



JANUARY 27, 2016

FINANCIAL STRATEGY_GAP ANALYSIS

HISTORIC REVIEW AND 10-YEAR FORECAST

CITY OF INDIAN WELLS, CALIFORNIA

TABLE OF CONTENTS

REPORT

Introduction and Methodology	2
Forecast Overview	3
General Fund Forecast	5
Indian Wells Golf Resort Forecast	7
Fire Services Fund Forecast	9
Other Funds Forecast	10
10-Year Overall Revenue to Expense Gap Analysis	12
Revenue Composition and Growth	13
Expenditure Composition and Growth	15
Operating and Capital Reserves	17

APPENDICES

Appendix 1: Revenue Forecast Methodology Breakdown	21
Appendix 2: Expenditure Forecast Methodology Breakdown	31

Introduction

Summary

In 2014, the Indian Wells City Council made their top strategic goal the creation of a financial strategy. The outcome is for the Council and community to have an understanding of the City's long-term financial position in order to identify revenue necessary to maintain the high quality standards of Indian Wells.

Traditionally, Staff presents a 10-year General Fund Cash Flow forecast annually in the budget. That cash flow provides a hypothetical outlook of General Fund revenues and expenditures based on recent trends in revenue and expense growth.

This document, for the first time ever, presents analysis conducted by Staff on historic revenue and expenditure trends in all City operational funds. Focused on operational funds with recurring annual revenues, it excludes revenues and expenditures related to redevelopment activities, one-time events such as asset sales or purchases, financing proceeds, various special use funds, and debt-related operating transfers.

The four major fund categories presented in the forecast include the General Fund, Indian Wells Golf Resort, Fire Services, and Other (small special revenue funds lumped together). These four funds represent revenue and expenditures of all core services provided by the City of Indian Wells to residents and guests.

Lastly, it needs to be highlighted that the forecasts presented in this report are hypothetical, based on a point-in-time trend analysis. The forecasted financial data does not represent a factual future. Rather, it provides indication of how the City's financial picture may look absent any change in annual revenue or expenditure increases.

Methodology

Staff compiled revenue and expenditure data down to the individual line item dating back to FY2006. Eliminating all variable data (such as transfers resulting from dissolution of redevelopment), Staff analyzed historical growth rates of revenue and expenditures at the line item level. Using long-term historical trends, staff calculated annual average increases to forecast future growth rates.

Many factors have helped increase revenues throughout the City's history. For this reason, and in limited instances, individualized methodologies helped to better determine historical growth of revenues. Appendices to this report provide further description of these methodologies.

Forecast Overview

10-Year Revenue Forecast

Analysis of each revenue category identified key drivers of growth, as well as direct and indirect economic variables. Certain revenue categories such as the Golf Resort, Transient Occupancy Tax ("TOT"), and Admissions Tax (primarily driven by the BNP Paribas Tennis Tournament) saw highly variable growth rates due to changing circumstances. For example:

- 2009 improvements to the Golf Resort substantially increased expenditures and revenues;
- A 2011 voter approved increase in the TOT rate from 9.25% to 11.25% substantially increased revenues in that category; and
- Admissions tax rate increases from 7% in 2010 to 10% in 2015, plus the addition of stadium 2 in 2013 at the BNP Paribas Open Tennis Tournament.

Broad economic and societal trends have direct impact on some revenue categories such as Transient Occupancy Taxes, Admissions Taxes, and Sales Tax. For these revenue categories, forecasts used more statistical techniques utilizing tourism indices. Appendix 1 provides detail on methodologies used within various revenue categories.

10-Year Expenditure Forecast

Similar to revenues, a review of the 10-year history of all City expenditures provided opportunity for analysis within certain expenditure categories. Analysis of General Fund expenditures, broken down by component programs such as management services, personnel, public safety, and marketing, determined annual average expenditures and annual average expense increases.

The "Great Recession" of 2007-2009 and the elimination of redevelopment in 2011 created substantial variation of some expenditures. Where possible, Staff normalized expenditures in years with substantial variation. This smoothed out expenditure increases to provide average annual percentage increases in the various categories, and provided bottom line expenditure forecasts presented in this analysis. Appendix 2 provides detail on methodologies used for the four major fund expenditures.

Expected, Optimistic and Pessimistic Scenarios

Forecasting within a range of possible outcomes gives the best view of plausible future scenarios. To this end, Staff created three forecast scenarios:

- 1) Expected Scenario provides the most plausible forecast based on the historical trends, taking into account variables that likely affect future growth.
- 2) Optimistic scenario assumes robust economic growth of revenues and tight cost control of expenditures.
- 3) Pessimistic scenario assumes a flat-lined revenue growth and uncontrolled cost increases.

The primary focus of this report is a comparison of revenues and expenditures within the expected scenario.

General Fund Forecast

The General Fund is the largest and primary fund of the City. Each year the adopted biennial operating budget includes a 10-year General Fund Cash Flow. The current FY2015/16-2016/17 budget shows a forecasted FY2025 operating surplus of \$342,025. Upon closer analysis of historical revenue and expenditure growth trends, Table 1 provides an updated forecast of future General Fund revenues and expenditures.

Table 1: 10-year General Fund Surplus/(Gap) Forecast

ACCOUNT TYPE	2015A	2016B	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
General Fund											
Revenues	16,748,245	16,390,985	17,517,825	18,168,232	18,846,425	19,553,726	20,291,530	21,061,299	21,775,336	22,515,573	23,283,043
		-2.1%	6.9%	3.7%	3.7%	3.8%	3.8%	3.8%	3.4%	3.4%	3.4%
General Fund											
Expenditures	14,842,697	16,068,168	16,513,054	17,138,268	17,789,377	18,467,452	19,173,610	19,909,014	20,674,875	21,472,456	22,303,068
		7.2%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.9%	3.9%
TOTAL											
SURPLUS/(GAP)	1,905,548	322,817	1,004,771	1,029,964	1,057,048	1,086,274	1,117,920	1,152,285	1,100,461	1,043,118	979,974

The analysis provides a more positive outlook as compared to the General Fund Cash Flow forecast presented in the adopted budget. General Fund revenue forecasts, based on Staff analysis, appear to be \$2.3 million better in the 10-year forecast than in the FY2016 adopted budget. Appendix 1 provides an in-depth look at revenue forecasts in the General Fund.

Primarily, the greatest contributor to future General Fund revenue growth is the continuing growth of the BNP Paribas Tennis Tournament and subsequent admissions tax collections, and steady growth in TOT tax revenues. The forecast shows these two General Fund revenue sources increasing from 58% of General Fund revenues in budgeted FY2016 to 62% of General Fund revenues in forecasted FY2025.

Expenditures, like revenues, had higher average annual increases than presented in the budget. Primarily, the greatest contributor to General Fund expenditure increases is the cost for Public Safety. Appendix 2 provides an in-depth look at major expenditure categories forecasted in the General Fund.

Public Safety

Law Enforcement costs contracted from Riverside County Sheriff's Department represent 22% of General Fund non-capital-reserve expenditures in budgeted FY2016, yet are forecast to grow to nearly 29% of General Fund expenditures, or a 32% increase as a percentage of General Fund expenditures by FY2025.

Long-term law enforcement cost increases an average of 4.8% annually. The total General Fund expenditure increase of 7.2% in budgeted FY2016 includes a 21% increase in law enforcement. The increase is due to annual increase in rate of 7% in FY2015, and an estimated 8-10% increase in Sheriff Contract costs in FY2016.

In FY2015, the City did not fully realize the 7% cost increase in Sheriff Rates. There were a number of vacancies throughout the year as various positions turned over with new staff. Those vacancies saved the City on overall bottom-line costs for contracted law enforcement and underrepresented actual cost for contracted service levels.

City Staff have participated in a broader effort of contract cities within Riverside County closely examining Sheriff Contract costs. Staff has had preliminary discussions with our COVE Communities partners, Rancho Mirage and Palm Desert about interest to explore areas of greater collaboration of services to yield better economies of scale and slow future cost increases.

Of additional note, the cities of Moreno Valley and Temecula, the largest and second largest Sheriff contracts respectively, are currently reviewing options for alternative law enforcement services. Staff is monitoring their efforts closely. If the Sheriff were to lose those contracts, it may have a ripple effect for rates throughout the County with less Sheriff positions to help spread allocated administrative costs.

Indian Wells Golf Resort Forecast

The Indian Wells Golf Resort is the second largest fund in the City, and is accounted for as an enterprise fund. Enterprise funds are used for services provided to the public on a user fee basis, similar to the operation of a commercial or private enterprise. This helps to segregate all revenues and expenses of the Golf Resort from other City operations, thereby giving an accurate accounting of the operational surplus or deficit.

The FY2016 adopted budget for the Golf Resort showed a projected operating deficit of \$217,425. However, a mid-year review by Troon, the contracted Golf Resort manager, now projects an operating deficit of \$422,663 in FY2016. Staff worked closely with Troon to establish operational trends given major changes to the resort in the past five years. Table 2 provides a forecast of future revenues and expenditures of the Golf Resort.

Table 2: 10-year Golf Resort Surplus/(Gap) Forecast

ACCOUNT TYPE	2015A	2016B	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Golf Resort Expected Revenue	13,179,514	12,741,054	13,207,621	13,506,458	13,812,056	14,124,569	14,444,152	14,770,967	15,105,176	15,446,947	15,796,451
	0.0%	-3.3%	3.7%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
Golf Resort Expected Expenses	13,368,414	13,163,717	13,537,879	13,885,775	14,244,496	14,614,465	14,996,123	15,389,934	15,796,383	16,215,978	16,649,251
		-1.5%	2.8%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.7%	2.7%
Golf Resort Surplus/(Gap)	(188,900)	(422,663)	(330,258)	(379,317)	(432,440)	(489,896)	(551,971)	(618,967)	(691,207)	(769,031)	(852,800)

The trend over time shows expenses outpacing revenues at the Golf Resort, increasing the gap over time. By FY2025, the trend shows an operating deficit of \$850,000. One factor that appears to be increasing the gap is stagnation in golf rounds played. Golf rounds in FY2013 totaled 82,712. Adjusted budget for FY2016 projects 78,606 golf rounds, or a 5% decline in rounds over a three year period. Revenue per round increased from \$72.45 to \$76.43 during that period, but

only increased gross golf fee revenue by \$15,000 over that period. This hypothetical point in time trend takes into account declining golf rounds with stagnating golf fee revenue, while seeing expenditures continuing to rise.

The Golf Resort is a 2016 City Council Strategic Planning discussion item. The Staff report for the Golf Resort Strategic Plan provides more information on the factors involved in producing the forecasted gap at the Golf Resort.

