



City of Davis Long-Range Forecast Update



Presentation to City Council Budget Workshop
May 27, 2025

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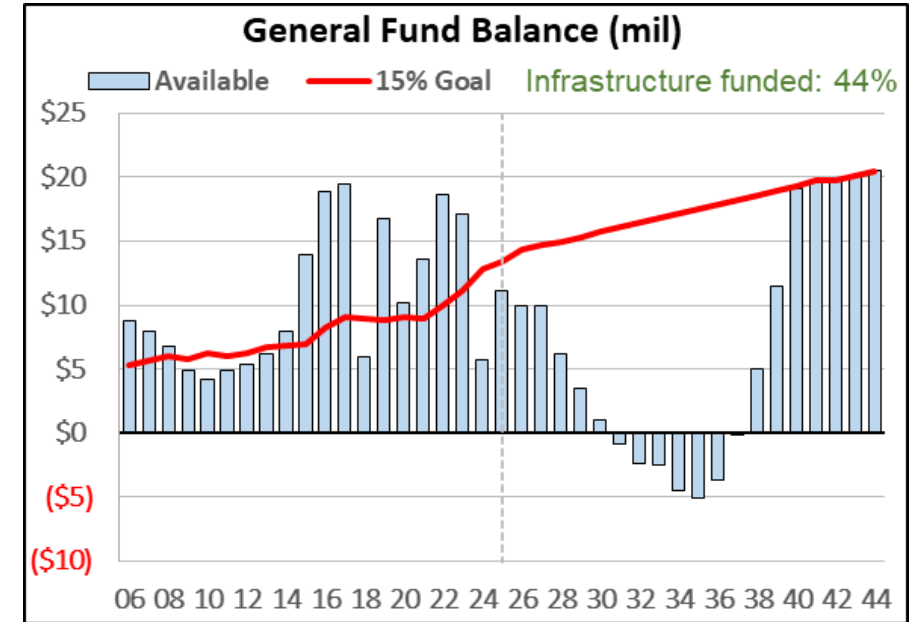
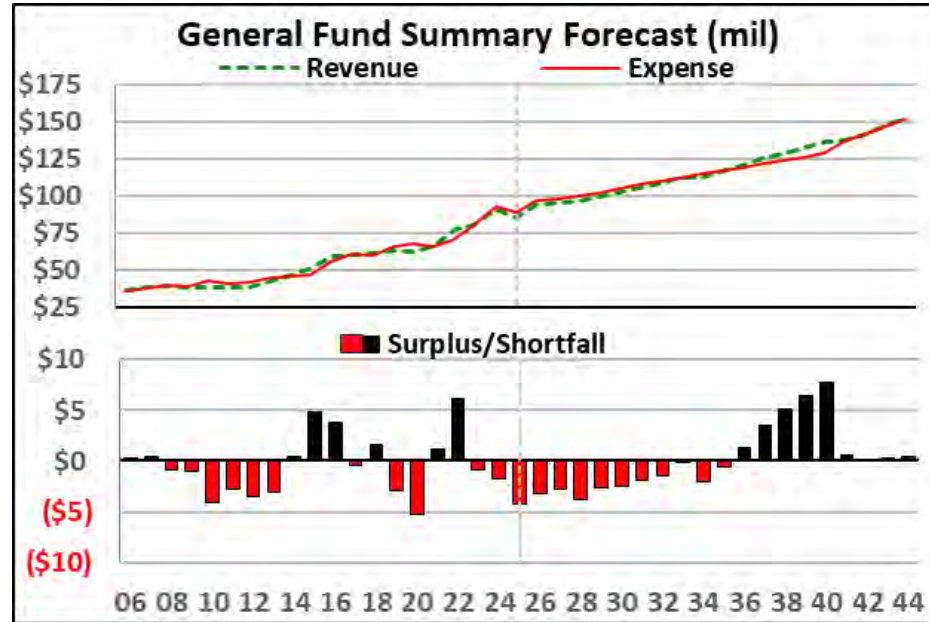
Revised 5/26/25

Forecast Comparison With and Without Measure Q

With Measure Q:

A Challenge

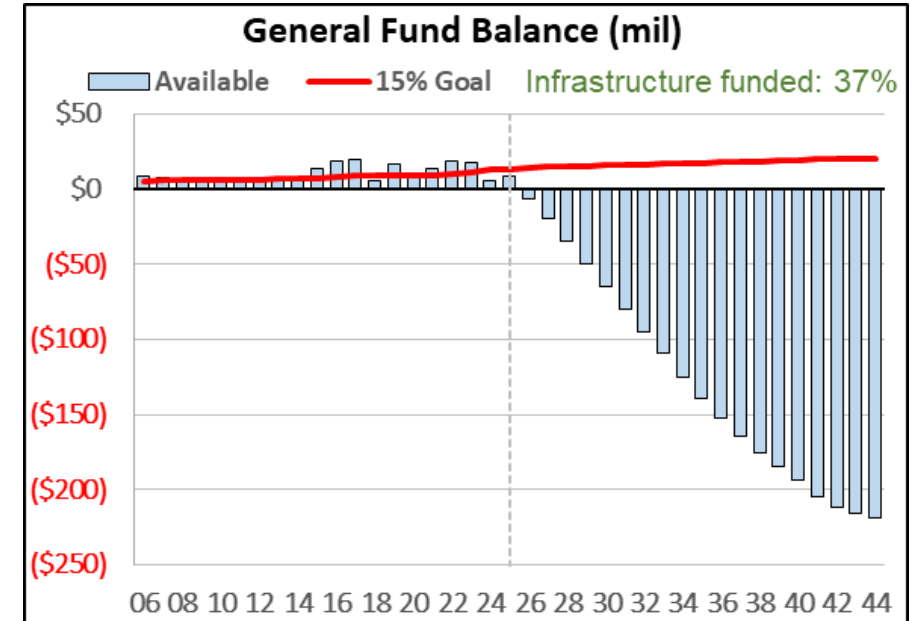
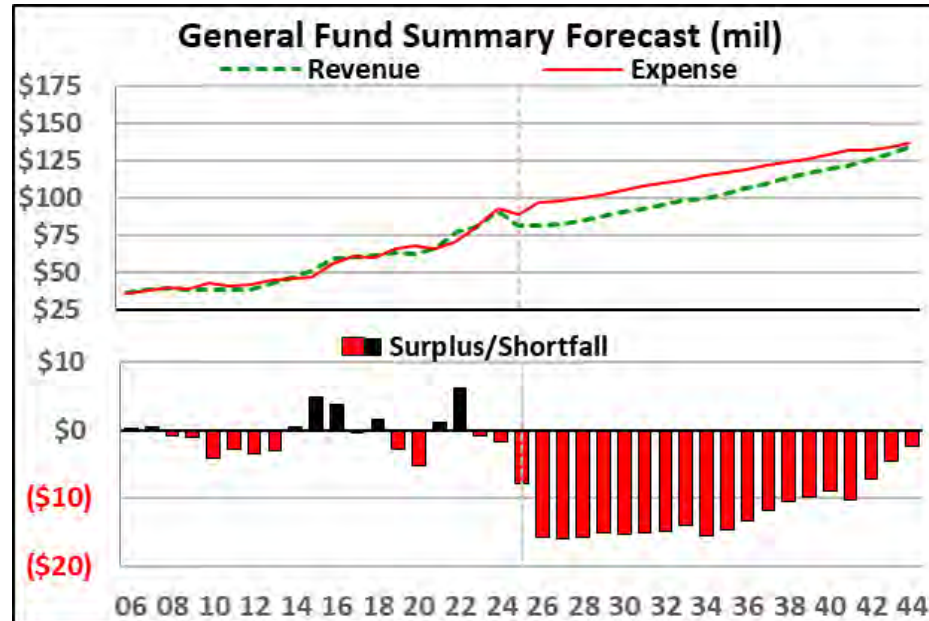
- Budgeted shortfalls of \$3.2M in FY26 & \$2.8M in FY27
- \$2.3M average annual shortfall FY25-35
- Structural shortfall results in deficit by FY31 without budgetary corrections



