



City of Davis Long-Range Forecast Update



Presentation to City Council

June 16, 2026

Bob Leland, Special Advisor
Baker Tilly Advisory Group, LP

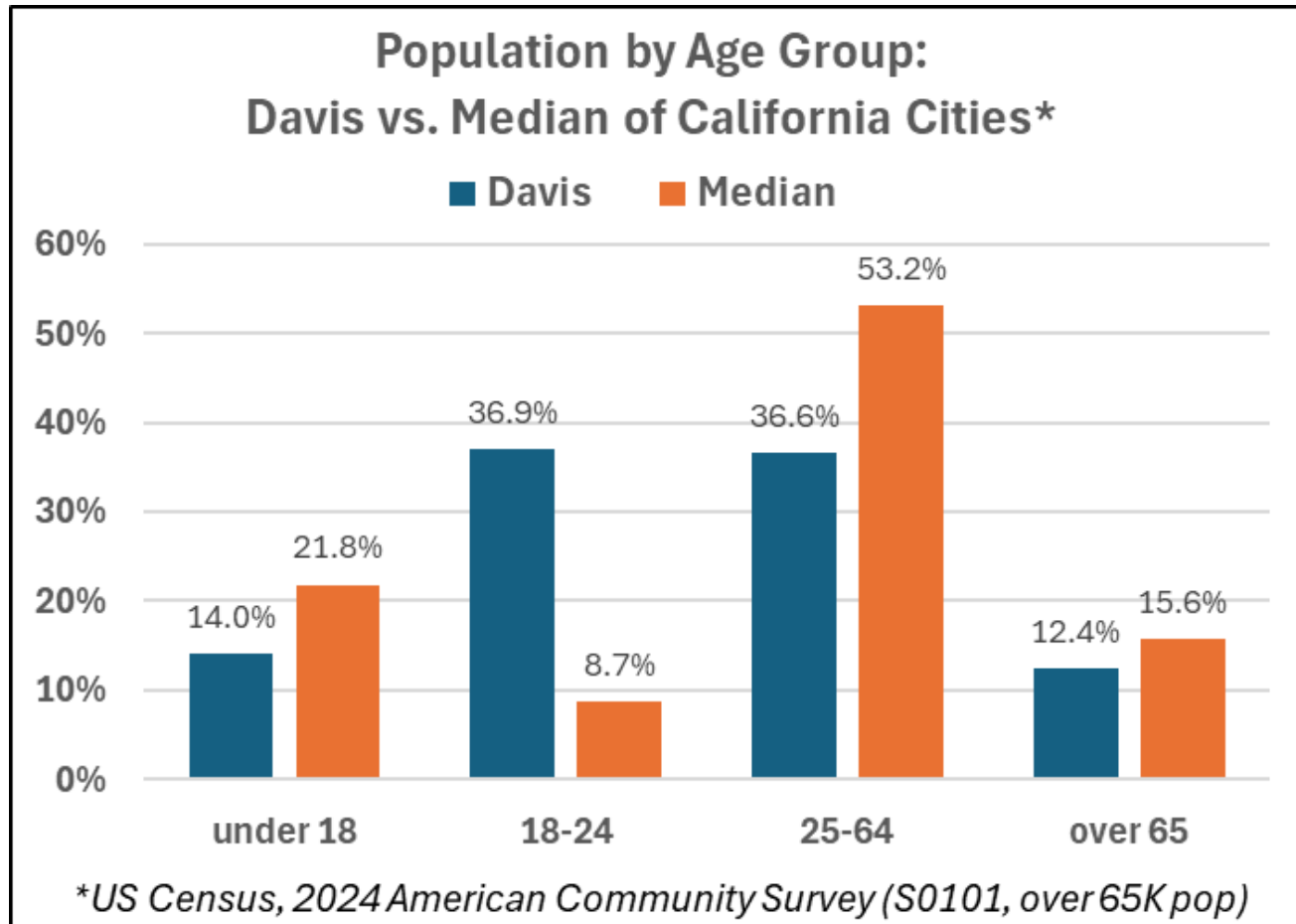


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Fiscal Legacy & Background

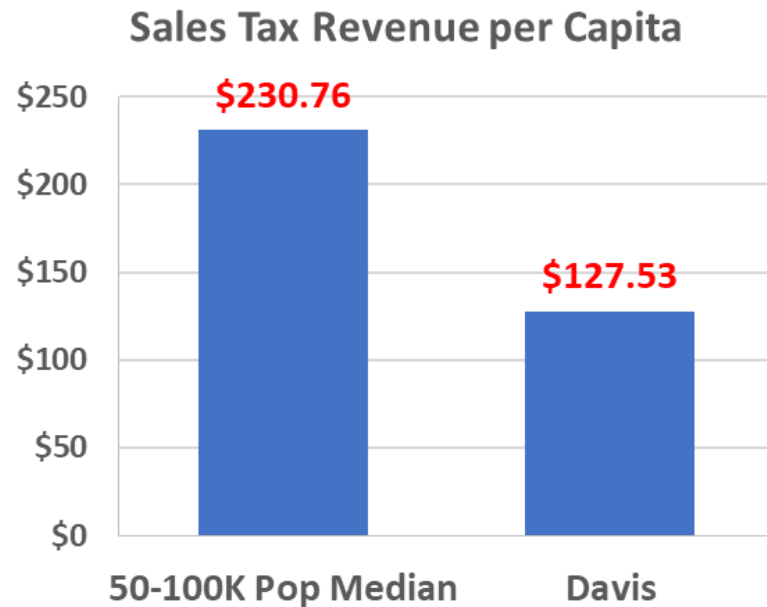
- **Historically sound City financial planning**
 - Long-range forecast model started in 2016 (Management Partners/Baker Tilly)
 - Encourages long-term sustainability (20-year forecast)
 - Provides early warning of adverse trends
 - Promotes funding of infrastructure (a priority of Fiscal Commission and Council)
- **City is behind on completing its annual financial statements**
 - Some uncertainties exist due to just completing FY23, with FY24 & FY25 still to go
 - Forecast assumes budgeted amounts for FY26, which may be high for expenses
- **Demographics and slow growth policies have resulted in a smaller tax base than for cities of comparable population**
 - Primary result is lower sales tax revenues for Davis
 - Has required voter-approved local taxes to make up the difference

Davis is Not Your Typical City



- **Children (under 18):** Significantly under median, fewer children adversely impacts schools
- **Students/young adults (18-24):** 4.2 times median due to UC Davis; typically, have less to spend
- **Prime working-age adults (25-64):** Well under the median; this is who spends the most and Davis has fewer of them
- **Seniors (65+):** Smaller than median but closer to statewide norms
- **Davis median age of 24.7 years** compares to 38.1 for California cities (2024 ACS)

Sales Tax per Capita Much Lower Than in Other Cities



- In 2024 Davis ranked **368 of 483** CA cities in sales tax per capita (*23rd percentile of 1% uniform rate*)
- Davis is just over half the median sales tax/capita for 50-100K population cities (*n=102*)
- At the **\$230.76** median Davis would receive **\$6.9M** per year *more* in sales tax revenue
- Davis has 2% local transaction & use tax rates (*location of buyer*); these raise **38% more** per 1% than the City's sales & use tax (*location of seller*), thus would generate another **\$19.2M** (total of **\$26.1M**)

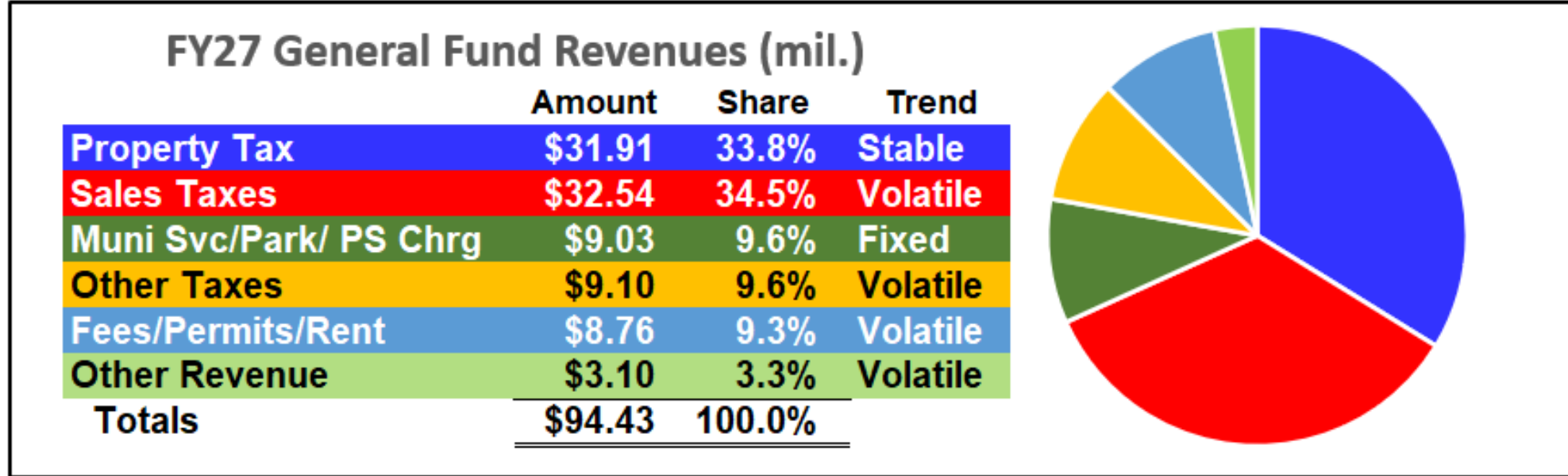
Comparison to Local & College Towns			
City	Type	ST/Cap	Pop
Palo Alto	college/tech	\$551	67K
West Sacramento	Yolo	\$482	54K
San Luis Obispo	college	\$460	48K
Woodland	Yolo	\$275	61K
Santa Cruz	college/beach	\$212	63K
Davis	Yolo/college	\$128	64K

