

MEMORANDUM



City of Campbell

Finance Department

To: City Council

Date: June 20, 2023

From: Will Fuentes, Finance Director

Subject: Second Update of Seven-Year Financial Forecast

Staff has prepared a **second** update of the **Seven-Year Financial Forecast** for the General Fund, which shows four (4) years of historical actuals (FY 2019 to FY 2022), current year projected actuals (FY 2023), and seven (7) years of projected actuals through FY 2030. This update 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, 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 2024 and beyond, the forecast will continue to be updated in the future as actual expenditures and revenues are realized and additional information about future trends is made available. Thus, this forecast only represents a snapshot in time that can and will change.

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 grow 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) (June 20, 2023)

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Revenues	69,261,824	69,103,200	71,492,800	74,761,800	78,048,300	81,491,200	85,116,200
Expenditures	69,110,503	69,025,400	71,248,800	73,561,400	75,631,200	77,896,200	77,751,300
Surplus/(Deficit)	151,321	77,800	244,000	1,200,400	2,417,100	3,595,000	7,364,900

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 June 6, 2022:

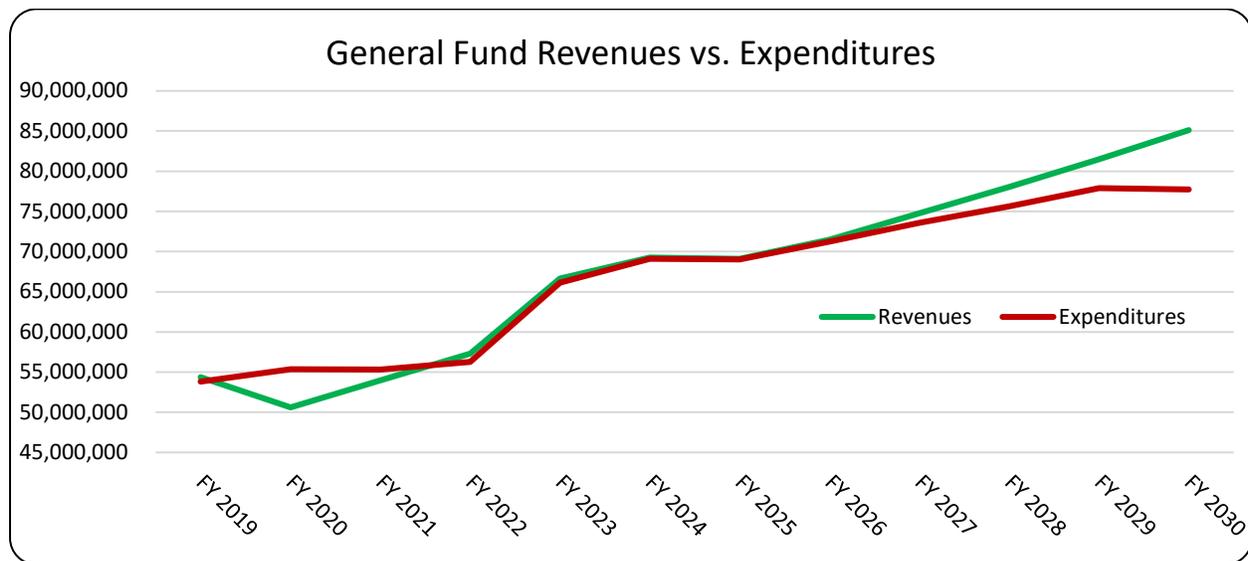
Table 2 – General Fund Revenues vs. Expenditures (Estimated) (June 6, 2023)

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Revenues	68,841,824	69,257,700	71,651,900	74,925,600	78,217,000	81,665,000	85,295,300
Expenditures	68,628,003	69,635,600	71,597,400	73,920,600	76,001,300	78,277,400	78,160,700
Surplus/(Deficit)	213,821	(377,900)	54,500	1,005,000	2,215,700	3,387,600	7,134,600

