

Municipal Service Review and Sphere of Influence Initial Study

(Finding MSR/SOI Update Not Needed)
for the

City of Davis
LAFCo No. 21-01



March 25, 2021



Municipal Service Review and Sphere of Influence Initial Study for the City of Davis (LAFCo No. 21-01)

SUBJECT AGENCY:

City of Davis
23 Russell Blvd.
Davis, CA 95616

<https://www.cityofdavis.org/>

Date last MSR/SOI adopted: July 28, 2016

City Council Members:

Gloria Partida

Mayor
Elected "At large"
(resides [District 4](#))
Term Ends: 2022

Lucas Frerichs

Vice Mayor
[City Council District 3](#)
Term Ends: 2024

Will Arnold

Councilmember
[City Council District 2](#)
Term Ends: 2024

Dan Carson

Councilmember
Elected "At large"
(resides [District 1](#))
Term Ends: 2022

Josh Chapman

Councilmember
[City Council District 5](#)
Term Ends: 2024

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CONDUCTED BY:

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Contents

MSR/SOI BACKGROUND2
 ROLE AND RESPONSIBILITY OF LAFCO2
 PURPOSE OF A MUNICIPAL SERVICE REVIEW2
 PURPOSE OF A SPHERE OF INFLUENCE3
 DISADVANTAGED UNINCORPORATED COMMUNITIES3
 ORGANIZATION OF MSR/SOI STUDY4
 AFFECTED AGENCIES.....5
AGENCY PROFILE6
MUNICIPAL SERVICE REVIEW8
 POTENTIALLY SIGNIFICANT MSR DETERMINATIONS8
 LAFCO MUNICIPAL SERVICE REVIEW:8
 1. GROWTH AND POPULATION8
 2. DISADVANTAGED UNINCORPORATED COMMUNITIES9
 3. CAPACITY AND ADEQUACY OF PUBLIC FACILITIES AND SERVICES10
 4. FINANCIAL ABILITY12
 5. SHARED SERVICES AND FACILITIES17
 6. ACCOUNTABILITY, STRUCTURE AND EFFICIENCIES17
 7. OTHER ISSUES19
SPHERE OF INFLUENCE STUDY21

MSR/SOI BACKGROUND

ROLE AND RESPONSIBILITY OF LAFCO

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, as amended (“CKH Act”) (California Government Code §§56000 et seq.), is LAFCo’s governing law and outlines the requirements for preparing Municipal Service Reviews (MSRs) for periodic Sphere of Influence (SOI) updates. MSRs and SOIs are tools created to empower LAFCo to satisfy its legislative charge of “discouraging urban sprawl, preserving open-space and prime agricultural lands, efficiently providing government services, and encouraging the orderly formation and development of local agencies based upon local conditions and circumstances (§56301). CKH Act Section 56301 further establishes that “one of the objects of the commission is to make studies and to obtain and furnish information which will contribute to the logical and reasonable development of local agencies in each county and to shape the development of local agencies so as to advantageously provide for the present and future needs of each county and its communities.”

Based on that legislative charge, LAFCo serves as an arm of the State; preparing and reviewing studies and analyzing independent data to make informed, quasi-legislative decisions that guide the physical and economic development of the state (including agricultural uses) and the efficient, cost-effective, and reliable delivery of services to residents, landowners, and businesses. While SOIs are required to be updated every five years, they are not time-bound as planning tools by the statute, but are meant to address the “probable physical boundaries and service area of a local agency” (§56076). SOIs therefore guide both the near-term and long-term physical and economic development of local agencies, and MSRs provide the near-term and long-term time-relevant data to inform LAFCo’s SOI determinations.

PURPOSE OF A MUNICIPAL SERVICE REVIEW

As described above, MSRs are designed to equip LAFCo with relevant information and data necessary for the Commission to make informed decisions on SOIs. The CKH Act, however, gives LAFCo broad discretion in deciding how to conduct MSRs, including geographic focus, scope of study, and the identification of alternatives for improving the efficiency, cost-effectiveness, accountability, and reliability of public services. The purpose of a Municipal Services Review (MSR) in general is to provide a comprehensive inventory and analysis of the services provided by local municipalities, service areas, and special districts. A MSR evaluates the structure and operation of the local municipalities, service areas, and special districts and discusses possible areas for improvement and coordination. The MSR is intended to provide information and analysis to support a sphere of influence update. A written statement of the study’s determinations must be made in the following areas:

1. Growth and population projections for the affected area;
2. The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence;
3. Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the sphere of influence;
4. Financial ability of agencies to provide services;
5. Status of, and opportunities for, shared facilities;
6. Accountability for community service needs, including governmental structure and operational efficiencies; and

7. Any other matter related to effective or efficient service delivery, as required by commission policy.

The MSR is organized according to these determinations listed above. Information regarding each of the above issue areas is provided in this document.

PURPOSE OF A SPHERE OF INFLUENCE

In 1972, LAFCOs were given the power to establish SOIs for all local agencies under their jurisdiction. As defined by the CKH Act, “sphere of influence’ means a plan for the probable physical boundaries and service area of a local agency, as determined by the commission” (§56076). SOIs are designed to both proactively guide and respond to the need for the extension of infrastructure and delivery of municipal services to areas of emerging growth and development. Likewise, they are also designed to discourage urban sprawl and the premature conversion of agricultural and open space resources to urbanized uses.

The role of SOIs in guiding the State’s growth and development was validated and strengthened in 2000 when the Legislature passed Assembly Bill (“AB”) 2838 (Chapter 761, Statutes of 2000), which was the result of two years of labor by the Commission on Local Governance for the 21st Century, which traveled up and down the State taking testimony from a variety of local government stakeholders and assembled an extensive set of recommendations to the Legislature to strengthen the powers and tools of LAFCOs to promote logical and orderly growth and development, and the efficient, cost-effective, and reliable delivery of public services to California’s residents, businesses, landowners, and visitors. The requirement for LAFCOs to conduct MSRs was established by AB 2838 as an acknowledgment of the importance of SOIs and recognition that regular periodic updates of SOIs should be conducted on a five-year basis (§56425(g)) with the benefit of better information and data through MSRs (§56430(a)).

