

A RESIDENT'S GUIDE TO

THE PALM SPRINGS BUDGET



2025-2026

WHAT YOU NEED TO KNOW



The Palm Springs Charter calls for us to pass a budget each year.

For years, strong income from tourism and rising property values helped cover growing costs. But, with an **economic downturn looming**, revenue flattening, employee costs rising, and the **\$5 million** in outside funding for the Navigation Center ending, we need a **forward-thinking plan**.

We now face a structural problem: expenses are growing faster than revenues.

Unless we act, the city budget presented on June 11 showed a **\$1.1 million** shortfall in FY2025–26, growing to **\$9.9 million** the year after. At the same time, city savings were projected to drop by nearly two-thirds in just two years and be **completely gone by 2028. This is not acceptable, and we requested changes calling for a “Better Than Balanced” budget.**

With an economic downturn looming, the time to act is now.

We can't keep plugging long-term holes with short-term fixes. We can't allow proposals that rely on **one-time maneuvers** — shifting costs to restricted funds and dipping into savings — that don't solve the real problem. In fact, **they make our problem worse** by making the gap harder to close later.

The Council must unite and lead: **rein in spending, protect essential services, and invest in the one thing that actually grows revenue without raising taxes — the local economy.**

This guide explains how Palm Springs' budget works, what's driving the shortfall, what's at risk, and what the city — and residents — can do to fix it.

HOW THE BUDGET WORKS

The Basics

Palm Springs operates on a fiscal year that runs from July 1 to June 30. Each year, must adopt a budget by July 1.

This budget covers nearly everything residents rely on day to day:

- Police and fire protection
- Street and park maintenance
- Recreation
- Libraries
- Senior and youth programs
- Affordable housing support
- The animal shelter
- Sustainability efforts

The Budget Process

Each year's budget follows a cycle:

1. **Revenue Forecasting.** Finance staff estimate how much money the city expects to collect — mostly from taxes, fees, and grants.
2. **Department Requests.** City departments submit their funding needs for staffing, services, and projects to the City Manager.
3. **Council Review & Public Input.** The City Council holds study sessions to weigh options and make adjustments.
4. **Adoption.** The City Charter requires the final budget be approved before the new fiscal year begins on July 1.

What Funds What?

Palm Springs uses different types of funds to manage its finances — each with its own purpose and rules.

Think of them like separate bank accounts, each dedicated to a specific kind of spending. The city can't just move money freely between them.

The most important one to understand is the **General Fund**:

The **General Fund** pays for core services like police, fire, parks, libraries, housing programs, and sustainability efforts. It gets most of its money from sales taxes, hotel taxes (TOT), and property taxes.

Other major fund types include:

- **Capital Fund:** including Gas Tax, Measure A, Capital Projects and **Measure J:** A special voter-approved fund for street improvements, the library, park enhancements, trail projects, and other quality of life improvements, not for day-to-day operating costs.
- **Enterprise Funds:** including Airport, Wastewater and the Golf Course
- **Special Revenue Funds:** including restricted grants, state / federal aid
- **Internal Service Funds:** including Motor Vehicle Replacement, Facility Maintenance, Employee Retirement Benefits, Risk Management
- **Debt Service Fund:** includes general debt service

WHERE THE MONEY COMES FROM (1)

Most of the services Palm Springs provides are paid for through **General Fund revenue**. In Fiscal Year 23-24, the General Fund brought in **\$177 million** and just **three sources** accounted for over **80%** of that total.

