

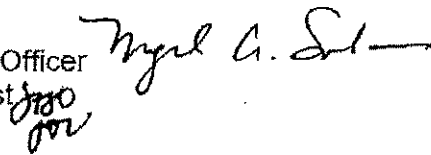
**CITY OF LOS ANGELES**  
INTER-DEPARTMENTAL CORRESPONDENCE

0160-00323-0051

Date: October 17, 2012

To: Antonio R. Villaraigosa, Mayor  
Herb J. Wesson, Council President and Chair, Rules, Elections and  
Intergovernmental Relations Committee

From: Miguel A. Santana, City Administrative Officer  
Gerry F. Miller, Chief Legislative Analyst



Subject: **PARKING OCCUPANCY TAX BALLOT MEASURE (C.F. No. 11-1357-S1)**

### Summary

On August 21, 2012, Council held its annual Revenue Day meeting to consider opportunities to maximize existing revenue and to identify new revenue sources (C.F. No. 11-1357-S1). Council instructed the Offices of the City Administrative Officer and Chief Legislative Analyst, with the assistance of the City Attorney, to provide an analysis of a proposed revenue ballot measure to increase the Parking Occupancy Tax rate and to include necessary recommendations. A second report concerning an increase to the documentary transfer tax is submitted under separate cover.

Though the City has made efforts to reduce future deficits through spending reductions and increasing revenues within the limits imposed by Proposition 218, it still faces a projected shortfall of \$216 million in 2013-14. Increasing the Parking Occupancy Tax will provide an ongoing revenue stream to help address this and future deficits. The City hired Beacon Economics to evaluate the impact of an increase to the tax from 10 percent to 15 percent. According to the analysis, an increase would generate approximately \$41 million to \$43 million in additional annual General Fund revenue if this general tax proposal is approved by the electorate. The revenue would be deposited within the General Fund to address the City's greatest needs, such as public safety or infrastructure improvements. The analysis from the consultant is attached to this report and is summarized below.

### Findings

#### Parking Occupancy Tax

The Parking Occupancy Tax (Parking Tax) is currently set at 10 percent of parking rates, for hourly, daily and monthly charges and is considered one of the City's economically sensitive revenues. The 2012-13 Parking Tax revenue budget is \$91.7 million, which represented 4 percent growth over the 2011-12 revenue budget of \$88.2 million. Part of this expected growth was attributed to the on-going efforts by the Office of Finance and the Police Commission through

enforcement and compliance programs. Though 2011-12 actual receipts of \$86.5 million finished \$1.7 million below budget and the 2012-13 estimate now represents 6.1 percent growth, revenues through September 2012 are tracking slightly ahead of plan.

Proposal for the Parking Occupancy Tax

It is proposed to increase the Parking Tax rate from 10 percent to 15 percent through a general tax ballot measure within the guidelines set by Proposition 218. A general tax ballot measure would require a 50 percent plus one vote approval rate to pass. Tax measures which are designated for specific purposes would require a two-thirds approval rate for passage, a threshold that has historically been difficult to achieve.

The proposed 15 percent rate would fall within what is currently charged in other major cities. Parking tax rates among other large cities are below, as previously reported in the Revenue Options report of August 20, 2012.

Table 1. Parking Occupancy Tax Rates in Select U.S. Cities

<u>City</u>	<u>Rate</u>
Pittsburgh	45%
San Francisco	25%
Chicago	19.75% to 50%
Philadelphia	20%
New York	10.375% to 18.375%
Miami	15%
Oakland	10%
Seattle	10%
Los Angeles	10%

Projected Revenue

The consultant, Beacon Economics, reviewed previous research on parking tax increases to infer the resulting impact to the City. Findings revealed that the tax increase would likely be passed on to the consumer in areas of high demand for parking and absorbed by the parking lot operators in areas of low demand. Most studies arrived at a similar conclusion that parking demand is relatively inelastic (-0.3); that is a 10 percent increase in parking rates reduces demand by 3 percent. Increasing the City's tax rate to 15 percent results in a 4.5 percent increase in the total parking rate and a possible 1.35 percent decrease in demand, assuming the full amount of the tax increase is passed on to consumers. Based on actual parking occupancy tax receipts from fiscal year 2011-12, it is projected that revenue will increase in the range of \$41 million to \$43 million annually, dependent on the demand for parking.

