City of Davis Long-Range Forecast Model Updated for Coronavirus/Recession Impacts

Davis City Council Meeting

Bob Leland, Special Advisor
Management Partners

May 5, 2020

Management Partners

Davis
California

Forecast Model Overview

- **Extensive forecasting experience**
  - Consultant has 38 years of hands-on experience in fiscal modeling
  - Management Partners has developed 32 long-range forecast models for local agencies
  - Firm has extensive experience with cities in financial stress, having coordinated Stockton and San Bernardino bankruptcies
- **Davis forecast model created in 2017**
  - Continually updated ever since, with extensive forecast section in each budget
  - Ongoing contract for limited financial services support
- **Emphasis on real-world assumptions**
  - Realistic forecast includes recessions, vacancies, turnover savings, lower pension discount rate over time, new development
  - Projections reflect need for sustainability: ongoing COLAs, limited staffing growth, ongoing capital investment, maintaining adequate reserves

Current Fiscal Environment is Challenging

- **Issues in Common with Other Agencies**
  - Coping with COVID-19 revenue losses
  - Absorbing higher pension costs
  - Ongoing infrastructure maintenance needs
- **Issues Specific to Davis**
  - University community, high level of amenities
  - Staffing remains well below pre-recession levels
  - General Fund capital funding obligations

CA Legislative Analyst's Perspective

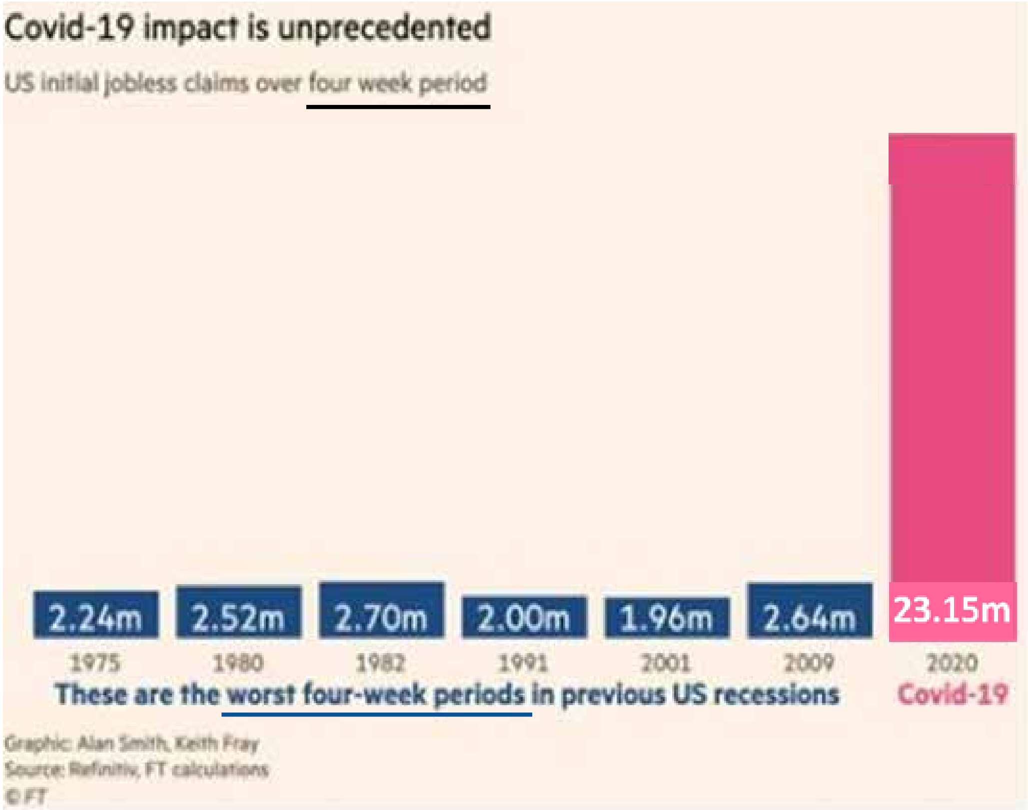
Capitol Alert

California is now in a recession that could last years, state fiscal experts say

Sacramento Bee 4/20/2020

- CA has entered a recession, and it will impact at least fiscal years 19-20 and 20-21
- Fiscal impact "will likely" exhaust historically high State reserves
- Shape of recession will either be "U" shaped or "L" shaped, depending on trajectory of virus
  - Best case – Restrictions lifted late spring or early summer and economic activity rebounds in near future
  - Worst case – Restrictions linger or are lifted too soon, spurring virus resurgence, and/or economic downturn persists or recovery is slow
- Degree and efficacy of Federal stimulus are key to mitigation

