FINAL REPORT

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Parking Tax Analysis

An Assessment of the Potential Implications of Implementing a Commercial Parking Tax in the City of Seattle

Prepared for:

City of Seattle

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CITY OF SEATTLE PARKING TAX ANALYSIS

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INTRODUCTION: STUDY PURPOSE AND ORGANIZATION

The City of Seattle (City) is assessing the implications of potentially implementing a tax on commercial parking to provide funds for a variety of transportation improvements. A commercial parking tax has been the subject of much discussion as a possible source of new transportation funding since the early 1990's. The impact of a commercial parking tax will depend on a number of factors, including:

- The strength of the downtown real estate market;
- Supply and demand for parking;
- Income and price sensitivity of individual parkers;
- Availability of substitutes for parking; and,
- The relative attractiveness of other commercial centers.

The objective of this analysis is to deconstruct the issues surrounding a commercial parking tax in Seattle and look at the implications of a tax on the key stakeholders – parking patrons, parking operators and owners of parking facilities. In addition, policy issues and tax structure options are identified and discussed.

PARKING TAX STATUTORY AUTHORITY AND EXPERIENCE IN OTHER JURISDICTIONS

RCW 82.80.030 was enacted in 1990 and provides authority to a county or a city to enact a local commercial parking tax. The tax applies to all parking for which a fee is paid, whether paid directly by users or leased, including parking supplied with the lease of nonresidential space, where parking is a separately identified charge. The statute is quite broad and appears to apply to any facility that supplies parking in exchange for compensation for the use of the space. As such, spaces that are provided at no charge, such as at Northgate Mall or a Park & Ride lot, would not be subject to the tax under the statute. The statute calls out tax-exempt carpools, vehicles with handicapped decals, and government vehicles as specific exemptions from the parking tax.

The commercial parking tax is an excise tax – a tax imposed on the use of property for a particular use or for the privilege of operating a particular type of commercial activity – and as such is not subject to the constitutional requirement of uniformity of taxation. As a result, jurisdictions have significant latitude to vary the tax rate based on characteristics of either the parking facility or the use of parking facilities. For example, the tax could be structured to account for differences in zoning or location of the facility, the duration of parking, the time of entry or exit, the type or use of the vehicle, or other reasonable factors related to other policy objectives.

The statute requires that proceeds from the commercial parking tax be used strictly for transportation purposes in accordance with RCW 82.80.070. The law defines appropriate uses as preservation, operation, design, right-of-way acquisition, construction of transportation facilities, and implementation of transit improvements and programs. In addition RCW 82.80.070 includes a provision clarifying the legislative intent "that as a condition of levying, receiving, and expending local option transportation revenues, no local government agency use the revenues to replace, divert, or loan any revenues currently being used for transportation purposes to nontransportation purposes." In other words, parking tax revenues cannot be used to shift existing transportation funding to other nontransportation use.

Experience in Washington State. The commercial parking tax has been implemented by several jurisdictions in the Puget Sound area. One of the key features of the jurisdictions that have successfully implemented the parking tax is that, in all cases, the commercial parking market in these cities represents a captive market opportunity. The cities are either tapping the market for parking around Sea-Tac airport or the commuter parking market around one of several ferry terminals. If Seattle were to implement a parking tax, it would be the first city in Washington State to apply the tax to a more diversified parking market that includes retail patrons.

COMMERCIAL PARKING MARKET IN SEATTLE

Seattle's commercial parking supply includes on-street, short-term metered parking provided by the City; City-owned garages and parking lots; and parking garages owned and operated by private companies, non-profits and institutions. On-street parking generally provides space for retail customers and other short-term patrons, while parking garages and surface lots provide parking to a mix of patrons, including short-term retail and other patrons, daily and monthly parking for commuters, and evening and weekend event patrons.

Recent history suggests that commercial parking, as an industry in Seattle, has experienced significant growth. This growth can be seen in the trend of survey parking rates since 1989 and a review of business & occupation tax collections for parties engaged in commercial parking activities, discussed later in this report. The parking industry has been the beneficiary of an exceptionally strong local economy and a significant expansion in the downtown Seattle retail and entertainment market.

Demand for parking is a function of the relative attractiveness of an area for work, shopping or entertainment. Parking is not an end in and of itself — rather it is a derivative of the demand for other activities and the travel characteristics of the market area. The quantity and type of activities within a market area will determine the overall need for parking, and the duration and particular time-of-day, day-of-week and time-of-year variations.

Trends in Parking Prices

While recent softening of the local economy and increased vacancy rates have led to reduction in parking demand and a commensurate reduction in some prices, the overall trend in prices has been steady growth for close to a decade. Exhibit 1 presents average parking costs in downtown Seattle for selected years. The historic information is from the Puget Sound Regional Council's Parking Inventory Study. Costs for 2002 are based on a survey of posted prices conducted in June 2002 for this study.

Even with the downturn during the last year, prices since 1999 have increased an average of 3.6% per year for short-term parking and 5.5% per year for monthly and daily parking, though according to parking operators, all of the increase can be traced to the 1999-2000 period. Parking rates have largely been maintained at 2000 levels for the past couple of years.

Short-term parking costs grew roughly in line with general inflation over the most recent period, while the cost for both daily and monthly parkers increased at almost twice the rate of general inflation. Looking back to 1989, average parking costs for monthly and daily parking have more than doubled and short-term parking rates have increased roughly 80%, while the general cost of living has increased approximately 60%. This disparity between the cost of parking and the general cost of living is likely due to a combination of factors, but is most likely a result of demand for parking generally growing faster than the supply, and income growing faster than the rate of general inflation.

Exhibit 1
Average Parking Costs in Downtown Seattle: 1989-2002

	Average Parking Costs				Avg Annual Percent Change			
	2-Hour	Daily	Monthly		2-Hour	Daily	Monthly	Seattle Inflation
1989	$4.29	$8.92	$109.90					
1992	$4.82	$9.99	$126.06	**1989-92**	4.0%	3.9%	4.7%	5.6%
1994	$5.04	$10.44	$131.61	**1992-94**	2.3%	2.2%	2.2%	3.1%
1996	$5.78	$12.13	$145.03	**1994-96**	7.1%	7.8%	5.0%	3.2%
1999	$6.92	$16.93	$191.34	**1996-99**	6.2%	11.8%	9.7%	3.1%
2002	$7.70	$19.86	$224.74	**1999-02**	3.6%	5.5%	5.5%	3.1%
1989-02	$3.41	$10.94	$114.84	**1989-02**	4.6%	6.4%	5.7%	3.7%
Inc. since 1989	79%	123%	104%					

Source: Puget Sound Regional Council and Berk & Associates, Inc.

According to parking operators, the commercial parking market in Seattle has experienced a significant downturn in parking rates since about October 2000, reversing recent experience of substantial annual parking rate increases. In the aftermath of the failure or restructuring of a number of technology companies and the ensuing decline in the local and national economies, parking rates and parking revenues have declined sharply in several areas. One Seattle parking operator indicated that their organization's parking revenues have declined 30% in 2002, compared with 2001.

Trends in Commercial Parking Revenues

The City does not have a source of information that describes parking revenues comprehensively. City collections of local business and occupation (B&O) provide an opportunity to estimate parking revenue for the portion of parking provided by commercial parking operators. Commercial parking operators pay the retail B&O tax of 0.215% on gross parking proceeds (gross revenues less sales tax collected) and also pay the service B&O tax of 0.415% on their management fee income. To estimate trends in parking revenues, quarterly tax collections for commercial parking operations (SIC 752, auto parking) were provided by the City for the period 1991 to second quarter 2002. These collections would capture the majority of parking-related revenue in the city, however it would exclude parking revenues collected by other types of operations (such as the University of Washington, or Woodland Park Zoo) or those collected as part of leases.

Exhibit 2 presents the resulting imputed commercial parking revenues, based on local B&O tax collections for facilities operated by commercial operators in Seattle since 1991. The 2002 estimate is based on an extrapolation of the first two quarters of collections and the historic relationship between the first half of the year and annual totals.

Exhibit 2
Imputed Parking Revenues for
Commercial Operators in Seattle: 1991-2002

	Parking Revenues	Percent Change
1991	$44,000,000	
1992	$45,700,000	3.9%
1993	$54,600,000	19.5%
1994	$61,000,000	11.7%
1995	$67,200,000	10.2%
1996	$79,100,000	17.7%
1997	$93,100,000	17.7%
1998	$100,000,000	7.4%
1999	$129,400,000	29.4%
2000	$148,800,000	15.0%
2001	$152,100,000	2.2%
est. 2002	$157,200,000	3.4%

Source: City of Seattle and Berk & Associates, Inc.

The data show a remarkably strong pattern of increasing parking revenues in the City. The analysis implies that revenues have increased an average of 13.2% per year for more than a decade. Revenues in 2002 are 245% (almost 3.5 times) greater than those collected in 1991. To put these figures into some context, during the same period the sales tax base (of which parking revenues are a component) grew an average of 5.5% per year and a total collections have grown approximately 75% during the 1990's.

It is important to note that B&O tax is based on gross revenues and not on net income or profits. While it is tempting to equate large revenue growth with high profitability, there is no source of profit or income data. There are reasons to believe that overall costs in the industry have also increased during this period. In some facilities, demand is such that it has become economical to provide a higher level of service to increase the capacity of the parking facility. This usually takes the form of valet services, which allow for greater parking density but are more labor intensive. Also, to the extent that some of the revenue growth is tied to increases in the inventory of stalls, costs to service these new lots and garages would also be added. The following are some observations regarding the revenue estimates:

- Using PSRC survey data (Exhibit 1), downtown parking rates have grown at approximately half the rate of estimated parking revenues, implying that the number of parking transactions must also have been increasing substantially over this period. The increase in transactions is likely due to a combination of increases in the total number of stalls in the commercial parking inventory and an increase in the average occupancy.

- The only historic data for commercial parking inventory is the PSRC survey, which is limited to commercial parking inventory in the CBD, Lower Queen Anne and First Hill neighborhoods. Based on the PSRC inventory estimates for 1989 and 1999, commercial parking supply increased by 1.8% per year (with most of the growth occurring before 1995). This would imply that revenues are not related to a large increase in total inventory. It also implies that at least some of the inventory gains were likely outside the PSRC survey area.

- It is likely that a significant contributor to the overall increase in parking revenues is the increase in parking demand associated with retail and entertainment customers. These customers generate short-term parking needs, which generate much more revenue on a daily basis than monthly commuter parking. For example, using currently posted parking rates, four 2-hour parkers would generate about $31 per day, while one monthly parker in that same space would generate about $10 per day. In addition, retail and entertainment customers generate parking revenues on weeknights and weekends. In the past, most of the retail activity in downtown Seattle occurred during the holiday shopping season. New retail attractions, restaurants, and entertainment venues such as Symphony Hall generate more parking demand year round.

- Some caution should be applied to the interpretation of these revenue estimates. As mentioned previously, the revenues are based on tax collections from businesses reporting as commercial parking operators and are thus not inclusive of all parking revenues. In addition, it is possible that some of the implied revenue growth is simply a reclassification of parking revenue. For example, if a non-profit or institutional property owner switched from providing their own parking services to a contract with a parking operator, all of the revenue from that facility would appear as new parking revenues in this analysis. In fact in the fall of 2001 Swedish Hospital transferred the operation of its facilities to a private operator. As a result, approximately $6 million of new parking revenue estimated for 2002 can be attributed to reclassified parking revenues. According to parking operators, this is the only large shift during the past decade. As a result it is unlikely that correcting for potential shifts would materially change the overall findings.

As mentioned previously, some operators are said to be experiencing significant reductions in parking revenues, as much as 30% in some locations. It seems that even with some facilities experiencing sharp declines in revenues, other facilities must be doing well and offsetting some of these losses. It is possible, even likely, that the impacts of the recession are being felt unevenly – with some parts of the city faring much worse than other areas. However, in total, it appears that the industry is likely to continue post gains in total parking revenue, albeit at a much lower rate of growth, despite the economic downturn.

FINANCIAL IMPLICATIONS OF A COMMERCIAL PARKING TAX – WHO WILL PAY?

The introduction of a commercial parking tax will increase the cost of operations for providers of paid parking in the city, changing the dynamic between price, supply and demand. The direct financial burden of a parking tax will likely be shared among property owners, parking operators and parking patrons. The magnitude of the impact and the potential distribution of the burden among these stakeholders will depend on the type and magnitude of the tax, the economic conditions at the time of implementation, the parking supply, and the particular economic situation at each parking facility.

Recent experience in other metropolitan areas that have implemented parking taxes has been mixed. In some cases, like Los Angeles, Santa Monica and New Orleans, there appears to have been little direct evidence that the tax resulted in changes in travel behavior and that most of the tax was passed through to parking patrons through higher prices. In other cases, like Baltimore and Miami, the experienced was decidedly more difficult, as relatively weak downtown areas appear to have been negatively affected by the tax and because of lower demand, prices could not be adjusted to fully account for the tax. The most significant finding that comes out of the review of experience elsewhere, is how location specific this issue really is. The impacts will vary according to the specific conditions in the market, the strength and relative attractiveness of the paid parking districts, and the relative income of potentially affected parking patrons.

