Parking Authority of the
City and County of San Francisco
San Francisco, California

Assessment of Parking Authority Business Practices

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In Association With:

The Parking Network, Inc.
Houston, TX
DLC Consulting
Milton, NJ

CHANCE
Management Advisors, Inc.
1600 Market Street, 26th Floor
Philadelphia, Pennsylvania 19103-7219

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I. INTRODUCTION

The Parking Authority Commission of the City and County of San Francisco retained a *Consulting Team* to perform an assessment of the practices, policies, and procedures of the Parking Authority (PA). The Parking Authority is an independent organization formed under state law, similar to parking authorities created in most other states. The Request for Proposals indicated that the Commission desires to compare the PA business practices to best practices in the parking industry, with the goals of improving garage revenues and operational efficiencies. Not only are these goals associated with the PA, but they relate also to the Municipal Transportation Authority, since a high proportion of net revenue from the PA is used to support public transit in San Francisco.

The *Consulting Team* consists of three firms, all of which are well-known in the parking industry in the United States. *CHANCE Management Advisors, Inc.* of Philadelphia is leading the team, and the firm focuses on parking planning, management, operations, and finance for Owners of parking facilities. *The Parking Network, Inc*., with several offices nationwide, concentrates on protecting, monitoring, and enhancing revenue production for parking operations. *DLC Consulting* concentrates on revenue and access control equipment, operational audits, and management contracts. The three firms responded as a team in order to accommodate the wide range of issues that the Commission wanted addressed in the project.

The organization of this report responds to the major issues and specific questions for which the Commission wants answers, based upon the Request for Proposals. In addition, the *Consulting Team* has identified several other important items that were uncovered during the project work.

Methods used by the *Consulting Team* for this assessment included the following:

- Documents on a wide range of topics were requested from the Parking Authority for review. These included the legislation originating the Parking Authority, existing management agreements, financial reports, written documentation about operations, reports from Operators under contract to the PA, and other information relevant to the questions to be answered. The *Consulting Team* reviewed the documents and used them as both reference materials and the base for questions during interviews.

- The Principals of the three firms held a week long site visit to San Francisco. While there, the *Team* interviewed PA staff, MTA and City staff (from the City Attorney's office, Controller's office, and Real Estate) that assist the PA in its efforts, members of the Parking Authority Commission, and representatives of four Operators under contract to manage PA garages. The *Consulting Team* also went to four example garages for the Operator interviews and observed the general conditions of the facilities while there.

- Using the information from documents and the site visit, industry experience, and comparisons with best practices, the *Consulting Team* answered the questions posed by the Parking Authority Commission.

The summary conclusion of this document is that at present, the Parking Authority is not using best practices to manage and operate its significant assets and resources. The PA is entirely too passive in its approach to ensuring that revenues are safeguarded, operating expenses are appropriate, and physical assets are maintained for the longest life and the best service to the public. The Parking Authority Commission wisely decided to have the PA's business practices assessed so that better practices may be implemented and improved results achieved. While assessing the potential additional revenue that could be generated is not part of the Scope of Services of this project, the *Consulting Team* estimates that at minimum a ten percent increase of gross revenue could be achieved by adopting the recommendations contained in this report.

II. THE AUTHORITY'S OVERSIGHT OF ITS GARAGES

Financial Oversight and Planning

A. WHAT IMPROVEMENTS DO YOU RECOMMEND IN THE AUTHORITY'S REQUIREMENTS FOR GARAGE REVENUE AND EXPENSE REPORTING?

The Parking Authority of the City and County of San Francisco (PA) is charged with the oversight and management of some 19 parking garages and 22 surface parking lots, the gross revenue from the garages alone creating an asset that exceeds $100 million dollars. The PA manages each of these facilities through various third party contracts. In all of the contracts, the third party parking manager collects all of the parking revenue and pays all of the daily operating expenses. In some of the agreements, the operator receives a fee for the management of the facility and all of the operating expenses are reimbursed to the operator out of the gross parking revenues. In other facilities the operator receives a fee that includes operating expenses and profit and the PA receives the difference between the gross collections less the deduction for the management fee.

Regardless of the financial fee arrangement, the parking facilities and the gross revenues are managed by the PA and are placed in the trust of the third party operator. It is the responsibility of the PA to oversee the collections of revenues and the disbursement of operating expenses for all of the locations. Without active involvement from highly trained professionals and a systematic reporting format it is impossible to insure that all of the revenues are collected or that all of the revenues that are collected are properly reported to the PA.

Additionally, in the management of the PA's parking properties, operating expenses in the tens of millions are expended in the form of payroll, payroll related expenses, supplies, maintenance, utilities, etc. These day-to-day operating expenses are spent by the third party parking operators on behalf of the PA. The operating expenses directly affect the net return to the PA; therefore, they become an important item that must be managed not just by the Operator but also by the overseer of the contract, the PA. Throughout the interview process, the *Consulting Team* was told that expenses were not closely reviewed and that there did not seem to be any great emphasis on controlling expenses.

To fulfill the PA's oversight role of the performance of numerous third party managers with in excess of $100 million gross revenue and tens of millions of expenses requires the ability of the PA Staff to monitor key income and expense statistics on a structured seven tier basis. The seven-tiers are:

- annual and forward reaching budgeting processes;
- daily, weekly, monthly reporting of key revenue control statistics;
- personnel interaction by a PA staff member with the operator on any control items that are not meeting expectations;
- monthly reporting of revenues by category compared to budget;
- monthly reporting of expenses by category compared to budget;
- personnel interaction by a PA upper level staff member to discuss monthly reporting for gross revenues and expenses; and
- consolidated reports provided to the PA Commission or the MTA Board (for City owned garages).

The seven tiers listed above are divided into three reporting categories. The first is the **budget process** that projects the goals of the PA and its expectations for the future. (This process will be addressed in a subsequent section, as it has several components related to other questions posed by the Parking Authority Commission.) The second category is the short-term close oversight, or **control reporting process**, of the detail of the day-to-day operations. In this category of reporting, key control statistics are developed and presented to the PA by the operator. The purpose of the level of review is to insure that the controls required to manage the level of cash generated by the parking operations are working and are protecting the gross income.

The third category is the **monthly reporting process** that provides the PA with the ability to monitor performance to the projected budget process. This provides the opportunity for the operator through meetings and monthly reports to provide the information necessary for the PA to guide the ship as it moves through the budget year and forward looking long-term plan.

Control Reporting

Control Reporting is the front line of interaction between the PA staff and the commercial parking operator. Control Reporting provides a very clear method to provide one page of control information about the daily operations of the parking facility. This page of information should provide the PA with the ability to have a window into the daily revenue collections as compared to the daily activity. A sample of Control Reporting would be:

- ☐ tickets issued vs. tickets collected – Ticket Summary;
- ☐ validation sales and redemption records;
- ☐ contracts billed vs. active contract parking patrons;
- ☐ average values of each customer group;
- ☐ empty spaces at peak demand period;
- ☐ after hours averages; and
- ☐ special event revenues.

The *Consulting Team* interviewed the PA Staff to determine the frequency of Staff interaction with the operator of each facility as it relates to revenue and expense controls. The results of the interview indicated that the Staff typically sees month end reports that include monthly revenue totals by income category and monthly summaries of tickets by rate in an Excel format. The reports provide some level of information but are not organized in a way that allows ease of review. There is a significant difference between reports that provide monthly totals like the reports discussed in the “Monthly Reports” section and the types of reports required to satisfy the “Control Reports” requirement. The reports reviewed by the *Consulting Team* are all in response to budget reporting and are not reports that can be used to monitor the financial health of the parking operation. The control reporting for each parking facility should be no more than one page. Due to the volume of locations and the absence of staff, there did not appear to be available staff for regular reviews that require monitoring of the level of detail found in control reporting.

In the review of the reporting procedures that would fall into the “control reporting” category the *Consulting Team* found only that the operators provide the PA staff monthly with a document that would be considered a combined revenue and ticket summary, the type of reports discussed in the “Monthly Reports” section. This document provides with the total sales for the month of all revenue categories by rate. No other reporting documents or capabilities that would provide the PA staff with the ability to truly monitor the quality of collections provided for the PA’s gross revenue were being incorporated and monitored by the PA staff. The best method to describe the level of oversight provided by the available review documents is that the Parking Authority “trusts” that the revenue reported is accurate. Following is a sample list, not intended to be all inclusive, of the type of reports expected in “Control Reporting”:

- monthly card reconciliation report that compares total active cards and total billed cards;
- total value of discounted and free monthly patrons;
- average value of a monthly space;

- average value of a transient parking space;
- validation sales log review;
- missing ticket report and the documentation of action taken to audit missing tickets;
- equipment alarm logs;
- register totals vs. bank deposit records; and
- equipment maintenance logs.

