

Build Your Forecast

This hypothetical scenario is for illustrative purposes only.

Background

Imagine you are part of the City of Cupertino's Budget Team. You have been asked to build a financial forecast for the City.

The Challenge

Over the next ten years, the City is projected to experience budget deficits, with revenues lower than expenses. The City also has over \$120 million in expense requests that are not currently funded.

Due to the unprecedented uncertainty of COVID-19, it's difficult to know what revenues will look like in the next ten years and what projects the City should fund.

The Goal

Fund requests that you believe are important to the City and its residents while balancing revenues and expenses.

Key Questions

- What will revenues look like in the forecast?
- Which expense requests should the City fund?
- Does the City need to implement revenue generation measures (i.e., additional taxes) or expense reduction strategies?

There is no right or wrong answer. It's more important to explain the reasoning behind your decisions.

Additional Information

Sales Tax

Sales tax revenues experienced tremendous growth during FY 2019-20 and FY 2020-21 due to increases in business-to-business and on-line sales. However, we believe this to be a one-time experience due to State-wide shelter-in-place mandates.

All forecasts assume annual growth of 2% but start with different bases in FY 2021-22.

- Forecast A: \$29 million in FY 2021-22
- Forecast B: 5% lower (\$28 million) in FY 2021-22
- Forecast C: 10% lower (\$27 million) in FY 2021-22

Sales Tax Revenue History

- FY 2018-19 Actual: \$24.9 million
- FY 2019-20 Actual: \$35.7 million
- FY 2020-21 Estimate: \$33 million

What will sales tax revenues look like in FY 2021-22?

Property Tax

Property taxes are anticipated to remain stable in the near-term, but we have yet to identify how potential telework structures might impact these revenues in the long-term.

All forecasts start with the same base of \$28 million in FY 2021-22 but differ in how fast they increase.

- Forecast A: 3% annual growth
- Forecast B: 2.5% annual growth
- Forecast C: 0.5% annual growth

Property Tax Revenue History

- FY 2018-19 Actual: \$25.3 million
- FY 2019-20 Actual: \$26.6 million
- FY 2020-21 Estimate: \$27.8 million

How will property tax revenues change over the next decade?

Transient Occupancy Tax

Transient occupancy tax (TOT) revenues experienced a significant decrease due to COVID-19-related travel reductions. Transient occupancy taxes rely heavily on local business' employees being at the workplace. As a result, potential telework structures will also have a significant impact on these revenues.

All three forecasts assume that TOT revenues will recover to a "new normal" in FY 2023-24 and gradually increase after.

- Forecast A: fully recover to pre-COVID levels of \$10 million.
- Forecast B: "new normal" is 75% of pre-COVID levels
- Forecast C: "new normal" is 50% of pre-COVID levels

Transient Occupancy Tax History

- FY 2018-19 Actual: \$8.9 million
- FY 2019-20 Actual: \$7.4 million
- FY 2020-21 Estimate: \$2.0 million

What will TOT revenues look like in the "new normal?"

Revenue Generation Strategies

If the City needs to increase revenues, options include a parcel tax, a ¼ cent increase to transaction and use tax, and a 2% increase to transient occupancy tax. The table below lists the pros and cons of each and whether voter approval is required.

	Description	Pros	Cons	Potential Impact
Parcel Tax	Tax on property that is not based on assessed value Voter Approval: 2/3 vote (special) required	City can define specific purpose(s) for revenue use Flexibility in design	Requires 2/3 vote Flat rate tax considered regressive	\$3.5M flat rate per parcel
Transaction and Use Tax (1/4 cent increase)	Tax on sale of goods and services Voter approval: 2/3 vote (special); majority vote (general)	Fairly proportional to surrounding areas Burden spread across residents, businesses, and visitors	Not applicable to business to business sales when purchaser located outside City	\$4M annually
Transient Occupancy Tax (2% increase)	Tax on hotel and short-term rental stays Voter Approval: 2/3 vote (special); majority vote (general)	Paid by non-residents Historically strong approval rates in the State	Adding 2% to TOT rate would place it second to Palo Alto for the region and make it one of the highest in the State	\$1.25M at \$7.5M base

What revenue generation strategies should the City consider?

Expenditure Reduction Strategies

If the City needs to reduce expenditures, options include offsetting pension costs with a Section 115 Trust, reducing service levels and staffing, and reducing special projects.

	Description	Pros	Cons	Potential Impact
Offset pension costs with Section 115 Trust	The Section 115 Trust is a fund that was established to mitigate future pension cost increases. It has a balance of \$17 million.	Reduces expenses	Less funds available to mitigate future pension cost increases. Miss out on potential investment earnings	\$1.0 million annually
Reduce service levels and staffing (5 FTE)	5 Positions will be left vacant when employees leave.	Reduces expenses	Decrease in service levels. Projects may take longer to complete.	\$0.8 million annually
Reduce Special Projects	Special projects are one-time projects.	Reduces expenses	Fewer funds available for one-time projects.	\$1.5 million annually

What expenditure reduction strategies should the City consider?

Expense Requests

The following table lists requests that are not currently funded.

	Description	Potential Impact
Healing Garden	Design and construct a tranquil, relaxing garden to promote positive outcomes, including stress reduction.	\$1.0 million one-time
Mary Avenue Trail and Greenbelt	Create a linear park-like greenbelt with separated bikeway and pedestrian path.	\$6.2 million one-time
McClellan Ranch Barn Renovation	Design and construct improvements to renovate the barn into an educational and public space.	\$3.3 million one-time
Memorial Park Improvements	Design and construct Memorial Park improvements to enhance the site as a community hub and multi-use civic-focused event space.	\$5.0 million one-time
Aquatic Center	Design and construct a facility to provide year-round swimming, designed for swimming, aquatic exercise, lap swimming, and events.	\$2.5 million annually
City Hall Improvements	Design and construct renovations to the existing City Hall for increased operational efficiencies and improved customer service.	\$1.0 million annually
Gymnasium Complex	Design and construct Gymnasium Complex that would provide a gymnasium complex and recreation center	\$1.8 million annually
Performing Arts Center	Design and construct a Performing Arts Center to include a community auditorium or fine and performing arts center	\$4 million annually
Senior Center Expansion	Design and construct an expansion to the existing Senior Center to provide additional recreation space for older adults	\$1.3 million annually

Which requests would you fund?