PALM DESERT

Preliminary Rail Station
Value Capture Financing Analysis Summary

December 2023

Prepared by:
Kosmont Companies

Introduction and Background

- As part of its evaluation of the feasibility of a rail station within the City of Palm Desert, the City should consider the applicability of various "value capture" funding and financing tools to facilitate the relevant infrastructure installation and operations and maintenance costs

- A financing strategy that includes Tax Increment Financing ("TIF") financing, new potential parking assets, and other complementary sources may be well-suited to capture value from new development to fund the targeted infrastructure

- This analysis estimates ~$22M to $94M in TIF funding capacity alone, while still generating a positive General Fund fiscal impact of ~$528K to $3.1M annually

- While a City-only financing district strategy can achieve favorable "return on investment" for the City, a broader partnership including the County of Riverside would further improve financial feasibility

- Subject to confirmation of other components of rail station feasibility and eventual station site selection, implementation of such a financing strategy would require a series of public meetings and hearings for approval

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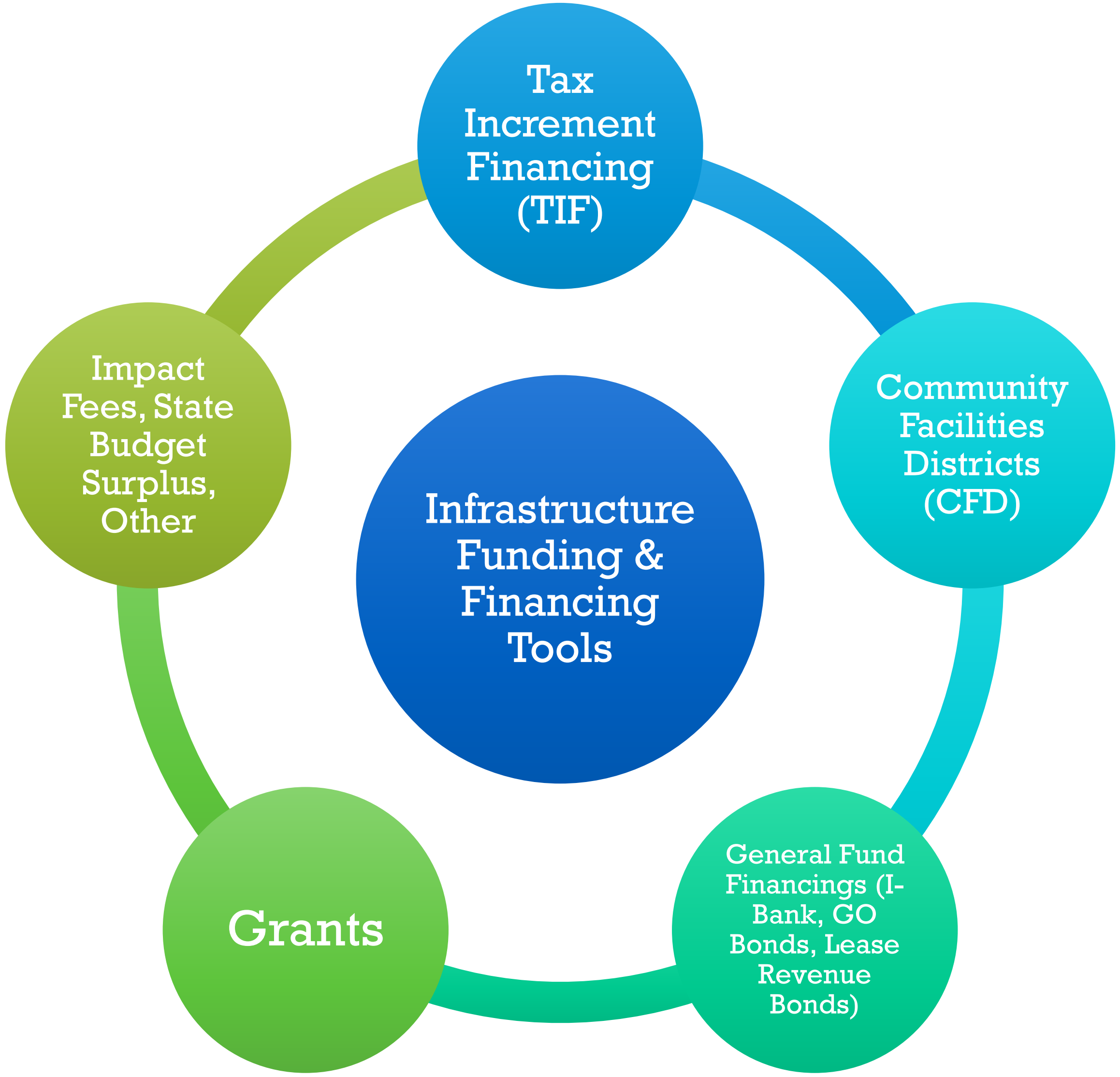
Presentation Outline