Pursuant to Yolo County LAFCO policy an SOI includes an area adjacent to a jurisdiction where development might be reasonably expected to occur in the next 20 years. A MSR is conducted prior to, or in conjunction with, the update of a SOI and provides the foundation for updating it.

LAFCo is required to make five written determinations when establishing, amending, or updating an SOI for any local agency that address the following (§56425(c)):

1. The present and planned land uses in the area, including agricultural and open-space lands.
2. The present and probable need for public facilities and services in the area.
3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.
4. The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.
5. For an update of an SOI of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.

DISADVANTAGED UNINCORPORATED COMMUNITIES

SB 244 (Chapter 513, Statutes of 2011) made changes to the CKH Act related to “disadvantaged unincorporated communities,” including the addition of SOI determination #5 listed above. Disadvantaged unincorporated communities, or “DUCs,” are inhabited territories (containing 12 or more registered voters)

where the annual median household income is less than 80 percent of the statewide annual median household income.

On March 26, 2012, Yolo LAFCo adopted a “Policy for the Definition of ‘Inhabited Territory’ for the Implementation of SB 244 Regarding Disadvantaged Unincorporated Communities”, which identified 21 inhabited unincorporated communities for purposes of implementing SB 244.

CKH Act Section 56375(a)(8)(A) prohibits LAFCo from approving a city annexation of more than 10 acres if a DUC is contiguous to the annexation territory but not included in the proposal, unless an application to annex the DUC has been filed with LAFCo. The legislative intent is to prohibit “cherry picking” by cities of tax-generating land uses while leaving out under-served, inhabited areas with infrastructure deficiencies and lack of access to reliable potable water and wastewater services. DUCs are recognized as social and economic communities of interest for purposes of recommending SOI determinations pursuant to Section 56425(c).

ORGANIZATION OF MSR/SOI STUDY

This report has been organized in a checklist format to focus the information and discussion on key issues that may be particularly relevant to the subject agency while providing required LAFCo’s MSR and SOI determinations. The checklist questions are based on the Cortese-Knox-Hertzberg Act, the LAFCo MSR Guidelines prepared by the Governor’s Office of Planning and Research and adopted Yolo LAFCo local policies and procedures. This report provides the following:

- Provides a description of the subject agency;
- Provides any new information since the last MSR and a determination regarding the need to update the SOI;
- Provides MSR and SOI draft determinations for public and Commission review; and
- Identifies any other issues that the Commission should consider in the MSR/SOI.

AFFECTED AGENCIES

Per Government Code Section 56427, a public hearing is required to adopt, amend, or revise a sphere of influence. Notice shall be provided at least 21 days in advance and mailed notice shall be provided to each affected local agency or affected County, and to any interested party who has filed a written request for notice with the executive officer. Per Government Code Section 56014, an affected local agency means any local agency that overlaps with any portion of the subject agency boundary or SOI (included proposed changes to the SOI).

The affected local agencies for this MSR/SOI are:

County/Cities:

- City of Davis
- City of West Sacramento
- City of Winters
- City of Woodland
- County of Yolo

K-12 School Districts:

- Davis Joint Unified
- Esparto Unified
- Pierce Joint Unified
- River Delta Unified
- Washington Unified
- Winters Joint Unified
- Woodland Joint Unified

Community College Districts:

- Delta
- Los Rios
- Solano
- Yuba

Special Districts:

- Cemetery District – Capay, Cottonwood, **Davis**, Knight’s Landing, Mary’s, Winters
- Community Service District – Cacheville, Esparto, Knights Landing, Madison
- County Service Area - Dunnigan, **El Macero**, Garcia Bend, North Davis Meadows, Snowball, Wild Wings, **Willowbank**
- Fire Protection District – Capay, Clarksburg, Dunnigan, **East Davis**, Elkhorn, Esparto, Knights Landing, Madison, No Man’s Land, **Springlake**, West Plainfield, Willow Oak, Winters, Yolo, Zamora
- Sacramento-Yolo Port District
- Reclamation District – 150, 307, 537, 730, 765, 787, 900, 999, 1600, 2035
- Yolo Resource Conservation District
- Water District – Dunnigan, Knight’s Landing Ridge Drainage, **Yolo County Flood Control & Water Conservation**

Multi-County Districts:

- Dixon Resource Conservation District
- Reclamation District – 108 (Colusa), 2068 (Solano), 2093 (Solano)
- Water District – Colusa Basin Drainage
- Sacramento-Yolo Mosquito and Vector Control District

AGENCY PROFILE¹

Cities are “local” governments, voluntarily formed by and for their citizens, to provide for local self-determination of community issues. The City of Davis is a municipal corporation operating under the general laws of the State of California. It endeavors to create a livable community with a high quality of life through land-use policies and service provision that balance the need for housing, jobs, open space, and essential services. The City is a legally separate and fiscally independent agency. It can issue debt, set and modify budgets, collect fees for services, and sue or be sued.

Davis operates under the Council-Manager form of government with a five-member council, elected at large by city residents. The City Manager serves as the administrative head of city government overseeing the departments of Fire, Police, Parks and Community Services, Administrative Services, Community Development and Sustainability, Public Works Engineering and Transportation, and Public Works Utilities and Operations.

The primary government of the City of Davis includes the activities of the City as well as the Public Facilities Financing Authority. The Public Facilities Financing Authority was established solely to assist in the issuance of certain bonds for a series of Community Facilities Districts for the construction of infrastructure and improvements under the State Mello-Roos Act. The authority is controlled by and financially dependent on the City. Its financial activities are included in the capital projects and fiduciary funds of the City, and are reported as part of the City's budget.

The City previously operated the Davis Redevelopment Agency. In 2012, the State of California dissolved all local redevelopment agencies. Since then, the Redevelopment Agency has been winding down operations, overseen by the Davis Redevelopment Successor Agency Oversight Board.

Dedicated to citizen participation, the City has fourteen council-appointed commissions that are devoted to various aspects of community life including such elements as planning, recreation, finance and budget and economic development, natural resources and university student relations. In addition, the City Council periodically creates committees to address specific projects or concerns, and participates in regular "2x2" meetings with other agencies and organizations, such as the Davis Joint Unified School District Board of Education and the Yolo County Board of Supervisors.

