

**CITY OF NAPA CITY COUNCIL
AGENDA REPORT**

Calendar
Agenda Item No. _____
Date: August 2, 2016

To: Honorable Mayor and Members of City Council
From: Rick Tooker, Community Development Director
Prepared by: Jennifer La Liberte, Economic Development Manager
Subject: Parking Impact Fees

ISSUE STATEMENT:

Adopt a resolution adopting parking impact fees for non-residential development in the Parking Exempt Zoning Overlay District; introduce and approve first reading of an ordinance amending Napa Municipal Code Chapter 15.94 relating to Parking Impact Fees; and determine the recommended action is exempt from CEQA.

DISCUSSION:

Background: Parking Impact Fee

In 2005, the City Council established a Parking Impact Fee ("PIF") on private development in the Parking Exempt District to help the City fund public parking structures that would be needed to serve demand generated by future private development. The PIF is applied to parking demand generated by net new non-residential square footage per the City's parking requirements. The dollar amount of the fee was based on a 2004 nexus study which analyzed the existing parking supply and parking surplus; future parking demand to be generated by approved but not-yet-constructed development projects as well as development in the planning stages; the anticipated parking shortfall, including spaces to be removed by the Flood Protection Project; the cost to provide the parking to fill the shortfall; and City funds on-hand to fund construction of parking. The 2004 nexus study concluded that 874 new spaces would be needed by 2015 to serve an anticipated 450,000 square feet of new development, and an additional deficit of approximately 550 spaces would occur beyond 2015 based on less certain development projections. The study indicated the cost to construct these spaces in structures would be \$30.6 million, or roughly \$22,000 per space.

At the time the fee was established, the Council was concerned about slowing down private investment momentum and did not want the fee to deter downtown infill

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development, and there was a lot of parking supply available. As such, the Council set the fee at \$7,500 per space with the intention of increasing the fee each year according to a construction cost index, with the expectation of raising approximately \$6.5 million by 2015 based on development projections and estimated gradual fee increases. At the time, the City had other funding sources and potential plans to offset costs of providing new parking, including former redevelopment agency bond financing. Since 2005, the fee has generated approximately \$1.15 million, which is not quite 20 percent of the projection. This is partly because of the national recession which delayed development for several years, and the fee did not increase annually but remained flat. In addition, two large development projects opted to construct on-site subterranean parking instead of paying the PIF (Napa Riverfront and Napa Square).

In May 2012 the Council adopted the Downtown Specific Plan which recommended future implementation measures to improve management of parking demand to free up existing supply. The measures included instituting a paid parking program, providing opportunities for valet programs and leasing of underutilized spaces, and improving wayfinding signage. The DSP also recommended measures to expand future parking supply such as evaluating the potential for expanding the Parking Exempt Overlay District ("PE District") so that new development would pay a parking impact fee, adjusting the PIF to match the actual cost of new parking, and constructing a new 300- to 400-space garage within the PE District.

Beginning in mid-2014, the City spent several months preparing the Downtown Parking Management Plan ("Parking Plan"), which built from the recommendations and baseline development projections in the DSP, adjusted for approved or constructed development since the DSP adoption. The Parking Plan implementation measures build from and supplement the DSP recommendations, providing more analysis, time frames and estimated costs to each measure. During the Council meeting on May 19, 2015, Council directed staff to implement the recommendations of the Parking Plan. The Parking Plan implementation summary is provided as Attachment 4.

On March 1, 2016, staff presented a report to Council with an update on Parking Plan implementation, funding, development projects in the planning pipeline and anticipated impacts to public parking, and parking supply expansion efforts by the City. At that meeting Council directed staff to return to Council with the policy items for consideration to amend the PE District and increase the Parking Impact Fee. (As a separate matter before the Council, the proposed amendment to the PE District to include six parcels on north Main Street will be presented for consideration.) At the March 1st meeting, the Council discussed the feasibility of adopting a parking fee in the range of \$20,000 to \$25,000 per space, based on the analysis included in the draft Nexus Study attached to the report to Council.

City Parking Funds

The parking fund balance will be approximately \$8.05 million at June 30, 2017 (see Attachment 5, City Parking Funds). One-time contributions include the Archer hotel license fees (\$3.15 million) to be paid prior to occupancy, and funds previously paid by

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the Flood District to mitigate the removal of approximately 120 parking spaces for construction of the bypass channel (\$3.66 million). Additional revenue sources include the Downtown Parking Benefit Zone 1 (2005) which is an assessment on business licenses within the zone boundary (\$223,000), and the Andaz hotel parking license revenue (\$353,000). The remainder of the revenue comprising the parking fund is from the PIF, with a current fund balance of \$1.15 million.

