MEMORANDUM

City of Campbell

Finance Department

To: City Council Date: June 16, 2026

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 2022 to FY 2025), current year projected actuals (FY 2026), and seven (7) years of projected actuals (FY 2027 through FY 2033). 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 2027 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 annually and currently accruing untouched with interest until a final non-appealable court decision is reached), 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 16, 2026)

	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
Revenues	74,008,821	73,489,400	76,521,400	79,425,500	82,774,300	86,539,500	90,507,600
Expenditures	74,008,821	77,938,610	81,595,400	84,402,700	87,636,300	90,520,600	94,617,700
Surplus/(Deficit)	-	(4,449,210)	(5,074,000)	(4,977,200)	(4,862,000)	(3,981,100)	(4,110,100)

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 2, 2026:

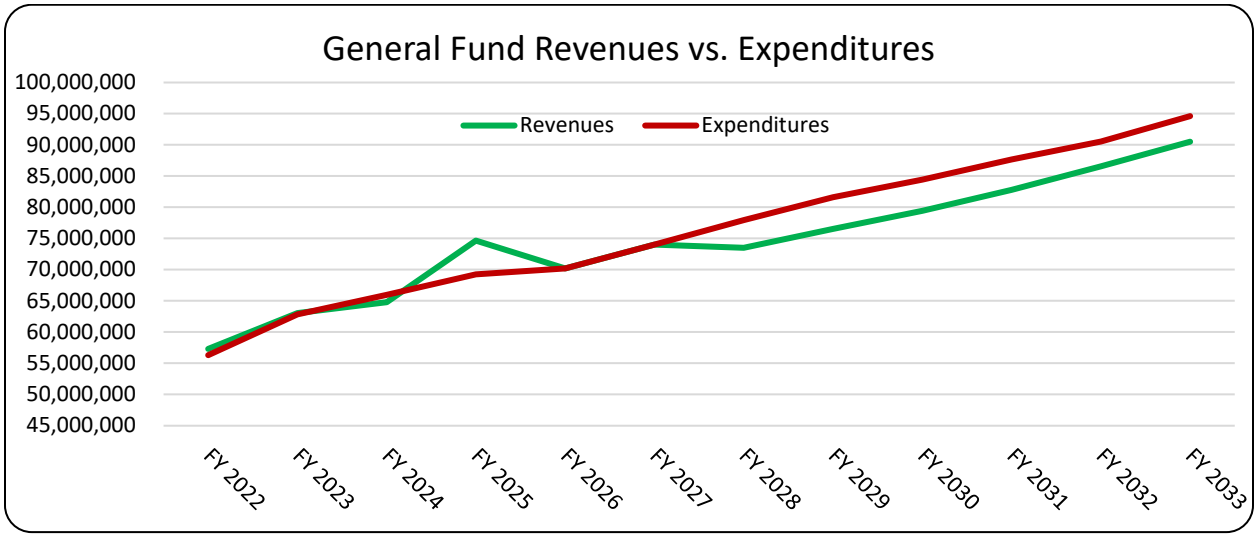
Table 2 – General Fund Revenues vs. Expenditures (Estimated) (June 2, 2026)

	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
Revenues	74,106,902	73,489,400	76,521,400	79,425,500	82,774,300	86,539,500	90,507,600
Expenditures	74,106,902	78,039,610	81,699,200	84,509,500	87,746,200	90,633,800	94,733,900
Surplus/(Deficit)	-	**(4,550,210)**	**(5,177,800)**	**(5,084,000)**	**(4,971,900)**	**(4,094,300)**	**(4,226,300)**

As shown in Table 1, staff is projecting a balanced budget in FY 2027, 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 one primary differences between the first forecast (Table 1) and the second forecast (Table 2): an unnecessary $100,000 transfer out from the General Fund to the SLESF fund has been removed in FY 2027 and going forward; thereby reducing the burden on the General Fund in all fiscal years presented. Several other minor corrections were also made to the forecast.

