



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Hans F. Larsen
Jennifer A. Maguire

**SUBJECT: PARKING METERS, RATES,
AND COMMUNITY PARKING
DISTRICTS**

DATE: May 22, 2014

Approved

Date

5/22/14

RECOMMENDATION

1. Approve this report on Smart Meters and the evaluation of Community Parking Districts.
2. Adopt a resolution to repeal Resolution No. 76950 and set forth the Master Parking Rate Schedule to authorize parking meter rates of up to \$2 per hour in parking meter zones where Smart Meters have been installed, and authorize an adjustment in the meter rate below \$1 per hour in locations where staff determines the spaces are underutilized.
3. Approve the following 2014-2015 Proposed Operating Budget amendments to the General Purpose Parking Fund:
 - a. Increase the Parking Meter Revenue in the amount of \$700,000;
 - b. Establish the Diridon Area Parking and Multi-Modal Improvements Reserve in the amount of \$350,000; and
 - c. Establish the Downtown Parking Investment Reserve in the amount of \$350,000.

BACKGROUND

On February 4, 2014, the City Council approved the purchase and installation of 1,200 Smart Parking Meters in the central core of Downtown, replacing almost half of the over 2,500 standard coin operated meters in the City. Smart Parking Meters benefit customers and the cities that deploy them in a number of ways, including:

- Accepting multiple payment methods, including major credit, debit and pre-paid cards,
- Improved customer information displays on the meter,
- Ability to provide a grace period after a meter has expired to reduce citation issuance
- Solar powered reducing battery replacement, and;
- Real-time occupancy, payment and maintenance data to improve system management

Smart Meter Installation Update

In March and April 2014, staff completed the installation of 1,194 smart meters and sensors providing customers with all the benefits listed above (see Attachment 1 for map of locations). Furthermore, the City now has a modernized parking meter system that provides useful management data and better positions the City to implement mobile payment and space location applications that can be downloaded for use on smart phones.

Response to City Council Referrals and Mayor's Budget Message Direction

In addition to approving the staff recommendation in February 2014, and in light of the contemplated parking rate increase to be proposed during the budget process, the City Council approved memorandums from Councilmember Liccardo and Councilmembers Kalra and Chu that directed staff to report back during the 2014-2015 budget process on the following items:

- Development and evaluation of a policy proposal to establish “community parking districts” where on-street parking revenues are generated, and in other areas (e.g. future urban villages) to enable reinvestment of new and increased parking meter revenue in the respective business districts that may be generated from a rate increase or the installation of new meters. (Councilmember Liccardo)
- Potential alternatives to a parking meter rate increase to cover the cost of implementing smart parking meters, and that mobile technology be integrated as quickly as possible with the deployment of smart meter technology. (Councilmembers Kalra and Chu)

In a related action in the Mayor's 2014-2015 March Budget Message, the City Manager was directed to explore the use of a community parking district supported by revenues from new parking meters in the Diridon Area to support a new parking facility. This direction was to be coordinated with the work on community parking districts as previously directed by Council.

New Recurring Parking Fund Expenditures Included in 2014-2015

The City's Parking Fund includes a series of new expenditures in 2014-2015 and potentially beyond. As discussed later in this memo, there are legal limitations on the expenditure of the Parking Fund as these funds have been pledged to the repayment of the parking revenue bonds issued to construct the 4th and San Fernando Parking Garage and for the operation and maintenance of the City's Parking System. Accordingly, the expenditures discussed in this section may only be paid from the Parking Fund if the City's obligations under the bond documents for the 4th and San Fernando Garage have been met.

San Jose Downtown Association (SJDA) – Based upon direction from the Mayor's Budget Message as adopted by the City Council, the 2014-2015 Proposed Operating Budget includes \$280,000 in ongoing funding from the Parking Fund to support an annual agreement with the SJDA for Downtown Promotions and Marketing.

