



Staff Report

City Council

Item No. 5.B

Meeting Date: February 12, 2025

From: Anne V. Ambrose, Assistant City Manager

Title: Tax Transfer Agreement between Desert Recreation District and City of Cathedral City

RECOMMENDATION:

To approve a tax exchange agreement between the Desert Recreation District and City of Cathedral City to provide payment for services.

BACKGROUND:

Earlier this evening, the City Council considered an agreement between the City of Cathedral City and the Desert Recreation District (DRD) for parks maintenance and recreation programming. The second action needed to be taken by the City Council and Desert Recreation District Board of Directors ahead of the application for annexation into the district with the Riverside County Local Agency Formation Commission (LAFCO) is the approval of a Tax Transfer Agreement.

DISCUSSION:

Measure W, a ½ cent transaction and use tax measure was passed in November 2024 by Cathedral City voters. The measure is anticipated to generate approximately \$5 million/year. Part of the funding expected to be generated from this measure was to fund park maintenance and recreation programming through the DRD, including a future recreation center.

Instead of directly providing payment of sales tax proceeds to the DRD for their services, LAFCO requirements regarding funding of services to be provided through annexation will be more clearly met through a tax exchange agreement. The tax exchange agreement would allow the city to share a portion of the one percent it receives in property taxes directly with the DRD to fund services. The DRD would directly get this allocation in the same manner other agencies receive property tax allocations (such as Riverside County, Palm Springs Unified School District, Desert Community College District, etc.).

Staff have proposed the DRD would receive fifteen percent (15%) of the City's basic one percent (1%) property tax levy, or approximately \$1 million in FY 2025/26. This would only cover a portion of the full costs of the DRD services, which are anticipated to total

\$1,798,585.88 in FY 2025/26. The remaining costs of services would be budgeted in the FY 2025/26 budget and paid in four quarterly direct payments to the DRD. This arrangement will provide the confidence of a regular revenue stream to fund DRD services through the annexation into the district, while allowing the City flexibility should the need arise to modify services due to budgetary constraints in the future.

FISCAL IMPACT:

The anticipated impact of providing the district with fifteen percent of the city's one percent property tax levy is anticipated to be approximately \$1 million in FY 2025/26. If the levy does not fully cover the agreed upon DRD services, the city will allocate additional funds to cover the difference. If it happened that the allocation to the DRD was higher than the cost of services provided, the remaining funds would roll over to cover DRD services in the city for the following year.

	DESCRIPTION	GENERAL LEDGER ACCOUNT CODES	PROJECT CODE	AMOUNT	ONE TIME or ONGOING
2024-2025	Property Tax	100-90-910-911-6100-6101	N/A	\$-1,000,000	Ongoing
2024-2025	Total			\$-1,000,000	

FIVE-YEAR STRATEGIC PLAN:

Goal B: Community Investment

B-10 City Council to support a measure to provide funding for parks and recreation services through the DRD and other resident priorities including streets and enhanced Fire Department services.

Goal F: Embracing, Inclusive Community

F-3 Promote additional community events and celebrations.

Goal E: Safety

Establish regular inspections of park equipment and playing fields to ensure they are well maintained and functional.

ATTACHMENTS:

1. Tax Exchange Agreement