

City Manager Transmittal Letter



July 1, 2022

Honorable Mayor, Vice-Mayor, City Councilmembers, and the Campbell Community:

I am pleased to present the **Adopted Fiscal Year (FY) 2023 Operating Budget and 2023 - 2027 Five-Year Capital Improvement Plan (CIP)**. The Operating Budget and CIP serve as a policy document, a financial plan, and a communication and operation guide; reflecting the policies, goals, programs, and service priorities and values of the City Council and the Campbell community. It was developed through an iterative process that included several discussions, study sessions, and regular meetings with the City Council and the community that occurred on the following dates:

- February 1, 2022 – ***FY 2022 Mid-Year Fiscal Update***[\[1\]](#)
- February 24, 2022 – ***Council Priority Setting Session***[\[2\]](#)
- April 5, 2022 – ***Budget Study Session (Workplans)***[\[3\]](#)
- April 25, 2022 – ***Budget Study Session (Preliminary Budget and CIP)***[\[4\]](#)
- May 17, 2022 – ***Council Meeting (Introduction of Budget and CIP)***[\[5\]](#)
- June 21, 2022 – ***City Council Meeting (Adoption of Budget and CIP)***[\[6\]](#)

It was also developed based upon professional recommendations made by each member of the Executive Team and several other factors, which will be discussed throughout this transmittal letter and include the following items:

- **A – City Council Strategic Priorities and Workplans**
- **B – Significant Changes from June 21 Adoption**
- **C – American Rescue Plan Act (ARPA) Usage**
- **D – Staffing Plan and Costing Assumptions**
- **E – Financial Summary**
- **F – Economic Update and Outlook**
- **G – Fourth Update of Long-Range Forecast**
- **H – Federal and State Aid**
- **I – Budget Awards**
- **J – Conclusions and Acknowledgements**
- ***Exhibit A – Workplans***
- ***Exhibit B – Significant New and Increased General Fund Supplies and Services***
- ***Exhibit C – FY 2022 Significant Accomplishments***

A – CITY COUNCIL STRATEGIC PRIORITIES AND WORKPLANS

As mentioned previously, the Council held a ***Priority Setting Session*** with staff on ***February 24*** to establish priorities for FY 2023. These priorities are shown in ***Table 1*** below and were used as the starting point in developing the adopted budget and CIP:



Table 1 – FY 2023 Council Priorities

Strategic Objectives	Council Priorities	Action Items
Land Use	Comprehensive Long-Term Land Use Planning	<ul style="list-style-type: none"> o Complete General Plan update o Complete Housing Element o Adopt objective standards o Legislation - Keep the City Council and community informed about State legislation that would impact the City and implement in a timely manner
	Measure O Implementation	<ul style="list-style-type: none"> o Continue to implement Measure O projects
Financial Health	Financial Stability	<ul style="list-style-type: none"> o Prioritize and maintain essential services and evaluate service level adjustments o Develop strategic staffing plan o Update economic development strategy and address attracting businesses o Strategic use of ARPA funds o Review impact fees o Consider short-term rental fees o Plan for infrastructure and building maintenance
Environment	Sustainability	<ul style="list-style-type: none"> o Prepare climate action planning upon completion of General Plan and Housing Element o Continue water conservation efforts

Staff confirmed these priorities with Council at a **Budget Study Session** on **April 5**. At that meeting, staff also presented **FY 2023 Proposed Workplans**. While ensuring proper alignment to Council priorities was staff’s primary objective in developing workplans, staff also prepared other proposed workplan items necessary to maintain existing operations, meet increasing service level demands and activity coming out of the pandemic, and support planned CIP projects. Following the April 5 meeting, staff updated the FY 2023 Proposed Workplans to reflect Council feedback received during that meeting. Updated workplans are shown as **Exhibit A** of this transmittal letter. Both the workplans and Council strategic priorities were primary factors and considerations in developing the adopted budget and CIP documents and that is reflected throughout.