Restoration of Ecopass Transit Passes for City Employees – Previously eliminated due to a lack of available Parking Funds, funding for the Ecopass is restored in the 2014-2015 Proposed

Budget. The Ecopass enables the City, and its employees, to better model the behavior that is called for in the Envision San José 2040 General Plan to use alternate modes of transportation. It enables the City to comply with Senate Bill 1339, which requires employers with more than 50 full time employees to implement an employee commute program by September 30, 2014. The cost of the transit subsidy is approximately \$245,000 annually, paid on a calendar year basis per the VTA program cycle.

Accelerate Mobile Parking Applications – In accordance with Council acceptance of the memorandum from Councilmembers Kalra and Chu, and staff’s previous plans, mobile parking applications are anticipated to be rolled out for the Smart Meters later this summer. Staff anticipates a two-phase approach, with a mobile payment pilot launching in the summer of 2014. A more comprehensive mobile parking application system, including payment capability and space location capability, is expected to be rolled out in 2015 under the new **ParkSJ** parking brand. Once the comprehensive system with space location capability is in place, direct costs are estimated to be \$100,000 annually.

While the ongoing annual costs of \$625,000 for these actions are currently paid for with existing revenue sources, these expenditures reduce the Parking Fund’s capacity for further investment in Downtown promotional activity, improvements within targeted areas of the Downtown, and long-term capital investment.

ANALYSIS

This section of the report analyzes key elements of the referral and budget addendum, including:

- A. Downtown Access, Economic Vitality, and Parking Pricing
- B. Costs and Projected Revenues Associated with Smart Meters
- C. 4th and San Fernando Garage Debt Covenants and Parking Fund Restrictions
- D. Feasibility of Community Parking Districts or Other Funding Mechanisms
- E. Future Downtown Investments and Long-Term Parking System Needs
- F. Accelerating Mobile Payment Applications and Meter Rate Increase Alternatives

A. Downtown Access, Economic Vitality, and Parking Pricing

The City has had a sustained effort to ensure good access to Downtown, supporting its vitality. Downtown’s central location and high level of service via the roadway, transit and bicycle network provides excellent access from adjacent neighborhoods and regional locations. City parking (on streets and in garages) is an important element of the transportation network and must be managed effectively and priced properly to ensure good access.

The Smart Meter system, and its role in managing space availability, can be a key factor in good Downtown access. Smart meters and mobile applications provide a more efficient means to manage parking demand, and create more convenient ways for customers to locate and pay for available spaces. The price of parking also plays a key role in parking availability, especially for high demand, conveniently located spaces. As a result, the recommended rate adjustments in

this memorandum have been developed in part, to support ideal peak parking occupancies in the 70% to 90% range. Depressed meter rates, when compared to garage rates, can create excessive demand, making it difficult to find street spaces on certain blocks.

On-street parking spaces are the most visible and frequently the most convenient parking in the Downtown. Staff is recommending that City Council authorize parking meter rates up to \$2 per hour for the 1,200 parking spaces in the core of the Downtown where Smart Meters have been installed, up from the current \$1 per hour. As a comparison, the City parking garage rate is \$3 per hour, and many private garages are even higher. The current pricing imbalance often creates extra demand for the most convenient spaces because they are also the cheapest. It results in motorists circling the highest demand blocks looking for the last available metered space. No rate increase is recommended for the almost 1,400 coin operated meters on the periphery of Downtown, on East Santa Clara Street, and in the old Civic Center and Japantown areas. In fact, staff is exploring the costs and benefits of lowering the rate below \$1 per hour and/or increasing the allowable parking time limits in metered locations that have the lowest demand.

In summary, the new meters in the highest demand locations would have a higher price per hour; and older meters that don't accept credit cards in lower demand areas would be cheapest, and some may potentially be reduced below \$1 per hour.

B. Costs and Projected Revenues Associated with Smart Meters

As parking meter technology advanced in the past few years, providing customers and cities with conveniences and efficiencies, City staff researched the costs and benefits of upgrading the parking meter system. Staff previously held off on recommending the purchase of new meters primarily for financial reasons as described below.