Table 2. Impact to Revenue in High-Demand and Low-Demand Locations

Actual 2011-12 Parking Occupancy Tax Revenues	\$86,449,901
Revenue with increase passed down to consumers (4.5% higher prices)	\$127,924,241
Change in Revenues	\$41,474,340
Revenue with increase absorbed by the operators/owners (no price change)	\$129,674,852
Change in Revenues	\$43,224,951

\*Estimated revenue based on FY2011-12 actual revenue

Previous research on the secondary effects, such as the effect on local transportation or business is limited. Studies revealed that the impact to retail sales was dependent on the desirability of the affected area and the availability of attractive substitutes. A parking increase would have a negligible effect on the pursuit of alternative forms of travel (e.g., public transportation, walking, cycling).

#### Recommendations

1. Request the City Attorney, with the assistance of the Chief Legislative Analyst and the City Administrative Officer, to prepare the necessary Ordinance and Resolution to place a measure to increase the Parking Occupancy Tax to 15 percent on the March 5, 2013 Primary Nominating City Election ballot; said documents to be transmitted no later than November 6, 2012; and,
2. Instruct the City Clerk, upon submission of the ordinance and resolution, to place them on the next available Council Agenda for consideration on or before November 13, 2012.

#### Fiscal Impact Statement

Approval of the proposed Parking Occupancy Tax increase by Los Angeles City voters will generate approximately \$41 million to \$43 million in General Fund revenues and reduce the structural deficit in outgoing years. The cost for putting a measure on the City Primary Nominating election ballot is included in the budgeted funds of the City Clerk.

MAS:RPC:BC/BGF: 01130037

Attachment

October 2012

# Parking Occupancy Tax Overview



**BEACON ECONOMICS**

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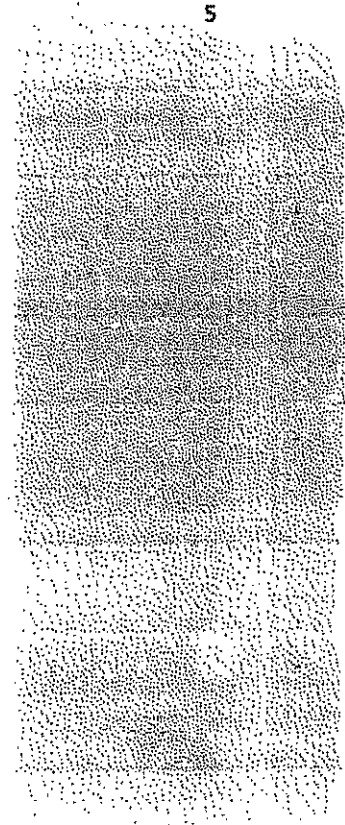
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Overview

Primary Effects

City of Los Angeles first enacted the parking occupancy tax in 1990. To examine the effect of the new tax Berk and Associates (2002) surveyed a local parking operator – Standard Parking. The operator indicated they were able to pass the entire tax to the consumer in form of higher prices.

The same conclusion was found in San Francisco, where operators claimed they passed the full cost on to the consumers. Furthermore, Berk and Associates (2002) also looked at the City of Pittsburgh's parking tax changes. They found that the cost of the tax was passed down to the consumers in high demand areas while the operators/owners had to absorb the cost in areas of low demand for parking. Finally, Berk and Associates (2002) concluded that in Miami, the structures with high parking rates and low vacancy rates were able to pass the cost of the tax to the consumers, while lower priced and higher vacancy garage operators were forced to absorb the cost of the parking tax.

Currently, the City of Los Angeles is contemplating increasing parking occupancy tax rates from 10% to 15%. If the City decides to increase the tax rates, the lot owners and/or operators are faced with a dilemma, whether to absorb the cost of the tax or pass it on to the consumers. If the operators/owners absorb the cost, the consumers will not face higher parking prices. According to City of Los Angeles Commission on Revenue Efficiency parking operators in the City generally report a 5% profit margin which could prevent them from absorbing the additional cost of the tax. If this is the case, the owner of the property will face higher costs.

On the other hand, the operators/owners could pass the cost of the additional tax to the consumers in form of higher parking prices. If the entire cost of the tax is passed through to the consumer a reasonable expectation is for parking fees to increase 4.5%. Whether the operators/owners pass the cost to the consumer will be determined by the local market characteristics, such as the location of the lot, average vacancy rate of the parking lot (structure) and/or availability of transportation substitutes. In low-vacancy parking structures the operator/owner would most likely increase parking fees due to relatively inelastic demand for parking.

