

MEMORANDUM



City of Campbell
Finance Department

To: City Council

Date: June 17, 2025

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 2021 to FY 2024), current year projected actuals (FY 2025), and seven (7) years of projected actuals (FY 2026 through FY 2032). 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 an indication of estimated revenues and expenditures for FY 2026 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 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, Measure K resources become available due to a favorable legal outcome (estimated to generate \$7 million to \$8 million annually), 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 17, 2025)

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Revenues	69,023,160	69,943,500	72,537,100	75,493,700	78,586,000	82,113,700	85,828,600
Expenditures	69,023,160	74,010,500	76,977,700	79,972,200	83,851,600	87,160,000	90,497,000
Surplus/(Deficit)	-	(4,067,000)	(4,440,600)	(4,478,500)	(5,265,600)	(5,046,300)	(4,668,400)

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 3, 2025:

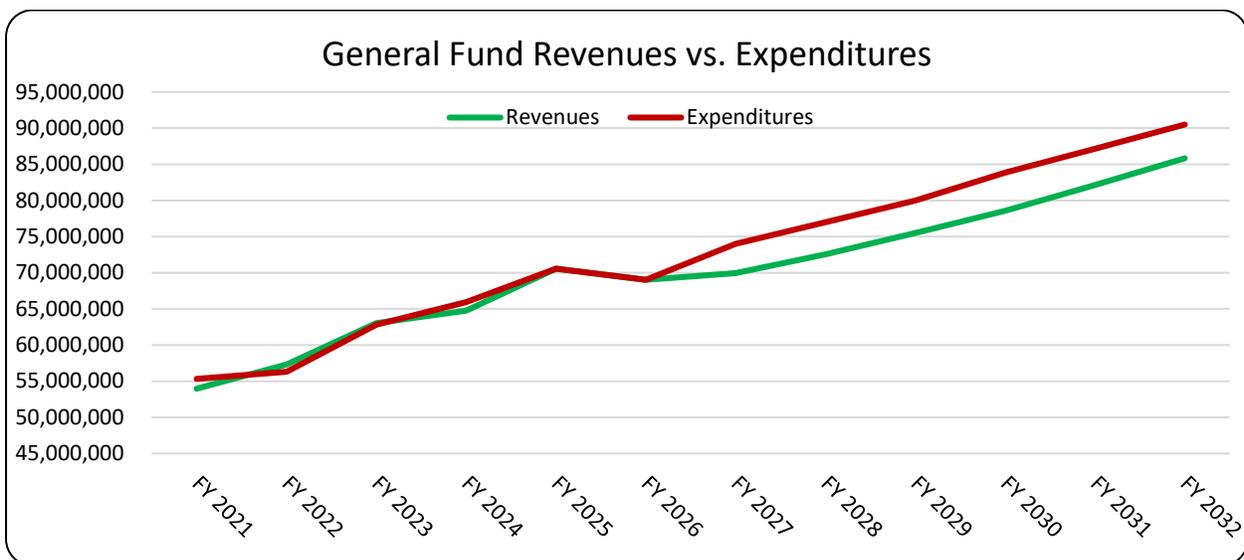
Table 2 – General Fund Revenues vs. Expenditures (Estimated) (June 3, 2025)

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Revenues	69,023,160	70,603,700	73,217,100	76,194,100	79,307,400	82,856,800	86,594,000
Expenditures	69,023,160	74,010,500	76,977,700	79,972,200	82,236,600	85,545,000	88,882,000
Surplus/(Deficit)	-	(3,406,800)	(3,760,600)	(3,778,100)	(2,929,200)	(2,688,200)	(2,288,000)

As shown in Table 1, staff is again projecting a balanced budget in FY 2026, using several short-term corrective measures as identified in the Budget Transmittal Letter; followed by structural deficits in all out years once short-time corrective measures are removed. There are two primary differences between the first forecast (Table 1) and the second forecast (Table 2): 1) the one-time liquidation of duplicative General Fund Reserves in the amount of \$641,000 in FY 2026 has been removed from all future fiscal years and 2) the final four payments of the 2002 Certificate of Participation (COP) debt issuance resume FY 2030 through FY 2033 at an annual payment amount of \$1.615 million. This debt issuance was for improvements done at the Community Center and City Hall in 2002; with debt payments structured from FY 2003 through FY 2019, pausing from FY 2020 to FY 2029, and picking up again from FY 2030 through FY 2033. The first adjustment results in potential deficits increasing by approximately \$641,000 to \$765,000 in all future fiscal years past FY 2026. The second adjustment results in potential deficits increasing by \$1.615 million FY 2030 through FY 2033 unless the 2002 COP debt is refinanced, paid off early, or rolled into other future debt issuances for future capital projects.

