

CITY OF PALM DESERT STAFF REPORT

MEETING DATE: December 11, 2025

PREPARED BY: Veronica Chavez, Director of Finance

SUBJECT: STUDY SESSION: REPORT ON FISCAL RESERVES, RESERVE POLICY
AND BEST PRACTICES

RECOMMENDATION:

Receive a report on fiscal reserves, reserve policy, and best practices. Provide direction to staff regarding any desired updates to the policy.

EXECUTIVE SUMMARY

This report reviews the amount of financial reserves the City maintains—our savings—and whether our current policy continues to meet the City’s needs. The goal is simple:

- Keep the City financially safe.
- Avoid over-saving when funds could help meet community needs.
- Modernize the policy to match best practices.

Today, the City requires \$77.7 million in reserves for FY 2025–26. However, long-term projections indicate that these requirements will become increasingly difficult to meet once major projects—such as parks, stormwater upgrades, and facilities—progress. To keep us stable and flexible, staff recommends:

- Combining Operating & Emergency Reserves into a single 25% reserve.
- Using a simpler 4% replacement-value method for facility maintenance reserves.
- Creating a stable Economic/Community Investment Reserve with ROI standards.
- Planning to support a future 4% Affordable Housing facilities reserve.
- Adding a Productivity Savings Reserve to reward efficiency.

These refinements lower the FY 2025–26 reserve requirement from \$77.7 million to \$66.1 million, freeing more than \$ 11.6 million that can be prioritized to meet current community needs.

Financing tools, such as Lease Revenue Bonds, could further reduce pressure on cash balances and help complete large projects without depleting reserves for upcoming projects.

BACKGROUND/ANALYSIS:

At the June 26, 2025, City Council meeting, staff presented a balanced FY 2025-26 Operating Budget and Five-Year CIP Plan. At that time, staff committed to providing a deeper review of the City’s 10-Year General Fund Cash Flow Analysis, projected demands on fiscal resources, and potential policy refinements aligned with Council priorities, community growth, and best practices.

City of Palm Desert
 Fiscal Reserves and Reserve Policy Report

Staff is currently working through the FY 2024-25 Audit, which reflects approximately \$116.7 million in Fund Balance after all required transactions and carryovers are considered. Within this amount, \$3.1M is non-spendable. As of the last City Council meeting, only \$1.3 million in additional appropriations have been requested this fiscal year from unobligated General Fund reserves, which have been transferred to the Aquatic Facility Fund to support necessary capital improvements. This leaves approximately \$112.3 million available for reserves and/or to address any unanticipated costs for the remainder of FY 2025-26 and future years.

Ten-Year Estimated Cash Flow Forecast as of November 2025

The cash flow forecasts depicted below will be included as an attachment to this report in a clearer format; they are included here for quick reference. Cash flows represent a snapshot in time and are updated as information becomes available.

Schedule 1 – Cash Flow Projections – Reserve Policy “As Is”

TEN-YEAR FORECAST	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
Estimated Revenue										
Property Tax	14,712,737	15,006,992	15,307,132	15,613,274	15,925,540	16,244,050	16,568,931	16,900,310	17,238,316	17,583,083
Sales Tax (General 1%)	25,274,315	25,598,778	26,045,477	26,447,033	26,795,972	27,088,751	27,339,875	28,160,071	29,004,873	29,875,020
TOT & STRs	22,755,000	25,940,700	28,534,770	29,390,813	30,272,537	31,180,714	32,116,135	33,079,619	34,072,008	35,094,168
Measure G *	25,887,322	26,416,518	26,929,837	27,394,342	27,805,342	28,462,695	29,031,949	29,612,588	30,500,966	31,415,994
All Other GF Revenue	23,059,380	23,566,686	24,085,153	24,615,027	25,156,557	25,710,002	26,275,622	26,853,685	27,444,466	28,048,245
Combined GF Revenue	111,688,754	116,529,674	120,902,369	123,460,489	125,955,949	128,686,212	131,332,512	134,606,274	138,260,629	142,016,509
Estimated Expenditures										
Salaries & Benefits	26,853,063	27,792,920	28,765,672	29,772,471	30,814,507	31,893,015	33,009,271	34,164,595	35,360,356	36,597,968
Professional Services	11,208,344	11,768,761	12,357,199	12,975,059	13,623,812	14,305,003	15,020,253	15,771,266	16,559,829	17,387,820
Public Safety	28,547,236	29,689,125	30,876,690	32,111,758	33,396,228	34,732,078	36,121,361	37,566,215	39,068,864	40,631,618
Other Ops	6,775,484	7,182,013	7,612,934	8,069,710	8,553,892	9,067,126	9,611,154	10,187,823	10,799,092	11,447,038
Repair & Maintenance	6,269,023	6,707,855	7,177,404	7,679,823	8,217,410	8,792,629	9,408,113	10,066,681	10,771,349	11,525,343
Events & Outside Agency Funding	2,111,135	2,237,803	2,372,071	2,514,396	2,665,259	2,825,175	2,994,685	3,174,366	3,364,828	3,566,718
Transfers to Other Funds (Leaves/ADs)	1,846,000	1,901,380	1,958,421	2,017,174	2,077,689	2,140,020	2,204,221	2,270,347	2,338,458	2,408,611
Transfer to Library Services	2,523,443	2,573,912	2,625,390	2,677,898	2,731,456	2,786,085	2,841,807	2,898,643	2,956,616	3,015,748
Transfer to Aquatic Facility Services	2,152,543	2,174,068	2,195,809	2,217,767	2,239,945	2,262,344	2,284,968	2,307,817	2,330,896	2,354,205
Transfer to Fire Services*	7,750,000	10,500,000	11,500,000	13,000,000	14,000,000	14,560,000	15,142,400	15,748,096	16,378,020	17,033,141
Total Operational Expenditures	96,036,271	102,527,838	107,441,592	113,036,056	118,320,200	123,363,475	128,638,231	134,155,849	139,928,307	145,968,210
CIP Related Transfers										
Transfer to Projects*	10,726,545	12,030,561	11,505,021	1,964,673	1,964,673	7,638,287	8,096,584	8,582,379	9,097,322	9,643,161
Transfers for Facilities *	3,847,482	3,885,957	3,924,816	3,964,065	4,003,705	4,043,742	4,084,180	4,125,021	4,166,272	4,207,934
Total GF Expenditures	110,610,298	118,444,356	122,871,429	118,964,793	124,288,578	135,045,504	140,818,995	146,863,250	153,191,900	159,819,306
Est. Beginning General Fund Balance	116,772,032	117,850,488	98,966,367	80,002,328	77,498,024	79,165,394	72,806,102	63,319,619	51,062,643	36,131,372
Revenue over (under) expenditures	1,078,456	(1,914,682)	(1,969,060)	4,495,696	1,667,370	(6,359,292)	(9,486,483)	(12,256,976)	(14,931,271)	(17,802,797)
Unfunded Requests (from Reserve)										
New Library (\$30M) \$20M RDA BOND PI	(6,000,000)									
Station 33/71 Rehab/Rebuild \$23.6M RC	(2,400,000)									
North Sphere Community Park (\$19M)		(15,500,000)	(3,500,000)							
North Sphere Regional Park (\$30M)		(3,000,000)	(20,000,000)	(7,000,000)						
North Sphere Stormwater - Channel Prc	(1,000,000)	(8,500,000)	(5,000,000)							
Henderson Trailhead Improvements		(2,000,000)								
<i>Estimated Amount from Measure G</i>	<i>9,400,000</i>	<i>12,030,561</i>	<i>11,505,021</i>	<i>1,964,673</i>	<i>1,964,673</i>	<i>7,638,287</i>	<i>8,096,584</i>	<i>8,582,379</i>	<i>9,097,322</i>	<i>9,643,161</i>
Est. Ending General Fund Balance	\$ 117,850,488	\$ 98,966,367	\$ 80,002,328	\$ 77,498,024	\$ 79,165,394	\$ 72,806,102	\$ 63,319,619	\$ 51,062,643	\$ 36,131,372	\$ 18,328,575