Unemployment Spikes, Taxable Sales & Travel Plummet

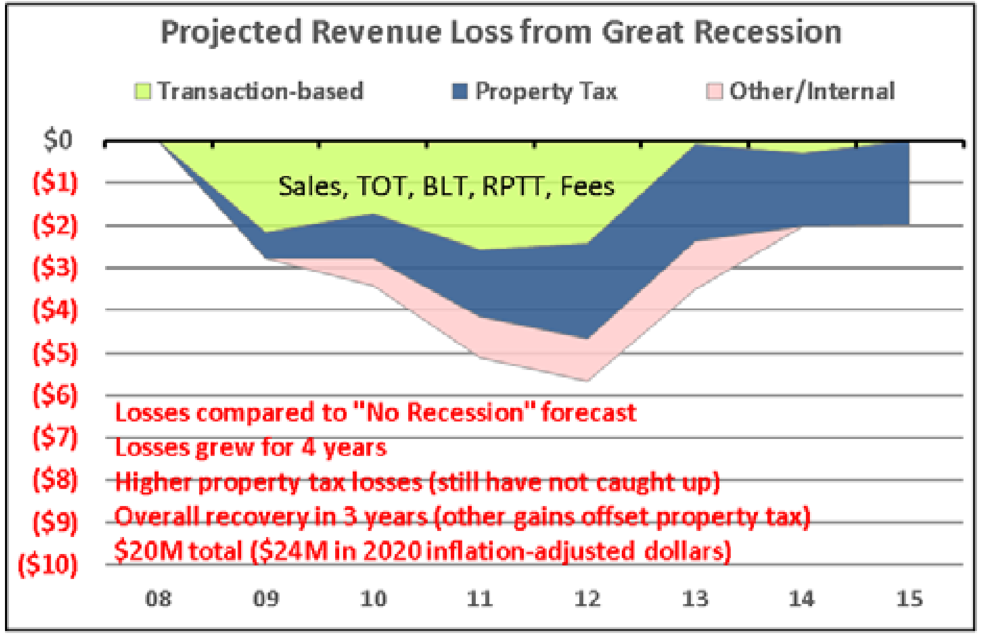


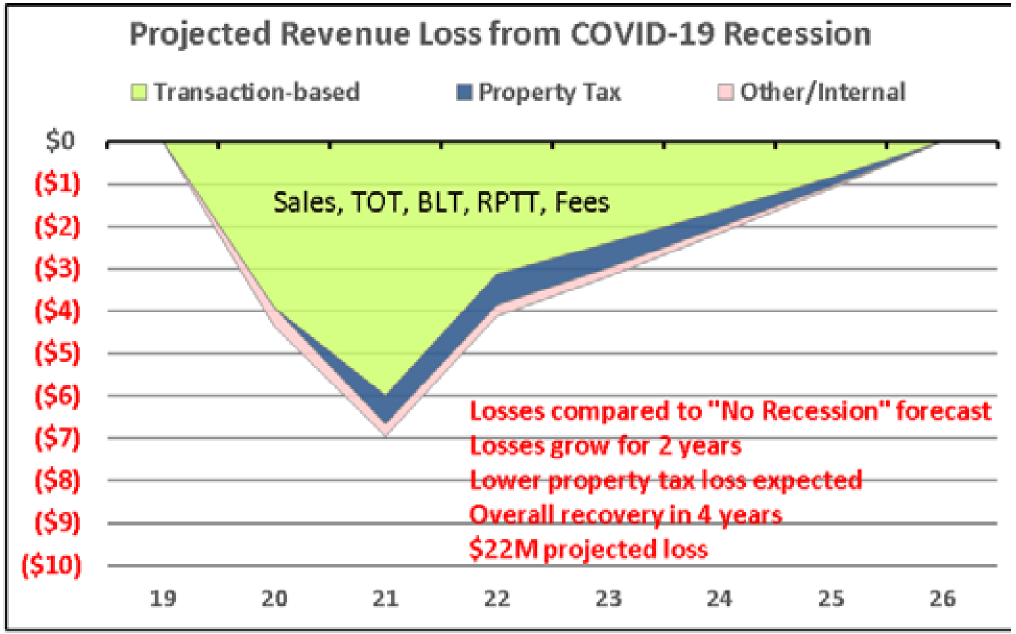
- **Unemployment claims** by 30.3 million in the past 6 weeks, shattering past highs; unemployment rate between 15-20% (Great Depression at its peak was 25%)
- **Taxable sales** in freefall, except for online purchases (*Wayfair* decision revenues are boosting county sales tax pool, the one bright spot)
- **Travel spending** down 78% in Mar-Apr; projected to be down $400 billion nationwide for 2020; likely slow to recover
- **GDP** down 4.8% in 1Q20, expected to be down 30-35% in 2Q20

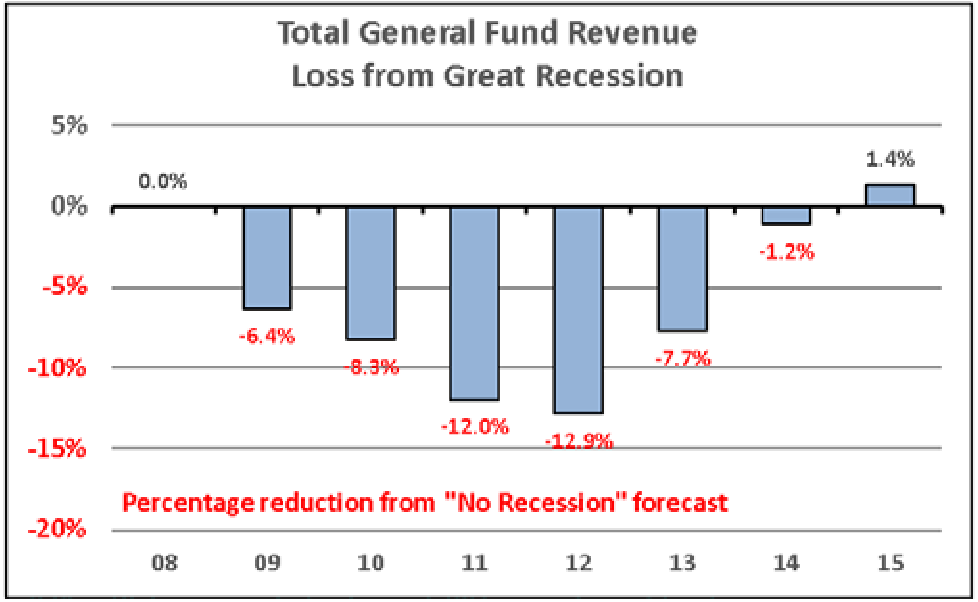
Impact by Revenue Source

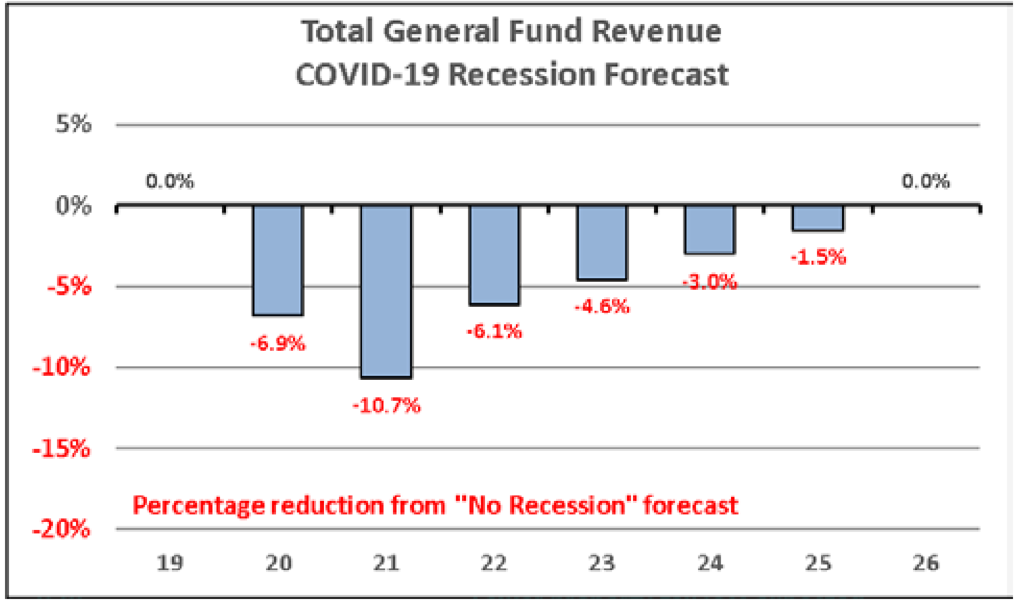
- **Sales Tax** *(FY20 Adjusted Budget: $15.8M, 24.8% of total GF revenue)*
  - Immediate major impact, exacerbated by tax payment extensions for smaller vendors
- **Property Tax** *(FY20 Adjusted Budget: $23.0M, 36.2% of total GF revenue)*
  - No impact in FY20, and FY21 limited to lower supplemental taxes; any value loss occurs in FY22
- **Transient Occupancy Tax** *(FY20 Adjusted Budget: $2.3M, 3.6% of total GF revenue)*
  - Immediate major impact, industry may be slow to recover; UCD is main driver of City TOT revenue
- **Real Property Transfer Tax** *(FY20 Adjusted Budget: $0.3M, 0.5% of total GF revenue)*
  - Immediate impact, but revenue source is small
- **Municipal Services Tax/Franchises/HOE** *(FY20 Adjusted Budget: $4.6M, 7.1% of total GF revenue)*
  - These are amounts paid as a consequence of occupancy, and are not expected to be impacted
- **Development Fees** *(FY20 Adjusted Budget: $2.2M, 3.5% of total GF revenue)*
  - Immediate major impact as projects are stalled, or developers hold off initiating new projects
- **Recreation Fees** *(FY20 Adjusted Budget: $3.5M, 5.4% of total GF revenue)*
  - Immediate major impact as programs stopped in mid-March; will be slow to re-start given proximity issues
- **Other Revenue** *(FY20 Adjusted Budget: $8.6M, 13.6% of total GF revenue)*
  - Assumes no impact for Cannabis, Intergovernmental, Internal Charges, Fines, Leases

