City and County of San Francisco

Office of the Controller – Office of Economic Analysis

Parking Tax Increase and Tax on Valet Services: Economic Impact Report

Item #100759

Office of Economic Analysis

July 9, 2010

Overview

- The proposed legislation raises tax revenue from parking in two ways:
  - Raises the City's parking tax from 25% to 35% (including surcharge).
  - Imposes a new gross receipts tax on valet services at 35%.
- The Parking Tax is owed by anyone who operates a parking station in the city, whether it is an indoor garage or outdoor space.
- Valet Services are not currently covered by the Parking Tax.

Economic Impact Factors

- Increasing the Parking Tax and imposing a tax on valet services both increase the cost of parking in San Francisco.
- Some drivers will choose not to drive because of the higher expense of parking, and will take other transportation modes or reduce trips. This has economic and environmental consequences.
- Drivers who do not switch will pay more for parking and have less income to spend on other consumer items. This will reduce private sector employment, particularly in retail trade.
- The City will have increased revenue to sustain City employment and other City spending.

General Impacts of Higher Parking Prices

- On the Parking Tax base:
  - Research* has suggested that the elasticity of parking revenues with respect to parking prices is between -0.9 and -1.2, meaning a 1% increase in parking price leads to a 0.9% - 1.2% decrease in parking garage revenues (and hence the tax base of the parking tax).
  - The elasticity is relatively high because parkers can respond to the tax in several ways: switching modes, reducing trips, and shortening trips—all of which reduce parking revenue.
- On Driving Behavior and Other Transportation Modes:
  - Similarly, a 1% increase in parking price leads to a 0.16% decrease in car trips, a 0.03% increase in carpooling, walking, and biking, and a 0.02% increase in transit use.

* Wilson & Company, “Parking Cost Elasticity Study”, Solana Beach Joint Development Project, 2006.

Impact of This Legislation on Transportation in San Francisco

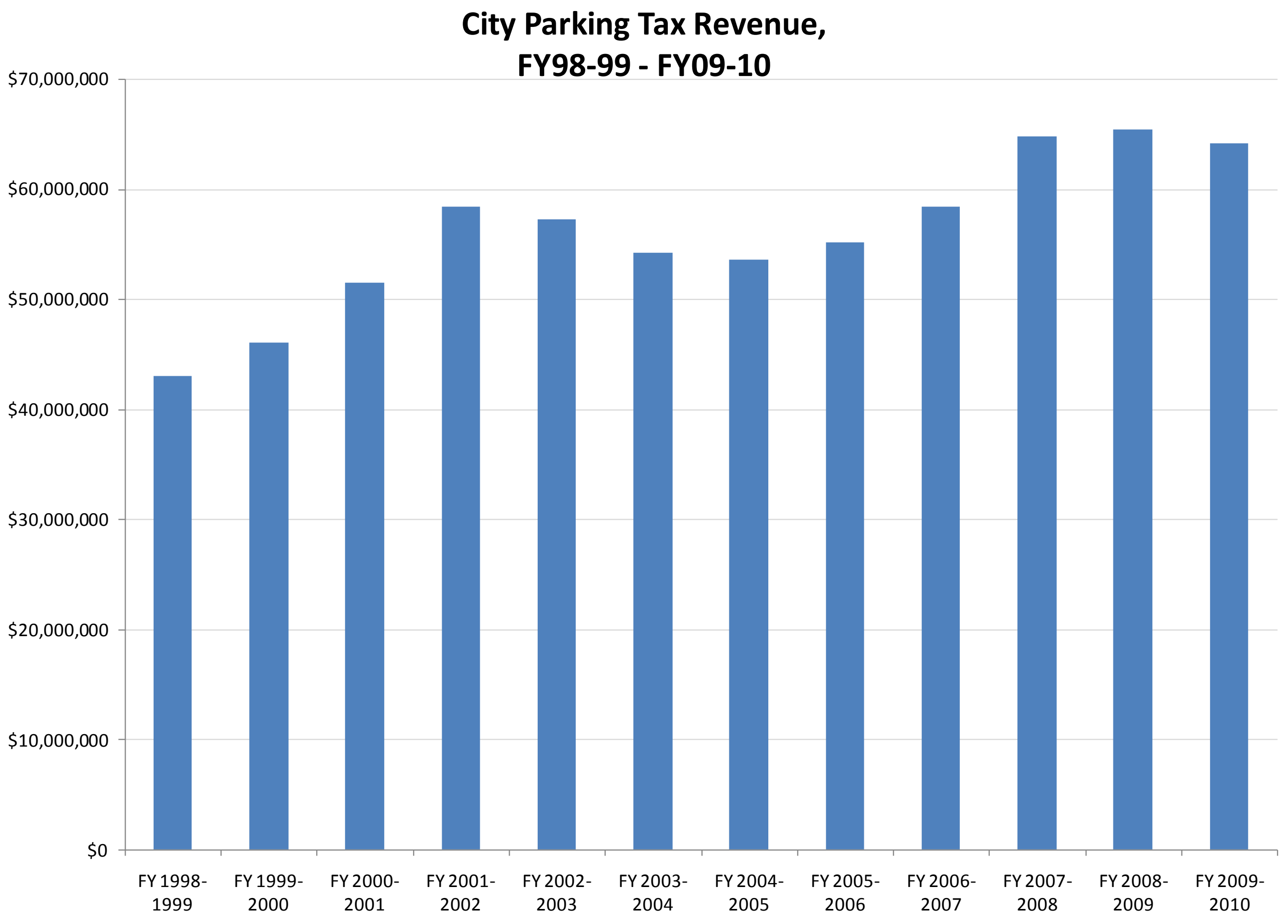
- An increase in the Parking Tax from 25% to 35% represents an 8% increase in the overall cost of parking.
- As shown below, this increase would lead to an 7.2% - 9.6% reduction in parking revenue, a 1.3% reduction in driving trips (300,000 per year), and a 0.2% increase in transit trips (270,000 per year).