Based on the analysis set forth in the Nexus Study (see Attachment 3, "Nexus Study"), staff recommends that Council approve an updated PIF in the amount of \$23,000 per parking space. If the PIF is established at \$23,000 per space, it would generate an additional \$5 million in revenue to the parking fund as building permits are issued, assuming all pipeline projects are built (as summarized below). For comparison, if the fee remains at the current amount, the parking fund would receive approximately \$1.6 million, a delta of \$3.4 million. If the fee was increased to \$20,000 per space, it would generate approximately \$4.4 million; and if the fee was increased to \$25,000 per space, it would generate approximately \$5.5 million.

Longer term, in addition to building permits that generate PIF revenue, the City will receive ongoing parking license revenue from the Andaz hotel which will generate \$1.9 million through June 2039. The parking meter program is being developed with an expected launch in 2017 which may provide supplemental revenue to support new parking over time. Other funding options are less certain and defined such as public-private partnerships or mechanisms to finance infrastructure needs.

Increasing the Parking Impact Fee and Nexus

In conjunction with the Parking Plan, Walker Parking Consultants prepared the "Downtown Napa Parking Impact Fee Nexus Study" provided as Attachment 3 ("Nexus Study") in compliance with the Mitigation Fee Act, following similar methodology as the first nexus study for the 2005 fee. The Nexus Study analysis focused on parking demand and supply that serves the PE District. The analysis started with a physical inspection of available parking in the PE District on the "benchmark" date in July 2014; there was a 443-space parking surplus at the parking peak. The analysis applied a parking "credit" for vacant properties that have a right to use existing parking but were not generating parking demand on the benchmark date, and when occupied will generate demand but will not be required to pay a PIF. On the benchmark date, vacant structures totaled 154,000 square feet, most of it in the First Street shopping center, with a 377-space demand, and the Archer hotel which is under construction will lease 145 spaces in the Pearl Street Garage. When the credits were applied, the 443-space surplus became a 79-space parking deficit. The Nexus Study also estimated that future development within the PE District will generate a future demand for 876 spaces, which when added to the 79-space deficit, resulted in a total parking shortfall of 955 public spaces by 2030.

Much of this parking demand will be generated in the near-term (~12-36 months) as a result of completion of the Archer Hotel and leasing of the existing shops in the First Street shopping center, along with several other projects in the pipeline if all are

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approved and constructed. These include the building at 1300 Main Street (approved, 57 spaces); expansion of 1339 Pearl Street (approved, 14 spaces); 1300 First Street building (under construction, 15 spaces); Bounty Hunter at First and Main streets (pre-application reviewed and in design, 46 spaces); expansion of the former McCaulou's building (in design, 6 spaces); the Silver buildings on Brown Street near Third Street (in design, 50 spaces); and a four-story office-over-retail project at 1330 Clay Street (application in review, 29 spaces). While much of the near-term demand can be served by existing parking facilities, the City recently constructed an interim surface parking lot with 147 spaces on the former CineDome and adjacent City-owned property to supplement the current parking supply. Staff is also working on the "CineDome Focus Area" master plan which will result in a final concept plan with recommended land uses, design guidelines, open space concepts, and a plan for structured parking. As recommended by the DSP, the goal is to provide 350-400 new public spaces in the future garage.

The Nexus Study indicates the hard cost to construct above-grade structured parking in the San Francisco Bay Area is approximately \$27,000 per space excluding land costs, based on actual costs for above-grade parking garages of approximately 400 spaces in the East Bay and San Francisco. When including soft costs (engineering and architectural design, inspections and materials testing, etc.) the per-space cost is closer to \$30,000, excluding land costs. The Nexus Study concluded that based on the anticipated parking shortfall of 955 spaces, multiplied by \$30,000 per space, and subtracting existing parking funds collected by the City as of June 30, 2017, the PIF should be \$23,500 for public parking built on land owned by the City, or \$32,500 if land value is included in the fee. If the City were to construct a stand-alone, 400-space parking structure today, the cost would be a minimum of \$12 million (\$30k per space) for a 'bare bones' above-grade garage, or closer to \$15 million (\$37.5k per space) if it incorporated subterranean parking, high-quality materials and architectural features, amenities like solar panels and electric vehicle charging stations, and public art.

As it did in 2005, the Council has discretion to set the fee lower than the Nexus Study recommendation, which then shifts any remaining cost of building parking to the City's general fund and any other available funding sources. Based on Council's input at the March 1, 2016, meeting regarding the possibility of establishing the fee in the range of \$20,000-\$25,000 per space, staff assumed the amount to be \$23,000 per space as reflected in the draft resolution included as Attachment 1. While this is a significant increase over the current \$7,500 per space, Council should consider the following:

- The actual cost to for the City to build structured parking is \$30,000 per space or higher. If subterranean parking is included which is a more efficient use of land, the cost is significantly higher per space. As described, the City has very few dedicated funding sources to supplement the PIF. Over time, if other funding sources are identified to offset future capital costs, the City has the ability to reduce the PIF.
- The City is planning to provide for future parking needs on land it already owns which is a contribution of land value of approximately \$9,000 per parking space.