As shown, at the time of the last update, staff had projected balanced General Fund operations in FY 2024, followed by a slight deficit in FY 2025 of \$377,900. While several new costs were added to FY 2024 since the June 6th Budget Introduction, staff also corrected out years of the forecast to remove any one-time expenses beyond FY 2024. As a result, all years of the forecast are now balanced. Please also note that the Seven-Year Financial Forecast assumes a measured use of American Rescue Plan Act (ARPA) funds in FY 2024 to support budgetary requests discussed in the City’s Manager’s Transmittal Letter as well as a small use to support a two-year limited-term Environmental Programs Specialist in FY 2025. The Environmental Programs Specialist will assist the City in preparing a Climate Action Plan in FY 2024 and FY 2025.

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 should action regarding ongoing costs be taken, additional revenue sources be secured, or a quicker and larger than expected economic growth 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)

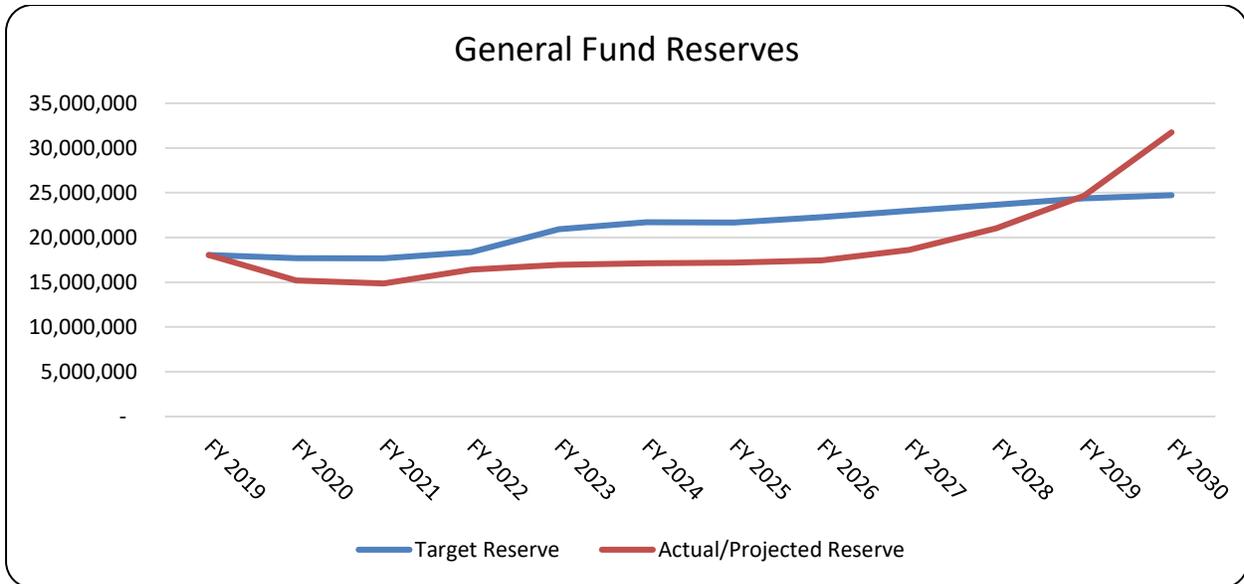


Table 3 below provides a summary of projected General Fund discretionary reserves over the seven-year forecast from FY 2024 to FY 2030 and considers potential surpluses and deficits identified above:

Table 3 – General Fund Discretionary Reserves (Estimated)

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Econ. Fluct.	9,955,452	9,955,452	9,955,452	9,955,452	9,955,452	12,985,297	12,961,142
Emergency	3,901,462	3,979,262	4,223,262	5,423,662	7,840,762	8,149,120	8,511,620
Operating	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,256,798	8,026,555
PERS	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000	2,252,000
Total	17,108,914	17,186,714	17,430,714	18,631,114	21,048,214	24,643,214	31,751,317
% of Expend.	25.0%	24.1%	23.5%	24.2%	26.4%	30.0%	39.1%

The following summarizes key assumption made for revenues and expenditures:

REVENUES

- Property Taxes** – Property tax is the General Fund’s largest revenue source and continues to be fueled by improving housing prices and strong sales activity. In fact, as of calendar year 2023 Q1, the average home price in Campbell was \$1.84 million and rose slightly from an average home price of \$1.83 million in calendar year 2022 Q4. Additionally on May 5, 2023, the Santa Clara County Assessor’s Office provided an update on FY 2023 property tax collections to date and projected 5.89% assessed value growth for Campbell in FY 2024. This has been factored into the Proposed FY 2024 Operating Budget and is up from a 5.62% growth estimate provided by the Assessor’s Office on February 10, 2023. Beyond FY 2024, staff estimates steady 6-7% 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 few years due to increasing property valuations.

- **Sales and Use Tax** - Sales tax is the General Fund's second largest revenue source and shows a decrease from FY 2023 to FY 2024 due to a large one-time back payment made by a top sales tax producer in FY 2023. While ongoing annual revenue from this sales tax producer will continue in FY 2024 and beyond, the one-time back payment will not. Sales Tax as a whole though, once the one-time adjustment is removed, is projected to remain relatively flat in FY 2024 when compared to FY 2023. Beyond FY 2024, staff conservatively estimates 2-3% growth per year. However, staff also notes that inflationary pressures and the possibility of a recession caused by rising interest rates provide headwinds to consumer and business spending and further economic growth.
- **Charges for Service** - As a whole in Charges for Service in the General Fund, staff is estimating an 18.6% increase in FY 2024 when compared to the year-end estimate for FY 2023; reflecting increased service demands. At \$5.91 million, this meets and exceeds 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 3% growth.
- **Transient Occupancy Tax (TOT)** - Based on significant improvements in the travel and leisure industry, staff projects that Transient Occupancy Tax (TOT) will reach near pre-pandemic levels in FY 2024 and equal approximately \$4.50 million. However, prior to the pandemic, TOT was at \$4.80 million annually. In FY 2023, it is expected to reach \$3.65 million. Thereafter, staff estimates conservative 3% growth per year.

EXPENDITURES

- **Employee Costs** – Three-year labor agreements with all bargaining groups were agreed to in 2022 and run through 2025. Costs associated with agreements have been factored into the proposed budget, long-range forecast, and schedules as well as an 8% assumption for annual healthcare premium increases and other compensation special adjustments to bring certain positions to median.
- **Supplies and Services** – In the General Fund, there is a 6.5% increase to supplies and services costs in FY 2024 when compared to FY 2023 Year-End Estimates. After FY 2024, staff is estimating level 3% annual growth through FY 2030, 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](#) and will contain following items shown:

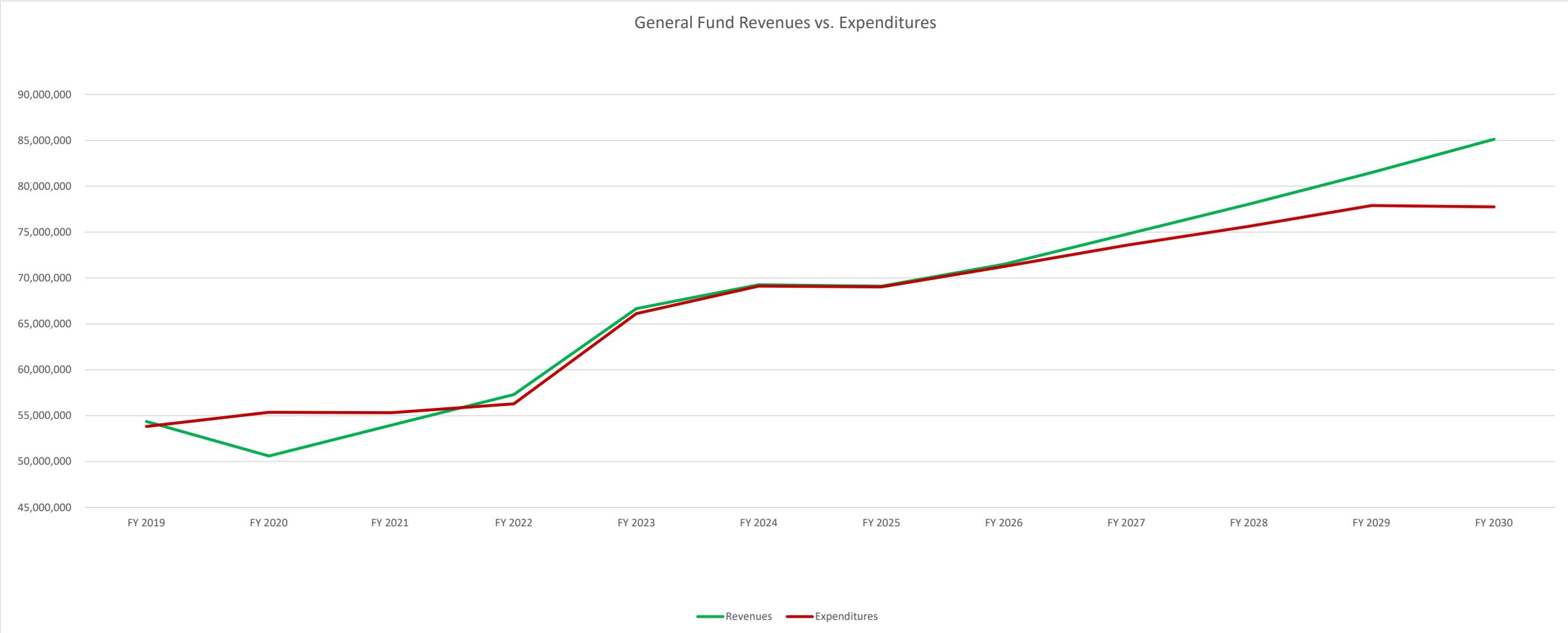
- Historical and Projected Revenues by Type
- Historical and Projected Expenditures by Type
- Historical and Projected Surpluses and Deficits
- Historical and Projected Draw Downs or Additions to General Fund Reserves
- Historical and Projected Comparisons of General Fund Reserves to City Policy

General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures (SECOND UPDATE 06-20-23)

