



COUNCIL AGENDA: 12-14-10
ITEM: 4.7

Memorandum

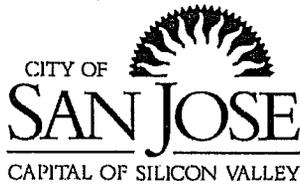
TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Lee Price, MMC
City Clerk

SUBJECT: PARKING INCENTIVE PROGRAM DATE: 12-01-10

RECOMMENDATION

As recommended by the Community and Economic Development Committee on November 29, 2010 and outlined in the attached memo previously submitted to the Community and Economic Development Committee, accept the report on potential amendments to the Master Parking Rate Schedule that expands the existing Parking Incentive Program and provides other parking programs and rates that allow flexibility to respond to changing market conditions.



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Hans F. Larsen

SUBJECT: PARKING INCENTIVE PROGRAMS **DATE:** 11-12-10

Approved

Date

Nov. 14, 2010

COUNCIL DISTRICT: 3

RECOMMENDATION

Accept this report on potential amendments to the Master Parking Rate Schedule that expands the existing Parking Incentive Program and provides other parking programs and rates that allow flexibility to respond to changing market conditions.

BACKGROUND

On September 8, 2010, the Rules Committee referred to staff a series of proposals from Councilmember's Liccardo, Herrera and Nguyen in a report titled "San Jose is Open for Business" and directed staff to review them and return to the Community and Economic Development Committee for discussion prior to full Council consideration. The proposal included the following expansions to the Parking Incentive Program for non-City run business incubators, shared workspaces, innovation centers, or other entities with five or more small businesses:

- Allow the duration of free parking provided with a parking lease be up to one-half the duration of the tenant's office lease, without the current 2-year limitation.
- Allow the business applicant to terminate the parking lease at any point during its term, so long as the company continues to occupy its office space within San José.

Past Parking Incentive Programs

On September 29, 2009, the City Council approved the continuation of various parking incentive programs through June 30, 2011, including:

- Software and Environmental Business incentives that provide companies the ability to receive two years of 50% discounted monthly parking.

- Downtown Incubator incentives that provide start-up companies located at the Redevelopment Agency's San José Innovation Center with a minimum of two years of 50% discounted monthly parking.

These programs do not limit the number of discounted parking permits a business or start up company may receive other than the capacity in a facility, nor is a parking lease agreement required.

New (current year) Parking Incentive Programs

On April 6, 2010, the City Council approved the following additional parking incentive programs for businesses that enter into a new or extended lease for a downtown office or commercial retail building, on or after January 1, 2010:

- Provide up to two years of free parking for businesses new to the Downtown.
- Provide up to two years of free parking for existing Downtown businesses that extend their current building lease or sign a lease in a new location, and relocate their parking from a private parking facility to a City parking facility.
- Provide up to two years of 50% discounted parking to existing Downtown businesses currently purchasing permits to park in a City parking facility who extend their current building lease or sign a lease in a new location.

The City Council approved these new parking incentive programs to spur the growth and retention of businesses in the Downtown. The Department of Transportation (DOT) was authorized to negotiate and execute the parking lease agreements, with each business eligible to receive up to 50 free or discounted parking permits. Additionally, the maximum period for the free or discounted parking would be one-half the length of the new or extended building lease, up to a maximum of two years.

ANALYSIS

On August 24, 2010, DOT submitted an informational memorandum to the City Council providing an update on the success of the new parking incentive programs. Since then additional leases have been executed. Through October 2010, lease agreements have been signed with 33 businesses for 313 permits/employees, occupying over 146,000 square feet of office space. Feedback from commercial real estate firms and participants has been positive.

Term of Parking Leases and Length of Free or Discounted Parking

Currently, businesses are eligible for up to two years of free or discounted parking when matched with a two year period of paid parking. For businesses that sign a five or six year building lease and desire a similar term parking lease, staff has the authority under the Master Parking Rate

Schedule to execute parking lease agreements for up to a total of six years, while maintaining the maximum two years free or discounted parking term.

To date, executed parking leases range from four months up to four years, with the majority between three and four years coinciding with the business' building lease. Based on the lease activity that has occurred over the prior seven months, providing two years of free or discounted parking has proven to be a valuable tool to attract and retain businesses Downtown, while ensuring some level of parking revenue to the City during the second half of the lease.

The Councilmember's proposal recommends removing the two year maximum on the length of the free parking incentive for non-City run business incubators, shared workspaces, innovation centers, or other entities with five or more small businesses. The rationale for removing the maximum two year limit for free parking is to respond to a complaint from a private innovation incubator that signed a five year building lease and was not eligible to receive free parking for half their lease (e.g. 2.5 years). If the Committee recommends extending the maximum length of the free parking incentive, staff would recommend that the City Council keep the current six year total length of lease limit, while allowing up to a maximum three years of free parking (still based upon half of the total length of lease) for non-City run business incubators, shared workspaces, innovation centers, or entities with five or more small businesses. Staff also recommends that any such expanded parking incentive program be limited to both non-City and non-Redevelopment Agency run incubators/entities.