The majority of paid parking facilities are managed by commercial parking operators. In a few instances the operator is also the owner of the facility, but in most cases, professional operating companies are contracted to provide services on behalf of building and facility owners. The terms of these arrangements can vary widely, both in duration of the contract and the financial requirements. Some contracts are based on fixed monthly payments from the operator to the owner; others are based on percent of gross parking revenues or a combination of the two. In most cases, it is the operator's responsibility to maximize profit on the facility through pricing and cost management decisions.

Regardless of the form of the contract, parking operators typically earn an average of 5% of gross parking revenues, with the balance of net income flowing through to the owner of the facility. Any kind of parking tax would likely meet or exceed the typical 5% operator margin. As a result, the operator will have to either get financial relief from the owner or will need to pass much of the cost of the tax on to customers through higher prices to protect their operating margin.

Parking Operator Impacts and Reactions

Parking operators set prices to maximize overall utilization while maintaining a target rate of return on operations. If a parking tax were implemented, parking operators would likely test the market to determine how much of the tax could be passed along to the parking patron through price increases. The extent to which this immediate price increase could be maintained, would depend on the magnitude of the tax, customer reaction and the impact on operator's bottom line. The market may be capable of absorbing the cost of the tax through higher prices, resulting in the majority of the tax burden falling on parking patrons. Or, the parking market may not accept higher prices resulting in fewer transactions and lower revenue. In these cases prices may be reduced and the burden of the tax would be shifted from parking patrons to operators and property owners.

The biggest factor in the price sensitivity is the overall strength of the local parking market. The price that customers are willing to pay is related to the value placed on the trip, whether it is for work, shopping or entertainment, and the cost of substitutes, which is why parking taxes have been implemented in cities such as SeaTac and Bainbridge Island. In the case of paid parking in Seattle, there are two primary substitutes: (1) alternative modes of transportation such as transit or carpooling; and, (2) less costly parking options. The less costly option can take several forms, including parking at a less convenient, though less costly site, adjusting the length of stay to reduce parking costs, or traveling to another business district altogether.

In general, it is assumed that in the aggregate, parking demand for downtown Seattle is relatively inelastic, meaning an increase in parking costs will result in relatively small reduction in demand. This is based on recent experience of price increases in the city and experience in comparable communities such as San Francisco. Although overall parking pricing may be relatively inelastic, reactions to parking price changes for a particular facility, or in a part of downtown, can be quite elastic. Since parking is a derived demand, parking is a very site-specific economic enterprise determined by the market characteristics of patrons within a several block area around the facility. In addition, according to parking operators, some patrons will park in a different nearby lot to realize cost savings of as little as $0.25 per parking visit. As a result, higher prices may not drive patrons out of the market altogether, but they will likely shift among acceptable alternatives, creating some resistance to price increases.

However, the commercial parking business is very competitive and the combination of higher operating costs and marginally lower demand for parking would create opportunities for some operators. Operators that can keep prices down would potentially capture a greater share of what may become a somewhat smaller pie. Facilities that are well located and managed would be under less pressure to raise prices and could gain market share at the expense of weaker competitors, by absorbing some of the cost of the tax. Also, there may be opportunities for reducing operating costs through tighter management, or introduction of new technology, which would offset some or all of the costs of the parking tax, and put the operator in a competitively advantageous position.

The degree to which operators would look for opportunities to absorb some of the costs and improve their market share would depend on the nature of their current financial capabilities, the number, strength and behavior of their closest competitors, and the ability of customers to absorb price increases. Given the competitive nature of the market and the willingness of customers to adjust their patronage for relatively small cost savings, it is unlikely that 100% of the cost of the tax would be passed on to customers through higher prices.

Parking patrons are not equally price sensitive, but relate to the individual trip purpose, availability of substitutes and income. If operating costs were increased through a parking tax, it is likely that prices would rise, but not necessarily proportionally across-the-board. If long-term parking is less price-sensitive than short-term parking, as fewer commuters may have less opportunity to avoid a price increase, then more of the burden of higher prices may be passed on through to monthly and daily patrons. In some cases, it may be advantageous to increase the overall utilization of the facility by aggressively pricing short-term parking rates and increasing the number of stalls available to short-term parkers. If the operator can capture a greater share of the short-term traffic, the average revenue per stall could actually increase without increasing prices.

Parking operator perspectives. Operators have significant concerns relating to a possible parking tax. In addition to some of the issues that have already been raised, the following issues were raised by parking operators during interviews and stakeholder meetings.

- **Parking occupancy and revenues are down.** The downturn in the local economy has resulted in reductions in both parking rates and parking revenues. The imposition of a tax at this time would cause significant hardship to operators and property owners who are dealing with lower demand and lower prices already.

- **Parking is already taxed to a significant degree.** Parking transactions are part of the sales tax base and are assessed the 8.8% retail sales tax. In addition, parking operators are assessed both the retail B&O tax (on gross parking revenues) and the service B&O tax (on management fees) as well as several licensing fees. In many of the other cities that have a parking tax, there are no other significant taxes or fees imposed.
- **In the current market, passing on price increases is not going to be possible.** Several operators have said that they do not believe the current market would allow for the tax to passed on to customers. Occupancy rates are down and there is significant pressure to reduce rates for all classes of customers. In this environment, a parking tax would largely affect parking operators and property owners.
- **Posted rates do not reflect the whole picture.** While posted prices have not decreased dramatically in some parts of town, they do not fully capture the impact of price pressures. Revenue from parking spaces that are leased on a contract basis to employers has been significantly reduced. Based on recent negotiations, the rental rate per space for these types of transactions is substantially lower.
- **There are better ways to generate revenue from parking.** The City could dramatically increase the metering program, possibly in combination with raising meter rates, and probably generate as much or more income in a more equitable manner. Meter rates have not been increased since 1990 – with the exception of a brief increase in 1993 that was quickly reversed. Also, better enforcement of existing regulations and meters would likely yield substantial new revenues.
- **Introducing a tax can have significant negative impacts on a business district.** Some of the more recent experiences have had dramatically negative impacts on local business resulting from the shock of a new tax. The most recent example is Miami, where a 20% tax was implemented in 1999 in response to a fiscal crisis. The tax resulted in significant changes in shopping patterns as patrons avoided downtown and the higher parking prices that came with the parking tax. Most operators report that total traffic levels have yet to return to pre-tax days.

Building/Property Owner Impacts and Reactions

Property owners would be in a position to accept some of the cost of a parking tax through lower lease payments from operators. The degree to which this might occur would depend on a number of factors and would vary according to the individual situation. There may be good competitive reasons why an owner might be willing to accept a marginally lower rate of return to maintain or improve a competitive market position. Some of the factors that would determine the reaction of property owners include:

- **Parking is only a component of total property revenues.** If the owner is dependent on a particular level of traffic, as in the case of a retail building with accessory parking, then it may be to the owner's advantage to keep parking prices down. Lower prices might translate into higher market share and better business for the owner's retail tenants and higher percentage rents. In other cases, owners may be unable to accept a reduction in the financial performance of the parking garage. The slower economy is already creating a financial challenge due to higher vacancies and lower rental rates in the other elements of the building, and fixed debt or other financial obligations that must be met. In either case, most property owner's reaction to a parking tax would be influenced by factors beyond the operation of the parking facility.

- **Impact on property values.** Commercial real estate values are based on the income producing capabilities of the properties. There is a direct correlation between net operating income (gross revenues less operating expenses) and the value of a property. A parking tax would add to the annual operating costs of commercial properties that have on-site paid parking. Any portion of the tax that is not passed through to customers would likely reduce net operating income (if no other cost reductions are possible). If net operating income were reduced, the overall value of the property would be reduced in a corresponding manner. A reduction in property value could have an impact on property tax collections, though the actual impact will depend on a number of factors, including changes in property values elsewhere in the city and the tax limits imposed by Initiative 747.

- **Impact on investment in commercial real estate.** Providing parking plays an important role in the financial feasibility of every new commercial development. In cases where paid parking is part of the financial picture, a change in the economics of the parking business will have an impact on the overall financial feasibility of new office and retail development in the City. To get the same rate of return, a reduction in net income from the parking component would need to be offset elsewhere. The most likely outcome of this scenario would for the project to be delayed until demand drove rental rates (or parking rates) up to the point where the rate of return again exceeded the investor's hurdle rate.

Property owner perspectives. A number of issues have been raised by property owners, either during the stakeholder meetings, through direct interviews locally and around the country, or documented in other studies and reports. The following issues were raised by potentially affected property owners.

- **Office market has softened significantly resulting in higher vacancies and lower operating margins.** A parking tax would create an additional financial challenge at a time where many property owners are already dealing with difficult financial conditions brought on by the economic downturn. A reduction in net income will reduce property values, which in turn could create cash flow problems where owners have fixed costs such as maintenance and debt service and are facing higher marketing costs.
- **Employee parking.** High cost of parking for retail, restaurant and other small businesses will have a significant impact on their employees and will increase the challenge of hiring and retaining good people. Many employees are unable to use transit alternatives because of work hours or day care commitments and would be forced to pay the higher cost or look for work elsewhere.
- **Competition with other office markets.** A parking tax that results in higher parking costs will further disadvantage downtown building owners and managers in their competition for tenants with other regional business districts. This is likely to be a particularly significant issue over the next several years as downtown Bellevue tries to recover from very significant office vacancy rates.

- **Parking tax could make commercial parking impractical in some neighborhoods.** The feasibility of paid parking in some neighborhood business centers is already a marginal proposition. An increase in the cost of providing commercial parking services in these neighborhoods would likely force some property owners to discontinue their operations because the local market cannot accommodate higher rates and the tax would eliminate current operating margins.
- **Revenue raised through the parking tax would be offset by lost B&O and sales tax.** Parking tax revenues need to be considered in light of likely losses in sales tax and B&O tax revenues, as fewer people will frequent the business districts. The trips that are most likely to be affected by higher prices are retail and entertainment trips. When individuals decide to go elsewhere for retail and restaurant activities, local businesses will see fewer patrons, experience lower sales and the City will get fewer tax dollars.

Parking Patron Impacts and Reactions

Given the assumption that parking demand is relatively inelastic in the short-term, it is likely that at least a portion of the cost of the tax would be passed through to customers. As discussed earlier, the degree of the pass-through would likely vary according to the particular economic situation at each facility, and other factors such the price sensitivity of various segments of the market and adjustments in operator pricing strategies. As a result, it is likely that the burden of the tax would be distributed unevenly among patrons as operators adjust rate structures to maximize revenue while minimizing the potential for losing market share.

If all of the cost associated with the parking tax could be successfully passed through uniformly to parking patrons, a 10% parking tax on gross parking proceeds would likely require an increase in prices of between 12% and as high as 20%, depending on the reduction in total demand. The price increase is higher than the parking tax rate for several factors:

- Posted prices include the cost of sales tax. If the operator is to recover the full cost of the parking tax, they must also recover the increased cost of sales and B&O taxes to maintain the same net operating income.
- As parking rates and total revenues increase to cover the cost of the taxes, the parking tax also will increase.
- It is assumed that an operator would lose some customers due a decrease in overall demand resulting from the higher prices. If transactions are reduced, then the operator must also recover the lost revenue from fewer transactions. The higher the tax rate, the greater the chance of losing transactions and the higher prices would need to be adjusted.

If prices are increased as a result of a parking tax, parking patrons will face several options in reaction to the higher cost of parking.

- **No change in behavior.** For some patrons, a 12% to 20% increase in prices will result in no change in behavior. In some cases, this may be due to a relatively low sensitivity to price changes resulting from either a high disposable income, a high value placed on the trip, or a perceived or real lack of acceptable substitutes. In other cases, there may be no reasonable alternative, such as workers that must travel by car and cannot easily avoid the higher cost of parking.

- **Reduced number of trips.** For other patrons, higher prices would result in fewer trips to neighborhoods with paid parking. Patrons might consolidate their trips to mitigate for higher parking prices or simply go elsewhere to avoid the cost. The trips most likely affected in this way would be for retail and entertainment purposes.

- **Shorter stays.** The experience in San Francisco indicates that total parking revenue declined in a greater percent than total parking transactions. This is a result of a change in the average length of stay for certain patrons. To mitigate parking cost increases, users may choose to stay a shorter period of time and thus keep the cost of parking within an acceptable or budgetary limit.

Most Seattle parking patrons have experienced a decade of price increases that have generally exceeded the cost of inflation. In light of these increases, demand appears to have been relatively unaffected, as reflected in average occupancy and the imputed parking revenue estimates. However, much of these price increases have occurred in the context of a significant expansion of the local economy and growth in retail and entertainment options. In this environment, patrons would have likely experienced an increase in the perceived value of frequenting downtown Seattle and would have had the disposable income to enjoy the new offerings.