Cost of Parking	Parking Garage Revenue (mid-range)	Driving Trips	Transit Use
8%	-7.2% - -9.6%	-1.3%	0.2%
	$18.4M - $24.6M	-304,849	268,800

Impacts of Changing Transportation Choices

- In general, auto use is the fastest mode of urban transportation, and also the one with the greatest environmental impact.
- Discouraging auto trips imposes a higher time cost on residents and workers, but also reduces the environmental impact of travel.
- The number of annual trips affected by this legislation is very small in the context of all transportation in the City. An upper-end estimate of the time cost could be $3 million per year.

Fiscal Impact of the Parking Tax Increase

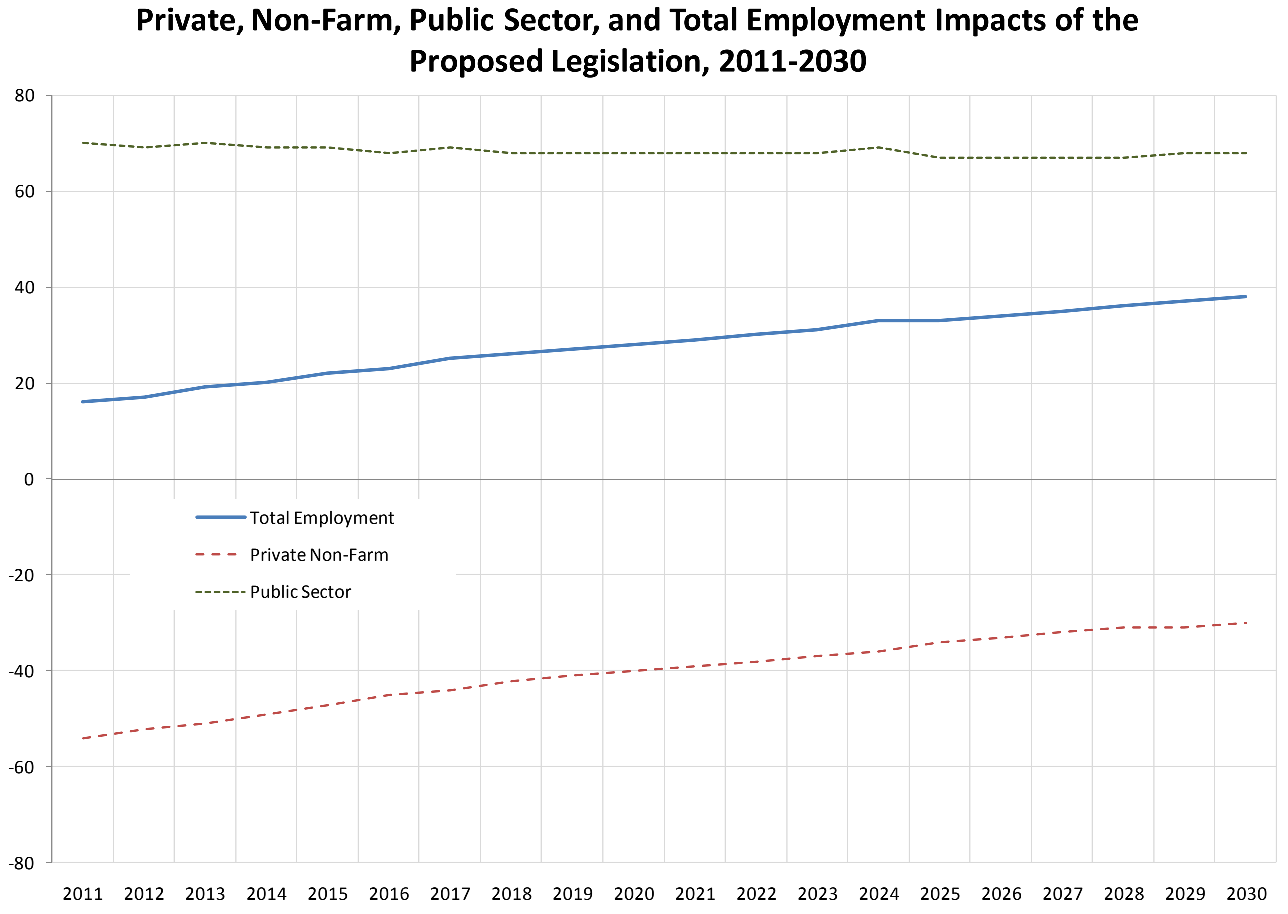


The Parking Tax has grown at 4% per year on average over the last decade.

Based on budgeted FY2010-11 revenues, an increase in the tax from 25% to 35% would generate $17-$19 million in new revenue. This includes the 7.2 – 9.6% reduction in total parking revenue discussed on page 6.

The fiscal impact of the valet services tax is unknown, but is likely very much less.

Economic Impact of Reduced Consumer and Higher Government Spending



The primary economic impact of the legislation is the reduced consumer spending and higher government spending it represents. Reduced consumer spending leads to private sector job loss over the next 20 years; higher government spending leads to higher public employment. Total employment is positive because the multiplier on retail trade spending is lower than for government spending.

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