

Appendix 28

White Paper: Parking In-Lieu Fees

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Parking In-Lieu fees are one of the successful strategies for funding parking facility development noted in this parking strategic. This concept is generally well known, it can take several forms and can be applied in mandatory or optional formats. This whitepaper is intended to answer basic questions for those that are interested in better understanding this concept.

Note: The data in this whitepaper is now several years old. While the general principles remain valid, the costs per space are considered out dated.

Fees In Lieu of Required Parking

Introduction

Some cities allow developers to pay a fee in lieu of providing parking spaces required by zoning ordinances, and use this revenue to finance public parking spaces to replace the private parking spaces the developers would have been required to provide.

These in-lieu programs can reduce the cost of development, encourage shared parking, improve urban design, support historic preservation and allow development of sites that cannot physically accommodate the required parking. Establishment of in-lieu fees also reveals that the cost of complying with minimum parking requirements is more than four times the cost of the impact fees that cities levy for all other public purposes combined. The high cost of meeting parking requirements suggests other promising in-lieu policy options that allow developers to reduce parking demand rather than increase the parking supply and provide a mechanism to support alternative transportation modes that help accomplish that goal. Reducing parking demand can cost far less than increasing the parking supply.

Advantages of In-Lieu Fees

In-lieu fees have five major advantages for both cities and developers.

1. *A new option.* In-lieu fees give developers an alternative to meeting the parking requirements on sites where providing all the required parking spaces would be difficult or extremely expensive.
2. *Shared parking.* Public parking spaces allow shared use among different sites where the peak parking demands occur at different times. Shared public parking is more efficient and cost effective than single-use private parking because fewer spaces are needed to meet the total peak parking demand. Shared parking also allows visitors to leave their cars parked while making multiple trips on foot, and is one of the easiest ways to make better use of scarce urban land.
3. *Better urban design.* Cities can put public parking lots and structures where they have the lowest impact on vehicle and pedestrian circulation. Less on-site parking allows continuous storefronts without "dead" gaps for

adjacent surface parking lots. To improve the streetscape, some cities dedicate the first floor of the public parking structures to retail uses. Developers can undertake infill projects without assembling large sites to accommodate on-site parking, and architects have a greater range of design options that can translate into more attractive buildings.

4. Fewer variances. Developers often request parking variances when providing the required parking would be difficult. These variances create unearned economic windfalls, granted to some but denied to others. If developers can pay cash rather than provide the required parking, cities do not have to grant parking variances and can therefore treat all developers consistently.
5. *Historic preservation.* In-lieu fees allow adaptive reuse of historic buildings where the new use requires additional parking that is difficult to provide. The in-lieu policy therefore makes it easier to preserve historic buildings and rehabilitate historic areas.

Disadvantages of In-Lieu Fees

Officials in many cities recommended in-lieu fees, but some report that developers were initially skeptical. The following four points summarize the potential disadvantages mentioned by developers.

1. *Lack of on-site parking.* Parking is a valuable asset for any development. A lack of on-site, owner- controlled parking can reduce a development's attractiveness to tenants and customers. While a lack of on-site parking is a real disadvantage, developers who are concerned about this problem can normally provide the parking rather than pay the fee.
2. *High fees.* Cities may not construct and operate parking facilities as efficiently as the private sector. For example, cities may pay extra to improve the architectural design of parking lots and structures. The resulting in-lieu fees may be high. Although some cities charge high in-lieu fees, most set their in-lieu fees lower than the cost of providing a public parking space. Because the fixed cost for ramps, elevators, stairwells, and curb cuts can be spread among more spaces in large public parking structures, economies of scale in building these structures can further reduce the in-lieu fees.
3. *No guarantees.* Cities may intend to use the in-lieu fee revenue to finance public parking, but they do not guarantee when or where the parking spaces will be provided. To address this concern, some cities build public parking structures before receiving the in-lieu fees. The in-lieu fees are then used to retire the debt incurred to finance the structures. Other cities return the in-lieu fees if they do not provide the parking within a certain time. A city can also delay collecting the in-lieu fees until the revenue is needed to construct the public parking.
4. *Fewer parking spaces.* In-lieu fees will reduce the parking supply if cities provide less than one public parking space for each in-lieu fee paid. A smaller parking supply can put an area at a competitive disadvantage. Cities may not provide one public parking space for each in-lieu fee paid, but if a city uses in-lieu fees to build public parking spaces rather than grant variances to reduce parking requirements, the In-lieu policy will increase rather than decrease the parking supply. Even if an in-lieu policy does reduce the parking supply, shared public parking reduces the parking supply needed to meet the sum of all individual peak parking demands.

