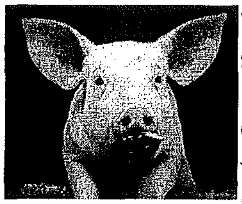
Even More Lipstick On the Pig

print

POLITICAL CONSEQUENCES

Jack Humphreville



What has the City been doing for the last six months regarding the ill-conceived sale of the City's Parking Facilities?

On February 5, the City sent out a Request for Qualifications ("RFQ") which indicated that the City anticipated closing a transaction in July 2010. However, rather than having a done deal, on Wednesday, August 18, the City Council is considering the 28 page Request for Proposals which anticipates a closing in February or March of NEXT year. The failure to complete the sale of the parking facilities by October 1 will have political consequences since it will result in additional furloughs and layoffs. The City was planning on using the net proceeds from the sale of these revenue producing capital assets to pay the wages and benefits of city employees.

Unfortunately, it is difficult to know what is going on since the City has not conducted any outreach to its residents, Neighborhood Councils, and businesses, those special interest groups that only pay the increased parking fees. Nor has it been willing to disclose any other information pursuant to California Public Records Act, saying disclosure may impair negotiations. Of course, we might say, "What Negotiations?"

On June 15, the City's "working group" met with the City Council, in closed session of course, to discuss the Concession Agreement (essentially a markup of the November 2006 Chicago Downtown Parking System Agreement) and the undisclosed "ten key issues affecting the price and terms of payment" of the public private partnership transaction. The agenda item also listed 19 Negotiating Parties who have presumably signed Confidentiality Agreements in mid March in response to the February RFQ.

One change that does not impact values is the removal of the Larchmont Parking Garage and its 167 parking spaces from the bidding package.

However, a number of other changes will have a major impact on value. For example, changes were made to the Recreation and Parks Pershing Square Parking Garage operations by requiring the accommodation of 1,200 vehicles during the evening hours (5 PM to 2:30 AM) to support the Broadway Theatre District. This represents over 75% of Pershing's available parking spaces!

The Concession Agreement also allows for a three year phase out of the current validation program for the Broxton Garage in Westwood.

But the real value killers, relative to the Chicago transaction, is that the City of Los Angeles has imposed maximum permissible rates as well as aggressive revenue sharing plans for advertising, naming rights if revenues exceed a predetermined base rate.

In addition, the term of transaction is 50 years as opposed to 99 years in Chicago, thereby limiting the investor's upside potential.

Of course, doing business with the City is further complicated by need to adhere to its many rules and regulations, such as those outlined in the 42 pages that were in addition to a process laden 28 page RFP.

The 108 page Concession Agreement (not including the 14 Schedules) and the 51 page Operations and Maintenance Manual that outline the transaction and governs the operations and finances of the parking facilities are significantly more complicated than the Chicago documents.

They reflect the City's desire to continue to control the parking facilities, regardless of the financial consequences, especially when it is political expedient. This will result in differing interpretations of the documents that will result constant disagreements, if not arbitration and litigation, between the investor, the operator, and the City.

The LA bureaucracy and political environment will obviously have a negative impact on value and may cause the transaction to fail completely. After all, who in their right mind would put up with the City Hall's shenanigans?

As one experienced operator commented, "The proverbial donkey, a horse designed by committee, would look efficiently designed compared to the byproduct of this exercise."

As we have mentioned in six previous City Watch articles, the sale of the parking facilities is a dumb, ill-conceived deal. Not only is the City selling revenue producing capital assets to pay every day operating expenses (selling the family jewels to buy Scotch), it is selling poorly operated, inadequately maintained and deteriorating capital assets that require a substantial investment of capital in a down market which will result in a bargain basement price.

As such, the financial markets, which had a hard time swallowing the most recent offering of Tax & Revenue Anticipation Notes, will view this transaction as just another act of desperation by a City that is unwilling to make politically tough decisions to insure its future solvency.

Rather than proceeding with this transaction that will humiliate the City, the City should form a Parking Department to operate all the City's parking facilities pursuant to a well prepared strategic plan as opposed to "a carelessly conceived short term political fix that will cost us more in the long run."

This department should then hire third party management companies to operate the facilities in an efficient manner as well as knowledgeable outside advisor or consultant to oversee the management companies to make sure everybody is honest and that operations are run efficiently.

At the same time, the City should make the politically tough decision to increase parking rates to market levels recommended in the Concession Agreement, but only after conferring with the residents, Neighborhood Councils, and local businesses.

