

MEMORANDUM

COMMENTS RE: PARKCINCY MODEL



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DATE: June 20, 2013
TO: Sam Stephens
COMPANY: City of Cincinnati
CC: Odis Jones
HARD COPY: No
FROM: John Dorsett
PROJECT NAME: City of Cincinnati Parking P3
PROJECT NUMBER: 13-3065.10
SUBJECT: Comments Re: ParkCincy Model V. Mar 12 2013 vIG

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As discussed earlier today and on previous occasions with City of Cincinnati and Public Financial Management representatives, we are forwarding the following written description of Walker's outstanding concerns and questions regarding the referenced. The following is a summary of items, in order of priority and in some cases, approximate impact on the net present value of the transaction, that have been identified for further evaluation and adjustment:

Summary of Recommended Changes to ParkCincy Financial Model

Summary Description of Item	Recommendation and Impact
1. Projected Erosion of On-Street Margin on Gross Revenues -- We are looking to find ways to reduce the on-street operating expense budget, a budget projected to increase by more than 257% from the current level.	Reduce on-street operating budget by \$1.5 to \$3 million annually, depending on backup provided. A \$1.5 to \$3.0 million annual reduction in OPEX increases NPV to City by \$29 to \$59 million, respectively.
2. Math error. Meter Phase-In Cashflows, Cell G22. We understand this error has been corrected; awaiting updated model showing this correction.	Error mistakenly inflates on-street revenues by \$641,000 in Year 3 and compounds through each of years 4-30, adjusting for inflation. Error does not impact upfront payment, but reduces the City's NPV by \$12+ million.
3. Parking Access and Revenue Control System CAPEX. Inconsistent information needs reconciliation.	Reconcile PARCS CAPEX -- Possible increase of \$145,000 to CAPEX budget in 2013-2015. Reduces NPV by \$1.7± million.
4. Parking Meter CAPEX. Projected meter costs exceed Walker's experience.	Reduce parking meter CAPEX based on \$507.50/meter vs. \$592.80 figure. Savings exceeds \$400,000 about every eight years.
5. Parking Structure CAPEX. The figures that Walker previously provided are placeholders and need to be updated.	Recommend that these figures be revised with additional study by a third party.
6. Garage Sweeper Costs.	Recommend replacement every ten years. Impact on NPV is less than \$100,000.

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DETAILED BACKUP

PROJECTED EROSION OF ON-STREET MARGIN ON GROSS REVENUES

We recommend that fewer dollars be budgeted for on-street operating expenses. ParkCincy's 2014 on-street operating projections are more than 257% higher than the City's most recent actual experience, resulting in a significantly lower projected return on these expenses than has historically been experienced by the City.

The on-street operating expenses shown in the model are projected to grow at a faster rate than operating revenues. The City should expect a private operator to run the parking system more cost effectively than the current operation, not less cost effectively. Therefore, revenues should be expected to increase at a rate faster than expenses, not slower.

The City's margin on gross revenues (net operating income divided by gross revenues) for on-street parking has exceeded 70% over each of last five years. By comparison, ParkCincy's projected margin on gross revenues begins at 45% in Year 1, peaks at 63%, and declines to 56% by Year 30. The city's historical margins are consistent with industry norms, whereas ParkCincy's projected margin on gross revenues does not match our experience with industry norms.

The following table demonstrates that the City's parking division has experienced an on-street margin on gross revenues that exceeds 70 percent for each of the last five years.

Historical City of Cincinnati On-Street Margin on Gross Revenues

	2007	2008	2009	2010	2011	9/11-8/12
On-Street Revenues						
On-Street Meters	\$ 2,382,575	\$ 2,489,914	\$ 2,440,675	\$ 2,710,796	\$ 3,271,475	\$ 3,713,668
Parking Tickets	3,563,811	4,107,748	4,307,522	3,844,455	3,744,769	3,272,984
Subtotal	\$ 5,946,386	\$ 6,597,662	\$ 6,748,197	\$ 6,555,251	\$ 7,016,244	\$ 6,986,652
On-Street Expenses						
On-Street Meters and Enforcement	\$ 1,631,385	\$ 1,484,103	\$ 1,652,893	\$ 1,561,592	\$ 1,546,086	\$ 1,700,241
Contract with Hamilton County	350,000	350,000	350,000	350,000	350,000	350,000
Subtotal	\$ 1,981,385	\$ 1,834,103	\$ 2,002,893	\$ 1,911,592	\$ 1,896,086	\$ 2,050,241
Net Operating Income	\$ 3,965,002	\$ 4,763,559	\$ 4,745,304	\$ 4,643,659	\$ 5,120,158	\$ 4,936,411
Margin on Gross Revenues	67%	72%	70%	71%	73%	71%

