,653,340	\$ 27,487,001	\$ 28,031,335
TOTAL OPERATING EXPENDITURES	\$ 56,491,965	\$ 60,077,606	\$ 60,454,169	\$ 62,785,035	\$ 64,986,149	\$ 67,152,116	\$ 69,095,589	\$ 71,059,190	\$ 72,548,757	\$ 74,456,669	\$ 76,114,483	\$ 78,076,233	\$ 80,081,147	\$ 82,130,462	\$ 83,614,604	\$ 85,435,664	\$ 87,065,117	\$ 88,516,366	\$ 90,443,126	\$ 91,918,729	\$ 93,757,072
OPERATING SURPLUS (DEFICIT)	\$ 7,522,336	\$ 1,895,231	\$ 3,871,009	\$ 2,961,765	\$ 2,149,367	\$ 3,564,956	\$ 4,948,048	\$ 6,205,283	\$ 7,508,236	\$ 8,331,454	\$ 7,822,400	\$ 7,084,936	\$ 7,835,562	\$ 9,259,857	\$ 11,401,902	\$ 12,717,489	\$ 14,010,427	\$ 13,745,040	\$ 13,649,267	\$ 14,946,016	\$ 17,376,251
Investment in Capital Rehab/Replacement	\$ 4,619,218	\$ 13,816,804	\$ 7,383,260	\$ 3,000,000	\$ 3,000,000	\$ 3,960,000	\$ 3,730,800	\$ 4,112,724	\$ 5,863,084	\$ 7,699,386	\$ 7,654,161	\$ 6,992,770	\$ 7,459,680	\$ 8,700,598	\$ 10,758,888	\$ 12,187,878	\$ 13,545,377	\$ 13,867,880	\$ 13,501,123	\$ 14,550,477	\$ 16,683,555
NET G.F. SURPLUS (DEFICIT)	\$ 2,913,118	\$ (11,921,572)	\$ (3,512,280)	\$ (38,235)	\$ (689,633)	\$ 204,956	\$ 1,217,248	\$ 2,092,558	\$ 1,645,153	\$ 632,088	\$ 166,239	\$ 91,326	\$ 376,872	\$ 589,361	\$ 643,004	\$ 524,620	\$ 465,050	\$ 177,160	\$ 148,144	\$ 395,539	\$ 695,686
Fund Balance (Net of Reserves of 10%)	\$ 15,864,670	\$ 18,777,788	\$ 6,856,216	\$ 3,343,966	\$ 3,305,731	\$ 2,446,098	\$ 2,651,054	\$ 3,868,303	\$ 5,960,862	\$ 7,600,015	\$ 8,238,083	\$ 8,406,322	\$ 8,497,647	\$ 8,873,519	\$ 9,432,780	\$ 10,075,784	\$ 10,600,404	\$ 11,065,454	\$ 11,242,604	\$ 11,390,749	\$ 11,786,287
Ending G.F. Fund Balance	\$ 18,777,788	\$ 6,856,216	\$ 3,343,966	\$ 3,305,731	\$ 2,446,098	\$ 2,651,054	\$ 3,868,303	\$ 5,960,862	\$ 7,600,015	\$ 8,238,083	\$ 8,406,322	\$ 8,497,647	\$ 8,873,519	\$ 9,432,780	\$ 10,075,784	\$ 10,600,404	\$ 11,065,454	\$ 11,242,604	\$ 11,390,749	\$ 11,786,287	\$ 12,478,983

ATTACHMENT B

City of Davis

Long-Term Financial Forecast Model Analysis, Challenges and Opportunities

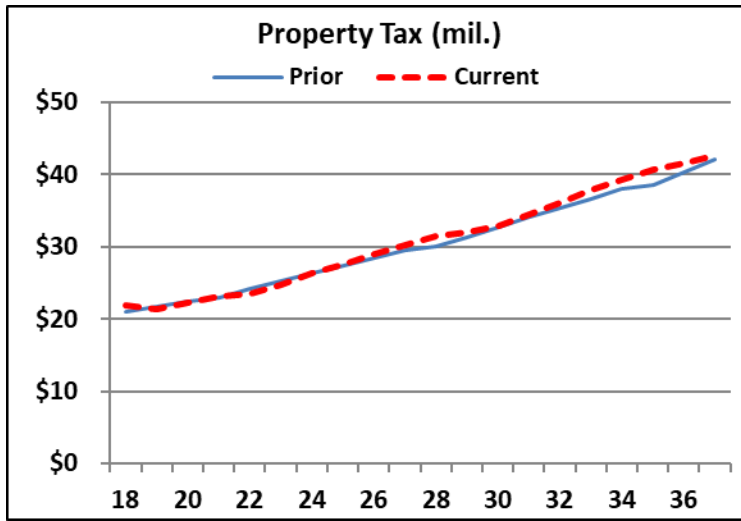
March 11, 2019

Davis Budget Forecast Update

The 20-year budget model and Financial Forecast serves as an important fiscal strategic planning tool. It provides a macro-level view of General Fund revenues and expenditures to assist in evaluating the impact of policy choices made today on the long-term fiscal health of the City. By identifying developing trends and potential issues that may arise in the future, it will help ensure long-term stability for the organization by giving policy-makers improved information with which to craft prudent and timely budget solutions. Forecasting is all about assumptions. This Financial Forecast focuses on what is likely to happen to the General Fund based on past experience and a realistic assessment of what might happen in the future. While this forecast is a snapshot in time, the advantage of the budget model is that it is constantly being updated with new information and can be adjusted as circumstances and trends begin to change. By being transparent about the assumptions that go into the forecast, and what is funded versus spending needs that are not funded, the City will promote better understanding of its financial condition and improve the credibility of its forecasting efforts.

