City of Santa Clara

The Center of What's Possible

Five-Year Financial Plan

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2018-19 through 2022-23 Five-Year Financial Plan

June 27, 2017

ABOUT THIS REPORT

The purpose of the Five-Year Financial Plan is to provide policy-makers and the public an updated assessment of the City's fiscal health that takes into account the latest economic developments. The report includes historical perspective on revenues and expenditures and a five-year financial outlook beyond the adopted budget year. The value of this type of analysis is to give the City Council, staff, and the public a tool to assist with strategic decision-making as they work to adopt the budget for the coming year.

The Five-Year Financial Plan is a collaborative effort between the City Manager's Office, Finance Department, and City departments. Individual projections of revenues and expenditures are developed based on trend analysis, input from available economic reports, consultant recommendations (e.g., our sales tax consultant MuniServices), and input from other subject matter experts. The most current information available is incorporated into the City's Plan and refined on a moving forward basis as part of the City's commitment to fiscal responsibility.

EXECUTIVE SUMMARY

The combination of an improved economy, careful management of limited resources, development and redevelopment projects happening throughout the City, and monies flowing to the City from events at Levi's Stadium have generated General Fund budget surpluses the last several years which have allowed the City to fully fund its Working Capital Reserve, make additional contributions to the Capital Projects Reserve which funded an increase in capital project funding, and to establish a Pension Trust Program to pre-fund pension obligations. Looking to fiscal year 2017-18 and beyond, the City is projecting that the regional economy will continue to grow at a moderate rate. However, due to rising pension costs it is projected that the City's expenditures will begin to outpace revenues in the next five years.

As with any multi-year forecast, the accuracy of the results are only as good as the assumptions upon which they are based. While this Plan has been based on the primary assumption that the economy will continue to grow at a moderate rate, an appropriate amount of conservatism has been built into the projections given the typical amount of economic volatility in the local and regional economies. For example, although there are several large development projects currently under review that are likely to begin construction in the next couple of years, the forecast does not include the likely positive impact that these projects will have on General Fund tax collections.

ECONOMIC OUTLOOK

The U.S. Economy is in its eighth consecutive year of expansion and most economists believe that the economic recovery will continue for the next few years but at a slower rate of growth. The Department of Commerce records show that the nation's Gross Domestic Product (GDP), the broadest measure of economic activity, has continued to rise over the last three years. However, this increase is less than expected due to low productivity growth. The key economic trend for 2017-18 continues to be the high cost of living.

Over the last four years, job growth picked up significantly and unemployment rates have continued to decline to more healthy levels, particularly in Silicon Valley. According to data from the Bureau of Labor Statistics, the national unemployment rate peaked at 10.0% in October 2009, the first time the rate had been at 10% or above since 1983. Over the last 12 months, the U.S. unemployment rate has declined from 4.7% in May 2016 to 4.3% in May 2017.

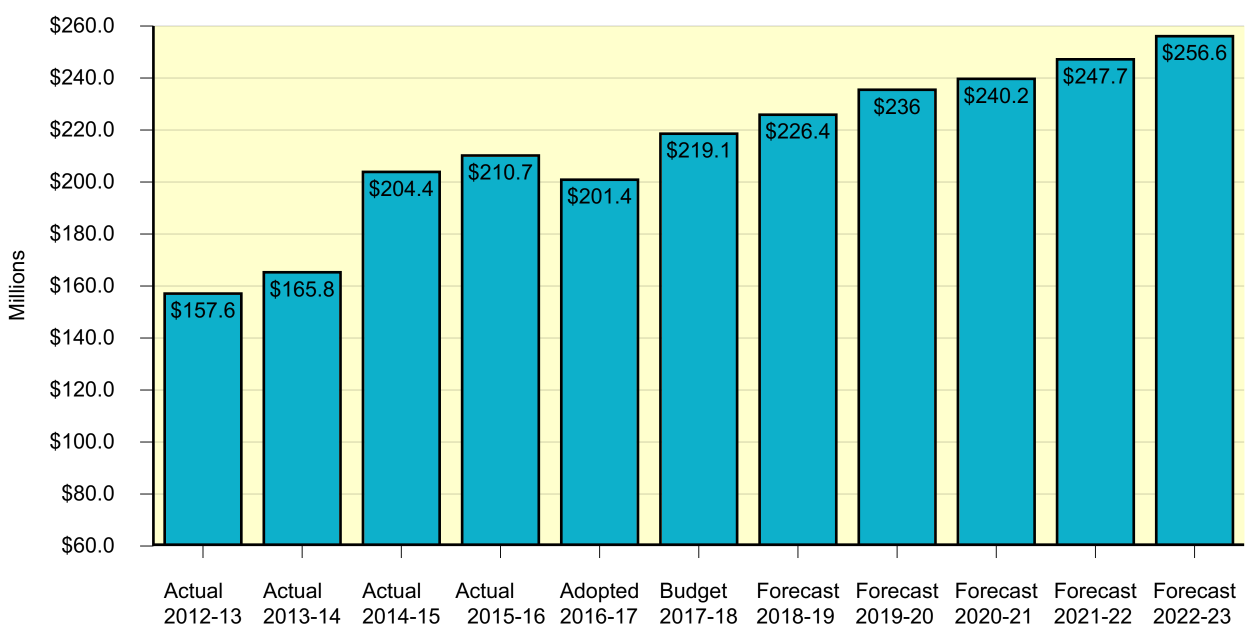
California's economy is projected to remain strong with continued job growth, pressure to raise salaries and hourly rates of pay, and a robust technology industry. The Employment Development Department reported California's unemployment rate rose past the 10% level in February 2009, reached a peak of 12.4% in early 2010, and began declining in late 2010. In the last year, the California unemployment rate declined from 5.5% in April 2016 to 4.8% in April 2017. Santa Clara County's and the City of Santa Clara's experience over the last year have been similar with unemployment rates declining to 3.1% and 2.8% respectively.

SANTA CLARA'S FINANCES

Total General Fund resources are estimated at $219.1 million in 2017-18, representing an increase of $17.7 million or 8.8% when compared to the adopted 2016-17 Budget (see Chart 1). The primary reason for the increase is due to lowered contributions to reserves and more specifically the reduction of the contribution to Capital Projects Reserve from $12.6M in 2016-17 to no contribution in 2017-18. There were moderate increases in revenues in the areas of Charges for Services, which reflects the City Council's budget principle to establish fees based on full cost recovery, and in Contribution In-Lieu of Taxes received from Silicon Valley Power based on projected increase in customer services charges for electric usage.

As shown in Chart 1, General Fund resources, which began to recover in 2010-11, are expected to grow at an average annual rate of 3.2% in the out years as moderate economic growth continues, reaching an estimated $256.6 million by the end of the forecast period (i.e., 2022-23).

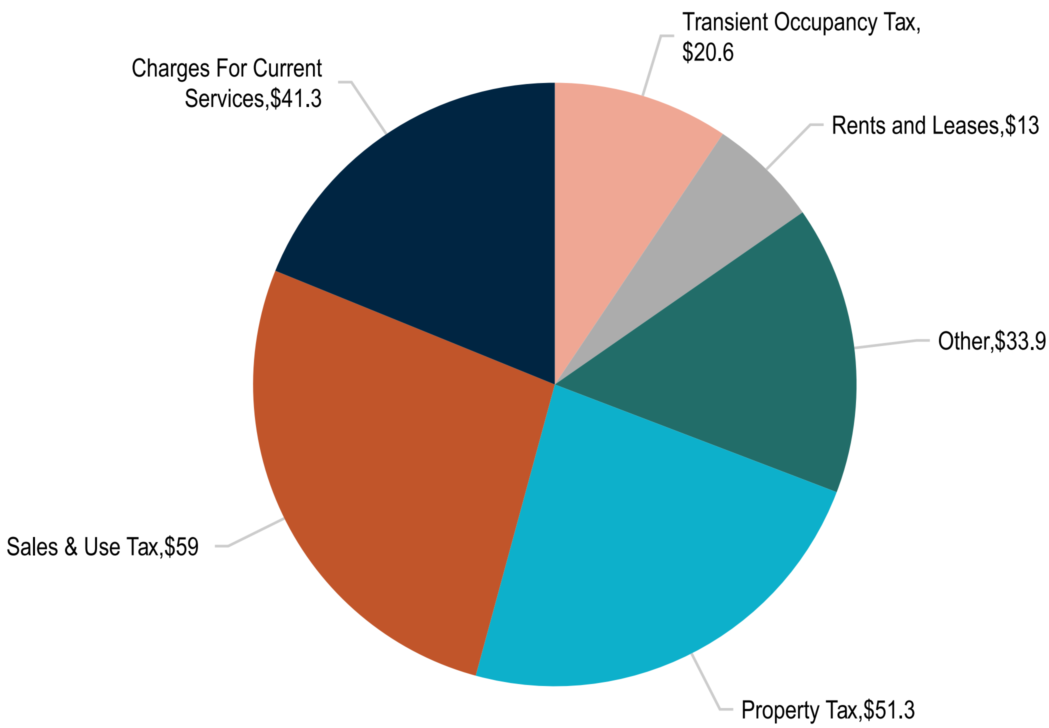
Chart 1
General Fund Resources



Sources of General Fund Revenues

Major sources of revenue for the General Fund are shown in Chart 2. Sales tax and property tax comprise the largest sources of General Fund revenues, representing a combined $110.3 million or 50.3% of the total. These and other major sources of revenue are described on the following pages.

Chart 2
2017-18 General Fund Resources
Total General Fund Resources = $219.1 Million



