

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

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TO: Honorable Members of the Budget & Finance Committee

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Public Private Partnership for Parking Assets

SUMMARY

Since November 2008, City staff from the Mayor's Office, CLA, CAO, and the City Attorney's Office have explored a potential 'public private partnership' involving certain City parking assets. The Council and the Mayor initially authorized the expenditure of up to \$500K in 2008-09 to initiate the due diligence assessment of this potential transaction. However, during Council's deliberations on the 2009-10 Proposed Budget, the Council expressed concerns regarding the total estimated cost of the due diligence analysis, and instructed staff to explore what deliverables could be generated with a lower initial investment.

Based on recently executed contracts with the City's independent financial advisor and a subcontract with an expert parking consultant, City staff have identified the components of a comprehensive survey and analysis of parking assets that can be completed with an initial allocation of \$1M. This analysis, which will provide a factual basis to estimate the current and projected value of City parking assets, will provide valuable information to the City irrespective of the decision on the potential P3 transaction. This data will also assist the City in evaluating the appropriateness of current parking rates for both meters and structures, analyze the cost of future capital investments in the City's lots and meter system, and assist the Department of Transportation in future planning. The CLA, CAO, and all members of the working group will use this data and analysis to work with the City's independent financial advisor to estimate the potential value of a P3 transaction with and without parking meters, and to determine the fiscal impact of various terms and conditions, such as price caps or regulation of hours.

RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor:

Instruct the City Clerk to place on the first City Council Agenda of Fiscal Year 2009-10, or as soon thereafter as possible, the following:

Authorize the Controller to transfer \$500,000 from the Unappropriated Balance, Fund No. 100/58, to the Reserve Fund and appropriate therefrom to the Capital Finance Administration Fund No. 100/53, General Administration Account No. 0170, for expenditures related to the

engagement of outside counsel, Sell-Side Advisory Agreements and the Financial Advisor Contract including subcontractors needed to evaluate the proposed public-private partnership transaction.

FISCAL IMPACT

Approval of these recommendations will have no additional fiscal impact, inasmuch as funding for the analysis of a potential P3 transaction has been set aside in the Unappropriated Balance of the 2009-10 Adopted Budget for this purpose.

BACKGROUND

In late October 2008, the Mayor's Office convened a working group of City staff to explore the development of a Public Private Partnership (P3) for a parking concession agreement involving ten City-owned parking garages and, subsequently, the option to add parking meters. This transaction was intended to be patterned on the two concessions recently executed by the City of Chicago involving their parking assets. The working group included representatives of the CAO and CLA, as well as the City Attorney's Office and expert consultants.

The City Council and the Mayor subsequently authorized the expenditure of up to \$500K from the Special Parking Revenue Fund (SPRF) in 2008-09 to begin the due diligence portion of this project, authorizing the hiring of outside experts to assist the working group to identify the potential costs and benefits of this transaction (C.F. 09-0728). The CAO report requesting the initial funding noted that the funding needs for Fiscal Year 2009-10 would be addressed in the 2009-10 Proposed Budget. Pursuant to the initial \$500K allocation and authorization, contracts have since been executed with Scott Balice Strategies, Loop Capital, and Ramirez & Co. Scott Balice has executed a subcontractor agreement with Desman Associates, a minority-owned parking consultant. Final contracts are pending with KPMG (audit consultant), DLA Piper (outside counsel), and JP Morgan Chase (financial advisor).

In April 2009, the Mayor released his 2009-10 Proposed Budget in which he anticipated \$80M in net revenue from this transaction, including this amount as a receipt to the Special Parking Revenue Fund (SPRF) for subsequent transfer to the General Fund. The Proposed Budget also recommended that staff be authorized to expend up to \$3M from the Capital Finance Administration Fund as a pass-through for SPRF monies for the legal and financial aspects of this transaction, based on the estimated cost to assess and implement the proposed transaction. When concerns were expressed by the Council regarding the \$3M cost of the study portion of this transaction, the Council's Budget & Finance Committee and, subsequently, the full City Council held hearings on this matter. Within that context, Councilmembers requested an explanation of the proposed transaction, and asked a series of questions regarding the potential value of this deal with and without meters, as well as the terms and conditions to be included. The CLA and CAO both noted that a portion of the proposed allocation in the 2009-10 Proposed Budget was intended to fund the due diligence analyses required for this project, so that appropriate data can be compiled and analyzed to give a basis for answering in detail all of the Council's questions regarding the value and feasibility of this P3 transaction. The Council subsequently removed from the Budget the anticipated revenues, and moved to the Unappropriated Balance all 2009-10 funding in the Capital Finance Administration Fund for the

due diligence analysis pending a report back from staff.