Lease Termination Provisions

A key feature of the existing incentives was for businesses to receive free or discounted parking for half the term of their building and parking lease to encourage longer office space leases to support Downtown office buildings with high vacancy rates. As a practical matter, most businesses will end up paying on average 50% of the regular parking rate amortized over the life of their lease. As approved by the City Council, should a business terminate their parking lease early, or utilize on average more free or discounted parking permits during the first half of their lease than during the second half, a fee is to be assessed so the City receives at least a partial payment for the parking that was used.

The Councilmember's proposal also recommends allowing non-City run business incubators, shared workspaces, innovation centers, or entities with five or more small businesses to "opt out" of their parking lease and not be subject to the payments for the second half of the lease or for the early termination fee as long as the entity retains a San José address for their business. The primary rationale is the concern that incubators, and more specifically the start ups that typically occupy their space, have higher mortality rates and may not be in business to make payments during the second half of the lease, making longer term lease commitments more risky to private incubators or small start ups, making them less willing to commit to a Downtown location. Additional rationale provided suggests that Downtown office space can be less competitive with similar space in surrounding cities due to the parking cost differentials.

Staff has the following perspectives as to the value and necessity of the proposed enhancements. First, we concur with the Councilmember's perspective that San José needs to continue to position itself as a more attractive location for start ups given the competition we face from other cities in the region. Even though the existing incentives are quite attractive, as evidenced by the brisk leasing activity of the last seven months, it is difficult to determine with certainty whether they represent enough of an incentive to make Downtown enough of an attractive location for the incubator/start up segment of the market. However, it is equally difficult to determine if the proposed incentive enhancements will be the difference in attracting additional private incubators or start ups to the Downtown or whether other factors primarily drive the location decision.

Additionally, from a practical standpoint, if the incubator is able to "opt out" of the parking lease, the City will have no mechanism to ensure that the incubator maintains office space in San José as the lease will be terminated. Alternately, the parking lease could be structured to release the incubator from the requirement to purchase parking at a City facility as long as the business maintains office space in San José through the entire term of the parking lease.

Financial Impacts of Parking Incentive Program Modifications

Based on the parking lease activity that has occurred through October 2010, the combined foregone and lost revenue to the Parking Fund during the combined free and reduced portion of the existing 33 leases will be approximately \$443,000. The foregone revenue will be \$330,000. The actual lost revenue (e.g. parkers previously paying \$100 per month per permit and now paying \$50 per month) will be \$113,000. The financial impact of enhancing the incentives for non-City run incubators is likely to be limited to additional foregone revenue with incubators new to the Downtown, as staff is not aware of any non-City run incubator in the Downtown, other than the recently opened Irish Innovation Center who previously did not park in City facilities.

If each incubator/entity obtained the maximum of 50 parking permits, the additional foregone revenue would be \$60,000 per incubator/entity if the maximum parking lease term was expanded to provide up to three years free with a six year lease. Additionally, if the incubator was permitted to 'opt out' of the requirement to purchase parking during any or all of the second half of the lease after already receiving free parking, the incubator would also not be assessed a fee for defaulting on this lease term. This could potentially be up to \$180,000 in monthly parking revenue the incubator would not be required to purchase during the second 'paid' half of the parking lease.

It is difficult to estimate with confidence the amount of foregone revenue (or number of leases) that might occur as a result of these proposed incentive enhancements. For the one entity that qualifies for these enhanced incentives to date, the Irish Innovation Center, the 15 parking permits initially included in their current lease could result in lost revenue of \$36,000 if they "opt out" after receiving their two years of free parking. If they extended their existing parking lease to match their building lease (e.g. five years) resulting in the length of free parking extending to

two and one half years, it could result in \$9,000 of additional lost revenue for a total of \$45,000. This potential lost revenue would increase if additional parking permits were obtained by the Irish Innovation Center during the first half of their lease.