Comparison of Great Recession to COVID-19

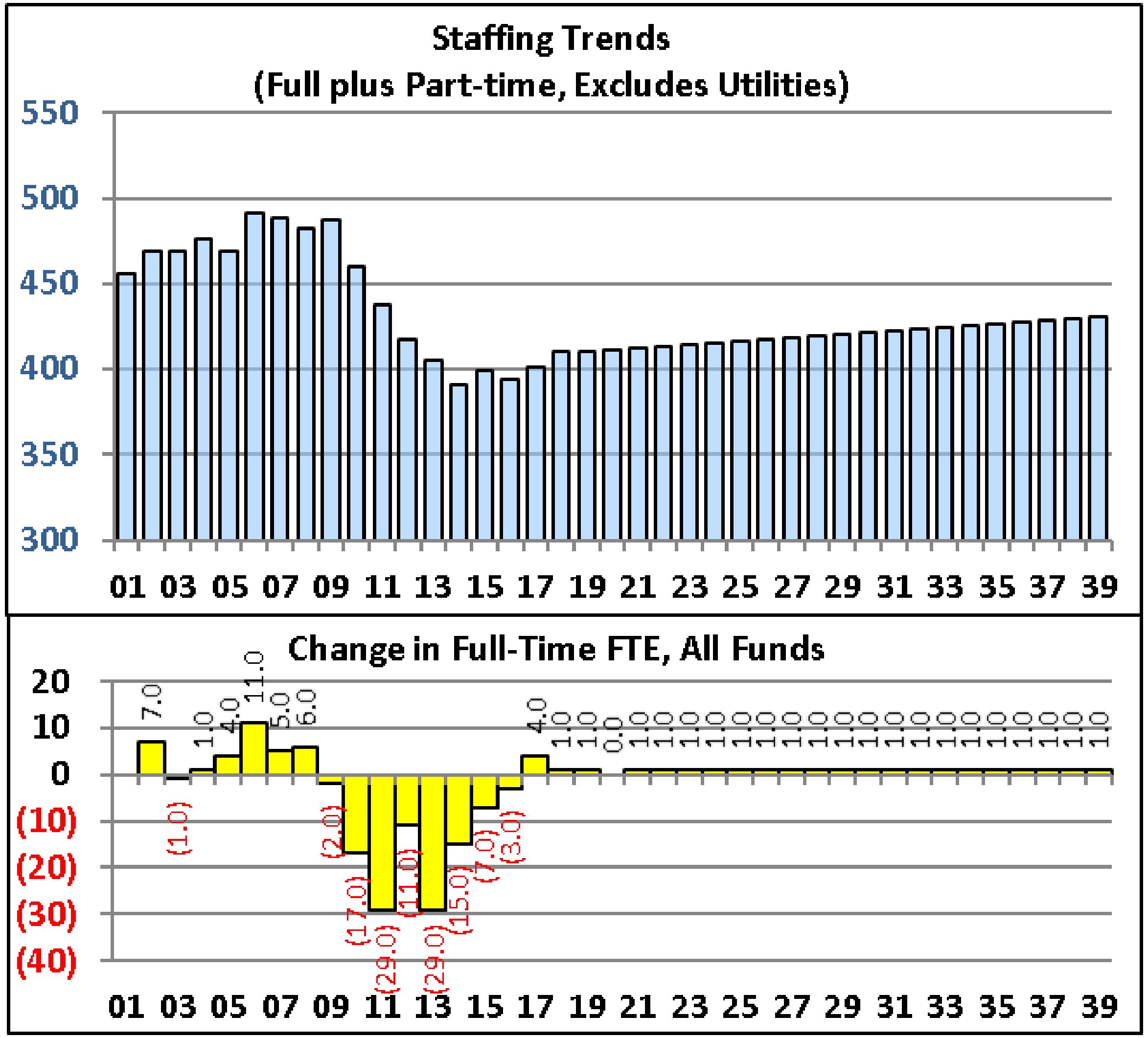






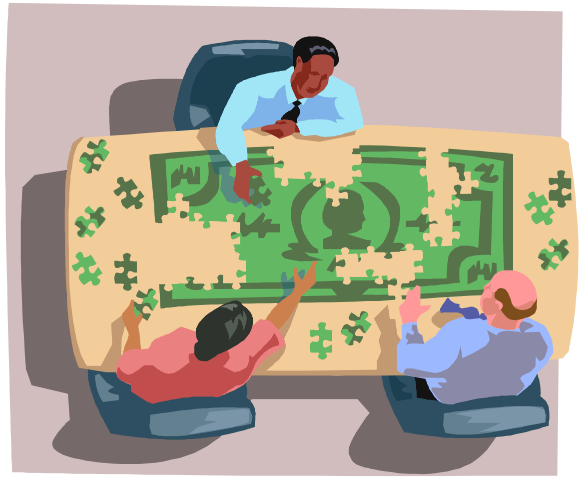


Staffing Levels Have Not Recovered



- 100 FTE cut since the pre-Great Recession peak of 491 FTE non-utility staff, a loss of 21% of staff
- City has been prudent in adding back only a net of 20 non-utility FTE positions
- Current fiscal model assumes 1.0 FTE will be added annual in future budgets to help respond to workload increases