1. Overview of Funding and Financing Tools

2. Funding and Financing Analysis for Palm Desert

3. Potential Next Steps and Timing

Overview of Primary Development Finance Tools



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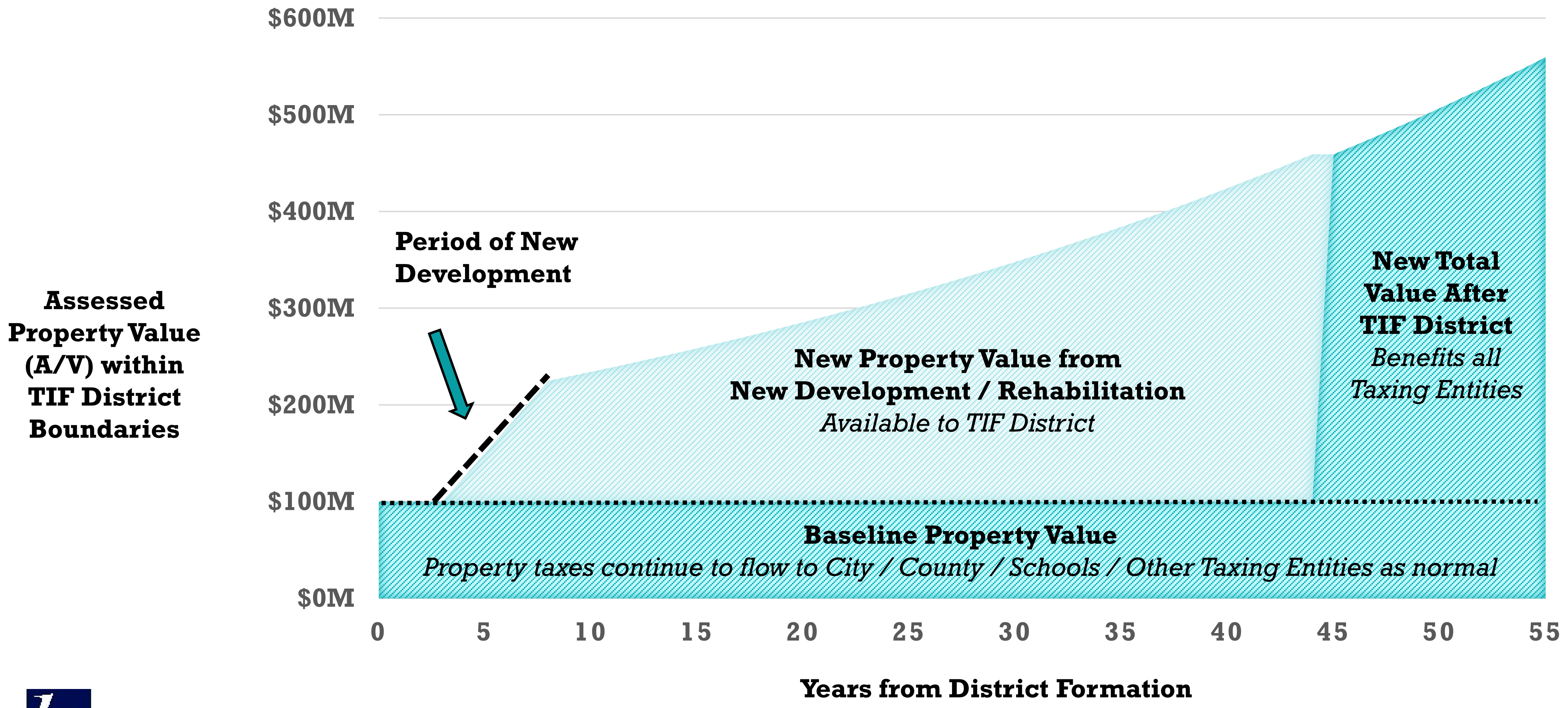
What is Tax Increment Financing (TIF) – Not a New Tax



Note: Illustrative. Conservative 2% growth of existing assessed value (A/V) shown; does not include mark-to-market increases associated with property sales.

TIF Alternatives in California Today

Most flexible, most widely used

Enhanced Infrastructure Financing District (EIFD)

Infrastructure & Revitalization Financing District (IRFD)

Flexible, voter-approval still required

Climate Resilience District (CRD)

NEW, limited focus on certain infrastructure

Community Revitalization & Inv. Authority (CRIA)

More emphasis on affordable housing (25% set-aside)

Neighborhood Infill Finance & Transit Improvements Act (NIFTI)

NIFTI-2

Coterminous requirement and other requirements have made NIFTI & NIFTI-2 infeasible in other communities

Affordable Housing Authorities (AHA)

Restriction to fund ONLY affordable housing (and not infrastructure) has been deemed to restrictive to be feasible in other communities

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EIFD Fundamentals

Long Term Districts	45 years from first bond issuance
Governance	Public Financing Authority (PFA) implements Infrastructure Financing Plan (IFP)
Approvals	Mandatory public hearings for formation with protest opportunity; no public vote
Eligible Projects	Any property with useful life of 15+ years & of communitywide significance; purchase, construction, expansion, improvement, seismic retrofit, rehabilitation, and **maintenance**

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Eligible Projects
Partial List


