City of Davis
Long-Range Forecast and Budget Model

City Council Meeting
April 4, 2017

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Management Partners

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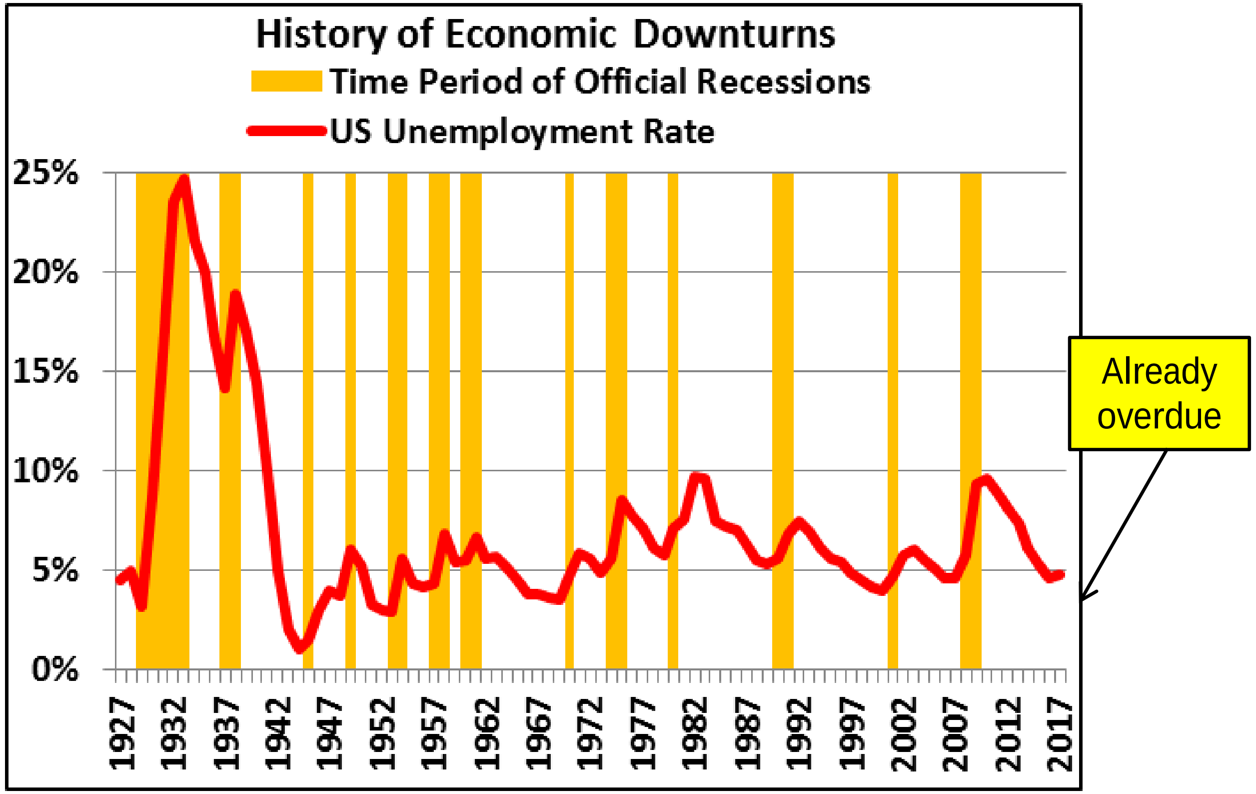
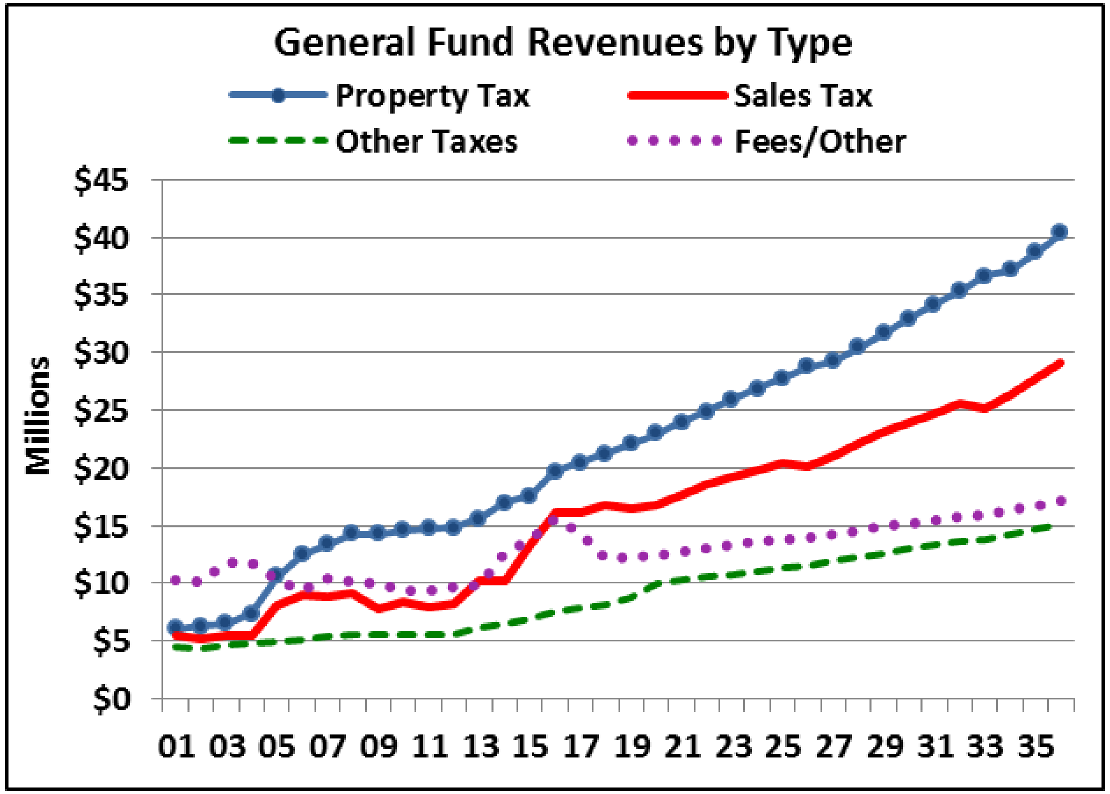
Preliminary Points

- Assumptions are the key, the rest is just arithmetic
  - Predicting the future: realistic vs. conservative
  - Transparency promotes credibility and understanding of city's financial condition
- Model vs. Forecast vs. Budget
  - Model is a flexible and visual tool for producing a 20-year forecast
  - Forecast is the financial outcome from a given set of assumptions
  - Forecast sets long-term budget parameters, but Budget sets annual spending priorities
- Model combines staff experience with advice from outside experts
  - Bartel Associates (PERS), NCE (transportation), Kitchell (facilities), MuniServices (sales tax)
- Operations vs. Infrastructure vs. Unfunded Liabilities
  - Need to achieve balance among competing financial goals
- Power of compounding – small changes greatly magnify over 20 years

Revenues and Recessions

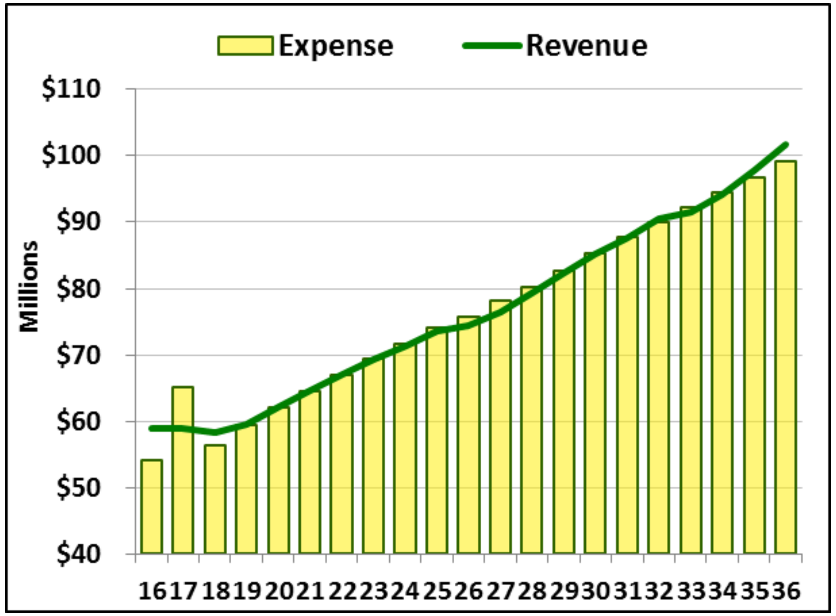




- Assumes modest recessions every seven years starting FY 2019
- Annual growth of total revenue averages 2.93% (including recessions)