Since 2010, the City was forced to rebalance the Parking Fund to absorb debt service payments for the 4th and San Fernando Garage, while revenues stagnated due to low occupancy in garages. Examples of re-balancing on the expense side include staff negotiated cost reductions in parking operator contracts, deferral and elimination of capital and maintenance projects, reduction in operational services, and the elimination of Parking Fund support for City employee transit passes. On the revenue side, staff entered into over 150 discounted parking leases to incentivize filling vacant commercial space in Downtown. While undertaking the re-balancing, the City's Parking Fund did not have the capacity to fund a new parking meter system, and the Downtown economy was not sufficiently strong to absorb a meter rate adjustment to recover the costs of Smart Meters.

More recently, as the Downtown economy has shown improvement, and the interest in Smart Meters and mobile parking applications increased, staff provided the Downtown Parking Board with a series of reports on the benefits and costs of a new parking meter system. In 2013, staff conducted a no cost Smart Meter pilot program. Upon its successful completion, staff developed a proposal to the Downtown Parking Board for the installation of approximately 1,200 Smart Meters that was envisioned to be primarily paid for with a parking meter rate adjustment to \$2 per hour. The costs would also be partially offset through higher revenues associated with customers using credit cards, and the sensors that determine when a vehicle vacates a metered

space eliminating excess time on the meter. The Downtown Parking Board supported the staff recommendation and recommends the City Council approve the rate adjustment. Attachment 2 is a letter from the Downtown Parking Board outlining its recommendations to the City Council.

The following table identifies the costs (left hand column) associated with the purchase, installation, and first year operating costs of the Smart Meters and management system. These costs were approved by the City Council on February 4, 2014, and have largely been expended through the installation of the 1,194 Smart Meters. The column on the right identifies the projected revenue associated with a rate adjustment to \$2 per hour at spaces where Smart Meters have been installed (1,194 of over 2,500 meters). Based upon actual costs and projected revenues, it would require almost two years from the start of a proposed rate adjustment for the capital costs to be fully recovered because of the new operating expenses.

Smart Parking Meter System Costs and Projected Revenues (M = millions)			
Capital Costs 1,200 Meters	\$1.045 M	Rate Adjustment to \$2 per hour	\$0.700 M
Annual Operating Costs	<u>\$0.317 M</u>	Revenue: Credit Cards, Sensors*	<u>\$0.200 M</u>
Total 1 st Year Cost	\$1.362 M	Total 1 st Year Projected Revenue	\$0.900 M

* Revenue from credit cards and sensors are projected to be received without a rate increase

In summary, if the City Council approves the meter rate adjustment up to \$2 per hour, in locations where Smart Meters have been installed, it would result in a first year total cost shortfall of \$462,000. By the end of the second year, the capital investment would be recovered. On an ongoing basis, the new Smart Meters, combined with the rate adjustment, are expected to annually generate estimated net revenues of \$583,000 to the Parking Fund.

C. 4th and San Fernando Garage Debt Covenants and Parking Fund Restrictions

The construction of the City’s 4th and San Fernando Garage was financed through the issuance of \$48.7 million in bonds. The payments to retire the bonds are approximately \$3.4 million annually through 2026-2027. The remaining principal on the outstanding bonds is \$31.7 million. Debt service payments are made twice each year.

As part of the bond issuance, the City’s Parking System revenues, including parking meter revenues, have been pledged to pay the debt service on the bonds, to pay operation and maintenance costs of the Parking System, and to maintain an operating and maintenance reserve. Surplus Redevelopment tax increment funds, in an amount equal to the annual debt service payment, is the primary repayment source, and for purposes of this debt issuance considered as parking system revenues. If surplus tax increment funds are not available or are inadequate to meet the annual debt payment, the City’s parking system is obligated to make the annual debt service payments.

Furthermore, Parking System rates are required to be set to ensure adequate revenues to operate the system and to generate an amount of money at least equal to 150% of the debt service on the bonds. The pledge of the Parking System revenues in the bond documents prohibits the

diversion of Parking Funds to a Community Parking District for use in those districts. Hence, the parking meter revenues must remain in the Parking Fund and be used as described below.