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 all of the forecast years and go below Government Finance Officers (GFOA) recommended best practice of at least 16.67% of expenditures by the end of FY 2028; absent a reduction in expenditures and services or an increase in revenues. As is, the current forecast shows the Economic Fluctuations Reserve being fully depleted by FY 2030 due to projected structural deficits and the Emergency, Operating, and PERS reserves being fully depleted by FY 2031. Total Reserve levels could also be negative in FY 2031 and beyond. That would not be fiscally sustainable, nor would it be likely given desired staff and Council collaboration to reduce costs in those years if needed. As such the forecast could again change should action regarding ongoing costs be taken, additional revenue sources be secured, Measure K become available, 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)

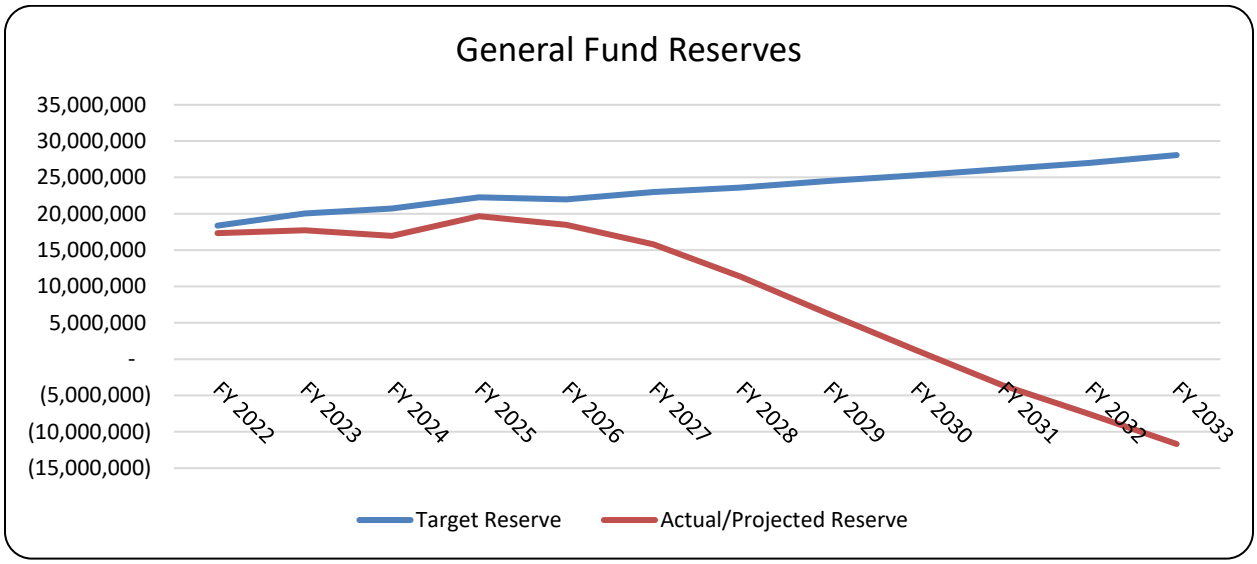


Table 3 below provides a summary of projected General Fund discretionary reserves over the seven-year forecast from FY 2027 to FY 2033 and considers potential surpluses and deficits identified above. Please note that the discretionary Council Reserve has been added since it may need to be used for operational costs in future fiscal years if insufficient action is taken to reduce costs elsewhere.

Table 3 – General Fund Discretionary Reserves (Estimated)

	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
Econ. Fluct.	9,485,889	**6,317,499**	**1,243,499**	-	**(3,583,623)**	**(7,564,723)**	**(11,674,823)**
Emergency	3,207,454	3,207,454	3,207,454	-	-	-	-
Operating	**2,280,820**	**1,000,000**	1,000,000	**473,753**	-	-	-
Council Res	362,624	362,624	362,624	362,624	-	-	-
PERS	442,000	442,000	442,000	442,000	-	-	-
Total	**15,778,787**	**11,329,577**	**6,255,577**	**1,278,377**	**(3,583,623)**	**(7,564,723)**	**(11,674,823)**
% of Expend.	***21.3%***	***14.5%***	***7.7%***	***1.5%***	***-4.1%***	***-8.4%***	***-12.3%***

The following summarizes key assumptions made for revenues and expenditures:

REVENUES

- **Property Taxes** –On May 7, 2026, the Santa Clara County Assessor's Office provided an update on FY 2026 property tax collections to date and projected 5.39% assessed value growth for Campbell in FY 2027. This has been factored into the Proposed FY 2027 Budget. Beyond FY 2027, 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 showed negative growth in FY 2026 due to the loss of a large sales tax producer from the City. But in FY 2027 and beyond, staff conservatively estimates 2-3% growth per year, but trended off a lower base number from FY 2026.