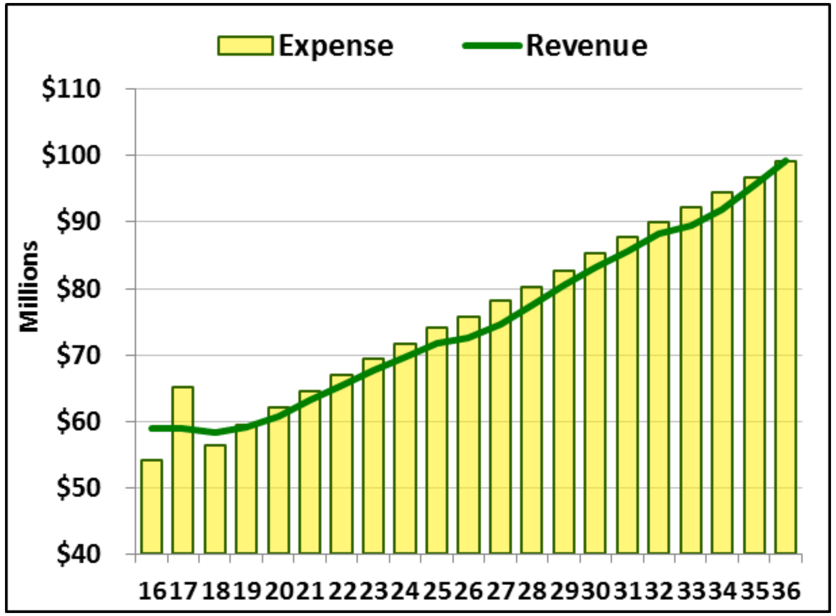
Three Revenue Scenarios

Measure O Continues, Plus 3 New Hotels



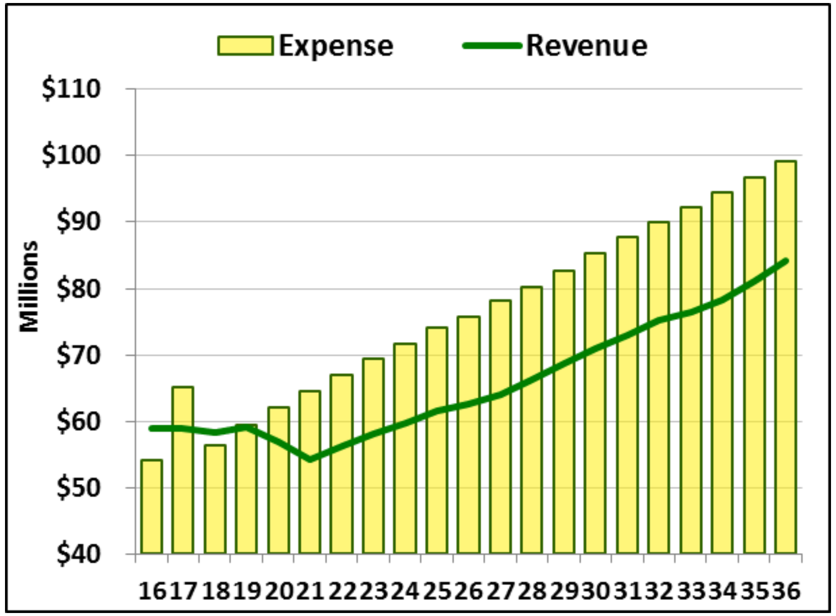
- Allows for stable operations and higher infrastructure spending

