

# White Paper # 5: Strategic Use of Fee-in-Lieu as a Source of Funding for Public Parking

## 1.0 Introduction

Parking standards in city codes often require that each land use provide parking on-site. This can limit density, increase development costs, challenge small and/or historic sites, and discourage shared use parking. A common solution to this problem allows developers to pay fees into a municipal parking fund *in lieu* of providing the required parking on-site. The fees are then used to provide centralized public parking in place of on-site parking for individual properties.

Fees-in-lieu allows a new or intensified development to buy out of a requirement to provide a minimum number of parking stalls. Fees paid by the developer are used by the City to fund development of new public parking facilities.

By consolidating parking in centralized public lots or structures and offering developers an alternative to providing parking on-site, a fee-in-lieu system can encourage infill development and redevelopment in existing downtowns, support land use intensification, and reduce the overall amount of built parking through more efficient use of the supply.

### 1.1 Hood River's Fee-in-Lieu (Current Code)

In 2006, the City of Hood River established a fee-in-lieu option in its code (currently outlined in Chapter 17.24<sup>1</sup>). The code provision allows developers in the Central Business District to pay a fee to the City in lieu of providing required off-street parking. The amount of the fee is set by resolution of the City Council and reviewed on at least an annual basis. Upon payment of the fee-in-lieu, the City is to deposit monies in a dedicated fund for the development and provision of public parking facilities. At present, the fee is calculated based on 1.2 parking stalls or spaces per 1,000 square feet of development multiplied by the amount set annually by Council. For residential development, the fee is spread at different rates between the first two-thirds of stalls provided and the remaining one-third (see **Section 3.2**, below).

The fact that Hood River offers fee-in-lieu is progressive; however, current parking requirements, program format, and fee may not consider integration with other funding sources necessary to develop new parking and support the intensification of uses. In addition, the current code does not provide clarity on the strategic intent for use of the fees collected, establish expectations of an *access entitlement* that may or may not be granted to fee payers, nor outline a consistent and market-based methodology for calculating fees.

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<sup>1</sup> This provision has been modified over the years but is still in place within the code.

## 1.2 Purpose

The City is interested in evaluating the existing fee-in-lieu option, particularly in its use as a reasonable funding source for new public parking facilities and as a stimulus to new development. The discussion herein will provide a framework for such an evaluation and for potential revisions to Hood River's existing fee-in-lieu program. The discussion will also be informed by a reevaluation of the City's current minimum parking requirements, which will need to be strategically integrated into whatever fee structure is developed.

It is important to note that implementing a fee-in-lieu program commits the City to playing a key role in developing and managing off-street parking, a role that Hood River already fills. This paper assumes the City intends to continue playing a prominent role in owning, managing, and ultimately growing its off-street parking supply. Examining and refining the current fee-in-lieu program supports the City's efforts to create a more strategically coordinated parking management plan for the downtown.<sup>2</sup> This will entail active planning for future parking and identifying additional sources of funding<sup>3</sup> to supplement and leverage funds derived from fee-in-lieu.

This paper assumes the City intends to continue to play a prominent role in owning, managing, and ultimately growing its off-street parking supply. Therefore, examining and refining the current fee-in-lieu program supports the City's efforts to create a more strategically coordinated parking management plan for the downtown.

## 2.0 Framework Approach – Parking Fee-in-Lieu

### 2.1. Background

Hood River has a unique and vibrant downtown and growth in parking demand is becoming an issue. New development and visitors attracted to Hood River bring new demand for parking which may create additional constraints in the existing parking supply. Surface parking lots will become attractive development sites, resulting in potential loss of parking as new development and redevelopment projects progress. The cost of providing parking, especially structured parking, can adversely impact the financial feasibility of new development. As down town redevelops, the City must find the right balance between its role and the role of the private sector in financing and building parking to support new growth.

Most fee-in-lieu programs around the country generally cover the cost of new parking development by *coupling fee-in-lieu with other strategically identified revenue sources* to create a package of funds that can fully support new parking development.

### 2.2. Challenges

Key challenges for Hood River in this process are:

<sup>2</sup> Many cities do not have fee-in-lieu or similar programs related to public off-street parking, choosing to put the responsibility for off-street parking growth completely on the private sector.

<sup>3</sup> Including fees generated from parking, bonds, infrastructure financing districts, parking benefits districts, etc.

- Continuing to attract new development to the downtown.
- Supporting developments constrained by the cost of parking development while reducing reliance on surface parking areas.
- Addressing site constraints, including historic preservation that may limit the ability to incorporate parking.
- Removing barriers to new development or redevelopment of existing buildings.
- Maintaining and encouraging an urban form for new development that is consistent with the downtown vision and Hood River's unique identity and character.
- Appropriately recognizing previous investments in parking both public and private.