Also, to ensure maximum transparency in all aspects of this potential transaction, the Council adopted Motion (Hahn-Parks), Motion (Parks-Garcetti), and Motion (Greuel-Garcetti) [CF 09-0728-S2] requesting that the City Controller oversee the development of this potential transaction, auditing the financial analyses prepared by staff and outside consultants, and actively participating in all discussions. The Controller's Office has since become actively involved in the working group and has assigned Controller's audit staff to oversee KPMG's analysis of historical and current parking asset revenues and expenditures.

As the CAO previously noted in a May 5, 2009 Budget memo, the estimated total cost of the advisory and development costs of this transaction is approximately \$3M. During the 2009-10 Budget deliberations, the Council asked staff to detail what services and deliverables the City could receive with a smaller initial allocation. The CLA and CAO determined that an additional \$500K appropriation from the Special Parking Revenue Fund (SPRF), for a total of \$1M, will likely be adequate to fund the completion of a significant due diligence effort providing adequate data from which Policymakers' questions regarding the potential value of this transaction, and its feasibility, could be answered. Funding is available in the 2009-10 SPRF for this additional appropriation.

The CAO estimates that an initial allocation of approximately \$1M would pay for the following goods and services that would produce sufficient information to present to the Mayor and Council for a decision as to whether or not to proceed with the proposed transaction:

Financial Advisor (including accrued YTD expenses)	\$175,000
Parking Consultants	\$525,000
Transaction/Legal Counsel	\$125,000
Accountants	\$100,000
Miscellaneous	<u>\$75,000</u>
Subtotal	\$1,000,000

The costs detailed above are non-contingent costs, inasmuch as they are independent of the decision whether to proceed with this transaction. These costs are based on the estimated number of hours needed to complete certain key tasks, using the hourly rates established in the respective contracts.

Parking Consultant

As noted above, the largest expenditure in the initial assessment phase of this transaction will involve the parking consultant, Desman Associates, Inc. Desman has been tasked with the central component of this potential P3 transaction: An analysis of the City's parking meters, off-street parking facilities (including metered parking lots), and ten of the City's parking garages (Ventura [DOT lot # 690], Friar [Lot #601], Dickens [Lot #629], Larchmont [Lot #732], Cherokee [Lot #670], Broxton [Lot #680], Hollywood and Highland [Lot #745], Pershing Square [Parks & Recreation Dept], Arclight [CRA], and Robertson [Lot #703]).

Desman's scope of work calls for the development of a "summary of the physical and financial state of the existing facilities, their place in the competitive market and the long-term trends" using both historical data provided by the City and field data obtained by Desman. The scope of Desman's tasks is divided into three phases; existing conditions, financial model, and report/bidder outreach. Desman will conduct a sample survey from 13 randomly selected parking meter zones (one in each Council District with meters) with parking occupancy data collected on weekdays and weekends. From this detailed, real-time data, Desman will determine the elasticity of demand for different types of parking in areas throughout the City, which directly correlates to the current and potential rates that may be charged for each. This sensitivity analysis is the key component to valuing the City's parking assets.

The following is more detailed information on Desman's duties and responsibilities under this subcontract, which we highlight to show the depth of information to be compiled and analyzed, and its value to the City independent of this potential P3 transaction. Desman will document the City's existing parking assets, including the location of all meters (for a GPS database), parking occupancy, physical condition, and rate information. Desman will also develop a capital model on the current and projected financial performance of the City's meters over the next 50 years. Included in this portion of the analysis is a capital cost model showing the potential revenue impact of different types of technology as well as the impacts of rate changes. They will also review the City's current parking validation policies to determine the fiscal impact of those policies, offering possible modifications that would minimize revenue loss.

