

MEMORANDUM



City of Campbell
Finance Department

To: City Council

Date: July 1, 2022

From: Will Fuentes, Finance Director

Subject: Fourth Update of Seven-Year Financial Forecast

Staff has prepared a **fourth** update of the **Seven-Year Financial Forecast** for the General Fund, which shows four (4) years of historical actuals (FY 2018 to FY 2021), current year projected actuals (FY 2022), and seven (7) years of projected actuals through FY 2029. This revision will provide a summary of staff's Seven-Year Financial Forecast, with the full detailed forecast to be published in its entirety on the City's website at <https://www.ci.campbell.ca.us/151/Budget>. Additionally, this revision uses revised adopted expenditures for FY 2023. Its main focus is the General Fund (101) since that is the City's primary discretionary fund to support daily operations. Please also note that while this is a better indication of estimated revenues and expenditures for FY 2023 and beyond, the forecast will continue to be updated in the future.

Below in **Table 1**, Council will find a summary of projected General Fund revenues compared to expenditures during this time period as well as estimated surpluses or deficits. Please note though that this is only one possible future for the City based on the assumptions to be detailed below and future year trending based off of those assumptions. Should actions be taken to reduce expenditures beyond any measures taken to date, revenues increase through new or modified sources, or the economy recovers more quickly or more slowly than expected, actual results could deviate from projected results, which are based upon best data as of today:

Table 1 – General Fund Revenues vs. Expenditures (Estimated) (July 1, 2022)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Revenues	61,453,515	63,658,000	65,734,300	68,123,200	71,291,200	74,461,800	77,783,600
Expenditures	61,453,515	62,985,900	65,275,400	67,119,900	69,479,000	71,633,300	73,768,700
Surplus/(Deficit)	0	672,100	458,900	1,003,300	1,812,200	2,828,500	4,014,900

For comparison purposes, **Table 2** below provides the same information from when staff last provided an update of the Seven-Year Financial Forecast to Council on May 17, 2022:

Table 2 – General Fund Revenues vs. Expenditures (Estimated) (June 21, 2022)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Revenues	61,393,515	63,658,000	65,734,300	68,123,200	71,291,200	74,461,800	77,783,600
Expenditures	61,393,515	62,924,100	65,211,700	67,054,300	69,411,400	71,563,600	73,696,900
Surplus/(Deficit)	0	733,900	522,600	1,068,900	1,879,800	2,898,200	4,086,700

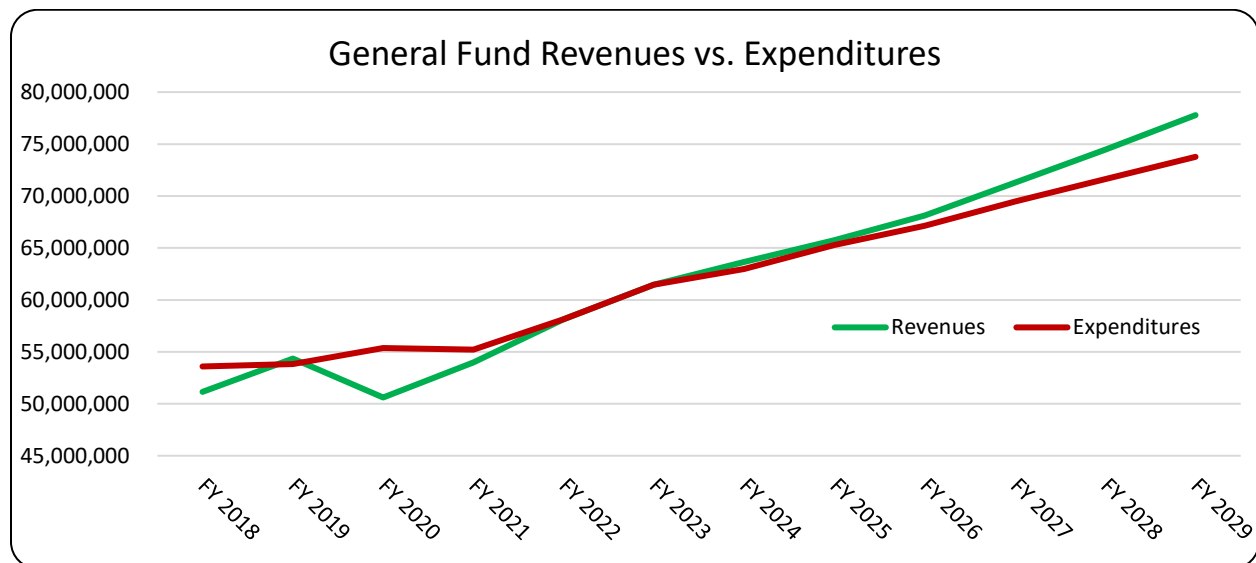
As shown, at the time of the last update, staff had projected balanced General Fund operations in FY 2023, with \$665,000 of ARPA fund usage. Due to the addition of a Contractual Mental Health Counselor / Clinician, Professional and Special Services in the

