

INDIAN WELLS CITY COUNCIL

May 18, 2023



To: City Council
From: Finance Department
Prepared by: Kevin McCarthy, Finance Director
Subject: **Fiscal Years 2023-25 Biennial Operating Budget and Five-Year Capital Improvement Plan**

RECOMMENDED ACTION:

Council **REVIEWS, DISCUSSES,** and **APPROVES** or **APPROVES AS AMENDED** the Biennial Operating Budget and Capital Improvement Plan from July 1, 2023, through June 30, 2025.

BACKGROUND:

Summary:

The City of Indian Wells remains committed to enhancing the Resident's quality of life in Indian Wells. Additional funding has been allocated to improving public communication, increasing resident activities, and exciting events as part of a community outreach strategy. City Officials have established warm and open lines of communication with all residents to meet the changing needs of this most prestigious and remarkable community.

Presented for your review are the proposed biennial budget for the fiscal years 2023-24 and 2024-25. Indian Wells is conservative by nature, and the updated cash flows presented in this budget reflect it.

An anticipated economic slowdown has led to lower overall spending. General Fund revenues are expected to grow less than 1% primarily due to a potential decline in transient occupancy taxes. Despite inflationary concerns, public safety increases, and other contractual obligations, staff have effectively maintained General Fund expenditures at the prior year's funding levels.

Achieving Council's Established Financial Goals during the Budget Cycle

The General Fund budget, as submitted, is balanced and includes \$23.6 million in General Fund operating revenues and \$22.6 million in operating expenditures. Appropriations for

operational costs are balanced in relation to projected revenue sources and do not rely on one-time revenue sources or reserves.

The City Council's financial goals for 2023 are included in the budget cycle:

- Provides a General Fund \$1.0 million surplus.
- Continues the time-honored practice of reserving more than \$2.0 million annually for long-term capital replacements.
- Maintains a fully funded pension program.
- Development of Community Facilities Districts offsetting future Public Safety costs of existing residents.
- Expands the pension program to pre-fund future pension obligations decreasing taxpayer obligations.

What's New in the Budget:

The following programs were added to this year's budget:

- Expanded line-item detail in budget programs, improving transparency.
- Increased Professional Development funding for Council Members.
- Enriched public communications funding for Residents.
- Expanded Resident Amenities program to increase connectivity and inclusion. Potential new programs include an Indian Wells Film Festival, an author-speaking series, new and expanded Resident parties, and heightened discussion of various Joslyn Senior Center programs.
- Provided funding for the CVAG homelessness program.
- Provided new Council-specific funding for new Community Assistance programs per Council Policy.
- Increased funding for electronic content records management consistent with best governance practices.
- Implements Senate Bill 1383 into this budget cycle.

The Budget Message:

The City of Indian Wells continues to enjoy the benefits of being one of California's wealthiest and financially well-managed cities. Oversight of the City's Finance Committee ensures this ranking and fiscal practice continues. The City's financial strength is attributed to the Council's emphasis on conservative fiscal management of its resources and the development of a cohesive City Council and management team.

Tourism is the primary driver of the City's revenues, with significant impacts on the transient occupancy tax, admissions tax, and sales tax categories. Tourism and Golf Resort revenues through the fiscal year returned better than predicted. As a result, transient occupancy tax and admissions tax revenue reached historic collections during the year.

City services, especially public safety, are continually monitored and improved. This ensures that all City services meet our residents' needs while maintaining the highest level of fiscal responsibility. In addition, the City continues its time-honored practice of reserving more than \$2.0 million annually for long-term capital replacements and successfully manages its pension and other post-employment benefits by fully funding retirement obligations.

This financial success only sometimes translates into economic success the following year. Given ongoing concerns relating to the pandemic, plausible consumption of pent-up demand, escalating fuel prices, potential impacts of quantitative easing, and the long-term view of the economy, Indian Wells remains "optimistically cautious" and has taken a fiscally conservative approach to the following year's spending.