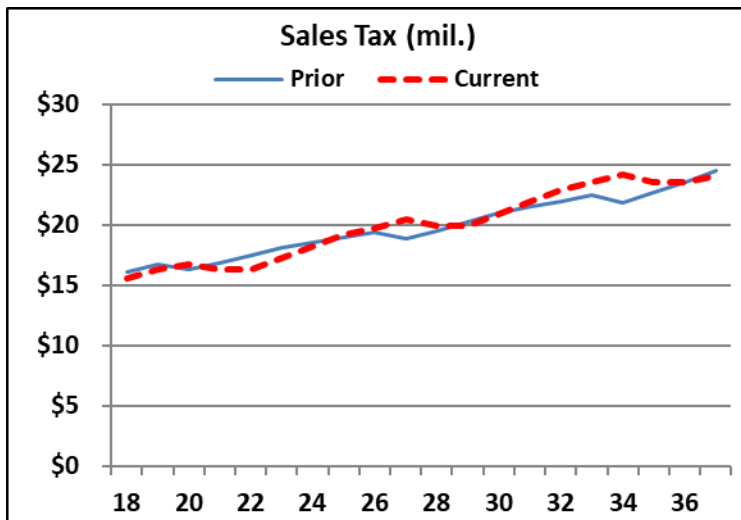
As a prelude to the upcoming budget process, the following provides a brief overview of the current budget model assumptions compared to last year's forecast, assuming the continuation of Measure O, the 1.0% local sales tax rate that expires on 12/31/20 unless extended by the voters. Also included is a discussion of the three major areas of fiscal sustainability that the City desires to achieve: fully funding infrastructure needs, funding operations per capita consistent with the historical trend or better, and maintaining adequate reserves. The report concludes with a look at the implications of not renewing the Measure O sales tax, and three budget policy recommendations.

Forecast Assumptions

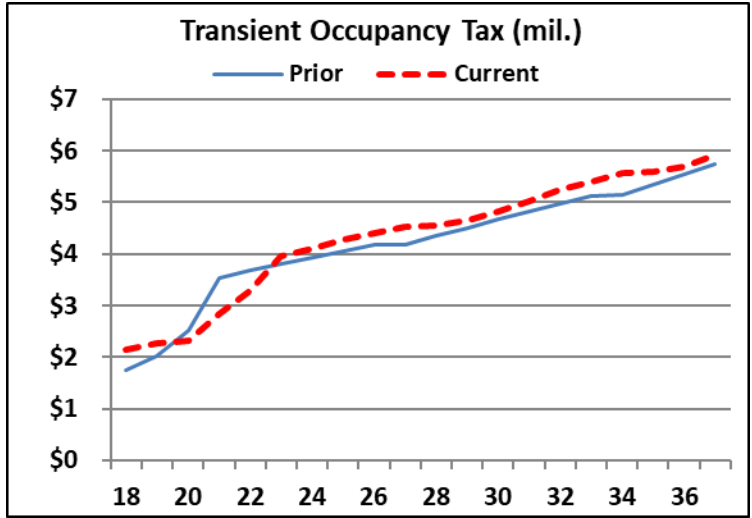


The property tax forecast is very similar to last year, and incorporated growth elements for the Prop 13 inflator, changes in ownership and new construction. The recession assumption in the new forecast assumes a 3% revenue reduction over 18 months starting in FY2021, versus a 2% reduction over 12 months starting in FY2020. The original forecast seems too aggressive, given that several development projects, including

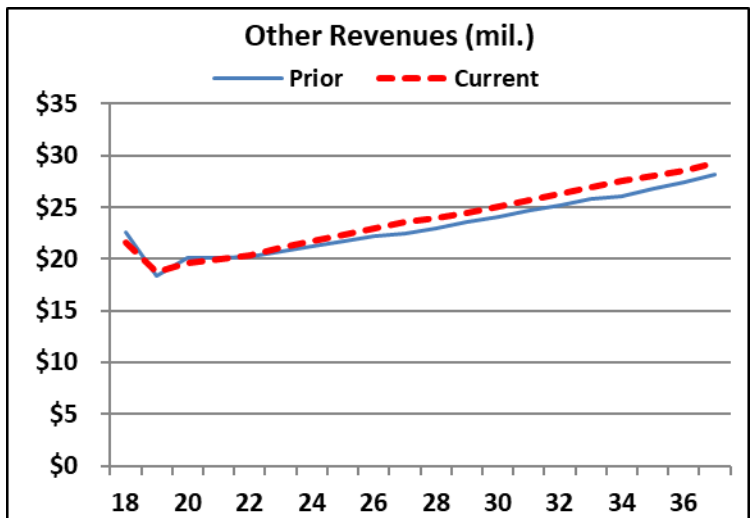
Nishi and WDAAC, have experienced development issues unique to each project, including litigation. The three hotel projects have each been delayed one year. Nishi and WDAAC have been delayed for two years, and Sterling by one year. This pushes much of the new construction element of property tax growth to future years.