REVENUES BY TYPE	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Base Revenues	Actuals	Actuals	Actuals	Actuals	Estimated	Proposed	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Property Taxes	15,607,316	17,208,898	17,911,445	19,510,782	20,526,000	22,047,000	23,349,100	24,728,800	26,430,600	28,250,600	30,197,200	32,279,100
Sales & Use Taxes	15,684,222	13,493,745	14,478,163	16,419,362	18,221,459	17,699,289	18,138,600	18,682,800	19,243,300	19,820,600	20,415,200	21,027,700
Other Taxes	9,539,163	7,962,878	6,375,527	7,894,353	8,602,100	9,691,400	9,997,100	10,313,000	10,644,900	10,988,300	11,343,500	11,711,400
Licenses & Permits	2,062,086	2,481,986	2,963,368	3,742,394	4,173,500	4,290,300	4,419,100	4,551,700	4,688,100	4,828,800	4,973,700	5,122,800
Fines/Forfeits/Penalties	274,478	216,065	85,149	222,721	107,500	100,000	103,100	106,200	109,400	112,600	115,900	119,400
Investment & Other Interest Income	998,446	542,846	(8,137)	(317,035)	610,900	810,900	835,200	860,200	886,000	912,700	940,200	968,500
Intergovernmental Revenue	761,116	1,009,428	892,283	985,556	1,075,700	2,059,068	2,122,100	2,187,000	2,254,400	2,323,900	2,395,600	2,469,600
Charges For Services	5,037,369	3,917,007	3,327,691	4,843,230	4,980,430	5,907,545	6,175,900	6,133,000	6,466,100	6,659,600	6,843,300	7,032,300
Leases & Rentals	2,913,689	2,543,937	1,894,089	2,779,743	2,965,800	3,052,500	3,144,100	3,238,400	3,335,600	3,435,800	3,538,900	3,645,100
Miscellaneous Revenues	191,982	232,556	82,509	274,216	168,346	129,410	133,300	137,200	141,200	145,300	149,500	153,800
Other Revenues	-	22,646	79,962	77,059	84,600	87,000	89,600	92,300	95,100	98,000	100,900	103,900
OFS - Bonds & Loans	20	-	-	-	-	-	-	-	-	-	-	-
OFS - Operating Transfers	1,294,226	974,801	3,149,881	866,425	4,417,715	452,900	457,500	462,200	467,100	472,100	477,300	482,600
Sub-Total Base Revenues	54,364,113	50,606,793	51,231,930	57,298,806	65,934,050	66,327,312	68,964,700	71,492,800	74,761,800	78,048,300	81,491,200	85,116,200
Adjustments to Revenue												
CARES Act Funding	-	-	522,136	-	-	-	-	-	-	-	-	-
Transfer In from ARPA Fund	-	-	2,214,670	-	725,467	2,934,512	138,500	-	-	-	-	-
Sub-Total Revenue Adjustments	-	-	2,736,806	-	725,467	2,934,512	138,500	-	-	-	-	-
TOTAL REVENUES	54,364,113	50,606,793	53,968,736	57,298,806	66,659,517	69,261,824	69,103,200	71,492,800	74,761,800	78,048,300	81,491,200	85,116,200
EXPENDITURES BY TYPE												
Base Expenditures	Actuals	Actuals	Actuals	Actuals	Estimated	Proposed	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Salaries	18,977,226	19,012,655	18,818,409	19,402,509	21,538,754	23,537,505	24,244,500	24,972,200	25,721,400	26,493,400	27,288,200	27,288,200
Benefits	11,052,287	13,094,052	12,773,859	12,477,699	12,069,813	12,729,400	12,969,800	13,150,200	13,330,300	13,478,000	13,847,000	13,866,600
Supplies & Services	16,939,305	17,143,650	16,289,291	17,933,221	23,325,863	24,837,700	25,665,100	26,349,400	27,224,300	27,952,800	28,877,000	28,789,600
Other Charges	579,176	529,364	492,256	515,310	608,578	567,900	585,000	602,500	620,500	639,100	658,200	658,200
Rents & Leases	1,928,975	1,598,459	1,693,453	1,693,453	1,693,453	1,693,453	1,744,200	1,796,600	1,850,300	1,905,700	1,963,000	1,963,000
Capital Outlay	33,882	45,359	-	3,175	121,996	78,300	80,600	83,000	85,500	88,100	90,800	90,800
Operating Transfers	3,096,268	2,858,545	4,251,537	3,696,743	3,943,321	3,224,000	3,320,700	3,420,300	3,522,900	3,628,600	3,737,500	3,737,500
Capital Transfers	1,209,938	1,080,020	1,005,991	566,354	2,540,050	1,892,245	1,949,000	2,007,500	2,067,700	2,129,700	2,193,600	2,193,600
Sub-Total Base Expenditures	53,817,057	55,362,103	55,324,796	56,288,463	65,841,829	68,560,503	70,558,900	72,381,700	74,422,900	76,315,400	78,655,300	78,587,500
Adjustments to Expenditures												
One-Time Items Proposed for FY 2024	-	-	-	-	-	-	(3,172,600)	(3,267,800)	(3,365,800)	(3,466,800)	(3,570,800)	(3,677,900)
Recurring Costs back to General Fund fr ARPA	-	-	-	-	-	-	-	280,000	288,400	297,100	306,000	315,200
Full Year Costs of New Hires and Vacant Fills	-	-	-	-	-	-	615,100	633,600	652,600	672,200	692,400	713,200
Removal of Limited Term Environ Prog Spec.	-	-	-	-	-	-	-	(142,700)	(142,700)	(142,700)	(142,700)	(142,700)
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	1,500,000
PERS UAAL Increases (Invest. Target) (Misc)	-	-	-	-	-	-	149,000	198,000	248,000	248,000	248,000	248,000
PERS UAAL Increases (Invest. Target) (Safety)	-	-	-	-	-	-	125,000	166,000	208,000	208,000	208,000	208,000
Sub-Total Expenditure Adjustments	-	-	-	-	275,000	550,000	(1,533,500)	(1,132,900)	(861,500)	(684,200)	(759,100)	(836,200)
TOTAL EXPENDITURES	53,817,057	55,362,103	55,324,796	56,288,463	66,116,829	69,110,503	69,025,400	71,248,800	73,561,400	75,631,200	77,896,200	77,751,300
SURPLUS/(DEFICIT)	547,055	(4,755,309)	(1,356,060)	1,010,342	542,688	151,321	77,800	244,000	1,200,400	2,417,100	3,595,000	7,364,900

