

INDIAN WELLS CITY COUNCIL

March 7, 2024



To: City Council
From: Finance Department
Prepared by: Kevin McCarthy, Finance Director
Subject: **Living Desert Extraordinary Funding Request Update**

RECOMMENDED ACTIONS:

Council **DISCUSSES** the Living Desert Zoo Funding Consideration, **RECEIVES** additional public input, and **DIRECTS** the next steps in the funding request process; and

FINDS the project to be exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to Section 15060.

SUMMARY:

The community is evaluating a \$2,000,000 funding request from the Living Desert to support educational and programmatic initiatives. In return, the Living Desert offers naming opportunities for the new Marketplace Restaurant & Patio and Splash Pad, both situated on Indian Wells land.

This proposed funding level activates the Council's Extraordinary Funding Policy, which includes a robust community involvement component. The process involves multiple public meetings, surveys, and a town hall meeting, ensuring comprehensive engagement with the community.

The primary goal of the Extraordinary Funding Policy is to solicit community input through a public engagement process, allowing sufficient time for residents to discuss matters with neighbors and respond to the City Council. The policy requires the applicant to oversee and direct the Community Involvement component at their own expense. This is just one of the public meetings to discuss their request.

To facilitate this community involvement, the City and the Living Desert have organized a series of public meetings (outlined below) to provide the community the ability to share their opinions, ask questions, and facilitate a public discussion on the funding request.

As of the drafting of this staff report, the City has garnered public comments, all of which are appended to the Staff Report.

Additional public comments and survey results are anticipated to be collated and presented comprehensively during an upcoming public meeting.

Noteworthy among the specific comments received are:

1. Advocacy for the commitment of the entire funding amount.
2. Advocacy for abstaining from any financial contribution.
3. Advocacy for a contribution totaling \$140,550, calculated on a per capita basis.
4. Advocacy for a contribution of \$500,000.
5. Proposal to contribute an as-yet-undetermined lesser amount in lieu of the requested \$2,000,000.
6. Advocacy for a contribution aligned with resident benefits on a proportional basis.
7. Suggestion to enhance resident benefits as a mandatory condition for any financial contribution.

DISCUSSION:

Chronology of Key Developments:

This timeline encapsulates pivotal moments and decisions that have unfolded in the course of the deliberations surrounding the Living Desert's funding request. Spanning from the initial proposal in November 2023 to future City Council meetings, these events mark significant junctures where the community, City Council, and Finance Committee have engaged in public discussions and evaluations to shape the trajectory of this funding initiative.

November 2023: In November 2023, the Living Desert submitted a funding request seeking \$5,000,000 to enhance educational and programmatic initiatives.

December 2023: During the public meeting on December 7, 2023, the Council deliberated the funding proposal, received a presentation from Living Desert Staff, and considered public comments. After a thorough discussion, the Council expressed a positive inclination towards supporting the Living Desert.

Subsequently, the City Council directed the Finance Committee to convene and determine an optimal funding amount and a specific term aligning with the City's best interests. The Finance Committee presented these recommendations to the Council and the community during the January 18, 2024, Council Meeting.

January 2024: On January 10, 2024, the Finance Committee convened to receive public comments and deliberate on diverse funding alternatives and propositions, considering factors such as projected General Fund surplus in the current and future fiscal years, prospective future sales tax, existing General Fund funding sources, financial implications of a potential economic downturn, anticipated Public Safety costs, and possible 2024 State Ballot Measures.

The outcome was a recommendation to the City Council to examine the proposed \$2,000,000 funding allocation thoroughly. Considering a comprehensive assessment, the Finance Committee suggested a phased disbursement plan, distributing funds in equal installments over the next four fiscal years, commencing in 2023-24.

On January 18, 2024, the City Council held a public meeting to receive community input, preliminarily approving an initial funding contribution of \$2,000,000, disbursed in equal installments over four consecutive fiscal years, starting in 2024-25. This approval is preliminary, triggering the City's extraordinary contributions policy, requiring the applicant to lead the Community Engagement component at its own expense. The Council's preliminary approval established a funding level as a discussion point for the community and was not a commitment to fund the request at that level.

The City Council asked the Finance Committee to find spending cuts in the mid-cycle budget review to offset the extra \$500,000 in annual funding. The Finance Committee acknowledged the request and will begin meetings in mid-March with this goal in mind. Specific spending cuts will be recommended to the City Council during the Council's Mid-Cycle Budget Review, tentatively scheduled for April or May 2024.