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 be below their target levels for much of the forecast years and go below Government Finance Officers (GFOA) recommended best practice of at least 16.67% of expenditures starting FY 2027; absent a reduction in expenditures and services or an increase in revenues. As is, the current forecast shows the Economic Fluctuations and Emergency reserves being fully

depleted by FY 2029 due to projected structural deficits and the Operating and PERS reserves being fully depleted by FY 2030. Total Reserve levels could also be negative in FY 2030 and beyond. That would not be fiscally sustainable. The forecast could again change though should action regarding ongoing costs be taken, additional revenue sources be secured, Measure K become available, the COP debt be paid off early, refinanced, or rolled into other future debt issuances, 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)

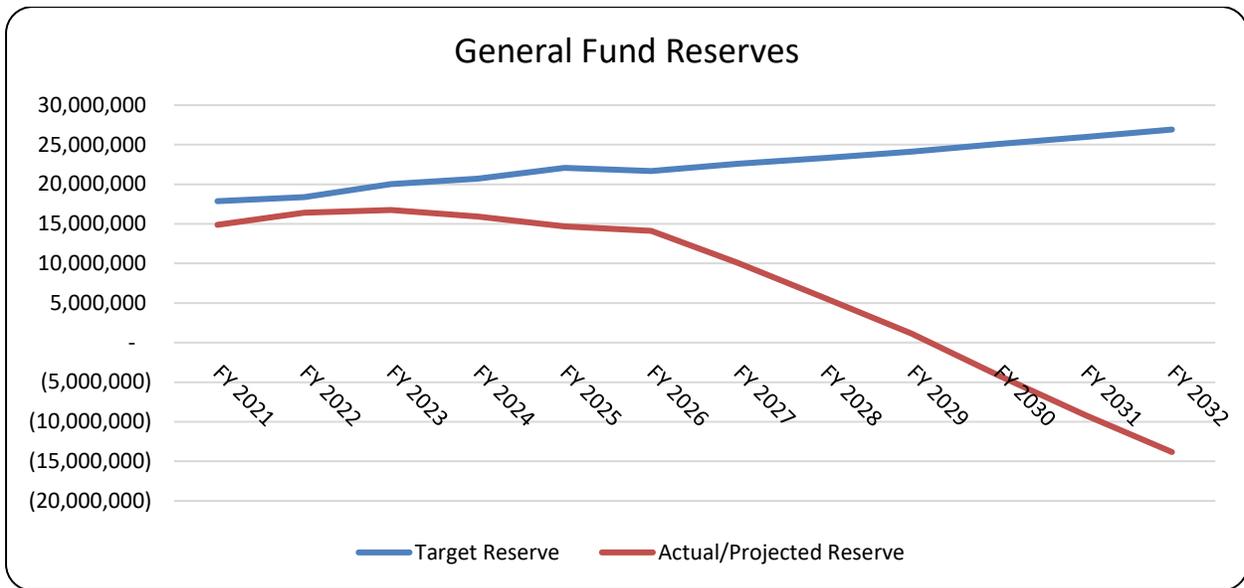


Table 3 below provides a summary of projected General Fund discretionary reserves over the seven-year forecast from FY 2026 to FY 2032 and considers potential surpluses and deficits identified above:

Table 3 – General Fund Discretionary Reserves (Estimated)

	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
Econ. Fluct.	9,485,886	5,418,886	978,286	-	(4,116,360)	(9,162,660)	(13,831,060)
Emergency	3,207,454	3,207,454	3,207,454	-	-	-	-
Operating	1,000,000	1,000,000	1,000,000	707,240	-	-	-
PERS	442,000	442,000	442,000	442,000	-	-	-
Total	14,135,340	10,068,340	5,627,740	1,149,240	(4,116,360)	(9,162,660)	(13,831,060)
% of Expend.	20.5%	13.6%	7.3%	1.4%	-4.9%	-10.5%	-15.3%