Economic Outlook:

Facing rising inflation, the Federal Reserve, tasked with maintaining stable price growth, has repeatedly enacted interest rate increases throughout 2022 to cool the economy and, in turn, slow inflation. The more prolonged inflation persists, the higher the Federal Reserve will increase interest rates in response. The chance that the Federal Reserve can tame inflation without inducing a recession is narrow, especially with an inverted yield curve.

A yield curve inversion, when rates for two-year U.S. Treasury notes rise above those for 10-year notes, has preceded every recession since the 1960s. The first apparent inversion in 15 years happened in July 2022, although there were brief and shallow inversions in August 2019 and April 2022.

A recession seems likely, but how disruptive it will be to Indian Wells isn't clear. Hotel revenues and occupancy are near record highs, and there is a clear indication that the March 2023 tennis tournament returned to pre-pandemic levels. Moreover, long-term forecasts provided by hotel partners anticipate continued growth through 2023. However, this could all change instantly if the national economy falls into a significant recession.

Why does Indian Wells care about the national economy? Tourism! During the fiscal year 2022, tourism revenues (transient occupancy tax, admissions tax, and a portion of sales tax) accounted for approximately 70.0% of all General Fund revenues.

Tourism significantly impacts the Leisure and Hospitality industries of the Coachella Valley; when the economy is in a recession, people travel less. Some early tourism reports indicate that economic concerns have replaced health as the main apprehension for summer and fall travel. Of course, financial concerns will cause some to stay home, but those who plan to travel are prepared to increase their budgets. Nearly three in 10

travelers plan to spend more than they did in 2019, and high airfares and hotel room rates are the number one reason why.

Budget Overview:

The General Fund is the primary operating fund for the City. It accounts for sources and uses of resources that (primarily) are discretionary to the City Council in providing activities, programs, and services deemed necessary and desirable by the community. In addition, it accounts for all general revenues of the City not explicitly levied or collected for other City funds and related expenditures.

The primary revenue sources for this fund are transient occupancy taxes, admissions taxes, sales taxes, property taxes, franchise fees, business license fees, unrestricted revenues from the state, fines, forfeitures, and interest income. In addition, expenditures are made for community development, recreation, public safety, public works, and other services.

General Fund Forecast:

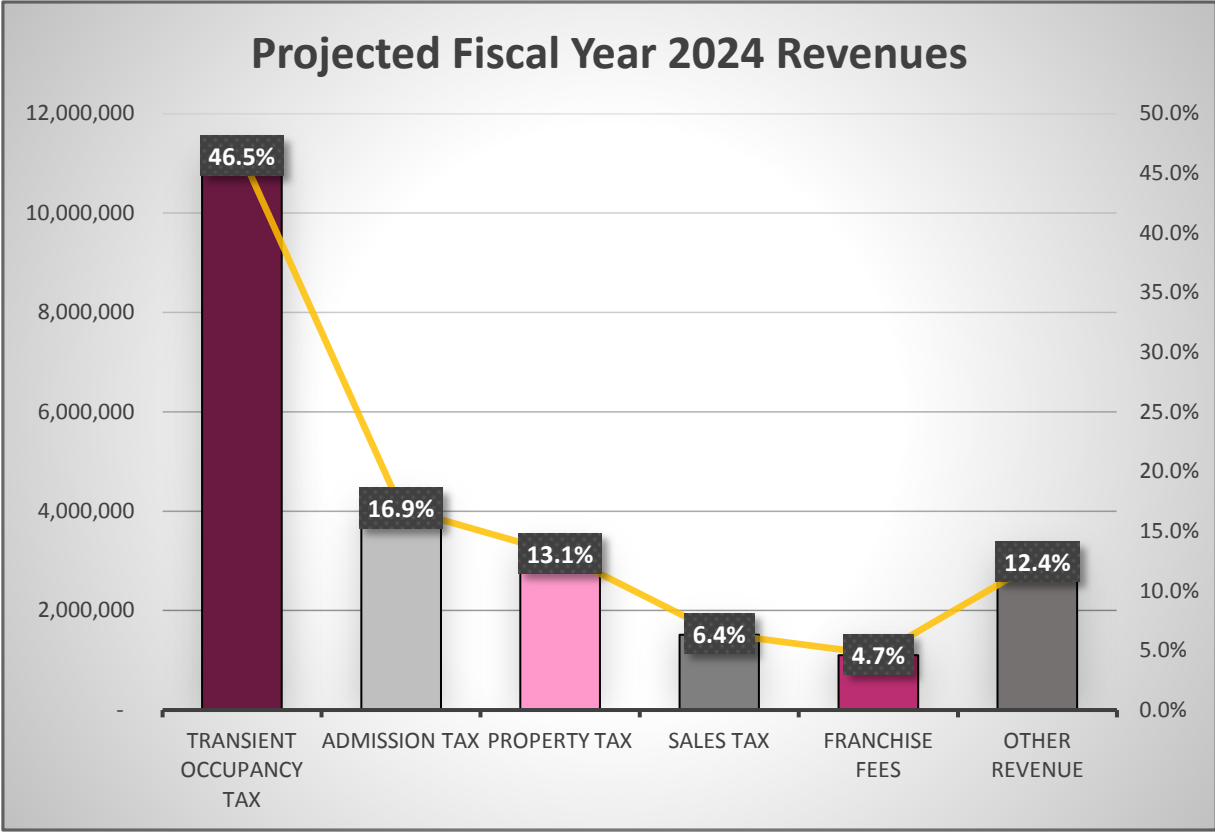
General Fund Forecast								
ACCOUNT TYPE	2023E	2024B	2025B	2026F	2027F	2028F	2029F	2030F
General Fund								
Revenues	23,417,822	23,637,617	24,535,490	25,320,626	26,130,886	26,967,074	27,830,020	28,720,581
Annual % Change		0.9%	3.3%	3.2%	3.2%	3.2%	3.2%	3.2%
General Fund								
Expenditures	22,378,387	22,576,408	23,362,429	24,180,114	25,026,418	25,902,342	26,808,924	27,747,237
Annual % Change		0.9%	3.9%	3.5%	3.5%	3.5%	3.5%	3.5%
Net Change								
in Fund Balance	1,039,435	1,061,210	1,173,061	1,140,512	1,104,468	1,064,732	1,021,096	973,344

General Fund Revenues:

Transient occupancy tax revenues are vital to the City’s financial success, accounting for 46.5% of General Fund revenues. Admissions tax is added to attendees’ ticket prices to enter entertainment venues or events in Indian Wells. The current admissions tax rate is 10%. Admissions tax revenues will continue to grow due to the success of the BNP Paribas Open held at the Indian Wells Tennis Gardens.