The Big Three: Sales, Tourism and Property

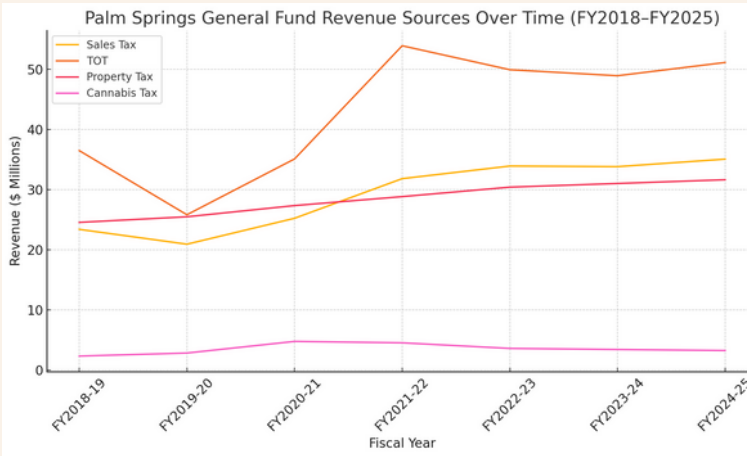
TOT Tax is paid by visitors staying in hotels, resorts and short-term rentals.

Sales Tax is collected on retail dining and services.

Property Tax is paid by owners and set by the county.

Revenue Source	FY24 Amount
Transient Occupancy Tax (TOT)	\$51 million
Sales Tax	\$35 million
Property Tax	\$31 million

Despite Economic Changes the City Remains Heavily Reliant on Sales Tax and TOT



- Sharp TOT and sales tax decline in 2020 due to the pandemic
- Sales Tax surge in 21-22 driven by post-COVID recovery, inflation, shift from services to goods
- TOT and sales tax has leveled off and are at risk from lower tourism / recession

WHERE THE MONEY COMES FROM (2)

What's the Risk?

When revenue is tied to tourism and the broader economy, even small shocks can hurt:

- A 1% drop in hotel occupancy = hundreds of thousands lost in TOT
- A mild recession = reduction in sales tax
- Events canceled, flight reductions, or drops in Canadian tourism can all hit the bottom line.



What About Other Revenues?

Palm Springs also collects income from smaller sources:



- Utility Users Tax (on electric, gas, telecom)
- Franchise Fees (from cable, trash, utility providers)
- Cannabis Taxes
- Motor Vehicles in lieu Tax
- Permit Fees and Fines
- Interest on Investments

These make up a smaller share of the overall budget and haven't grown significantly in recent years.

So, What is Measure J?

Measure J is a 1% sales tax approved by voters in 2011, generating about \$15 million per year.

But it can only be used for capital projects like roads, buildings, and infrastructure — not for services or salaries



As we end 2024/2025, Measure J has a \$24.3 million balance. I support using these funds for quality of life projects.

WHERE THE MONEY GOES (1)

Every year, the city adopts a budget that matches **planned expenses** with **expected revenue**. But not every dollar is necessarily spent. If revenues come in higher than expected or departments spend less than budgeted, the difference goes into **reserves** — the city’s version of a savings account. Likewise, in tight years, the city can choose to use some of its reserves to help balance the budget. Most of Palm Springs’ spending supports the people, programs, and infrastructure that keep the city running.

How Much Does the City Spend?

In FY23-24, the city budgeted **\$154 million** in General Fund spending.

Over half the budget goes to staffing. That includes police officers, firefighters, librarians, housing staff, park crew and administrative support.

Category	% of spending
Employee Salaries + Benefits	60%+
Services, supplies, operations	20-25%
Capital equipment & maintenance	10-15%

Staffing and Labor Costs

Labor costs have grown steadily. Between FY2015 and FY2024:

- City staffing (FTEs) increased by 15%
- Employee compensation (salaries + benefits) increased by nearly 50%

The city has added staff faster than population growth. That means higher service capacity — but also higher long-term costs.



I fully support freezing non-sworn vacant positions. Currently, there are 66 vacant positions. The City Manager has called for a soft freezing of 50 positions. This will save \$4.8 million in 2026.

WHERE THE MONEY GOES (2)

What about Pensions?

Palm Springs participates in **CalPERS** — the state-run retirement system that manages pensions for public employees. Each year, the city contributes a base amount for current staff.