FY25 Rev (mil.)	Actual	@Median	Gain
City 1% S&UT	\$8.6	\$15.5	\$6.9
Local 1% T&UT	\$11.8	\$21.4	\$9.6
T&UT Over S&UT	38%	38%	
Full 2% T&UT Total	\$23.7	\$42.9	\$19.2
1% S&UT+2% T&UT	\$32.2	\$58.4	\$26.1

City's Major Reliance on Special Voter-Approved Revenues

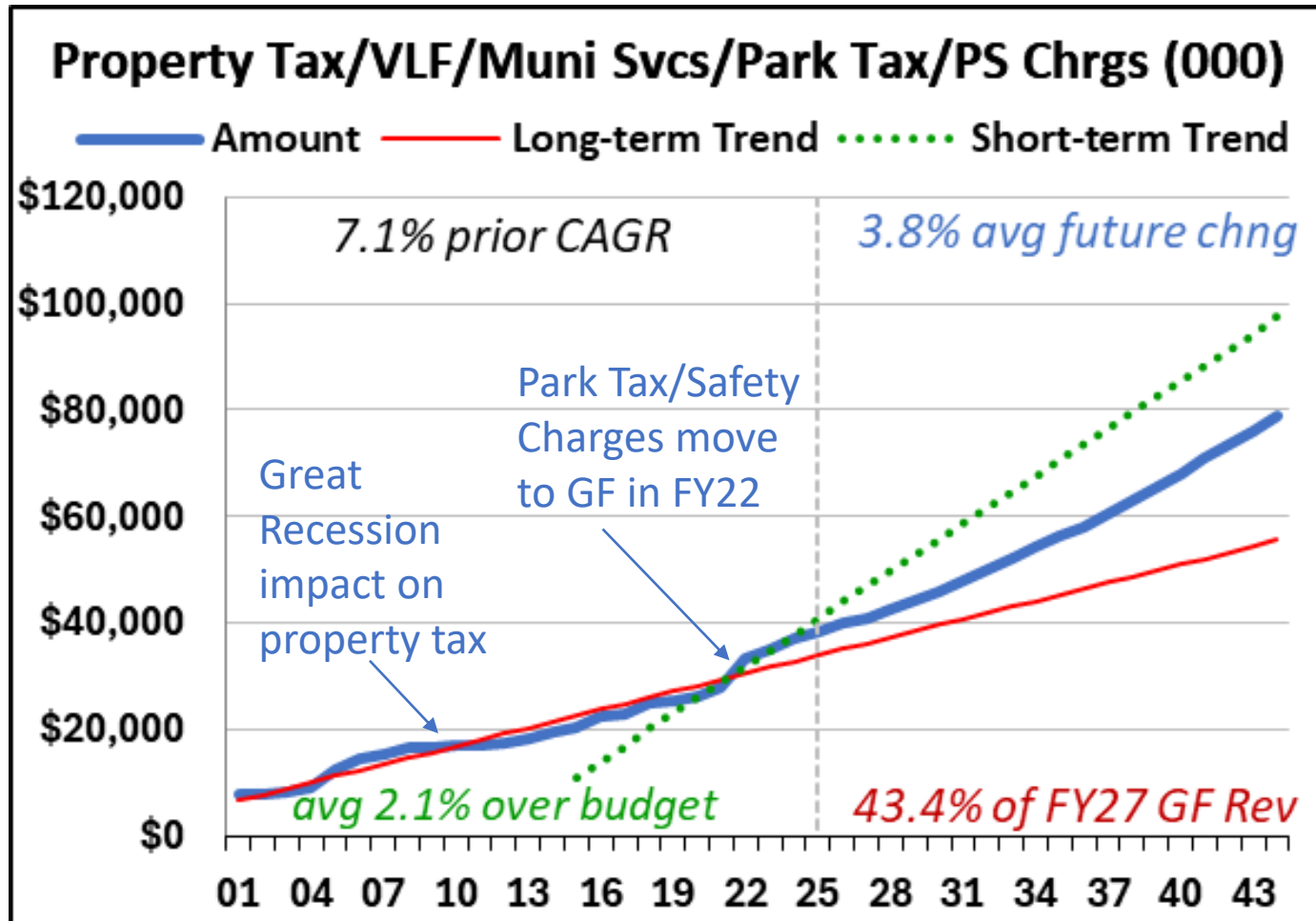
- Pre-Proposition 13 (1978) – the following did not require voter approval:
 - Construction Tax (*charged with building permit*)
 - Public Safety Charges (*on utility bill*)
 - Municipal Services Tax (*on utility bill, has 3% inflator*)
- 1998 - Park Maintenance Tax \$49/parcel (\$1.4M/yr), renewed in 2018 with 2% inflator
- 2004 - Transactions & Use Tax new 0.5% rate (\$3M/yr)
- 2014 - Transactions & Use Tax increased to 1.0% rate (added \$4M/yr)
- 2016 - TOT increased from 10% to 12% (added \$300K/yr)
- 2018 - Cannabis Tax approved (peak revenue of \$2.8M/yr, now \$1.2M)
- 2024 - Transactions & Use Tax new 1.0% rate for total of 2.0% (Measure Q added \$11.4M/yr)

Major Revenue Assumptions



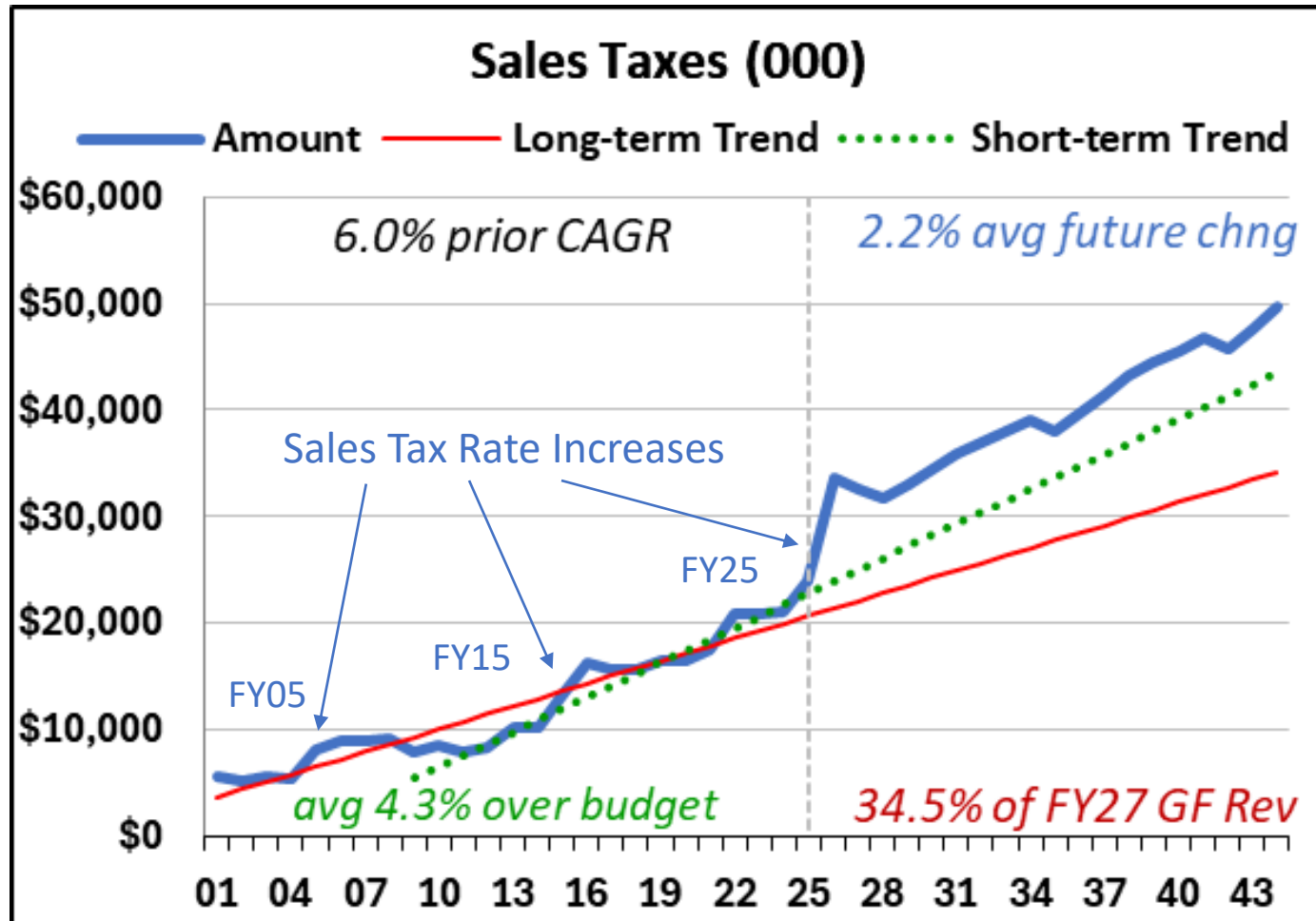
- Property tax and sales taxes provide two-thirds of all revenue
- 43% of revenue relatively stable, 56% prone to vary year-to-year
- Assumes moderate recessions, starting FY28 on 7-year cycle thereafter
- Property tax growth averages 4.1% per County assessed values/HdL forecast
- Sales tax growth averages 2.2% per 4Q25 HdL forecast (with recessions added)
- All other revenue averages 1.5% growth

