



CITY OF BEVERLY HILLS STAFF REPORT

Meeting Date: November 30, 2010

To: Honorable Mayor, City Council

From: Mahdi Aluzri, Assistant City Manager
Chad Lynn, Parking Operations Manager
Noel Marquis, Assistant Director of Administrative Services

Subject: **Consideration of alternative measures to close projected deficits in the Parking Enterprise fund balance and maintain the free parking benefits for City residents**

Attachments: Tables 1 & 2
Attachment A
Map of Areas Near City Parking Facilities

INTRODUCTION

This report provides a summary of potential alternative initiatives that could be placed on the March 8, 2011 ballot for voter approval. The options were developed as follow up to the Council discussion of this matter at the November 16, 2010 meeting and as directed were discussed with the Ad Hoc Committee of Vice Mayor Brucker and Councilmember Brien on November 23, 2010. The alternative Initiative options are designed to raise revenues to offset the fiscal impacts resulting from the Parking Initiative without taking away the advantage of the current free two hour parking to City residents. The last day for the City Council to place a measure on the March 8, 2011 ballot is December 10, 2010. Should the City Council decide to pursue one or more of the options; the City Attorney's office will prepare the measure language for formal action at a special meeting on December 7, 2010.

DISCUSSION

As previously discussed, the 10 year projections for the Parking Enterprise Fund indicate an annual shortfall of close to \$2.6m which increases to \$3.4m without the subsidy from the General Fund and to about \$4.7m if the Parking Initiative provisions are implemented.

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The Ad Hoc Committee discussed the following options to raise adequate revenues to both address the structural shortfall and close the gap created by the added loss of revenues as a result of the Initiative.

- 1) Citywide Commercial Excise Tax on a per Square feet basis. The Table below provides an approximate rate on a per square feet gross area basis to offset the anticipated shortfall in the Parking Enterprise Fund. Because commercial square footage growth in the City is limited, if the City were to consider this alternative, a CPI adjustment should also be included.

Gross Commercial Space	Rate/ Square Feet Rate	Anticipated Annual Revenue
11,600,000 sq ft (not including footage for parking)	\$0.40 annually	\$4,640,000
11,600,000 sq ft	\$0.12 annually	\$1,400,000 cover only the loss from the Initiative

- 2) Excise Tax on the privilege of using free city parking imposed in Commercial Areas near City Parking Facilities¹. The Table below provides an example of rate formula based on the potential utilization and associated impacts of various uses on City parking resources with the intent of recovering the full \$4.7m shortfall in the Enterprise Fund. The rates were developed based on the distribution factors outlined in Table 1 which takes into account the use parking demand, the impact on resources and the resulting benefit or lack thereof to the City's overall economy. For example, a medical office building has an impact on City parking resources that may be similar to a restaurant or retail use that does not have onsite parking but the latter uses have a substantially more beneficial impact on the City's economy and therefore were given a lesser tax rate to encourage those businesses to locate in the City.

Commercial Use	Area (sq ft)	Annual Rate/ Square Feet Rate	Anticipated Annual Revenue
Medical Office	2,274,228	\$0.72	\$1,640,000
General Office	2,959,692	\$0.54	\$1,600,000
Department Stores	238,735	\$0.18	\$43,000
Hotels	945,429	\$0.09	\$85,000
Retail	835,194	\$0.27	\$225,500
Mixed Use	1,557,190	\$0.45	\$700,600
Retail and Office Buildings	1,142,056	\$0.36	\$411,000
Total			\$4,705,100

- 3) Excise Tax on the privilege of using free City parking with rates to only cover the Initiative fiscal impact. Similar to the table above, the table below provides an

¹ The square footage was determined based on Commercial buildings located within a 1000-foot radius of City parking facilities (see attached map).