B – SIGNIFICANT CHANGES FROM JUNE 21 ADOPTION

The following section details significant changes to the FY 2023 Operating Budget and 2023 – 2027 CIP based on majority Council direction received at the June 21 Adoption. **All items shown below are built into** the adopted budget numbers and schedules:

Operating Budget

- o **General Fund (#101)**
 - o **Expenditures** – General Fund adopted operating expenditures **increased** by **\$60,000** due to the following reasons. This is fully offset by the revenue increase noted below; thereby ensuring that the General Fund remains balanced in FY 2023:
 - **Professional & Special Services** – A contractual Mental Health Counselor / Clinician was added to the City Manager’s Office FY 2023 Adopted Budget at a cost of **\$60,000**. This contractual service will be available to all City employees to enhance employee wellness citywide. A Certified First Responder Counselor will also be made available so as to meet the unique needs of public safety personnel; having a related benefit of providing better public safety services to the community. Staff will explore a number of different models to ensure maximum benefit to City employees, but in all instances will seek to cap annual contractual costs at \$60,000. Staff anticipates this being a one-year pilot program



that would be analyzed and evaluated over the course of the year to see whether modifications were necessary long-term.

- **Revenues** – General Fund revenue estimates **increased** by **\$60,000** due to the following reasons:
 - **Transfers In** – In order to fund the added cost of the Contractual Mental Health Counselor / Clinician, the amount of General Fund support needed to be transferred in from the ARPA Fund (#221) **increased** by **\$60,000**.
- **ARPA Fund (#221)**
 - **Expenditures** – ARPA Fund adopted operating expenditures **increased** by **\$60,000** due to an increased transfer out to the General Fund to support the cost of the Contractual Mental Health Counselor / Clinician as detailed above.

C – AMERICAN RESCUE PLAN ACT (ARPA) USAGE

Since the City will receive a significant amount of one-time **American Rescue Plan Act (ARPA)** monies, the appropriate and fiscally prudent use of those funds was a major consideration by staff when developing the adopted budget and CIP. And as discussed with Council previously, the City of Campbell has been allocated **\$9.997 million** in ARPA funds; to be received in equal payments of **\$4.999 million** each in FY 2021 and FY 2022. Per ARPA guidelines, the City must commit (appropriate and encumber) these funds **by December 31, 2024** and spend them down fully **by December 31, 2026**. Any uncommitted or unspent funds after these deadlines are subject to being returned to the federal government.

Additionally, per US Treasury guidance, ARPA funds may be used for the following purposes in order to *support recovery from the pandemic* and *to support fiscal stability and resiliency*.

1. **Replace lost public sector revenue**, using this funding to provide government services to the extent of the reduction in revenue experienced due to the pandemic
2. **Support public health expenditures**, by, for example, funding COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health and safety staff
3. **Address negative economic impacts caused by the public health emergency**, including economic harms to workers, households, small businesses, impacted industries, and the public sector
4. **Provide premium pay for essential workers**, offering additional support to those who have and will bear the greatest health risks because of their service in critical infrastructure sectors
5. **Invest in water, sewer, and broadband infrastructure**, making necessary investments to improve access to clean drinking water, support vital wastewater and stormwater infrastructure, and to expand access to broadband internet

Consistent with a primary purpose of ARPA to achieve *fiscal stability and resiliency* and as allowed by the US Treasury, Council adopted **Resolution 12767** on March 16, 2021^[7] to balance General Fund operations up to **\$3.25 million** in FY 2021 using the City's ARPA allocations. However, after the final audit and as shown in its Annual Comprehensive Financial Report (ACFR), the City only needed **\$2.21 million** of ARPA funds in FY 2021 to balance General Fund operations. This resulted in a remaining ARPA balance of **\$7.783 million** as of the end of FY 2021.