Fire Services Fund Forecast

The Fire Services Fund is a special revenue fund for the provision of fire and emergency medical related services. Fund revenues include a special assessment (Emergency Services Upgrade Assessment) add-on to property tax collections, as well as a Riverside County Fire Tax Credit contribution.

Table 3 provides a forecast of future Fire Services Fund revenues and expenditures.

Table 3: 10-year Fire Services Fund Surplus/(Gap) Forecast

ACCOUNT TYPE	2015A	2016B	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Fire Service Fund Revenues	3,241,240	3,358,779	3,421,402	3,484,447	3,548,919	3,614,849	3,682,272	3,751,223	3,821,565	3,893,489	3,967,031
		3.6%	1.9%	1.8%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Fire Service Fund Expenditures	3,042,836	3,446,626	3,653,424	3,799,561	3,936,623	4,078,630	4,225,760	4,378,198	4,536,134	4,699,767	4,869,303
		13.3%	6.0%	4.0%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
TOTAL SURPLUS/(GAP)	198,404	(87,847)	(232,022)	(315,113)	(387,705)	(463,781)	(543,488)	(626,975)	(714,569)	(806,278)	(902,272)

Revenues in the Fire Services Fund have historically increased 1.9% annually. The trend is expected to continue throughout the forecasted period. Expenses, however, have historically risen much faster than revenues, at an annual increase of approximately 3.6%, nearly twice the rate of revenue increases. This forecasts a Fire Services Fund gap of more than \$900,000 by FY2025.

A couple of factors lead to the forecasted future gap:

1. The adopted FY2016 budget includes a total Fire Service Fund deficit of \$332,819. The budgeted deficit results from a highly conservative 'worst-case' expenditure estimate provided by CalFIRE/Riverside County. Historically, Fire Services expenditures come in under budget estimates provided by CalFIRE/Riverside County. However, traditionally the budget estimate is in-line with projected revenues, and the under expenditure produces a surplus.

In FY2016, based on year-to-date expenditures, Staff believes Fire Services expenditures will once again be under budget, but not by the full amount. Instead, Staff projects a deficit of \$87,847. That represents a 13.3% increase in expenditures over the prior fiscal year. The year-over-year 13.3% increase then accelerates the growth of Fire Services expenditures, thereby accelerating deficit growth.

2. The primary driver of cost is contract rates from CalFIRE/Riverside County. Based on preliminary discussions with CalFIRE/Riverside County, they project rate increases around 6% and 4% in the coming two years. The increase is due to required pension liability payments and MOU renegotiation with the statewide Fire Union.

Finally, it is important to note that the County is currently conducting a service level study. The study is looking at service response times based on calls for service at all stations, as well as the methodology for allocation of administrative costs. Though unlikely, the study may result in rate decreases for Indian Wells, based on Station 55's low call for service volume as compared to other stations countywide.

Other Funds Forecast

The other funds reviewed in the analysis include a number of small, special revenue funds that act, essentially, as pass-through funds. The funds include:

- 202 – Traffic Safety
- 203 – Public Safety ½% sales tax
- 204 – Measure A Transportation
- 210 – South Coast Air Quality Management District (SCAQMD)
- 211 – AB 3229 COPS
- 214 – Gas Tax 2103
- 215 – Gas Tax 2105
- 216 – Gas Tax 2106
- 217 – Gas Tax 2107
- 218 – Gas Tax Engineering/Admin
- 561 – Club Drive Enterprise Fund

Most of these funds are provided by the State of California for specific purposes, mostly transportation projects and public safety services. Table 4 provides a forecast of all other funds revenues and expenditures.

Table 4: 10-year Other Funds Surplus/(Gap) Forecast

ACCOUNT TYPE	2015A	2016B	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Other Fund Revenues	548,165	620,018	641,214	663,103	685,743	709,159	733,376	758,424	784,325	811,113	838,819
		13.1%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
Other Fund Expenditures	546,072	630,136	634,801	656,472	678,886	702,067	726,043	750,840	776,482	803,002	830,431
		15.4%	0.7%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
TOTAL SURPLUS/(GAP)	2,093	(10,118)	6,412	6,631	6,857	7,092	7,334	7,584	7,843	8,111	8,388

The Other Funds combine for less than 2% of total City revenues and are forecast to continue historical growth trends of 3.4% annually. In FY2016, the deficit budgeted results from expenditure of fund balance in excess of expected revenues for the year. This happens periodically.

Some years the State passes through more revenue than anticipated, therefore providing revenue in excess of budgeted expenditures. When that happens, a fund balance builds up for that year and is spent down the following year. That year's expenditures, then, are in excess of revenues. However, given the general direct pass through nature of these funds, Staff has forecast them as an ongoing nominal surplus.

10-Year Overall Revenue to Expense Gap Analysis

Combining all funds provides a point-in-time forecast of the City's overall fiscal future. Table 5 combines the revenue and expenditures for the four individual funds presented.

Table 5: 10-year All Funds Surplus/(Gap) Forecast, Expected Scenarios											
ACCOUNT TYPE	2015A	2016B	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
All Funds Revenues	33,717,164	33,510,836	34,788,061	35,822,241	36,893,143	38,002,303	39,151,330	40,341,913	41,486,402	42,667,122	43,885,345
Annual % Increase		-0.6%	5.1%	3.0%	3.0%	3.0%	3.0%	3.0%	2.8%	2.8%	2.9%
All Funds Expenses	30,981,245	33,308,647	34,339,158	35,480,076	36,649,382	37,862,614	39,121,536	40,427,986	41,783,874	43,191,203	44,652,055
Annual % Increase		7.5%	3.6%	3.3%	3.3%	3.3%	3.3%	3.3%	3.4%	3.4%	3.4%
TOTAL SURPLUS/ (GAP)	2,735,919	202,189	448,903	342,165	243,761	139,689	29,795	(86,073)	(297,472)	(524,081)	(766,710)

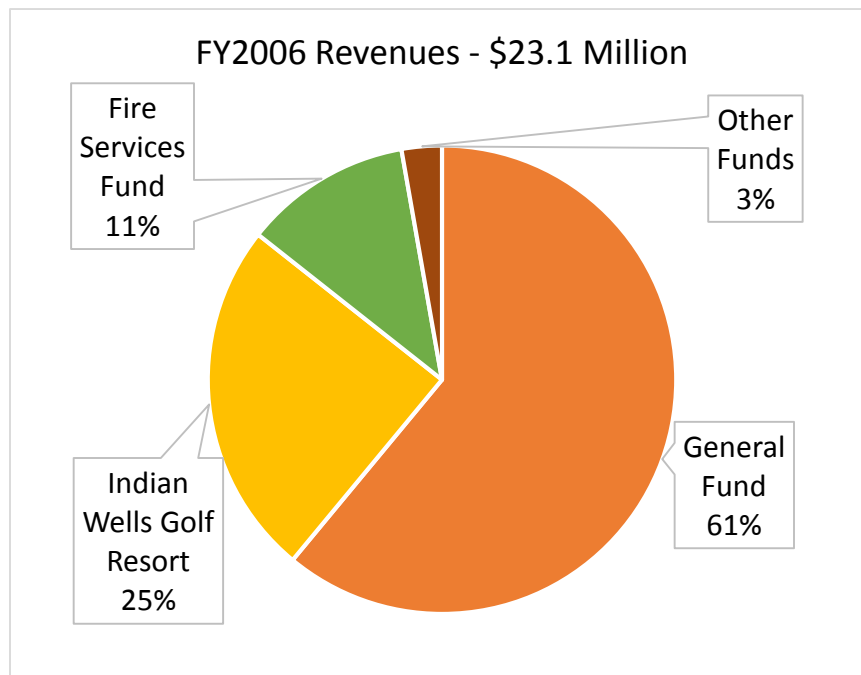
The overall financial picture is tight, starting in budgeted FY2016 with a \$202,189 surplus budgeted¹. Staff's trend shows overall City expenditures outpacing revenues by 300 basis points (.3%), or more, annually. As previously discussed, the primary drivers of future deficits are increases in Public Safety costs and subsidy of the Indian Wells Golf Resort.

¹ Budgeted FY2016 actually shows a \$248,572 deficit in the selected funds. Mid-year review has decreased expected Fire Service expenditures, increased the deficit projected at the Golf Resort, and increased General Fund revenue expectations due to more positive projections of admissions tax revenues provided by the Tennis Garden.

Revenue Composition and Growth

Charts 1 through 3 show the composition of revenues in the selected City funds from FY2006 to budgeted FY2016 to forecasted FY2025. Looking at composition of funds helps to demonstrate how revenue growth has changed over time and how revenues may trend into the future.

Chart 1



In FY2006, the General Fund was 61% of all City revenues, with the Golf Resort providing approximately 25% of City revenues. Due to substantial improvements to the Golf Resort in FY2008-FY2009 and again in 2013, the Golf Resort had a significant increase in revenues. That increase caused the Golf Resort to grow to 38% of total City revenues in budgeted FY2016.