Storm / Flood / Public Facilities

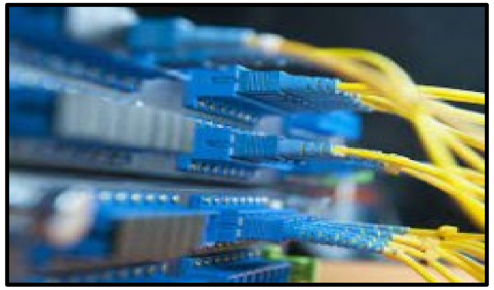

Roadway / Parking / Transit


Parks / Open Space / Recreation


Libraries & Childcare Facilities


Brownfield Remediation


Affordable Housing


Broadband


Wildfire Prevention / Other Climate Change Response


Small Business / Nonprofit Facilities

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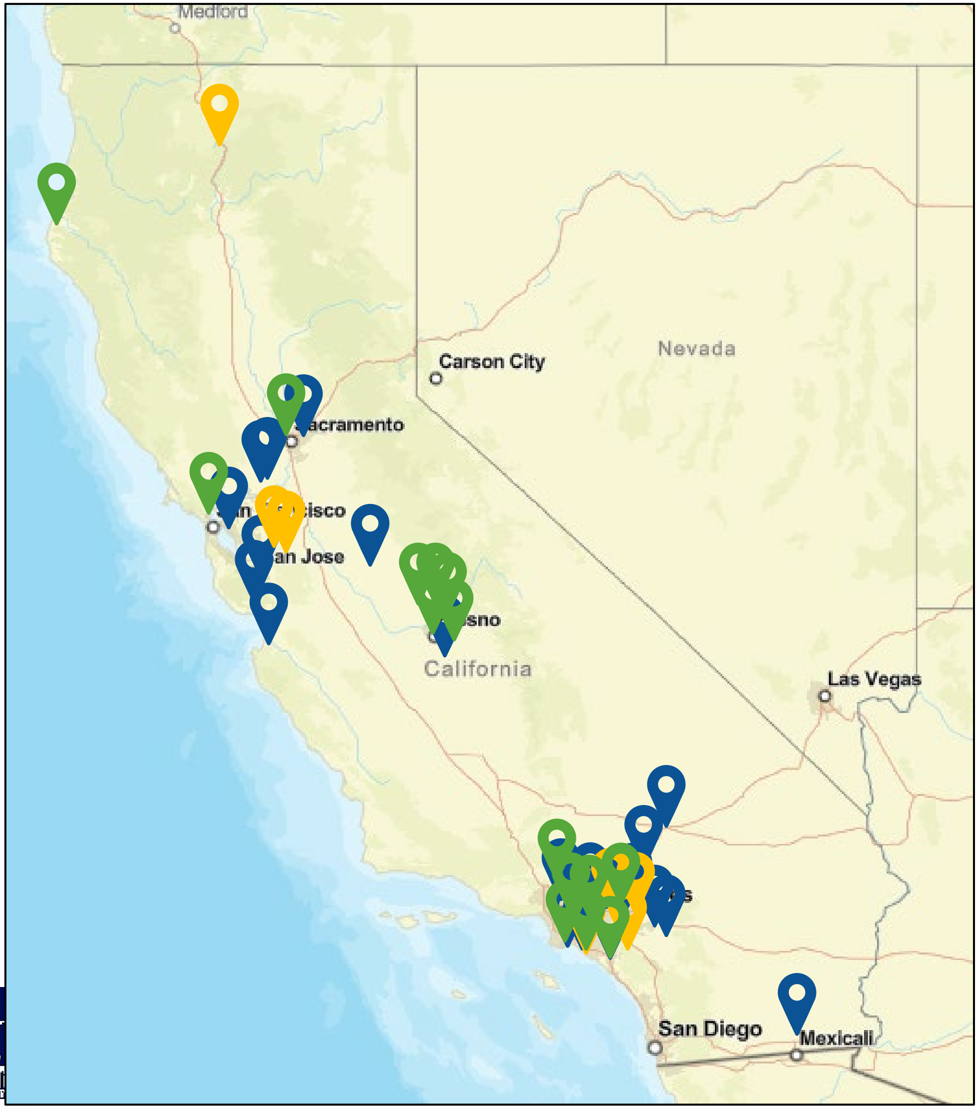
Value Capture TIF Districts in Progress Statewide
(Partial List)



<u>Relevant Examples</u>:

- County of Riverside Unincorporated EIFDs (Highway 74, Temecula Valley Wine County, East Coachella Valley)
- City of La Verne + County of Los Angles TOD EIFD
- City of Placentia + County of Orange TOD EIFD

Why are Public Agencies Authorizing Value Capture Districts?

1. Return on Investment: Private sector investment induced by district commitment accelerates growth of net fiscal revenues, job creation, housing production, essential infrastructure improvements

2. Ability to attract additional funds / other public money ("OPM") – tax increment from other entities (county, special districts), federal / state grants / loans (e.g., for transit oriented development, water, housing, parks, remediation)

Other Value Capture Tools

1. Monetization of public agency owned land, **such as new parking created**

2. Parking revenue financing

3. Community Facilities District (CFD) financing

4. General Fund public financings (e.g., lease revenue financing)

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Comparison of Various Public Financing Tools

District Type	Description	Revenue Source	Approval Structure	Use of Funds
TIF (e.g., EIFD, CRIA, IFD, IRFD)	Incremental property tax revenues from new development used to fund local infrastructure. Max term is 45 years from approval to issue debt.	Incremental (new development) property tax revenues (incl. VLF) – does not increase taxes	*District formation* – No vote, but majority protest opportunity by landowners and registered voters *Bond issuance* – None	• Infrastructure of regional or communitywide significance • Maintenance • Affordable housing
Mello-Roos Community Facilities District (CFD) and/or Assessment District	Additional assessment or "special tax" used to fund infrastructure / services that benefit property. Max term is 40 years from date of debt issuance.	New property assessment or tax – appears as separate line item on tax bill	*District formation* – 2/3 vote of landowners or registered voters in district* *Bond issuance* – vote of elected body (City)	• Infrastructure capital expenditures of benefit to landowners • Maintenance • Public services (e.g., safety, programs)
General Obligation	Voter-approved debt that is repaid with "override" to 1% tax levy; City-wide	Direct property tax levied on all properties at same millage rate	2/3 vote of registered voters in entire City	• In accordance with bond plebiscite
Lease Revenue / COPs	General Fund-supported borrowing, generally utilizing City-owned assets to be leased and leased back	General Fund (or other legally available revenues as determined by City)	Vote of elected body (City)	• In accordance with bond authorization