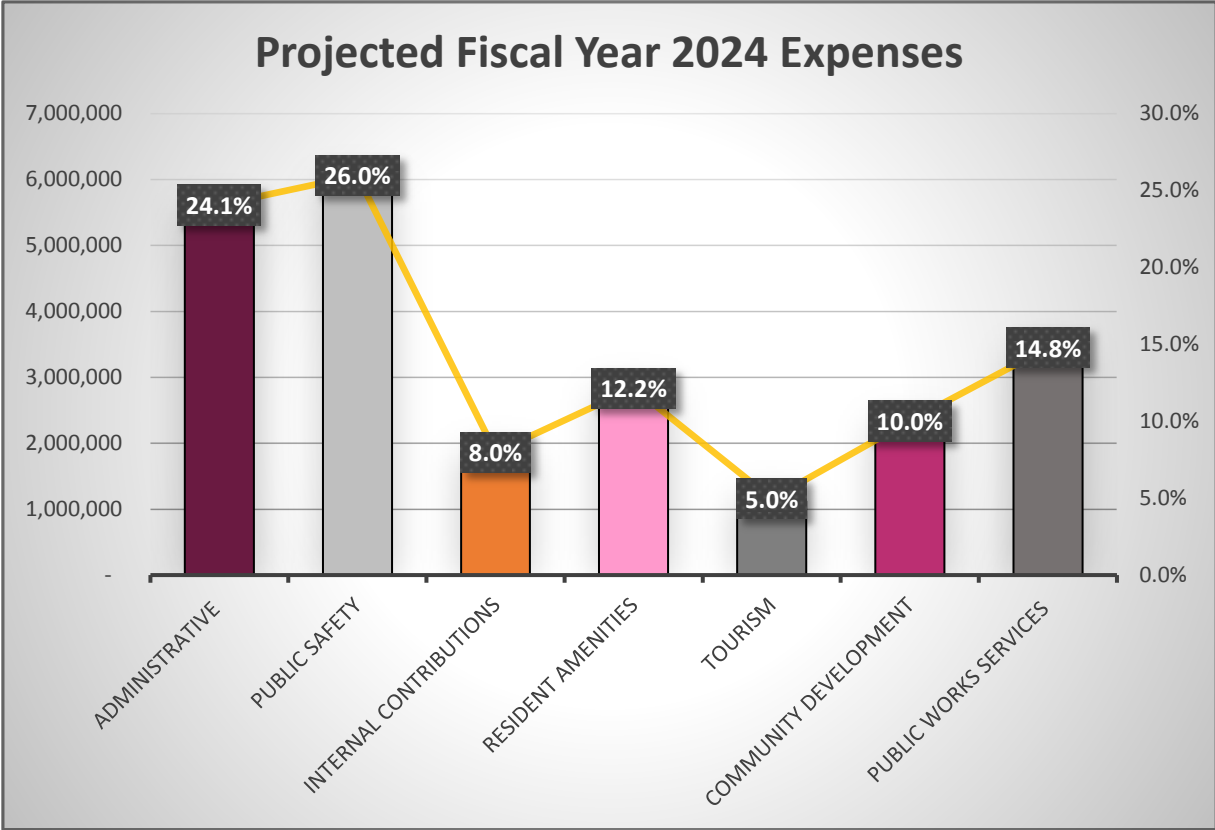
The City receives 6.4% of its General Fund revenues from sales tax. Under the California Sales and Use Tax Law, the sale of tangible personal property is subject to sales tax unless exempt or otherwise excluded. Therefore, a sales tax is imposed on retailers to sell tangible personal property.

The City receives 1% in sales tax on each taxable transaction that occurs in the City. Therefore, the sales tax forecast assumes growth consistent with the anticipated return of the tourism markets.



General Fund Expenses:

The General Fund budget includes \$22.6 million in General Fund operating expenditures.