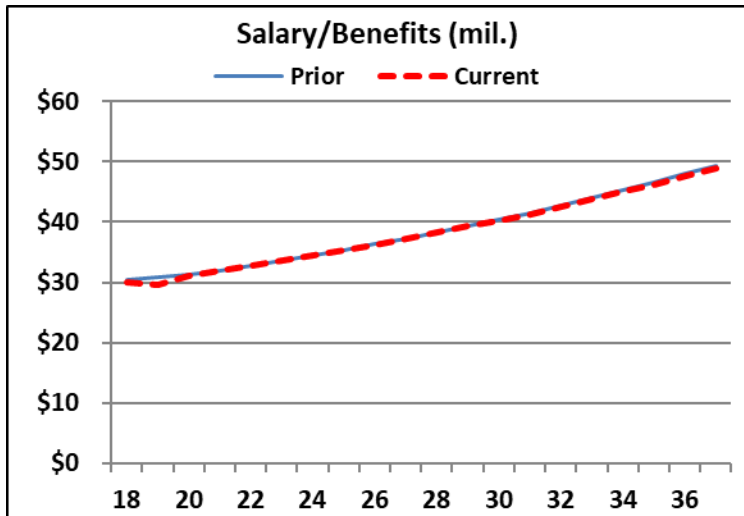
The new forecast is based on the latest projections received from Avenu Insights in Feb 2019. These projections do include an initial estimate of amounts to be collected under Wayfair decision on the taxation of certain internet sales, but that did not make a significant difference given the up and down changes in other business sectors. The major difference is from the change in recession assumptions: a 7.5% revenue reduction over 18 months starting in FY21, versus a 5% reduction over 12 months starting in FY2020.



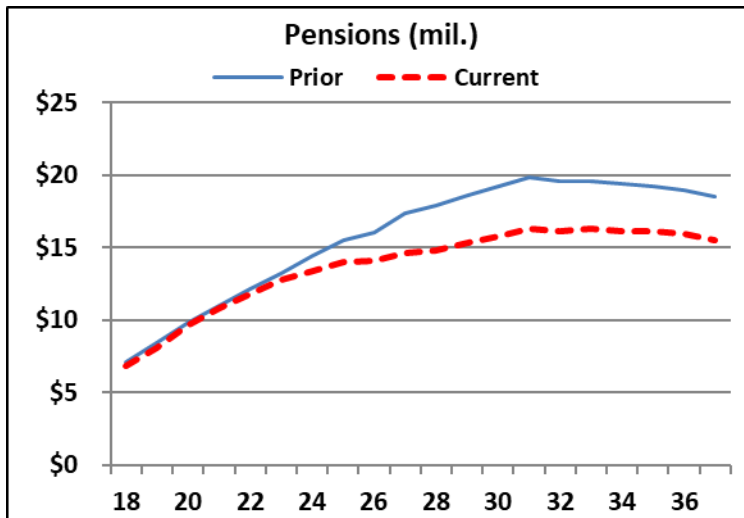
The TOT is primarily affected by the one- year delay for each of the hotel projects, each of which has its own issues related to the development process and/or litigation. There is also an impact from the change in recession assumptions: a 7.5% revenue reduction over 18 months starting in FY2021, versus a 5% reduction over 12 months starting in FY2020.



There is very little net change in other revenues, most of which is due to re-benching the forecast after receipt of the actual amounts for FY2018.

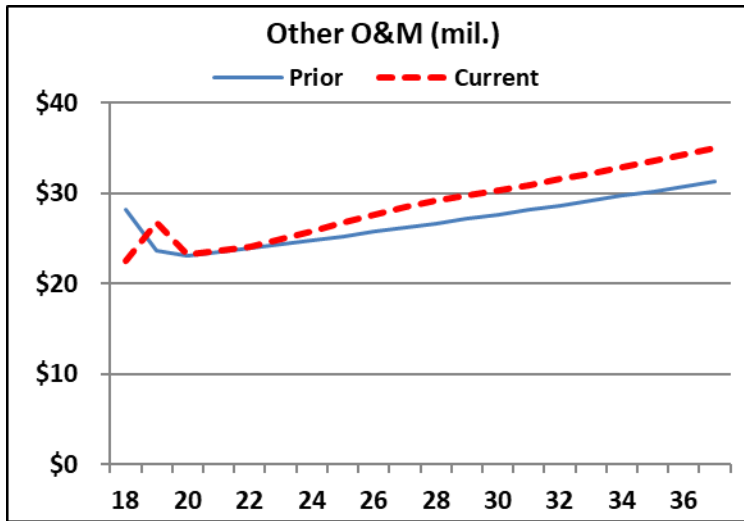


At this time, the FY2020 personnel cost forecast is not yet available, so the assumptions are the same as in the last forecast: 2% annual COLAs, 0.25% net increase for the cost of merit increases and savings from turnover, and an average-cost 1.0 FTE position added annually to help respond to workload increases and special needs.