Summary Baseline Forecast



Key Baseline Forecast Assumptions

SPENDING	Forecast Assumptions
Salary COLAs	Current MOUs, 2% after, updated position control/costs
Staffing Growth	1 FTE added per year, cost allowance for Nishi/WDAAC
Vacancy Rate	10% in FY20, 6% in FY21, ramping down to 3.0% over 3 years
Overtime	$2M in FY20, $1.5M in FY21
Health	3% growth; OPEB at GF share of ADC
O&M Growth	Generally 2% on FY20 adopted budget
Infrastructure	$7.5M for past projects; $3M/yr. MOE, plus future amounts over reserve goal

ECONOMY	Forecast Assumptions
Recession Magnitude	Starts FY20, $22M COVID-19 revenue loss, 7-year cycle thereafter w/ moderate revenue loss over 18 months
New Construction	30 units/yr. plus Nishi/WDACC, $6M non-res value, 3rd hotel dropped
Sales Tax Growth Rate	2.2% average (pre-recession)
Change in Ownership	4% of parcels increase average of 35%, 96% increase by 2%
CalPERS Pension Discount Rate	Declines to 6% over 20 years starting FY22; lower CalPERS investment returns starting FY23

Red denotes changes in assumptions from last year's forecast

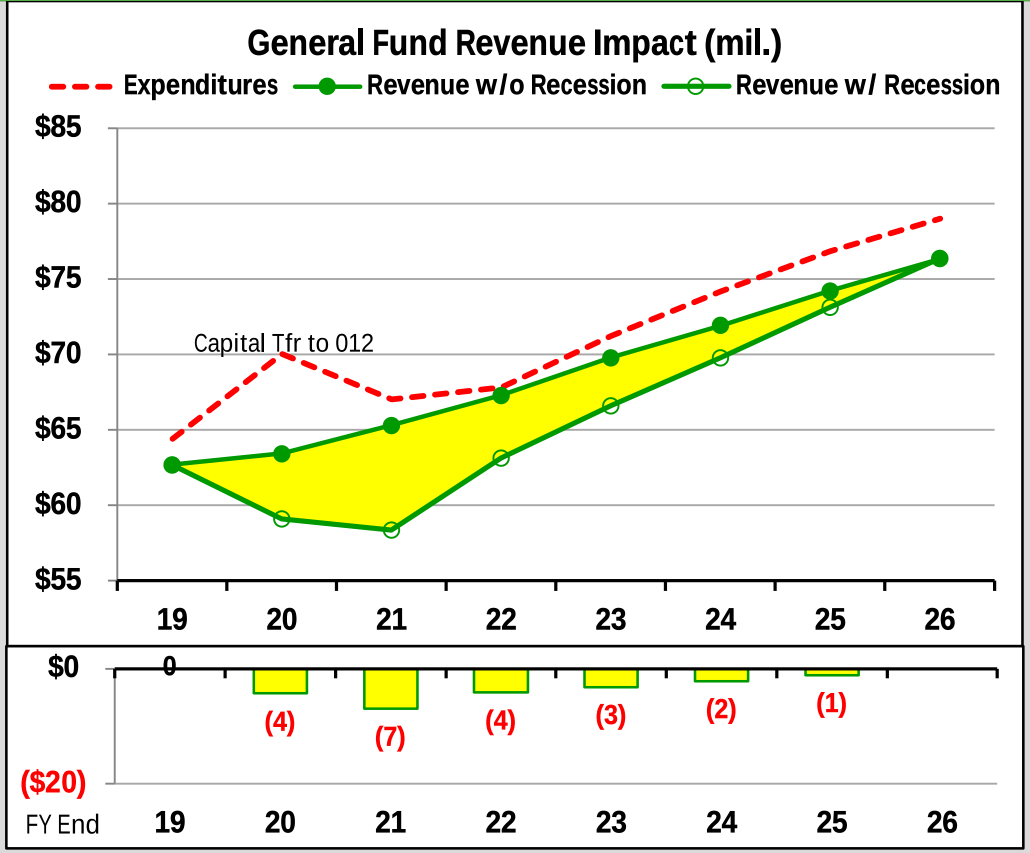
GF Capital Project Obligation

- General Fund (001) accounts for operations
- General Fund Capital Projects (012) was created in FY19 and now accounts for capital projects that used to be in 001; fund 001 transferred $6.8M to fund 012 in FY19
- FY19 CAFR shows $25.2M unassigned balance in the General Fund column (which includes multiple funds, including 001 and 012); fund 001's share of this is $20.7M
- $11.8M of that $20.7M unassigned balance is intended for previously-approved capital projects (it was held in 001 instead of being transferred to fund 012 in FY19 along with the other $6.8M); not shown in CAFR as committed to capital projects
- Question now is what portion of the $11.8M can be de-funded to boost the General Fund's unassigned balance and help it meet the COVID-19 revenue losses?
- None of this affects the $3M MOE for streets and bike paths, which is funded annually in the forecast, including in FY20

Baseline Forecast: More Losses in FY21, Slow Recovery

PROJECTED REVENUE LOSSES CAUSED BY CORONAVIRUS/RECESSION BY FISCAL YEAR

Save Loss / Restore Loss / No Impact	Amounts Show Percent Revenue is Below the No-Recession Forecast					
	4	4	3	3	<< Loss Options / Phase-out	
	SEVERE	SEVERE	HIGH	LOSSES END FY 24/25		
Revenue Source	**FY 19/20**	**FY 20/21**	**FY 21/22**	**FY 22/23**	**FY 23/24**	**FY 24/25**
Property Tax	0.00%	0.00%	-2.50%	-1.88%	-1.25%	-0.63%
Property Tax-Supplemental	0.00%	-75.00%	-37.50%	-28.13%	-18.75%	-9.38%
Sales & Use Tax/T&UT	-10.00%	-15.00%	-7.50%	-5.63%	-3.75%	-1.88%
Utility Users Tax	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Business License Tax	0.00%	-25.00%	-12.50%	-9.38%	-6.25%	-3.13%
Transient Occupancy Tax	-20.00%	-25.00%	-12.50%	-9.38%	-6.25%	-3.13%
Property Transfer Tax	-20.00%	-25.00%	-12.50%	-9.38%	-6.25%	-3.13%
Franchise Payments	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Municipal Services Tax	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cannabis Tax	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Intergovernmental	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Fines & Forfeitures	-10.00%	-20.00%	-10.00%	-7.50%	-5.00%	-2.50%
Licenses & Permits	-20.00%	-25.00%	-12.50%	-9.38%	-6.25%	-3.13%
Community Develop Fees	-20.00%	-25.00%	-12.50%	-9.38%	-6.25%	-3.13%
Park & Recreation Fees	-25.00%	-30.00%	-15.00%	-11.25%	-7.50%	-3.75%
Other Fees & Charges	-20.00%	-25.00%	-12.50%	-9.38%	-6.25%	-3.13%
Interfund Charges	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other Revenue	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transfers In	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%



