

# FINANCIAL FORECAST

## Introduction

*"Some things are so unexpected that no one is prepared for them."  
--Leo Rosten*

Under the best of circumstances, predicting future revenues and expenditures is challenging because of the wide number of economic, demographic, spending and policy variables involved. Current times bear out the quote above: the advent of the coronavirus pandemic has jolted the national economy in a way not seen since the Great Depression. The suddenness of the decline in taxable sales, and the rise in unemployment since March, is actually unprecedented.

The City has a history of forecasting, which is a best practice of the Government Finance Officers Association. This is the fourth consecutive year the City has incorporated a Financial Forecast generated by the long-range forecasting model prepared for the City by Management Partners. The advantage of this forecasting model is that the City can plan for a range of potential outcomes, and use the model to help develop budget strategies and to show their impact on long-term budget sustainability. This model can readily reflect a wide range of assumptions and forecast scenarios, and displays an extensive dashboard of charts that update automatically as variables are changed. Following the recommendation of the Finance and Budget Commission, the City uses it to produce a 20-year forecast. This time frame captures the long-term impact of pension cost changes and infrastructure studies.

The long-range forecast generated by the model serves as an important fiscal strategic planning tool. It provides a "big picture" 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, and recent events are a reminder of what little control the City has over economic factors. The City Council does influence salary and benefit costs through the labor negotiation process, and by the staffing levels set through the budget process. Revenues are largely controlled by other levels of government, or require voter approval, but the City can set fee levels to not exceed related costs, and can approve new development through the planning process. All of these factors cannot be known with certainty in advance, but one can understand recent trends, and make reasonable assumptions about the future, and this is the key to a good forecast: the rest is just arithmetic.

This forecast is a snapshot in time, but the beauty 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 needs that are not funded, the City will promote better understanding of its financial condition and improve the credibility of its forecasting efforts.

## What Distinguishes the Davis Budget Model from Other Forecasts

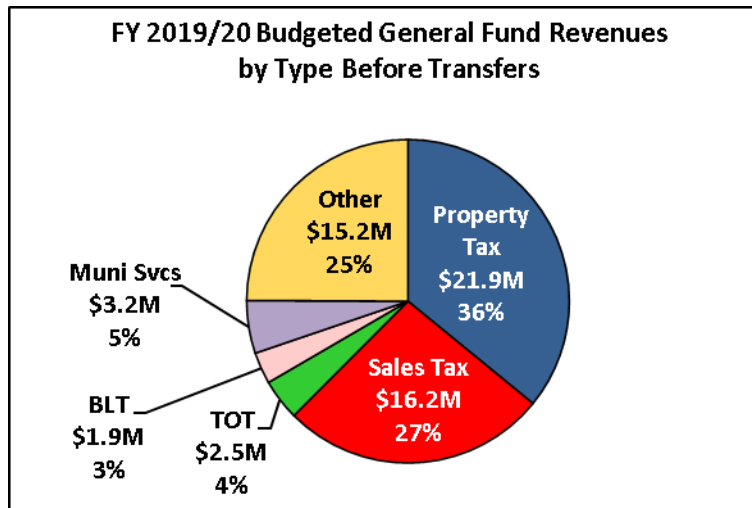
There are three areas in which the City of Davis' long-range forecast distinguishes itself from typical city budgeting practices.

- There is a strong commitment to forecasting from City leadership, starting with executive management and the Finance Department staff, and encouraged by an active Finance and Budget Commission and a supportive City Council.
- The process is policy-driven to achieve three over-arching objectives:
  - To maintain an adequate reserve to ensure long-term fiscal stability.
  - To maintain funding for operations at a level consistent with the needs of future population and workload growth.
  - To identify and fund infrastructure maintenance needs to maintain the city's investment in its streets, parks and other facilities.
- The model itself is very comprehensive and empirical in its approach to forecasting to ensure a realistic outcome and higher level of credibility. Key features include:
  - Pension costs based on a long-range forecast of normal costs and unfunded liability, which includes an assumed decline in the CalPERS investment discount rate over the next 20 years.
  - Recessions built into the forecast to provide a realistic "stress test" of city finances.
  - Property tax forecast built upon the growth elements of Prop 13 inflator, Prop 8 recovery value, ownership transfers, and new construction tied to the City's development forecast.
  - Sales tax forecast is based on the "most likely" multi-year projection by business sector, prepared by the City's sales tax auditor.
  - Personnel costs that incorporate inflation-based wage increases over time, along with the aggregate impact of merit increases and savings from projected employee turnover and vacancies.
  - Revenue and expenditure growth associated with major development projects like Nishi and West Davis Active Adult Community (WDAAC) are built into the forecast, along with 1.0 full-time equivalent (FTE) growth annually, to respond to growth-related impacts.
  - City-initiated infrastructure studies provide the basis for measuring progress in meeting the major maintenance needs of street and bike path resurfacing, traffic maintenance, facilities and parks. It should be noted that most cities have not undertaken such studies. The City of Davis has committed itself to an aggressive program to identify and fund these needs over the next 20 years.

## General Fund Revenues

The Covid-19 pandemic has wrought havoc on local agency revenues across the country. To better understand the impact of the pandemic, this section first describes the pre-recession basis for revenues, and then discusses the projected impact of the pandemic.

The General Fund provides the only discretionary revenue available to the Council and citizens to directly support services such as police and fire protection, parks, recreation, community development, as well as most of the administrative and support functions of City government. There are five revenue sources that comprise 75% of total General Fund revenue: property tax (including the motor vehicle in-lieu amount), sales tax (including the Measure O local 1% tax), transient occupancy tax (TOT), municipal services tax, and business license tax.



**Property Tax** – The State Constitution sets the base property tax rate at 1% of assessed value. Property values are limited to 2% growth except when property is transferred or newly constructed. The City receives approximately 18% of the property tax generated in Davis. Property tax growth is determined by the Proposition 13 inflator, changes in ownership, and new construction. It is assumed that 96% of existing parcels will grow at the 2% inflator, that 4% of parcels will change ownership and increase an average of 40%, and that new construction will occur as projected by City planners. A total of 2,108 new housing units, mostly multi-family, are projected to be issued building permits from FY18/19 through FY27/28, plus \$107.5 million in non-residential new construction. New construction value typically appears on the assessment roll two years after the permit was pulled.

New Units	18-19	19-20	20-21	21-22	22-23	23-24	24-25	25-26	26-27	27-28
Nishi	-	-	-	140	140	140	140	140	-	-
WDAAC	-	-	-	81	77	76	76	74	-	-
Net Other	80	79	30	460	225	30	30	30	30	30
Total Units	80	79	30	681	442	246	246	244	30	30
Non-Res AV	\$6.4M	\$26.9M	\$6.8M	\$21.1M	\$7.2M	\$7.4M	\$7.6M	\$7.8M	\$8.1M	\$8.3M

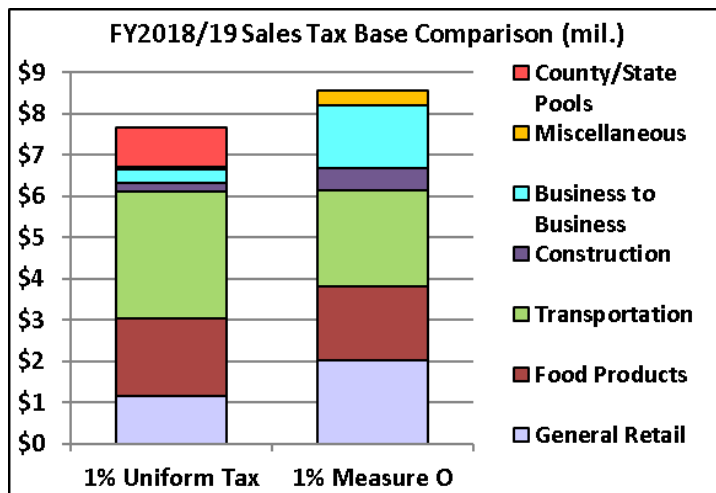
Future growth assumes 30 housing units and around \$8 million in non-residential growth annually. The pre-recession compound annual growth rate (CAGR) of total property tax revenue from FY18/19 through FY38/39, including recessions, is 3.9%.

**Pandemic Impact:** The property tax is expected to be largely insulated from valuation losses. The major impact will be a reduction in supplemental roll revenues due to a slowdown in property transfers and new construction, but this is projected to be a mild impact. Due to the lag between lien date where value is determined, and the fiscal year in which the revenue is received, any valuation losses would not take effect until FY21/22.

**Sales Tax** – Revenues from the 1% Bradley-Burns sales tax rate are derived from the tax imposed on sales of goods and services on a point-of-sale basis within the City, and are received monthly from the state. The Measure O transactions and use tax of 1% is based on the actual location of the transaction, which for motor vehicles and many business-to-business sales, may occur outside of the City. Thus, the tax base for each tax is different, and although the tax rates are both 1%, they produce different levels of revenue, as shown in the chart below. Near-term sales tax growth is based on a projection by Avenu Insights, the City’s sales tax auditor, by business sector through FY20/21. Growth thereafter is at the average annual rates (pre-

Sector	City 1%	Measure O
General Retail	1.00%	1.23%
Food	1.71%	1.89%
Transportation	0.71%	1.70%
Construction	5.53%	5.08%
Business	2.76%	3.12%
Miscellaneous	0.25%	1.52%
County Pool	5.63%	N/A
Total	2.07%	2.14%

recession) shown to the right. The pre-recession CAGR for total sales tax revenue (including Measure O) from FY18/19 through FY38/39, including recessions, is 2.0%.