The challenge of extrapolating this history to a scenario where prices are increasing as a result of the cost pressures of a tax, as opposed to growth in demand, is knowing how the downturn in the local economy will affect the choices of individual parking patrons.

POLICY CONSIDERATIONS

Competition with Other Retail Districts. One of the most frequently mentioned concerns about a parking tax is that it would negatively impact local businesses by disadvantaging them relative to other business districts. This fear is particularly acute with respect to the retail sector. The concern is that such a tax might induce shoppers to increase their patronage at large shopping malls where parking is free, and avoid downtown where parking is already seen as expensive. Any change in retail customer behavior depends on a number of factors, including: how much of the tax might actually be passed on; the ease and cost of traveling to another location; and likely, the relative quality and value of the shopping experience in downtown versus alternative retail shopping opportunities.

- **Magnitude of price increase.** As discussed earlier, the magnitude of a price increase in response to a parking tax would depend on a number of factors, not the least of which is the reaction of customers. Parking operators, acting to maximize their profits, will gauge the degree to which demand might drop as a result of a price increase. If there is too great a decline in transactions, there will be an incentive to reduce prices and increase occupancy.

- **Availability of substitutes.** Downtown parking is just one of a number of factors retail customers consider when choosing to shop downtown. The ambience and selection of stores in downtown are a unique draw. The success and expansion of Seattle's retail core seems to indicate that the drawing power of downtown already significantly outweighs the real and perceived costs of accessing downtown retail as compared to another retail shopping location alternative.

- **Cost of substitutes.** Parking costs are only one component of the costs associated with a shopping or entertainment trip. The convenience and availability of parking and the total time dedicated to travel are just as important for many parking patrons. Having free parking but never being able to find a space creates a different, though no less significant, barrier to a retail district. Both Bellevue Square and University Village present the opportunity for free but scarce parking, versus generally available and convenient parking, but at a cost downtown. The introduction of a parking tax will potentially change the dynamic of this choice, however these factors are already at work, as paid parking downtown already competes with other districts' free parking.

- **Demographics of downtown shopping patrons.** Another key factor in the reaction to potentially higher parking costs is the income level of downtown shoppers. The question is: would a $0.50 or $1.00 increase in the price of parking be a material factor in the decision to continue shopping downtown? For some shoppers, this would likely be cause for concern and possibly lead to a change in shopping patterns. However, the downtown retail district is located in relatively close proximity to a number of high-income neighborhoods. This fact has not gone unnoticed on the part of merchants, as the retail core has continued to shift toward retailers that cater to upper income customers. These higher income shoppers generally place a high value on their time and as such might be less likely to incur higher travel costs to avoid an increase in parking prices.

- **Existing programs to mitigate price impacts for retailers.** One way to mitigate the overall impact of the higher parking cost in downtown is through marketing programs such as "EZ Streets." In the early 1990's, the Downtown Seattle Association (DSA) started this program when the downtown retail area was in a slump, as a way of creating an incentive for people to shop downtown. The program is now called CityPark and consists of merchants signing an agreement with the DSA to buy tokens from downtown banks at $1.00 each, which are given to customers to use for a dollar off parking or transit trips. About 50 merchants participate in the program. Merchants cover the costs of the token, parking lot operators receive about 90 cents on the dollar, and the DSA and banks each receive a portion of the remaining 10 cents.

- **Ability to overcome negative impacts from tax.** Th ability of downtown businesses to overcome the negative impacts of a possible tax, in particular the public perception that parking costs will have increased substantially, will depend at least partly on available resources for marketing. According to the Downtown Seattle Association, Bellevue Square alone has approximately four times the marketing budget as the DSA to counter negative impressions in the marketplace.

Competition with Other Central Business Districts. A parking tax would have an impact on non-retail as well as retail businesses. Parking costs are an element in the overall office location decision of companies. While there are many factors that influence corporate location decisions, an increase in the cost of parking may reduce the relative attractiveness of the downtown Seattle as a business location. The relative cost of parking in downtown Seattle is already a competitive disadvantage in the regional market for office tenants. As mentioned previously, property owners are concerned that a parking tax would translate into higher parking costs and would have a significant impact on their ability to attract tenants.

Implications on emerging commercial parking markets. Higher operating costs would likely slow the transition of free parking to paid parking in emerging commercial parking markets and may actually result in fewer paid parking facilities where the economics are already marginal. Before it becomes economical to charge for parking, the demand would need to support prices at least equal to the cost of collecting the parking charges. A parking tax would raise the bar and could delay potential conversion until demand has progressed further. If it is a transportation demand management goal to make visible the true cost of parking, a parking tax might slow this process in certain parts of the city.

Neighborhood implications. Much of the focus in the previous discussion has been on the implications for downtown Seattle, since this is by far the most significant commercial parking district in the city. However, there are other considerations that should be evaluated with respect to the other Seattle neighborhood business districts. Once such issue is the potential to increase the spillover effects of parking into residential neighborhoods. Adding to the cost of parking in neighborhood shopping districts would add to the incentive to seek free parking in surrounding residential areas, potentially creating tension among residents, shoppers and merchants. Another issue is how a commercial parking tax would disproportionately affect some neighborhoods and not others. For example, a tax would likely have an impact on parking operators and possibly patrons in the University District but not at University Village. This disproportionate impact on neighborhoods could lead to changes in shopping patterns within the city.

Equity issues. The issue of the fairness of the tax can be looked at three ways:

(1) Parking operations are already taxed to a large degree and adding a new tax raises equity concerns. Parking operations are already being assessed sales tax and business and occupation taxes, which are based on total revenues. Another tax aimed at gross proceeds, especially if the tax were in the 10%-15% range, would make parking one of highest taxed activities in Seattle.
(2) The tax would not account for the income of the parking patron, so it would be regressive. Parking patrons that have no reasonable alternative to parking downtown for lower wage jobs could bear a significant financial burden as compared to some other parking patrons to whom the tax will have a negligible impact on behavior or financial considerations.
(3) The tax would be borne by a relatively small percent of residents and businesses.

City pricing policies for meters and City-owned garages. The City owns some commercial parking spaces some at City-owned parking garages in the downtown area. As the City considers levying a tax, decisions will be faced about the most appropriate way to pay the tax – adjust parking rates to pass on the cost of the tax, or absorb the cost. If the City were to absorb the cost, there would be a shift of revenue from the General Fund to a transportation fund set up to receive parking tax distributions.

Perceptions and publicity. Introducing a new parking tax would be a relatively high profile issue that would generate news coverage and affect or, in some cases exacerbate, perceptions of downtown Seattle as a costly place to visit, regardless of the actual price reaction to the tax. This type of publicity is similar to the regular coverage of traffic problems on the floating bridges, confirming the perception that getting to Bellevue Square can be a time-consuming and frustrating experience for residents on the west side of the lake.

Implications on growth management and sprawl. To the extent that a parking tax artificially raises the cost of parking in the city, there are some that feel that this would encourage suburban sprawl, as people look to avoid parking costs. While there is already a cost disincentive for traveling to some business districts, a City policy that makes this situation worse would be encouraging more people to go elsewhere.

PARKING TAX IMPLEMENTATION ISSUES

The analysis of parking tax implications assumed that if a tax were implemented it would be applied as a percent of gross parking revenues. This approach would be the easiest and least expensive, since it could tracked and monitored in the same way as the local business and occupation tax. As discussed previously, the most recent B&O tax collections from the City suggest that commercial parking operators collected $152 million in taxable parking revenue. Based on the first two quarters of 2002, it is expected that 2002 parking revenues will increase marginally to $157 million. These figures likely understate the total taxable base, since they exclude any parking operations that are not provided by commercial parking operators and any parking costs that are paid directly to building owners through lease arrangements. As a result, a conservative estimate of potential revenues would suggest that each 1% increase in the parking tax rate would likely generate approximately $1.5 million in new revenues to the City.

While this approach would clearly be the easiest to implement and administer should the City decide to proceed with a tax, it does nothing explicitly to promote certain types of parking over others. As mentioned earlier, the City has a policy interest in supporting short-term parking opportunities for retailers and discouraging single-occupant vehicle commuting. Other possible tax structure options would allow the City to more proactively target certain segments of the parking market with an eye toward transportation demand management objectives. These options are presented in Exhibit 3 below. In all cases the tax could take the form of a per stall or per transaction tax or be based on a percent of parking revenue.

If the City were to pursue a commercial parking tax, then regardless of the choice of tax rate or structure, any proposal should consider options for phasing in the tax. As discussed earlier, the introduction of a parking tax would change the economics of commercial parking by increasing the cost of operations. The market would react to this change in a number of ways, as operators and owners make adjustments to account for the higher costs. These adjustments could include price increases, technology investments to reduce operating costs or changes in owner/operator agreements. There would likely be a transition period while the system reaches a new equilibrium point. Phasing a new parking tax would reduce the shock to the system and allow for a more orderly transition from the current economic model to the new one.

Exhibit 3
Parking Tax Options

Tax Option	Advantages	Disadvantages
Vary rate based on duration	• Can target the tax to longer-term parking. • May have transportation demand management benefits. • Could exempt short-term parking to promote retail patronage	• More complex to administer for both the City and operators • Exemptions would either reduce revenue or require a higher tax
Vary rate base on type of parking facility	• Could offer reduced tax for buildings with TDM plans.	• More complex to administer for both the City and operators
Vary rate based on location	• Would allow for differential tax rates in the downtown are versus other parts of the city. • Could limit the tax to downtown or to the strongest commercial parking markets	• More complex to administer for both the City and operators • Exemptions would either reduce revenue or require a higher tax • Could create boundary issues, where cost of operations could vary depending on what side of the street you are on.

CITY OF SEATTLE PARKING TAX ANALYSIS

APPENDICES

APPENDIX A – Background: The Economics of Commercial Parking in Seattle

APPENDIX B – Summary of Parking Tax Experiences in Other Jurisdictions

APPENDIX A

BACKGROUND: THE ECONOMICS OF COMMERCIAL PARKING IN SEATTLE

Commercial parking is a commercial real estate activity that can either be a stand-alone function (surface lot or parking garage) or ancillary to other real estate activities. In some respects, the economics of commercial parking are very similar to those of other types of commercial real estate, such as office buildings or retail centers. In other respects, commercial parking markets have some unique features.

Factors in the Demand for Parking

Demand for parking is a function of the relative attractiveness of an area for work, shopping or entertainment. Parking is not an end in of itself -- rather it is a derivative of the demand for other activities and the travel characteristics of the market area. The quantity and type of activities within a market area will determine the overall need for parking, and the duration and particular time-of-day, day-of-week and time-of-year variations. Demand for parking will also be influenced by the availability of transit and the relative balance of housing and commercial activity in the area. Since parking is a derived demand, it is susceptible to fluctuations based on changes in underlying economic conditions that drive the demand for primary activities.

Factors Affecting the Supply of Parking

As with other forms of commercial real estate, the supply of parking depends on the relationship between the cost to build and operate a parking facility and the income potential of the operation. In general, parking prices need to be adequate to recover the cost of operation, and provide for both a return of capital and a return on capital. In addition to economic considerations, supply is also significantly related to local zoning and other regulatory and tax constraints. In most cases, zoning requires that new commercial or residential development be accompanied by a minimum amount of accessory parking. In some cases, such as in Downtown Seattle, zoning sets a maximum amount of parking that can be approved as an accessory use and as a principal use. Parking taxes and other local taxes, such as the sales tax, have the effect of increasing the cost of doing business and raising the financial hurdle for investors considering new parking facilities.

Parking Prices are Set to Balance Supply and Demand

It is a basic economic principle that, in a competitive marketplace, price will be set to balance demand and supply. In a situation where demand for parking is increasing and supply remains constant, prices will increase to bring the system back into balance. Conversely, in a period of constant demand, an increase in supply will result in downward pressure on prices to stimulate demand and increase facility utilization.

In the short-term, parking supply is relatively fixed, which allows parking operators to establish prices designed to maximize overall facility utilization, while maintaining a minimum rate of return on operations. To do this, operators can use the pricing structure to appeal to several segments of the parking market, from short-term shoppers and lunchtime visitors to commuters.

Pricing Structure and Strategies. Parking operators trying to maximize profit are attempting to constantly "price to market" by setting parking prices to maximize utilization and net operating income. In general, an 85% average occupancy level is considered to be full occupancy. The 15% float allows for regular turnover and increases the total number of vehicles that can be accommodated throughout the day. In periods of high demand, if occupancy falls consistently below the full occupancy target, operators will lower their parking prices, usually in modest increments until the targeted 85% occupancy is reached. Conversely, if parking occupancy is above 85%, operators will raise their rates in order to reestablish the optimal market level. In periods of lower demand, operators will go through the same exercise with an eye toward the best balance between revenue production and facility utilization.