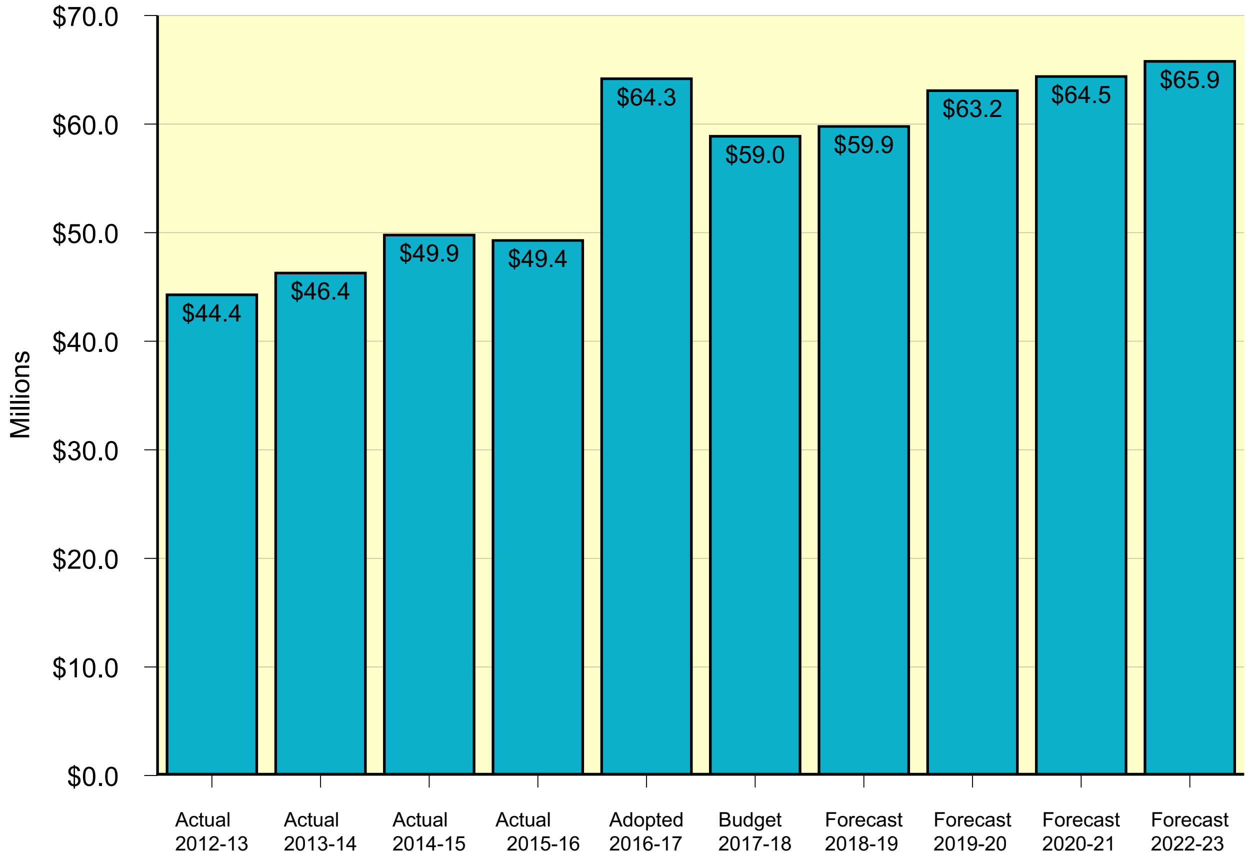
<u>Sales Tax</u>

Santa Clara's sales tax collections are directly influenced by local, regional, national, and international economic and business cycles. Because of this, sales tax collections are one of the most economically sensitive General Fund revenue sources. As the City's largest revenue source, sales tax collections reached a dot-com high of $51.1 million in 2000-01. After falling almost $17.0 million by 2002-03, collections rebounded to $43.2 million by 2006-07 as rising home values and stock prices fueled consumer spending. Over the next three years, sales tax revenues fell $13.1 million or 30% due to the impact of the Great Recession. Sales tax revenues began to grow again in 2010-11, and the strong growth in collections the last five fiscal years is expected to continue in 2017-18 (see Chart 3). The 2016-17 fiscal year included a one-time $7.0 million true-up payment due to the unwinding of the State's Triple Flip. The triple flip was due to the State's takeaway of ¼ of the local Bradley-Burns 1% sales tax rate which the State then used to guarantee their economic recovery bonds (flip 1). They then directed counties to backfill the loss to local agencies with property tax revenue from the County Education Revenue Augmentation Fund known as ERAF (flip 2). The shortfall in ERAF monies was then backfilled from the State General Fund (flip 3).

The 2017-18 projection of $59.0 million is 26.9% of total General Fund resources. This projection is based on information from the City's sales tax consultant, MuniServices. Their estimates are based on individual category/segment projections with adjustments for known individual business anomalies such as missed payments or misallocations.

Based on projections, we expect collections to grow at an average annual rate of 2.2% over the five years of the forecast period. Based on these projections, annual collections will continue to surpass the 2000-01 all-time high of $51.1 million.

Chart 3
General Fund Sales Tax Revenue



Note: 2016-17 includes one-time $7.0 million true-up payment due to the unwinding of the State's Triple Flip.

Property Tax

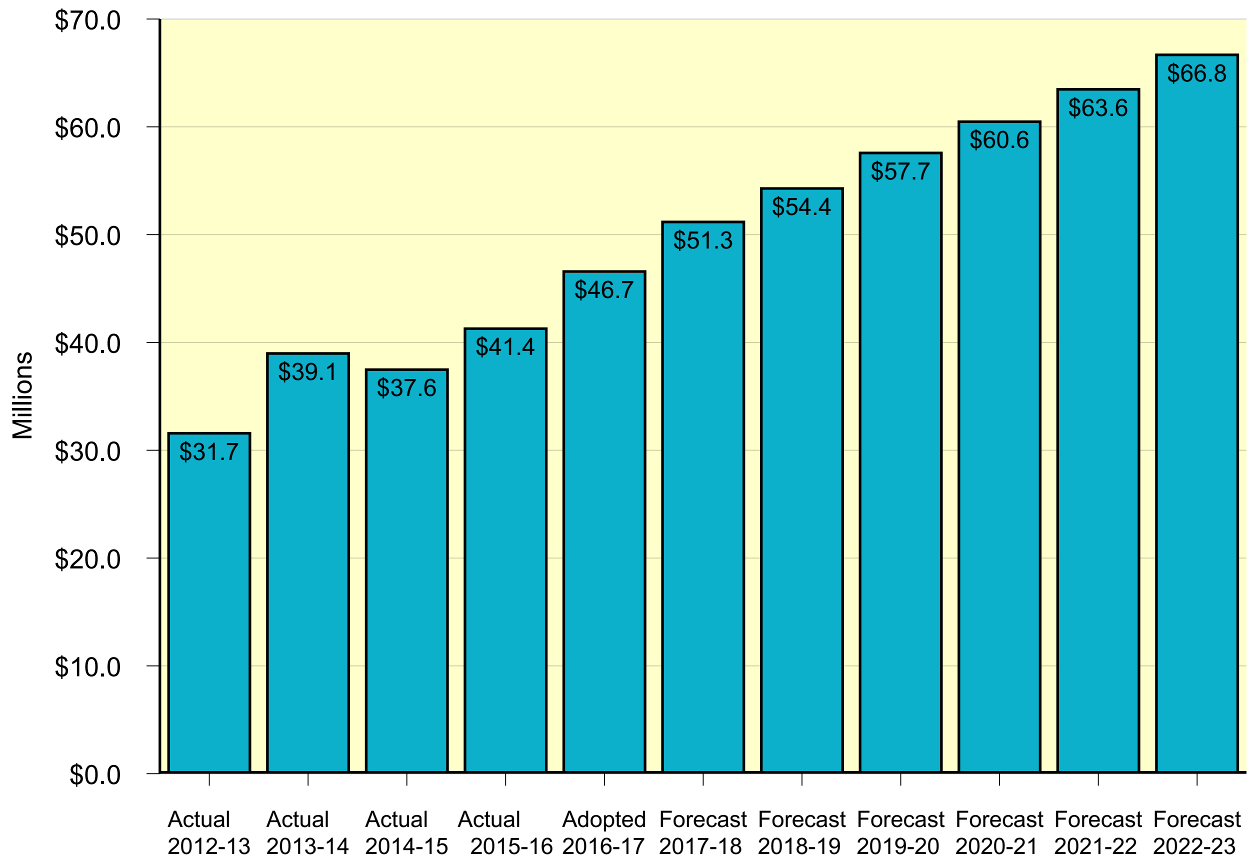
Property tax has traditionally been one of the City's most stable sources of revenue. After strong growth for much of the last decade, property tax revenues reached a peak of $29.9 million in 2008-09. Property valuations, the basis for the 1% Proposition 13 property tax of which the City receives about 10%, tend to lag the economy by one to two years. Due to the recession-related decline in both home and commercial values in the late-2000s, property owners were able to request Proposition 8 temporary valuation adjustments based on comparable sales data. Additionally, the County Assessor's Office was proactive in implementing adjustments based on their own analysis of property values. These reductions in valuation resulted in actual property tax collection declines of $0.5 million in 2009-10 and $1.5 million in 2010-11.

This trend reversed in 2011-12 when collections rose $0.4 million to $28.3 million. Growth continued in 2012-13 with actual collections of $31.7 million, passing the 2008-09 pre-recession high of $29.9 million (four years later). Note that 2012-13 actual collections included $1.1 million of one-time revenues for prior year overpayment of property tax administration fees. In 2013-14, collections continued to rise as the Proposition 8 temporary valuation adjustments began rolling off and $6.1 million of one-time monies were received as a result of the dissolution of the Redevelopment Agency (RDA).

Assessed valuation growth on secured property for 2017-18 was projected at 6.6% based on rising home values and the value of new construction projects being added to the rolls. Property tax collections are then projected to rise at an average rate of 5.4% in the forecasted years as more of the projects currently under construction are added to the assessment rolls (see Chart 4).

Note that these projections do not include new property tax collections for development projects that are either already entitled or currently under review. This Five-Year Financial Plan only includes new development impacts once the projects are fully entitled and under construction. There are currently billions of dollars of construction projects in various stages of the development review process. Should any of these projects move forward, actual property tax collections should exceed the projections reflected below in Chart 4.

Chart 4
General Fund Property Tax Revenue



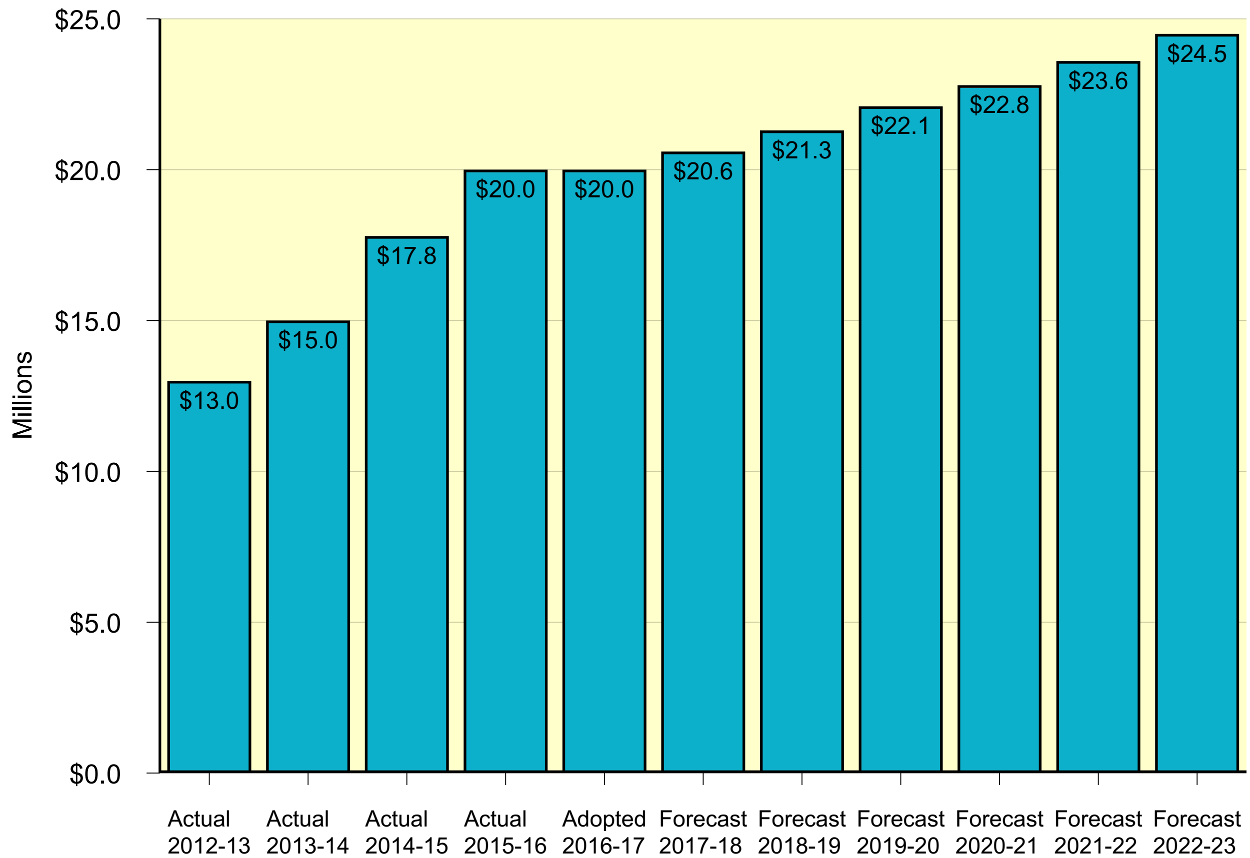
Note: 2013-14 includes one-time $6.1 million of one-time monies due to Redevelopment Agency dissolution.