Similar to its action in FY 2021, on February 1, 2022^[8], the City Council adopted **Resolution 12801** to balance General Fund operations up to **\$2.26 million** in FY 2022 and to fund the expansion of Campbell Community Center WiFi for a cost of **\$125,000** using the City's ARPA allocations; thereby leaving an estimated remaining ARPA balance of **\$5.397 million** at the end of FY 2022. However, should the final audited FY 2022 General Fund operating deficit be less than \$2.26 million, staff will return any excess monies back to the ARPA Fund (#221) so that they can be used for other allowable purposes. Conversely, should the final audited FY 2022 General Fund operating deficit exceed \$2.26 million, staff will return to Council at a future date for increased authorization to use the ARPA Fund to balance FY 2022 General Fund operations.

Consistent with Council actions taken the last two fiscal years, in FY 2023, the City will use approximately **\$725,000** of the City's remaining ARPA allocations will be used to balance General Fund operations. This amount was increased by \$60,000 to support the addition of a Contractual Mental Health Counselor / Clinician at the June 21 Budget Adoption.

Furthermore, **\$50,000** is budgeted directly in the ARPA Fund (#221) to spend on ongoing COVID related expenses such as PPE, downtown barrier rentals, and related items. These expenses were previously budgeted in the General Fund budget unit 101.539 at \$500,000 for FY 2021 and \$125,000 for FY 2022. Combined, the two adopted uses of ARPA in FY 2023 above total **\$775,000** and will leave the City with an estimated ARPA balance of **\$4.6 million** by the end of FY 2023.

In addition to the adopted ARPA uses above for FY 2023, Council also authorized staff to apply for two (2) One Bay Area Grant (OBAG) applications; using the City's ARPA allocations as matching funds. Both items will be expended in **FY 2024** and be added to the Proposed **FY 2024** Operating Budget and **2024 - 2028** Five-Year Capital Improvement Plan (CIP) during the next preparation cycle:

- **\$580,000** OBAG Public Works match to support the Construction Funding of the Downtown Planned Development Area (PDA) Pedestrian and Bicycle Improvements Projects
- **\$100,000** OBAG Planning Grant match to Develop a Hamilton Avenue Specific Plan. As identified in the Draft General Plan, this area encompasses properties around the Hamilton / State Road (SR) 17 intersection. The focus is on identifying improvements needed to support high density housing planned for this area under the Housing Element, including the Fry's Electronic site – and the potential development of a pedestrian bridge linking the housing sites on the east side of SR 17 with the light rail station on the west side of SR 17. Funding includes studies for infrastructure improvements, impact fees, and environmental work.

Staff believes that these are an appropriate use of ARPA funds and will leave an estimated ARPA balance of **\$3.9 million** by the end of FY 2024.

D – STAFFING PLAN AND COSTING ASSUMPTIONS

Since the City of Campbell is a public agency providing services to the community, a large percentage of the City's costs are personnel related. For example, in the FY 2022 General Fund Adopted Budget, 56.72% of all costs are related to personnel. This percentage would be even higher if fire services weren't contracted with the Santa Clara County Fire Department (SCCFD). Thus, when developing the adopted budget, staff was very cognizant of presenting a staffing plan that not only met identified needs and objectives, but did so in a measured way that could be sustained long-term. As such, the FY 2023 Adopted General Fund budget keeps the percentage of personnel costs similar to last year at 55.31% of all General Fund costs. This number includes several factors, assumptions, and requests, which will be discussed in more detail below:

Labor Negotiations

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.