Even with the State's dissolution of Redevelopment Agencies in 2012, the 4th and San Fernando Garage debt service remains a responsibility (enforceable obligation) of the Successor Agency to the Redevelopment Agency (SARA). However, surplus tax increment revenue has been insufficient, requiring the Parking Fund to make the \$3.4 million debt service in 2012-2013 and 2013-2014. The City Manager's 2014-2015 Proposed Budget recommends the Parking Fund continue to make the \$3.4 million in debt payment next fiscal year based on preliminary projections of insufficient surplus tax increment revenues or cash in 2014-2015 to pay the debt service on the bonds. Staff is actively monitoring SARA's financial situation, and if its financial situation improves, recommendations will be brought forward accordingly to adjust their assumptions.

Each year, following the City's payment of debt service on the bonds, the pledge on those funds is released, but immediately attaches on the funds required to make the next debt service payment. Assuming that there are sufficient revenues in the Parking Fund to pay debt service on the bonds, the operating and maintenance expenses of the Parking System and to maintain the operating reserve, funds from the Parking Fund may be released and be expended for other purposes. In fact, funding SJDA Promotions and Marketing activities and the Ecopass program are examples of annual direct funding allocations from the Parking Fund that have been paid previously from the Parking Fund and are proposed to be paid in 2014-2015 because the revenues and the reserves within the Parking Fund have been sufficient in prior years and are projected to be sufficient next fiscal year to comply with the City's obligations under the bond documents. Similarly, the types of projects or activities proposed to be funded through a Community Parking District could be funded from the Parking Fund assuming that the City's obligations under the bond documents are met.

D. Feasibility of Community Parking Districts or Other Funding Mechanisms

As described above, the bond documents related to the 4th and San Fernando parking garage prohibits the creation of a Community Parking District, whereby net new revenues generated either through the installation of new parking meters or an increase in meter rates would be automatically re-directed back into the geographic district where they were generated in the form of parking system improvements or other amenities that would benefit the district.

As directed in the Mayor's 2014-2015 March Budget Message approved by the City Council, staff evaluated the potential for adding parking meters in the Diridon area and concluded that the potential is limited. Between 100 - 200 locations may have the physical space to accommodate street parking; however, other factors have precluded street parking or meters thus far such as traffic access needs for Arena events or the expectation that parkers may be able to avoid the metered parking and search for adjacent unregulated parking. For meters to be effective, larger, contiguous, higher demand locations are needed so that the use of metered parking is the logical option versus searching for adjacent free parking.

In any event, as discussed above, parking meter revenues must be deposited in the Parking Fund and are restricted by the 4th and San Fernando Garage bond documents. In addition, the bond documents also specify an “Additional Bonds” test that must be met in order to pledge Parking Fund moneys to finance other parking facilities. This test requires that the projected Parking System revenues be sufficient to pay for the increased operating costs associated with the additional facility and that the revenues be equal to 150% of the combined debt service on the 4th and San Fernando Garage bonds and the new bonds for the latest fiscal year and for the 12 month period following issuance of the new bonds. Staff does not believe that the amount of revenue that could be generated (estimated at up to \$75,000 annually) from the Diridon Area is at a level that would meet this test. However, as previously described in Section C of this report, if the City’s obligations under the bond documents are met, funds from the Parking Fund may be released from the pledge on the 4th and San Fernando Garage debt service under certain parameters, and be expended for other purposes, including supporting parking and transportation improvements in the Diridon Station Area.

Community Parking Districts would only be possible if the City were to restructure its debt obligations for the 4th and San Fernando parking garage, and remove the pledge on Parking System revenues. However, such a financing would need to be structured as a lease revenue bond transaction. Although the City could choose to make the debt service payments from the Parking Fund to repay lease revenue bonds, if funds in the Parking Fund were insufficient, the General Fund would be the repayment source. Additionally, the restructuring would eliminate the tax increment pledge as SARA would not be able to make a new pledge for repayment of the bonds, of which \$43 million remains to be paid through 2026-27. To the extent that tax increment revenues were to improve in the future, they would not be available to make the debt service payment on the restructured bonds.

