APPENDIX IV

FUNDING SOURCES

To	Gruen Associates	Page	1
CC	Cathedral City, Southern California Association of Governments		
Subject	Funding Strategies		
From	Economics at AECOM		
Date	May 11, 2010		

As part of the economic analysis for the Date Palm Drive Connector Plan, AECOM has prepared a market analysis and development strategies to help improve the corridor. In this memo, we recommend funding sources to help revitalize the corridor.

The funding sources have been broken into the sources to help implement the catalyst projects and funding sources for other infrastructure and streetscape improvements. As will be described below, we anticipate the catalyst projects to be funded primarily through private investment, with exception to the education facility-anchored development. Funding sources to help support the education facility-anchored development are described. We also describe additional funding sources to implement other improvements along the corridor.

Given the current economy, it may take several years before the catalyst projects can be initiated. In the short term, the City can begin to gather the sources necessary to implement the infrastructure and streetscape recommendations. Many of the State and Federal sources described below are competitive. Transportation funds are often awarded every two years, while other Federal funding is provided on an annual basis. While the economy is recovering, the City can be garnering these state and federal funds and can begin implementing some of the infrastructure improvements. An improved streetscape will set the stage for the catalyst developments.

Catalyst Projects

The majority of the catalyst projects identified through this analysis will be funded through private investment. Most of the catalyst projects, with exception to the educational facility-anchored development, have reasonable rates of return and should be able to attract private developers. As described in both the market analysis and proforma analysis, it will take time for the economy to recover and may be 3 – 5+ years before private developers are able and are interested in initiating the projects.

As described in the proforma analysis there may be non-profit entities that are willing to develop the educational facility-anchored development for a low 4 – 5 percent return on investment , but most developers will only be interested in this development if some incentive can be provided or the cost of the school/development be reduced by approximately $1 million or more. Depending on the educational facility attracted to the area it may be possible to obtain grants to help offset the development costs for the facility, including:

Community Development Block Grants (CDBG) Grants

The intent of CDBG funds are to (1) benefit those with low- and moderate-incomes; (2) Aid in the prevention of neighborhood deterioration; and (3) Meet other urgent community development needs due to natural disasters or other emergencies. Funding is done as it is available on an annual basis and often ranges from $50,000 to $2,000,000 per project. Funding of Community Development Block Grants is provided by the Federal Government, Department of Housing and Urban Development (HUD). Cities with a population over 50,000 can apply directly to HUD for funding.

CDBG funds are flexible and can be used for a variety of purposes, including:

- acquisition of real property;
- relocation and demolition;
- rehabilitation of residential and non-residential structures;
- construction of public facilities and improvements, such as water and sewer facilities,
- streets, neighborhood centers, and the conversion of school buildings for eligible
- purposes;
- public services, within certain limits;
- activities relating to energy conservation and renewable energy resources; and
- provision of assistance to profit-motivated businesses to carry out economic
- development and job creation/retention activities.

Along Date Palm Drive, CDBG funds can be used to assist in the development of the education facility-anchored development, or for façade improvement, streetscape improvements.

Public Works and Economic Development Facilities Program

Public Works grants support the construction or rehabilitation of essential public infrastructure and facilities necessary to generate or retain private sector jobs and investments, attract private sector capital, and promote regional competitiveness, innovation, and entrepreneurship, including investments that expand and upgrade infrastructure to attract new industry, support technology-led development, accelerate new business development, and enhance the ability of regions to capitalize on opportunities presented by free trade. Funding is provided through the Department of Commerce office of Economic Development Administration. The amount of awards varies, but the average award size for Fiscal Year 2008 was $1.32 million. The amount of the EDA award may not exceed 50 percent of the project costs.

New Markets Tax Credits

New Market Tax Credits are intended as gap financing for projects in low-income areas that might not otherwise be feasible. Projects must create a number of new jobs in the area and should provide some measure of community benefits. Loans are provided at interest rates lower than market. Specific rate depends on the Community Development Entity (CDE).

New Markets Tax Credits can amount to up to 30 percent of project costs. Funding is obtained from the IRS Department of the Federal Government and is accessible through a CDE.

Redevelopment Agency Resources

Typically, redevelopment tax increment financing (TIF) funds would be a useful source for funding the initiatives of this plan, but given the recent State $2.05 billion taking of uncommitted redevelopment funds, the City of Cathedral City's redevelopment agency will have extremely limited funds for the next four to five years.

When the state funding crises improves, redevelopment funds may, again, become a source for financing infrastructure and development improvements. Catalyst projects that are developed sooner than others, such as the Mission Plaza infill, could produce between $10,000 - $20,000 tax increment a year. Internally generated tax increment and tax increment generated from other parts of the redevelopment zone may be aggregated and used to bond for additional funds.

Other Local Taxes

If the hotel at Mission Plaza is developed, it could produce hotel taxes (transient occupancy tax) of up to $300,000 per year to the City's General Fund which may be used towards the education facility-anchored development.