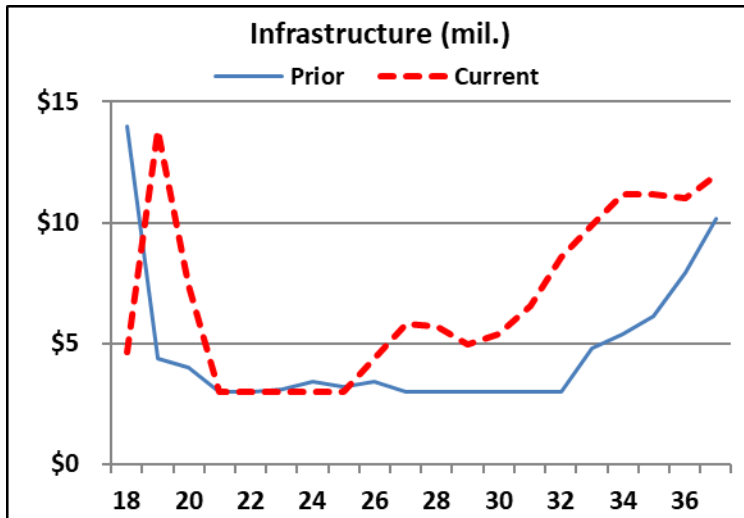


Pension costs are lower than the prior forecast for two reasons: (1) the latest 2017 valuation from CalPERS reflects investment gains that offset part of the anticipated cost increase from the decline in discount rate from 7.5% to 7.0% over the three years ending in FY2021, and (2) the anticipated future decline in discount rate from 7.0% to 6.0% has been changed from occurring over FY2022-2027 (6 years) to FY2022-2041 (20 years). The shorter term was viewed as a possibility three

years ago, but the 20-year period is more reasonable in light of the CalPERS decision to rely for the near-term on shorter amortization periods, and reflects the mounting pressures to ease any changes in over a longer period of time. At this point it is unlikely that the CalPERS board will approve a lower discount rate until the shorter amortization periods have been evaluated, and they don't start for another two years. The 20-year period is projected by actuary John Bartel, and seems most appropriate at this time.



Other O&M costs now reflect carryover of unspent funds into FY2019 from the previous year. (O&M costs for FY2020 and thereafter use the FY19 adopted budget, rather than the adjusted budget, to avoid building on one-time costs.) The forecast also now includes the projected operating costs associated with the Nishi and WDAAC projects, from their respective impact reports. Other assumptions, such as a 2% inflation rate, remain the same.



Infrastructure costs continue to assume a \$3M annual maintenance of effort by the General Fund to help pay for street and bike path resurfacing, traffic maintenance costs. FY2018 amounts are actual, and unspent amounts carry over to FY2019 (half of the \$8M in non-resurfacing street projects is split between FY2019 and FY2020). The net fiscal capacity freed up by lower pension costs in future years are assumed to be invested in

infrastructure needs.

Maintaining Infrastructure

One measure of fiscal sustainability is the ability to fully fund infrastructure needs. Most cities have not comprehensively identified their infrastructure needs and costs, much less attempted to fully fund them. Davis has both identified these needs and incorporated a funding strategy into its financial forecast to maximize funding for infrastructure, even if it falls short of 100% of the identified need.

Last year's forecast assumed the passage of the Measure I transportation parcel tax, but it failed on the June 2018 ballot. The following is a summary of the projected needs and funding, by source, from FY2016 through FY2037, from that prior forecast.

Infrastructure Needs Summary (FY 2015-16 through FY 2036-37)								
(\$ in Millions)	(1) Streets	Bike Paths	Traffic Maint (2)	Park Maint	Public Facilities	Parking Lots	Totals	
Need	\$175.1	\$25.0	\$36.5	\$94.7	\$25.9	\$4.0	\$361.2	
Funding Sources	General Fund	53.7	3.5	9.5	14.7	10.8	-	92.2
	Meas H Park Tax	-	-	-	38.2	-	-	38.2
	Meas I Parcel Tax	30.1	16.7	20.0	-	-	-	66.8
	SB 1 Gas Tax	29.7	-	-	-	-	-	29.7
	Cons Tax/Impact	20.7	-	-	-	-	-	20.7
	Gas Tax/Grants	7.6	-	-	-	-	-	7.6
Total Funded	141.8	20.2	29.5	52.9	10.8	0.0	255.2	
Net Funding Gap	33.3	4.8	7.0	41.8	15.1	4.0	106.0	
% Funded	81%	81%	81%	56%	42%	0%	71%	
Measure I Share	45%	25%	30%	0%	0%	0%	0%	
(1) includes curb, gutter, sidewalks								
(2) includes signs, striping, pavement marking, signals, street lighting								

The total percent of infrastructure need funded over this period was 71%, but it included \$67M of Measure I funds. The forecast also assumed that curb, gutter and sidewalks were included in the projected street costs from NCE, but this was incorrect, and the \$2.5M annual need for this area identified last year by Public Works has been added into the Traffic Maintenance category in the new forecast.

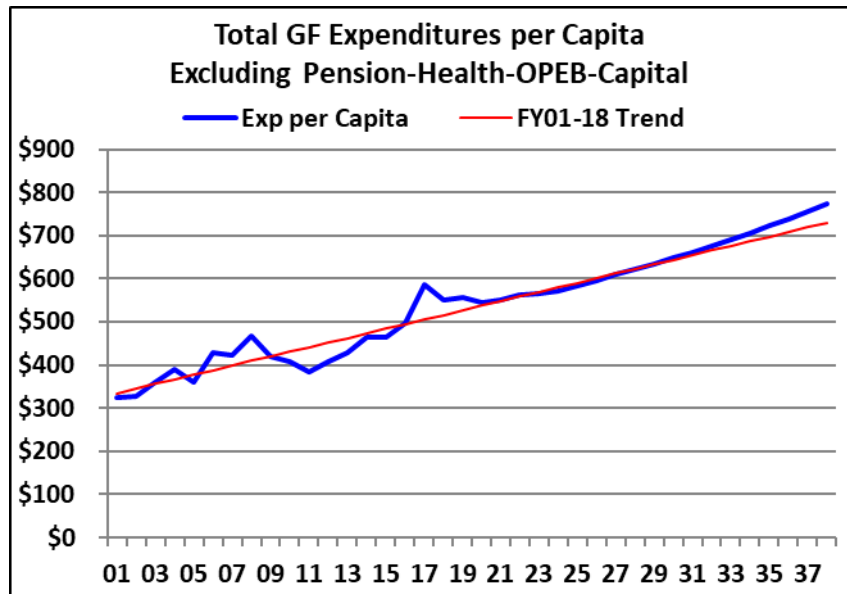
The following is the updated infrastructure summary of projected needs and funding, by source, from FY2016 through FY2038 (with one year added).