While the developers' concerns cannot be ignored, officials in most of the surveyed cities said that the fees had become a form of administrative relief for developers who do not want to provide the required parking spaces. In practice, the in-lieu fees have benefited developers by offering them an alternative to building expensive parking spaces.

In Lieu Parking Program Examples

Miami's Coconut Grove, Florida (an upscale neighborhood of Miami)

Coconut Grove adopted a fee-in-lieu program in 1993 and has experienced considerable success. The fee is \$10,000 per stall, or payments of \$50/month/stall. Developers have opted out of 938 spaces, generating approximately \$3 million in revenues. The majority of the funds were used to develop a 416-space garage with ground floor retail. The fund also paid for a \$250,000 study for a downtown circulator, and \$100,000 for a Parking Mitigation Project, that included landscaping changes and installation of traffic control devices to improve parking and pedestrian access. Business licenses can be revoked after 90 days of non-payment.

Lake Forest, Illinois

Lake Forest has had a fee-in-lieu policy for about 15 years. All funds generated must pay for parking acquisition or development. The impetus was a desire to preserve the historic character of the downtown. The fee was recently increased from \$14,000 to \$22,000 per stall. The parking requirements are also relatively high in Lake Forest, at four spaces per thousand. Still, developers want to use the option because of the scarcity of developable land.

The city considers the program effective, and developers use the option frequently. Originally, it was an automatic opportunity for developers to pay instead of building. However, due to limited opportunities for the city to provide new facilities, they recently restricted the fee-in-lieu option to a special use permit.

Jackson, Wyoming

Jackson Wyoming adopted a fee-in-lieu policy in 1994, in conjunction with a new Comprehensive Plan and the adoption of parking minimums. The fee-in-lieu option was in response to concerns that the parking minimums would hinder economic development. The per-stall fee ranges from \$1,000 (up to four stalls) to \$10,000 (more than 41 stalls), depending on the number of stalls being opted out. The City does not have a specific obligation regarding timeline or proximity of new parking, but the funds raised are restricted to construction of parking only.

The policy is used frequently. When the fee-in-lieu was adopted, existing properties that did not have parking were given transferable parking credits, so that even as the properties have been redeveloped, there has been no parking requirement. The City Planner interviewed felt that a Local Improvement District would have been more effective for providing parking.

Bend, Oregon

Bend's policy was adopted in 1992. It was initiated due to concerns about constrained land for development. Developers have the option of building, leasing off-site, or paying the fee. The option has been used frequently but the fee was set very low (\$510 per stall). There are no specific obligations regarding timeline or proximity, but the fees must go into the parking fund and can pay for parking only (no TDM) either in or adjacent to the

CBD. They are currently having their policy evaluated, with consideration of increased fee. The limited funds generated have become problematic with expectations from property owners for the city to provide for parking.

Skokie, Illinois

Skokie adopted its fee-in-lieu policy in 1976. It was used primarily in the early 1980s, and once in the 90s, but not since. The city has high downtown vacancy rates (up to 40%), and parking shortages was not severe. The impetus for the policy was a desire to maintain the urban landscape, and to keep employee parking in the periphery of the core. The fee was set at \$3,500, which most businesses consider “outrageous”. There were no specific guarantees regarding proximity, timeline, etc., but the money was limited to parking only. Developers do not have an option to variance out: they must either build parking or pay the fee. With adoption of a downtown redevelopment plan, the parking requirements were modified to a uniform one stall per 400 sf (commercial) and one per unit (residential). Most of the development recently has been mixed use with residential, so developers have provided parking.