February 2024: On February 20, 2024, the Living Desert conducted a Town Hall meeting at City Hall to present their funding request to the community and respond to questions. Ninety-six (96) residents attended the ninety-minute meeting, recorded by the Living Desert for reference. The Living Desert is compiling resident queries and opinions.

Additionally, a mailer was sent out urging residents to complete an online survey. The online poll experienced a brief closure but is now accessible at LivingDesert.org/IndianWells. This was done to ensure any Indian Wells resident was afforded the opportunity to provide their thoughts.

March 2024: On March 7, 2024, the City Council scheduled an additional public meeting for community input on the proposed funding request. This meeting is for discussion only, with no decisions to be made. Staff will update the Council on the public comments received, and the Living Desert will address questions from Council Members.

Additional Meeting(s): The City Council will hold additional public meeting(s) to receive additional community input. During this session, the Living Desert survey results and all

public comments will be entered into the public record and summarized for the City Council. The Living Desert will attend to address questions from City Council Members.

FISCAL IMPACT:

If the Council decides to fund the Living Desert, the funding will be sourced from the City's General Fund. This unbudgeted request necessitates a \$500,000 supplemental appropriation during the fiscal year 2024-25. Funding for the four remaining budgetary years will be incorporated into the City's annual budget appropriations.

The Marketplace Restaurant is projected to yield \$40,000 to \$60,000 annually. According to a ten-year sales tax analysis from the Living Desert, Indian Wells can expect around \$560,000 from the restaurant in the first decade of operation.

At the February 20, 2024, Town Hall meeting, there was some misinformation or misunderstanding of the City's financial condition conveyed by some attendees. Below are accurate and factual responses intended to clarify the City's actual financial standing.

California State Auditor Fiscal Health Rating

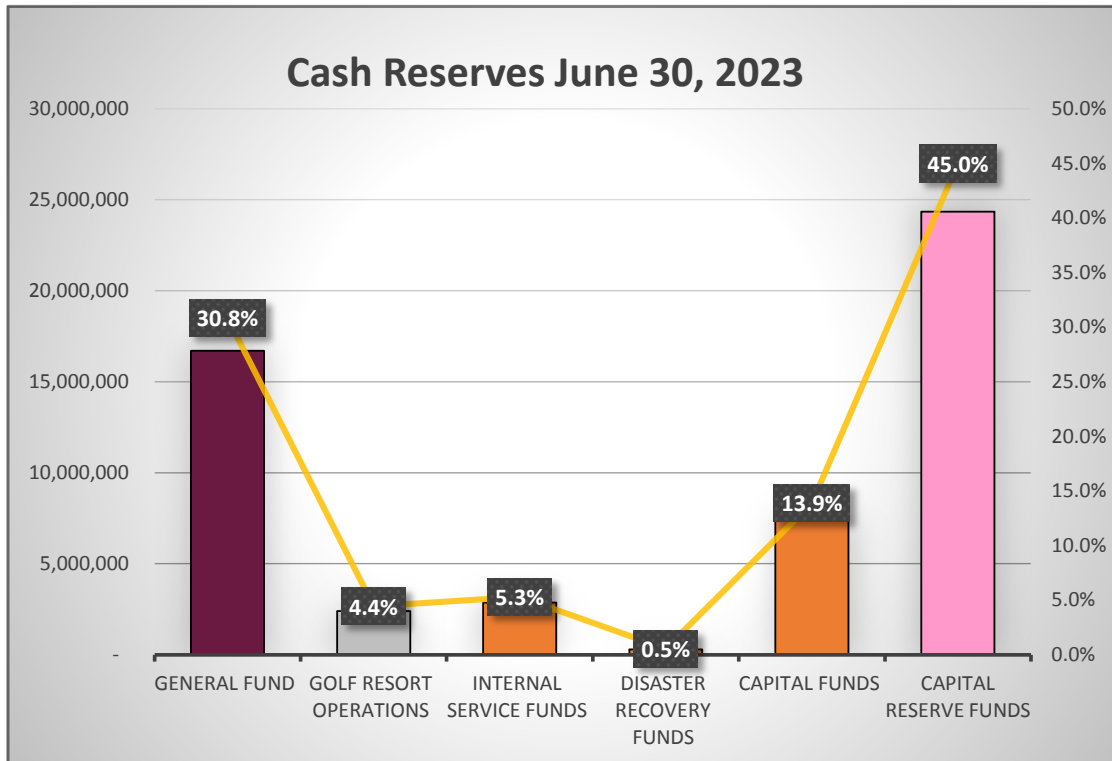
Indian Wells is fiscally sound. Every two years, the California State Auditor develops a report that scores cities based on their risk level for waste, fraud, abuse, and mismanagement or significant challenges associated with its economy, efficiency, or effectiveness. The report ranks cities from #1 to #453, with the city with the greatest financial challenges, distress, or possibility of bankruptcy ranked #1. The newly released report has ranked the City of Indian Wells in the 'low' category for overall risk and scored the City with 97.42 out of 100 points. This score means that throughout all the cities in the State, Indian Wells is ranked 4th best regarding fiscal health (ranked #450 out of #453 cities statewide).