**Pandemic Impact:** The sales tax has suffered heavy losses with the reduction in economic activity. In addition, the state is allowing a delay in filing tax returns for smaller vendors, which will delay revenue receipts. While online purchases have increased significantly, local purchases have fallen due to closure of restaurants and many retail establishments. Retail sales nationwide fell 8.3% in March and 16.4% in April. The transportation sector (which accounts for 32% of total City sales tax revenue) was hit hard due to a large fall-off in auto sales and lower gas purchases due to the stay-at-home orders. The recovery of retail sales will depend in part on the impact of continued social distancing and the concerns of consumers about resuming their former level of activity in public, and new buying habits that may become ingrained. This will largely depend on whether there is a resurgence of the virus. The pace of recovery will also be significantly affected by the extraordinarily high unemployment rate, which jumped nationally to 14.7% in April, with over 38 million people filing unemployment claims over just nine weeks. Most economists indicate the recovery will be slow as businesses will be cautious in rehiring, and many jobs may not return. The revenue losses in FY19/20 have resulted from just three and one-half bad months. In FY20/21, there are 12 months during which things can go bad. Even if the recovery starts in July 2020, revenues may take years to return to their pre-recession levels.

**Transient Occupancy Tax** – The TOT, or hotel tax, applies to rentals of less than 30 days at hotels, or at vacation rentals such as arranged through VRBO or Airbnb. The tax rate was increased from 10% to 12% by Measure B at the June 2016 election. Revenues are received quarterly. The average annual growth rate pre-recession is 3.0% before the addition of three new hotels that have secured planning approvals from the City. These hotels (one finished, one under construction, and one not yet started) were projected to add \$1.4 million in annual TOT revenue by FY24/25. Market forces may affect the timing and revenue generation from these new hotels.

**Pandemic Impact:** The TOT has been hit very hard, as hotel room have largely remained vacant during the stay-at-home orders. Nationally the travel industry is expected to suffer losses of \$400 billion in 2020, with a slow recovery. City TOT revenues are largely influenced by UCD activities. To the extent that fewer students are on campus, or more conferences are held online in the future, or attendance at cultural events is reduced, then TOT revenues will suffer accordingly. For purposes of this forecast, the third hotel, which has not yet begun construction, has been excluded, assuming the market will not be favorable for some time. To the extent that hotels are allowed to delay payment to the City of the tax they have already collected, there will be an additional cash flow impact.

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**Municipal Services Tax** – This tax was adopted by local voters in 1986. The tax is collected on the City utility bill. Residential property owners are charged primarily per dwelling unit, and commercial property owners primarily on building square footage. Average annual revenue growth is projected at 3%.

**Pandemic Impact:** No revenue loss is projected. However, to the extent that utility bills are allowed to be paid late, there will be some cash flow impact.

**Business License Tax** – This tax is imposed on gross receipts of businesses licensed to operate in the City, and is paid annually. The tax rate varies depending on the business enterprise. Average annual revenue growth (pre-recession) is projected at 2%.

**Pandemic Impact:** No impact is projected for FY19/20, as the tax has already been paid. However, there will be a significant impact in FY20/21, as there will be establishments that go out of business between now and next January when the next year’s payment will be due, and those business that remain will report significantly lower gross receipts subject to the tax.

**Other Revenue** – Other revenue sources include user fees, permits, fines, rentals, the property transfer tax, franchise payments, cannabis tax, interest income and grants. Interest income is computed at 1.5% on fund balance. Grants are volatile and not within the City’s ability to control. The property transfer tax varies with the strength of the housing market. The CAGR for other revenue, including recessions, is 1.8%.

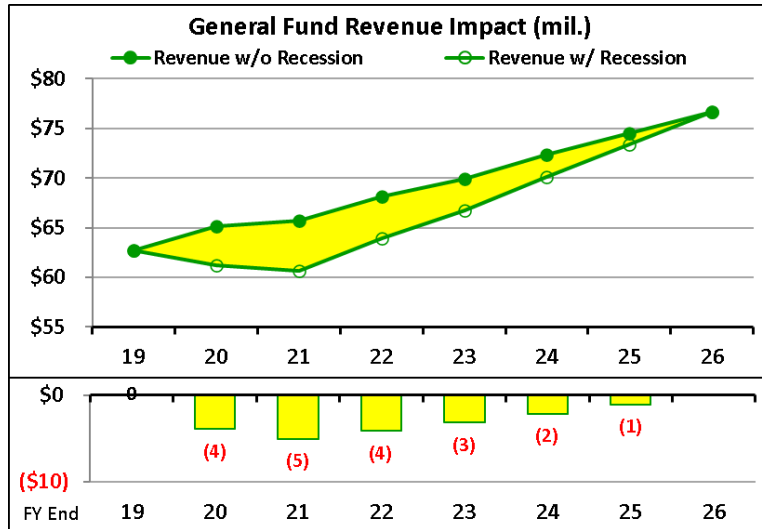
**Pandemic Impact:** Fee-based recreation programs have been shut down during the stay-at-home orders, so there has been little revenue collected since mid-March. These programs will be affected by limits on numbers of people that can gather in one place, and by safety concerns of potential participants. Many activities have already been cancelled through the summer. Other fee-based activity has slowed as well. Intergovernmental revenues, internal charges, and other revenues are less likely to be affected in the near-term. Fines are likely to be lower due to reduced enforcement activity.

The following chart shows the amount by which each revenue source is expected to be below the pre-recession forecast (not the percent change from the prior year). Pandemic revenue losses are expected to peak in FY20/21, with revenues back to pre-recession levels by FY25/26.

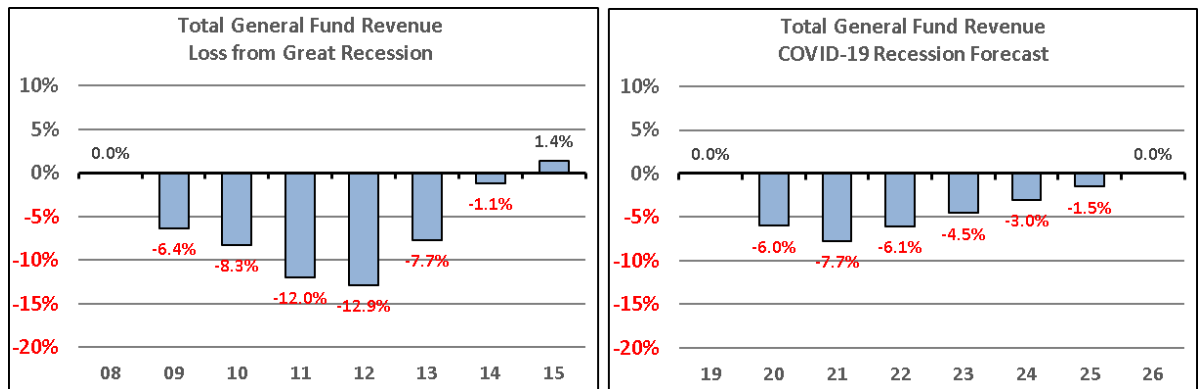
PROJECTED REVENUE LOSSES FROM COVID-19 PANDEMIC	Amounts Show Percent Projected Revenue is Below the Pre-Recession Forecast					
	4	4	3	3	<< Loss Options / Phase-out	
	SEVERE	SEVERE	HIGH	LOSSES END FY 24/25		
Revenue Source	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
Property Tax	0.00%	0.00%	-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%

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The following chart compares the pre-recession forecast to the forecast including the Covid-19 pandemic. The revenue losses are highlighted in yellow, and total \$20 million over the six-year period.



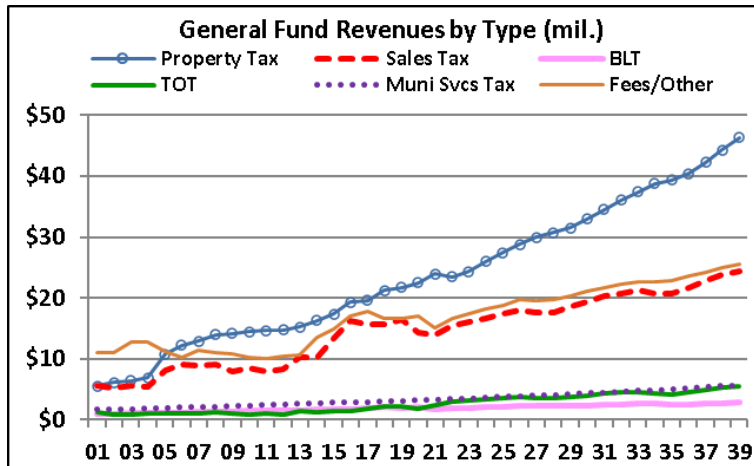
To provide context, the following charts compare the revenue losses Davis incurred under the Great Recession of 2008-2009 to the current Covid-19 pandemic. Due to the scale of the economic shutdown, the losses in years one and two of the pandemic are projected to actually be higher than that of the Great Recession, although the impact of the latter continued grew in scale over the next two succeeding years due to major property tax losses, which are not assumed to occur this time around. Davis recovered sooner than many cities from the Great Recession, with total revenues exceeding the pre-recession forecast by the third year following peak losses in FY11/12 (many cities took another two years to recover). Due to the magnitude of the sales and TOT losses, the lingering safety concerns emanating from the pandemic, and the larger scale of unemployment, it is assumed that recovery from the current recession will occur in the fifth year following peak losses. Revenue losses totaled \$20 million during the Great Recession (\$24 million in today's dollars) compared to the projected \$20 million revenue loss from the Covid-19 pandemic.



It is important to note that these losses assume no federal assistance. As of late-May, the potential for such aid is still unknown. The House passed the HEROES Act on May 15, which provided for \$912 billion in assistance to state and local government, but the Senate has not taken up that measure for a vote. It is possible that a compromise may be reached on a lower amount, but any aid that is forthcoming has to be able to cover revenue losses, not just reimburse increased expenses incurred pursuant to the pandemic emergency declaration. If such federal aid is received it will be reflected in an updated forecast.