Transient Occupancy Tax

Transient occupancy tax (TOT), also known as hotel/motel tax, is another key revenue source for the General Fund. As with sales tax, TOT is sensitive to business cycles and therefore prone to volatility. After reaching a pre-recession peak of $11.3 million in 2007-08, this revenue source fell to $8.1 million in 2009-10. Collections began to grow again in 2010-11 due to the combination of higher occupancy levels and increases in the average daily rate (ADR) and strong growth occurred each year through 2016-17 with year-end collections expected to reach $20.0 million (influenced by high weekday demand from tech companies, Convention and Visitors Bureau bookings, and Levi's Stadium events).

The 2017-18 TOT budget projection is for collections to be slightly higher than 2015-16 and 2016-17 at $20.6 million (see Chart 5). The forecast model projects that out-year TOT collections will grow at a rate of 3.5% per year from 2017-18 through the end of the Plan horizon in 2022-23 (based on the assumption that ADR will rise with inflation). Although several new hotels have been proposed in the Stadium area, they will not be included in the forecast until they start construction.

Chart 5
General Fund Transient Occupancy Tax Revenue



Charges for Current Services

Charges for current services are estimated at $41.3 million in 2017-18, up $1.9 million or 4.7% over the 2016-17 Budget of $39.4 million. The increases are primarily due to fee increases to move toward full cost recovery (based on the results of comprehensive fee studies conducted every three to five years) and higher levels of development activity.

Major sources of revenue within this category include charges for services provided to outside entities and other funds, such as the City's utility enterprise funds of ($16.8 million), fire prevention and HazMat charges ($3.8 million), planning and engineering fees ($9.5 million), and various other customer service fees. The amount charged to outside entities and other funds also includes $7.0 million to reimburse the General Fund for stadium-related services provided to the San Francisco 49ers and the Santa Clara Stadium Authority.

Contribution In-Lieu of Taxes

In accordance with the City's charter, Silicon Valley Power pays 5.0% of gross revenues to the General Fund as contribution-in-lieu of taxes (CLT). For 2017-18, CLT is projected to total $21.7 million. The forecast is that CLT will increase to $24.2 million by the end of the forecast period. The forecast is primarily driven by market projections for electric consumption and any rate increases assumed in the Electric Five-Year Financial Plan.

Rents and Leases

In 2017-18, revenue recorded as rents and leases is estimated to total $11.0 million. The amount projected for 2017-18 includes the ground lease with the Santa Clara Stadium Authority for the Levi's Stadium site (includes ground rent, performance rent, and the Senior and Youth Fee totaling $3.0 million), right-of-way rental fees charged to the water and sewer utilities ($3.3 million), and other smaller leases ($4.7 million). Growth projections for the Five-Year Financial Plan are based on individual lease agreements.

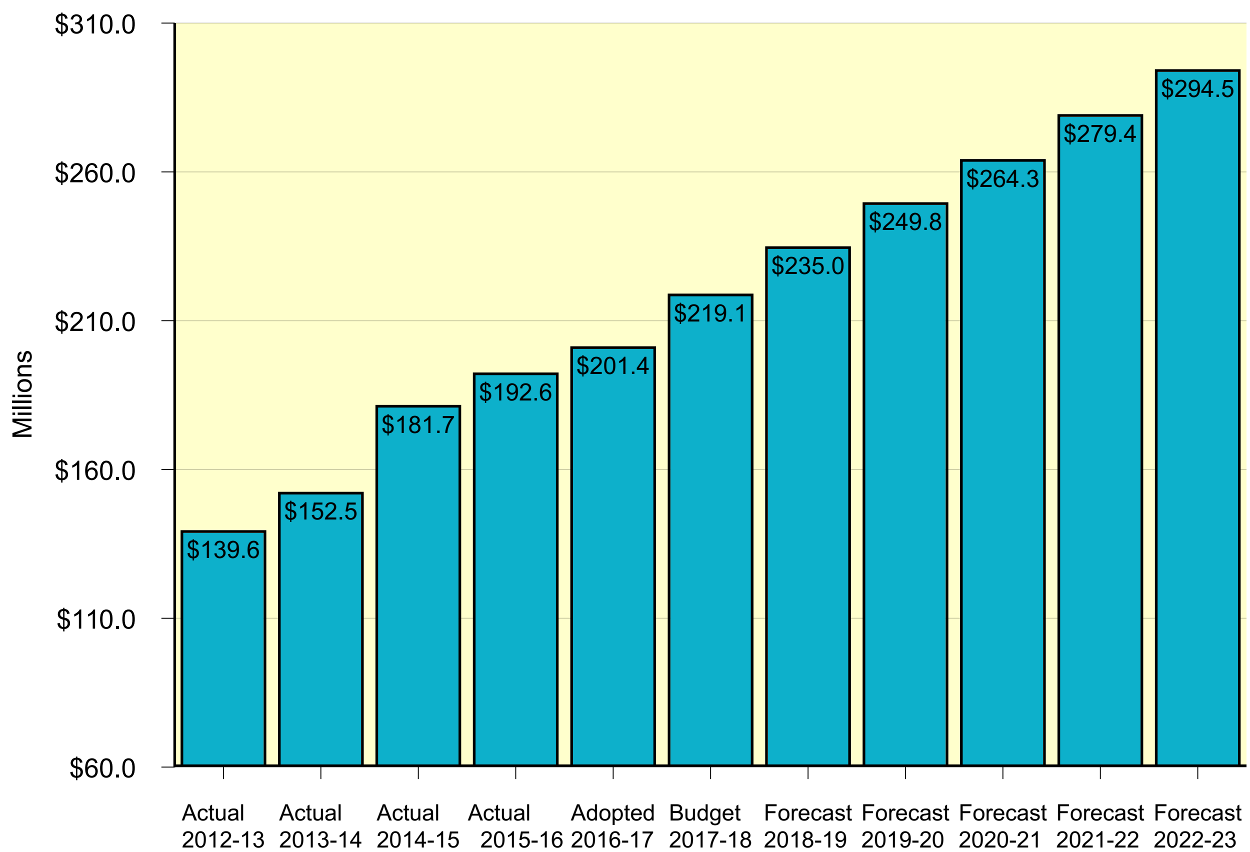
Interest Income

The City invests all funds not needed for current cash requirements in accordance with the City Council approved Investment Policy. These funds are invested in securities having a maximum maturity of five years. The factors that directly influence General Fund interest income include prevailing interest rates, the size of the portfolio, and the relative percentage of the portfolio allocated to the General Fund. Over the last several fiscal years, the return on the City's portfolio declined from 4.92% in 2005-06 to a low of 0.68% in August 2014. These declines are primarily due to the extraordinary actions by the Federal Reserve to hold interest rates low. The City's portfolio return has increased over the last year with the May 2017 earnings return coming in at 1.21%. Based on the expectation that the Federal Reserve will gradually increase interest rates over the next couple of years, the General Fund is expected to receive $2.0 million in interest in 2017-18 and earnings are projected to grow slowly through the remaining years of the forecast period.

Expenditures

Chart 6 provides historic information on General Fund expenditures. To help balance a structural budget deficit, General Fund expenditure growth was constrained in 2009-10 as a managed hiring freeze was put in place and positions were left unfilled. Actual expenditures declined in 2010-11 and 2011-12 due to an expanded hiring freeze, the elimination of positions, and the implementation of unpaid furloughs for most bargaining groups. In total, more than 100 positions were eliminated, frozen, or held vacant, generating significant savings. In 2012-13, expenditures began to increase once again as unpaid furloughs rolled off and pension costs climbed. In 2013-14, the frozen and held vacant positions were carefully managed to cover additional revenue losses associated with the dissolution of the Redevelopment Agency. In 2014-15, 2015-16, and 2016-17, positions were added, unfrozen, or restored. Expenditures are projected to grow to $219.1 million in 2017-18 and to $294.5 million by the end of the forecast period.

Chart 6
General Fund Expenditures



Despite actions to reduce expenditure growth, the primary growth driver continues to be increases in benefit costs. Consistent with calendar year Memorandums of Understanding (MOUs), 2017-18 includes general salary adjustments and other benefit enhancements for bargaining groups that have current agreements with the City. Beyond the term of any existing MOU, a 3% adjustment is assumed for the forecast years.

As shown in Charts 7 and 8, salary and benefits costs represent the majority ($170.2 million) of budgeted 2017-18 operating expenditures. Salary and benefits costs as a percentage of total operating expenditures grew from 75.6% in 2001-02 to 77.7% in 2017-18 (see Chart 9). Significant factors driving this growth include the addition of newly funded positions, negotiated labor agreements, and rising pension costs. During this same time period, other operating expenses, consisting mainly of materials, services, and supplies, fell from 24.4% to 22.3% of total operating expenditures.