43% of Revenues Provide Stable Growth



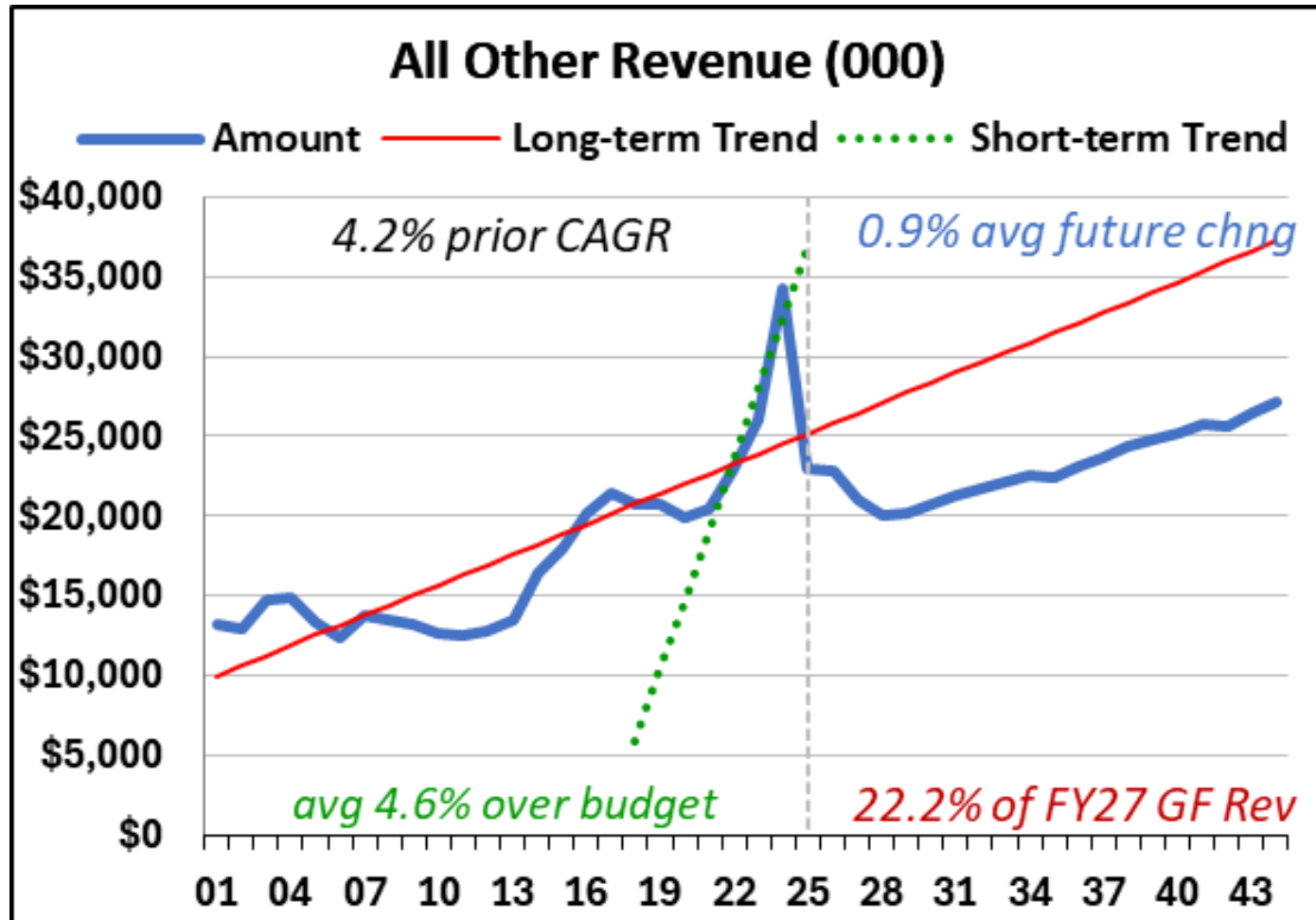
- **Property Tax:** 4.1% growth includes 2% inflator, ownership transfers, new construction at 30-yr average
- **Park Tax:** 2% inflator, on property tax bill
- **Municipal Services Tax:** 3% inflator, on utility bills
- **Public Safety Charges:** 3% inflator, on utility bills

Sales Taxes Reflect Economic Cycles & Rate Increases



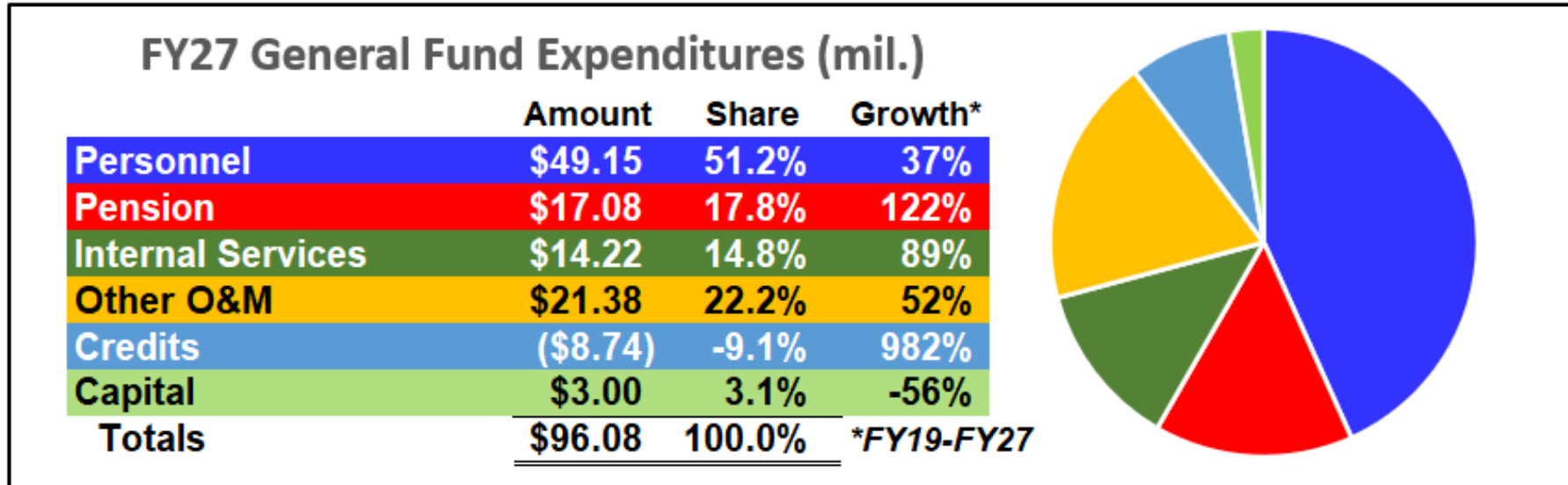
- Great Recession lag in revenues FY08-13
- State “triple flip” allocation of tax ended FY16 with cash flow boost
- 3 voter-approved tax rate increases
- Pandemic impacts FY20-22 (jump in online sales)
- Flat revenues FY23-25
- Moderate recessions going forward