E - FINANCIAL SUMMARY

Given the items above that are already reflected, Adopted FY 2023 Operating and Capital expenditure appropriations across **all City funds** currently total **\$160.3 million**; including \$5.8 million in operating transfers out, \$30.0 million in transfers from the Measure O Bond Fund (#348) to the Measure O Capital Fund (#448) to account for the second issuance of Measure O bond proceeds, \$4.8 million in capital transfers out, \$39.1 million in capital appropriations relating to Measure O funded capital projects for the Police Station and Library, and \$4.2 million in scheduled debt service payments for Measure O bonds issued in August 2020 and June 2022. Related revenue sources total **\$118.1 million**; including \$5.8 million in operating transfers in, \$30.0 million in transfers from the Measure O Bond Fund (#348) to the Measure O Capital Fund (#448) to account for the second issuance of Measure O bond proceeds, and \$4.8 million in capital transfers in. This results in an annual deficit of approximately **\$42.2 million** across all City funds. However, this is largely due to spending down the first issuance of Measure O bond proceeds, which were entirely received in FY 2021 and FY 2022. In summary, across all City funds, expenditures for FY 2023 show a 72.9% increase when compared to the FY 2022 Adopted Budget and a 31.1% increase when compared to FY 2022 Year-End estimates. This variance is again due almost entirely to the second Measure O issuance and the necessary transfer of bond proceeds between the debt service fund and the capital fund as well as the full appropriation of those capital funds. Additionally, across all City funds, revenues for FY 2023 show a 40.7% increase when compared to the FY 2022

Adopted Budget, but a 17.6% decrease when compared to FY 2022 Year-End estimates. The large decrease in FY 2023 estimated revenues is due almost entirely to the last of two American Rescue Plan Act (ARPA) payments for approximately \$4.99 million that will be received in FY 2022, but not in FY 2023 or thereafter.

Adopted FY 2023 Operating and Capital expenditure appropriations for the **General Fund** total **\$61.5 million**; including \$275,000 in capital transfers out to support new Capital Plan Improvement Reserve (CIPR) funded projects, \$1.4 million in capital transfers out to support carryover CIPR and Construction Tax projects (offset by a drawdown of established capital reserve accounts), and \$3.5 million in operating transfers out to support other City operational and debt service funds. General Fund operating transfers include those to the 2016 Lease Revenue Bond Debt Service Fund (\$766,000), Vehicle & Equipment Replacement Fund (\$81,000), Environmental Services Fund (\$505,000), Lighting and Maintenance Fund (\$874,000), Information Technology Fund (\$169,000), and the Gas Tax Fund (\$1.1 million). Related General Fund revenue sources total **\$61.5 million**; including \$791,000 in operating transfers in from other funds to pay for indirect overhead costs and \$725,000 from the ARPA fund to balance the General Fund, as previously discussed above. This results in estimated General Fund expenditures being fully balanced against estimated General Fund revenues in FY 2023. In summary, in the General Fund, expenditures for FY 2023 show a 11.8% increase when compared to the FY 2022 Adopted Budget and a 5.7% increase when compared to FY 2022 Year-End estimates. Additionally, in the General Fund, revenues for FY 2023 show a 7.6% increase when compared to the FY 2022 Adopted Budget and a 5.7% increase when compared to FY 2022 Year-End estimates.

Citywide and General Fund revenue estimates and adopted expenditures by type are shown in the Adopted FY 2023 Operating Budget document. The following will discuss key assumptions made in its development and significant items of note regarding certain revenue sources and expenditures. All numbers to be presented will reflect all Citywide funds as opposed to just the General Fund:

Top Ten (10) Citywide Revenue Sources

- **Other Funding Sources (OFS) – Operating Transfers In** is estimated to be the City's largest revenue source in FY 2023, but this is largely due to Measure O debt and capital fund transfers as discussed previously. In FY 2023, this category equals \$50.0 million and is comprised of \$4.8 million of capital transfers out from various restricted Special Revenue Funds to support actual capital project expenditures in the Capital Projects Fund (435), a \$1.4 million draw down of established capital reserve accounts to fund carryover CIPR and Construction Tax projects, \$30.0 million of capital transfers from the Measure O debt fund to the Measure O construction fund, and \$5.8 million of interfund transfers out from various funds to provide support to operating activities in other funds or for various operating funds to pay the General Fund their fair share of overhead expenses. For FY 2023, OFS – Operating Transfers In shows a 260.9% increase when compared to the FY 2022 Adopted Budget and a 67.0% increase when compared to FY 2022 Year-End estimates.
- **Property Tax** would be the City's largest revenue source in FY 2023, absent the Measure O transfers explained above, and continues to be fueled by increasing housing prices and strong sales activity. In fact, as of calendar year 2022 Q1, the median home price in Campbell was \$2.0 million; an increase of 12.83% from 2021 Q4. Additionally 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 Adopted FY 2023 Operating Budget and is up from a 5.2% growth estimate provided by the Assessor's Office on February 3, 2022.
- **Sales and Use Tax** is estimated to be the City's third largest revenue source in FY 2023. While staff is conservative in its revenue estimates and only shows 2% growth in FY 2023 and 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.
- **Other Taxes** is estimated to be the City's fourth largest revenue source in FY 2023. In FY 2023, this category equals \$8.6 million and is comprised of \$3.2 million of Transient Occupancy Tax (TOT), \$3.9 million of Franchise Taxes, \$695,000 of Business License Tax, \$71,000 of Construction Tax, and \$788,000 Real Property Tax Transfers. In regard to TOT, 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, which is 33.3% higher than FY 2022 Year-End estimates and 60.0% higher than the original FY 2022 Adopted Budget. 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 it's forecast for FY 2023 is reasonable and based on sound assumptions and data. And as the updated "**Long-Range Financial Forecast**" as presented in a subsequent section of this book shows, staff predicts TOT revenues not returning to pre-pandemic levels until at least FY 2026.

In regard to Franchise Taxes, this is to account for franchise taxes paid by electric, gas, solid waste, recycling, and cable television utilities that are authorized to operate within Campbell. In FY 2023, this category equals \$3.9 million and shows a 1.0% decrease when compared to the FY 2022 Adopted Budget, but a 3.0% increase when compared to 2022 Year-End estimates. With economic activity picking up, more businesses returning to in person work, and public health restrictions easing, staff expects most all utilities to be used more and return to a more normal usage pattern and growth trajectory. Inflationary factors may also force some utilities to raise rates, which in turn would lead to higher franchise taxes received by the City.

In total, Other Taxes in FY 2023 is 19.6% higher when compared to the FY 2022 Adopted Budget and 12.9% higher when compared to FY 2022 Year-End estimates.

- **Intergovernmental Revenue** is estimated to be the City's fifth largest revenue source in FY 2023. In FY 2023, this category equals \$6.5 million and is comprised of \$1.9 million in Successor Agency Redevelopment Property Tax Trust Fund (RPTTF) payments, \$469,000 from the Santa Clara County Fire Department to reimburse the City for arson investigation services and training, and \$4.7 million in grant and other state and federal funding to support various operational programs and capital projects. Intergovernmental Revenue for FY 2023 shows a 44.6% decrease when compared to the FY 2022 Adopted Budget and a 63.4% decrease when compared to FY 2022 Year-End estimates; largely due to final receipt of ARPA monies in FY 2022.
- **Charges for Service** is estimated to be the City's sixth largest revenue source in FY 2023. As a whole in Charges for Service in FY 2023, staff is estimating a 33.1% increase when compared to the FY 2022 Adopted Budget and a 11.9% increase when compared to FY 2022 Year-End estimates. While FY 2023 revenue is estimated at \$6.3 million, it will still be slightly below pre-recessionary levels of approximately \$6.7 million in FY 2019 as staff expects Recreation services and programs at full capacity through FY 2023 due greatly decreased pandemic effects and high demand from patrons to return to in person activities.
- **License & Permits** are estimated to be the City's seventh largest revenue source in FY 2023. Staff is expecting continued strong growth in this area for FY 2023; largely due to development activity. As such, License & Permits are expected to grow 42.2% in FY 2023 when compared to the FY 2022 Adopted Budget and 17.3% when compared to FY 2022 Year-End estimates. 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 for FY 2023.
- **Charges to Operating Departments** is estimated to be the City's eighth largest revenue source in FY 2023. Please note though that these are internal service charges from the Information Technology (IT) Division and the Vehicle Maintenance Division to provide services to other operating departments. This category also includes Workers Compensation premium expenses charged to all departments to support the City's self-fund Workers Compensation insurance program. Thus, these are not external revenue sources. In FY 2023, it is estimated that these charges will equal \$3.1 million; comprised of \$1.2 million of IT charges, \$1.3 million of Vehicle Maintenance charges, and \$605,000 in Workers Compensation charges. As a whole in Charges to Operating Departments in FY 2023, staff is proposing no change in internal service charges when compared to both the FY 2022 Adopted Budget and FY 2022 Year-End estimates.
- **Leases and Rentals** are estimated to be the City's ninth largest revenue source in FY 2023; equaling \$2.9 million. This category includes both long-term lease revenue for the Campbell Community Center as well as rental revenue for events and use of City facilities. When FY 2023 is compared to the FY 2022 Adopted Budget, a 38.6% increase is shown. Additionally, when compared to FY 2022 Year-End estimates, Leases and Rentals are expected to increase by 14.7%; reflecting relative strength in long-term lease revenue as well as a continued return to normal for rental revenue for events and use of City facilities.

