La Quinta City Council meeting address 9-20-2022

Good afternoon Madam Mayor and Council,

My name is Jim Alderson and I have lived at 81280 Legends Way since 2006.

I am a retired CPA and hospital CFO with over 40 years of experience in auditing, budgeting and forecasting.

The reason I am here today is to give my analysis of the financial impacts of Measure A. In doing so I will try to stick to the facts. It is my belief, and I hope yours, that reasonable people, given the same set of facts, will come to the same conclusion.

The first thing I looked at was the Annual Comprehensive Financial Report for 2020-2021, which included the independent CPA audit. It was very impressive. The net worth of the city at 6-30-2021 was $771,890,000, over ¾ of a billion.

Here is what the ACFR says on page 5, and I quote:

"The total assets and deferred outflows of the City exceeded its total liabilities and deferred inflows at the close of the fiscal year 2020/21 by $771,890,000 (net position). Of this amount, $163,256,000 (unrestricted net position) may be used to meet ongoing obligations and approximately $561,921,000 or 73% was invested in capital assets and is not available to meet ongoing obligations.

Government activities total net position increased by $30,605,000 and the Business-Type total net position increased by $228,000 which is attributable to the SilverRock Golf Course."

The General fund balance increased by $18,983,000 for the year per the ACFR on page 13.

Next I looked at the budget process and a report titled GENERAL FUND FINANCIAL PROJECTIONS – Gradual Recovery as of February 23, 2022.

(JA 1) I thought it was a well laid out format, and similar methodology to what I was used to, take the most current information and project it forward.

A few things stood out to me. The forecast base projection numbers were the budget for 2021/22 rather than the actual numbers for 2020/21. The actual numbers for 2020/21 show an increase in cash for the year of $14,694,487 versus the 2021/22 budget showing an increase of $7,505,528. Simple math shows a $7 million difference projected over 10 years results in a difference of $70 million in ending cash.

Also I noticed what as probably an Excel formula error on Measure G on line 1 in 2024/25 and all succeeding years. It somehow started showing the Bradley Burns number as the Measure G. Since the Measure G was $1 million higher, this mistake carried over to the next 8 years, or a total effect of misstating revenue by $9 million.

The 10 year forecast showed an increase in cash of $92,905,239. Adding the $9 million error, it would bring the total cash increase to $103,905,239. This included an annual general fund capital expenditure of $2,052,000. And it shows an increase in cash every single year.

In order to verify I downloaded your 10 year forecast and corrected the Measure G error and recalculated the last eight years. **(JA 2)** This results in an increase in cash over the next ten years of $102,468,972.

I thought to myself if they had forecasted using actual numbers from 2020/21 as a base, instead of a very conservative budget numbers, that the cash would increase by almost $150 million in ten years.

So I was quite surprised to see the city come out with Scenario 1 – IF THE INITIATIVE IS APPROVED.**(JA 3)** Just weeks after approving the 10 year forecast, the city projected an entirely different view of the future, presumably to defeat Measure A.

Scenario 1 shows losses starting 2025/26 and continuing every year. In 2032/33 cash is projected to decrease by $19,063,047 (The 10 year forecast show a cash INCREASE of $3,524,630). A $22 million dollar difference in year 10).

It appears that Scenario 1 added approximately $70 million in capital expenditures, and showed all TOT and fees from non-exempt STRs would go away at a cost of $6 million per year. It appears to not project any revenue from the new tourist commercial areas such as Signature and Talus.

It just does not make sense to believe that STRs in the Signature, Talus and other newly approved areas will remain totally vacant for the next ten years. Yet the city shows a $6 million loss each year.

The city's version of the loss is that 100% of visitors who want an STR in a residential area will not come if they cannot stay in a residential area. Thus they subtracted out all of that income to the estimated tune of $6 million.

To the contrary, Morgan Stanley did a survey in Toronto, Canada and found that 98% of airbnbers they surveyed said they would have visited anyway. They would have just chosen different lodging.

I just recently received the latest Sales tax and TOT numbers for the year ended 6-30-2022. **(JA 4)** It was another robust year. The actual collections for the sales taxes and TOT were $44,856,906. The 10 year forecast had projected $35,306,200. Scenario 1 projected $37,275,000. Again, these are just the facts.

An old adage of forecasting is that the past is the best predictor of the future. I have always been told to use the most current numbers available. In this case the actual numbers for 2021/22 are available, as this is now September.

In order to really get the facts to the voters, I would like the city to update the 10 year forecast using actual 2021/22 numbers to project off of. This should only take a few minutes as they only need to change one column by inserting the actual 2021/22 numbers.

I also feel Scenario 1 should be adjusted by the city to reflect the latest sales and TOT taxes in 2021/22. The 2021/22 actual collections of $44,856,906 exceed the Scenario 1 estimate for 2022/23 of $37,275,000 by $7,581,906. It is a significantly different picture when the actual collections are taken into account. Over 10 years it is over a $75 million difference. The citizens deserve to know this.

As far as the effect of Measure A goes, it is hard to determine the facts. The city indicated that 23% of non-exempt permits have gone away with minimal economic effect. This is borne out by the 2021/22 tax results. So now it becomes a question of what happens to the other 77%. Will they phase out without economic effect also?

Well the City just answered this. It just posted the STVR permit report for 6-30-2022.**(JA 5)** It shows that from January 2021 through June 2022 permits in Permit Banned Areas decreased by 30.9%. And as I have shown, sales taxes and TOT have dramatically INCREASED over the same time period. There has been no negative economic effect on the City with the phasing out of the first 31% . The citizens need to know this.

My request to you is to rerun your 10 year projection using actual numbers from 2021/22. As I have shown the sales taxes and TOT are $9,550,706 more in 2021/22 than you are showing for 2022/23. This

$9.5 million yearly difference would add to $95 million to the projected $102 million increase.

The 10 year forecast says on the right side of the sheet the following.

"**Revenue projections are based on current economic conditions and historical trends."** This is exactly what we want and we deserve to see the projection using the most recently completed fiscal year, which is 2021/22. This is a simple task to change one column in the excel spreadsheet. It should take an hour of time at the most.

Lastly the elephant in the room is Capital Improvement Projects. The 10 year forecast included $2,052,000 each year as the General Fund Share. It states right on the page **"Expenditure projections are based on current operations, identified projects and regulatory requirements."** However, a few weeks later, the Scenario 1 added approximately $70 million in CIP General Fund Expenditures. Normally the majority of CIP is paid by other funds and reserves. To get the facts on the CIP I feel the city should list each item and show the General Fund amount and the amount to be paid by other sources.

In my view, based upon the CPA audited numbers for 2020/21, the unaudited tax collection numbers for 2021/22, the 10 year projection, and the recent STVR permit report as of 6-30-2022, it appears the city is in a very strong financial position.

Thank you for Listening.

Jim Alderson