Infrastructure Needs Summary (FY 2015-16 through FY 2037-38)								
(\$ in Millions)	(1) Streets	Bike Paths	Traffic Maint (2)	Park Maint	Public Facilities	Parking Lots	Totals	
Need	\$182.2	\$25.2	\$106.8	\$100.1	\$27.0	\$4.3	\$445.6	
Funding Sources	General Fund	62.3	17.9	33.9	18.7	16.8	-	149.5
	Meas H Park Tax	-	-	-	40.6	-	-	40.6
	Meas I Parcel Tax	-	-	-	-	-	-	-
	SB 1 Gas Tax	27.2	-	-	-	-	-	27.2
	Cons Tax/Impact	21.6	-	-	-	-	-	21.6
	Gas Tax/Grants	7.6	-	-	-	-	-	7.6
Total Funded	118.8	17.9	33.9	59.3	16.8	0.0	246.6	
Net Funding Gap	63.4	7.3	73.0	40.8	10.3	4.3	199.0	
% Funded	65%	71%	32%	59%	62%	0%	55%	
Measure I Share	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
(1) excludes curb, gutter, sidewalks								
(2) includes curb, gutter, sidewalks, signs, striping, pavement marking, signals, street lighting								

The revised overall funding rate is now 55%, which results from the loss of Measure I, and the cost increase from incorporating curbs, gutters and sidewalks. The breakdown by category (streets, parks, etc.) are illustrative only, as the ultimate outcome will be dictated by Council priorities and the annual commission review and budget process.

Maintaining Service Levels

Another measure of fiscal sustainability is being able to at least maintain service levels over time as the City grows. One measure of this is per capita spending. However, sometimes costs increase, not in response to community growth or normal inflation, but because of certain fast-growing, volatile or legacy costs. A better measure would be per capita costs that omit pension, employee health, retiree health and capital costs. Stripping out the first three costs precludes higher total operating costs alone from inferring improved levels of service just because the total costs are higher, and the ability to meet infrastructure needs is determined separately as noted above. Thus, if the per capita operating costs as adjusted in this manner still meets or exceeds the trend from FY2001 to FY2018, then it can be inferred that the in the future City will at least be maintaining its historical level of funding effort for operating costs relative to population growth. This does not mean that the past or projected spending levels result in an “ideal” level of service, but rather that the funding effort per capita is consistent over time. As the chart below indicates, the City meets this test.



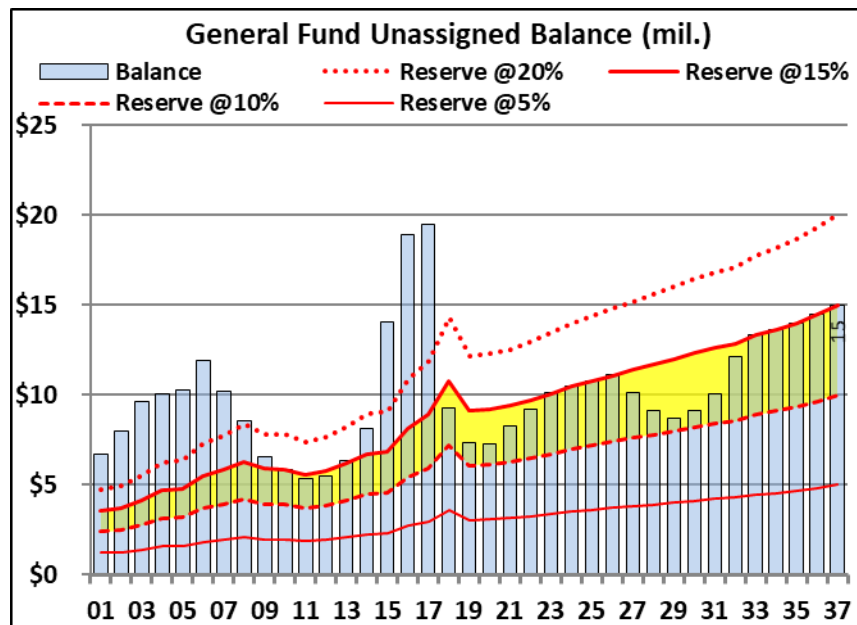
Note that this is an overall look at City finances, and does not drill down to whether an individual development project may or may not generate more revenues than it (theoretically) requires in expense. The reality is that spending levels generally respond more to availability of total revenue than it does to incremental community growth. During economic downturns the spending per capita drops even if population and dwelling units continue to grow, because revenues are flat or falling. Lastly, there will also be ups and downs from previous years for unique reasons, unrelated to development. (For example, the spike in per capita spending in

FY2017 was due to the \$2M set-aside for future retiree medical costs and \$2.4M in facility maintenance projects in that year.)