- **Charges for Service** - As a whole in Charges for Service in the General Fund, staff is estimating a 9.7% increase in FY 2027 when compared to the year-end estimate for FY 2026; reflecting 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 $4.25 million in FY 2027. However, prior to the pandemic, TOT was at $4.80 million annually. In FY 2026, it is expected to reach $4.10 million. Thereafter, staff estimates conservative 3% growth per year.

EXPENDITURES

- **Employee Costs** – The forecast assumes no Cost of Living Adjustments (COLAs) in FY 2027 for any bargaining unit or employee, with all Memorandums of Understanding (MOUs) expiring either June 30, 2026 (CMEA, CPCEA, CARP, Confidential, MGMT, UNREP) or December 30, 2026 (CPOA). Beyond FY 2027 assumes 3% COLAs. The forecast also assumes 8% annual healthcare premium increases in all years beyond FY 2027.

- **Supplies and Services** – In the General Fund, there is a modest 1.0% increase to supplies and services costs in FY 2027 when compared to FY 2026 Year-End Estimates. After FY 2027, staff is estimating approximately 4-5% annual growth through FY 2033.

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

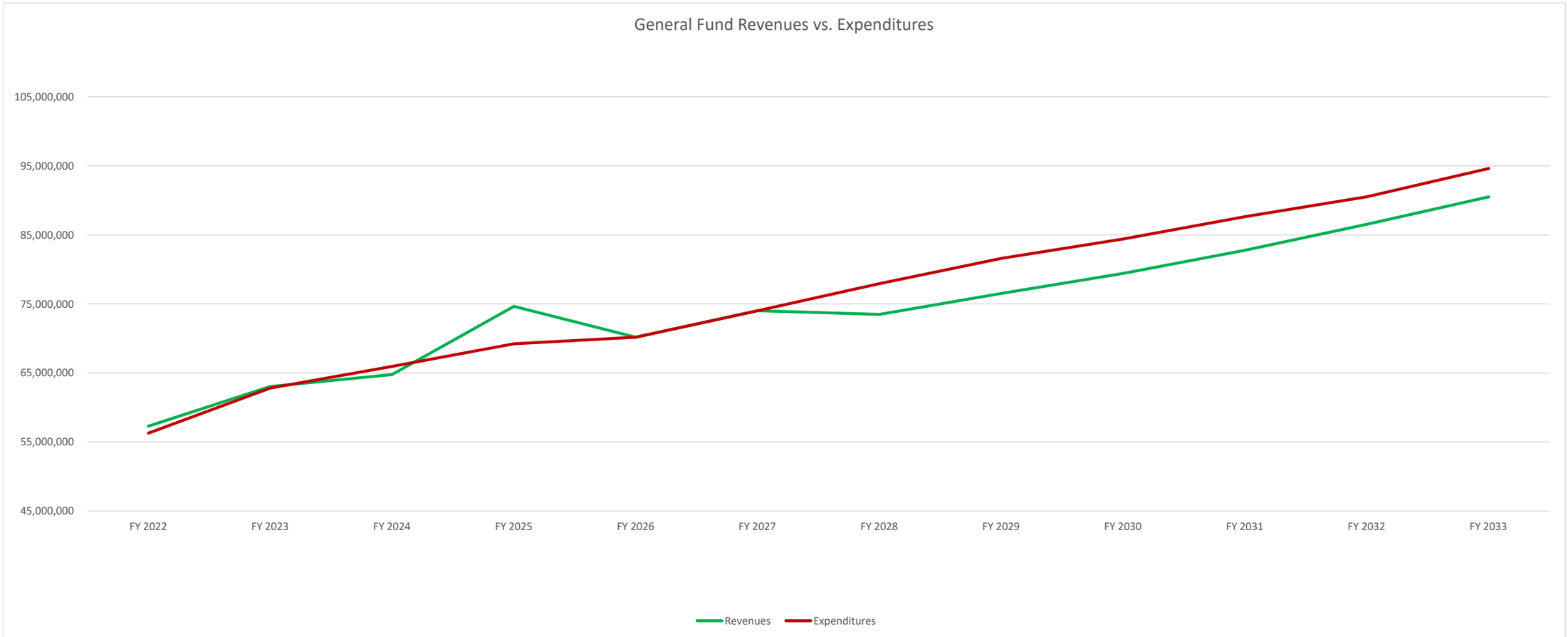
General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures *(SECOND UPDATE 06-16-26)*