Why Reserves Matter

Fiscal reserves are essential for maintaining financial stability and flexibility in response to unforeseen events. A good reserve policy provides for stability through uncertainty without unnecessarily tying up funds that could be used to provide services to the community. In Government Accounting, each fund functions as a separate accounting entity, with its own operational and financial characteristics. Reserve levels should be tailored to those specific needs.

Reserve funds are not intended for operational costs, except in limited circumstances, such as an economic contraction that reduces tax revenues or an emergency event, like a natural

disaster. Historically, annual expenditures have outpaced revenues for various reasons, and the ten-year forecast continues to reflect this pattern. By FY 2031-32, this trend is projected to be driven primarily by increased public safety costs.

Staff is actively pursuing opportunities to identify and collect additional revenue sources. Staff is also managing current resources to ensure all revenues are fully recognized and that available funds are maximized in both practice and long-range forecasting.

Best Practices

The **Government Finance Officers Association (GFOA)** recommends that general-purpose governments maintain an unrestricted fund balance equal to at least two months, or 16.7%, percent, of General Fund operating revenues or expenditures. Fund Balance represents the resources accumulated in governmental funds and is defined as the difference between a fund’s assets and its liabilities.

The **Governmental Accounting Standards Board (GASB)** defines five classifications of Fund Balance. These classifications distinguish whether portions of fund balance are available for appropriation (“spendable”) or restricted by external or internal constraints (“reserved”). The five Fund Balance classifications are:

Table A – Fund Balance Classifications

<i>Classification</i>	<i>Nature of restriction</i>	<i>Example</i>
<i>Non-Spendable</i>	Cannot be readily converted to cash	Leave balances, Developer deposits
<i>Restricted</i>	Externally imposed restrictions	Grant funds, escrowed monies
<i>Committed</i>	City Council imposed commitment	Emergency, Facilities, Equipment, etc.
<i>Assigned</i>	City Manager assigned purpose/intent	General Fund Operations
<i>Unassigned</i>	Residual balance, not otherwise restricted	Balance available for Goals, Projects, etc.

Originally adopted in 2008 and last updated in 2018, the City's Reserve Policy incorporates GFOA best practices while tailoring reserve categories to the City’s operational and financial structure. The policy establishes the following reserve categories:

- General Fund Operating Reserve
- Contingency/Emergency Reserve
- Facilities Maintenance Reserve
- Capital Improvement Projects Reserve
- Liability Reserve
- Employment Benefits Reserve
- Other Fund Stability Reserve
- Equipment Replacement Reserve
- Economic Development/Land Acquisition Reserve

Since 2018, GFOA has expanded its best practice recommendations for reserve policies. Key concepts for cities to consider include:

- **Follow GFOA Guidelines:** Maintain an unrestricted General Fund balance equal to at least two months of operating revenues or expenditures (approximately 16.7%). percent).
- **Multiyear Forecasting:** Integrate reserve targets into long-range financial plans to help stabilize services during economic downturns.
- **Structured Use Policy:** Clearly define the circumstances under which reserves may be used, such as revenue shortfalls or natural disasters.
- **Transparent Reporting:** Regularly disclose reserve levels and any drawdowns to support accountability and public trust.

The City’s current Reserve Policy incorporates three of these four recommendations. The only exception is the GFOA’s 16.7% minimum threshold, which is not used in the current policy.