Kirkland, Washington

The City of Kirkland adopted a fee-in-lieu policy in the late 1970s for use in the downtown core. The fee is set at \$6,000 per stall, and has generated approximately \$300,000. Some of the funds were used to conduct various parking studies. In addition, a portion of the funds was contributed to a parking structure the city recently built, but was not a significant share. The city has no specific obligations regarding proximity or timeline, but has not had problems with expectations on the part of property owners. The impetus was to reduce create shared parking facilities. The primary use of the program has been for changes in existing properties to uses that require more parking (such as changing retail to restaurant). It has not been used for new development or redevelopment projects, and therefore the funds generated have been limited.

City of Parksville, BC Canada

The City of Parksville adopted the following specific amendments to their cash-in-lieu parking program:

- Within the area identified as "Downtown Core" on Schedule "B" of the Official Community Plan, the Municipal Council will accept cash payment in lieu of the provision of on-site parking in the amount of \$9,800.00 per space. (AMENDMENT BYLAW NO. 2000.25)
- Notwithstanding the foregoing, 100% of the parking requirement may be met through cash-in-lieu payment or a combination of cash payment in lieu of parking and the provision of on-site parking is acceptable. (Amendment Bylaw No. 2000.25)
- All monies received pursuant to the requirements of this Section shall be placed in a reserve fund established under Section 378 of the Municipal Act for the provision of new and existing off-street parking space, and the City shall use such funds only for that purpose.
- The requirements contained in this Section shall not be applied to any land, building or structure existing at the date of the adoption of this Bylaw so long as the land, building or structure continues to be put to a use which does not require more off-street parking spaces than were required of the use existing at the time this Bylaw was adopted.

How Cities Set the Fees

Cities use two basic approaches to set their in-lieu fees. The first is to calculate the appropriate fee per space on a case-by-case basis for each project. The second is to have a uniform fee per space for all projects.

One city has employed both methods. Until 1994, Beverly Hills used the first approach – a specific fee for each project. The in-lieu fee for a project was the estimated land-and-construction cost per space to build a nearby public parking structure. Between 1978 and 1992, developers paid in-lieu fees for 52 parking spaces. The per-space fee set for each project was the sum of (1) the value of 60 square feet of land within a 300 foot radius of the site, and (2) the average construction cost per space in municipal parking structures. The average fee was \$37,000 per space, and the highest was \$53,000 per space. Therefore, in the extreme case, a developer was willing to pay the city \$53,000 for the right not to provide a parking space (Beverly Hills 1992).

This case-by-case procedure required a land-value appraisal to estimate the cost of public parking near each project that applied to pay the fee. After waiting four to six months to be notified of the fee, applicants usually appealed to the City Council to reduce it. Developers complained that not knowing the fee until after the appraisal created uncertainty in project planning. The case-by-case approach was complicated, time-consuming, and expensive.

To address these problems, Beverly Hills adopted the second approach in 1994 – it set uniform fees for all projects. These new fees are easier for the city to administer and for developers to use. Developers can easily incorporate the fee in a financial analysis and decide whether to provide the required parking or pay the fee. Thirty-seven of the 46 surveyed cities set uniform fees, probably because of their certainty, simplicity, and equity. Most cities' in-lieu fees do not cover the full cost of providing a public parking space. Cities aim to set their fees high enough to pay for public parking, yet low enough to attract development. Most cities have no explicit policy, regarding how often to revise their fees and some cities' fees have not changed for many years. A few cities automatically link their fees to an index of construction costs. For example, Beverly Hills and Palo Alto adjust their fees annually by the ENR Construction Cost Index, a measure of cost inflation in the construction industry.

Kirkland has two unusual in-lieu options. Developers can pay \$6,000 per parking space not provided, and the subsequent owners must purchase one parking permit in a public lot for every three spaces not provided (because the city estimates that employees use one-third of the required parking spaces). Alternatively, developers pay no initial in-lieu fee but subsequent owners must purchase a parking permit in a public lot for each space not provided. This annual option reduces the capital cost of development and encourages the use of public parking. A property owner may cancel the annual agreement at any time by providing the required on-site parking.