Operators also use pricing structure to optimize the relative distribution of the garage among the various segments of the parking market. Depending on the time of year and the submarket in which an operator is working, there is an optimal mix of monthly, daily and short-term parkers for each facility. If managed appropriately, short-term parking can provide higher average revenue per stall, since the price-per-hour tends to be reduced as the duration of stay lengthens. As a result, several short-term stays in the same space will provide more total revenue than one daily parker. However, the operator must turn over the short-term spaces several times per day, in order to maximize average occupancy and achieve higher revenues per stall.

The operator can manage the facility to improve the turn rate of the short-term spaces through graduations in the pricing schedule. By charging high daily rates, operators can both encourage shorter visits (and thus more opportunities to turn a space over), and recoup some portion of the opportunity cost of having a single car occupy a space for most of the day. Operators can also reduce the number of short-term spaces available in periods of lower demand through early bird specials. The early bird special allows the operator to attract commuters at a "breakeven" price, which reduces the number of spaces for short-term parking and keeps the average turnover and revenue per stall at a relatively high level for the short-term spaces.

Price Sensitivity. There is not a significant body of research on the issues surrounding the sensitivity of parking in central business districts to changes in prices. What little research exists, suggest that parking demand is generally price inelastic, that is, an increase in the price of parking has a relatively small impact on the overall demand for parking in a central business district. The most relevant study is a study of the San Francisco parking market following implementation of a 25% general parking tax in 1972 that provided a before and after comparison. The study concluded that overall price elasticity in the downtown area was estimated to be between -0.35 and -0.43. This would indicate that a 10% increase in price results in an approximate 3.5-4.0% decline in parking demand. The study also reviewed the impact on duration of stay and found that vehicle hours parked were much more sensitive to price changes than overall transactions. As a result, it is possible that transactions may not decline significantly, but parking revenues could see more dramatic reductions as some patrons shorten their stay to keep parking costs down.

Although overall parking pricing is relatively inelastic, with little impact on overall parking demand for an activity center, parking pricing for a particular facility can be quite elastic and depending on specific sub-market conditions. A key factor in price elasticity is the availability of substitutes. In the case of public parking, there are two primary substitutes: (1) alternative modes of transportation such as transit or carpooling; and, (2) less costly parking options. The less costly option can take several forms, including parking at a less convenient, though less costly site, adjusting the length of stay to reduce parking costs, or traveling to another business district altogether.

According to parking operators, some patrons will park in a different nearby lot to realize cost savings of as little as $0.25 per parking visit. This behavior creates some resistance for price pressures, as operators know a small change in parking prices that is not matched by other facilities within a submarket can lead to rapid and significant changes in local utilization as users adjust to the relative price change.

Moreover, all parking patrons are not equally price sensitive. In general, long-term and commuter parking is less price sensitive than short-term and retail parking. In each case, relative price sensitivity is a function of the income of the user and the availability of reasonable and affordable substitutes. In the case of commuter parking, the availability and cost of transit options might influence the price sensitivity of this market segment. In the case of shoppers, the availability of similar retail outlets elsewhere at a lower cost – in terms of combined parking costs, travel time and overall convenience – will influence the price sensitivity of this group.

COMMERCIAL PARKING OPERATIONS IN SEATTLE

Seattle's commercial parking supply includes on-street, short-term metered parking provided by the City, City-owned garages and parking lots and parking garages owned and operated by private companies. On-street parking generally provides space for retail customers and other short-term patrons, while parking garages and surface lots provide parking to a mix of patrons, including short-term retail and other patrons, daily and monthly parking for commuters, and evening and weekend event patrons.

There are three primary types of parking operations: surface lots, garages dedicated specifically to public parking, and mixed-use parking garages. Mixed-use parking garages provide parking to different types of patrons; these might include a certain number of parking spaces reserved for condominium owners, office tenants, employees, and/or retail patrons, with the remaining spaces offered to the general public. The cost of the parking that is included in a lease may or may not be separately identified in the lease. Some mixed-use parking facilities have agreements in place to utilize or rent reserved stalls (such as for condominium owners) for day use if they would otherwise be unoccupied.

Lease Arrangements

In most cases, owners of parking facilities contract with a professional parking management company for parking operations. This is particularly true for parking facilities that are accessory to office or retail buildings. There are a few parking operators that also own some of the parking facilities that they operate.

Agreements between facility owners and operators can vary significantly. For example, an owner might be concerned about the risk of potential revenue fluctuations, perhaps due to the need for debt service payments, in which case the owner may opt for a structure where most of the lease payment is fixed. In such an arrangement the operator takes more risk, and would therefore likely benefit to a greater extent if the facility performs well. Some lease structures are based on a percentage of parking receipts. Other leases are based on a combination of a fixed payment plus a percentage of gross receipts.

Emerging Trends in Operator Agreements

The type and terms of a lease structure can depend on several factors, including: the payment preferences and negotiating skills of the owner and the operator, the location of the parking facility, stability of current market conditions, or the type of facility. One of the emerging issues in the parking market is a change in the structure of operator agreements. Until recently, it was common for five-year agreements to be negotiated, often with options to extend beyond the base term. Much like a retail lease, the owner would be paid based on a schedule of payments outlined in the agreement, leaving the parking operator latitude to manage the business as profitably as possible.

However, the current trend in operator agreements is toward much shorter lease terms, in some cases as short as 30-90 day contracts with renewal provisions. This change is in direct response to the significantly escalating parking prices experienced in the downtown area in the past several years. Basically, owners saw some operators making significant profits using their real estate, and wanted to have more control over the value generated. Shorter lease terms allow owners to respond to changes in prices and other market conditions more frequently, to ensure that they are maximizing the return on their real estate investment.

This is a relatively recent trend and according to local operators, there are still a substantial number of longer-term agreements in place. One of the results of this change in the market is to put an even greater emphasis on revenue maximization, while at the same time, squeezing the profit margins of parking operators.

Revenues, Expenses and Financial Performance

To begin to understand the potential implications of implementing a parking tax, it is important to have a basic familiarity with specific economic conditions in the local parking market. Financial performance of parking facilities will depend on the type and location of the facility. Each type of facility will have different operating cost characteristics and investment requirements. Demand for parking will also vary significantly depending on location, which affects both the pricing and potential revenues for parking.

In general, downtown Seattle has the strongest and most established commercial parking market which is reflected in higher parking prices and would likely account for a substantial share of total commercial parking revenues in the City. There are sub-markets with mature commercial parking operations oriented primarily to special events, such as Seattle Center and south of the Stadiums. As one moves away from the City Center paid parking becomes a less prominent feature of neighborhood business districts and where there is paid parking (Capitol Hill, South Lake Union, University District), revenues and prices are significantly lower than those experienced in the downtown core.

An Economic and Financial Analysis of Parking Facilities (prepared for the City of Seattle by Huckell/Weinman Associates, March 2000) provides a framework for assessing the financial characteristics of different types of parking facility operations. The report was prepared as part of the Neighborhood Parking Study and examined the economics of different types of facilities in several Seattle neighborhoods. The study did not evaluate the downtown neighborhood.

Exhibit A-1 provides a summary-level overview of parking facility financial performance. The analysis is based on two conceptual parking facilities located in two mature commercial parking districts in the City -- the University District and Downtown Seattle. The analysis is based on many of the same assumptions used in the Huckell/Weinman report, however some assumptions have been updated based on recent survey information and discussions with parking operators. The facilities are assumed to be identical, with the exception of the market in which they operate. The demand assumptions are also largely based on the survey work documented in the Neighborhood Parking Study. The following are key analytic findings:

- **Parking operator costs are relatively fixed in the short term.** The labor requirements for a parking facility are mostly determined by the type and total hours of operation, the size of the facility and the level of peaking in operations. Generally, the type of operation dictates the level of staffing, though there may be some opportunities to reduce staff through technology improvements. Other cost elements such as maintenance, security and some taxes are also relatively unaffected by volume. Costs that are most variable with volume are the sales tax and business and occupation taxes that are assessed based on total sales. In effect, these costs shrink the portion of income from each transaction that is available to pay operating expenses.

- **Maximizing revenue is the goal.** Since costs are substantially fixed, the primary management challenge on a day-to-day basis is to maximize revenue. This usually involves monitoring transactions and occupancy levels to ensure that the pricing structure is meeting the objective of optimizing revenue and average occupancy. This is evident in the alternatives, where operating costs (excluding taxes) are assumed to be the same regardless of location.

- **Commercial parking is already taxed.** Operators currently pay a number of taxes: business and occupation (B&O) tax, sales tax, a commercial license fee per parking stall, and a garage licensing fee. Parking operations are taxed as a retail business in the City, paying both the sales tax and the retail B&O tax. Excluding property tax, approximately 10% of gross revenues are consumed by taxes. Adding property taxes can increase the share of taxes above 20% of gross revenues.

The net operating income (NOI) shown in Exhibit A-1 varies largely based on the number of transactions and the market prices in the two neighborhoods. In the examples shown, NOI ranges from 33% of gross revenues to just over 70% of gross revenues. Not surprisingly the higher margins are those in the downtown neighborhood. The NOI is what is available for operator profit and owner compensation. The owner's compensation needs to be adequate to provide for both a return of capital (i.e. debt service payments on property mortgage) and a return on capital.

Another noteworthy feature of commercial parking operations that is illustrated by this analysis is that the market with the lower prices (the University District) also has significantly lower margins (assuming similar operations). This is due to the relatively fixed nature of parking costs for comparable operations. As a result, emerging commercial parking markets will generally transition from free parking to paid parking only when demand is adequate to recover the expected costs of the most limited type of parking operations (usually unattended pay boxes).

Exhibit A-1
Estimated Financial Performance by Parking Facility Type and Location

	CBD		University District	
	Garage	**Surface Lot**	**Garage**	**Surface Lot**
Gross Parking Revenue	$1,835,000	$591,300	$609,000	$239,100
Operating Cost	$271,900	$83,800	$271,900	$83,800
Net Operating Income Before Taxes	$1,563,100	$507,500	$337,100	$155,300
Percent of gross revenues	85.2%	85.8%	55.4%	65.0%
Taxes on operations				
Sales tax	$148,400	$47,800	$49,300	$19,300
B&O tax	$11,600	$3,700	$3,800	$1,500
Commercial license fee per space	$1,700	$700	$1,700	$700
General License Fee	$100	$100	$100	$100
Mgmt Fee Reimb. Tax "Service Tax"	$600	$200	$600	$200
Reimbursable Expense Tax	$4,100	$1,300	$4,100	$1,300
Property Tax	$89,700	$36,500	$76,400	$23,200
Total taxes	$256,200	$90,300	$136,000	$46,300
Taxes as percent of gross revenues	14.0%	15.3%	22.3%	19.4%
Net Operating Income after Taxes	**$1,306,900**	**$417,200**	**$201,100**	**$109,000**
Percent of gross revenues	71.2%	70.6%	33.0%	45.6%

Note: Garage is assumed to be a 3-level, 255-stall facility with two transaction lanes, with both lanes staffed only during peak periods. Surface lot is assumed to be a staffed facility with 100 stalls.

Source: Huckell/Weinman Associates and Berk & Associates, Inc.

PROFORMA ASSUMPTIONS

Parking Operation Types Modeled

- A financial model was developed for a 255 space, 3-level public parking garage and a 100 space surface lot located in the University District (U District), and for the same parking facilities located in the Seattle Central Business District (CBD).
- The site size was assumed to be 33,000 square feet, of which 30,000 square feet were occupied by the parking garage or by the surface lot. Each parking space was assumed to require 350 square feet of space.

Market Values of Land and Parking Improvements

- Estimated market values of land were based on current market value estimate ranges from John Berg, Commercial Appraiser, King County Assessor's Office.
- Land values in the CBD range from $90 to $300 per square foot depending on the height zoning of the property for mixed commercial use. The lower end of the range, $90 per square foot, was assumed in this analysis based on a 3-story garage. Land values in the U-District for neighborhood commercial zoning range from $50 up to $70 for NC1 and NC2. $55 per square foot was assumed in this analysis.
- The market value of parking improvements for a garage was based on an assumed construction cost of $14,000 per space plus 35% soft costs. The market value of improvements for a surface parking lot was based on an assumed construction cost of $2,000 per space. These construction estimates are from a March 2000 Economic and Financial Analysis of Parking Facilities prepared for the City of Seattle by Huckell/Weinman Associates.

Parking Operation Demand and Pricing

- The parking spaces were allotted to different types of parking: weekday short-term from 7 am to 6 p.m., weekday daily from 7 a.m. to 6 p.m., evening parking 6 p.m. to 10 p.m., weekend parking, and monthly parking. An average number of turns were established for each type of parking space, and an average duration for each parking transaction. The parking price for each type of parking was based on a current survey by Berk & Associates of CBD parking facilities, and based Huckell/Weinman Associates pricing assumptions for the U-District facilities and reviewed for current market conditions.

