The Economics of Land Use

Final Report

Market and Fiscal Analysis Section 14 Master Development Plan Update

Prepared for:

The Agua Caliente Band of Cahuilla Indians

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1. INTRODUCTION

Purpose

This Report updates the market analysis prepared in 1994 for the Section 14 Master Development Plan, a one-square mile area in central Palm Springs under the sovereign authority of the Agua Caliente Band of Cahuilla Indians (Tribe). The Land Use Plan which governs development in Section 14, originally approved by the Tribe in 2002 and adopted by the City in 2004, includes market analysis providing direction and guidance to the Plan's mix of uses. The objective of the Plan is to maximize the value of property given current and projected market conditions, while achieving high quality development consistent with the Palm Springs Downtown and with the Tribe's overall vision for the area.

Section 14 is 640 acres (one square mile) located due east of downtown Palm Springs and bounded by Indian Canyon Drive, Ramon Road, Sunrise Way, and Alejo Road. The site currently supports a mix of hospitality, residential, and parking uses, and contains a significant quantity of raw land. The Palm Springs Convention Center is located in Section 14, as well as the Tribally owned Spa Resort Casino and Hotel.

Since the Master Plan was adopted in 2004, significant changes in land use have taken place in the planning area and in neighboring Palm Springs districts. More significantly, the recession that began in 2007 and the subsequent flat recovery have altered the market landscape. Consequently, many of the assumptions that supported the land uses and development strategy in the approved Master Plan are no longer valid.

This Report also includes an evaluation of the potential fiscal and economic impacts of Section 14 development on the City of Palm Springs. These impacts include a potential increase in visitors, residents and employees, additional spending within the City, and an increase in various public revenues that can help to fund improvements in public facilities and services.

Organization of the Report

The following chapter provides a summary of key findings, followed by a chapter providing additional background on the current Section 14 land uses and Master Development Plan. The prospects for each major land use are addressed in separate, subsequent chapters. The final chapter describes potential fiscal and economic impacts that may result from new development and buildout of Section 14. Additional technical assumptions and reference data is included in appendices to this report.

The findings in this Report are based on currently available data, interviews with industry professionals, and the authors' experience with similar projects. Actual future development prospects and outcomes will depend on economic conditions, decisions by property owners and developers based on a range of individual financial and market conditions, and actions by local government that will influence development activity.

2. SUMMARY OF FINDINGS

1. **Section 14 is well-positioned to benefit from an improving economy and growth in Palm Springs as a premier resort destination.**

   Section 14 offers 123 acres of vacant land (excluding land currently in pre-development) in proximity to the revitalizing Downtown. As visitation grows, demand will increase for revitalized and new retail development as Downtown retail extends east of S. Palm Canyon Drive towards the Convention Center. Section 14's residential land can absorb increasing demand from a range of users interested in a location relatively near the Palm Springs Downtown. The ability of Section 14 to capture demand will partially depend upon circulation, landscaping and other urban design improvements to encourage linkages between the Downtown and Section 14.

2. **A growing baby boomer retiree market and increasing representation from the LGBT community and millennial cohort will be attracted to Palm Springs and Section 14's hotel, retail and residential offerings.**

   Concerts and festivals in the region, a revitalized Downtown with expanding retail and hotel amenities, and Palm Springs' growing reputation as a fashionable destination will help to support demand for new development in Section 14. Successful development depends not only on the linkages to Downtown noted above, but also the ability of the Tribe, allottees, and fee owners in Section 14 to consolidate parcels for efficient development.

3. **Demand for residential land over the next 20 years is likely to consume all Section 14 residentially-zoned land.**

   At current maximum allowable densities, Section 14 would require approximately 29 acres of additional residentially-zoned land. However, continued growth in demand for single-family attached, townhouse, and small-lot single-family detached products could increase the shortfall due to their lower average densities.

4. **Demand for hotel land in Section 14 over the next 20 years is anticipated to total 600 to 800 rooms.**

   Significant demand for new hotels in Section 14 over the next 10 years is not expected, as there are nearly 600 rooms in the Palm Springs development pipeline, including 200 units in Section 14. The current Section 14 zoning allows almost 1,300 new rooms, which is approximately 12 acres greater than projected 800-room demand over 20 years. Any new hotel development is likely to occur generally to the west of Avenida Caballeros to take advantage of linkages between the Convention Center and the Downtown. The east end of Tahquitz Canyon Way is not a likely development site due to its relative distance from Downtown.

5. **Over the next 20 years, increased population may support the addition of a neighborhood center.**

   At an estimated 35,000 square feet, this center would serve new population in Section 14 as well as the balance of the City. The likely locations would be oriented near northwest or southwest corners of Section 14 to maintain some distance from existing centers, which are distributed along Sunrise Way between the southern and northern ends of the City.

6. **Demand for approximately 60,000 square feet of new office space is estimated over the next twenty years for Section 14.**

   This demand will come in step with Palm Springs residential, commercial and visitor growth as well as a growing retirement population, and will contribute to the need for office space. Additional demand for commercial space will derive from retirees engaged in part-time or full-time “encore” careers, and potentially from a growing cluster of “creative class” workers drawn by the City’s urbane and fashionable character. Section 14’s locational attributes and existing office concentration will allow it to capture a significant portion of this projected growth. However, demand for office is not likely to be evident for the next several years.

7. **The Tribe may consider changing current zoning designation to accommodate the projected mix of residential, retail, office, and hotel uses.**

   Projected residential demand exceeds the existing supply of residentially zoned land by a significant margin, whereas projected demand for retail, office, entertainment, and hotel uses do not require all available land. Zoning changes to convert a portion of existing commercially zoned land to residential use can accommodate expected demand.

8. **New growth and development in Palm Springs will generate a net increase in tax revenues and other economic benefits to the City of Palm Springs and to the Tribe.**

   At build-out of the projected new uses in Section 14 after 20 years, the City could experience nearly $4.8 million annually (in 2013$) in additional major tax revenues in excess of potential increased public service costs due to new Section 14 development. Additional economic benefits include new jobs and expenditures by increased visitors and residents, which in turn generate indirect and induced economic benefits. To the extent a net tax benefit accrues to the City, it could help to fund improvements to the area including circulation and landscaping to enhance linkages between the Downtown and Section 14, and provide for related maintenance costs.

3. BACKGROUND

As described in the City of Palm Springs' General Plan,

> "The area encompassing the present City of Palm Springs was discovered centuries ago by the Agua Caliente Band of Cahuilla Indians, who established their village around the natural hot mineral springs known for their medicinal and healing capabilities. In 1877, the Southern Pacific Railroad completed its line through the desert to the Pacific Ocean. Early development in Palm Springs was associated with attempts to establish agricultural activity in the area and the southern portions of the Coachella Valley. In the 1920s, the region became a retreat for successful business and movie personalities, who took advantage of the warm weather, the remote location, and the hot water spas. The tourist and resort community of Palm Springs developed over the following decades ... In 1938, the City of Palm Springs was officially incorporated."

The Agua Caliente Band of Cahuilla Indians has authority to regulate Indian Trust lands, which include Section 14. Section 14 is a 640-acre (one square mile) area located due east of downtown Palm Springs and bounded by Indian Canyon Drive, Ramon Road, Sunrise Way, and Alejo Road. The site currently supports a mix of hospitality, retail, residential, and associated parking, and contains a significant quantity of vacant land, as shown in MAP 1. The Palm Springs Convention Center is located in Section 14, as well as the Tribally owned Spa Resort Casino and Hotel, in addition to a number of other hotel properties.

Development covers approximately 74 percent of the total land area in Section 14, including approximately 3.7 million square feet of developed retail, office, services, and multifamily residential. These existing uses are summarized in TABLE 1.

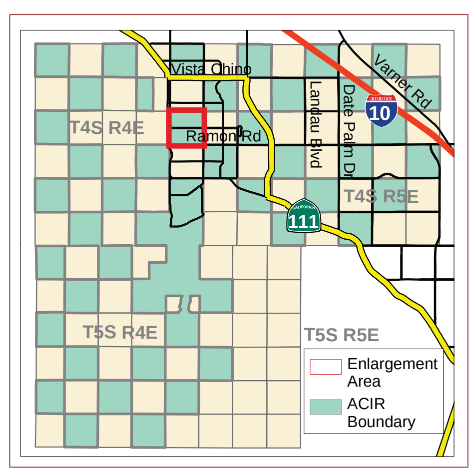
Boundary data in this map is for representation purposes only.
It does not cover questions of location which a survey map may disclose.

AGUA CALIENTE INDIAN RESERVATION

T4SR4E, SECTION 14

EXISTING LAND USE

Map 1



- HR - Residential High 21-30 du/ac
- MR - Residential Medium 15 du/ac
- MBR - Residential Medium-Buffer 8 du/ac
- SFR - Residential Single Family
- RA - Resort Attraction
- REO - Retail/Entertainment/Office
- NC - Neighborhood Commercial
- LSC - Local Serving Commercial
- P - Public
- NSP - Neighborhood/ Specialized Park
- CH - Church
- C - Cemetery
- W - Watercourse
- FEE 56A Allotment Number
- 17 Residential Density, du/ac
- Non-Conforming Use

N

0 250 500 750 1,000 Feet

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Table 1 Summary of Existing Uses in Section 14

Category	Land		Vertical Use	
	Acres(1)	%	#	Metric
Residential	**257**	**40%**	**3,326**	**Units**
High Density Residential	71	11%		
Medium Density Residential	82	13%		
Medium Density Residential Buffer	78	12%		
Single Family Residential	26	4%		
Commercial	**82**	**13%**	**1,078,865**	**Sq.Ft.**
Local Serving Commercial	18	3%		
Neighborhood Commercial	23	4%		
Retail/Entertainment/Office	41	6%		
Resort Attraction	**102**	**16%**	**1,600**	**Rooms**
In Pre-Development(2)	**18**	**3%**		
Other (3)	**55**	9%		
Vacant	**123**	**19%**		
TOTAL(4)	**637**			

(1) All acreage is approximate
(2) Proposed Dolce hotel and Vivante assisted living projects
(3) Cemetery, church, neighborhood park, watercourse, circulation, other public
(4) Total acreage, based on data sourced from the Tribe, is slightly less than the 640 acres in a square mile.

Sources: CoStar, Census, Agua Caliente Tribe, Economic & Planning Systems, Inc.

Section 14 Master Development Plan

The Master Development Plan, developed over the course of several years, was approved by the Tribe in 2002 and adopted by the City in 2004. It includes a Specific Plan with development standards and guidelines, and implementation strategies. Under a contract with the City of Palm Springs,[1] the Tribe has delegated its land use authority over allotted trust land to the City. As a result, the City conducts all land use regulation on fee property and allotted trust land in Section 14. The Tribe retains it land use authority on Tribal Trust land thus enforces the Specific Plan on its own properties within Section 14.