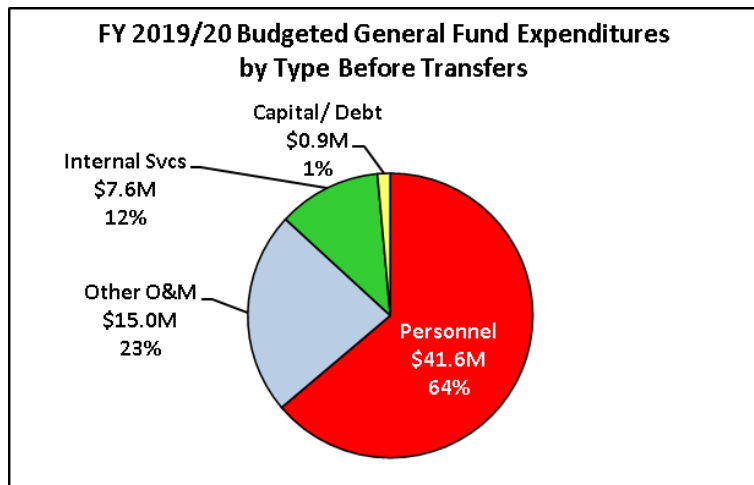
*Subsequent* recessions are projected to occur on a 7-year cycle, so the forecast also includes moderate recessions that start in FY26/27 and FY33/34; these are more on the order of a 7.5% total revenue loss, which is significantly less than the current Covid-19 pandemic.

The following chart shows the historical and forecasted levels of the property tax, sales tax, other taxes (including the TOT) and fees/other revenue. The CAGR for all revenues from FY18/19 to FY38/39 is 2.8%, including recession impacts.



### General Fund Expenditures

The baseline for future expenditures is the FY20/21 revised budget. The following chart shows budgeted expenditures by type. Most services are provided by City employees, and personnel costs comprise 64% of gross General Fund expenditures (before transfers to or from other funds).

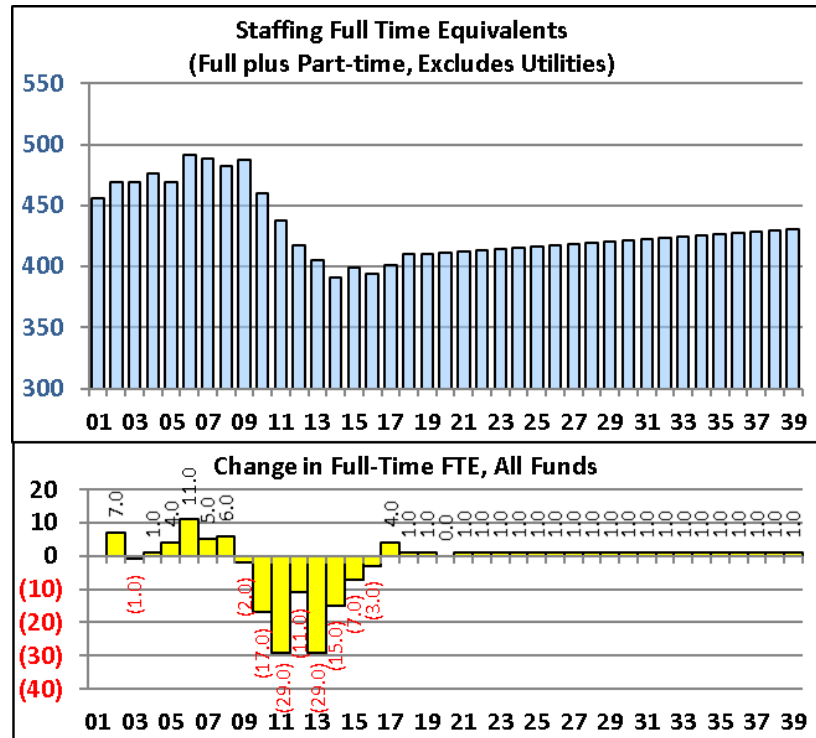


The key assumptions used to project expenditures in future years are as follows:

**Inflation** - The Bay Area index for All Urban Consumers has averaged 2.85% over the last 10 years, while a broader composite of US Cities, Western Urban and Bay Area inflation indices has averaged 1.98%. The Federal Reserve maintains 2% as their inflation goal, and this is the inflation rate assumed in the forecast.

**Staffing Levels** - The prior and forecasted level of staffing is shown in the following chart. After a slow increase in the early-2000's, staffing cuts required by the Great Recession

reduced permanent staffing levels by 100 FTE, or 20%, from a peak of 491 FTE. The City has been prudent about adding back positions during the recovery years, and the current non-utility FTE is 411. The gradual increase in FTE envisioned in the forecast will only restore one-fifth of that post-recession staffing reduction.



**Wage Increases** – The baseline forecast starts with the staffing levels contained in the FY20/21 revised budget and position control, using the cost of current employees for filled positions and estimated costs for vacant positions. The forecast assumes current labor MOUs, and a 2% annual growth in wages for future years (which could be in the form of across-the-board increases, or the equivalent in targeted increases based on recruiting, retention or equity considerations). Such wage changes are the result of the meet and confer process between the City and its labor groups, so the actual outcome of any given year may vary. The forecast also builds in estimates for step increases for eligible employees, and projected savings resulting from employee turnover (higher step positions being refilled at a lower step).

**Vacancy Savings** – The forecast assumes a 3% vacancy savings factor to account for the reduced expense that results from positions left unfilled for a portion of the year. Such vacancies are a natural outgrowth of employee turnover, which is estimated at 8%. The vacancy savings is computed on full and part-time salaries and benefits, excluding overtime, the PERS unfunded liability payments (which no longer relate to size of payroll), and retiree medical payments (which are based on actuarial calculations). In recent years such savings have exceeded 3%, but budgeting a higher savings level could adversely impact services by keeping positions vacant for longer periods.

**Part-Time Wages** – The growth rate of wages for temporary employees is based on an estimated impact of the minimum wage law which raises the minimum wage to \$15 in annual increments by January 2022, with 2% growth in expenditures assumed thereafter.

**Overtime** – Only overtime that is anticipated to be required at the authorized staffing level is budgeted, because if overtime for police and fire jumps due to higher vacancy levels than budgeted, the City will experience additional savings from those vacancies that will typically offset the added overtime expense. Overtime resulting from fire strike teams (and the

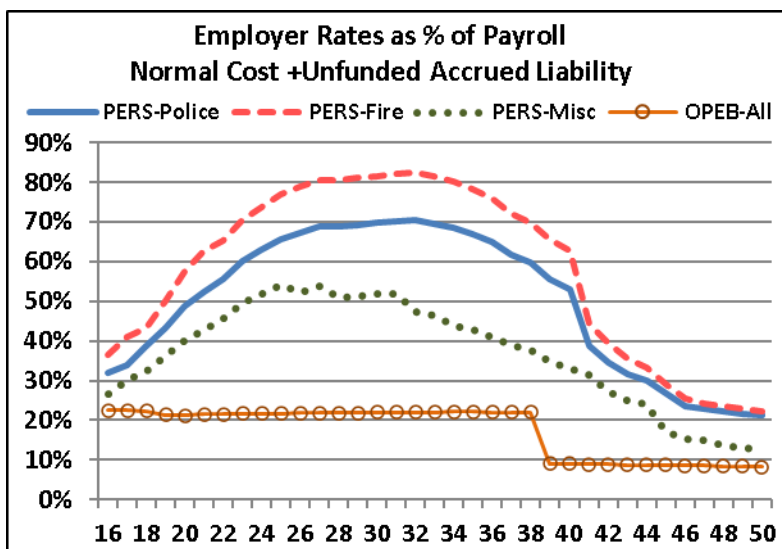


reimbursement for such costs) is not budgeted due to the volatility of such activities, and the fact that the added expense and revenue will offset each other in any event. The addition of three firefighters in FY19/20 was aimed at reducing overtime, but they were filled late in the fiscal year so overtime was higher than budgeted in that year. The forecast assumes \$2.2 million in overtime for FY19/20, dropping to \$1.0 million in FY20/21.

**Pension Costs** – Retirement rates are set annually by the California Public Employees' Retirement System (CalPERS). Normal costs to pay for current accrued liability are recovered through a percent of payroll. Unfunded actuarial liability (UAL) is recovered through a fixed-dollar payment. These are allocated proportionately by the City to the funds to which employees are charged. Pension costs are a major consideration in the budget planning for all government agencies. CalPERS is in the midst of a planned multi-year escalation in employer rates due to changes it has made in rate-smoothing calculations, amortization of unfunded actuarial liability (UAL) over fixed terms, and mortality improvements for beneficiaries. CalPERS has completed a three-year transition from a 7.5% discount rate (target investment return over time) to 7.0%. In order to reduce volatility in returns and thus create more stability in employer rates, CalPERS is reducing the risk factor of its investments, and lower risk means lower return. Since CalPERS receives 65% of its income through investments, what it fails to make through investments must be made up by employers. Reducing the discount rate results in significant cost increases to employers in the near-term, but does increase the funded status of the system. The forecast assumes a gradual reduction in the discount rate to 6% over 20 years, which has been the assumption of John Bartel, the independent pension actuary the City has retained in past years.

Pandemic Impact: Every year's valuation will bring new actuarial investment gains or losses, as well as demographic or other assumption changes; these result in higher (or lower) costs to employers. An example is the investment losses likely to result from the current pandemic. While the investment target is 7%, CalPERS was at -4% back in March, and while that number may rise or fall by June 30, it is nearly certain that a significant loss will be incurred in FY19/20, which will be recognized in the form of employer rates charged for FY22/23. The forecast assumes a -5% return for FY19/20, followed by an improved 12% return for FY20/21 (losses are typically followed by gains) and then a 6.5% return annually thereafter (lower than the current discount rate, but near the 6.2% average annual return over the next decade that was projected in 2016 by Wilshire Associates, an investment advisor to CalPERS).