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While the City has identified a potential site for one parking structure (in the CineDome Focus Area), the Nexus Study identifies the need for a second parking structure for which a City-owned site is not yet identified.

- Only properties in the PE District pay the PIF. Property values in the PE District are significantly higher than outside the PE District, so the PIF is a one-time cost for ongoing equity that benefits the property owner over time.
- If developers were required to build parking on-site and the City wanted to retain Downtown's urban form, they would have to provide subterranean or podium parking wrapped with development. In either case, private construction costs would increase well beyond \$23,000 per space, and land that could support economic generators would be otherwise occupied with parking for an ongoing reduction in revenue. Costs would be passed on to tenants, including the ongoing maintenance costs of the parking.
- If the \$7,500 fee had been adjusted for inflation, the current fee would be \$9,225 per space, so at the current level the fee pays for even less parking than it did in 2005. Combined with the 2012 adoption of new DSP parking standards which reduced parking space requirements, the proposed increase is less onerous than it may appear.

In order to test the PIF's effect on development feasibility, Walker Parking Consultants prepared a hypothetical new construction scenario which describes a 30,000-square-foot mixed-use building on a 10,000-square-foot lot with ground floor retail and office on the second and third floors (see Attachment 6). The analysis concluded a fee level of \$25,500 would allow development to generate a return on investment of 20% or greater and provide funds for the City to build parking on land that it already owns. This fee amount could be lower provided the City has other funding to offset the costs.

Staff met with several developers and property owners to obtain input on the proposed PIF, and while most were comfortable, there were those in the planning pipeline who expressed concern about the potential impact to their project's cost and feasibility. If Council approves the recommended action and the ordinance is adopted on August 16th, the fee would go into effect on October 3rd. Projects in the pipeline can pre-pay the fee when they file a complete application for a building permit rather than at the time of issuance of a building permit. This is consistent with the practice for other City impact fees.

FINANCIAL IMPACTS:

If an action is taken to increase the Parking Impact Fee, there would be an increase in revenue collected for each new development project that generates new parking demand in the PE District. At the recommended dollar amount of \$23,000 per parking space, the City will have to continue to supplement the actual cost of building new public parking. The dollar impact to the Parking Fund is difficult to estimate as staff is

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unable to predict which projects may occur and whether or not some developers would propose to construct subterranean on-site parking to meet their parking requirement.

CEQA:

The Community Development Director has determined that the Recommended Action is not in-and-of-itself a “project” (pursuant to CEQA Guidelines Section 15378) since it does not result in a physical change in the environment. However, the Recommended Action is part of a larger “project” that will be subject to environmental review in accordance with CEQA at the “earliest feasible time” prior to “approval” consistent with CEQA Guidelines Sections 15004 and 15352. The earliest feasible time for Council’s evaluation of environmental impacts will be after Council identifies a site for a parking structure that will serve development in the Downtown Parking Exempt District, and prior to Council’s approval of construction for that parking structure. Furthermore, development that is contemplated to create additional parking demand subject to the Parking Impact Fee was adequately examined in the Final Environmental Impact Report for the Downtown Napa Specific Plan (State Clearinghouse #2010042043) adopted by City Council on May 15, 2012; and the Mitigated Negative Declaration for the 1300 Main Street Building adopted by City Council on June 7, 2016 (Resolution R2016-80).

DOCUMENTS ATTACHED:

1. Attachment 1: Resolution Adopting Parking Impact Fee
2. Attachment 2: Ordinance Amending NMC Chapter 15.104 re: Parking Impact Fee
3. Attachment 3: Parking Impact Fee Nexus Study
4. Attachment 4: Parking Plan: Implementation Plan Summary
5. Attachment 5: City Parking Funds
6. Attachment 6: Development Feasibility Example

NOTIFICATION:

Numerous meetings on this subject were held with stakeholders from July 2014 through July 2016. The issue also was discussed at the March 1, 2016 Council meeting under Administrative Reports. This subject was placed on the agenda and displayed for public review at least 72 hours prior to the meeting, and a public notice was published in the Napa Valley Register 10 days prior to the hearing and again 5 days prior to the hearing in accordance with Government Code Section 6062a.

RECOMMENDED ACTION:

City staff recommends that the City Council move, second and approve each of the actions set forth below, in the form of the following motion. Move to:

1. Adopt a Resolution Adopting a Parking Impact Fee for Nonresidential Development in the Parking Exempt District

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2. Approve the first reading and introduction of an Ordinance Amending Napa Municipal Code Chapter 15.104 "Parking Impact Fee on Nonresidential Development in the Parking Exempt Overlay District"