German cities often have a graduated schedule of in-lieu fees (Ablösebeträge). The fees are highest in the city center and decline with distance from the center. For example, Hamburg's fee is \$20,705 per parking space in the city center, and \$11,300 in the area surrounding the center.

Vancouver has the most sophisticated method for calculating its in-lieu fee (\$9,708 per space). This fee is the parking subsidy implicit in constructing a new public parking space, as measured by: (1) the land-and-construction cost per space in a public parking structure, minus (2) the present discounted value of the net

operating income per space during the expected 30-year life of the structure, minus (3) the present discounted value of the residual property value of the structure, per space, after 30 years. The in-lieu fee is thus the expected net present cost per space – all parking costs minus all parking revenues – over the structure's life. Developers who pay the fees do not subsidize the city, and the city does not subsidize developers. Instead, developers subsidize parking.

To summarize, some cities set the fees on a case-by-case basis, but most set uniform fees for all development. Cities use a wide variety of methods to set their in-lieu fees, which range from \$2,000 to \$27,520 per parking space not provided.

Who Decides Whether to Provide Parking or Pay Fee?

Most cities allow developers to choose whether to pay the fee or provide the parking, but a few cities require developers to pay the fee rather than provide the parking. Officials in these latter cities cited several reasons for requiring developers to pay the fees: to centralize parking facilities, put more of the parking supply under public management, encourage shared parking, discourage the proliferation of surface parking lots, emphasize continuous shop fronts, improve pedestrian circulation, reduce traffic congestion, and improve urban design. Some cities allow property owners to remove existing required spaces by paying in-lieu fees. This option consolidates scattered parking spaces, facilitates reinvestment in older buildings, and encourages more efficient use of scarce land previously committed to surface parking.

Most American cities reduce their parking requirements in the central business district (CBD). In contrast, German cities often have uniform parking requirements throughout the city, but allow developers in the CBD to provide only part of the required parking, and require them to pay fees for the rest.

For example, developers may provide at most 25 percent of the parking required for land uses in the center of Hamburg, and must pay fees in lieu of providing the rest of the parking.

In-lieu fees in the United States are legally justified by the nexus between the fees and the cost of providing public parking spaces. American cities therefore offer the in-lieu option only where they are prepared to spend the fee revenue to provide new public parking facilities. The nexus argument does not necessarily imply that the in-lieu revenue must be used to provide public parking, however, because a variety of transportation improvements can substitute for more parking. For example, British and German cities often use the in-lieu revenue to improve public transportation.

The Impact Fees Implicit in Minimum Parking Requirements

In some ways, parking requirements resemble impact fees. Many cities require developers to pay impact fees to finance public infrastructure – such as roads and schools – that development makes necessary. In *Regulation for Revenue*, Alan Altshuler and José Gómez-Ibáñez (1993) define these impact fees as "mandated expenditures by private land developers, required as a price for their obtaining regulatory permits, in support of infrastructure and other public services" (vii).

Parking requirements resemble impact fees because developers provide the required infrastructure – parking spaces – to obtain building permits. In-lieu parking fees also resemble impact fees because developers pay the fees to obtain building permits, and cities then use the revenue to pay for public infrastructure – parking spaces–

that the development makes necessary. When cities require developers to pay the fees rather than provide the parking, the in-lieu fees are impact fees.