Recommendations on Control Reporting

Since the 19 garages that comprise the PA portfolio are all controlled, directly or indirectly by the PA, the reporting mechanism should be exactly the same in all properties regardless of the Operator engaged to manage the asset. Additionally, the reporting forms should be electronic in nature and supported in a "Data Room" that is part of the PA Website domain (a website to be developed, since it does not exist at present for the Parking Authority).

The actual forms would remain online with the Operator having access to the forms for only the assets it is managing. The forms would be completed on-line and time-stamped automatically for when they are completed. The Operators should only have access to the form cells for data entry. All formulas, calculations, and totals should be both protected and hidden from the Operators.

A reporting format should be developed that contains all of the control reporting information in a one page summary report. The parking facility Operator should be required to complete the report and submit it to PA staff daily (preferred) or at least weekly. The report should contain a cover memo that provides the back-up of any control information that falls outside the design limits. The Control Report provides the PA with the "At-A-Glance" information that can alert them to a potential control issue and provide trending information that can be used for more in-depth evaluation.

Any time there are statistics reported on the Control Report that falls outside design limits there should be an immediate meeting on-site with the Operator to discuss the action plan to correct the control issue. This meeting and the action plan should all be submitted to the monthly reporting record of information.

Control Reports are not reports that would be routinely submitted to the PA Commissioners, but they can be used in Board presentations about specific properties where the extra detail of the Control Report will provide information that assists in planning decisions.

<u>Monthly Management Reports</u>

Where Control Reports are designed to be a micro view of revenue generation and control, Monthly Reports are designed to be an overview of the revenue compared to budget and a micro view of monthly operating expenses. The monthly management report should be designed to provide a trend in revenue by category, a comparison of revenue by income category to budget, a comparison of operating expenses to budget, and a detailed look at the receipts and purchase orders that generated the expenses.

The PA staff uses Excel spreadsheets that are completed by the parking Operator and used to submit the actual vs. budget revenue and expenses to the PA. There are two types of contractual arrangements between the PA and the commercial parking operators. In one of the arrangements, the parking Operator receives a monthly fee and out of that fee the Operator is responsible for paying the operating expenses of the location. Whatever is remaining is the Operator's monthly profit. In the other contractual arrangement, the Operator is paid a management fee and is reimbursed for all operating expenses. According to the PA, the arrangement where the parking Operator pays for all expenses out of the monthly management fee is being phased out as contracts expire, to be replaced with contracts where the operating expenses are reimbursed by the PA.

The *Consulting Team* also favors the form of contract where the expenses are paid by the Operator and reimbursed by the PA. However, with this type of contract it is **vital** that operating expenses receive a great deal of attention in the budget process, in the management contract, and in the monthly review process.

The Excel spreadsheets currently in use by the PA staff provide six pieces of information as indicated below:

- current month's revenue by income category;
- last 12 months' income by category;
- comparison of current month's revenue to budget;
- last 12 months' expenses by category;
- comparison of current expenses to budget; and
- revenue summary of income and tickets by income category.

These are the types of information one would expect from a monthly report. The reports summarize current collections and expenses as compared to budget and compared to the last twelve months.

It was not possible in the interview period to determine the exact amount of time and the procedures being used by PA staff to meet with the Operators and discuss positive and negative variances indicated in the monthly reports. The impression from conversations was very clear that there were simply not enough resources available to be dedicated to conducting a complete monthly review of the operations. In a written procedure discovered by the *Consulting Team,* a training manual described procedures for a PA staff member to make a visit once per month to the locations and cover all of them in one day. There are simply too many locations for the PA to use this type of procedure and spend any meaningful time with the operations or Operators..

In the interview process, the interviewers asked the Operators questions about the oversight by the PA of their monthly operating expenses. The questions were directed to discuss possible operating efficiencies that could be achieved with certain procedural changes and these efficiencies would have the possible effect of lower operating expenses. The response was, "the PA never really pushes us to reduce operating expenses".

It is highly unlikely that every operation meets budget on both revenue and expenses every month. But various budget documents reviewed did not contain notes or explanations of variances.

Considering the number of facilities and the tens of millions of dollars in operating expenses, the *Consulting Team* should have been able to see at least some level of staff assigned to review the monthly operating expenses. The *Consulting Team* is composed of people whose companies are recognized as leaders in auditing the parking industry. It would be the exception to find any of the *Team*'s audits that do not find some level of inaccuracy in operating expenses of the companies that are reviewed. Operating expenses have to be reviewed regularly by a staff of accounting personnel that know how to look for signs that expenses may not be appropriate. Procedures were not found to be in place to assist the PA in evaluating expenses and interacting with the operator when expenses are in question.

Budgets and accountability seem to be based on the rule that if today's numbers are similar to the historical numbers then they must be okay. The *Consulting Team* was never able to find evidence that the expenses in the budget process and in the review process were based on or evaluated against any particular management standards. An example would be that the budgeted payroll for a location would be based on the employees and the job category rates for a staffing schedule that has been reviewed and agreed upon between the PA Staff and the commercial operator.

In the final analysis there are in excess of $100 million in parking revenues and tens of millions of operating expenses collected and expended by third party contractors with no procedures or schedule for detailed reporting to the PA. There also does not seem to be a trail of correspondence that indicates the PA is able to, at the least, evaluate the accuracy of the revenue reports on a monthly basis and assure that the operating expenses are in fact legitimate expenses.

The size and qualifications of the staff of the PA make it virtually impossible for them to use any monthly reporting process to improve the level of control over the income and the operating expenses of the many parking facilities under their responsibility.

Recommendations on Monthly Reporting

Every parking facility should receive a monthly review conducted between the parking Operator and the PA staff. The review should consist of discussions and written directions addressing variances in actual to budget, actions to address positive and negative revenue trends in each revenue category, and discussions related to the budgeted and actual expenses.

The PA should investigate a method of web based reporting, mentioned above, that would reduce the number of human hours involved in accumulating data and standardize the method of reporting key operating expenses. All Operators should be reporting data in the same manner. The forms should include the standard "Profit and Loss" statements showing income and expenses in the categories assigned by the PA along with the budgeted amount for the particular month and annual budget. This report should automatically populate a comparison between the same month last year and same period, year to date, in comparison to last year. The data should be entered daily, by the Operator, so that the PA has the ability, as needed, to monitor the financial and volume activity at each facility.

The PA should also take a considerably more pro-active role in monitoring and controlling daily operating expenses of each of the parking facilities.

Reporting Process

The reporting process is a method of getting revenue, performance, expense, and operational information from the location up through the Owner's reporting chain so that the information is available to the correct person at the correct level so that decisions may be made without delay. One of the most important pre-reporting requirements is the development of a written policy that clearly indicates the level of authority of each position in the reporting chain.

There is no organized written policy that dictates the reporting format beginning at the location level and continuing up through the PA Commission. There is no written policy that clearly dictates the level of authority in the reporting chain. The results of this lack of reporting level of authority is that decisions in some cases are being made at too low a level in the reporting chain and it appears that in some cases the correct or detailed information necessary to inform higher levels of authority is not being provided; therefore higher levels of authority may not even know that a decision is required.

Given the number of parking garage locations, it is extremely important for standards to be developed that clearly display the information to be reported from one reporting level to another. Currently only the most basic levels of information are moving up the reporting chain and it appeared that in many cases important information is not moving past the staff positions.

During the interview process, the *Consulting Team* received complaints at almost every level that information was not moving up through the reporting chain. Even at times when people in the higher levels of the reporting chain asked for specific information, they generally did not received the requested information.

This failure of an organized reporting format has caused the adverse effect of failing for many years to report the financial and operations needs to policy bodies. Because of this, no one has a good understanding of the financial needs and capabilities of the PA. As a result, informed decisions have not been made with regard to contracts, staffing, capital expenses, upgrades in equipment, and other clear requirements of an organization with the responsibilities of the Parking Authority.