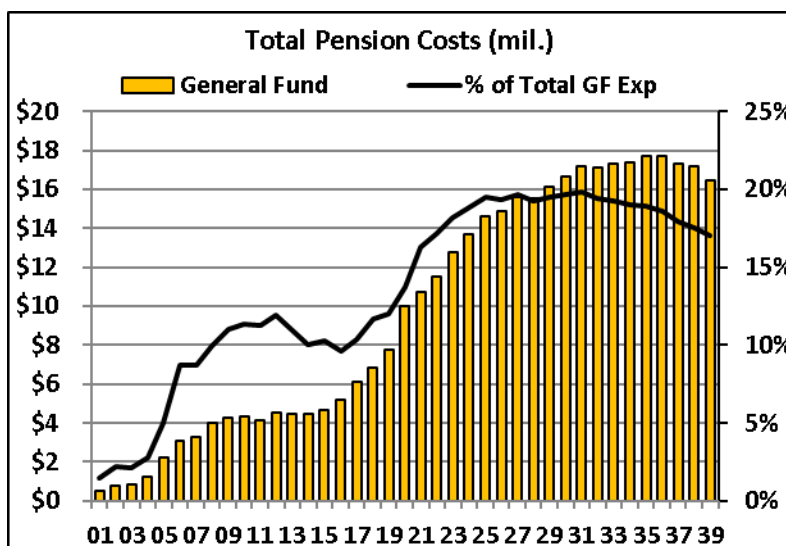
The following chart shows the projected rates for the City's police, fire and miscellaneous employee plans as a percent of employee payroll. For this comparison the unfunded liability amounts, which are now billed to the City as a fixed-dollar amount, have been converted to a percent of payroll, and added to the normal cost rate (which pays cost of the benefits earned in the current year). OPEB rates for retiree medical benefits are included on this chart.



The City has undertaken two actions to reduce pension costs:

- Cost-sharing agreements reached with certain bargaining groups to date save the General Fund around \$415,000 annually.
- Paying the UAL amounts to CalPERS up-front instead of monthly qualifies for a discount of approximately 3.3%, which saves around \$236,000 annually.

Based on these rates, and net of the City’s cost-reduction efforts, the following chart shows the evolution of the General Fund’s share of pension costs. Costs were under \$500,000 in FY00/01, back when CalPERS, following years of strong investment returns, cut employer contribution rates to near zero because of a “surplus” of funds. Due to subsequent investment losses and the sizeable retroactive benefit increases of SB 400 in 1999, have increased 20-fold since then.



Since the early 1990’s, CalPERS has lowered their discount rate from 8.75% to 7.0% as the average rate of investment returns has gradually slowed. Given the assumed continued gradual lowering of the discount rate over the next 20 years, and lower investment performance in future years, General Fund pension costs are projected to peak at about

80% higher than they are today. The rapid growth in these costs will begin to abate as the various UAL amortization bases (the annual net actuarial gains or losses) are paid off. This will provide some budget relief, but not before the early 2030's when pension costs are projected to approach 20% of total General Fund expenditures.

Starting with the 2020 CalPERS valuation, a new Pension Outlook tool will become available for all local agency pension plans, including those in the statewide pools, which will provide new options for computing pension costs at different returns, discount rates and payroll growth. This tool will be incorporated into the City's fiscal model for future years.

**Health Benefits** – Costs related to health, dental, and life insurance are assumed to grow at an annual rate of 3% throughout the forecast. Health contribution levels are subject to the meet and confer labor negotiating process.

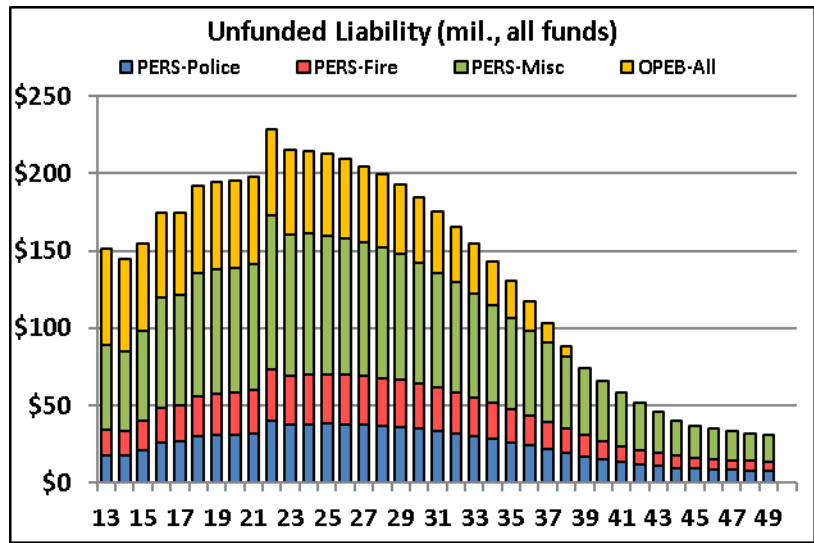
**Other Post-Employment Benefits (OPEB)** – Statement 45 of the Governmental Accounting Standards Board (GASB) requires public agencies to evaluate and report in their annual financial statements the fully-funded cost of any post-employment benefits such as retiree healthcare. While GASB 45 does not require full pre-funding of post-employment benefits, it effectively highlights the difference between the actual cost of these benefits and the funds typically allocated on an annual pay-as-you-go basis. In this forecast OPEB costs are paid at the full annual actuarially-determined calculation (ADC), which includes normal costs plus annual amortization of unfunded liability, as established in the actuarial reports by John Bartel Associates.

**Workers Compensation** – The Insurance JPA has informed the City that workers compensation costs will be going up approximately \$291,000 in FY20/21 to \$1.56 million. The forecast assumes 2.5% growth thereafter.

**Other Expenses** – Non-personnel operation and maintenance costs (O&M) generally grow at CPI (2%) in the forecast. Debt service costs are fixed at the FY19/20 level. Capital contributions are discussed at length below. O&M costs for FY19/20 use the adjusted budget costs, which include unspent amounts carried over from prior years. The FY20/21 amounts are based on revised budget amounts for that year (without carryover), and this is used as the base for future year growth. This category includes \$450,000 of one-time costs for FY20/21 (mostly General Plan-related), a \$346,000 ongoing increase in liability insurance costs, and \$367,000 in other ongoing departmental costs.

### Unfunded Liabilities

The City has pension and retiree medical obligations. In both cases there is a normal cost component (to pay for currently accruing benefits) and an unfunded liability (due to inadequate past funding required of the City to pay for prior accrued benefits). CalPERS has been phasing in cost increases needed to improve system funding, so in the near-term unfunded liabilities have continued to grow, but then the pay-down of various fixed-term amortization bases will then cause the cumulative liability to fall, as shown in the following chart. The City always has the option to prepay certain portions of these obligations, should it choose to dedicate resources to this purpose, instead of, for example, infrastructure maintenance. Such prepayment would reduce the amount ultimately paid, although the savings would be spread over 15 years or more. This would come at an opportunity cost to making improvements today which may significantly cut maintenance and repair costs in the future. Whether or not such a pre-payment is both financially cost-effective and a good policy trade-off would have to be considered on a case-by-case basis. The long-term forecast assumes payments are made in accordance with projected CalPERS rates.

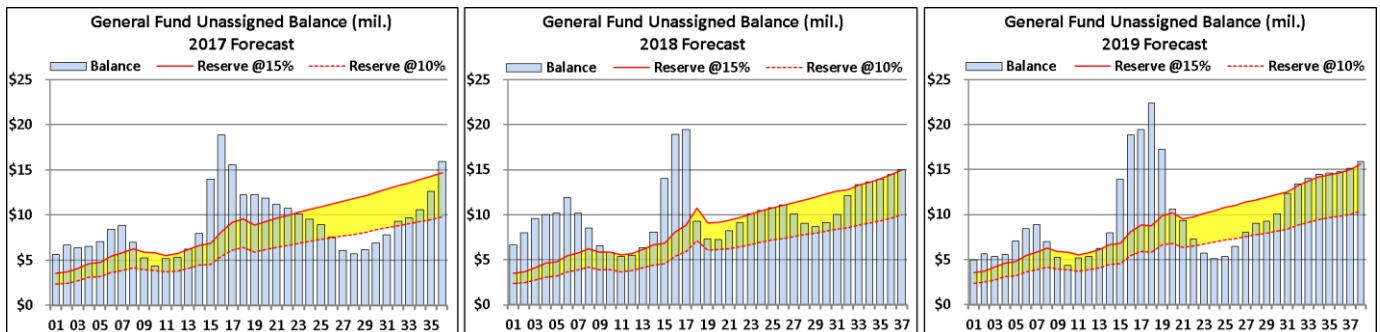


**General Fund Balance**

The essence of a budget forecast is the fund balance. Budgets cannot run fund balance deficits, so the financial assumptions selected must result in a sustainable balance over time. The City’s General Fund reserve policy calls for a “reserve equal to 15% of General Fund expenditures.” This is close to the recommendation of the Government Finance Officers Association that a minimum of two month’s operating revenues or expenditures (16.67%) be maintained. Such a reserve will cover the normal ebb and flow of cash balances throughout the year, and help buy time for implementation of budget recovery plans in the event an economic downturn is greater than projected, or the needs of an emergency or other unanticipated expenditure exceed the current budget. Computed as a percent of total expenditures before transfers, the reserve level is 36.6% for FY17/18 and 34.7% for FY18/19, however, the reserve plummets starting in FY19/20, due to the revenue losses caused by the pandemic, and capital funding sought for previously-approved projects moved to fund 012 (General Capital Projects) in FY18/19.