As a “general-purpose” city, Davis provides essential frontline municipal services. The City funds these activities through a variety of locally enacted revenues (parcel taxes, user and license fees, etc.) and with state shared revenues (property tax, sales tax, and motor vehicle license fees). Municipal services provided by the City and reviewed in this MSR include:

- Law enforcement;
- Fire;
- Parks and community services;
- Public transit, transportation and streets;
- Water;
- Wastewater;
- Storm sewer; and
- Solid waste.

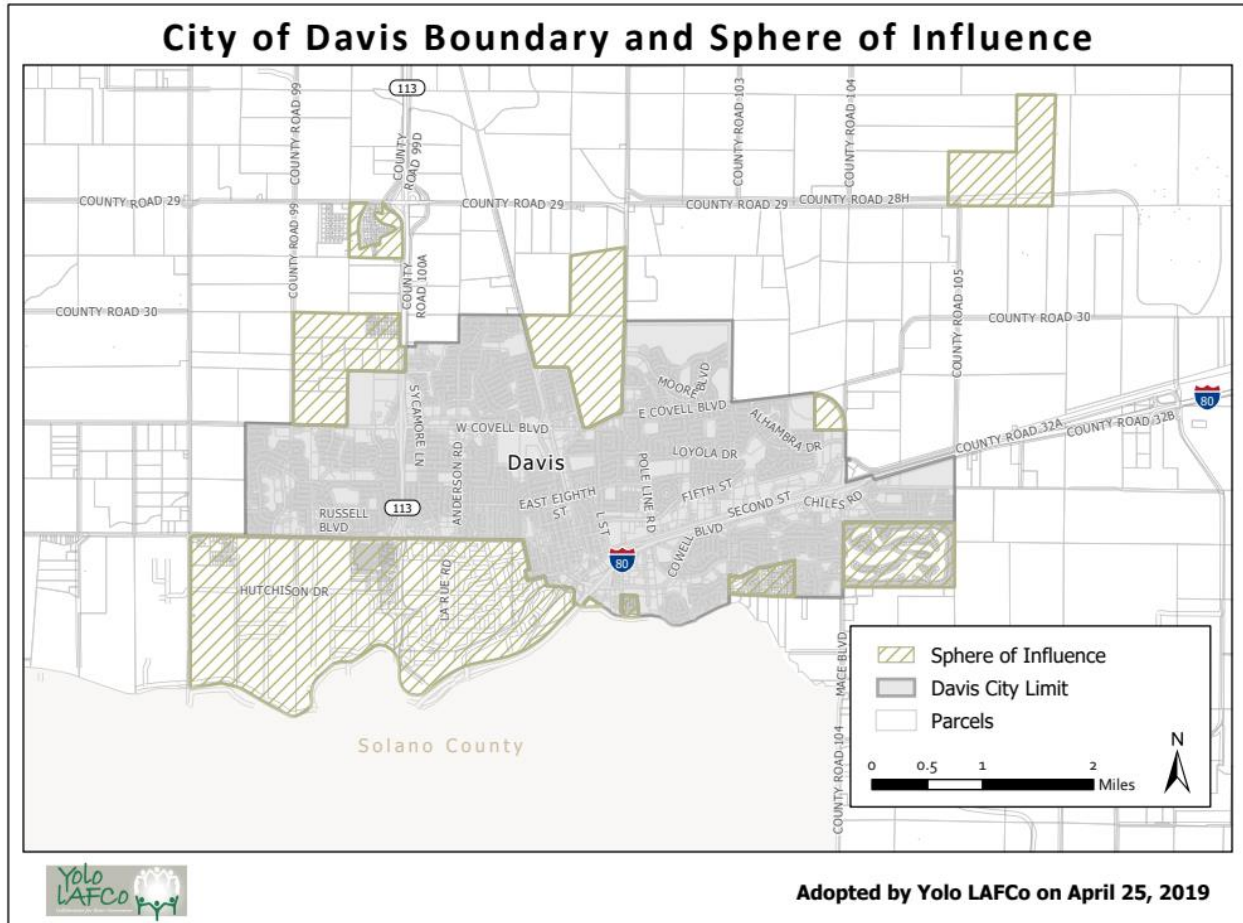
The City provides some services outside of its boundary area. Some services were extended to areas outside of the City prior to the requirement for LAFCo approval. Davis provides water and wastewater services to El Macero County Service Area (CSA), water service to Willowbank CSA, and wastewater service to North Davis Meadows CSA and a few individual customers in Willowbank CSA, as well as contractual water system maintenance to North Davis Meadows. Davis also provides contractual water and

¹ <https://www.cityofdavis.org/about-davis/government> and MSR/SOI for City of Davis, July 28, 2016

YOLO LAFCO MUNICIPAL SERVICE REVIEW/SPHERE OF INFLUENCE STUDY

wastewater services to Royal Oak Mobile Home Park. All of these communities, with the exception of North Davis Meadows, are located within the City's sphere of influence.

Additionally, the City of Davis Fire Department provides fire services on a contractual basis to three neighboring fire protection districts (FPDs), including East Davis County FPD, No Man's Land FPD, and a portion of Springlake FPD.



MUNICIPAL SERVICE REVIEW

POTENTIALLY SIGNIFICANT MSR DETERMINATIONS

The MSR determinations checked below are potentially significant, as indicated by “yes” or “maybe” answers to the key policy questions in the checklist and corresponding discussion on the following pages. If most or all of the determinations are not significant, as indicated by “no” answers, the Commission may find that a MSR update is not warranted.

- Growth and Population
- Disadvantaged Unincorporated Communities
- Capacity, Adequacy & Infrastructure to Provide Services
- Financial Ability
- Shared Services
- Accountability
- Other

LAFCo MUNICIPAL SERVICE REVIEW:

- On the basis of this initial evaluation, the required determinations are not significant and staff recommends that an MSR is NOT NECESSARY. The subject agency will be reviewed again in five years per Government Code Section 56425(g).
- The subject agency has potentially significant determinations and staff recommends that a comprehensive MSR IS NECESSARY and has been conducted via this checklist.