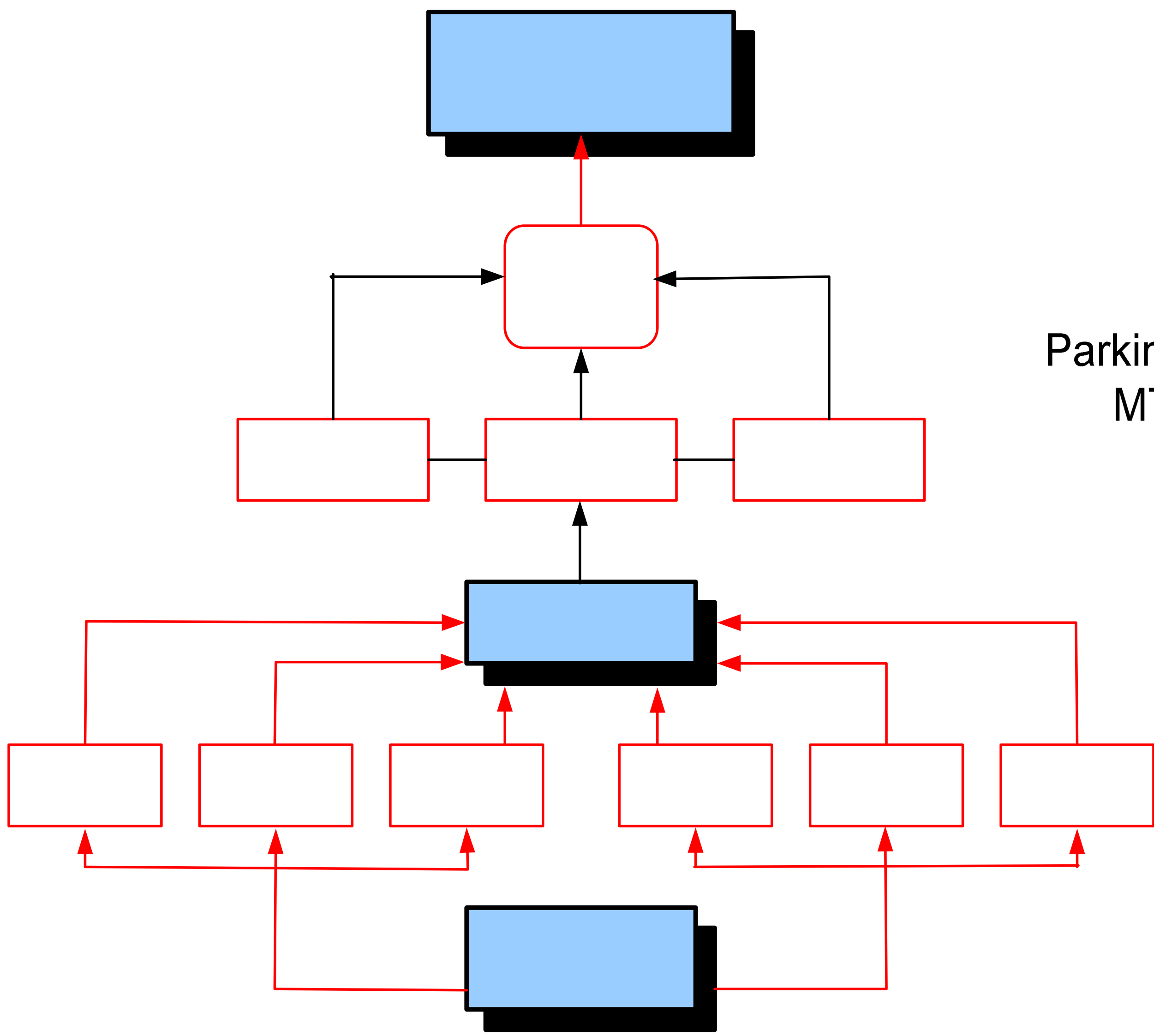
Recommendations on the Reporting Process

The chart below shows the flow of information from one facility up though the reporting chain of command. Each red box is a report or a vital step in the reporting process. A procedure should be developed that describes exactly the type of detailed information required to be a part of each red box. Each blue box represents a level in the reporting chain of command. A guideline level of authority should be developed for each level of decision making that clearly outlines the authority of each position.

Decisions generally fall into the following broad categories: daily operations decisions, monetary decisions within the budget, monetary decisions outside of the budget, capital cost decisions, and policy decisions. It is possible to chart each type of decision that needs to be made through the year and in written format attach that decision to a level of authority.

In the interview process it was brought to the attention of the *Consulting Team* that negotiations were underway for the acquisition of an additional parking facility and at this point decisions had been made and it did not appear that any of these commitments had been discussed above the PA staff level. It was also clear that there were no policies guiding decisions to be made about taking on the management of new facilities, the construction of new facilities, joint development deals, or any other major capital or operating decisions.

Suggested Information Flow and Decision Making Structure



B. DOES THE AUTHORITY USE APPROPRIATE BUSINESS PRACTICES TO PROTECT AGAINST MISAPPROPRIATION OF GARAGE REVENUES AND RESOURCES (INCLUDING VIA APPROPRIATE USE OF PARCS/RCE TECHNOLOGY AND AUDIT RESOURCES)?

NO! Parking is a very specialized business. The nature of the parking industry is "Not what is on the paper; rather, what should have been on the paper to begin with". The manipulation that occurs almost always happened before any figure is committed to paper.

Audits of the Operators and the facilities should be conducted by either an independent firm that has specific skills in auditing parking facilities, or the PA or City's Controllers office should invest in having a staff person trained with the necessary skills and knowledge of parking operations to do the audit.

The *Consulting Team* 's visits to the four garages and four Operators showed none of them had used a source document from the PARCS system (Parking Access and Revenue Control System) in the paperwork shown to the *Team*. Further, each Operator questioned about the PARCS had a different opinion of the system and equipment from "greatest thing since sliced bread" to "the equipment's value should be that of a boat anchor".

The DataPark System used by the PA is employed in all 19 garages. The system is antiquated by today's standards and should be replaced. The system does not appear to be CISP (Cardholder Information Security Program) compliant for credit card use which makes the PA liable for fraudulent use. It is a reasonable assumption, given the lack of written policies at the PA, that Operators have not been instructed to comply with the management imperatives also necessary to protect credit card information. This too would be viewed as a lapse in the responsibilities of the Parking Authority.

The *Consulting Team* suggests that only necessary repairs be continued to maintain the DataPark system while a new on-line real-time PARCS system is specified and bid. The system should be a unified system for all garages (and perhaps some lots) and should permit remote site access and monitoring by both the Operator and the PA.

Recommendations

New parking access and revenue control equipment should be acquired for the garages. This process should include assistance in specifying the system needed, developing a Request for Proposals, evaluating responses and selecting a contractor, and monitoring the installation and testing of the new system. This process is likely to take several years to accomplish, with the result being a consolidated system allowing much better safeguarding of revenues and reporting of parking activity. While the new parking access and revenue control system will be expensive to acquire, the *Consulting Team* estimates that the PA will achieve the Return on Investment, in the form of additional revenues, within two years. The acquisition of a new PARCS system is the most important action that the PA Commission may take to both safeguard and increase revenues.

The equivalent of an online "Blog" should be instituted to replace the ledger style bound log books that should be in each facility. Issues of structural safety and other serious problems can be marked accordingly and emergency issues can be e-mailed to the Operator and PA as deemed important by the onsite management team.

All of the PA managed garages should be audited by a team or individuals with recognized experience in the auditing of parking facilities. Similar to many industries, it is critical for those examining both revenues and expenses to understand the ways in which revenue may disappear and expenditures may be inappropriately made.

C. HOW MAY THE AUTHORITY IMPROVE REVENUE PLANNING AND EXPENSE BUDGETING?

A major problem related to revenues is that the PA has no objective internal assessment of the amount of revenue each garage should be generating. Instead, the PA has Operator reports of revenue, and the reports are not verified because a) the needed information is not required of the Operators and b) the PA staff does not do the analysis to determine the revenue the garage should be generating to compare to the revenue reported by the Operators.

A similar problem exists with expenses. Uniformly, the *Consulting Team* heard that no one watches expenses closely. For many of the contracts, the Operators prepare expense budgets, but no analysis or comparisons of these budgets to each other or to objective costs were presented for review. While some expenditures of the Operators are checked and approved or disapproved by PA staff or staff in the Controller's Office, there is not sufficient staff or a history and approach regarding expenses that causes the Operator budgets to be closely examined, or even required to be created under a zero-based budget approach. For example, no auditing of personnel time sheets compared to salary costs budgeted occurs, so it is unknown if the salary costs are correct.

