City of
Santa Rosa

MANAGEMENT

Agenda Item #11.3
For Council Meeting of: December 12, 2006

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
SUBJECT: PARKING DISTRICT MANAGEMENT STUDY
STAFF PRESENTER: CHERYL WOODWARD, DEPUTY DIRECTOR - PARKING
DEPARTMENT OF TRANSIT AND PARKING

AGENDA ACTION: MOTION

ISSUE(S)

Shall the Council of the City of Santa Rosa accept the *Parking System Financing and Management Alternatives Analysis*, prepared by Walker Parking Consultants, and direct staff to analyze and bring back recommendations for an in lieu fee?

BACKGROUND

The Department of Transit and Parking contracted with Walker Parking Consultants (Consultant) to perform an analysis of the Downtown Parking District (District) and make recommendations on how to fund and manage the District for the future. The study considered key issues, including parking system privatization; third party management; parking permits; parking financing alternatives; residential parking standards; and expansion of the District. The consultant's findings and recommendations are being brought forward for Council consideration and direction.

ANALYSIS

1. Walker Parking Consultants conducted an analysis of management and financing policy options to determine whether or not adoption of new practices would be advantageous to the City. As part of its analysis, Consultant surveyed other California cities (including Beverly Hills, Glendale, Mountain View, Redwood City, Sacramento, Santa Monica and Walnut Creek) to learn how they were dealing with the challenges of financing and managing their parking systems.

2. Consultant reached the following conclusions:

   - Parking System Privatization: As a practical matter, privatization of the parking system is not a viable option. Sale of District assets (that have been paid for by property owners) would raise the threat of loss of parking supply, which would likely lead to falling property values and result in lawsuits against the District. Potential advantages of privatization would be few, as the result of such an action would likely be a significant increase in parking rates. Privatization of the parking system is not recommended.

- Third Party Parking Operations: Contracting of the parking operation could potentially result in minor savings in some areas. However, due to fees paid to a third party operator, private management of the parking system would not likely result in any improvements to the system's bottom line. Third party management of the parking system is not recommended.

- Allocation of Parking Permits within the Parking District: Allocating permits lessens the efficiency with which one can share the supply of parking spaces. If the allocation of parking spaces must take place, the most efficient way, as with any scarce resource, is through pricing.

- Parking Financing Alternatives: There are myriad methods by which municipalities finance their parking systems. Most financing of parking structures is backed by the general fund, but the extent to which this is true depends on how much revenue the system is able to collect. Cities may use one of several funding sources to fill the gap between revenues and expenses, but the use of in lieu fees, a policy by which developers pay the city a fee in lieu of providing the parking, has become increasingly popular among cities in California. The in lieu fees paid by the developers are typically set to fill the gap between the parking system's revenues and expenses. In lieu fees are a good strategy to help finance new parking facilities.

- Parking System Self-Sufficiency: The parking system should operate as much as possible as a self contained entity. Any revenue collected by the system should be used for the benefit of the system and its users.

- Residential Parking Downtown: Shared parking between residential and commercial uses is difficult, if not impossible, as residents typically demand reserved spaces, often on the site of their property. In general, it is best for residential developers to finance their own parking supply. Residential developments therefore need not be charged in lieu fees.

- Parking District Expansion: The additional financial and political demands placed on the parking system as a result of expansion of the District would likely outweigh any additional benefits. If a parking district were needed for the Railroad Square district, it should likely operate separately from the existing District.

3. The Consultant's findings and recommendations are discussed in more detail in the attached *City of Santa Rosa, Financing and Management Alternatives Analysis* report, dated November 17, 2006.

4. The Consultant recommends the City consider implementing an in lieu fee as a strategy to help finance new parking facilities. The assistance of a financial advisor is recommended to set the in lieu fee at the appropriate rate to fund construction and cover operating costs.

RECOMMENDATION

The Department of Transit and Parking recommends that Council, by motion, accept the *Parking System Financing and Management Alternatives Analysis*, prepared by Walker Parking Consultants, and direct staff to analyze and bring back recommendations for an in lieu fee.

Author: Cheryl Woodward
Attachments:

- *City of Santa Rosa Parking System Financing and Management Alternatives Analysis*, dated November 17, 2006

WALKER
PARKING CONSULTANTS

POLICY ANALYSIS

CITY OF SANTA ROSA PARKING SYSTEM FINANCING AND MANAGEMENT ALTERNATIVES ANALYSIS

Prepared for:
City of Santa Rosa,
Department of Transit and Parking

NOVEMBER 17, 2006

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November 17, 2006

Ms. Cheryl Woodward
Deputy Director, Parking
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Santa Rosa, CA 95404

Re: Parking Financing and Management Alternatives Analysis, Final Report
Project Number: 33-1431.00

Dear Cheryl:

Walker Parking Consultants is pleased to submit the following report of our policy analysis for the City of Santa Rosa's downtown off-street parking system. This report summarizes our findings with regard to the financing and management alternatives available to the City for parking downtown. We also want to recognize and thank Sohail Bengali of Stone and Youngberg for all his input and assistance with our analysis.

Thank you very much for the opportunity to examine and analyze these complex and interesting issues. It has been a pleasure to work on this report for you and the City of Santa Rosa.

Sincerely,

WALKER PARKING CONSULTANTS

Steffen Turoff
Parking Consultant

Carolyn Krasnow, Ph.D.
Principal

POLICY ANALYSIS

CITY OF SANTA ROSA

PARKING SYSTEM FINANCIAL AND MANAGEMENT ALTERNATIVES ANALYSIS

Prepared for:
The Department of Transit and Parking
City of Santa Rosa, CA

PROJECT NO. 33-1431.00
NOVEMBER 17, 2006

WALKER PARKING CONSULTANTS

NOVEMBER 17, 2006 33-1431.00

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EXECUTIVE SUMMARY

The City of Santa Rosa and the Downtown Parking District are currently evaluating the policies by which the District is managed and financed. As part of this evaluation process, Walker Parking Consultants conducted an analysis of management and financing policy options in order to determine whether or not adoption of new practices would be advantageous to the City. The following conclusions were reached.

1) Parking System Privatization: While doing so may theoretically be legal, on a practical level the Parking District cannot simply sell off its (real estate) assets. Privatization of these assets, which have been paid for by property owners, would no doubt result in lawsuits against the District or the City. Further, privatization would likely lead to falling property values in the area and could seriously harm or ruin some business owners. Potential advantages of privatizing the parking system would be few, as the result of such an action would likely be a significant increase in parking rates.

2) Third Party Parking Operations: It is highly unlikely that the introduction of third party management to the Downtown Parking District would result in any significant cost savings. The potential for cost savings lies mostly in the ability to reduce labor costs. However, in the case of the Downtown Parking District, it is highly unlikely that a third party operator would be able to reduce labor rates significantly, if at all.

3) Allocation of Parking Permits within the Parking District: With the need to share the parking supply among different land uses and the number of parking permits available for allocation typically limited to a small number by IRS rules, any attempt to allocate parking permits will likely be fraught with political problems and lead, often unintentionally, to the favoring of one party or group over another. If the allocation of parking spaces must take place, the most efficient way, as with any scarce resource, is through pricing. However, in this instance, even pricing is likely to result in political difficulty. Further, as an already limited resource, allocating permits lessens the efficiency with which one can share the supply of parking spaces.

4) Parking Financing Alternatives: There are myriad methods by which municipalities finance and manage the financing of their parking systems. Most financing of parking structures is backed by the general fund, but the extent to which this is true depends on how much revenue the system is able to collect.

Cities may use one of several funding sources in order to fill the gap between revenues and expenses, but the use of in lieu fees, a policy by which developers pay the city a fee in lieu of providing parking, has become increasingly popular among cities in California and is a good strategy. The in lieu fees paid by the developers are typically set to fill the gap between the parking system's revenues and expenses and can help finance new parking facilities.

5) Parking System Self-Sufficiency: The parking system generally operates best when it operates as a self-contained entity. Any revenue collected by the system should be used for the benefit of the system and its users.

6) Residential Parking Downtown: Sharing parking between residential and commercial uses is difficult, if not impossible, as residents typically demand reserved spaces, often on the site of their property. Even providing unreserved second spaces for residents, within the public parking supply, creates significant complications. In general it is best for residential developers to finance their own parking supply. Residential developments therefore need not be charged in lieu fees.

7) Parking District Expansion: While expanding the Parking District could result in additional revenues, it could also lead to pressure for significant expenditures to create additional parking in the areas of expansion. In order to meet the need for an additional parking financing entity for areas outside the Parking District, a parking financing entity separate from the Downtown Parking District should be considered. We do not recommend parking district expansion as a way to strengthen the finances of the Parking District.