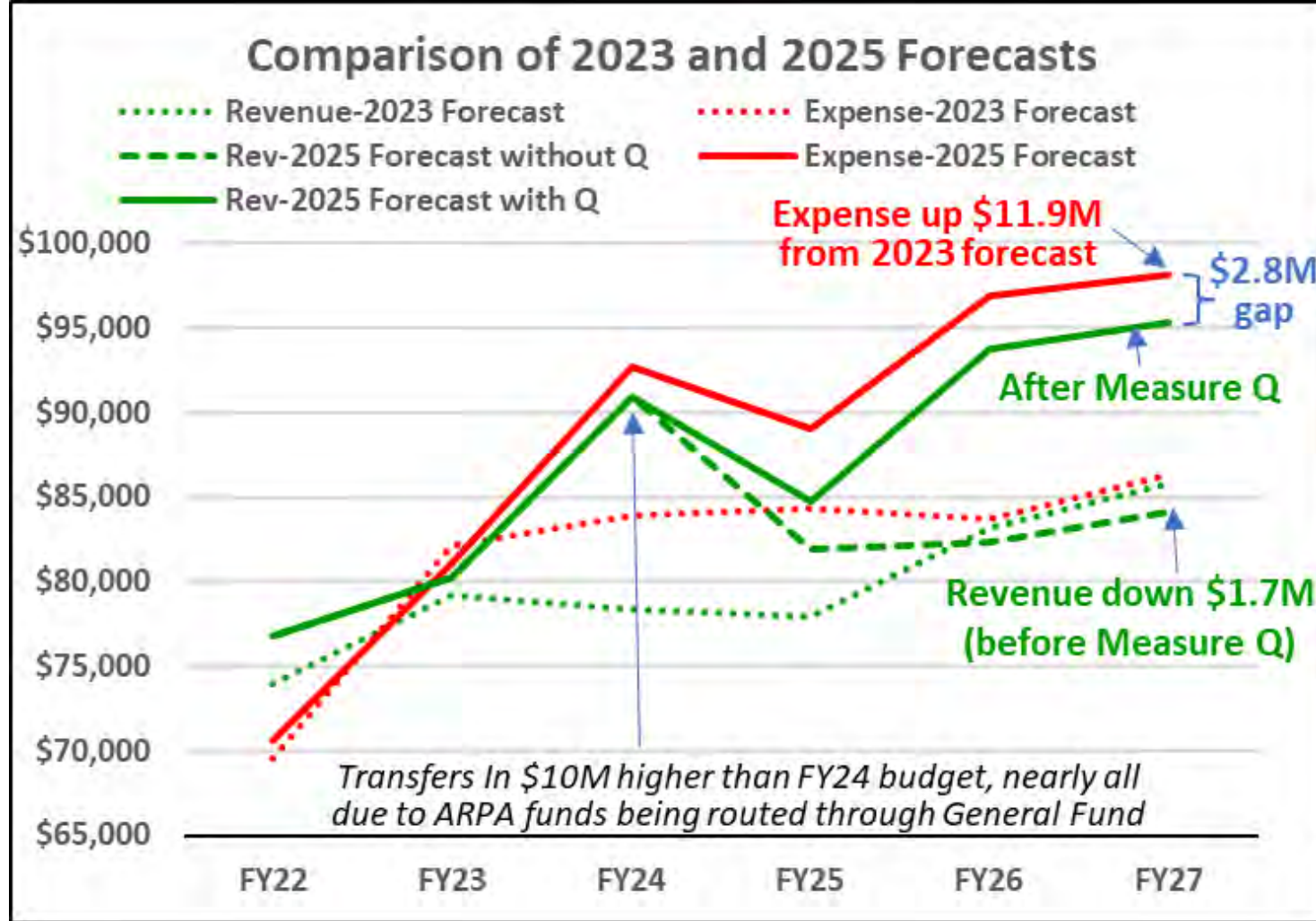
Without Measure Q:

A Disaster

- \$11M less revenue without Measure Q
- \$14.5M average annual shortfall FY25-35
- Deficit starts FY26 without budgetary corrections