Chart 7
General Fund Salary & Benefit Expenditures

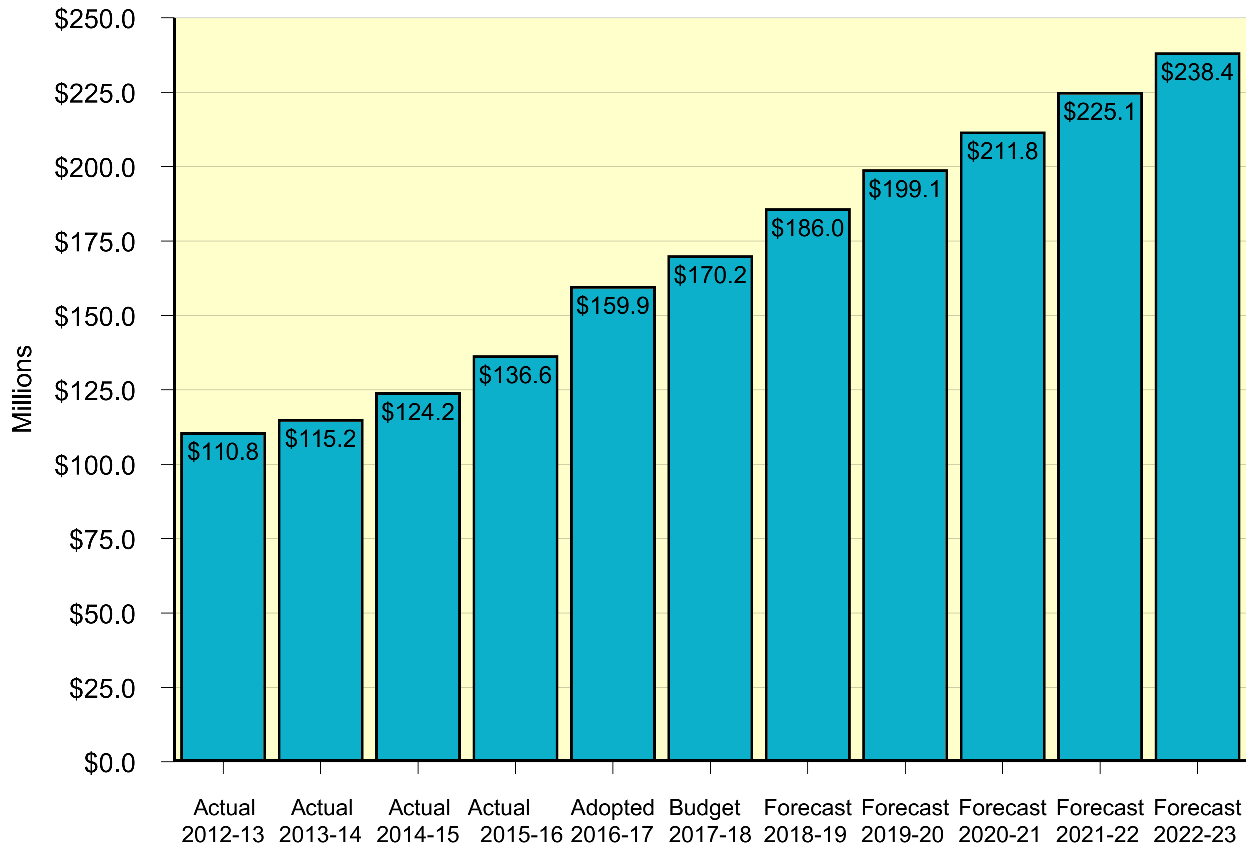


Chart 8
2017-18 General Fund Expenditure Components
Total General Fund Expenditures = $219.1 Million

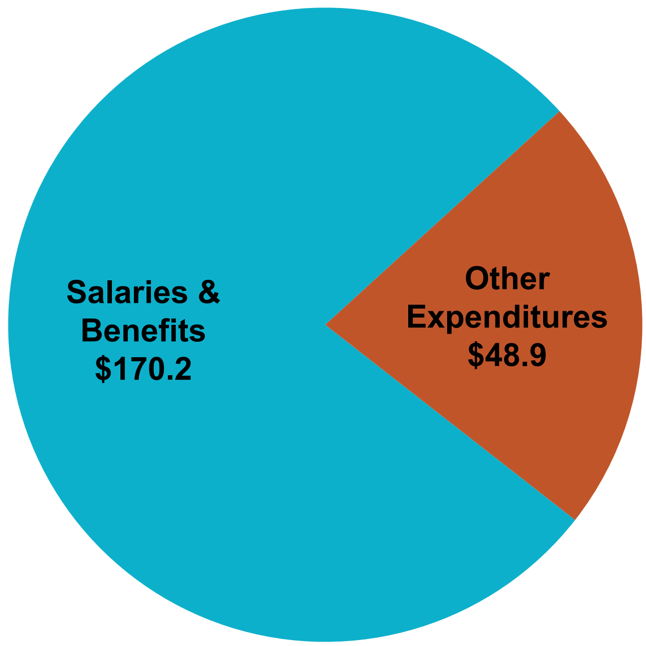
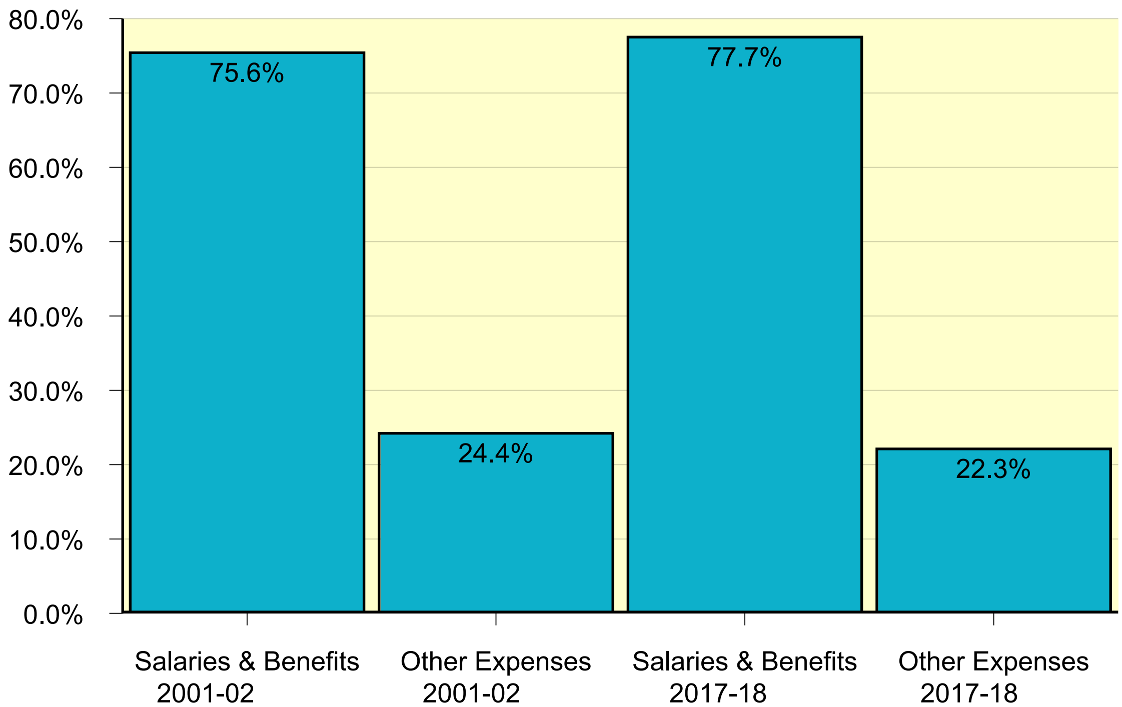


Chart 9
Time Comparison of Major Expenditure Categories



Retirement Costs

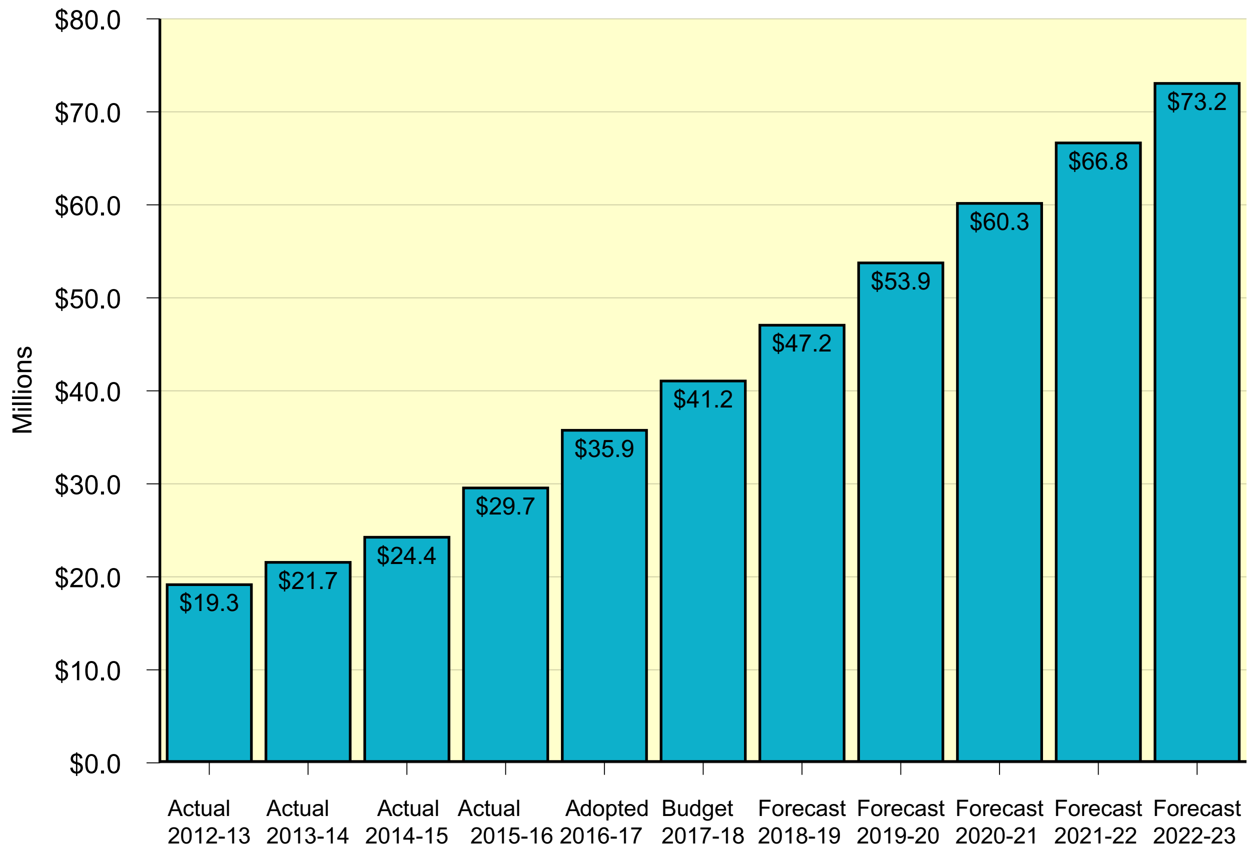
The City contributes to the California Public Employees Retirement System (CalPERS), which provides a defined benefit plan for participating public entities within the State of California. CalPERS offers a menu of benefit provisions that are established by State statutes within the Public Employee Retirement Law. The City selected its benefit provisions from the benefit menu by contract with CalPERS and adopted those benefits through local ordinance, following negotiations with employee bargaining groups.

The City's two defined benefit pension plans (Miscellaneous Plan and Safety Plan) with CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits for employees in the Miscellaneous Plan and Safety Plan vest after five years of CalPERS credited service. The retirement benefits under both plans are based on the retiree's age, years of CalPERS credited service, and a benefit factor of 2.7% at age 55 for Miscellaneous Plan members and 3.0% at age 50 for Safety Plan members.

In September 2012, the Governor signed AB 340, the Public Employees' Pension Reform Act of 2013 (PEPRA). This Act replaced existing pension benefit formulas for new hires with new lower benefit formulas for those new members who begin service January 1, 2013 or after. The City's PEPRA Miscellaneous Plan benefit formula is 2.0% at age 62 and the PEPRA Safety Plan benefit formula is 2.7% at age 57. Additionally, the salary basis for the retirement benefit is changed for all new hires from single highest year to highest average annual compensation over a three-year period. These changes are expected to slowly reduce rates over the next generation of employees.

CalPERS retirement costs rose sharply over the past decade as a result of the market losses in the early 2000s followed by benefit enhancements in the mid-2000s. In 2011-12, General Fund pension costs were $18.9 million; six years later, 2017-18 pension costs are projected to be $41.2 million. As shown in Chart 10, retirement payments on behalf of employees are expected to rise dramatically as required employer rate increases are rolled in to make up for investment losses in fiscal years 2007-08 and 2008-09, a lower investment return assumption, shorter smoothing and amortization periods, and other demographic assumption changes including longer lifespans for retirees. These increases accelerated beginning in 2011-12, and continue to ramp up as CalPERS phases each of them in. By the end of the Five-Year Financial Plan period, PERS expenditures are projected to reach an estimated $73.2 million and consume an estimated 28.5% of General Fund revenues.