For reference, below are examples of reserve thresholds used by other California cities:

Table B – Various California City Reserve Thresholds

<i>City</i>	<i>Total Reserve Requirement</i>
<i>Los Angeles</i>	5% of General Fund Revenue
<i>San Francisco</i>	16.7% of General Fund Expenditures
<i>Sacramento</i>	10% of General Fund Revenue
<i>San Diego</i>	16.7% of General Fund Revenue
<i>Fresno</i>	25% of General Fund Expenditures
<i>Santa Rosa</i>	20-25% of General Fund Revenue
<i>Long Beach</i>	10% of General Fund Expenditures
<i>Modesto</i>	22.5% of General Fund Expenditures
<i>La Quinta</i>	33% of General Fund Expenditures
<i>Rancho Mirage</i>	84% of Estimated Fund Balance

The following table presents the FY 2025-26 reserve requirements established under the City’s current Reserve Policy:

Table C – Year 1 (FY 2025-26) Reserve Calculations per Current Policy

CATEGORY	REQUIREMENT	DESIGNATION	FY 2025-26 AMOUNT
GENERAL FUND OPERATING RESERVE	Finance Director shall set aside (25%) of the projected annual General Fund expenditures.	Assigned – City Manager is delegated to use for operations.	21,691,071
CONTINGENCY/ EMERGENCY RESERVE	Finance Director shall reserve an amount equal to (20%) of the projected annual General Fund revenues.	Committed - Requires Council Action to use for unexpected financial change or public emergency.	22,337,751
FACILITIES MAINTENANCE RESERVE	Finance Director is directed to commit the amount identified in the Replacement Reserve Study. The policy designated goal for funding this reserve, will be between (60-100%) of the 'Fully Funded' amount in the Study.	Committed - Requires Council Action to use to maintain existing City buildings and infrastructure.	6,961,265
CAPITAL IMPROVEMENT PROJECTS RESERVE	Finance Director shall set aside (20%) of the total Capital Improvement Program projects for the next five years.	Committed - Requires Council Action to use for CIP. <i>*May also be "Restricted" depending on project.</i>	6,045,267
LIABILITY RESERVE	Finance Director shall commit at least the pooled retention requirement for both Liability and Workers' Compensation, which is currently \$4 million	Committed - Requires Council Action to use for costs not covered by insurance including deductibles.	4,000,000
EMPLOYMENT BENEFITS RESERVE	Finance Director shall also set aside fifty percent (50%) of a one percent (1%) difference in the Public Employees Retirement System (PERS) discount rate. <i>Funds will also be transferred to the appropriate Internal Service Fund to cover all leave balances and OPEB annually as part of this requirement.</i>	Committed - Requires Council Action to use for impacts related to rate changes from PERS.	10,697,122
OTHER FUND STABILITY RESERVE	Finance Director shall adjust the amount to be the projected annual transfers to other funds. <i>This amount is immediately transferred on July 1 to ensure availability, so no additional reserve is necessary.</i>	Committed - Requires Council Action to use for transfers to other funds.	-
EQUIPMENT REPLACEMENT RESERVE	Finance Director shall adjust this reserve to be at least 100% of the total historical cost of equipment assets as noted in the ACFR.	Committed - Requires Council Action to use for equipment not in the Replacement Reserve.	2,869,354

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ECONOMIC DEVELOPMENT RESERVE	Finance Director shall commit the City's share of proceeds from SARDA land sales to this reserve.	Committed - Requires Council Action to use for partnerships, incentives, etc to achieve economic goals.	-
TOTAL FY 2025-26 RESERVE REQUIREMENT (INCLUDING \$3.1M NON-SPENDABLE FUNDS)			77,719,235

With an estimated Fund Balance of \$117.8 million as of June 30, 2026, and after accounting for the required reserves, the resulting unrestricted amount for FY 2025-26 is approximately \$40,131,253, inclusive of restricted funds.

Impacts of Anticipated Capital Improvements to Cash Flow

The City anticipates a significant volume of major capital improvements over the decade, including the new library, a community park, a regional park, stormwater system upgrades, median landscape improvements, and affordable housing initiatives. These needs are in addition to ongoing major maintenance and replacement costs for existing City facilities. The strategic use of reserves will be necessary to support these community priorities.

Beyond regular increases in operational costs, the City is currently in a construction and development phase that requires substantial upfront cash. Based on current project schedules, reserve usage is projected to reduce the Fund Balance to approximately \$17.8 million by FY 2034-35, even after incorporating the additionally forecasted revenues from Measure G. This projected balance does not meet the thresholds established in the City's current Reserve Policy

The table below reflects the resulting distribution of Fund Balance based on anticipated operations and capital improvements, indicating that the reserve may become underfunded as early as FY 2031-32.

Schedule 1 – Cash Flow Projections – Reserve Policy “As Is”

	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
Est. General Fund Bal	\$ 117,850,488	\$ 98,966,367	\$ 80,002,328	\$ 77,498,024	\$ 79,165,394	\$ 72,806,102	\$ 63,319,619	\$ 51,062,643	\$ 36,131,372	\$ 18,328,575
Annual Percentage Funded	152%	125%	95%	101%	100%	86%	76%	53%	40%	21%
Non-Spendable (Leave Balances and Tru	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405
Reserve Requirement - Per Current Policy										
ASSIGNED										
GF Operating Reserve (25% of Ops)	21,691,071	22,341,803	23,012,057	23,702,419	24,413,492	25,145,897	25,900,273	26,677,282	27,477,600	28,301,928
COMMITTED										
GF Emergency Reserve (20% of GF Rever	22,337,751	23,305,935	24,180,474	24,692,098	25,191,190	25,737,242	26,266,502	26,921,255	27,652,126	28,403,302
Liability Reserve (\$4M)	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Emplymnt Bene Reserve (50% for chg in										
Disc Rate)	10,697,122	10,804,093	10,912,134	11,021,255	11,131,468	11,242,783	11,355,211	11,468,763	11,583,450	11,699,285
Other Fund Stability Reserve (equal to 25%	<i>This amount is included in Expenditures and Immediately Transferred</i>									
Facility Reserve (at 70% sensitivity)	6,961,265	5,459,114	9,005,713	6,485,361	8,037,456	8,331,572	7,032,306	14,169,390	7,050,049	8,252,353
CIP Reserve (20% of CIP)	6,045,267	7,319,615	6,792,935	392,935	392,935	3,657,538	2,387,729	7,319,615	6,792,935	392,935
Equip Replacement Reserve (100% cost										
of assets)	2,869,354	2,955,435	3,044,098	3,135,421	3,229,483	3,229,483	3,261,778	3,294,396	3,327,340	3,360,613
Total Required Reserve	77,719,235	79,303,399	84,064,816	76,546,894	79,513,428	84,461,920	83,321,206	96,968,106	91,000,908	87,527,825
Reserve Requirement Overfunded/(Un	40,131,253	19,662,968	(4,062,488)	951,130	(348,034)	(11,655,818)	(20,001,587)	(45,905,464)	(54,869,536)	(69,199,250)

For FY 2034-35, the required reserve is approximately \$87.5 million. The projected Fund Balance falls short of this requirement by roughly \$69 million, or 79%.

