



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: January 12, 2023

TO: Mayor and Councilmembers

FROM: Downtown Team Division, Public Works Department

SUBJECT: Proposed State Street Outdoor Business Facility Charge

RECOMMENDATION:

That Council consider and provide final direction to City staff to establish a schedule for Outdoor Business Facility Charges for use of the public right-of-way on the State Street Promenade, including the 400 and 1300 blocks of State Street, and return to Council for adoption of a resolution setting the Outdoor Business Facility Charges as recommended.

EXECUTIVE SUMMARY:

On September 20, 2022, Council took a number of actions regarding interim operations on State Street. One of the actions was directing City of Santa Barbara (City) staff to present payment options for businesses using the public right-of-way on the State Street Promenade, including the 400 and 1300 blocks of State Street, to the Finance Committee for consideration before returning to Council for approval of a payment structure for outdoor business facilities on State Street.

On December 6, 2022, the Finance Committee heard a presentation from City staff regarding proposed payment options for businesses using the public right-of-way on the State Street Promenade. After considerable discussion, the Finance Committee could not come to an agreement on a recommended payment structure and directed City staff to forward the item to Council for discussion and approval.

This report provides several proposed payment structures for Council's consideration. All proposals fulfill the State Street Interim Operations Ad Hoc Subcommittee's (Subcommittee) request that revenues from any outdoor business facility charges cover the costs associated with ongoing maintenance and operation of the State Street Promenade.

A final Council decision on a payment structure for outdoor business facilities on the State Street Promenade is requested.

DISCUSSION:

Over the course of the past year, the Subcommittee met and engaged with community stakeholders on a wide variety of State Street interim operation topics. The Subcommittee and City staff heard from businesses and the community that the City should charge a rate for commercial activities operating in the public right-of-way. To date, food and beverage businesses are operating approximately 50 outdoor business facilities. The Subcommittee advised City staff that the payment structure should be at a level sufficient to generate enough revenue to pay for costs associated with ongoing maintenance and operation of the State Street Promenade. This includes the 400 and 1300 blocks of State Street and the cost associated with employing a code compliance officer (or similar). The officer would provide regular enforcement of Americans with Disabilities Act (ADA) requirements and, if needed, design requirements throughout the same area and citywide parklets.

Promenade-related expenditures in Fiscal Year 2023 are estimated to be approximately \$515,000. This includes the cost of daily, weekly, and monthly cleaning, as well as the cost of deep cleaning, staffing, contracting, and equipment. These costs are solely due to State Street’s closure and the introduction of outdoor business facilities in the right-of-way. The costs break down as follows:

State Street Promenade Service FY 2023	Cost
Janitorial – Daily in-street litter collection	\$95,268
Pressure Washing – Weekly pressure washing of sidewalks and quarterly pressure washing in the street	\$245,316
Hourly Maintenance Staff – Approximately 8 hourly maintenance workers to service promenade	\$160,000
Supplies & Services – Cleaning supplies and miscellaneous services	\$14,500
TOTAL	\$515,084

The costs detailed above are expected to increase in Fiscal Year 2024 due to the rising cost of supplies and contract services. Additionally, City Council, the Subcommittee, and community stakeholders have expressed an interest in adding a 0.5 Full Time Equivalent (FTE) for a code compliance officer for ADA, design, and other regulatory requirements promulgated in the State Street Promenade and citywide parklets. The estimated cost for such a position is \$83,000 per year. Therefore, City staff anticipate Fiscal Year 2024 costs to be approximately \$675,000. Currently, all Promenade-related maintenance costs are paid from the Downtown Parking Fund, which is funded through revenues collected from hourly and permit parking in the downtown parking lots. For Fiscal Year 2023, these costs were partially offset by \$300,000 in one-time American Rescue Plan Act (ARPA) funds.

Separate and distinct from the Promenade-related costs detailed above, Downtown Parking spends approximately \$410,000 annually to maintain the sidewalk and planter areas of the State Street Plaza. The costs break down as follows:

State Street Plaza Service FY 2023	Cost
Janitorial – Litter collection for sidewalks, and cleaning trash cans, fountains, and other fixtures	\$142,050
Pressure Washing – Weekly pressure washing of sidewalks.	\$77,052
Landscaping – Weekly maintenance of planters	\$80,257
Flag Rotation – Weekly rotation of decorative flags	\$56,980
Hourly Maintenance Staff – Approximately 8 hourly maintenance workers to service promenade	\$44,085
Supplies & Services – Cleaning supplies, and plumbing and electrical services	\$10,000
TOTAL	\$410,424

Payment Structure Considerations

In developing payment options, City staff considered the Subcommittee’s recommendations, market rates for commercial leases, Council’s comments at the September 20, 2022 meeting, and the potential for attrition once a charge is developed and enforced.