1. GROWTH AND POPULATION			
Growth and population projections for the affected area.	YES	MAYBE	NO
a) <i>Will development and/or population projections over the next 5-10 years impact the subject agency's service needs and demands?</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
b) <i>Will population and/or service changes require a change in the agency's services and/or sphere of influence boundary (a "yes" response will likely trigger an SOI Update)?</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Discussion:

- a) *Will development and/or population projections over the next 5-10 years impact the subject agency's service needs and demands?*

YOLO LAFCO MUNICIPAL SERVICE REVIEW/SPHERE OF INFLUENCE STUDY

City/County Population Estimates with Annual Percent Change²

State/County/City	Total Population 1/1/2019	Total Population 1/1/2020	Percent Change
Yolo County	220,896	221,705	+0.4
City of Davis	69,179	69,183	+0.0

No. The City of Davis population estimates are currently flat with little change from 2019 to 2020. Development and/or population projections over the next 5-10 years are not anticipated to significantly impact the subject agency's service needs and demands.

- b) *Will population and/or service changes require a change in the agency's services and/or sphere of influence boundary (a "yes" response will likely trigger an SOI Update)?*

No. There is ample land in the City's existing SOI to accommodate growth, including the Regional Housing Needs Analysis (RHNA) numbers issued by the Sacramento Area Council of Governments (SACOG).

Growth and Population MSR Determination

The City of Davis population growth is currently flat with little change from 2019 to 2020 estimates. There is ample land in the City's existing SOI to accommodate growth, including the Regional Housing Needs Analysis (RHNA) numbers issued by the Sacramento Area Council of Governments (SACOG). Development and/or population projections over the next 5-10 years are not anticipated to significantly impact the subject agency's service needs and demands.

2. DISADVANTAGED UNINCORPORATED COMMUNITIES

The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence.

	YES	MAYBE	NO
a) <i>If the subject agency provides services related to sewers, municipal and industrial water, or structural fire protection, are there any "inhabited unincorporated communities" (per adopted Commission policy) within or adjacent to the subject agency's sphere of influence that are considered "disadvantaged" (80% or less of the statewide median household income) that do not already have access to public water, sewer and structural fire protection?</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
b) <i>If "yes" to a), it is feasible for the agency to be reorganized such that it can extend service to the disadvantaged unincorporated community? If "no" to a), this question is marked "no" because it is either not needed or not applicable.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Discussion:

- a) *If the subject agency provides services related to sewers, municipal and industrial water, or structural fire protection, are there any "inhabited unincorporated communities" (per adopted Commission policy) within or*

² State of California Department of Finance E-1 Population Estimates for Cities, Counties, and the State — January 1, 2019 and 2020

YOLO LAFCo MUNICIPAL SERVICE REVIEW/SPHERE OF INFLUENCE STUDY

adjacent to the subject agency’s sphere of influence that are considered “disadvantaged” (80% or less of the statewide median household income) that do not already have access to public water, sewer and structural fire protection?

No. The Davis Creek Mobile Home Park is surrounded on three sides by the City of Davis, yet remains unincorporated. No demographic data is readily available for this specific unincorporated island, however, it is likely considered disadvantaged. However, this community already has access to City water, sewer and structural fire protection (fire via contract services for the East Davis Fire Protection District).



b) If “yes” to a), it is feasible for the agency to be reorganized such that it can extend service to the disadvantaged unincorporated community? If “no” to a), this question is marked “no” because it is either not needed or not applicable.

No. Although the City should annex this unincorporated island as a matter of good public policy, it is not legally required because this community already has access to essential City services.

Disadvantaged Unincorporated Communities MSR Determination

The Davis Creek Mobile Home Park is surrounded on three sides by the City of Davis, yet remains unincorporated. No demographic data is readily available for this specific unincorporated island, however, it is likely considered disadvantaged. Although the City should annex this unincorporated island as a matter of good public policy, it is not legally required because this community already has access to essential City services.

3. CAPACITY AND ADEQUACY OF PUBLIC FACILITIES AND SERVICES

Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the sphere of influence.

	YES	MAYBE	NO
a) Are there any deficiencies in agency capacity to meet <u>existing</u> service needs for which the agency does not have a plan in place to resolve (including deficiencies created by new state regulations)? Also note how services are provided (i.e. number of staff and/or contracts).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
b) Are there any issues regarding the agency’s capacity to meet the service demand of reasonably foreseeable <u>future</u> growth?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

YOLO LAFCO MUNICIPAL SERVICE REVIEW/SPHERE OF INFLUENCE STUDY

- | | | | |
|--|--------------------------|--------------------------|-------------------------------------|
| c) <i>Is the agency needing to consider climate adaptation in its assessment of infrastructure/service needs?</i> | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| d) <i>Are there any service needs or deficiencies for disadvantaged unincorporated communities related to sewers, municipal and industrial water, and structural fire protection within or contiguous to the agency's sphere of influence?</i> | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

Discussion:

- a) *Are there any deficiencies in agency capacity to meet existing service needs for which the agency does not have a plan in place to resolve (including deficiencies created by new state regulations)? Also note how services are provided (i.e. number of staff and/or contracts).*

No. LAFCo is not aware of any deficiencies in agency capacity to meet existing service needs for which the agency does not have a plan in place to resolve.

- b) *Are there any issues regarding the agency's capacity to meet the service demand of reasonably foreseeable future growth?*

No. The City is anticipated to be able to meet service demands of foreseeable growth with project infrastructure improvements and other mitigation measures. City staff indicated a comprehensive General Plan Update process will begin in 2022³ which will more comprehensively address any potential issues.

- c) *Is the agency needing to consider climate adaptation in its assessment of infrastructure/service needs?*

No. The City has an adopted Climate Action and Adaptation Plan (CAAP)⁴ developed and adopted following significant community engagement and input in 2010, when California climate action plans were in their infancy. This plan identifies a vision for City of Davis carbon neutrality, sustainability and climate actions. Since that time, many sustainability milestones have been reached, including significant city measures and climate actions implemented in the last year.

- d) *Are there any service needs or deficiencies for disadvantaged unincorporated communities related to sewers, municipal and industrial water, and structural fire protection within or contiguous to the agency's sphere of influence?*

No. Please see the response to 2c.