The following summarizes key assumptions made for revenues and

expenditures: **REVENUES**

- **Property Taxes** –On May 9, 2025, the Santa Clara County Assessor’s Office provided an update on FY 2025 property tax collections to date and projected 4.95% assessed value growth for Campbell in FY 2026. This has been factored into the Proposed FY 2026. Beyond FY 2026, staff estimates steady 5-7% 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 negative 1.1% growth in FY 2026 due to an upcoming loss of a large sales tax producer from the City. Beyond FY 2026, staff conservatively estimates 3% growth per year, but trended off a lower base number from FY 2026. However, staff also notes that inflationary pressures and the possibility of a recession caused by continued high interest rates or tariffs 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 3.1% increase in FY 2026 when compared to the year-end estimate for FY 2026; reflecting slightly increased service demands and higher fee levels. In future years, staff estimates more regular 3% growth.
- **Transient Occupancy Tax (TOT)** – While the travel and leisure industry has largely recovered from the pandemic, it is not yet at pre-pandemic levels and staff projects that Transient Occupancy Tax (TOT) will equal approximately \$4.10 million in FY 2026. However, prior to the pandemic, TOT was at \$4.80 million annually. In FY 2025, it is expected to reach \$4.05 million. Thereafter, staff estimates conservative 3% growth per year.

EXPENDITURES

- **Employee Costs** – The forecast assumes no Cost of Living Adjustments (COLAs) in FY 2026 for any bargaining unit or employee, with all Memorandums of Understanding (MOUs) expiring either June 30, 2025 (CMEA, CPCEA, CARP, Confidential, MGMT, UNREP) or December 30, 2025 (CPOA). Beyond FY 2026 assumes 3% COLAs. The forecast also assumes 8% annual healthcare premium increases in all years.
- **Supplies and Services** – In the General Fund, there is an 8% reduction to supplies and services costs in FY 2026 when compared to FY 2025 Year-End Estimates. After FY 2026, staff is estimating approximately 5% annual growth through FY 2032.

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:

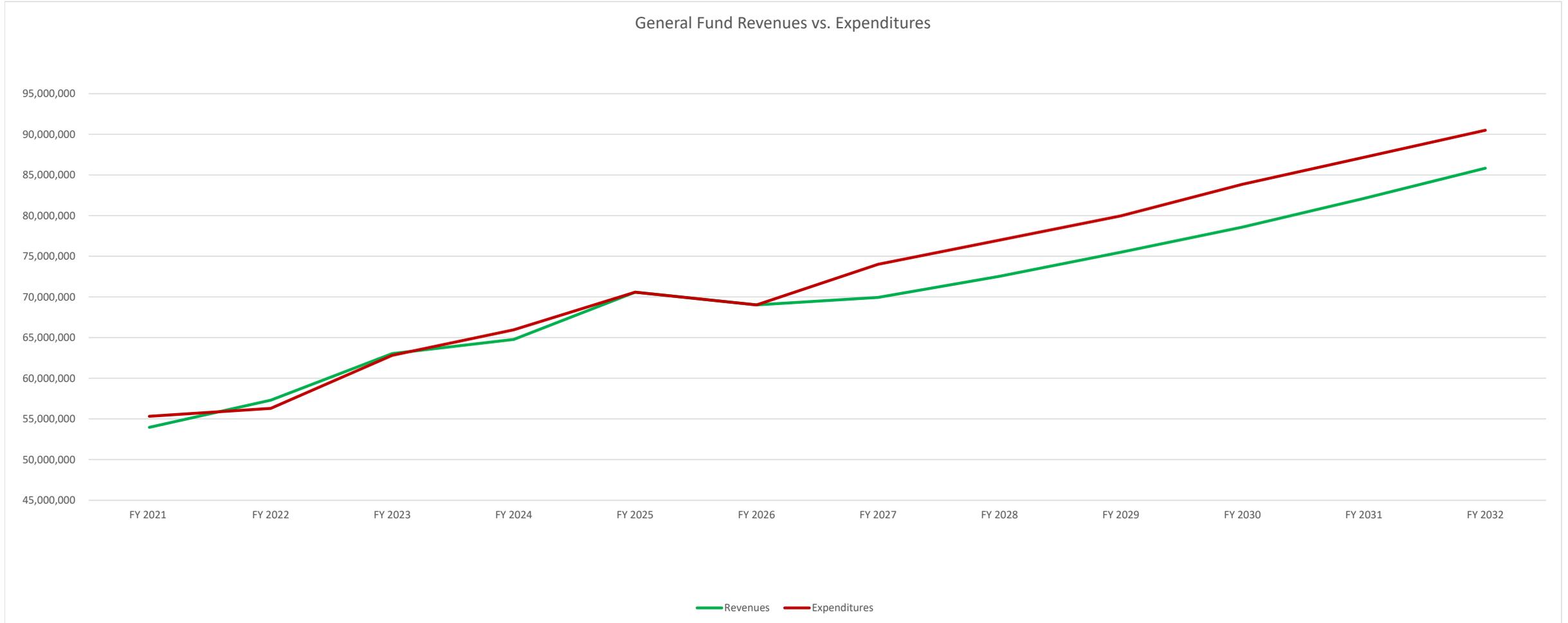
- Historical and Projected Revenues by Type
- Historical and Projected Expenditures by Type
- Historical and Projected Surpluses and Deficits
- Historical and Projected Draw Downs or Additions to General Fund Reserves
- Historical and Projected Comparisons of General Fund Reserves to City Policy