Chart 10
General Fund PERS Expenditures



The first major driver behind current and future rising retirement costs is the steep market losses experienced during the Great Recession. The CalPERS investment portfolio lost 4.9% in 2007-08 and 24.0% in 2008-09. CalPERS' actuarial assumption at that time was that it would earn a 7.75% annual investment return; this is the rate of growth needed to keep employer rates stable, all other things being equal. Given this assumption, CalPERS fell short of its actuarial estimate by 44.4% over this two year period, placing significant upward pressure on future rates. Rate increases to make up for these losses were phased in over three years beginning in 2011-12.

The second major driver behind pension rate increases are decisions made by the CalPERS Board. In 2012, the CalPERS Board revised their investment earnings assumption downward from 7.75% to 7.5% and in 2013 the Board modified smoothing policies from 15-year rolling average to five-year direct smoothing and changed the amortization period for investment gains and losses from a rolling to a fixed 30-year period. These changes were designed to help agencies move toward 100% funding faster than under the prior policies. The lower investment earnings assumption was incorporated into the calculation of rates beginning in 2014-15. The smoothing and amortization policy changes are being implemented beginning in 2016-17. In 2014, the CalPERS Board approved new actuarial assumptions including mortality assumptions which show that retirees and their beneficiaries are expected to live longer than previously assumed, necessitating higher rates to fund higher lifetime pension payouts. These changes will be implemented over the five year period beginning in 2017-18. Most recently, the CalPERS Board approved lowering the investment earnings assumption (discount rate) downward 7.5% to 7.0% over the next three years. This change will increase rates beginning in Fiscal Year 2018-19.

Year-by-year pension rate projections are shown in Table 1.

Table 1
Projected CalPERS Employer Rates

	Percent of Salary:	
Fiscal Year	**Miscellaneous Plan**	**Safety Plan**
2015-16	29.562%	41.948%
2016-17	32.267%	44.431%
2017-18	33.430%	47.317%
2018-19	36.700%	51.100%
2019-20	40.100%	56.200%
2020-21	42.800%	60.300%
2021-22	45.000%	64.300%
2022-23	46.900%	67.600%

Chart 11 examines the City's unfunded PERS liability. In 2000-01, after years of double-digit returns on PERS investments, the value of the City's assets held by CalPERS actually exceeded projected liabilities, resulting in a super-funded scenario that allowed rates for the Miscellaneous Plan to drop to zero. However, due to investment losses, changes in actuarial assumptions, and benefit enhancements, by June 30, 2015 (the most recent actuarial valuation date) the unfunded liability increased to $420.7 million with the funded status decreasing to 64.6% for the Miscellaneous Plan and 69.7% for the Safety Plan.

Chart 11
PERS Actuarial Unfunded Liability

Budget Deficits Projected for the Forecast Horizon

For the first time since the Great Recession, the General Fund is reflecting a budget deficit beginning in 2018-19 and continuing to grow in the out years of the forecast (as shown in Chart 13). While revenues are anticipated to continue to grow at a moderate pace during the five-year forecast, expenditures are projected to outpace revenues beginning in 2018-19. The primary drivers behind the higher growth rate for expenditures continue to be rising pension rates and increases in salary and other benefit costs.

The 2017-18 General Fund budget is balanced and includes a $4.7 million transfer to the Working Capital Reserve. However, there was not sufficient funding to transfer to the Capital Projects Reserve.

It is important to note that revenue projections assume a moderately growing economy throughout the forecast period but do not include project specific revenues that may result from several large commercial and residential development projects currently under review or entitled but not yet under construction. If any of the development projects are completed and yield positive economic benefit, the outlook would improve. In addition, this forecast does not include a possible recession scenario.

Chart 12
General Fund Resources and Expenditures

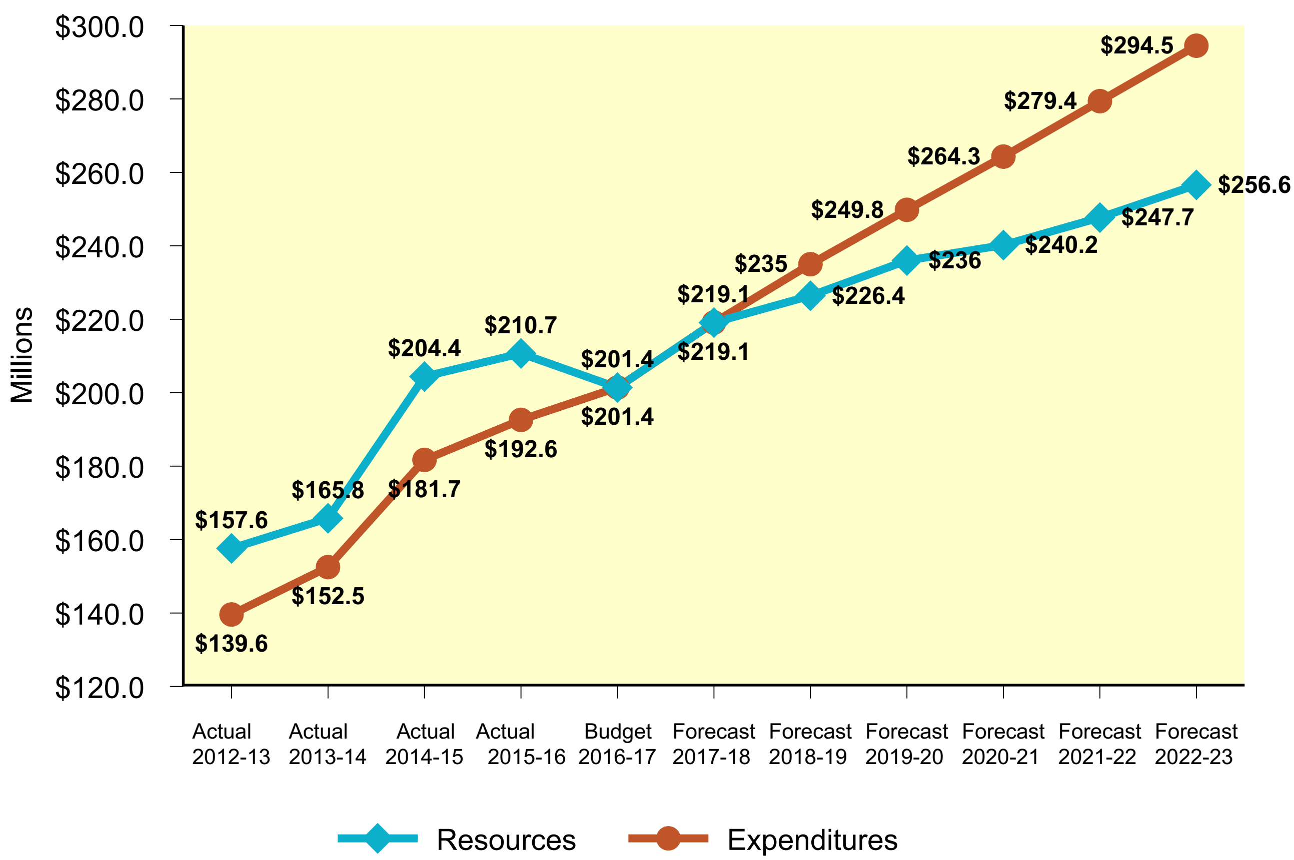
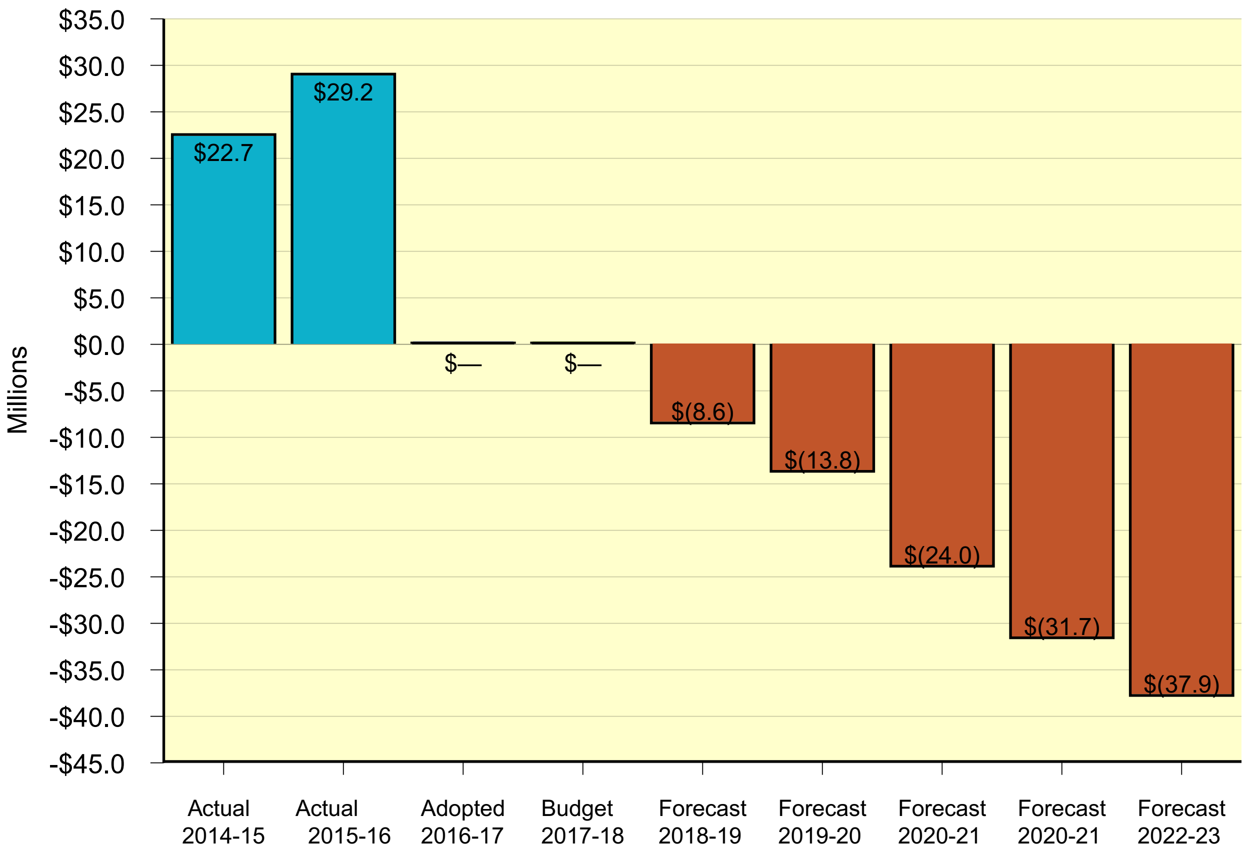


Chart 13
General Fund Operating Surplus/(Deficits)



Reserves

During 1985-86, the City Council established a policy regarding use of the City's General Contingency Reserve funds. Under that policy, two separate reserves were established: a *Working Capital Reserve* and a *Capital Projects Reserve*. The Working Capital Reserve is funded to protect vital General Fund services during economic downturns or to handle financial crisis or disaster situations. The target size for the Working Capital Reserve is 25% of General Fund expenditures or enough to provide funding for 90 days of operations.