The City Maintains Strong Cash Reserves

Indian Wells currently holds capital reserves of \$24.3 million, a component of the City's overall cash reserves amounting to \$54.1 million, as detailed in the table provided. The City Council has implemented long-term capital replacement funds as a part of a prudent governance strategy, allocating funds for capital improvement projects identified in the capital budgeting process. Annually, \$2.0 million is designated within the budget, and various funding sources contribute to the annual reserve amount or capital expenditures.

The General Fund's operational reserves stand at \$16.7 million, representing approximately 75% of General Fund operating costs. In comparison, cities with operational reserves typically maintain reserves ranging from 15% to 35% of General Fund operating costs.

The city is also experiencing better cash flow than in previous years, as the Indian Wells Golf Resort has become more profitable and not a financial burden to the General Fund.



City Pension Policy

Indian Wells is among a select group of California cities that has successfully achieved full funding pension obligations. In 2017, the City Council decided to eliminate the City's unfunded pension liability, resulting in pension savings amounting to \$6.0 million over the initial thirty-year amortization period with CalPERS. In alignment with Council expectations, the City has consistently maintained a fully funded pension program since 2017.

As of June 30, 2023, the City's net pension (asset) is \$700,736, and the net Other Post Employment Benefit Plan (OPEB) asset is \$745,061. These assets serve a deliberate purpose in fortifying the City against the challenges posed by the current market downturn.

General Fund Loans Update

Commencing in July 2021, the City's General Fund initiated the collection of \$17.7 million in interfund loans between the City and the former Redevelopment Agency. The City has

received \$6.1 million in total loan payments, with approval from the Riverside County Oversight Board for an additional \$3.1 million.

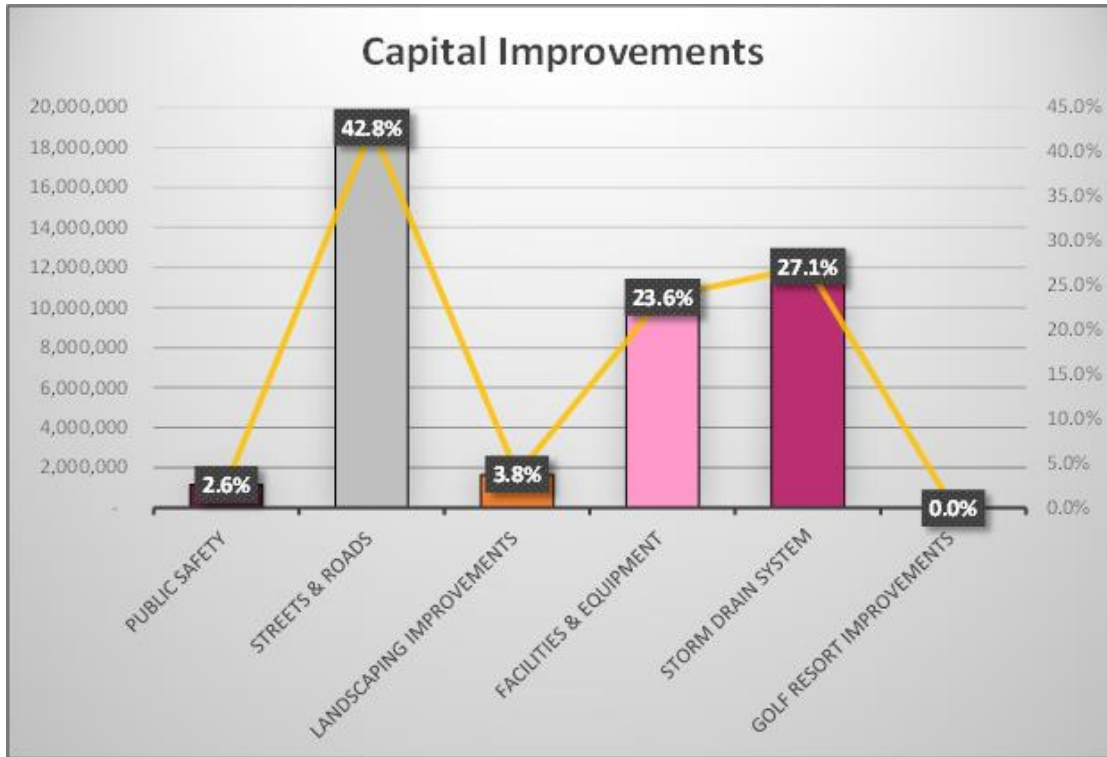
It is imperative to note that these interfund loan transactions and corresponding fees do not reflect the City's Profit and Loss (P&L) cashflows. The interfund loan is duly recognized as a General Fund balance sheet asset.