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example of rates based on the potential utilization and associated impacts of various uses on City parking resources with the intent of recovering only the \$1.3m shortfall in the Enterprise Fund as a result of the Initiative:

Commercial Use	Area (sq ft)	Annual Rate/ Square Feet Rate	Anticipated Annual Revenue
Medical Office	2,274,228	\$0.23	\$522,500
General Office	2,959,692	\$0.17	\$509,950
Department Stores	238,735	\$0.06	\$13,700
Hotels	945,429	\$0.03	\$27,150
Retail	835,194	\$0.09	\$71,950
Mixed Use	1,557,190	\$0.14	\$223,600
Retail and Office Buildings	1,142,056	\$0.12	\$131,200
Total			\$1,500,000

- 4) Commercial Business Parking Tax. Projected revenue from commercial parking operations in the City and corresponding revenues based on a 10% tax on gross revenues:

Parking Area	Anticipated Gross Revenues	Potential Tax Revenues
Citywide Parking Operations (Private)	\$40,000,000	\$4,000,000

- 5) User Parking Tax. Projected revenue from parking operations Citywide based on a surcharge of 10% on parking fees:

Parking Area	Anticipated Gross Revenues	Potential Tax Revenues
Citywide Parking Operations (Private)	\$40,000,000	\$4,000,000
Citywide Public Parking Operations	\$6,000,000	\$600,000
Total		\$4,600,000

Residents Free Parking Program. As an alternative to raising revenue from businesses or parking patrons, the Ad Hoc committee also considered an option for a ballot measure that would provide free parking for City residents without placing the financial and operational burden on the City that would result from the proposed G&L Parking Initiative. The alternative measure would require the City to provide 3 hours free parking in City parking structures for all City residents. It would not alter the City's current two hour free parking program for other motorists nor would it compel the City to provide additional free parking for non residents in those parking structures on Camden and Bedford Drives near medical buildings.. The program would also maintain the City Council's discretion to adjust meter and monthly parking rates to regulate demand and direct workers away from retail parking and direct potential shoppers to those parking structures near retail shopping areas.

The Ad Hoc Committee considered the pros and cons for different options and revenue raising measures but concluded that Residents Free Parking Program is the best alternative. A summary of those arguments are provided on Attachment A. Excise taxes generally place a major burden on businesses in the City and Table 2 is included to provide examples of different uses and the projected excise tax if it were to be implemented along with their current business and property tax obligations. For certain uses such as office and mixed use buildings it becomes clear that the excise tax options will raise the cost of doing business in the City anywhere between 50% and 80%.

On the other hand, the parking tax, whether it is a business or user tax, in the end translates to an added burden to the consumer. Surrounding cities already have similar parking tax rates which could be a supporting argument for this option however the perception of shifting the burden to the consumer may have a chilling effect on clientele attraction to businesses in the City.

After consideration of the above factors, the Ad Hoc Committee recommended that City Council consider the Residents Free Parking Program option which doesn't alter the current two hour free parking rates offered in City parking facilities yet offers the City's residents the advantage of 3 hours free parking at all City Structures.

FISCAL IMPACT

The projected annual loss from offering residents 3 hours free parking in all City parking facilities is between \$250,000 to \$400,000. However, if residents voted to implement this program rather than the proposed G&L initiative, the City would avoid over one million dollars in losses projected to result if that initiative measure is approved by the voters.

RECOMMENDATION

Given the current economic climate, the Ad Hoc Committee felt uncomfortable increasing the tax burden on businesses or consumers. The Ad Hoc Committee also supported the existing two hour free parking program in the City and providing a guarantee to residents that they would be provided free parking in the future. Therefore, the Ad Hoc Committee believed that the proposed Residents Free Parking Program was preferable to raising taxes and to the G&L Initiative and therefore should also be placed on the ballot to give residents an alternative to the G&L Initiative. The Ad Hoc Committee believed that the G&L Initiative would have far more severe impacts on the City's revenues with less benefit to residents than the proposed Residents' Free Parking Program.

If the City Council decides on an option to pursue for a ballot measure, staff will work with the City Attorney's Office to prepare the appropriate language for the measure and bring that back at the December 7th special meeting for formal consideration.