✓ Potential funding strategy can utilize MULTIPLE mechanisms

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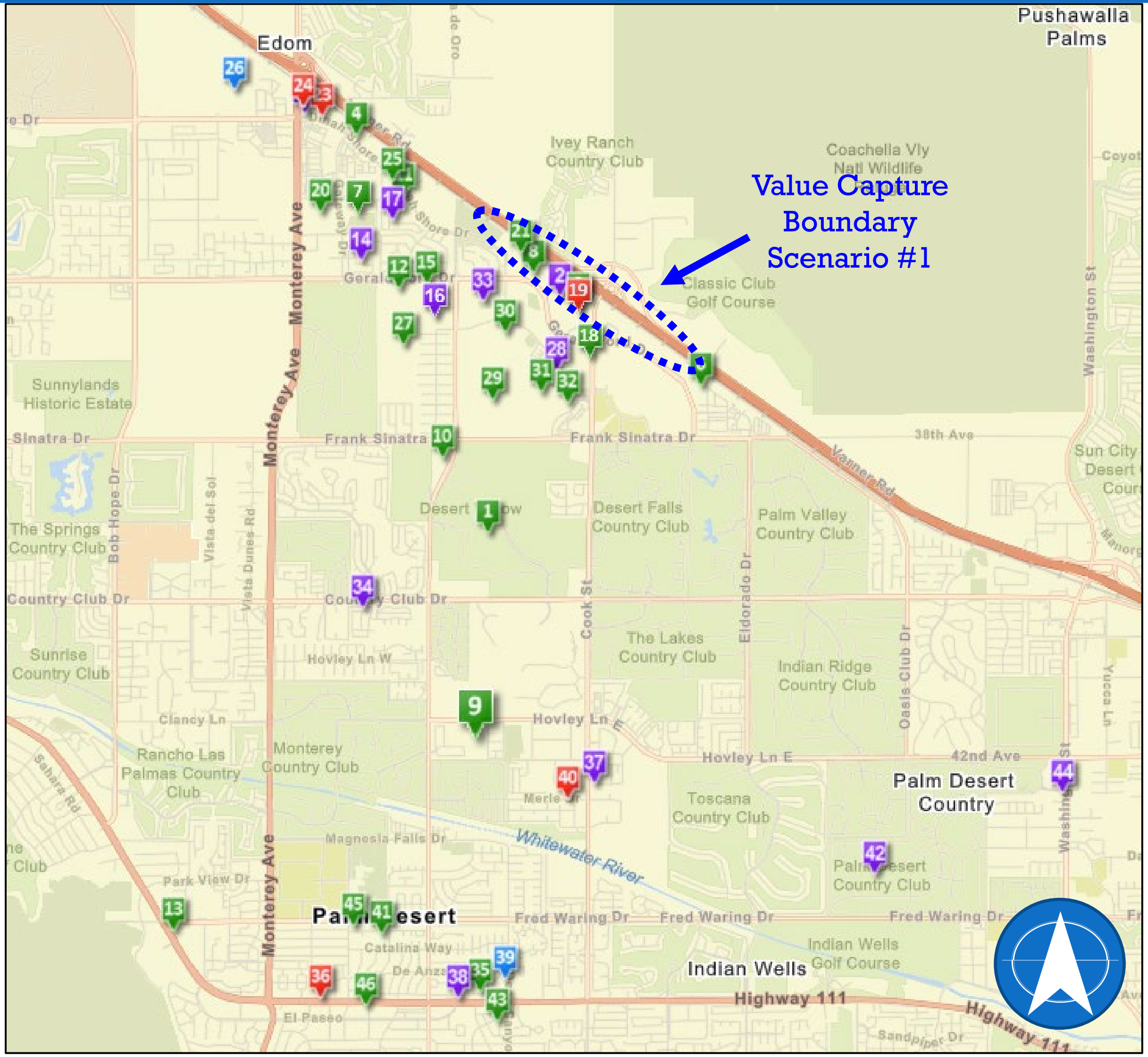
* For CFD formation, a vote of registered voters within the district boundary is required if 12 or more registered voters live therein (otherwise a vote of landowners prorated by acreage).

Value Capture Boundary Scenario #1

Station Area TOD Only

Potential Station Area TOD Only
100 units residential
100-room hotel
14,000 SF commercial



Note: Does not include projects completed or already under construction.

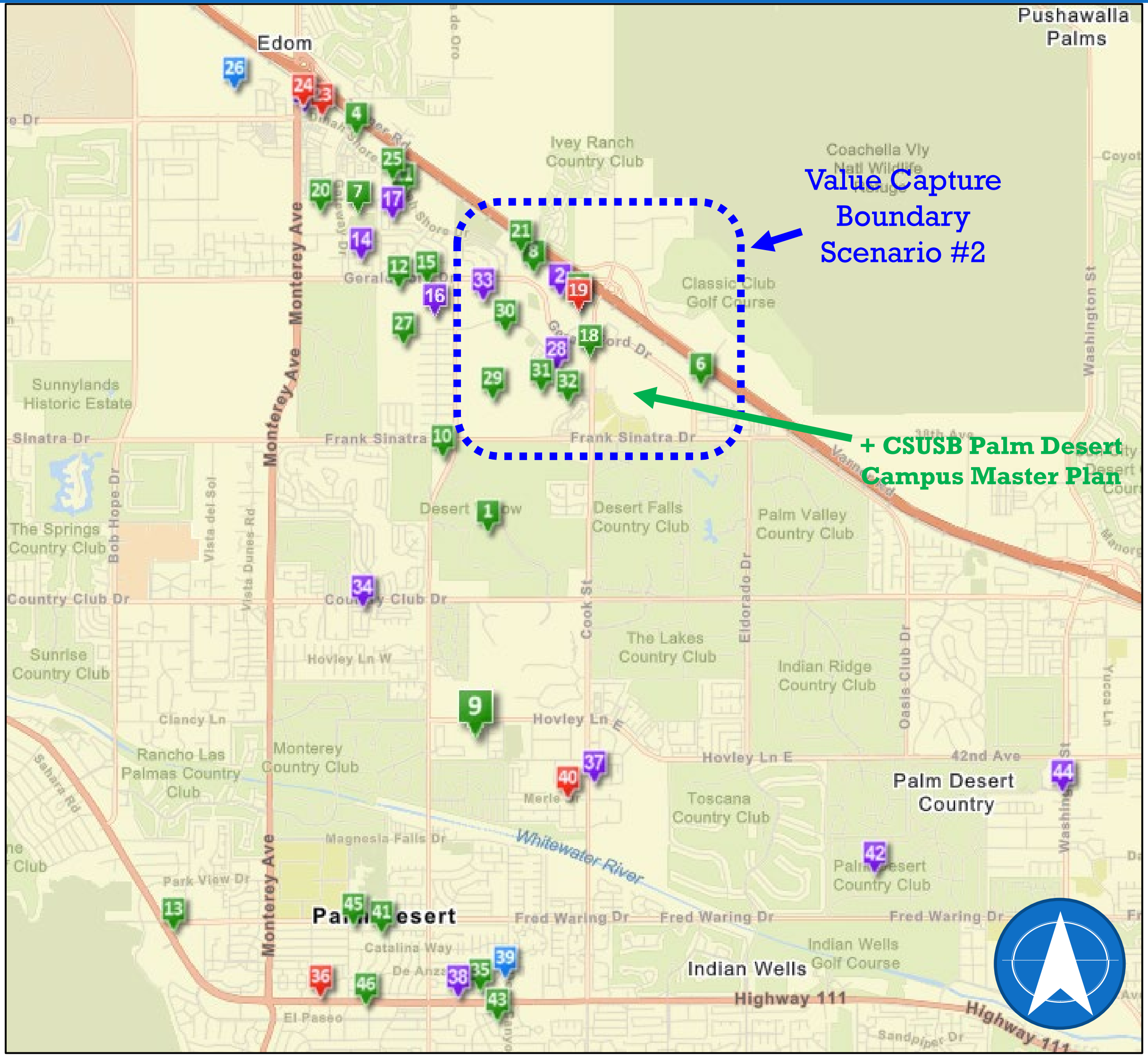
Source: City of Palm Desert Current Economic Development Projects, Updated Sept 2023