General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures (SECOND UPDATE 06-20-23)

Graph Data (Revenues vs. Expenditures)	<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>	<u>FY 2030</u>
Revenues	54,364,113	50,606,793	53,968,736	57,298,806	66,659,517	69,261,824	69,103,200	71,492,800	74,761,800	78,048,300	81,491,200	85,116,200
Expenditures	53,817,057	55,362,103	55,324,796	56,288,463	66,116,829	69,110,503	69,025,400	71,248,800	73,561,400	75,631,200	77,896,200	77,751,300
Surplus/Deficit	547,055	(4,755,309)	(1,356,060)	1,010,342	542,688	151,321	77,800	244,000	1,200,400	2,417,100	3,595,000	7,364,900



General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures (SECOND UPDATE 06-20-23)

RESERVES

<u>Targets (by Council Policy)</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>	<u>FY 2030</u>
Economic Fluctuations (16.67% of Expend.)	9,192,787	9,373,782	9,028,076	9,383,287	11,021,675	11,520,721	11,506,534	11,877,175	12,262,685	12,607,721	12,985,297	12,961,142
Emergency (10% of Revenues)	5,586,316	5,060,679	5,396,874	5,729,881	6,665,952	6,926,182	6,910,320	7,149,280	7,476,180	7,804,830	8,149,120	8,511,620
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	18,031,103	17,686,461	17,676,950	18,365,167	20,939,627	21,698,903	21,668,854	22,278,455	22,990,865	23,664,551	24,386,417	24,724,762

<u>Actual/Projected</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>	<u>FY 2030</u>
Economic Fluctuations	9,192,787	9,373,782	9,028,076	9,955,452	9,955,452	9,955,452	9,955,452	9,955,452	9,955,452	9,955,452	12,985,297	12,961,142
Emergency	5,586,316	2,585,719	2,585,719	3,207,454	3,750,142	3,901,462	3,979,262	4,223,262	5,423,662	7,840,762	8,149,120	8,511,620
Operating	1,026,759	999,921	1,000,000	999,999	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,256,798	8,026,555
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	18,057,862	15,211,422	14,865,795	16,414,905	16,957,594	17,108,914	17,186,714	17,430,714	18,631,114	21,048,214	24,643,214	31,751,317

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

% of Expenditures	33.6%	27.5%	26.9%	29.2%	25.6%	24.8%	24.9%	24.5%	25.3%	27.8%	31.6%	40.8%
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General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures (SECOND UPDATE 06-20-23)

Graph Data (Reserves)	<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>	<u>FY 2030</u>
Target Reserve	18,031,103	17,686,461	17,676,950	18,365,167	20,939,627	21,698,903	21,668,854	22,278,455	22,990,865	23,664,551	24,386,417	24,724,762
Actual/Projected Reserve	18,057,862	15,211,422	14,865,795	16,414,905	16,957,594	17,108,914	17,186,714	17,430,714	18,631,114	21,048,214	24,643,214	31,751,317
Difference from Target	26,759	(2,475,039)	(2,811,155)	(1,950,262)	(3,982,033)	(4,589,989)	(4,482,140)	(4,847,741)	(4,359,751)	(2,616,337)	256,798	7,026,555