During fiscal years 2002-03, 2003-04 and 2004-05, the City drew down its Working Capital Reserve to meet its financial needs. By 2004-05, the reserve ended with a balance of $13.8 million (see Chart 14). The City rebuilt the reserve to $21.1 million by 2007-08, thanks to strong economic growth and three consecutive years of operating surpluses. But as revenues began to fall in 2008-09, the City again had to turn to its reserves in an effort to protect vital services for its residents and other stakeholders, leaving a balance of only $2.5 million at June 30, 2010. Using the reserve helped sustain service levels but depleted a key source of funding that provides flexibility to respond to unanticipated operating events.

Economic recovery began to take hold in 2010-11 and as a result of five consecutive years of surpluses, the reserve level rose to $47.9 million as of June 30, 2015. A 2015-16 budgetary shortfall in the Cemetery Fund brought the reserve balance down to $47.5 million.

The 2016-17 Adopted Budget increased the target balance to $50.1 million and a $2.6 million General Fund transfer to the Working Capital Reserve has been budgeted to keep the balance in the reserve at or above the target.

Chart 14
Working Capital Reserve Ending Balances

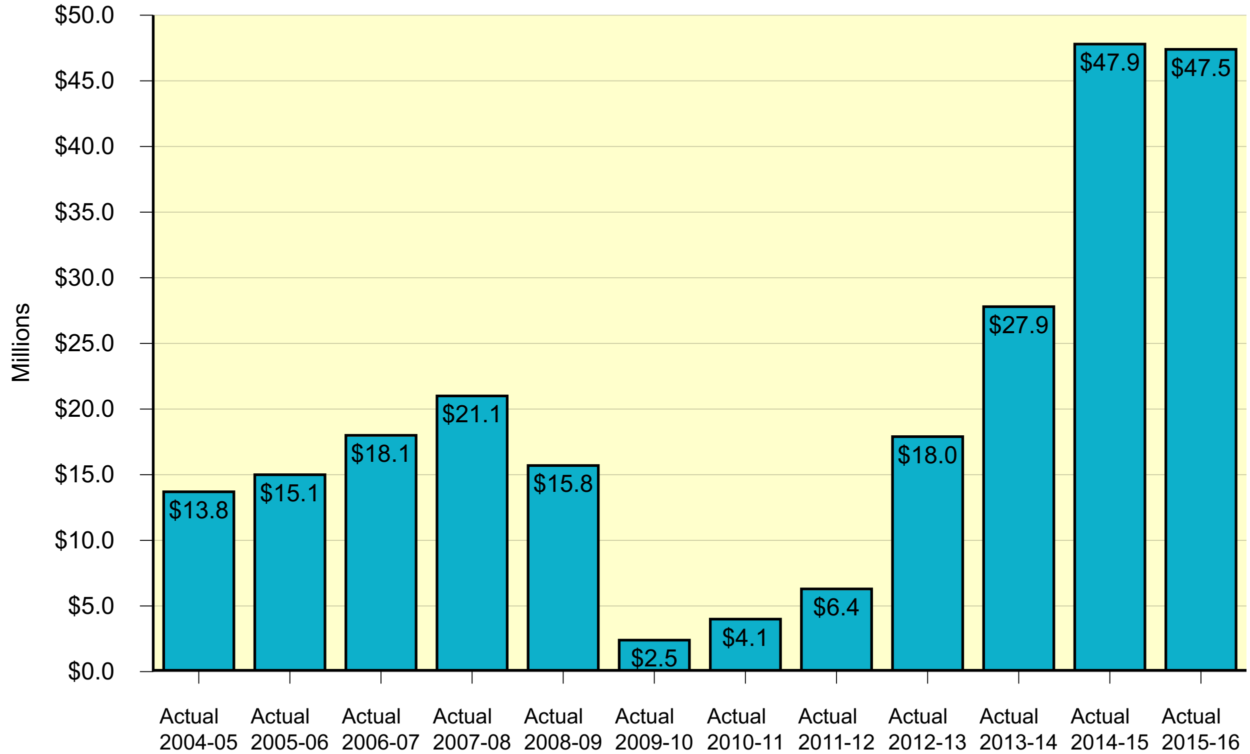


Chart 15 tells a similar story for the City's Capital Projects Reserve. This reserve is set aside to fund the portion of the City's capital spending program that has no other funding sources to support it. The projects funded from this critical reserve provide basic City infrastructure and quality facilities. The Council adopted a policy in 1996-97 to maintain a minimum of $5.0 million in the Capital Projects Reserve. Since 2000-01, the City drew down this key resource from $69.1 million to a low of $2.5 million on June 30, 2010. Surpluses the last five fiscal years have allowed for year-end contributions to the Capital Projects Reserve and the funding of capital projects that had been delayed during the recession. The balance has now exceeded the reserve target each of the last five years. At June 30, 2016, the balance stood at $15.4 million. The 2016-17 Budget includes a $12.6 million General Fund transfer to the Capital Projects Reserve.

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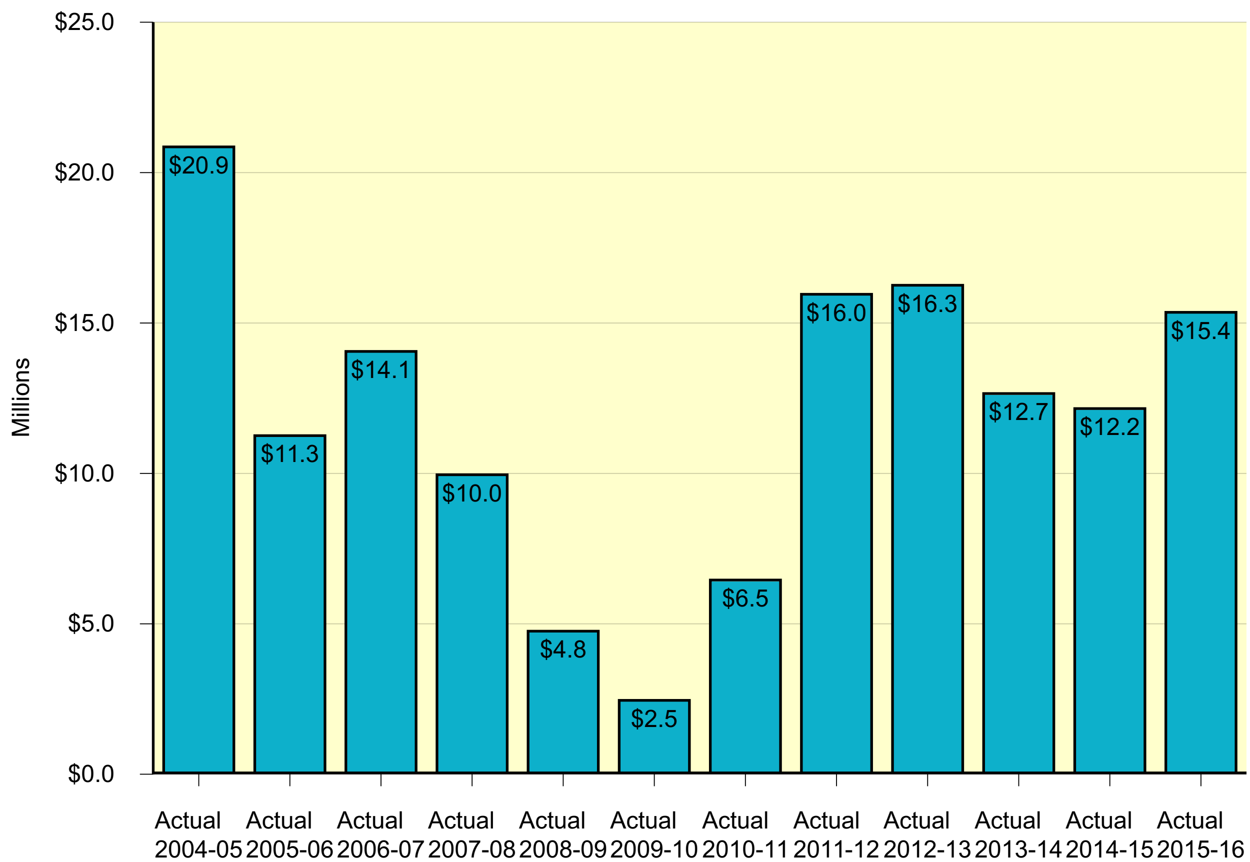
Chart 15
Capital Projects Reserve Ending Balances



ENTERPRISE TYPE ACTIVITIES

The City owns and operates various enterprise type activities including the Electric, Water, and Sewer utilities, City Cemetery, and Solid Waste program. A five-year projection of major enterprise fund revenues and expenses is included in the attached schedules. The projections were prepared by the respective entities with underlying economic and other pertinent assumptions that may differ from those outlined in this plan. Presentation of enterprise fund information in this plan is designed to draw attention to their financial relationship to the City's General Fund.

Silicon Valley Power

Silicon Valley Power (SVP) provides electric power and services to over 54,000 City customers. In calendar year 2016, the City of Santa Clara served approximately 1,660 industrial accounts that comprised 90% of the City's load and more than 88% of customer service revenues. The Electric Department provides diverse services including operating, maintaining and dispatching electric service, engineering, system design and planning, administrative and financial management, marketing, customer services, power trading, free outdoor Wi-Fi (powered by SVP Meter Connect) and dark fiber leasing services -- all of which make Silicon Valley Power a successful and reliable resource for the City and its citizens. SVP owns power generation facilities, invests in joint ventures that produce electric power, and trades power on the open market. Its primary goals are to provide safe, reliable service while remaining competitive in the marketplace and placing a premium on a high level of customer satisfaction. While the business environment has changed, SVP remains dedicated to responsive, low cost and reliable customer service.

Over the next five years, SVP will continue to build and expand its state-of-the-art power and communications infrastructure. SVP's mission is to be a progressive, service-oriented utility, offering reliable, competitively priced energy services for the benefit of Santa Clara and its customers. This means implementing energy efficiency programs, green technologies, ensuring reliable service, streamlining operations, and improving communications. SVP continually works with Santa Clara customers to enhance the value they receive from municipal ownership of their electric utility.

Also, over the coming years, significant activities will be required to comply with continually increasing legislative and regulatory mandates such as California State's Renewable Portfolio Standard (RPS) and the carbon cap-and-trade program. The State's RPS program requires electric service providers to increase procurement from eligible renewable energy resources to 33% of total procurement by 2020 and the Governor has recently signed Senate Bill 350 increasing that to 50% of total procurement by 2030. While SVP already exceeds current state-wide RPS goals, the RPS requires the utility to continue its support of this broad range of programs encouraging wise use of energy resources, especially renewable energy generation. The California carbon cap-and-trade program began in mid-2012 and works to cap and reduce CO_2 emissions by auctioning emission allowances and investing the proceeds in consumer benefits such as energy efficiency, renewable energy, and other clean energy technologies. At a Federal level, the North American Electric Reliability Corporation (NERC) has issued new reliability standards with mandatory requirements to ensure power system reliability throughout the country. SVP has established a framework to assure that the City is in and stays in compliance with NERC mandatory standards. Finally, SVP's upgraded bond ratings have reinforced the need to maintain a positive net income in normal operating years and rebuild Electric Utility reserves to the $120 to $180 million target range.