Value Capture Boundary Scenario #2

Immediately Adjacent Opportunity Sites

#	Potential Development Projects Approved or Under Review
3	Staybridge Hotel – 96 rooms
6	Spanish Walk Apartments – 150 units, affordable apartments
8	Palm Villas Apartments - 241 units, affordable apartments
18	University Village Pad 3 - Restaurant
21	Millenium Specific Plan – 166 single-family lots, commercial, business park +
29	University Neighborhood Specific Plan - remaining components
30	University Park – 1100 housing units, public parks, private open space
31	University Park Townhomes – 110 Townhomes
32	University Park Multifamily – 336 apartment units

- Availability of new parking may additionally support new development in adjacent properties

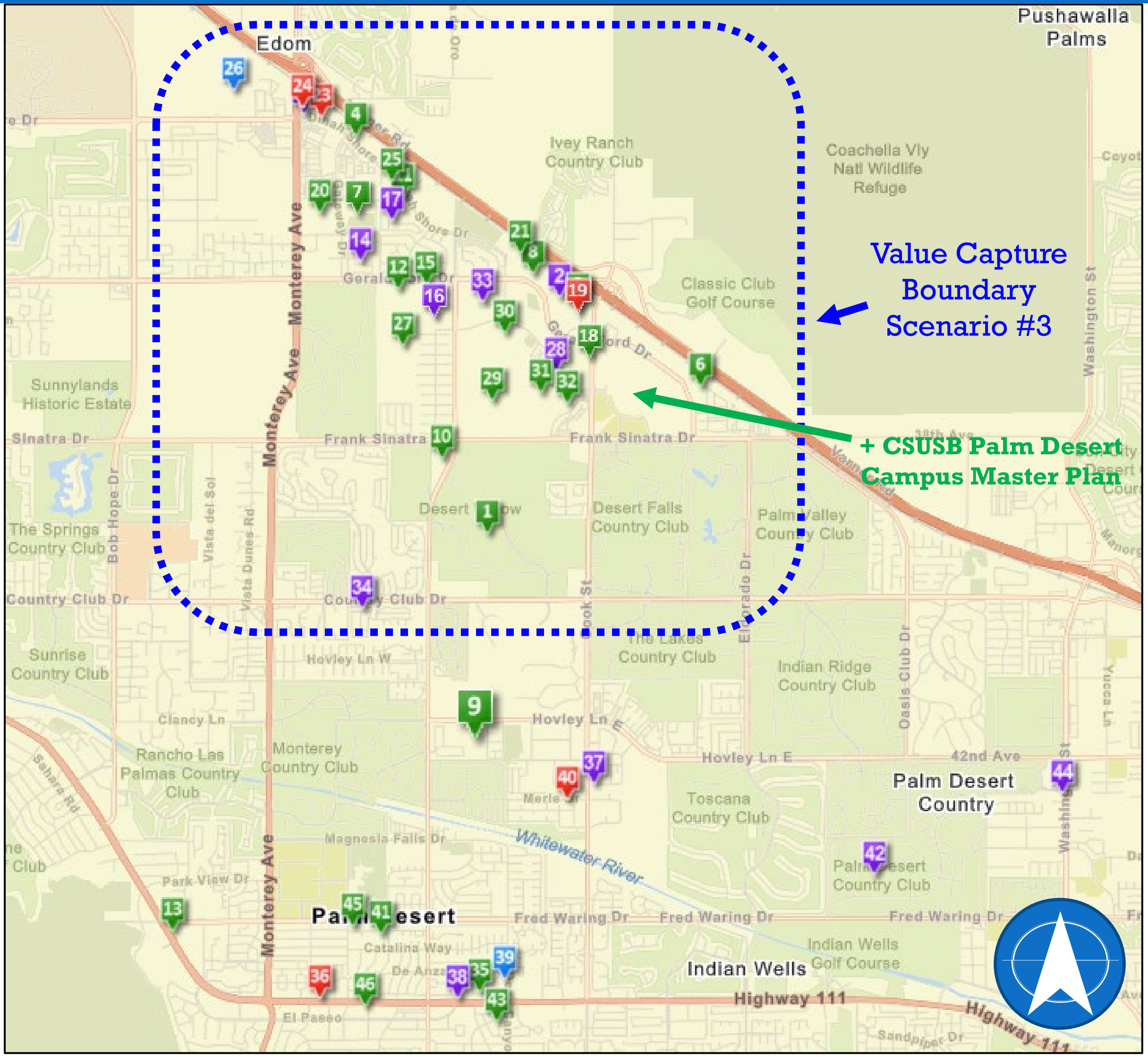


Note: Does not include projects completed or already under construction.
Source: City of Palm Desert Current Economic Development Projects, Updated Sept 2023

