

INDIAN WELLS CITY COUNCIL

May 16, 2024



To: City Council
From: Finance Department
Prepared by: Kevin McCarthy, City Finance Director
Subject: **Midcycle Update of the Fiscal Year 2024-25 Biennial Operating Budget and Capital Improvement Plan**

RECOMMENDED ACTIONS:

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

BACKGROUND:

Summary

Indian Wells is fiscally conservative by nature, and the updated cash flows presented in this budget update reflect it. These estimates are intentionally more conservative than our standard projections, reflecting the heightened risk of an economic downturn and potential recessionary conditions.

An anticipated economic slowdown has led to lower overall spending. As previously presented during the Council's Strategic Planning Session in April 2024, General Fund revenues are expected to grow less than 1% primarily due to a potential decline in transient occupancy taxes, and expenditures are expected to decline 5.3% over current year spending.

The primary driver for decreasing the fiscal year 2024-25 spending is the removal of the Resident Golf Amenity Subsidy, which was used to offset the Golf Resort's reduction in green fee revenue used to accommodate Resident use of the golf courses. Council's decision to remove the Resident Golf Amenity Subsidy was one of the outcomes of the Golf Resort's community-based Master Planning study during fiscal years 2022 and 2023.

Why is the Midcycle Update Important

Updating our two-year budget midcycle is a strategic imperative for our organization, reflecting our commitment to proactive financial management and adaptability in dynamic economic environments. This approach empowers us to make informed decisions,

optimize resource allocation, and navigate unforeseen challenges with agility and precision. Here's why updating our budget midcycle is not just beneficial but essential:

- *Responsive Adaptation:* We must remain vigilant in monitoring and responding to changes in economic conditions, market dynamics, and internal factors. By updating our budget midcycle, we ensure that our financial plans remain aligned with the City Council's strategic objectives and adaptable to evolving circumstances.
- *Enhanced Decision-Making:* With a revised budget, we equip our decision-makers with the most accurate and up-to-date financial information available. This empowers us to allocate resources more effectively, invest strategically, and optimize operational strategies to maximize returns and mitigate risks.
- *Optimized Resource Allocation:* Our ability to reallocate resources based on shifting priorities, emerging opportunities, or unforeseen challenges is paramount to our success. Updating our budget midcycle provides the flexibility to direct resources toward initiatives delivering the most significant value and impact.
- *Improved Forecasting Accuracy:* We refine our forecasting models and assumptions through regular budget updates, leading to more accurate predictions of future financial performance. This enables us to proactively manage risks and make informed decisions to mitigate potential fluctuations or disruptions.
- *Resident Confidence and Transparency:* Our commitment to proactive financial management and transparent communication is critical to fostering stakeholder confidence in our organization. By updating our budget midcycle and providing clear explanations for revisions, we demonstrate our ability to adapt and thrive in dynamic environments, building trust and accountability with investors, creditors, and other stakeholders.
- *Mitigation of Budget Variances:* Timely adjustments to our budget midcycle help mitigate variances between planned and actual financial outcomes, minimizing the need for reactionary measures or corrective actions later in the budget cycle. This proactive approach preserves financial stability and ensures continuity in our operations.

In summary, updating our two-year budget midcycle is not just a best practice; it's a strategic imperative that underscores our commitment to financial agility, optimization, and transparency. By staying proactive and responsive in our financial management, we position ourselves for long-term success and resilience in an ever-evolving business landscape.

Achieving Council's Established Financial Goals during the Budget Cycle

The General Fund budget, as submitted, is balanced and includes \$25.2 million in General Fund operating revenues and \$22.0 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 2025 are included in the budget cycle:

- 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.

Budget Overview

The General Fund is the City's primary operating fund. 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.