INTRODUCTION

The City of Santa Rosa's Department of Transit and Parking is exploring new ways in which to fund and manage its parking system. Since 1954, the City has operated a parking district, which has been responsible for the development of all off-street, public parking in the downtown area; businesses within the Parking District boundaries are not required to provide on-site parking. Instead the businesses are included in a parking assessment district. The annual assessment installments pay for the debt service on bonds issued to build parking (garages). The assessments are calculated using a formula that is based on the square footage of the site and assessed value of the property. In 1996 voters in California approved Proposition 218, a ballot measure, which requires a two-thirds majority to approve a tax on property. The passage of this measure has also made it nearly impossible to support additional parking development using property assessments since both specific and general benefit rules would need to be followed. Hence, future assessments would be levied not only on property within the Parking District, but also on property outside the District (that would not benefit from the parking facilities). The existing assessments are paying off outstanding debt, but no new construction will be undertaken utilizing assessment financing.

In addition to the effects of Proposition 218, the Parking District must also contend with constraints on its ability to fund future improvements with parking revenue. The Santa Rosa City Council has recently authorized parking rate increases to finance construction of a new parking garage. However, further increases in parking rates sufficient to finance construction of an additional garage are not considered feasible in the foreseeable future.

The financial challenges and limitations resulting from these two considerations have led the Department to investigate whether or not other models for financing parking would prove useful to the City. As part of this investigation, the Department seeks to answer the following specific policy questions, namely:

1) Should the Parking District be expanded to include developing areas outside its boundaries?

2) Should the Parking District be dissolved and the City no longer be responsible for providing parking for downtown development?

3) What should be the parking development standards for downtown residential developments?

In this report we seek to answer these questions, in part by examining how cities comparable to Santa Rosa fund and manage their parking systems. We explore whether or not there are ways to structure the entity (whatever form it may take) responsible for parking such that additional or alternate sources of funding could be accessed. As part of this task we explore specific financial mechanisms available that would better enable the Department to raise revenue for new parking construction as well as parking maintenance and operations.

PARKING SYSTEM PRIVATIZATION

Walker Parking Consultants knows of no examples of a municipality completely privatizing its parking operations. Of the cities we surveyed in our benchmarking of municipal parking policies, none had considered the idea. As the Director of Parking for the City of Santa Monica expressed, "The City maintains and manages the parking as a public resource. Because of the importance of well-run, shared parking resources to our economy, we do not recommend privatizing the parking system." Cities appear unwilling to relinquish control of their parking systems when so many aspects of a city's economic development and land use policies are linked to its parking system.

This is not to say that privatizing a parking system would not offer some advantages to a city. These could include:

1. Reducing or eliminating city government's involvement in the discord associated with parking politics and policy.

2. Lessening of the impact of politics on the management of the parking system.

3. Improving the ability (of private ownership) to raise parking rates, thereby increasing revenues, which could be used to fund future improvements.

4. Allowing private ownership to use a price mechanism to better regulate parking demand and supply as well as encourage more frequent turnover of transient parking spaces.

It is interesting to note that in many cities, the general fund makes significant outlays in order to support public parking. Therefore in these cities, reducing public outlays would be a key benefit to privatization. However, according to Parking Department staff, in Santa Rosa the parking fund contributes to the general fund. Privatization of the City's Parking Department would therefore not offer the same financial benefits to the City that it would in other municipalities.

However, for the City of Santa Rosa, a policy to privatize the parking system raises a number of important questions, the answers to which suggest some of the negatives that could result from such an undertaking. These questions include the following:

1. Can the City legally privatize its parking resources? Per the City Charter, the City is legally responsible for providing "basic

services." However, based on discussions that have occurred between Stone and Youngberg and the Santa Rosa City Attorney's office, it has been determined by the City Attorney that there is no specific language in the Charter requiring that the City provide parking downtown for its citizens. Walker therefore understands that the privatization of the parking supply is not explicitly illegal under the Charter.[1]

2. Is it necessary to ensure that the privatized resources (surface parking lots, parking structures) remain as parking facilities? How would existing users that relied on public parking retroactively provide their own parking? Would the City need to require, as a provision of the sale of any parking assets, that such property remain for the use of parking by the public?

   Based on question #1 on the previous page, the answer to this question from a legal standpoint appears to be that the City is not required to ensure that privatized resources remain available for public parking. However, from a practical standpoint, were parking resources used for other purposes, the parking arrangement for the central area businesses would effectively be eliminated.

   If businesses or private property owners that have relied on public parking were denied access to this parking, in most cases it would be physically impossible for them to provide that parking on their own. Perhaps a few businesses would be able to make agreements with those properties that have their own off-street parking. Some customers and other visitors to the area might be willing to park further away from their destinations, perhaps on the street. Overall, however, it is likely that sufficient parking options would not be available and property values would be affected.

   It is virtually certain that this would lead to a battle between those central Parking District businesses that have relied on and paid to develop this parking arrangement and the City. It would also threaten the existence of much of the parking supply, and therefore the health of the economy in the downtown area.

[1] This question is separate from any IRS requirements imposed by the use of tax-exempt financing mechanisms for repayment or use of the proceeds. However, per Jones Hall, the City's bond counsel, repayment requirements that result from the use of the tax-exempt financing do exist.

3. What would likely be the impact of the reduction in the parking supply downtown on adjacent residential neighborhoods as employees seek free or available parking?

   Any reduction or restriction of the parking supply in the downtown area would likely spill over to proximate residential neighborhood streets where parking restrictions did not prevent this from happening; further study would be necessary to determine how this phenomenon would play out on city streets. However, it should be noted that on-street parking along several nearby residential areas is already restricted as a result per residential permit requirements. Examples of this include the Cherry Street and Burbank Gardens Residential Parking Zones. Current parking fees in the downtown public parking facilities, though relatively low, may have encouraged some people to park on the streets in adjacent neighborhoods already. If public parking in adjacent neighborhoods is already taking place, it is reasonable to expect that the number of public parkers will increase.

4. Could a buyer be found who would maintain the parking system? While a buyer could likely be found for the parking system's assets, the more relevant question is whether or not such a buyer would be willing to maintain the properties as a parking system. The system's finances at present would not provide a sufficient financial return to justify such an undertaking. Whether raising the price charged for parking in the District to market rates would provide such a return would require a detailed financial study. However, only a handful of municipal off-street parking facilities in the United States generate enough revenue to cover both capital and operating costs.[2] It would be highly unusual, and likely politically difficult (even despite the privatization) for a privately run parking system to be able to do so.

[2] The price of parking is generally only high enough to cover costs in large cities which enjoy extremely high real estate prices that are reflected in the charge for parking. A number of municipal parking systems are able to maintain financial self sufficiency by using on-street (meter) revenue to subsidize their off-street system. However, if the off-street component of a parking system were privatized separately from (financially independent of) the on-street component, it would be virtually impossible to make such a private entity financially viable.

5. Is it possible to ensure that the privatized resources remain as parking facilities? To the extent that the highest and best use for the property is not parking, there are few mechanisms that could maintain the privatized resources of the parking system as parking available to the public.[3] It is clear that the price for property with those restrictions placed on it would be significantly lower than the market price for such land without restrictions. Even if the legal mechanisms were to exist by which the City could ensure that land currently used for the purpose of public parking remain dedicated to that use, it is likely that resorting to such a mechanism would discourage potential investors from purchasing the parking system.

6. Is the City willing to relinquish control over the setting of parking rates in the downtown area? It is unrealistic to expect that a private party would not attempt to maximize profits by raising parking rates. Such a policy would conflict with a number of current City policies including A) the City Council's desire not to raise parking rates and B) the City's desire to grant preferential parking rates to certain users, such as the validated discount rate currently provided to downtown cinema customers, the lease agreement for parking with the State Office Building, and the lease agreement with the Futrell-Sievert Partnership for residential parking in the Beaver Street Garage. If the City relinquishes control of the parking system to private investors, it is in many respects putting the economic health of downtown into the hands of those individuals. While a wise investor(s) who purchased the parking property would realize that the health of his investment was dependent upon the health of downtown businesses, a shortsighted investor could put the economic viability of the downtown area at risk.

7. How would those property owners, who have been assessed in order to provide public parking, be treated with regard to the privatization of parking facilities? Would property owners be "grandfathered" in to the newly privatized system? If not, how would they be compensated for the loss of the parking facilities for which they have essentially paid?

[3] One such legal mechanism would be a long term lease, in which case the City would retain ownership of the land but lease the property to a private entity for (i.e.) 99 years.

The zoning code says that the parking requirements do not apply within any City parking assessment district, except for residential uses. If the City were to sell the parking franchise to a private entity, it would need to refund the outstanding bonds. Practically, property owners would likely see charges for the parking system increase, whether they be annual charges similar to the assessments or direct fees for parking. The result would likely be a political battle with the Downtown property owners.

