

Section VII: Funding Options for New Parking Supply

The fiscal challenges of parking, transportation, and economic development in a downtown are common to many communities across the country. Rapid changes in development patterns over the past thirty years have resulted in significant changes to the urban landscape and many downtowns have had to re-examine services they provide and the revenue sources used to fund them. In most instances, communities use a combination of funding sources to cover transportation capacity needs. The PWG reviewed several models to provide a basis for discussing funding options for the public parking system. The PWG believes some combination of the revenue sources described below will be necessary to assure the feasibility of future structured parking in the downtown.⁴⁶ A single revenue source is unlikely to cover the cost of parking development.

1. POTENTIAL REVENUE SOURCES

This review focuses on a range of parking options that might be available to the City of Kirkland. The options outlined attempt to represent *options most commonly used in other jurisdictions* as well as options that are allowable under Washington State statute. This review borrows heavily from the work of E.D. Hovee and Associates, an economic and development services consultant based in Vancouver, Washington.

A. Most Frequently Used Options

Options Affecting Customers

User Revenues – Represent the foundation of any parking facility’s revenue structure, albeit with important questions regarding the degree to which parking fees should be discounted to support other downtown business and revitalization activity. Currently, the City of Kirkland does not charge user fees in the majority of its public facilities. Where the City does have user fees (meters), the average monthly revenue generated is approximately \$101 per metered parking stall per month.⁴⁷

Event Surcharges – Encompassed within the SSB 5514 public facilities district legislation providing for automobile parking charges in conjunction with regional center facilities. Fees are generally buried in the cost of event ticketing.

On-Street Parking Fees – Some cities elect to collect on-street revenues through parking meters and/or sale of permits.

Parking Fine Revenues – Collected for violations related to overtime and improper parking, and illegal parking in handicapped spaces. In 2002, the City of Kirkland collected \$438,693 in parking fine revenues.

⁴⁶ This list of funding options is not intended to be all-inclusive, but rather a sampling of mechanisms in use in other jurisdictions for the purpose of developing public parking supplies.

⁴⁷ The City has 10 parking meters located in the downtown. In 2002, these 10 meters generated approximately \$12,142.

Options Affecting Businesses

Parking & Business Improvement Area (BIA) – An assessment of businesses rather than property owners. The assessment formula can be based on a number of measurable factors such as assessed values, gross sales, square footage, number of employees, or other factors established by the local legislative authority. For instance, in Kirkland a square footage assessment of \$.15 per square foot of business space would generate approximately \$66,750 per year in "assessment" based on an estimate of 445,000 SF of commercial space within the study area. In Washington, a BIA requires 60% of merchants to agree to the assessment.

Options Affecting Property Owners

Local Improvement District (LID) – A well-established mechanism whereby benefiting property owners are assessed to pay the cost of a major public improvement (including parking). An LID is a property tax assessment that requires "buy-in" by property owners within a specifically identified boundary. LIDs usually result as a consequence of a petition process requiring a majority of owners to agree to an assessment for a specific purpose.

Options Affecting Developers

Fee-in-Lieu – Usually an option given to developers to pay the local jurisdiction an "in-lieu" fee as a way to opt-out of providing parking with a new development (usually the fee-in-lieu option is associated with minimum parking standards). Fees-in-lieu can range from a fee assessed at less than the actual cost of construction, to the full cost of parking construction. The City of Kirkland current has a fee-in-lieu provision for development, but the PWG has recommended it be reassessed and refined.

Public / Private Development Partnerships – Public parking can be an effective tool to facilitate downtown development. This is particularly the case in the state of Washington due to fairly stringent constitutional prohibitions against lending of the state's credit and limited applicability of tax increment financing.

Development partnerships are most likely found with mixed-use projects where parking is used to reduce the costs of jointly developed private office, retail or residential use(s) and/or the private development can serve to defray some of the public cost in developing parking.

Public / private development can occur through a variety of arrangements including:

- (1) Public acquisition of land and sale or lease of land/air rights not needed for parking to accommodate supporting private use.
- (2) Private development of integrated mixed-use development with sale or lease-back of the public parking portion upon completion – as a *turn-key* project.
- (3) Responsibility for public sector involvement directly by the City, through a public development authority (PDA), or other special purpose entity such as a public facility district created for the project or downtown area.

Options Affecting the General Public

General Obligation (GO) Bonds – Involving use of local jurisdiction issued non-voted or voted bonds to develop parking facilities, subject to overall debt limit requirements.