Flexible Program and Rates Structures to "Move at the Speed of Business"

Throughout this recession and as part of the update of the City's Economic Development Strategy, the City has focused on "moving at the speed of business" on matters that support private sector job growth and business development. The City's parking program is tied to the Downtown private economy and from time to time the parameters of the Master Parking Rate Resolution limit timely and innovative responses to emerging needs and market opportunities. The Master Parking Rate Resolution establishes the programs and services offered by the parking program and the associated rates for those services. Over the years, this resolution has been modified to create new programs and rates, such as the incentive programs, with the intent to support private sector job growth and business development. The challenge has been anticipating future private sector needs and adopting sufficiently flexible programs and rates that allow staff to move at the speed of business, while operating in an equitable and efficient manner, and enabling an appropriate return on the City's investment. The following programs and proposed rate structures are designed to overcome some of the challenges described and to provide staff with new programs and rate structures that will allow for more flexible and entrepreneurial management of the parking program:

Nighttime Monthly Rate – Currently, the monthly parking program has a rate structure that allows unlimited use of a specific facility for the entire month on a 24/7 basis. Recently, staff received feedback from stakeholders that the monthly and evening rates in many of the City's premium parking facilities are not affordable to certain businesses and residents that primarily use the parking during evening hours. The rates referred to by stakeholders typically include the \$100 monthly rate and the \$3 to \$5 single use evening rate. To more affordably meet the parking needs, while still competitively pricing the parking to enable a reasonable return, staff is proposing rates in the range of \$25 to \$50 per month for unlimited use from the hours of 5 pm to 6 am. Staff would have the flexibility to set the individual rates within the \$25 to \$50 price range by location based upon expected demand and comparable market pricing.

Special Event Rate – Currently, the Master Parking Rate Resolution provides for a special event rate at facilities that are frequently used by special event patrons, such as the Convention Center Garage, Almaden/Woz Lot, and Market Street Garage. On occasion, special events impact other facilities, such as the Second/San Carlos Garage and Third Street Garage, due to the size and/or location of the event. When this occurs the activity at these facilities may substantially increase, along with a corresponding need to provide for additional staffing during and after the event to ensure that the facilities are clean, safe, efficiently operated and well maintained. Staff is proposing establishing a special event flat rate in the range of \$5 to \$15 at these other facilities to provide the flexibility to respond to the expanded demands that may be placed on these facilities during major events.

Introductory Rate – The new parking incentive lease program was structured to encourage businesses to locate or reinvest in the Downtown. Some businesses that have expressed a desire to relocate to a City parking facility are not eligible for the lease program because they have an existing building lease that was executed prior to January 1, 2010. To provide an incentive for these businesses, or individual employees, to relocate to a City facility that may be underutilized, it is recommended that staff have the flexibility to offer a 25% discounted introductory rate to new parkers for up to a six month period.

University (SJSU) Student Semester Rate – The City has two garages adjacent to SJSU (Second/San Carlos Garage and Fourth Street Garage) that are underutilized during the day. Although students are currently eligible to obtain monthly parking at a 50% discounted rate, usage of this rate has been low, potentially as the parking is only on a month-to-month basis. Offering SJSU students the option to purchase a semester parking permit at a discounted rate may encourage some students to choose to park at these facilities. The semester permits would be offered in the \$150 to \$175 range.

Like the incentive programs described earlier in this report, these programs are designed to flexibly meet business needs and ease program administration, while improving return on investment. It is difficult to estimate or determine the level of potential activity or revenue that may be generated through these new programs and rates as most are untested programs with uncertain market demand. Staff strongly believes that in these difficult economic times it is important to have tools at our disposal that allow the City to “move at the speed of business” and improve on the City’s current return on investment. We also believe that these new programs and rates come with little risk to the City in that we have capacity to meet the extra demand and their structure complements more than it competes with existing programs and rates.

Next Steps

As indicated above, it is difficult for staff to determine whether City provided parking incentives are the deciding factor in the decision of an incubator or start-up to locate Downtown. However, given the Councilmember’s interest in expanding the current incentives, and direction from the Rules Committee, staff is prepared to bring forward modifications to the Parking Incentive Programs for non-City and non-Redevelopment Agency run business incubators, shared workspace offices, innovation centers or other entities with 5 or more small businesses, for consideration by the City Council in December 2010 based on the above parameters and summarized below:

- The business incubator/entity will be eligible for up to a 6 year parking lease, with free parking for up to 50 parking permits for one half of the lease term.
- The incubator/entity will be able to “opt out” of the parking lease terms that require purchasing parking permits during the fully paid portion of the lease, and not be assessed a fee, if the incubator maintains its office space in San José.

11-12-10

Subject: Parking Incentive Programs

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As with other incentive programs in the Master Parking Rate Schedule; the entities that will be eligible for the expanded parking incentive program will need to be clearly defined to minimize any potential confusion. As intended by the Councilmember's recommendation, the expanded incentive program will be limited to incubators, innovation centers, shared workspace centers, or other similar type entity that provides an array of services, resources and office space to support the successful development of at least five (5) start-up companies.

In addition to the above program modifications, staff will bring forward the highlighted proposed modifications to the Master Parking Rate Resolution to provide new programs and rate structures that enable staff to "move at the speed of business"

COORDINATION

This report has been coordinated with the Office of Economic Development and the Attorney's Office.

/s/

HANS F. LARSEN
Acting Director of Transportation

For questions please contact Laura Wells, DOT Deputy Director, at 975-3725.