Staff has evaluated multiple financial models and reviewed historical cost trends to identify an appropriate reserve level and determine how excess funds can be strategically allocated to benefit the community. The options outlined below aim to balance necessary reserve requirements with targeted investments that support long-term growth, while maintaining sufficient protection against unforeseen events such as economic downturns or housing affordability pressures.

Policy Options to Consider Increasing Flexibility and Align with Best Practices

Options for consideration that may reduce self-imposed restrictions and better align the City's Reserve Policy with industry best practices include the following:

1. Combine Operating and Contingency/Emergency Reserves (Total: 25%)

The Operating Reserve is intended to ensure continuity of service, while the Contingency/Emergency Reserve functions as the City's rainy-day fund. Many cities establish a combined minimum reserve target of 15 to 25% of General Fund operating expenditures. Some use a range (e.g., 20–25% percent) based on risk factors such as revenue volatility, reliance on tourism, or exposure to natural disasters. Combining the City's two categories into a single 25% target is a common approach and would create greater flexibility to address competing needs.

- a. A few cities apply a combined reserve measurement that ensures the GFOA minimum of 16.7% (two months of operations) for the Operating Reserve, with the remainder—up to 25%—assigned to Contingency/Emergency needs. This combined structure allows more flexibility when emergency needs exceed the original allocations.
- b. In recent years, City revenue losses during major economic disruptions, including the Housing Crisis and COVID-19 pandemic, were less than the 25% threshold. The costs associated with Storm Hillary totaled approximately 2% of the total Fund Balance, remaining well within the existing reserve capacity.
- c. Combining the reserves into a single 25% requirement would unencumber approximately \$21 million for immediate or future use on an annual basis.
- d. Withdrawals from the combined Operations/Emergency Reserve would be permitted only under two conditions:
 - i. An economic contraction, defined as two consecutive quarters of declining "real Gross Domestic Product/GDP" (GDP adjusted for inflation); or
 - ii. A severe emergency, such as a natural disaster accompanied by significant, unanticipated revenue loss or expenditure needs.

Withdrawals would need to commence within 12 months of the triggering event and could continue until tax revenues exceed pre-contraction levels.

2. Simplify Facilities Reserve: Use 4% of Replacement Value

Reserving for facility maintenance ensures that City buildings remain in good condition to meet community needs. Determining an appropriate reserve level is inherently subjective. The City currently relies on a 2018 Replacement Reserve Study (RRS) prepared by a third party.

The existing RRS has limitations. Because it was produced by an external consultant without detailed knowledge of Palm Desert-specific conditions, such as climate impacts, visitor volumes, and staff experience, it no longer provides a reliable benchmark. The study is now outdated and updating it would require a significant financial investment. This method also fails to incorporate other relevant factors and can result in reserve levels that are unrealistic and unnecessarily restrict available resources.

- a. As an alternative, the City of Fort Collins, Colorado, uses a simple, cost-effective method for determining facility reserve levels. Their policy allocates funds to adequately maintain General Fund buildings without requiring comprehensive reserve studies.
- b. Under this approach, the target reserve is set at 4% of the Current Replacement Value (CRV) of General Fund buildings. Funds in the Facility Maintenance Reserve are available for expenditures as needed during the annual budget cycle. Any unspent amounts from budgeted maintenance appropriations are retained in the fund for future use. A 4% annual provision effectively supports a 25-year life cycle for major facilities components and provides a predictable, stable funding source for long-term replacement costs.

3. Strengthening the Economic/Community Investment Reserve (with ROI requirement)

While the City currently has Economic Development as a reserve category, the allocation is finite and inconsistent. Currently, the only ongoing revenue source designated for this purpose is the sale proceeds from former Redevelopment Agency (RDA) properties. With only three remaining property areas (Alessandro, Desert Willow, and the 170-acre site), total estimated revenue for economic development purposes is approximately \$700,000, which limits the City's ability to pursue large-scale or catalytic economic projects.

Local governments increasingly face pressure to fund infrastructure and economic development needs without relying on emergency debt issuance or unplanned reserve drawdowns. Research from the Lincoln Institute of Land Policy shows that jurisdictions that proactively set aside dedicated funds for development are better positioned to capture high-impact investment opportunities and reduce long-term financial exposure. Proactive reserves also support best practices by enabling cities to:

- Invest in job-creating or tax-base-expanding projects
- Avoid reactive or politicized use of special financing tools
- Provide matching funds for state/federal grants and public-private partnerships
- Accelerate redevelopment in priority areas following RDA dissolution
- Engage residents in identifying needs to ensure equitable and transparent investment

Failing to invest in the community increases the risk of stagnation, reduced competitiveness, and limited revenue growth over time. To address this, staff proposes establishing a dedicated Economic/Community Investment Reserve supported by a structured, measurable allocation of limited fund balance. All investments would be governed by a standardized Return On Investment (ROI) requirement to maintain fiscal responsibility and ensure that community benefits are measurable.