The legal limit for all voter-approved debt in a municipality is 7.5% of assessed value; the legal limit for non-voted debt is 1.5% of assessed value. With GO bonding, the municipality pledges its full faith and credit to repayment of the debt from general fund resources. In effect, general fund revenues would be reserved to repay debt that could not be supported by parking revenues alone.

Refinancing GO Bonds - Involving refinancing existing debt and pushing the savings from the general fund to debt coverage for a new parking facility.

Revenue Bonds – Pledging parking fee and other designated revenue sources to the repayment of bonds but without the need to pledge full faith and credit of the issuing authority.

Revenue bonding is not appropriate in situations where a local jurisdiction's overall debt limit is a factor and projected revenues are inadequate or not deemed of sufficient certainty to cover required debt service (plus a debt coverage factor). Interest rates also are typically higher for revenue than GO bond financing.

63-20 Financing – Identified as a potential alternative to traditional GO, revenue bond and LID bond financing in the post Initiative 695 era. *63-20 financing* (after the IRS Revenue Ruling 63-20) which allows a qualified non-profit corporation to issue tax-exempt bonds on behalf of a government. Financed assets must be “capital” and must be turned over free and clear to the government by the time that bonded indebtedness is retired.

When a municipality uses this technique to finance a public facility, it can contract for the services of a non-profit corporation (as the “issuer”) and a builder. The issuer acts on behalf of the municipality, but has no real business interest in the asset being acquired.

Public Facilities Districts (PFD) – As authorized by SSB 5514 in the 2002 Legislature to fund “regional centers” and “related parking facilities.” A PFD is defined as an independent taxing authority and district under Washington statute. Currently, PFD legislation also allows for what amounts to a sales and use tax rebate of 0.033% from the State of Washington for regional center projects commencing construction by January 1, 2004. This sales tax revenue may serve as the source of repayment for bonding over up to a 25-year period – with matching funds equal to at least 33% of the sales tax revenue coming from other public or private sources.

Downtown & Neighborhood Commercial Districts – Also authorized by the 2002 Legislature with SHB 2437 allowing use of *incremental* increases in local sales and use tax revenue to finance community revitalization projects including “publicly owned or lease facilities.”

The amount of funding available is the incremental increase in local sales and use tax over the amount generated from within the boundaries of a geographically defined downtown or

neighborhood commercial district – above and beyond the amount of revenues generated prior to the creation of the district.

Community Renewal – As enacted with SHB 2357 by the 2002 Legislature to update the state’s urban renewal laws including authorization for public improvement financing from multiple revenue sources including tax-exempt, non-recourse revenue bonds. Requires determination of blight, which may render this option unusable in Kirkland.

Parking Fund – State of Washington statute enables local municipalities to establish parking commissions and funding mechanisms for parking. The parking fund may encompass all pertinent revenue and expense items, and therefore offers represent a convenient mechanism for management of parking operations and budgeting.

State & Federal Grants – In the past, a variety of state and federal grant programs have been applied to funding downtown parking structures. In the current environment of more limited state/federal funding, there are no longer any readily identifiable programs as suitable for parking facility development.

General Fund Contribution – Local jurisdictions may make either one-time capital or on-going operating contributions to a downtown parking program. It should be noted, this is the existing scheme for repayment of library garage bond.

This listing of potential sources is not necessarily exhaustive, as other communities have used yet additional sources – which may or may not be applicable to Kirkland’s situation. Nor are these sources intended to be mutually exclusive. Funding for parking facilities often requires application of multiple sources – for what might be considered as *layered* financing.

B. Most Viable Options for Kirkland

From this review of potential parking funding options, several concluding observations are offered as a basis for selecting the *most viable options* for parking facilities that may be considered by the City of Kirkland:

1. Tailor the funding program to the downtown redevelopment and policy objectives to be served by the proposed public parking facility. In particular, address the question of whether and to what degree fees from parking revenues can or should be expected to cover operating and/or debt service expenses.
2. Of the two principal assessment methods available in the state of Washington, the LID mechanism is generally preferred for capital development with BIA useful to generate funding for operations and marketing. Local Improvement Districts (LIDs) offer improved marketability to investors with greater assurance of debt repayment. LID financing can be used as one component of a revenue bond without need for GO bond backing (and drawing down the available debt capacity of the city). Finally, LIDs offer the advantage of a more established precedent of successful application throughout the state of Washington.