Value Capture Boundary Scenario #3

Broader Value Capture Area

#	Potential Development Projects Approved or Under Review
1	DSRT Surf – Lagoon and surf center, 92 hotel rooms, 83 villas +
3	Staybridge Hotel – 96 rooms
4	CarMax Auto Superstore Expansion– Carwash tunnel
6	Spanish Walk Apartments – 150 units, affordable apartments
7	The Crossings at Palm Desert – 176 units, affordable apartments
8	Palm Villas Apartments - 241 units, affordable apartments
10	Frank Sinatra Drive/ Portola Ave. Apartments - 394 multi-family units
11	West Coast Self- Storage – self-storage facility
15	Santa Barbara Condominiums – 32 units, pool, recreation
18	University Village Pad 3 - Restaurant
20	MCP Specific Plan – 384 multi-family units, planned commercial
21	Millenium Specific Plan – 166 single-family lots, commercial, business park +
25	Alpha Holdings Building – multi-tenant, light industrial
26	Landmark Specific Plan – 1500 residential, commercial retail, storage facility
27	Refuge Specific Plan – 969 mixed residential units
29	University Neighborhood Specific Plan - remaining components
30	University Park – 1100 housing units, public parks, private open space
31	University Park Townhomes – 110 Townhomes
32	University Park Multifamily – 336 apartment units



Note: Does not include projects completed or already under construction.
Source: City of Palm Desert Current Economic Development Projects, Updated Sept 2023

Future Development Assumptions – Scenario #1

Absorption Assumed over 5-20 Years

Area	# SF or Units	Estimated AV Factor	Estimated Total AV at Buildout
Residential – For-sale	0 units	$500K per unit	$0
Residential – Rental	100 units	$250K per unit	$25 million
Hotel	100 rooms	$250K per room	$25 million
Commercial / Retail / Office	14,000 SF	$300 per SF	$4 million
Industrial / Flex	0 SF	$195 per SF	$0
Total New Development Assumed within Value Capture Study Area			**$54 million**

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Note: AV at buildout values in current 2023 dollars. Affordable housing excluded from calculations (typically property tax-exempt)
Sources: City of Palm Desert Current Economic Development Projects, updated Sept 2023, CoStar (Accessed January 2023)

Future Development Assumptions – Scenario #2

Absorption Assumed over 5-20 Years

Area	# SF or Units	Estimated AV Factor	Estimated Total AV at Buildout
Residential – For-sale	1,497 units	$500K per unit	$748 million
Residential – Rental	934 units	$250K per unit	$233 million
Hotel	196 rooms	$250K per room	$49 million
Commercial / Retail / Office	23,000 SF	$300 per SF	$7 million
Industrial / Flex	0 SF	$195 per SF	$0
Total New Development Assumed within Value Capture Study Area			**$1.04 billion**

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Note: AV at buildout values in current 2023 dollars. Affordable housing excluded from calculations (typically property tax-exempt)
Sources: City of Palm Desert Current Economic Development Projects, updated Sept 2023, CoStar (Accessed January 2023)

Future Development Assumptions – Scenario #3
Absorption Assumed over 5-20 Years

Area	# SF or Units	Estimated AV Factor	Estimated Total AV at Buildout
Residential – For-sale	2,362 units	$500K per unit	$1.18 billion
Residential – Rental	3,431 units	$250K per unit	$858 million
Hotel	288 rooms	$250K per room	$72 million
Commercial / Retail / Office	220,900 SF	$300 per SF	$66 million
Industrial / Flex	312,410 SF	$195 per SF	$61 million
Total New Development Assumed within Value Capture Study Area			**$2.24 billion**

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Note: AV at buildout values in current 2023 dollars. Affordable housing excluded from calculations (typically property tax-exempt)
Sources: City of Palm Desert Current Economic Development Projects, updated Sept 2023, CoStar (Accessed January 2023)

Summary of Potential City General Fund Fiscal Revenue Impacts

	Value Capture Boundary Scenario #1 (TOD Site)	Value Capture Boundary Scenario #2 (Immediately Adjacent Opportunity Sites)	Value Capture Boundary Scenario #3 (Broader Value Capture Area)
City of Palm Desert General Fund			
Property Tax	$38,000	$694,200	$1,502,100
Property Tax In-Lieu of MVLF	$15,200	$291,000	$627,500
Sales and Use Tax - Direct / On-Site	$28,200	$46,400	$445,300
Sales and Use Tax - Indirect / Off-Site	$9,100	$122,800	$236,000
Transient Occupancy Tax	$463,700	$908,900	$1,335,500
Estimated Total ANNUAL Revenues	**$554,200**	**$2,063,300**	**$4,146,400**

- Additional benefits related to housing production, jobs, wages

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Note: Assumes installation of necessary public infrastructure. $2023

Potential Projects for Special District Funding in Palm Desert

a) First-mile / last-mile connectivity improvements (bike, pedestrian, bus connectivity)

b) Parking, circulation improvements

c) Water, sewer, and other utility capacity enhancements

d) Affordable housing

e) Parks & open space

Property Tax Revenues Available to TIF Districts

- Primary potential contributors of property tax increment are the **City of Palm Desert** and **County of Riverside**
- City is a no/low property tax city and averages ~**7%** of every $1 collected in property taxes within the Value Capture Study Area
  - City additionally receives equivalent of ~**3%** of property tax in lieu of Motor Vehicle License Fees (MVLF), also available to TIF districts
- County share varies by area and averages ~**13%**
  - County additionally receives equivalent of ~**9%** of property tax in lieu of MVLF, also available to TIF, but not incorporated into this analysis to be conservative
- Other entities (e.g., County Fire, CV Water, Desert Hospital, County Library) receive small shares, carry restrictions on available revenues
- School-related entities <u>cannot</u> participate

