

CITY OF PALM DESERT STAFF REPORT

MEETING DATE: January 22, 2026

PREPARED BY: Veronica Chavez, Director of Finance

SUBJECT: RESOLUTIONS ADOPTING OPERATING BUDGET POLICY, CAPITAL PLANNING AND PRIORITIZATION POLICY, LONG-TERM FINANCIAL PLAN POLICY, AND RESERVE POLICY CHANGES

RECOMMENDATION:

1. Adopt a Resolution entitled "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM DESERT, CALIFORNIA, RESCINDING RESOLUTION NO. 2018-73 AND ADOPTING A REVISED RESERVE POLICY."
2. Adopt a Resolution entitled "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM DESERT, CALIFORNIA, ESTABLISHING AN OPERATING BUDGET POLICY."
3. Adopt a Resolution entitled "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM DESERT, CALIFORNIA, ESTABLISHING A CAPITAL PLANNING AND PRIORITIZATION POLICY."
4. Adopt a Resolution entitled "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM DESERT, CALIFORNIA, ESTABLISHING A LONG TERM FINANCIAL PLANNING POLICY."

BACKGROUND/ANALYSIS:

On December 15, 2025, staff presented the City's 10-Year General Fund Cash Flow Analysis, projected demands on fiscal resources, and potential policy refinements aligned with Council priorities and best practices. Council directed staff to return with updates to the policy and additional information as follows:

Updates:

1. Reduce Operating Reserve amount from 25% to 10% of Revenue
2. Reduce Emergency Reserve amount from 20% to 15% of Revenue
3. Create a minimum Reserve Floor of 16.7% per GFOA best practices.
4. Add \$5 million annual reserve into Economic/Community Investment Reserve with ROI requirement for use
5. Create Productivity Savings/Innovation Reserve to encourage continuous improvement by allowing managers to retain and reinvest productivity related savings in long-term service enhancements.

Clarifications:

1. Clarification regarding the City of Rancho Mirage reserve percentage (84%).
2. Additional methods to support facility maintenance reserves and long-term capital savings, including rollover and cap mechanisms.
3. Additional support for the static liability reserve.

4. A revised Reserve Policy incorporating Council feedback and recommended best-practice refinements.

Coordinated Policy Package

While the December Study Session focused on the Reserve Policy, staff's follow-up work confirmed that reserves cannot be managed effectively in isolation. Operating budget rules, capital planning, and long-term financial forecasting must work together to ensure reserve targets are achievable and aligned with Council priorities. Accordingly, this report includes three additional policies—FIN-014 (Operating Budget Policy), FIN-015 (Capital Planning and Prioritization Policy), and FIN-016 (Long-Term Financial Planning Policy)—which complement the updated Reserve Policy (FIN-003a). These policies reflect current practices and implement GFOA best practices and strengthen the City's award of distinction program submissions.

City of Rancho Mirage Reserve

The City of Rancho Mirage Reserve Policy, approved in 2013, commits static dollar amounts for each reserve category rather than a target percentage of fund balance. The "84%" figure reflects a point-in-time calculation: total reserve allocations divided by current fund balance. Deviations from the 2013 reserve dollar allocations are considered and approved annually by their City Council.

Facility Maintenance Reserves and Capital Improvement Project Reserves

Current Approach and Need for an Updated Method

Reserving for facility maintenance ensures City buildings remain in good condition to meet community needs. The City currently references a 2018 Replacement Reserve Study (RRS). However, reserve studies require periodic updating to reflect inflation, asset changes, and evolving service demands. Updating a comprehensive study can be costly and may not be necessary if the City adopts a simpler, policy-driven approach that can be revisited annually through the budget process.

Recommended Facility Maintenance Reserve Method (Best Practice Model)

Staff recommends a facility reserve methodology modeled after the City of Fort Collins, Colorado. Under this approach, the City establishes an annual facility maintenance "provision" equal to 4% of the Replacement Value of General Fund facilities. A 4% annual provision is commonly used as a rule of thumb to support major facility component replacement on an approximate 25-year lifecycle basis ($1 \div 4\% = 25$ years). Funds are appropriated annually through the budget process, and unspent amounts may roll forward to support future replacement needs.