All Other Revenue: Volatile, Slower Growing



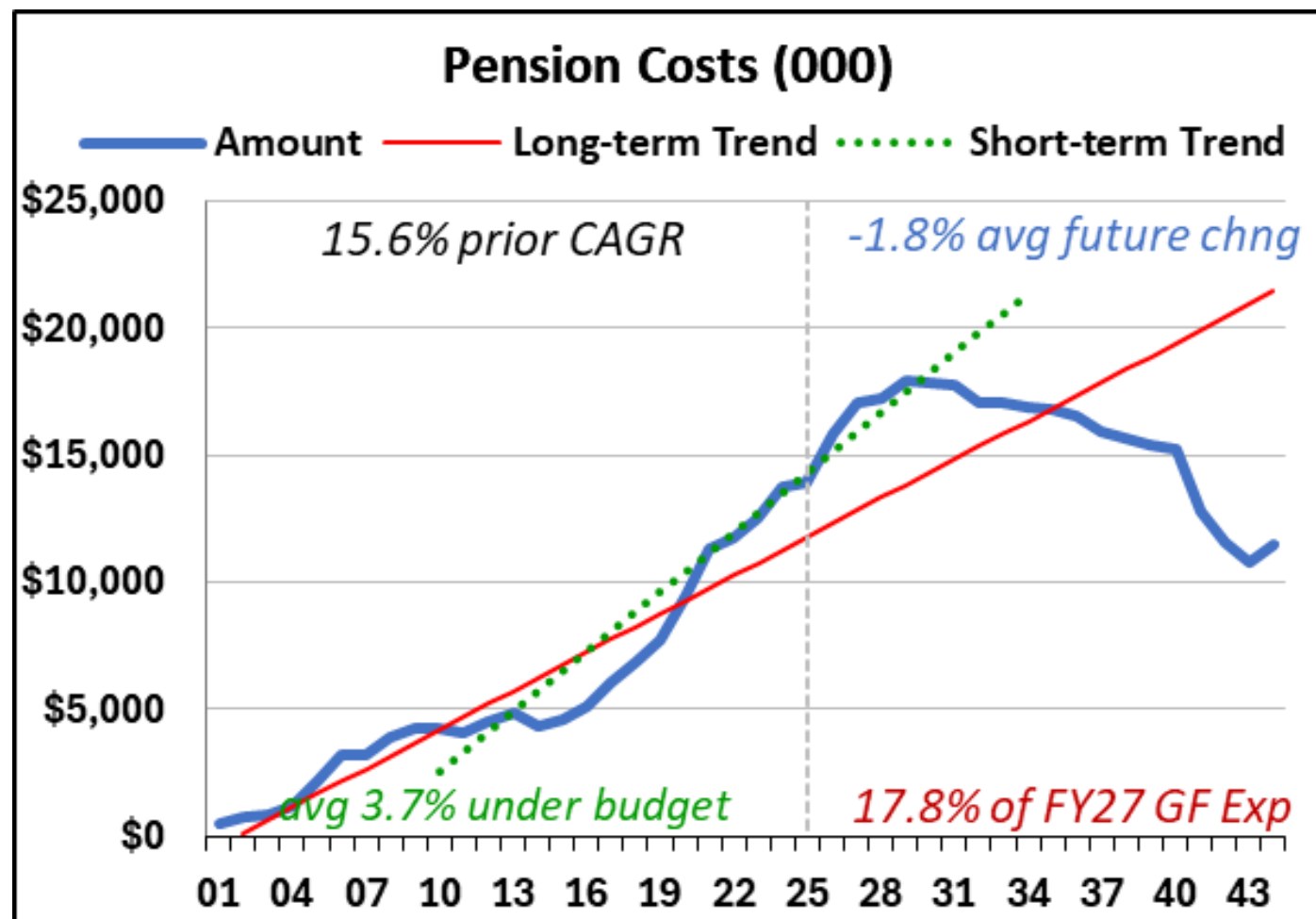
- Great Recession lag in revenues FY08-13
- Strong recovery FY13-17
- Streetlight conversion one-time funds FY16-17
- Waste franchise boost FY16
- Cannabis tax FY16 (peaked at \$2.8M, now \$1.2M)
- One-time pandemic funds FY22-24
- Future growth under 1%

Major Expenditure Assumptions



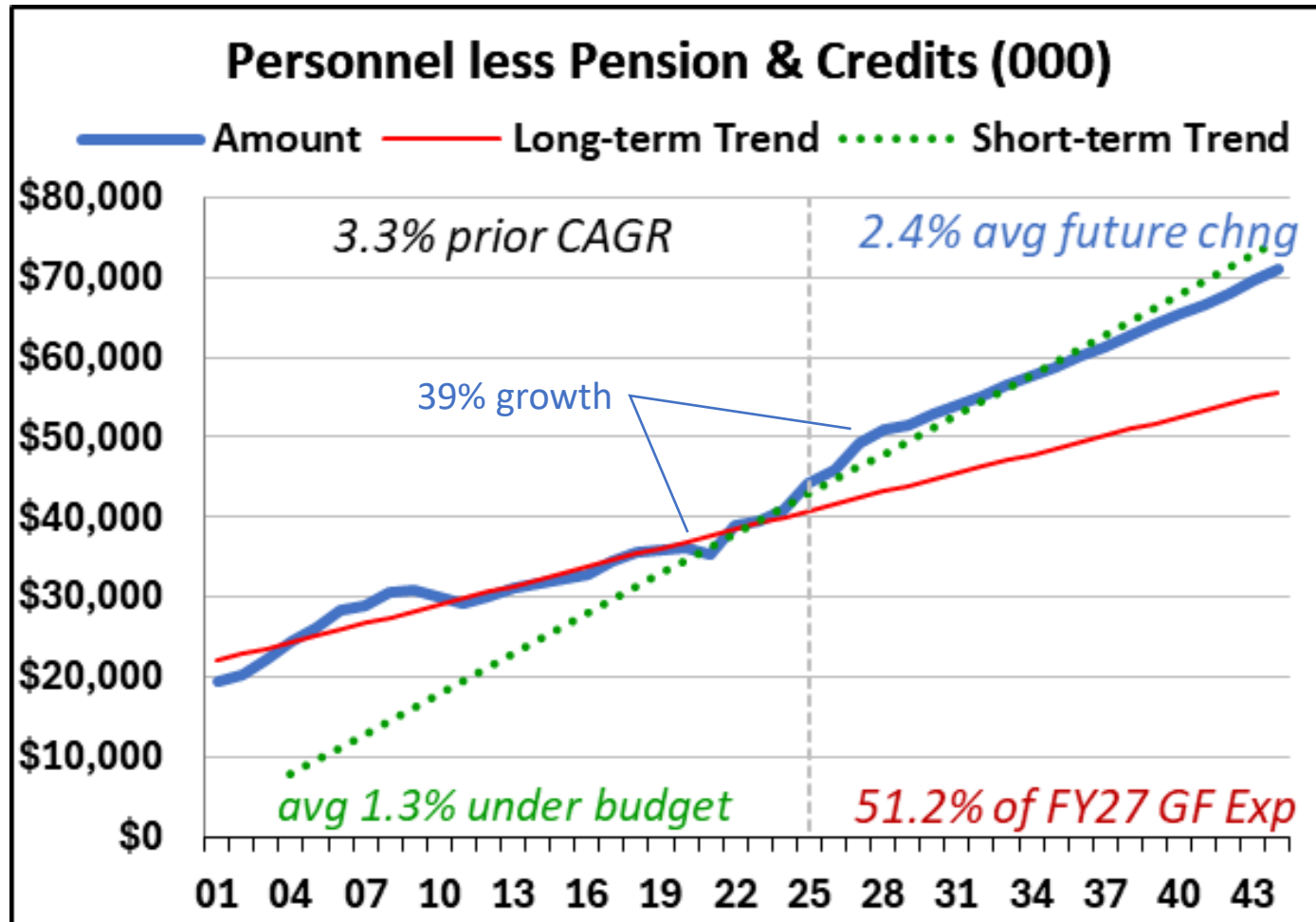
- FY27 staff costs, thereafter 2.5% COLAs plus 0.25% (impact of step increases offset by turnover savings); excludes any labor market adjustments; 4% vacancy rate
- OPEB Trust assumes benefit payments from FY28-FY44, GF phases out pay-go benefits, but resumes Trust contributions in late 2030's to maintain adequate Trust balance over time
- Maintains FY27 staffing levels (no 4th fire station included, or other increased expenditures to serve future development) -- *this has implications for adequacy of services provided in future years*
- Update of pension scenarios per CalPERS Pension Outlook, assumes 6.8% discount rate but lower average return of 6.5% (more conservative than CalPERS), 3% Safety cost-sharing continues
- O&M (non-personnel) expense grows at 2.5% from FY27 budget
- \$3M minimum contribution to streets/bikeways; contributions increase in out-years as pension costs fall (if all funds over reserve goal go to infrastructure, funding level is 65% of identified need)