This year, the city made a lump-sum payment of **\$28.5 million** to help stabilize future costs and lower the unfunded liability.



Over time, pension obligations can grow faster than expected — due to market downturns or longer life expectancy. When that happens, cities must contribute extra to close the gap.

Palm Springs has been taking proactive steps by paying down some of that debt early and setting aside \$6 million annually toward the \$200 million unfunded pension liability.

This is a wise plan; however, in a deficit year, it's not prudent to set these funds aside.



What Else the City Spends On

Beyond staff and pensions, the city funds:

- Public programs (youth, seniors, libraries, housing)
- Street maintenance, tree trimming, park operations
- Legal, technology, and emergency preparedness
- Community grants and partnership

These can be where any cuts are considered first — because salaries and pension costs are harder to reduce quickly.



WHAT'S GOING WRONG?



Expiring Grants

The Navigation Center — the city's new homelessness facility — costs about **\$5 million/year** to operate. It was funded by state and county grants, which end in mid-2026. **Now, the entire cost shifts to the General Fund** until new funding sources are secured.



Rising Labor Costs

City staffing has grown **15% since 2015**, and wages and benefits have grown faster still. Today, **over 60%** of the General Fund goes to employee compensation — driven by expanded services, post-pandemic rebuilding, and negotiated raises.



Slowing Revenues

Sales and hotel tax revenues bounced back after COVID, but we may now see them stabilizing as a new norm.

- **Hotel occupancy is showing a mixed trend.** While some reports indicate a slight dip in occupancy, others highlight strong performance in certain areas, like vacation rentals. Overall, the market is experiencing a period of adjustment with potential for growth.
- The US economy in 2026 is generally expected to experience **slow growth** compared to previous years. Factors contributing to the slow growth are lingering effects of tariffs, potential weakening in the labor market, and a slowdown in consumer spending.
- While some analysts expect a slight recovery, others foresee continued challenges. The overall picture suggests a potential slowdown.
- Canadian and other **international tourism** is expected to be down.
- Short-term rentals are plateauing
- Property taxes will grow slowly



Politics

City budgets are shaped not just by fiscal realities, but by politics. Councilmembers often bring different priorities to the table — and sometimes that means urgent long-term challenges, like structural deficits, take a back seat to more visible or popular projects, and egos.

CAPITAL PROJECTS VS OPERATING DEFICITS

Palm Springs is making bold investments in its future: rebuilding public facilities and modernizing infrastructure. But at the same time, the city is facing growing annual deficits. That raises an important question:

Are we investing in things we won't be able to afford to maintain later?

What's the Difference Between Capital and Operating Expenses?

Capital Spending	Operating Spending
One-time investments in buildings, roads, vehicles, etc.	Ongoing costs like salaries, programs, maintenance
Often funded by special revenue or bond measures	Paid from the General Fund each year
Can't be used to cover payroll or daily services	Includes police, fire, parks, admin, housing, etc.

Most capital projects are **not funded from the General Fund**. Instead, they're paid for using restricted funds like **Measure J**, state/federal grants, or bond proceeds.



WHAT SHOULD THE CITY COUNCIL DO? (1)

Council needs to set the tone: no quick fixes, no budget gimmicks. Just a clear responsible path forward.

Every household knows: When money's tight, you tighten the belt and look for new sources of income.

Palm Springs needs to do the same — **cut back where it can, protect what matters, and invest where it counts.** That means:

Grow the Economy!

Economic Development is the one department that you want to invest in to stimulate commerce during an economic downturn.

Why? Because it brings in lasting revenue without new taxes — by boosting local jobs, small business activity, and year-round growth. A stronger economy means more funding for the services residents rely on — now and in the future.



Control Spending

Trim non-essential spending. That includes pausing projects that aren't urgent, and reconsidering funding set aside for programs (like the housing fund) that aren't being used yet.

These steps don't gut services — they refocus dollars where they're most needed.