Parking Operation Expenses

Parking operation expense assumptions are based on conversations with parking operators in Seattle.

- **Labor costs**. The parking garage operation is assumed to require one parking attendant from 6 am to 10pm, a second attendant from 4 p.m. to 7pm, an on-site supervisor from 9am to 5pm, and security from 6am to 10pm. The surface lot operation is assumed to have one attendant on site from 7am to 6pm. Staff is paid an hourly wage plus benefits at 27% of wages. Wages range from $10.50 per hour to $14.50 per hour with payroll taxes included.
- **Insurance**. Parking garage insurance premiums are assumed to be $3 per parking space per month, and surface lot insurance premiums are assumed to be $2 per parking space per month.

- **Accounting**. Accounting administration expenses are assumed to be $240 per month.
- **Supplies.** Supplies are assumed to be $390 per month.
- **Utilities.** Utility expenses, which include electricity and water, are assumed to be $800 per month for the parking garage and $350 per month for the surface lot.
- **Regular Maintenance and Repair**. Regular maintenance monthly costs are assumed to be $750 for the parking garage. These costs include: $250 per month for power sweeping, $100 per month for pressure washing, $160 per month for striping (done every two years), and $240 per month for clean-up and graffiti removal and other costs. Regular maintenance costs for the surface lot are also estimated to be $750 per month and include: striping (done every year), weed abatement, cleaning, landscaping maintenance, and other costs.
- **Elevator.** Elevator servicing fees for the garage are estimated to cost $900 per month.
- **Miscellaneous.** Miscellaneous expenses are assumed to be $600 per month for the garage and $200 per month for the surface lot to cover unbudgeted items such as damage claims and other unforeseen costs.

Parking Operation Taxes/Fees

- **Sales Tax.** Sales taxes of 8.8% are assessed on gross parking revenues. Parking rates are assumed to have sales tax included in the price. The distribution of the sales tax is as follows:
  - State portion: 6.5%
  - Local portion: 1.9%
  - RTA portion: 0.4%

- **Business and Occupation Tax:** A .686% B&O tax on gross income is imposed and distributed as follows:
  - State portion: 0.471%
  - City portion: 0.215%

- **Commercial Parking License Fee per Space:** An annual fee of $6.75 per parking space is paid to the City.

- **General License Fee:** A general license fee of $75 for the first parking lot and $10 for each additional lot is paid to the City annually.

- **Management Fee Reimbursable Tax or “Service Tax”:** A 1.915% management fee reimbursable tax or service tax is paid on the management fee income earned by the operator and is distributed as follows:
  - State portion: 1.5%
  - City portion: 0.415%

- **Reimbursable Expense Tax:** A reimbursable expense tax of 1.5% on all operating expenses is paid to the City.

- **Real Estate Property Tax:** A real estate property tax in 2002 of $11.51 per $1000 of assessed value is assumed.

Parking Operator and Owner Profit Margin

The parking operator is assumed to generate a profit margin of 5% of gross revenues, after paying parking facility operating expenses and operating taxes. Included in this margin is an assumed management fee of $10 per parking space per month from the owner for operating the parking facility. The remaining net operating income after the parking operator's margin is assumed to go to the parking facility owner from which the owner is compensated for the lease of the facility and receives a profit margin on the parking facility investment, less any debt service or other obligations owed.

Staffing Assumptions

Parking Garage in U-District and in Central Business District

		hrs per day	days per week	hours per week
Attendant in booth:				
4 pm - 7 pm	1 attendant	4	5	20
6 am -10pm	1 attendant	16	7	112
	Subtotal			132
Hourly Wage with Payroll Tax:				$10.50
Wages per Week:				**$1,386.00**
Security				
6 am -10 pm	1 Security, 2 shifts	16	7	112
Hourly Wage:				$12.00
Wages per Week:				**$1,344.00**
Supervisor on site:				
9 am - 5 pm	1 supervisor	8	5	40
Hourly Wage with Payroll Tax:				$14.50
Wages per Week:				**$580.00**

Surface Parking Lot in U-District and Central Business District

		hrs per day	days per week	hours per week
Attendant in booth:				
7 am - 6 pm	1 attendant	12	7	84
Hourly Wage:				$10.50
Wages per Week:				**$882.00**

APPENDIX B
PARKING TAX EXPERIENCES IN OTHER JURISDICTIONS

LESSONS LEARNED IN OTHER CITIES

To gain some understanding of the potential impacts of a parking tax, a series of interviews were conducted with knowledgeable individuals in cities around the country that have instituted commercial parking taxes. The following is a summary of lessons learned.

- The tax base should be broad and well defined. Enforcement must be practical, implementable and a priority for the taxing jurisdiction. A broad tax base that carefully includes all commercial parking operations spreads the burden of the tax equally among all players without omitting, and thus benefiting, some providers. Thorough enforcement measures will keep the rate as low as possible and not create unfair competitive advantages for those who do not comply.
- The structure of the tax (percent of revenues, flat fee, etc.) has a direct impact upon ease of compliance for operators and ease of auditing for the city. Revenue figures are more readily available than transaction data, and require fewer additional systems.
- Any exemptions, whether they be for hospitals, churches, 501(c)(3) organizations, military, etc. must be clearly defined and well understood by all affected parties.
- Taxes as related to valet parking must be carefully considered and clearly communicated in regulation text. There is a potential double taxation issue if valet parking services are assessed the tax and they in turn lease spaces in parking facilities where parking operators pay the tax on the valet lease income.
- Two way communication with commercial operators will generally increase buy-in and compliance:
    - Solicit operator feedback on proposed taxes and regulations. Resistance may be vocal at first, but ultimately long-term cooperation is greater the if the process is seen as open to dialogue.
    - Establish a hotline through which operators may anonymously gain answers to questions they may have regarding complex exemptions or other tax-related matters
    - Establish an informational website which clearly conveys relevant statutes and provides easy access to the necessary forms (see the Miami site as an example: http://www.miamisurcharge.com/default.htm)
- In assessing sensitivity of the customer base to rate increases, the following should be taken into consideration, as well as the more obvious factors relating to financial capability to absorb higher parking costs:
    - Vacancy rate in existing lots: high vacancy rates substantially limit an operator's ability to pass the burden of the tax to consumers

    - Percentage of parking which is utilized by downtown residents, who have less flexibility in where they park
    - The area's public transportation infrastructure
    - Percentage of customers who are out-of-town tourists, who are not likely to change their behavior due to a parking tax or parking tax increase
    - Availability of suburban shopping and dining alternatives which may draw local day-trippers away from increasingly expensive downtown trips
- Most municipalities impose the tax on city-owned or city-operated lots in addition to commercial facilities.
- There seems to be little difference to most operators between monthly and quarterly remittance, but most favor quarterly. This requires slightly less work on their part, and allows them the benefit of the funds during the longer period between remittances.
- Strict regulations with regard to record keeping put the burden of monitoring on operators rather than City staff. Operators should be required to submit records that show traffic and income by facility, not in an aggregated sum.
- Regulation of revenue control equipment can be useful, but extremely complex, and to be successful requires the consultation of commercial parking operators themselves in setting reasonable regulations. Overly expensive equipment strongly favors larger, more highly capitalized enterprises, and may force smaller entities out of business. Even the strictest of revenue control standards will not be foolproof – audits will always be necessary.
- In the case of parking included in office leases, most municipalities will tax the amount paid for parking if it is directly stated in the lease, but do not attempt to impute the value of this parking if the lease does not stipulate the amount paid for parking.
- The presence of a strong municipal metering program, including effective enforcement, leads to greater buy-in by commercial operators. Commercial operators tend to view city metering as acceptable competition in the parking market, and thus prefer that a city generate income via meters rather than through imposition of a tax. Operators will likely be more accepting of a parking tax if the city is already maximizing income from other parking-related revenue sources such as meters and enforcement of parking regulations.
- Conduct impact studies following the imposition of the tax to assess impact on parking prices, local businesses, commercial operators and property owners.

The balance of this Appendix contains brief profiles of the parking tax experience for each of the communities that were reviewed. Washington communities are discussed first followed by experience in Cities elsewhere in the United States.

BAINBRIDGE ISLAND, WA

Introduction

Bainbridge first enacted the local option commercial parking tax in April, 1992. With Initiative 695 going before voters in 1999, the City desired to get a parking tax on the books in such a way that future funding could be secured without going to the voters for approval.

Ordinance number 99-54 stated that, "Initiative 695 is likely to put extreme pressure on the City's ability to accomplish its mandated functions with the revenue allowed to it." With this ordinance, the City raised the parking tax rate to 30%, minus an annual discount which could easily be adjusted to meet changing circumstances. Ordinance 99-54 established that the annual discount would be 18% if Initiative 695 was passed by voters, and 22% if it did not pass. With the passage of I-695, the effective rate thus became 12% of revenues:

4/92 – 1/93	3%
1/93- 12/99	8%
12/99 -	12% (30% minus an annual discount of 18%)

Tax Structure

The Bainbridge tax is assessed on City-owned lots as well as commercial facilities. No exemptions or special considerations are made for any subset of the population. Lot operators are required to remit collected tax revenues on a quarterly basis.

Impact

It has been reported that operators have been successful in passing "significantly more" than the tax amount through the customers. Since the tax rate increase at the end of 1999, average rates increased from $4.50-5.00/hour to $7.25-8.00/hour, only $.50 to $.75 of which may accurately be attributed to the tax increase itself. The balance of the increase is related to the underlying economics of parking in this market.

The tax brought approximately $246,000 to City coffers in 2001. As commercial parking in Bainbridge is primarily for ferry passengers (there is ample unmetered 2-hour parking available to retail shoppers), there has been little negative impact to local businesses.

BREMERTON, WA

Introduction

The City of Bremerton implemented the local option commercial parking tax in January 2000, primarily in response to the passage of Initiative 695 and the subsequent budget impact.

Tax Structure

With the implementation of the tax, 6% of commercial operator revenues are remitted to the City on a quarterly basis. The majority of commercial lots in Bremerton are located near the ferry terminal, with the majority of users being shipyard workers or commuters on their way to jobs in Seattle. Most are monthly parkers. The tax does not apply to hotel or residential parking.

There are no exemptions made for veterans, the disabled, or other special groups. The Fraternal Order of Eagles and other groups have relatively large lots, for which they are taxed only for slots that they rent to non-members. Fees are not collected for member use, and so the organization is not taxed for this usage.

Impact

As the majority of commercial lot customers are long-term parkers, there has been little or no impact on local businesses.

Compliance and Monitoring

Good compliance with the parking tax is reported, largely because payment of the tax is tied to quarterly Business and Occupation tax remittance. Given the infrastructure that already exists for collection and monitoring of the B&O tax, cost of monitoring for the parking tax is reported to be minimal. In addition, there are stiff penalties for non-compliance, which may also encourage accurate reporting and remittance.

MUKILTEO, WA

Introduction

The Mukilteo tax was first imposed in 1994.

Tax Structure

The tax is structured so that commercial parking businesses operating facilities north of Harbour Pointe Boulevard North are taxed at a rate of 25% of gross proceeds, while facilities south of Harbour Point Boulevard North are taxed at 8%. While we have been unable to question the City staffer responsible for the parking tax as to why the tax was structured in this manner, this example provides a precedent for a stratified tax based on geographic location. It is evident that this tax structure passes constitutional muster, and is thus a model for consideration in Seattle.

Commercial operators in Mukilteo remit their tax receipts to the City on a quarterly basis.

CITIES OF BURIEN AND SEATAC, WA

Introduction

The City of Burien passed an ordinance in 2001 implementing a parking tax, however the measure is not yet generating revenue for the City. The tax was imposed in anticipation of the proposed third runway at SeaTac, and is expected to generate substantial income once the runway and related parking facilities are established. The Burien ordinance is based upon the SeaTac ordinance as described below. The City of SeaTac parking tax was implemented in 1993.

Tax Structure

SeaTac and Burien have structured their tax on a per-transaction basis, charging one dollar per parking transaction, regardless of the length of stay or type of vehicle. When this tax was first imposed in SeaTac in 1993, the rate was set at fifty cents per transaction.

The SeaTac and Burien ordinances make exemptions for disabled individuals, government vehicles, and tax-exempt carpools. Parking for local employees is also not taxed if the spot is reserved for employee parking, regardless of whether the employer or employee pays. Tax receipts are remitted on a monthly basis to the City.

Compliance and Monitoring

Little effort at enforcement has been invested in SeaTac. The City is aware of the number of stalls available, and has a historical record of returns to which subsequent remittances are compared.

An increasing number of hotels, such as the Doubletree, have instituted paid parking for their customers as an incentive package to stay at the hotel. Monitoring of these operators will be more difficult than the airport lots.

Total revenues to the City of SeaTac has been in the $4.6-4.7 million range, but owing to decreased air travel, is expected to be approximately $4.2 for 2002.