General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures (SECOND UPDATE 06-17-25)

REVENUES BY TYPE	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
<i>Base Revenues</i>	<i>Actuals</i>	<i>Actuals</i>	<i>Actuals</i>	<i>Actuals</i>	<i>Estimated</i>	<i>Estimated</i>	<i>Estimated</i>	<i>Estimated</i>	<i>Estimated</i>	<i>Estimated</i>	<i>Estimated</i>	<i>Estimated</i>
Property Taxes	17,911,445	19,510,782	20,907,124	21,912,688	22,894,000	23,761,700	24,935,000	26,166,500	27,713,000	29,351,500	31,372,900	33,534,900
Sales & Use Taxes	14,478,163	16,419,362	18,832,569	16,549,228	16,258,133	16,071,437	16,553,600	17,050,200	17,561,600	18,088,500	18,631,200	19,190,200
Other Taxes	6,375,527	7,894,353	8,605,378	8,991,899	6,888,060	7,055,100	7,277,900	7,508,000	7,751,600	8,003,500	8,270,900	8,548,200
Licenses & Permits	2,963,368	3,742,394	3,387,574	3,344,255	7,191,416	6,813,086	7,017,500	7,228,000	7,444,700	7,668,000	7,898,100	8,134,900
Fines/Forfeits/Penalties	85,149	222,721	113,511	172,013	100,000	105,100	108,300	111,500	114,800	118,300	121,900	125,500
Investment & Other Interest Income	(8,137)	(317,035)	413,171	1,156,980	1,130,000	1,163,900	1,198,800	1,234,800	1,271,800	1,309,900	1,349,200	1,389,700
Intergovernmental Revenue	892,283	985,556	1,146,994	1,358,912	1,120,465	1,489,210	1,534,700	1,581,500	1,630,200	1,680,300	1,732,500	1,786,400
Charges For Services	3,327,691	4,843,230	5,288,137	6,243,052	6,217,250	6,412,442	6,604,800	6,802,500	7,006,400	7,216,400	7,433,000	7,655,700
Leases & Rentals	1,894,089	2,779,743	3,223,340	3,172,449	3,153,184	3,087,143	3,179,900	3,275,300	3,373,500	3,474,700	3,579,000	3,686,500
Miscellaneous Revenues	82,509	274,216	256,540	166,659	300,322	199,649	205,700	211,700	218,000	224,500	231,100	237,900
Other Revenues	79,962	77,059	63,369	71,211	100,000	103,000	106,100	109,300	112,600	116,000	119,500	123,100
OFS - Operating Transfers	3,149,881	866,425	791,371	152,900	2,280,729	1,185,579	1,221,200	1,257,800	1,295,500	1,334,400	1,374,400	1,415,600
<i>Sub-Total Base Revenues</i>	<i>51,231,930</i>	<i>57,298,806</i>	<i>63,029,077</i>	<i>63,292,271</i>	<i>67,633,559</i>	<i>67,447,346</i>	<i>69,943,500</i>	<i>72,537,100</i>	<i>75,493,700</i>	<i>78,586,000</i>	<i>82,113,700</i>	<i>85,828,600</i>
<i>Adjustments to Revenue</i>												
CARES Act Funding	522,136	-	-	-	-	-	-	-	-	-	-	-
Transfer In from ARPA Fund	2,214,670	-	-	1,482,695	1,695,634	376,814	-	-	-	-	-	-
Draw from Pension Reserve	-	-	-	-	1,252,000	558,000	-	-	-	-	-	-
Liquidating Duplicative GF Reserves	-	-	-	-	-	641,000	-	-	-	-	-	-
<i>Sub-Total Revenue Adjustments</i>	<i>2,736,806</i>	<i>-</i>	<i>-</i>	<i>1,482,695</i>	<i>2,947,634</i>	<i>1,575,814</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
TOTAL REVENUES	53,968,736	57,298,806	63,029,077	64,774,966	70,581,193	69,023,160	69,943,500	72,537,100	75,493,700	78,586,000	82,113,700	85,828,600