Protect Core Services

Public safety, parks, libraries, and housing support must remain protected. Cutting here would do real damage, especially to the people who rely most on city services.



WHAT SHOULD THE CITY COUNCIL DO? (2)

Even well-meaning leaders can make short-term choices that cause long-term harm. Here's what to avoid:

Don't Treat Reserves Like Free Money!

Reserves are the city's savings account. They're meant for **true emergencies** — like COVID or a major recession — **not to cover routine overspending**.



Don't Raid Restricted Funds!

Funds like Measure J are set aside for long-term capital needs — things like roads, buildings, and infrastructure. Using them to cover day-to-day expenses may solve a short-term problem, but it **limits our flexibility** later and undermines public trust.

Don't Kick the Can!

Pausing pension paydowns or avoiding tough decisions might feel easy now — but it only **makes the problem worse** (and more expensive) down the road.



Bottom Line:

Smart choices now avoid painful ones later. We need a budget strategy that:

- *Protects services people rely on*
- *Grows the local economy*
- *Fixes the gap between costs and income*
- *Doesn't leave the next Council — or the next generation — holding the bill*



HOW CAN PALM SPRINGS RAISE MORE MONEY?

Some people ask: why not just raise more taxes? The truth is — that's hard. Most new taxes require a public vote. Some even need state approval. And Palm Springs already has one of the highest sales tax rates in California, with no legal room to go higher.

I feel the best path forward is not higher taxes — but a stronger economy. The more year-round businesses we attract, the more good-paying jobs we create, the more revenue comes in — without raising taxes on anyone.



Here are some findings I anticipate coming from the city's Economic Development Strategic Plan:



Make Business Easier

The city is exploring ways to cut red tape and make it faster and easier for local businesses to open or grow. A proposed online portal would streamline permits, licenses, and access to resources. Fewer barriers mean more businesses — and more local revenue.



Grow Year-Round Jobs

Attract employers in clean energy, healthcare, tech, design, and data centers — industries that offer steady, higher-wage jobs. There's also untapped potential in the city's federal trade zone, which could lower costs for manufacturers and distributors. A more diverse economy means a more stable tax base.



Train Locals for Great Careers

Development plans include grants, apprenticeships, and stronger ties to the College of the Desert and other partners to train residents for the jobs Palm Springs is working to attract. Helping more locals build careers here keeps talent in town — and grows both incomes and spending.

HOW CAN PALM SPRINGS REDUCE COSTS?

When a household budget gets tight, families protect the essentials, cut back where they can, and try not to burn through savings too fast. The city needs to take the same approach.

Most of Palm Springs' budget goes to staffing — salaries, pensions, and benefits. Some of that is locked in through contracts or tied to essential services like police and fire. But there are still ways to tighten the belt without cutting the things residents rely on most.

As we enter the 2025 and 2026 budgets, the city may need to look at:

- **Postponing projects** that aren't urgent or shovel-ready
- **Holding back funding** for things like housing programs that aren't ready to launch
- **Trimming budgets** if revenue falls short of projections — just like many households and businesses would do

This doesn't mean cutting frontline services. It means asking: what can wait? What's not essential right now?



Palm Springs doesn't need to make drastic cuts — but it does need to make smart ones.

Preserve what matters. Cut what can wait. That's how you balance a budget.

WHAT CAN RESIDENTS DO?

The city is facing **hard tradeoffs** — and residents have a real say in what comes next.

How to get involved now:



Public Comment

- Attend a Council meeting or budget hearing (in person or via Zoom)
- Submit written comments through the city website



Contact your Councilmember

Find contact information at palmspringsca.gov



Sign Up for the Mayor's Updates

Visit: rondeharte.com/mayors-update

The city's budget isn't just a spreadsheet — it's a **set of values**.

What services matter most to you?

What are you willing to pay for — or willing to lose?

Those are the questions the City Council must answer — and **your voice** helps guide the outcome.

A RESIDENT'S GUIDE TO THE PALM SPRINGS BUDGET

June 2025