Desman will also review developments in each zone that could influence meter demand, and gather data on population, employment and other factors that also influence long term meter demand. Desman will also share with the City its expertise in parking technology, discussing current trends in parking revenue control and collections as well as a discussion of longer-term cutting edge technology and the impact on revenues, enforcement, operating expenses, and capital costs.

With regard to the actual parking occupancy survey, Desman will survey 13 blocks (one block in each council district) to identify utilization patterns, summarize rates, hours of occupancy and generalized land-use, and other real-time data for both pay and display meters and traditional coin operated meters. The survey will allow for a comparison of traditional technology and policies (e.g., 'piggybacking' where time remains on the meters when a vehicle leaves a parking space) to new policies and technology, such as Pay-and-Display parking meters. For this analysis, data collectors will record time of meter expiration, vehicle time of arrival, the time the parked vehicle departed or money was added to the meter, the minutes remaining on the meter when the vehicle departed, and whether the vehicle was ticketed if in violation.

Desman has already begun working with the City's Department of Transportation to compile existing data from meter collection zones, and parking garages. Included in this analysis is the base data to be compiled by KPMG on parking meter collections before and after the recent increase in meter rates, which will be used to supplement Desman's elasticity analysis. This data will also be used as the basis for three types of projections of potential revenue: Straight-line projections, Growth (general or specific), and Revenue Enhancement Opportunities. The latter is a valuable deliverable from this project, regardless of whether or not this transaction takes place, inasmuch as it can be used to directly answer the central question posed by policymakers: What

is the potential value of the City's parking assets.

Desman's compilation, analysis, and projections of the survey data will soon be completed, with preliminary findings expected at the end of June 2009 and a final analysis expected by the end of July 2009. Once this data is compiled and thoroughly analyzed, the City will have a much clearer understanding of the potential costs and benefits of a concession agreement for the City's parking assets (including and excluding parking meters) within the current economic environment. The City will also receive a valuable deliverable in this comprehensive survey of the current and potential value of parking meters based on Desman's elasticity model.

Upon execution of its contract, KPMG will begin its task of validating parking revenues and capital expenditures associated with the City's parking assets over the past five years. The City Controller is overseeing this component to ensure that this analysis complies with Generally Accepted Accounting Principles (GAAP). Included in this KPMG analysis is a review of the current contract for collection of on-street and off-street meter revenues, and each of the parking structures potentially part of this P3 transaction. KPMG will also obtain and analyze historical operating and capital cash flow expenditures and supporting data to validate operating expenses (e.g. cost of audit, coin counting, management, etc.), and capital expenditures (e.g. coin counting operations). This data will be used to project future operating and capital expenses assuming the status quo (e.g., City retains the parking system).

Following completion of Desman's and KPMG's data compilation and analyses, City staff and the City's independent financial advisor, Scott Balice Strategies, will work with consultants and the Sell-Side Advisors to value a potential P3 transaction, with and without the parking meters, under a variety of terms and conditions, such as price caps, hours of operation, minimum capital expenditures, revenue sharing opportunities, and other components. Staff will submit a summary report to the City Council presenting these scenarios, as well as the costs and benefits of continuing with the status quo, to determine if this transaction should proceed and, if so, under what conditions.

This potential P3 Parking Assets transaction is both complex and controversial, especially in light of the recent issues that have surfaced with regard to Chicago's expedited execution of a similar transaction. City staff have made every effort to provide the Council, Mayor, and the public with complete information as to the rationale for possibly proceeding with this transaction, as well as any potential pitfalls. However, to provide the Council with the most comprehensive understanding of the potential costs and benefits of this transaction, it is clear that a thorough and transparent due diligence analysis is critical. The CLA and CAO recommend that the City Council authorize the appropriation of adequate resources to complete that analysis, and present the comprehensive findings to the Council at a later date, at which point the Council will have a factual basis on which to determine the viability and feasibility of this transaction.