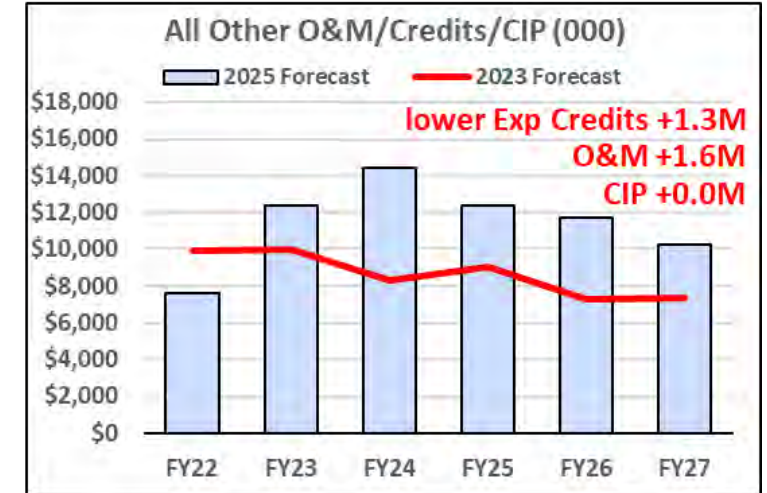
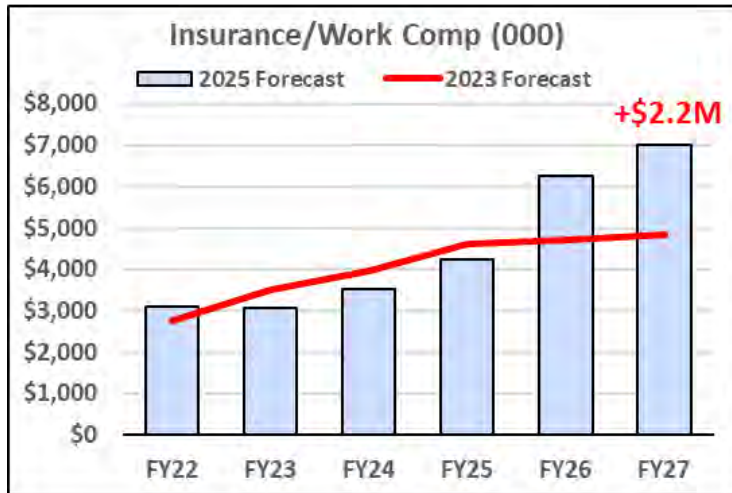
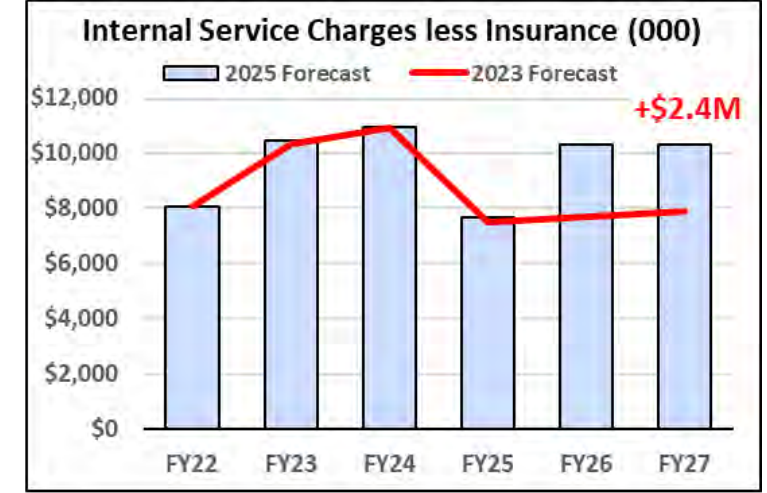
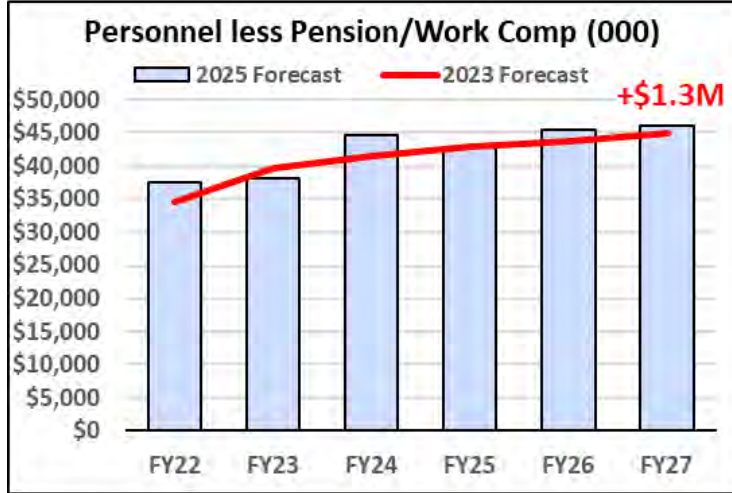


