

INDIAN WELLS CITY COUNCIL

January 30, 2025



To: City Council
From: Finance Department
Prepared by: Kevin McCarthy, Finance Director
Subject: **Finance Committee Recommendation on Sponsorship for the Living Desert**

RECOMMENDED ACTIONS:

Council **REVIEWS AND PROVIDES DIRECTION** regarding the Finance Committee's recommendation for a funding request to the Living Desert Zoo in the amount of \$2,000,000, to be disbursed in two equal annual payments; and,

RECOMMENDS the Finance Committee evaluate and propose revisions to the City's Extraordinary Policy in light of this funding process; and,

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

SUMMARY:

The Finance Committee convened on January 14, 2025, to conduct a thorough review of a potential sponsorship opportunity for the Living Desert. During the meeting, the Committee evaluated the materials included in this Staff Report and engaged in detailed discussions with senior management and directors of the Living Desert regarding proposed funding levels and timing considerations.

Following its review, the Finance Committee recommends that the City Council consider a potential sponsorship totaling \$2,000,000 for the Living Desert. At this funding level, the Living Desert has agreed to extend specific benefits to Indian Wells residents, including:

- An exclusive "Indian Wells Night at WildLights" for 500 residents, each receiving a \$10 food voucher redeemable at any Living Desert café.
 - The retail value is \$16,475, based on a \$22.95 ticket price and a \$10 food coupon

- Contribution of 500 complimentary general admission tickets, valid for one year, which the City may distribute at its discretion.
 - The retail value is \$19,975, based on a \$39.95 ticket price.
- Naming rights for the patio at the Bighorn Café, to be designated as "The Indian Wells Patio at the Bighorn Café."
 - Naming rights value "not determined" because of no direct retail value.
 - However, the Living Desert considers the value at \$2,000,000. By comparison, the Oasis Splash Pad naming sold for \$2,000,000, and the Events Center sold for \$6,000,000.
- Two annual complimentary uses of the Bighorn Café patio space for special resident events over the next five years (with the City responsible for food, beverages, and audio-visual costs).
 - The retail value is \$50,000, based on a Rental fee of \$5,000 for the patio per event multiplied by two (2) events per year calculated over a five (5) year period.

The total estimated direct benefit to residents is calculated at \$86,450. When factoring in the value of naming rights, the total benefit increases significantly to \$2,086,450.

Funding Term Strategy

The Finance Committee carefully deliberated the terms of the funding. While various payment options were discussed, the Living Desert emphasized that funding disbursed over an extended period would necessitate the use of short-term financing, resulting in additional interest costs to the project. The Committee expressed its intent to avoid burdening the Living Desert with these unnecessary costs while ensuring the City maintains prudent fiscal management.

To address these considerations, the Committee has asked City Staff to develop a funding strategy that minimizes the need for short-term financing by the Living Desert while safeguarding the City's financial stability. As a result, City Staff recommends dividing the sponsorship into two equal payments:

- The first payment in the fourth quarter of fiscal year 2024-25.
- The second payment in the first quarter of fiscal year 2025-26.

This bifurcated funding approach represents a fiscally prudent strategy, underpinned by updated City's General Fund projections, which forecast an anticipated \$5,000,000 surplus in both fiscal years 2024-25 and 2025-26. This biennial structure enables the City to validate the actual surplus for fiscal year 2024-25 and provides sufficient time to collaborate with tourism partners to refine fiscal year 2025-26 projections. Aligning the

sponsorship payments with the City's financial position thoughtfully balances the Living Desert's needs with the City's steadfast commitment to responsible fiscal management.

The Marketing Committee and Hotel Partners

The City Council has also directed the Marketing Committee to review the proposed sponsorship. The Marketing Committee expressed its support for funding the Living Desert, contingent upon a recommendation from the Finance Committee and the City Council's final approval. The Committee emphasized the significance of the Living Desert's seasonal activities, which attract local families and enhance the overall experience for tourists staying at Indian Wells hotels.

The Living Desert has partnered with Hyatt to offer "Stay and Visit" packages, including discounted admission to the Living Desert and promotional advertising within the Hyatt. During the summer of 2024, the Hyatt launched a special seasonal campaign, "Too Cool to Be Hot," featuring a promotional package that included accommodations, access to the waterpark, and tickets to the Living Desert. This initiative generated \$34,000 in additional room revenue and contributed to a strong average daily rate (ADR).

BACKGROUND:

Background from the City Council March 2024 Staff Report

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.

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 deliberations surrounding 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 was for discussion only, with no decisions to be made. Staff updated the Council on the public comments received, and the Living Desert addressed questions from Council Members.