As an alternative to Community Parking Districts that automatically receive the net new revenues from parking meters within a defined geographic area, the City Council could consider establishing certain geographic zones that would receive funds, based upon a calculation of net new parking meter revenues from within those zones only after it is determined that said funds can be released from the pledge on the 4th and San Fernando Garage debt service. This arrangement would be functionally similar to a Community Parking District, but the net revenues are not guaranteed and would be subject to annual appropriations from the City Council. Given the lack of guaranteed annual funding by zone, it would likely be preferable to simply allocate funding based on the most urgent needs of the entire parking system, and other Downtown priorities, which may vary year-to-year and require investments much greater than the amount of funding that would have otherwise been available from net new parking meter revenues generated in a particular geographic zone. If the City Council wishes to further consider this type of alternative funding mechanism, staff would need to assess the workload associated with developing this type mechanism so that the funds would be allocated, expended, and audited in accordance with the City’s priorities and policies related to proper management of public funds.

The next section provides examples of various Downtown and parking system needs that could be funded directly and most efficiently through a net increase in parking meter revenues.

E. Future Downtown Investments and Long-Term Parking System Needs

The City's Parking Fund exists to fund the operations and maintenance of the City's parking system, including the payment of debt service on the 4th and San Fernando Garage bonds and capital development of the Parking System. Revenues from parking garages, lots, and meters are the sole funding source to develop and repair, operate, maintain and service debt obligations for the Parking System. After major re-balancing efforts since 2010, and the improvement in the Downtown economy, the Parking Fund has stabilized, and is showing some financial improvement. The parking rates, without the proposed parking meter adjustment, are currently sufficient to meet the City's minimum obligations under the bond documents.

However, increased funding is needed to further investment in the Downtown area and to adequately maintain the City's aging parking garages. In addition to the City's ongoing obligation to maintain the parking garages, the implementation of the Diridon Station Area Plan will require a variety of funding strategies to finance needed public infrastructure improvements. Subject to the City's obligations under the bond documents, the 2015-2019 Proposed Parking Capital Improvement Program (CIP) anticipates the allocation of \$1.0 million in 2015-2016 toward the Diridon Area Parking and Multi-Modal Improvements projects that will provide funding for improvements to the vehicular, transit, bicycle, and pedestrian system in the Diridon Area to develop a multi-modal environment and offer transportation alternatives. As this funding will likely not be sufficient for all of the necessary improvements, \$350,000 of the additional revenue estimated in 2014-2015 from the rate adjustment is recommended for a reserve that will be added to the existing funding for Diridon Area improvements, bringing the total investment to \$1.35 million.

Revenues from the meter rate adjustment would also provide opportunities in future years for investment in some of the following priorities:

- Implement technology systems and other programs to optimize capacity and usage of the City's parking facilities;
- Support installation of Downtown way-finding signage;
- Support additional partnerships with the SJDA; and
- Support and partner on the implementation of the Downtown San Jose Street Life Plan developed by the Downtown San Jose Property-Based Improvement District.

To support this future investment strategy, a Downtown Parking Investment Reserve of \$350,000 is recommended for future high priority projects and programs aimed to benefit the Downtown.

To optimize the continued use of the City's public parking garages for years to come, future revenues from the meter rate adjustment would restore the Parking Fund's previously reduced capital program and direct resources toward regular maintenance and capital upgrade projects such as elevator, security, lighting and signage upgrades; structural inspections; parking space location systems within high use garages; enhanced powerwashing; and equipment maintenance and repair associated with increasing levels of activity. These improvements would be programmed as part of future capital budgets.

Further, the Long Range Property Management Plan that was approved by the Oversight Board to the Successor Agency of the Redevelopment Agency on February 13, 2014, includes information that the City of San José is interested in purchasing the Central Place Garage. The potential purchase of this garage by the City would need to follow the disposition process approved by the Oversight Board, which includes purchase of the property at the current appraised value. Purchasing this garage would require using a portion of the funds in the Parking Fund set aside as a reserve.