3. If funding of capital costs require bonding, revenue bonding is typically preferred by a public agency because the taxing jurisdiction's debt limits are not affected. However, unless utilization and revenue projections (including sources such as LID) are strong and predictable enough to not only cover debt service and operations but also provide a coverage *cushion*, the reality is that GO backing may be required.
4. Look to public-private partnerships as a means to better use public parking to leverage downtown redevelopment, assure utilization of the parking facility being developed, and offer financial savings. However, public-private partnerships require clear understanding of the financial feasibility and risks associated with a particular project as well as the public costs and benefits that can be expected.
5. Recent legislative measures serve to strengthen the impetus for downtown redevelopment and create additional flexibility in implementation. However, they appear to offer little new in the way of additional revenue sources that can be dedicated to development and operation of public parking facilities. Because these mechanisms also are largely untested (legally and administratively), they should be considered as supplemental resources rather than the mainstay for securing financially feasible public parking developments – for at least the immediate future.

The Parking Work Group (PWG) and the City of Kirkland will need to review the list outlined above and evaluate those options most conducive to, and supportive of, the Guiding Principles and operating vision established for the downtown. It should be noted that, in the case of public parking facility development, the use of multiple funding sources represents the rule rather than the exception for public financing.

2. BUSINESS-BASED FEES – SAMPLE APPLICATION FOR KIRKLAND

To develop a sense of revenue potential, the consultant team conducted an evaluation of the impact of spreading the ten-year annualized negative cash flows from the pro forma analyses across commercial development within the project study area. Without determining the vehicle for assessing a fee (i.e., BID, LID, business license fee, etc.) the PWG was interested in the overall costs businesses might face if support for such a “parking development fee” could be obtained.

It is important to note that implementation of business-based fees are not a recommendation of this study. This base model could be refined/revised to facilitate future discussions of potential revenue sources for garage development should the City and the business community desire to proceed with examination of such options.

To derive fee estimates, the total square footage of commercial space within the study area was calculated at 445,039 square feet.⁴⁸ This square footage includes all retail, restaurant and commercial office space. The total does not include any residential properties located within the study area. The basic concept would be to spread negative cash flow as a fee per square foot of commercial space. The exercise did not attempt to develop more sophisticated modeling that might account for a business' proximity to parking or the type of business.

⁴⁸ This number was derived from information supplied by the City of Kirkland.

Table 20 summarizes and illustrates costs associated with the consensus development scenario as a function of square footage.

Table 20
Hypothetical Cost Per Square Foot to Cover Negative Cash Flow

Scenario	Average Annual Negative Cash Flow	Business Type(s)	Total Square Footage	Annual Cost per sq. ft.	Monthly Cost per sq. ft.
280 stall garage	\$61,784	Retail, Restaurant, Office	445,000	.140	.012

As Table 20 indicates, costs per square foot of business space would be approximately fourteen cents (\$0.14). On a monthly basis, the cost would be just over a penny (\$0.012) per square foot. Table 21 below, attempts to summarize the square footage costs in Table 21 as they might then be applied to businesses by size.

Table 21
Hypothetical Cost per Business by Size
To Cover Negative Cash Flow

Business Size	Annual Cost	Monthly Cost
	<\$61,784> Cash Flow	
1,000 sq. ft.	\$140	\$11.66
2,500 sq. ft.	\$350	\$29.17
5,000 sq. ft.	\$700	\$58.33
10,000 sq. ft.	\$1,400	\$116.67

As the table above illustrates, a business occupying 2,500 square feet would pay \$29.17 per month if a business-based fee was assessed to support development of a downtown public parking garage. Again, the funds raised through such an assessment would be coupled with existing public funds and user fees at the garage to assure coverage of negative cash flows/debt service for such a facility.

3. USER-BASED FEES – SAMPLE APPLICATION FOR KIRKLAND

To develop a sense of revenue potential from non-garage related user fees, the consultant team conducted an evaluation of a hypothetical parking meter system within the project study area. This exercise was intended only to provide a basis for discussion for future consideration. Nonetheless, the current on-street parking system should be assessed as to the potential "value" it may have in the context of facilitating new supply development.

It is important to note that metering the entire downtown parking supply is not a recommendation of this study.⁴⁹ This base model could be refined/revised to facilitate future discussions of user-based revenue sources for garage development should the City and the business community desire to proceed with examination of such options.

To derive revenue estimates, hourly rates (values) ranging from \$0.25 per hour to \$0.75 per hour were assigned to actual observed hours of vehicles parked on-street within the study area between the hours of 8:00 a.m. and 6:00 p.m. weekdays and Saturdays. Hourly parking totals were derived directly from the downtown parking utilization study and sorted to reflect usage in summer versus winter months. Utilization was confined to the 881 stalls in public control/ownership. It is important to note the total hours of usage to which values were assigned did not include evening hours (after 6:00 p.m.), which reflects the highest period of occupancy for the study area.

