



CITY OF BEVERLY HILLS STAFF REPORT

Meeting Date: November 16, 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 shortfalls in the Parking Enterprise fund balance**
Attachments: Tables 1 & 2

INTRODUCTION

This memo is intended to provide the City Council with summary information on the financial impact of the Parking Initiative and offer options for possible additional ballot measures to raise revenue and offset the fiscal impact of the initiative.

DISCUSSION

Tables 1 and 2 provide a summary of the Parking Enterprise Fund 10 year fund balance based on current and future obligations as is currently projected and with the added Initiative loss of revenues, respectively. Expenses included in determining the fund balance numbers in addition to annual expenses include debt service, depreciation, and replacement cost for the facilities owned by the Parking Authority. The shortfall in revenues as a result of the Initiative is estimated to be close to \$1.3m annually:

1. Table 1 provides current status after the elimination of the \$1.5m transfer out to the General Fund beginning next Fiscal Year. This shows an average shortfall close to \$2.6m annually and an additional loss reaching approximately \$800,000 in year 10 as a

result of the elimination of the subsidy¹ from the General Fund accounting for an annual loss of approximately \$3.4.

2. Table 2 provides the estimated fund balance with the approximate added loss of \$1.3m annually as a result of the initiative. This shows an average shortfall of close to \$3.9m annually and an additional loss reaching approximately \$800,000 in year 10 as a result of the elimination General Fund subsidy accounting for an annual loss of approximately \$4.7m.

Revenue Options

There are several options that the City Council could consider for revenue sources to offset the fiscal impact of the Initiative. Two options are offered below which include several scenarios to add revenue to the General Fund to offset the projected \$4.7 million average annual support to the parking enterprise. All of the listed options require approval by either a simple majority or two thirds of the voters at a municipal election.

- 1) Excise Tax for use of free City Parking. The City Council may wish to submit to the voters a “two hour free parking excise tax” on commercial square footage that benefits from the City’s public parking and is not served by privately owned, two hour free, code conforming parking. The table below shows revenue that would be generated by different tax rates imposed upon all commercial square footage in the City. If the City Council would like to pursue this type of excise tax, staff would propose a tax rate that would more specifically reflect the benefit that properties receive from the City’s two hour free parking. For example, some areas of the City that are not served by the City’s public parking lots, such as Robertson Boulevard, might not be taxed. Similarly, some square footage that generated greater than average parking demand, such as medical square footage, might be taxed at a higher rate. A CPI adjustment should also be included in any such tax rate in order to reflect any inflationary increase in the cost of providing this free parking service. As an example if the entire City commercial improvements were to be included, the rate could be as follows:

Gross Commercial Space Citywide	Rate/ Square Feet Rate	Anticipated Annual Revenue
17,500,000 sq ft	\$0.30 annually	\$5,250,000
11,600,000 sq ft (not including footage for parking)	\$0.45 annually	\$5,220,000

If only the Triangle commercial improvements are included the potential rate would be:

Gross Commercial Space in Triangle	Rate/ Square Feet Rate	Anticipated Annual Revenue
4,870,000 sq ft	\$0.95 annually	\$4,626,000

¹ The subsidy is the result of increased citation fees approved by the City Council close to two years ago when the two hour free parking was reinstated

- 2) Commercial Parking Tax. The City Council may wish to submit to the voters a business license tax on commercial parking operations in the City. The following table shows the projected revenue from a business license tax rate of ten percent of gross revenue from private parking operations.

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

Other options

Another opportunity staff is exploring as a way to augment the revenues needed to keep the Parking Enterprise in the “black” is an impact fee that would be assessed on remodels and development over a certain threshold. Impact fees however cannot be used to cover cost of replacement and improvement but could be applied towards any potential expansion as a result of increased demand. This concept has limited application because of the nexus that must be established to justify the fee application for those improvements. In addition anticipated revenues would fluctuate depending on the development cycle and the amount generated is not expected not rise to a level that creates a significant reduction in the shortfall.

FISCAL IMPACT

As noted above, financial projections for the Parking Enterprise Fund show an annual fund balance shortfall over the next 10 years of close to \$3.4m even without passage of the proposed parking initiative. If the parking initiative is adopted, that deficit increases to \$4.6m. Depending on where the tax rate is set, the revenue generating options listed above could generate more or less revenue than the projected shortfall.

Thus, if the City chooses to place before the voters a tax measure that would generate more revenue than the projected shortfall in the parking enterprise fund, the City Council may wish to include additional changes to the current parking rates that would provide more benefit to those being taxed and the residents of the City. The following is a table showing additional parking rate changes and the accompanying revenue impact of each change.