- **Miscellaneous Revenue** is estimated to be the City's tenth largest revenue source in FY 2023; equaling \$2.3 million. For FY 2023, this category shows a 40.5% increase when compared to the FY 2022 Adopted Budget, but a 62.5% decrease when compared to FY 2022 Year-End estimates. This is due to a \$3.9 million State Grant for Police Station FFE being received one-time in FY 2022, but not in FY 2023.

Expenditures

The following will describe and detail operating expenditures only. Capital expenditures will be described and detailed in the Capital Improvement Plan (CIP) section of this book:

- **Employee Services** – As a whole across all funds in FY 2023, Employee Services costs are expected to increase by 8.0% when compared to the FY 2022 Adopted Budget and increase by 6.0% when compared to 2022 Year-End estimates. These numbers include the staffing assumptions discussed previously.
- **Supplies & Services** - As a whole across all funds, Supplies & Services expenses are adopted to increase by 19.0% in FY 2023 when compared to the FY 2022 Adopted Budget, but decrease by 9.9% when compared to FY 2022 Year-End estimates. For General Fund supply and services requests over \$10,000, these will be shown in more detail in **Exhibit B** of this transmittal letter.

F - ECONOMIC UPDATE AND OUTLOOK

U.S. inflation data was worse than expected in May 2022, hitting a 40-year high with broad based price increases for most goods and services. The consumer price index (CPI) nationwide increased 1.0% for the month of May 2022 and 8.6% from a year earlier with shelter, food, and gasoline as the largest contributors. The core CPI, which removes more volatile food and energy components, rose 0.6% in May 2022 and 6.0% from a year earlier. Inflationary pressures continue to weigh heavily on consumer sentiment. The University of Michigan's preliminary June 2022 sentiment index fell to 50.2 from 58.4 in May. Inflation expectations moved higher with 46% of respondents attributing their negative views to continuing price pressures and only 13% of respondents expecting their incomes to rise more than inflation. Respondents expect inflation to rise 5.4% over the next year, up from 5.3% a month earlier, and expect prices to increase 3.3% over the next five to ten years, up from 3.0% in May 2022.

The Conference Board's Consumer Confidence index dropped slightly to 106.4 in May 2022 from an upwardly revised 108.6 in April 2022. The reading was lower primarily due to a 3.3-point decline in the index for present conditions and a 1.5-point decline of six-month expectations. According to the Case-Shiller 20-City home price index, home prices were up a record 21.2% year-over-year in March 2022 versus up 20.3% year-over-year in February 2022. Although higher mortgage rates didn't slow down rising home prices in March 2022, staffs believe rising mortgage rates and diminishing home affordability will begin to curtail price growth. The cost of a 30-year mortgage has more than doubled to approximately 5.74% from 2.75% last fall. The Institute for Supply Management (ISM) manufacturing index unexpectedly rose to 56.1 in May 2022 and was the first rise in three months, but the manufacturing sector is still struggling with supply chain issues and labor shortages