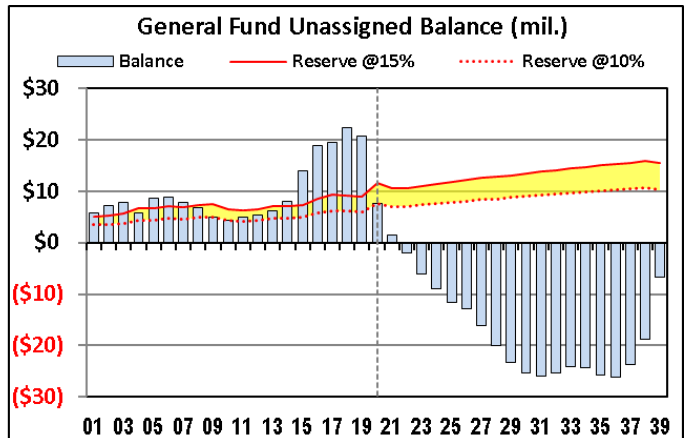
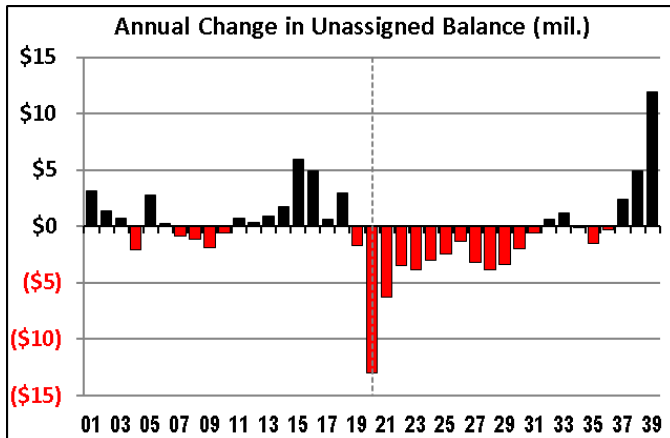
**Historical Context**

For historical context, the following charts show the projected fund balance from the 2017, 2018 and 2019 forecasts. In all three previous forecasts the fund balance remained positive, despite three assumed moderate recessions and higher pension costs. This will not be the case for the 2020 baseline forecast.



**Baseline Forecast – Slow Recession Recovery – Before Budget Strategies**

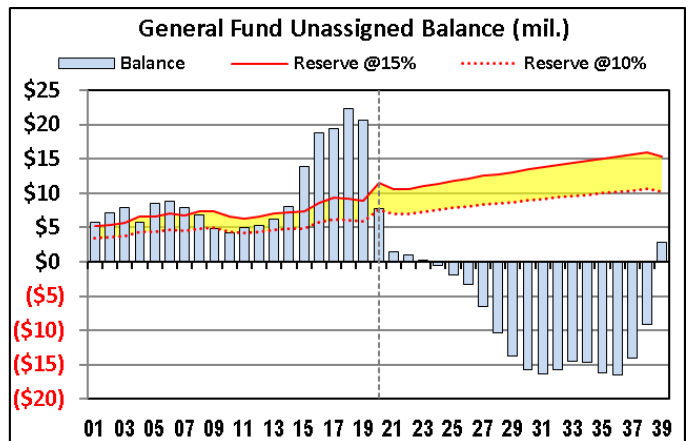
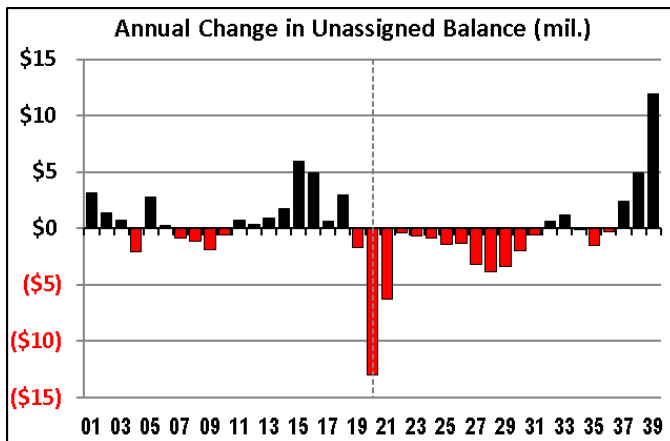
The following charts show the bottom line of the 2020 baseline forecast: the annual change in fund balance, and the forecasted cumulative fund balance itself, assuming a \$20 million loss of revenues over six years due to the Covid-19 pandemic, and the above assumptions. Absent corrective budget actions, the General Fund would be in deficit by the end of FY21/22. Overall infrastructure funding would fall to 35% of identified needs, compared to the 50% projected in the 2019 baseline forecast.



The large decline in balance in FY19/20 is due primarily to a \$5.3 million transfer to fund 012 for capital projects, \$4.0 million in pandemic-related revenue losses, \$1.9 million in one-time expenses, and \$1.8 million in net expense. This would reduce the FY19/20 balance significantly, to \$7.7 million or 10.0% of total expenditures before transfers.

**Alternate Forecast – Quick Recession Recovery – Before Budget Strategies**

Assuming an optimistically quick end to the pandemic/recession, the revenue loss is projected to be only \$10 million over three years, but the balance under this alternate forecast would still be in deficit by the end of FY23/24. Overall infrastructure funding would remain at 35% of identified needs. Because of the lag time in determining just how bad the revenue losses ultimately become, the City really has no other choice but to plan for a slow recession recovery.

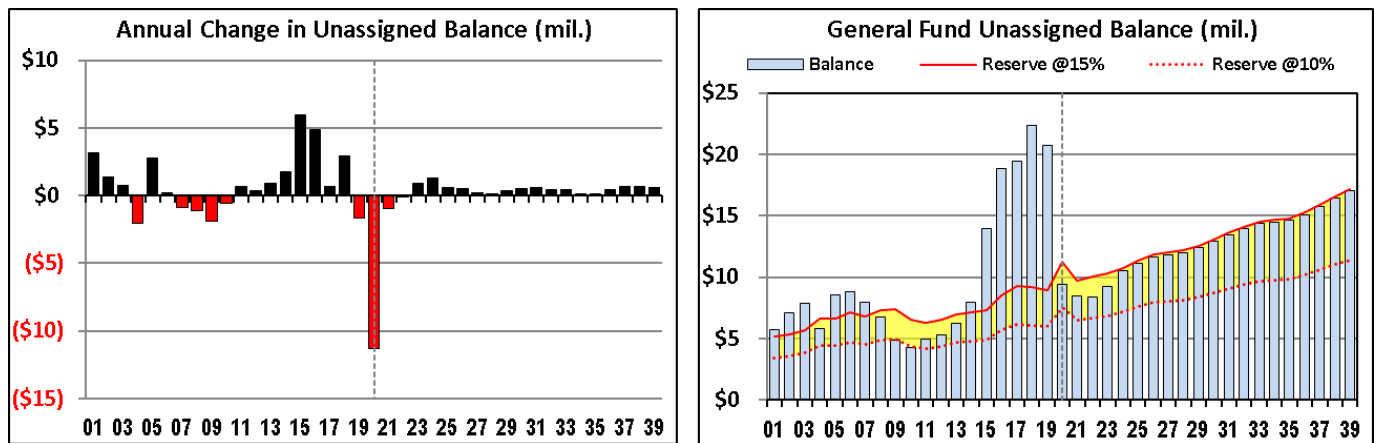


## Baseline Forecast With Budget Strategies

Creating a sustainable budget under the baseline forecast assumptions can involve both near-term and long-term strategies. Here is one potential set of solutions:

- Capital transfers have been set to produce a zero balance in fund 012 after moving ahead with only the highest priority capital projects approved in prior years.
- Furloughs of 56 hours for all employees in FY20/21 (\$742,000 in one-time savings). Will reduce productive time of positions by 2.7%. Requires agreement through meet and confer labor negotiations.
- OPEB contribution at the actuarially-determined contribution (ADC) level for two years will reduce General Fund costs by a total of \$3.4 million over FY19/20 and FY20/21, compared to the higher level of funding that was budgeted for those years. The ADC level pays for normal costs and also the annual amortization of unfunded liabilities, which is the recommended minimum funding level, as it slowly increases the plan funding ratio over time. The General Fund pays around 73% of total OPEB costs based on share of payroll. The option exists to pay only current benefit costs, or pay-as-you-go, but this approach does not amortize UAL and does not increase the plan funding ratio.
- Eliminate 1.0 FTE growth per year (saves \$157,000 in FY21/22, growing to \$3.6 million a year by FY38/39 by which time a total of 20 new positions would have been added). Reduces ability to respond to population and workload needs, but cutting positions that don't yet exist is preferable to cutting existing positions.
- Cut through attrition 25% of positions that become vacant during FY20/21 and FY21/22, reducing 10 FTE permanently (ongoing savings of \$1.45 million). Allows flexibility to fill 75% of vacancies, but reduces General Fund workforce by 2.4%. Positions eliminated are not known at this time, but having to only cut one out of every four vacancies will give management flexibility in re-organizing around the fewer number of positions.
- Ongoing departmental budget cuts of \$2.26 million (3.5% of total expense) and one-time cuts of \$643,000, starting FY20/21. Impacts will vary by department.
- Eliminate the forecast's allocation of expense growth associated with the Nishi and WDAAC developments (saves \$360,000 in FY22/23, increasing to \$1.9 million by FY26/27). May reduce ability to respond to population and workload needs, but this allowance for increased expense was based on average costs per capita, as opposed to development-specific costs. Regardless of growth levels, the City is limited to spending the resources available to it, and these will vary depending on economic cycles.
- Adopt mix of concrete and asphalt for bike path resurfacing. Since asphalt is less costly than concrete, a greater area of resurfacing can be done with the same level of resource. This approach reduces the cost of the identified need for bike paths, which improves the overall infrastructure funding percent.

These budget strategies are incorporated into the FY20/21 revised budget, and will be implemented in FY19/20, FY20/21 and in future years as appropriate. The following charts show the baseline forecast with the impact of these strategies. The overall funding of identified infrastructure needs using these strategies rises to 69%, which is discussed further under Infrastructure Funding below.



Note that the ending balance as a percent of total expenditures before transfers does not drop below 12.5%. A summary of major revenue and expense categories and fund balance under this forecast is at the end of this Financial Forecast section.

### Infrastructure Funding

The City has a major investment in its infrastructure – streets, bike paths, parks, public buildings and improvements – which is valued on the city’s books at \$407.6 million (excluding utilities and equipment) as of June 30, 2019. Although these public investments are depreciated for accounting purposes, the reality is that most of this infrastructure will never be replaced outright at the end of its theoretical “useful life”, but rather will be continuously maintained, so that it will be around long after that useful life of 25 to 75 years, depending on the asset. The City has various revenues that are earmarked for infrastructure maintenance and improvements, such as the park tax, the construction tax, and the state gas tax (including SB 1). Development fees for streets, parks, and buildings are dedicated to infrastructure improvements needed to mitigate the effects of *new* development, but these can’t be used to maintain *pre-existing* infrastructure.