[1] Land Use Contract (1977) between the Agua Caliente Band of Cahuilla Indians and the City of Palm Springs.

Since the formulation of the Master Development Plan, significant changes in land use have taken place in the planning area and in neighboring Palm Springs districts. More significantly, the recession that began in 2007 and the subsequent flat recovery have altered the market landscape.

Key land use changes that have occurred since the Plan's approval:

- The Convention Center underwent a significant expansion in 2005; this expansion was considered in all of the projections in the Plan.
- The Spa Resort Casino, owned and operated by the Agua Caliente Band of Cahuilla Indians, opened in November 2003.
- The Extended Stay America hotel opened in 2003.
- The Vivante assisted living project was approved in 2012 for development on parcels fronting on Tahquitz Canyon Way.
- Some residential development occurred since Plan adoption, although the recession largely brought development to a halt. More recently, an improving economy has begun to generate activity in the real estate market, resulting in increased sales and interest in new construction throughout the region.

Plans are moving forward for development of the approved Museum Market Plaza in the Palm Springs Downtown. The project will continue to enhance the Downtown as a major destination. Section 14 borders the Downtown, and linkages with the Downtown will be an important element in Section 14 development, as well as the enhancement of the Downtown.

Vision

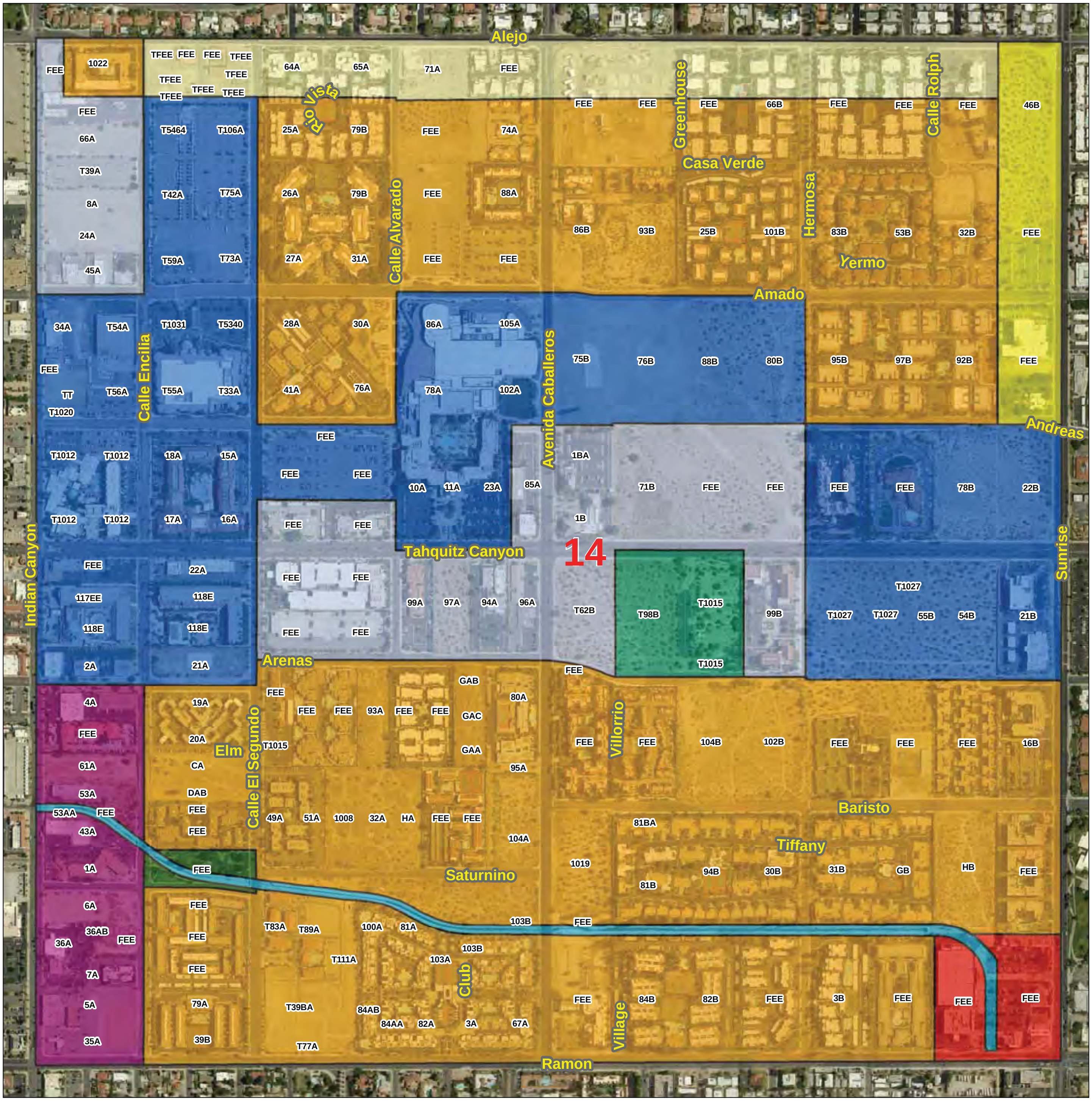
The vision for Section 14 is expressed in the Development Master Plan:

- That Section 14 should be a unique and cohesive district with its own identity, which is separate but linked to downtown Palm Springs.
- That the entire section should be seen as a high-quality and integrated destination resort and living environment.
- That its character should reflect both the desert and oasis environment, and should emphasize the area's Indian heritage and culture.
- That Section 14's assets, such as its mountain views and existing hotels, casino, and Convention Center, along with new attractions, should serve as the basis for a lively, visually exciting place.

The analysis contained in this current report recognizes the continued validity of this vision, and identifies possible implementation measures in light of current trends, projected market conditions, and relationships between Section 14 and the Downtown.

Development Capacity

Current zoning establishes potential maximum amounts and types of new development, as shown in MAP 2. A number of factors influence actual buildout, including market conditions, design, extent of lot consolidation, mixed-use developments, and specific type and configuration of development over the next twenty years. For planning and evaluation purposes, an illustrative buildout potential is summarized in TABLE 2.



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AGUA CALIENTE INDIAN RESERVATION

T4SR4E, SECTION 14

BASE LAND USE PLAN Map 2

- HR - Residential High
- MR - Residential Medium
- MBR - Residential Medium-Buffer
- REO - Retail/Entertainment/Office
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- NSP - Neighborhood/ Specialized Park
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- FEE, 56A Allotment Number

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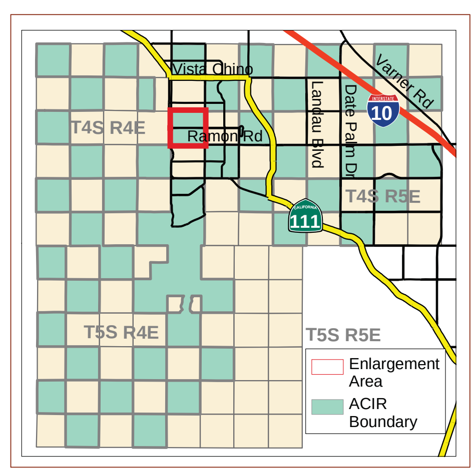

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Table 2 Summary of Section 14 Development Capacity

Land Use Category	Capacity		Demand (20 Years)	
	Vacant Land	Build-Out (2)	Land	Build-Out (2)
Residential	**67 ac**	**2,178 Units**	**96 ac**	**2,282 Units**
High Density (Condos)	56	1,972	43	1,495
Med. Density (SFA)	7	173	21	530
Med. Buffer (Small-lot SFD)	4	33	32	257
Commercial	**24 ac**	**298,304 Sq.Ft.**	**8 ac**	**96,000 Sq.Ft.**
Local Serving Retail	5	52,103	3	35,000
REO				
Retail				
Entertainment				
Office			5	61,000
Subtotal REO	19	246,201	5	61,000
Hotel	**32 ac**	**1,267 Rms**	**20 ac**	**800 Rms**
TOTAL(1)	**123 ac**		**124 ac**	

(1) Does not include properties under development: the Dolce (10 ac) and Vivante (8 ac)
(2) Density for Build-Out Assumptions: 35 du/ac Condos, 25 du/ac SFA, 8 du/ac small-lot SFD, 0.30 FAR REO, 0.25 FAR Local-Serving Retail, 40 rooms/ac Hotel

Source: Economic & Planning Systems

Subsequent sections of this report evaluate the potential type, timing, mix and location of various uses, given a review of market conditions.

Planning and Development Issues

A number of issues affect development potentials in Section 14. These issues include (but are not limited to):

- Market conditions constrain the development of certain types of uses originally envisioned in the Master Development Plan, and/or the amount and location of those uses, while encouraging other uses not originally considered for specific areas of Section 14.
- Revitalization of the Palm Springs Downtown and desirable linkages influence future development in Section 14.
- Achieving certain types of development, and efficient utilization of land, may require parcel consolidation among multiple ownerships.

- Successful development is dependent on the planning and construction of projects configured and priced appropriately to the market.

This Report provides information to help address a number of planning and development issues which may influence the update of the Master Development Plan.

4. TRADE AREA TRENDS

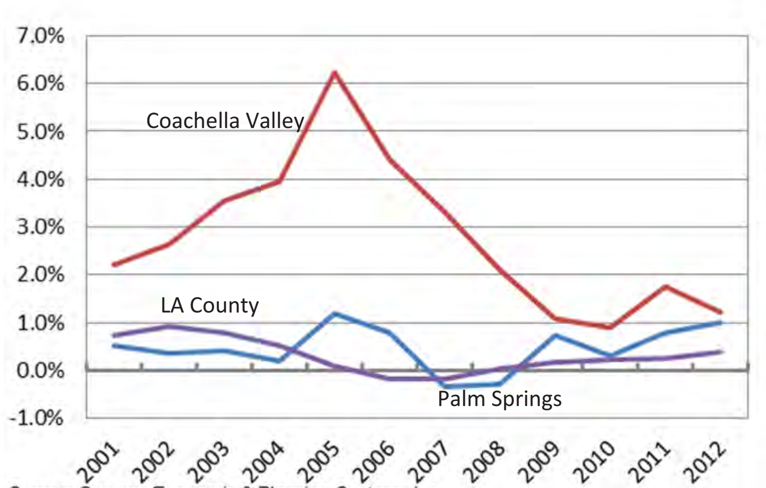
With a total population of nearly 345,000 in 2010, the Coachella Valley market includes the nine major cities that extend 30 miles along Highway 10 from Desert Hot Springs in the north to Coachella in the south, as shown in MAP 3.