As an example, the City could require that any use of funds meet or exceed the benchmark currently used for City investments, the Five-Year Treasury Bill rate. Based on the current rate of 3.49%, any project utilizing reserve funds would need to demonstrate a minimum expected ROI within five years that exceeds this threshold. Under this model, a hypothetical \$5 million investment request would need to show projected returns comparable to the following:

Table D – Economic Development Investment Expected ROI Measurement

Project: Hotel w/Restaurant & Gift Shop
Amount: \$5 million
ROI Terms 5 yrs @ 3.49%

Year	Hotel Sales	Taxable Sales	TOT	Sales Tax	Property Tax	Total to City
2026-27	8,431,500	1,825,000	927,465	36,500	30,000	993,965
2027-28	8,684,445	1,879,750	955,289	37,595	30,900	1,023,784
2028-29	8,944,978	1,936,143	983,948	38,723	31,827	1,054,497
2029-30	9,213,328	1,994,227	1,013,466	39,885	32,782	1,086,132
2030-31	9,489,728	2,054,054	1,043,870	41,081	33,765	1,118,716
Total	44,763,979	9,689,173	4,924,038	193,783	159,274	5,277,095

Assumes: 110 rooms, 70% occupancy, \$300/nt, \$5,000/day in sales, 3% inc annually **ROI 106%**

4. Plan for an Affordable Housing Reserve

The City’s affordable housing portfolio was originally funded and developed through the former RDA. With the dissolution of RDAs in 2012, cities statewide have struggled to maintain aging housing assets and address growing community needs without a dedicated revenue source. In response, some cities have begun incorporating Affordable Housing reserves in their financial policies to help bridge funding gaps until long-term solutions are identified.

- a. The long-term capital replacement needs of the Palm Desert Housing Authority’s aging complexes are expected to consume all remaining housing cash balances within the next few years.
- b. Staff continues to work to identify opportunities to increase revenues, manage operational costs, and pursue grants to support ongoing maintenance and rehabilitation needs. However, an Affordable Housing Reserve, if established, would serve only as one component of a broader funding strategy necessary to maintain housing assets at acceptable standards.
- c. A similar measurement to the Facilities Maintenance and Repairs approach (4% of CRV) could be used to determine the annual reserve target, reduced for any positive Net Operating Income (NOI) from the prior year. Based on the most recent insurance property schedule, 4% of CRV equates to \$10,062,041. With typical annual NOI just under \$1.5 million, the net reserve requirement would be approximately \$8.5 million per year.

5. Create a Productivity Savings/Innovation Reserve

This reserve concept is a modern, incentive-based approach to support innovation and operational efficiency across City departments. The reserve encourages continuous improvement by allowing General Fund managers to retain and reinvest productivity-related savings in long-term service enhancements.

Eligible productivity savings would be separately tracked by the department or division that generated them. Requests for use of accumulated savings could be submitted to the City Manager at any point during the fiscal year. Any savings not utilized or requested would roll back into the General Fund balance at year-end.

Revised Reserve Requirements (if adopted)

Cities nationwide have evaluated various methods for establishing reserve levels and have found that GFOA’s recommended best practices generally meet the essential standards for maintaining effective “rainy day” funds. Balancing investments in the community with ensuring sufficient reserves is a nuanced effort. The table below outlines key considerations and measurable outcomes associated with both investing and saving strategies.

Table E – Reserve vs. Investment Comparison and Measurement Outcomes

METRIC	FISCAL RESERVES	COMMUNITY INVESTMENT
GFOA RECOMMENDED MINIMUM	16.7% of operating expenditures	Not standardized
MEDIAN RESERVE LEVEL (SIMILAR SIZED CITIES)	25%–30% of expenditures	Varies by strategic goals
ROI ON TARGETED INCENTIVES**	\$3–\$7 per \$1 invested (depending on project type)	High variance
RISK OF OVER-INVESTMENT	Low financial flexibility	Budget shortfalls in downturns
RISK OF UNDER-INVESTMENT	Infrastructure deficits, missed growth	Economic stagnation

If directed to update the policy and the proposed changes are approved, the Reserve Requirement for FY 2025-26 would be adjusted as follows:

Table F – Revised Year 1 (FY 2025-26) Reserve Calculations per staff recommendations

Category	FY 2025-26 <u>Revised</u> Amount
General Fund Operating/Emergency Reserve	27,922,189
Contingency/Emergency Reserve	0
Facilities Maintenance Reserve	6,441,035
Capital Improvement Projects Reserve	6,045,267
Liability Reserve	4,000,000
Employment Benefits Reserve	10,697,122

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Other Fund Stability Reserve	N/A
Equipment Replacement Reserve	2,869,354
Economic Development Reserve	5,000,000
Total FY 2025-26 Revised Reserve Requirement (Including Non-Spendable Funds)	66,092,372

These changes are expected to provide an estimated increase of more than \$11.6 million in available flexibility for FY 2025-26. The next table applies to the same adjustments across the ten-year forecast and reflects additional flexibility added to maintain desired reserve levels while investing in the community. It does not, however, fully resolve reserve deficiencies in year 7-10.

Schedule 2 – Cash Flow Projections – Reserve Policy “Staff Recommendations”

