

INDIAN WELLS CITY COUNCIL

February 13, 2025



To: City Council
From: Finance Department
Prepared by: Kevin McCarthy, Finance Director
Subject: **Consideration of Potential Local Transactions and Use/Sales Tax Ballot Measure**

RECOMMENDED ACTIONS:

Council **DISCUSSES** Options to Consider Potential Local Transactions and Use/Sales Tax Ballot Measure; 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 comprehensive review of a potential Local Transactions and Use Tax Ballot Measure (referred to herein as a "sales tax measure" or "measure"). Following its analysis, the Committee recommends that the City Council consider proposing a sales tax measure to Indian Wells voters at the November 2026 regular municipal election.

Consideration of a potential 1% increase in sales tax, aligning with similar measures adopted by neighboring cities, is projected to generate an estimated \$1.7 million to \$2.0 million in additional General Fund revenue during the first year of implementation. Cities within the Coachella Valley—including Cathedral City, Coachella, Indio, La Quinta, Palm Desert, and Palm Springs—have implemented comparable measures, providing a precedent.

If the City Council decides to move forward with this effort, Staff recommends adopting the following phased approach, consistent with practices employed by other cities in the region:

- 1. Conduct a Public Opinion Poll**

Prior to incurring ballot-related costs, consider conducting a poll of residents to gauge community support. The results of the poll would then be presented to the City Council for consideration.

2. Issue an RFP for Voter Education and Ballot Services

If the polling data indicates a favorable environment for proceeding with the ballot measure, issue a Request for Proposals (RFP) to procure services for voter education about the measure and ballot preparation.

3. Proceed with the Ballot Measure

If the City Council finds the projected costs of the ballot measure to be acceptable, Staff will seek formal Council direction to proceed with the necessary steps to place the measure on the ballot for voter consideration.

This structured approach ensures a data-driven decision-making process and aligns with the strategies employed by other municipalities.

BACKGROUND:

During the 2024 Strategic Planning Session, the City Council identified the evaluation of a local sales tax measure as a potential mechanism to address anticipated increases in public safety costs. However, this Strategic Planning Goal was temporarily placed on hold pending further updates on the projected cost escalations for fire protection and law enforcement services.

Fire Protection Cost Increases: CalFire Staffing Adjustments

Beginning in Fiscal Year 2024-25, CalFire reduced the standard firefighter workweek from 72 to 66 hours, effective November 1, 2024. This change required additional personnel to maintain a minimum staffing. CALFIRE firefighters' standard workweek is anticipated to be reduced from 66 hours to 56 hours, the industry standard, through bargaining in 2026. Additionally, the current staffing model must be converted to the industry standard, creating higher operational costs for the City's fire protection services.

Although the precise portion of the cost increase directly attributable to the workweek reduction has not been delineated, the overall staffing adjustments under the new deployment model have contributed to higher operational costs for the City's fire protection services.

Law Enforcement Cost Increases: Riverside County Sheriff's Department

As of January 2025, the Riverside County Sheriff's Department is in the final stages of labor negotiations, which are anticipated to further increase the cost of providing law enforcement services to contract cities, including Indian Wells. These negotiations, combined with recently approved wage adjustments, will have a material financial impact on the City's law enforcement expenditures.

Key Developments Affecting Law Enforcement Costs:

- **Base Hourly Rate Increase:** In April 2024, The Riverside County Board of Supervisors recently approved a 2.45% increase in the base contract hourly rate for patrol personnel, raising the rate from \$209.35 to \$214.47 per hour, retroactive to July 1, 2023.
- **Cost of Living Adjustments (COLA):**
 - In December 2024, the Board of Supervisors approved a 9% COLA for the Riverside Sheriff's Association (RSA), increasing personnel costs.
 - The Sheriff's Department has indicated that additional COLA adjustments of 5% in December 2025 and 5% in December 2026 are forthcoming.
 - Labor Union Negotiations (LEMU): While the Law Enforcement Management Unit (LEMU) has not yet completed its contract negotiations, it is expected to align with these COLA adjustments, further contributing to rising personnel costs.

Given these developments, the City must proactively assess and incorporate these increasing costs into its long-term financial planning. A thorough evaluation of contractual obligations, budgetary impacts, and potential cost-mitigation strategies will be essential to ensuring fiscal sustainability while maintaining high-quality law enforcement services.

Although the exact financial impact on Indian Wells has not yet been determined, these developments indicate that the City will experience substantial increases in contracted public safety service costs.

Recognizing the fiscal implications of these rising costs, the Finance and Public Safety Committees will convene over the coming months to conduct a comprehensive budgetary analysis and evaluate potential funding strategies to ensure the sustainability of public safety services.

Public safety remains the City's highest priority, and these discussions will play a critical role in shaping financial planning efforts to maintain essential services while ensuring long-term fiscal stability.