We can use the in-lieu fees to estimate the impact fees implicit in parking requirements. Impact fees are usually levied per square foot of building area, while in-lieu fees are levied per required parking space not provided. To compare in-lieu fees with impact fees, we must first convert the in-lieu fees into a cost per square foot of building area. We can do this because cities usually require parking spaces in proportion to building area (on the assumption that building area determines parking demand). The in-lieu parking fees per square foot of building area reveal the impact fees implicit in the parking requirements themselves.

| CITY | IN-LIEU PARKING FEE (\$/space) | LAND USE | PARKING REQUIREMENT (spaces per 1,000 square feet) | PARKING IMPACT FEE (\$/square foot) (5)=(2)X(4)/1,000 |
|------------------------------|--------------------------------------|----------|---|--|
| (1) | (2) | (3) | (4) | (5) |
| Palo Alto, Calif. | \$17,848 | Offices | 4.0 | \$71 |
| Beverly Hills, Calif. | \$20,180 | Offices | 2.9 | \$59 |
| Walnut Creek, Calif. | \$16,373 | Offices | 3.3 | \$55 |
| Kingston upon Thames, U.K. | \$20,800 | Offices | 2.3 | \$48 |
| Carmel, Calif. | \$27,520 | Offices | 1.7 | \$46 |
| Mountain View, Calif. | \$13,000 | Offices | 3.0 | \$39 |
| Sutton, UK | \$13,360 | Offices | 2.7 | \$36 |
| Harrow, UK | \$14,352 | Offices | 2.3 | \$33 |
| Hamburg, Germany | \$20,705 | Offices | 1.5 | \$32 |
| Lake Forest, Ill. | \$ 9,000 | Offices | 3.5 | \$32 |
| Mill Valley, Calif. | \$ 6,751 | Offices | 4.4 | \$30 |
| Palm Springs, Calif. | \$ 9,250 | Offices | 3.1 | \$28 |
| Reykjavik, Iceland | \$13,000 | Offices | 2.2 | \$28 |
| Claremont, Calif. | \$ 9,000 | Offices | 2.9 | \$26 |
| Concord, Calif. | \$ 8,500 | Offices | 2.9 | \$24 |
| Davis, Calif. | \$ 8,000 | Offices | 2.5 | \$20 |
| Orlando, Fla. | \$ 9,883 | Offices | 2.0 | \$20 |
| Kitchener, Ontario | \$14,599 | Offices | 1.3 | \$19 |
| Chapel Hill, N.C. | \$ 7,200 | Offices | 2.5 | \$18 |
| Kirkland, Wash. | \$ 6,000 | Offices | 2.9 | \$17 |
| Hermosa Beach, Calif. | \$ 6,000 | Offices | 2.6 | \$16 |
| Berkeley, Calif. | \$10,000 | Offices | 1.5 | \$15 |
| Burnaby, British Columbia | \$ 7,299 | Offices | 2.0 | \$15 |
| Vancouver, British Columbia | \$ 9,708 | Offices | 1.0 | \$10 |
| State College, Penn. | \$ 5,850 | Offices | 1.3 | \$ 8 |
| Ottawa, Ontario | \$10,043 | Offices | 0.7 | \$ 7 |
| Calgary, Alberta | \$ 9,781 | Offices | 0.7 | \$ 7 |
| Port Elizabeth, South Africa | \$ 1,846 | Offices | 2.3 | \$ 4 |
| Waltham Forest, U.K. | \$ 2,000 | Offices | 0.9 | \$ 2 |
| MEAN | \$11,305 | | 2.3 | \$26 |
| MEDIAN | \$ 9,781 | | 2.3 | \$24 |

Minimum Parking Requirements Considered as Impact Fees (for office buildings)

- In-lieu fees and parking requirements are for the city center in 1996. In-lieu fees and impact fees are expressed in US\$.
- To obtain the parking requirement in spaces per 100 square meters, multiply the required spaces in Column 4 by 1.076.

