



City of La Quinta

TO: Honorable Mayor and Members of the City Council

FROM: Chris Escobedo, Assistant to City Manager
Ted Shove, Business Analyst

DATE: May 19, 2015

SUBJECT: COACHELLA VALLEY ASSOCIATION OF GOVERNMENTS
PROPOSAL TO FUND OPERATIONS AND MAINTENANCE FOR
CV LINK

The Coachella Valley Association of Governments (CVAG) is the lead agency on the CV Link project. The CV Link project is a bicycle and pedestrian pathway that is currently in design. The entire project would run through many of the Coachella Valley communities, beginning in the City of Coachella at the south and running north to Palm Springs with a possible extension to Desert Hot Springs. As currently designed and proposed, with a terminus in Palm Springs, the route is comprised of approximately 48.1 miles.

CVAG has considered alternatives to securing funding for construction, operations and maintenance (O&M). As a result, the pedestrian and bicycle pathway has expanded to a 30-foot wide roadway that may accommodate golf carts and electric vehicles (that travel up to 25 miles per hour). To date, CVAG has assembled over \$75 million in funding to design and construct the CV Link. With the expanded project scope to include a wider pathway and provisions for golf carts and electric vehicles, the need for O&M has increased.

In March and April 2015, CVAG began informally rolling out a proposed O&M funding plan comprised of multiple funding sources. On May 4, 2015, they presented a breakdown of the overall annual costs of \$1,616,900, of which approximately one third (\$622,328) being funded through Measure A

or AB 2766. CVAG proposed the remainder to be funded from cities' transient occupancy taxes (TOT).

CVAG has proposed that each city in the Coachella Valley utilize future TOT funding for O&M in the following manner:

- Establish a 2016 baseline for each city's TOT;
- Assume TOT revenues grow five percent year over year;
- Capture eight percent of incremental growth for O&M with the exception of new motel/hotel operators, which will not be calculated into growth for the first five years; and
- O&M funding would remain in place in perpetuity.

CVAG's calculation would require La Quinta to contribute approximately \$920,469 between the period of January 1, 2016 through December 31, 2025. The proposed funding model freezes cities' TOT funding, regardless of the extent of the CV Link's presence within the city. For example, the CV Link's total mileage in La Quinta is 2.6 or approximately five percent of the entire distance (see chart below). La Quinta's pro rata share per annum would equate to approximately \$87,360 to fund O&M for the 2.6 miles; this compares to the projected average annual contribution of \$102,274 or \$920,469 over nine years.

CV Link Mileage		
City	Miles	Percentage
Cathedral City	3	6%
Coachella	5.5	11%
Indian Wells	3.6	7%
Indio	5.7	12%
<i>La Quinta</i>	2.6	5%
Palm Desert	5.3	11%
Palm Springs	15.8	33%
Rancho Mirage	4.7	10%
Unincorporated	2	4%
Total	48.2	99%

Between Fiscal Years 2007/2008 through 2013/2014, La Quinta's gross TOT revenue increased, on average, 3.07 percent year over year. This figure does not include payments to the Greater Palm Springs Convention and Visitors Bureau or any former TOT sharing agreements. Considering the small number of hotel and short-term vacation rental facilities in La Quinta, the year-over-year 5 percent assumption would largely be dependent upon occupancy rates driving upward toward 100 percent as well as the Average

Daily Rate increasing annually to keep pace with CVAG's assumptions. While these assumptions may prove worthy in the short term, they do not appear to be in alignment with La Quinta's historical TOT growth. If the historic TOT growth is achieved, a shortfall in revenue would occur. The CVAG proposal did not address how a shortfall in TOT would be recovered.

CVAG's proposed funding method, utilizing gross TOT revenue with 5 percent year-over-year increases in perpetuity, could adversely impact the City's overall revenue outlook and most likely overfund La Quinta's fair share maintenance costs. Additionally, utilizing gross versus net TOT revenue formula, the City's ability to incentivize new hotel development or substantial rehabilitation efforts through TOT sharing agreements may be limited.