The Budget and Analysis group of the Controller's Office reviews and approves budgets for six garages operated by non-profit groups, and reviews and approves monthly requisitions for four of the garages operated by non-profit groups. They also review monthly statements for variances and effects on the budget, and annually review the non-profit audits. For the rest of the facilities managed by the PA, the Budget and Analysis staff reviews PA summary staff reports for budget projection needs.

None of the activities mentioned really "drills down" to the basis on which the Operator develops initial budgets and makes monthly expenditures. Similarly, the same level of detail is not examined with regard to understanding the revenue that should be made in each facility (versus what is being reported).

Thus the first part of improving revenue planning and expense budgeting is to put into place the requirements and processes to determine what revenues and expenses should be. This can only be done by improving both the reporting and the analysis of revenues and expenses.

A major part of planning parking revenue to be anticipated in the future is to develop a model of parking rates over time – both the Authority's rates in its facilities and those of its competitors in the markets of each of the garages. Viewing rate trends over time helps to establish the actual levels of increase that are reasonable to assume for the future. It also helps staff and Commissioners to understand facilities that may have stayed at the same rates for too long a period of time. Tracking the competition's rates is important, for they constitute the market within which the PA facilities operate. If all competitor's rates are higher or lower, or increase faster or slower, this should help to inform decisions about the PA rates. Thus another part of understanding how to plan for future revenue is to build a revenue model of the Parking Authority facilities and the other parking facilities that are in the areas of influence of each of the PA garages. This model should include rates in the past and projections of rates for the future, allowing changes in these projections over time as conditions alter. Rates should be distinctly modeled for monthly parking, transient parking, validations, valet, and other types of revenue as appropriate for each garage.

Budgeting for garage expenses will be different in the future if all future contracts for garage operations are "budget contracts" as opposed to the fixed fee contracts (which the *Consulting Team* is recommending below). With that assumption in mind, what would make the budget for expenses improved in the future?

Garage operating budgets should be submitted by Operators on forms prescribed by the Parking Authority. These budget formats should assume a zero-based budgeting approach – each budget gets built from the smallest units and justified, not simply increased from the year before. If expense budgets are simply allowed to be increased by a percent each year, there is no motivation to reduce expenses or to develop more cost effective operations. Operators should be required to provide all the detail to back up the estimates of garage expenses. Using common budget formats, the PA staff should then be able to compare costs across operators for the same budget items in order to assess and determine differences and why they occur. Since labor rates are prescribed in San Francisco, and various taxes and benefits are the same regardless of Operator, all other expenses should be subject to examination prior to approval of the budgets. A discussion should also take place about methods and suggestions to reduce expenses. Justification should be provided for any annual increase in expenses proposed in a contract.

Changing the nature of planning revenues and budgeting expenses is going to take several years to improve. The PA has no good data for trends in either revenue or expenses, due to the reporting and analysis processes that have been used in the past. Changing these and increasing accuracy will take a period of time, but the sooner it is begun the better.

A last significant factor will be the development of a capital budget for the facilities managed by the PA. There is a tremendous amount of work to be done to assess the capital needs in each garage, assign priorities to capital projects, develop cost estimates for the projects, and develop a schedule that the PA and the MTA (due to revenue transfer) can live with for the significant capital expenses that will be needed. Analysis must also be done to determine those capital expenditures that are not life safety related, but that can save the PA considerable funds by accomplishing them earlier rather than later. The development of the capital budget for improvements will change the net revenue available for transit support, but it is long overdue and it is critical that this be done to truly plan ongoing budgets.

Recommendations

The PA should develop a common and detailed format on which each Operator must submit the projected annual budget. This format should provide guidelines and space for the Operators to adequately explain how each line item is developed. In subsequent years, the same explanations should occur for increasing or decreasing line items in the budget.

A model of parking rates should be developed, and the PA should survey, or arrange to have surveyed, parking rates in an area of influence around each garage. This survey should be performed every six months, and should be part of an ongoing GIS database regarding parking rates in downtown San Francisco.

The PA should develop a multi-year operating budget, multi-year revenue projection, and a multi-year capital budget, complete with detailed notes about assumptions. The first years of these models will not have the accuracy that will come with time and better data. However, the process must begin if reasonable assumptions are going to be able to be made for future revenue and expenses, as well as net revenues that will be available to support transportation. The *Consulting Team* suggests that a five-year model be developed first, with increasing time periods added as data become more available and reliable. For example, without a history of rate increases by the private sector (as well as the PA), there is little basis for projecting rate increases into the future.

D. IS THE AUTHORITY'S CAPITAL PROJECT PLANNING AND FUNDING SUFFICIENT TO ENSURE LONG-TERM MAINTENANCE OF THE GARAGES?

The answer to this question is "absolutely not".

At present there is virtually no capital project planning or funding for most of the garages. The exceptions to this condition are the garages built by or through the non-profit corporations, where a repair and replacement fund was required by the bond indentures.

The *Consulting Team* inquired about an overall PA sinking fund or "repair and replacement" fund for major maintenance, revenue control equipment replacement, or other capital items. It was discovered that there is no capital project budget, and no professional capital project planning is taking place. This is a serious issue due to the number of garages and the age of many of the facilities.

In the MTA's FY 2007 and FY 2008 budgets, the Parking Authority is defined as a Division and a budget is displayed. The proposed figure for the next fiscal year for "Facilities Maintenance Projects" is $500,000. The MTA's Chief Financial Officer informed the *Consulting Team* that this same amount had been available in the prior fiscal year. This is not adequate for the capital needs of 19 garages, and the process for allocating these funds was unclear.

Adding to the difficulty with no capital project planning is the process by which the PA is now obtaining information about garage conditions. Several of the garage Operators have been allocated budgets ($75,000 in two observed cases) to retain structural engineers to prepare condition assessments of the garages they operate. While conditions assessments are certainly needed, it is not a good business practice for the PA to allow individual Operators to develop contracts and retain engineers to perform the work. This is a set of functions that the PA should be doing as an organization itself – not through the Operators. There are several reasons why the PA should assume these responsibilities:

- A structural assessment of a garage may take many forms, and the PA should decide upon the desired scope of services to be used for all structural assessments, as well as the qualifications and objectivity of the firms competing for the work. For example, it will be important to have levels of repair specified (critical now for life safety, critical now for structural integrity, necessary within the next five years, necessary within the next ten years, etc.) and the cost of the repairs allocated to those levels. In this manner, the PA may look across several structural assessments and build a capital budget for critical items, assessing what the total costs will be and the ability to fund them over the years. This is not possible to do without common scopes of services and deliverables from the selected engineering firms.

- Typically structural assessments for necessary repairs distinguish among levels of repairs and the extended life of the garage that may be associated with them. In other words, a set of repairs and a price will be estimated to extend the life of the garage for five years; a more extensive set of repairs and a price will be estimated to extend the life of the garage for 15 years. It is important to have these distinctions in order to make an informed decision about how much capital to invest in an aging facility, vs. using the capital to build a new facility in the same location or elsewhere. The PA needs to be sure that this type of information is provided in any assessment.

- The PA would obtain better value for its money by issuing a Request for Proposals for a series of structural assessments for several garages, and perhaps over a several year period. In this manner, the PA would be able to make better use of its buying power than individual Operators would be able to do, and it would have the consultants reporting to the PA for acceptance of the reports, rather than to the contracted Operators.

The structural assessments are only one part of the capital project budgeting that should be taking place. Other potential capital projects that need to be planned and budgeted for include:

- repair or replacement of aging elevators, some of which may be life safety issues, based upon site visits;
- lighting assessments and upgrades/replacements of systems for economic and environmental reasons;
- replacement of the existing parking access and revenue control system (PARCS) in all garages, bringing this important revenue safeguard to state of the art and credit card compliance standards;
- replacement of deteriorating stairs; and
- other significant equipment in the garages (ventilation, carbon monoxide detection, etc.)

The lack of a capital budget puts the Parking Authority at risk in several ways. Not only does the PA lack the information about the conditions of its significant number of facilities, it may be forced to finance significant capital expenses on an emergency basis at higher rates that it would desire.

Recommendations

In order to develop a multi-year capital budget, the PA (working with others as needed) must obtain assessments of a variety of issues:

- structural assessments must be made of all the garages, and a plan developed for ranking the improvements needed;
- safety reviews should be made of all the garages, and a plan developed for ranking these improvements. Some of these issues will be related to the structural assessments;
- estimates should be made of the cost to replace existing access and revenue control equipment with a state-of-the-art consolidated system, and a strategy developed for funding the vital improvement in the facilities; and
- assessments of lighting systems and other equipment should be made, as improved systems could both save the PA operating expenses but also improve the aesthetics and patronage of the facilities.

