



DOWNTOWN COMMISSION AGENDA REPORT

DATE: May 15, 2013

AGENDA OF: May 23, 2013

DEPARTMENT: Economic Development

SUBJECT: Economic Competitiveness: Parking Deficiency Fee Incentive
(ED)

RECOMMENDATION: That the Downtown Commission recommends that City Council approve the modification of the Parking Deficiency Fee Reduction Strategy enacted on July 26, 2011 and extend it through the end of Fiscal Year 2014 and extend the 10% structural reduction for office / service (BIA Type III) users only through the end of FY 2014.

This direction is in keeping with the recommendations of the City Council ad hoc Committee on Economic Competitiveness report issued on October 9, 2012 and consistent with the continuation of the program on November 13, 2013 for Fiscal Year 2013.

BACKGROUND: On July 26, 2011, the City Council passed a motion directing staff to implement a "Parking Deficiency Fee Reduction Strategy" within the Central Business District that reduced the collection of parking deficiency fees for both new and existing businesses in the City's Downtown Parking District.

This action was taken following increasing downtown commercial property vacancies. Feedback from local brokers and real estate professionals stated that the combination of fees collected by the City within the Central Business District, which includes the assessments for the Business Improvement District (DTA), the Cooperative Retail Management District (DMC) and the Downtown Parking District fees, presents a significant disincentive for prospective businesses to locate in Downtown Santa Cruz.

Once enacted, the Parking Deficiency Fee Reduction Strategy was utilized aggressively by both staff and real estate professionals to encourage more leasing activity in the District. Dozens of new businesses have taken advantage of the program and located in the District, including Forever 21, It's Sugar, and Looker Data Sciences. Over the seven quarters of its operation, incentives for new leasing activities have totaled \$36,234.

Parking Deficiency Fee revenue is used primarily for the construction, operation and maintenance of lots and parking structures. The fund supports 11.3 full time equivalent Parking Division employees. The revenues also fund one Police Officer (\$130,000/year), the Sidewalk Scrubber Program (\$70,000/year), the Downtown Bike Locker Maintenance Agreement (\$15,500/year) in addition to its core purpose of building and maintaining parking for the Central Business District.

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The City is currently revising Downtown parking options, including changing free parking lots to pay lots including converting the lot at Front and Cooper. Parking District Staff is reviewing financial projections of increased meter fees in the Central Business District to offset the impact of the continuance of the Parking Deficiency Fee Reduction Strategy. If changes are merited, staff will return to City Council following a meeting with the Downtown Commission in the near future.

DISCUSSION: The City Council has adopted a strategic goal of attracting and retaining businesses and jobs. For several years, the City of Santa Cruz has experienced higher than average vacancy rates for downtown office uses. With the exception of the build out of the former Sentinel Building, there have been few new office leases in the Downtown, although retention of existing businesses has been steady.

The recommendation from staff is to continue the Parking Deficiency Fee Reduction Strategy with an 18-month incentive to new businesses that sign new leases (three-year minimum) for vacant commercial space downtown during FY 2014 by charging no Deficiency Fee for twelve months and a fifty percent reduction for an additional six months.

Additionally, staff recommends continuing a 10% deferral for existing businesses categorized as “service, wholesale or professional uses” (BIA Type III businesses) through the end of the FY 2014. This continuation is based on current office vacancy rates as well as feedback gathered from downtown businesses during retention visits. This proposed cost would be offset by additional revenues coming to the district from the former redevelopment area.

FISCAL IMPACT: There would be no impact to the general fund from this program.

While continuing the incentive for vacant spaces results in a future loss of revenue to the parking district in the short term, the long term benefits of a vibrant downtown outweighs the initial investment. It is estimated that the cost for the continued incentive for current office users (\$32,000-\$40,000) will be offset by new revenues coming into the district from the former redevelopment area.

Submitted by:

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Economic Development