Measure O Continues, but No New Hotels



- Results in $1.7M average annual shortfall at same spending level

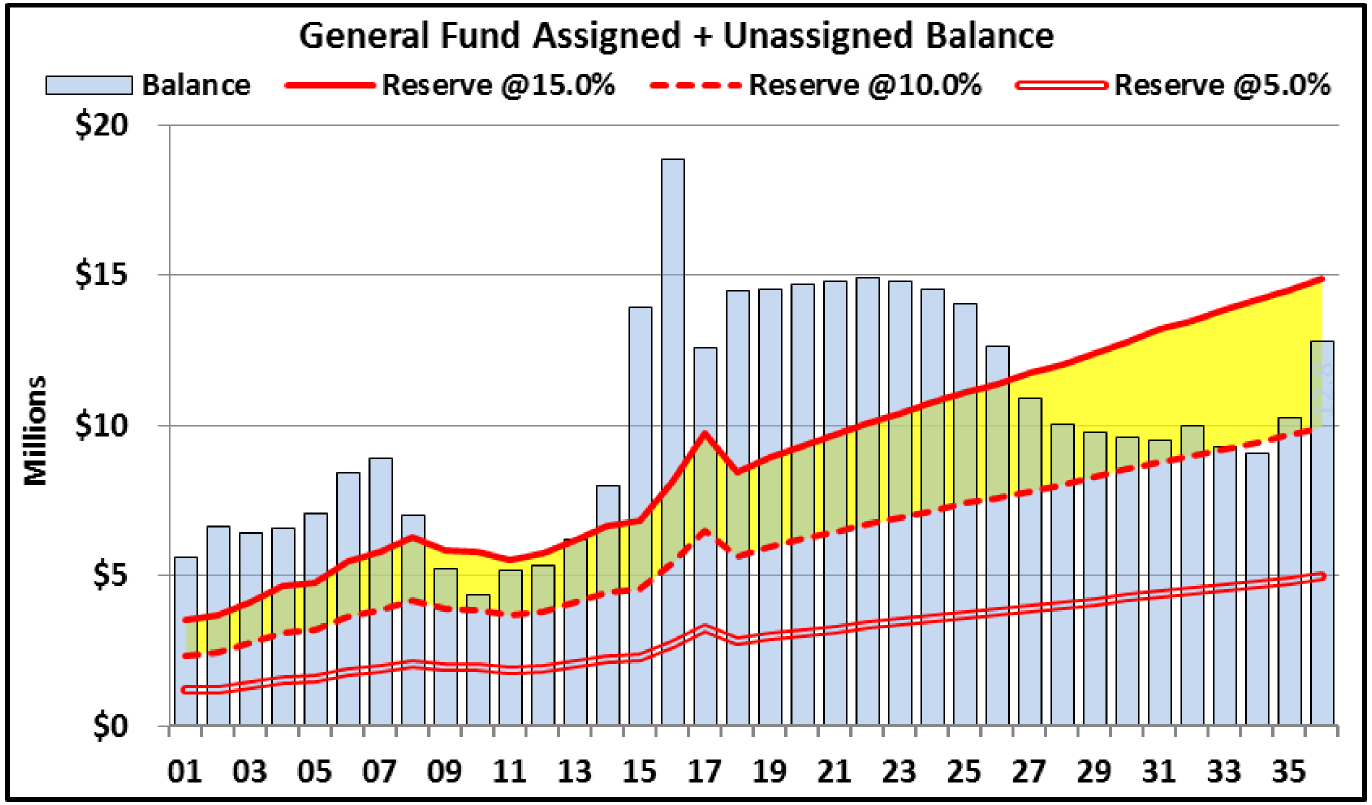
Measure O Expires, and No New Hotels



- Results in $11.7M average annual shortfall at same spending level

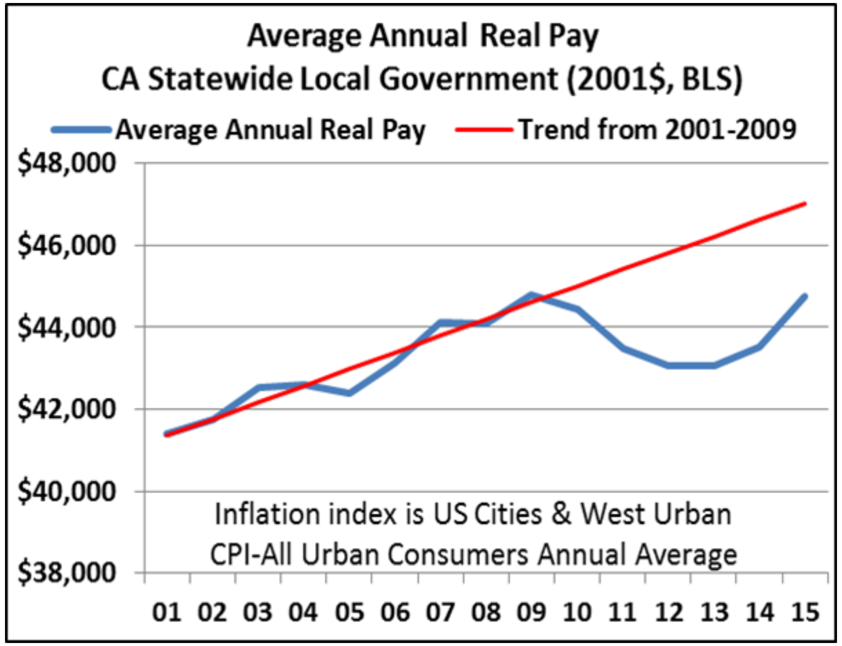
General Fund Balance

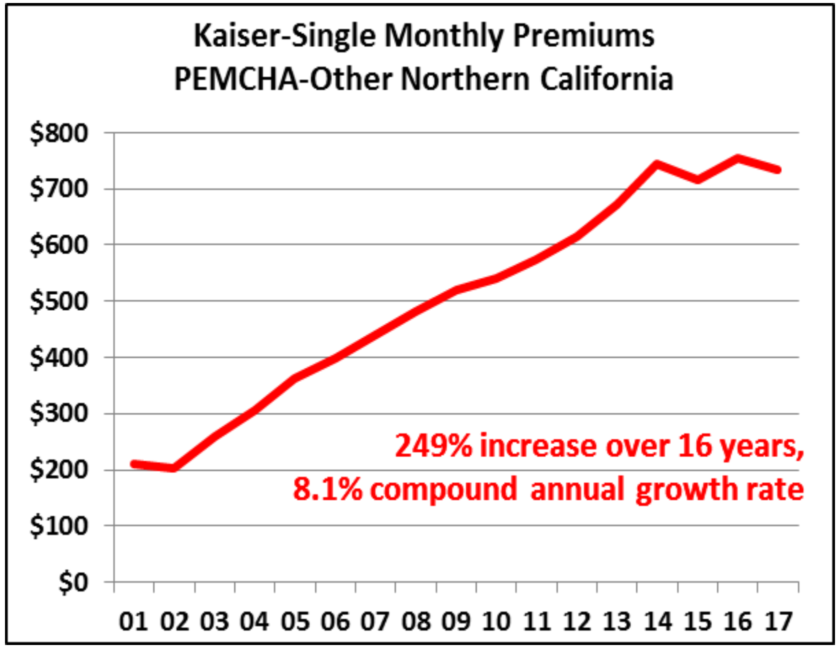
- Revenues
  - Includes recessions every seven years (but not another Great Recession)
  - Renewal of Measure O at 1% rate
  - TOT revenue from three new hotels
- Expenditures
  - Estimated actual for FY 2017
  - Inflation built into future labor costs
  - Higher PERS rates due to discount rate reduction(s)
  - Some increase in infrastructure spending
- Reserves
  - Forecast maintains a 10% to 15% reserve of total expense

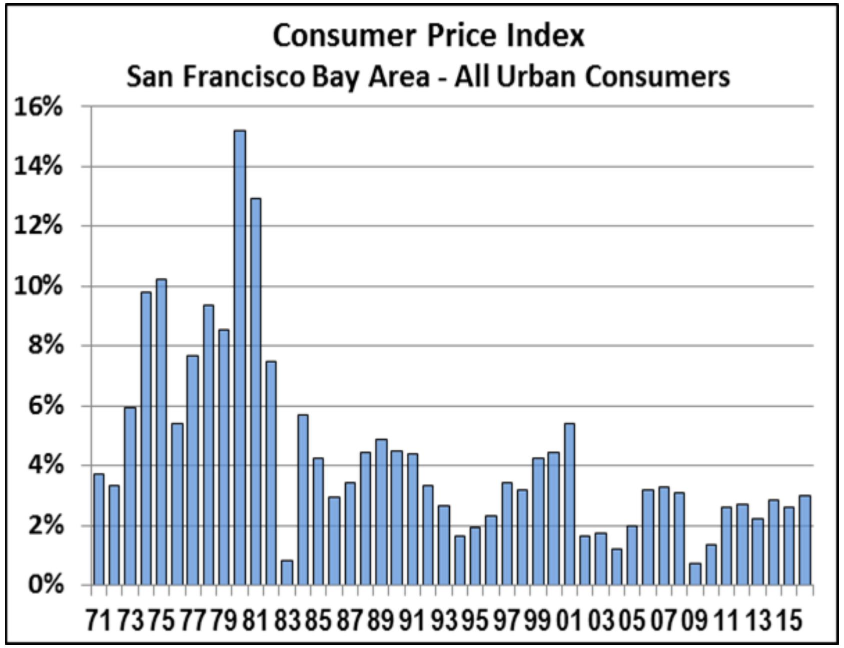


This is only one potential outcome – use budget model to test alternative scenarios

Cost Pressures Affecting Forecast







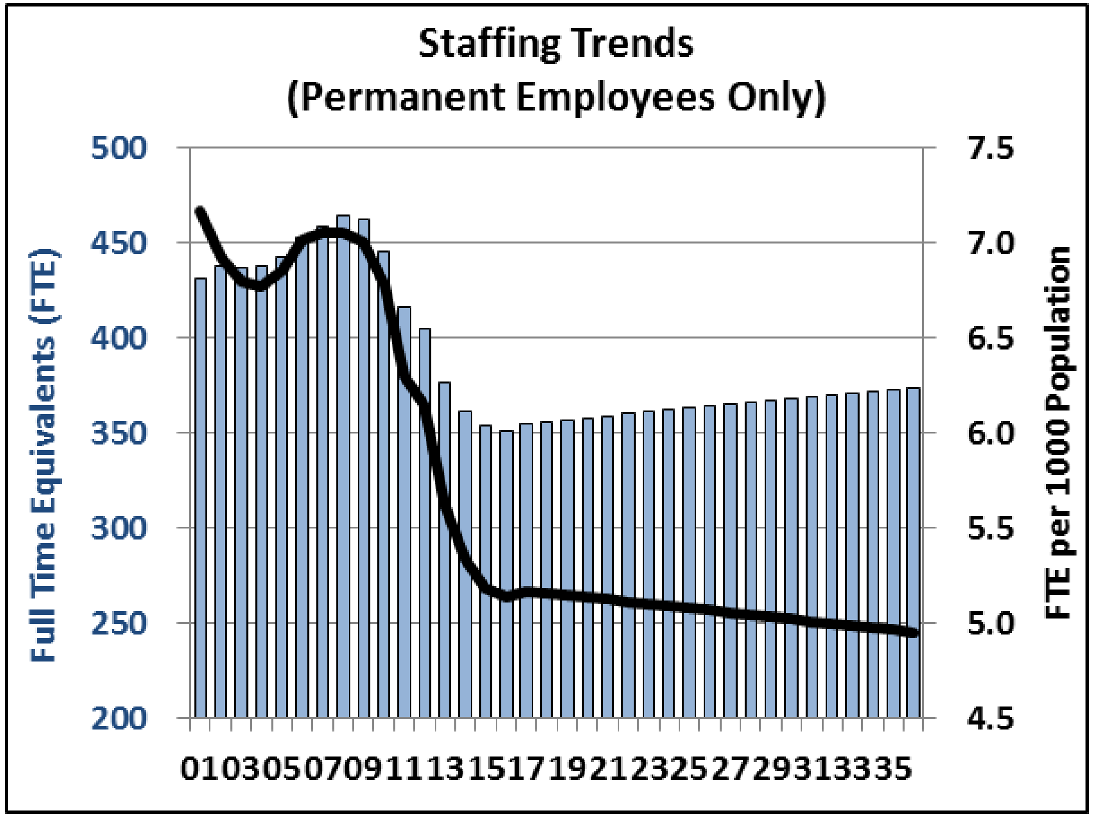
- Local government wage gap exists statewide from no or low COLAs since recession
- Lower PEPRA benefits cause push for higher wages to compensate