Capacity and Adequacy of Public Facilities and Services MSR Determination

LAFCo is not aware of any deficiencies in agency capacity to meet existing service needs for which the agency does not have a plan in place to resolve. The City is anticipated to be able to meet service demands of foreseeable growth with project infrastructure improvements and other mitigation measures. City staff stated a comprehensive General Plan Update process will begin in 2022 which will more comprehensively address any potential capacity and adequacy issues. The City has an adopted Climate Action and Adaptation Plan (CAAP) developed and adopted following significant community engagement and input in 2010, when California climate action plans were in their infancy.

³ Meeting with Ash Feeney, Assistant City Manager on February 9, 2021.

⁴ www.cityofdavis.org/city-hall/community-development-and-sustainability/sustainability-program/climate-change

YOLO LAFCO MUNICIPAL SERVICE REVIEW/SPHERE OF INFLUENCE STUDY

4. FINANCIAL ABILITY

Financial ability of agencies to provide services.

	YES	MAYBE	NO
a) <i>Is the subject agency in an unstable financial position, i.e. does the 5-year trend analysis indicate any issues?</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
b) <i>Does the subject agency fail to use generally accepted accounting principles including: summaries of all fund balances, summaries of revenues and expenditures, general status of reserves, and any un-funded obligations (i.e. pension/retiree benefits)? Does the agency have accounting and/or financial policies that guide the agency in how financial transactions are recorded and presented?</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
c) <i>Does the agency staff fail to review financial data on a regular basis and are discrepancies identified, investigated and corrective action taken in a timely manner? The review may include reconciliations of various accounts, comparing budgets-to-actual, analyzing budget variances, comparing revenue and expense balances to the prior year, etc. If the agency uses Yolo County's financial system and the County Treasury, does the agency review monthly the transactions in the County system to transactions the agency submitted to the County for processing?</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
d) <i>Does the agency board fail to receive regular financial reports (quarterly or mid-year at a minimum) that provide a clear and complete picture of the agency's assets and liabilities, fully disclosing both positive and negative financial information to the public and financial institutions?</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
e) <i>Is there an issue with the organization's revenue sources being reliable? For example, is a large percentage of revenue coming from grants or one-time/short-term sources?</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
f) <i>Is the organization's rate/fee schedule insufficient to fund an adequate level of service, necessary infrastructure maintenance, replacement and/or any needed expansion? Is the fee inconsistent with the schedules of similar local agencies? Does the rate/fee schedule include a specific amount identified for capital asset replacement (tied to a capital improvement plan with implementation policies)?</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
g) <i>Is the organization needing additional reserves to protect against unexpected events or upcoming significant costs (excluding capital asset replacement, see 4f)? Has the agency identified and quantified what the possible significant risks and costs of infrastructure or equipment failure? Does the agency have a reserve policy?</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
h) <i>Does the agency have any debt, and if so, is the organization's debt at an unmanageable level? Does the agency need a clear debt management policy, if applicable?</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Discussion:

a) *Is the subject agency in an unstable financial position, i.e. does the 5-year trend analysis indicate any issues?*

YOLO LAFCo MUNICIPAL SERVICE REVIEW/SPHERE OF INFLUENCE STUDY

Maybe. The California State Auditor has a risk indicator for the fiscal health of California cities⁵. The City of Davis has a score of 60.33 out of 100 points (higher is better) and on a rating scale of “low”, “moderate”, and “high” risk, the City of Davis is classified as “moderate” risk as illustrated by the key indicators below. Pension and OPEB funding, and future costs, are the key City finance issues. The City is well aware of these financial liabilities and a comprehensive MSR is unlikely to contribute additional valuable information.

Davis

General Fund Reserves	Pension Funding
Debt Burden	Pension Costs
Liquidity	Future Pension Costs
Revenue Trends	OPEB Obligations
Pension Obligations	OPEB Funding

Review of the City’s Comprehensive Annual Financial Reports (CAFRs) does not indicate the City is in an unstable financial position. The table below is from the latest City CAFR posted on its website.

City of Davis Statement of Net Position for the Years Ended June 30, 2019 and 2018 (in millions)⁶

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Cash and investments	\$ 90.319	\$ 87.638	\$ 67.216	\$ 68.651	\$ 157.535	\$ 156.289
Other assets	46.530	47.856	7.753	7.994	54.283	55.850
Capital assets	256.188	245.050	359.683	367.641	615.871	612.691
Total Assets	393.037	380.544	434.652	444.286	827.689	824.830
Deferred outflows of resources	22.275	28.474	7.100	7.297	29.375	35.771
Other liabilities	15.529	15.194	9.762	8.826	25.291	24.020
Long-term debt outstanding	154.168	151.772	154.296	162.366	308.464	314.138
Total Liabilities	169.697	166.966	164.058	171.192	333.755	338.158
Deferred inflows of resources	3.042	2.443		1.650	3.042	4.093
Net position:						
Net investment in capital assets	253.773	242.447	237.928	239.731	491.701	482.178
Restricted	69.075	68.793			69.075	68.793
Unrestricted	(80.275)	(71.631)	38.033	39.010	(42.242)	(32.621)
Total Net Position	\$ 242.573	\$ 239.609	\$ 275.961	\$ 278.741	\$ 518.534	\$ 518.350

- b) *Does the subject agency fail to use generally accepted accounting principles including: summaries of all fund balances, summaries of revenues and expenditures, general status of reserves, and any un-funded obligations (i.e. pension/retiree benefits)? Does the agency have accounting and/or financial policies that guide the agency in how financial transactions are recorded and presented?*

⁵ https://www.auditor.ca.gov/local_high_risk/dashboard-csa

⁶ City of Davis Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019

YOLO LAFCO MUNICIPAL SERVICE REVIEW/SPHERE OF INFLUENCE STUDY

No. The City maintains extensive budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. Budgetary control is established at the fund level. The City also maintains an encumbrance accounting system as one technique for accomplishing budgetary control. Budgets are prepared and expenditures recorded at the object of expenditure level. Accounting records are maintained using either the accrual basis of accounting or modified accrual basis, as appropriate.