TEN-YEAR FORECAST	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
Estimated Revenue										
Property Tax	14,712,737	15,006,992	15,307,132	15,613,274	15,925,540	16,244,050	16,568,931	16,900,310	17,238,316	17,583,083
Sales Tax (General 1%)	25,274,315	25,598,778	26,045,477	26,447,033	26,795,972	27,088,751	27,339,875	28,160,071	29,004,873	29,875,020
TOT & STR's	22,755,000	25,940,700	28,534,770	29,390,813	30,272,537	31,180,714	32,116,135	33,079,619	34,072,008	35,094,168
Measure G *	25,887,322	26,416,518	26,929,837	27,394,342	27,805,342	28,462,695	29,031,949	29,612,588	30,500,966	31,415,994
All Other GF Revenue	23,059,380	23,566,686	24,085,153	24,615,027	25,156,557	25,710,002	26,275,622	26,853,685	27,444,466	28,048,245
Combined GF Revenue	111,688,754	116,529,674	120,902,369	123,460,489	125,955,949	128,686,212	131,332,512	134,606,274	138,260,629	142,016,509
Estimated Expenditures										
Salaries & Benefits	26,853,063	27,792,920	28,765,672	29,772,471	30,814,507	31,893,015	33,009,271	34,164,595	35,360,356	36,597,968
Professional Services	11,208,344	11,768,761	12,357,199	12,975,059	13,623,812	14,305,003	15,020,253	15,771,266	16,559,829	17,387,820
Public Safety	28,547,236	29,689,125	30,876,690	32,111,758	33,396,228	34,732,078	36,121,361	37,566,215	39,068,864	40,631,618
Other Ops	6,775,484	7,182,013	7,612,934	8,069,710	8,553,892	9,067,126	9,611,154	10,187,823	10,799,092	11,447,038
Repair & Maintenance	6,269,023	6,707,855	7,177,404	7,679,823	8,217,410	8,792,629	9,408,113	10,066,681	10,771,349	11,525,343
Events & Outside Agency Funding	2,111,135	2,237,803	2,372,071	2,514,396	2,665,259	2,825,175	2,994,685	3,174,366	3,364,828	3,566,718
Transfers to Other Funds (Leaves/AD's)	1,846,000	1,901,380	1,958,421	2,017,174	2,077,689	2,140,020	2,204,221	2,270,347	2,338,458	2,408,611
Transfer to Library Services	2,523,443	2,573,912	2,625,390	2,677,898	2,731,456	2,786,085	2,841,807	2,898,643	2,956,616	3,015,748
Transfer to Aquatic Facility Services	2,152,543	2,174,068	2,195,809	2,217,767	2,239,945	2,262,344	2,284,968	2,307,817	2,330,896	2,354,205
Transfer to Fire Services*	7,750,000	10,500,000	11,500,000	13,000,000	14,000,000	14,560,000	15,142,400	15,748,096	16,378,020	17,033,141
Total Operational Expenditures	96,036,271	102,327,838	107,441,592	113,036,056	118,320,200	123,363,475	128,638,231	134,155,849	139,928,307	145,968,210
CIP Related Transfers										
Transfer to Projects*	10,726,545	12,030,561	11,505,021	1,964,673	1,964,673	7,638,287	8,096,584	8,582,379	9,097,322	9,643,161
Transfers for Facilities *	3,847,482	3,885,957	3,924,816	3,964,065	4,003,705	4,043,742	4,084,180	4,125,021	4,166,272	4,207,934
Total GF Expenditures	110,610,298	118,444,356	122,871,429	118,964,793	124,288,578	135,045,504	140,818,995	146,863,250	153,191,900	159,619,306
Est. Beginning General Fund Balance	116,772,032	117,850,488	98,966,367	80,002,328	77,498,024	79,165,394	72,806,102	63,319,619	51,062,643	36,131,372
Revenue over (under) expenditures	1,078,456	(1,914,682)	(1,969,060)	4,495,696	1,667,370	(6,359,292)	(9,486,483)	(12,256,976)	(14,931,271)	(17,802,797)
Unfunded Requests (from Reserve)										
New Library (\$30M) \$20M RDA BOND PROCEEDS	(6,000,000)	-	-	-	-	-	-	-	-	-
Station 33/71 Rehab/Rebuild \$23.6M RDA BONDS	(2,400,000)	-	-	-	-	-	-	-	-	-
North Sphere Community Park (\$19M)	-	(15,500,000)	(3,500,000)	-	-	-	-	-	-	-
North Sphere Regional Park (\$30M)	-	(3,000,000)	(20,000,000)	(7,000,000)	-	-	-	-	-	-
North Sphere Stormwater - Channel Projects	(1,000,000)	(8,500,000)	(5,000,000)	-	-	-	-	-	-	-
Henderson Trailhead Improvements	-	(2,000,000)	-	-	-	-	-	-	-	-
Estimated Amount from Measure G	9,400,000	12,030,561	11,505,021	1,964,673	1,964,673	7,638,287	8,096,584	8,582,379	9,097,322	9,643,161
Est. Ending General Fund Balance	\$ 117,850,488	\$ 98,966,367	\$ 80,002,328	\$ 77,498,024	\$ 79,165,394	\$ 72,806,102	\$ 63,319,619	\$ 51,062,643	\$ 36,131,372	\$ 18,328,575

This approach does not eliminate the long-term need to identify additional revenue sources, but it does help alleviate some of the immediate reserve pressures projected over the next several years until those revenues are fully realized.

Schedule 2 – Cash Flow Projections – Reserve Policy “Staff Recommendations”

City of Palm Desert
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	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
Est. General Fund Bal	\$ 117,850,488	\$ 98,966,367	\$ 80,002,328	\$ 77,498,024	\$ 79,165,394	\$ 72,806,102	\$ 63,319,619	\$ 51,062,643	\$ 36,131,372	\$ 18,328,575
Annual Percentage Funded	178%	143%	113%	121%	118%	102%	89%	66%	47%	25%
Non-Spendable (Leave Balances and Trust)	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405
Reserve Requirement - Per Current Policy										
ASSIGNED										
GF Operating Reserve (Innovation) (15% of Rev)	16,753,313	17,479,451	18,135,355	18,519,073	18,893,392	19,302,932	19,699,877	20,190,941	20,739,094	21,302,476
COMMITTED										
GF Emergency Reserve (10% of Rev)	11,168,875	11,652,967	12,090,237	12,346,049	12,595,595	12,868,621	13,133,251	13,460,627	13,826,063	14,201,651
Liability Reserve (\$4M)	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Emplymnt Bene Reserve (50% for PERS chg)	10,697,122	10,804,093	10,912,134	11,021,255	11,131,468	11,242,783	11,355,211	11,468,763	11,583,450	11,699,285
Other Fund Stability Reserve (equal to 25% T)	<i>This amount is included in Expenditures and Immediately Transferred</i>									
Facility Reserve	6,441,035	7,001,035	7,841,035	6,485,361	8,759,446	8,847,040	8,935,511	9,024,866	9,115,114	9,206,266
CIP Reserve (20% of CIP)	6,045,267	7,319,615	6,792,935	392,935	392,935	3,657,538	2,387,729	7,319,615	6,792,935	392,935
Equip Replacement Reserve (100% of hist)	2,869,354	2,955,435	3,044,098	3,135,421	3,229,483	3,229,483	3,261,778	3,294,396	3,327,340	3,360,613
Econ Development/Community	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Total Required Reserve	66,092,372	69,330,001	70,933,199	64,017,499	67,119,724	71,265,802	70,890,761	76,876,612	77,501,401	72,280,630
Reserve Requirement Overfunded/(Under)	51,758,116	29,636,366	9,069,129	13,480,525	12,045,670	1,540,300	(7,571,142)	(25,813,970)	(41,370,030)	(53,952,056)