Chart 2

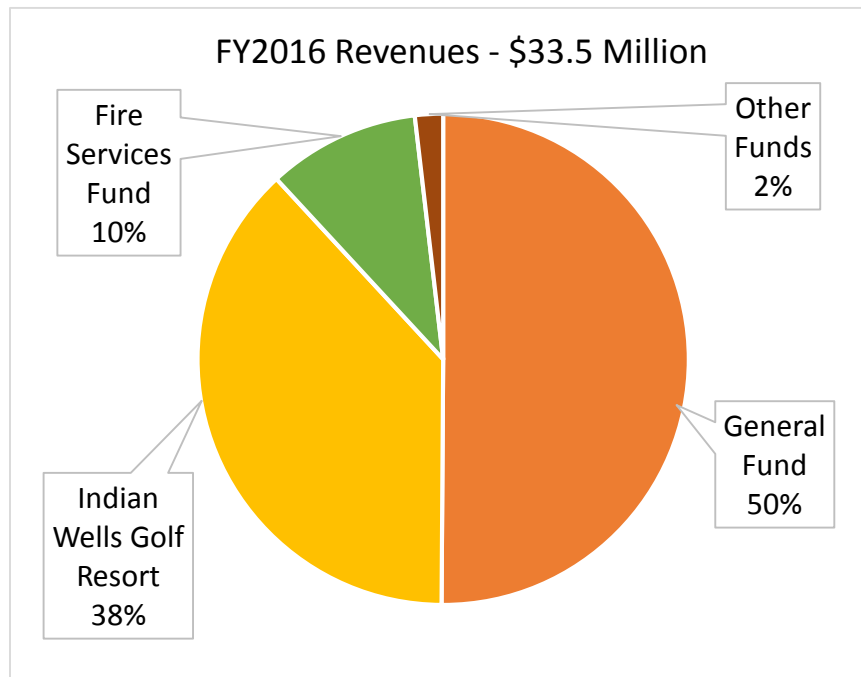
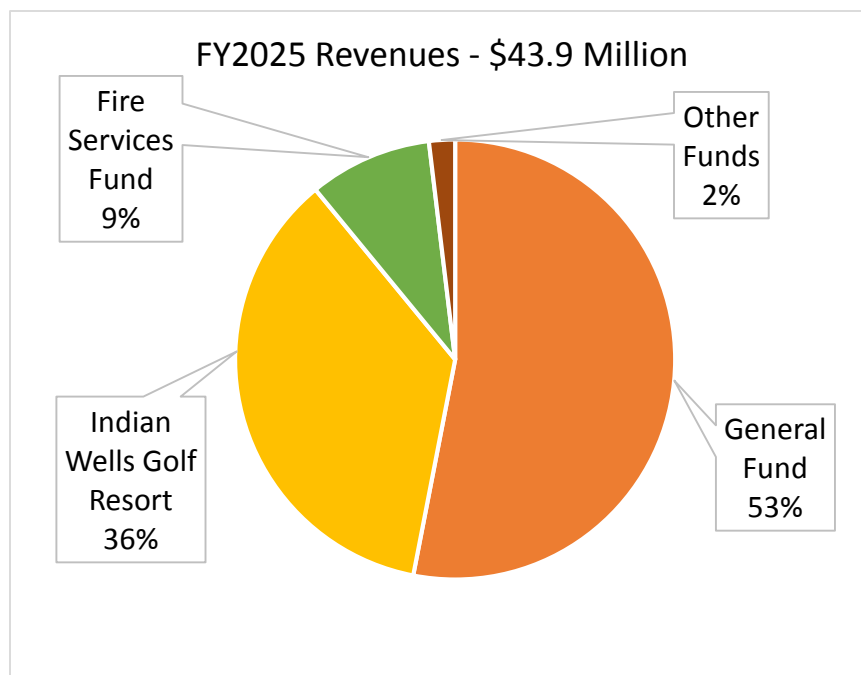


Chart 3

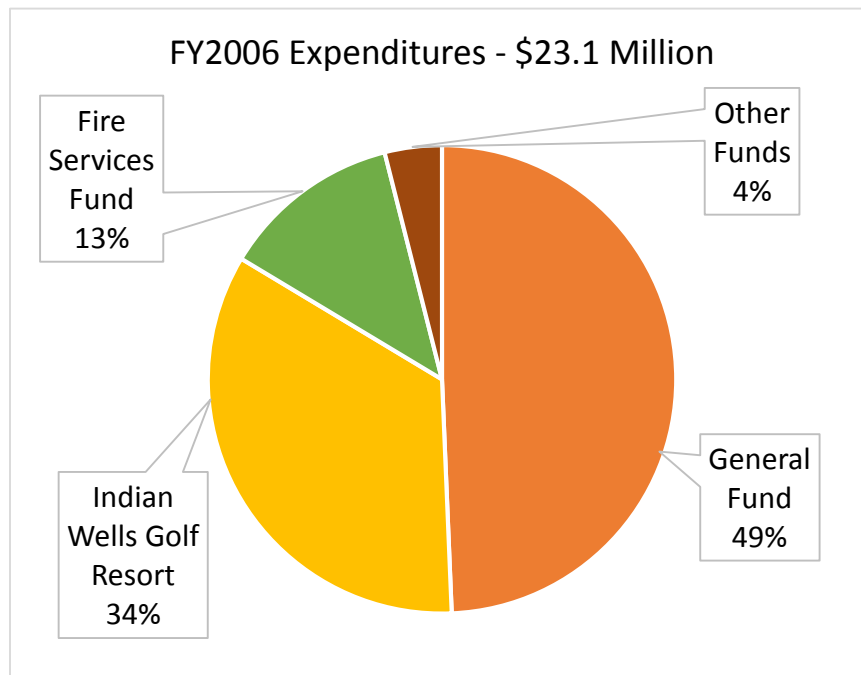


Based on the historical revenue trend, in forecasted FY2025, all revenue funds stay predominately the same, with the General Fund increasing to 53% while the Golf Resort reduces 2%. This is due to Staff's projection that General Fund revenue sources, such as TOT and Admissions Tax, will have greater growth rates in coming years than the Golf Resort.

Expenditure Composition and Growth

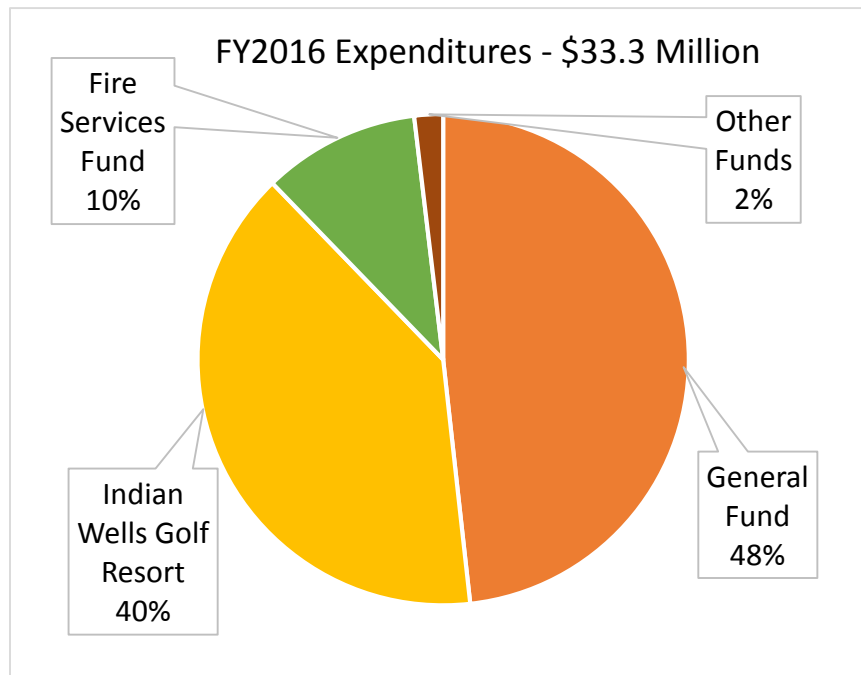
Charts 4 through 6 show the composition of revenues in the selected City funds from FY2006 to budgeted FY2016 to forecasted FY2025. Looking at composition of funds helps to demonstrate how expenditure growth has changed over time, and how expenditures may trend into the future.

Chart 4



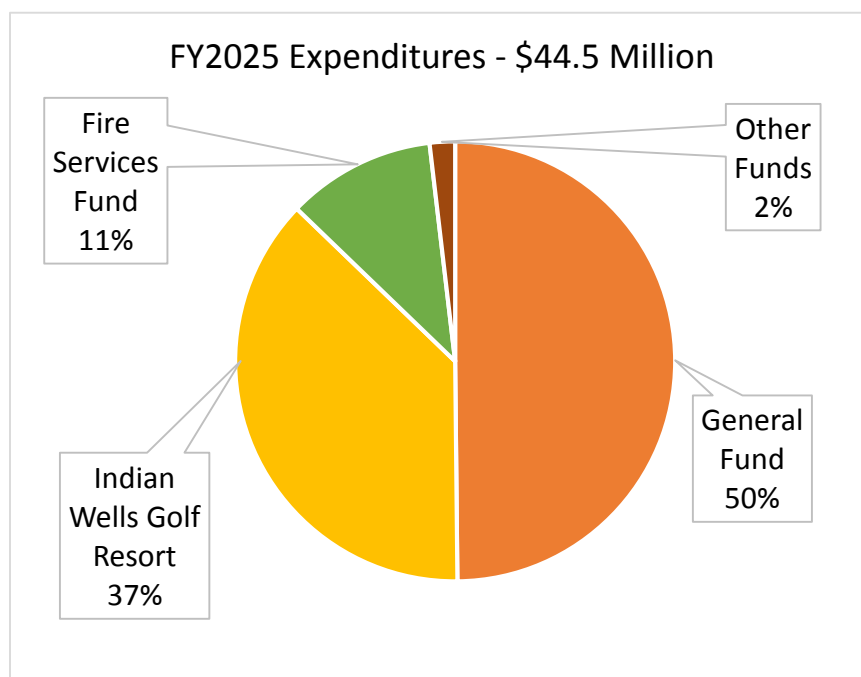
In FY2006, the General Fund was just under 50% of all City expenditures, with the Golf Resort consuming approximately 34%. The improvements to the Golf Resort helped to increase revenues, but also changed the costs of operations, making the Golf Resort more expensive to operate. Those changes increased the Golf Resorts share of total City expenditures from 34% to 40% in budgeted FY2016.

Chart 5



Based on the historical expenditure trend, in forecasted FY2025, expenditure categories continue to change. The Golf Resort forecast shows expenditures for operations to decrease its proportion as a percentage of total City expenditures to 37%.