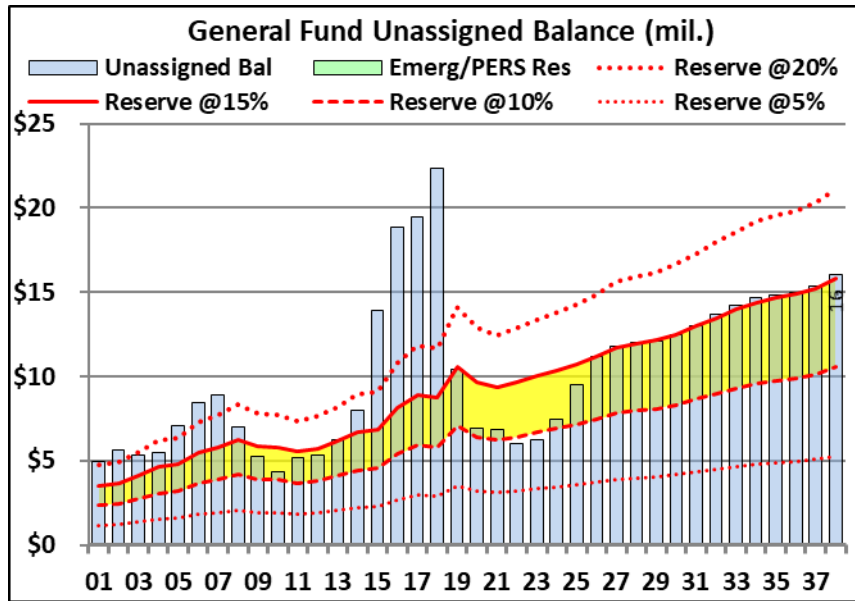
Maintaining Reserves

A third important measure of fiscal sustainability is being able to maintain adequate reserve levels. Current City policy is to maintain a 10-15% reserve (see yellow band in the charts below), although amounts over the 10% level can be proposed for capital or other one-time needs.

The following chart shows the projected fund balance from the prior forecast. There was a dip in the later 2020's from the next recession that had been assumed to start in FY2027 (now FY2028), coupled with continued pension cost increases. As the pension costs dropped in the 2030's, the balance rebounds and this increased fiscal capacity allows amounts that would otherwise exceed the reserve goal to be directed toward infrastructure investments. Throughout the forecast period the projected balance remained in the 10-15% range (yellow band).

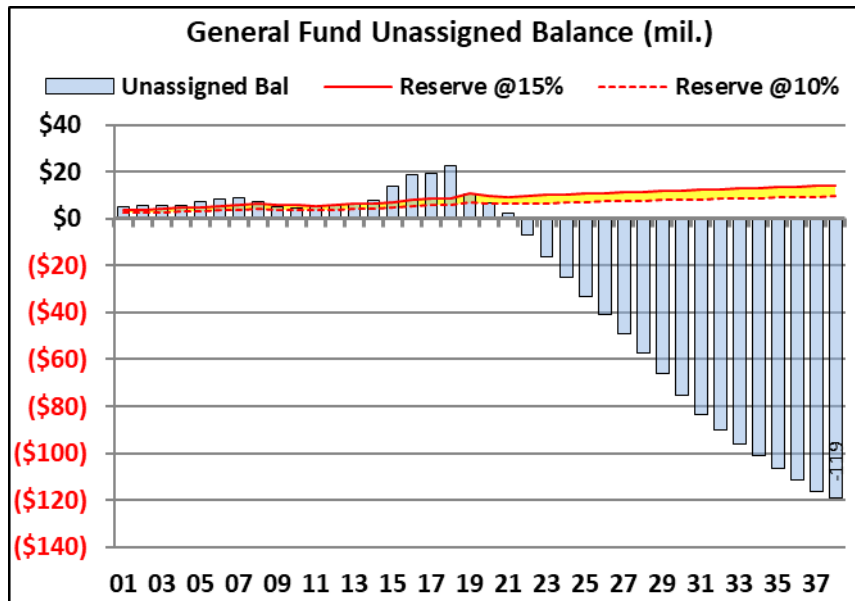


The following is the fund balance projection under the new forecast. The near-term dip is more pronounced, largely due to higher overtime costs assumed on an ongoing basis, and assumed delays in new construction and opening of the new hotels.



Renewal of Measure O

The key to maintaining this balance over time is preserving the 1% voter-approved sales tax of Measure O, which expires 12/31/2020. If the tax is allowed to expire, the resulting balance after the loss of nearly \$9M in annual revenues, before budget corrections, is shown below.



Budget Policy Recommendations

Council may direct staff to pursue the following budget policy changes.

- Create Capital Projects Fund. A number of capital projects are accounted for in the General Fund, which is better suited for ongoing operating costs as opposed to the long-term inception-to-date accounting required for capital projects. Because the projects often experience delays, the General Fund has continuing significant budget adjustments during the fiscal year that make it more difficult to track its true on-going resources. It would be preferable to simply make the infrastructure contributions as a transfer out to a capital projects fund, and then account for the projects in that fund. While the General Fund would make the same contributions to infrastructure as it would otherwise, this would clean up the General Fund accounting, and reinforce its primary focus on operating costs.
- Review General Fund Reserve Target. The current reserve policy calls for a reserve of 10-15%, with the potential for spending amounts over 10% on capital projects or other one-time needs. This effectively tends toward a 10% reserve, which may be inadequate in the future given the risk potential for stronger recessions and higher pension costs. The Government Finance Officers Association states the following:

“The adequacy of unrestricted fund balance in the general fund should take into account each government’s own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance. Articulating these risks in a fund balance policy makes it easier to explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers and employees from unexpected changes in financial condition. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.”