Parking Rate Options

Rate Change	Annual Fiscal Impact
3 hours free parking	\$1.0 to 1.4 million loss
Roll back the SM Five rates to what they were before the latest meter rates and late hours increase	\$300,000 to 350,000 loss
Roll back the street meters what they were before the latest meter rates and late hours increase	\$1.5 to \$2m loss

RECOMMENDATION

Given the current climate of public resistance to any increases in fees or taxes, the chances of a ballot measure requiring two thirds majority to succeed are quite slim. Therefore, if the City

Council wishes to proceed with a ballot measure to generate adequate revenues necessary to offset losses in the Parking Enterprise Fund, it is suggested that the City impose a general tax under either option 1 or 2 above. A general tax is not designated for a specific use and requires a majority vote for passage. Also, a general tax would require a four fifths vote of the City Council to place the tax on the ballot. It should be noted that the Council has the choice of structuring the tax measure to be effective only if the Parking Initiative passes.

Subject to City Council direction, staff will work with the City Attorney's Office to prepare the appropriate language for the measure and will bring that back at the November 30, 2010 meeting for formal consideration.

Mahdi Aluzri
Approved By



Parking Enterprise Fund

	Audited Actual FY Ending 6/30/2007	Audited Actual FY Ending 6/30/2008	Audited Actual FY Ending 6/30/2009	Unaudited Projected FY Ending 6/30/2010	Projected FY Ending 6/30/2011	Anticipated Budget FY Ending 6/30/2012	Anticipated Budget FY Ending 6/30/2013	Anticipated Budget FY Ending 6/30/2014	Anticipated Budget FY Ending 6/30/2015	Anticipated Budget FY Ending 6/30/2016	Anticipated Budget FY Ending 6/30/2017	Anticipated Budget FY Ending 6/30/2018	Anticipated Budget FY Ending 6/30/2019	Anticipated Budget FY Ending 6/30/2020	Anticipated Budget FY Ending 6/30/2021
Scenario 1 Base Scenario As Is Except as described in notes															
Cash and cash equivalents June 30	58,691,044	27,444,956	31,276,676	20,146,108	13,902,184	9,078,867	1,634,487	(1,450,219)	(5,016,087)	(6,386,971)	(7,794,438)	(9,243,084)	(10,739,605)	(11,501,899)	(11,806,463)
Adjusted Cash and Cash equivalents June 30	55,691,044	23,694,956	26,776,676	14,896,108	7,902,184	2,278,867	(5,965,513)	(9,850,219)	(14,216,087)	(16,386,971)	(18,594,438)	(20,843,084)	(23,139,605)	(24,701,899)	(25,806,463)
Scenario 2 Base Scenario Plus Elimination of Parking Citation Increase Transfer from General Fund to Parking Enterprise															
Cash and cash equivalents June 30	58,691,044	27,444,956	31,276,676	20,146,108	13,902,184	8,351,867	152,858	(3,714,426)	(8,074,903)	(10,264,235)	(12,514,702)	(14,831,640)	(17,222,500)	(18,905,964)	(20,159,333)
Adjusted Cash and Cash equivalents June 30	55,691,044	23,694,956	26,776,676	14,896,108	7,902,184	1,551,867	(7,447,142)	(12,114,426)	(17,274,903)	(20,264,235)	(23,314,702)	(26,431,640)	(29,622,500)	(32,105,964)	(34,159,333)

“Cash and cash equivalents” are the result of “operating income (loss)” plus cash from “depreciation & amortization” and “changes in receivables (increase) decrease” plus “proceeds from investment activities” and “cash received from financings (i.e. transfers, loans and contributions)” less “cash paid for capital projects”, “cash paid to other funds (transfers)” and “cash paid for principal and interest on interfund loans and debt issues”.

Notes for Scenario’s 1 and 2

The lines titles Cash and cash equivalents June 30 are the operations as is if the City continues to defer maintenance while the lines titled Adjusted Cash and Cash Equivalents June 30 assume the City does not delay or defer maintenance as outlined in the Walker Parking Consultant report.

- Note 1: For Projected FY Ending 6/30/2011 the following adjustments were made from original adopted budget:
- Hourly Parking was increased \$324,356.35 to account for meter rate increase and increased credit card usage at Santa Monica 5
 - Meter Parking was increased by \$1,445,738.88 to account for meter rate increase and increased usage of credit cards for on street parking meters.
 - Tenant Lease Payments were decreased by \$830,723.88 to account for rent reductions.

- Note 2: For Anticipated Budget FY Ending 6/30/2012 the following adjustments were made to revenues and expenses other than a CPI adjustment:
- Hourly Parking was increased by \$228,891 to represent ½ year of 455 Crescent Parking structure revenues.
 - Monthly Parking was increased by \$62,250 to represent ½ year of 455 Crescent Parking structure revenues.
 - Tenant Lease Payments were increased by \$60,000 to account for rent from 239 S. Beverly Drive.
 - Material & Supplies were increased by \$230,000 for 455 N. Crescent operations.
 - Contractual Services were increased by \$225,000 for 455 N. Crescent operations.
 - Transfer of \$1.5 million to General Fund ends June 30, 2011.
 - Depreciation increased by \$1,000,000 for new facilities over 50 year life.

- Note 3: For Anticipated Budget FY Ending 6/30/2013 the following adjustments were made to revenues and expenses other than a CPI adjustment:
- Hourly Parking was increased by \$228,891 to represent ½ year of 455 Crescent Parking structure revenues.
 - Monthly Parking was increased by \$62,250 to represent ½ year of 455 Crescent Parking structure revenues.
 - Material & Supplies were increased by \$79,334 for 455 N. Crescent operations.
 - Contractual Services were increased by \$125,000 for 455 N. Crescent operations.