REVENUES BY TYPE	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Base Revenues	**Actuals**	**Actuals**	**Actuals**	**Actuals**	**Estimated**	**Estimated**	**Estimated**	**Estimated**	**Estimated**	**Estimated**	**Estimated**	**Estimated**
Property Taxes	19,510,782	20,907,124	21,912,688	22,948,184	24,542,000	25,595,700	26,861,600	28,451,900	30,136,900	32,216,100	34,440,000	36,818,600
Sales & Use Taxes	16,419,362	18,832,569	16,549,228	18,013,882	15,756,028	16,084,453	16,530,700	17,026,600	17,537,500	18,063,600	18,605,600	19,163,800
Other Taxes	7,894,353	8,605,378	8,991,899	7,204,974	6,850,200	7,073,600	7,297,400	7,534,600	7,779,900	8,040,400	8,310,500	8,590,900
Licenses & Permits	3,742,394	3,387,574	3,344,255	7,466,372	6,824,086	7,976,865	8,216,200	8,462,800	8,716,700	8,978,100	9,247,400	9,524,700
Fines/Forfeits/Penalties	222,721	113,511	172,013	72,326	105,100	105,100	108,300	111,500	114,800	118,300	121,900	125,500
Investment & Other Interest Income	(317,035)	413,171	1,156,980	1,075,611	1,163,900	1,198,800	1,234,800	1,271,800	1,309,900	1,349,200	1,389,700	1,431,300
Intergovernmental Revenue	985,556	1,146,994	1,358,912	1,400,870	1,378,210	1,372,530	1,414,500	1,458,100	1,503,000	1,549,800	1,598,000	1,647,900
Charges For Services	4,843,230	5,288,137	6,243,052	6,395,809	5,937,277	6,512,175	6,707,200	6,908,100	7,115,300	7,328,400	7,548,100	7,774,400
Leases & Rentals	2,779,743	3,223,340	3,172,449	3,092,023	3,255,700	3,296,400	3,395,300	3,497,200	3,602,000	3,710,000	3,821,400	3,936,100
Miscellaneous Revenues	274,216	256,540	166,659	272,080	243,699	229,940	236,800	243,900	251,200	258,600	266,300	274,100
Other Revenues	77,059	63,369	71,211	95,360	103,000	106,100	109,300	112,600	116,000	119,500	123,100	126,800
OFS - Operating Transfers	866,425	791,371	1,635,595	5,352,953	2,825,028	1,764,984	1,377,300	1,442,300	1,242,300	1,042,300	1,067,500	1,093,500
Sub-Total Base Revenues	*57,298,806*	*63,029,077*	*64,774,966*	*73,390,446*	*68,984,229*	*71,316,647*	*73,489,400*	*76,521,400*	*79,425,500*	*82,774,300*	*86,539,500*	*90,507,600*
Adjustments to Revenue												
Draw from Pension Reserve	-	-	-	1,252,000	558,000	-	-	-	-	-	-	-
Liquidating Duplicative GF Reserves	-	-	-	-	641,000	-	-	-	-	-	-	-
Draw from Undesignated Reserve	-	-	-	-	-	2,692,174	-	-	-	-	-	-
Utilizing Measure K Funds	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total Revenue Adjustments	-	-	-	*1,252,000*	*1,199,000*	*2,692,174*	-	-	-	-	-	-
TOTAL REVENUES	**57,298,806**	**63,029,077**	**64,774,966**	**74,642,446**	**70,183,229**	**74,008,821**	**73,489,400**	**76,521,400**	**79,425,500**	**82,774,300**	**86,539,500**	**90,507,600**