- c) *Does the agency staff fail to review financial data on a regular basis and are discrepancies identified, investigated and corrective action taken in a timely manner? The review may include reconciliations of various accounts, comparing budgets-to-actual, analyzing budget variances, comparing revenue and expense balances to the prior year, etc. If the agency uses Yolo County's financial system and the County Treasury, does the agency review monthly the transactions in the County system to transactions the agency submitted to the County for processing?*

No. The City has a Finance Division tasked with these financial responsibilities. The City maintains an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements. The legal level of budgetary control is at the fund level. The statements and schedules provided in the CAFR demonstrate that the City is meeting its responsibility for sound financial management.

- d) *Does the agency board fail to receive regular financial reports (quarterly or mid-year at a minimum) that provide a clear and complete picture of the agency's assets and liabilities, fully disclosing both positive and negative financial information to the public and financial institutions?*

No. The City Council receives a Treasurer's Report on a quarterly basis.

- e) *Is there an issue with the organization's revenue sources being reliable? For example, is a large percentage of revenue coming from grants or one-time/short-term sources?*

No. The City's governmental activities rely on several sources of revenue to finance ongoing operations. Taxes (\$46.3 million), Charges for Services (\$17.9 million), Capital Grants and Contributions (\$7.7 million), and Operating Grants & Contributions (\$7.6 million) comprise the largest sources of revenue. Property tax and sales tax are approximately 60% of tax revenues, with the remainder coming from municipal services, park maintenance, construction, open space, franchise, and transient occupancy. Charges for Services are revenues that arise from charges to customers who purchase, use, or directly benefit from goods or services. Examples of these services include building permits, business licenses, and park and recreation fees. Some of these sources are less reliable as evidenced by the current pandemic related recession, such as sales tax or transient occupancy tax, but the City is diversified as has the ability to make adjustments as needed.

YOLO LAFCo MUNICIPAL SERVICE REVIEW/SPHERE OF INFLUENCE STUDY

Revenues in the Governmental Funds for the Year Ended June 30, 2019 and 2018⁷

	Governmental Funds			General Fund *		
	2019	2018	\$ Change	2019	2018	\$ Change
Property Tax	\$15,627,636	\$15,546,565	81,071	\$15,025,653	\$15,546,565	(\$520,912)
Sales tax	16,504,386	15,603,649	900,737	16,504,386	15,603,649	900,737
Real Property Transfer	303,135	387,230	(84,095)	303,135	387,230	(84,095)
Municipal Services	3,138,065	3,031,057	107,008	3,138,065	3,031,057	107,008
Business License	2,577,091	2,012,568	564,523	2,577,091	2,012,568	564,523
Construction Tax	2,063,309	952,455	1,110,854	2,063,309	952,455	1,110,854
Franchise	1,818,388	1,708,183	110,205	1,818,388	1,281,105	537,283
Transient Occupancy	2,220,142	2,146,184	73,958	2,220,142	2,146,184	73,958
Motor Vehicle in-lieu	6,762,017	6,414,751	347,266	6,762,017	6,414,751	347,266
Park Maintenance	1,412,582	1,387,984	24,598			
Public Safety Tax	544,084	522,465	21,619			
Open Space Protection	671,714	652,422	19,292			
Fines and forfeitures	331,642	466,574	(134,932)	331,642	466,574	(134,932)
Use of money and property	2,919,644	1,970,695	948,949	1,928,056	1,530,941	397,115
Intergovernmental	10,234,310	5,124,979	5,109,331	573,060	425,263	147,797
Charges for current services	12,932,840	11,855,798	1,077,042	10,070,051	8,967,426	1,102,625
Development fees	3,643,599	3,293,794	349,805		849,743	(849,743)
Administrative fees	2,038,686	1,798,636	240,050	2,038,686	1,798,636	240,050
Other	2,952,002	2,109,611	842,391	2,938,206	1,991,513	946,693
Totals	\$88,695,272	\$76,985,600	\$11,709,672	\$68,291,887	\$63,405,660	\$4,886,227

* The General Fund is a subset of the Governmental funds

- f) *Is the organization's rate/fee schedule insufficient to fund an adequate level of service, necessary infrastructure maintenance, replacement and/or any needed expansion? Is the fee inconsistent with the schedules of similar local agencies? Does the rate/fee schedule include a specific amount identified for capital asset replacement (tied to a capital improvement plan with implementation policies)?*

No. The City's enterprise funds are described below as stated in the City's 2019 CAFR. The funds are either sufficient or the City is already conducting a rate study.

Water Fund. The operating revenues for this fund, which are charges for water service to the residents of Davis and some residents in Yolo County, totaled \$25.3 million. The revenues increased due to both increases in rates and growth. The base water rates increased 7.1% in January 2019. Metered rate also went up by .40/ccf for single-family residences. Operating expenses for the Water fund totaled \$19.4 million, an increase of \$1.2 million, which is primarily the result of increased water usage.

Sanitation Fund. This fund had operating revenues of \$12.0 million, an increase of \$0.6 million over the prior year. Primary expenses are for waste removal, solid waste management, and street sweeping remains steady at \$12.1 million. Total operating expenses increased \$0.4 million from the prior year. Overall, the net assets for the Sanitation fund decreased \$0.9 million. In February 2019, City Council approved annual rate increases that went into effect in March 2019, and will continue through 2023.

Sewer Fund. Operating revenues in the Sewer Fund were \$15.0 million for the current fiscal year, an increase of \$1.6 million over the prior year. Sewer charges are based on the average consumption of water for November through February, and with the increase in water usage, the corresponding revenues increased. The primary operating expenses for the Sewer Fund are sewage collection and treatment, totaling \$16.1 million. The increase was due to removing expenditures for a project study

⁷ City of Davis Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019

from work in progress that had been capitalized in a prior year. The Sewer Fund ended the year with a change in net position of \$4.7 million.

Storm Sewer Fund. The operating revenues totaled \$1.8 million with minimal changes over the prior year. Primary operating expenses are for maintenance of the storm drainage system totaling \$1.6 million. Total operating expenses were \$4.0 million, an increase of \$0.3 million over the prior year. The Storm Sewer Fund ended the year with a net loss of \$2.0 million. The Public Works Department is currently doing a rate study, due to go to council in 2020-21.