Infrastructure and Streetscape, and Other Planning Recommendations

Other planning recommendations made by Gruen, relating to streetscape, signage, building rehabilitation, etc., may be funded through various local, state, and federal sources:

Federal Government: SAFETEA-LU Funds through SANBAG

SAFETEA-LU Funds will provide $286.5 billion nationwide for surface transportation projects, including highways, mass transit and road safety programs. SAFETEA-LU funds are used for a variety of transportation enhancements. The three major types are (1) transportation enhancement (2) Pedestrian linkages and (3) Bike linkages. Funding is provided by Federal and State Government.

State: CAL TRANS Capital Improvement Program

The State Transportation Improvement Program (STIP) is a multi-year capital improvement program of transportation projects on and off the State Highway System, funded with revenues from the Transportation Investment Fund and other funding sources. Funds can be used for streets, street beautification and streetscape enhancement. STIP programming generally occurs every two years. The fund estimate serves to identify the amount of new funds available for the programming of transportation projects. Caltrans prepares the Interregional Transportation Improvement Plan (ITIP) and regional agencies prepare Regional Transportation Improvement Plans (RTIPs).

Local agencies should work through their Regional Transportation Planning Agency (RTPA), County Transportation Commission, or Metropolitan Planning Organization (MPO), as appropriate, to nominate projects for inclusion in the STIP. SANBAG is the Metropolitan Planning Organization for Cathedral City.

Community Facilities Districts

Mello-Roos financing is a discretionary financing mechanism which the City of Cathedral City may extend to qualifying projects. A Mello-Roos financing district can only be enacted by a two-third majority approval of residents living within the district boundaries. Under this tool, the developer or property owner would have access to capital at submarket rates that can be used to build infrastructure and public improvements. The debt associated with those capital investments recourses back to the property owner rather than to the City of Cathedral City. Mello-Roos community facilities districts area a common financing tool used widely throughout California.

Benefit Assessment Districts

Benefit Assessment Districts are a set of special annual ongoing assessments that function as overrides over and above the existing property tax assessment limitations imposed by Proposition 13 and its various amendments. When a benefit assessment district is adopted, property owners pay an additional assessment on top of their existing property taxes. These annual collections can be used for the ongoing operations and maintenance of landscaping, lighting, street sewer maintenance, and other ongoing public costs.

Both community facilitates districts and benefit assessment districts, are only appropriate when residents/businesses paying for the facilities have sufficient income to afford these additional payments. The value of the property (or the benefit that will be reaped from the improvements) needs to sufficient to warrant the additional investment and debt payments.

Business Improvement District (BID)

A property owner BID is another funding option for certain areas, such as the Desert Arts & Design District. Unlike ad valorem property tax programs, BIDs seek to add specific benefits within a selected business area. They are financed through special assessments placed on commercial property within the designated district. After petitioning the city to form a BID, passage requires majority approval by affected property owners. Once formed, BIDs are governed by a board of directors who are elected by property owners in the district rather than by residents. The board is responsible for ensuring that all BID property owners contribute to the district, though their powers are often limited to an annual budget review.

BID revenues serve as additional revenue to an area rather than a replacement for general funding from the city. For this reason, BID assessments must be used within the BID boundaries. Although BID fees are collected from the city, all assessment funds are then returned to the district through annual contract agreements. Fees vary among businesses and are often assessed according to a subject property’s size and location. BID assessment revenues provide varying services, including maintenance and cleaning for sidewalks, parks, and open space as well as private security. Some BIDs in California also use their fees for marketing their respective areas through brochures, tourist information, and special events. California law limits a BID’s existence to five years, after which the BID must be renewed or terminated.

One of the challenges in forming a property owner-based BID occurs when a majority of the property owners are non-local, such as when they reside outside the metropolitan area or the state. The City and/or existing businesses may have to initially engage property owners through some advocacy efforts in communicating the overall benefits of forming a BID, including how the BID can leverage self-assessed revenues as well as a common decision-making platform to provide sustained economic returns.

BIDs are effective because they provide a forum for businesses/property owners to collaborate and allow the businesses/property owners, themselves, to control their collective marketing.

GENERAL LIMITING CONDITIONS

Every reasonable effort has been made to ensure that the data contained in this report are accurate as of the date of this study; however, factors exist that are outside the control of AECOM and that may affect the estimates and/or projections noted herein. This study is based on estimates, assumptions and other information developed by AECOM from its independent research effort, general knowledge of the industry, and information provided by and consultations with the client and the client's representatives. No responsibility is assumed for inaccuracies in reporting by the client, the client's agent and representatives, or any other data source used in preparing or presenting this study.
This report is based on information that was current as of the May 2010 and AECOM has not undertaken any update of its research effort since such date.

Because future events and circumstances, many of which are not known as of the date of this study, may affect the estimates contained therein, no warranty or representation is made by AECOM that any of the projected values or results contained in this study will actually be achieved.

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This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.