Population

From 2000 to 2010, the Coachella Valley grew 35 percent, nearly tracking the 41 percent growth of Riverside, the fastest-growing County in the state. Palm Springs, by contrast, exhibited modest total growth of 4 percent over the entire period. Palm Springs' historically low growth rate is attributable primarily to the fact that Palm Springs is the most established, mature, and built-out city in the Coachella Valley. Since the 1950s, real estate entrepreneurs looking for low-cost land—first golf community developers and more recently home builders—found it generally by looking south to cities such as La Quinta, Indio, and Coachella.

As shown in FIGURE 1, the fastest growth during the decade occurred during the market run-up, in which speculative home building helped attract strong in-migration into Riverside County.

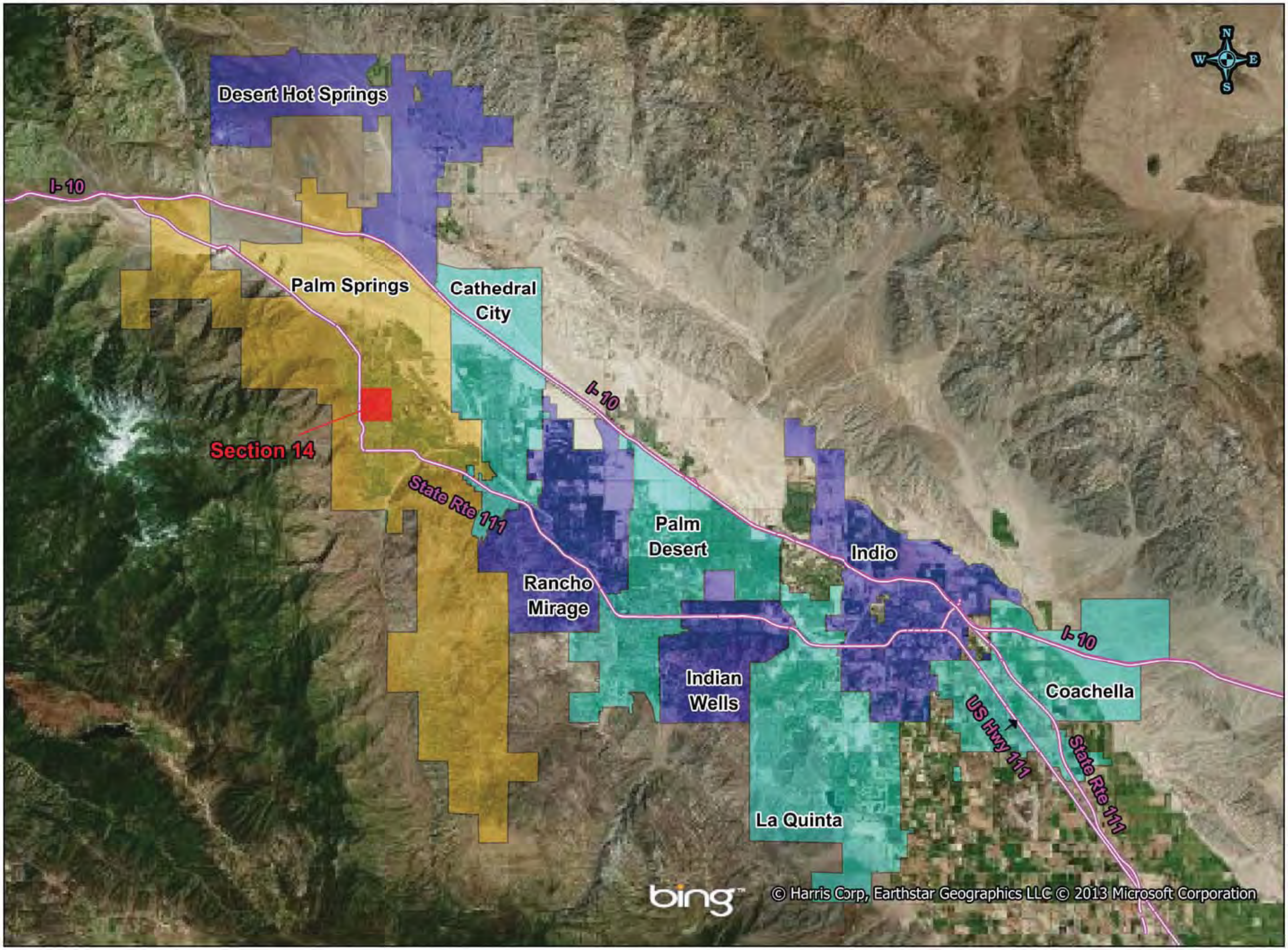
Figure 1 Annual Population Growth Rates 2001-2012



Source: Census, Economic & Planning Systems Inc.

Recent 2012 annual growth rates approached about 1 percent. Compared to Palm Springs' growth during the past decade, which averaged about 0.4 percent annually, a 1 percent annual growth rate suggests improved prospects as the economy and real estate markets recover, and other factors discussed below contribute to improved growth rates.

Map 3
Section 14 in Regional Context



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Demographic Characteristics

The average age of Palm Springs residents is above the average for the Coachella Valley. Household size is smaller, due to a high proportion of older residents and the LGBT population, especially relative to other communities in the Coachella Valley, as shown in TABLE 3.

Table 3 Summary of Demographic Characteristics

Area	Palm Springs 2010	Palm Springs 2000-10 Change	Coachella Valley(1) 2010	Coachella Valley(1) 2000-10 Change
Population	44,552	4%	346,518	35%
Median Age	52	10%	41	10%
Average Household Size	1.93	-6%	2.67	1%

(1) "Coachella Valley" includes Cathedral City, Coachella, Desert Hot Springs, Indian Wells, Indio, La Quinta, Palm Desert, Palm Springs, Rancho Mirage

Source: SCAG RTP 2012 Growth Forecast, by City; Economic & Planning Systems

Population Growth Forecasts

While the Coachella Valley as a whole is projected to achieve a 1.9 percent average annual growth rate over the long-term as real estate conditions stabilize, generally on par with projected Riverside County growth of 1.7 percent, projections indicate lower Palm Springs growth of approximately 1 percent annually as summarized in TABLE 4[2]. Both rates exceed Los Angeles County's rate of growth.

Table 4 SCAG Population Projections

Area	Year 2008	Year 2020	Year 2035	Avg. Annual 2008-35
Palm Springs	43,400	48,900	56,100	1.0%
Coachella Valley(1)	335,200	429,100	551,100	1.9%
Riverside County	2,128,000	2,592,000	3,324,000	1.7%
Los Angeles County	9,778,000	10,404,000	11,353,000	0.6%

(1) "Coachella Valley" includes Cathedral City, Coachella, Desert Hot Springs, Indian Wells, Indio, La Quinta, Palm Desert, Palm Springs, Rancho Mirage

Source: SCAG RTP 2012 Growth Forecast, by City; Economic & Planning Systems

[2] Southern California Association of Governments

Household growth in Palm Springs is expected to exceed population growth, leading to a falling persons-per-household rate. This trend potentially will have implications for the demand for housing units, as discussed in the next chapter.

Economic Trends

Employment in Palm Springs has grown overall approximately 1 percent annually since 2000, more than double the 0.4 percent annual rate of population growth. As summarized in TABLE 5, losses occurred in most major categories between 2002 and 2010, which were more than offset by significant gains in "Health Care and Social Assistance", and "Educational Services" categories. Jobs in "Accommodations and Food Services" businesses ended the period with no significant change.

Although the recession is one significant factor contributing to losses in most industries, the trends are also reflective of the shift of businesses, with the exception of "Accommodations and Food Services", to other cities within the Coachella Valley.

Table 5 Palm Springs Primary Jobs by Industry, 2002-2010

Job Category	Jobs 2002	Jobs 2010	% change
Accommodation and Food Services	5,117	5,130	0%
Health Care and Social Assistance	1,839	4,564	148%
Retail Trade	1,894	1,751	-8%
FIRE[1], Information, Professional/Technical	2,903	2,440	-16%
Educational Services	1,023	1,151	13%
Manufacturing, Wholesale, Transp/Warehousing	2,048	1,884	-8%
Construction	1,054	903	-14%
Arts, Entertainment, and Recreation	775	580	-25%
Other[2]	2,566	2,514	-2%
TOTAL	19,219	20,917	9%

Note: Excludes secondary/part-time jobs and self-employment.
(1) Fire includes Finance, Insurance, and Real Estate
(2) Other: Public Administration, Agriculture, Mining, Waste Management, Other Services
Source: LEHD Census, Economic & Planning Systems

Upward trends in hotel occupancies and taxable sales in Palm Springs in recent years, as the California economy emerges from recession, are a positive factor supporting employment growth forecasts summarized in the following section.

Employment Growth Forecasts

Consistent with past trends, employment in Palm Springs is predicted to outpace population growth, as shown in TABLE 6. This is likely to occur as Palm Springs continues to redevelop and enhance its Downtown and expands its draw as a regional and national resort destination. While the job projections are not forecasted by industry, it is anticipated that increases in the City's base of visitor-serving businesses correspondingly will increase employment in related industries. In addition, as Palm Springs continues to cater to retirement segments of the market, the demand for health-related industries and jobs will continue to grow.

Table 6 SCAG Employment Projections

	Year			Avg. Annual
Area	2008	2020	2035	**2008-35**
Palm Springs	36,300	44,400	52,300	1.4%
Coachella Valley	142,600	181,100	230,800	1.8%
Riverside County	664,000	939,000	1,243,000	2.3%
Los Angeles County	4,340,000	4,558,000	4,827,000	0.4%

(1) "Coachella Valley" includes Cathedral City, Coachella, Desert Hot Springs, Indian Wells, Indio, La Quinta, Palm Desert, Palm Springs, Rancho Mirage

Source: SCAG RTP 2012 Growth Forecast, by City; Economic & Planning Systems

The employment trends suggest that future demand from users of office space is not likely to be significant, with the exception of health and education-related uses. Health uses typically are centered in or around medical facilities, and will also be associated to some degree with assisted living facilities.

5. RESIDENTIAL

Historically, Palm Springs has been known as a retirement and resort community, rather than a major job center. This orientation has increased in recent years as other cities in the region have attracted office and regional retail uses from Palm Springs, provided the base for the majority of new job growth, and generally created lower-cost housing opportunities for employees.

The redevelopment of the Palm Springs downtown will further enhance the City's attractiveness as a destination for retirees, tourists, owners of second homes, and convention and special event attendees. While new Palm Springs development cannot provide some of the visitor amenities, such as golf courses, afforded by other communities in the region, the Downtown's retail appeal, nightlife, and range of hospitality offerings provide a unique and growing pedestrian-oriented opportunity not available in the surrounding communities.

Demand for Housing

Demand for nearly all real estate uses in Palm Springs suffered during the recent recession. Pricing for single-family and multifamily homes declined precipitously, and the majority of residential and hotel real estate projects in the planning and pre-development phase were put on hold. However, the single-family home market has been the first sector to rebound in the City. While prices are still below the peak, the trend has been upward.