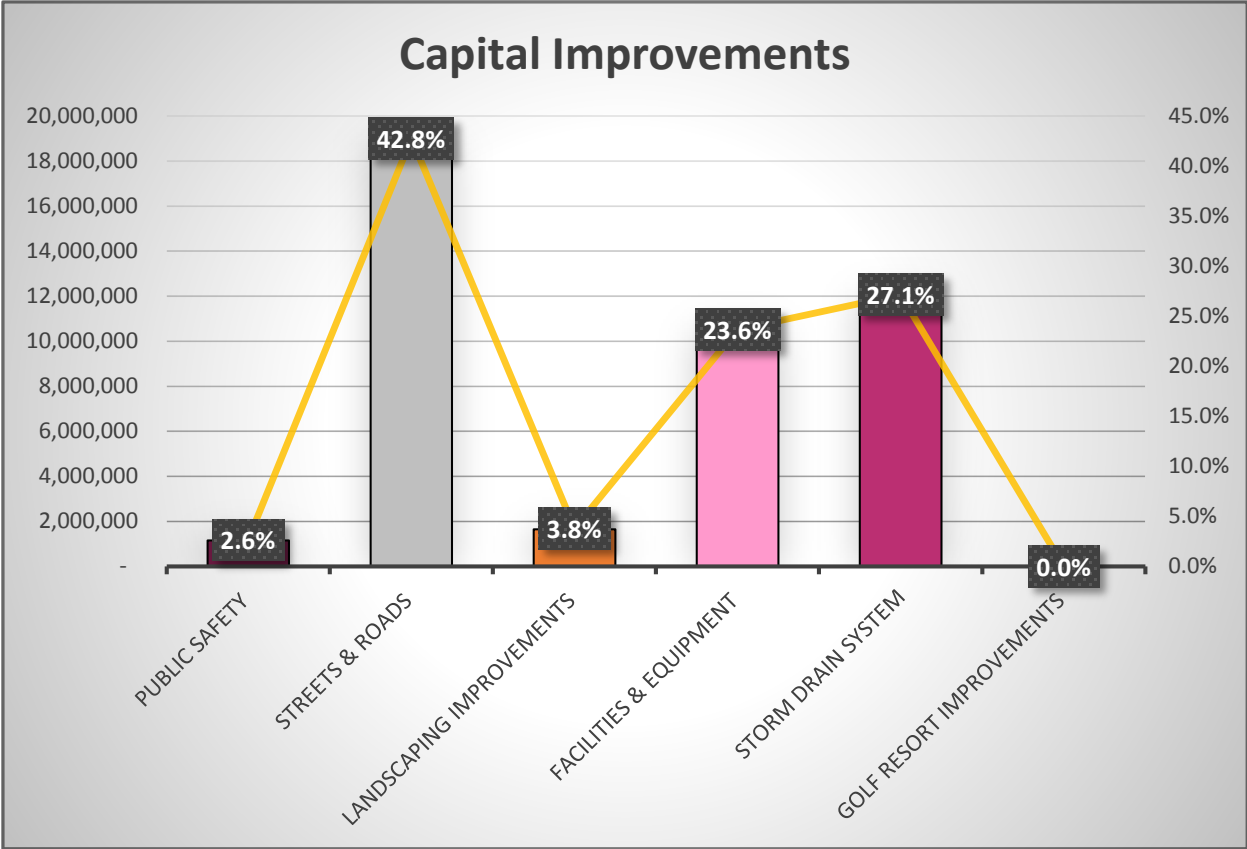


Capital Budget Overview

Capital budgeting is a fundamental part of the budgetary process at the municipal level. Municipalities employ it to plan, control, and allocate resources among competing demands. In addition, efforts to improve government efficiency have spurred interest in tools that help public officials make better capital investment decisions. As a result, capital budgeting is a vital part of financial planning and decision-making, especially regarding the development, construction, and acquisition of new capital facilities and maintenance of existing ones.

The City Council developed the four initiatives below during the initial development of the current Capital Improvement Plan.

- Maintain healthy, vibrant, and water conscience landscaping.
- Maintain a City Average Pavement Condition Index of seventy-five points or higher.
- Systematically remove and replace trees Citywide.
- Perform annual sidewalk repairs to remove tripping hazards.