City Manager’s Office increased by \$60,000, offset by increased transfers in from the ARPA fund of \$60,000. As such, adopted ARPA usage for balancing purposes has been increased to approximately \$725,500 in FY 2023.

As shown in Table 1, staff is again projecting a balanced budget in FY 2023. Please also note that the Seven-Year Financial Forecast again assumes a measured, but reduced use of American Rescue Plan Act (ARPA) funds in FY 2023 to balance General Fund operational costs until ongoing revenues recover and are able to fully support ongoing expenditures in FY 2024.

The financial information above is also visually presented in **Graph 1** below. In addition to a seven-year forecast, this graph also provides five-year historical look back:

Graph 1 – General Fund Revenues vs. Expenditures (Estimated and Historical)



Given the updated forecast, total General Fund reserves are estimated to return to their targeted levels by FY 2029 and be above their targeted levels in out years. The forecast could change further should ongoing labor negotiations result in higher costs than expected, further action regarding ongoing costs be taken, additional revenue sources be secured, or a quicker and larger than expected economic recovery occur. A comparison to target levels set by Council Policy is shown in Graph 2 below:

Graph 2 – General Fund Reserves (Targeted vs Actual and Projected Actual)

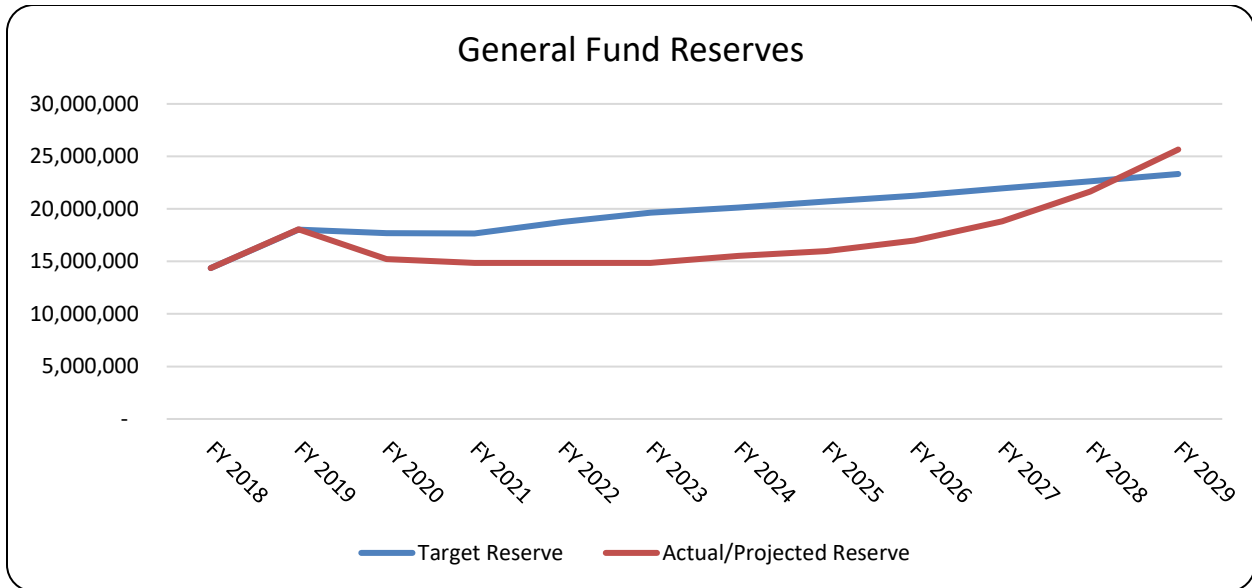


Table 3 below provides a summary of projected General Fund discretionary reserves over the seven-year forecast from FY 2023 to FY 2029 and considers potential surpluses and deficits identified above:

Table 3 – General Fund Discretionary Reserves (Estimated)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Econ. Fluct.	9,028,076	9,028,076	10,881,409	11,188,888	11,582,150	11,941,271	12,297,253
Emergency	2,585,719	3,257,819	1,863,386	2,559,207	3,978,145	6,447,524	7,778,360
Operating	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	3,328,092
PERS	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000
Total	14,865,795	15,537,895	15,996,795	17,000,095	18,812,295	21,640,795	25,655,705
% of Expend.	24.2%	24.7%	24.5%	25.3%	27.1%	30.2%	34.8%

The following summarizes key assumption made for revenues and expenditures:

REVENUES

- Property Taxes** – Property tax is the General Fund’s largest revenue source and has been the one bright spot during the COVID-19 pandemic; fueled by increasing housing prices, increasing demand for larger work-from-home spaces, and very low mortgage interest rates. In FY 2022, the City is expected to receive \$18.58 million in within the General Fund. On May 6, 2022, the Santa Clara County Assessor’s Office provided an update on FY 2022 property tax collections to date and projected 6.3% assessed value growth for Campbell in FY 2023. This has been factored into the Proposed FY 2023 Operating Budget and is up from a 5.2% growth estimate provided by the Assessor’s Office on February 3, 2022. Beyond FY 2023, staff estimates steady 4-7% growth which mirrors pre-COVID recessionary property tax growth levels. Property Tax estimates also include substantially higher Educational Revenue Augmentation Fund (ERAF) revenues which are paid by the State to the City through property tax and have been much higher than expected the past year due to increasing property valuations.