Relying on the private sector to supply parking presents opportunities, but also complex challenges. Privatizing an existing public parking system substantially increases the complexities. While the potential benefits are significant, the potential drawbacks are as well, and it is likely that those drawbacks might not become apparent until the City and stakeholders were far along the policy path. There is also a question of whether the City is truly prepared to give up control of parking rates in the downtown area and whether it is willing to tolerate what could be significantly higher rates.

EXPLORING MANAGEMENT CHANGES

THIRD-PARTY MANAGEMENT

It is commonly thought that the privatization of a government function can lead to increased efficiencies and reduced costs. In the case of the management of a parking system, the idea is that private, or third-party, management would be a means to reducing costs and increasing efficiencies in the parking system. For example, third-party management companies may not be subject to many of the rules and regulations that municipalities must follow and as a result may have lower labor costs.

The majority of the cities we surveyed use a third-party management company to operate their parking facilities, but only one city staff member with whom we spoke specifically cited cost as a reason for doing so. Employing a third-party management company can, in many cases, reduce labor costs, particularly for employees at the lower end of the scale. However, cities that use an outside contractor to manage their parking system must still manage the third-party management firm and remain actively involved in how the parking operation is run. As a result, employing a private firm to manage one's parking operations may result in some cost savings at the lower end of the labor scale, but cities cannot farm out the higher level jobs to contractors. This limits the extent to which significant labor cost savings can be realized. It should be noted that there are no wage requirements associated with redevelopment projects that would affect third-party parking operators.

Cities that use third party parking operators tend to do so because third party operators provide them with more flexibility in their labor practices. If all parking system staff members are city employees it can present significant human resource challenges, particularly when it comes to hiring or firing practices. Third party operation of a parking system offers significant advantages in this area. However, the trade off is a reduction in the city's control of the parking operation; whether or not to utilize a third party operator depends on how important direct control of the system is to the city and the confidence that the city is able to have that the third party operator will understand and carry out its wishes.[4]

[4] In the following section we discuss the parking system's wage rates and whether or not contracting with a third-party operator would likely lead to a reduction in labor costs.

In discussions with Stone and Youngberg it was pointed out that, since the City has tax-exempt bonds outstanding which have funded the construction of some of their parking garages, there are IRS limitations on the term and nature of the contract under which such third party management would operate. These restrictions are designed to ensure that the third-party operator is acting in a service and not a partnership capacity; the third-party operator should not be sharing in the risk or reward of the operation. A management fee contract, in which the management company is paid a flat fee and all fees are pass-through reimbursements, provides the third-party operator with a flat fee but no sharing in the revenues of the parking operation would typically not raise IRS concerns. Other types of agreements, such as those in which the third party operator essentially acts as a tenant on the property would be frowned upon by the IRS. However, Walker does not believe that these limitations would hinder the City's ability to find a third-party operator; most operators are willing to work under a management agreement.

WILL THIRD PARTY MANAGEMENT REDUCE THE DEPARTMENT'S COSTS?

The Santa Rosa Department of Transit and Parking currently manages the City's parking system itself, but is investigating whether employing a third party parking operator to take over that role will make the operation more economically efficient. The Department asked Walker to explore whether the City would incur financial benefits by doing so.

Walker evaluated the expenses of the Department's parking system and compared them with those of a number of medium sized cities in both Northern and Southern California, as well as to the Walker data base of 156 private and public parking operations throughout the United States whose finances Walker has audited or reviewed. Direct, apples-to-apples comparisons of the finances of different operations are difficult as the way in which parking operations group and characterize expenses varies significantly; everyone manages their books differently. However, in Walker's analysis a number of points became clear.

Northern California is a highly unionized region and largely as a result labor costs for parking operations tend to be relatively high, particularly in urban areas. In the case of Santa Rosa, however, this is true only to some extent. Customer service staff members make over \$15.00 hourly while custodians make over \$20.00 per hour. However on the lower end of the pay scale, parking cashiers make roughly $9.00 per hour, a rate which is typical of non-unionized employees in this position.

If a third party operator were to take over management of the parking operation in Santa Rosa, union rules would make it nearly impossible to reduce the labor costs associated with the union employees. At the same time, labor costs on the lower end of the pay scale are typical of what a non-unionized cashier earns. There is therefore little room to reduce labor costs on either end of the pay scale.

Overall, except for some of the high union wages (which appear to be common throughout cities in Northern California), Walker reviewed the Department's major expenses, including labor costs, insurance, and utilities, and found them to be in line with what we typically see in audits that we have performed throughout California.

Discussions of the potential savings in having a private company manage parking often focus on the cost of administering the department. There are some savings that result from reducing the City's role in administering parking. However, the City will still be paying for the administration of the parking system in the form of a management fee. This fee could be upwards of $200,000. Parking companies expect to make a significant profit on administration. It should also be noted that the City would still need to maintain staff to oversee the parking company to ensure good customer service and accurate financial reporting. As a result, administrative savings are not as great as many people imagine. Finally, we note that contracting with a third-party operator should not affect the overhead methodology applied by the City's general fund to the parking enterprise. However, the result of contracting for these services will be a reduction in costs paid by the parking enterprise to the general fund due to factors such as the reduction in the number of employees and parking payroll dollars, which are part of the overhead allocation basis.

PARKING PERMITS

City staff raised a number of questions and concerns with regard to the allocation of parking permits to property and business owners. Staff has said that, currently, parking permits in public garages are offered on a first-come, first-served basis, consistent with requirements of tax-exempt financing. However, according to staff, Downtown property owners have expressed an interest in having permit spaces assigned permanently to individual buildings. Keeping these points in mind, we address the following issues raised by the City.

Evaluate the implications and legality of assigning spaces. What methodology could be applied to distribute equitably the number of parking permits?

The issue of assigning parking permits or spaces in a public garage is a delicate one on several levels. With regard to the use of the public parking supply, assigning permits limits sharing within the permit pool. For example, a property owner could be assigned a number of permits that he or she does not fully utilize for any given length of time. Meanwhile, these permits would not be available in the pool to other property owners who could make use of them.[5]

On a legal and financial level, the City must check with its financial advisor, bond counsel, or ultimately the IRS with regard to restrictions that result from using tax-exempt bond financing of parking facilities.[6] However, generally speaking, if more than10% of parking spaces in a structure financed with tax-exempt bonds are allocated to private entities and more than 10% of the debt service is being paid using funds from these entities and/or commercial tenant lease revenue, the City is likely in violation of IRS rules. At least 90% of the structure's revenue must be secured with revenue generated by the general public.[7] While reserving parking spaces is, in some sense, arguably different than allocating parking permits, it is virtually certain that the same IRS restrictions apply to both parking spaces and permits, even if the permits are not for reserved spaces.[8] As a result, per the terms of

[5] In this section, we are discussing permits and not assigned parking spaces. Any situation in which actual spaces were assigned would have an even more detrimental effect on the ability to share parking in the system.

[6] Any method for allocating parking spaces to private entities should be reviewed by the City's bond counsel and underwriters.

[7] Again, all determinations with regard to these rules should be based on consultations with the City's counsel in these areas.

[8] In Walker's communications with Stone and Youngberg as well as bond counsel Jones Hall, it was agreed that the IRS restrictions would apply to assigned parking permits, the option to park, just as they would apply to

the bonds, the actual number of permits that could be allocated before bumping up against IRS limits is relatively quite small.

With so few permits, when demand outstrips supply there are basically two methods of allocating this scarce resource, both of which offer advantages and disadvantages. The first method is to price the permits. Raising the fee for parking permits would reduce the demand for parking to only those who were willing or able to pay the higher permit fees. It is likely that an increase in fees would present significant political challenges. However, it is not uncommon to allocate any of a number of resources based on price, and price may be one effective method in this instance.[9]

A second method of allocation is to distribute parking permits on a first-come, first-served basis, using a waiting list in order to manage excess demand. However, the use of a waiting list creates a number of challenges. Our experience has been that a significant number of those who put their names on parking waiting lists may have adequate parking already, but may waitlist themselves for more convenient parking.

Ultimately, any allocation of parking permits, particularly one that is not based on pricing, is likely to become problematic. Once an agreement is struck between the City and a business or property owner, it is likely that other business people will point to the agreement and request a similar arrangement.

Again, we emphasize that we are referring to assigning parking permits and not parking spaces. Any attempt to allocate actual parking spaces would compound the problems discussed above by actually preventing members of the public from parking in specific spaces and would interfere with the ability to share parking among different parkers and different land uses.

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assigned spaces. Walker assumes that permits in this case refer to the right to park in any space.

[9] In addition to reducing demand, increasing rates *could theoretically* increase the overall supply of parking available to the public as owners of private parking would have a greater incentive to make more of it available to the general public.

What consideration needs to be given to the needs of property owners versus business owners?

There is no reason for the City to give special consideration to property owners over business owners. In our experience, such agreements can become quite politically problematic.[10] They tend to set political precedents, which the City or Parking District will unlikely be able to replicate in the future. As stated in answer to the previous question, any special consideration or arrangement that benefits any individual or group vis-à-vis another will likely result in political problems. The advantage of pricing permits, though potentially unpopular, is that it makes the method of allocation clear.