Until a number of these important capital projects are estimated and a strategy developed for funding them over some period of time, a complete capital budget cannot be developed. Once the costs of essential improvements are known, then the process for developing the multi-year capital budget can be underway.

E. DOES THE AUTHORITY USE APPROPRIATE METHODOLOGIES IN SETTING PARKING RATES?

NO! The use of parking rates should accomplish six objectives:

- offset operating costs;
- offset debt services (bond issues) on the facility;
- support a capital "sinking fund" for future high cost structural maintenance;
- support a capital sinking fund for PARCS technology replacement/update funding on a regular basis;
- support the City's mandate of "transit first", and
- be at market conditions based on the location and application of the parking facility.

At present there is no "master plan" or process to guide how rates are set. They are set in response to what the MTA budget determines should be a level of return, and often on the suggestions of Operators. There is no capital funding set aside for maintenance or PARCS replacement, so that rates and rate increases do not take this expense into consideration.

Based on interviews conducted, the Operators do a rates survey of competing facilities and recommend rate changes to the PA. In one interview, the Early Bird rates in the area were between $12.00 - $14.00. The Operator recommended an $8.00 rate and it was approved by the PA. The rational behind the rate was to fill the garage so that the incentive fee could be made. Additionally, the new rate forced competing locations to drop their rates accordingly. This was in direct contrast with the City's Transit First directive since additional parking patrons are now driving to work. The reduced daily rate made it less expensive than the posted monthly rate by at least 20% based on 20 trips a month.

Without question, both the PA (and Operator) benefited from the change described above; however, what if the rate had been set at $10.00, still $2.00 below the competition? On days that the reduced rate is offered, a potential of $250,000 annually could have become bottom line dollars. What if the rate were set to simply match the $12.00 rate in the area? Maybe this change would have then generated an additional $500,000 on this increment that was set at $8.00. Consider in another facility where a weekend validation reduces the parking fee to $3.00 ($2.40 fee and $0.60 tax) and provides a shuttle service. The PA subsidizes this validation at the rate of approximately $95,000 annually. Over time since this validation was created, the need for the discount and the volume of users have diminished to the extent that the PA ends up subsidizing a special interest group.

Last of all, consideration of the traditional "Grace" period for both transient and monthly customers should be examined. In one garage, the adjustment of the transient continuous grace period would have generated $30,000 annually.

These are just three examples of how rates and validation policies need careful examination. When considered over all the assets for which the PA has responsibility, these examples are worth several million dollars in lost revenue opportunities, all of which become bottom line dollars to the annual operating surplus.

Beyond the lowering of the rate and the additional income generated by the new influx of vehicles, during the interviews with at least two different Operators, the *Consulting Team* was informed that there was no discussion on the expenses involved by parking additional vehicles due to rate changes or new income generators. In both instances, additional labor was necessary to address the collection of revenues.

Additional labor should have been the last option chosen, not the first. Better signs to direct customers to use the Pay-on-Foot (POF) machines, or additional Credit Card only POF units should have been installed at strategic points of pedestrian travel. The expense of one full service POF or three (3) Credit Card only POF units have a 12 month return on investment (ROI) when compared to one full-time employee.

Using the Chicago Downtown Parking garages as an example; the four garage complex comprises approximately 9,500 spaces in the heart of Chicago located under Grant Park. All four garages are 100% Pay-on-Foot; there are no exit cashier stations nor are there staffed central pay stations. Using this approach in the PA garages would save several million dollars of direct payroll and payroll taxes each year.

Recommendations

A semi annual rate survey should be made of competing facilities in the market areas of the PA garages. Rate increases should be based on the six objectives previously mentioned, and should not be concerned with potential loss of vehicle volumes. These losses in revenues are recovered in the rate increase, and over time the loss of volume is recovered based on the ability of the competing market to absorb the volume of vehicles. Any rate increase will be unpopular and customers will look for other locations to park if the increase is excessive. Let the market determine the rates for a particular area. In response, surrounding locations will adjust their rates to reflect any increases in the PA facilities.

Use of the reports itemized in the Revenue reporting section will enable the PA to determine vacancy factors, peak space demand factor, and vehicle duration of stay reports. Used collectively, the PA can drive the market price to meet the needs of the facility.

At some point in the rate process, the parking fees will have increased to a level that alternate modes of transportation will be adopted by some drivers who are unwilling to pay increased fees. Balancing the rates to generate parking revenues while encouraging people to use transit should be one of the objectives of the PA staff, in line with the “Transit First” mandates.

Another alternative is to use demand pricing. During periods of peak demand, increase rates; during periods of lesser demand, use reduced pricing. This is already partially in effect at locations surrounding the Convention Center. On days of high demand, an “Event” rate is charged by several of the private garage sector Operators, knowing that spaces are at a premium, and on non event days a relaxed rate is offered.

Staffing

A. DO PARKING AUTHORITY STAFF HAVE APPROPRIATE SKILLS AND EXPERTISE TO PERFORM ESSENTIAL OVERSIGHT FUNCTIONS?

The *Consulting Team* considers the “essential oversight functions” to be the following:

1. supervision of the operations in a manner consistent with the powers delegated to staff by the Parking Authority Commission;
2. compliance with any Commission policies on the planning and operations of public parking;
3. multi-year budgeting for PA revenues and expenses, including anticipated changes in rates and the number of spaces as warranted;
4. multi-year budgeting for capital expenditures commensurate with long-term maintenance of the facilities and PA standards for equipment, aesthetic improvements, customer service, and additions to the parking supply;

5. monitoring of all contracts for services to ensure that Parking Authority revenues are secure, expenses are appropriate, facilities are well cared for, and Operators are following the requirements in the contracts;
6. preparation of financial and performance data that are regularly benchmarked against contract requirements, previous performance, facilities within the system, and facilities in other systems;
7. maintenance of financial and performance data in ways that allow the retrieval and reporting of information sufficient for the needs of the Parking Authority Commission, the Municipal Transportation Agency, and others;
8. development of short and long-term plans and programs that meet the objectives of the Parking Authority Commission for public parking in San Francisco;
9. supervision, performance monitoring, hiring, and firing of Parking Authority staff members; and
10. research and analysis of best practices in the parking industry, as well as new technology and state-of-the-art techniques that contribute to financial performance.

Many of these functions are not being carried out by the current PA staff, but the reasons for this condition may have several sources.

The Parking Authority was created under a very basic piece of state legislation, similar to authority legislation in most states. The Rules of Order for the Municipal Transportation Agency are also applied to the Parking Authority Commission, and the same members serve on both boards. There are no additional written Parking Authority policies, guidelines, or descriptions of the responsibilities of the Commission and the responsibilities of the Parking Authority staff. Thus it would be difficult for any staff to comply with Commission policies or to understand exactly the powers that are delegated to staff.

That being said, it is clear that many basic oversight functions that should be performed by the staff are not being performed, including the following:

- multi-year budgeting taking into account anticipated changes in revenue and expenses does not appear to be done in any sophisticated manner;
- there is no capital budget, despite the fact that eight of the PA's garages are 40 years or older and the parking access and revenue control system (PARCS) is inadequate;
- while revenues are tracked, there seems to be little analysis of garage expenses – either compared to previous years, compared among the operators, or compared to other similar operations;
- preparation of financial and performance data are inadequate (this was addressed in a previous section);
- a "vision and strategy" document was prepared in 2006, but little in it has been accomplished and there are no previous documents of the same type;
- minimal research and analysis either of existing conditions or of best practices was available for review; and
- there are no written operating procedures, policies, or practices.

While it could be argued that the minimal staff associated with the PA (only two full-time staff devoted solely to the PA, with some additional assistance from MTA staff assigned) should not be expected to be able to perform a significant number of functions, it is also true that the full-time staff in place at present have been there for approximately ten years (or more in one case), and to have no written operating procedures or policies on parking issues (operating policies or those approved by the Parking Authority Commission) is inexcusable. Should these individuals no longer be in place, there would be little existing continuity or governance of the Parking Authority operations.

Further, the one document provided that was titled "Deputy Director and Property Manager Orientation Manual" recommends that the staff person visit 21 lots in one day, every 30 days, for inspections. Based upon an eight hour work day, the average visit to a lot would be less than 15 minutes considering travel time between the properties – hardly time to determine the state of operations and physical conditions. Instructions for inspecting the garages were to take 20 minutes with small garages and 45 minutes with large ones, once a month.