The Personal Consumption Expenditures (PCE) Price Index for April 2022 came in lower than the March 2022, but is still running well above average at +6.3% year-over-year. The PCE Core Deflator, which excludes the volatile food and energy components of inflation, also dropped by 0.3% from last month to +4.9% year-over-year. The drop in the rate of year-over-year price increases is an indication that inflation might have reached its peak level. Personal spending proved resilient, up 0.9% month-over-month, with strong positive revisions to the previous month's reading. The U.S. savings rate fell to 4.4% for the month of April 2022, the lowest level since 2008. The average consumer still has capacity to spend from accumulated savings, higher wages and credit lines, but there are signs that elevated gas, food and shelter costs are pressuring discretionary spending decisions.

New home sales were down 16.6% month-over-month in April 2022 to an annualized rate of 591,000 as a combination of sky-high real estate prices and rising mortgage rates create affordability challenges for potential buyers. According to the MBS mortgage application survey, the effective rate of a 30-year fixed rate mortgage rose to a new high of 5.74% percent in May 2022. Applications rose 2% in early May 2022, but remain down about 50% from a year ago, with gains represented by homebuyers transitioning from fixed rate mortgages to adjustable-rate mortgages.

In regard to labor, the U.S. economy added 390,000 jobs in May, and job gains in April were revised upward from 428,000 to 436,000. Hiring was again led by leisure and hospitality, responsible for more than a quarter of payroll gains for the month followed by professional and business services. The nationwide unemployment rate was

unchanged at 3.6% and remains only slightly higher than the pre-pandemic level of 3.5%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, was 7.1%. Year-over-year wage growth in May 2022 was 5.2%; this was lower than the 5.5% registered in April 2022 and could reflect a beginning of a deceleration of wage growth that could help ease broad cyclical price pressures. The labor force participation rate ticked up to 62.3% from 62.2%, a possible sign that higher wages and number of available jobs are compelling enough to draw workers back. And in early June, the U.S. Labor Department reported U.S. job openings remained close to record levels at a seasonally adjusted 11.4 million job openings in April 2022, down from a record high 11.86 million in March 2022. As such, the number of job openings per unemployed worker dropped slightly to 1.9 in April 2022 from 2.0 in March 2022. Irrespective of the strong employment data this week, numerous companies have provided cautionary guidance relative to current and future hiring. Several technologies and media companies reported they will freeze hiring or trim staff. Although recent economic reports have been relatively strong, the future is uncertain and there are a few clouds on the horizon.

In California, total nonfarm employment in the state increased by 41,400 jobs over the month of April 2022. Additionally, statewide unemployment decreased to a rate of 4.6% in April 2022; down from 4.8% in March 2022 and 8.3% in April 2021. In Santa Clara County, the rate decreased to 2.1% in April 2022; down from 2.5% in March 2022 and 5.4% in April 2021. And in Campbell, the rate decreased to 2.1% in April 2022; down from 2.3% in March 2022 and 5.0% in April 2021. At its pandemic high point in April 2020, the Campbell unemployment rate had reached 11.7%. While the current Campbell unemployment rate is not at the ten-year low of 2.0% seen in May 2019, it is very close and there has been considerable improvement since the start of the pandemic.

G - LONG-RANGE FORECAST

On June 21, 2022, staff provided City Council with the Third Update of the Seven-Year Financial Forecast that projected balanced General Fund operations in FY 2023, with \$665,000 million of ARPA fund usage. Due to several factors discussed previously, adopted ARPA usage for balancing purposes has been increased to approximately \$725,000 in FY 2023. The Fourth Update of the Seven-Year Financial Forecast is shown and discussed in more detail in a separate section of this book called ***“Long-Range Financial Forecast”***.