If an existing property owner increases the density or changes the use of his property, how will the increased need for permits be addressed?

If the use or density of a property changes, it would not be necessary to change the number of parking permits issued. We emphasize the distinction between parking permits and city code requirements. A change in a property's use would increase the parking requirement for the property.[11] How the property owner deals with the increased requirement is a separate issue, but the increased parking requirement does not oblige the City to make additional parking available.

[10] Such agreements can become particularly problematic with property owners (as opposed to business owners) as businesses can change or move, but the property remains in perpetuity, as the agreement is likely to do.
[11] Later in the report we argue that such a change, under an in lieu fee policy, likely should require the property owner to pay additional in lieu fees as a result of triggering a higher parking requirement.

PARKING FINANCING ALTERNATIVES

Within city governments, responsibility for the parking system may fall under one of a number of departments. In our survey of municipalities, Walker found that, in most cases, parking management was typically an arm of either a public works or economic development department. However, within these departments, a variety of different entities and policies may have been set up in order to better manage the parking system. Below is a discussion of some of those we found in our benchmarking survey of other municipalities. It is important to note that, despite their descriptions, our experience in surveying these cities was that each of the parking funding and management entities discussed below could not be strictly defined. On the contrary, in the cities we studied, each of these entities represented a baseline from which adjustments were made to tailor each city's parking financing to the needs and limitations of the municipality's system of finances.

PARKING AUTHORITY

A parking authority can be considered as an entity that operates independently of a city's bureaucracy. It generates operating revenues sufficient to cover both operating expenses and the debt service associated with any capital improvements. However, it also sets its own parking policies, including parking rates, and, as in the enterprise fund structure, can issue bonds in order to undertake its own capital improvements. Parking authorities therefore can typically take action independently and without approval of local government.

Below are a list of some of the advantages and disadvantages of a parking authority:

Advantages:

- Provides a structure with a sole focus on parking related issues.
- Significantly reduces administrative pressures compared to a city parking department.
- Not subject to annual budget considerations of city government or politics.
- Can issue its own debt.
- Can accomplish unpopular goals by isolating some decisions.

Disadvantages:

- Parking system must be self-supporting as it is not backed by the general fund.
- Creates a new governmental agency.
- Redundant costs of management and administration

- May face higher borrowing interest rates and costs than a city issuing general obligation bonds or general fund-based financing.
- Authority may have some powers that are beyond the immediate control of the citizens.

Most parking authorities were created in congested, highly urbanized areas to accomplish politically unpopular tasks such as the condemnation of land for parking, the issuance of bonds outside of the borrowing capacity of local government, and sometimes patronage. The creation of a parking authority allows local elected officials to distance themselves from these activities, but also creates independent boards that may be difficult to control and may be politically challenging. Parking authorities are typically appointed by the city council.

Parking authorities are typically found in the nation's Northeast section; true parking authorities are rare in California. While a number of municipalities in the state call the department that finances their parking system a "parking authority," these entities behave more like parking enterprise funds. Typically, their policies are determined by the municipal bureaucracy, including a reliance on the general fund to back the issuance of bonds for capital improvements. Therefore, although four of the cities we surveyed described themselves as having parking authorities, in no case were their parking departments actually run as independent entities.[12] One of the few true parking authorities in California is the San Francisco Parking Authority, which was formed to finance the building of new off-street parking structures. The Authority has the advantage of collecting revenue from both on- and off-street meters. The high rates for parking in San Francisco allow its Authority to be effective in financing the parking supply in that City. One important difference between San Francisco's parking authority and those of cities in the Northeast is the issue of the ownership of the structures. In San Francisco, the parking structures become the property of the City once they are paid off. In the Northeast, parking authorities typically retain ownership of these assets. In this way, part of the importance of the San Francisco Parking Authority is its ability to facilitate the financing of parking for the City.

[12] Those cities were Beverly Hills, Pasadena, Santa Monica, Walnut Creek.

PARKING ENTERPRISE FUNDS

A number of municipalities manage parking operations through a parking enterprise fund. The enterprise fund's main purpose is to break out parking funds as a separate accounting and business entity. By doing this, the enterprise fund preserves parking revenues, establishes a parking operating budget, and segregates parking expenses. A parking enterprise fund is typically thought of as separate from the municipality's general fund but, based on Walker's observations, the extent to which it is managed separately or simply a separate accounting identity used to keep track of parking revenues and expenses varies considerably. The operating budgets include a stream of revenues collected from a variety of sources, including the following:

- Monthly leases or permit fees
- Transient revenues
- Parking meter revenues
- Parking violation revenues[13]
- Reserved parking spaces
- Funds transferred into and out of the enterprise fund
- Parking in-lieu fees[14]

An enterprise fund provides a financial structure that consolidates those costs and benefits, which in turn creates responsibility and accountability. By definition, it would appear that an enterprise fund should be self-sustaining; the fund should generate a revenue stream that is sufficient to cover ongoing operating expenses and outstanding debt service obligations to ensure the solvency of the enterprise. It therefore should not run a deficit.[15]

Menu of Financing Options:

When financing a downtown parking structure, it is important to note that there are basically a limited number of items on the menu of

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[13] Whether or not a city's parking department receives the revenue from citations depends on the city. Based on our observations of and discussions with a variety of cities, there is no one standard or policy. In some cities, the parking department receives citation revenue while in others the revenue may go to the general fund. While fines and the level of enforcement arguably represent one segment of a comprehensive parking policy, it is reasonable for citation fees to be paid to whoever is in charge of, and pays for, parking enforcement whether that be the parking or another city department.
[14] At least one city we surveyed had separate parking enterprise and in-lieu fee funds. We will discuss in-lieu fee policies later in this report.
[15] In the case of an enterprise fund, if a deficit situation occurs it would be covered by money from the general or other city fund.

financing options. First, it is important to note that most financing of parking structures is backed by the General Fund, as its strength and security provides for a lower interest rate than typically could be obtained using any other source. Second, most parking structures are paid for by one or a combination of the following revenue sources:

- Net revenues generated by the parking facility being financed
- Net revenues generated by other parking facilities in the system
- On-street meter net revenues
- Parking in-lieu fees
- Money from tax increment financing on the part of the redevelopment agency.

Further, two additional points should be taken into account with regard to financing:

- The city can (and does) siphon extra revenues from a parking system by charging the system fees (the payee and the recipient both being part of the general fund).
- The city can (and does) finance "short falls" by loans from other sources (both parties being part of the general fund).

The menu options for financing that a city chooses depend to a large extent on the parking rates that the city is able to charge. For example, two opposite ends of the spectrum in Northern California are represented by the Cities of San Francisco and Napa. In San Francisco, where high parking rates allow for many parking facilities to be self supporting, the method by which parking is financed is going to be significantly different from Napa, where public parking is free.[16]

[16] There is no set formula that comprises a city's parking revenue. Different cities base their parking revenues on a number of different sources. For example, in Beverly Hills money collected from on-street parking was a source of revenue for the City's Parking Enterprise Fund until FY 2003/2004, when it was transferred to the General Fund. However, revenues from off-street parking continue to fund the Parking Enterprise Fund. Nearly all of the $5.6 million that the City earns from fines and penalties come from parking fines, yet this money goes into the general fund as well. The City also funds off-street parking from a separate in-lieu fee fund. In Glendale, California, however, transportation staff says that the department is funded through a combination of parking citations and revenue generated from both parking meters and structures. Both the City of Pasadena and San Diego's Center City Development Corporation (CCDC) have emphasized the importance of on-street parking "subsidizing" off-street parking operations. Municipal parking systems are often funded by a combination of on- and off-street parking fees, citations, in lieu fees, and/or the general fund.

Ultimately, where parking rates are not high, additional funds are needed to fill the gap between revenues and costs. The general fund, or another gap filler such as in lieu fees, is typically needed to provide financial backing.

Budgeted expenses include the operating costs associated with ongoing parking operations. This may include the labor costs associated with maintenance, security, on-street and off-street parking enforcement, revenue collection, management, and administration. Other operating costs may include utilities, supplies, and equipment.