This orientation manual was the only document related to operating procedures that could be provided, and it contains no check-lists for what should be observed. It is an informal explanation of position responsibilities, and, while it emphasizes keeping records, provides background information on the PA, and lists major contacts, it is not written in a manner suitable for guiding operating procedures.

It was clear from interviews that the PA staff members believe that some of their efforts toward future planning or budgeting are fruitless due to the structure of the organization, the duel role of Commissioners, and the strategy of helping to fund transportation with parking revenue. However, it is the role of a Director, or an Acting Director, of a significant organization to bring organizational deficiencies to light, to prepare materials for discussion by the Commissioners, to compare existing circumstances with desired circumstances, to prepare materials indicating the risks that the PA runs by not improving certain circumstances, and to take a stand on how the organization should be run. Whatever the reasons, these basic functions have not been performed.

B. IS THE NUMBER OF PERSONNEL ASSIGNED TO THE AUTHORITY APPROPRIATE TO MEET THE AGENCY'S RESPONSIBILITIES?

The answer to this question is "absolutely not."

The Parking Authority has chosen over the years to have its garages managed by Operators (for-profit and non-for-profit) under contracts of several kinds. However, it has neglected the responsibility to effectively monitor the contracts, expenses, and safeguarding of revenue. In the parking industry, there exists an old maxim of "Manage your Operators or your Operators manage you." The Parking Authority has put itself in the position of being managed by its Operators by failing to retain sufficient staff and neglecting to provide adequate guidance to the staff members on their responsibilities and duties.

How does one determine an adequate number of personnel? The best way is to decide the functions that are essential, the level of activity associated with those functions, which (if any) of the functions can be accomplished through "borrowing" staff from other organizations, the amount of time the functions will take, and the staffing complement necessary to meet the requirements and perform the essential functions. However, an example "rule of thumb" may be useful as well.

Not many cities or authorities manage as large a number of garages as does San Francisco, particularly with management contracts rather than self-managed operations. The City of Minneapolis, however, manages 24 garages, all of which are under contract to Operators for daily operations. The City's "rule of thumb" for staffing to adequately monitor the operators and to ensure that the City's capital investment in the garages is well taken care of is the following:

- one Parking System Analyst ($50 - $65,000 annual salary including benefits) per 5,000 parking spaces managed;
- one Engineer ($60 - $75,000 annual salary including benefits) per 15,000 parking spaces managed; and
- one Office Support Specialist ($40 - $50,000 annual salary including benefits).

Thus Minneapolis manages its Operators for 24 garages with approximately 10.5 FTE (full time equivalent) staff directly working on parking, plus their Manager. Also involved is the Department's accounting staff, and other City staff handling human resources, information technology, legal, etc. These services are billed back to Parking through direct time or overhead distribution. It is estimated that another equivalent of ten FTEs in the City are funded from parking for a variety of services. This would be similar to the MTA or City of San Francisco staff that assist the Parking Authority at present.

This example, plus the list of functions that are not taking place and analysis that is not done, clearly indicates that the number of PA personnel is totally inadequate. Neither the revenue nor the physical assets of the PA are sufficiently monitored to protect the Parking Authority's investment and its resources.

Recommendations

It is not possible for the *Consulting Team* in this project to analyze the number and type of staff needed at the PA. However, the following basic approach is recommended:

- The PA Commission needs to determine the functions that should be performed to manage the parking facilities under the PA's umbrella in a first class, financially responsible manner.

- The PA Commission should then determine whether it is desirable to have needed functions performed by PA staff only, by some combination of PA and other staff (City or MTA) under a clearly defined set of work and financial agreements, or whether the Commission wants to consider other options that are now being explored by municipalities (e.g., the 99-year commission of the Chicago Parking System to private investors). This is not a set of decisions to be taken lightly, for there are public policy issues associated with each option.

- The preferred organizational option should then be developed (organization charts, positions, responsibilities) and budgeted, or it may be desirable to budget all the options in order to understand the financial trade-offs associated with each.

These initial discussions and explorations of staffing will help the PA Commission determine the levels of staffing needed, the skills necessary for positions, and the method by which adequate staff will be obtained to provided the oversight that the parking system requires.

III. GARAGE MANAGEMENT CONTRACTS AND CONTRACTING PROCESS

Selection of Managers

A. HOW DOES THE AUTHORITY'S PROCESS TO SELECT GARAGE MANAGERS COMPARE WITH INDUSTRY BEST PRACTICES?

The *Consulting Team* was informed by several individuals that the contracting process used for each garage depended in part upon the time available by PA and City staff to prepare the RFP or bid documents. This is not a good governing factor for deciding the nature of the agreement to be used for retaining a parking Operator. In a subsequent section, the *Consulting Team* indicates that the "fixed fee" contract is not a good option for the Parking Authority, or any Owner.

The *Consulting Team* was also told that some of the Operators selected by the PA over the years had little or no experience in parking operations prior to being selected. For the fixed fee contracts, an Operator with no experience only had to put in the lowest bid in order to be selected. This process was not one to insure adequate operations, particularly with such a minimal PA staff available to monitor Operators or to provide them assistance.

The "best practices" for selecting operators in the industry focus on:

- a formal, organized Request for Proposals (RFP) process;
- an RFP document that requests technical and useful information, not just public relations information that will, in the end, be unrelated to the success of the operation;
- a contract, with the document exhibited in the RFP, that clearly specifies Operator responsibilities, Owner responsibilities, and all other necessary operating requirements;
- an interview and reference checking process that seriously evaluates the performance of the individuals that will be managing the facility in question;
- use of a selection committee that contains informed individuals who have received information and instruction on how to compare and evaluate proposals; and
- budget templates that must be completed by every proposer so that financial comparisons are "apples to apples", and so that costs are explained thoroughly for evaluation.

B. HOW SHOULD A CANDIDATE'S PRIOR EXPERIENCE BE EVALUATED WHEN USING A BID RFP PROCESS? WHEN USING A LOW BID PROCESS?

An Operator's prior experience is subjective and not objective. Simply because an Operator can claim to operate a similar sized resource elsewhere in the United States, this does not qualify the firm to operate a similar sized or type of resource in San Francisco. Those skills are not "owned" by the Operator and are not simply transferable on paper from location to location.

There are only three individuals that will make a difference in any parking operation:

- the On-Site Manager;
- the Local Supervisor of the Manager; and
- the PA staff representative.

If any one of these individuals does not have the appropriate skill sets necessary to manage the asset, there will be a less that efficient operation. If two of the three are not actively involved, the operation is doomed to failure.

The single most important person will be the On-Site Manager. This person must have the skills and experience to manage both the asset and the employees assigned to the asset. The Manager must posses the skills to properly operate the PARC system installed that controls the parking resource.

Most importantly, the Manager must be motivated, either because of personal desires or because there is the opportunity to advance. If the Manager is there simply for a “weekly pay check”, then an Owner has the wrong Manager on site and should request the removal of the person.

The second most important person is the On-Site Manager’s immediate Supervisor. This person must be local, someone who can stop in at the facility any time of day or night and any day of the week unannounced to evaluate the standard of operations. Additionally, the Supervisor must be able to support the Manager’s needs as it involves the operation, such as Human Resources, maintaining vendor relations, and working closely with the Owner’s representative, the PA staff person.

If this Supervisor is not successful, the Manager will be limited in his/her ability to operate an efficient facility or to maximize the revenue potential of the parking resource.

The third person in this chain is the PA’s representative with whom the Operator works. Quite frankly, if the Owner is not sufficiently interested in the property and revenues, there will be little motivation on the part of the Operator to maximize the Net Operating Income of the resource. After all, it’s not their money being spent or banked! If the Owner doesn’t really care, why should they?

Thus the prior operating experience of a large company throughout the United States is of little value to an Owner seeking a good operator for a local facility. What is important is to evaluate the Supervisor and Manager that will be working for the Owner. The Owner should require that the experience and qualifications of the individuals that will actually be operating the facility be provided, and that these individuals are made available for interviews and discussions.

Recommendations

The *Consulting Team’*s approach would be to evaluate only local references supplied by the proposed Operator. As part of that reference, an actual site visit to one or two of the facilities would be appropriate to see first hand how well the Operator is doing.