Table 22 summarizes the results of this exercise.

**Table 22
Revenue Estimates - Value of On-street Parking**

Weekday - total number of vehicle hours (8 a.m. - 6 p.m.) = 3905 (summer) 2967 (winter)							
May through October				November through April			
3905 hrs	@ \$.25/hr.	X 5 days/wk.	\$122,031	2967 hrs	@ \$.25/hr.	X 5 days/wk.	\$92,720
	@ \$.50/hr.		\$244,063		@ \$.50/hr.		\$185,440
	@ \$.75/hr.	X 25 wks/yr.	\$366,094		@ \$.75/hr.	X 25 wks/yr.	\$278,160
Combined Yearly Weekday Totals							
	@ \$.25/hr.	\$122,031	+	\$92,720	=		\$214,751
	@ \$.50/hr.	\$244,063	+	\$185,440	=		\$429,503
	@ \$.75/hr.	\$366,094	+	\$278,160	=		\$644,254
Weekend - total number of vehicle hours (8 a.m. - 6 p.m.) = 3008 (summer) 2285 (winter)							
May through October				November through April			
3008 hrs	@ \$.25/hr.	X 1 day/wk.	\$18,800	2285 hrs	@ \$.25/hr.	X 1 day/wk.	\$14,280
	@ \$.50/hr.		\$37,600		@ \$.50/hr.		\$28,560
	@ \$.75/hr.	X 25 wks/yr.	\$56,400		@ \$.75/hr.	X 25 wks/yr.	\$42,845
Combined Yearly Weekend Totals							
	@ \$.25/hr.	\$18,800	+	\$14,280	=		\$33,080
	@ \$.50/hr.	\$37,600	+	\$28,560	=		\$66,160
	@ \$.75/hr.	\$56,400	+	\$42,845	=		\$99,245
Total Potential Parking Revenue -- Monday through Saturday (8 a.m. to 6 p.m.) -- 300 days per year							
Weekday	@ \$.25/hr.	\$214,751	+	Weekend	\$33,080	=	\$247,831
	@ \$.50/hr.	\$429,503	+		\$66,160	=	\$495,663
	@ \$.75/hr.	\$644,254	+		\$99,245	=	\$743,499

⁴⁹ The study does recommend adding up to 60 meters to the current meter supply of 10 meters that would provide funding for near-term implementation strategies that include a parking manager, enforcement and signage.

Table 22 estimates that the potential revenue value of on-street parking ranges from \$247,831 to \$743,499 annually. As a value per parking stall in the downtown, these estimates range between \$23 per stall per month (@ \$.25 per hour) to \$70 per stall per month (@ \$.75 per stall per hour).⁵⁰ . It is important to note, these estimates do not reflect the impact/influence that pricing on-street could have on demand, but only a straight-line correlation of time stay to an assigned hourly rate.

4. SUMMARY

It is apparent that as Downtown Kirkland grows, so too will demand for parking. Current estimates indicate the overall parking supply will reach 85 percent capacity by the year 2004-2005. Zone A is currently at a deficit of public parking. New development, a faster pace of trip growth, losses of current parking supply, parking and transportation demand management programs and/or other events can work to accelerate or moderate the need for new parking supply.

The pro forma analyses conducted for the PWG indicate the feasibility of a new parking structure will require additional sources of revenue beyond anticipated parking revenue generated by the facility. To this end, the PWG believes the process for developing a new parking facility in the downtown needs to begin immediately if the downtown is to be prepared to meet future demand and support existing business' continued growth. Similarly, a "package" of funding options will need to be developed and implemented.

The two sample applications provided in this section (business and user-based fees) serve as examples of potential revenue sources. However, the sample applications have not been tested through a public process nor compared against other options that might be developed. A public process to consider options and create consensus recommendations is a critical next step.

To support this process, the PWG recommends that a Parking Advisory Committee be established to implement the overall parking management plan (see Section 4). By June 2005, the PWG recommends the following tasks be completed:

- (1) A strategy for future parking pricing developed and forwarded to City Council for review and adoption.
- (2) Establishment of a funding program to support development of new supply.
- (3) Planning for, and initiation of, development of new supply in Zone A.

It is recommended that any funds generated through this process be coupled with existing public funds and incentives to assure coverage of debt service and operations. A public process for testing fee scenarios and refining a final assessment format should begin with adoption of the near-term recommendations presented in this report.

⁵⁰ The City currently maintains 10 parking meters in the downtown in Zone A. These meters generate approximately \$12,873 annually, a value of \$107 per stall per month.