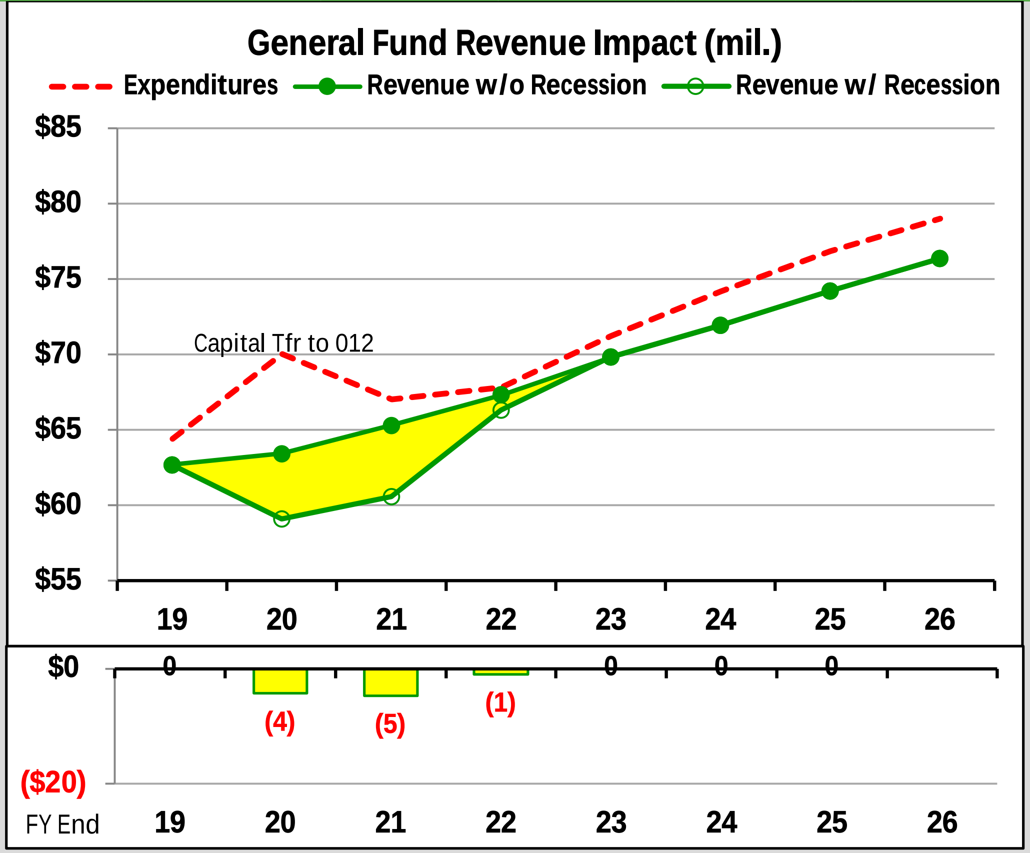
$21.9M Revenue Loss FY20-26 no federal aid

- Assumes L-shaped recovery due to recurrence of virus and/or extended economic downturn, with a gradual recovery over 4 years; City needs to plan now for the potential of extended losses
- Expenditures reflect $7.5M in transfer to 012, over the $3M MOE requirement; this is a City budget decision

Alternative: Fast Recovery Starting FY21

PROJECTED REVENUE LOSSES CAUSED BY CORONAVIRUS/RECESSION BY FISCAL YEAR

Save Loss / Restore Loss / No Impact	Amounts Show Percent Revenue is Below the No-Recession Forecast					
	4	3	2	0	<< Loss Options / Phase-out	
	SEVERE	HIGH	MODERATE	LOSSES END FY 24/25		
Revenue Source	**FY 19/20**	**FY 20/21**	**FY 21/22**	**FY 22/23**	**FY 23/24**	**FY 24/25**
Property Tax	0.00%	0.00%	-0.63%	0.00%	0.00%	0.00%
Property Tax-Supplemental	0.00%	-50.25%	-9.38%	0.00%	0.00%	0.00%
Sales & Use Tax/T&UT	-10.00%	-10.05%	-1.88%	0.00%	0.00%	0.00%
Utility Users Tax	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Business License Tax	0.00%	-16.75%	-3.13%	0.00%	0.00%	0.00%
Transient Occupancy Tax	-20.00%	-16.75%	-3.13%	0.00%	0.00%	0.00%
Property Transfer Tax	-20.00%	-16.75%	-3.13%	0.00%	0.00%	0.00%
Franchise Payments	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Municipal Services Tax	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cannabis Tax	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Intergovernmental	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Fines & Forfeitures	-10.00%	-13.40%	-2.50%	0.00%	0.00%	0.00%
Licenses & Permits	-20.00%	-16.75%	-3.13%	0.00%	0.00%	0.00%
Community Develop Fees	-20.00%	-16.75%	-3.13%	0.00%	0.00%	0.00%
Park & Recreation Fees	-25.00%	-20.10%	-3.75%	0.00%	0.00%	0.00%
Other Fees & Charges	-20.00%	-16.75%	-3.13%	0.00%	0.00%	0.00%
Interfund Charges	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other Revenue	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transfers In	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%



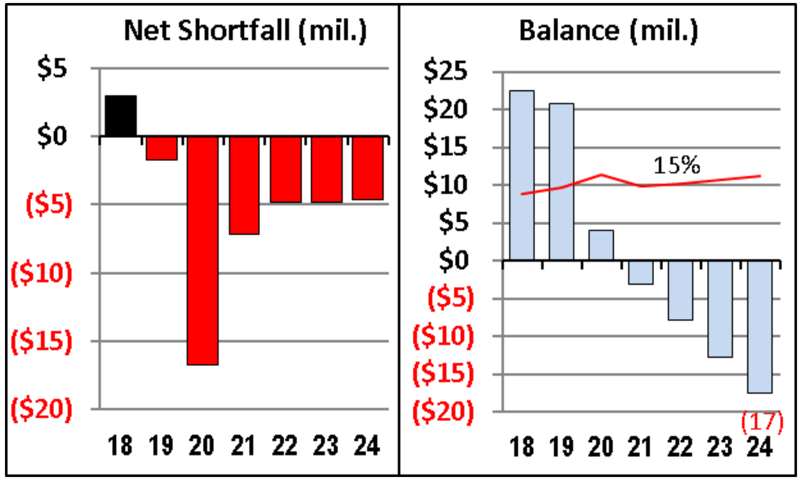
$10.1M Revenue Loss FY20-26 no federal aid

- U-shaped recovery; assumes no recurrence of virus and swift economic rebound; results in about half the loss of the Baseline Forecast, but requires everything to go right; impact the same as Baseline Forecast in FY20, but lower losses in FY21-25
- Expenditures reflect $7.5M in transfer to 012, over the $3M MOE requirement; this is a City budget decision