EXPENDITURES BY TYPE	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Base Expenditures	**Actuals**	**Actuals**	**Actuals**	**Actuals**	**Estimated**	**Estimated**	**Estimated**	**Estimated**	**Estimated**	**Estimated**	**Estimated**	**Estimated**
Salaries	19,402,509	20,510,721	22,214,866	22,792,073	22,997,836	23,778,389	24,492,500	25,227,400	25,984,600	26,764,600	27,567,700	28,394,800
Benefits	12,477,699	12,832,210	13,217,918	14,407,237	14,426,469	14,962,518	15,567,200	16,201,700	16,868,600	17,570,300	18,309,100	19,087,100
Supplies & Services	17,933,221	22,446,292	23,582,014	25,004,827	27,017,562	27,280,427	28,309,700	29,884,900	31,073,900	32,839,600	34,222,300	36,216,100
Other Charges	515,310	699,379	555,554	481,817	412,700	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	1,672,837	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	90,382	62,723	46,000	47,400	48,800	50,200	51,700	53,200	54,800
Operating Transfers	3,696,743	3,943,321	3,298,036	2,588,743	2,497,902	3,293,300	3,392,100	3,493,900	3,598,700	3,706,700	3,817,900	3,932,400
Capital Transfers	566,354	407,131	750,370	1,414,572	545,200	1,562,650	1,175,000	1,240,000	1,040,000	840,000	865,200	891,200
Sub-Total Base Expenditures	*56,288,463*	*62,537,598*	*65,403,816*	*68,473,103*	*69,633,229*	*73,008,821*	*75,132,000*	*78,309,200*	*80,894,600*	*84,119,800*	*87,252,800*	*91,066,300*
Adjustments to Expenditures												
Full Year Costs of New Hires and Vacant Fills	-	-	-	-	-	-	1,140,060	1,174,300	1,209,500	1,245,800	1,283,200	1,321,700
Full Year of Sr. PW Project Mgr in Gen. Fund.	-	-	-	-	-	-	116,750	120,300	123,900	127,600	131,400	135,300
Renewed Set Aside for CIPR: Target $1.5M/yr	-	275,000	550,000	750,000	550,000	1,000,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
PERS UAAL Adjustments Diff. Than 3%	-	-	-	-	-	-	49,800	491,600	(170,700)	(202,300)	(492,200)	(251,000)
Payoff of 2016 Lease Revenue Bond	-	-	-	-	-	-	-	-	(769,600)	(769,600)	(769,600)	(769,600)
Final 2002 COP Debt Payments Owed to FY 2033	-	-	-	-	-	-	-	-	1,615,000	1,615,000	1,615,000	1,615,000
Sub-Total Expenditure Adjustments	-	*275,000*	*550,000*	*750,000*	*550,000*	*1,000,000*	*2,806,610*	*3,286,200*	*3,508,100*	*3,516,500*	*3,267,800*	*3,551,400*
TOTAL EXPENDITURES	**56,288,463**	**62,812,598**	**65,953,816**	**69,223,103**	**70,183,229**	**74,008,821**	**77,938,610**	**81,595,400**	**84,402,700**	**87,636,300**	**90,520,600**	**94,617,700**
SURPLUS/(DEFICIT)	**1,010,342**	**216,479**	**(1,178,849)**	**5,419,342**	**-**	**-**	**(4,449,210)**	**(5,074,000)**	**(4,977,200)**	**(4,862,000)**	**(3,981,100)**	**(4,110,100)**
Reserve Draws	**-**	**-**	**-**	***1,252,000***	***1,199,000***	***2,692,174***	**-**	**-**	**-**	**-**	**-**	**-**

General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures *(SECOND UPDATE 06-16-26)*

Graph Data (Revenues vs. Expenditures)	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**	**FY 2031**	**FY 2032**	**FY 2033**
Revenues	57,298,806	63,029,077	64,774,966	74,642,446	70,183,229	74,008,821	73,489,400	76,521,400	79,425,500	82,774,300	86,539,500	90,507,600
Expenditures	56,288,463	62,812,598	65,953,816	69,223,103	70,183,229	74,008,821	77,938,610	81,595,400	84,402,700	87,636,300	90,520,600	94,617,700
Surplus/Deficit	**1,010,342**	**216,479**	**(1,178,849)**	**5,419,342**	**-**	**-**	**(4,449,210)**	**(5,074,000)**	**(4,977,200)**	**(4,862,000)**	**(3,981,100)**	**(4,110,100)**