These sources are inadequate to meet total annual infrastructure maintenance needs, so the General Fund contributes toward infrastructure maintenance as well. This was largely not possible before the passage of Measure O in 2014, which increased the City’s local sales tax rate from 0.5% to 1.0%; this additional revenue has in part allowed the City to begin contributing to street, bike path, facility and other projects in the past few years. However, the City still faces significant unfunded needs.

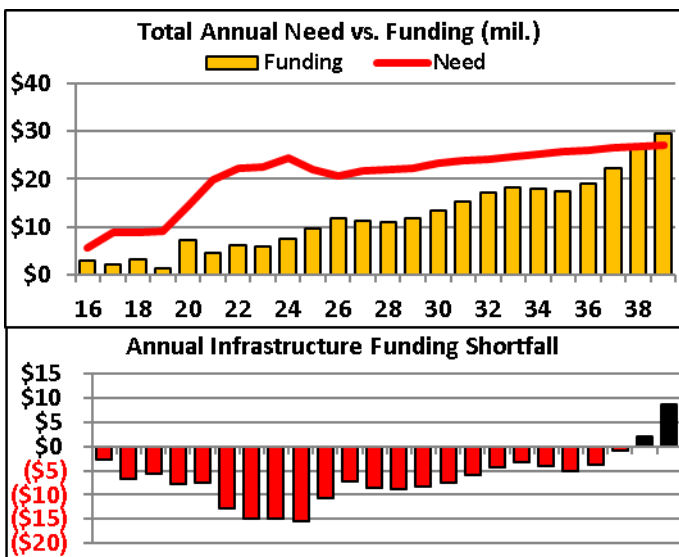
The City has long emphasized the need for adequate infrastructure funding. Since 2015, the City has focused on identifying these unmet needs and developing a comprehensive plan for funding them:

- **Streets:** NCE’s 2020 Pavement Management Program Update projects resurfacing needs averaging \$7.9 million per year. The key measure is the Pavement Condition Index (PCI), a widespread tool for assessing street condition. The PCI for streets is currently 59 on a scale of 100, The statewide average in 2018 was 65 (a score of 50-70 is considered “at risk”). The plan directs City efforts in a cost-effective way with the goal of slowly increasing the overall quality of the City’s street surfaces.
- **Bike Paths:** The 2020 NCE study also projected bike path resurfacing needs of \$4.0 million per year. The bike path PCI is currently 53.

# FINANCIAL FORECAST

- **Facilities:** Kitchell CEM prepared a maintenance plan for City-owned buildings in 2016. Smoothing these costs over 20 years results in an annual need of around \$1.2 million.
- **Parks:** Kitchell also prepared a parks maintenance plan in 2016, which was updated by City staff in December 2017 to identify the following needs totaling an average of \$3.58 million annually:
  - Maintenance under current park tax      \$1.400 million
  - Unmet maintenance needs                    \$0.950 million
  - Urban Forestry program                    \$0.570 million
  - Integrated Pest Mgmt program            \$0.410 million
  - Special park projects/grant match        \$0.250 million
- **Traffic Maintenance:** A recent analysis was prepared by the Public Works Department which identified the following needs totaling an average of \$3.93 million annually:
  - Curb, gutter, sidewalks                    \$2.500 million
  - Striping    \$0.390 million
  - Traffic signals                                  \$0.550 million
  - ADA sidewalk ramps                        \$0.225 million
  - Street/path lights                             \$0.265 million
- **Parking Lots:** Public Works identified resurfacing costs averaging \$176,000 annually; this would not expand parking, but rather just maintains what is there now.

The following chart shows the total funding versus need, and the annual shortfall, assuming implementation of the budget strategies discussed above. As pension costs begin to fall in the mid-to-late 2030's with the pay down of unfunded liabilities, this will free up fiscal capacity in the General Fund to make higher contributions to infrastructure while still maintaining the 15% reserve level.



The following table summarizes the funding plan for infrastructure over the 20-year forecast period. It identifies the funding need by infrastructure category, shows the major funding sources, including the General Fund, and shows the resulting funding gap. The allocation in this table by infrastructure category is illustrative only: the ultimate allocation among categories will vary based on annual budget priorities and recommendations from affected Commissions. Assuming implementation of the above budget strategies (or an alternative package of comparable savings), and that all resources in excess of the 15% reserve goal



are dedicated to infrastructure funding, then **69%** of the identified total need would be funded. Given that most cities have not even attempted to identify their comprehensive infrastructure needs, as Davis has done, this is actually a high rate of infrastructure needs funding.

Infrastructure Needs Summary (FY 2019-20 through FY 2038/39)							
(\$ in Millions)	(1)	Bike	(2)	Park	Public	Parking	Totals
	Streets	Paths	Traffic	Maint	Facility	Lots	
<b>Funding Need</b>	158.02	52.74	95.49	91.18	23.44	4.34	425.20
<b>Funding Sources</b>	General Fund	98.34	35.76	37.05	12.35	12.35	195.86
	Meas H Park Tax	0.00	0.00	0.00	36.80	0.00	36.80
	SB 1 Gas Tax	33.21	0.00	0.00	0.00	0.00	33.21
	Cons Tax/Impact Fee	18.60	0.00	0.00	0.00	0.00	18.60
	Gas Tax/Other	0.00	0.00	7.97	0.00	0.00	7.97
<b>Total Funded</b>	150.15	35.76	45.02	49.15	12.35	0.00	292.44
<b>Net Funding Gap</b>	7.87	16.98	50.47	42.03	11.09	4.34	132.76
<b>% Funded</b>	<b>95%</b>	<b>68%</b>	<b>47%</b>	<b>54%</b>	<b>53%</b>	<b>0%</b>	<b>69%</b>
(1) excludes curbs, gutters, sidewalks							
(2) includes curb, gutter, sidewalks, signs, striping, pavement marking, signals, street lighting							

However, once the General Fund reserve level reaches 15%, the City may decide to devote some of the resources in excess of that reserve level to restoring cuts made in response to the Covid-19 pandemic, in lieu of exclusively funding infrastructure maintenance. For example, if the resources in excess of a 15% reserve were split 50:50 between improved services and infrastructure funding, operating expenditures would increase 4.4% from FY21/22 through FY38/39 (an average of \$4.2 million per year), but the overall infrastructure funding of identified needs would drop from 69% to 53%. There will always be a trade-off between operating budget needs and infrastructure needs, and the City Council will set its funding priorities in the ongoing budget process.

A summary of infrastructure funding by category under this forecast is at the end of this Financial Forecast section.

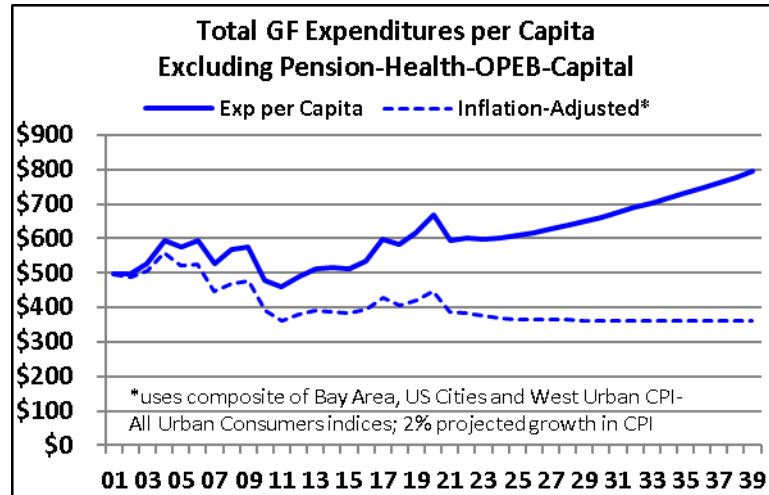
### Operating Costs and Future Community Growth

The City seeks to maintain a level of operating expenditures over time that allows it to respond to population and workload increases. When the City reviews major proposed developments, an assessment is made of the revenues anticipated to be generated by the project, compared to the potential expenditures that might be incurred to service the new development. The revenue side of this process is much more straight-forward, while the expenditure side is more conjectural in nature.

Another approach is to look at the overall operating expenditure level per capita over time. However, if operating expenditures are rising just because of fast-growing costs like pension, health and OPEB, which are beyond the City's control, then that is not necessarily an indication of higher or improved service levels. Therefore, for purposes of this comparison, these fast-growing costs are omitted, and only the remaining operating expenditures per capita are counted. The goal is to have long-term growth in these expenditures per capita, and ideally to have inflation-adjusted expenditures be at least flat or with some growth over time (to maintain purchasing power despite inflation).

As the chart below illustrates, the City generally achieves the first objective going forward, and at least in the out-years, avoids negative growth in inflation-adjusted expenditures, even without the addition of 1.0 FTE per year, and without added expenditures when the Nishi and WDAAC developments are constructed. During recessions, the resulting reduction in

revenues unavoidably forces lower expenditures, which does adversely impact service levels during those periods.



### Alternative Financial Outcomes

There are a number of alternative outcomes that could improve the forecast, such as:

- Higher employee vacancy rates (more vacant positions or vacancies for longer periods of time)
- Stronger revenue growth or delayed/lesser recession losses
- CalPERS investment gains above the discount rate
- Stronger economic development than already included in forecast

There are also a number of alternative outcomes that could worsen the forecast, including:

- PERS investment losses (or faster pace of discount rate cuts)
- Weaker revenue growth from planned hotels or other sources
- More severe recession losses
- Higher annual COLAs approved than the forecasted 2%
- Staffing levels increased beyond proposed levels
- Extreme events (natural disaster, renewed/worsened pandemic)

The City will continue to update the budget model as new information is received, and include the long-term forecast in the annual budget document, to further its goal of maintaining a successful and sustainable financial outlook.