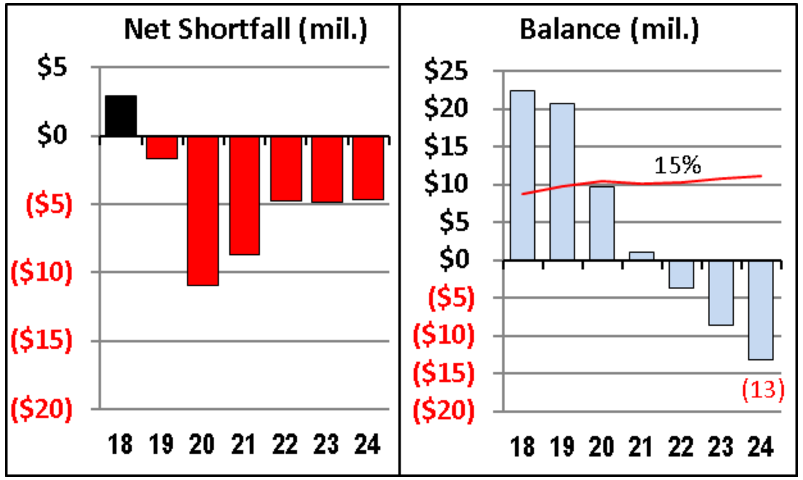
Range of Potential Outcomes – Short-Term View