Chart 6



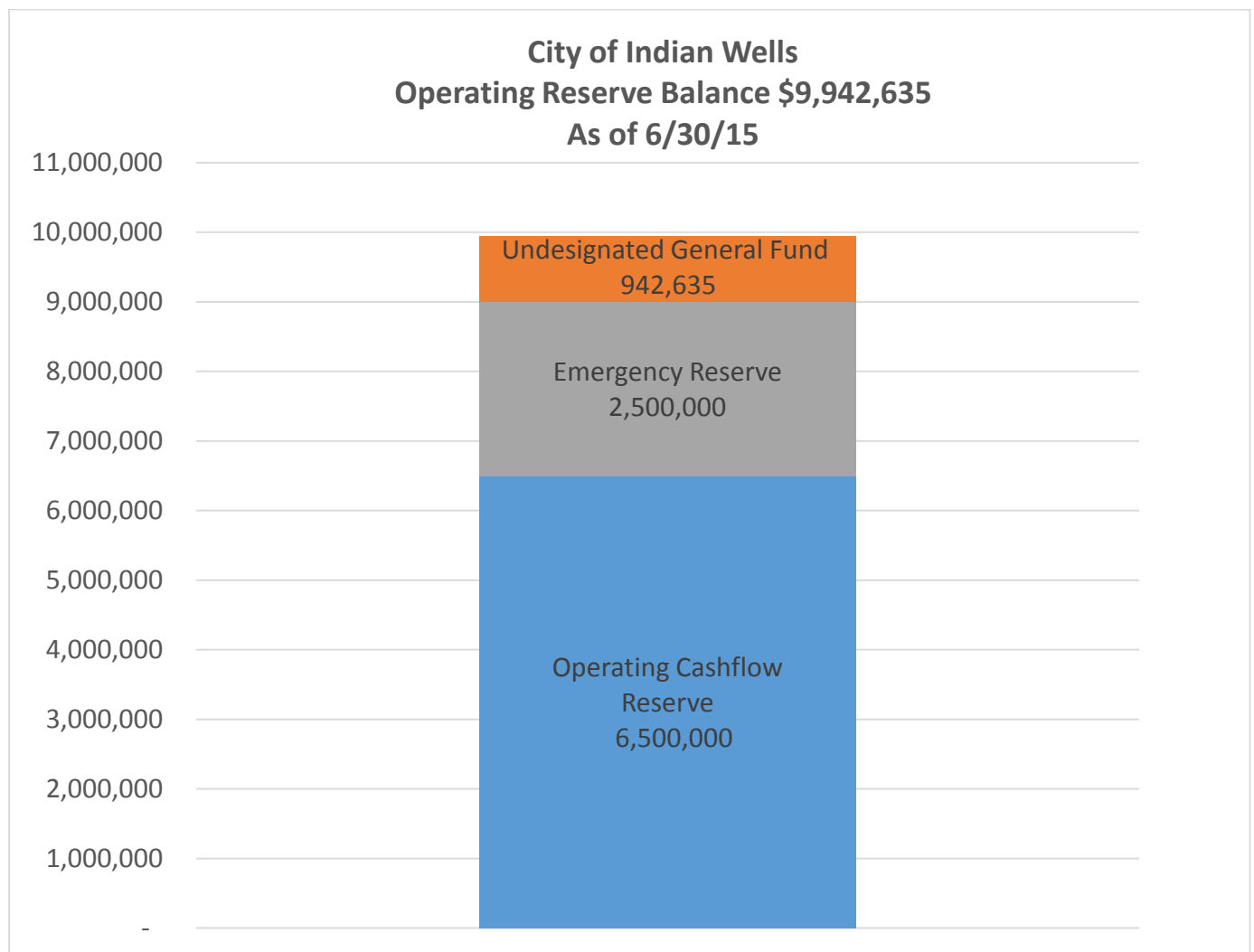
Operating and Capital Reserves

The City maintains both operational (cash) and capital asset replacement reserves. Operational (cash) reserves protect the City from substantial loss of service during economic downturn or revenue loss and help meet seasonal cash flow requirements when expenses post prior to collection of revenues. Capital asset replacement reserves are the primary funding source for the City's on-going capital improvements and replacements.

General Fund Operating Reserve

Figure 1 represents the current breakdown of operating (cash) reserves, totaling \$9,942,635 as of fiscal year ending June 30, 2015.

Figure 1: Operating (cash) Reserve Balance and Use Designations



Operating Cash Flow Reserves

The City receives large portions of its annual revenues in large deposits, twice a year. However, City expenditures do have consistent year round incurrence. Like many businesses, this seasonal cash flow requires adequate cash on hand in order to meet ongoing obligations prior to receipt of revenues.

Staff estimates seasonal cash flow needs at approximately 40% of total General Fund revenues annually. Based on the current FY16/17 budget, the General Fund conservatively needs approximately \$6.5 million in cash flow reserves. As of June 30, 2015, the City had \$6.5 million for this purpose.

Emergency Reserves

Maintaining emergency reserves has been a financial strategy of the City since the 1990's. A healthy tourism economy is vital to the financial success of Indian Wells. Historically, when the economy is in recession, tourism sees a reduction, and the City thereby sees a short-term reduction in tourism related revenues. Given tourism's high proportion of General Fund revenues (64%), maintaining a healthy reserve helps to cushion the impact of any recessionary period from revenue decreases.

The City's current emergency reserve is \$2.5 million, which is a little more than 15% of the General Fund's annual operating budget. The \$2.5 million emergency reserve is currently a fixed number and not governed by a formally adopted policy.

Undesignated General Fund

All remaining cash on hand is undesignated General Fund reserves. As of June 30, 2015, undesignated reserves total \$942,635.

Capital Reserves

Prior to 2011, the City utilized redevelopment funds for capital development, improvements, and replacements. Upon dissolution of redevelopment in 2011, City revenues became the primary mechanism to maintain and replace all capital assets. In response, the City developed five capital replacement funds and assessed all depreciable assets to estimate future capital replacement needs.

The City determined it had \$316 million in capital assets, of which \$254 million were subject to future replacement. Table 6 provides a brief detail of the capital replacement programs established, as well as the annual reserve requirement needed in order to pre-fund future capital replacements within each program.

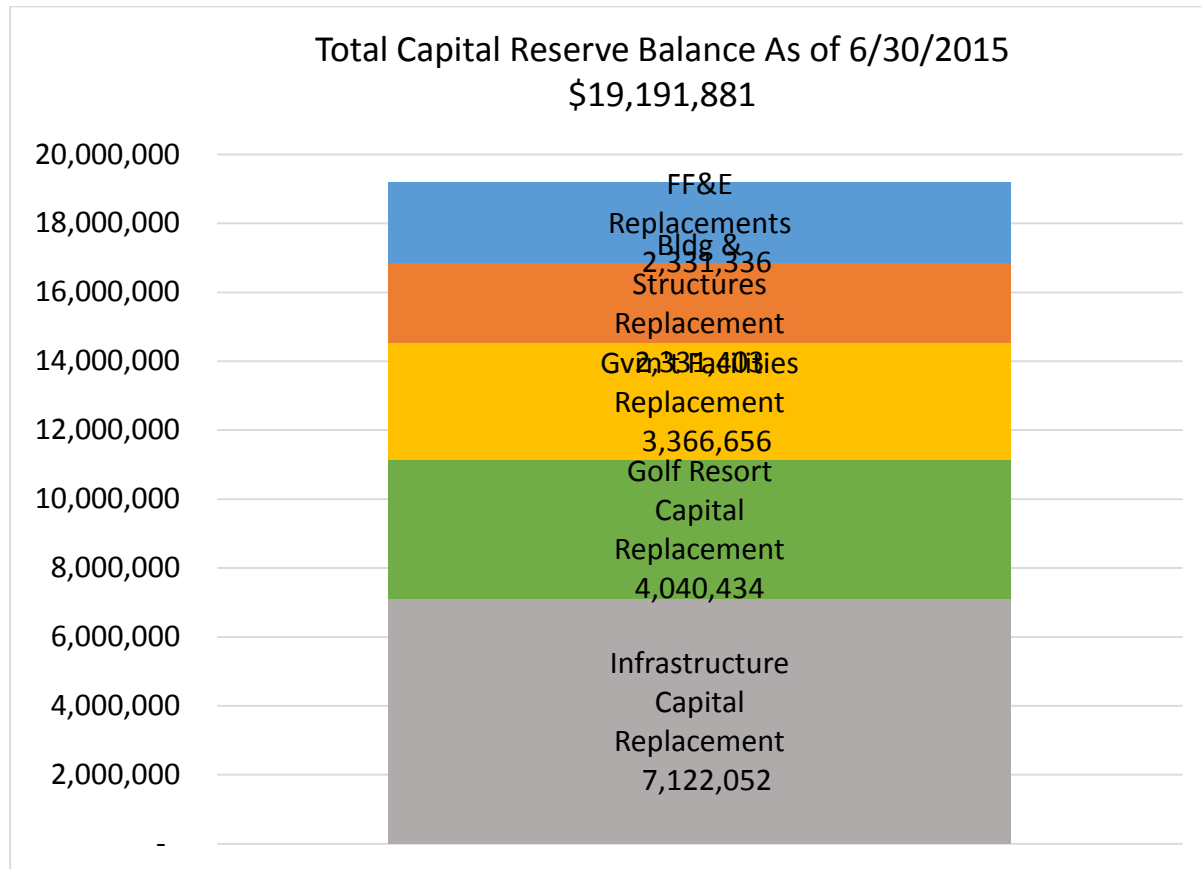
Table 6: Capital Replacement Program Funding Requirements and Net Position

Capital Replacement Program Funds	Cost	Annual Reserve Requirement	Reserve Fund Strategy	Annual Reserve Surplus/ (Deficit)	Balance at June 30, 2015
Infrastructure	94,190,521	1,333,280	1,280,000	(53,280)	7,122,052
Golf Resort Capital	92,545,423	893,537	30,000	(863,537)	4,040,434
Buildings and Structures	59,374,257	361,267	30,000	(331,267)	3,366,656
Facilities	6,449,659	38,698	20,000	(18,698)	2,331,403
FF&E and Rolling Stock	1,639,981	130,089	20,000	(110,089)	2,331,336
Total Capital	254,199,841	2,756,871	1,380,000	(1,376,871)	19,191,881

The annual reserve requirement uses a straight-line replacement calculation based upon all depreciating assets. The annual reserve requirement is \$2.8 million. The City's current fiscal policy is to budget for half of the reserve requirement annually, or approximately \$1.4 million.

The primary funding source of the capital contributions is the City's General Fund. The Forecasted Expenditure analysis presented in this report includes \$1.4 million annually to fund capital replacement reserves. As of June 30, 2015, total capital reserves are \$19.2 million.

Figure 2: Total Capital Reserve Designations and Balance



Furniture, Fixtures, & Equipment (FF&E) Replacements:

This fund designates reserves for future replacement of City Hall office furniture and fixtures, heavy equipment such as tractors and trailers, and fleet vehicles.

Buildings & Structures Replacements:

This fund designates reserves for future replacement of non-governmental facilities such as the Club Drive buildings.

Governmental Facilities Replacements:

This fund designates reserves for future replacement of governmental facilities such as the City Hall building, Fire Station 55, the police substation, and maintenance building.

Golf Resort Replacements:

This fund designates reserves for future replacement of Golf Resort assets such as the clubhouse and Vue restaurant, maintenance building, the pavilion, structures throughout the course, and the course itself.

Infrastructure Capital Replacements:

This fund designates reserves for future replacement of all other City infrastructure such as bridges, streets, curb and gutter, drainage systems, and landscaping.

Appendix 1: Revenue Forecast

Methodology Breakdown

For purposes of this revenue analysis, Staff compiled 10 years of detailed annual revenue data dating back to FY2006. Staff applied two different methodologies to forecast future revenues.