Replacement Reserve Calculation and Threshold

To manage reserve balances responsibly, staff recommends a "target plus ceiling" threshold model commonly used in public-sector reserve policies. Under the recommended facility methodology, the base annual facility provision is 4% of replacement value. Therefore, the facility reserve target is tied to the annual provision (assuming a 25-year lifecycle), and thresholds are expressed as a percentage of the annual provision amount to prevent underfunding or over-accumulation while maintaining flexibility for timing of major projects.

FY 2025-26 Estimated Replacement Value for General Fund facilities: **\$230,036,978**

Annual Facility Provision (4% of Replacement Value): **\$9,201,479**

Using the “target plus ceiling” model, staff recommends the following thresholds for the Facility Maintenance Reserve:

Level	Purpose	Metric	Palm Desert
Minimum	Avoid underfunding risk	30% of Annual Facility Provision	\$2,760,444
Target	Optimal funded level	70% of Annual Facility Provision	\$6,441,035
Maximum (Cap)	Prevent excess accumulation	110% of Annual Facility Provision	\$10,121,627

Under this approach, the target facilities reserve for FY 2025–26 would be \$6,441,035.

Use and Rollover: Reserve funds may be used only for facility capital replacement, major maintenance, or related capital expenditures approved through the budget or CIP process. Unspent amounts may carry over year to year; however, reserve balances will not exceed the cap. If the reserve exceeds the cap, annual contributions will be paused and/or projects may be advanced in the CIP until balances return to the target range.

At no time will the facilities reserve carry less than 30% of the replacement value for that fiscal year.

There are other methods of establishing ceilings, however this one is more conservative and provides staff time to assess the impact, while helping to maintain long-term financial stability.

Long Term Capital Project Funding

The Capital Improvement Program (CIP) is the City’s primary tool to plan, prioritize, and fund capital investments. While five-year CIP programs are common, staff will present the CIP in a ten-year format to align with the City’s current project horizon and strengthen long-term planning. The City will continue using a blend of funding sources, prioritizing restricted funds first where legally eligible, and utilizing General Fund resources strategically.

A commonly used framework for capital funding is:

- Use a capital replacement reserve to fund predictable renewals
- Use the CIP for larger renovations and new assets
- Use debt for major long-lived expansions when appropriate

Historically, up until 2012 the Palm Desert Redevelopment Agency (RDA) largely represented the primary funding source for capital improvement projects within the City. Following the Dissolution of RDA (and the Great Recession), many improvements were halted as funds became scarce and growth was slow. Most projects completed between 2012 and 2020 were largely funded by special funds like Measure A, CVAG, former RDA bond proceeds, and more recently transfers from the General Fund balance. Currently the City has no debt.

Common city CIP funding sources include:

- General Fund transfers (for general-purpose capital)
- Enterprise fund rates (water, sewer, solid waste)

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- Development impact fees (parks, traffic, public facilities—legally restricted)
- State/federal grants (transportation, water, climate)
- Special taxes/assessments (voter approved)
- Debt proceeds (lease revenue bonds, COPs, GO bonds)
- One-time revenues (excess fund balance, property transfer tax windfalls)

Pay-Go or general fund transfers are used when necessary for projects that are recurring or maintenance like, where adequate reserves exist, or restricted funds are unavailable (if eligible).

The updated Reserve Policy maintains a CIP contingency reserve equal to 20% of the entire CIP Program. These funds may be used for cost overruns and/or new capital needs not currently included in the CIP and replenished when resources are available.

Council may also consider adopting a “one-time revenue set-aside” policy in the future (e.g., 5%–20% of one-time revenues dedicated to capital reserves), which would provide an additional tool to support long-term capital needs.

Debt Issuance Option

Debt financing is a potential tool option to deliver major projects while maintaining desired reserve levels. Lease revenue bonds allow the City to build infrastructure now and pay over time, aligning costs with the useful life of the asset. Any future debt issuance would be evaluated through the City’s debt policy and affordability analysis that considers interest costs, construction cost escalation, and long-term financial impacts.

Minimum Total Reserve Threshold

Finally, City Council agreed to staff’s recommendation of adding a minimum threshold to the Reserve Policy in alignment with GFOA’s recommended 16.7%. Upon further investigation, staff recommends revising the cumulative reserve minimum to 35%. A recently published paper on Rethinking Reserves notes that bond rating agencies require at least 35% of revenue to be held in reserves in order to maintain an Aaa rating.