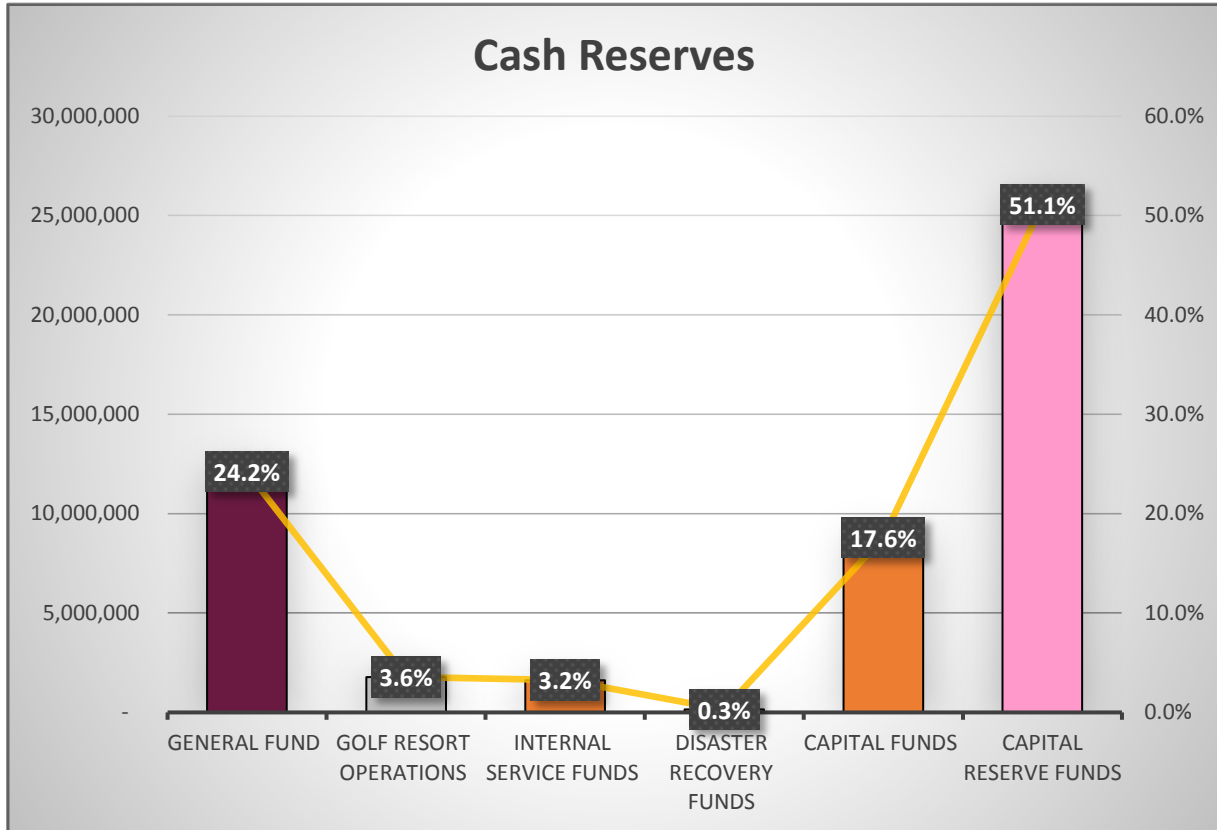
Individual projects are compiled, summarized, and identified to the various funding sources, including existing fund balances, projected revenues, developer fees, grants, and interfund loans. Once completed, capital improvements shall be maintained at the level needed to adequately protect the City’s capital investment and minimize future replacement costs.

The five-year capital improvement plan includes forty projects budgeted for \$43.4 million. Approximately \$21.0 million in General Fund expenditures and \$22.4 million comes from grants, developer contributions, the Housing Authority, and other sources. The City uses grant funding to develop capital projects to the extent possible. The location and description of each capital project are discussed within the capital budget.

Maintaining Strong Cash Reserves:

Today, Indian Wells has capital reserves of \$25.5 million, which is part of nearly \$50.0 million in cash reserves held by the City, as shown in the table below. In addition, the City Council established long-term capital replacement funds in the fiscal year 2011/12 as a part of a good governance strategy. Capital replacement Funds provide the funding necessary to construct capital improvement projects identified in the capital budgeting process.

The City reserves approximately \$2.0 million annually as a part of the budget. Identified funding sources in each category contribute to the annual reserve amount or fund annual capital expenditures, thereby reducing the yearly reserve amount.



ATTACHMENTS:

- 1. Resolution
- 2. City Budget