Sample Property Tax Distributions within Value Capture Study Area

Tax Rate Area (TRA) >>>	18-165	18-227	18-082*	61-165
Sample Projects >>>	Spanish Walk	Crossings	Desert Surf	Arena
PALM SPRINGS UNIFIED SCHOOL	30.63%	30.63%		30.18%
DESERT SANDS UNIFIED SCHOOL			36.88%	
EDUCATIONAL REVENUE AUG FUND (ERAF)	16.94%	16.59%	15.81%	18.39%
COUNTY GENERAL FUND	**12.92%**	**12.26%**	**11.32%**	**16.11%**
DESERT COMMUNITY COLLEGE	8.74%	8.74%	7.66%	8.61%
COUNTY STRUCTURE FIRE PROTECTION	6.82%	6.82%	5.98%	6.72%
CITY OF PALM DESERT	**6.40%**	**7.33%**	**5.61%**	**0.00%**
RIVCO OFFICE OF EDUCATION	4.76%	4.76%	4.17%	4.69%
CVWD STORM WATER UNIT	4.02%	4.02%	3.53%	3.96%
CV WATER DISTRICT STATE WTR PROJ	3.18%	3.18%	2.79%	3.13%
DESERT HOSPITAL	2.32%	2.32%	2.03%	2.29%
COUNTY FREE LIBRARY	1.67%	1.67%	1.46%	1.64%
CV MOSQUITO & VECTOR CONTROL	1.14%	1.14%	1.00%	1.12%
COACHELLA VALLEY REC AND PARK			1.21%	
RIVCO REGIONAL PARK & OPEN SP	0.32%	0.40%	0.28%	0.40%
COACHELLA VALLEY PUBLIC CEMETARY			0.23%	
COACHELLA VALLEY RESOURCE CONSER	0.04%	0.04%	0.04%	0.04%
PALM SPRINGS PUBLIC CEMETERY	0.11%	0.11%		0.11%
SUPERVISORIAL ROAD DISTRICT 4				1.15%
CVWD IMP DIST 1 DS				1.46%
TOTAL 1% PROPERTY TAX GEN LEVY	**100.00%**	**100.00%**	**100.00%**	**100.00%**

As counties tend to rely more heavily on property tax revenue sources generated by new development within incorporated jurisdictions, it is Kosmont's experience that it is not reasonable to assume allocation of property tax in lieu of MVLF by the County. As cities benefit from additional non-property tax revenue sources (e.g., sales tax, transient occupancy tax) from new development, it is Kosmont's experience that it is reasonable for cities to consider contributing property tax in lieu of MVLF.
Source: Riverside County Auditor Controller (2023)

Revenue and Bonding Capacity Scenarios

Scenario #1

EIFD Revenue Allocation Scenario	Year 5 Accumulated Revenue + Bonding Capacity*	Year 10 Accumulated Revenue + Bonding Capacity*	50-Year Present-Value @ 3% Discount Rate	50-Year Nominal Total
A) City 50%	N/A	$136,000	$1,161,000	$2,891,000
B) City 50% + County Dollar Match (~37% of County share)	N/A	$272,000	$2,323,000	$5,782,000

City allocation includes allocation from both AB8 + MVLF in-lieu. County allocation does not include MVLF in-lieu.
** Bonding capacity assumes Year 5 is first bond issuance for EIFD. "Year 5 means fifth year of revenue following district formation. Net proceeds shown. Bondable revenue assumes $25,000 admin charge, 150% debt service coverage. 6.5% interest rate; 30-year term. Proceeds net of 2% underwriter's discount, estimated reserve fund (maximum annual debt service), costs of issuance estimated at $350,000.Source: Kosmont Financial Services (KFS), registered municipal advisor.*

Revenue and Bonding Capacity Scenarios

Scenario #2

EIFD Revenue Allocation Scenario	Year 5 Accumulated Revenue + Bonding Capacity*	Year 10 Accumulated Revenue + Bonding Capacity*	50-Year Present-Value @ 3% Discount Rate	50-Year Nominal Total
A) City 50%	$1,155,000	$4,344,000	$22,603,000	$58,380,000
B) City 50% + County Dollar Match (~37% of County share)	$2,955,000	$9,333,000	$45,207,000	$116,760,000

City allocation includes allocation from both AB8 + MVLF in-lieu. County allocation does not include MVLF in-lieu.
** Bonding capacity assumes Year 5 is first bond issuance for EIFD. "Year 5 means fifth year of revenue following district formation. Net proceeds shown. Bondable revenue assumes $25,000 admin charge, 150% debt service coverage. 6.5% interest rate; 30-year term. Proceeds net of 2% underwriter's discount, estimated reserve fund (maximum annual debt service), costs of issuance estimated at $350,000.Source: Kosmont Financial Services (KFS), registered municipal advisor.*

Revenue and Bonding Capacity Scenarios

Scenario #3

EIFD Revenue Allocation Scenario	Year 5 Accumulated Revenue + Bonding Capacity*	Year 10 Accumulated Revenue + Bonding Capacity*	50-Year Present-Value @ 3% Discount Rate	50-Year Nominal Total
A) City 50%	$3,134,000	$9,645,000	$46,791,000	$120,643,000
B) City 50% + County Dollar Match (~37% of County share)	$6,913,000	$19,934,000	$93,583,000	$241,285,000

City allocation includes allocation from both AB8 + MVLF in-lieu. County allocation does not include MVLF in-lieu.
** Bonding capacity assumes Year 5 is first bond issuance for EIFD. "Year 5 means fifth year of revenue following district formation. Net proceeds shown. Bondable revenue assumes $25,000 admin charge, 150% debt service coverage. 6.5% interest rate; 30-year term. Proceeds net of 2% underwriter's discount, estimated reserve fund (maximum annual debt service), costs of issuance estimated at $350,000.Source: Kosmont Financial Services (KFS), registered municipal advisor.*

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Potential Cash Flow / Debt Issuance Approaches

- Kosmont Financial Services is in active discussions with public finance underwriters regarding EIFD debt issuances in other jurisdictions
- Underwriters have proposed several approaches for the leverage of EIFD tax increment for <u>accelerated</u> debt issuance (e.g., 2-3 years from EIFD formation), for example:
  a) EIFD increment only, based on completed (or nearly completed) improvements (no immediate capacity)
  b) EIFD increment only, based on completed improvements PLUS near-term growth
  c) Overlapping EIFD and CFD (CFD Backstop) – landowners / developers must be willing to pay CFD special taxes in the short term (e.g., 5-10 years) until EIFD increment reaches a level to cover debt service
  d) EIFD increment with City or County general fund backstop
- There are advantages and disadvantages with each approach (e.g., upfront proceeds available, public agency risk, cost of capital)
- Additional alternatives are available if private sector partners (e.g., landowners / developers are willing to advance infrastructure funding in exchange for reimbursement from EIFD proceeds)

