

**Project Excellence: Parking System Review Team**

**April 12, 2005**

**TABLE OF CONTENTS:**

**EXECUTIVE SUMMARY..... 3**

**PROJECT EXCELLENCE BACKGROUND AND STUDY METHODOLOGY..... 5**

**BACKGROUND: PARKING OPERATIONS AND FINANCIAL MANAGEMENT ..... 7**

**OBSERVATIONS..... 10**

**RECOMMENDATIONS..... 12**

**IMPLEMENTATION OF RECOMMENDATIONS ..... 15**

**APPENDIX A – OPERATIONAL EXPENSE PER STALL COMPARISONS FOR PARKING SYSTEM ASSETS ..... 16**

**APPENDIX B – PAST, CURRENT AND PROJECTED MUNICIPAL PARKING FUND BALANCE ..... 18**

## Executive Summary

The Project Excellence Parking System Review Team is pleased to present this analysis of the City of Minneapolis Parking System (the “System”) and the Municipal Parking Fund (the “Parking Fund”) along with recommendations designed to improve performance of the assets within the System and the related Parking Fund. The System is made up of brick and mortar assets that generate parking fees. The Parking Fund captures and tracks the financial activities of the System.

In February, 2005, the team began examining municipal parking in Minneapolis. The team quickly distinguished between parking assets that comprise the System and the activities of the Fund, but sorting through financial data to determine the real financial health of parking assets within the System consumed substantial work time. The Parking Fund may be misnamed – it reflects more than the System’s financial management and accounting activity. The following table summarizes past years’ Fund activity:

### City of Minneapolis Municipal Parking Enterprise Fund: Revenues, Expenses for the Years Ended December 31<sup>1</sup>

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Operating Revenues	\$39,859,560	\$44,488,164	\$44,177,754	\$43,789,542
Operating Expenses (including depreciation)	\$26,948,061	\$32,738,212	\$32,869,485	\$34,440,137
<b>Total Operating Income/(Loss)</b>	<b>\$12,911,499</b>	<b>\$11,749,952</b>	<b>\$11,308,269</b>	<b>\$9,349,405</b>
Planned Transfers for Operations (Convention Center sales tax, TIF, other)	\$12,043,091	\$13,933,656	\$14,079,877	\$14,439,675
Non-Operating Revenues/(Expenses) (debt interest, maintenance)	<u>(\$8,422,970)</u>	<u>(\$12,718,814)</u>	<u>(\$12,727,547)</u>	<u>(\$13,695,642)</u>
<b>Total Planned Obligations and Non Operating Revenues</b>	<b>\$3,620,121</b>	<b>\$1,214,842</b>	<b>\$1,352,330</b>	<b>\$744,033</b>
<b>Net Operating Income/(Loss)</b>	<b>\$16,531,620</b>	<b>\$12,964,794</b>	<b>\$12,660,599</b>	<b>\$10,093,438</b>
Subsidy Payments (General Fund, Target, Downtown marketing)	<u>(\$11,473,804)</u>	<u>(\$13,582,321)</u>	<u>(\$12,315,793)</u>	<u>(\$12,935,837)</u>
<b>Net Income/(Loss)</b>	<b>\$5,057,816</b>	<b>(\$617,527)</b>	<b>\$344,806</b>	<b>(\$2,842,399)</b>

<sup>1</sup> Does not include TAD ramps – owned by MnDOT & operated by the City

Here's what the Team observed:

- **Financial clarity is needed to improve management decision making** – the lack of clarity about the health of System assets hampers decision-making about operations and future investment in assets.
- **Accountabilities for well defined results need sharpening** – performance expectations for the System and the Parking Fund are not well defined and coordinated. Responsibilities for planning and managing parking assets rest in separate City locations.
- **Sustainability of the Parking System rests on improved clarity and sharpened accountability** – The projected need for new parking stalls downtown is between 15,000 and 20,000, according to the 2000 Downtown Transportation Study. Current urban design standards for parking facilities are increasingly expensive (Guthrie ramp stall costs are over \$30,000). If future building costs are approximately \$30,000 per stall, and these needs are not financed by the private sector, meeting projected needs for parking downtown will require at least \$450 Million in new capital. The City will need to better balance between Parking System goals, and manage operations in sustainable ways.

Current transfer levels out of the Fund are not sustainable. While the City has taken steps to correct projected long term Fund deficits, planned solutions do not address key problems (investments in operational efficiency of System assets, coordinated planning and balancing tension between System goals). Long term health of the Fund and the System rests on careful planning of future parking assets that are financially self-sufficient.