Source: City of Cincinnati and Walker Parking Consultants

Walker's experience is that the City's historical on-street margins on gross revenues are consistent with industry norms. Walker evaluated the on-street parking operation element of ten municipal parking systems. The median on-street margin on gross revenues for these ten systems is 71% which coincides exactly with the City's. Two other municipal on-street parking operations were evaluated which were bid on by commercial parking operators and the margin on gross revenues for these two examples was projected to be 74 and 78%, providing additional evidence that ParkCincy's on-street margins are below industry norms. (All cities studied by Walker were selected without bias.)

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The following table shows a projected reduction in the on-street margin on gross revenues under ParkCincy's model.

ParkCincy Projected Margin on Gross Revenues

	2014	2018	2023	2028	2033	2043
On-Street Revenues						
Meters	\$ 5,269,822	\$ 7,931,386	\$ 9,998,723	\$ 11,438,664	\$ 12,750,829	\$ 17,530,282
Parking Tickets	4,316,598	7,777,640	9,016,417	10,347,910	11,336,353	11,336,353
Subtotal	\$ 9,586,420	\$ 15,709,027	\$ 19,015,140	\$ 21,786,574	\$ 24,087,182	\$ 28,866,635
On-Street Expenses	\$ 5,282,500	\$ 6,018,000	\$ 6,980,340	\$ 8,092,127	\$ 9,380,993	\$ 12,607,271
Net Operating Income	\$ 4,303,920	\$ 9,691,027	\$ 12,034,800	\$ 13,694,447	\$ 14,706,189	\$ 16,259,365
Margin on Gross Revenues	45%	62%	63%	63%	61%	56%

Source: ParkCincy and Walker Parking Consultants

The following are some specific examples of where we believe the on-street operating expense projections are excessive:

1. The \$627,063 management fee in 2013 is 14.6% of projected net operating income and substantially higher than Denison's proposed 1.3% management fee as a percentage of net operating income for parking garages. Xerox's management fee is also 1603% higher in 2013 than Denison's parking garages management fee. Walker evaluated two other municipalities that recently contracted with a third-party commercial parking operator to run their on-street operations. Management fees as a percentage of net operating income ranged from 2.1% to 2.3% of net operating income. (These were both selected for study without bias.)
2. In 2013 dollars, our experience is that broadband and wireless communication charges are \$5.75 per meter each month and the cost of handhelds is \$50 per month for each of 20 handhelds. We recommend that these figures be used instead of the \$11 monthly charge per meter projected by ParkCincy.
3. Projections for fixed assets and equipment maintenance, computer resources, applications, and handheld systems support, operating expense and supplies, and cost reimbursable expenses appear to be high and no backup is included in the model to evaluate the details and reasonableness of these figures.

The following are some questions that we request ParkCincy to answer:

1. Will ParkCincy provide additional written backup regarding its projected on-street operating expenses? (Unlike a pure monetization transaction, this is the Port/City's budget so there should be transparency.)
2. Why are margins projected to erode over the 30-year period?
3. Why are projected on-street margins less than what the City was able to achieve over each of the last five years considering that the private sector is not obligated to pay union wages and benefits?
4. Why are projected on-street margins less than what the City was able to achieve over each of the last five years, considering that the private sector is not obligated to pay

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union wages and benefits, and approximately half of the growth in parking enforcement income is projected to come from citation rate increases, and almost one-third of the growth in parking meter income is projected to come from meter rate increases and the elimination of grace periods? (The parking citations rate increases, meter rate increases, and elimination of grace periods, all policy decisions made by the City, are expected to have a significant impact on growing gross revenues without increasing operating expenses, which argues for the margin on gross revenues increasing, not decreasing.)

5. Why are on-street labor costs alone projected to exceed the City's historical total on-street operating expenses once ParkCincy takes over? What types of staff are included in the projections, how many FTEs of each type of staff are included, and what are the hourly wages/annual salaries and benefits of each position? Please rationalize for each staff type, why these additional staff are needed, stating responsibilities and expected outcomes.

MATH ERROR

In the Meter Phase-In Cashflows worksheet provided by ParkCincy, there is a math error in Cell G22. This error reduces NPV to the City by over \$12 million. The 8.74% annual growth factor is mistakenly raised to the second power, meaning that two years of growth are factored into the product, instead of one. This overstates revenues by more than \$641,000 in 2016 and this error compounds throughout the remainder of the projection period.