As the residential market normalizes, Palm Springs residential demand mix is expected to follow recent patterns, illustrated in TABLE 7, which break out into three residential types: upscale single-family detached homes on large lots; single-family attached homes, such as townhomes; and multifamily properties—both condo and rental. A fourth category may also be emerging as a popular option in Palm Springs: small-lot detached housing. An example of this housing type in Section 14 is the Morrison (at Alejo Road and Avenida Caballeros), a high-density small-lot single family gated development that sold out quickly upon being offered for sale. Featuring contemporary design and amenities such as a small pool for each unit, the Morrison appeals to the same younger buyers who have helped make Palm Springs a fashionable destination once again.

Palm Springs residential demand has been driven historically by both the in-migration of retirees and second home purchases for seasonal, recreational, or occasional use. According to the Census, in 2010, such occasional-use housing made up 23 percent of all units. As a result, the City has a high ratio of residential units per capita, a ratio that increased from 0.72 in 1990 to 0.81 in 2010. By comparison, the Coachella Valley averaged 0.59 units per capita in 1990 and 0.54 in 2010.

Table 7 Residential Summary: Palm Springs and Coachella Valley

Residential Units	Palm Springs		Coachella Valley	
	2010	2010 Share	2010	2010 Share
Total	36,261	100%	186,714	100%
Single Family Detached	12,878	36%	101,152	54%
Single Family Attached	9,018	25%	31,990	17%
MF: 2 to 9 units	5,967	16%	25,518	14%
MF: 10 to 19 units	2,617	7%	5,705	3%
MF: 20+ units	3,413	9%	8,383	4%
Mobile Home/Other	2,368	7%	13,966	7%

Sources: 1990 and 2000: ESRI; 2010 Census and Esri; Economic & Planning Systems

A reasonably conservative method of estimating future residential demand is to assume a consistent ratio of units per capita based on historical norms. With the population expected to grow roughly 1 percent per year, based on SCAG projections, and a ratio of 760 homes per 1,000 permanent residents (an average of 1990, 2000, and 2010, which encompasses both boom and recession periods for vacation home development), Palm Springs housing demand can be expected to total 3,600 units over ten years and 7,500 units cumulatively over 20 years. The ability of Section 14 to capture a share of this growth will depend on a number of factors discussed in the next section.

Prospects for Section 14

Section 14 includes 67 acres of vacant, residentially-zoned land with a capacity for approximately 2,178 units at an average density of 32 dwelling units per acre (current average maximum zoning densities). The majority of the vacant residential land in the current Plan is zoned for medium and high-density housing. Lower density zoning is limited to buffer areas along the northern portion of Section 14 bordering existing lower-density residential areas.

The emphasis on higher-density residential will ultimately help to maximize the number of residents and second-home visitors occupying homes in proximity to the Downtown; this residential density creates a positive synergy by increasing spending and patronage of the Downtown, while at the same time providing desirable housing opportunities, and increasing their value, by virtue of being within walking distance of the Downtown amenities. In the nearer term, there has been demand for somewhat lower density multifamily projects in the range of 10-12 units per acre. These projects include attached single-family and townhome units.

Section 14 could capture a significant share of projected growth in Palm Springs household demand, as well as the demand for second-homes and vacation units, due to its proximity to the Downtown. Section 14 cannot offer large, single-family homes within golf course communities; however, it can appeal to a number of growing segments of the market:

- Offer retiree housing options by catering to Boomer tastes for more urban living than other retirement cities of such as Indian Wells, Palm Desert, and Rancho Mirage.
- Offer vacation home/second home buyer options for buyers without children (either empty nesters or child-less couples).

Workforce housing is not a strong option, as many lower-cost opportunities are available in nearby cities.

Vacant land in Section 14 represents about 10 percent of medium-to-high-density vacant land capacity within the City's Sphere of Influence. Section 14 potentially could capture a much greater share of the demand for this land, assuming the land is priced competitively and parcels can be consolidated for the purpose of efficiently developing residential projects.

For single-family detached and multifamily residential types, which contributed 60 percent of all new residential units in Palm Springs from 2000 to 2010, it is estimated that Section 14 could capture up to 50 percent of future demand for the reasons described earlier:

- Proximity to the Downtown;
- Readily-developable land with infrastructure;
- No annexation requirements or significant environmental issues.

Notwithstanding future downturns in the market, this level of capture would equal an average of about 114 units annually over a twenty-year period for a total demand of 2,282 units.

6. HOTELS

Palm Springs offers a range of accommodations, including budget motels, extended stay, and upscale properties totaling over 5,000 rooms (see TABLE 8). The only addition to the room base in Palm Springs in the last fifteen years has been the Extended Stay America in the southeastern corner of Section 14, on Tahquitz Canyon Way.

Table 8 Section 14 and Palm Springs Hotel Inventory

Area	Hotels	Rooms	%
Section 14	9	1,600	30%
Other Palm Springs	40	3,751	70%
TOTAL	49	5,351	100%

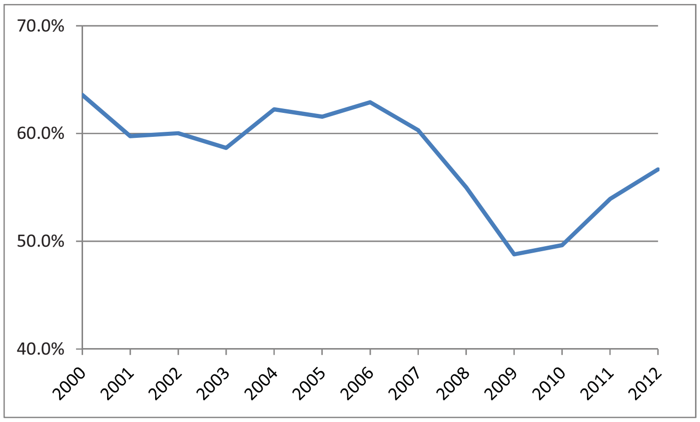
Source: Smith Travel Research, 4/18/2013

The cyclical nature of the tourism industry, compounded by the effects on leisure and business travel from the Great Recession, have dampened hotel revenues over the past decade and discouraged new development. However, there have been several examples of acquisition and upgrading of existing, older properties in Palm Springs, demonstrating the underlying strength of the market. Despite the seasonality of the visitor market (with the summer months attracting a much smaller crowd), a number of factors contribute to the area's continued appeal:

- The Convention Center is relatively large and generates 55,000 room nights to Palm Springs annually;
- Abundant natural amenities and vistas, and outdoor recreation opportunities;
- Casino gaming, nightlife and entertainment offered by the Downtown; and
- Proximity to the Los Angeles/San Diego metro markets, a major source of visitation.

FIGURE 2 shows the recovering market, illustrated by increasing occupancy rates through 2012. This trend is likely to continue, as the first quarter of 2013 (not shown) indicates improvement over the same 2012 period.

Figure 2 Average Occupancies – Mid and Upscale Hotels



Source: Smith Travel Research

The outlook for existing hotels is good as the economy continues to recover, with the Southern California market beginning to rebound. The construction of the Museum Market Plaza and the planned new Kimpton Hotel at the site should further enhance the Palm Springs Downtown as a destination and visitor attraction.

Several hotel projects are in various stages of planning, entitlement and development, as summarized in TABLE 9.

Table 9 Planned Hotel Projects in Palm Springs

Hotel	Rooms	Comments
Section 14		
Hotel Dolce (Mondrian)	200	Finalizing financing
Other		
Kimpton Palomar	128	
The Arrive	32	Awaiting plan check
Port Lawrence	200	In entitlement process
Palm Mountain Resort	74	Renovation approved/on hold; 74 net new rms
TOTAL	634	

Sources: City of Palm Springs, DPU 3/11/13; EPS interviews with developers

The recession, seasonality of the market, and lack of financing have precluded new construction in recent years. While conditions are improving, average occupancy rates are low relative to rates typically required to justify new construction. Nonetheless, specific projects may move forward either by virtue of significant invested capital, or acquisition of a site and/or entitlements at less-than market cost. Locational advantages of certain sites, for example, sites in proximity to the Downtown or to the Convention Center, would have improved prospects for financial viability.

Prospects for Section 14

Section 14 offers one of the few areas in the City with a significant amount of land suitable for hotel development in proximity to the Convention Center and the Downtown. Approximately 32 acres of land in Section 14 are zoned "Resort Attraction" and would accommodate new hotels with a capacity of nearly 1,300 rooms. The zoning also encourages construction of visitor-serving amenities and attractions to complement the hotels.

Despite improving conditions, significant new hotel construction is not likely in the near term, with certain possible exceptions of pipeline projects noted above. Average occupancy rates will need to approach or exceed 70 percent on a sustained basis to justify new construction, roughly a 20 percent increase over current average Citywide rates for mid- and upscale hotels. Even assuming growth in the overnight visitor market of 2 percent annually which exceeds population and employment growth rates in Palm Springs, it is not likely that additional hotels could be supported in Section 14 over the next 10-year period in addition to the planned 200-room Mondrian (Hotel Dolce) if it moves forward, and the other currently planned hotels shown in the table above. Continued growth over the following 10 years could justify up to 800 new rooms in Section 14, assuming no significant competing projects. The projects would likely be located in proximity to the Convention Center and/or to the west of the center.

7. RETAIL

Palm Springs is a major resort destination in the region, with visitors from outside the Coachella Valley area accounting for over half of all retail sales.[3] The inventory of retail space has grown to serve this market, as shown on TABLE 10; from 2006 to 2012, Palm Springs' retail inventory expanded by 14 percent, but population only grew 3 percent. Sales tax receipts to the City are expected to grow by 17 percent in 2013 compared to the prior fiscal year.[4]

Table 10 Coachella Valley Retail Performance

	Section 14	Palm Springs	Coachella Valley
Retail and Specialty Sq.Ft.	551,101	5,342,915	26,518,071
SF Added since 1Q2006	-4,073	639,780	3,198,628
Net Change	-1%	14%	14%
Vacancy Rate (1Q13)	3.7%	12.3%	11.1%
Average Rent (nnn,1Q13)	$1.17	$1.28	$1.43
Rent Range (nnn)	$1.00	$0.45 - $3.50	$0.40 - $9.00

Source: CoStar, Economic & Planning Systems, Inc.