EXPENDITURES BY TYPE	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
<i>Base Expenditures</i>	<i>Actuals</i>	<i>Actuals</i>	<i>Actuals</i>	<i>Actuals</i>	<i>Estimated</i>	<i>Estimated</i>	<i>Estimated</i>	<i>Estimated</i>	<i>Estimated</i>	<i>Estimated</i>	<i>Estimated</i>	<i>Estimated</i>
Salaries	18,818,409	19,402,509	20,510,721	22,214,866	23,277,936	24,136,867	24,861,500	25,607,400	26,375,500	27,166,700	27,981,800	28,821,300
Benefits	12,773,859	12,477,699	12,832,210	13,217,918	13,757,598	14,426,469	15,007,300	15,616,600	16,257,000	16,931,200	17,641,200	18,388,200
Supplies & Services	16,289,291	17,933,221	22,446,292	23,582,014	26,757,944	24,618,643	25,843,900	27,005,200	28,384,700	29,710,800	31,274,700	32,799,200
Other Charges	492,256	515,310	699,379	555,554	567,900	412,700	425,100	437,800	450,900	464,400	478,300	492,600
Rents & Leases	1,693,453	1,693,453	1,693,453	1,693,453	1,693,453	1,672,837	1,723,000	1,774,700	1,827,700	1,882,500	1,939,100	1,997,300
Capital Outlay	-	3,175	5,091	91,604	165,791	46,000	47,400	48,800	50,200	51,700	53,200	54,800
Operating Transfers	4,251,537	3,696,743	3,943,321	3,298,036	2,334,854	2,437,400	2,510,500	2,585,800	2,663,400	2,743,300	2,825,600	2,910,400
Capital Transfers	1,005,991	566,354	407,131	750,370	1,275,716	722,245	743,900	766,200	789,200	812,900	837,300	862,400
<i>Sub-Total Base Expenditures</i>	<i>55,324,796</i>	<i>56,288,463</i>	<i>62,537,598</i>	<i>65,403,816</i>	<i>69,831,193</i>	<i>68,473,160</i>	<i>71,162,600</i>	<i>73,842,500</i>	<i>76,798,600</i>	<i>79,763,500</i>	<i>83,031,200</i>	<i>86,326,200</i>
<i>Adjustments to Expenditures</i>												
Full Year Costs of New Hires and Vacant Fills	-	-	-	-	-	-	1,242,600	1,279,900	1,318,300	1,357,800	1,398,500	1,440,500
Removal of Limited Term Environ Prog Spec.	-	-	-	-	-	-	(143,300)	(143,300)	(143,300)	(143,300)	(143,300)	(143,300)
Renewed Set Aside for CIPR: Target \$1.5M/yr	-	-	275,000	550,000	750,000	550,000	1,250,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
PERS UAAL Increases (Invest. Target) (Misc)	-	-	-	-	-	-	286,900	286,900	286,900	286,900	286,900	286,900
PERS UAAL Increases (Invest. Target) (Safety)	-	-	-	-	-	-	211,700	211,700	211,700	211,700	211,700	211,700
Payoff of 2016 Lease Revenue Bond	-	-	-	-	-	-	-	-	-	(740,000)	(740,000)	(740,000)
Final 2002 COP Debt Payments Owed to FY 2033	-	-	-	-	-	-	-	-	-	1,615,000	1,615,000	1,615,000
<i>Sub-Total Expenditure Adjustments</i>	<i>-</i>	<i>-</i>	<i>275,000</i>	<i>550,000</i>	<i>750,000</i>	<i>550,000</i>	<i>2,847,900</i>	<i>3,135,200</i>	<i>3,173,600</i>	<i>4,088,100</i>	<i>4,128,800</i>	<i>4,170,800</i>
TOTAL EXPENDITURES	55,324,796	56,288,463	62,812,598	65,953,816	70,581,193	69,023,160	74,010,500	76,977,700	79,972,200	83,851,600	87,160,000	90,497,000
SURPLUS/(DEFICIT)	(1,356,060)	1,010,342	216,479	(1,178,849)	-	-	(4,067,000)	(4,440,600)	(4,478,500)	(5,265,600)	(5,046,300)	(4,668,400)