Structural Shortfall Preceded Measure Q



- Last forecast done in 2023 for FY24 & FY25 budget
- Expenses for FY27 proposed budget are \$11.9M higher when compared to the 2023 forecast
- Some costs unavoidable, others result from labor MOUs, budget priorities
- Revenues for FY27 proposed budget are \$1.7M lower when compared to the 2023 forecast
- Measure Q revenue projected at \$11.2M in FY27
- Net gap after Measure Q is still \$2.8M in FY27
- \$3M needed to close gap and restore balance to 15%

Major Sources of \$11.9M Increased Expense by FY27



- 2025 Forecast: FY22-24 are projected actuals, FY25 is an estimate, FY26 & FY27 are the Proposed Budget
- 2023 Forecast: FY22 & FY23 were staff estimates, FY24 & FY25 were the Proposed Budget, FY26 & FY27 were projections using FY25 as a base

Revised Baseline Forecast: Major Assumptions

- Revenue, Expense, Available Balance for FY22 through FY27 per proposed budget
- Thereafter, 2.5% COLAs plus 0.25% (impact of step increases offset by turnover savings)
- 4.7% vacancy rate in FY26 dropping to 4% in FY28 (computed on all personnel except UAL)
- Maintains proposed FY27 staffing levels (no 4th fire station included, or other service increases potentially resulting from future development)
- Pension scenarios per CalPERS Pension Outlook, assumes 6.8% discount rate but lower average return of 6.2% (more conservative than CalPERS actuarial assumptions), 3% Safety cost-sharing
- O&M (non-personnel) expense grows at 2.5%
- General Fund maintains \$3M minimum contribution to streets/bikeways; contributions increase in out-years as pension costs fall, thus creating fiscal capacity
- Moderate recessions starting FY27 on 7-year cycle thereafter
- Property tax growth averages 3.7% per County assessed values/HdL forecast
- Sales tax averages 2.4% per 3Q24 HdL sales tax forecast, Measure Q starts 2Q25
- \$12M of reserves are assigned for one-time ARPA-funded projects or dept operations and is excluded from available balance, which totals \$11.1M in FY25 (per proposed budget)

Forecast Risks/Uncertainties Higher Than in Past Years

Potential Favorable Impacts

- Higher vacancy rate could reduce near-term personnel costs
 - Also reduces productivity and ability to deliver services
- Higher revenue possible in any given year
 - One-time or ongoing?
 - Timing of development, or more pronounced economic cycle, just shifts one year to next
 - If higher ongoing rate of new development occurs, ultimately costs may be higher than shown in forecast
- CalPERS may experience *higher* than projected ongoing returns
 - Reduces unfunded accrued liability (UAL) costs after 3-year lag, most savings is in 2030s and thereafter

Potential Unfavorable Impacts

- Adverse impacts on UC Davis
 - Massive federal cuts in research are affecting higher education nationwide
 - Major planned state budget cuts will hurt UC
 - Restrictive immigration/visa policies will reduce foreign students, post-grads
- Earlier or greater magnitude of recession
 - Major uncertainty due to tariffs, federal policies
- CalPERS may experience *lower* than projected ongoing returns
 - UAL will still be paid down over long-run, but costs may be higher in near-term and for longer period than in forecast
- City adds staff beyond FY27 levels or COLAs exceed 2.5%, thus increasing costs
- City experiences emergency or other cost increases beyond its control

Recommended Next Steps

- Even with Measure Q, City needs to close an average \$2.3M annual shortfall by reducing spending by \$3M starting in FY27 (-3% of total expense) to restore balance
 - Without Measure Q, City would have needed to close \$15M average shortfall by reducing spending by \$15M starting in FY26 (-16% of total expense)
- Recommended approach:
 - Adopt Proposed Budget by June 30
 - Make clear to departments that FY27 Budget is temporary, as it will have to be reduced
 - Use next 12 months to evaluate budget reduction options, and implement these reductions starting July 1, 2026, versus trying to make rushed judgments before July 1, 2025
 - Go slow on filling positions to provide more flexibility in restructuring around vacancies
 - Do not add additional spending as it will increase the amount needed to be cut later
 - Watch for adverse impacts on the economy and the university that may reduce revenues further, and update forecast to revise target level of cuts as needed prior to July 1, 2026



Thank You! Questions?



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