- **Sales and Use Tax** - Sales tax is the General Fund's second largest revenue source. While staff is conservative in its revenue estimates and only shows 2% growth in FY 2023 and 2-3% beyond, it does note that there is good reason for optimism should current economic trends continue. However, staff also notes that supply chain disruptions, inflationary pressures, the war in Ukraine, and lingering pandemic effects provide headwinds to consumer and business spending and further economic growth as noted previously.
- **Charges for Service** - As a whole in Charges for Service in the General Fund, staff is estimating a 15.8% increase in FY 2023 when compared to the year-end estimate for FY 2022. At \$4.87 million, this is almost a full return to pre-recessionary levels and proposed operational costs in departments such as Recreation and Community Services reflect this return to "normal". However, in future years, staff estimates more regular 2-3% growth.
- **Transient Occupancy Tax (TOT)** - TOT is collected by City hotels on behalf of the City and must be reported on and remitted within 30 days of the close of the month being reported. For presentation purposes and so as to align with categorization in the City's Annual Financial report, it is shown together with Other Taxes. Given increased personal and business travel due improving pandemic conditions, staff's latest TOT estimates for FY 2022 were increased to \$2.4 million. In FY 2019, the last normal year before the COVID-19 pandemic, City TOT revenue equaled \$4.8 million. While many economists forecast a strong rebound for hotels by calendar year 2023, due to pent up demand for personal travel, staff is much more conservative and feels that there is great uncertainty surrounding Campbell hotels since they appear to be used more for business travel. At this time, it is unknown how quickly that business travel will rebound and whether it will fully rebound to pre-pandemic levels due to increased utility and cost effectiveness of virtual meetings. Thus, staff forecasts a slow return to normal and TOT revenues of \$3.2 million in FY 2023, followed by \$4.5 million in FY 2024, and \$4.6 million in FY 2025. Not until FY 2026 does staff forecast a return to pre-pandemic levels for Campbell hotels. Please note that these estimates do not include any new hotels which may be constructed in the future, potential increases to TOT rates, or the collection of TOT from short-term rentals. Any of those factors could positively impact TOT revenue estimates. Conversely, hotel closures could also negatively impact TOT revenue. However, remaining hotels might also pick up the travelers that would have otherwise stayed at a shuttered hotel. At this time, staff recommends caution when forecasting TOT revenue, but feels that its forecast is reasonable and based on sound assumptions and data.
- **License and Permits** - Licenses and Permits are the General Fund's sixth-largest revenue source. Given anticipated development, staff estimates 17.3% growth in this area in FY 2023. After FY 2023, staff estimates level 2-3% annual growth in revenues from Licenses and Permits through FY 2029. Should significant new developments be built within Campbell which are not currently known, Licenses and Permits and Other Taxes could increase at a higher rate than what is shown