The proposed Manager for the site should be interviewed as part of the selection process as he/she is the person who will actually represent the PA on a daily basis to the customers who use the parking resource. If the Manager is coming from another city, then references from other Owners should be made available and these references should be checked thoroughly. If the Manager is still working in the other city and would be moving to San Francisco, then the garages in the other city should be visited.

The PA should require the Operator to have a Regional office with within 50 miles/one hour’s drive from the parking facilities. Unfortunately, it is not really possible to properly manage facilities from outside the local area.

The responses to the RFP should be in two envelopes. Envelope “One” should be the “Technical” and “Public Relations” response to the RFP, and envelope “Two” should contain the price.

The selection committee should base its decision first on the merits of the Technical response to the RFP and eliminate those who do not qualify or who scored low in the response and presentation phase. The Technical response should include such items as technical information, operating procedures, approach to staff management and facility management, and qualifications of proposed personnel. Those firms not making the cut to the short list should have their price envelope returned unopened.

Once the “short” list is announced, then and only then should the price be evaluated. In evaluating the cost submitted by the Operator, it is important to remember that a low Management Fee can easily be offset by the proposed cost of insurance and payroll related taxes that are unique to each Operator. The difference of two percent on the Workers’ Compensation rate means a $20,000 variance per million dollars in payroll, an amount easily obtainable in many of the facilities. The evaluations must include that when weighing the options.

The key words in the entire RFP process should not be “**Low Bid**” but “**<u>Lowest</u> <u>Responsible</u> <u>Bid</u>**”. And in fact, in a Request for Proposals process, the lowest price may not be the best price, depending upon the other factors present in the requirements and the proposals.

The *Consulting Team* recommends that the PA cease using the Fixed Fee or “Low Bid” process altogether. It offers no advantages and multiple disadvantages for any Owner.

Management Contracts

A. IS THE CURRENT STRUCTURE OF MANAGING EACH GARAGE AS A STAND-ALONE BUSINESS ENTERPRISE AN EFFICIENT AND EFFECTIVE MEANS OF MANAGING THE GARAGES?

The present practice of bidding each garage is not the most efficient or effective method of managing the parking resources for the PA. The garages should be bundled together by size of the facilities so that a “bid package” represents some reasonable proportion (30-50 percent) of the spaces of the PA’s portfolio. The mix of facilities should consider geographic areas as well as economic performance of flagship properties as well as struggling properties.

Bundling the properties will accomplish several factors:

- economy of scale for operational costs;
- improved interest by professional managed parking companies; and
- greater control by the Parking Authority.

At present, an Operator who bids or is awarded one property has little incentive to maximize the properties usage and income while minimizing operational expenses. The Operators, as for-profit companies, will concentrate their time and efforts on properties where they can generate the most bottom line dollars back to their company.

During the interview process, the PA Director was able to enumerate 15 of the 19 facilities under his control comprising eight (8) different vendors. The consolidation of the facilities to fewer Operators would permit better efficiencies within the PA by limiting the number of meetings with numerous Operators and by each Operator having a greater concern for their operational performance. Consider the rivalry between “Hertz and Avis” with Avis always striving to be better than the Number 2 Company. This is the model that Parking Authority should strive toward for in the end both the PA and the patron of the facility will be the beneficiaries of that increased level of management and operations.

A.1. IF NOT, ARE THERE ALTERNATIVES THAT WOULD PRESERVE OPPORTUNITIES FOR LOCAL SMALL BUSINESSES?

The PA, by most recent accounts, produced approximately $91,000,000 in gross parking revenues and should exceed $100,000,000 in gross revenues in the upcoming budget year. Unfortunately in some ways, parking in San Francisco is "big business"! As part of the bid specification, a condition to include a partnership with small local business, incorporated within the boundaries of the City limits, can be stipulated as a condition of bid or as a method of additional points being awarded when the proposals are reviewed. Subcontracting opportunities are also available for various services provided in or for the garages, ranging from valet services to printing to painting or security.

Recommendations

The *Consulting Team* considers reducing the number of Operators managing the various parking resources to be an advantage. The reduced number of management companies will provide greater flexibility for the PA in working with the smaller number of Operators, permit the PA to exert greater pressure on the Operators since they will not want to lose multiple locations due to poor management at one location, and will provide a better economy of scale in the overall cost of the Operations.

B. WHAT ARE THE RELATIVE RISKS AND ADVANTAGES TO USING FIXED-FEE MANAGEMENT CONTRACTS IN WHICH ALL ARE COSTS BORNE BY THE MANAGER, AS COMPARED TO "BUDGET CONTRACTS" IN WHICH THE AUTHORITY REIMBURSES THE MANAGER FOR OPERATING EXPENSES?

In order to answer this question, it is important to first understand the nature of the Parking Management Industry. There are only three items that are beyond the control of the Owner (PA) in the day to day cost of operations. They are:

- the Operators "Management Fee";
- the cost of Workers Compensation insurance; and
- the cost of State Unemployment Tax.

All other costs are controlled by Owner or are beyond the Owner's/Operator's control; e.g., the cost of electric, telephone, water will be the same regardless of who the Operator is. The labor costs are based on a collective bargaining contract that run for five years, so labor rates and associated benefits are a known and controllable cost.

The Operator's management fee must assume the entire cost of off-site expenses of managing and accounting for the facility. There should be no additional reimbursement for internal accounting services, payroll administration/processing, invoicing monthly accounts, etc. Also, the Operator's profit must be included as part of this fee. Workers' Compensation and State Unemployment tax is based directly on the previous year's experience by the Operator within the State of California.

Therefore, all other costs of operations are at the discretion of the PA. The PA has several years of historical data of actual expenses, by expense category, and the PA controls and sets the annual operating budget – or in theory it could. Within the context of the Management Agreement, there are provisions detailing how budget dollars are spent and what level of approval is necessary for individual expenses. Typically, this is a $750 - $1,000 level before PA approval is required on any individual expense. The request should be documented with three quotes for the service to ensure that the best price has been obtained.

A Fixed Fee contract is not in the PA's best interest – only in the Operator's best interest. The Operator will be tempted to cut corners on all aspects of the operations since every dollar not spent in the operation becomes a bottom line dollar for the Operator. The cost on behalf of the PA to monitor the operation with regard to the terms of the Management Agreement becomes labor intensive and is always an afterthought; the PA becomes reactive as opposed to proactive in the management of the parking resource.

Recommendations

The *Consulting Team* considers the Fee plus Expenses type of Management Agreement to be in the best interest of both the PA and the public which the PA serves. This agreement requires more oversight of the parking assets by the PA; however, the rewards will be a direct return to the operating bottom line of at least ten (10) percent of the GROSS Revenues in any given year. Additionally, the Management Agreements should be reduced to a maximum of three (3) years duration as opposed to the current six. This shorter period requires the Operator to better manage the parking resource or risk losing the asset and their share in a highly prized market.

C. WHAT IMPROVEMENTS MIGHT THE AUTHORITY MAKE TO ITS FIXED FEE AND BUDGET CONTRACTS?

The Management Agreements may be divided into three distinct parts; the "Legal Boiler Plate" section, the "Operating Requirements" section, and the "Exhibit/Appendix" section.

This report will not address the "Boiler Plate" section as the PA has the entire City Attorney's Office to address that section.

The "Operating Section" is lacking current trends in Parking Management language. The PA should consider the following areas for improving the Agreement;

- Term: The current terms are typically six (6) years with four (4), one (1) year options to renew. This contract term is too long. The term should be a three (3) year term with two (2) one (1) year options of renewal. There should also be a thirty (30) day cancellation, without cause, clause added.

- Reimbursable/Non-Reimbursable Expenses: The current contract is not specific on what is and is not a cost of the PA. The items should be better defined and Non-Reimbursable items should be itemized. These are typically expenses that cannot be audited, are arbitrary in their application, or cannot be quantified as to the actual cost to the facility in question. These are typically: costs for employee recruitment, in-house audit, company accounting, interoffice correspondence, off-site Supervision, etc. All of these costs are best known by the Operator and should be part of their Management Fee.

- Penalties for non compliance: The current agreement dose not adequately address non-compliance with regard to housekeeping, maintenance, equipment, or reporting standards.

- Specifications for procedures: Requirements for routine maintenance, housekeeping, replacement of fixtures, etc. should be spelled out in sufficient detail to be able to be objectively monitored, and the operating "blog" described earlier should be required.

The "Exhibit/Appendix" section should better address total labor hours, coverage of labor schedules, use of overtime hours, and required monthly reports to the PA.