General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures (SECOND UPDATE 06-17-25)

Graph Data (Revenues vs. Expenditures)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Revenues	53,968,736	57,298,806	63,029,077	64,774,966	70,581,193	69,023,160	69,943,500	72,537,100	75,493,700	78,586,000	82,113,700	85,828,600
Expenditures	55,324,796	56,288,463	62,812,598	65,953,816	70,581,193	69,023,160	74,010,500	76,977,700	79,972,200	83,851,600	87,160,000	90,497,000
Surplus/Deficit	(1,356,060)	1,010,342	216,479	(1,178,849)	-	-	(4,067,000)	(4,440,600)	(4,478,500)	(5,265,600)	(5,046,300)	(4,668,400)



General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures (SECOND UPDATE 06-17-25)

RESERVES

<u>Targets (by Council Policy)</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>	<u>FY 2031</u>	<u>FY 2032</u>
Economic Fluctuations (16.67% of Expend.)	9,222,643	9,383,287	10,470,860	10,994,501	11,765,885	11,506,161	12,337,550	12,832,183	13,331,366	13,978,062	14,529,572	15,085,850
Emergency (10% of Revenues)	5,396,874	5,729,881	6,302,908	6,477,497	7,058,119	6,902,316	6,994,350	7,253,710	7,549,370	7,858,600	8,211,370	8,582,860
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	17,871,517	18,365,167	20,025,768	20,723,998	22,076,004	21,660,477	22,583,900	23,337,893	24,132,736	25,088,662	25,992,942	26,920,710

<u>Actual/Projected</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>	<u>FY 2031</u>	<u>FY 2032</u>
Economic Fluctuations	9,028,076	9,955,452	9,955,452	9,485,886	9,485,886	9,485,886	5,418,886	978,286	-	(4,116,360)	(9,162,660)	(13,831,060)
Emergency	2,585,719	3,207,454	3,207,454	3,207,454	3,207,454	3,207,454	3,207,454	3,207,454	-	-	-	-
Operating	1,000,000	999,999	1,338,952	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	707,240	-	-	-
PERS	2,252,000	2,252,000	2,252,000	2,252,000	1,000,000	442,000	442,000	442,000	442,000	-	-	-
Total Reserve Actual/Projected	14,865,795	16,414,905	16,753,858	15,945,340	14,693,340	14,135,340	10,068,340	5,627,740	1,149,240	(4,116,360)	(9,162,660)	(13,831,060)

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

% of Expenditures	26.9%	29.2%	26.7%	24.2%	20.8%	20.5%	13.6%	7.3%	1.4%	-4.9%	-10.5%	-15.3%
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General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures (SECOND UPDATE 06-17-25)

Graph Data (Reserves)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Target Reserve	17,871,517	18,365,167	20,025,768	20,723,998	22,076,004	21,660,477	22,583,900	23,337,893	24,132,736	25,088,662	25,992,942	26,920,710
Actual/Projected Reserve	14,865,795	16,414,905	16,753,858	15,945,340	14,693,340	14,135,340	10,068,340	5,627,740	1,149,240	(4,116,360)	(9,162,660)	(13,831,060)
Difference from Target	(3,005,722)	(1,950,262)	(3,271,910)	(4,778,658)	(7,382,664)	(7,525,137)	(12,515,560)	(17,710,153)	(22,983,496)	(29,205,022)	(35,155,602)	(40,751,770)