in the seven-year financial forecast. This revenue source may also be impacted by the new Housing Element currently being prepared by staff and consultants and new housing units required by the State. Once the Housing Element is prepared and fully analyzed, staff will review this revenue source again and revise as appropriate.

EXPENDITURES

- **Employee Costs** – Labor agreements with most all bargaining groups expired on June 30, 2022 and negotiations are underway. So as to make sure any potential cost increases can be financially supported long-term, staff made certain salary and benefit assumptions in the budget materials and long-range forecast which are consistent with Council discussions regarding bargaining parameters. More details will be provided publicly once tentative agreements are reached, but these cost increases **have been factored** into the adopted budget, long-range forecast, and schedules.
- **Supplies and Services** – In the General Fund, there is a 5.3% increase to supplies and services costs in FY 2023 when compared to FY 2022 Year-End Estimates. After FY 2023, staff is estimating level 3% annual growth through FY 2029, consistent with normal and average inflationary growth levels.

And lastly, as mentioned previously, the detailed seven-year financial forecast will be published in its entirety on the City's website at <https://www.ci.campbell.ca.us/151/Budget> and will contain following items shown:

- Historical and Projected Revenues by Type
- Historical and Projected Expenditures by Type
- Historical and Projected Surpluses and Deficits
- Historical and Projected Draw Downs on General Fund Reserves
- Historical and Projected Comparisons of General Fund Reserves to City Policy