General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures *(SECOND UPDATE 06-16-26)*

RESERVES

Targets (by Council Policy)	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**	**FY 2031**	**FY 2032**	**FY 2033**
Economic Fluctuations *(16.67% of Expend.)*	9,383,287	10,470,860	10,994,501	11,539,491	11,699,544	12,337,270	12,992,366	13,601,953	14,069,930	14,608,971	15,089,784	15,772,771
Emergency *(10% of Revenues)*	5,729,881	6,302,908	6,477,497	7,464,245	7,018,323	7,400,882	7,348,940	7,652,140	7,942,550	8,277,430	8,653,950	9,050,760
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
Council Reserve	-	-	-	-	-	-	-	-	-	-	-	-
Duplicate Reserves (Liability + Unemp + OPEB)	-	-	-	-	-	-	-	-	-	-	-	-
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	**18,365,167**	**20,025,768**	**20,723,998**	**22,255,736**	**21,969,867**	**22,990,153**	**23,593,306**	**24,506,093**	**25,264,480**	**26,138,401**	**26,995,734**	**28,075,531**

Actual/Projected	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**	**FY 2031**	**FY 2032**	**FY 2033**
Economic Fluctuations	9,955,452	**9,955,452**	9,485,886	9,485,889	9,485,889	9,485,889	**6,317,499**	**1,243,499**	**-**	**(3,583,623)**	**(7,564,723)**	**(11,674,823)**
Emergency	**3,207,454**	3,207,454	3,207,454	3,207,454	3,207,454	3,207,454	3,207,454	3,207,454	**-**	-	-	-
Operating	**999,999**	1,338,952	1,000,000	4,986,040	**4,972,994**	**2,280,820**	**1,000,000**	1,000,000	**473,753**	-	-	-
Council Reserve	362,624	362,624	362,624	362,624	362,624	362,624	362,624	362,624	362,624	-	-	-
Duplicate Reserves (Liability + Unemp + OPEB)	543,251	596,575	641,251	627,954	**-**	-	-	-	-	-	-	-
PERS	2,252,000	2,252,000	2,252,000	**1,000,000**	**442,000**	442,000	442,000	442,000	442,000	-	-	-
Total Reserve Actual/Projected	**17,320,780**	**17,713,057**	**16,949,215**	**19,669,961**	**18,470,961**	**15,778,787**	**11,329,577**	**6,255,577**	**1,278,377**	**(3,583,623)**	**(7,564,723)**	**(11,674,823)**

**Red denotes an acutal or anticiapted draw on a Reserve Fund*

% of Expenditures	***30.8%***	***28.2%***	***25.7%***	***28.4%***	***26.3%***	***21.3%***	***14.5%***	***7.7%***	***1.5%***	***-4.1%***	***-8.4%***	***-12.3%***

Shown in red if below GFOA best practices of 16.67%

General Fund (101) Historical (5-years) and Forecasted (7-years) Revenues and Expenditures *(SECOND UPDATE 06-16-26)*

Graph Data (Reserves)	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**	**FY 2031**	**FY 2032**	**FY 2033**
Target Reserve	18,365,167	20,025,768	20,723,998	22,255,736	21,969,867	22,990,153	23,593,306	24,506,093	25,264,480	26,138,401	26,995,734	28,075,531
Actual/Projected Reserve	17,320,780	17,713,057	16,949,215	19,669,961	18,470,961	15,778,787	11,329,577	6,255,577	1,278,377	(3,583,623)	(7,564,723)	(11,674,823)
Difference from Target	**(1,044,387)**	**(2,312,711)**	**(3,774,783)**	**(2,585,775)**	**(3,498,906)**	**(7,211,366)**	**(12,263,729)**	**(18,250,516)**	**(23,986,103)**	**(29,722,024)**	**(34,560,457)**	**(39,750,354)**