## Summary

Assuming adoption of a budget strategy package comparable in expenditure reductions to the one shown above, the revised baseline forecast achieves the following key outcomes:

- The \$3 million maintenance of effort for General Fund transportation infrastructure spending is met in every year of the forecast.
- Infrastructure funding attains an overall funding level of 69% of identified needs over the 20-year forecast, assuming that all amounts in excess of the 15% reserve goal are devoted to infrastructure.
- The City stays current with all of its pension obligations, and funds OPEB obligations at the ADC level for all but three years, achieving a projected 63% reduction in total unfunded liability between FY19/20 and FY38/39. These pension obligations are met even after assuming lower CalPERS investment returns and phasing in to a 6% discount rate over the next 20 years.
- The City's 15% reserve goal is met in 16 of the 20 fiscal years of the forecast period, even after weathering one severe and two moderate recessions assumed to occur during the next 20 years. The minimum balance during this period is 12.5%.

Under the circumstances now facing the City, this would be a considerable accomplishment, and a testament to the careful budget and policy planning conducted by the staff and City Council.

The following pages provide a summary of the revised baseline forecast, which includes budget-balancing strategies, followed by a summary of infrastructure funding.

# FINANCIAL FORECAST

## First Ten Years of Financial Forecast

(\$ in Thousands)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Property Tax	\$22,797	\$24,292	\$23,721	\$24,613	\$26,313	\$27,785	\$29,092	\$30,259	\$31,022	\$31,829
Sales Tax-Regular (1%)	6,349	6,573	7,175	7,462	7,755	8,053	8,357	8,215	8,201	8,595
Sales Tax-Measure O (1%)	7,951	7,386	8,234	8,569	8,910	9,259	9,613	9,442	9,428	9,882
Transient Occupancy Tax	1,856	2,469	2,939	3,135	3,341	3,556	3,780	3,516	3,445	3,721
Other Taxes/Franchises	7,889	7,550	8,127	8,456	8,776	9,089	9,412	9,634	9,740	9,934
Permits & Fees	7,337	6,759	7,781	8,314	8,696	9,092	9,622	9,419	9,434	9,845
Interest	332	299	128	126	140	159	168	176	179	181
Other Revenue	6,681	5,342	5,870	6,043	6,220	6,401	6,588	6,698	6,811	6,926
<b>Total Revenues</b>	<b>61,192</b>	<b>60,669</b>	<b>63,975</b>	<b>66,718</b>	<b>70,150</b>	<b>73,394</b>	<b>76,632</b>	<b>77,359</b>	<b>78,260</b>	<b>80,913</b>
Salaries/Wages	22,574	22,665	23,047	23,214	23,730	24,257	24,796	25,348	25,911	26,488
Part Time (total)	1,549	1,620	1,681	1,748	1,823	1,859	1,896	1,934	1,973	2,012
Overtime	2,214	989	1,006	1,013	1,036	1,059	1,082	1,106	1,131	1,156
Retirement	10,127	10,817	11,425	12,597	13,517	14,473	14,747	15,420	15,401	15,947
Health/Cafeteria Plan	4,913	4,798	4,863	5,009	5,159	5,314	5,473	5,637	5,806	5,981
Retiree Medical	4,032	4,041	4,651	4,696	4,815	4,936	5,058	5,183	5,311	5,441
Workers Compensation	1,255	1,539	1,553	1,564	1,600	1,636	1,673	1,710	1,749	1,788
Other Benefits	2,158	1,403	2,175	2,196	2,243	2,292	2,341	2,392	2,443	2,496
Expense Credits	(5,619)	(5,731)	(5,873)	(6,069)	(6,276)	(6,484)	(6,607)	(6,782)	(6,871)	(7,033)
Vacancy Savings	(837)	(1,118)	(943)	(950)	(971)	(991)	(1,014)	(1,036)	(1,061)	(1,084)
<b>Subtotal Personnel</b>	<b>42,365</b>	<b>41,022</b>	<b>43,585</b>	<b>45,018</b>	<b>46,675</b>	<b>48,350</b>	<b>49,447</b>	<b>50,914</b>	<b>51,795</b>	<b>53,193</b>
Internal Services	7,631	7,515	7,845	8,002	8,162	8,326	8,492	8,662	8,835	9,012
Contract Services	8,585	6,551	6,682	6,816	6,952	7,091	7,233	7,378	7,525	7,676
Other O&M Expenses	6,743	5,658	5,616	5,729	5,783	5,899	6,017	6,137	6,260	6,385
Debt Service	214	214	214	214	214	214	214	214	214	214
Capital-Transportation	3,000	3,000	3,000	3,000	3,882	5,418	6,950	6,319	6,046	6,571
Capital-Park/Facility/Other	5,287	1,300	-	-	196	537	878	738	677	794
Budget Additions	1,900	338	-	-	-	-	-	-	-	-
Budget Cuts	(750)	(643)	-	-	-	-	-	-	-	-
<b>Exp Before Transfers</b>	<b>74,976</b>	<b>64,956</b>	<b>66,944</b>	<b>68,779</b>	<b>71,865</b>	<b>75,835</b>	<b>79,231</b>	<b>80,361</b>	<b>81,352</b>	<b>83,844</b>
Net Transfers Out/(In)	(2,479)	(3,315)	(2,881)	(2,939)	(2,998)	(3,058)	(3,119)	(3,181)	(3,245)	(3,310)
<b>Net Exp After Transfers</b>	<b>72,496</b>	<b>61,641</b>	<b>64,062</b>	<b>65,841</b>	<b>68,868</b>	<b>72,778</b>	<b>76,112</b>	<b>77,180</b>	<b>78,107</b>	<b>80,535</b>
Net Annual	(11,304)	(972)	(87)	877	1,282	616	520	179	153	378
Beginning Fund Balance	20,791	9,487	8,516	8,429	9,306	10,588	11,204	11,724	11,903	12,055
<b>Ending Fund Balance</b>	<b>9,487</b>	<b>8,516</b>	<b>8,429</b>	<b>9,306</b>	<b>10,588</b>	<b>11,204</b>	<b>11,724</b>	<b>11,903</b>	<b>12,055</b>	<b>12,433</b>
Nonspendable	89	51	51	51	51	51	51	51	51	51
Unassigned Balance	9,398	8,465	8,378	9,255	10,537	11,153	11,673	11,852	12,004	12,382
Bal as % of Exp Before Tfrs	12.5%	13.0%	12.5%	13.5%	14.7%	14.7%	14.7%	14.7%	14.8%	14.8%
FTE (full/part, excl utilities)	411.4	406.6	401.7	401.7	401.7	401.7	401.7	401.7	401.7	401.7

# FINANCIAL FORECAST

## Second Ten Years of Financial Forecast

(\$ in Thousands)	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	2036-37	2037-38	2038-39
Property Tax	\$33,301	\$34,842	\$36,450	\$37,769	\$39,136	\$39,764	\$40,800	\$42,689	\$44,665	\$46,729
Sales Tax-Regular (1%)	9,009	9,445	9,667	9,895	9,636	9,626	10,099	10,596	11,121	11,394
Sales Tax-Measure O (1%)	10,359	10,860	11,114	11,375	11,073	11,057	11,594	12,159	12,751	13,054
Transient Occupancy Tax	4,019	4,340	4,470	4,605	4,282	4,197	4,532	4,895	5,286	5,445
Other Taxes/Franchises	10,235	10,547	10,854	11,120	11,363	11,496	11,729	12,085	12,452	12,814
Permits & Fees	10,276	10,728	10,973	11,224	11,000	11,027	11,506	12,008	12,536	12,826
Interest	186	194	203	210	216	218	220	227	237	247
Other Revenue	7,043	7,163	7,285	7,410	7,537	7,666	7,798	7,933	8,071	8,211
<b>Total Revenues</b>	<b>84,429</b>	<b>88,119</b>	<b>91,016</b>	<b>93,607</b>	<b>94,243</b>	<b>95,051</b>	<b>98,280</b>	<b>102,592</b>	<b>107,118</b>	<b>110,721</b>
Salaries/Wages	27,077	27,680	28,296	28,926	29,570	30,229	30,903	31,592	32,296	33,016
Part Time (total)	2,053	2,094	2,136	2,178	2,222	2,266	2,312	2,358	2,405	2,453
Overtime	1,182	1,208	1,235	1,263	1,291	1,319	1,349	1,379	1,410	1,441
Retirement	16,502	17,056	16,962	17,155	17,232	17,554	17,551	17,113	17,016	16,260
Health/Cafeteria Plan	6,160	6,345	6,535	6,731	6,933	7,141	7,355	7,576	7,803	8,037
Retiree Medical	5,574	5,710	5,849	5,991	6,137	6,285	6,410	6,535	6,672	2,708
Workers Compensation	1,828	1,870	1,912	1,955	1,999	2,044	2,090	2,137	2,185	2,234
Other Benefits	2,550	2,606	2,662	2,720	2,779	2,839	2,900	2,963	3,028	3,105
Expense Credits	(7,198)	(7,365)	(7,452)	(7,578)	(7,691)	(7,837)	(7,944)	(8,001)	(8,102)	(8,125)
Vacancy Savings	(1,108)	(1,132)	(1,160)	(1,187)	(1,214)	(1,242)	(1,271)	(1,303)	(1,335)	(1,371)
<b>Subtotal Personnel</b>	<b>54,621</b>	<b>56,071</b>	<b>56,975</b>	<b>58,155</b>	<b>59,257</b>	<b>60,599</b>	<b>61,655</b>	<b>62,348</b>	<b>63,379</b>	<b>59,759</b>
Internal Services	9,192	9,376	9,564	9,755	9,950	10,149	10,352	10,559	10,770	10,986
Contract Services	7,829	7,986	8,146	8,309	8,475	8,644	8,817	8,994	9,173	9,357
Other O&M Expenses	6,513	6,643	6,776	6,911	7,050	7,191	7,335	7,481	7,631	7,783
Debt Service	214	214	214	214	214	214	214	214	214	214
Capital-Transportation	7,838	9,305	10,679	11,533	11,017	10,235	11,392	13,829	16,265	21,880
Capital-Park/Facility/Other	1,075	1,401	1,706	1,896	1,781	1,608	1,865	2,406	2,948	4,195
Budget Additions	-	-	-	-	-	-	-	-	-	-
Budget Cuts	-	-	-	-	-	-	-	-	-	-
<b>Exp Before Transfers</b>	<b>87,282</b>	<b>90,996</b>	<b>94,059</b>	<b>96,773</b>	<b>97,743</b>	<b>98,640</b>	<b>101,629</b>	<b>105,831</b>	<b>110,380</b>	<b>114,174</b>
Net Transfers Out/(In)	(3,376)	(3,443)	(3,512)	(3,582)	(3,654)	(3,727)	(3,802)	(3,878)	(3,955)	(4,034)
<b>Net Exp After Transfers</b>	<b>83,907</b>	<b>87,553</b>	<b>90,547</b>	<b>93,191</b>	<b>94,089</b>	<b>94,913</b>	<b>97,827</b>	<b>101,953</b>	<b>106,424</b>	<b>110,140</b>
Net Annual	523	566	469	416	153	138	452	639	694	581
Beginning Fund Balance	12,433	12,956	13,522	13,992	14,407	14,561	14,699	15,151	15,790	16,484
<b>Ending Fund Balance</b>	<b>12,956</b>	<b>13,522</b>	<b>13,992</b>	<b>14,407</b>	<b>14,561</b>	<b>14,699</b>	<b>15,151</b>	<b>15,790</b>	<b>16,484</b>	<b>17,065</b>
Nonspendable	51	51	51	51	51	51	51	51	51	51
Unassigned Balance	12,905	13,471	13,941	14,356	14,510	14,648	15,100	15,739	16,433	17,014
Bal as % of Exp Before Tfrs	14.8%	14.8%	14.8%	14.8%	14.8%	14.9%	14.9%	14.9%	14.9%	14.9%
FTE (full/part, excl utilities)	401.7	401.7	401.7	401.7	401.7	401.7	401.7	401.7	401.7	401.7