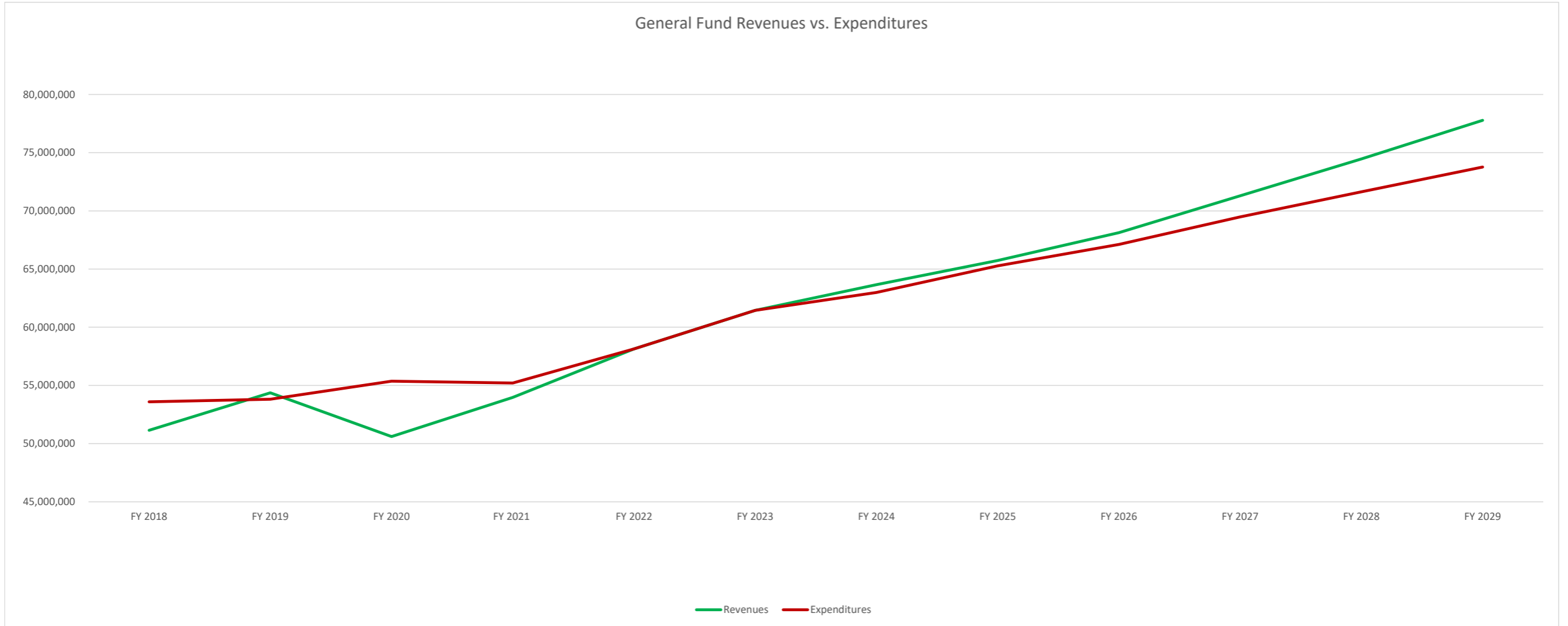
General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures (FOURTH UPDATE 07-01-22)