- To obtain the parking impact fee in dollars per square meter, multiply the impact fee in Column 5 by 10.76.

| CITY | IN-LIEU PARKING FEE | LAND USE | PARKING REQUIREMENT | PARKING IMPACT FEE |
|------------------------------|------------------------|-----------------|-----------------------------------|-----------------------|
| | (\$/space) | | (spaces per 1,000 square feet) | (\$/square foot) |
| (1) | (2) | (3) | (4) | (5)=(2)x(4)/1,000 |
| Beverly Hills, Calif. | \$20,180 | Restaurant | 22.2 | \$448 |
| Palm Springs, Calif. | \$ 9,250 | Cabaret | 28.6 | \$264 |
| Mountain View, Calif. | \$13,000 | Assembly Hall | 18.0 | \$234 |
| Kingston upon Thames, U.K. | \$20,800 | Food Superstore | 7.7 | \$160 |
| Davis, Calif. | \$ 8,000 | Funeral Home | 20.0 | \$160 |
| Sutton, U.K. | \$13,360 | Food Superstore | 8.5 | \$114 |
| Kitchener, Ontario | \$14,599 | Manufacturing | 7.7 | \$112 |
| Calgary, Alberta | \$ 9,781 | Billiard Parlor | 10.3 | \$101 |
| Ottawa, Ontario | \$10,043 | Church | 9.8 | \$ 98 |
| Claremont, Calif. | \$ 9,000 | Theater | 10.0 | \$ 90 |
| Hermosa Beach, Calif. | \$ 6,000 | Theater | 13.0 | \$ 78 |
| Burnaby, British Columbia | \$ 7,299 | ArtGallery | 10.3 | \$ 75 |
| Palo Alto, Calif. | \$17,848 | All Uses | 4.0 | \$ 71 |
| Mill Valley, Calif. | \$ 6,751 | Assembly Hall | 10.0 | \$ 68 |
| Harrow, U.K. | \$14,352 | Garden Center | 4.6 | \$ 67 |
| Hamburg, Germany | \$20,705 | Garden Center | 3.1 | \$ 64 |
| Walnut Creek, Calif. | \$16,373 | Nonresidential | 3.3 | \$ 55 |
| Kirkland, Wash. | \$ 6,000 | Restaurant | 8.0 | \$ 48 |
| Carmel, Calif. | \$27,520 | Commercial | 1.7 | \$ 47 |
| Concord, Calif. | \$ 8,500 | Restaurant | 4.0 | \$ 34 |
| Port Elizabeth, South Africa | \$ 1,846 | Recreation Hall | 18.6 | \$ 34 |
| Reykjavik, Iceland | \$13,000 | Nonresidential | 2.2 | \$ 28 |
| Lake Forest, Ill. | \$ 9,000 | Restaurant | 2.5 | \$ 23 |
| Orlando, Fla. | \$ 9,883 | Nonresidential | 2.0 | \$ 20 |
| Chapel Hill, N.C. | \$ 7,200 | Offices | 2.5 | \$ 18 |
| Berkeley, Calif. | \$10,000 | Nonresidential | 1.5 | \$ 15 |
| Vancouver, British Columbia | \$ 9,708 | Nonresidential | 1.0 | \$ 10 |
| Waltham Forest, U.K. | \$ 2,000 | Shops | 4.5 | \$ 9 |
| State College, Penn. | \$ 5,850 | All Uses | 1.3 | \$ 8 |
| MEAN | \$11,305 | | 8.3 | \$ 88 |
| MEDIAN | \$ 9,781 | | 7.7 | \$ 67 |

- In-lieu fees and parking requirements are for the city center in 1996. In-lieu fees and impact fees are expressed in US\$.
- To obtain the parking requirement in spaces per 100 square meters, multiply the required spaces in Column 4 by 1.076.
- To obtain the parking impact fee in dollars per square meter, multiply the numbers in Column 5 by 10.76.
- The land uses are those with the highest minimum parking requirements in each city.

**Minimum Parking Requirements Considered as Impact Fees
(For land uses with the highest parking requirements)**

The average parking impact fee for the U.S. cities in the Table above is \$31 per square foot, which dwarfs the impact fees levied for all other public purposes. A 1991 survey of 100 U.S. cities found that the impact fees for all purposes (roads, schools, parks, water, sewers, flood control, and the like) averaged \$6.97 per square foot of office buildings (see Altshuler and José Gómez-Ibáñez 1993, 40). The average parking impact fee for office

buildings is thus 4.4 times the average impact fee for all other public purposes combined. If impact fees reveal a city's priorities for public services, many cities' highest priority is free parking.

Sources:

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