Mahdi Aluzri 
Approved By

Attachment 1

Table 1

<u>CATEGORY</u>	<u>FACTOR</u>	<u>Tax @ \$4.7</u>	<u>Tax @ \$1.5</u>
DEPARTMENT STORE	0.50	0.1800	0.0574
HOTEL	0.25	0.0900	0.0287
MEDICAL BUILDING	2.00	0.7198	0.2297
MIXED USE	1.25	0.4499	0.1436
OFFICE BUILDING	1.50	0.5399	0.1723
RETAIL	0.75	0.2699	0.0861
RETAIL AND OFFICE	1.00	0.3599	0.1149
Tax Rate Calculator	13,058,657.75		
Recover \$4.7	0.35991		
Recover \$1.5	0.11487		

Table 2

Department Store		
	<u>Factors</u>	<u>Taxes</u>
Leasable sq. ft.	107,000	
Lease rate sq. ft. annual	<u> -</u>	
Annual Gross	-	
Business Tax	0.02350	-
Assessed Value	56,175,000	
Property Tax		561,750.00
Parking Excise Tax @ \$4.7	0.1800	<u>19,255.42</u>
Total Taxes:		581,005.42

HOTEL		
	<u>Factors</u>	<u>Taxes</u>
Square Footage	45,000	
Number of Rooms	65	
Rate per room	225.00	
Occupancy factor	<u>70.00%</u>	
Annual Gross	3,736,687.50	
Business Tax	0.01200	44,840.25
Assessed Value	30,015,000	
Property Tax		300,150.00
Parking Excise Tax @ \$4.7	0.0900	<u>4,049.04</u>
Total Taxes:		349,039.29

Medical Building		
	<u>Factors</u>	<u>Taxes</u>
Leasable sq. ft.	95,000	
Lease rate sq. ft. annual	<u>51.00</u>	
Annual Gross	4,845,000.00	
Business Tax	0.02350	113,857.50
Assessed Value	47,500,000	
Property Tax		475,000.00
Parking Excise Tax @ \$4.7	0.7198	<u>68,383.75</u>
Total Taxes:		657,241.25

Office Building		
	<u>Factors</u>	<u>Taxes</u>
Leasable sq. ft.	149,000	
Lease rate sq. ft. annual	<u>39.00</u>	
Annual Gross	5,811,000.00	
Business Tax	0.02350	136,558.50
Assessed Value	89,400,000	
Property Tax		894,000.00
Parking Excise Tax @ \$4.7	0.5399	<u>80,440.89</u>
Total Taxes:		1,110,999.39

Restaurant		
	<u>Factors</u>	<u>Taxes</u>
Square Footage	5,400	
Retail sales	3,000,000	
Business Tax	0.00125	3,750.00
Assessed Value	2,494,800	
Property Tax		24,948.00
Parking Excise Tax @ \$4.7	0.2699	<u>1,457.65</u>
Total Taxes:		30,155.65

Retail and Office Building		
	<u>Factors</u>	<u>Taxes</u>
Leasable Office sq. ft.	244,000	
Leasable Retail sq. ft.	60,000	
Lease rate office sq. ft. annual	39.00	
Lease rate retail sq. ft. annual	<u>63.00</u>	
Annual Gross	13,296,000.00	
Business Tax	0.02350	312,456.00
Assessed Value	83,600,000	
Property Tax		836,000.00
Parking Excise Tax @ \$4.7	0.3599	<u>87,819.13</u>
Total Taxes:		1,236,275.13