D. ARE INCENTIVE FEE PROGRAMS (BASED ON REVENUE GOALS) EFFECTIVE, AND HOW ARE THEY BEST STRUCTURED AND IMPLEMENTED?

Incentive Fees are an important part of the management process if the PA wants to attract qualified Professional Parking Management Companies. For the most part, these are for profit companies – they exist to make money. The more money they can make at a facility, the more effort they will expend to ensure that the facility continues to be an asset for them, and by inference for the PA.

However, Incentive Fees should **only** be based on Net Operating Income, never on Gross Revenues. As an example, a facility lowers its Early Bird rate and has a large influx of vehicles. The Operator adds additional labor and uses valet staff to park the vehicles. The added cost of labor, uniforms, insurance, damage claims, and supervision has negated the additional revenues derived by the influx of vehicles; however, the Operator has received benefit from Gross revenues since their incentive fee was based on Gross Revenues. (Additionally, the Operator may have also profited on the additional sale of insurance and payroll taxes).

Since revenues are expected to rise annually simply due to annual rate increases, the incentive formula must also be set to consider the revenue increases as well as the additional cost of operations. A two tier incentive program provides an achievable target for an Operator to focus on. A rate of 7.5% -10% in tier one and an aggressive rate of 10% - 15% in tier two will be incentive for an Operator to effectively manage the parking resource while maintaining the most cost effective methods of operations. The Base used for the NOI is also adjusted each year to reflect increases from the previous year's rate increase.

Recommendations

The *Consulting Team* believes that an Incentive Fee is important in the Management Agreement as it permits Operators to share in the success of the Operations based on their levels of participation. The more they participate to maximize the resource, the more the resource becomes profitable for both the Operators and the PA. The amount of incentive fee should be capped to prevent any "windfall" incentive fee due to external circumstances that would have a profound affect on the use of the parking resource, such as the opening of a new building in the garage market area or the closing of a competing parking facility.

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IV. ADDITIONAL ISSUES

In addition to answering the questions posed by the Parking Authority in its Request for Proposals, the *Consulting Team* identified the following additional issues for consideration.

Responsibilities of the Parking Authority vs. Responsibilities of the Operators

A better delineation of responsibilities between the PA and the Operators needs to be identified. The PA is the Owner or manager of the garages, and some responsibilities are falling to the Operators inappropriately.

Mentioned previously was the issue of condition assessments of the garages. The PA should use a Request for Proposals process to retain a qualified engineering firm (with strong experience in parking garages) to assess structural, fire/life/safety, lighting, and general repair issues. This should not be left to individual Operators in their budgets, and it should not be done piece-meal if the PA wants to obtain the most for its investment in this process. By doing all 19 facilities, the PA could probably gain economy of scale and have the initial study done for under $750,000, with the immediate needs being identified with sufficient detail that the PA could use that extract from the report as the base bid specification to resolve the immediate problem(s) identified.

Similarly, the responsibilities of the PA and the Operators, as well as others, are not clear with regard to the retail space in various garages. The Real Estate department of the City does some leasing, and some of the Operators do leasing. No one really acts as property manager for these properties. In one instance where the *Consulting Team* was visiting a garage, a significant problem with the retail space, caused by defects in the garage, was identified. But the Real Estate department did not know about this issue, and clearly does not consider property management its responsibility. So active, suitable management of these retail properties does not seem to exist. It may be that these resources are not accomplishing the goals for which they were designed.

Other issues that need to be addressed by the PA rather than the Operators are: installation of DSL or fiber optic to handle credit card transactions, credit card processing fees, and certification for credit card security at all PA managed facilities. There may be other issues as well, and the *Consulting Team* recommends that this possibility be investigated further.

Management of the RFP Process

It was troublesome to the *Consulting Team* to hear from several sources that the decision to go with a “fixed fee” or “budget” contract with Operators was made primarily with regard to the amount of time available prior to the need to have an Operator in place. The *Consulting Team* has recommended in previous sections that the PA use the “budget” contract exclusively, since it offers better control, better information, and improved operations in comparison to the “fixed fee” option.

However, it is necessary for the PA to develop improved processes for managing the Request for Proposals (RFP), evaluation of proposers, and selection of Operators in order to receive the gains from using the better management agreement form. Based upon the interviews, it appears that the RFP process is more informal than would be appropriate. Advice about separating the Technical Proposal from the Price was offered in an earlier section. Improvements in the Agreement itself were also offered. But it is very important to develop a selection committee that is informed and will devote the time to reviewing proposals.

Further, the review process needs to be structured, and individuals on the committee need to have a clear understanding of a) what they are evaluating, b) what are “good” and “bad” characteristics of the variables they are weighing, and c) how to differentiate among the proposals.

Documents and instructions for a thorough RFP process may exist at the PA, but they were not mentioned or provided, and interviews clearly implied a much more informal process than what is needed going forward.

Options for Management

A new approach to managing public parking facilities (and some roadway infrastructures as well) has surfaced over the past two years. Some cities, such as Chicago, are taking the approach to “concession” or lease their facilities for an up-front payment by a private entity. The City of Chicago Parking System was concessioned to a private consortium for 99 years for one up-front payment of $563 million. The City of Philadelphia is in the process of leasing its primary Center City underground garage for a 50-year period. The City of Minneapolis has several garages up for fee simple sale.

All of these are examples of public entities trying to wring the best financial return from parking assets. Whether these long-term arrangements are really the best financial return is certainly arguable, as are the public policy benefits of the arrangements, but the approach is worth the PA considering as it contemplates making significant improvements to both its management structure and the parking facilities themselves. This approach might, after analysis, be a viable alternative to building the PA organization and developing a funding approach to repair aging garages.

Summary of Operator Comments About PA Business Practices

Consulting Team interviews with Operators revealed that they have their own difficulties with the PA business practices at present. Below is a partial listing of comments indicating their thoughts (statements in quotes are direct quotations):

- “The Parking Authority has never pushed back on expenses.”
- The RFP process should be better, and be less political.
- Fixed Fee contracts with no escalator (increase) over six years are unreasonable.
- A standard incentive fee formula would be more fair.
- Some properties have not been put out for bid in many years.
- The new deposit system does not allow reconciliation by the Operators. “They didn’t think through how the process was going to work.”
- There are different software versions for the revenue control equipment in different garages. This causes confusion for many people.
- “There is no grand scheme for managing the technology.”
- “There are no written policies, and PA staff suggestions come out of left field.” The PA staff is overwhelmed.
- “PA interaction is by phone or fax. Things are not well thought out.”

- The PA has an informal “Mom and Pop” approach to major projects.
- “I would like standards for performance, and predictability from the Parking Authority.”

Potential for Increasing Net Revenues

Calculating how much additional net revenue could be obtained through better business practices was not part of this assignment. However, the *Consulting Team* considered this question throughout the process of reviewing documents and interviewing individuals involved with the PA and its garages.

Changes in business practices that could reap the largest benefits for the bottom line include the following recommendations:

1. Create a three and five year plan to guide the activities of the Parking Authority. This plan should include both short-range activities and multi-year activities, and it should identify both a schedule and responsibilities assigned to individuals. The manner in which the activities will be accomplished should also be identified: for example, hire PA staff, “borrow” other City or MTA staff, retain consultants, request peer assistance, etc.
2. Establish a six month plan and budget to review all of the garages based on highest to lowest dollars gross revenues. This process will start identifying wasted budget dollars quickly.
3. Establish a process and schedule on which to do a formal parking audit of each garage. This process is longer and more detailed than that in number 2, but it is necessary for each garage in order to stop revenue leaks and inappropriate expenses.
4. Determine the direction the PA Commission wants to go with regard to management of the garages, and if the decision is to improve the PA staffing levels, create an organization chart and begin identifying and hiring appropriate staff for the tasks to be accomplished.
5. Develop the specifications, procure, and install a comprehensive state-of-the-art PARCS system so that the revenues can be better counted and controlled.
6. Retain the assistance for physical assessments of the garages that allows the serious creation of a capital budget for improvements and upgrades to the facilities. This effort is the major part of beginning to establish a multi-year capital budget for the PA.
7. Revise the Management Agreement and all reporting forms so that adequate information is provided on both revenues and expenses.

The *Consulting Team* believes that a minimum of ten percent more gross revenue could be achieved as a result of these improvements, and that continued serious improvement to the Parking Authority business practices could yield from 20 to 30 percent additional gross revenue over a period of years.

This impact on the net revenue produced by the Parking Authority is certainly worth the investment of the efforts and funds that it will take to accomplish the recommendations.