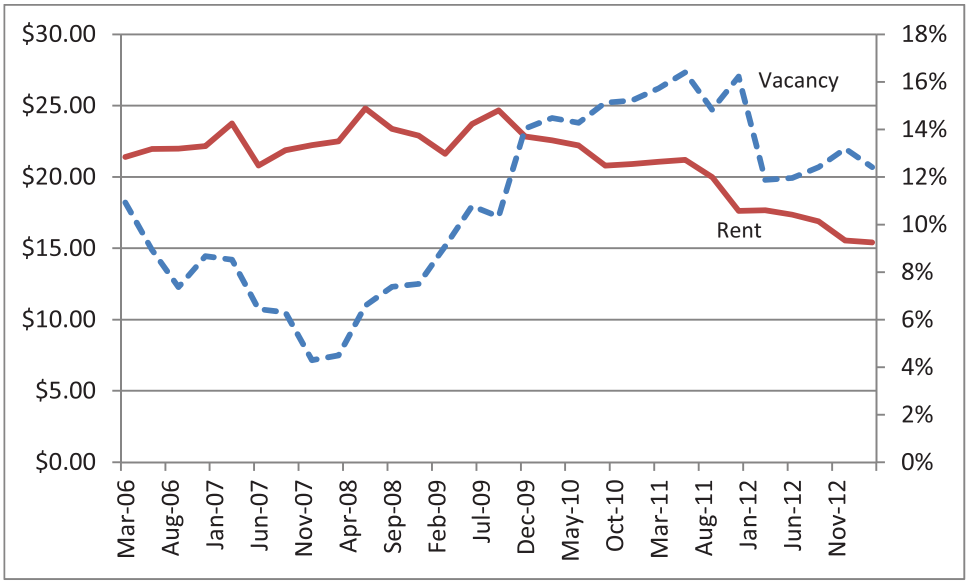
As the economy continues to recover and major Downtown projects such as the Museum Market Plaza are completed, visitation and retail expenditures will continue to grow. The Museum Market Plaza and related public improvements, funded in part by $43 million in revenue bonds financed by sales tax from the voter-approved Measure J, will construct and add approximately 290,000 square feet of mixed-use retail, restaurant, office, and hotel development, with the first phase scheduled for completion by 2015.

Despite the success of the Downtown as a regional draw, average rents in Palm Springs fell 5 to 10 percent below the Coachella Valley average (see FIGURE 3). Prime locations command higher rents, but much of the retail base in the City consists of aging building stock and a high proportion of small locally owned business tenants in the mix. Since the market peak in 2008, monthly average rents in Palm Springs have fallen from $2.07 to $1.28 per square foot and vacancies have risen from 4.3 to 12.4 percent. Downtown improvements and increased visitation will help support renovation of lower-rent properties outside Downtown and Palm Canyon Drive, with corresponding rent and occupancy rate increases eventually supporting new construction.

[3] 2011 expenditure study by Buxton, commissioned by the City of Palm Springs.

[4] City of Palm Springs FY 12-13 Adopted Budget Book

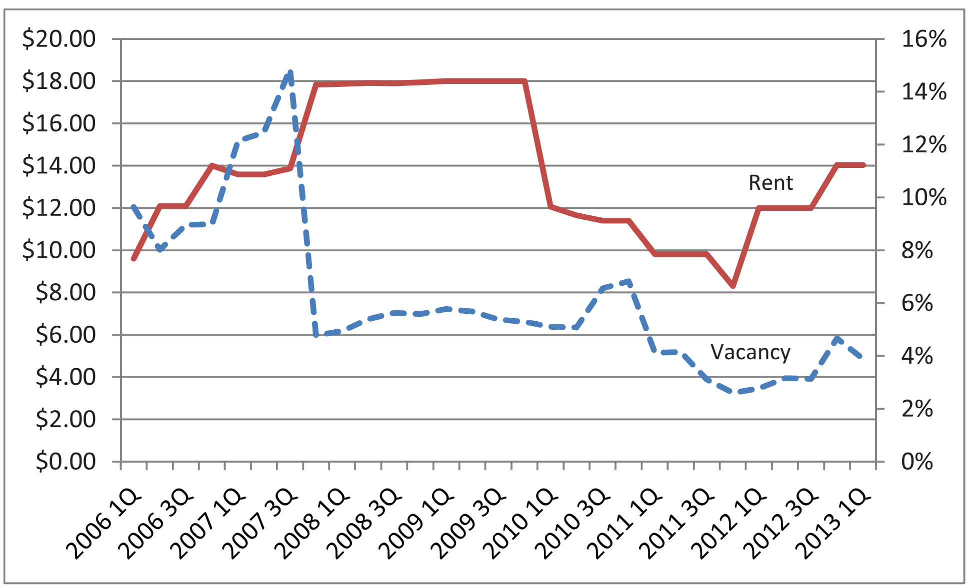
Figure 3 Palm Springs Historical Retail Rents (NNN) and Vacancy



Section 14 Retail

Section 14 retail, as shown in FIGURE 4, has generally underperformed compared to the City as a whole. Since 2006, total retail rents declined slightly while Palm Springs retail rents grew by 14 percent. Section 14 rents currently are 17 percent lower than the Palm Springs average and have consistently lagged with as much as a 64 percent differential since 2006.

Figure 4 Section 14 Historical Retail Rents (NNN) and Vacancy



In Section 14, retail is concentrated in three distinct areas summarized in TABLE 11. The first retail area is the Indian Canyon Drive corridor between Alejo and Ramon Roads, which is characterized by local restaurant, service, and automotive-oriented tenants. Indian Canyon Drive functions as part of the Downtown Palm Springs core but plays a subordinate role to Palm Canyon Drive.

The second retail area consists of a number of parcels on Tahquitz Canyon Way between Indian Canyon Drive and Sunrise Way, which contribute 60 percent of the Section 14 total. The largest of these, The Courtyard at Palm Springs, is a semi-enclosed mixed-use development featuring bank and movie theater uses, among others. Other retail and restaurants along Tahquitz Canyon Way take advantage of proximity to the Convention Center, hotels, and the east-west connection between Palm Springs International Airport and Downtown.

The third Section 14 retail area is the Plaza Sunrise Shopping Center at the corner of Sunrise Way and Ramon Road. Featuring a supermarket, drug store, inline retail and restaurant pads, the center serves the relatively dense residential population within the general area and contributes 20 percent of Section 14 retail.

Table 11 Section 14 Retail Summary

Sub-Area	Leasable Area	%	Key Tenants
Indian Canyon Drive corridor	113,011	21%	Shell, McCormick's Palm Springs
Tahquitz Canyon Way corridor	330,465	60%	Regal Cinemas, Rite Aid, Rabobank, Pacific Western Bank
The Plaza at Sunrise Shopping Center	107,625	20%	Ralph's, CVS, Domino's, Panda Express, Starbucks
	551,101	**100%**	

Source: CoStar, Economic & Planning Systems, Inc.

Prospects for Section 14

Indian Canyon Drive

As noted above, Indian Canyon Drive is part of but subordinate to the Downtown core. A key factor preserving this status and limiting its potential is the one-way couplet, which encourages drivers to use Indian Canyon Road to exit the area or as feeder back to Palm Canyon Drive. Consequently, many retail establishments fronting Palm Canyon Drive use Indian Canyon Road as a back door for service access and employee parking. Furthermore, the couplet enforces a north-south corridor orientation for Downtown, diminishing east-west flow that would bring more visitors into Section 14. Consequently, improved performance and demand for retail uses on Indian Canyon Drive will depend in part on urban design solutions that help enhance access and circulation between the Convention Center, Section 14 hotels, and Downtown.

Another major influence on retail potential will be the Museum Market Plaza project and Downtown revitalization. While short-term rents and occupancies may be depressed along Indian Canyon Drive due to Downtown draw, new demand is likely to materialize after the new space is absorbed and circulation between downtown and the corridor has improved. Initially, this demand is likely to be realized in the form of renovations and upgrades in uses to serve the spillover from the downtown, and to serve demand related to hotel and convention visitors as well as new residents. These uses are likely to fall into the restaurant and specialty retail categories.

Approximately 15 acres of vacant land along Indian Canyon Drive could potentially accommodate up to 144,000 square feet of new development. However, over the first ten years, activity is likely to consist primarily of upgrading of existing uses with minimal new retail construction. As existing space is utilized at higher rents, and connections are improved between the Downtown and Section 14, new construction may occur. For example, a restaurant row with three new pads could add up to 12,000 square feet and serve demand from both sides of Indian Canyon Drive.

Another influence on retail potential is residential demand. If residential buildout occurs as estimated in this Report, Section 14 could accommodate as many as 4,500 new residents, more than doubling the current population within 20 years. Section 14 and Palm Springs residents are currently well-served by local-serving retail with five supermarket-anchored neighborhood centers within 1.4 miles and one within 4 miles providing nearly 270,000 square feet of grocery area for a population of 45,000, as shown in Table 12. However, at the rule-of-thumb rate of 5 supportable supermarket square feet per capita, the expected new residential growth could potentially support a smaller-format supermarket and neighborhood center consisting of 20,000 supermarket square feet with an additional 15,000 square feet of service retail.

Table 12 Palm Springs Super Markets

Supermarket	Address	Distance from Section 14	Leasable Area (Sq.Ft.)	Population/ Mile
Ralph's	425 South Sunrise Way	In Section 14	53,200	9,499
Fresh and Easy	102 South Sunrise Way	50 feet	27,225	9,668
Ralph's Fresh Fare	1733 E Palm Canyon drive	1.1 miles	42,025	6,618
Stater Brothers	1717 E. Vista Chino	1.4 miles	48,600	8,643
Jensen's	2465 E Palm Canyon Dr	1.4 miles	37,700	5,445
Albertsons	1751 N Sunrise Way	1.2 miles	49,280	10,331
Trader Joe's	67720 E Palm Canyon Dr	3.9 miles	10,833	3,185
			268,863	

Source: Economic & Planning Systems, Inc.

Tahquitz Canyon Way

Roughly 13 acres of retail-zoned vacant land along Tahquitz Canyon Way has the capacity for approximately 165,000 square feet of new retail development. However, as with Indian Canyon Drive, Tahquitz Canyon retail performance will likely remain weak until after the Downtown Museum Market Plaza project begins operating. Furthermore, given the large quantity of existing retail in older structures (totaling 60 percent of all Section 14 retail), renovation and recycling of existing retail will precede new construction for some time. Consequently, no net new retail development is expected in the area over the next 10 to 20 years.

Ramon Road and Sunrise Way/Other Neighborhood Commercial

As noted above, Palm Springs is well-served by neighborhood and community center retail. The neighborhood center at Ramon Road and Sunrise Way, featuring a Ralph's, CVS, and assorted restaurants and services, is one of several nearby centers serving Section 14 and the only one located directly inside the Section 14 boundary. Because there is no contiguous street-fronting vacant land near the Sunrise Center, no new development is expected.

8. OFFICE

Over time, the concentration of office uses in the Coachella Valley has shifted from Palm Springs to other more rapidly growing population centers, both to serve those populations and to locate closer to where office employees live. Consequently, Palm Springs lags the Coachella Valley in all office performance measures, including growth in Rentable Building Area (RBA), lease rates, and vacancy rates. Both Coachella Valley and Palm Springs office markets declined from the 2007 peak, but there is recent evidence of market stabilization, and once growth resumes as expected, the majority of new office development will continue outside of Palm Springs.