TUKWILA, WA

Introduction

The Tukwila tax was imposed in 1998, as the City of Tukwila needed additional funding for road repair. Neighboring SeaTac had implemented a parking tax some four years prior to Tukwila, and the Tukwila tax was intended to create a more equitable tax on airport lot operators.

Tax Structure

Tukwila elected to impose a flat tax of 5% of revenues, as opposed to the SeaTac $1 per transaction model. As sales tax information is readily accessible, this tax structure was determined to be easier to administer and monitor than a transaction-based tax.

Hotel parking for guests prior to or after their stay is taxed if a fee for parking is charged, however no tax is collected if a fee is not charged for this privilege. Exemptions to the tax are made for disabled individuals, government vehicles and tax-exempt carpools. Employee parking is likewise not taxed.

The tax is remitted to the City on a monthly basis.

Impact

Commercial operators were vocal in their displeasure over the tax as it was imposed, but impact is thought to have been minimal, particularly as neighboring SeaTac had a well-established tax at the time the Tukwila tax was imposed.

The parking tax currently generates approximately $90,000 annually from one site, and $150,000 from an additional site. As this second site matures, the tax is expected to generate a total of approximately $250,000 annually for the City.

Compliance and Monitoring

No additional resources have been dedicated to the monitoring of parking tax revenues. An internal auditor, also responsible for sales tax auditing, compares parking tax revenues to sales tax figures. Inconsistencies can thus be easily and inexpensively captured.

BALTIMORE, MD

Introduction

The City of Baltimore has had a parking tax on the books for many years. When this tax was first introduced, it was established as a flat tax. In December, 2001, the Baltimore city council changed the tax structure so that a percent-of-revenue tax would be assessed on transient parking, while monthly contracts would remain on a flat fee basis.

Structure

The full tax on parking in New Orleans is currently as shown below.

Parking surcharge: $14 flat rate for monthly parking 11% for daily and weekly parking Other taxes or licensing fees imposed on parking operators: None Total tax and licensing fees to which parking operators are subject: $14 flat rate for monthly parking 11% for daily and weekly parking

In addition to the parking tax imposed by the City, operators are required to update their business license annually, at a cost of $6 per hundred square feet. While the rate is the same, surface lots submit this fee to the City, and enclosed or covered facilities submit payment to the State.

The structure of the parking tax has been an issue of some contention. The tax was originally designed as a flat tax, with the same amount assessed for each daily, weekly, or monthly transaction, regardless of the underlying parking rate. This flat rate was very difficult to monitor and audit, as it required the tracking of individual transactions, and operators complained that it taxed low-cost transactions the same as high-value transactions. In 2001, the Baltimore city council passed a measure adopting a percent-of-revenues tax for transient parking and raising the flat rate on monthly parking contracts as shown below:

	Prior Rate	**As of July, 2002**	**As of July, 2003**
Tax on monthly parking contract	$13.00	$14.00	$15.00
Tax on other parking charges, including daily and weekly fees	Flat rate: $.65/day $3.25/week	11%	12%

Although the City of Baltimore asserts its intention is to ultimately shift entirely from a flat tax to a revenue-based tax in order to ease the burden on operators, the debate over this percentage rate has been hotly contested. The City asserted that an 11% tax would be a revenue neutral replacement of the flat tax, while operators insisted 6-7% would be the true revenue neutral figure. Ultimately, the city council enacted an 11% of revenue tax, with a built-in increase to 12% in July 2003.

Staff of the Baltimore Downtown Partnership, a quasi-city agency that works with business and government as "the leading advocate for Downtown," reports that tax rate increases have been a yearly battle. Although there has been some variation between different administrations, most have seen the tax as an easy way to target individuals who benefit from City resources but do not otherwise contribute to City income. Each budget year since 1993 or 1994, the City has moved to increase taxes and the Downtown Partnership has rallied local businesses in opposition.

Impact Assessment

Due to the City's annual efforts to increase the tax rate, Downtown Partnership staff described the parking tax as a "slippery slope" and felt that the City views the parking tax as a too-easy source of revenue. While no impact study has been conducted by the City, anecdotal evidence presented by the Downtown Partnership shows that the tax has hurt downtown parking operators and soured the relationship between the City and downtown businesses.

The recent move to a tax of 11% of revenue on transient parking is thought to have had a particularly negative impact on the bottom line of commercial operators within the city. While operators have been unable to increase hourly rates, unofficial monthly rates (i.e. not posted rates, but rates negotiated with local businesses) have gone up an estimated $10 to $20, from approximately $165 to $175 or $185. These rate increases were initially seen when the tax rate increase was first announced – many weeks before it was actually implemented.

According to Downtown Partnership staff, the impact of this rate increase for businesses in general has been more psychological in nature than anything else. For many years businesses complained of a shortage in downtown parking. With the current economic slump, supply is no longer an issue, but the cost of parking has become the focal point of complaints by downtown businesses. Downtown Partnership staff relate that the annual attempts to raise the tax rate by the City have generated bitterness among the business community, with a feeling that the City "doesn't care" about the well-being of local businesses.

Actual impact on tourism or downtown shopping is difficult to measure. Operators are not required to itemize parking fees, listing rates as "tax included," and so most consumers are unaware of what portion of their parking payments go to the City as tax revenues. Average rates are currently $8 to $24 for a full day's parking, and $60 to $225 for a monthly contract.

The parking tax generates approximately $11 million in revenues annually for the City. Parking tax revenues, together with monies generated by city lots and meters, flow into the Parking Enterprise Fund. This fund is utilized to guarantee debt on public garage construction. Once this need is met, any balance goes into the City's general fund.

While the downtown area generates the greatest tax revenues for the City, the Downtown Partnership has not made any move to demand that the bulk of the benefits from the tax be directed in this same area. Staff cited a public perception that the downtown area already dominates political discussions and receives an undue measure of support from City government.

Baltimore has had difficulty in fully collecting parking tax revenues. According to Downtown Partnership staff, the City is aware of several operators in non-compliance, but has done little to pursue proper remittance.

The Downtown Partnership itself owns several lots, and despite its intention to do so, has yet to pay taxes on them. According to staff there, the City has not been forthcoming with answers to questions, or even basic remittance forms. Staff claim they can't figure the system out, and while they have failed to properly remit taxes, there has been no communication from the City instructing them to do so.

CHICAGO, IL

Introduction

The Chicago area has two parking taxes imposed on parking in commercial lots, one imposed by the City, and one imposed by Cook County. The City parking tax has been in effect since 1972 and the Cook County tax was implemented in February 2001.

Although the City tax has always been a flat rate for daily, weekly, or monthly parking, since 2000 it has been structured in tiers in order to impose different taxes on downtown facilities and those in outlying areas. In its prior configuration, the flat tax represented a disproportionately large burden on low-cost commuter parking outside of downtown. The revised structure effectively created a tax exemption for those who park outside the downtown area and take public transportation into the City.

Tax Structure

The combined effect of the City and County taxes is illustrated in the table below. As can be seen, the total taxes on daily parking ranges from $0 to $3. The average monthly parking rate is approximately $220, resulting in a total tax of $40.

Daily

Cost of Parking	City	County	Total Tax	Percent
under $2.00	$0.00	$0.00	$0.00	0%
$2.01-3.00	$0.75	$0.00	$0.75	25-37%
$3.01-4.99	$0.75	$0.50	$1.25	25-42%
$5.00-11.99	$1.50	$0.75	$2.25	19-45%
$12 or more	$2.00	$1.00	$3.00	25% or less

Weekly

Cost of Parking	City	County	Total Tax	Percent
under $10.00	$0.00	$0.00	$0.00	0%
$10.01 - 15.00	$3.75	$0.00	$3.75	25-37%
$15.01-24.99	$3.75	$2.50	$6.25	26-41%
$25.00-59.99	$7.50	$3.75	$11.25	19-45%
$60.00 or more	$10.00	$5.00	$15.00	25% or less

Monthly

Cost of Parking	City	County	Total Tax	Percent
under $40.00	$0.00	$0.00	$0.00	0%
$40.00-60.00	$15.00	$0.00	$15.00	25-38%
$60.01-99.99	$15.00	$10.00	$25.00	25-42%
$100.00-239.99	$30.00	$10.00	$40.00	17-40%
$240 or more	$40.00	$20.00	$60.00	25% or less

In addition to the above parking taxes described below, parking operators with more than fifty employees are subject to the City's Employer's Expense Tax at a rate of $4 per employee per month.

The breakdown between City and County taxes is shown here:

City of Chicago Tax

Time Period	Cost of Parking	Tax
Daily	Under $2.00	$0.00
	$2.00 - 4.99	$0.75
	$5.00 - 11.99	$1.50
	$12.00 or more	$2.00
Weekly	Under $10.00	$0.00
	$10.00 - 24.99	$3.75
	$25.00 - 59.99	$7.50
	$60.00 or more	$10.00
Monthly	Under $40.00	$0.00
	$40.00 - 99.99	$15.00
	$100.00 - 239.99	$30.00
	$240.00 or more	$40.00

Cook County Tax

Time Period	Cost of Parking	Tax
24 Hours or less	$ 3.00 or less	$0.00
	$ 3.01 to $4.99	$0.50
	$ 5.00 to $11.99	$0.75
	$12.00 or more	$1.00
Weekly	$15.00 or less	$0.00
	$15.01 to $24.99	$2.50
	$25.00 to $59.99	$3.75
	$60.00 or more	$5.00
Monthly	$60.00 or less	$0.00
	$60.01 to $99.99	$10.00
	$100.00 to $239.99	$15.00
	$240.00 or more	$20.00

Operator feedback regarding the tiered approach of the City and County taxes has been extremely critical. When operator input was solicited prior to the introduction of the Cook County tax, there was a strong consensus in favor of a revenue-based tax. This input was ultimately ignored, however, as City and County officials determined it was advantageous to have the County tax structured in parallel to the already existing City tax. Operator complaints regarding the tiered structure focus on the burdensome nature of tracking and storing individual tickets in order to document appropriate tax payments. This process was described by one operator as "cumbersome" for operators and "a nightmare" for auditors. This large operator required the services of a consulting firm to establish record-keeping systems to capture the data relevant to the tiered tax. Recognizing the reporting burden placed upon operators, the City awarded operators a 1% tax rebate in 2001.

Operators also complained that descriptions of the tax regulations were unnecessarily brief and unclear. Both City and County ordinances are described in less than three pages of text. Operators cited numerous circumstances related to valet parking or tax exemptions for hospitals and 501(c)(3) organizations for which they felt they had unclear direction from tax authorities.

Operators repeatedly stressed that the Chicago and Cook County taxes did not adequately spell out the answers to such questions. One operator strongly recommended an anonymous hot-line which operators might call with tax-related questions. Clear regulations will result in a level playing field with all operators paying the same tax. One operator reported that his firm paid tax in the highest amount possible, in order to limit exposure to accusations of tax evasion. This operator expressed concerns, however, that competing companies might elect to pay a minimum level of tax and thus be able to bid for property rents at a higher rate.

Impact Assessment

Operators reported that they were passing the full impact of the tax to consumers. While the business is competitive, demand for parking is such that operators have not been forced to absorb the cost of the parking taxes.

While operators report that occupancies are "definitely down" over the past several years, they do not attribute this decline solely to the City and County parking taxes, speaking instead of the general economic downturn. One operator described customers as fairly insensitive to price increases, saying most would not walk an extra couple of blocks to benefit from cheaper rates at outlying lots.

Some AMPCO customers did complain to the operator that the $1.00 effective rate increase caused by the introduction of the County tax would cause them to take public transportation or switch to suburban shopping alternatives – but it is difficult to estimate how widespread this reaction has been. Operators report no significant change in the makeup of their customers, either in terms of daily and monthly customers or shoppers, tourists, and downtown workers.

Reportedly, there was vocal opposition to the imposition of the County tax in 2001, but according to one operator, it was difficult for the opposition to deter the County from implementing the revenue-generating tax.

Parking tax revenues for the City of Chicago were $69.7 million in 2000, and $71.5 million in 2001. These funds are not allocated to a particular purpose, but flow into the City's general use fund.

As audits are conducted randomly, and the parking tax is only one of many taxes examined by such procedures, City staff reported that monitoring of parking tax revenues has been at no incremental cost to the City.

Valet parking has been an area of particular difficulty, as under the initial policy taxes were collected twice on valet parking. New legislation stipulates that valet parkers are not required to collect taxes if they subsequently pay parking charges and taxes to store the vehicle in a parking facility operated by another business entity.

Chicago code stipulates strict maintenance of commercial parking records. For example, receipts for daily parking shall show the parking charge paid by the customer and the amount of tax paid. Unless a cash register is used which produces daily summary tapes showing the number of vehicles, the total charges paid, and the total taxes collected, the receipt shall be in the form of a two-part numerical receipt, with one part going to the customer and one part retained by the operator.