In this year's budget proposal, several essential modifications are suggested:

- Implemented the Council's Operational Goals and Deliverables policy at the Indian Wells Golf Resort by eliminating the Resident Golf Amenity Fee Subsidy. This strategic decision aligns with the Council's directive to streamline operations and enhance fiscal responsibility. The budget realizes a substantial reduction of \$2.3 million in General Fund operational costs by discontinuing the subsidy.
- Responding to the upward trajectory of expenses, Police Contract Service charges are proposed to increase by \$0.3 million. This adjustment is necessary to address the escalating costs attributed to rising labor expenses, ongoing operating costs, and the financial obligations of unfunded pensions and other post-retirement benefits. Ensuring adequate funding for police services is critical to maintaining public safety and fulfilling community needs.
- Augmented Community Development charges \$0.2 million to address potential budgetary shortfalls proactively. This adjustment is particularly crucial

considering ongoing contracted plan check services and legal expenses associated with code enforcement.

- Enhanced Public Works charges \$0.1 million to support continued operational excellence. As the backbone of infrastructure maintenance and development, Public Works ensures the functionality and safety of essential community assets. The proposed increases are inflationary and reflect the ongoing cost of utilities, fuel and oil, and building and grounds maintenance.

General Fund Forecast

	2024B	2025B	2026F	2027F	2028F	Total 2025 thru 2028
Total Revenues	25,256,418	25,255,840	26,118,170	27,010,979	27,935,370	106,320,359
		0.00%	3.41%	3.42%	3.42%	
Total Expenditures	23,283,442	22,040,662	22,910,066	23,822,800	24,781,427	93,554,955
		-5.3%	3.9%	4.0%	4.0%	
Total Surplus	1,972,976	3,215,178	3,208,104	3,188,179	3,153,943	12,765,404
RDA Loan Payments	2,069,781	2,480,000	2,640,000	2,800,000	1,360,000	9,280,000
Net General Fund Cash Increase	4,042,757	5,695,178	5,848,104	5,988,179	4,513,943	22,045,404
Total Cash Held By The General Fund Before Potential Development	20,738,744	26,433,922	32,282,026	38,270,205	42,784,148	42,643,323

The Golf Resort

The Golf Resort anticipates an after-capital surplus of \$137,000 for the fiscal year 2024-25, a direct result of the strategic planning sessions held by the City Council in April 2023, which established the Indian Wells Golf Resort Operational Goals and Deliverables.

Through dedicated management and proactive strategies, Troon has pursued realistic goals aimed at achieving positive results. The approach prioritizes prudent financial management, reflecting Troon’s commitment to sound business practices and sustainable growth.

Below is a concise overview of the operating and capital budget for the FY 2024-25 Golf Resort, meticulously crafted to align with the operational goals and deliverables outlined by the City Council.

	2023A	2024B		2025F
Rounds	75,238	78,726		64,076
Covers	232,611	230,350		222,632
Golf	9,122,134	9,789,497		8,289,738
Merchandise	1,662,498	1,703,378		1,388,205
Food & Beverage	7,039,853	6,433,636		6,492,439
Range Rental & Other	658,648	613,286		716,300
Total Revenues	18,483,133	18,539,797		16,886,682
Cost of Sales	2,908,815	2,777,186		2,572,587
Payroll	9,359,278	9,296,813		8,544,580
Operating Expense	5,486,266	5,272,449		5,056,615
Total Expenditures	17,754,359	17,346,448		16,173,782
Total Surplus	728,774	1,193,349		712,900
Capital Improvements	714,486	1,012,012		576,281
Total Surplus after Capital Improvements	14,288	181,337		136,619

Focused on achieving profitability after capital, the City delineated financial performance objectives and benchmarks necessary for Troon, the operator, to meet. These benchmarks prioritize profitability and outline specific key metrics, forming the basis for Troon's budget development, subject to Council approval. The City rejects Golf Resort budgets that fail to align with these metrics, which are:

- Golf, including golf maintenance: 25% to 30%
- Merchandise: 27% to 33%
- VUE: 8% to 12%
- Cost of sales goals around 30%
- Labor goals around 50%
- Beverage Carts: 38% to 42%
- Banquets: 30% to 35%
- Food Truck & SITN: 30% to 35%
- These expectations exclude expenses associated with building maintenance and G&A, aiming solely to sustain profitability after capital investments.

Implementing these operational goals has significantly enhanced the City's management of the Troon management agreement, with profitability now paramount. Consequently, budget projections have become secondary, supplanted by the following key metrics, which serve as the primary indicators of Troon's performance.