Fee-in-lieu should be considered one *option* for providing parking, and private development should not be discouraged from providing required parking without City assistance. A strong fee-in-lieu program can be a powerful tool for achieving efficient development through the provision of common, centralized, and/or district parking facilities. Giving developers the option to reduce or eliminate their on-site parking requirement can result in better-designed and more productive developments and streetscapes.

A fee-in-lieu rate is generally set at a level less than the cost for a developer to provide on-site parking. Overall, a fee-in-lieu option encourages developers to consider downsizing their parking supply, and to explore shared-use opportunities in reasonable proximity to their development site. When successfully structured, fee-in-lieu programs can reduce development costs, making projects more feasible and providing a revenue source that the City can invest in a consolidated parking development plan. By offering a reduced-cost option for providing parking, many cities that offer fee-in-lieu must also identify other funding sources to create a package of funds that can fully support new parking development.

### 3.0 Program Elements

As previously stated, the waiving of minimum parking requirements for private development projects through a fee-in-lieu option assumes an intent or commitment by the City to provide public parking in Downtown. Clear expectations regarding the City's use of funds raised by fee-in-lieu payments are therefore necessary.

For Hood River, there are several considerations in designing and refining the existing fee-in-lieu option. The following sections describe several program elements that should be considered.

#### 3.1. Current Code Minimums

Currently, residential code requires one and one-half parking spaces for each unit in a multi-family development,<sup>4</sup> whereas minimum parking stalls required for commercial use are based upon employee totals (see Chapter 17.03.040).<sup>5</sup>

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<sup>4</sup> Single dwelling, duplexes and triplexes require 2 stalls per unit.

<sup>5</sup> Hood River's code requirements for commercial uses are very unique. From a development perspective, using an estimated employee total on a project-by-project approach is difficult without definitional or policy clarity on who

### 3.2. Use of Funds

Per 17.024.010 B, the City directs funds collected from fee-in-lieu payments to be deposited “in a dedicated fund for the development and provision of public parking facilities.”

Moving forward, the City should clarify that the fund is flexible enough to allow the City to:

- Develop new parking structures.
- Purchase or lease underutilized private parking in the Downtown for conversion to public access.
- Partner with the private sector to add public parking in new developments.
- Invest in other transportation infrastructure in the downtown (e.g., transit, bike, pedestrian)

### 3.3. Level of Expectation

Fees-in-lieu are generally calibrated to the level of commitment the City makes to the payer for access to an off-site parking supply: an “entitlement” to parking access.

The lower the payer’s expectation of an entitlement to parking as a result of the fee, the lower the fee assessed. Conversely, the higher the expectation of entitlement to parking, the higher the fee. For Fiscal Year 2019-20, the following fees-in-lieu apply:<sup>6</sup>

- Residential: \$22,088 per space (first 2/3) + \$2,142 per space (last 1/3)
- Commercial Uses: \$1,226 per space
- Industrial Uses: \$1,226 per space

Currently, Section 17.24.010 provides a process for setting fees but does not specifically state the City’s intent for assessing the fee. The disparity between the residential and commercial/industrial fees could lead some to assume that any entitlement to parking access is not implicit in the commercial/industrial standard given the low per space fee. The higher residential fee, however, may imply some greater entitlement to parking from the City.

The City will need to create clear expectations regarding its obligations for funds raised by fee-in-lieu payments. These obligations need to be developed and adopted concurrent with whatever fee is implemented. The lower the expectation for the payee that parking is being provided as a result of the fee, the lower the fee assessed. Conversely, the higher the expectation that the payee is entitled to parking, the higher the fee assessed.

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qualifies as an ‘employee’ or is this total employee that will use a building over a 24 hour period or are employee shifts accounted for. Further, a developer may not know employee totals when programming a buildings’ uses as tenants needs may differ and may change between construction and actual occupancy.

<sup>6</sup> (Consolidated fee schedules for the last 3 years are on the “Finance” section of the City’s website: <http://ci.hood-river.or.us/FinancialReports>)

Moving forward, the City will need to determine its comfort level in terms of expectation which should then dictate the assessed fee. Creation of clear expectations regarding its obligations for funds raised by fee-in-lieu payments will result in a more efficient fee-in-lieu parking program and better integrate into strategic planning efforts related to the parking supply. These obligations need to be developed and adopted concurrent with whatever fee is implemented.