Referring to empirical work on price elasticity of demand for parking, it appears that most studies arrive at a similar conclusion. The average price elasticity of demand for parking appears to be -0.3. That is, a 10% increase in parking rates reduces demand for parking by 3%.

Parking occupancy taxes are an important source of revenues, considering City of Los Angeles generated approximately \$86.45 million in 2012 from this tax. To

look at the potential for higher revenues with the increased tax, let's assume the City had a 15% parking occupancy tax rate in fiscal year 2012 and the operators/owners absorbed the cost of the additional tax. With this scenario the

**Table 1: Potential Revenues**

Revenues with current rates	2013	2012
Parking occupancy tax revenues	89,868,814	85,449,901
Revenues with Proposed Increase		
Increase absorbed by operators/owners (no price change)	134,803,221	129,674,852
Additional revenues	44,934,407	43,224,951
Increase passed down to consumers (higher prices)	132,983,377	127,924,241
Additional revenues	43,114,564	41,474,340

Source: Beacon Economics

City would have generated approximately \$129.57 million from this revenue source which is approximately \$43.22 million higher than actual figures.

A more realistic reaction of the operators/owners would be to pass the additional cost of the tax to the consumers. In this scenario the consumer would face 4.5% higher parking prices, which would reduce the demand by 1.35%, assuming price elasticity of parking demand of -0.3. With the lower demand, the City would have generated approximately \$127.92 million, which is \$41.47 million higher than actual figures.

Using the 2012 parking tax revenue growth rate, the City could expect \$89.87 million in revenues in 2013, assuming a 10% parking occupancy tax rate. If the parking occupancy tax is increased to 15%, there are two potential revenue scenarios. First, let's again assume the operators/owners absorb the cost of the tax (no parking price change). In this scenario the estimated revenues for 2013 would be approximately \$134.8 million - additional \$44.93 million as a result of higher parking tax rates.

The second scenario illustrates the effect of higher cost to park on demand for parking with an assumption the entire cost of the additional tax is passed down to the consumer. Using elasticity of -0.3, a 4.5% increase in price would reduce the demand by 1.35%. This implies that if the entire cost of the tax increase is passed down to the consumers, the City should expect to generate \$132.98 million – additional \$43.11 million from higher taxes.

Therefore, depending on the operator/owner response to the additional taxes, that is whether they will absorb the cost of additional taxes or increase parking rates, the additional revenues could differ by nearly \$2 million.

Based on Berk and Associates (2002), we can conclude that one of the main factors in operator/owner response is the supply and demand for parking. Table 2 illustrates median parking rates at Central Business Districts, as compiled by Collier's 2011 Parking Rate Survey, and parking tax rates for selected cities.

Looking at monthly rates, we could perhaps make an argument that in San Francisco, New York, Chicago, Philadelphia, Seattle and Los Angeles the demand exceeds the supply for parking, hence the high parking rates. Due to excess demand, if the owners/operators of these Central Business District parking structures are faced with additional costs they could most likely pass the cost to the consumers.

**Table 2: Parking Fees and Parking Tax Rates**

City	Daily Rate	Monthly Rate	Parking Tax Rate
Miami, FL	17	125	27.8%
San Francisco, CA	26	375	25%
Philadelphia, PA	26	303.63	20%
New York <sup>NY</sup> Downtown	30	533	18.5%
Seattle, WA	24	294	12.5%
Los Angeles, CA	30	209.5	10%
Oakland, CA	18	192.5	10%
Cleveland, OH	8.5	140	8%
Chicago, IL	32	289	Tiered \$ system
Sacramento, CA	15	155	0%
San Diego, CA	26	170	0%
San Jose/Silicon Valley, CA	15	100	0%

Source: Collier's 2011 Parking Rate Survey; Beacon Economics

**Secondary Effects**

Secondary effects refer to indirect effects of the parking tax on other areas such as public transportation and local businesses. For example, will the higher parking rates result in lower retail sales? Unfortunately, it appears that there



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are not very many studies that look at the effect of parking fees on retail customers and visitors. Business groups oppose the tax because they argue it negatively affects sales.

According to a paper by the George Mason University School of Public Policy, downtown Seattle, Santa Monica and pre-Katrina New Orleans had no losses in revenues after parking rate increases. The reason is that those are highly desirable areas for visitors and attract high income shoppers. On the other hand, the same study claims that negative effects were seen in Miami area because of availability of attractive shopping substitutes outside downtown.