From 2000 to 2012, Coachella Valley office inventory grew 28 percent with medical office growing even more quickly at 45 percent. By comparison, Palm Springs office growth was modest, with 8 percent total and 5 percent medical office growth during the same period. During the Great Recession, vacancy rates rose steeply to nearly 17 percent in the Coachella Valley and 13 percent in Palm Springs, but as leasing has picked up, rates have fallen to roughly 10 percent for both. High rents spurred most of the new development in the last decade, with average rents peaking at $2.50 per square foot in the Coachella Valley and $2.00 per square foot in Palm Springs. While rents have declined since the Great Recession, they can be expected to stabilize with the tightening inventory. On average, the Coachella Valley has commanded an office rent premium of roughly 20 percent over Palm Springs in the last decade. For a snapshot of Coachella Valley office performance, see TABLE 13.

Table 13 Palm Springs and Coachella Valley Office Performance

	Section 14		Palm Springs		Coachella Valley	
	All Office	Medical Office	All Office	Medical Office	All Office	Medical Office
Office Sq.Ft. (1Q13)	434,428	39,621	2,204,151	543,073	7,935,784	2,070,975
SF Added since 1Q2000	0	0	164,773	24,600	1,756,644	645,209
Net Change Since 1Q2000	0%	0%	8%	5%	28%	45%
Vacancy Rate (1Q13)	9.7%	0%	10.1%	5.0%	10.6%	9.9%
Average Rent (fs)	$1.08	NA	$1.23	$1.50	$1.41	$1.57

Source: CoStar; Economic & Planning Systems, Inc.

Prospects for Section 14

Population and employment projections for the Coachella Valley imply strong demand for new office construction. As Palm Springs employment growth is projected to exceed population growth in the City, Palm Springs will continue to play a role as a regional jobs center, although it will likely continue to lose ground to other cities with greater population growth. While most of this employment growth is likely to occur in the City's core tourism industry, significant growth in local medical services—and indirectly, medical office space—will likely remain strong. The Desert

Regional Medical Center, one of three major hospital complexes in the Coachella Valley and one-half mile from Section 14, is likely to generate new demand for medical office uses.

As a destination for baby boomer retirees, demand in Palm Springs for commercial space that caters to their professional needs could grow. Currently, a meaningful proportion of the City's commercial space is leased by retirement-age residents who continue to work. Called "encore" careers by the AARP, this trend in retirement-age work is expected to accelerate. Baby boomer seniors are healthier, more active, and more inclined to work past age 65 than the previous generation. Additionally, analysts have projected that baby boomer retirement could lower national labor force participation and cause a labor shortage, leading to strong opportunities for continued full- and part-time work for seniors.

In Palm Springs, such "encore" careers typically include small locally owned retail and service entities, home healthcare support, consulting, and knowledge-work entrepreneurial efforts, which currently absorb a portion of the City's mid-century-vintage commercial space. Given current vacancies and the high rents usually required to fund construction, it is likely that such encore career users will continue to utilize existing commercial space or work from home rather than support new development. However, if area vacancy rates continue to decline, this trend could help induce construction of new space to accommodate other higher-paying categories of office users.

As the most urbane City in the Coachella Valley, Palm Springs has locational attributes favored by "knowledge workers"[5], who can work anywhere with a data connection. If the City continues to enhance the Downtown, improve the urban realm with greater walkability, and accrue cachet as a hip and stylish destination, it has the potential to develop as a magnet for "creative class[6]" workers as well.

Assuming a consistent nexus between office and employment growth, office space should grow proportionately with jobs in Palm Springs. SCAG projects employment to grow in Palm Springs from 2008 to 2035 at nearly twice the rate as historical growth from 2000 and 2012, and office space could also grow twice as quickly. However, given the long-term trend in telecommuting, which may be preferable for Palm Springs residents who have re-located from more traditional employment centers, a more conservative growth rate is more suitable. Consequently, we have

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[5] "Knowledge workers" are workers whose main capital is knowledge. Typical examples may include software engineers, architects, engineers, scientists and lawyers, because they "think for a living". Source: Wikipedia/reference to Davenport, Thomas H. (2005) Thinking for a living, Boston: Harvard Business Press

[6] "Creative class" is a term coined by sociologist Richard Florida to describe an ascendant socio-economic class consisting of professionals in science, engineering, education, information technology, healthcare, business, finance, media, and art. Florida estimates that creative class workers currently comprise about 30 percent of US workers. According to Florida, members of the creative class workers choose to live in places with cultural, social, and technological climates in which they feel they can best "be themselves". Source: Wikipedia

projected demand for Palm Springs office space to grow at the same historical rate as occurred from 2000 to 2012, which results in demand for 305,000 net new square feet in 20 years.

Section 14 contains a fair amount of vacant land in strategic locations near downtown Palm Springs and along Tahquitz Canyon Way, and so it should benefit from all of the City's locational attributes for new office development. Section 14 currently provides approximately 20 percent of Palm Springs office space, and it should conservatively be able to maintain this proportion going forward. At a capture rate of 20 percent of projected Palm Springs growth, future demand in Section 14 should amount to approximately 60,000 net new square feet of office space.

9. OTHER USES

In the tradition of Palm Springs tourism, which originated with sanitaria, dude ranches, and resort hotels, entertainment and leisure activities typically were packaged with lodging. Starting mid-century, this took the land use form of golf- and tennis-centric residential and hotel communities, most of which were developed south east of Palm Springs in cities with more available land. Today, potential golf and tennis community development is constrained by the lack of land and declining demand, and new residential projects typically feature alternative amenities that are less land-intensive, such as spas and pools.

The ongoing redevelopment of Downtown Palm Springs promises to provide an increasingly viable public realm alternative to the closed environment of resort hotels and gated communities. This will likely stimulate development of typical urban core uses such as retail, restaurants, and bars. Section 14 can participate in this ongoing process by strengthening connections to and facilitating access with Downtown through streetscape and other improvements.

Palm Springs also features a large complement of museums and cultural institutions that serve both the City and the Coachella Valley. While such institutions typically operate independently from the market and require a sufficient endowment to cover operating shortfalls, development of additional cultural institutions in Section 14 could further enhance the City's role as the cultural center for the Coachella Valley.

Palm Springs is not a strong market for new commercial family-oriented location-based entertainment for two primary reasons: demographics and land costs. Palm Springs draws families with children, but the City's current demographics and competitive strengths favor tourist patterns dominated by older couples and younger childless visitors. Furthermore, Palm Springs is more built-out than other Coachella Valley cities, and desirable land is relatively scarce and expensive. Because of these cost factors, a typical low density stand-alone location-based entertainment facility, built at grade with ample surface parking, would require very high customer volume to support new development. For example, Soak City Water Park, which was constructed in Palm Springs in 1986, was last sold in 1999 for approximately $8.75 per land square foot (in $2012 dollars) for land and improvements. Developing a similar facility today would be considerably more expensive in both land and construction costs and would not likely be economically feasible.[7]

Another model for family entertainment depends on attractions that are large enough to become family travel destinations in their own right. However, dominant competitors throughout Southern California such as Disneyland Resort and Legoland, coupled with limited available land in Section 14, make such an approach infeasible. With 12 total movie screens in Palm Springs at the Regal Stadium 9 in Section 14 and the Camelot Theaters on East Baristo Road, the City and Section 14 may already be over-screened. Notably, the Museum Market Plaza project, which is currently under construction, eliminated the multiplex use from its original design.

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[7] Elsewhere in the Coachella Valley, particularly Coachella, Indio, Desert Hot Springs, and Cathedral City, the high proportion of young families and lower land costs may result in more feasible economics for a new family-oriented location-based entertainment facility.

There are strong opportunities in Palm Springs for further development of eco-tourism, as the landscape provides extensive opportunities for biking and hiking. Many of these destinations, such as the Indian Canyons and Tahquitz Canyon, are located just outside the urbanized area of Palm Springs. The Non-Motorized Transportation Master Plan adopted in 2010 includes Section 14 and proposes additional biking and pedestrian linkages to better connect nature destinations with existing residential and commercial areas.

Prospects for Section 14

Pedestrian connections between the Convention Center and Downtown are poor, and the existing strong north-south linear orientation of Downtown impedes easy circulation. Public investments in non-motorized vehicle infrastructure and landscaping to better connect Section 14 to the Downtown area and other outdoor destinations could potentially have a catalytic effect on new development by allowing Section 14 to benefit more directly from nearby activity by visitors and residents.

Section 14 is not likely to present a strong option for the development of stand-alone golf or tennis clubs, or other land-intensive recreation use. Furthermore, family-themed entertainment entities do not match up well with the City's resident and tourist demographic. The City is already well represented by movie screens and enclosed performance venues.

There are many potential public or not-for-profit land uses that would make viable contributions to the life of the City, such as a museum. In addition, the City of Palm Springs lacks park land, and there is strong anecdotal demand for more public open space uses such as ball fields and a second dog park.

10. FISCAL AND ECONOMIC ANALYSIS

New development in Section 14 will generate a range of fiscal and economic impacts. The fiscal impacts include various public tax revenues and public service costs to the City of Palm Springs, in addition to those currently received from Section 14. Additional economic impacts will result from new development, as described below.

Economic Impacts

New economic activity will be created within Section 14 as development occurs and accommodates new businesses and residents, as summarized in TABLE 14. This table shows the annual economic impacts (with the exception of total construction value and jobs) that will grow over time in concert with occupancy of new construction. Impacts and key assumptions are described in the following sections. The indirect and induced impacts are based on a regional model[8] which estimates those impacts on businesses in the broader trade region.

Table 14 Economic Impacts from New Development in Section 14

Item	Annual Amount
Output (Business Sales)	
Direct (Palm Springs)	$76,526,000
Indirect (Palm Springs and Region)	$24,428,000
Induced (Palm Springs and Region)	$24,610,000
Total	$125,564,000
Employment	
Direct Jobs in Section 14	700
Indirect Jobs (Palm Springs and Region)	200
Induced	210
Total	1,110
Construction	
Value	$826,200,000
Annual Construction Jobs	4,130
Other Impacts	
Retail Expenditures in Palm Springs (1)	$31,210,200
Daily Hotel Visitors in Section 14	306,600
Hotel Room-nights in Section 14	204,400

(1) Included in "Output", above.

Source: Implan 2010 for Riverside County; Economic & Planning Systems

[8] Implan 2010 for Riverside County

Output

"Direct" output refers to the total sales and income from all sources to the new businesses locating in Section 14; these sources of income in turn are spent by the businesses on supplies, labor, and profit required to produce the goods and services provided by the businesses. These expenditures will generate additional "indirect" economic activity and support additional jobs at those suppliers. The households holding those direct and indirect jobs will spend a portion of their income in the region, which is an additional source of "induced" output. Total output is the sum of direct, indirect, and induced business income in the region as a result.