Pension Cost Trend is Unique



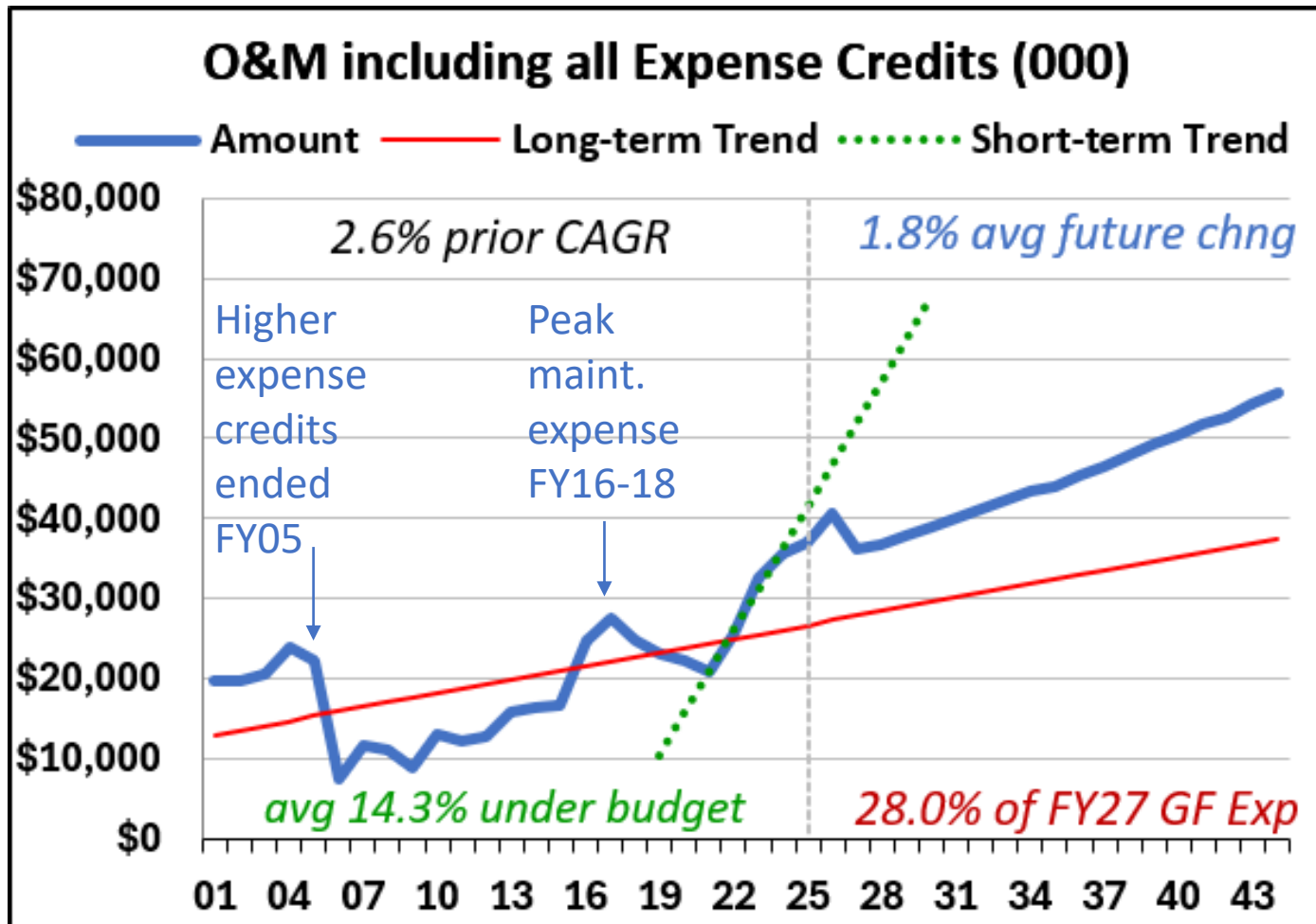
- 17-fold growth since FY01
- Driven primarily by growth in unfunded accrued liability (UAL)
- Higher wages contribute
- UAL charged on fixed payment basis like mortgages, are being repaid
- Future decline in costs will create fiscal capacity, but all depends on CalPERS investment returns

Other Personnel Costs Surged Last 6 Years



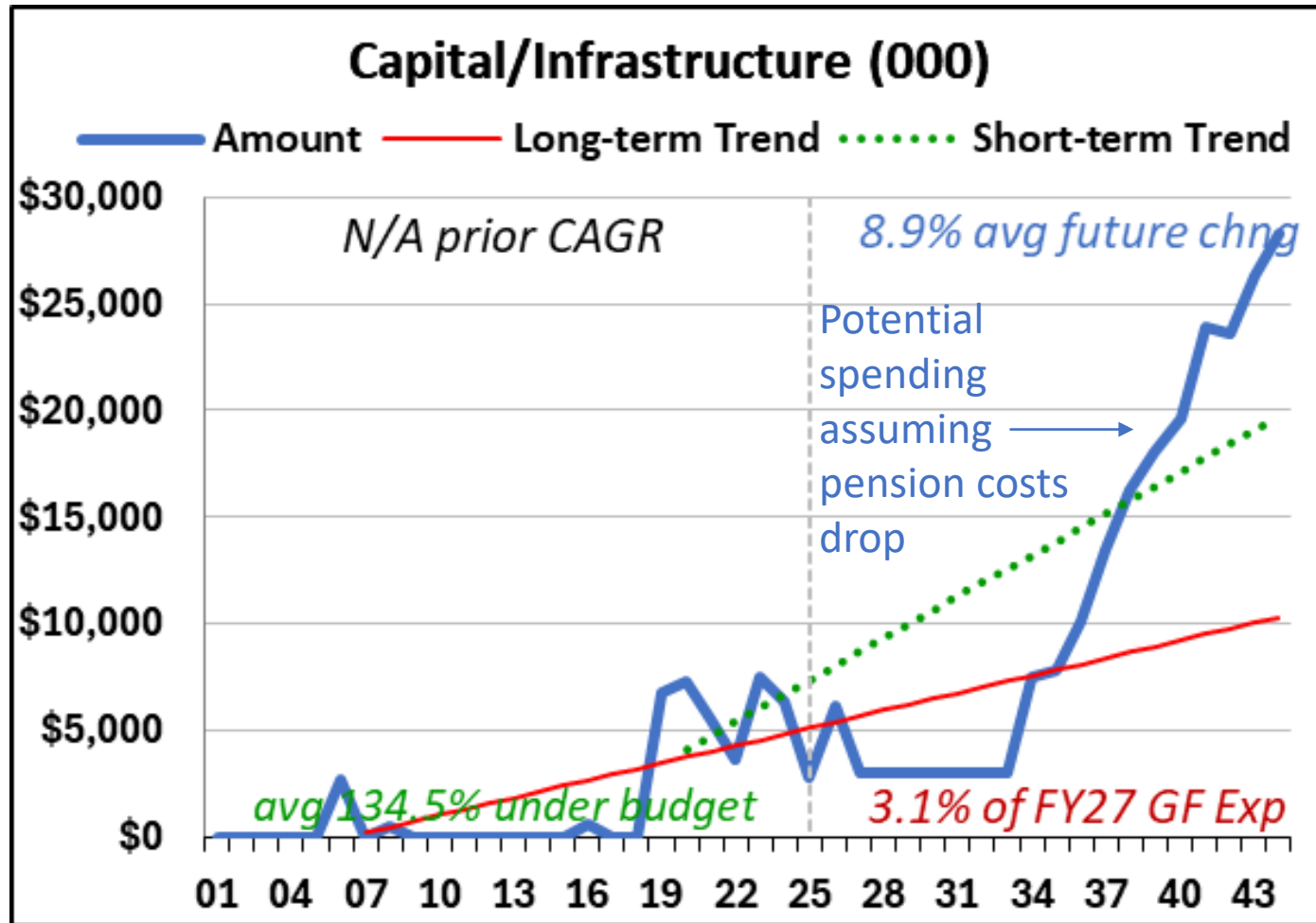
- Over half of all expenditures
- Great Recession led to staffing reductions
- Stable growth for 10 years FY11-21
- 39% growth since FY21 due to 22.5 FTE increase (non-utility) and negotiated salary & benefit increases
- Assumes overall 2.4% future growth and no staffing increases