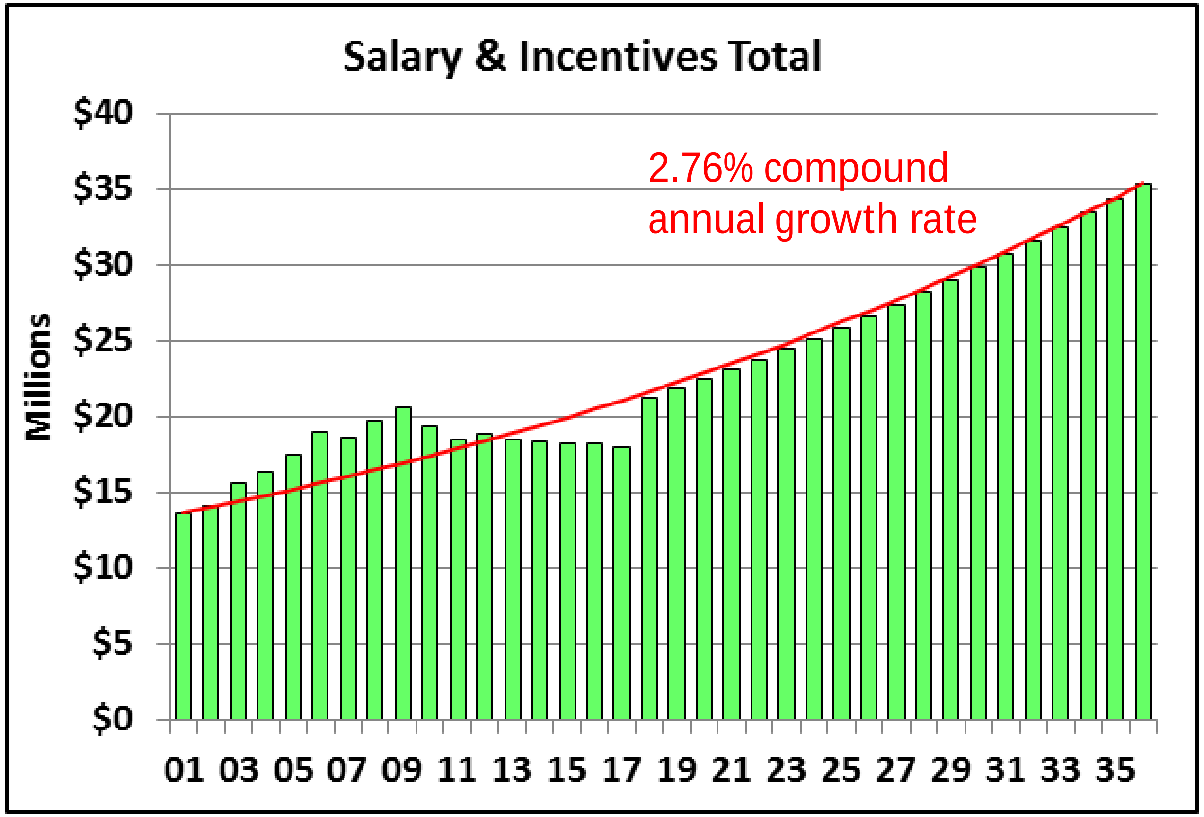
- High growth in past years
- Unknown impact of potential federal changes on future health care costs

Bay Area Only	
Annual Average Change	
Last 40 years	4.08%
Last 30 years	2.95%
Last 20 years	2.75%
Last 10 years	2.44%
Last 5 years	2.26%
Last 2 years	2.67%
All Urban Consumers	

US/West/SF Composite	
Annual Average Change	
Last 40 years	3.77%
Last 30 years	2.69%
Last 20 years	2.22%
Last 10 years	1.82%
Last 5 years	1.50%
Last 2 years	1.09%
All Urban Consumers	

