

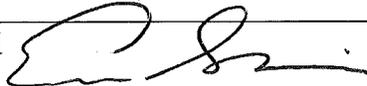
Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Hans F. Larsen

SUBJECT: PARKING INCENTIVE PROGRAM **DATE:** 10-17-11
ENHANCEMENTS TO SUPPORT
BUSINESS GROWTH

Approved



Date

10/28/11

COUNCIL DISTRICT: 3

RECOMMENDATION

Adopt a resolution to repeal Resolution No. 75871 and set forth the Master Parking Rate Schedule to modify the Downtown Parking Incentive Programs by:

- (a) Expanding the Downtown Free Parking Incentive Program to include existing businesses that expand their Downtown office or commercial building space by a minimum of 10,000 square feet on or after November 1, 2011.
- (b) Expanding the Downtown Free and 50% Discounted Parking Incentive Programs to include Owner-Occupied Businesses that acquire Downtown office or commercial building space on or after November 1, 2011 and need parking for its employees.
- (c) Expanding the Downtown Free and 50% Discounted Parking Incentive Programs and provide the City Manager authority to negotiate and execute parking lease agreements for up to two and a half years of free or 50% discounted parking for up to 100 parking permits when it is determined that the enhanced terms of the parking lease would be an overriding factor in the relocation or retention of a business in the Downtown as described in the memorandum and the business meets one of the following conditions on or after November 1, 2011:
 - (1) New Downtown business entering into a new office or commercial building lease for a minimum of 10,000 square feet; or
 - (2) New Downtown business entering into a new office or commercial building lease and executing a parking lease with the City for a minimum of 30 parking permits for the duration of the parking lease; or
 - (3) Existing Downtown business entering into a new office or commercial building lease and:
 - (a) Expanding their operation Downtown by a minimum of 5,000 square feet, or
 - (b) Executing a parking lease with the City for a minimum of 30 parking permits if they are relocating their parking from a private parking facility to a City facility, or
 - (c) Executing a parking lease with the City for a minimum additional 30 parking permits if they are already purchasing parking in a City facility.

OUTCOME

The proposed recommendations will enable staff to focus its limited resources on actions that support the City's Economic Development Strategy 18-Month Workplan that was approved by Council on October 18, 2011. Specifically, the proposed resolution supports Action #10 by positioning the Downtown as a competitive work environment for start-ups, scaling businesses and others. The proposed resolution will expand the Downtown Parking Incentive Programs and provide the added flexibility to enter into parking lease agreements with new and existing Downtown businesses in a timely manner to reduce the amount of vacant Downtown office space supporting economic activity and growth.

BACKGROUND

In April 2010, Council adopted changes to the Master Parking Rate Schedule creating Downtown Parking Incentive Programs. The programs provided the Director of Transportation the authority to execute parking lease agreements with businesses entering into leases for a Downtown office or commercial building space, providing free or 50% discounted parking for up to two years, for up to 50 employees. The maximum period for the free or discounted parking is one-half the length of the new or extended building lease for up to a maximum of two years. Businesses new to the Downtown or existing Downtown businesses that are relocating their parking from a private parking facility to a City parking facility are eligible for free parking (Downtown Free Parking Incentive Program). Existing Downtown businesses that are currently parking in a City parking facility are eligible for 50% discounted parking (Downtown 50% Parking Incentive Program). The goal of the new parking incentive programs was to attract new businesses and to retain existing businesses Downtown.

In December 2010, Council adopted changes to the Downtown Parking Incentive Programs to allow free parking for up to three years for non-City and non-Redevelopment Agency incubators and workspaces, and to allow the incubator to 'opt out' of the parking lease terms that require paying for parking permits during the paid portion of the lease if the incubator maintains its office space in San José (Incubator Free Parking Incentive Program). In June 2011, Council adopted additional changes to the incentive programs to allow building owners or property managers to enter into a parking lease agreement with the City on behalf of their tenants.