Long-Term Outlook with Policy Updates and Financing Options

Staff continues to evaluate additional revenue strategies to address funding gaps and meet long-term community needs. A combination of approaches will likely be necessary to achieve major goals that cannot be supported solely by the current revenue stream. Financing tools such as Lease Revenue Bonds, Community Facility Districts (CFDs), Economic Infrastructure Financing Districts (EIFDs), and other mechanisms may need to be considered to support large capital projects until the resulting investment benefits are reflected in future City revenues. Staff will present these options to the City Council at the Council’s direction and in alignment with established goals.

A Lease Revenue Bond would allow the City to borrow against existing facilities to fund significant capital improvements, such as parks and stormwater infrastructure upgrades. This type of financing spreads project costs over 20 to 30 years, protects General Fund reserves, and reduces the need to draw down large amounts of cash up front. The forecast below illustrates how this financing approach can relieve future cash-flow pressures and further support the City’s ability to remain within Reserve Policy requirements over time, while meeting community needs.

Schedule 3 – Cash Flow Projections – Reserve Policy “Staff Rec and Bond Financing”

City of Palm Desert Fiscal Reserves and Reserve Policy Report

TEN-YEAR FORECAST	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
Estimated Revenue										
Property Tax	14,712,737	15,006,992	15,307,132	15,613,274	15,925,540	16,244,050	16,568,931	16,900,310	17,238,316	17,583,083
Sales Tax (General 1%)	25,274,315	25,598,778	26,045,477	26,447,033	26,795,972	27,088,751	27,339,875	28,160,071	29,004,873	29,875,020
TOT & STRs	22,755,000	25,940,700	28,534,770	29,390,813	30,272,537	31,180,714	32,116,135	33,079,619	34,072,008	35,094,168
Measure G*	25,887,322	26,416,518	26,929,837	27,394,342	27,805,342	28,462,695	29,031,949	29,612,588	30,500,966	31,415,994
All Other GF Revenue	23,059,380	23,566,686	24,085,153	24,615,027	25,156,557	25,710,002	26,275,622	26,853,685	27,444,466	28,048,245
Combined GF Revenue	111,688,754	116,529,674	120,902,369	123,460,489	125,955,949	128,686,212	131,332,512	134,606,274	138,260,629	142,016,509
Estimated Expenditures										
Salaries & Benefits	26,853,063	27,792,920	28,765,672	29,772,471	30,814,507	31,893,015	33,009,271	34,164,595	35,360,356	36,597,968
Professional Services	11,208,344	11,768,761	12,357,199	12,975,059	13,623,812	14,305,003	15,020,253	15,771,266	16,559,829	17,387,820
Public Safety	28,547,236	29,689,125	30,876,690	32,111,758	33,396,228	34,732,078	36,121,361	37,566,215	39,068,864	40,631,618
Other Ops	6,775,484	7,182,013	7,612,934	8,069,710	8,553,892	9,067,126	9,611,154	10,187,823	10,799,092	11,447,038
Repair & Maintenance	6,269,023	6,707,855	7,177,404	7,679,823	8,217,410	8,792,629	9,408,113	10,066,681	10,771,349	11,525,343
Events & Outside Agency Funding	2,111,135	2,237,803	2,372,071	2,514,396	2,665,259	2,825,175	2,994,685	3,174,366	3,364,828	3,566,718
Transfers to Other Funds (Leaves/AD's)	1,846,000	1,901,380	1,958,421	2,017,174	2,077,689	2,140,020	2,204,221	2,270,347	2,338,458	2,408,611
Transfer to Library Services	2,523,443	2,573,912	2,625,390	2,677,898	2,731,456	2,786,085	2,841,807	2,898,643	2,956,616	3,015,748
Transfer to Aquatic Facility Services	2,152,543	2,174,068	2,195,809	2,217,767	2,239,945	2,262,344	2,284,968	2,307,817	2,330,896	2,354,205
Transfer to Fire Services*	7,750,000	10,500,000	11,500,000	13,000,000	14,000,000	14,560,000	15,142,400	15,748,096	16,378,020	17,033,141
Total Operational Expenditures	96,036,271	102,527,838	107,441,592	113,036,056	118,320,200	123,363,475	128,638,231	134,155,849	139,928,307	145,968,210
CIP Related Transfers										
Transfer to Projects*	10,726,545	12,030,561	11,505,021	1,964,673	1,964,673	7,638,287	8,096,584	8,582,379	9,097,322	9,643,161
Transfers for Facilities*	3,847,482	3,885,957	3,924,816	3,964,065	4,003,705	4,043,742	4,084,180	4,125,021	4,166,272	4,207,934
Total GF Expenditures	110,610,298	118,444,356	122,871,429	118,964,793	124,288,578	135,045,504	140,818,995	146,863,250	153,191,900	159,819,306
Est. Beginning General Fund Balance	116,772,032	117,850,488	124,466,367	130,502,328	131,498,024	129,665,394	119,806,102	106,819,619	91,062,643	72,631,372
Revenue over (under) expenditures	1,078,456	(1,914,682)	(1,969,060)	4,495,696	1,667,370	(6,359,292)	(9,486,483)	(12,256,976)	(14,931,271)	(17,802,797)
Unfunded Requests (from Reserve)										
New Library (\$30M) \$20M RDA BOND PROCE	(6,000,000)									
Station 33/71 Rehab/Rebuild \$23.6M RDA BOI	(2,400,000)									
North Sphere Community Park (\$19M)		(3,500,000)	(3,500,000)	(3,500,000)	(3,500,000)	(3,500,000)	(3,500,000)	(3,500,000)	(3,500,000)	(3,500,000)
North Sphere Regional Park (\$30M)										
North Sphere Stormwater - Channel Projects	(1,000,000)									
Henderson Trailhead Improvements										
<i>Estimated Amount from Measure G</i>	<i>9,400,000</i>	<i>12,030,561</i>	<i>11,505,021</i>	<i>1,964,673</i>	<i>1,964,673</i>	<i>7,638,287</i>	<i>8,096,584</i>	<i>8,582,379</i>	<i>9,097,322</i>	<i>9,643,161</i>
Est. Ending General Fund Balance	\$ 117,850,488	\$ 124,466,367	\$ 130,502,328	\$ 131,498,024	\$ 129,665,394	\$ 119,806,102	\$ 106,819,619	\$ 91,062,643	\$ 72,631,372	\$ 51,328,575