Of the cities we studied, the following had parking enterprise funds:[17]

Beverly Hills
Glendale
Pasadena[18]
Redwood City
Sacramento
San Rafael[19]
Walnut Creek

However, the way in which parking enterprise funds are used to finance parking in each city is significantly different. Pure, self supporting financing based solely on the income from a parking enterprise fund is uncommon among suburban California communities. Except in highly urbanized, high density cities (particularly in the Northeast), rarely do the parking system economics allow a self supporting funding structure. Below are a list of advantages and disadvantages of managing parking finances using a parking enterprise fund:

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[17] Walnut Creek staff called the parking system a "self-funding entity," an "informal enterprise fund, but not specifically an enterprise fund per se."
[18] Pasadena has a number of parking enterprise funds, including those set up for separate districts or facilities within the City, including the Old Pasadena parking fund. However, within Old Pasadena there is a separate "Special Revenue Fund" called the Old Pasadena Parking Meter fund. The complex system is likely the result of Old Pasadena's Parking Benefit District, which will be discussed later in the report.
[19] While we did not analyze all aspects of San Rafael's system as part of our survey, per staff's request, we confirmed that that City set up a Parking Services Enterprise fund which, as one City document described, "is intended to capture the full cost of all parking services (enforcement, maintenance, administration, operations, debt, etc)."

Advantages:

- Enterprise fund separates parking revenues from general fund activities.
- Control is typically provided by an experienced city parking administration
- Minimal increase in administrative complexity.
- Does not create new political entities.
- Provides an identifiable business venture which may raise capital by setting appropriate rates and charges.

Disadvantages:

- Compared to the use of a parking authority, a parking enterprise fund puts the general fund at more risk, as any bonding undertaken for the parking system is done against the city's bonding capacity
- Parking policy more likely to fall within the purview of staff and elected officials.
- Civil service rules and budgeting process can be cumbersome and time consuming.

PARKING ASSESSMENT DISTRICT

In a parking assessment district, property owners are assessed in order to generate a revenue stream which is then leveraged for funding parking improvements.

The passage of Proposition 218 in California has resulted in the requirement that assessment levies follow strict guidelines of special and general benefit and that all benefited properties be assessed. Hence, in the context of a parking district, when a large number of properties would potentially benefit (including publicly owned parcels) approval of this kind of assessment has become increasingly rare and difficult, making this method of financing largely unviable for the purposes of a parking assessment district.

PARKING BENEFIT DISTRICT

A parking benefit district is a relatively new, loosely defined, policy idea in which parking revenue, or a set portion of the revenue, from the district remains in the district for the purpose of providing public improvements. The policy typically starts with increasing the price of on-street parking in order to create turnover of spaces and generate revenue. Political support for the district is earned by earmarking all or a set portion of the increased on-street revenue to improvements within the district. Often the revenue may go for the purpose of funding off-street parking facilities and/or street improvements, such as street trees, sidewalk repair and other improvements.

The most frequently cited case of a successful parking benefit district is that of Old Pasadena. In addition, according to San Diego planning officials, garages in the downtown area are funded directly from bonds based on on-street parking meter revenue.

It should be noted that these type of districts are unlikely to support new parking facility construction in areas that have relatively few meters, charge low rates for parking, and/or do not operate at night or on weekends.

PARKING IN-LIEU FEES

In lieu fees are a mechanism for financing parking that is used in cities throughout the country. A city charges parking in lieu fees to a developer for each required parking space that the developer does not build.[20] Practically speaking, a city which uses a system of in lieu fees must therefore have some type of minimum parking requirements in place in order to determine the amount of the fee that the developer would have to pay.

For example, the minimum parking requirements for an office building are 2.5 parking spaces per 1,000 square feet and the City has set the parking in-lieu fee for the area at $20,000 per space. A developer wants to build a 50,000 square foot office building. The developer could build the minimum 125 parking spaces as part of his development or he could pay, in this example, $20,000 per space. The in-lieu fees go into a fund that the City uses to fund the development of public parking facilities.

[20] In some cases, the developer has the choice of whether or not to build the parking spaces or pay the in-lieu fee. In a few cases, the municipality requires that the developer pay the in-lieu fee instead of building parking. Calgary, Alberta represents one such case. The city need not give developers the option to provide parking instead of paying an in lieu fee if it views parking that is not shared as being detrimental to the downtown, for example due to increased curb cuts interrupting pedestrian traffic flow or scattered parking locations interfering with land use patterns. The City can mandate that the in lieu fee be paid and no new parking built or it can encourage and incentivize developers not to build more parking. The lower the in lieu fee is set, the more willing developers will be to pay in lieu of providing their own spaces on site. On the other hand, if there is not enough space available to construct all spaces as public, the City might welcome developer building their own parking on site.

Practically speaking, a project cannot be exempt from the in lieu fee program. It must pay the required in lieu fee or provide its own parking. The only possible exception could be a redevelopment project, in which case a city's redevelopment agency would finance the parking supply for the project.

If the size or shape of the parcel being developed creates a situation that makes incorporating parking spaces difficult and/or expensive, the developer might gladly pay the in lieu fee. In some instances, a developer may choose to provide as many spaces as he can build himself for less than the price of the in-lieu fee. Then, once the marginal cost per provided space goes above the in-lieu fee, he would choose to pay the fee instead of building the more expensive parking spaces.[21] In this way, developers may choose to build a portion of their required spaces and pay in lieu fees to satisfy the requirement for the remaining spaces that are more expensive to build.

In lieu fees are not necessarily set at the cost of providing a new parking space.[22] An in lieu fee should fill the gap between what a space costs to construct and the net revenue that it generates over a set period of time. In a location where parking is free, in-lieu fees may equal or exceed construction costs. However, where one is able to charge for a parking space, the in-lieu fee will ideally be set equal to the difference between costs and net income over a set period of time; the higher the parking rate in the area, the lower the in lieu fee that the city needs to charge the developer. In the unlikely instance that a parking space can pay for itself, there is no need to charge the developer an in lieu fee; the city would be able to pay for the space based entirely on the net revenue generated and even earn additional revenue.

A city typically sets its in lieu fees based on the policy that it wishes to incentivize. If a city wants to be the entity that develops parking downtown, likely in order to encourage shared parking or to have significant control over parking and transportation policy in the downtown, it may set in lieu fees so low that developers are

[21] Although there are exceptions, the cost of each additional parking space tends to increase. For example, the cost of going down an additional level in an underground structure or going up one more level in an above ground structure can be substantial. Ironically, the revenue that is received for each additional space is likely to decrease because it will be occupied for fewer days of the year.

[22] In our benchmarking survey, Walker observed in-lieu fees that ranged from roughly $10,000 to $26,000 per space.

encouraged to have the city build their parking spaces for them. If a city only wants to be the developer of parking as a last resort, it would set in lieu fees higher.

A policy of funding public parking with in lieu fees also addresses an important issue of fairness with regard to current and future property owners. There are times when existing property owners consider it inequitable for a city to build public parking for the benefit of future developers, while those who had already developed downtown were required to provide their own parking. On the other hand, if a city building parking makes possible a development and enhances an underutilized area, it can contribute to rising property values for everyone in the area. However, with an in lieu fee policy, when the price is set correctly new developers essentially pay for as much parking as they are required to have. Developers often appreciate the fairness and flexibility of the policy.

In-lieu fees can be negotiated and then set on a case-by-case basis, which may be determined based on construction and/or land costs. The alternative is that the city may apply the same uniform in-lieu fee per parking space for each development. The City of Beverly Hills has used both methods and found that developers preferred the predictability of the latter. Again, we emphasize that the in lieu fee is ultimately set in order to fill the gap between how much parking will cost to build and maintain and how much one is able to charge for the parking.

Below are a list of advantages and disadvantages of an in-lieu fee policy for the financing of parking by municipalities:

Advantages:[23]

- Flexibility for developers in how to provide (and pay for) parking spaces.
- Flexibility with regard to a change of use (particularly for historic buildings) - Should the use of the property change, for example a retail space changed to a restaurant use, additional in-lieu fees can be assessed for the increase in parking demand.
- Shared Parking – Fewer spaces are required overall as land uses with different peak hours for parking demand are able to share (public) parking.

[23] Several of the advantages and disadvantages listed below are discussed in Donald Shoup's, *The High Cost of Free Parking*.

- Park Once – Customers can park one time to visit several destinations as opposed to having to move their cars from private parking lots after visiting one establishment.
- Historic Preservation – Buildings that might otherwise be unused or unusable due to an inability to meet parking requirements may find it easier to find tenants.

Disadvantages:

- High fees may discourage development – Developers may balk at paying in-lieu parking fees if they perceive them as too high. Low fees may not be high enough to cover parking space capital and maintenance costs. In lieu fees may have to be one of many sources of revenue used to finance the parking system.
- High fees may also defeat the purpose of having parking in-lieu fees at all; developers may choose to simply build their own parking, which at times may not be available to the public. The opportunity to share parking would be lost.
- Lack of on-site parking – Providing parking off site may be less desirable to many developers than providing parking on site.
- Parking spaces are not guaranteed – When one provides their own private parking it is easier to ensure that customers have spaces. When it is provided as part of a public facility, businesses have less control and cannot guarantee parking

More than half of the cities we examined in our benchmarking survey used in-lieu fees to help finance new parking facilities. Below we show the parking in lieu fees charged by the cities in our survey:[24]

Beverly Hills - $6,070 - $25,000 per space
Mountain View - $26,000 per spaces
Redwood City - $10,000 per space
Santa Monica - $1.50/sf[25]
Walnut Creek - $27,000 per space

However, a number of other cities in California also charge in lieu fees. The following cities were not included in our benchmarking survey, but charge parking in lieu fees. They include:

- Berkeley
- Carmel
- Claremont

[24] As of March 2006.
[25] For square feet added after 1986.