Public Transit Fund. The revenues in this fund consist primarily of operating grants and contributions from the Federal Transit Administration totaling approximately \$5.0 million. The City has a pass through agreement with the University of California-Davis to provide partial funding for fixed-route public transportation services (Unitrans). The City directly provides the associated paratransit services. Grants and contributions had minimal changes over the prior year. Operating expenses, which include the provision of public and special transportation services, total \$5.1 million. This reflects a decrease in expenses of \$0.6 million from the prior year. The fund net position was \$1.2 million.

- g) *Is the organization needing additional reserves to protect against unexpected events or upcoming significant costs (excluding capital asset replacement, see 4f)? Has the agency identified and quantified what the possible significant risks and costs of infrastructure or equipment failure? Does the agency have a reserve policy?*

No. The City has established reserves and a reserve policy. The City of Davis establishes its General Fund Reserve Policy as additional insurance against disasters, emergencies and unforeseen expenditures. The City Council establishes the following minimum General Fund reserve targets: a) The City shall strive to maintain a General Fund reserve equal to 15% of General Fund expenditures, with up to 5% allocated to special capital projects for roads/paths, facilities and parks; b) The appropriate level of General Fund reserves shall be reviewed annually. The unallocated reserve funds are set-aside to address potential needs in the following areas: a) A Reserve for Economic Uncertainty – funds designated to mitigate periodic revenue shortfalls due to downturn in economic cycles, thereby avoiding the need for service level reductions within the fiscal year; b) An Emergency Reserve – funds designated to mitigate costs of unforeseeable emergencies and natural disasters.

- h) *Does the agency have any debt, and if so, is the organization's debt at an unmanageable level? Does the agency need a clear capital financing and debt management policy, if applicable?*

No. Funds for all operating, special revenue, debt service, and capital improvement activities of the City are appropriated in the annual budget.

Financial Ability MSR Determination

The California State Auditor has a risk indicator for the fiscal health of California cities. The City of Davis has a score of 60.33 out of 100 points (higher is better) and on a rating scale of “low”, “moderate”, and “high” risk, the City of Davis is classified as “moderate” as illustrated by the key indicators below. Pension and OPEB funding, and future costs, are the key City finance issues.

The City conducts annual audits and has a finance division among its staff. Therefore, the City has ample financial oversight and the ability to provide services. The City continues to seek new revenue sources and looking for opportunities to cost share projects with other government partners. Cannabis revenues are stabilizing and the City had a sales tax measure approved on the March 2020 ballot. The City continues to grapple with maintaining current levels of services as costs continue to rise. The City will be pursuing solutions to increasing liabilities, such as deferred maintenance for infrastructure and post-employment benefits. This City Council and staff are dedicated to prudent fiscal management to ensure the continued financial health of the City. The City is well aware of these financial liabilities and a comprehensive MSR is unlikely to contribute additional valuable information.

5. SHARED SERVICES AND FACILITIES

Status of, and opportunities for, shared facilities.

	YES	MAYBE	NO
a) <i>Are there any opportunities for the organization to share services or facilities with neighboring, overlapping or other organizations that are not currently being utilized?</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Discussion:

- a) *Are there any opportunities for the organization to share services or facilities with neighboring, overlapping or other organizations that are not currently being utilized?*

The City of Davis partners with other organizations to share project costs and services with other governments. It shares services through being a member of the following joint powers agencies/authorities:

- Davis Public Facilities Financing Authority
- SACOG
- Valley Clean Energy Alliance
- Woodland-Davis Clean Water Agency
- Yolo Animal Services Planning Agency
- Yolo County Public Agency Risk Management Insurance Authority
- Yolo Habitat Conservancy
- Yolo Subbasin Groundwater Agency
- Yolo-Solano AQMD

In addition, it also shares extended water and sewer services with individual parcels and communities in the unincorporated territory of Yolo County, with approval of LAFCo of course.

Shared Services MSR Determination

The City of Davis partners with other organizations to share project costs and services with other governments. It shares services through being a member of numerous joint powers agencies/authorities. It also shares its water and sewer utilities with unincorporated parcels and communities outside its jurisdictional boundary in Yolo County. LAFCo is not aware of any other opportunities that are not being utilized.

6. ACCOUNTABILITY, STRUCTURE AND EFFICIENCIES

Accountability for community service needs, including governmental structure and operational efficiencies.

	YES	MAYBE	NO
a) <i>Are there any recommended changes to the organization's governmental structure or operations that will increase accountability and efficiency (i.e. overlapping boundaries that confuse the public, service inefficiencies, and/or higher costs/rates)?</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
b) <i>Are there any issues with filling board vacancies and maintaining board members? Is there a lack of board member training regarding the organization's program requirements and financial management?</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

YOLO LAFCo MUNICIPAL SERVICE REVIEW/SPHERE OF INFLUENCE STUDY

c) *Are there any issues with staff capacity and/or turnover? Is there a lack of staff member training regarding the organization's program requirements and financial management?*

d) *Does the agency have adequate policies (as applicable) relating to personnel/payroll, general and administrative, board member and meetings, and segregating financial and accounting duties among staff and/or board to minimize risk of error or misconduct (see suggested policies list)?*

e) *Are any agency officials and designated staff not current in making their Statement of Economic Interests (Form 700) disclosures?*

f) *Does the agency need to secure independent audits of financial reports that meet California State Controller requirements? Are the same auditors used for more than six years? Are audit results not reviewed in an open meeting?*

g) *If the agency is not audited annually, does the agency need to have a qualified external person review agency finances each year (at a minimum), comparing budgets to actuals, comparing actuals to prior years, analyzing significant differences or changes, and determining if the reports appear reasonable?*

h) *Does the organization need to improve its public transparency via a website (see <https://www.yololafco.org/yolo-local-government-website-transparency-scorecards>)?*

Discussion:

a) *Are there any recommended changes to the organization's governmental structure or operations that will increase accountability and efficiency (i.e. overlapping boundaries that confuse the public, service inefficiencies, and/or higher costs/rates)?*

No. There are no recommended changes to the organization's governmental structure or operations that will increase accountability and efficiency.

b) *Are there any issues with filling board vacancies and maintaining board members? Is there a lack of board member training regarding the organization's program requirements and financial management?*