Successor Agency Loan Repayments (as of June 30, 2023)					
Fiscal Year	Original Loan Amount - General Fund Receivable	Whole Payments made to City	City 20% Contributions to the Housing Authority	Net Payments Held by the City	Status
	17,739,192				
2022	16,400,000	1,339,192	267,838	1,071,354	Paid
2023	14,187,226	2,212,774	442,555	1,770,219	Paid
2024	11,600,000	2,587,226	517,445	2,069,781	Paid
2025	8,500,000	3,100,000	620,000	2,480,000	SA Approved
2026	5,200,000	3,300,000	660,000	2,640,000	Estimated
2027	1,700,000	3,500,000	700,000	2,800,000	Estimated
2028	-	1,700,000	340,000	1,360,000	Estimated
Total		17,739,192	3,547,838	14,191,354	
Amount Paid		6,139,192	1,227,838	4,911,354	
Remaining		11,600,000	2,320,000	9,280,000	

Capital Improvement Projects Funding

The capital budgeting process is a pivotal facet of municipal financial planning, essential for strategic resource allocation among competing demands. During the inception of the current Capital Improvement Plan, the City Council established four core initiatives. These include maintaining landscaping integrity, ensuring a Pavement Condition Index of seventy-five points or higher, systematically replacing trees citywide, and undertaking annual sidewalk repairs.

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.



Expected City Cash Flows over the Contribution Period

The five-year financial projection serves as a vital metric utilized by the Finance Committee in their decision-making processes in January 2024. The positive cash flow depicted in the forecast is indicative of robust financial health and successful expense management.

**City of Indian Wells
General Fund Cash Flow**

Potential Living Desert Contribution Analysis

	2024B	2025F	2026F	2027F	2028F	Total
Total Revenues	24,437,618	24,535,490	25,372,260	26,238,568	27,135,481	127,719,417
	-5.59%	0.40%	3.41%	3.41%	3.42%	
Total Expenditures	22,605,467	21,400,275	22,254,623	23,151,934	24,094,761	113,507,060
	10.6%	-5.3%	4.0%	4.0%	4.1%	
Total Surplus/(Gap)	1,832,151	3,135,216	3,117,637	3,086,633	3,040,720	14,212,357
Potential Living Desert Contribution		500,000	500,000	500,000	500,000	2,000,000
Adjusted Total Surplus/(Gap)	1,832,151	2,635,216	2,617,637	2,586,633	2,540,720	12,212,357

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA):

This action has been reviewed per the authority and criteria contained in the California Environmental Quality Act (CEQA), the State and local CEQA Guidelines, and the City's environmental regulations. The City, acting as the Lead Agency, determined that the ordinance is not subject to CEQA pursuant to Sections 15060(c)(2), 15060(c)(3), and 15061(b)(3) of the State CEQA Guidelines, because it will not result in a direct or reasonably foreseeable indirect physical change to the environment as there is no possibility that the action would result in a significant environmental impact, and because it does not constitute a "project" as defined in Section 15378 of the State CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3.

ATTACHMENTS:

1. Public Comments