The first method was a historic trend forecast. The historic trend forecast uses a straight-line average of year-over-year percentage changes in revenues. The second methodology utilized a Staff created tourism index. The tourism index helped apply broader economic variables by including occupancy rates, average nightly room rate and gross rent at the hotels, golf rounds and average daily rates at the Golf Resort, and attendance and average ticket price from the Tennis Gardens.

In total, review of 19 revenue categories provided the basis for future revenue forecasts. Presented in order of magnitude are the seven largest revenue categories.

Golf Resort

To develop a reasonable basis to develop forecast assumptions, Staff reviewed historical trends at the Golf Resort. Staff determined that because of significant changes in revenue growth due to the new facilities constructed in 2009, a three-year actual trend analysis beginning in FY2013 though FY2015 would become the basis of the forecast.

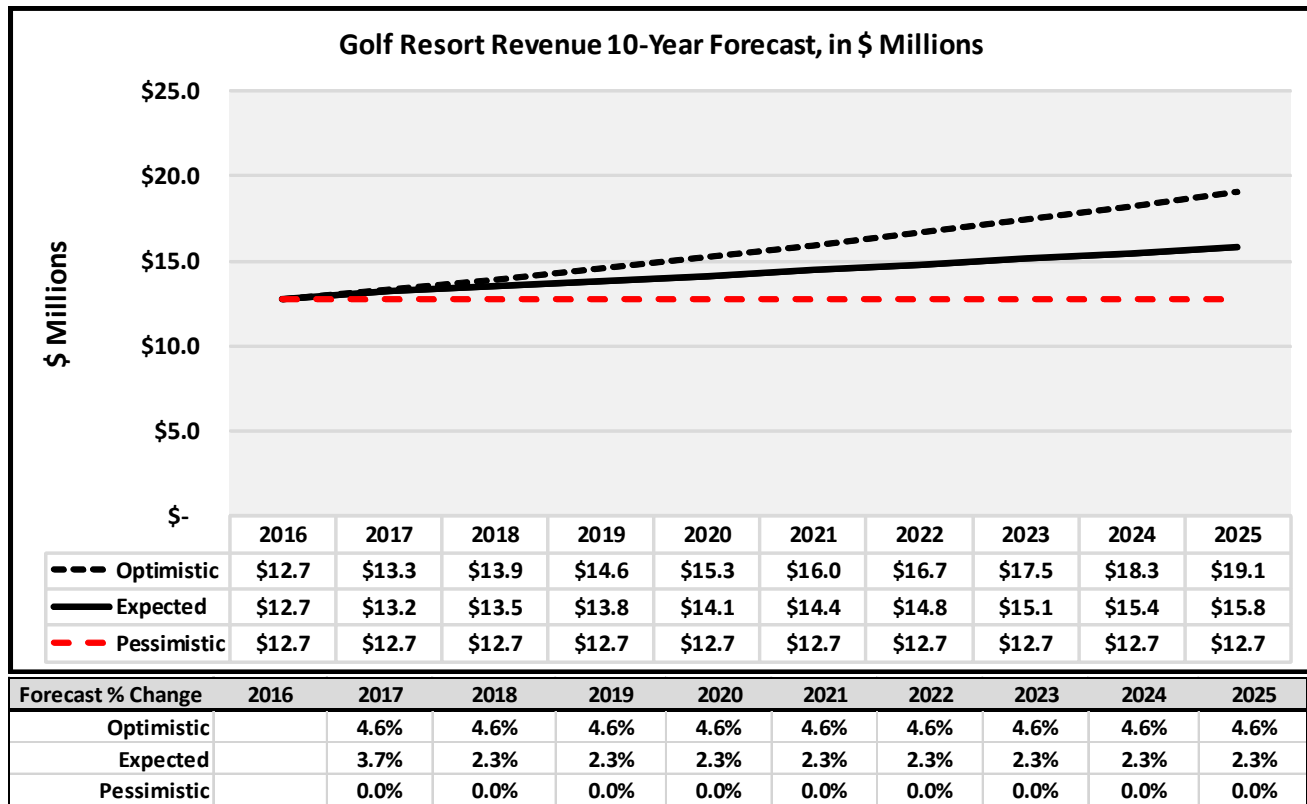
Working with City Staff, Troon provided a mid-year review of the existing FY2016 budget and developed a hypothetical FY2017 budget based upon current trends.

Forecast Scenarios:

- Optimistic: The upper range of possible revenue growth rate is projected at 4.6% based on the latest 2-year trend.
- Expected: Assumes 2.6% annual growth based on five-year forecast based on actual FY2013-2015 expenditures, revised FY2016 mid-year budget numbers, and a hypothetical FY2017 budget.
- Pessimistic: The lower range assumes no change in current revenue levels.

Figure A1.1 details the trend lines for the forecast scenarios described.

Figure A1.1



Transient Occupancy Tax

The average annual increase since FY2006 has been 3.2%, which accounts for the “Great Recession” during 2007-2009 and the subsequent 2% increase in the tax rate in FY2012. The primary drivers of TOT revenue include hotel occupancy rates, average room rates, gross hotel rents and the TOT tax rate.

TOT revenue has grown from \$5.4 million or 23% of total revenue in FY2006 to \$6.7 million or 20% of total revenue in FY2015. Hotel-related sales have recovered from the recession of 2008-2009 and TOT revenue has increased largely due to the tax rate increasing in mid-FY2012 from 9.25% to 11.25%.

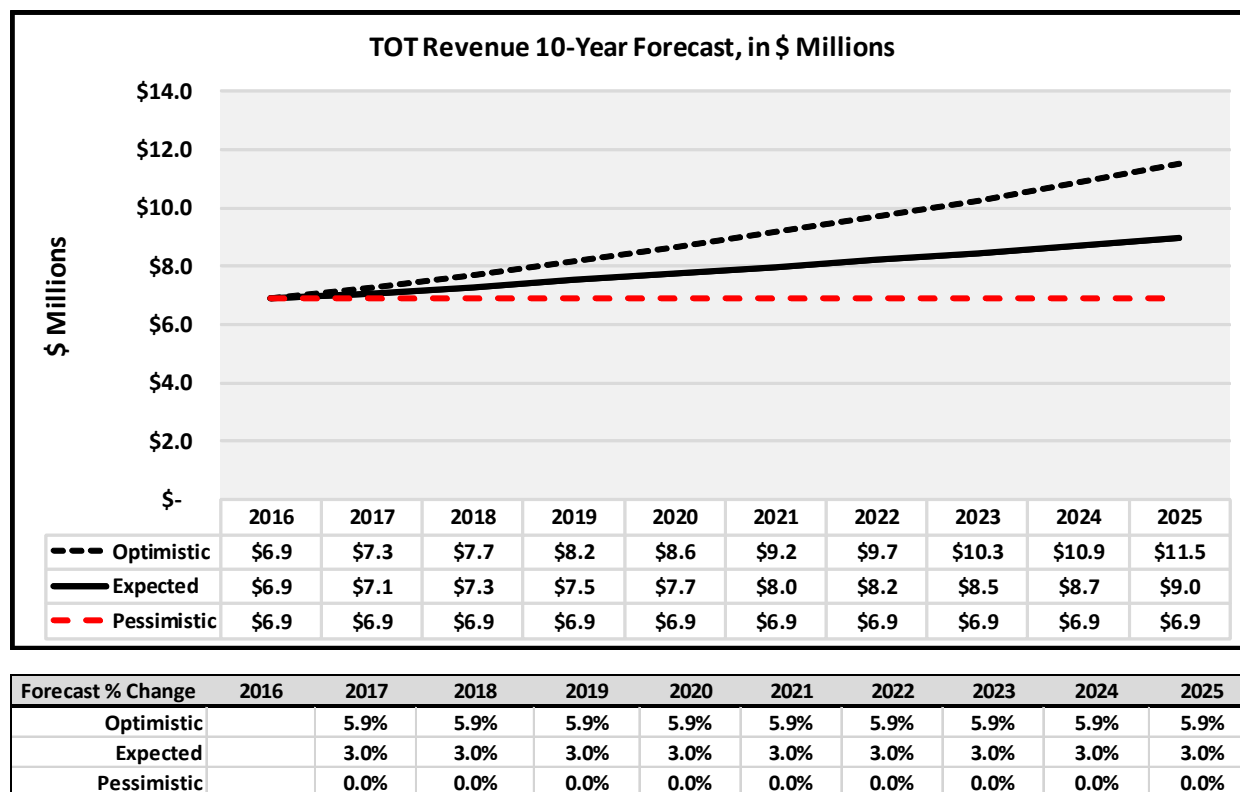
Forecast Scenarios:

- Optimistic: The upper range of possible revenue growth rate is projected at 5.9%, based on the latest 3-year trend. This assumes post-recession trends continue during the 10 years forecasted.

- Expected: Assumes 3% growth rate based on the latest 2-year trend as provided from hotel partners.
- Pessimistic: The lower range assumes no change in current revenue levels.

Figure A1.2 details the trend lines for the forecast scenarios described.

Figure A1.2



Admissions Tax

Admissions Tax is the City's fastest growing revenue and has grown from \$0.7 million in FY2006 to \$2.8 million in FY2015. The average annual increase since FY2006 has been 17.3%.

In 2010, the admissions tax rate was 7%. The tax rate increased to 8% for all 2011 and 2012 events. Two years later, the tax rate increased again to 9% for all 2013 and 2014 events. In 2015, the admissions tax rate reached its cap of 10% and will remain there in future years.

The Indian Wells Tennis Gardens recently expanded the facility allowing for greater attendance. The plan encompassed construction of a permanent Stadium 2 with 8,000 seats, additional restaurants, and a marquee site entrance on Washington Street with a new box office.