Baseline Forecast

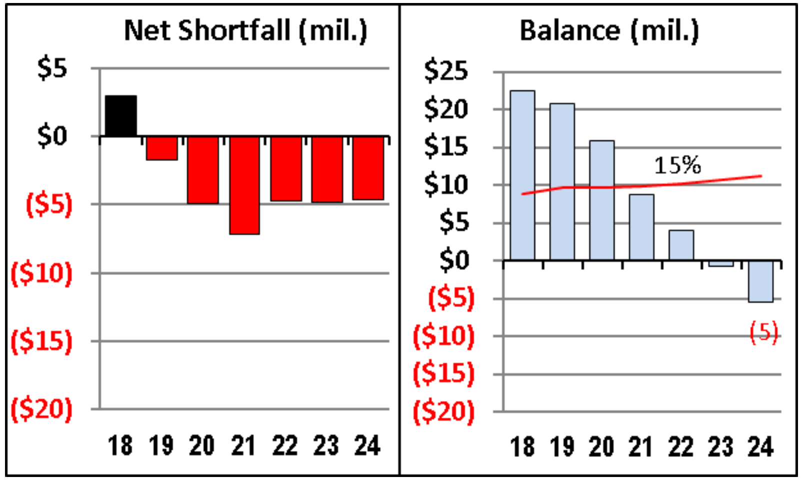
$11.8M Capital/High COVID Loss



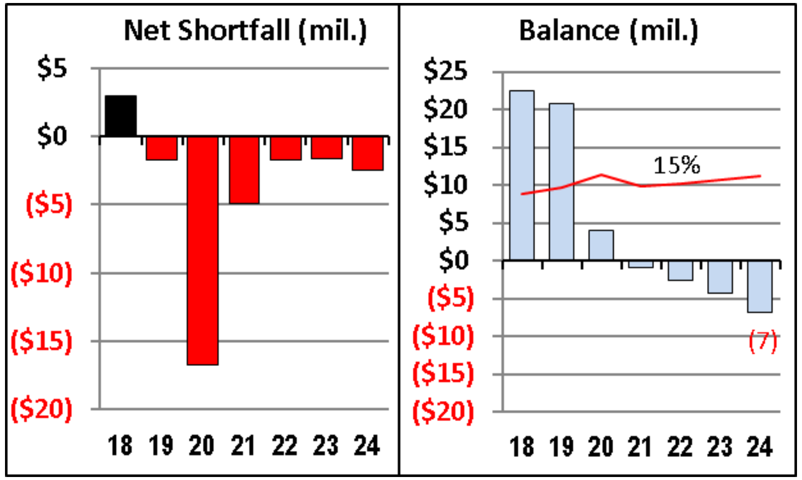
$7.5M Capital*/High COVID Loss



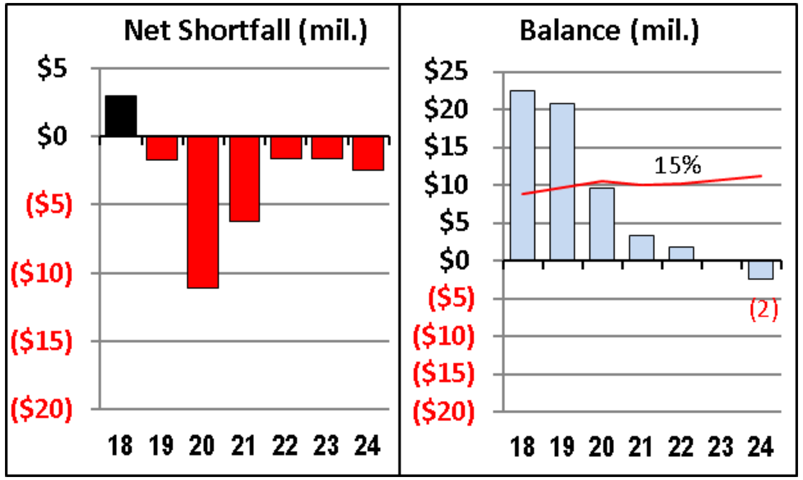
$0M Capital/High COVID Loss



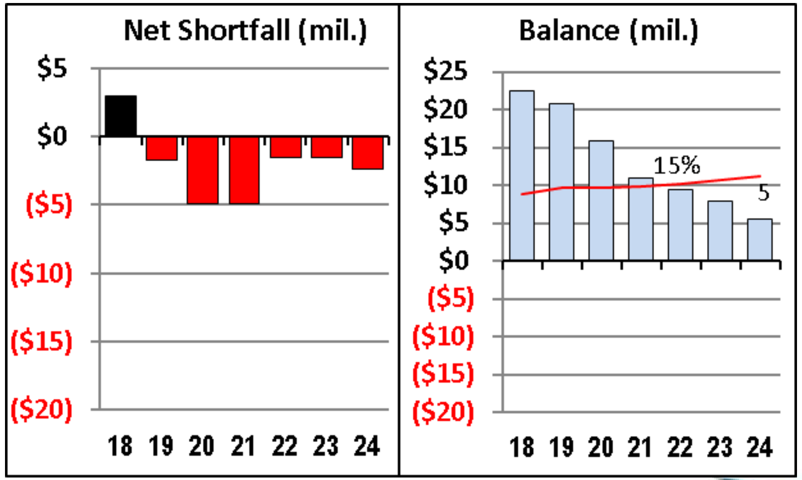
$11.8M Capital/Low COVID Loss



$7.5M Capital*/Low COVID Loss



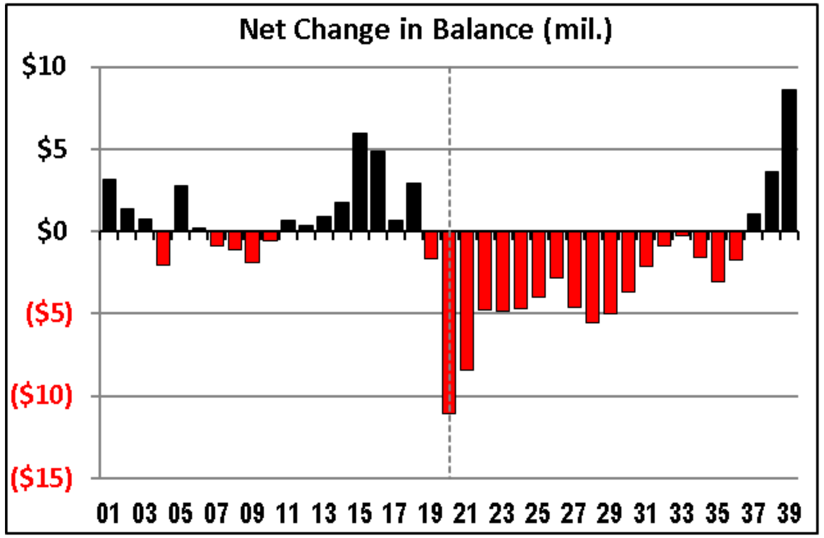
$0M Capital/Low COVID Loss

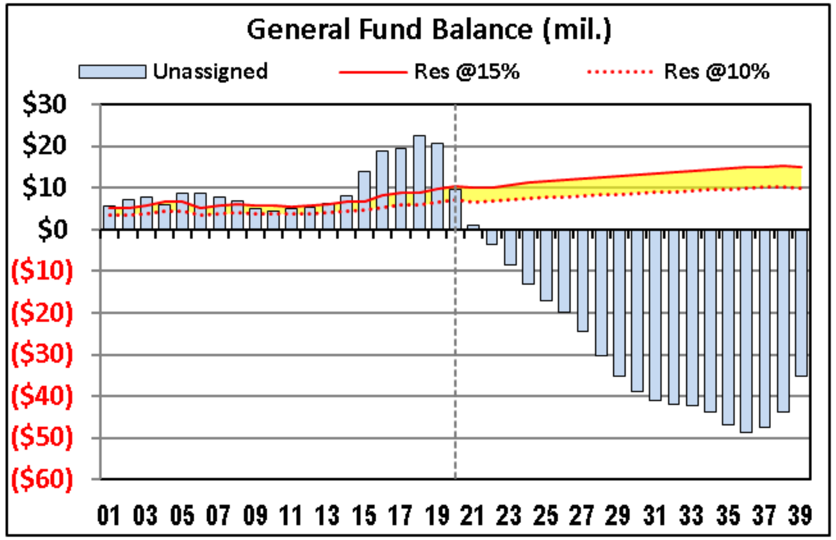


*this is a work in progress

20-year Baseline Forecast in Deficit at Current Service Levels

1. **BASELINE**: High COVID-19 loss ($22M), moderate recessions in FY27 and FY34; $7.5M capital contributions





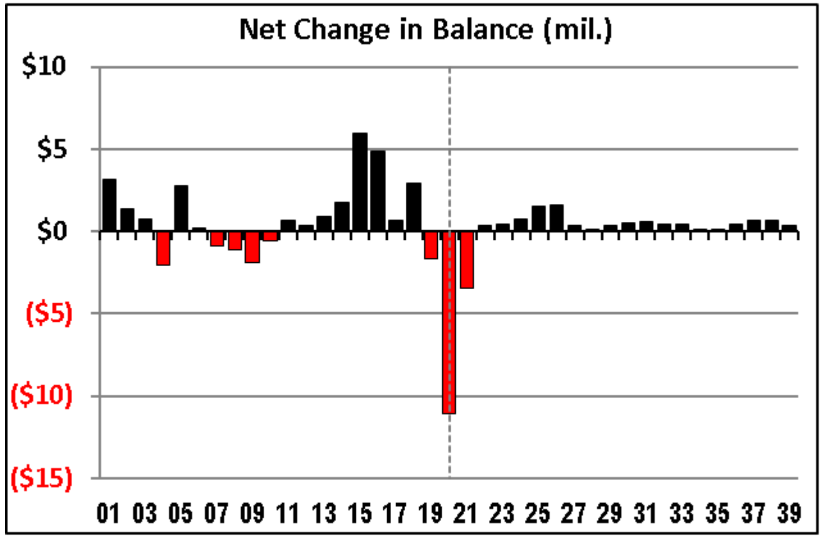
Infrastructure Needs & Funding Summary
FY20-FY39 (in mil.)

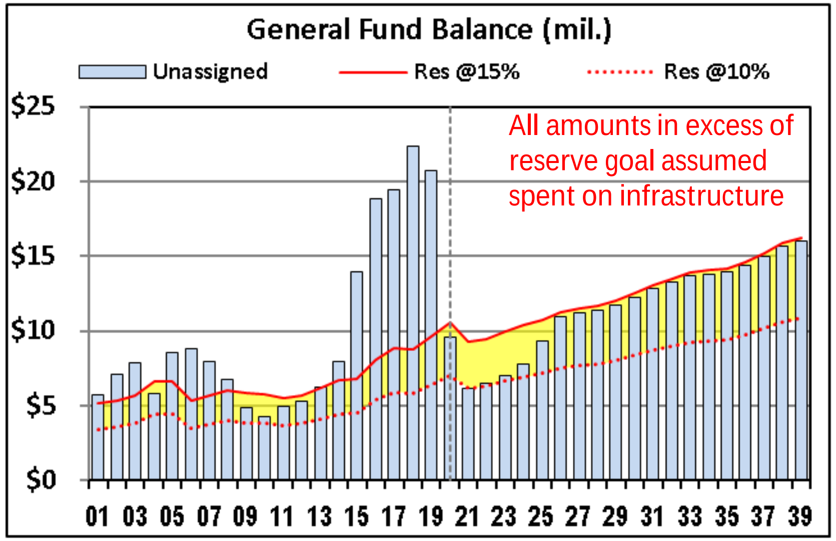
Category	Need	Funded General	Funded Other	Funded Total	Funding Gap	Fund%
Streets*	$158	$44	$55	$99	$59	63%
Bike Paths*	79	16	0	16	63	20%
Traffic Maint	95	0	8	8	88	8%
Parks	91	0	37	37	54	40%
Facilities	23	0	0	0	23	0%
Parking Maint	4	0	0	0	4	0%
Totals	451	**60**	100	160	291	**35%**

**NCE 1/14/20 Scenario 5*

	Avg Ann Funding Gap
20-year Transportation Infrastructure	-$10.7
20-year Total Infrastructure	-$14.6

2. **REVISED**: Requires savings of $5M per year starting FY21 to balance budget, and fund half of infrastructure needs





Infrastructure Needs & Funding Summary
FY20-FY39 (in mil.)