Net O&M Costs Volatile, Growing



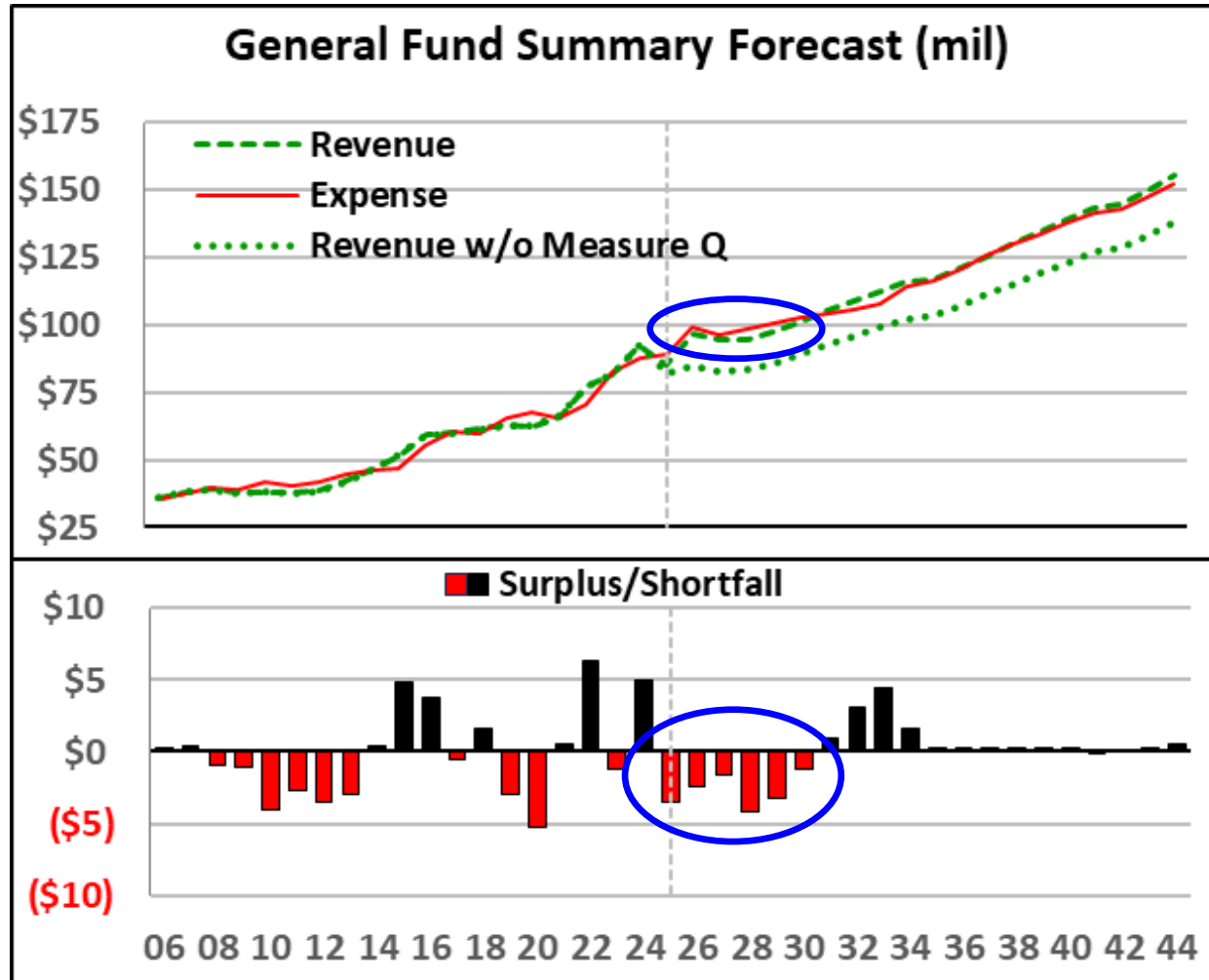
- Costs doubled between FY21 and FY26
 - Professional/contract services nearly tripled from \$1.8M in FY21 to \$5.4M in FY27 (peak of \$8M in FY26)
 - Insurance increased nearly 6-fold from \$0.7M in FY20 to \$4.0M in FY27
- O&M costs reduced in FY27 budget
- Future overall growth assumed at 1.6%

Capital/Infrastructure Costs



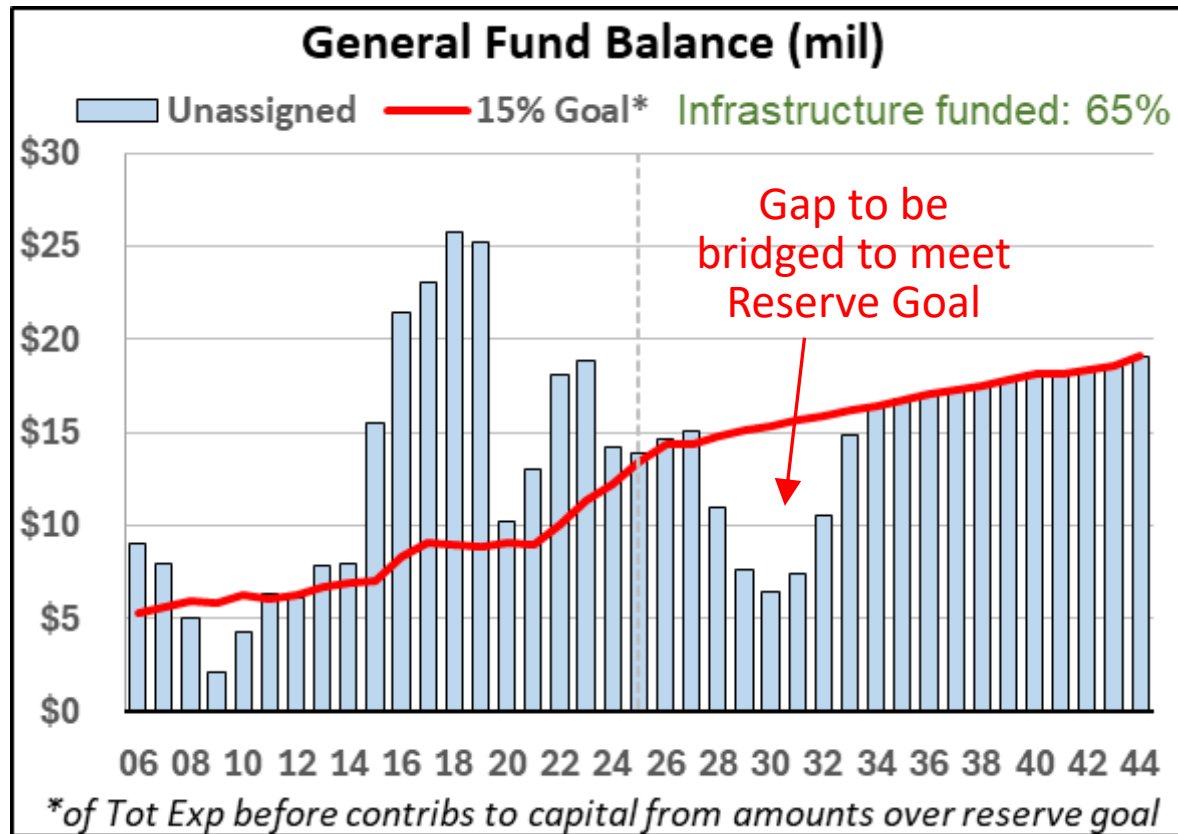
- Assumes minimum \$3M for streets/bikeways
- Projected lower pension costs create fiscal capacity in mid-2030's, allowing for much higher infrastructure spending while still meeting reserve goal
- Up to future Councils to allocate this fiscal capacity between infrastructure and operations/service levels