According to TRACE (1999) parking prices have an effect on use of public transportation. The paper estimates the parking price elasticity of public transport to be 0.02. That is, a 10% increase in parking prices, increases the use of public transportation by 0.2%. Furthermore, they estimate parking price elasticity of slow modes of transportation (walking and cycling) to be 0.03. Since the relationship between parking prices and alternate means of transportation is minimal, we expect the effect of the higher parking tax in the City of Los Angeles to be negligible.

## Literature Review

### ***Parking Pricing and Fees – Erin Vaca and Richard Kuzmyak – Transportation Research Board, 2005***

This report summarizes a few studies on travelers' responses to an introduction of parking fees and changes to existing parking fee practices. Some of the relevant studies noted in the report are:

San Francisco – Kulash 1974: In the early 1970s, San Francisco levied a 25% parking tax on garages while street parking remained unaffected. Average elasticity of demand was estimated at -0.3. The conventional wisdom states that the purpose of the trip matters, for example a traveler doing a leisure activity could have a larger negative effect compared to a commuter. However, the evidence from San Francisco shows that commuters had a larger elasticity (-0.27) compared to shoppers (-0.08). Once the taxes were reduced back down to 10% in 1972, the commuters again exhibited a higher elasticity.

Madison, WI – Charles River and Associates 1984: In 1980, Madison, WI chose to levy a parking surcharge during peak hours on all municipally-controlled parking structures. They found that occupancy at 9am (considered a peak hour) declined on average by 40%. The structures nearby, not subject to the surcharge, saw increased traffic and filled all available spots. After peak hours, the traffic increased in affected parking lots, however it remained 7% below the levels prior to the enactment of the surcharge.

### ***Parking demand and responsiveness to supply, pricing and location in the Sydney central business district – David Hensher and Jenny King – The Institute of Transport Studies, 1999***

This study analyzed the effect of prices and supply on drivers going to Sydney's central business district. The authors surveyed casual car parkers during weekdays and public transport users. The responders were offered 6 alternatives – three parking locations in the CBD, park outside CBD and utilize public transportation into the CBD, switch to public transportation or forego the trip to the business district. The three parking locations differ by hours of operation, distance from final destination and pricing. They found evidence that an increase in parking fees increased the use of public transportation without any loss in total trips to the CBD. The estimated elasticity of demand is -0.54.

### ***Estimating commuter mode choice: A discrete choice analysis of the impact of road pricing and parking charges – Kevin Washbrook, Wolfgang Haider and Mark Jaccard – Transportation, 2006***

On a similar note, this study looked at driver behavior in the Vancouver area and the effect of toll roads and parking charges on choices. The authors estimate the elasticity of demand to be -0.3. The authors went slightly further and estimated elasticities for different income levels. The lowest elasticity was -0.23 for people with income greater than \$80,000.

### ***Temporal variance of revealed preference on-street parking price elasticity – Andrew Kelly and Peter Clinch – Transport Policy, 2009***

The authors looked into the effect of a 50% parking charge increase in Dublin on the price elasticity of demand. They find evidence that the on-street parking price elasticity of demand is approximately -0.29. However, they find evidence that street parking in certain submarkets (close to shopping areas) is relatively price inelastic. They argue that the city could increase the rates further in these submarkets and during certain certain hours. In addition, they found that the average duration of parking decreased by 16 minutes which is an 18% decrease.

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## About Beacon Economics

Beacon Economics is a leading provider of economic research, forecasting, industry analysis, and data services. The firm's internationally recognized forecasters were among the first and most accurate predictors of the U.S. mortgage market meltdown that began in 2007—and among a relatively small handful of researchers who correctly calculated the depth and breadth of the financial and economic crisis that followed. By delivering independent, rigorous analysis, Beacon Economics gives its clients the knowledge they need to make the right strategic decisions about investment, growth, revenue, and policy. The firm's clients span both the public and private sector, ranging from the California State Controller's Office to major universities to one of Wall Street's most successful hedge funds. Core service areas include economic and revenue forecasting, economic impact analysis, economic policy analysis, regional economic analysis, real estate market and industry analysis, and EB-5 Visa analysis. Visit Beacon Economics' website at [www.BeaconEcon.com](http://www.BeaconEcon.com) to learn more.

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