Funding Commitments from Other Desert Cities

The Living Desert has received financial commitments from two Coachella Valley cities as follows:

City of Rancho Mirage: The City of Rancho Mirage has committed \$500,000 to the Living Desert. This contribution does not include any associated benefits or sponsorship rights for the City. Rancho Mirage also purchases a table sponsorship at the Living Desert annual Gala for \$15,000.

City of Palm Desert: The City of Palm Desert has committed \$1,250,000 to the Living Desert. In return for this contribution, the City of Palm Desert will receive specific sponsorship benefits, which have been outlined separately.

- Presenting Sponsorship of Glow in the Park 2025. This is a nonexclusive sponsorship. No tickets are included.
- Palm Desert Night at WildLights at The Living Desert Zoo and Gardens.
 - The Living Desert will provide 500 tickets annually in 2025, 2026, 2027, and 2028 for Palm Desert Night at WildLights. The non-transferable tickets are good only for Palm Desert Night at WildLights, which will be held on a scheduled WildLights night and not exclusive to the City of Palm Desert.
 - Palm Desert will produce a social media campaign to give away all or a portion of the 500 tickets annually.
 - The City of Palm Desert will explore issuing a Proclamation designating Palm Desert Night at WildLights and sending an elected official to celebrate their special night.
- In response to receiving the presenting sponsorship and the Palm Desert Night, the City of Palm Desert offered to reciprocate with the following marketing and branding efforts:
 - The City of Palm Desert will promote zoo events in its newsletters, both print and digital, and on its various social media channels.
 - Explore utilizing Palm Desert's co-op tourism advertising to promote Glow in the Park.
 - Explore public lantern installations in El Paseo and facilitate conversations with the JW Marriott Desert Springs about installing lanterns on their property to promote Glow in the Park.
 - Authorize the Living Desert installation of banners on El Paseo promoting Glow in the Park.
 - The City of Palm Desert will give The Living Desert access to Palm Desert's hospitality partners for partnership presentations.
 - These contributions demonstrate regional financial support for the Living Desert's operations and initiatives.

Examination of the Extraordinary Funding Process

Extraordinary funding requests exceeding \$200,000 necessitate a thorough and structured community engagement process, which includes public hearings, stakeholder meetings, surveys, and at least one town hall session. In this instance, the City received notice of the funding request in November 2023 and initiated the public engagement process in December 2023.

However, as detailed in the accompanying chronology above, the process was marked by inefficiencies and a lack of cohesion. Delays in completing the prescribed steps resulted in communication breakdowns with key stakeholders and noticeable gaps in public engagement. These shortcomings have underscored the need to reassess and improve the process to ensure that future requests are handled with the necessary rigor and transparency.

Given these circumstances, the Council may wish to consider directing the Finance Committee to undertake a comprehensive review of the City's Extraordinary Funding Policy. This review would focus on identifying procedural deficiencies and recommending revisions that enhance communication with residents and stakeholders, strengthen public engagement, and establish a more efficient and reliable timeline for addressing extraordinary funding requests.

OPTIONS:

The City Council may consider the following options:

1. **Approve the Finance Committee's Recommendation:** Authorize consideration of sponsorship for the Living Desert in the amount of \$2,000,000.
2. **Deny the Finance Committee's Recommendation:** Decline to authorize consideration of the proposed sponsorship.
3. **Provide Alternative Direction:** Offer revised guidance or propose alternative actions regarding the sponsorship request.

FISCAL IMPACT:

Should the Council approve funding for the Living Desert, the required financial resources will be sourced from the City's General Fund. This unplanned expenditure will necessitate a supplemental appropriation during the Fiscal Year 2024-25. For the subsequent fiscal year, the necessary allocation will be incorporated into the City's annual budgetary appropriations process.

Projected Sales Tax Revenues from the Living Desert's Marketplace Restaurant

In addition to the estimated \$86,450 in direct benefits to residents, as outlined in the Summary section, the City of Indian Wells is projected to receive additional revenue from sales tax generated by the Marketplace Restaurant, which is located within the City's jurisdiction. The retail sales at the restaurant will directly contribute to the City's General Fund through sales tax collections.

According to projections by the Living Desert, the Marketplace Restaurant is expected to achieve annual retail sales ranging between \$4,000,000 and \$6,000,000. At the current sales tax rate of 7.75%, the City of Indian Wells retains 1% of all taxable sales within its limits. This means the Marketplace Restaurant is anticipated to generate between \$40,000 and \$60,000 in annual sales tax revenue for the City.

Over a ten-year period, the Living Desert's sales tax analysis estimates the City could collect approximately \$560,000 in cumulative sales tax revenue from the restaurant's operations. This additional revenue will strengthen the City's financial position and contribute to funding vital services and initiatives.

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. Indian Wells Proposal December 2024
2. IW Research Letter and Summary
3. Indian Wells Economic Driver
4. City Zoo Support - SD, LA, and SAC
5. Indian Wells Survey Monkey Responses