Category	Need	Funded General	Funded Other	Funded Total	Funding Gap	Fund%
Streets*	$158	$80	$55	$135	$23	86%
Bike Paths*	79	29	0	29	50	37%
Traffic Maint	95	8	8	16	79	17%
Parks	91	0	37	37	54	40%
Facilities	23	8	0	8	15	35%
Parking Maint	4	0	0	0	4	0%
Totals	451	**126**	100	226	225	**50%**

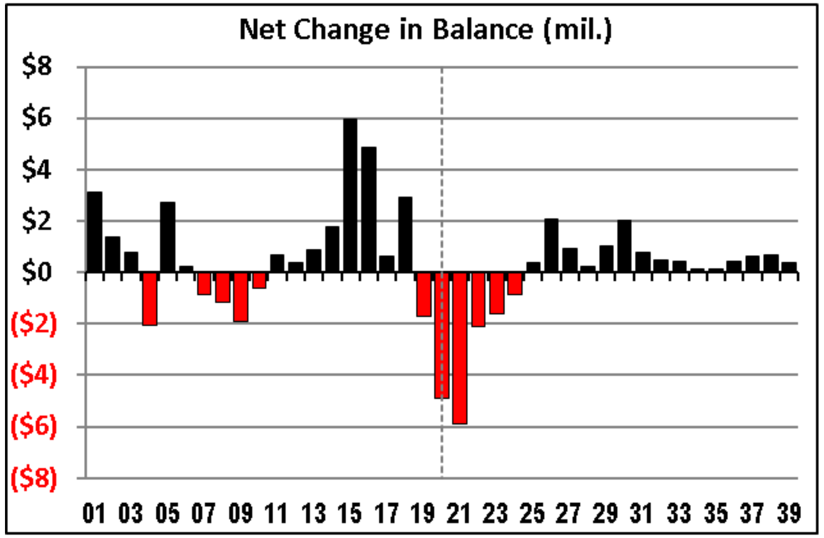
**NCE 1/14/20 Scenario 5*

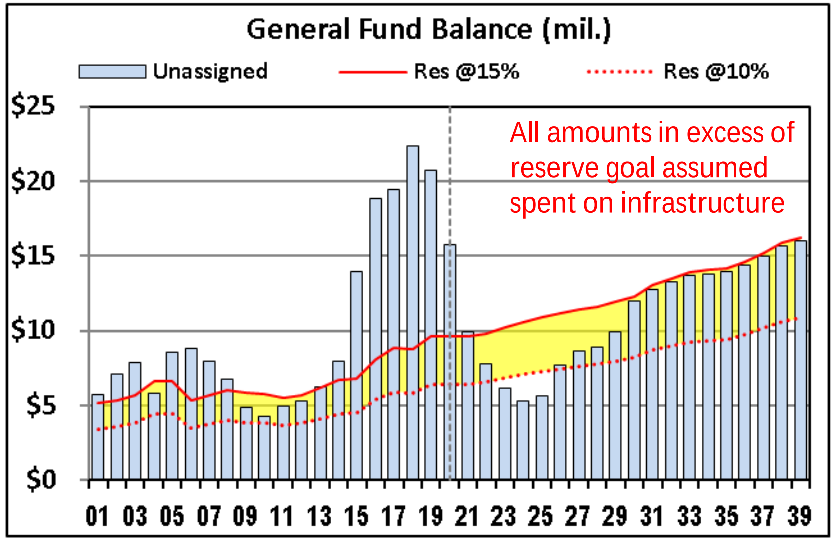
	Avg Ann Funding Gap
20-year Transportation Infrastructure	-$7.8
20-year Total Infrastructure	-$11.3

Potential Areas for Savings

- Near-term savings, even if one-time/temporary, are needed now to bridge immediate gap
  - Lower capital contribution for previously-approved capital projects (does not affect $3M MOE for streets/bikeways); one-time up to $7.5M
  - Freeze hiring; longer-term solution is to cut through attrition (cutting 50% of positions that become vacant in one year at 8% turnover rate is around $1.1M)
  - Reduce General Fund share of OPEB funding from actuarily-determined contribution (ADC) of $4.6M to pay-as-you-go for benefits of $2.9M
  - De-fund selected FY20 amounts for O&M (non-personnel; example: 5% of $23M is $1.1M)
  - Temporary pay rate reduction or deferred COLA; saves $325K per 1% per year (all GF employees)
  - 96 hours of furlough/unpaid leave is $1.45M per year (all GF employees)
- Longer-term savings that grow will help balance budget over time
  - Don't add 1.0 FTE annually (starts small, but with compound growth over time is $2.9M by FY39); purpose of this allowance was to address overall future workload needs
  - Eliminate future expenditures per fiscal analyses that are attributable to Nishi and WDAAC projects (starting FY24, this grows to $1.8M/year over 4 years); City can't spend more resources than it has, and these costs are not hard and fast development-specific costs

Sample Budget Balancing Solution





Infrastructure Needs & Funding Summary
FY20-FY39 (in mil.)

		Funded			Funding	
Category	Need	General	Other	Total	Gap	Fund%
Streets*	$158	$84	$55	$139	$19	88%
Bike Paths*	40	30	0	30	9	76%
Traffic Maint	95	9	8	17	79	18%
Parks	91	0	37	37	54	40%
Facilities	23	9	0	9	14	38%
Parking Maint	4	0	0	0	4	0%
Totals	412	**132**	100	232	180	**56%**

**NCE 1/14/20 Scenario 5 except bike paths use asphalt vs. concrete*

	Avg Ann Funding Gap
20-year Transportation Infrastructure	-$5.6
20-year Total Infrastructure	-$9.0

- This is just one example to illustrate what is possible:
  - $7.5M one-time reduction in capital project and/or OPEB contributions
  - Remove 1.0 FTE growth from forecast
  - Remove Nishi/WDAAC-related costs from forecast
  - Substitute asphalt for concrete for bikeways to reduce costs, stretch $3M MOE further
  - Reduce expenses by cutting 50% of positions vacated in FY21 and FY22 assuming an 8% turnover rate; equivalent to cutting $2M (3% of total) starting FY21
  - Assumes all resources over reserve goal go to infrastructure, but this can be split between service restoration/FTE growth and infrastructure, based on annual budget priorities
  - Any items not fully-implemented from this list will require others from “Options” list to compensate

Contact Information

Bob Leland
Special Advisor
Management Partners
rleland@managementpartners.com
(530) 219-5812