Baseline Forecast Shows Short-Term Revenue Gap



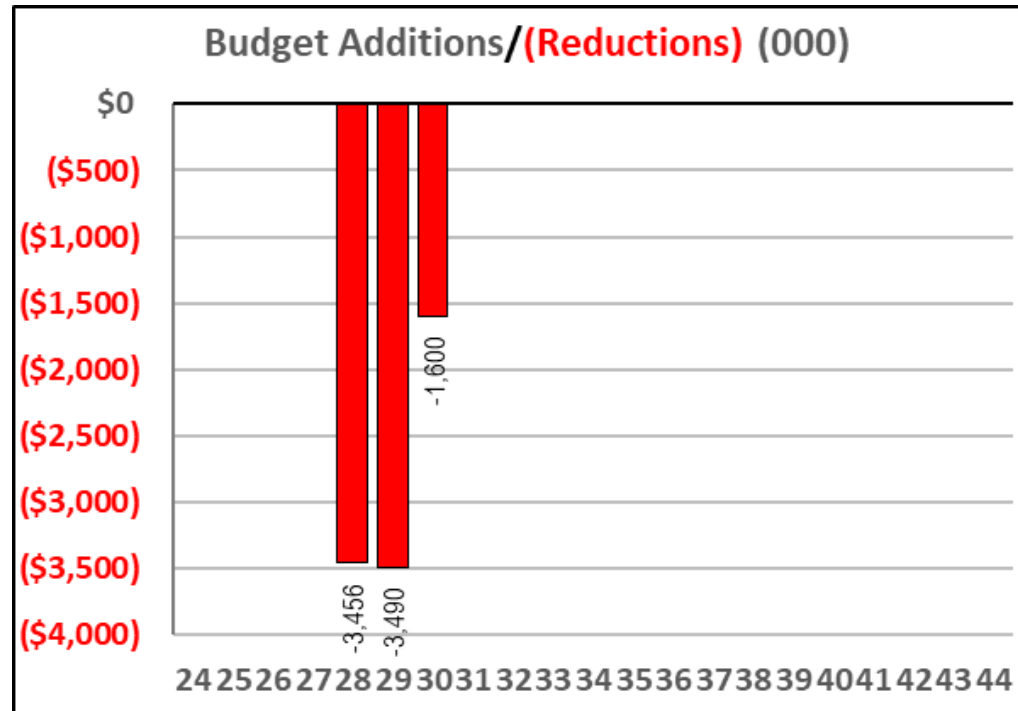
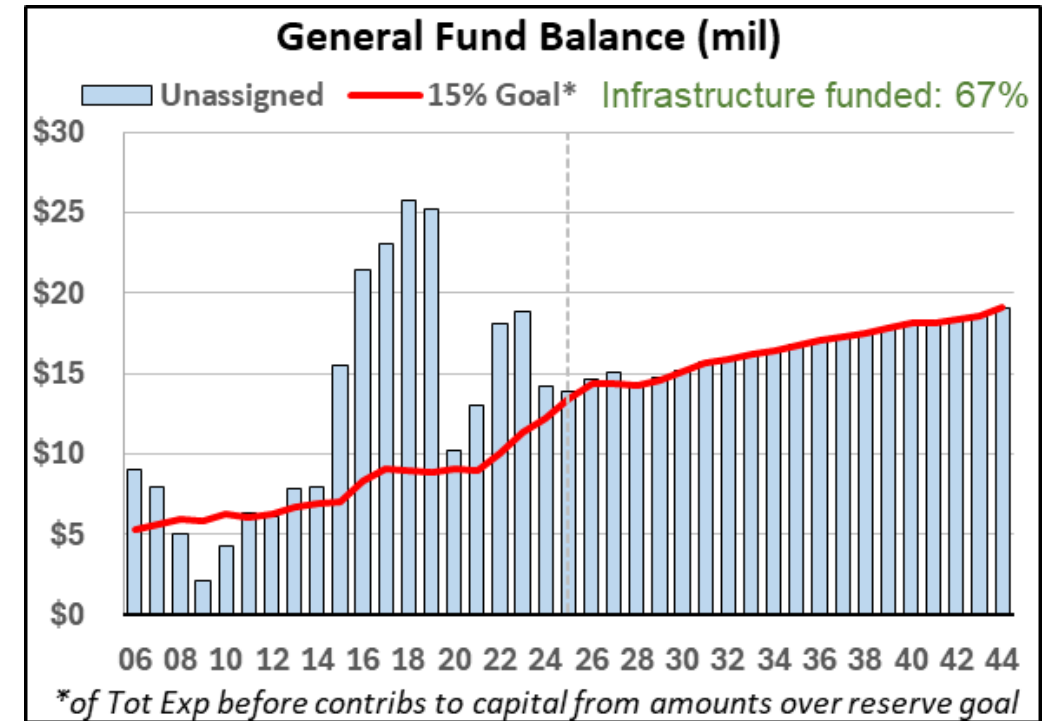
- Measure Q added over \$11M in revenue, but it's not enough
- Gap averaging **\$2.7M/year** remains from FY25 through FY30
- Imbalance recovers as pension costs level off and decline in 2030's

Baseline Forecast Shows Short-Term Revenue Gap



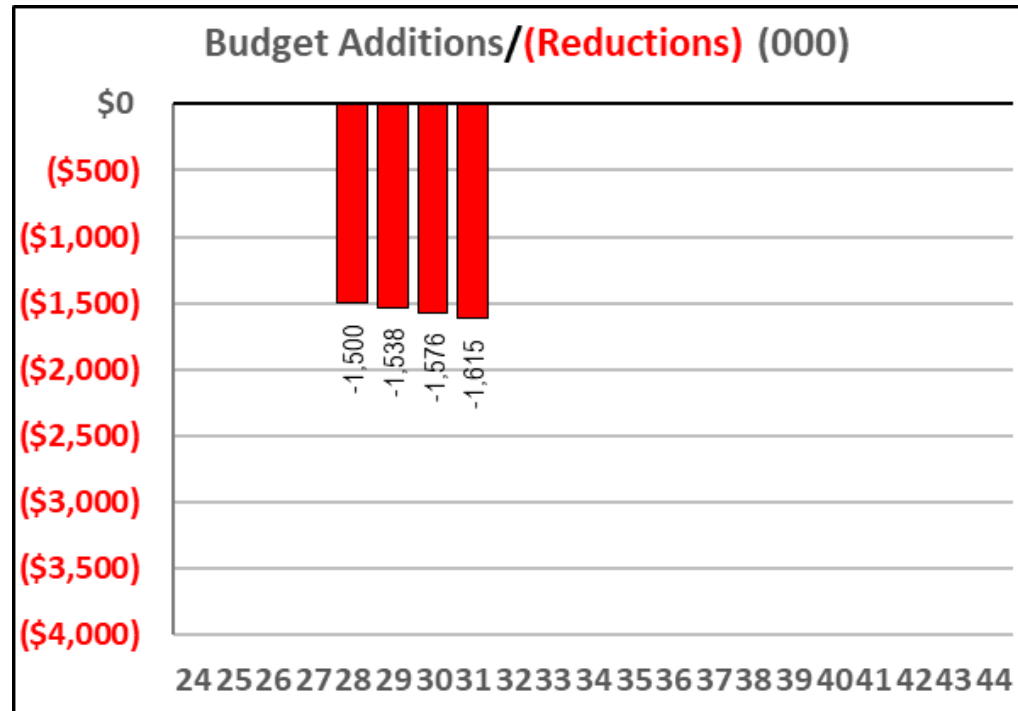
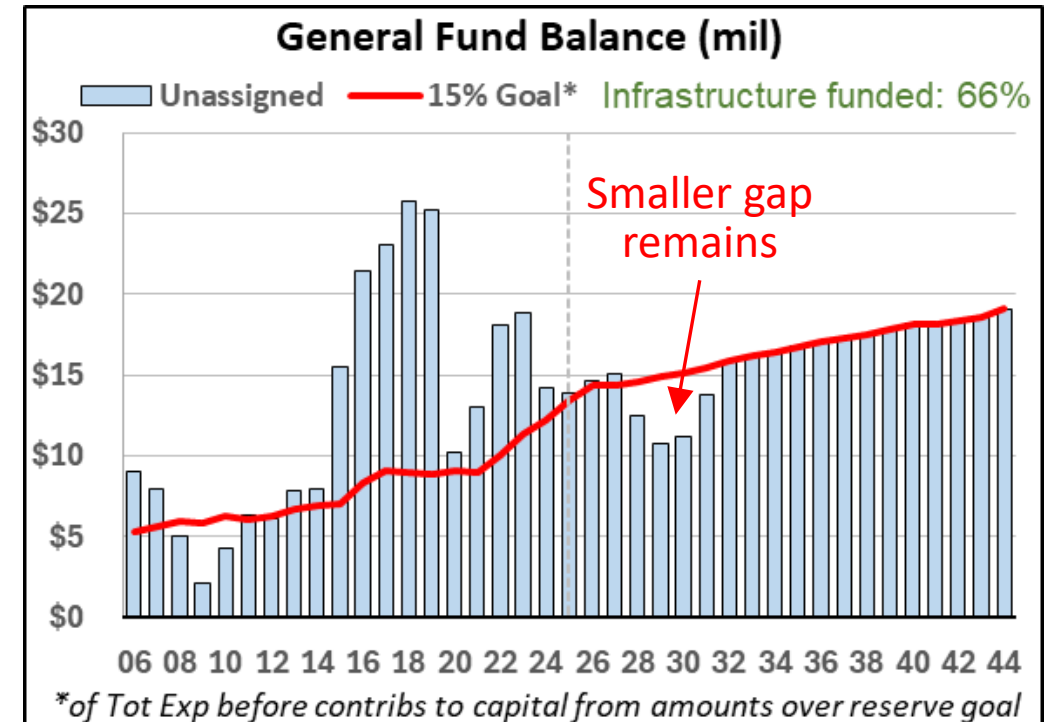
- Chart shows unassigned balance per audited City financials
 - Excludes assigned or committed amounts that started in FY20
- Below 15% reserve goal from FY28-FY33
- Balance recovers as pension costs level off and decline in 2030's
 - Assumes excess of reserve goal spent on infrastructure (or operations) starting FY34
- City has option to “watch & wait” before making future reductions
 - Balance already assumes moderate recessions and higher pension costs

Alt. 1: One-Time Reductions Needed to Meet Reserve Goal



- Reduce spending by just what is needed each year to meet General Fund reserve goal
- City establishes reduction amount in annual budget process
- Reductions vary year-to-year, and peak at \$3.5M for two years