After this error is removed from the model, the margin on gross revenues decreases, further expanding the gap between the industry norm and the ParkCincy proposal. The following table restates on-street revenues, expenses, net operating income, and margin on gross revenues, after correcting the math error described within the previous paragraph. The margins decreased by two percentage points after 2016.

Revised ParkCincy Projected Margin on Gross Revenues

	2014	2018	2023	2028	2033	2043
On-Street Revenues						
Meters	\$ 5,269,822	\$ 7,296,239	\$ 9,198,023	\$ 10,522,652	\$ 11,729,739	\$ 16,126,453
Parking Tickets	4,316,598	7,777,640	9,016,417	10,347,910	11,336,353	11,336,353
Subtotal	\$ 9,586,420	\$ 15,073,879	\$ 18,214,440	\$ 20,870,563	\$ 23,066,092	\$ 27,462,806
On-Street Expenses	\$ 5,282,500	\$ 6,018,000	\$ 6,980,340	\$ 8,092,127	\$ 9,380,993	\$ 12,607,271
Net Operating Income	\$ 4,303,920	\$ 9,055,879	\$ 11,234,099	\$ 12,778,435	\$ 13,685,099	\$ 14,855,535
Margin on Gross Revenues	45%	60%	62%	61%	59%	54%
March 12, 2013 Margin	45%	62%	63%	63%	61%	56%
Reduction	0%	-2%	-2%	-2%	-2%	-2%

Source: ParkCincy and Walker Parking Consultants

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PARKING METER CAPEX

In 2013 dollars, we know of a U.S. city that recently bid a 1,500-space meter system. IPS, the manufacturer of the parking meters, submitted a price of \$507.50 per meter which includes a cost of \$475 per meter (>1,000); \$7.50/meter for shipping; and \$25/meter for installation, training, and commissioning. We do not recommend purchasing a warranty. Therefore, we recommend that the \$507.50/meter be budgeted instead of the \$592.80/meter proposed by ParkCincy.

OFF-STREET CAPEX

Revised CAPEX figures are needed to replace Walker's temporary "placeholder" figures provided in a January 22, 2013 memorandum to the City. These figures were based on a 2009 Walker limited condition appraisal which was updated in 2013. In this correspondence with the City, Walker stated, "Please note that this memorandum, including the 30-year figures provided herein, is based on many assumptions and has significant limitations. The actual expenditures will vary from those shown herein and in some cases, the actual expenditures could vary materially from the budgeted figures shown herein. Subsequent, more detailed study, including additional levels of testing and a more rigorous analysis, is recommended." This further study remains to be completed and the results of this study are expected to generate figures to be used instead of the ones provided by Walker. The impact of replacing these off-street CAPEX figures is unknown.

PARCS CAPEX

On 2/20/13 Denison supplied Walker with a CAPEX budget for parking access and revenue control (PARCS) equipment and this budget totaled \$999,165. Years 1, 2, and 3 (Row 133 of the model's Consolidated Summary Cashflows worksheet) total \$854,165. Therefore, the amount shown in the memo exceeds the amount shown in the model by \$145,000. This needs to be reconciled. Until the lower figure can be confirmed as the correct figure, we suggest budgeting the higher figure of \$999,165. Following are the figures that Denison most recently provided:

PARCS CAPEX Provided by Denison

Parking Facility	Item	Amount	Year
Broadway	Monitoring Equipment	\$25,000	2013
Broadway	New Parking Equipment	\$214,445	2014
Fountain Sq South	Monitoring Equipment	\$25,000	2013
Fountain Sq South	New Parking Equipment	\$232,238	2014
Garfield	Monitoring Equipment	\$25,000	2013
Garfield	New Parking Equipment	\$225,327	2015
Gramercy	Monitoring Equipment	\$25,000	2013
Gramercy	New Parking Equipment	\$182,155	2015
Third & Butler Lot	New Parking Equipment	\$45,000	2014
TOTAL		\$999,165	

Source: Denison Parking

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Additional PARCS CAPEX dollars should be added every 7-10 years. The model shows only one investment over the projection period. This is unrealistic as the equipment will require replacement every 7-10 years.

GARAGE SWEEPER CAPEX

Garage sweeper costs are shown in the model in Years 2 and 3 but not repeated. It is not reasonable to assume equipment will last the remainder of the projection period without a replacement. We recommend showing replacement of this equipment every ten years and adding dollars to the CAPEX budget. These dollars should be adjusted for inflation in out years.