REVENUES BY TYPE	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<i>Base Revenues</i>	<u>Actuals</u>	<u>Actuals</u>	<u>Actuals</u>	<u>Actuals</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>
Property Taxes	14,004,162	15,607,316	17,208,898	17,911,445	18,583,168	20,654,400	21,474,100	22,534,500	23,866,000	25,508,400	27,265,000	29,143,500
Sales & Use Taxes	14,859,014	15,684,222	13,493,745	14,478,163	15,587,825	15,903,012	16,221,100	16,545,600	17,004,200	17,524,700	18,050,400	18,591,900
Other Taxes	9,698,920	9,539,163	7,962,878	6,375,527	7,637,896	8,622,400	10,046,700	10,272,400	10,606,400	10,961,100	11,328,900	11,710,400
Licenses & Permits	2,411,868	2,062,086	2,481,986	2,963,368	3,319,200	3,894,820	3,972,800	4,052,200	4,173,700	4,298,800	4,427,800	4,560,600
Fines/Forfeits/Penalties	303,382	274,478	216,065	85,149	62,000	105,000	205,100	209,200	215,500	222,100	228,700	235,600
Investment & Other Interest Income	180,905	998,446	542,846	(8,137)	207,282	310,900	317,100	323,400	333,100	343,000	353,300	363,900
Intergovernmental Revenue	275,179	761,116	1,009,428	892,283	1,001,924	999,100	1,020,000	1,041,800	1,074,300	1,108,500	1,143,700	1,180,000
Charges For Services	4,927,321	5,037,369	3,917,007	3,327,691	4,208,576	4,872,200	4,927,400	5,172,100	5,099,400	5,401,600	5,563,300	5,714,100
Leases & Rentals	2,813,008	2,913,689	2,543,937	1,894,089	2,556,900	2,933,200	2,991,900	3,051,700	3,143,300	3,237,600	3,334,800	3,434,900
Miscellaneous Revenues	213,057	191,982	232,556	82,509	132,327	134,800	137,600	140,400	144,600	148,900	153,300	157,700
Other Revenues	-	-	22,646	79,962	82,100	84,600	86,300	88,000	90,600	93,300	96,100	99,000
OFS - Bonds & Loans	-	20	-	-	-	-	-	-	-	-	-	-
OFS - Operating Transfers	1,462,489	1,294,226	974,801	3,149,881	2,499,431	2,213,616	2,257,900	2,303,000	2,372,100	2,443,200	2,516,500	2,592,000
<i>Sub-Total Base Revenues</i>	<i>51,149,304</i>	<i>54,364,113</i>	<i>50,606,793</i>	<i>51,231,930</i>	<i>55,878,629</i>	<i>60,728,048</i>	<i>63,658,000</i>	<i>65,734,300</i>	<i>68,123,200</i>	<i>71,291,200</i>	<i>74,461,800</i>	<i>77,783,600</i>
<i>Adjustments to Revenue</i>												
CARES Act Funding	-	-	-	522,136	-	-	-	-	-	-	-	-
ARPA Funding (\$9.997 Million Total)	-	-	-	2,214,670	2,261,039	725,467	-	-	-	-	-	-
<i>Sub-Total Revenue Adjustments</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>2,736,806</i>	<i>2,261,039</i>	<i>725,467</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
TOTAL REVENUES	51,149,304	54,364,113	50,606,793	53,968,736	58,139,668	61,453,515	63,658,000	65,734,300	68,123,200	71,291,200	74,461,800	77,783,600
EXPENDITURES BY TYPE	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<i>Base Expenditures</i>	<u>Actuals</u>	<u>Actuals</u>	<u>Actuals</u>	<u>Actuals</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>
Salaries	18,395,040	18,977,226	19,012,655	18,747,267	20,012,998	21,918,438	22,576,200	23,253,800	23,951,600	24,670,300	25,410,600	26,172,700
Benefits	9,661,058	11,052,287	13,094,052	11,193,702	11,557,546	12,069,813	12,454,600	12,875,800	12,924,600	13,272,600	13,630,500	13,998,300
Supplies & Services	16,660,648	16,939,305	17,143,650	17,359,667	18,988,765	19,996,324	19,813,400	20,489,700	21,018,900	21,733,600	22,296,700	23,052,000
Other Charges	881,806	579,176	529,364	443,950	496,600	500,600	515,600	531,100	547,000	563,400	580,300	597,700
Rents & Leases	1,927,483	1,928,975	1,598,459	1,693,453	1,693,453	1,693,453	1,744,200	1,796,600	1,850,300	1,905,700	1,963,000	2,021,900
Debt Service	-	-	-	-	-	-	-	-	-	-	-	-
Capital Outlay	98,978	33,882	45,359	-	-	35,500	36,600	37,700	38,800	40,000	41,200	42,400
Operating Transfers	2,971,131	3,096,268	2,858,545	3,541,990	3,696,743	3,542,141	3,648,400	3,757,900	3,870,600	3,986,700	4,106,300	4,229,500
Capital Transfers	2,996,506	1,209,938	1,080,020	2,230,931	1,693,563	1,422,245	1,464,900	1,508,800	1,554,100	1,600,700	1,648,700	1,698,200
<i>Sub-Total Base Expenditures</i>	<i>53,592,651</i>	<i>53,817,057</i>	<i>55,362,103</i>	<i>55,210,960</i>	<i>58,139,668</i>	<i>61,178,515</i>	<i>62,253,900</i>	<i>64,251,400</i>	<i>65,755,900</i>	<i>67,773,000</i>	<i>69,677,300</i>	<i>71,812,700</i>
<i>Adjustments to Expenditures</i>												
Renewed Set Aside for CIPR: Target \$1.5M/yr	-	-	-	-	-	275,000	550,000	750,000	1,000,000	1,250,000	1,500,000	1,500,000
PERS UAAL Increases (Invest. Target) (Misc)	-	-	-	-	-	-	99,000	149,000	198,000	248,000	248,000	248,000
PERS UAAL Increases (Invest. Target) (Safety)	-	-	-	-	-	-	83,000	125,000	166,000	208,000	208,000	208,000
<i>Sub-Total Expenditure Adjustments</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>275,000</i>	<i>732,000</i>	<i>1,024,000</i>	<i>1,364,000</i>	<i>1,706,000</i>	<i>1,956,000</i>	<i>1,956,000</i>
TOTAL EXPENDITURES	53,592,651	53,817,057	55,362,103	55,210,960	58,139,668	61,453,515	62,985,900	65,275,400	67,119,900	69,479,000	71,633,300	73,768,700
SURPLUS/(DEFICIT)	(2,443,347)	547,055	(4,755,309)	(1,242,224)	(0)	0	672,100	458,900	1,003,300	1,812,200	2,828,500	4,014,900