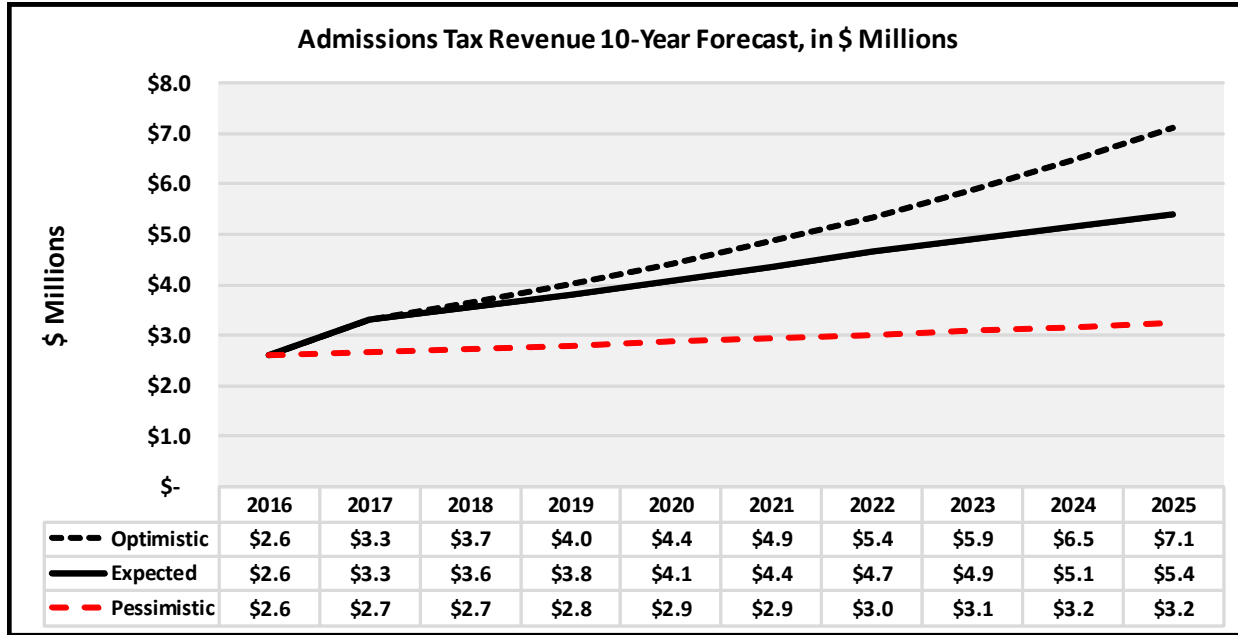
To forecast the next 10 year period, Staff turned to the Tennis Gardens for assistance. Tennis Gardens Staff indicated that while no firm maximum attendance capacity number exists, given the current number of days of the tournament, a maximum attendance of 550,000 is reasonable for forecasting purposes. When asked about forecasting increasing ticket prices, Tennis Gardens Staff indicated a 5% annual increase in ticket prices was reasonable.

Forecast Scenarios:

- Optimistic: The upper range of possible revenue growth rate is projected at roughly 10%. This assumes additional attendance of 15,000 with a maximum attendance cap of 600,000, increased ticket prices at historic averages of 7% and no change to the tax rate.
- Expected: Admissions Tax revenue is projected to grow 6.3% annually. This assumes additional attendance of 10,000 per year from 2015 attendance records of 456,672 up to a capacity of 550,000 and a 5% annual increase in ticket prices. The analysis assumes no change to the tax rate.
- Pessimistic: Assume flat attendance and a 2.5% inflation rate for ticket prices with no change to the tax rate.

Figure A1.3 details the trend lines for the forecast scenarios described.

Figure A1.3



Forecast % Change	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Optimistic		27.8%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Expected		27.8%	7.1%	7.1%	7.0%	7.0%	6.9%	5.0%	5.0%	5.0%
Pessimistic		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

Property Tax

The primary drivers of Property Tax revenue include home sales and re-sales, new construction and renovations, development activity, real estate prices and property tax rates.

Since 2006, the average annual change in property tax is 2.2% which accounts for the boom in property tax growth seen in 2008 and the "Great Recession" which lead to declining tax revenues in 2009, 2010, and 2011. Property tax collections are remarkably stable and consistent over long periods of time. To forecast property tax collections, Staff applied a 10 year historic trend analysis.

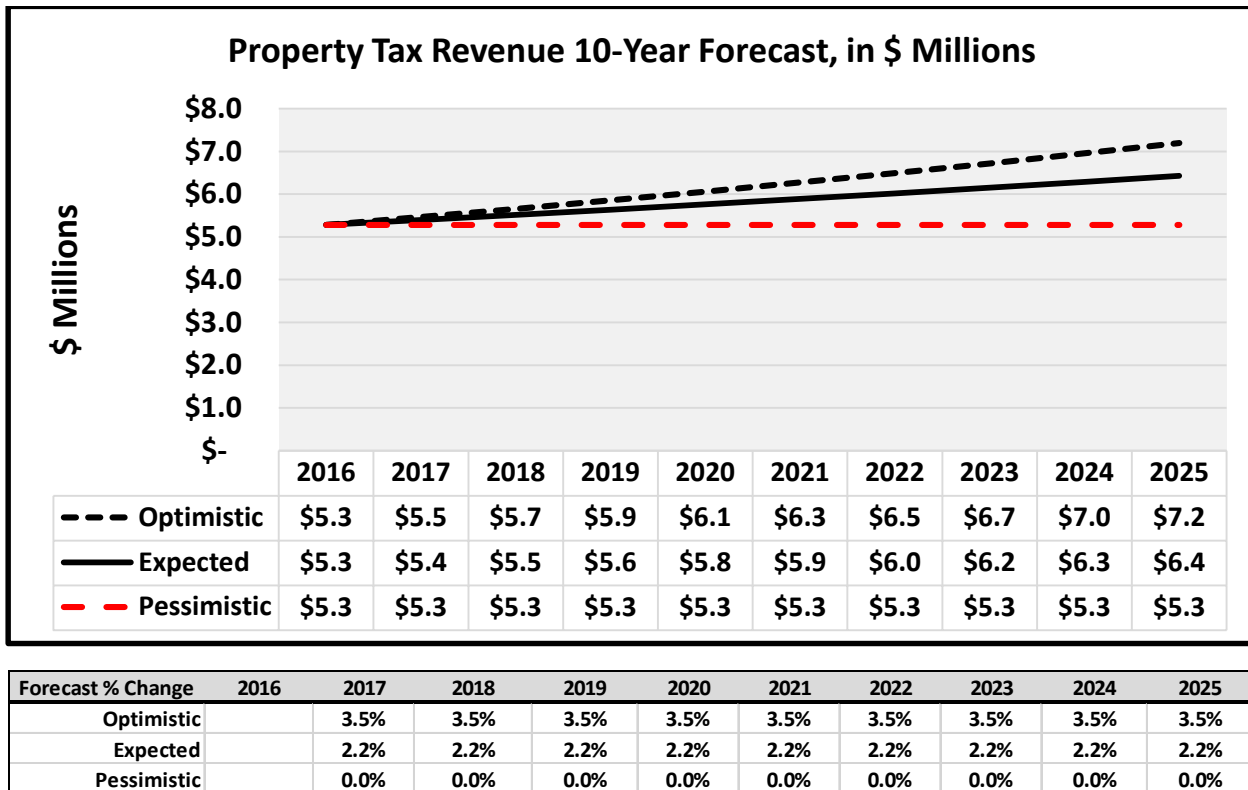
Forecast Scenarios:

- **Optimistic:** The upper range of possible revenue growth rate is projected at 3.5%, based on the latest 5-year trend.
- **Expected:** Property Tax revenue is projected to grow 2.2% annually, based on long-term historic trends.

- Pessimistic: The lower range assumes no change in current revenue levels.

Figure A1.4 details the trend lines for the forecast scenarios described.

Figure A1.4



Franchise Fees

The City and the private utility companies have agreements that in exchange for use of the City's rights-of-way, the utilities pay a certain fee. Currently, Southern California Edison (SCE), Time Warner Cable, Verizon, Southern California Gas, and Burrtec Waste and Recycling pay a franchise fee to the City. The revenue is calculated on a percentage of gross sales.

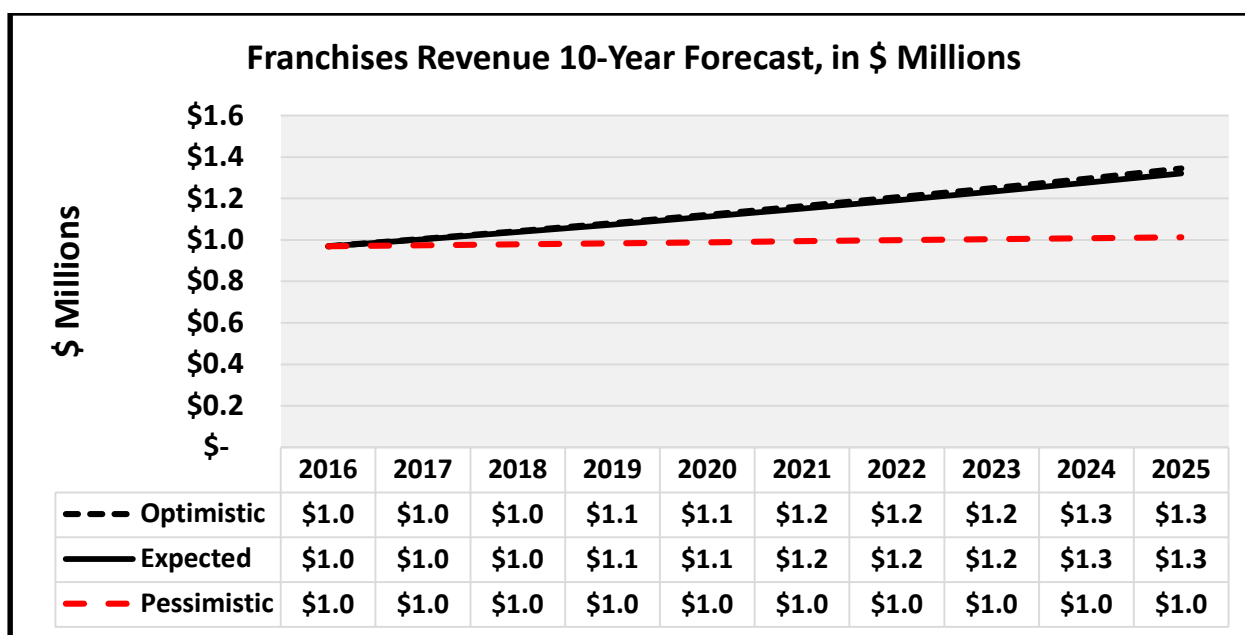
Forecast Scenarios:

- Optimistic: Given the historic stability of this revenue source, the upper range of possible revenue growth is projected slightly higher than the expected case at 3.7% based on the latest 2-year trend.

- Expected: Franchise revenue is projected to grow 3.5% annually based on expected growth in population and inflation. The population and inflation is based upon a 10 year average growth rate in City population (1%) plus the CPI inflation index for Los Angeles-Riverside-Orange County-All Items (2.5%).
- Pessimistic: The lower range is based on projected flat usage and utility costs.

Figure A1.5 details the trend lines for the forecast scenarios described.