EIFDs work better with a Multi-Agency Partnership & Attract Other Funding

- Ideal strategy includes City and County partnership
- EIFDs which involve a City / County joint effort are more likely to win state grant funding sources
- EIFDs explicitly increase scoring for CA state housing grants (e.g., IIG, AHSC, TCC)

Other Public Sources

- *Cap-and-Trade / HCD grant & loan programs (AHSC, IIG,TCC,CERF)*
- *Prop 68 parks & open space grants*
- *Prop 1 water/sewer funds*
- *Caltrans ATP / HSIP grants*
- *Federal EDA / DOT / EPA funding*
- *Federal ARPA, Invest Act, IIJ Act*

Other Private Sources

- *Development Agreement / impact fees*
- *Benefit assessments (e.g., contribution from CFD)*
- *Statewide Community Infrastructure Program (SCIP) pooled financing*
- *Private investment*

Summary of Potential Fiscal Revenue Impacts

Net of Potential 50% Increment Contribution to TIF District

	Value Capture Boundary Scenario #1	Value Capture Boundary Scenario #2	Value Capture Boundary Scenario #3
City of Palm Desert General Fund			
Property Tax	$38,000	$694,200	$1,502,100
Property Tax Allocation to TIF District	($19,000)	($347,100)	($751,000)
Property Tax In-Lieu of MVLF	$15,200	$291,000	$627,500
Property Tax In-Lieu of MVLF Allocation to TIF District	($7,600)	($145,500)	($313,750)
Sales and Use Tax - Direct / On-Site	$28,200	$46,400	$445,300
Sales and Use Tax - Indirect / Off-Site	$9,100	$122,800	$236,000
Transient Occupancy Tax	$463,700	$908,900	$1,335,500
Estimated Total Revenues	**$527,600**	**$1,570,700**	**$3,081,650**

- Additional benefits related to housing production, jobs, wages

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Note: Assumes installation of necessary public infrastructure. $2023

Illustrative Financing District Formation Schedule

Target Date	Task
Q1 2024	a) Conduct outreach / discussion among City staff and Council, County staff and Board of Supervisors, other relevant stakeholders b) Final determination of TIF district boundaries, targeted projects, governing Public Financing Authority (PFA) Board composition
Q1 2024	c) Participating taxing agencies adopt Resolution(s) of Intention (ROI) to form EIFD and formally establish PFA Board
Q1 2024	d) PFA directs the drafting of the Infrastructure Financing Plan (IFP)
Q2 2024	e) Distribute draft IFP to property owners, affected taxing entities, City Council, County Board of Supervisors, planning commission, with corresponding project-related CEQA documentation
Q2 2024	f) PFA holds an initial public meeting to present the draft IFP to the public and property owners
Q2/Q3 2024	g) PFA holds first "official" public hearing to hear written and oral comments but take no action (noticing must occur at least 30 days after "f")
Q3 2024	h) City Council / legislative bodies of other affected taxing entity contributing increment adopt resolution(s) approving IFP
Q3 2024	i) PFA holds second public hearing to hear additional comments and take action to modify or reject IFP or CRIA Plan (at least 30 days after "g")
Q3/Q4 2024	j) PFA holds third public hearing to consider oral and written protests and take action to terminate proceedings or adopt IFP and form the EIFD by resolution (at least 30 days after "i")

- Tax increment allocation begins fiscal year following district formation
- Debt issuance, if desired, would occur after a stabilized level of tax increment has been established (may be 3-5 years)

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Next Steps

- Address questions, receive and incorporate feedback from City
- If there is City support for mechanisms such as TIF, approach County to discuss potential partnership
- Subject to confirmation of other components of rail station feasibility and eventual station site selection, implementation of such a financing strategy would require a series of public meetings and hearings for approval

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THANK YOU

Questions?

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Disclaimer

The analyses, projections, assumptions, rates of return, and any examples presented herein are for illustrative purposes and are not a guarantee of actual and/or future results. Project pro forma and tax analyses are projections only. Actual results may differ from those expressed in this analysis.

Discussions or descriptions of potential financial tools that may be available to the City are included for informational purposes only and are not intended to be to be "advice" within the context of this Analysis.

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TIF Today versus Former Redevelopment Agencies

Sample of Differences

	Former RDAs	TIF in 2023 (e.g., EIFD)
Eligible Use of Funds	• Infrastructure and affordable housing • Mixed-income housing • Land clearing and parcel assembly • Tax and other private business / developer subsidies	• Public infrastructure (e.g., roads, flood control, open space, utilities) • Public facilities • Affordable housing
Eminent Domain / Condemnation	• Allowed	• Not allowed
Eligible Areas	• Must qualify as “blighted”	• No “blight” finding required
Governance	• City Council or County Board • School entity participation	• Public Financing Authority including Public Members (no school entities)
Formation	• Vote of governing body	• 3 public hearings, majority protest opportunity from landowners and registered voters within EIFD

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TIF as a Component of the Economic Development and Public Financing Toolkit

- There are advantages / disadvantages to TIF Districts compared to other mechanisms, such as general obligation (GO) bonds, lease revenue bonds / COPs, Mello-Roos Community Facilities District (CFD) financing, assessment districts, and other tools
- **Advantages of TIF** include no encumbrance of existing City/county resources, can attract tax increment contributions from other taxing entities, increased priority for grant funding, ability to demonstrate commitment to multiple infrastructure (and/or affordable housing) projects to catalyze private sector development, capacity to fund maintenance, no additional taxes to property owners / residents / businesses, and ease of voter approval
- **Disadvantages of TIF** include lack of comparable financings thus far, statutory vs. constitutional authority to issue debt, and subordination to redevelopment successor agency obligations
- **Complementary Tool: TIF should not be considered a replacement for other useful financing mechanisms, but rather a complementary tool; other jurisdictions have been successful in utilizing TIF <u>as well as</u> other tools for different projects within the same community**