- Concord
- Davis
- Hermosa Beach
- Mill Valley
- Palm Springs
- Palo Alto
- Pasadena[26]

Setting in lieu fees

The assistance of a financial advisor is required in order to set the in lieu fee at the appropriate rate to fund construction and cover operating costs. However, in most cases, in lieu fees are not the only source of funds to finance a parking structure. Income from both on- and off-street parking spaces, as well as citations, and other sources may be required to fund parking facilities. As stated previously, it is reasonable to set an in lieu fee only high enough to fill the gap between the cost of providing the parking space and the amount of revenue received from that parking space.

Walker has not observed a specific method, such as a system of indexing, by which cities adjust the amount of their in lieu fees to take into account changes in construction costs. Just as many cities do with parking rates, in lieu fees may be revisited every few years and adjusted by the city council.

SPECIAL TAX DISTRICT

Under the California Mello Roos Act, parking facilities can be financed by the levy of a special tax and approval of the tax and the financing by two-thirds (of the landowner or registered voter vote). A special tax district is formed and established to effect such funding.

TAX INCREMENT FINANCING

To the extent that a significant amount of new development is expected in a redevelopment district, tax increment financing (TIF) can be used to finance new parking within the district. TIF has been used to finance parking structures in communities throughout California.

PUBLIC/PRIVATE PARTNERSHIPS

In instances where municipalities, or other large entities such as hospitals, find themselves unable to come up with adequate funding to

[26] The Pasadena fee mentioned above is a monthly fee that exists either in perpetuity or per a specific contract agreement. It is often referred to as a parking credit fee, but is paid in lieu of providing required parking spaces. In the City's Old Town section the fee is $141.57 per space per month.

construct a parking structure, they may choose to enter into a public-private partnership with a firm that will build the facility for them. In this case, the municipality and the firm enter into a public-private partnership in which the private firm builds and finances the new facility, which it then leases to the municipality for a period of time after which ownership of the parking facility and the land it occupies reverts back to the municipality. Typically, a non-profit (501c3) corporation must be set up to undertake this type of development. While the upfront costs of financing are significantly reduced for the cities, ultimately the city must pay more for the facility as it is (albeit slowly) covering the developer's profit. Ultimately, this type of arrangement may provide flexibility, but will not reduce a city's costs.

BENCHMARKING SURVEY OF MUNICIPALITIES

Walker Parking Consultants surveyed seven cities in California in an effort to learn how other cities in the state were dealing with the challenges of financing and managing their parking systems. Below, we offer a brief description of our observations of parking policies in each city:

Beverly Hills, California - The Director of Parking Operations for the City of Beverly Hills describes its system of parking financing as complex because "there are a million hands involved."

The City has a Parking Enterprise Fund, but the revenue it receives is limited to fees generated by the parking facilities: revenue from monthly parking permit fees, transient parking fees, and rents from retail space in the structures. Roughly two years ago, parking meter revenue that had been going into the Parking Enterprise Fund was sent into the General Fund.

In Beverly Hills, a significant amount of money flows between the parking enterprise fund and a number of other funds and accounts in the City government. A review of the enterprise fund's budget over the past five fiscal years shows loans from the general and other funds that make up a significant part of the enterprise funds' budget. The City uses a policy whereby the parking fund borrows from the cash reserves of other funds, taking advantage both of available reserves and inter-fund interest rates that are lower than can be found on the open market. At the same time, these funds earn a higher interest rate for the City than would a typical investment. Over the past two years, the fund has also received an annual transfer from the City's in-lieu fund.

At the same time, the fund makes significant annual outlays for capital projects and debt service principal.

For example, the parking enterprise fund borrowed roughly $16 million at 5.5% interest over 20 years from the general fund's reserves in order to build one of the parking departments' surface parking lots. According to a memo from the City, "this compares favorably with the return (currently under 3%) on the City's investments which the General Fund would otherwise be earning."

Bonding for new public parking structures in Beverly Hills is therefore undertaken by the City. However, a significant amount of the debt service is paid by the parking enterprise fund, by way of the general fund, which in turn earns money, in part, from in lieu fees.

Glendale, California - The City of Glendale currently owns the public parking structures in the City, as well as part of the structure used by the Glendale Galleria shopping center. Until recently, the City's redevelopment department owned a number of parking lots, though it owns none at this time.[27] There are exceptions as to how parking is financed and managed in other parts of the City, such as in the Montrose District, where the Montrose Parking Shop Assessment District controls some of the funds. Parking facilities in the City are currently operated through a contract by a parking operator; staff described its reason for doing so as "staffing limitations."

The parking system is managed by the Traffic and Transportation Division of the City's Public Works Department. Funding for the system is overseen using a parking enterprise fund. According to City staff, parking citations and revenue are generated from parking meters and structures.

Mountain View, California – In Mountain View, the parking system is overseen by the (Parking) Maintenance Assessment District. The District is "an arm of the Revitalizing District" (a redevelopment district). Several years ago, the Redevelopment District made major physical improvements in the downtown area, such as hardscaping, that included a parking structure. The improvements were funded by a bond issue secured by the City's general fund but in turn paid from the tax increment revenue generated in the redevelopment project area; in this way the Redevelopment District was able to finance the construction of parking.

[27] Redevelopment participation does not affect labor costs for employees who work in the parking system.

In Mountain View, funding for the parking system comes from a variety of sources, including $158,000 from the Maintenance Assessment District Assessments (roughly half of its budget).[28] According to Jessica Von Borck of the Maintenance District, "the average assessment per property owner is $1,000, which is passed on to the tenant." The rest of the funds for the parking system come from a variety of sources including bonds from the Redevelopment District, parking in-lieu fees (which, at $26,000 per required space is one of the highest in our survey[29]) and daily, monthly, and annual parking permits. While parking for less than 2 hours is free, visitors staying for more than 2 hours must go to City Hall for a permit.

Mountain View does not use a third-party parking management firm; the parking district is managed by the City and a part-time parking enforcement officer is hired by the police department.

Redwood City, California – Redwood City's parking fund currently "breaks even," according to Dan Zack, the City's Downtown Economic Development Director. The City's parking policies are overseen by the Department of Economic Development. However, the City is currently changing the way it finances its parking system by adopting one of the most unusual parking policies of any municipality in the State. Per the City's new Downtown Parking Ordinance,[30] on-street meter rates will be increased with the goal of creating a 15% vacancy rate at on-street spaces to ensure that all those looking for an on-street space can find one. The policy is expected to result in a sizable revenue surplus within the parking fund that will be used not only to finance new parking in the future, but amenities in the downtown area as well.

The impetus for the revision of the City's parking policy was the building of a new cinema and garage complex in the area and concerns about how to manage the parking demand that would be generated. The garage is being financed directly by the City's redevelopment agency using bonds secured by the tax increment revenue from the entire project area.

The City currently has the lowest in-lieu fee of any of the cities in Walker's survey, $10,000 per space. However, Zack indicated that the fee could rise in the future. In a phone conversation, City staff

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[28] 75% of the assessment is based on land use, 25% is based on parcel area.
[29] Van Borck pointed out that the in-lieu fee was per required space, and that the parking requirements in the Downtown area were lower than in the rest of the City.
[30] Implementation of the ordinance was delayed; it was planned to take effect May 1, 2006.

stated that the City plans to have a third party parking operator manage several facilities because it believes it to be a "cheaper" form of management for the City.

Sacramento, California –Sacramento is one of two cities (the other being Redwood City) we studied that is currently revamping its parking financing policies in order to determine what direction the City will take in dealing with parking issues in the future. A staff report issued in January 2006 included the following recommendations:

- The establishment of 'in-lieu parking' fees[31]
- The use of time limits, rates and enforcement to manage parking supply efficiently
- The combination of all revenues from the City's on and off-street parking operations into a single Parking Enterprise Fund
- The use of above Parking Enterprise Fund moneys to support all City parking programs or other programs to accommodate or reduce parking demand
- Maintain all City-owned parking facilities and revenue collection equipment for maximum effectiveness and efficiency
- Promote alternative modes of transportation and walkable communities, including considering having development projects "unbundle" parking costs from other costs in order to avoid leasing of too much parking

Santa Monica, California[32] – In Santa Monica, "the City Council . . ., the Redevelopment Agency and the Parking Authority in Santa Monica are all the same seven people," according to a staff member in the City's Transportation Department. Therefore, as appears to be the case with other cities in our benchmarking survey, rather than a clear financing and management policy for its parking department, Santa Monica approaches the funding of its parking facilities on an ad-hoc basis.