Figure A1.5



Forecast % Change	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Optimistic		3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
Expected		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Pessimistic		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%

Intergovernmental Revenue

Intergovernmental revenue consists of Federal, state and local grants, revenue sharing and reimbursements that over the past 10 years have included homeowner's property tax relief payments, motor vehicle registration revenues, and funding for public safety programs.

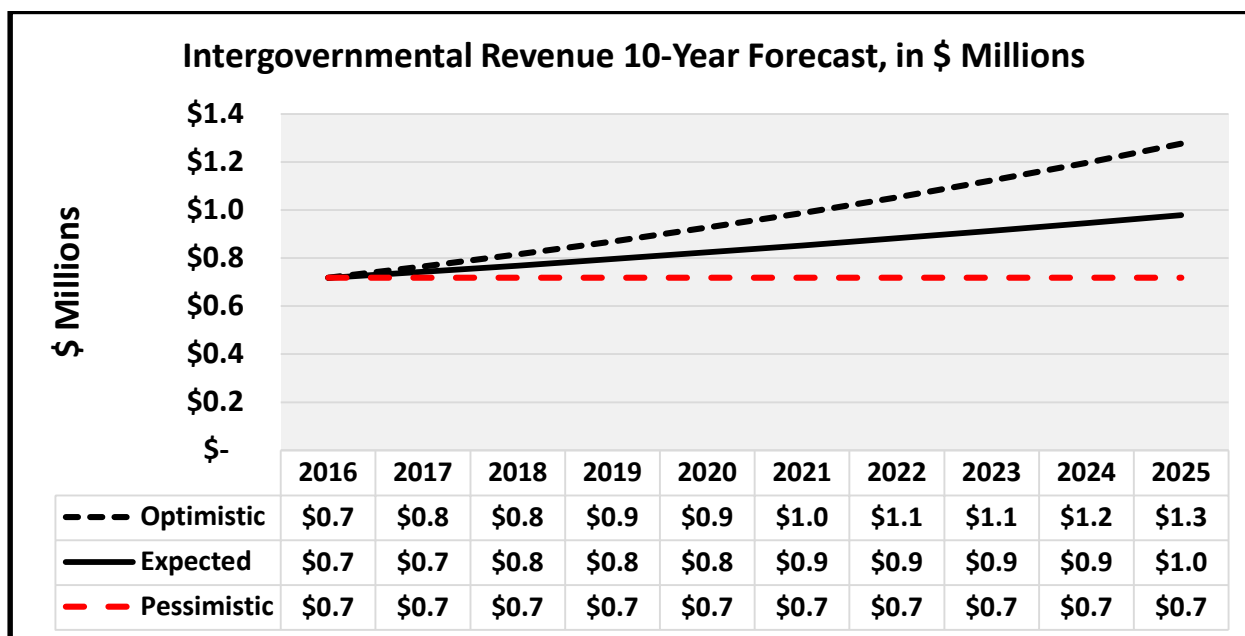
Forecast Scenarios:

- Optimistic: The upper range of possible revenue growth rate is projected at 6.6% based on the latest 5-year trend.

- Expected: Intergovernmental revenue is projected to grow 3.5% annually based on expected growth in population and inflation. The population and inflation is based upon a 10 year average growth rate in City population (1%) plus the CPI inflation index for Los Angeles-Riverside-Orange County-All Items (2.5%).
- Pessimistic: The lower range is flat and assumes no change to current funding levels.

Figure A1.6 details the trend lines for the forecast scenarios described.

Figure A1.6



Forecast % Change	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Optimistic		6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
Expected		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Pessimistic		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Current Service Charges

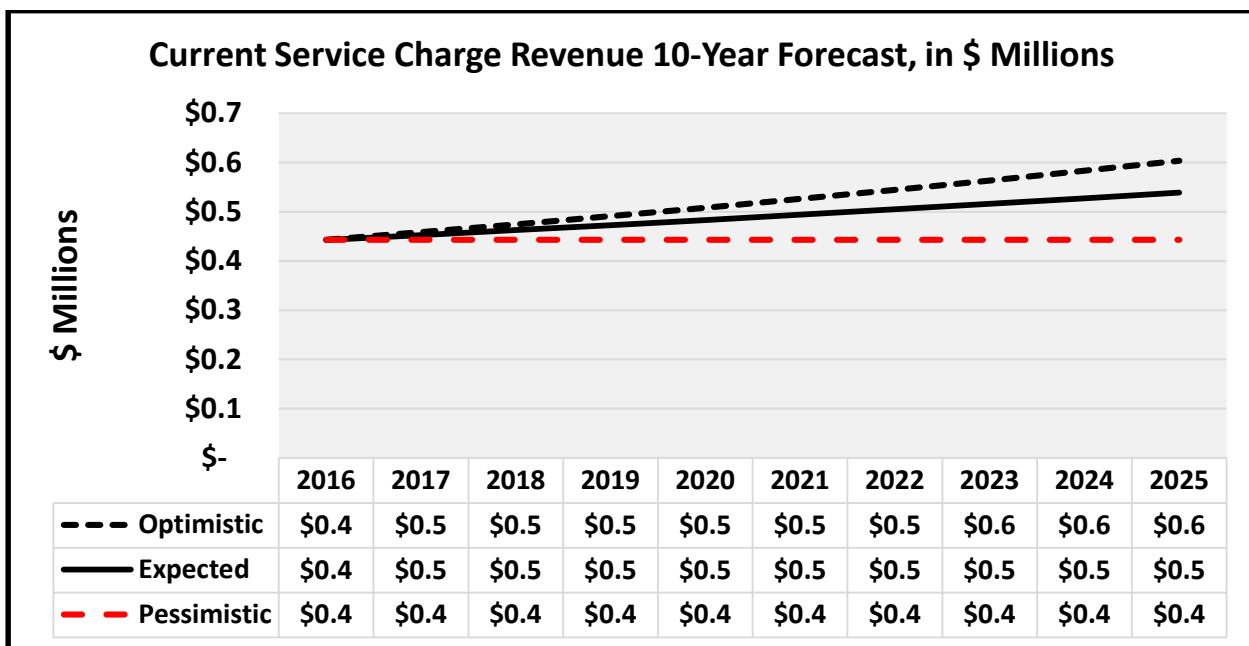
Charges for current services include revenue generated from services provided to the public. The amount of each service charge is proportionate to the cost of providing the service. Service charges are collected for public safety, planning and zoning, and building plan checks.

Forecast Scenarios:

- Optimistic: The upper range of possible revenue growth rate is projected at 3.5% based the most recent 5-year average annual growth rate.
- Expected: Current Service Charges are projected to grow 2.2% annually based on similar forecast assumptions relating to projected growth in Property Tax revenue which is a proxy for housing sales and re-sales, construction, and market value changes.
- Pessimistic: The lower range of possible revenue growth rate assumes no change to current revenue levels.

Figure A1.7 details the trend lines for the forecast scenarios described.

Figure A1.7



Forecast % Change	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Optimistic		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Expected		2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
Pessimistic		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Other Funds

All other used the historic trends model for revenue growth. These revenues include State and County collected Traffic Safety funds, Measure A transportation funds, Southern California Air Quality Management District funds, COPS funds, Gas Tax funds, etc.

Appendix 2: Expenditure Forecast

Methodology Breakdown

For purposes of expenditure analysis, Staff compiled 10 years of detailed annual expenditure data, starting in FY2006. Staff used a straight-line trend average of the year-over-year percentage increase in expenditures, taken from the bottom line of all expenditures within the funds reviewed.

Similar to revenues, some additional normalization was required for certain funds based on substantial changes within individual line items. For example, changes in the insurance risk pool premium calculation caused a quadrupling of insurance costs since FY2006. However, the purpose of the premium calculation change was to stabilize long-term cost increases.

General Fund

To determine expenditure trends, Staff analyzed all General Fund expenditures, by program, dating back to FY2006. Total General Fund expenditures grew from \$9 million in FY2006 to just over \$16 million in budgeted FY2016.

Staff normalized expenditures to determine a historical expenditure growth trend taking into account three factors:

1. In fiscal years 2006 through 2011, the City transferred in redevelopment agency funds to cover various costs. Staff estimates of the funds transferred from redevelopment to cover normal General Fund operating expenses were included, thereby increasing total expenditures through FY2011.
2. In 2012, a number of employee terminations and interim staffing replacements produced double expenditures to program funds. Staff removed costs determined to be termination payouts and interim employee duplications.
3. In fiscal years 2013 through 2015, the City made additional contributions to unfunded liabilities associated with retiree medical costs, otherwise known as OPEB (other post-employment benefits). While the City makes contributions annually to OPEB costs, those three years included additional contributions estimated at \$266,669, \$854,410, and \$849,672. In FY2016, the City budgeted normal annual contributions, distributed as a line item in employee costs throughout the various operating programs.

Forecast Scenarios

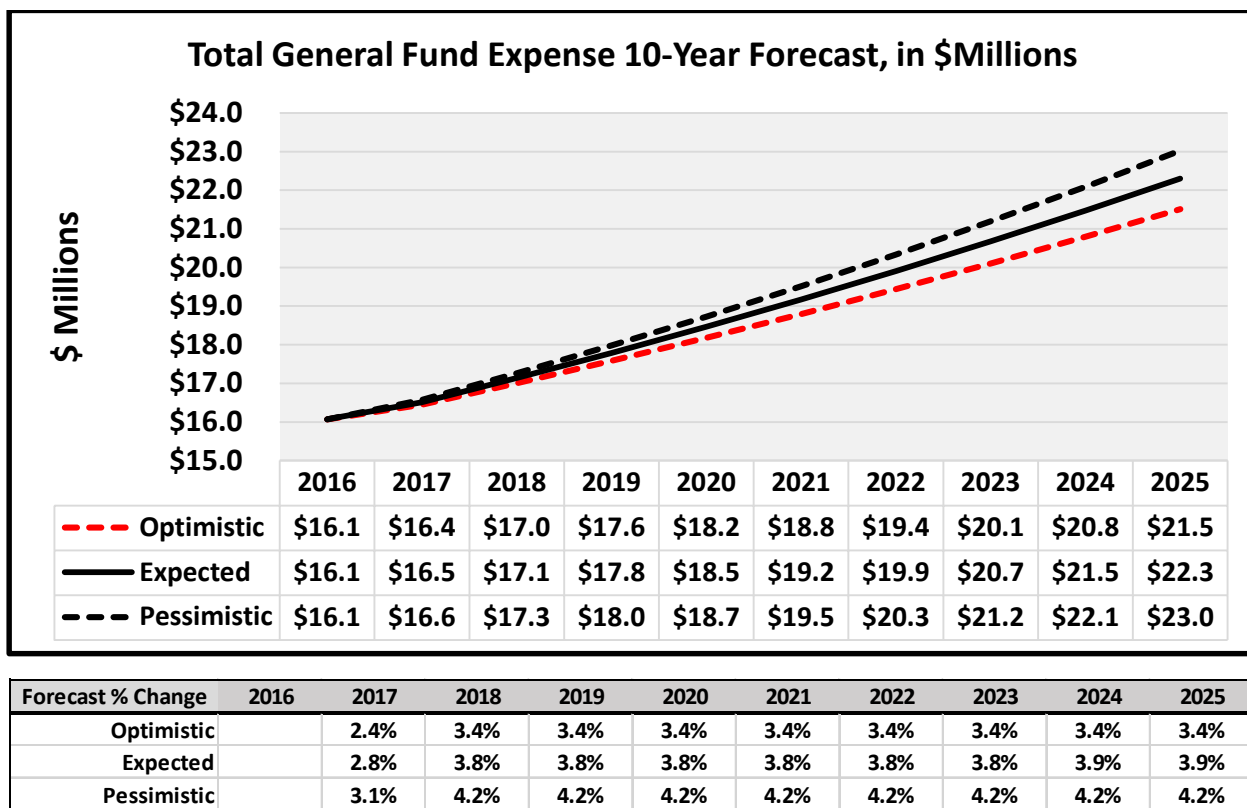
- Optimistic: Assumes the minimal expenditure increase annually, without cuts to current service levels, is 3.4% annually. This assumes law enforcement cost increases are held to 3.7% based on tighter management of services, insurance

