The City's Commitment to Fiscal Responsibility

Many cities in California face multiple factors that have created financial stress all the while maintaining high levels of public services their residents expect.

The City of Davis wants to share what it is doing to plan for its financial future, particularly in light of increasing costs for employees’ pensions and retiree benefits.

Why are cities under fiscal stress?

In a 2019 report, the California State Auditor identified the financial risks facing each city in the state, including Davis. As with most cities, the highest risks of concern for Davis are the funding of pensions and retiree health care (also known as OPEB or Other Post-Employment Benefits). These benefits are set by contract and protected by state law.

Contributing factor to cities’ financial stress are:

- The retirement system, California Public Employees’ Retirement System (CalPERS), lost $100 billion in the Great Recession and its investments did not meet projections, leaving cities across the state with much larger obligations than were initially projected.

- In 1992, the State of California created ERAFs (educational revenue augmentation funds), which shifted partial responsibility for education funding to local government (cities, counties and special districts). Specifically, some local property tax revenue previously allocated to local governments is now allocated to school districts.

- The state dissolved Redevelopment Agencies in 2012, which led to a loss of funding for projects like affordable housing and infrastructure improvements.

What is the City doing to meet its fiscal responsibility goals?

The graph depicts the City's unfunded pension obligation or unfunded liability. The unfunded liability represents the difference between the City's pension obligation as determined by CalPERS and the amount set aside to pay for pensions. Projected to peak in 2022, the liability is estimated to diminish in the long-term largely because of the proactive measures listed on the right.

For more detailed information on the City budget, please visit: cityofdavis.org/city-hall/budget

For more information on pensions, please visit: cacities.org/pensions

Questions? Please contact financeweb@cityofdavis.org.

Davis Pension and Labor Reforms

- Reached new agreements in 2018 and 2019 with several employee groups to share the cost of pensions. Employees will pay up to 1 percent of salary if City costs are higher than projected by CalPERS, but also share in pension savings
- Saved an additional $220,000 annually by paying unfunded liability costs at the start of each fiscal year instead of monthly
- Reduced 119 positions since 2008; almost one quarter of City staff
- Acted in alignment with a state pension reform law (known as PEPRA) where newer employees retire later for smaller pensions, which will eventually reduce the City's unfunded liabilities
- Established a fund to cover OPEB liabilities at a cost of $3 to 4 million a year; this will take time to fully fund

Davis Financial Best Practices and Economic Development

- Engaged Council-appointed Finance & Budget Commission for taxpayer oversight
- Developed innovative fiscal modeling, forecasting budget 20 years out to assess long-term solutions and risks for pension costs - most cities only project out five years
- Moved to a two-year budget to streamline efforts and improve forecasting
- Refinanced nearly $23 million in bonds, providing nearly $8.8 million to local jurisdictions, including the City. The refunding gave the City access to nearly $6.1 million in unspent bond proceeds held by the State
- Defined long-term infrastructure funding needs for streets, bike paths, parks and public buildings and committed to funding at least 50% from City sources
- Initiated an aggressive grant strategy, resulting in $23.7 million in either awarded or pending competitive grant funding since 2018 for infrastructure, arts, play structures, tree planting and other City needs
- Bolstered economic development – Nugget Markets Headquarters, Mars, Inc. and Archer Daniels Midland located facilities in Davis, resulting in job creation and more employees’ dollars spent in the community
- Assisted hotel projects, adding Transient Occupancy Tax (TOT) revenues to the City, as well as local spending
- Generating new tax revenue from newly established, legally regulated cannabis businesses