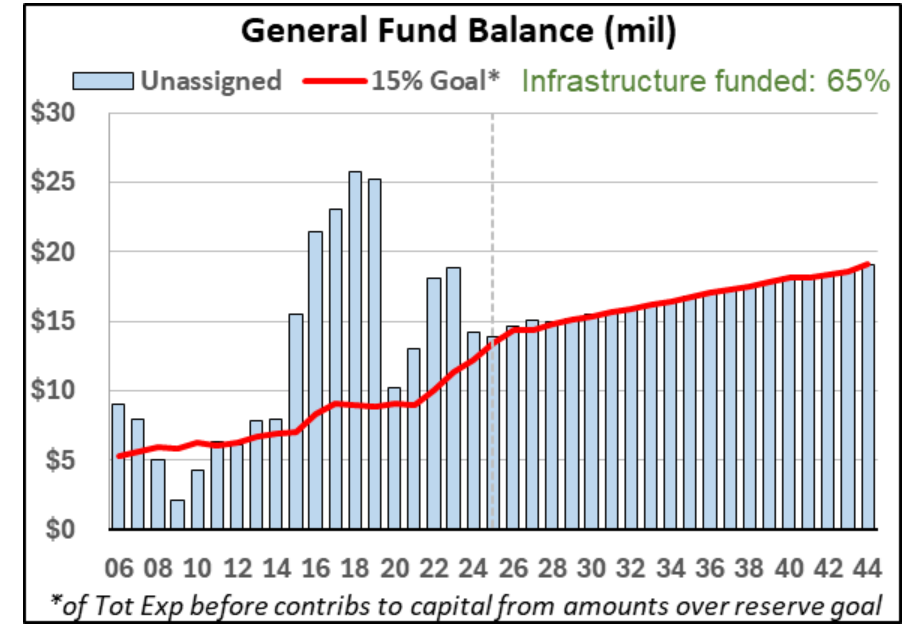
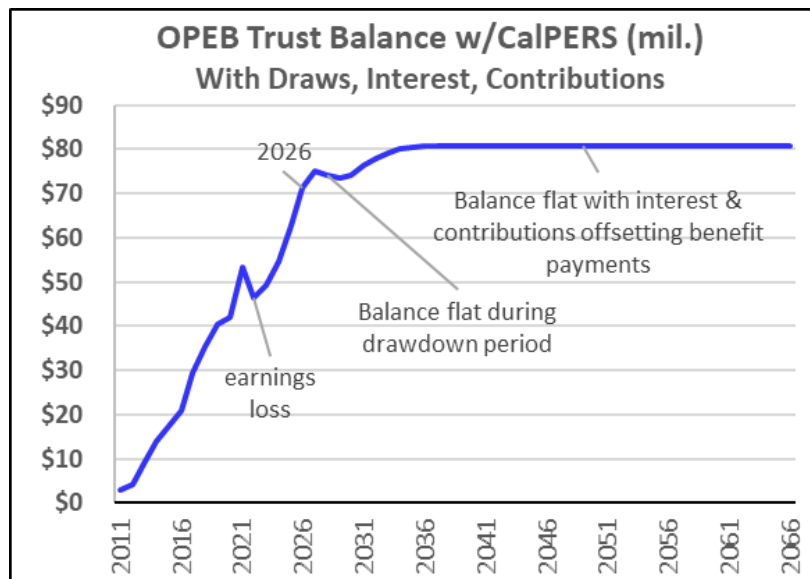
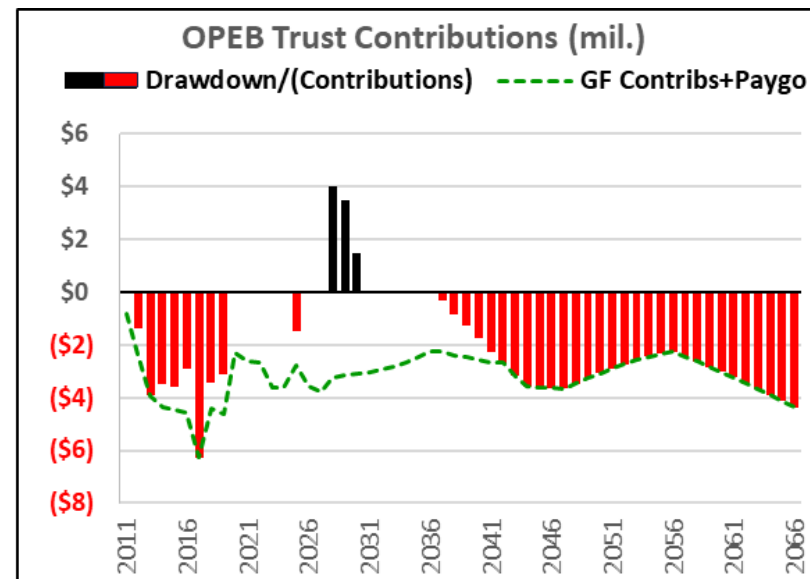
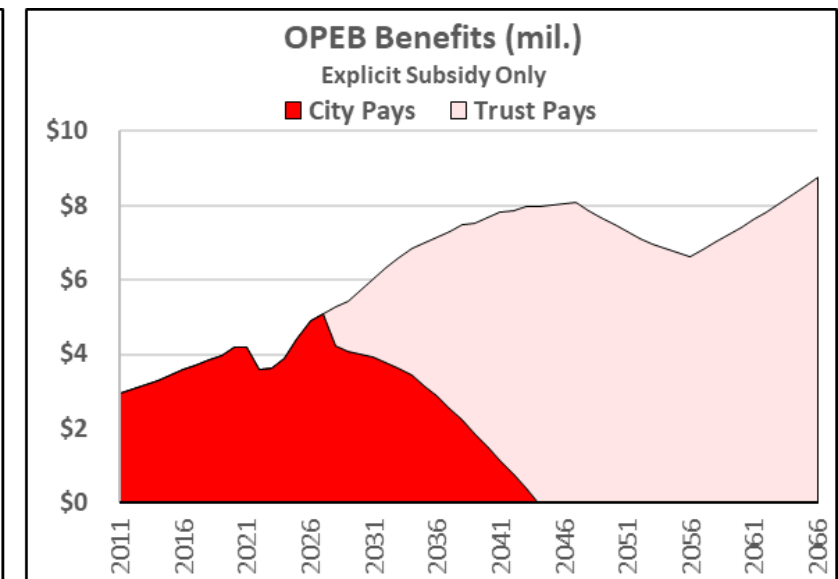
Alt. 2: Ongoing Reductions Over Near-Term



- Reduce spending by \$1.5M in FY28, which remains in effect through FY31
- Balance remains below reserve goal for a few years (an improvement, not a total solution), but reductions are more consistent, and don't exceed \$1.6M (value of avoided costs grows with inflation)
- City evaluates annually if reserve margin is adequate, relative to need to continue cuts at a given level

Alt. 3: OPEB Trust Drawdown in Lieu of Expense Reductions

- Other Post-Employment Benefit (OPEB) Trust restricted to paying retiree medical costs
- Draw down \$9M from trust over 3 years (FY27-29)
- Trust continues to grow due to interest earnings, assumes Trust begins paying benefits in FY28
- City contributions to Trust resume in mid-2030's to maintain level Trust balance
- GF balance meets reserve goal; annually evaluate need for drawdowns and contributions



Forecast Risks and Uncertainties

Potential Favorable Impacts

- Higher vacancy rate could reduce near-term personnel costs
 - Also reduces productivity and ability to deliver services; ends when positions filled
- FY26 expense will likely come in lower than budget
- Higher revenue possible in any given year
 - Is improvement one-time or ongoing?
 - Only a shift due to timing of development or economic cycles?
 - Will new development increase expense?
- Higher CalPERS investment returns
 - Reduces unfunded accrued liability (UAL) costs after 3-year lag, most savings is in 2030s and thereafter

Potential Unfavorable Impacts

- Earlier or greater magnitude of recession
- Adverse impacts on UC Davis
 - Massive federal cuts in research are affecting higher education nationwide
 - Restrictive immigration/visa policies may reduce foreign students, post-grads
 - Vacancy rates are high (7-10% vs. normal 1%)
- Lower CalPERS investment returns
 - UAL will still be paid down, but costs would be higher in near-term and for longer period
- City adds staff or COLAs exceed 2.5%, thus increasing costs
- Emergency or other cost increases beyond City control

Conclusion

- General Fund reserves are trending downward in the near-term, but City is in better shape than many other cities that are facing deficits
 - Passage of Measure Q and the reductions built into the FY27 adopted budget have given the City some breathing room
- City should evaluate the best approach to shoring up its General Fund balance over the next 5 years, and evaluate annually to see if trends improve or worsen, and adjust its budgetary corrections accordingly
 - Forecast does already build in recessions, higher pension costs, and assumes FY26 expenses meet budget
- Status quo assumption of no staffing increase will constrain City's ability to respond to future workload and population increases
 - Once pension costs level off and decline, the resulting increase in fiscal capacity means City has opportunity to devote some resources over the reserve goal to operations (forecast currently assumes all excess goes to infrastructure), based on City priorities at that time



Contact Information



Bob Leland, Special Advisor
Baker Tilly Advisory Group, LP
530-219-5812
Bob.Leland@bakertilly.com