premium increases at 4.4%, and total employee cost increases at 3.2% (assumes the pay-off of unfunded pension liabilities in the near-term).

- Expected: Assumes the expected expenditure increases annually based on historical trends. This assumes law enforcement increases at 4.8% annually, insurance premium increases at 4.4% annually, and total employee cost increases at 3.9% annually.
- Pessimistic: Assumes unchecked expenditure growth. This assumes law enforcement increases at recent three-year trend of 5.8% (includes a 9% increase in FY2016), insurance premium increases at 5.1%, and total employee cost increases at 4.3% annually.

Figure A2.1 details the trend lines for the forecast scenarios described.

Figure A2.1



Golf Resort

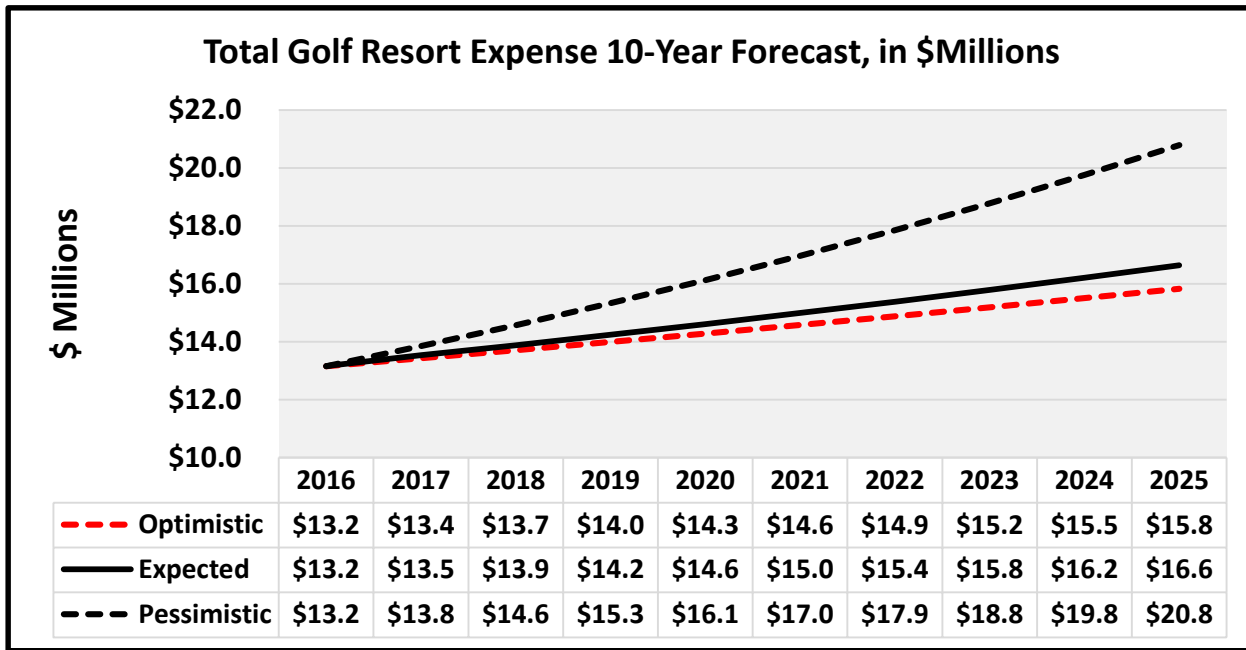
To determine a historical trend at the Golf Resort, Staff used a shorter historical period. Major renovation to the resort in FY2008-2009 doubled expenditures within a two-year period. The addition of the pavilion in 2013 also further increased costs of operations. Therefore, the historical trend used for the Golf Resort starts in 2013, does not include the City's contribution to build the pavilion and improvements to the Vue and café, and takes into account a one-time increase in fixed operating costs for leases of golf carts starting in 2014.

Forecast Scenarios

- Optimistic: Assumes expenditure increases based on Staff's trend of audited actuals in the City's general ledger for FY2010 through FY2015. This takes into account expenditure decreases in FY2012 and FY2013.
- Expected: Assumes expenditure increases based on Troon's FY2013-2015 trend, plus mid-year-adjusted FY2016 budgeted expenditures and hypothetical FY2017 expenditures. This assumes a mid-year FY2016 decrease in expenditures of \$1.1 million.
- Pessimistic: Assumes expenditures based on Staff's trend of audited actuals in the City's general ledger for FY2013 through FY2015. This excludes FY2016 budgeted and mid-year-adjusted numbers, relying solely on short-term historical expenditure totals.

Figure A2.2 details the trend lines for the forecast scenarios described.

Figure A2.2



Forecast % Change	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Optimistic		2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Expected		2.8%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.7%	2.7%
Pessimistic		5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%

Fire Services Fund

To determine expenditure trends, Staff analyzed all Fire Services Fund expenditures, by line item, dating back to FY2006. Historically, Fire Services expenditures come in under budget. The Fire Department budgets by providing a “worse-case” scenario budget, including higher than anticipated overtime expenses.

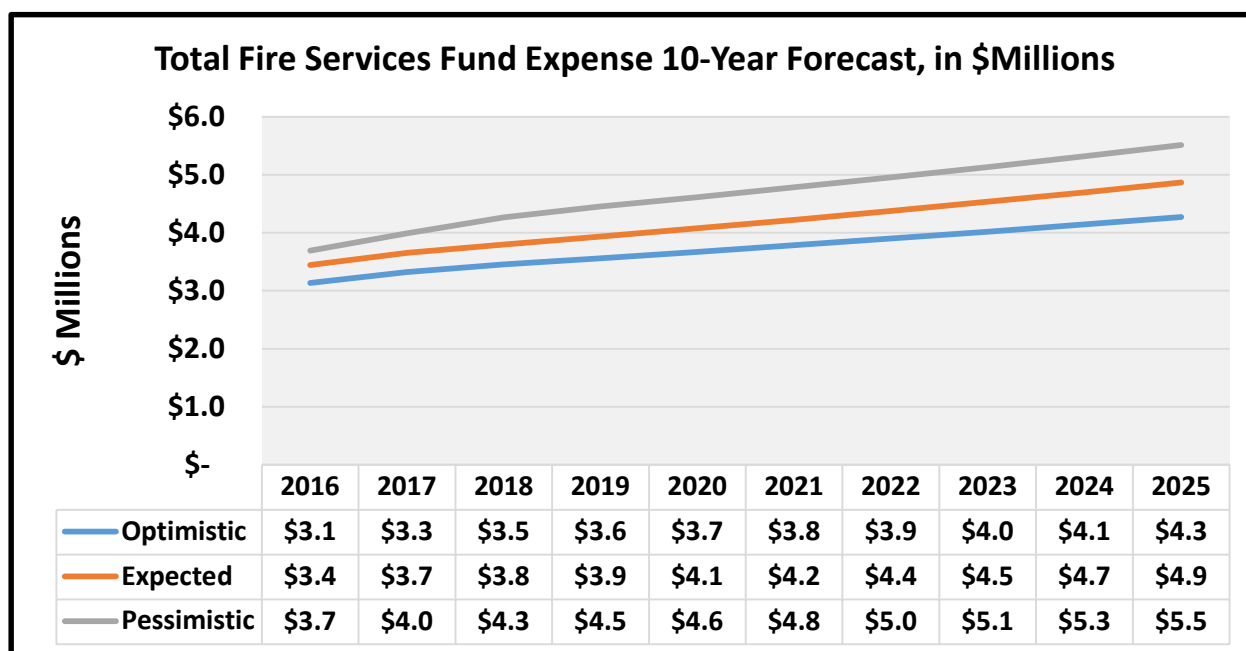
Forecast Scenarios

- **Optimistic:** Fire Services have historically not expended beyond the special Fire Services Fund revenues collected. Optimistic assumes a 6% and 4% increase in costs for FY2017-2018 based on Fire Department preliminary discussions, then assumes the same rate as optimistic revenue increases at 3.1% thereafter. Bases future cost increases on FY2016 expenditures coming in \$500,000 under budget.
- **Expected:** Assumes 6% and 4% increases for FY2017-2018, and then 3.6% thereafter based on historical actual average year-over-year cost increases. Bases future cost increases on FY2016 expenditures coming in \$250,000 under budget.

- Pessimistic: Assumes 8% and 7% increases for FY2017-2018 (worse than preliminarily determined by CalFIRE/Riverside County), 4.4% in FY2019 (the short-term annual average increase taking into account FY2017-2018), and 3.6% thereafter based on historical actual average year-over-year cost increases. Bases future cost increases on FY2016 expenditures coming in at budget.

Figure A2.3 details the trend-lines for the forecast scenarios described.

Figure A2.3



Forecast % Change	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Optimistic		6.0%	4.0%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%
Expected		6.0%	4.0%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
Pessimistic		8.0%	7.0%	4.4%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%

Other Funds

All Other Fund expenditure utilized an identical percentage for annual increases as the percentage used for annual revenue growth. As discussed in the report, all other funds are essentially pass-through funds, and therefore do not exceed revenues in the long-term.