Council Goals Compared to the Proposed Budget:

	Goal	Budget
Golf	25%	29%
Merchandise	27%	31%
VUE COS	30%	29%
VUELabor	50%	50%
VUENOI	8%	8%
Beverage Carts	38%	41%
Banquets	30%	34%
SITN	30%	44%
Food Truck	30%	15%
Fairway Grill	15%	15%

In the upcoming fiscal year 2024-25, significant adjustments are underway within the Food & Beverage operations. Firstly, there will be a division in the Food Truck operations, with the introduction of a separate Shots in the Night (SITN) program. Under this arrangement, Food Truck operations during SITN operational hours will be designated to the SITN program, while all other operational hours (for example, morning through afternoon golf hours) will fall under the Food Truck program.

This segmentation of the Food Truck operations into distinct programs has resulted in a substantial variance in the anticipated Net Operating Income (NOI). Cumulatively, both programs are projected to yield a minimum 30% NOI under the Council's Goals. Initially budgeted at 39%, surpassing the Council's set target, the NOI projection undergoes alteration with the separation. Consequently, the SITN program's NOI escalates to 44%, while the Food Truck program's NOI declines to 15%.

Secondly, the activation of the Fairway Grill, as deliberated during strategic planning, marks another significant change. A distinct program and Profit and Loss analysis have been established to facilitate this activation in collaboration between the City and Troon. The advantage of delineating the Fairway Grill as a separate program lies in its ability to undergo comprehensive financial performance tracking over an extended period.

The Fairway Grill holds strategic significance within the broader context of the Food & Beverage operations. Its activation represents a deliberate effort to enhance the overall offerings and experience. By creating a separate program and conducting a thorough profit and loss analysis, the aim is to monitor financial performance and optimize operational efficiency and customer satisfaction.

Moreover, introducing the Fairway Grill as a distinct entity underscores a commitment to adaptability and responsiveness to evolving market demands and consumer preferences. As such, its success will not only be measured in financial terms but also in terms of its

ability to enrich the overall value proposition of the establishment and foster a positive reputation within the community and among patrons.

Public Safety – Replacement Ambulance

The City maintains two ambulances: M55, designated as the primary frontline ambulance, and M355, serving as the backup or reserve ambulance when M55 is offline for routine maintenance or repairs.

The replacement schedule is straightforward: upon purchase, an ambulance serves approximately five years as the frontline unit (M55), then transitions to the backup role (M355) for another five years. After approximately ten years of service, the ambulance is traded in and replaced.

It's now time to convert the current frontline ambulance to a reserve unit and replace the aging reserve unit with a new frontline unit. The current reserve unit, acquired in 2013, is experiencing escalating repair and maintenance costs, compromising reliability. CalFire has provided bid documents, which are attached to this staff report. Upon ordering, the replacement ambulance is expected to take approximately nine to twelve months for construction and delivery.

Replacing ambulance gurneys concurrently with ambulance replacements is crucial for maintaining optimal patient care and safety. Gurneys are essential medical equipment used to transport patients, and their condition directly impacts patient comfort, stability, and the effectiveness of medical interventions during transit. Over time, gurneys endure wear and tear, potentially leading to malfunctions, instability, or inadequate patient support, which can exacerbate injuries or medical conditions. Outdated gurneys may lack modern safety features or fail to meet updated industry standards, posing risks to patients and emergency medical personnel. By synchronizing the replacement of gurneys with ambulances, the City ensures that patients receive consistent, reliable care throughout their journey from the scene of an emergency to the hospital, enhancing overall outcomes and reducing the likelihood of adverse events.

To facilitate this acquisition and address the end-of-lifecycle patient gurneys, staff requests a \$400,000 supplemental appropriation from the City's Fire Services Fund— notably, the City earmarks reserves within this fund specifically for such purposes. Currently, the Fire Services Fund holds cash reserves totaling \$4.7 million.

ATTACHMENTS:

1. Attachment 1- City Cash Flow
2. Attachment 2- Golf Resort Budget
3. Attachment 3-Indian Wells Golf Resort Operating Goals
4. Attachment 4-Fraser Ambulance Quote