F. Accelerating Mobile Payment Applications and Meter Rate Increase Alternatives

In addition to approving the staff recommendation on Smart Meters, the City Council accepted the recommendation of Councilmember's Kalra and Chu to quickly integrate the use of mobile payment applications with Smart Meters. As mentioned previously, staff anticipates rolling out a pilot mobile payment system in the summer of 2014. With the knowledge gained from the pilot, staff will look to implement a more comprehensive mobile parking app system, including payment and space location capability, under the new *ParkSJ* brand in 2015. Once the comprehensive system is in place, staff anticipates a cost up to \$100,000 annually. This required amount would be programmed as part of future operating budgets.

In the same referral, staff was asked to bring forth potential funding alternatives to the anticipated meter rate increase. In response to that request, staff has compiled the following:

- The new Smart Meters are expected to generate up to an additional \$200,000 in annual revenue associated with the higher amounts of time placed on the meter when credit cards are used, and the inability of the next parker to use time remaining on the meter from the prior customer as the sensor technology can determine when a customer has left and when a new customer arrives. The \$200,000 in additional revenue would be available as a partial offset to the estimated annual operating costs of the Smart Meters (\$317,000) and mobile parking applications (\$100,000) that are expected to reach \$417,000 on an annual basis.
- In terms of the suggestion to consider increased enforcement penalties (fines), parking fines are General Fund revenue and the City Council would need to make a policy and budget decision to re-direct a portion of parking fines to cover the cost of the Smart Meters. No change is recommended in the 2014-2015 Proposed Budget with respect to the deposit of parking fines into the General Fund. Staff recognizes the unpopular nature of parking fines and carefully considers when adjustments to parking fines are warranted. The goal of Smart Meters is to make it easier and more convenient to park and pay the meter, and avoid receiving citations. At this time, staff is not recommending an increase to parking fines to pay for Smart Meters.

In conclusion, staff recommends the parking meter adjustment of up to \$2 per hour be approved as part of the 2014-2015 Proposed Budget and that the recommendation be agendized for Council approval.

HONORABLE MAYOR AND CITY COUNCIL

May 22, 2014

Subject: Parking Meters, Rates, and Community Parking Districts

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COORDINATION

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

/s/

HANS F. LARSEN

Director of Transportation



JENNIFER A. MAGUIRE

Deputy City Manager/Budget Director

For questions, please contact Jim Ortbal, Assistant Director for the Department of Transportation at (408) 535-3845.