In addition, the daily sheets required to be maintained must be kept separate for each location with certain detailed information. Operators are also required to report their monthly parking receipts, net of tax collected, and the number of non-taxable parkers on their returns.

LOS ANGELES, CA

Introduction

The Los Angeles tax was first imposed in 1990, prior to the passing of Proposition 218, which requires voter approval for all tax increases or imposition of new taxes. The tax was thus passed without voter input. The City hoped to utilize the tax to increase revenues through a fairly distributed tax, and the parking tax was seen as a solution with equitable impact.

Tax Structure

Any facility which provides fee-based parking, including valet parking, is required to remit taxes as follows:

Parking tax rate: 10% of revenues
Other taxes or licensing fees imposed on parking operators: 0.591% of revenue City Business tax, with a minimum payment of $177.38
Total tax and licensing fees to which parking operators are subject: 10.591% of revenues

Exclusions to the parking tax collection requirement are made for the following circumstances:

- Meters owned or operated by City
- Residential or hotel parking for individuals staying more than 30 days
- Parking designated by City permit as resident-only

Operators are required to remit collected tax to the City on a quarterly basis. Quarterly remittance was a concession made to parking lot operators, who complained that monthly remittance required additional work on their part. Quarterly remittance also affords operators some financial benefit, as they may utilize the funds for other purposes during the time between quarterly remittances.

Impact Assessment

According to a local parking operator, parking providers were able to raise their rates to reflect one hundred percent of the tax when first imposed in 1990. The burden of the tax has thus been fully carried by customers, with no absorption by operators. Standard Parking staff related that Los Angeles is a "vehicle-oriented society", and so a 10% increase in parking costs is received similarly to a 10% hike in gasoline prices: people complain but do not change their driving habits.

Commercial lot operators provided organized resistance to imposition of the tax in 1989 and 1990, fearing that traffic would decrease, and that they would be subject to angry customer response to price increases. To combat this latter effect, lot operators prominently displayed signs describing the City-imposed tax as the reason behind the rate increase.

Staff at the Los Angeles Chamber of Commerce report anecdotally that they doubt the parking tax has had a noticeable impact on traffic to downtown businesses. Public parking is scarce, they report, in Los Angeles, and drivers are more likely affected by gridlock than parking prices. Public transportation has improved considerably since the 1990s when the tax was first imposed, with three subways and numerous bus routes transporting tens of thousands to downtown daily.

As there are 87 other cities in Los Angeles County in addition to the City of Los Angeles, a fair level of disparity between local parking tax rates – and parking rates – exists among jurisdictions. The number of neighboring cities which impose a parking tax is not known.

Recent parking tax revenues to the City has been as follows:

FY:	1998-1999	1999-2000	2000-2001
Revenues:	$54,686,000	$50,501,000	$59,486,000
% change:	19.3%	-7.7%	17.8%

Timing of deposits at year-end creates some distortion of these figures, and true economic growth was actually as shown in the table below, the pattern of which closely follows change in sales tax revenues.

FY:	1998-1999	1999-2000	2000-2001
% change:	4%	7%	9%

These funds flow directly into the City's general fund, and are not allocated for special purposes.

City staff report that parking tax revenue is a steady revenue stream with little of the fluctuation inherent in other taxes. Revenues have been affected, however, by the recession and by the decline in visitor traffic due to the events of September 11. Parking tax remittances for the three-month period ending November 2001 were nearly 7% below the prior year. This impact is only about one-half that seen in the transient occupancy tax, though it is more than the decline in the sales tax. During the period immediately prior to September 11, revenues for parking taxes were up, while revenues from both sales and hotel taxes were down.

MIAMI, FL

History

The City of Miami first imposed a parking tax in July 1999, when it was unexpectedly discovered by an audit that the City faced a significant budget deficit. Property taxes were already at the limit allowed by State statutes, and so the City quickly imposed a 20% parking tax, as well as fees for a number of services that had previously been offered without charge.

A number of lawsuits were filed, and in July 2002, the Florida Supreme Court ruled the Miami tax to be unconstitutional. While it did not name Miami specifically, the state law required cities to have a population larger than 300,000, and to be declared in a state of emergency by the governor – effectively prohibiting other cities from raising revenues in such a manner.

Following a lower court ruling in 2001, the City and the State Legislature changed the law to allow other cities to impose parking taxes (Tampa and Orlando are currently exploring the option), but the Supreme Court's ruling was on the law as originally drafted. The revenues generated by the parking tax have allowed the City to lower its tax rate, increase its reserve fund, and reduce fees – the only three uses approved by the State Legislature.

The Supreme Court ruling did not address whether the City would have to refund the $34.7 million it has raised under the initial law, and this issue is currently under debate. The City is confident it will not have to refund these monies, and claims that in any case it would be impossible to identify parkers to whom refunds are due. Others claims that refunds could be made to those with monthly accounts, as well as others with receipts.

According to staff with the Downtown Miami Partnership, a non-profit organization representing downtown businesses, the imposition of the parking tax would have been much more palatable had greater public input been solicited, and had districts with the largest tax remittance retained a greater share of benefits associated with the tax. Given the City's need for general funds to address the budget deficit, this was not possible in the case of Miami.

Structure

The City of Miami has designated its parking tax as a "parking surcharge," asserting that the required payment is not a tax, but part of the parking fee itself. As a result, State and County sales taxes are applied to the cost of parking inclusive of the parking surcharge. The total tax burden as shown below:

Parking surcharge:
20% of revenues

Other taxes or licensing fees imposed on parking operators:
6.5% of revenue combined State and County sales taxes

Total tax and licensing fees to which parking operators are subject:
27.8% of revenues

The surcharge applies to "all parking facilities, public or private, where there is a charge, fee, or exchange for parking." The surcharge does not apply to residential parking for tenants or residents in apartments, condominiums, or cooperatives. It also does not apply to meters on the public right of way, but other meters are subject to the tax.

Impact Assessment

Staff of the Downtown Miami Partnership and the Miami Downtown Development Authority (a public entity engaged in downtown business development) were unable to attribute any decline in business activity or increase in vacancies directly to the 20% parking surcharge. A number of greater issues have contributed to a recent decline in downtown business – the parking tax was described as only a minor factor in comparison:

- Shoppers and tourists (including those on cruises) in Miami have relatively easy access to a number of shopping options outside the City limits, including two new outlet malls. In the "car oriented culture" of Southern Florida, malls and suburban shopping options with easy and free parking were already "beating up" downtown merchants prior to the imposition of the parking tax.
- Additionally, the economic difficulties of many South American countries, which do a great deal of business with Miami companies, is felt to have had a much more profound effect on the area's economy than the parking surcharge has.

The Downtown Miami Partnership and the Miami Parking Authority, a semi-public entity that owns and operates several downtown lots, have created a program called Park & Shop, designed to encourage shoppers to continue to patronize downtown merchants. For $1.50, merchants can purchase a coupon for three hours free parking in one of four Parking Authority lots. Merchants typically choose to reward customers spending $50 or more with a coupon.

The parking surcharge was described by Miami Downtown Development Authority staff as creating a "hefty burden" for downtown businesses that must pay the additional costs for staff parking. If monthly parking prior to the imposition of the tax was $75, the 20% surcharge amounts to a $15 increase per month. While local businesses were "up in arms" at the beginning, they have gotten used to the tax, and have not vocalized concerns within the past year.

The brunt of the tax seems to have been borne by commercial parking operators. Staff of the Miami Parking Authority report that the tax has had a "direct negative impact" on the organization's operating income. While the ability to charge higher rates varies by location and the clientele utilizing a particular lot, Parking Authority staff assert that operators have not been able to increase rates to account for the tax except in “Class A” office buildings with wealthy business clientele.

Another operator agreed, saying that that they have been able to pass the tax on to customers “to a degree,” depending on the makeup of the facility clientele and their sensitivity to price increases. As an example of a parking facility pass along the full tax, she cited an upscale office building in which the monthly parking rate is $150. This building has a waiting list, while lots a few blocks away which service a different clientele rent for $30-40 per month.

According to a July, 2002, Miami Herald article, Michael Meyers of AMPCO Parking System reports that traffic at his twenty five garages has never returned to their pre-September 1999 level.

Low market rates and high vacancy rates have not permitted many operators to pass the full tax through to customers. There are a number of reasons behind this reality:

- Miami has relatively low parking rates relative to other major metropolitan areas such as San Francisco, Chicago, or New York. Miami customers are not accustomed to high rates, and so are more sensitive to price increases. One operator described current rates as “high for Miami,” meaning that while rates may be lower than in other major cities, local residents view them as high.
- Miami has a relatively low percentage of residential parking in the downtown core. Without such residential customers, who have less flexibility in their parking choices than do other clientele, the overall customer base is more sensitive to price increases than in other cities.
- There is a relatively high vacancy rate in Miami lots. According to Parking Authority staff, a significant portion of downtown real estate is as yet undeveloped for other purposes, and is now used as surface lot parking. When operators attempt to raise prices, traffic migrates to these readily available low-price lots, effectively keeping rates low throughout the City.

Remittance of the tax to the City occurs on a monthly basis. According to one operator, monthly remittances are not a great burden, and the difference in terms of workload between weekly and monthly remittances would be “immaterial.” This does not take into consideration the financial benefit of holding on to the cash for a longer period of time with a quarterly remittance.

NEW ORLEANS, LA

History

The parking taxes in effect in New Orleans have been in existence for approximately 10 years, and were originally established as to generate additional revenue for the City. As New Orleans has a large tourism industry, taxes that are at least partly targeted to tourists, have generally been accepted by the local population.

Structure

The City of New Orleans imposes a parking tax of 3% of revenues, and includes both parking for motor vehicles and berthing for watercraft. This tax is in addition to a 4% parking tax imposed by the State of Louisiana and a 5% sales tax levied by the City. Thus the total tax on parking in New Orleans is equal to 12%.

Parking surcharge: 3% of revenues Other taxes or licensing fees imposed on parking operators: 4% of revenues State parking tax 5% of revenues City sales tax Total tax and licensing fees to which parking operators are subject: 12% of revenues

Exclusions are made for the following circumstances, which do not require that the parking tax be collected:

- Vehicles engaged in interstate or maritime commerce
- Free employee parking
- Free public parking
- Public park-and-ride facilities
- Agricultural vehicles
- Parking/berthing for one or two vehicles if right to park/berth is included in rental, so long as parking/berthing is not subject to availability or share by two or more persons
- Churches, charitable institutions, schools/universities, and cultural events produced or staged by a non-profit organization
- Parking at campgrounds or travel parks

If free parking is provided to some individuals, while others are charged, a tax must be paid based on the lowest price being charged.

Impact Assessment

In fiscal 2001, the tax generated approximately $2.0 million in revenues for the City.

According to one operator, the tax has little impact on his business and on other enterprises in the downtown area. According to this individual, New Orleans is a tourist destination, and a parking tax certainly doesn't come into consideration when making travel plans. Locals are simply "used to it." This operator reported that his lots were full almost daily, except for Fridays, when some large companies give employees the day or half a day off.

High demand for parking was also described by staff of the MetroVision Economic Development Partnership, a partnership of business, education, labor, government, and civic organizations working together to create jobs for the ten-parish New Orleans Region. Due to the local boom in tourism and convention traffic, the downtown district is adding hotel rooms at a rate of 1,0000 per year. Much of this development occurs as renovation to existing Class C office space, which does not have dedicated parking facilities. Hotels are thus locating parking off-site, thereby utilizing a large percentage of available parking downtown. Demand for the remaining spots is high, and MetroVision staff doubted that the parking tax had any impact whatsoever on vehicular traffic. While parking supply in general has increasingly been an issue of contention, little or no mention has been made of the parking tax in particular.

Parking tax receipts are remitted to the City on a monthly basis. When asked if monthly submissions were unduly demanding in terms of paperwork, operators said that the remittance was not difficult or demanding.

PITTSBURGH, PA

Introduction

A parking tax on gross revenues was implemented in 1967, and is now the highest city parking tax rate in the country (not including county or other taxes which may also apply in other cities). The history of the parking tax rate increases is shown here:

Until December 31, 1968	10%
January 1, 1969 – December 31, 1969	15%
January 1, 1970 – December 31, 1981	20%
January 1, 1982 – December 31, 1999	26%
Subsequent to January 1, 1998	31%

Commercial parking in the downtown area primarily has two providers: the City's Parking Authority and Alco Parking, a commercial operator. When the tax was implemented, commercial operators argued that they would not be able to pass the high tax along to customers and that they would thus be put out of business. They could not prove this argument, however, and their case was eventually dismissed. Descriptions of high demand for parking by operators and MetroVision staff (see Impact Assessment, below), indicate that operators have in fact been able to pass the burden of the tax through to consumers.

Tax Structure

The parking tax is the only tax or licensing fee assessed on commercial parking operators.