Two months is equivalent to a 16.67% reserve, however, many agencies round down to 15%. Given that the City builds moderate recession assumptions and a gradual decline in pension discount rate into its forecast, making the reserve 15% should meet normal risk parameters. If the General Fund out-performs its forecast in a given year, then the option still exists to allocate amounts over the 15% reserve level to infrastructure or other one-time needs. Staff will return to the City Council at a future date with an analysis of the General Fund Reserve and recommendations going forward.

- Establish a 5% Reserve for Emergencies and Pension Cost Increases. An increasing number of agencies are setting aside funds in a Section 115 trust to pre-fund future obligations. Davis itself has set up a \$2M account with CalPERS under its California Employers' Retiree Benefit Trust (CERBT) Fund for future retiree medical costs.

Advantages of a Section 115 Trust cited by CalPERS include: generating investment income from employer-controlled contributions to pay for future retiree benefits; reducing future employer cash flow requirements and budget dependency with investment income; reducing OPEB liabilities reported on employer annual financial statements; and preserving or improving the agency's credit rating.

A similar trust can be set up for future pension costs. As the trust balance accumulates over time with interest earnings it can then be used to either prepay pension unfunded liability, or stabilize pension costs at a given level of payroll through transfers back to the General Fund. Use of the funds would be irrevocably pledged to paying for pension costs and could not be used for other purposes.

Another option is to hold the reserve in the General Fund for emergencies or other fiscal uncertainties; the trade-off is higher interest earning versus more flexibility in use of the funds. The City should set a goal of adding approximately \$5M over a period of five years into such a reserve, and evaluate whether it is best kept within City funds or allocated to a Section 115 trust account. If there is interest in such an approach, staff will return to the Council with a full analysis.

GENERAL FUND FORECAST

(\$ in Thousands)	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Property Tax	\$21,849	\$21,407	\$22,208	\$23,096	\$23,517	\$24,740	\$26,236	\$27,585	\$29,000	\$30,238	\$31,393	\$31,979	\$32,888	\$34,436	\$36,057	\$37,752	\$39,199
Sales Tax-Regular (1%)	7,468	7,722	7,890	7,648	7,608	8,006	8,402	8,824	9,047	9,318	9,044	9,000	9,385	9,787	10,206	10,414	10,626
Sales Tax-Measure O (1%)	8,136	8,545	8,849	8,676	8,716	9,245	9,782	10,357	10,709	11,115	10,892	10,942	11,512	12,113	12,744	13,122	13,512
Transient Occupancy Tax	2,146	2,263	2,331	2,834	3,276	3,945	4,108	4,277	4,406	4,538	4,561	4,641	4,832	5,031	5,239	5,396	5,558
Other Taxes/Franchises	6,712	6,608	6,869	7,002	7,155	7,544	7,882	8,177	8,454	8,739	8,903	9,104	9,372	9,648	9,933	10,194	10,462
Permits & Fees	8,857	6,717	6,888	7,064	7,246	7,434	7,627	7,815	7,971	8,131	8,209	8,331	8,535	8,744	8,959	9,138	9,321
Interest	244	150	158	106	105	92	95	114	145	170	179	182	183	189	197	207	215
Other Revenue	5,817	5,261	5,650	5,768	5,890	6,014	6,141	6,270	6,403	6,539	6,678	6,820	6,965	7,113	7,265	7,420	7,579
Total Revenues	61,229	58,673	60,843	62,195	63,513	67,022	70,274	73,420	76,135	78,788	79,857	80,999	83,672	87,060	90,600	93,643	96,472
Salaries/Wages	18,862	19,152	21,916	22,485	23,067	23,665	24,277	24,905	25,549	26,209	26,885	27,578	28,289	29,018	29,764	30,530	31,314
Part Time (total)	1,474	1,632	1,689	1,752	1,822	1,900	1,938	1,977	2,016	2,057	2,098	2,140	2,182	2,226	2,271	2,316	2,362
Overtime	2,558	2,400	2,400	2,462	2,526	2,592	2,659	2,727	2,798	2,870	2,944	3,020	3,098	3,178	3,259	3,343	3,429
Retirement	6,826	8,095	9,671	10,828	11,837	12,738	13,394	14,051	14,713	14,637	14,821	15,313	15,812	16,318	16,126	16,276	16,147
Health/Cafeteria Plan	4,711	4,777	4,939	5,106	5,279	5,458	5,642	5,833	6,030	6,234	6,444	6,662	6,887	7,119	7,359	7,607	7,863
Retiree Medical	4,355	4,491	4,538	4,723	4,871	5,023	5,180	5,325	5,473	5,624	5,779	5,938	6,101	6,267	6,438	6,613	6,793
Other Benefits	3,223	3,125	3,026	3,105	3,185	3,267	3,352	3,438	3,527	3,618	3,711	3,806	3,904	4,005	4,108	4,213	4,321
Expense Credits	(5,209)	(5,953)	(6,583)	(6,895)	(7,186)	(7,466)	(7,712)	(7,960)	(8,132)	(8,369)	(8,565)	(8,808)	(9,056)	(9,309)	(9,473)	(9,688)	(9,870)
Vacancy Savings	-	-	(849)	(877)	(899)	(921)	(944)	(968)	(994)	(1,020)	(1,047)	(1,073)	(1,100)	(1,128)	(1,159)	(1,189)	(1,221)
Subtotal Personnel	36,799	37,720	40,747	42,689	44,503	46,255	47,786	49,329	50,389	51,859	53,070	54,577	56,117	57,693	58,693	60,021	61,139
Internal Services	7,493	7,528	7,710	7,864	8,022	8,182	8,346	8,513	8,683	8,857	9,034	9,214	9,399	9,587	9,778	9,974	10,174
Contract Services	6,987	8,121	6,092	6,213	6,338	6,464	6,594	6,726	6,860	6,997	7,137	7,280	7,426	7,574	7,726	7,880	8,038
Other O&M Expenses	4,750	6,984	5,635	5,748	5,863	5,980	6,100	6,222	6,346	6,473	6,603	6,735	6,870	7,007	7,147	7,290	7,436
Debt Service	453	265	270	270	270	270	270	270	270	270	270	270	270	270	270	270	270
Capital-Transportation	2,520	11,638	7,383	3,000	3,000	3,000	3,000	3,000	3,000	3,271	3,775	4,157	4,319	4,529	4,933	5,655	7,443
Capital-Parks/Facilities	2,099	2,179	0	0	0	0	0	1,086	2,013	1,529	1,529	647	842	1,616	2,888	3,400	3,752
Development-Related Costs	0	0	0	0	0	360	731	1,113	1,506	1,911	1,969	2,028	2,089	2,151	2,216	2,282	2,351
Budget Adds/(Cuts)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal O&M	24,302	36,715	27,091	23,096	23,493	24,257	25,040	25,843	26,023	30,297	30,698	30,492	31,424	33,139	35,680	37,602	39,463
Net Transfers Out/(In)	(2,785)	(3,840)	(3,482)	(3,552)	(3,623)	(3,696)	(3,769)	(3,845)	(3,922)	(4,000)	(4,080)	(4,162)	(4,245)	(4,330)	(4,417)	(4,505)	(4,595)
Total Expenditures	58,316	70,595	64,355	62,233	64,373	66,817	69,057	71,327	74,490	78,156	79,688	80,997	83,296	86,501	89,957	93,119	96,007
Net Annual	2,913	(11,922)	(3,512)	(38)	(860)	205	1,217	2,093	1,645	632	168	91	376	559	643	525	465
Beginning Balance	19,568	22,481	10,559	7,047	7,009	6,149	6,354	7,571	9,664	11,309	11,941	12,109	12,201	12,576	13,136	13,779	14,303
Ending Balance	22,481	10,559	7,047	7,009	6,149	6,354	7,571	9,664	11,309	11,941	12,109	12,201	12,576	13,136	13,779	14,303	14,768
Bal as % of Tot Exp	38.5%	15.0%	11.0%	11.3%	9.6%	9.5%	11.0%	13.5%	15.2%	15.3%	15.2%	15.1%	15.1%	15.2%	15.3%	15.4%	15.4%
FTE (permanent staff)	356	357	358	359	360	361	362	363	364	365	366	367	368	369	370	371	372