Personnel Cost Assumptions

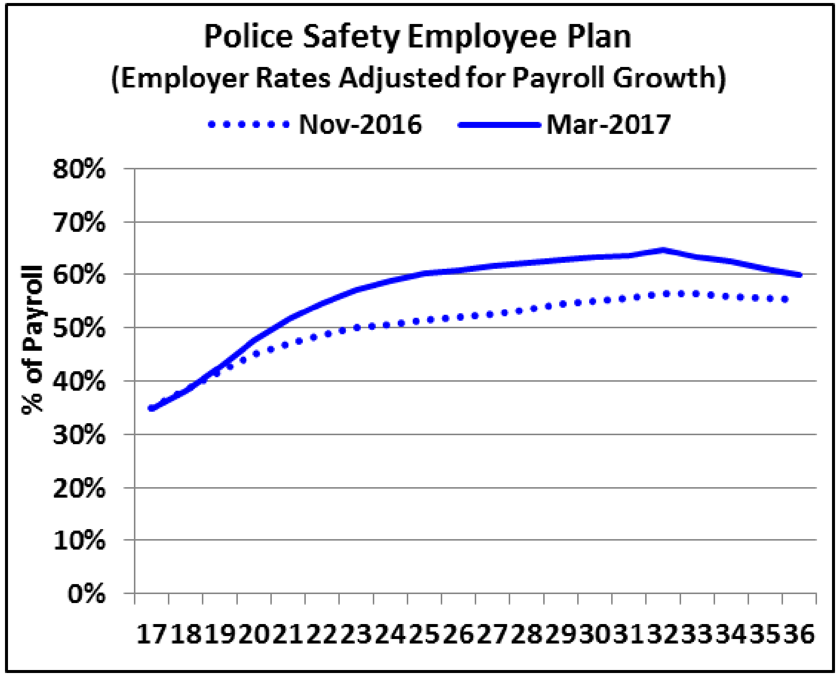


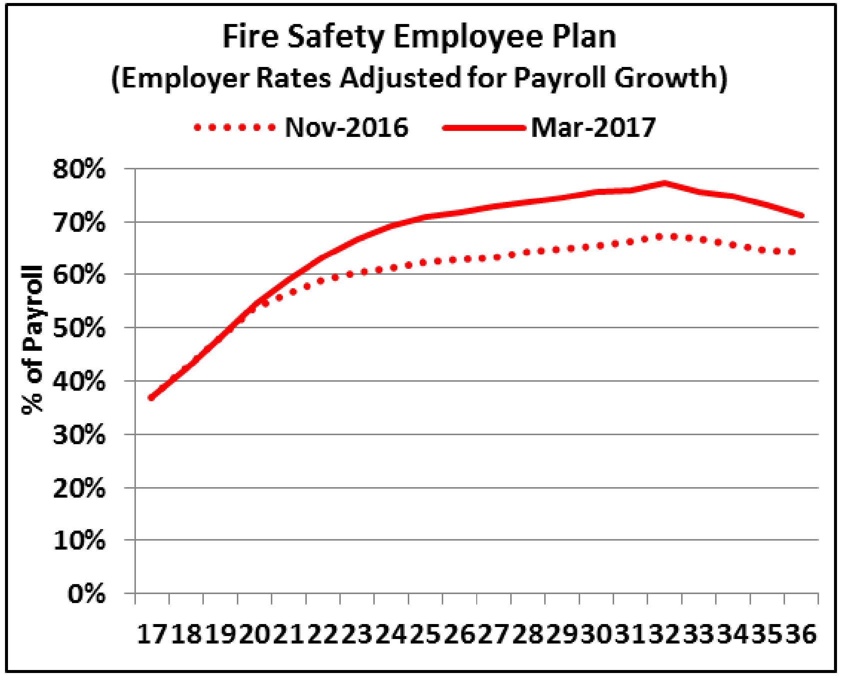


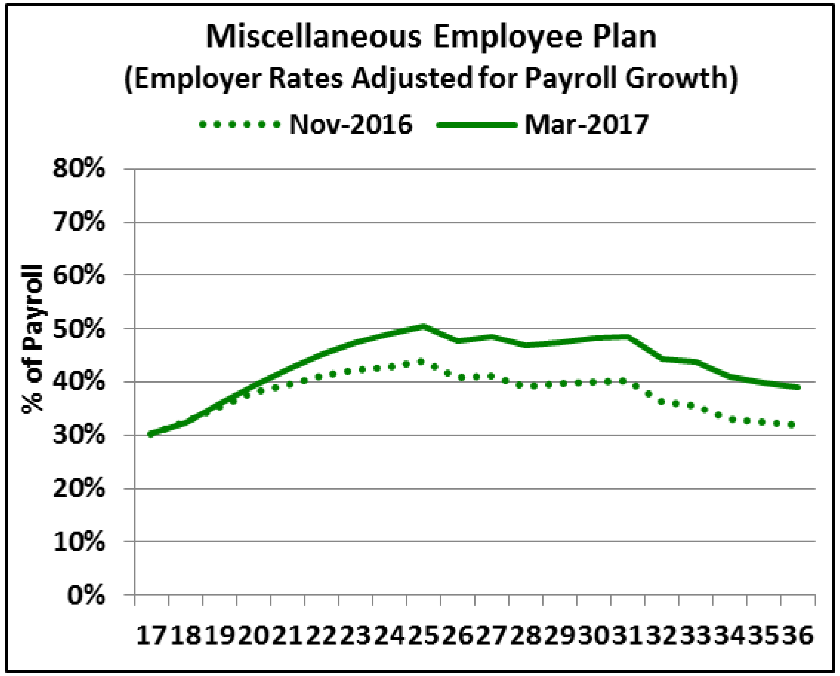
- Forecast adds 1 FTE per year at $145,000 per FTE (median cost of a city position)
- FTE per 1,000 population still declines over time

- COLAs at 2%
- Net step increases and turnover savings at 0.5%
- Vacancy savings ramps down from 6% to 3%

New PERS Forecast Reflects Discount Rate Reduction

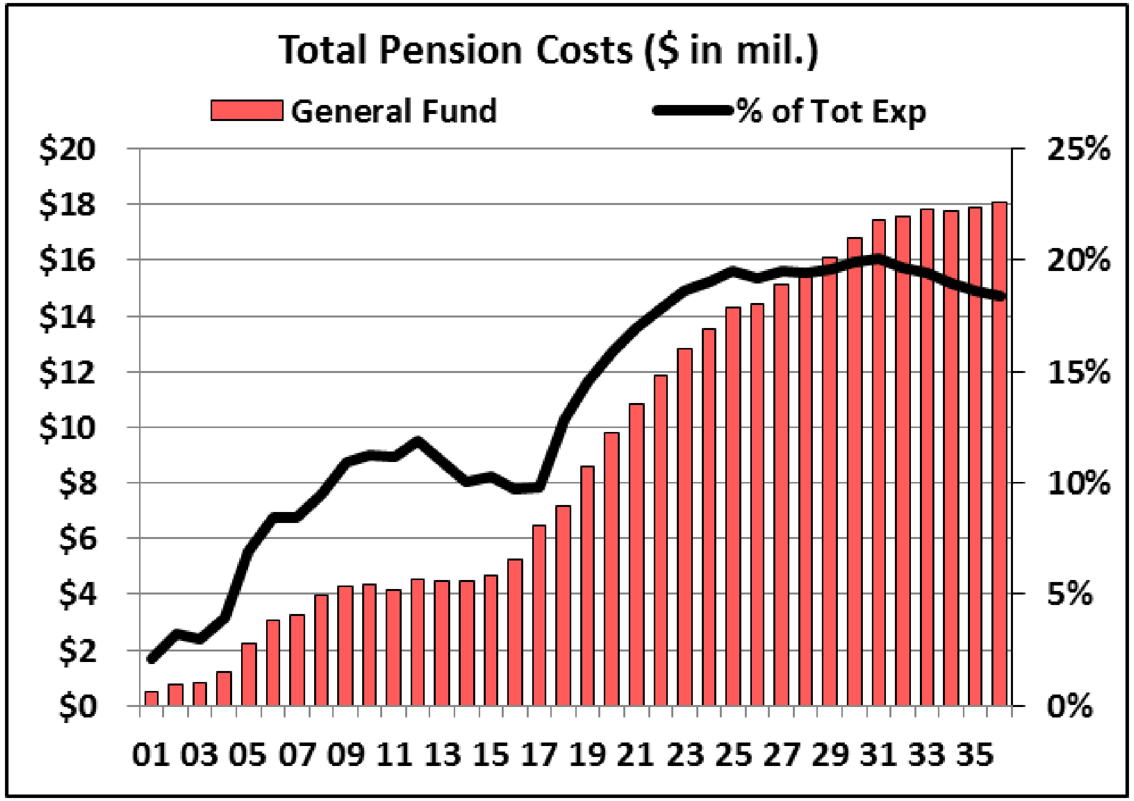




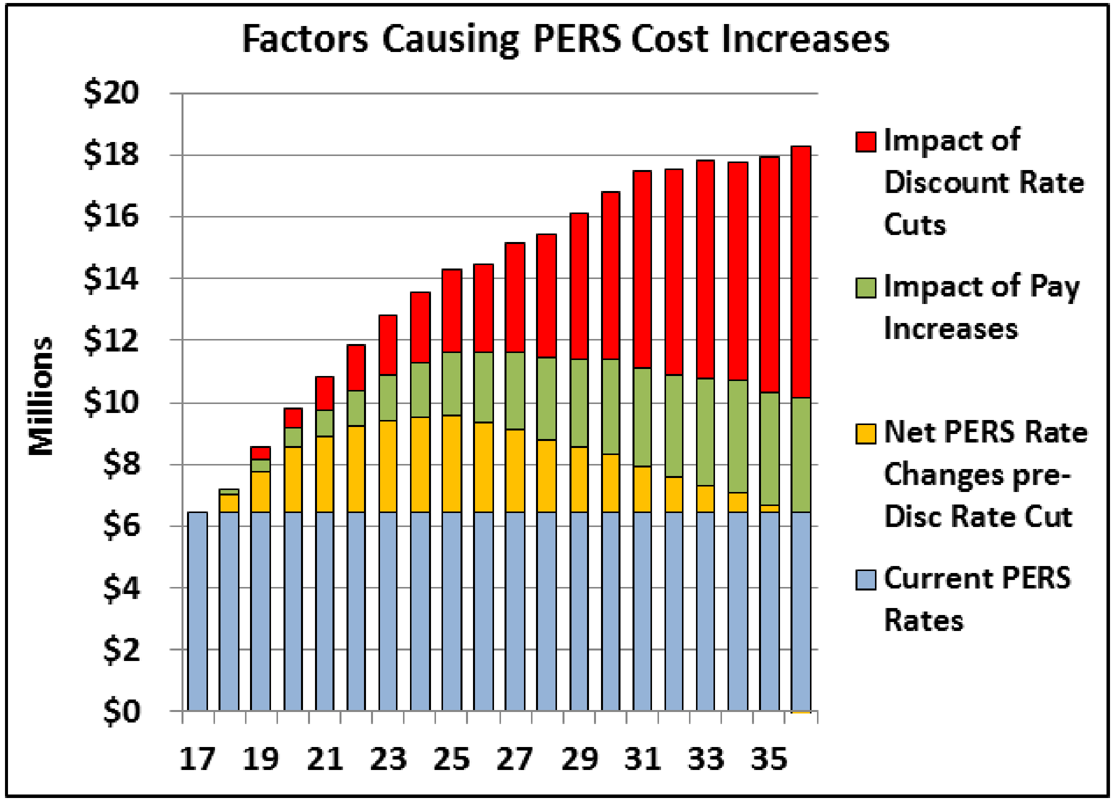


- Higher employer rates starting 2019 (combined normal cost and unfunded liability payments as a percent of payroll)
  - Bartel Associates' 2016 forecast estimated reductions in discount rate over long-term
  - Bartel's 2017 update reflects (1) actual CalPERS implementation plan adopted in December 2016, and (2) assumes continued gradual decline in discount rate to 6.5% by 2028 and 6.0% by 2040