Schedule 3 – Cash Flow Projections – Reserve Policy “Staff Recs and Bond Financing”

	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
Est. General Fund Bal	\$ 117,850,488	\$ 124,466,367	\$ 130,502,328	\$ 131,498,024	\$ 129,665,394	\$ 119,806,102	\$ 106,819,619	\$ 91,062,643	\$ 72,631,372	\$ 51,328,575
Annual Percentage Funded	178%	180%	184%	205%	193%	168%	151%	118%	94%	71%
Non-Spendable (Leave Balances and Trust Acct)	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405	3,117,405
Reserve Requirement - Per Current Policy										
ASSIGNED										
GF Operating Reserve (Innovation) (15% of Rev)	16,753,313	17,479,451	18,135,355	18,519,073	18,893,392	19,302,932	19,699,877	20,190,941	20,739,094	21,302,476
COMMITTED										
GF Emergency Reserve (10% of Rev)	11,168,875	11,652,967	12,090,237	12,346,049	12,595,595	12,868,621	13,133,251	13,460,627	13,826,063	14,201,651
Liability Reserve (\$4M)	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Emplymnt Bene Reserve (50% for PERS chg in Disc Rate)	10,697,122	10,804,093	10,912,134	11,021,255	11,131,468	11,242,783	11,355,211	11,468,763	11,583,450	11,699,285
Other Fund Stability Reserve (equal to 25% T-fer O	<i>This amount is included in Expenditures and Immediately Transferred</i>									
Facility Reserve	6,441,035	7,001,035	7,841,035	6,485,361	8,759,446	8,847,040	8,935,511	9,024,866	9,115,114	9,206,266
CIP Reserve (20% of CIP)	6,045,267	7,319,615	6,792,935	392,935	392,935	3,657,538	2,387,729	7,319,615	6,792,935	392,935
Equip Replacement Reserve (100% of hist cost of assets)	2,869,354	2,955,435	3,044,098	3,135,421	3,229,483	3,229,483	3,261,778	3,294,396	3,327,340	3,360,613
Econ Development/Community Investment w/ROI	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Total Required Reserve	66,092,372	69,330,001	70,933,199	64,017,499	67,119,724	71,265,802	70,890,761	76,876,612	77,501,401	72,280,630
Reserve Requirement Overfunded/(Underfu	51,758,116	55,136,366	59,569,129	67,480,525	62,545,670	48,540,300	35,928,858	14,186,030	(4,870,030)	(20,952,056)

CONCLUSION

Palm Desert remains financially strong; however, the current Reserve Policy is more restrictive than necessary, limiting the City's ability to address both immediate and long-term needs in an efficient manner. Modernizing the policy would allow the City to:

- Maintain strong financial stability
- Align with GFOA best practices
- Free resources for parks, infrastructure, housing, and community investment
- Support sustainable long-term planning

Staff recommends that the City Council provide direction on whether to proceed with formal policy updates to the Reserve Policy.

Legal Review:

This report has been reviewed by the City Attorney's Office.

FINANCIAL IMPACT:

There is no immediate impact on the General Fund. Any future changes to the Reserve Policy may adjust fund balance allocations. If directed, staff will return with proposed policy revisions and associated fiscal impacts. The table below provides an at-a-glance comparison of each recommendation and scenario presented.

Table G – Year 1 and Year 10 Quick Comparison of Metrics

Year 1 - FY 2025-26	Current Policy	Revised Policy	Adding Financing
<i>Est. GF Fund Balance</i>	\$117,850,488	\$117,850,488	\$117,850,488
<i>Required Reserve</i>	\$77,719,235	\$66,092,372	\$66,092,372
<i>Percent Funded</i>	152%	178%	178%
<i>Uncommitted (Available) Fund Balance</i>	\$40,131,253	\$51,758,116	\$51,758,253

Table G – Year 1 and Year 10 Quick Comparison of Metrics Continued

Year 10 - FY 2034-35	Current Policy	Revised Policy	Adding Financing
<i>Est. GF Fund Balance</i>	\$18,328,575	\$18,328,575	\$51,328,575
<i>Required Reserve</i>	\$87,527,825	\$72,280,630	\$72,280,630
<i>Percent Funded</i>	21%	25%	71%
<i>Uncommitted (Available) Fund Balance</i>	(\$69,199,250)	(\$53,952,056)	(\$20,952,056)

Over the 10-year period, forecasts show positive fund balance throughout; however, they do require the use of reserves to ensure all anticipated projects are completed.

The policy change recommendations proposed by staff introduce a modest adjustment resulting in a 4% increase in funded reserves (21% to 25%) over the 10-year period, while preserving flexibility to invest in the community and maintaining adequate reserves consistent with GFOA best practices. The inclusion of a financing component for major capital projects offers a more strategic approach to supporting sustainable long-term planning. Staff will continue to monitor reserve levels and provide regular updates to the City Council as part of the ongoing discussion regarding financial sustainability.

ATTACHMENTS:

1. FIN-003 Approved Reserve Policy
- 2a. Ten-Year Cash Flow Forecast – As Is
- 2b. Ten-Year Cash Flow Forecast – Revised per Staff’s Recommendation
- 2c. Ten-Year Cash Flow Forecast – Revised to Include Financing Tool for Capital Improvements
3. Reserve Analysis and Policy Study Presentation