In this manner, the City will be able to turn its parking facilities into a cash cow, earning, based on the Desman Consulting projections, $30.6 million a year in the fifth year compared to the $15.2 million if it were to be operated by the City and it Department of Transportation.

This cash will fund numerous programs for the cash starved city.

Relalted Columns

- "Sell Low, Sucker" (May 15, 2009)
- "Don't Hose LA" (January 19, 2010)
- "Lipstick on a Pig" (February 12, 2010)
- "This Little Piggy Went to Market" (March 9, 2010)
- "LA is this Little Piggy's Roast Beef" (April 27, 2010)
- "The Rape of Recreation & Parks" (August 10, 2010)

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The Rape of Recreation & Parks

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LA WATCHDOG

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This fiscal year, the cash strapped City unilaterally imposed a $17.5 million General Fund Cost Reimbursement charge on the Department of Recreation & Parks.
While this charge may be justified, this dramatic change in policy resulted in a 21% reduction in the number of positions, drastically reducing the department's land maintenance operations and programs.

And as if that was not enough, on August 2, at a hastily called Special Meeting, the politically appointed Board of Commissioners approved, with very little discussion, the inclusion of the underperforming Pershing Square Parking Garage in the ill conceived proposed sale of the City's Parking Facilities, where the proceeds will be used to pay operating expenses of other City departments rather than maintain and repair its existing parks.

As for specifics, the City managed Pershing Square Parking Garage is a three level, underground structure that has 1,590 parking spaces, representing about 32% of the downtown public parking spaces. Importantly, this debt free facility generates about $2 million a year to support Rec & Parks programs, including $500,000 that is transferred to the General Fund.

Furthermore, Desman Associates, the Chicago based parking consultant retained by the City, stated that the Pershing Square Parking Garage has the potential for significantly better operating results because the anticipated growth in parking starved downtown Los Angeles.

While the Board Report issued in conjunction with the Special Meeting of the Board of Commissioners was essentially devoid of any financial information relating to the operations or value of the Pershing Square Parking Garage, people have speculated that the private operators would pay between $50 million to $100 million, or $30,000 to $60,000 per parking space.

However, these values assume that the new private operator would be free to raise rates to market levels, would be able to reconfigure the parking area to increase the number of spaces by 25% to 50%, would be free of the restrictive and cumbersome City work rules, wages, and benefits, and would be able to use more efficient systems and technology.

But what would Rec & Parks receive in return for selling the Pershing Square Parking Garage?

Would Rec & Parks be able to devote the proceeds of this sale to improving the 30% to 40% of our parks and facilities that are graded D and F by infrastructure studies done by the City?

Unfortunately, the money is destined for the City's General Fund, where it will be used to pay everyday operating expenses, including the wages and benefits of 500 to 750 City employees.

However, this politically expedient decision is a very expensive proposition when you consider that $1 "saved" by deferring maintenance is going to cost $2 to $4 in the future.

Rather than receiving a lump sum payment, Rec & Parks will most likely agree to "accept annual payments from the City in an amount to be agreed upon. " But that does not mean these funds will be available to repair or maintain our parks or restore various programs.

More than likely, these new annual payments will be more than offset by increased General Fund Cost Reimbursement charges as the City attempts to close its projected budget deficit of $318 million for the fiscal year beginning July 1, 2011. This, in turn, will cause Rec & Parks to cut back even more on park maintenance and its existing programs and to increase the fees that it charges the public for the use of its facilities.

The sale of the revenue producing Pershing Square Parking Garage to pay daily operating expenses of the City is bad financial policy, just another sign to the financial markets that the City is heading towards insolvency. The alternative is for the City to implement the changes that a private operator would make and use the increased cash flow to fund the repair and maintenance of our parks.

Our park system, one of the oldest in the country, is an important asset to the citizens of Los Angeles. So important that the Charter guarantees that Rec & Parks receive an annual appropriation that is equal to about $140 million this year.

And as a core City asset, this department needs to be protected from City Hall's avarice, meddling, and mismanagement. Unfortunately, the Board of Commissioners does not appear to be up to the task, having bowed to the political winds and whims of City Hall.

But who will protect Rec & Parks?

Fortunately, there is the **LA Parks Foundation** whose Board of Directors includes, among others, former Mayor Richard Riordan, a long time friend of our more than 400 parks.

Now is the time for this foundation to step up to plate and defend our precious parks from City Hall and its inane financial decisions.

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