Parking Enterprise Fund

	Audited Actual FY Ending 6/30/2007	Audited Actual FY Ending 6/30/2008	Audited Actual FY Ending 6/30/2009	Unaudited Projected FY Ending 6/30/2010	Projected FY Ending 6/30/2011	Anticipated Budget FY Ending 6/30/2012	Anticipated Budget FY Ending 6/30/2013	Anticipated Budget FY Ending 6/30/2014	Anticipated Budget FY Ending 6/30/2015	Anticipated Budget FY Ending 6/30/2016	Anticipated Budget FY Ending 6/30/2017	Anticipated Budget FY Ending 6/30/2018	Anticipated Budget FY Ending 6/30/2019	Anticipated Budget FY Ending 6/30/2020	Anticipated Budget FY Ending 6/30/2021
Scenario 3 Voter Approved 2 hour Free Parking As Is Except as described in notes															
Cash and cash equivalents June 30	58,691,044	27,444,956	31,276,676	20,146,108	13,902,184	7,895,340	(759,196)	(5,075,460)	(9,878,916)	(12,505,953)	(15,188,415)	(17,931,181)	(20,741,233)	(22,836,761)	(24,494,558)
Adjusted Cash and Cash equivalents June 30	55,691,044	23,694,956	26,776,676	14,896,108	7,902,184	1,095,340	(8,359,196)	(13,475,460)	(19,078,916)	(22,505,953)	(25,988,415)	(29,531,181)	(33,141,233)	(36,036,761)	(38,494,558)
Scenario 4 Voter Approved 2 hour Free Parking Plus Elimination of Parking Citation Increase Transfer from General Fund to Parking Enterprise															
Cash and cash equivalents June 30	58,691,044	27,444,956	31,276,676	20,146,108	13,902,184	7,168,160	(2,240,825)	(7,328,555)	(12,926,620)	(16,372,105)	(19,897,567)	(23,508,624)	(27,213,016)	(30,229,714)	(32,836,316)
Adjusted Cash and Cash equivalents June 30	55,691,044	23,694,956	26,776,676	14,896,108	7,902,184	368,160	(9,840,825)	(15,728,555)	(22,126,620)	(26,372,105)	(30,697,567)	(35,108,624)	(39,613,016)	(43,429,714)	(46,836,316)

“Cash and cash equivalents” are the result of “operating income (loss)” plus cash from “depreciation & amortization” and “changes in receivables (increase) decrease” plus “proceeds from investment activities” and “cash received from financings (i.e. transfers, loans and contributions)” less “cash paid for capital projects”, “cash paid to other funds (transfers)” and “cash paid for principal and interest on interfund loans and debt issues”.

Notes for Scenario's 3 and 4

The lines titled Cash and cash equivalents June 30 are the operations as if the City continues to defer maintenance while the lines titled Adjusted Cash and Cash Equivalents June 30 assume the City does not delay or defer maintenance as outlined in the Walker Parking Consultant report.

- Note 1: For Projected FY Ending 6/30/2011 the following adjustments were made from original adopted budget:
 1. Hourly Parking was increased \$324,356.35 to account for meter rate increase and increased credit card usage at Santa Monica 5
 2. Meter Parking was increased by \$1,445,738.88 to account for meter rate increase and increased usage of credit cards for on street parking meters.
 3. Tenant Lease Payments were decreased by \$830,723.88 to account for rent reductions.

- Note 2: For Anticipated Budget FY Ending 6/30/2012 the following adjustments were made to revenues and expenses other than a CPI adjustment:
 1. Hourly Parking was increased by \$228,891 to represent ½ year of 455 Crescent Parking structure revenues.
 2. Hourly Parking was decreased by \$1,183,527 representing annual loss of revenue from voter approved 2 hour free parking.
 3. Monthly Parking was increased by \$62,250 to represent ½ year of 455 Crescent Parking structure revenues.
 4. Tenant Lease Payments were increased by \$60,000 to account for rent from 239 S. Beverly Drive.
 5. Material & Supplies were increased by \$230,000 for 455 N. Crescent operations.
 6. Contractual Services were increased by \$225,000 for 455 N. Crescent operations.
 7. Transfer of \$1.5 million to General Fund ends June 30, 2011.
 8. Depreciation increased by \$1,000,000 for new facilities over 50 year life.

- Note 3: For Anticipated Budget FY Ending 6/30/2013 the following adjustments were made to revenues and expenses other than a CPI adjustment:
 1. Hourly Parking was increased by \$228,891 to represent ½ year of 455 Crescent Parking structure revenues.
 2. Monthly Parking was increased by \$62,250 to represent ½ year of 455 Crescent Parking structure revenues.
 3. Material & Supplies were increased by \$79,334 for 455 N. Crescent operations.
 4. Contractual Services were increased by \$125,000 for 455 N. Crescent operations.