The Subcommittee recommended City staff pursue a payment structure that would recover the full cost of operating and maintaining the State Street Promenade. The Subcommittee also recommended that businesses expanding beyond the width of their business frontage (property line) should be subject to a higher rate for use of the additional public space, as well as receive formal approval from the adjacent tenant(s) and property owner(s). The higher rate was intended to offset stakeholder concerns about the equity of some businesses being allowed large expansions while others are constrained to their frontage.

In developing payment options, City staff continue to account for various attrition rates, understanding that several of the approximately 50 businesses with outdoor business facilities will likely opt out of the program or reduce the size of their outdoor business facility if required to pay fees. Currently, outdoor business facilities use approximately 14,000 square feet of the public right-of-way with approximately 9,500 square feet representing space immediately in front of businesses and 4,500 square feet reaching beyond business frontages. Assuming an overall attrition rate of 25 percent, the estimated total of remaining outdoor business facilities would be approximately 7,125 square feet of frontage space and 3,375 square feet of additional space.

Payment Option: Uniform Charge per Square Foot

The proposed payment option presented to Council on September 20, 2022 was a graduated rate based on square footage starting at \$5.00 per square foot per month. City staff recommended a graduated rate for the use of space as follows:

Proposed Rate:

- \$5.00 per square foot for all space within property frontage (from one to 100%)
 - Estimated Monthly Revenue: \$35,625 (\$5.00 per square foot x 7,125 square feet)
 - Estimated Annual Revenue: \$427,500

Proposed Rates for Additional Space Beyond Business Frontage:

- From 100 to 200% beyond the primary frontage: \$7.50 per square foot
- From 200% and beyond the primary frontage: \$10.00 per square foot
 - Estimated Monthly Revenue: \$25,313 (\$7.50 per square foot x 3,375 square feet)
 - Estimated Annual Revenue: \$303,750

Total estimated revenue from the Uniform Charge presented above is \$731,250.

The following charts provide additional rate options on a per-square-foot basis with a graduated rate as outlined above, from \$5.00 down to \$2.50, including the resulting monthly and annual revenue estimates:

At 75% of Current Total Square Footage (25% Rate of Attrition)				
Frontage Square Foot	Revenue	\$5 per Square Foot	\$4.50 per Square Foot	\$4 per Square Foot
7,125	Monthly Revenue	\$35,625	\$32,063	\$28,500
	Annual Revenue	\$427,500	\$384,750	\$342,000
Additional Space	Revenue	\$7.50 per Square Foot	\$6.75 per Square Foot	\$6.00 per Square Foot
3,375	Monthly Revenue	\$25,313	\$22,781	\$20,250
	Annual Revenue	\$303,750	\$273,375	\$243,000
Total Annual Revenue		\$731,250	\$658,125	\$585,000

At 75% of Current Total Square Footage (25% Rate of Attrition)				
Frontage Square Foot	Revenue	\$3.50 per Square Foot	\$3 per Square Foot	\$2.50 per Square Foot
7,125	Monthly Revenue	\$24,938	\$21,375	\$17,813
	Annual Revenue	\$299,250	\$256,500	\$213,750
Additional Space	Revenue	\$5.25 per Square Foot	\$4.50 per Square Foot	\$3.75 per Square Foot
3,375	Monthly Revenue	\$17,719	\$15,188	\$12,656
	Annual Revenue	\$212,625	\$182,250	\$151,875
Total Annual Revenue		\$511,875	\$438,750	\$365,625

The following charts provide the estimated revenues if the attrition rate is 50%, significantly higher than anticipated:

At 50% of Current Total Square Footage (50% Rate of Attrition)				
Frontage Square Foot	Revenue	\$5 per Square Foot	\$4.50 per Square Foot	\$4 per Square Foot
4,750	Monthly Revenue	\$23,750	\$21,375	\$19,000
	Annual Revenue	\$285,000	\$256,500	\$228,000
Additional Space	Revenue	\$7.50 per Square Foot	\$6.75 per Square Foot	\$6.00 per Square Foot
2,250	Monthly Revenue	\$16,875	\$15,188	\$13,500
	Annual Revenue	\$202,500	\$182,250	\$162,000
Total Annual Revenue		\$487,500	\$438,750	\$390,000