### 3.4. Key Questions the City Should Answer

Several key questions about fee-in-lieu are outlined below. The consultant has provided single answers to the questions, *but only for context as to how they might be addressed*. It is recommended that these questions form the basis of future stakeholder discussions regarding the role of fee-in-lieu within the downtown parking management plan. Consensus answers derived from this process would then inform a revised fee-in-lieu program and set of specific expectations:

- a. **What type of access entitlement is a development assured in return for payment of a fee-in-lieu fee based on an established minimum parking requirement?** Entitlements do not imply ownership, but long-term rights to parking. These access rights can be attached to the property title and carried with it over time, including transfer in a sale. Because the fee-in-lieu is assessed at a rate less than the cost of construction, those entitled to parking agree to pay the current posted rates in facilities built with fees-in-lieu in the form of monthly passes, daily, and hourly rates. These rates can be transferred to tenants, employees, and customers.
- b. **Is a development entitled to full access to a specific parking facility, or can access be spread across multiple locations?** The payment of the fee-in-lieu to the City would allow a development to take advantage of all available parking under the City's control but would not guarantee parking at any specific facility. This can be an important element when cities begin to assemble fee-in-lieu payments in advance of building a new parking facility; using surplus in existing supplies to accommodate fee-in-lieu entitlements until new supply is put on line. Further it allows for land use flexibility and infill development as the City's needs for growth ebb and flow based upon market conditions.
- c. **Are there proximity entitlements that assure access within a specified distance of a development site?** The City would ensure that development of new parking funded with fee-in-lieu revenues is located within the Downtown Parking Management area. The area boundaries and, in turn, the reasonable proximity to the development would be determined by the City. The current code references "adjacent or nearby off-site off-street locations," though this could be better clarified in 17.03.040, G.1.d.
- d. **Can access entitlements be changed over time? For instance, could parking be moved from one location to another over time as development patterns evolve?** Yes. The City would retain the right to redevelop parking facilities and to provide entitlement parking in different locations within the downtown over time. This type of flexibility is important, as was referenced in (b) above. The City may need to create temporary or interim sites as new structures are built.

Surpluses within the parking system will need to be actively monitored so that entitlements may be allocated accordingly.

- e. **What if the City is collecting fee-in-lieu payments, but cannot concurrently build a parking facility?** Fee-in-lieu could be used to build interim surface lots to meet entitlements until a new supply (e.g., a garage) is both needed and feasible. If the City cannot meet near-term fee-in-lieu demand requirements, the program can be suspended to ensure that existing/paid entitlements can be accommodated.
- f. **Can fee-in-lieu payments be used by the City to fund other forms of access (e.g., transit or bike/walk options)?** In some cities, that is the case. However, given the costs necessary to develop structured parking, it is not anticipated that fee-in-lieu payments, as currently configured, would allow the City of Hood River to fund other forms of access.
- g. **Are there any other charges associated with fee-in-lieu to those with access entitlements?** There could be. Given that most fee-in-lieu entitlements are assessed at a rate less than the cost of actually developing off-street parking supply, agreements formalizing the entitlements would allow the City to charge the then-posted monthly, daily, and hourly rates at public facilities in the downtown. As demand for parking increases, monthly and daily rates would also increase. Such charges are necessary to cover, at minimum, costs of maintenance, operation, and administration of the public facilities, as well as debt service.
- h. **What happens if a development does not fully utilize its access entitlements?** Given that access is an entitlement and not a form of ownership, the City (or owner of the parking facility) has the right to sell underutilized parking to the general public on a month-to-month basis. This ensures that the City can maximize parking on weekdays, weekends, and evenings. Access entitlements give priority to those with entitlements, but do not prevent the City from capitalizing on unused space. Management of fee-in-lieu entitlements will require accurate and ongoing data on occupancy and utilization of parking.

## 4.0 Rate and Format

### 4.1. Case Study Review

The appropriate rate for a fee-in-lieu varies by city and is influenced by the type of parking provided (surface versus structure), costs of land and development in specific areas, and expectations associated with the level of entitlement granted with payment of the fee. The following case studies are provided for reference in developing recommendations for Hood River.



- **Bend, OR:** \$26,000/per stall.<sup>7</sup> Established in 1992, the fee was initially much lower (\$510/per stall). However, City Council annually sets the fee and policies regarding fee-in-lieu. The fee goes into a fund designated “only for the planning, acquisition, development, and maintenance of off-street parking facilities located in and/or adjacent to the CBD.”
- **Corvallis, OR:** \$10,560/per stall. Funds to be used by the City to construct publicly available parking spaces. “It should be recognized that Fee-in-Lieu Parking Program fees may construct spaces that do not directly serve the parcels from which the fee was collected.”<sup>8</sup>
- **Tualatin, OR:** \$3,500 per stall required.<sup>9</sup>

A 2008 study of 27 cities by Carl Walker Consulting established a range of fees between \$2,000 and \$27,520, with an average of \$11,500 per stall. The formula for determining rates in the sampled cities was generally based on a wide variety of factors, both parking-related and non-parking-related.