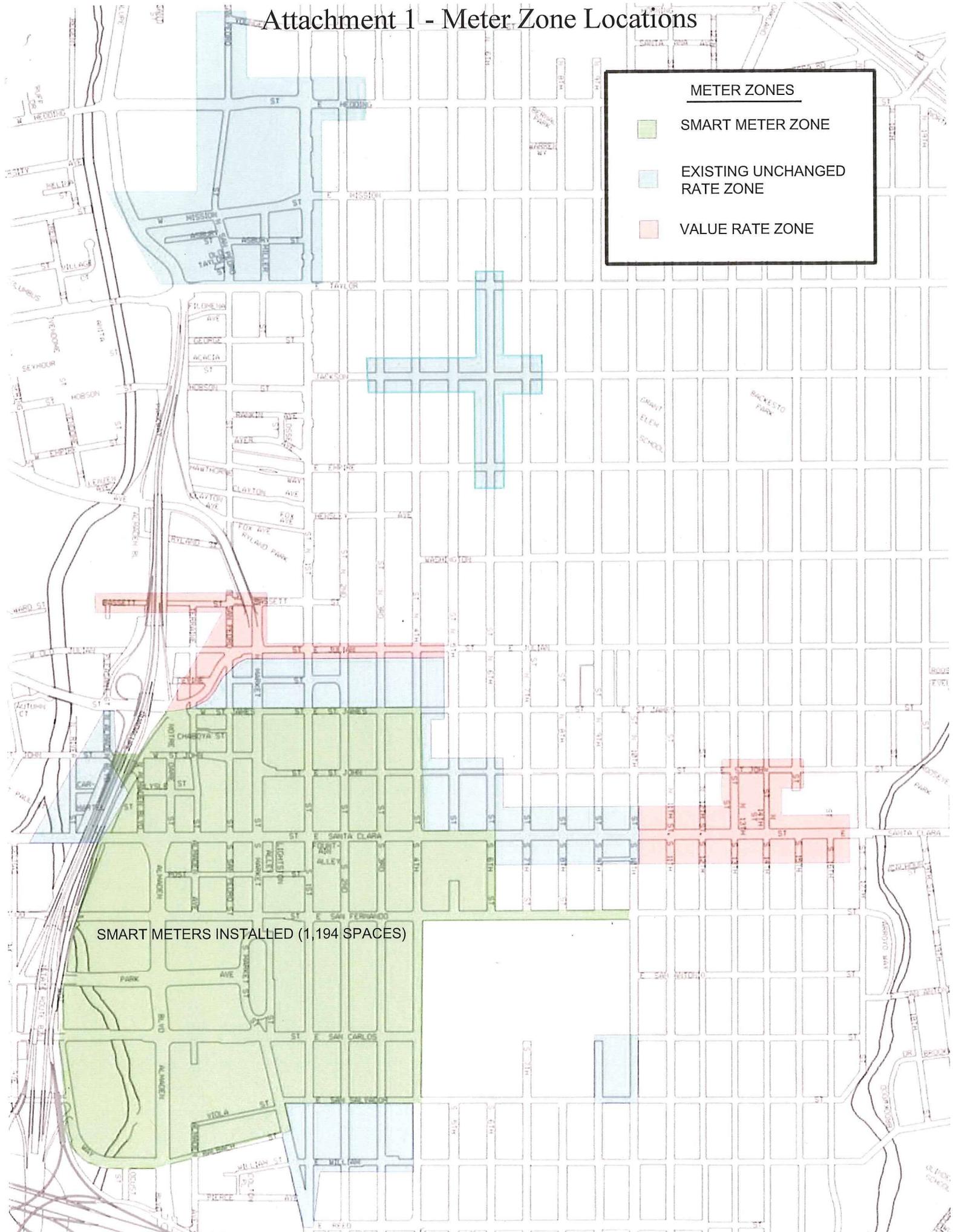
Attachments

Attachment 1 - Meter Zone Locations

METER ZONES

- SMART METER ZONE
- EXISTING UNCHANGED RATE ZONE
- VALUE RATE ZONE

SMART METERS INSTALLED (1,194 SPACES)



Attachment 2



Downtown Parking Board

April 28, 2014

Honorable Mayor and City Council:

RE: Smart Parking Meter Installation and Meter Rate Adjustment

The Downtown Parking Board (DPB) has reviewed the staff proposal related to Smart Meters and the recommendation to adjust the parking meter rates where Smart Meters are installed. The DPB has taken a position of support and urges the City Council to approve the recommendation.

In 2013 and 2014 at numerous public Board meetings, the DPB reviewed and provided input to staff on the Smart Meter pilot program and the final proposal to install 1,200 Smart Meters and Sensors. The DPB evaluated the results of the pilot, the costs of the installation, and the benefits that the new meters would provide to customers and the City. In addition, we considered the proposal from the perspectives of the Downtown stakeholders that the Board has been appointed by the City Council to represent. We concluded that the benefits are numerous, including:

- Accepting multiple payment methods, including major credit, debit and pre-paid cards
- Improved customer information displays on the meter
- Ability to provide a grace period after a meter has expired to reduce citation issuance
- Solar powered reducing battery replacement
- Real-time occupancy, payment and maintenance data to improve system management

In addition, we closely evaluated the capital and operating costs to the City, and the appropriateness and need for a rate adjustment to recoup the capital cost and to cover future operating expenses. After extensive deliberation, we concluded that a meter rate increase to \$2 per hour, where Smart Meters are installed, was justified to ensure a sound and balanced Parking Fund over the long term.

In summary, the Downtown Parking Board recommends the City Council support staff recommendation to adjust on-street meter rates.

Sincerely,

Bob Carlson
DPB Chairperson
Resident Representative

Nick Nichols
DPB Vice Chairperson
Arts and Culture Representative