According to Lucy Dyke, Transportation Manager for the City, "Technically, different entities own and lease various parking structures from each other, (but) the downtown structures used to be owned by a parking authority, (and) over time the revenues and expenses of the General Fund and the parking authority really became commingled. For example, the General Fund paid to put in parking meters, and then

[31] As of this writing, the City still has not implemented an in lieu fee policy, but is still considering doing so.
[32] A number of different City staff in Santa Monica were consulted to understand their methods of financing, including staff in the Department of Transportation, Resource Management and Economic Development.

collected the revenue from them, but the parking authority kept paying for maintenance and utilities."

Santa Monica therefore uses a combination of financing tools and policies to fund its parking system, which Senior Analyst described as "confusing." The original six downtown parking structures were built by the City in the 1960s and 1970s using revenue bonds. Since then three of the structures have been refinanced several times, in part by bundling the financing into the Mall Assessment District, which pays for the 1989 improvements that created the Third Street Promenade street improvements.[33] The debt service is financed by an annual assessment of Bayside property owners and the current square foot costs ranges depending on the zone of benefit within which the property is located.[34]

Concurrently, a Parking Developer Fee has been passed with the Mall Assessment District. The fee is $1.50 per square foot per year for each new square foot of building space in the district added after 1986 for which parking is not provided. The fee is not required if additional parking is provided for the new square footage. Under certain conditions, any property which provides and maintains off-street parking facilities is given a credit for the annual assessment; any property which has all or a portion of the square footage reserved for residential uses can get a 50% credit against the parking portion of the assessment. The Parking Developer Fee monies are placed in an account and are used toward parking programs, such as improvements or additions to the parking supply (new parking structures). One staff member in the parking department with whom we spoke pointed out that "property owners can redevelop without providing parking."

As opposed to the assessments, the revenue that the parking structures generate goes into Santa Monica's general fund. Many property and business owners object to this and want this money earmarked to the district.

With regard to the operations of the system, the City has its own parking management staff in the Transportation Management Division of Planning and Community Development. Dyke states that the department has "a very hands-on management approach that includes

[33] The Third Street Promenade is often cited as one of the most successful retail areas in California.
[34] The bond is scheduled to retire in 2016.

a contract operator for our facilities."[35] "The City is responsible for the quality of the operation and the integrity of the revenue," says Dyke. "With a parking office staff managing the system, we have been able to significantly improve both service quality and revenue collection."

Dyke concluded with a caveat related to Santa Monica's efforts at calming traffic, making the area more pedestrian friendly, and not overbuilding the parking supply – although perhaps one that a City with tremendously successful retail can afford to consider. "In general, we don't want too many cars. It's not all good" (to have so much parking)," she stated. "As we see in Redondo Beach, "it's tough to do a good job. It's not a one size fits all situation. Cleaning, for example, is expensive and keeps us very busy."

Walnut Creek, California – In Walnut Creek, the City owns the garages, but the Department of Public Services (Walnut Creek's equivalent of the Department of Public Works) is in charge of the parking system.

Rinta Perkins of the City's Department of Public Services called the City's parking system an "informal enterprise" fund, but not specifically an enterprise fund per se. She said that it is a "self-funded entity" in that it pays its own operating and maintenance costs. However, it does not pay any debt service on its three garages, for which the City pays the debt service.

The City also uses in-lieu fees to pay for its parking system. Perkins estimated in-lieu fees at $27,000 per space.

[35] Standard Parking was the first operator of the consolidated program and now PCI is the contract operator.

CONCLUSION

HYBRID FINANCING POLICIES

Rather than using a specific tool or entity to finance the capital and operating costs of their parking systems, the cities we studied generally take a flexible and creative approach to their parking finances - out of necessity. This is likely because, from a credit market perspective, stand-alone net income pledges from a parking system in a suburban setting are generally considered weak, since it is looked upon as a "non-essential" and "discretionary" economic activity. Whereas in a dense urban area there is significant "pent-up" parking demand should existing demand drop, in a suburban location should parking demand from one generator drop, the parking system is more likely to suffer.

Those responsible for financing parking in the cities that we have studied have deliberately set up a porous wall between parking revenues and sources of borrowing that allows money to flow to where it is most needed. Then, when the time comes to finance a parking facility, they compare the cost and availability of sources of funding both inside and outside the City government's financial structure and determine the best method for funding on a case by case basis. Often, the source of funds is cobbled together from a number of different sources of financing.

In the case of the cities we studied, the policy implication of this method of financing is that it is either extremely difficult or undesirable to completely isolate one's parking financing from the general fund. Whether it is a result of the general fund being a more reliable (and therefore less expensive) source of bond financing or too many departments in the City having an interest in the way parking is managed and funded, politically and/or financially it is difficult to allow a parking operation to run itself.

Likely as a result, none of the city staff with whom we spoke said that their cities had ever considered privatizing their parking operations. We saw third-party management agreements in place, although typically the city department in charge of overseeing the parking department was still intimately involved in the relationship between day-to-day operations and policy. Cities had a variety of reasons for using a third-party management company. However, whether they used third-party management or not, they stressed the need to closely connect with how the operations were run. Only one city stated that it had chosen an outside management company for the purpose of controlling costs – and that city had not yet brought the third-party operator on board yet.

IN-LIEU FEES

Charging developers a fee per required parking space in order to fund public parking was the one policy that we observed being used by nearly all the cities we surveyed. These in-lieu fees, used by many cities throughout California, create a reasonable nexus between the need for and construction of new parking spaces. In addition, the flexibility they provide may please some developers and provide cities with added planning benefits as well.

Based on the financial and political constraints that Santa Rosa's parking department is currently facing, we recommend that the city explore the implementation of an in-lieu fee policy in order to fund the development of additional public parking in the city.

In-lieu fee amounts vary widely throughout California, from figures that take into consideration construction and land costs to those that represent only a fraction of the cost of building a parking space. In the case of Santa Rosa, we believe it reasonable to charge an in-lieu fee that would represent the high end of the cost of constructing a parking space while giving developers the option of providing their own parking. The purpose of this policy would be to provide an incentive for developers to provide their own parking supply and to rely on the City for parking as little as possible.

Whether or not the City pursues a policy that encourages developers to build their own parking is of course a political decision. While such a policy may reduce the number of parking spaces that the City must build and operate, there are trade offs involved. In some cases such a policy may not be desirable from a land use perspective, primarily because it limits the extent to which parking resources can be shared and the many benefits that come from shared parking. However, if the City places a high priority on limiting the amount and number of parking spaces to a few locations that it controls, it can institute an in lieu fee program that discourages or prohibits developers from building more parking themselves. Under such a policy developers would be required to contribute to the City parking in lieu fee program instead.

We would assume that an in-lieu fee policy in Santa Rosa would exempt all those property owners who have been assessed under the current system. They would be "grandfathered" into the in-lieu fee policy owing to the assessments they have already paid and the parking spaces that have been built as a result; their parking demand is currently met by the existing parking supply which they have helped finance. The purpose of an in-lieu fee policy would be to provide a supply of parking for new development or for those buildings for which a change in the existing property uses trigger an increase in parking demand.

While the fear has been expressed in some cities that parking in lieu fees could hurt economic development, this is unlikely to be a problem in Santa Rosa. In lieu fees can potentially hamper development where there is not a strong market. If people are willing to invest Downtown only because it is inexpensive to do so, they will not pay $15,000 to $20,000 per parking space. However, if the area is desirable and investors are confident that the opportunity for profit exists, they will be willing to pay to provide parking. In lieu fees make the economics of providing parking more flexible.

RELATED POLICY ISSUES

RESIDENTIAL PARKING DOWNTOWN

Residents of multifamily developments have parking needs that are significantly different from those of other downtown commercial land uses. Currently, Santa Rosa's Code requires that developers of residential units downtown provide one parking space per unit. With the exception of the most expensive urban areas, residents typically demand not only reserved parking, but in most cases on-site parking as well. Providing reserved residential parking in a public garage would defeat the purpose of sharing parking; the reserved spaces could not be shared. Reserving parking spaces for residential development would be detrimental to the shared parking system and risk violating IRS rules regarding tax-exempt bond funding for public parking structures. Residential developers should therefore be strongly encouraged to provide the required one space per unit themselves, without City assistance.[36] Once the residential developer does so, he or she would effectively not have to pay in lieu fees as the City cannot require the developer to pay an in lieu fee for parking spaces above and beyond the code requirement.[37]

One exception to this policy would be the case of an historic building for which it was physically impossible to provide parking. In such a

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[36] It is worth noting that it is typical for lenders to require residential developers to provide at least one reserved parking space per unit on site.
[37] Only for a residential development's guest parking spaces might it be reasonable for it to share parking with other land uses downtown. However, because there is no separate code requirement for such guest parking, residential developers would not need to pay an associated in lieu fee.

case, it would be reasonable for the City and the property owner to create a special arrangement by which the City provided parking for the residents.