# FINANCIAL FORECAST

## First Ten Years of Infrastructure Funding

(\$ in Thousands)	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
<b>Street Needs (1)</b>	\$4,340	\$7,430	\$9,470	\$9,450	\$10,980	\$8,430	\$6,860	\$7,400	\$7,300	\$7,350
Gas Tax/SB1/Other Funding	2,092	2,129	2,187	2,223	2,273	2,323	2,390	2,473	2,520	2,567
General Fund	2,200	2,200	2,200	2,200	2,631	3,382	4,131	3,823	3,689	3,946
Infra Parcel Tax	-	-	-	-	-	-	-	-	-	-
Surplus(Shortfall)	(48)	(3,101)	(5,083)	(5,027)	(6,075)	(2,725)	(339)	(1,104)	(1,092)	(837)
<b>Bike Path Needs (1)</b>	770	3,000	3,000	2,987	2,993	2,667	2,667	2,653	2,667	2,667
General Fund	800	800	800	800	957	1,230	1,502	1,390	1,341	1,435
Infra Parcel Tax	-	-	-	-	-	-	-	-	-	-
Surplus(Shortfall)	30	(2,200)	(2,200)	(2,187)	(2,036)	(1,437)	(1,164)	(1,263)	(1,325)	(1,232)
<b>Facilities Needs (2)</b>	1,236	1,229	1,222	1,215	1,208	1,201	1,195	1,188	1,181	1,174
General Fund	-	-	-	-	98	269	439	369	338	397
Infra Parcel Tax	-	-	-	-	-	-	-	-	-	-
Surplus(Shortfall)	(1,236)	(1,229)	(1,222)	(1,215)	(1,110)	(933)	(756)	(819)	(843)	(778)
<b>Park Needs (3)</b>	3,753	3,828	3,904	3,982	4,062	4,143	4,226	4,311	4,397	4,485
Parks Tax	1,401	1,413	1,447	1,479	1,568	1,638	1,693	1,750	1,808	1,847
General Fund	-	-	-	-	98	269	439	369	338	397
Infra Parcel Tax	-	-	-	-	-	-	-	-	-	-
Surplus(Shortfall)	(2,352)	(2,415)	(2,457)	(2,503)	(2,396)	(2,236)	(2,094)	(2,192)	(2,251)	(2,241)
<b>Traffic Needs (4)</b>	3,930	4,009	4,089	4,171	4,254	4,339	4,426	4,514	4,605	4,697
Other Funding	328	335	341	348	355	362	369	377	384	392
General Fund	-	-	-	-	294	806	1,317	1,106	1,015	1,190
Infra Parcel Tax	-	-	-	-	-	-	-	-	-	-
Surplus(Shortfall)	(3,602)	(3,674)	(3,748)	(3,822)	(3,605)	(3,171)	(2,740)	(3,031)	(3,205)	(3,114)
<b>Parking Lot Needs (5)</b>	179	182	186	189	193	197	201	205	209	213
General Fund	-	-	-	-	-	-	-	-	-	-
Infra Parcel Tax	-	-	-	-	-	-	-	-	-	-
Surplus(Shortfall)	(179)	(182)	(186)	(189)	(193)	(197)	(201)	(205)	(209)	(213)
<b>Total Surplus(Shortfall)</b>	<b>(7,386)</b>	<b>(12,801)</b>	<b>(14,895)</b>	<b>(14,944)</b>	<b>(15,416)</b>	<b>(10,699)</b>	<b>(7,294)</b>	<b>(8,615)</b>	<b>(8,925)</b>	<b>(8,415)</b>

- (1) Street and bike path needs as identified in 2020 NCE report. Funding is from General Fund as selected in budget model plus \$130K/year Construction Tax, \$800K/year Developer Fees and any grant/other funding as identified in the budget model for Measure I funding.
- (2) Facility maintenance needs as identified in 2016 Kitchell report (see Table 3). Does not include replacement costs. Funding is General Fund contribution only as selected in budget model for Measure I funding.
- (3) Park maintenance needs as identified by Parks staff (Dec 2015 staff report and updated Kitchell numbers). Funding is current \$49 parks tax (\$1.4M/year plus any General Fund contribution).
- (4) Traffic maintenance needs updated in 2018 to include curb/gutter/sidewalk costs. Funding is existing General Fund support plus amount selected in budget model.
- (5) Maintenance needs of existing lots only, not for additional parking spaces.

# FINANCIAL FORECAST

## Second Ten Years of Infrastructure Funding

(\$ in Thousands)	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	2036-37	2037-38	2038-39
<b>Street Needs (1)</b>	\$7,901	\$7,901	\$7,901	\$7,901	\$7,901	\$7,901	\$7,901	\$7,901	\$7,901	\$7,901
Gas Tax/SB1/Other Funding	2,616	2,667	2,719	2,773	2,828	2,885	2,944	3,004	3,066	3,130
General Fund	4,565	5,282	5,954	6,372	6,119	5,737	6,303	7,494	8,685	11,430
Infra Parcel Tax	-	-	-	-	-	-	-	-	-	-
Surplus(Shortfall)	(720)	48	772	1,243	1,046	721	1,345	2,597	3,850	6,659
<b>Bike Path Needs (1)</b>	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667	2,667
General Fund	1,660	1,921	2,165	2,317	2,225	2,086	2,292	2,725	3,158	4,156
Infra Parcel Tax	-	-	-	-	-	-	-	-	-	-
Surplus(Shortfall)	(1,007)	(746)	(502)	(350)	(441)	(581)	(375)	58	492	1,490
<b>Facilities Needs (2)</b>	1,168	1,161	1,155	1,148	1,142	1,135	1,129	1,122	1,116	1,110
General Fund	538	701	853	948	891	804	932	1,203	1,474	2,098
Infra Parcel Tax	-	-	-	-	-	-	-	-	-	-
Surplus(Shortfall)	(630)	(461)	(302)	(200)	(251)	(331)	(196)	81	358	988
<b>Park Needs (3)</b>	4,574	4,666	4,759	4,854	4,951	5,050	5,151	5,254	5,360	5,467
Parks Tax	1,886	1,927	1,969	2,011	2,055	2,099	2,144	2,191	2,238	2,238
General Fund	538	701	853	948	891	804	932	1,203	1,474	2,098
Infra Parcel Tax	-	-	-	-	-	-	-	-	-	-
Surplus(Shortfall)	(2,150)	(2,038)	(1,937)	(1,895)	(2,006)	(2,148)	(2,075)	(1,861)	(1,648)	(1,131)
<b>Traffic Needs (4)</b>	4,791	4,886	4,984	5,084	5,186	5,289	5,395	5,503	5,613	5,725
Other Funding	400	408	416	424	433	441	450	459	468	478
General Fund	1,613	2,102	2,560	2,844	2,672	2,412	2,797	3,610	4,422	6,293
Infra Parcel Tax	-	-	-	-	-	-	-	-	-	-
Surplus(Shortfall)	(2,778)	(2,377)	(2,009)	(1,815)	(2,081)	(2,436)	(2,147)	(1,434)	(723)	1,046
<b>Parking Lot Needs (5)</b>	218	222	226	231	236	240	245	250	255	260
General Fund	-	-	-	-	-	-	-	-	-	-
Infra Parcel Tax	-	-	-	-	-	-	-	-	-	-
Surplus(Shortfall)	(218)	(222)	(226)	(231)	(236)	(240)	(245)	(250)	(255)	(260)
<b>Total Surplus(Shortfall)</b>	<b>(7,503)</b>	<b>(5,795)</b>	<b>(4,203)</b>	<b>(3,247)</b>	<b>(3,968)</b>	<b>(5,015)</b>	<b>(3,693)</b>	<b>(809)</b>	<b>2,074</b>	<b>8,791</b>

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