Cash Flow Projection Comparisons

Following the Study Session review, staff is providing six variations of the Ten-Year Cash Flow Model for consideration:

1. As Is – No Changes to Policy
2. Revised Policy based on Recommended Changes
3. Adds CIP Costs across 10 Years (vs. 5-Year Model) to reflect reality
4. Adds Reserve for HA Properties
5. Adds removal of Regional Park Costs
6. Add a Financing Component

The highlights are as follows:

	Schedule 1	Schedule 2	Schedule 3	Schedule 4	Schedule 5	Schedule 6
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City of Palm Desert
Reserve and Associated Budget Policies

	<i>As Is</i>	<i>Revised</i>	<i>10-Year</i>	<i>Adds HA</i>	<i>Removes Pk</i>	<i>Adds Debt</i>
Fund Balance at FYE 2035	\$8,558,774	\$8,558,774	\$29,685,346	\$29,685,346	\$36,553,753	\$96,989,110
% Reserve Funded at Yr 10	10%	12%	41%	39%	48%	127%
35% Minimum Res Met	No	No	Yes	Yes	Yes	Yes
Required Res Met	No	No	No	No	No	Yes

Although the net effect of the recommended changes to the reserve policy are not extensive, it does provide opportunities to invest in the community and ultimately our revenue streams. Staff will continue to evaluate needs and research optimal reserve levels and best practices to ensure the City is maintaining financial stability, as well as maximizing flexibility to recognize opportunity costs while reserving the need for debt issuance.

Staff recommends adoption of FIN-003a, FIN-014, FIN-015, and FIN-016 as presented. Staff will review these policies annually during the budget process and return to City Council with reserve and compliance reporting as appropriate. Staff intends to return with a separate item for Council consideration to formally adopt a policy establishing reserve requirements for revenue-sensitive Special Funds and Enterprise Funds.

Legal Review:

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

FINANCIAL IMPACT:

There is no immediate impact to the General Fund with this action. While the policy amendment will adjust reserve allocations within fund balance, it does not change total fund balance. The additional policies codify operating budget practices, establish capital prioritization criteria, and strengthen long-term planning requirements.

Staff would like to note that several additional big projects are not currently included in the CIP Plan but remain in the queue for future consideration. Once prioritized and upon availability of funding they will be added:

PROJECT	COST ESTIMATE
Citywide Undergrounding	\$350,000,000
Citywide Fiberoptics	\$5,000,000
Cook Street Bridge @ Whitewater	\$85,000,000
Median Landscape Plan	\$40,000,000
Park Construction Plan (All Parks)	\$10,700,000
Portola at I-10 Interchange	\$150,000,000
Traffic Operations (All Functions and Parking)	\$17,000,000

TOTAL	\$657,700,000
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ATTACHMENTS:

1. FIN-003 RES 2018-73 Reserve Policy
2. Ten-Year Cash Flow Forecast – Combined
3. Resolution - Adopting Revised Reserve Policy FIN-003a
4. Rancho Mirage Staff Report dated March 10, 2015 – General Fund Reserve Balances
5. Resolution - Adopting Operating Budget Policy No. FIN-014
6. Resolution - Adopting Capital Plan Policy No. FIN-015
7. Resolution - Adopting Long-Term Financial Plan Policy No. FIN-016

CONFLICT OF INTEREST AWARENESS CHECKLIST:

- Site-Specific Property Interest** – Councilmembers should check if they own or lease real property within 1,000 feet of the project site (Gov. Code § 87103(b); FPPC Reg. 18702.2).

- SB 1439 Applicability (Campaign Contributions)** – Applies to licenses, permits, or other entitlements for use, and to contracts or franchise agreements other than competitively bid, labor, or personal employment contracts.

Applicant(s)/Appellant(s): Not Applicable

Councilmembers should review any campaign contributions received within the last 12 months from parties or participants to the proceeding and must not accept contributions over \$500 from those parties for 12 months following the final decision (Gov. Code § 84308).

Note: These indicators are informational and do not constitute a legal determination. Each Councilmember is responsible for identifying and disclosing any disqualifying interests in accordance with the Political Reform Act and FPPC regulations.