Pension Costs to Triple Over 20 Years



- Dramatic increase in pension costs over 35 years
- Peaks at 20% of total General Fund expenditures

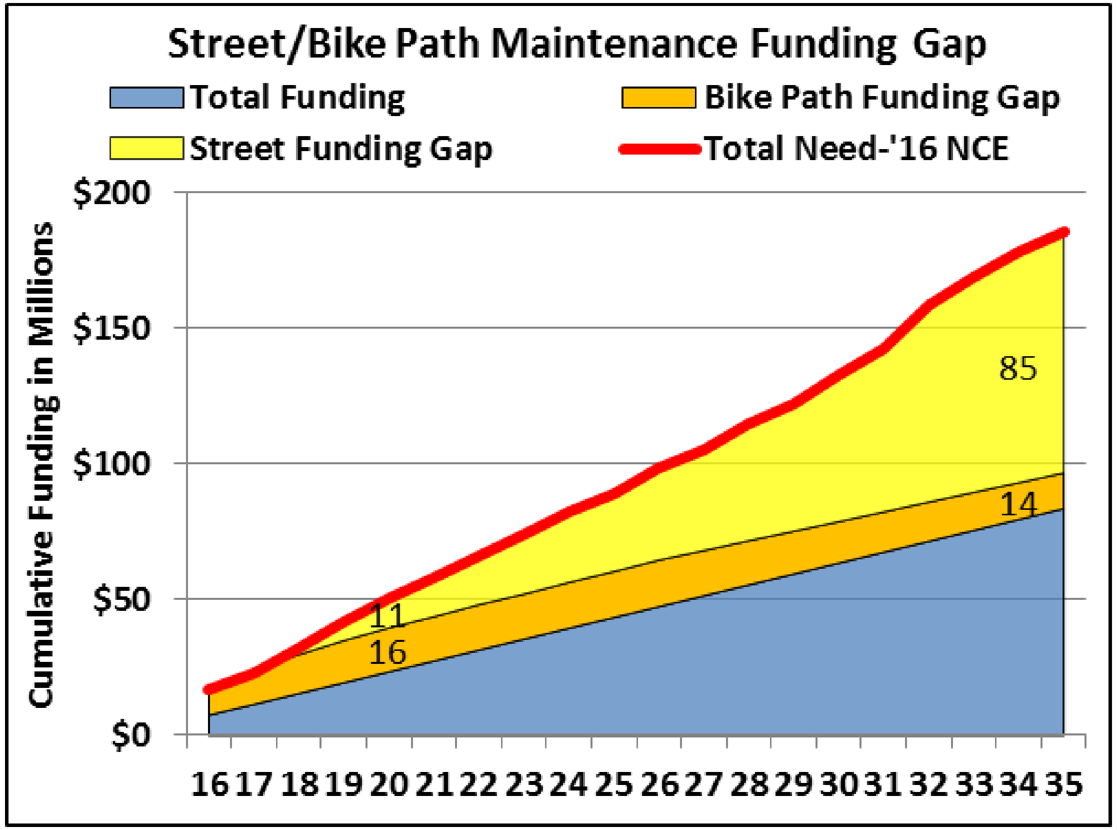


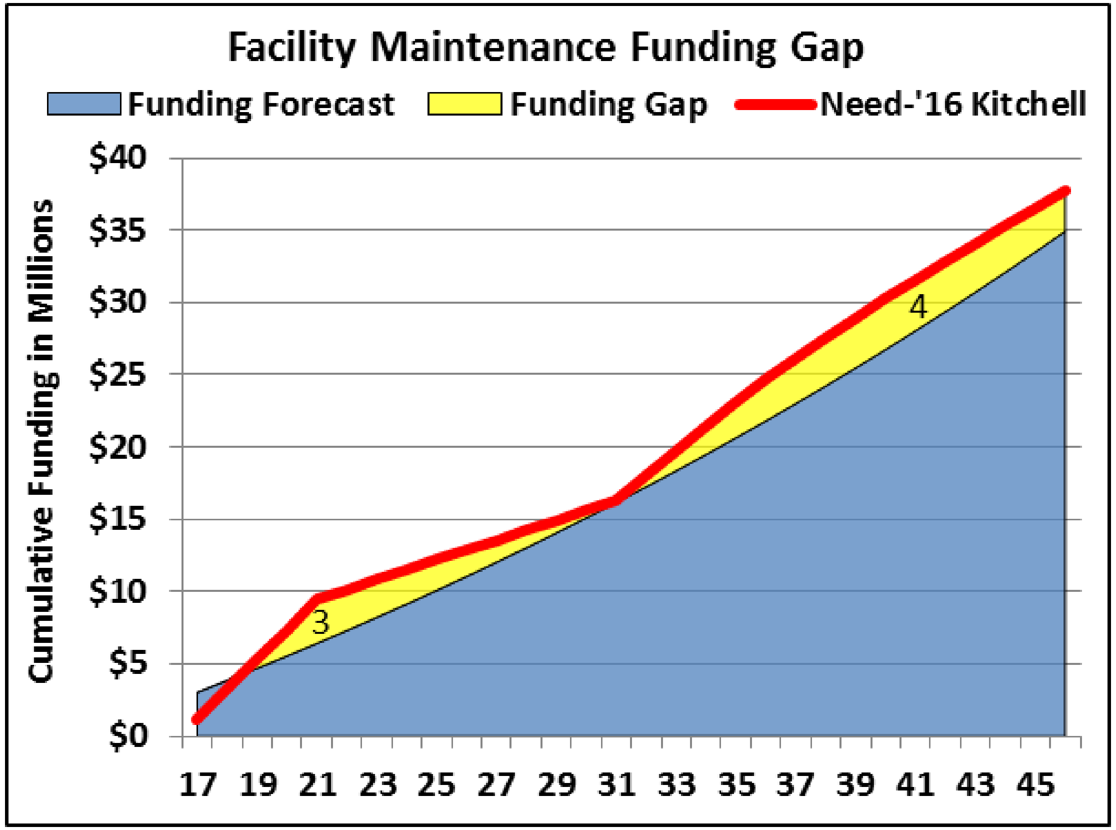
- Discount rate reductions are the primary cause of additional pension cost increases

Infrastructure Assumptions

- **Streets and Bike Paths**
  - $4M ongoing General Fund contribution (continues current funding plan)
  - Assumes streets receive 85% and bike paths 15%
  - Will require additional funds to meet total infrastructure need (NCE report) – potential sources include state and federal funding
- **Buildings and Facilities**
  - Contributions after FY 2017 of $1.25M to fund annual needs (Kitchell report)
- **Parks/Park Structures**
  - Continued $49 park tax
  - General Fund pays $200K of $1.2M annual unfunded costs (December 2015 staff report and staff update to Kitchell report)
- **Traffic Maintenance**
  - General Fund pays $450K of $935K annual unfunded costs (December 2015 staff report)