Advantages of a General Sales Tax Measure

A general sales tax measure is a tool local government in California use to raise revenue for local services and programs that benefit the community as a whole. Unlike special taxes, which are earmarked for specific purposes, general sales tax measures provide flexibility in how the funds are used, allowing cities and counties to address a wide range of issues. These measures can respond to General Fund budget shortfalls or enhance services. Under State law, a general sales tax measure requires majority voter approval.

Additionally, sales tax revenue is often associated with new business development. By strategically attracting new business development that caters to both residents and visitors, Indian Wells can enhance its sales tax base, providing funding for essential services such as public safety.

Key Features of a General Sales Tax Measure for the City Council to consider:

1. Purpose:
 - a. The revenue from a general sales tax can be used for any purpose that supports the local government's operations.
 - b. Examples include funding police and fire services, parks, public works, or addressing budget shortfalls.
2. Approval Threshold:
 - a. Requires a simple majority vote (50% + one vote) to pass.
 - b. In contrast, a special tax earmarked for a specific purpose requires two-thirds (2/3) voter approval to pass.
3. Who Proposes It?
 - a. The local City Council usually places the measure on the ballot.
 - b. Public input through opinion polling and community surveys would guide whether such a measure is pursued.
 - c. Another option is a voter initiative: a voter initiative allows residents to propose local laws or amendments to city charters without relying on the City Council. Proponents draft the measure, submit it for a title and summary, and collect signatures from registered city voters.
4. Who Pays the Tax?
 - a. Residents and visitors alike pay the tax when they make purchases within the jurisdiction, except for items exempt from sales tax (e.g., most groceries and prescription medicines).
 - b. This makes it a popular revenue source in cities with high tourism or retail activity, as it spreads the tax burden beyond local residents.
5. Tax Rate:
 - a. California's statewide base sales tax is 7.25%, but cities in Riverside County can add their own sales taxes, up to an additional 1.5% to that rate.
 - b. A comprehensive review of sales tax policies across Riverside County reveals that sixteen (16) cities have implemented a general sales tax measure, establishing a local sales tax rate of 1.0% or higher. This trend reflects a broader fiscal strategy employed by municipalities to enhance revenue streams and address growing budgetary demands, particularly in areas such as public safety, infrastructure, and essential municipal services.
 - i. A website search revealed that all 16 cities conducted a general sales tax election requiring voter approval of 50% plus one vote.

- c. To provide a comprehensive analysis, City Staff has included a report from the California Department of Tax and Fee Administration (CDTFA), which details all cities across the State of California that have enacted tax rate increases, including those specifically within Riverside County. This report is a valuable benchmark for evaluating regional taxation trends, offering key insights into how peer municipalities have structured their local sales tax policies to support long-term financial sustainability.

6. Advantages:

- a. Flexibility: The funds are not earmarked, so local governments can allocate them to City programs and services that require funding in any particular year and then reallocate them to different programs and services in future years, depending on funding priorities.
- b. Broader Tax Base: Visitors contribute to the tax revenue, reducing the burden on residents.
- c. Lower Voter Approval Threshold to Pass: The simple majority requirement makes it more achievable than special tax measures.

7. Challenges:

- a. Accountability Concerns: Voters may worry that the funds won't be used as effectively since they're not earmarked.
- b. Public Perception: If voters feel overtaxed or see no visible improvements, they might reject the measure or future tax proposals.

In addition to capturing increased sales activity, the measure, in accordance with state regulations, would enable the City to collect sales tax on vehicle purchases registered to Indian Wells addresses, irrespective of where the vehicles are purchased.

The table below provides an estimate of the additional annual sales tax revenue the City may collect, based on the number of registered vehicles and national averages for vehicle lifecycles and sales prices. This projection is based on publicly available data and industry trends; however, actual revenue may vary due to fluctuations in vehicle sales, registration patterns, and market conditions.

Year	Registered Vehicles in Indian Wells	USAverage Passenger Cars & Light Trucks Lifecycle (in years)	Average Annual Vehicle Replacements in Indian Wells	USAverage New Passenger Cars & Light Trucks sales price in 2025	Annual Vehicle Sales	Proposed 1% New Sales tax
2025	2,750	12	229	49,740	11,398,750	113,988

Local Cities

Voters in other cities within the Coachella Valley—including Cathedral City, Coachella, Indio, La Quinta, Palm Desert, and Palm Springs—have approved similar measures. Recently, Palm Desert voters approved Measure “G” in November 2024, which increased the city’s sales tax rate by 1% to 8.75%. These cities have reported enhanced revenue generation and fostered public understanding and support during their engagement processes. Below is a table of surrounding cities that have increased their sales tax rate.