The cost of producing and procuring energy is projected to increase primarily due to higher electric transmission costs, increased gas transportation costs, and higher power purchase and generation expenses to serve the projected increase in retail load. Because the additional renewable resources were acquired to meet future state mandates and are not immediately needed, the additional costs are being partially offset by wholesale sales of the renewable energy. Special efforts were made to assure that costs for the procurement of natural gas and emissions allowances for carbon are properly projected.

To ensure safety and reliability requirements, SVP continues its multi-year substation rebuilding projects. The forecast assumes capital expenditures including substation upgrades, equipment replacement, new technology deployment, and economic development projects. Two projects (Northern Receiving Station Phase Shifting Transformer and SVP Fiber Optic Expansion Project) will result in reduced operating costs as well as improving the Utility's communications and business opportunities. The Phase Shifting Transformer project has been funded by a short-term loan, which will be repaid through the operating cost savings. The Fiber Optic expansion will be funded by Electric Customer Service Charges.

In other ongoing capital projects, the Electric Department continues to improve, demonstrate, and implement new technologies to support tomorrow's power grid. Some key projects being deployed in this area are the continuing development of an Advanced Metering Infrastructure (AMI) Project; the SVP Meter Connect program (which powers the City's free outdoor Wi-Fi); the ongoing Operational and Technology Project, updating the power scheduling and back office systems required to schedule, track and settle power purchase, sales and delivery transactions; LED streetlight upgrade projects; and the improvement of the electric system cyber and physical security as required by mandatory federal reliability standards.

SVP continues to improve electric infrastructure to provide a reliable and low-cost business environment so Santa Clara's economy can grow and thrive. Rapid growth in energy demand, aging grids, communication technologies, and environmental impacts are driving change in how utilities do business and operate. New services, customer demand, and regulatory requirements continue to drive the need for advanced technology solutions to improve customer energy services.

The Electric Department's Five-Year Financial Plan (see Schedule B) assumes no rate increase in January 2018, subject to further review and to City Council approval. Even with no rate increase, the Department maintains a positive net income required to rebuild reserve levels to the $120 million target range. Santa Clara's Electric Utility projects that it will continue to offer among the lowest system average electric rates in the State of California.

Water and Sewer Utilities

Water Utility (see Schedule C) - Water Utility expenditures are projected to increase by 6% between 2017-18 and 2018-19 and increase between 6% and 11% per year over the five-year planning period, primarily due to projected increases in the wholesale cost of water. Moderate increases are also projected in salaries and benefits, right-of-way fees, other operating expenditures, and Internal Service Fund allocations.

Sewer Utility (see Schedule D) - Expenditures in the Sewer Utility are projected to increase between 3% and 4% for the duration of the 5 year forecast period. Increases are driven primarily by increases in operations and maintenance (O&M) costs for the San Jose/Santa Clara Regional Wastewater Facility (RWF), as well as moderate increases in salaries and benefits, right-of-way fees, and Internal Service allocations.

Recycled Water Utility (see Schedule E) - Recycled Water Utility expenditures are projected to increase by 9% between 2017-18 and 2018-19, and by 8% per year over the remainder of the planning period. Increasing demand for and sale of, recycled water are the primary component of the projected increases.

Even with the projected increases in expenditures, the Utilities anticipate maintaining combined water, sewer, and recycled water rates at a competitive level that is affordable for residents and attractive for businesses.

Parks and Recreation Department
Cemetery Division

In continuous operation since 1864, Mission City Memorial Park (MCMP) is a 25+ acre historic property, a place of reverence and peace. Parks and Recreation staff honors the Park's past and are positioning MCMP for the future.

Fees for property and services are reviewed annually to ensure they are set appropriately. The inventory of available graves, niches, and crypts is managed to ensure residents have continued choices. Marketing strategies are employed to ensure Santa Clara residents are aware of MCMP as an excellent choice for their final resting place. Expenses are continuously evaluated to ensure resources are used efficiently and effectively, while maintaining MCMP in optimal condition.

Revenues for fiscal year 2016-17 are trending 5% more than the prior fiscal year. The upward trend is expected to continue as additional burial locations in the Park are verified and fees are adjusted.

The following category of sales has seen an increase in the past three fiscal years:

1. Interment rights (facilities) are a one-time fee which reserves a person's space in a grave, niche, or crypt;
2. Perpetual care (endowment) is a one-time fee collected for each person interred and whose principal and growth is reserved and portion of interest on growth is used to support future maintenance of the grounds and buildings;
3. Materials sold include burial vaults, flower vases and rings, niche plaques, and mono-bars;
4. Marker setting fees include the permanent placement of a personalized stone marker onto a grave;
5. Site preparation (labor) includes staff time required to prepare a site for burial, it is collected only at time of need, and each time the site is accessed.

To assure future maintenance funds are available to support grounds and buildings, a 25% increase in perpetual care (endowment) was established in fiscal year 2016-17 which resulted in increased revenue. Continued increases in perpetual care and interment rights in 2017-18 will have a positive effect on revenues.

The Cemetery's salaries and benefits, other operating expenditures, and Internal Service Fund allocations are projected to increase by 4% per year over the five-year planning period (see Schedule F). Salary and benefit cost savings from previous years, which were the result of vacant positions, are anticipated to decrease as budgeted vacant positions are filled.

CONCLUSION

The Five-Year Financial Plan provides policy-makers and the public an updated assessment of the City's financial condition that takes into account the latest projections of economic conditions. The benefit of the Five-Year Financial Plan is to provide the City Council, staff, and community a clear assessment of the City's finances and facilitate an informed discussion during budget deliberations. The Plan serves as a starting point to provide perspective and analysis of what will happen if current financial decisions and operating practices continue into the future.

CITY OF SANTA CLARA
GENERAL FUND
FIVE-YEAR FINANCIAL PLAN

	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Budget
ESTIMATED RESOURCES					
Property Tax	$ 31,747,458	$ 39,135,396	$ 37,576,165	$ 45,621,226	$ 46,690,000
Sales Tax	44,351,021	46,408,534	49,933,156	50,254,965	64,267,475
Transient Occupancy Tax	13,046,576	15,042,438	17,843,363	20,034,096	20,000,000
Franchise Tax	3,342,501	3,515,786	3,698,326	3,822,934	3,853,800
Documentary Transfer Tax	1,004,613	1,189,605	1,251,217	1,788,993	1,500,000
Subtotal	**93,492,169**	**105,291,759**	**110,302,227**	**121,522,214**	**136,311,275**
Licenses and Permits	4,461,962	4,789,470	7,571,732	9,291,969	9,594,000
Fines and Penalties	2,157,223	2,059,613	1,897,719	2,099,606	1,870,300
Interest	2,153,871	1,676,679	1,528,318	1,728,451	1,000,000
Rents and Leases	16,876,124	5,399,653	8,832,662	13,163,166	12,578,347
Revenue From Other Agencies	390,988	613,147	2,908,422	1,836,292	370,000
Charges For Current Services	24,714,568	30,771,701	35,455,954	44,898,240	39,415,907
Contribution In-Lieu of Taxes	15,218,781	16,591,452	17,492,882	19,057,004	19,652,620
Other Revenue	354,204	955,512	393,614	582,604	460,006
Subtotal	**66,327,721**	**62,857,227**	**76,081,303**	**92,657,332**	**84,941,180**
Net Interfund Transfers	**(2,192,161)**	**(2,383,729)**	**17,999,949**	**6,926,589**	**(19,844,374)**
Total Estimated Resources	**$ 157,627,729**	**$ 165,765,257**	**$ 204,383,479**	**$ 221,106,135**	**$ 201,408,081**
ESTIMATED EXPENDITURES					
Salaries	76,153,460	78,634,215	85,107,542	92,932,775	104,279,518
Separation Payouts	2,388,903	1,290,295	828,690	1,943,326	1,500,000
Benefits	32,295,012	35,323,866	38,265,174	42,872,044	54,081,534
Materials, Services, and Supplies	20,878,681	28,701,805	48,572,118	44,789,439	31,514,929
Interfund Services	7,914,369	8,497,212	8,793,854	9,190,715	9,629,546
Capital Outlay	7,631	16,209	109,342	177,211	402,554
Total Estimated Expenditures	**$ 139,638,056**	**$ 152,463,602**	**$ 181,676,720**	**$ 191,905,510**	**$ 201,408,081**
Surplus/(Deficit)	**$ 17,989,673**	**$ 13,301,655**	**$ 22,706,759**	**$ 29,200,625**	**$ —**

RESOURCE AND EXPENDITURE TREND
GENERAL FUND

	2017-18 Budget	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast	2020-21 Forecast	2022-23 Forecast
ESTIMATED RESOURCES						
Property Tax	$ 51,359,000	$ 54,440,540	$ 57,706,972	$ 60,592,321	$ 63,621,937	$ 66,803,034
Sales Tax	59,047,475	59,914,087	61,726,455	63,211,606	64,546,567	65,854,367
Transient Occupancy Tax	20,600,000	21,321,000	22,067,235	22,839,588	23,638,974	24,466,338
Franchise Tax	3,916,300	4,053,371	4,195,238	4,342,072	4,494,044	4,651,336
Documentary Transfer Tax	1,200,000	1,242,000	1,285,470	1,330,461	1,377,028	1,425,224
Subtotal	**136,122,775**	**140,970,997**	**146,981,371**	**152,316,048**	**157,678,550**	**163,200,298**
Licenses and Permits	8,459,000	8,755,065	9,061,492	9,378,645	9,706,897	10,046,638
Fines and Penalties	1,606,300	1,662,521	1,720,709	1,780,934	1,843,266	1,907,781
Interest	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Rents and Leases	11,019,497	11,019,497	11,019,497	11,019,497	11,019,497	11,019,497
Revenue From Other Agencies	1,310,000	400,000	400,000	400,000	400,000	400,000
Charges For Current Services	41,271,526	42,721,771	44,223,033	45,777,110	47,385,861	49,051,213
Contribution In-Lieu of Taxes	21,661,903	22,522,070	23,709,696	23,236,272	23,449,094	23,715,648
Other Revenue	415,920	430,477	445,544	461,138	477,278	493,982
Subtotal	**87,744,146**	**89,511,401**	**92,579,971**	**94,053,594**	**96,281,892**	**98,634,759**
Net Interfund Transfers	**(4,717,155)**	**(4,032,819)**	**(3,596,728)**	**(6,137,524)**	**(6,278,622)**	**(5,204,744)**
Total Estimated Resources	**$ 219,149,766**	**$ 226,449,579**	**$ 235,964,614**	**$ 240,232,118**	**$ 247,681,820**	**$ 256,630,313**
ESTIMATED EXPENDITURES						
Salaries	106,054,342	114,957,037	120,041,604	125,268,476	130,848,558	136,593,243
Separation Payouts	2,000,000	2,090,000	2,184,050	2,282,332	2,385,037	2,492,364
Benefits	62,149,879	68,987,590	76,849,834	84,285,084	91,860,124	99,310,299
Materials, Services, and Supplies	38,008,001	38,069,465	39,401,897	40,780,963	42,208,297	43,685,587
Interfund Services	10,202,144	10,559,219	10,928,792	11,311,299	11,707,195	12,116,947
Capital Outlay	735,400	345,638	345,638	345,638	345,638	345,638
Total Estimated Expenditures	**$ 219,149,766**	**$ 235,008,949**	**$ 249,751,815**	**$ 264,273,792**	**$ 279,354,849**	**$ 294,544,078**
Surplus/(Deficit)	**$ —**	**$ (8,559,370)**	**$ (13,787,201)**	**$ (24,041,674)**	**$ (31,673,029)**	**$ (37,913,765)**

Note: Net interfund transfers includes one-time budgeted transfers to the Working Capital, Capital Projects. and Building Inspection Reserves totaling $18.0 million in 2016-17.