Transportation and Facility Infrastructure

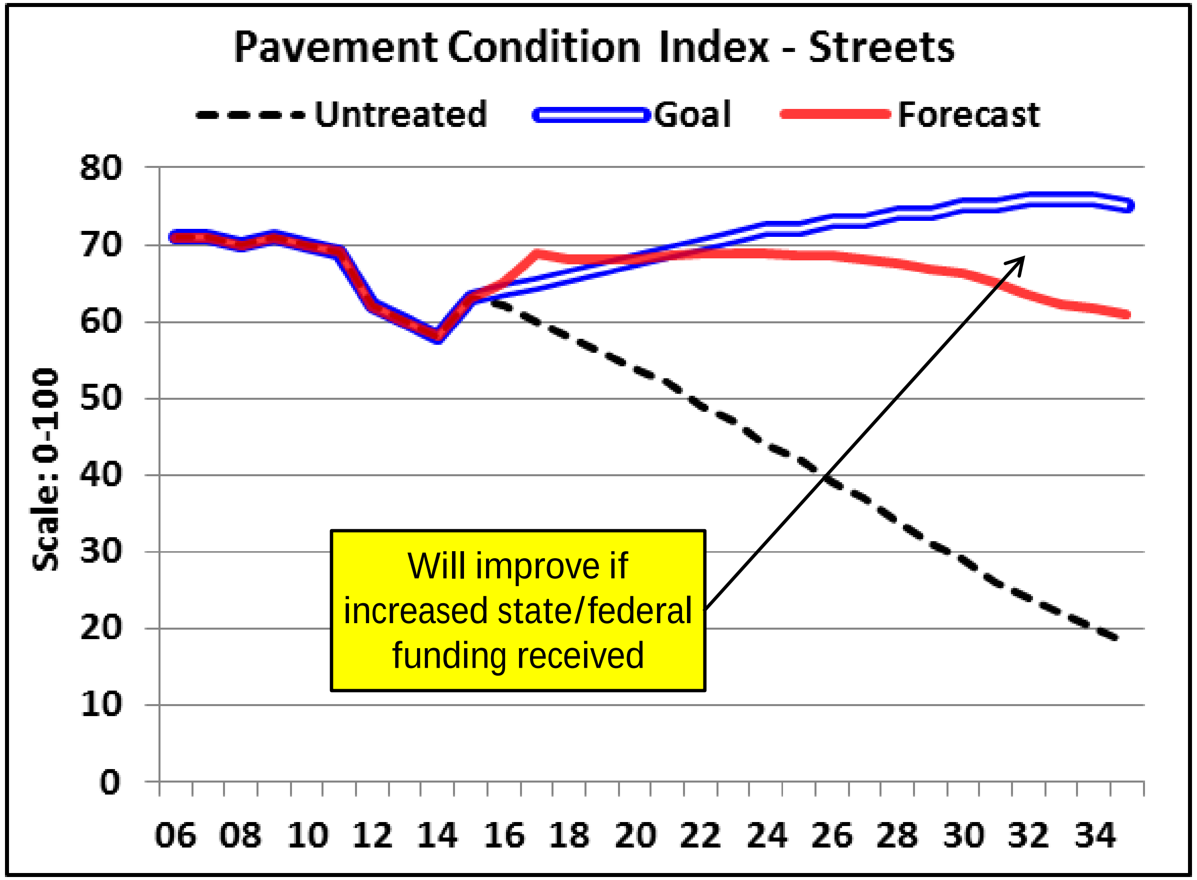


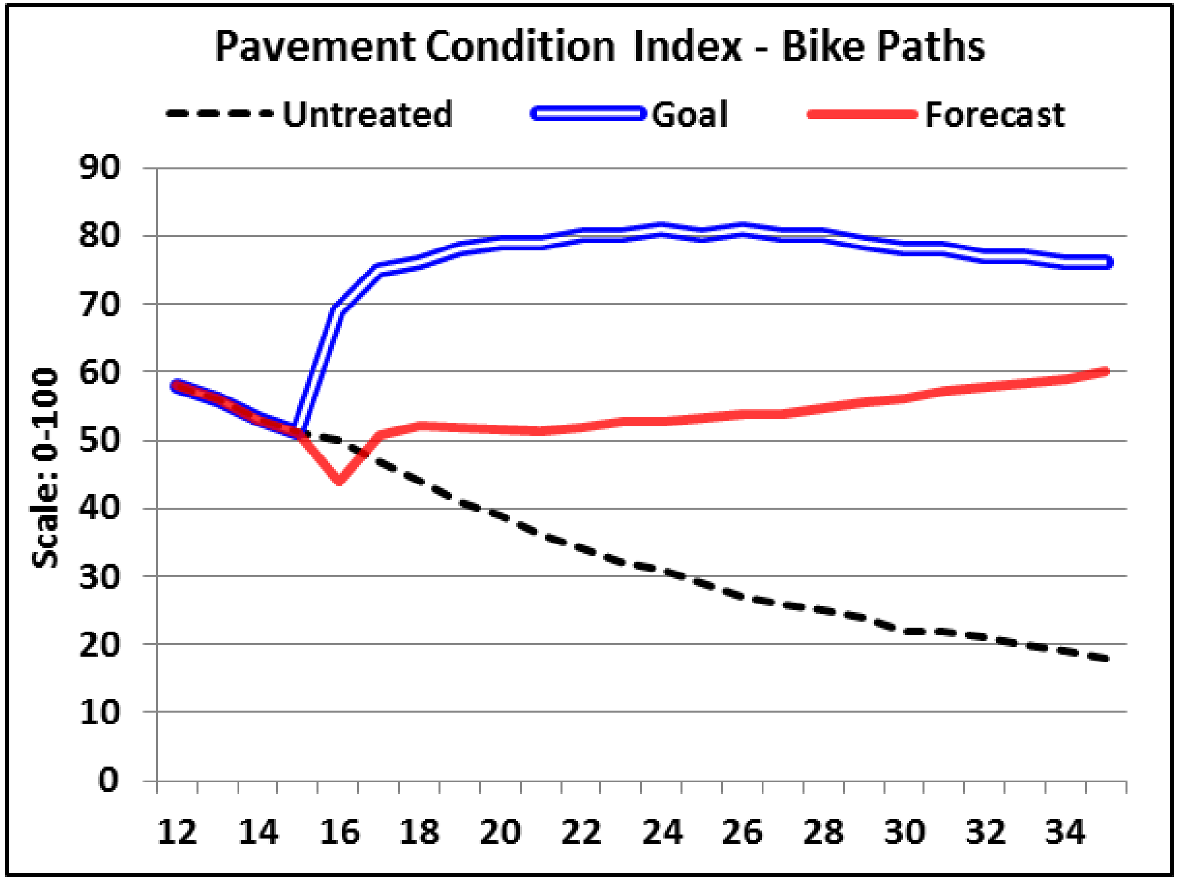


- Street funding gap widens significantly over time to $85M without added funding
- Pending state gas tax legislation

- Funding gap largely addressed by continued $1.25M contribution from General Fund
- Gap over time is between $0 and $4M

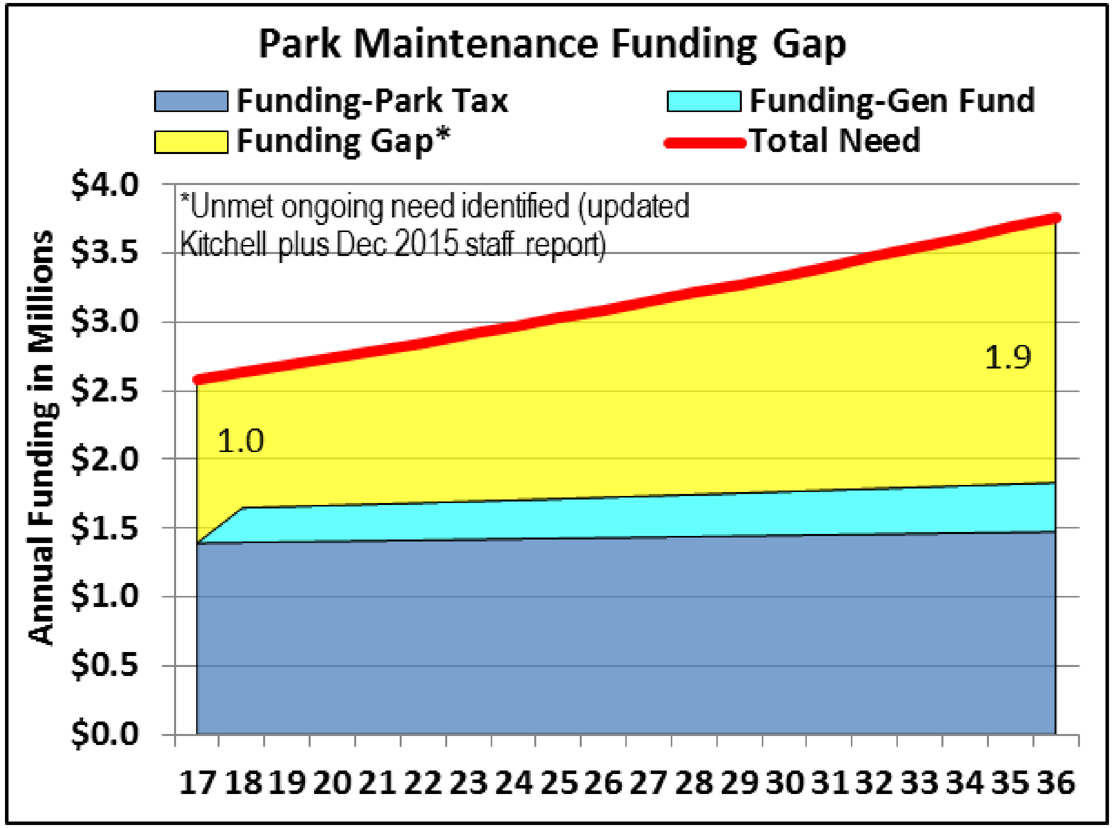
Pavement Condition Index (PCI)