Theoretically, if it were requested, the City could agree to provide residential developers with additional unreserved spaces in public garages, above and beyond the first required space. However, even these unreserved spaces could create problems for the Parking District. In addition to the aforementioned conflicts with IRS regulations discussed previously, second cars tend to be driven less than primary vehicles, particularly if they are parked in a less convenient location for residents than their primary car. The result would likely be that many of these second cars belonging to residents, which are typically thought of as being used during the day for commuting purposes, might remain parked during business hours and occupy spaces needed for daytime visitors. Therefore, even if the City were to give individual residents parking privileges (as opposed to developers) in the public structures, these residents' cars could end up displacing the cars of daytime visitors. This is one way in which providing even shared spaces for residents in public garages could create a problem.

One solution could be the issuance of separate day time and night time parking permits; residents could purchase parking permits that allow them to park in the public garages in the evening and on weekends only, but not during business hours. Similarly, the Parking District could issue different kinds of parking permits based on the time of day that parking is needed (for example daytime, nighttime, and 24-hour), and charge a premium for residents to park their cars in public parking facilities during business hours.

Finally, there is another possible solution for residential developers who cannot supply all the parking they would like on their own site. There are a number of cases throughout the country in which garages have been financed as two separate entities; the private spaces are financed and paid for by the developer while the City finances the public portion of the structure.[38] In this way, the developer may provide reserved spaces for its residents without interfering with the sharing of the parking supply or potentially creating a conflict with IRS restrictions. Should the City wish to provide assistance to a residential developer in the form of parking, it would therefore likely be more productive for it to do so in the form of a public private partnership

[38] In addition, bond counsel indicated that, in some instances, the redevelopment agency may have some extra increment that may be used to fund private uses.

rather than in trying to do so by providing the development with access to parking spaces in a public structure.

DISTRICT EXPANSION

City staff requested that Walker explore the implications of expanding the parking assessment district to include Railroad Square and the area east of E Street, and along B Street. We have determined that, although an expansion of the District could potentially increase the revenues paid into the District, the increase in the amount and number of locations in which parking may need to be provided would likely make such an action counterproductive from a financial perspective. For example, if an in-lieu fee district were to include Railroad Square, the City might come under pressure to build a garage for the use of the businesses in that area although it is unlikely that the additional fees collected would cover the added cost of building (and operating) the new parking facility. District expansion, while possibly generating additional revenues, would bring additional stakeholders into the Parking District. It is likely that these new stakeholders would then require additional outlays by the District.

Railroad Square is located away from the heart of the downtown area. In addition, the development plans specific to the Railroad Square area (including the increased use of the area as a transit hub) are distinct from those of the existing Parking District. As such, parking policies for Railroad Square, separate from that of the rest of Downtown, should be explored. For example, a parking facility for a commuter rail station could provide a parking supply efficiently shared by restaurants and boutiques in which the demand for parking peaked in the evenings and on weekends. Large-scale development in the area could generate significant funds from in lieu fees, but would also generate additional parking demand and the need for large expenditures in order to build more parking.

In short, a parking district should operate as a unit in which the different land uses share the parking supply. It would likely be unproductive to bring disparate areas with dissimilar characteristics and parking needs together into one parking district.

Some advantages and disadvantages of district expansion are the following:

<u>Advantages of District expansion</u>:

- Allows for the use of an existing policy and finance mechanism to fund parking improvements in other areas.

- Could expand the use of shared, and ultimately more efficient, parking with all the associated, planning-related benefits.

Disadvantages of District expansion:

- Potentially increases demands on the Parking District disproportionately more than increases revenues.
- New additions to the Parking District may have different needs than the existing district; different policies rather than the existing policies may be more appropriate in satisfying the parking needs of the additional areas. For example, parking policies suited to smaller parcels of the existing district may not be suitable for the proposed additions to the district.

RECOMMENDATIONS

Based on the previous discussions, we conclude with the following recommendations:

- As a practical matter, privatization of the public parking system is not a viable option for the City of Santa Rosa. For many property and business owners, privatization of the system would raise the threat of the loss of their parking supply and the value of their property or businesses. Any attempts at privatization would likely result in a lengthy legal battle between the City and the aforementioned stakeholders. Privatization of the parking system is not recommended.

- Third-party operation of the parking system could potentially result in minor savings in some areas. However, due to fees paid to a third party operator, overall, private management of the parking system would not likely result in any improvements to the system's bottom line. Third party management of the parking system is not recommended.

- The parking system should operate as much as possible as a self contained entity. Any revenue collected by the system should be used for the benefit of the system and its users.

- We recommend that the City consider a system of in lieu fees, whereby developers who build with in the Parking District may pay a set fee to the City per required parking space, in lieu of providing the space itself, as a means of funding the public parking system in the future. Whether or not payment of the fees is mandatory or developers may choose between providing the spaces or paying the fees would be based on the City's planning and land use goals.

- Providing residential parking presents unique challenges for the public sector, primarily due to residents' demand for reserved parking in most cases. It is recommended that residential developers supply their own parking on site. At a minimum they should be expected to provide the one space per unit required by code on site, except in the case of historic buildings where this might be physically impossible. Once the code requirement was met, residential developers would not be required to pay in lieu fees. Because providing parking spaces for residents in public garages can negatively impact the ability to share parking among all uses, it should generally be avoided. Evening and weekend permits that do not allow residents to leave their cars in public parking spaces during business hours, as well as public-private partnerships that would allow for the private financing of residential spaces separate from the shared parking area, could be effective ways for the City to help provide residential parking when the developer is unable to do so on his or her property.

- The additional financial and political demands placed on the parking system as a result of the expansion of the Parking District would likely outweigh any additional benefits. If a parking district were needed for the Railroad Square district, it should likely operate separately from the existing Parking District.

CITY COUNCIL MEETING MINUTES
TUESDAY, DECEMBER 12, 2006

COUNCIL CHAMBER, CITY HALL, 100 SANTA ROSA AVENUE

REGULAR MEETING

11.3 REPORT - PARKING DISTRICT MANAGEMENT STUDY 6:20:18 PM

Cheryl Woodward, Deputy Director, and Bob Dunlavey, Director, both of the Department of Transit and Parking, presented the staff report for the item and responded to questions and concerns of the Council and speakers.

The following individuals spoke:

Steffan Turoff, parking consultant

Hugh Futrell

Discussion ensued, with the Council concurring to receive the report and to request additional analysis of funding options for review.

MOVED by Councilmember Bender, seconded by Councilmember Martini, carried 6-0-1 (Councilmember Sawyer abstaining) , to recieve the Parking System Financing and Management Alternatives Analysis, prepared by Walker Parking Consultants and to direct staff to analyze funding options and bring back to a study session.

City of Santa Rosa
Department of Transit and Parking

PARKING FACILITIES FINANCING ALTERNATIVES

Financing Alternative	Description	Comments
Parking User Fees	Revenue from parking meters, parking permits, and garage hourly parking. Fees paid by employers, employees, visitors, and patrons of downtown businesses.	Parking user fees finance the operations, maintenance and capital repair of the Parking District's garages, surface lots, and parking meters.
Parking Citation Revenue	Fines and penalties collected from issuance of parking citations.	General Fund revenue used to fund public safety, public works, and other GF responsibilities of City.
Parking Assessments	Assessment placed on tax roll of properties located within Parking District boundaries for debt service costs of bonds sold to construct parking facilities.	Current parking assessment financing is pre-Prop 218. Any new assessment financing requires voter approval by two-thirds of property owners, weighted on square footage of the parcel. Difficult threshold to meet.
Special Tax	A special tax approved by two-thirds of the landowner or registered voter vote for a specific purpose.	Special tax requirement of two-thirds voter approval is difficult threshold to meet.
Tax Increment (Redevelopment)	A financing mechanism that uses the growth in property tax revenues from a designated redevelopment area to finance bonds to pay for redevelopment programs.	Tax increment provides gap financing for private or public improvements on a case-by-case basis.
Public-Private Partnership	A partnership in which a private firm builds and finances the new facility, which it then leases to the City. Ownership of the facility and land reverts back to the City after a period of time.	Partnership reduces the upfront cost of financing; however, the City will ultimately pay more for the facility as it covers the developer's costs and profit. Revenue stream for lease payment (typically from parking user fees) will be required.
General Fund	The chief operating fund of the City. The General Fund accounts for the operations of the City that are financed from taxes and other general revenues.	General Fund revenue used to fund public safety, public works, and other GF responsibilities of City. GF backing of Parking District financing is required to obtain most favorable financing terms.
In Lieu Fee / Buy-In Fee	A set fee paid by developers per required parking space in lieu of providing the space itself.	In lieu fees are used by cities throughout the country. Further analysis is required to develop and recommend an in lieu fee program.