Sales Tax Measure Vote Tallies								
City	Measure	% of Increase	Election Year	YES Votes	% of YES Votes	NO Votes	% of NO Votes	Total Votes
Cathedral City	W	0.50%	Nov-24	13450	73.54%	4839	26.46%	18289
Coachella	U	1%	Nov-14	1605	50.68%	1562	49.32%	3167
Indio	E	1%	Nov-21	6890	71.41%	2758	28.59%	9648
La Quinta	G	1%	Nov-16	8233	54.73%	6809	45.27%	15042
Palm Desert	G	1%	Nov-24	16342	65.52%	8599	34.48%	24941
Palm Springs	J	1%	Nov-11	6550	57.48%	4845	42.52%	11395
Palm Springs	J Extension	Maintain	Nov-24	16479	70.91%	6759	29.09%	23238

Projected Impact on Indian Wells

A proposed 1% increase in the sales tax, in line with neighboring cities, is expected to raise General Fund revenues by approximately \$1.7 million to \$2.0 million during the first year of implementation. Additionally, the Finance Committee can anticipate this revenue figure to increase by 2.75% to 3.50% after the first year, based on 10-year trailing averages.

A sales tax increase in Indian Wells would predominantly affect non-residents, which account for an estimated 80% of the City’s current sales tax revenue. Of the projected \$2.0 million in additional revenue, approximately \$1.6 million would be derived from visitors.

The remaining 20%, or roughly \$0.4 million, would impact Indian Wells residents, primarily through expenditures on non-grocery food and beverage purchases. California law exempts most groceries, prescription medications, and specific medical devices from sales tax. Moreover, residents are already subject to similar sales tax rates when shopping or dining in neighboring cities that have enacted comparable measures.

By pursuing a sales tax measure, Indian Wells would strategically expand its revenue base while minimizing the financial burden on residents. Revenue from such a measure could offset increased public safety service costs and enhance the City’s capacity to invest in infrastructure, public safety, and community amenities.

The State of California is currently reviewing existing sales tax laws to address the growing volume of online retail transactions and ensure a more equitable distribution of tax revenues among municipalities. Under the proposed legislative changes, a portion of sales tax revenue would be allocated to cities based on the point of delivery rather than solely based on the location of the seller or fulfillment center, as is currently the case. If these proposed modifications are enacted, the City of Indian Wells stands to benefit from an enhanced revenue allocation structure.

Steps to the Ballot

Should the City Council direct staff to explore a potential Ballot Measure, below are a series of steps that the Council could consider.

The Clerk and Legal departments will assist in developing the ballot materials, but there are two components to the November 2026 ballot process. The City could conduct a public opinion poll on adjusting the Sales Tax to gauge voter sentiment and preferences. Once polling data is complete, an educational effort will inform voters about the Sales Tax and its impact on the community.

Sales Tax Polling

Polling services before a municipal ballot are important for several reasons. They serve as a beacon of predictive accuracy, offering insights into voter sentiment. Thus, Indian Wells can tailor a measure to expressed voter preferences.

Furthermore, polls serve as a powerful tool for prioritizing the electorate's concerns, ensuring that the City addresses the issues closest to voters' hearts. The demographic data gleaned from polling facilitates outreach efforts and paints a picture of the diverse tapestry of opinions within the community.

Publicized polling results empower the electorate with heightened awareness, potentially driving greater civic engagement and turnout on election day. Thus, polling emerges as an important pillar of the democratic process, providing valuable insights that shape the course of municipal governance.

If approved, staff will select and work with the polling firm and the Legal Department to develop the questionnaire. Polling firms are highly qualified and bring tremendous expertise and guidance. These firms bring scientific rigor to the process, ensuring an accurate representation of public opinion through random sampling and unbiased questioning techniques. Their expertise provides valuable insights into voter sentiment.

Education and Outreach

It will also be important for Indian Wells to undertake a resident education program when proposing a sales tax measure for several reasons. Firstly, with a clear understanding of how additional tax revenue could be utilized and its potential benefits, residents will be better informed and more confident as they consider whether to support the ballot measure.

Moreover, a well-informed electorate is essential for fostering trust and transparency in local governance. By providing residents with detailed information about the sales tax's intended purposes and how it will bolster public services, the City can build credibility and demonstrate accountability to our constituents.

Additionally, an educated electorate will more likely recognize the importance of funding public services. Furthermore, resident education efforts can address misconceptions or concerns surrounding the proposed tax measure, fostering constructive dialogue and engagement within the community. This open communication ensures that residents feel empowered to make informed decisions about the future of their local public services and infrastructure.

Recommendation of the Finance Committee

During its meeting on January 14, 2025, the Finance Committee approved a recommendation for the City Council to consider a potential Sales Tax Ballot Measure for the November 2026 election cycle. The discussion primarily focused on the recent increase in public safety costs described above, prompting the need for new revenue sources. The Finance Committee noted that a sales tax increase in Indian Wells would mainly impact non-residents, who account for approximately 80% of the city's sales tax revenue. By pursuing a sales tax initiative, Indian Wells aims to strategically broaden its revenue base while reducing the financial burden on its residents.

OPTIONS:

1. Approve the Finance Committee's recommendation to begin exploring the possibility of a Sales Tax Ballot Measure. This involves seeking bids for polling and education outreach services.
2. Decide against considering a potential Sales Tax Ballot Measure.
3. Provide alternative instructions to the staff.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA):

This action has been reviewed by 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. Active District Tax Rates with Operative and Sunset Dates
2. California Sales and Use Tax Rates by County and City