The above parking incentive programs and subsequent enhancements, have been successful in supporting the growth and retention of businesses in the Downtown. Since April 2010, 68 businesses have executed parking lease agreements with the City requesting over 610 monthly permits; occupying a combined office space in excess of 260,000 square feet; including two privately funded incubator/workspace companies.

ANALYSIS

Although the various parking incentive programs have been successful in attracting and retaining businesses, the office vacancy rate in the Downtown remains high and is estimated in the range of 25%. The following enhancements to the Downtown Parking Incentive Programs will provide additional tools for the City to support further economic growth in the Downtown and to drive greater occupancy in buildings with available space.

Significant Business Expansion

Currently, when an existing Downtown business is paying for permits to park in a City parking facility and then extends its current building lease or signs a lease for a new Downtown location, the business is eligible for the 50% discounted parking for up to two years, for up to a maximum of 50 parking permits (Downtown 50% Parking Incentive Program). This program has been successful in encouraging businesses to remain downtown while minimizing the loss of revenue to the Parking Fund. Since April 2010, 17 businesses have taken advantage of this feature.

However, if a business is considering a significant expansion of their business operation, the provision of 50% discounted parking may not be enough, or the right incentive for the business to remain and expand Downtown. It is proposed that businesses that are significantly expanding through the lease of an additional 10,000 square feet of office or commercial building space be eligible for the Downtown Free Parking Incentive Program under the same terms and conditions of the existing program. Under this free program, the business would be eligible to enter into a parking lease agreement with the City for up to six years with up to two years of free parking for a maximum of 50 parking permits. This proposed program enhancement will help to support the economic growth of the Downtown. Although, in the short term, the Parking Fund would experience a decrease in revenues by providing free parking to existing employees of a business, it is anticipated that this investment would be recovered with the increased number of parking permits the business would be purchasing for its newly hired employees during the fully paid portion of the parking lease.

Owner-Occupied Buildings

Currently, in order to qualify for the Downtown Free and 50% Discounted Parking Incentive Programs, a business must execute a written building lease for office or commercial building space. This requirement for a written building lease has excluded businesses that are purchasing building space from participating in the incentive programs. A major goal of the incentive program is to support business growth in the Downtown, and businesses that acquire and occupy office or commercial building space in the Downtown supports this goal. The proposed resolution includes a new definition of "Owner Occupied Business" and makes these businesses eligible for the Downtown Free and 50% Discounted Parking Incentive Programs under the same terms and conditions of the existing programs. Including the ability for new business owners the opportunity to participate in these parking incentive programs, when they are obtaining the parking for use by their employees, will provide another tool to reduce the amount of vacant office space and support the economic growth of the Downtown.

Program Flexibility to Operate at the “Speed of Business”

The enhancements proposed in this memorandum represent the third time in the past one and a half years that staff has brought parking incentive program modifications to Council. While the program modifications have generally been made in response to the unique circumstances associated with a single business, they have helped with the overall goal of increasing the economic vitality of the Downtown. For example, the changes implemented for incubators initially only benefitted the Irish Innovation Center, and later encouraged another incubator, NextSpace, to locate Downtown; and have generated interest from other incubators. Staff has strived to operate at the “speed of business” in returning to Council with proposed program modifications. However, the process to do so does take substantial work and time, which significantly impacts staff’s ability to respond to some businesses that need to make quick decisions about a new or expanded business lease when the existing incentive programs parameters are too restrictive.