Parking surcharge:
31% of revenues

Other taxes or licensing fees imposed on parking operators:
None

Total tax and licensing fees to which parking operators are subject:
31% of revenues

The tax is structured to exclude residential parking, including apartment/condominium parking and hotel parking which is provided for guests without charge. Similarly, large employers, such as hospitals and universities, are taxed if employees pay for parking privileges, but are not taxed if parking is included in employee compensation.

Despite vocal resistance by local business leaders and lot operators, it is reported the 1998 rate increase was passed on to customers in areas of high demand, but not in outlying areas where there is less demand for parking. A number of lots raised their rates immediately upon passage of the rate increase, without waiting for its actual implementation.

The executive director of the Pittsburgh Downtown Partnership, an organization which works to promote downtown businesses, reported that the tax has had little or no impact on lot operators and downtown businesses. She described Pittsburgh as "parking challenged" given residents' preference for automobile travel over public transportation alternatives. Full lots and rising parking fees have resulted in the development of parking lots on the fringe of downtown, with shuttles to carry drivers closer to their final destination. Lots in central downtown are generally full, with drivers undeterred by high costs.

Problems of under-reporting and unlicensed lots led the City to propose the following requirements:

- Lots with more than 50 spaces or annual revenues greater than $40,000 would have to install gates with an electronic arm, computerized ticket dispensers, and software to track the number of cars. Total cost of such equipment was estimated to be about $31,000 per lot.
- Lots with 20-50 spaces or $10-40,000 revenues would have to install in-ground sensors that count cars. Total cost was estimated to be $7,000 per lot.
- Lots with less than 20 spaces or less than $10,000 in annual revenues would not be required to install new equipment.

With the 1998 rate increase, however, the City scaled back the demands of this proposal, mandating that commercial providers install a time stamping machine, at an approximate cost of $400.

In January, 1998, the City intended to hire three to five new inspectors to make spot checks of lots and garages to ensure that all parking operators were accurately remitting to the City all parking taxes due. One councilmember claimed that this increased monitoring would generate $5 million in additional revenues for the City, making the concurrent rate increase unnecessary. Others disagreed with this assessment.

SAN FRANCISCO, CA

Introduction

San Francisco has had a parking tax since the 1970s. San Francisco is a 'transit first' city, and a deliberate objective of the high parking tax is to discourage private vehicular traffic in downtown areas. The City has the best public transportation infrastructure on the West Coast, and balances this competitive advantage against the fact that the parking tax is highest in the Bay Area. The City has invested in public transportation facilities, recently upgrading management of MUNI, replacing out-dated streetcars and buses, and planning for extension of existing subway and light rail lines. Ridership on MUNI and BART has increased in recent years.

The City covers a small geographic area, and parking availability is constrained and expensive (reportedly second only to Manhattan). Average 24-hour rates are $20-22, and monthly parking averages $300, inclusive of the 25% parking tax. While the economic slow-down has had a negative impact on the parking business, operators report lots to be 50-95% full depending on their location within the City. Some of these same lots might have been at 110% capacity in the past, with long waiting lists for monthly spots. Real estate vacancies are approximately 80%, suffering a downturn with the dot-com crash and the events of September 11. Demand for business parking has taken a parallel downturn, lowering rates that were "through the roof" two years ago when lots were at or near 100% capacity.

Remittance rates by downtown parking operators have been historically spotty, but a greater effort is currently being made by the City to collect these funds (see Impact Assessment section, below).

Tax Structure

In 1980, the City parking tax was raised by 10% points, to 25% of operator revenues.

Parking surcharge: 10% of revenues Other taxes or licensing fees imposed on parking operators: $25 or $150 business registration fee (depending on size of business) 1.5% payroll tax if total payroll is greater than $166,666 Total tax and licensing fees to which parking operators are subject: varies

Seventy percent of parking operators operate below the threshold stipulated by the payroll tax, and are not required to remit payroll-related taxes. The California sales tax does not apply to parking fees. Operators must, however, display a Certificate of Authority and post a bond for each parking facility they run. The bond is $5,000 if the location's revenues are less than $100,000, and $25,000 if revenues are more than this amount.

An issue for San Francisco has been establishing a clear definition of which entities should be required to pay the parking tax and which are excluded. This debate has been particularly difficult with regard to valet parking or other situations in which there are multiple operators or a sub-contractor. Valet services have brought legal action against the City, claiming they should pay tax not on the full amount paid to them (say $10), but on the sub-market amount they pay the operator of a commercial parking facility (say $3) where they actually park the vehicle. The City has responded that the tax is on the retail payment for parking ($10 in this example). The lesson to be learned here is that an absolutely clear initial definition of who is subject to the tax and how it will be applied will help minimize or avoid legal battles later on.

The tax excludes parking meters owned or operated by the City or County, on- or off-premises parking for hotel guests, residential parking, government vehicles, banks and insurance companies (in California, such institutions pay an "in-lieu" tax), parking for those on active military duty if parked for more than 75 days, and tax-exempt organizations. The tax is assessed on residential and hotel parking only if charges for parking are listed discretely in lease agreements. No attempt is made to impute the value if parking payments are not listed separately. City-owned parking facilities are subject to the same tax as commercial entities.

Payment of the tax is divided into a "prepayment" component, collected during the first two months of each quarter, and a "payment" portion, collected on the third month of the quarter. The prepayment amounts to all taxes collected at that point, or 30% of last quarter's total payment, whichever is greater. The subsequent payment is equal to the total amount required to be paid, minus prepayment.

Impact Assessment

The City's parking tax revenues were $51.5 million in fiscal 2000 and $52.5 million in fiscal 2001. Forty percent of the city's take is earmarked for public transportation and 20 percent goes toward senior citizen programs. The remainder is transferred to the City's general fund

According to an Federal Transit Administration report, San Francisco found large variation in the decline of vehicles parked at parking facilities after the initial imposition of the parking tax in the early 1970s. The number of cars parked declined at seven facilities but increased at six others. Overall, the number of parked cars declined about 2 percent, but it is not known what proportion of parkers turned to transit, car-pooling or other alternatives to auto use.

According to Treasury staff and economic development staff at the Chamber of Commerce, the parking tax has had little impact on the tourism industry in particular. San Francisco is a major West Coast destination, serving as a hub for Napa Valley, Monterey, and other local destinations. Tourists are not likely to change plans based solely on a 25% parking tax.

Operators describe the tax as a "cost of doing business in the City," and claim they successfully pass the full cost of the tax along to consumers, without absorbing any portion of the surcharge themselves. One operator described the tax as keeping costs high, but said the only real damage done to his business was one of image, as consumers were likely unaware that one-quarter of their overly high parking costs goes directly to the City.

Chamber staff do have some concern that residents of neighboring cities and suburbs – potential day-trippers to the City – may be more affected by difficult and expensive parking in downtown San Francisco. Their greatest concerns, however, are related to homelessness and street cleanliness, which staff believe have a greater impact on the repeat visits by tourists and day-trippers than do parking prices.

Underreporting and underpayment have been significant issues in San Francisco   According to an April, 2001 San Francisco Chronicle article, Supervisor Mark Leno estimated that $25 million a year owed the City is not being remitted because of improper reporting. This represents one half of the amount that is collected annually.

A conversation with Treasury staff revealed that underreporting is thought not to be widespread, but typical of 10-20% of operators. Those operators that do remit the proper amount of tax are thus at significant competitive disadvantage vis-à-vis those who do not remit the 25% tax.

A number of measures to address this issue were implemented in 2001, as described below:

- Parking operators are required to post bonds from $5,000 to $25,000, depending on the volume of their business. The City can tap the bond money if an operator defaults in tax payments.
- Parking lot operators are required to post bright red Certificates of Authority indicating they are legitimate lots, authorized to collect parking fees. Senior citizen volunteers, motivated to protect the 20% of collected parking tax revenues that are earmarked for senior citizen programs, are engaged to identify illegitimate lots.
- The City has required all lots to install revenue control equipment that issue receipts to drivers and keep a tamper-proof record of how much money is collected. All customer payment are required to be deposited in the automated equipment, eliminating any handling of the payments by parking personnel. The City lacks the ability to issue citations for non-compliance, however, and operator response has been less than perfect. The cost of the equipment was approximately $10,000 to $30,000 or more per lot, depending on what upgrades need to be made, and resulted in the closure of a number of smaller lots which could not afford the expense.

  Given the slim profit margin of smaller lots, faced with high labor costs (seasoned parking personnel may earn $15-17.50/hour, with benefits) and high lease payments (a typical lot may cost $10,000/month), these closures were to be expected. Other lots could not justify the investment given that they might lose their lease subsequent to the purchase. The equipment requirement thus favored larger owner-operators, with greater security and greater profit margins from which to make the investment. In fact, one large operator described the requirement as a "headache," but said it was advantageous for them in that smaller operators would likely be forced out of business, or at the very least, forced to comply with taxation regulations.

  Another operator complained that he had spent "hundreds of thousands of dollars" on revenue control equipment manufactured by a company unrecognized and unapproved by the City. In general, operators felt that regulations related to revenue control equipment were overly restrictive, and claimed that the City had unrealistic hopes for full-automation and 100% collection without audits. There are labor issues related to the requirement as well, as operators replace parking personnel with the automated equipment.

The City has also been increasingly active in investigating and prosecuting operators of lots which are not in compliance. Staff of the Treasury office photograph lots to prove how many cars are parked in them. In separate cases, two mortuaries that were charging for parking but not remitting tax receipts were caught. When judgments are reached against an operator, the Treasury seizes collection of all receipts, sending civilian deputies to collect the funds. A new program has been instigated to issue citations to operators not in compliance. While only three or four staff individuals are engaged in this effort to force greater adherence to the law, Treasury staff report “great strides” and increasing rates of compliance.

The Account Services Unit oversees collection of the parking tax, collected from approximately 350 parking operators. In fiscal yar 1999-00, 2,232 monthly parking tax prepayments and 1,088 quarterly parking tax statements were filed.

According to one operator, the playing field is level and fair between “bigger, legit” operators. He said a number of smaller operators did not comply with the law, however, creating an unfair cost advantage for themselves and giving the industry a bad reputation. These “rogue” operators might not pay union wages or benefits, as well, further lowering their cost of doing business and enabling them to submit higher bids for property rents.

In querying Treasury staff as to what changes to the existing requirements would make monitoring easier and more effective, the following three considerations were strongly recommended for cities considering implementation of a parking tax:

- Require operators to report revenue on a per-location basis, in addition to having Certificates of Authority and bonds specific to each location. When larger operators with many lots report revenue in an aggregated fashion, it is extremely difficult to back out revenues for individual lots and check them for accuracy.

- Require operators to maintain rigorous receipts and record keeping. Don’t allow operators to avoid auditing and proper payment by not requiring strict recording keeping standards.

- Empower the city with the ability to issue citations for non-compliance.

Treasury staff repeatedly stressed the importance of having a tight definition of who is subject to the tax and then strictly enforcing compliance across the board in order to create a level playing field for competing operators.

SANTA MONICA, CA

Introduction

The Santa Monica parking tax was implemented in 1993. The City had forecast first-year receipts in the range of $1 million, and instead received "several million" dollars in revenue. Annual revenues currently are in the range of $6 million, and are treated as general funds, not allocated for any specific use. In addition to growth in the tax base, compliance has increased with time, leading to greater revenues for the City.

There was little criticism of the tax when proposed and implemented. Santa Monica is reported to be particularly progressive, and citizens generally support tax increases which contribute to City-sponsored social programs. There were, however, some concerns voiced by the business community.

Tax Structure

The Santa Monica parking tax imposed in imitation of neighboring Los Angeles' tax, with other tax structures and models not taken under consideration.

Parking surcharge:
10% of revenues

Other taxes or licensing fees imposed on parking operators:
None

Total tax and licensing fees to which parking operators are subject:
10% of revenues

All commercial lots are taxed, as are City-owned lots. In the first year of the tax, rates on City-owned lots were not raised, but revenue allocation was shifted to cover tax requirements. Tax is assessed on residential parking only if the value of parking is separated out in the lease agreement. If parking is not listed separately in the lease, the City does not impose a tax by imputing the value of parking and taxing accordingly.

Exclusions are made for the following circumstances, in which the parking tax is not collected:

- Parking at City-owned or -operated meters
- Residential or hotel parking for residents who stays more than 30 consecutive days
- Parking with City preferential parking permit
- Insurance companies and banks other than savings and loans
- Federal, state and city agencies

Impact Assessment

Compliance is reported to be "moderate." No dedicated staff has been added, and a full-scale audit has never been done. Quarterly remittances by existing businesses are checked for historical reasonableness. It is more difficult to assess whether new businesses are not complying, and valet services are particularly difficult, given that the business is cash-based.

City Treasury staff and a private operator, Standard Parking, stated that the burden of the parking tax has been carried entirely by customers, without operators absorbing a portion of the tax. Both parties were in agreement that given the strong economy until recently, incremental parking rate increases have not affected willingness to park downtown or impacted traffic activity to local businesses.