Attachment 2

Attachment A

Comparison of Alternatives and the Qualified Parking Initiative

	Arguments For	Arguments Against	Fiscal Impact
Parking Initiative	<ul style="list-style-type: none"> • Provides free two hours parking for all at anytime of the day • Offers convenient parking at no cost that will attract customers to city businesses and enhances the tax base 	<ul style="list-style-type: none"> • Provides more opportunities for employee/long-term user abuse (re-parking) • Restricts City's ability to manage usage between facilities • Creates a major constraint for raising revenues for the long term health of the Parking Enterprise Fund • Places a cap on monthly parking permits, even when there is capacity without conflict • Allows free parking for users that patronize businesses that do not add to the City's tax base • Takes away discretion for City enterprise operation from the City Council 	<p>\$1.3m annual loss</p> <ul style="list-style-type: none"> - Direct Financial Impact <p>\$412,000 loss of potential future revenues</p> <ul style="list-style-type: none"> - Indirect Impact related to monthly parking limitation

	Arguments For	Arguments Against	Fiscal Impact
<p>City Sponsored Free Parking Initiative. Includes all Rodeo/Beverly and Canon Structures</p>	<ul style="list-style-type: none"> • Provides free two hours parking • Allows the City to control access to the time and circumstances for providing the free parking • Allows the City to limit the free parking to only the areas that are serving retails establishments • Allows for limiting the availability of free parking to the areas frequented by medical office and similar users which provide little tax returns to the City 	<ul style="list-style-type: none"> • Provides more opportunities for abuse by employee parking • Ties the City hand in parking management between structures • Creates a major constraint for raising revenues for the long term health of the Parking Enterprise Fund • Takes away discretion for City enterprise operation from the City Council • Maintains After 6pm flat rate, which mitigates revenue losses 	<ul style="list-style-type: none"> • Mirrors current rates, so there are no anticipated additional losses • Potential future revenues losses related to the Public Gardens/ Montage facility, if two-hour free parking was altered as a result of impacts to the neighboring new office building <ul style="list-style-type: none"> ○ Not accounting for neighboring free parking competition, \$1 for the first 2 hours could generate \$12,000 monthly or \$144,000 annually. ○ That could be approx \$216,000 at \$1 per hour for the first two hours • If after 6pm rate is affected, losses could be as high as \$450,000

	Arguments For	Arguments Against	Fiscal Impact
City Sponsored Excise Tax/Rate Options	<ul style="list-style-type: none"> • Provide revenues to close the shortfall in the Enterprise fund • Provides for a long term revenue source to offset need for GF subsidy 	<ul style="list-style-type: none"> •Electorate resistance to new taxes •Increases cost of doing business in the City •Nothing is provided in return to offset businesses added cost •Inequity in attaining the benefits from the City parking facilities •Based on potential exemptions, creates a confusing and difficult system to collect and enforce 	Either \$1.3m or \$4.7m depending on the rate and whether the City Council wants to capture only the loss from the initiative or address the Fund's structural deficit

	Arguments For	Arguments Against	Fiscal Impact
City Sponsored Parking Use Tax	<ul style="list-style-type: none"> • Business are not affected • Equitable application of assessment • Simple administration • Has businesses support • Direct correlation between tax and utilization <ul style="list-style-type: none"> • Consistent with surrounding Communities • Creates greater pricing disparity between City Free lots and private parking assets 	<ul style="list-style-type: none"> • Added user tax • Residents would realize an added cost • Consumer tax that might discourage client attraction • Does not have residents' support 	\$4.6m annual revenues
City Sponsored Free Parking Funded w/Tax	<ul style="list-style-type: none"> • Maintains the same advantage offered by the Initiative • Provides for an offset to the cost of providing free parking • Offers an alternative to the Initiative without foreclosing on future revenue opportunities • More equitable approach to tax application to uses with greater impact on City parking resources 	<ul style="list-style-type: none"> • Electorate resistance to new taxes • Increases cost of doing business in the City • Provides more opportunities for abuse by employee parking • Ties the City hand in parking management between structures • Business resistance to new taxes 	Either \$1.3m or \$4.7m in revenues depending on the rate and whether the City Council wants to capture only the loss from the initiative or address the Fund's structural deficit

Attachment 3



City of Beverly Hills, California Commercial Properties Near City Parking Structures