Providing the flexibility for the City Manager and the Director of Transportation to work with businesses and provide enhanced parking lease terms when it is determined that the enhancement would be an overriding factor in the location or retention of a business in the Downtown would improve staff’s ability to be responsive to unique business needs. A key criterion in determining if parking is an overriding factor in the decision of a business to locate or remain downtown is whether the business has requested enhanced parking incentives from Transportation staff prior to executing their new Downtown office or commercial building lease. This would indicate that the City’s Downtown Parking Incentive Programs played a role in the business either locating or electing to remain and expand in the Downtown. It is proposed that the Director of Transportation has authority to negotiate and execute parking lease agreements with businesses under the existing terms and conditions of the Downtown Free and 50% Parking Incentive Programs for up to two and a half years of discounted parking, for up to a maximum 100 parking permits when it is determined that the enhanced terms of providing two and a half years of free parking for up to 100 employees, are needed to locate or retain a business Downtown, and with the following additional conditions:

Businesses New to the Downtown

- Eligible for free parking when they are executing a written office or commercial building lease for a minimum 10,000 square feet.
- Eligible for free parking when they are executing a written office or commercial building lease and obtaining a minimum 30 parking permits from the City.

Existing Downtown Businesses Relocating Parking to a City Facility

- Eligible for free parking when they are expanding their operation Downtown by an additional 5,000 square feet through an executed new written office or commercial building lease.
- Eligible for free parking when they are executing a new written office or commercial building lease and obtaining a minimum 30 parking permits from the City.

Existing Downtown Businesses Currently Purchasing Parking in a City Facility

- Eligible for 50% discounted parking when they are expanding their operation Downtown by an additional 5,000 square feet through an executed new written office or commercial building lease.
- Eligible for 50% discounted parking when they are executing a new written office or commercial building lease and obtaining a minimum 30 additional parking permits from the City.

If an existing business already has an executed parking lease agreement for it's current employee base, Transportation staff would work with the business to determine if it would be more advantageous for the business to execute a separate parking lease for it's expanded operation, or to close out its existing parking lease and execute a consolidated parking lease for its entire operation. Additionally, the Fourth and San Fernando Garage remains not eligible for the parking incentive leases as it was financed with tax exempt debt and there are IRS restrictions limiting the amount of private use that may take place at this facility.

EVALUATION AND FOLLOW UP

Staff will continue to monitor the use of the parking incentive programs and coordinate future potential changes with the Office of Economic Development and the Downtown Parking Board.

POLICY ALTERNATIVES

The Master Parking Rate Schedule is a dynamic document that requires periodic updates for clarification and enhancements and provides the structure for various parking programs that support the vitality of the Downtown and various parking meter districts; and to generate revenues for operation of the Parking Program and funding for the General Fund.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

While this memorandum does not meet any of the above criteria, it will be posted on the City's website for the Council agenda. The proposed enhancements to the Parking Incentive Program were discussed and supported by the Downtown Parking Board at its October 5, 2011 meeting.

COORDINATION

This memorandum has been coordinated with the Office of Economic Development, the Attorney's Office, and the City Manager's Budget Office.

FISCAL/POLICY ALIGNMENT

Expanding the parking incentive program aligns with the City's Economic Development Strategy #10 "Continue to Position Downtown as Silicon Valley's City Center".

COST SUMMARY/IMPLICATIONS

The occupancy in the City's Downtown parking facilities is closely connected to the office occupancy rate. Currently, the average peak weekday occupancy in the City's core facilities is under 50%, and there is adequate capacity to accommodate additional monthly parking leases. The financial impact the expanded incentives may have on the Parking Fund is dependent on the number of businesses participating in the programs, and a variety of other factors: whether the businesses are new to the Downtown, currently parking in, or relocating to a City parking facility, the terms of any parking lease and the number of employees in each business.

Overall, the revenue generated during the fully paid portion of the parking leases executed with the 51 new and relocating businesses over the past one and a half years will offset the lost revenue from the discounted parking provided to the 17 businesses currently parking in a City facility. Specifically, the combined impact of the 68 parking leases executed to date will positively impact the Parking Fund by an approximate \$500,000 over the term of the leases.

CEQA

Statutorily Exempt, File No. PP10-067 (a), CEQA Guidelines Section No.15273 – Rates, Tolls, Fares and Charges.

/s/
HANS F. LARSEN
Director of Transportation

For questions please contact Joe Garcia, Division Manager, Transportation, at 408-535-3833.