



# INDIAN WELLS CITY COUNCIL

## September 5, 2024

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**To:** City Council  
**From:** Finance Department  
**Prepared by:** Kevin McCarthy, City Finance Director  
**Subject:** **Implementation of a General Fund Operating Reserve Policy**

### RECOMMENDED ACTIONS:

Council **APPROVES** and **ADOPTS** the Implementation of a General Fund Operating Reserve Policy; and

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

### DISCUSSION:

Tourism is the primary driver of the City's revenue streams, exerting a substantial impact on key categories such as transient occupancy tax, admissions tax, and sales tax. The COVID-19 pandemic had a significant economic impact on our revenue, which relies heavily on tourism. With global travel restrictions, lockdowns, and a sharp decline in consumer confidence, we experienced a dramatic 60% (plus) drop in revenue. The decrease in tourist activity affected our immediate income and disrupted our long-term growth plans, forcing us to adapt rapidly to a challenging and uncertain economic environment.

To mitigate vulnerabilities in the tourism marketplace, the City has strategically employed several financial measures. These include maintaining substantial cash reserves, effecting a vigorous capital reserve policy, employing a fully funded pension program saving taxpayers over \$6.0 million in future liability costs, implementing a robust grants program, and initiating a novel energy efficiency program anticipated to yield taxpayer savings exceeding \$12.0 million over its initial 20-year operational span.

The Finance Committee developed many of the Council policies and practices listed above as part of the City's fiscal commitment to the "Best Cities-Best Practices" program. The Finance Committee's commitment to developing exceptional fiscal policies is multi-faceted and aims at fostering economic stability, growth, taxpayer savings, and sustainability. Here are some critical components of this commitment:

- **Transparent Budgeting:** To build public trust and accountability and ensure complete transparency in budget plans and expenditures.
- **Participatory Budgeting:** Engaging citizens in the budgeting process to align fiscal decisions with community needs.
- **Efficient Resource Allocation:** Optimizing funds through rigorous cost-benefit analyses and performance evaluations to prioritize high-impact projects.
- **Revenue Diversification:** Reducing dependency on traditional taxes by developing new revenue streams, including public-private partnerships and innovative financing.
- **Debt Management:** Implementing prudent debt management practices to maintain long-term financial stability.
- **Fiscal Sustainability:** Investing in economic growth and financial health initiatives for long-term sustainability.
- **Technological Integration:** Utilizing advanced financial management systems and data analytics to enhance efficiency and accuracy.
- **Capacity Building:** Providing ongoing training for the financial management team to adopt global best practices.

These measures ensure economic resilience and improve residents' overall quality of life.

## The General Fund Operating Reserve Policy

Developing a General Fund Operating Reserve Policy is the next logical step under the "Best Cities - Best Practices" program. The General Fund Operating Reserve Policy is a crucial framework for safeguarding the City's financial stability and operational continuity. By establishing a reserve fund, the policy aims to buffer against unforeseen economic disruptions, revenue shortfalls, or unexpected expenditures, ensuring the City can maintain essential services without resorting to drastic fiscal measures. This proactive approach also helps mitigate risks associated with natural disasters, economic downturns, and emergencies, allowing the city to respond effectively without facing immediate financial distress.

Moreover, the policy enhances budgetary flexibility and stability, facilitating smoother financial operations and effective cash flow management throughout the fiscal year. By demonstrating prudent financial management and budgetary responsibility, the policy supports the City's creditworthiness, potentially leading to lower borrowing costs and better terms when accessing capital markets.

Ultimately, the General Fund Operating Reserve Policy fosters public confidence by showcasing the City's commitment to sound financial practices, promoting economic stability, growth, and the uninterrupted provision of critical public services.

## **FISCAL IMPACT:**

The City will include “*Assigned*” and “*Unassigned*” Fund Balance classifications in its reserve policy. To improve Public Transparency, these Fund Balance classifications will be shown in the City’s annual financial statements and included in the annual financial report. Beginning with the 2024-25 reporting period, residents and the general public will be able to view General Fund reserves online by going to <https://www.cityofindianwells.org/city-hall/departments/finance/comprehensive-annual-financial-reports> and looking for the Governmental Funds Balance Sheet which includes the General Fund.

### Reserve Categories:

The City Council is responsible for determining appropriate General Fund Reserve thresholds and allocating or changing those funding thresholds as appropriate.

### Assigned Reserves:

The City will fund the General Fund Assigned Reserve at a minimum of 50% of the budgeted annual General Fund Expenditures with no maximum. As a guide, 50% of the budgeted annual General Fund Expenditures are equal to approximately \$11.0 million. The Assigned Reserve is designated for specific purposes and inaccessible for routine expenditures. These funds are held for the following uses:

- Addressing short-term budgetary shortfalls due to economic downturns.
- Managing institutional changes, such as state budget takeaways and unfunded mandates.
- Covering economic shortfalls during declared emergencies.
- Preventing reductions in required services during prolonged economic downturns.

### Unassigned Cash Balance:

The City will maintain an additional operating cash balance in the Unassigned Fund Balance, amounting to at least 20% of the budgeted annual General Fund expenditures, on top of the 50% Assigned Reserve. For reference, this 20% is approximately \$4.4

million. This policy ensures adequate operational cash flow throughout the fiscal year without the need to draw from assigned reserves.

At the start of each fiscal year, the combined balance of the Assigned and Unassigned reserves will be maintained at a minimum of 70% of the budgeted annual General Fund expenditures. This total, roughly \$15.4 million, must be achieved before any General Fund cash is allocated to other funds for other purposes.

#### Funding Mechanisms:

The General Fund Reserve will be funded from excess ongoing and one-time funds. The reserve helps ensure the City can provide consistent, uninterrupted municipal services during economic disruption or extreme events. The City Council is responsible for determining appropriate General Fund Reserve thresholds and allocating or changing those funding thresholds as appropriate.

The funding levels are based on a conservative risk assessment methodology for setting reserve levels developed by the Government Finance Officers Association of the United States and Canada (GFOA). The General Fund Reserve follows Generally Accepted Accounting Principles set by the Government Accounting Standards Board (GASB) in Statement No. 54.

#### Excess Funding Utilization:

Where funding exceeds the established thresholds, the City Manager may authorize the use of excess funds for Council approved programs, including:

- Additional General Fund reserves.
- Capital Improvement Projects.
- Pension and OPEB programs.
- Additional Capital Reserve contributions.
- Disaster Recovery Reserve funding.

By adhering to this General Fund Reserve Policy, the City of Indian Wells ensures a solid financial foundation that supports its long-term goals and maintains fiscal health through prudent reserve management.

## **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 this resolution 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. General Fund Operating Reserve Policy