Employment

New development in Section 14 will accommodate additional employees. In addition, economic activity generated by these businesses and employees in turn will generate new indirect and induced employment in the region.

Construction

New construction will generate building materials sales in the region, as well as construction jobs. The jobs may include a range of full and part-time jobs over some portion of the construction period; the jobs have been estimated as "full-time equivalent job-years) for purposes of this analysis. The job estimate assumes that approximately 30 percent of the value of construction is labor, and the average wage and benefit per worker is $60,000 (actual wages will vary by trade and experience).

Other Impacts

New residents and visitors will spend money in Section 14, the City and other cities in the region. Retail expenditures have been estimated assuming $75 per day per hotel visitor (not including room rates). Resident expenditures are based on household incomes consistent with average home prices, 20 percent of income is spent on taxable retail, and 60 percent of expenditures are captured in Palm Springs.

Fiscal Impacts

Upon buildout of Section 14 over a twenty-year period, new development added to the area will increase various public tax revenues to the City of Palm Springs. As shown in TABLE 15, these additional revenues are anticipated to more than offset potential additional public service costs. This additional revenue could help to fund enhanced services in the City and/or in Section 14. In addition, the Tribe will benefit from Transient Occupancy Tax (TOT) it collects within Section 14. The following section summarizes key revenues and expenditures estimated in the table.

Table 15 Fiscal Impacts from New Development in Section 14

Item	Annual Amount
Revenues	
Property and Possessory Interest Tax	$1,875,000
Transient Occupancy Tax (TOT)	$3,525,900
Sales Tax	$312,000
Measure J Sales Tax	$312,000
Utility Users Tax	$418,000
Franchise Fees	$192,000
Property Tax in lieu of VLF	$318,000
Total	$6,952,900
Expenditures	
Administration	$279,000
Recreation	$99,000
Police	$1,093,000
Fire	$700,000
Total	$2,171,000
NET, to City	$4,781,900

Source: Economic & Planning Systems

Property and Possessory Interest Tax

The City receives approximately 22.7 percent of every tax dollar. Section 14 includes both fee and trust land. Fee land is subject to property tax. Allotted trust land that is leased is subject to a possessory interest tax (PIT) imposed by the County of Riverside. The PIT is typically paid by the lessee directly to the County and is of an amount similar to the property tax that would be charged on a similarly situated fee parcel. Tribal trust land, owned by the Agua Caliente Tribal Government, does not pay property or possessory interest tax.

Sales Tax

The City receives 1 percent of taxable sales, including sales occurring within Section 14. In addition, the City would receive another 1 percent as a result of Measure J approved by the Palm Springs voters in 2012. The tax revenue estimate is based in estimated expenditures by new residents and hotel guests. Sales tax will be generated by new retail space, however, this has not been shown since there will be substantial overlap with the estimated resident and visitor expenditures.

Utility Users Tax (UUT)

Consumers of utilities in Palm Springs are taxed on their bills. These revenues have been estimated proportionate to increases the service population (i.e., residents, employees and hotel guests) relative to the UUT generated by the current service population in the City.

Franchise Fees

Franchise fees are paid to the City by utility providers for the privilege of doing business and maintaining utility infrastructure in the City. As for UUT, these revenues have been estimated proportionate to increases the service population (i.e., residents, employees and hotel guests) relative to the UUT generated by the current service population in the City.

Property Tax in lieu of VLF

The State of California no longer provides cities with a significant share of Vehicle License Fees on a per capita basis; instead, an amount equivalent to the prior VLF revenue is now provided in the form of property tax revenues. However, this revenue now increases proportionate to growth in assessed value rather than growth in population. This revenue has been estimated based on the Citywide increase in value due to new development in Section 14.

Expenditures

Expenditures for major service categories (recreation, police and fire) are estimated proportionate to increases in service population due to new development in Section 14. Additional administration are similarly estimated, however reduced by 50 percent assuming that a significant portion of those existing costs are relatively fixed and will not increase in direct proportion to new development.

Transient Occupancy Tax

The City of Palm Springs does not collect TOT from Tribally owned hotel rooms; however, the City will collect a tax on hotel revenues from all other new hotel development. This revenue is estimated based on new hotel rooms (assuming none are Tribally owned hotels) and assumptions of an average daily rate of $100 and average occupancy of 70 percent. The estimate assumes an 11.5 percent tax applicable to non-group meeting hotels.

APPENDIX A:

Supporting Market Data

Appendix A-1
2010 Coachella Valley Demographic Snapshot
Section 14 Specific Plan Update; EPS Project # 124010

	Section 14	Palm Springs	Coachella Valley(1)	Cathedral City	Coachella	Desert Hot Springs	Indian Wells	Indio	La Quinta	Palm Desert	Rancho Mirage
				Coachella Valley Cities Excepting Palm Springs							
General											
Population	3,179	44,552	346,518	51,200	40,704	25,938	4,958	76,036	37,467	48,445	17,218
Households	1,724	22,746	130,300	17,047	8,998	8,650	2,745	23,378	14,820	23,117	8,829
Housing Units	2,896	34,794	185,507	20,995	9,903	10,902	5,137	28,971	23,498	37,073	14,243
HH/Housing Units	60%	65%	70%	81%	91%	79%	53%	81%	63%	62%	62%
Average HH Size	1.79	1.93	2.67	2.99	4.52	2.98	1.80	3.21	2.52	2.08	1.94
Family HH Rate	32%	38%	63%	66%	91%	65%	61%	73%	69%	57%	55%
Median HH Income	$36,250	$45,989	$54,241	$45,088	$43,357	$34,606	$111,078	$52,199	$77,790	$53,940	$76,261
Population by Race											
White	73%	76%	68%	64%	48%	58%	95%	61%	79%	82%	89%
Black	5%	4%	3%	3%	1%	8%	1%	2%	2%	2%	1%
American Indian	1%	1%	1%	1%	1%	1%	0%	1%	1%	1%	1%
Other(2)	21%	19%	28%	33%	50%	32%	4%	35%	19%	15%	9%
Hispanic	32%	25%	49%	59%	96%	53%	4%	68%	30%	23%	11%
Population by Age											
Median Age	49	52	41	36	25	31	67	32	46	53	62
Age 18+	85%	86%	76%	73%	61%	69%	94%	70%	78%	84%	89%
Age 65+	26%	27%	19%	14%	4%	10%	55%	12%	21%	33%	44%

(1) 9 Cities including Cathedral City, Coachella, Desert Hot Springs, Indian Wells, Indio, La Quinta, Palm Desert, Palm Springs, Rancho Mirage
(2) Asian, Pacific Islander, Some Other Race, Two or More Races
Source: Census, Economic & Planning Systems

Appendix A-2
Palm Spring and Coachella Valley 1990-2010 Demographics
Section 14 Specific Plan Update; EPS Project # 124010

Subject	Palm Springs						Coachella Valley Region					
	#			Net Change			#			Net Change		
	1990	2000	2010	1990-2000	2000-2010	1990-2010	1990	2000	2010	1990-2000	2000-2010	1990-2010
Population weighting			*13%*						*100%*			
			4,893									
Housing weighting			*19%*						*100%*			
General												
Population	40,287	42,807	44,552	6%	4%	11%	191,704	255,790	346,518	33%	35%	81%
Households	18,631	20,516	22,746	10%	11%	22%	73,217	95,504	130,300	30%	36%	78%
Average Household Size	2.15	2.05	1.93	-5%	-6%	-10%	2.59	2.65	2.67	2%	1%	3%
Total Families	10,541	9,464	8,665	-10%	-8%	-18%	48,247	61,766	82,497	28%	34%	71%
Family HH/Total HH	57%	46%	38%	-18%	-17%	-33%	66%	65%	63%	-2%	-2%	-4%
Average Family Size	2.75	2.88	2.82	5%	-2%	3%	3.16	3.30	3.29	4%	0%	4%
Per Capita Income	$19,802	$25,957	$38,054	31%	47%	92%	$17,396	$23,134	$30,919	33%	34%	78%
Housing Units	30,329	30,823	34,794	2%	13%	15%	112,150	133,175	185,507	19%	39%	65%
Population by Race												
Total	40,287	42,807	44,552				191,704	255,790	346,518			
Population Reporting One Race												
White	82%	78%	76%	-4%	-3%	-7%	72%	69%	68%	-5%	0%	-5%
Black	4%	4%	4%	-3%	13%	10%	3%	2%	3%	-7%	11%	4%
American Indian	1%	1%	1%	25%	12%	39%	1%	1%	1%	11%	2%	13%
Asian	3%	4%	4%	20%	16%	38%	2%	2%	3%	13%	30%	47%
Pacific Islander	0%	0%	0%	-4%	15%	10%	0%	0%	0%	-6%	27%	19%
Some Other Race	8%	10%	11%	18%	14%	34%	21%	22%	22%	7%	-3%	3%
Two or More Races	2%	3%	3%	68%	2%	72%	1%	3%	3%	135%	-3%	128%
Hispanic	19%	24%	25%	24%	7%	32%	37%	44%	49%	19%	11%	33%
Population by Age												
Median Age	44	47	52	6%	10%	17%	34	37	41	7%	10%	18%
Age 18+	83%	83%	86%	-1%	4%	3%	75%	73%	76%	-3%	3%	0%
Age 65+	26%	26%	27%	1%	1%	2%	18%	18%	19%	2%	8%	10%

Sources: 1990 and 2000 from ESRI, 2010 from Census and ESRI

Appendix A-3
SCAG Projections
Section 14 Specific Plan Update; EPS Project # 124010

	Population		Projected Growth Households		Employment		% Change '08 - '35			Pop/HH		Jobs/HH	
	2008	**2035**	**2008**	**2035**	**2008**	**2035**	**Pop**	**HH**	**Emp**	**2008**	**2035**	**2008**	**2035**
Palm Springs	43,400	56,100	22,700	30,400	36,300	52,300	29%	34%	44%	1.91	1.85	1.60	1.72
Share of Coachella Valley	*13%*	*10%*	*18%*	*15%*	*25%*	*23%*							
Coachella Valley	335,200	551,100	129,200	205,100	142,600	230,800	64%	59%	62%	2.59	2.69	1.10	1.13
Cathedral City	50,200	64,600	17,100	23,900	13,800	23,900	29%	40%	73%	2.94	2.70	0.81	1.00
Coachella	38,200	128,700	8,600	34,000	6,400	27,900	237%	295%	336%	4.44	3.79	0.74	0.82
Desert Hot Springs	25,200	58,100	8,600	20,900	3,500	6,900	131%	143%	97%	2.93	2.78	0.41	0.33
Indian Wells	4,800	5,800	2,700	3,600	3,900	6,000	21%	33%	54%	1.78	1.61	1.44	1.67
Indio	73,300	111,800	23,000	34,600	21,000	40,000	53%	50%	90%	3.19	3.23	0.91	1.16
La Quinta	36,100	46,300	14,600	17,900	9,200	11,900	28%	23%	29%	2.47	2.59	0.63	0.66
Palm Desert	47,100	56,800	23,000	28,000	37,700	44,500	21%	22%	18%	2.05	2.03	1.64	1.59
Rancho Mirage	16,900	22,900	8,900	11,800	10,800	17,400	36%	33%	61%	1.90	1.94	1.21	1.47
Riverside County	2,128,000	3,324,000	679,000	1,092,000	664,000	1,243,000	56%	61%	87%	3.13	3.04	0.98	1.14
Los Angeles County	9,778,000	11,353,000	3,228,000	3,852,000	4,340,000	4,827,000	16%	19%	11%	3.03	2.95	1.34	1.25