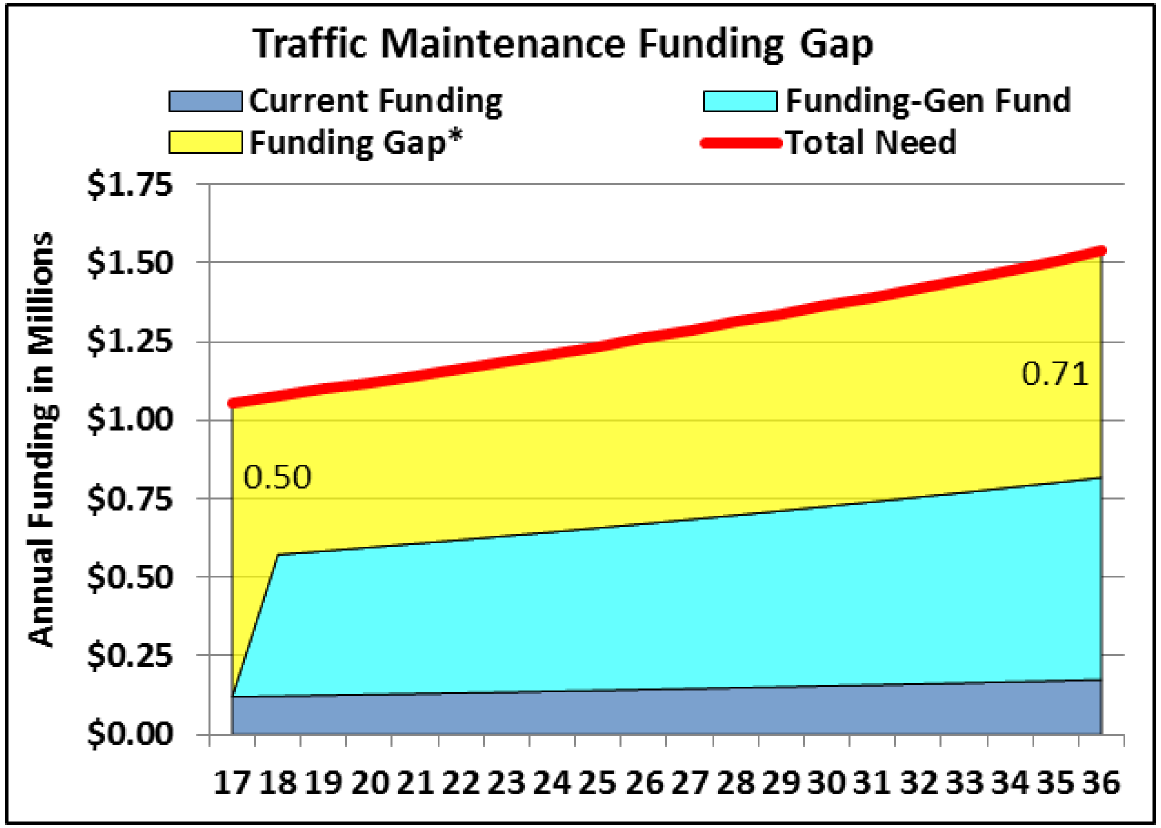




Improving PCI is a long, slow process

Park and Traffic Maintenance

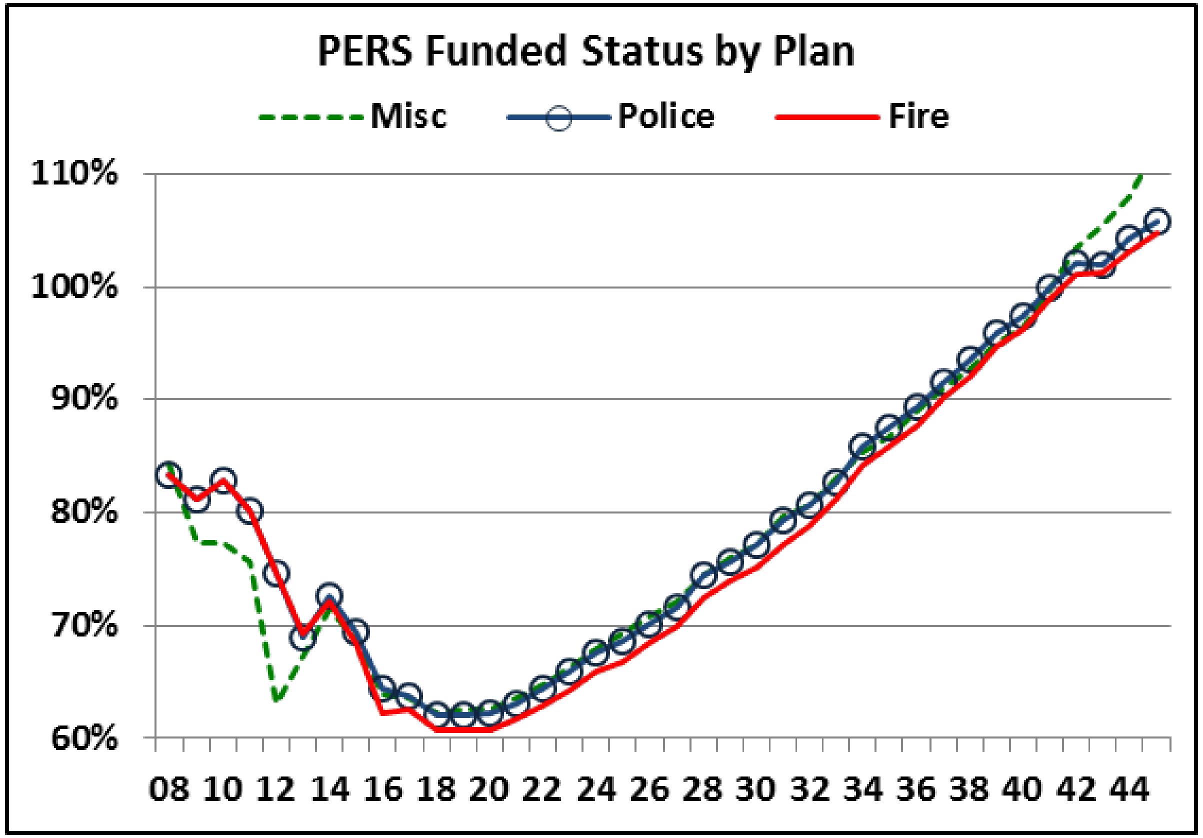




- Continued $49 park tax
- General Fund support reduces funding gap to between $1M to $1.9M over time

- General Fund support reduces funding gap to between $500K to $710K over time

Unfunded Liabilities



- PERS - current unfunded liability amortization trend produces:
  - 80% funding by 2032
  - 100% funding by 2041
- OPEB
  - Projected to be 34% funded at June 30, 2017, with gradual funding improvement over time
  - Contributions at 22% of payroll are required for the next 20 years
- Sec. 115 Trust option
  - Earns more interest, offsets unfunded pension liabilities
  - Is the net present value savings worth more than alternate investments, such as benefits and cost savings from improved infrastructure maintenance?

Budget Model Demonstration

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