Schedule B

CITY OF SANTA CLARA
ELECTRIC UTILITY (FUND 091,191,491)
FIVE-YEAR FINANCIAL PLAN

	Budget 2017-18	Forecast 2018-19	2019-20	2020-21	2021-22	2022-23
ESTIMATED REVENUE						
Transfers From (To) Reserves[2]	$ (2,874,800)	$ (15,654,707)	$ (19,033,126)	$ (1,924,191)	$ (22,821,823)	$ (23,015,005)
Customer Service Charges[1]	407,795,213	421,938,090	431,925,233	436,582,945	440,948,775	445,358,262
Mandated Revenues	11,622,164	12,025,236	12,309,869	12,442,614	12,567,040	12,692,710
Rents, Interest, & Other Fees	8,261,091	8,378,074	9,908,819	10,799,875	10,666,060	10,911,981
Other Revenue	5,625,000	8,100,000	20,050,000	4,900,000	4,800,000	5,350,000
Land Sales	17,000,000	—	—	—	—	—
Transfers In	1,108,000	648,000	918,000	918,000	—	—
Intra-transfers Out (CIP)	(55,465,200)	(41,341,400)	(43,096,400)	(43,400,400)	(17,817,600)	(17,120,000)
Transfers Out	(993,298)	(1,001,469)	(948,735)	(824,934)	—	—
Total Revenues	**$ 392,078,170**	**$ 393,091,824**	**$ 412,033,660**	**$ 419,493,909**	**$ 428,342,452**	**$ 434,177,948**
ESTIMATED EXPENDITURES						
Salaries and Benefits	$ 40,351,840	$ 39,845,118	$ 41,080,317	$ 42,394,887	$ 43,793,919	$ 44,888,766
Mat/Serv/Sup	18,756,307	19,318,996	19,917,885	20,555,257	21,233,581	21,764,420
Resource and Production	267,661,334	267,792,476	282,952,744	288,295,028	294,208,929	297,574,772
Interfund Services	10,989,333	11,319,013	11,669,902	12,043,339	12,440,769	12,751,789
Contribution In Lieu of Taxes	21,661,903	22,522,070	23,709,696	23,236,272	23,449,094	23,715,648
Public Benefits Expense	11,622,164	12,025,236	12,309,869	12,442,614	12,567,040	12,692,710
Capital Improvements & Outlay	328,000	337,840	348,313	359,459	371,321	380,604
Debt Service	20,707,289	19,931,074	20,044,934	20,167,053	20,277,799	20,409,239
Total Expenditures	**$ 392,078,170**	**$ 393,091,824**	**$ 412,033,660**	**$ 419,493,909**	**$ 428,342,452**	**$ 434,177,948**
Operating Surplus/(Deficit)	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

1. Assumes no rate increase in 2017-18 through 2022-23, subject to further review and to City Council approval.
2. Includes contributions to Rate Stabilization, which includes the Cost Reduction Fund.

CITY OF SANTA CLARA
WATER UTILITY (FUND 092)
REVENUE AND EXPENDITURE PROJECTIONS

	Budget 2017-18	Forecast 2018-19	2019-20	2020-21	2021-22	2022-23
REVENUE						
Transfers From (To) Reserves	$ (5,580,713)	$ (8,460,818)	$ (7,984,970)	$ (9,434,590)	$ (10,141,309)	$ (10,943,863)
Cust. Serv. Charges & Fees[1]	43,400,000	48,725,180	52,696,282	56,991,029	61,635,797	66,659,116
Other Revenue	994,697	994,697	994,697	994,697	994,697	994,697
Use of Money and Property[2]	220,905	225,323	229,830	234,426	239,115	243,897
Total Revenues	**$ 39,034,889**	**$ 41,484,383**	**$ 45,935,839**	**$ 48,785,562**	**$ 52,728,300**	**$ 56,953,847**
EXPENDITURES						
Salaries and Benefits[3]	$ 7,610,316	$ 7,914,729	$ 8,231,318	$ 8,560,570	$ 8,902,993	$ 9,259,113
Other Operating Expenditures[3]	2,022,000	2,102,880	2,186,995	2,274,475	2,365,454	2,460,072
Resource and Production[4]	24,040,000	25,872,590	29,681,611	31,862,304	35,108,307	38,608,259
Internal Service Fund Allocations[3]	3,651,773	3,797,844	3,949,758	4,107,748	4,272,058	4,442,940
Right-of-Way Fee[5]	1,710,800	1,796,340	1,886,157	1,980,465	2,079,488	2,183,462
Total Expenditures	**$ 39,034,889**	**$ 41,484,383**	**$ 45,935,839**	**$ 48,785,562**	**$ 52,728,300**	**$ 56,953,847**
Operating Surplus/(Deficit)	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

1. Assumes 3% increase in sales each year; also assumes 9% rate increase in 2018-19, and 5% in each subsequent year.
2. Assumes 2% per year increase.
3. Assumes 4% per year increase.
4. Assumes agency projections for wholesale rates.
5. Assumes 5% per year increase.

Schedule D

CITY OF SANTA CLARA
SEWER UTILITY (FUND 094,494)
REVENUE AND EXPENDITURE PROJECTIONS

	Budget 2017-18	Forecast 2018-19	2019-20	2020-21	2021-22	2022-23
REVENUE						
Transfers From (To) Reserves	$ (12,956,118)	$ (13,716,295)	$ (14,374,236)	$ (15,061,143)	$ (15,778,269)	$ (16,526,922)
Cust. Serv. Charges & Fees[1]	37,300,000	38,792,000	40,343,680	41,957,427	43,635,724	45,381,153
Other Misc. Revenue	214,640	223,226	232,155	241,441	251,098	261,142
Use of Money and Property	441,810	450,646	459,659	468,852	478,229	487,794
Total Revenue	**$ 25,000,332**	**$ 25,749,577**	**$ 26,661,258**	**$ 27,606,578**	**$ 28,586,782**	**$ 29,603,167**
EXPENDITURES						
Salaries and Benefits[2]	$ 3,537,764	$ 3,679,275	$ 3,826,446	$ 3,979,503	$ 4,138,683	$ 4,304,231
Other Operating Expenditures	1,358,500	1,412,840	1,469,354	1,528,128	1,589,253	1,652,823
Resource and Production[3]	15,739,300	16,160,801	16,726,429	17,311,854	17,917,768	18,544,890
Internal Service Fund Allocations[2]	1,989,819	2,069,412	2,152,188	2,238,276	2,327,807	2,420,919
Right-of-Way Fee[4]	1,432,500	1,489,800	1,549,392	1,611,368	1,675,822	1,742,855
Debt Service	942,449	937,449	937,449	937,449	937,449	937,449
Total Expenditures	**$ 25,000,332**	**$ 25,749,577**	**$ 26,661,258**	**$ 27,606,578**	**$ 28,586,782**	**$ 29,603,167**
Operating Surplus/(Deficit)	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

1. Assumes rate increases of 4% per year for the duration of the forecast period.
2. Assumes 4% per year increase.
3. Assumes agency projections operations and maintenance (O&M) allocations for the Regional Wastewater Facility (RWF).
4. Assumes 5% per year increase.

CITY OF SANTA CLARA
RECYCLED WATER UTILITY (FUND 097)
REVENUE AND EXPENDITURE PROJECTIONS

	Budget 2017-18	Forecast 2018-19	2019-20	2020-21	2021-22	2022-23
ESTIMATED REVENUE						
Transfers From (To) Reserves	$ (791,108)	$ (908,957)	$ (1,101,276)	$ (1,323,698)	$ (1,580,281)	$ (1,875,487)
Customer Service Charges[1]	4,992,200	5,541,342	6,150,890	6,827,487	7,578,511	8,412,147
Other Revenue	311,250	311,250	311,250	311,250	311,250	311,250
Use of Money and Property[2]	27,613	28,165	28,729	29,303	29,889	30,487
Total Revenue	**$ 4,539,955**	**$ 4,971,800**	**$ 5,389,592**	**$ 5,844,342**	**$ 6,339,369**	**$ 6,878,397**
ESTIMATED EXPENDITURES						
Salaries and Benefits[3]	$ 600,035	$ 624,000	$ 649,000	$ 675,000	$ 702,000	$ 730,100
Other Operating Expenditures[3]	36,900	38,376	39,911	41,507	43,168	44,894
Resource and Production[4]	3,600,000	3,926,880	4,283,441	4,672,377	5,096,629	5,559,403
Internal Service Fund Allocations[3]	101,420	105,477	109,696	114,084	118,647	123,393
Right-of-Way Fee[5]	201,600	277,067	307,544	341,374	378,926	420,607
Total Expenditures	**$ 4,539,955**	**$ 4,971,800**	**$ 5,389,592**	**$ 5,844,342**	**$ 6,339,369**	**$ 6,878,397**
Operating Surplus/(Deficit)	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

1. Assumes 2% increase in sales and 9% increase in retail rates each year.
2. Assumes 2% per year increases.
3. Assumes 4% increase per year.
4. Assumes agency projections for wholesale rates.
5. Based on 5% of Customer Service Charges starting in 18-19.

CITY OF SANTA CLARA
CEMETERY (FUND 093)
REVENUE AND EXPENDITURE PROJECTIONS

	Budget 2017-18	Forecast 2018-19	2019-20	2020-21	2021-22	2022-23
ESTIMATED REVENUE						
Sales-Facilities[1]	$ 184,728	$ 190,639	$ 196,740	$ 203,035	$ 209,533	$ 217,914
Sales-Labor	263,160	271,581	280,272	289,240	298,496	310,435
Sales-Endowment Care[2]	155	160	165	170	176	183
Sales-Material[3]	151,704	156,559	161,568	166,739	172,074	178,956
Capital Projects Reserve	10,000	60,000	15,000	65,000	15,000	15,600
General Fund Subsidy[4]	397,391	416,005	437,597	460,210	483,892	557,650
Total Revenue	**$ 1,007,138**	**$ 1,094,944**	**$ 1,091,341**	**$ 1,184,395**	**$ 1,179,171**	**$ 1,280,738**
ESTIMATED EXPENDITURES						
Salaries and Benefits	$ 679,327	$ 706,500	$ 734,760	$ 764,150	$ 794,717	$ 826,505
Other Operating Expenditures	147,390	153,286	159,417	165,794	172,425	179,322
Internal Service Fund Allocations	168,421	175,158	182,164	189,451	197,029	204,910
Capital Improvements & Outlay	12,000	60,000	15,000	65,000	15,000	70,000
Total Expenditures	**$ 1,007,138**	**$ 1,094,944**	**$ 1,091,341**	**$ 1,184,395**	**$ 1,179,171**	**$ 1,280,738**
Operating Surplus/(Deficit)	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

1. Pre-need sales throughout the Park.
2. Related to quantity (volume) of new property purchases and increased fees.
3. Sale of pre-installed crypt(s) at time of property purchase.
4. Includes loan from Working Capital Reserve to cover revenue shortfalls.