Source: SCAG RTP 2012 Growth Forecast, by City; Economics & Planning Systems

Appendix A-4
1990-2010 Residential Characteristics
Section 14 Specific Plan Update; EPS Project # 124010

Subject	Palm Springs # 1990	Palm Springs # 2000	Palm Springs # 2010	Palm Springs Net Change 1990-2000	Palm Springs Net Change 2000-2010	Coachella Valley Region # 1990	Coachella Valley Region # 2000	Coachella Valley Region # 2010	Coachella Valley Region Net Change 1990-2000	Coachella Valley Region Net Change 2000-2010
General										
Households	18,631	20,516	22,746	10%	11%	73,217	95,504	130,300	30%	36%
Family HH Share	57%	46%	38%	-18%	-17%	66%	65%	63%	-2%	-2%
Median Home Value	$140,611	$157,047	$319,500	12%	103%	$123,934	$145,405	$324,523	17%	123%
Median Rent	$496	$565	$949	14%	68%	$498	$549	$1,045	10%	90%
Housing by Units in Structure										
Total	30,329	30,979	36,261	2%	17%	112,154	133,126	186,714	19%	40%
1, Detached	10,017	10,163	12,878	1%	27%	44,006	60,794	101,152	38%	66%
1, Attached	6,065	6,191	9,018	2%	46%	24,099	25,497	31,990	6%	25%
2 to 9	4,176	4,970	5,967	19%	20%	15,577	17,844	25,518	15%	43%
10 to 19	2,628	2,139	2,617	-19%	22%	6,062	4,606	5,705	-24%	24%
20+	4,227	5,270	3,413	25%	-35%	8,516	11,894	8,383	40%	-30%
Mobile Home/Other	3,216	2,246	2,368	-30%	5%	13,894	12,491	13,966	-10%	12%
Share										
1, Detached	33%	33%	36%			39%	46%	54%		
1, Attached	20%	20%	25%			21%	19%	17%		
2 to 9	14%	16%	16%			14%	13%	14%		
10 to 19	9%	7%	7%			5%	3%	3%		
20+	14%	17%	9%			8%	9%	4%		
Mobile Home/Other	11%	7%	7%			12%	9%	7%		
Use										
Occupied										
Owner-Occupied	36%	40%	38%			40%	47%	46%		
Renter-Occupied	25%	26%	27%			25%	25%	25%		
Total Occupied	61%	67%	65%			65%	72%	70%		
Vacant										
For Rent	4%	3%	5%			4%	2%	4%		
Seasonal/Recreational/Occasional	26%	23%	23%			23%	19%	20%		
Other	9%	7%	6%			8%	7%	6%		
Total Vacant	39%	33%	35%			35%	28%	30%		

Sources:
1990 and 2000: ESRI; 2010 Census and Esri; Economic & Planning Systems

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APPENDIX B:

Fiscal and Economic Assumptions

Table B-1
Summary Project Description

Item	Buildout Total		Residents Factor		Residents Total	Daily Visitors Factor		Daily Visitors Total	Employees Factor		Employees Total	TOTAL
Residential	2,282	units	1.8	/unit	4,108							4,108
Hotel Rooms	800	rms				1.5 70%	/rm occ'y	840	0.5	emp/rm	400	1,240
Retail	35,000	sq.ft.							350	sf/emp	100	100
Office	61,000	sq.ft.							300	sf/emp	203	203
Total											703	5,651

Source: Economic & Planning Systems

Table B-2
Summary Project Description

Item	Buildout Total		Value Factor		Value Total	Taxable Sales Factor		Taxable Sales Total	Room Revenues Factor		Room Revenues Total
Residential	2,282	units	$300,000	/unit	$684,600,000	$6,000	/unit (1)	$8,215,200	na		
						60%	capture in Palm Springs				
Hotel Rooms	800	rms	$150,000	/rm	$120,000,000	$75	/visday	$22,995,000	$150	/rm	$30,660,000
									70%	occ'y	
Retail	35,000	sq.ft.	$225	/sq.ft.	$7,875,000	$300	/sq.ft.	calculated above in resident $s	na		
Office	61,000	sq.ft.	$225	/sq.ft.	$13,725,000	na			na		
Total					$826,200,000			$31,210,200			$30,660,000

Source: Economic & Planning Systems

(1) Assumes
80% downpayment
6.0% interest rate
30 yr mortgage
30% mortgage pmt/income ratio
$ 58,000 annual household income
20% of income spent on taxable retail
50% capture in Palm Springs

Table B-3
Key Fiscal Assumptions

Item	Amount and Estimating Factors		
	City Budget FY12-13		
Property Tax (Possessory Interest)		22.7%	of 1% of value (FY12-13 City budget)
TOT		11.5%	TOT rate (non-group meeting hotels)
Sales Tax			
Measure J Sales Tax			
Utility Users Tax	$6,525,000	$73.90	per Service Population
Franchise Fees	$3,000,000	$34.00	per Service Population
Property Tax in lieu of VLF	$3,481,240	9.1%	increase in City A.V.
Total			
Expenditures			
Administration	$8,702,895	$49.30	per Service Population*50%
Recreation	$1,556,806	$17.60	
Police	$17,077,854	$193.40	
Fire	$10,929,448	$123.80	
Total			
NET, to City			

Other Key Assumptions:	45,279	Population (DOF, E-1: City/County Population Estimates, 2012)
	36,300	Employees (Source: SCAG RTP 2012 Growth Forecast, by City)
	6,707	Overnight Visitors: STR room demand 2012 (resident equivalent: /365*visitors/room)
	88,286	Service Population
	9,059	millions Palm Springs A.V. (Auditor, 2012-13)

Table B-4
Summary of Annual Fiscal Impacts at 20yr Buildout of Section 14

Item	Annual Amount
Revenues	
Property and Possessory Interest Tax	$1,875,000
Transient Occupancy Tax (TOT)	$3,525,900
Sales Tax	$312,000
Measure J Sales Tax	$312,000
Utility Users Tax	$418,000
Franchise Fees	$192,000
Property Tax in lieu of VLF	$318,000
Total	$6,952,900
Expenditures	
Administration	$279,000
Recreation	$99,000
Police	$1,093,000
Fire	$700,000
Total	$2,171,000
NET, to City	$4,781,900

Table B-5
Employment Assumptions for Modeling Economic Activity by Land Use

Land Use	IMPLAN Industry Codes	Project Employment Assumptions	Rooms or Sq. ft.	Estimated Direct Employment
Hotel				
Number of Rooms	411		800	
Rooms per Employee		2.00		
Estimated Employment				400
Retail				
Total Retail Space			35,000	
Sq. ft. per employee		350		
Distribution by Type of Retail:				
Health and personal care	325	10%	3,500	10
Clothing and clothing accessories	327	10%	3,500	10
Sporting goods, hobby, book and music	328	10%	3,500	10
General merchandise	329	10%	3,500	10
Miscellaneous	330	10%	3,500	10
Food services and drinking places	413	50%	17,500	50
Estimated Employment				**100**
Office				
Total Office Space			61,000	
Sq. ft. per employee		300		
Distribution by Type of Office Use:				
Medical office	394	50%	30,500	102
Professional and business services	368, 374	25%	15,250	51
Financial activities	355, 358	25%	15,250	51
Estimated Employment				**203**
Total Employment				**703**

Source: Economic & Planning Systems.

Table B-6

Summary of Annual Economic Impacts at Buildout (2013 dollars)[1]

Land Use/ Impact Type	Employment	Output	Labor Income	Value Added
Hotel Use				
Direct Effect	400	$46,773,455	$12,590,706	$26,128,887
Indirect Effect	124	$14,820,745	$4,760,880	$8,434,209
Induced Effect	103	$12,236,851	$3,710,416	$7,611,642
Total Effect	**627**	**$73,831,052**	**$21,062,003**	**$42,174,738**
Office Uses				
Direct Effect	203	$23,473,061	$11,989,030	$13,646,961
Indirect Effect	68	$7,901,834	$2,522,566	$4,683,407
Induced Effect	87	$10,278,489	$3,118,325	$6,399,122
Total Effect	**358**	**$41,653,384**	**$17,629,920**	**$24,729,490**
Retail Uses[2]				
Direct Effect	100	$6,279,505	$2,481,094	$3,859,020
Indirect Effect	13	$1,705,774	$484,619	$1,057,933
Induced Effect	18	$2,094,582	$635,231	$1,303,275
Total Effect	**130**	**$10,079,861**	**$3,600,944**	**$6,220,228**
TOTAL EMPLOYMENT LAND USES				
Direct Effect	703	$76,526,021	$27,060,831	$43,634,868
Indirect Effect	205	$24,428,354	$7,768,064	$14,175,549
Induced Effect	208	$24,609,923	$7,463,972	$15,314,039
Total Effect	**1,116**	**$125,564,297**	**$42,292,867**	**$73,124,456**

[1] Based on employment multipliers derived from a 2010 IMPLAN model for Riverside County.

[2] Retail output shown here reflects the retail margin - the portion of gross sales that accrues to retailers - excluding cost of goods, transportation and/or wholesale margins.

Table B-7
Summary of Annual Economic Impacts at 20yr Buildout of Section 14

Item	Annual Amount
Output (Business Sales)	
Direct (Palm Springs)	$76,526,000
Indirect (Palm Springs and Region)	$24,428,000
Induced (Palm Springs and Region)	$24,610,000
Total	$125,564,000
Employment	
Direct Jobs in Section 14	700
Indirect Jobs (Palm Springs and Region)	200
Induced	210
Total	1,110
Construction	
Value	$826,200,000
Annual Construction Jobs	4,130
Other Impacts	
Retail Expenditures in Palm Springs (1)	$31,210,200
Daily Hotel Visitors in Section 14	306,600
Hotel Room-nights in Section 14	204,400

(1) Included in "Output", above.

Source: Implan 2010 for Riverside County; Economic & Planning Systems