No. City Council members are elected and provided training in the City's program requirements and financial management. In 2020, the City Council representation established districts instead of being elected at large.

c) *Are there any issues with staff capacity and/or turnover? Is there a lack of staff member training regarding the organization's program requirements and financial management?*

No. The City has ample staff with subject matter capacity. The City complies with all required training.

d) *Does the agency need policies (as applicable) relating to personnel/payroll, general and administrative, board member and meetings, and segregating financial and accounting duties among staff and/or board to minimize risk of error or misconduct?*

No. The City has comprehensive policies regarding: personnel/payroll; general and administrative; board member and meetings; and segregating financial and accounting duties among staff and/or board to minimize risk of error or misconduct.

e) *Are any agency officials and designated staff not current in making their Statement of Economic Interests (Form 700) disclosures?*

YOLO LAFCO MUNICIPAL SERVICE REVIEW/SPHERE OF INFLUENCE STUDY

No. City officials and designated staff are current on all required disclosures⁸.

- f) *Does the agency need to secure independent audits of financial reports that meet California State Controller requirements? Are the same auditors used for more than six years? Are audit results not reviewed in an open meeting?*

No. The City performs annual independent audits, changes auditors as required and audits are reviewed at a City Council meeting.

- g) *If the agency is not audited annually, does the agency need to have a qualified external person review agency finances each year (at a minimum), comparing budgets to actuals, comparing actuals to prior years, analyzing significant differences or changes, and determining if the reports appear reasonable?*

Not applicable.

- h) *Does the organization need to improve its public transparency via a website (see <https://www.yololafco.org/yolo-local-government-website-transparency-scorecards>)?*

No. The City received a 97% score in the 2020 Yolo Local Agency Website Transparency Scorecard.

Accountability, Structure and Efficiencies MSR Determination

There are no recommended changes to the organization’s governmental structure or operations that will increase accountability and efficiency. City Council members are elected and provided training in the City’s program requirements and financial management. In 2020, the City Council representation established districts instead of being elected at large. The City has ample staff with subject matter capacity. The City has comprehensive policies regarding: personnel/payroll; general and administrative; board member and meetings; and segregating financial and accounting duties among staff and/or board to minimize risk of error or misconduct. The City performs annual independent audits, changes auditors as required and audits are reviewed at a City Council meeting. The City received a 97% score in the 2020 Yolo Local Agency Website Transparency Scorecard.

7. OTHER ISSUES

Any other matter related to effective or efficient service delivery, as required by commission policy.

	YES	MAYBE	NO
a) <i>Are there any recommendations from the agency’s previous MSR that have not been implemented?</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Discussion:

- a) *Are there any recommendations from the agency’s previous MSR that have not been implemented?*

2016 Recommendations

1. Continue to search for additional stable revenue sources and ways to improve efficiency of operations to better achieve service expectation levels of City constituents as well as be better prepared for economic challenges. **Ongoing**
2. Continue City efforts to increase park and recreation acreage to meet its adopted level of service standard. The City should also improve signage, safety, and visibility in its parks as deemed necessary. **Ongoing**

⁸ <https://www.cityofdavis.org/city-hall/transparency-portal/personal-financial-disclosures>

YOLO LAFCo MUNICIPAL SERVICE REVIEW/SPHERE OF INFLUENCE STUDY

3. Consider contracting with Yolo Emergency Communications Agency (YECA) for Fire Department dispatch services or upgrading the City dispatch service in order to receive emergency medical dispatch, pre-arrival dispatch, and priority dispatch of units based on incident severity, which the City does not offer. **City comprehensively evaluated and rejected recommendation**
4. Explore additional possibilities for its Police Department to share more resources and contract for services with other agencies and actively apply for grants, such as regionalization of or contracting for crime scene response, evidence processing and handling, SWAT, and identity theft response services. **Ongoing**
5. Research and institute enhanced resource sharing between Davis PD, and UC Davis, perhaps through contract services or shared management. **Ongoing**
6. Complete a formal multi-year capital improvement plan to address the City's deferred improvement challenges. **Completed**
7. Maintain roadway and bike path repair as a City priority to avoid greater future costs associated with infrastructure replacement. **Ongoing**
8. The Davis Stormwater Management Plan is currently out of date and should be updated. **Not completed**
9. The City of Davis should complete a storm water rate study to determine appropriate rates to cover the cost of system operations, maintenance, and depreciation. **In process**
10. The City should work with the El Macero CSA to update their water and wastewater agreements in order to facilitate direct billing of customers. **Yolo County has not initiated process**
11. Institute direct billing of North Davis Meadows CSA as part of contract negotiations for the water system consolidation. **Ongoing**

Maybe. This is a quick summary of the previous 2016 LAFCo MSR recommendations and status as either known or readily apparent on the City's website. This initial evaluation is not a comprehensive MSR. The City will be reviewed again in five years.

Other Issues MSR Determination

A summary of the previous 2016 LAFCo MSR recommendations and status has been provided as either known or readily apparent on the City's website. This initial evaluation is not a comprehensive MSR. The City will be reviewed again in five years.

SPHERE OF INFLUENCE STUDY

City of Davis staff have indicated that the City does not wish to change its SOI at this time⁹. On July 7, 2020, the Davis City Council took final action on the Davis Innovation and Sustainability Campus (DISC) which would have required expansion of the City's SOI to accommodate the project. However, the project was rejected by voters at the November 3, 2020 election. In addition, City staff indicate that the City will embark on a comprehensive General Plan Update process beginning in 2022 which will inform the City's SOI.

Therefore, based on consultation with the subject agency and the Municipal Service Review (see MSR Checklist item 1b):

- Staff has reviewed the agency's Sphere of Influence and recommends that a SOI Update is NOT NECESSARY in accordance with Government Code Section 56425(g). Therefore, NO CHANGE to the agency's SOI is recommended and SOI determinations HAVE NOT been made.
- Staff has reviewed the agency's Sphere of Influence and recommends that a SOI Update IS NECESSARY in accordance with Government Code Section 56425(g). Therefore, A CHANGE to the agency's SOI is recommended and SOI determinations HAVE been made and are included in this MSR/SOI study.

⁹ Meeting with Ash Feeney, Assistant City Manager on February 9, 2021.