Attachment D

CALPERS ACTUARIAL VALUATION - June 30, 2017

Funding Status	Present Value of Projected Benefits	Entry Age of Normal Accrued Liability (A)	Plan Market Value of Assets (B)	Unfunded Accrued Liability (C=A-B)	Funded Ratio (D=B/A)
Safety Police	97,581,418	81,677,966	55,129,828	26,548,138	67.5%
Safety Police- PEPPRA	3,011,013	432,375	420,236	12,139	97.2%
Safety Fire	70,498,477	63,275,003	39,840,456	23,434,547	63.0%
Safety Fire - PEPPRA	2,012,860	230,316	221,549	8,767	96.2%
Miscellaneous	230,442,655	207,144,075	135,707,391	71,436,684	65.5%
	403,546,423	352,759,735	231,319,460	121,440,275	65.6%
Person Cost Projections: FY 2019/20					
		FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24
					FY 2024/25
Safety Police					
Normal Cost	21.929%	23.300%	23.300%	23.300%	23.300%
UAL Payment	1,776,127	1,984,000	2,225,000	2,430,000	2,692,000
Safety Fire					
Normal Cost	20.985%	22.300%	22.300%	22.300%	22.300%
UAL Payment	1,577,017	1,746,000	1,942,000	2,107,000	2,322,000
Miscellaneous					
Normal Cost	10.095%	10.800%	10.800%	10.800%	10.800%
UAL Payment	5,587,887	6,086,000	6,707,000	7,254,000	7,943,000
Total For all Plan					
Normal Cost	53.009%	56.400%	56.400%	56.400%	56.400%
UAL Payment	8,941,031	9,816,000	10,874,000	11,791,000	12,957,000
Normal Cost/Salary		3%			
Dollar Change- UAL Only		874,969	1,058,000	917,000	584,000
Cummulative Change		874,969	1,932,969	2,849,969	3,431,969
					4,015,969

Attachment E

Other Post-Employment Benefits

	Totals @ Discount Rate of 6.75% 06/30/2017 Valuation	Totals @ Discount Rate of 6.75% 06/30/2019 Valuation
OPEB Analysis		
Total OPEB Liability	\$88,430,000	\$97,498,000
Actuaarial Value of Assets	\$29,641,000	\$39,564,000
Unfunded Actuarial Accrued Liability (UAAL)	\$58,789,000	\$57,934,000
Funded Ratio	33.52%	40.58%
Normal Cost	\$2,120,000	\$2,655,000
Pay-As-You-Go Cost (Cash Subsidy)	\$3,246,000	\$3,686,000
Pay-As-You-Go (Implied Subsidy)	\$709,000	\$767,000