H - FEDERAL AND STATE AID

As previously noted, the City is expected to receive **\$9.997 million** total in one-time American Rescue Plan Act (ARPA) funding; with the first payment of \$4.999 million received in FY 2021 and the second payment of \$4.999 million expected to be received in FY 2022. These monies must again be committed (appropriated and encumbered) **by December 31, 2024** and spent down fully **by December 31, 2026**.

In addition to ARPA, staff has recently submitted a Federal Emergency Management Agency (FEMA) reimbursement request in which it may receive between **\$250,000** and **\$1.0 million** for COVID related staffing, supplies, and services expenses that it incurred during the pandemic. The FEMA request is currently in its initial stages and the timing and final amount of reimbursement is uncertain, but staff will continue to monitor the request and follow up with FEMA regarding any additional materials or documentation required. Staff cautions though that FEMA reimbursements are typically a very slow process and the City may not see reimbursement for several years in the future.

And lastly, staff is also pursuing all opportunities that it can to secure grant funding to enhance the library renovation and new police building capital projects on top of funds being provided by Measure O.

I - BUDGET AND FINANCIAL AWARDS

For the 29th consecutive year, the City's FY 2022 budget received national recognition by earning the Government Finance Officers Association (GFOA) “Distinguished Budget Award.” To receive the Distinguished Budget Presentation Award, a city must publish a budget document that serves as a policy document, a financial plan, a communications device, and an operations guide. We believe the FY 2023 budget conforms to GFOA program requirements. Additionally, FY 2022 is the 24th year an award of “Excellence in Budgeting” has been received from the California Society of Municipal Finance Officers (CSMFO). Copies of both awards appear in the ***“Budget Reference Materials”*** section of this document. It also should be noted that the City's Annual Financial Report has also been an award-winning document for excellence in financial reporting at both the State and national levels for many years.

J - CONCLUSION AND ACKNOWLEDGEMENTS

The development of the Adopted Fiscal Year (FY) 2023 Operating Budget and 2023 - 2027 Five-Year Capital Improvement Plan (CIP) was made possible through the leadership and policy direction of the City Council, the technical and operational expertise of City staff, and input and support from our community. Despite the economic



slowdown caused by the pandemic, the City has done well to preserve core services the past two years and is starting to again benefit from a recovering economy. While we continue to remain cautious, conservative, and strategic in our operational growth, we also look forward to brighter days on the horizon and returning to normal once again.

I wish to thank everyone who participated in the budget process this year including the City Council and members of the Executive Team. Finally, I would like to recognize the staff within the Finance Department for their dedication and the hard work that went into coordinating, developing, and publishing this budget document.

Respectfully submitted,



Brian Loventhal
City Manager

- [1] **FY 2022 Mid-Year Fiscal Update** – Item #11 (February 1, 2022) - <https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/02012022-2450>
(<https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/02012022-2450>)
- [2] **Council Priority Setting Session** – Item #1 (February 24, 2022) - <https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/02242022-2463>
(<https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/02242022-2463>)
- [3] **Budget Study Session** – Item #1 (April 5, 2022) - <https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/04052022-2485>
(<https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/04052022-2485>)
- [4] **Budget Study Session** – Item #1 (April 25, 2022) - <https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/04252022-2500>
(<https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/04252022-2500>)
- [5] **Council Meeting** – Item #18 (May 17, 2022) - <https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/05172022-2514>
(<https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/05172022-2514>)
- [6] **Council Meeting** – Item #12 (June 21, 2022) - <https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/05172022-2514>
(<https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/05172022-2514>)
- [7] **City Council Meeting** – Item #13 Mid-Year Fiscal Update (March 16, 2021) - <https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/03162021-2266>
(<https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/03162021-2266>)
- [8] **City Council Meeting** – Item #11 Mid-Year Fiscal Update (February 1, 2022) - <https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/02012022-2450>
(<https://www.campbellca.gov/AgendaCenter/ViewFile/Agenda/02012022-2450>)