General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures (FOURTH UPDATE 07-01-22)

Graph Data (Revenues vs. Expenditures)

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
Revenues	51,149,304	54,364,113	50,606,793	53,968,736	58,139,668	61,453,515	63,658,000	65,734,300	68,123,200	71,291,200	74,461,800	77,783,600
Expenditures	53,592,651	53,817,057	55,362,103	55,210,960	58,139,668	61,453,515	62,985,900	65,275,400	67,119,900	69,479,000	71,633,300	73,768,700
Surplus/Deficit	(2,443,347)	547,055	(4,755,309)	(1,242,224)	(0)	0	672,100	458,900	1,003,300	1,812,200	2,828,500	4,014,900



General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures (FOURTH UPDATE 07-01-22)

RESERVES

<u>Targets (by Council Policy)</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
Economic Fluctuations (16.67% of Expend.)	6,000,000	9,192,787	9,373,782	9,028,076	9,691,883	10,244,301	10,499,750	10,881,409	11,188,887	11,582,149	11,941,271	12,297,242
Emergency (10% of Revenues)	5,114,900	5,586,316	5,060,679	5,396,874	5,813,967	6,145,352	6,365,800	6,573,430	6,812,320	7,129,120	7,446,180	7,778,360
Operating (\$1 million)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
PERS (No established target)	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000
Total Reserve Target	14,366,900	18,031,103	17,686,461	17,676,950	18,757,850	19,641,652	20,117,550	20,706,839	21,253,207	21,963,269	22,639,451	23,327,602

<u>Actual/Projected</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
Economic Fluctuations	6,000,000	9,192,787	9,373,782	9,028,076	9,028,076	9,028,076	9,028,076	10,881,409	11,188,888	11,582,150	11,941,271	12,297,253
Emergency	5,114,900	5,586,316	2,585,719	2,585,719	2,585,719	2,585,719	3,257,819	1,863,386	2,559,207	3,978,145	6,447,524	7,778,360
Operating	1,000,000	1,026,759	999,921	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	3,328,092
PERS	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000
Total Reserve Actual/Projected	14,366,900	18,057,862	15,211,422	14,865,795	14,865,795	14,865,795	15,537,895	15,996,795	17,000,095	18,812,295	21,640,795	25,655,705

*Red denotes an actual or anticipated draw on a Reserve Fund

% of Expenditures	26.8%	33.6%	27.5%	26.9%	25.6%	24.2%	24.7%	24.5%	25.3%	27.1%	30.2%	34.8%
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General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures (FOURTH UPDATE 07-01-22)

Graph Data (Reserves)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Target Reserve	14,366,900	18,031,103	17,686,461	17,676,950	18,757,850	19,641,652	20,117,550	20,706,839	21,253,207	21,963,269	22,639,451	23,327,602
Actual/Projected Reserve	14,366,900	18,057,862	15,211,422	14,865,795	14,865,795	14,865,795	15,537,895	15,996,795	17,000,095	18,812,295	21,640,795	25,655,705
Difference from Target	-	26,759	(2,475,039)	(2,811,155)	(3,892,055)	(4,775,857)	(4,579,654)	(4,710,044)	(4,253,112)	(3,150,974)	(998,656)	2,328,103