As shown, there is no clear standard, and Hood River’s fee-in-lieu program should be tailored to local conditions.

## 4.2. Recommendations

It is recommended that the City of Hood River consider restructuring its current fee-in-lieu program according to the following guidelines:

1. The current unit cost of garage development in the Pacific Northwest is approximately \$32,000 to \$45,000 per stall, including land, design, and construction. Variation in the range is most typically influenced by land cost. This range offers a good starting point for a fee-in-lieu rate discussion, which would be refined *with further research on the actual cost of developing parking in Hood River* versus the average used here for discussion purposes.
2. Once a unit cost is established for parking in Hood River, base the cost of fee-in-lieu at a rate less than this cost —e.g., 60%.<sup>10</sup> As described earlier, the lower cost is intended to encourage developers to downsize their on-site parking and rely on shared parking within a consolidated public parking supply. The fee-in-lieu rate should provide a reasonable funding base from which the City can then develop a full funding package that would likely leverage other funding sources (i.e., user fees, bonding, local improvement district, urban renewal, etc.).

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<sup>7</sup> Bend’s fee-in-lieu program (Chapter 3.3) only applies to the Central Business District.

<sup>8</sup> Corvallis City Council Policy Manual, Section 7.15.025 December 15, 2014)

<sup>9</sup> Tualatin’s original fee-in-lieu was calibrated at approximately 50% of the cost of developing *surface parking* and Bend’s fee was calibrated at approximately 67% of the cost of *structured parking*.

<sup>10</sup> This figure was chosen only for purposes of discussion. It is hoped that this report is used as a basis for structuring work sessions and/or in-depth discussions with stakeholders to develop a rate format that is both appropriate and feasible for Hood River.

3. Establish a periodic review of the fee-in-lieu program, allowing the City to evaluate (a) the number of developments exercising the options, (b) factors contributing to developers' use or non-use of the program, and (c) adjustments to the rate as necessary based on (a) and (b). The periodic review would also evaluate the capacity of the City to absorb new fee-in-lieu entitlements.
4. Adjust the fee-in-lieu payment annually based on the Engineers News Record Index (ENRI). The ENRI is a respected standard within the industry and would provide an objective index for adjusting City fees and charges associated with a fee-in-lieu program.<sup>11</sup>
5. Recognize that other funding sources will be necessary for successful development of public parking facilities, particularly structured facilities. These could include public facility districts, business improvement districts, local improvement districts, general fund allocations, and state and local grants.

Assuming the City intends to create a more efficient downtown capable of accommodating the intensification of land uses, continuing to offer a fee-in-lieu option is both reasonable and strategic. This is underscored by the financial challenges associated with developing structured parking facilities. It is recommended that the City reevaluate and refine its current fee-in-lieu program so that it can be successfully applied as new development and intensified uses emerge. That process should take place within the context of the elements outlined above.

## 5.0 Summary

Hood River already provides for a fee-in-lieu option for new development and/or intensification of land uses. The program needs to be reevaluated to ensure that it offers developers a reasonable option to consider and provides a sound financial basis for the City to build new parking facilities. The fee must be calculated using a credible market-based methodology that can be regularly updated as economics and parking development costs evolve. The rate must be calibrated to reasonable expectations for access that the payer can rely on. Finally, the fee must be strategically coordinated with other funding sources to ensure that the City has a financially feasible system for offering the fee-in-lieu option as a development incentive and can meet any demand for parking by those who pay the fee.

This memo provides context and document key elements of a fee-in-lieu program as an option for managing and growing downtown Hood River's parking supply. This information is intended to facilitate additional discussion and questions from staff and stakeholders on the continuing role of fee-in-lieu and how it is integrated into the downtown's parking and economic development planning. Rate formulation estimates are only a means to focus discussion and create a platform for examining, refining, and clarifying Hood River's current program. The consultant team hopes the information provided helps to increase understanding of the complexities of fee-in-lieu and stimulate discussion on the appropriate role for such a program in the larger context of a strategic downtown parking management plan.

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<sup>11</sup> There are other construction indexes as well, including the Rider Levett Bucknall quarterly construction cost index and the Turner Construction index.