At 50% of Current Total Square Footage (50% rate of attrition)				
Frontage Square Foot	Revenue	\$3.50 per Square Foot	\$3 per Square Foot	\$2.50 per Square Foot
4,750	Monthly Revenue	\$16,625	\$14,250	\$11,875
	Annual Revenue	\$199,500	\$171,000	\$142,500
Additional Space	Revenue	\$5.25 per Square Foot	\$4.50 per Square Foot	\$3.75 per Square Foot
2,250	Monthly Revenue	\$11,813	\$10,125	\$8,438
	Annual Revenue	\$141,750	\$121,500	\$101,250
Total Annual Revenue		\$341,250	\$292,500	\$243,750

Payment Option: Variable Fees Based on Facility Design

At the September 20, 2022 meeting, Council members mentioned possible payments based on the block on which businesses are located (different blocks pay different rates), the type of business (restaurant, brewery, coffeehouse, etc.), and annual revenue generated based on business tax returns. Noting the many complications involved with pursuing some of the various payment options and the desire to provide a business environment that encourages businesses to develop outdoor business facilities, City staff

developed rate options based on outdoor facility design. This payment structure provides each business the opportunity to develop an outdoor business facility based on their business needs.

Below are payment options based on the facility design used by the business. The payments are graduated and provide lower price points for outdoor business facilities that are portable and at-grade. Portable facilities can be removed from the street with 24 hours' notice without the use of mechanized equipment and at-grade facilities do not have a platform. Portability allows for more regular cleaning by the business and access for the City's quarterly deep cleaning program. The more complex or permanent the structure, the higher the associated per-square-foot rate.

The proposed payments based on facility design are in the following tables for Council consideration:

Standard Rate (not portable, with platform and roof)*	
\$5.00 per square foot	up to 100%
\$7.50 per square foot	100-200%
\$10.00 per square foot	200%+

**Note: The proposed standard rate above would only impact existing facilities with a roof. On September 20, 2022, Council decided that all new facilities would not be allowed to include a roof.*

Rate for No Roof (not portable, with platform)**	
\$4.50 per square foot	up to 100%
\$6.75 per square foot	100-200%
\$9.00 per square foot	200%+

***Note: The proposed rate above would only impact existing facilities with a platform that is not portable. On September 20, 2022, Council decided that all new facilities must be portable.*

Rate for Portable (with platform, no roof)***	
\$4.00 per square foot	up to 100%
\$6.00 per square foot	100-200%
\$8.00 per square foot	200%+

****Note: The proposed rate above would only impact new facilities that choose to include a portable platform, or existing facilities that businesses modify for alignment with this rate. On September 20, 2022, Council decided that all new facilities must be portable.*

Rate for At-Grade (portable, no platform, no roof)****	
\$3.00 per square foot	up to 100%
\$4.50 per square foot	100-200%
\$6.00 per square foot	200%+

*****Note: The proposed rate above would only impact proposed at-grade new facilities, or existing facilities that businesses modify for alignment with this rate. On September 20, 2022, Council decided that all new facilities must be portable.*

Based on this variable payment structure, an assumed 25 percent rate of attrition, and a review of the various outdoor business facility structures currently on the State Street Promenade, the estimated annual revenue is approximately \$610,000. In addition to the estimated revenue generated from outdoor business facilities located on the 400 and 1300 blocks of State Street, City staff estimates total revenues to be approximately \$650,000, which is nearly enough to cover the approximate costs of \$675,000 associated with maintenance and operation of the State Street Promenade and the 400 and 1300 blocks of State Street in Fiscal Year 2024. If the rate of attrition is 50 percent, the estimated annual revenue is approximately \$405,000, resulting in an approximate \$270,000 annual shortfall in Fiscal Year 2024.

BUDGET/FINANCIAL INFORMATION:

The costs associated with operations and maintenance of the State Street Promenade are largely borne by the Downtown Parking Fund. The Subcommittee suggested that revenues from any future charges for business facilities be used to offset the costs associated with the operations and maintenance of the State Street Promenade. Expenditures are estimated to be approximately \$515,000 (does not include the cost of adding a 0.5 FTE code compliance officer for ADA, design, and other regulatory requirements) in Fiscal Year 2023, and approximately \$675,000 in Fiscal Year 2024 (includes the cost of a 0.5 FTE code compliance officer) with additional increases in future fiscal years. If Council decides on an outdoor business facility charge option that does not generate sufficient revenues to recover the annual expenditures associated with the interim State Street operations, the Downtown Parking Fund will likely be required to cover the shortfall.

CONCLUSION:

City staff is requesting final direction from Council to establish a schedule for Outdoor Business Facility Charges for use of the public right-of-way on the State Street Promenade, including the 400 and 1300 blocks of State Street. City staff will return to Council on the next available Consent Agenda for adoption of a resolution imposing the Outdoor Business Facility Charges as recommended.

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SUBMITTED BY: Clifford M. Maurer, P.E., Public Works Director

APPROVED BY: City Administrator's Office