Recommendations in this report include:

- Optimizing existing System assets
- Assembling and using clear financial performance information about System assets to drive operational improvements
- Realigning System and Parking Fund goals, and improve accountability
- Improving decision making if System assets are added

We have identified implementation tasks for the next year intended to help the City improve System and Parking Fund performance. System sustainability depends on clearer, timely financial performance information, clarified accountabilities for attaining measurable performance objectives, and collaborative processes for considering the addition of new assets to the System portfolio.

## Project Excellence Background and Study Methodology

This report was compiled by volunteers from Minneapolis' business community working as a team on the first of many planned efforts for a program called Project Excellence. Project Excellence was established as a means of developing cross-sector partnerships to facilitate deeper understanding of local government operations, and leverage business experience to improve the effectiveness and efficiency of municipal operations. Volunteers were identified and recruited by the Minneapolis Regional Chamber of Commerce to participate in Project Excellence, alongside City of Minneapolis staff.

Project Excellence's initial effort (The Parking System Review Team) focused on developing ideas to improve the efficiency and effectiveness of the City of Minneapolis' System, one of the largest municipal parking systems in the United States.

The Parking System Review Team began studying the municipal parking System and the related Parking Fund into which parking and other revenues flow on February 15, 2005. The team represented the following disciplines: public finance and accounting, marketing and public relations, architectural and design services, and parking system expertise. The following people volunteered their time and expertise to participate on the Parking System Review Team:

- Dave Albersman, Albersman & Armstrong
- Dan Costello, HDR
- Timothy David, Deloitte Consulting LLP
- Natalie Ellertson, City of Minneapolis
- Dave Halter, SEH Inc.
- Todd Klingel, Minneapolis Regional Chamber of Commerce
- Mike Ley, Virchow Krause & Company
- Bill Mahre, Minnesota Diversified Inc.
- Dan O'Neill, Allison Williams
- Dan Pfeiffer, Xcel Energy
- Michael Sachi, City of Minneapolis
- Tanya Spaulding, Shea, Inc.
- Chris Werle, Webber Shandwick
- Tom Whelan, Nemer Fieger
- Steve Yanisch, RBC Dain Rauscher

The team met eight times for approximately an hour and a half at a time. Initial meetings were used to provide information about the System, the Fund, governmental fund accounting basics and the City's general financial condition. Study volunteers also learned about plans to modernize some parking facilities (to improve efficiency) and re-bid the contract for a System operations vendor.

Between formal, weekly meetings, team members worked in sub-teams on specific items. Information provided to the team included the Parking System Business Plan, a "workout" plan intended to help reduce Municipal Parking Fund deficits, annual financial statements from the State Auditor's Office for the Fund and System assets, access to operational and Finance staff, and miscellaneous marketing materials for the System.

The team used broad background materials to identify and organize observations and related issues. After discussion of key observations and component issues, the team developed and discussed recommendations. The team completed its work and presented their results on April 12, 2005 to City officials.

The remainder of this report describes what the team observed, description of significant issues and implications, and recommendations intended to help the City address key challenges. This report also describes ways in which the City could approach implementation of the team's recommendations.

*Project Excellence team members would like to thank Deloitte Consulting, LLP for the many pro bono hours during which Tim David planned, facilitated, coordinated, motivated and otherwise kept the team moving forward.*

## Background: Parking Operations and Financial Management

The City of Minneapolis has both a System that includes on and off street parking and an impoundment lot, and a Parking Fund into which System revenues flow.

### ***The System and the Parking Fund: Relationship and Differences:***

System revenues flow into the Parking Fund. However, distinguishing between the System and the Parking Fund is critical to sound analysis of the current financial and operation health of the System. The System and the Parking Fund are described below:

The System has the following assets:

- Approximately 6,200 on-street metered parking spaces
- Approximately 25,000 stalls in 22 off-street parking facilities
- Eight surface lots with about 1,500 spaces
- An impound lot into which approximately 42,000 vehicles are towed every year

The System generates annual receipts from parking fees generally in excess of \$40 million. Fees flow into the Parking Fund. The Parking Fund accounts for the operations and maintenance of parking ramps, lots, on-street parking, the impound lot and traffic & parking control. In 2003, the Parking Fund did the following:

- Provided a subsidy to the General Fund (\$10.9 Million)
- Provided a subsidy for the Target Center Arena (\$1.5 Million)
- Paid for Traffic Control Agents (\$2.4 Million)
- Paid for Bus Stop garbage collection (\$146,000)
- Contributed to Downtown Council marketing efforts, including the TCF Holidazzle Parade (\$727,000)
- Received tax increment and Convention Center sales tax revenues (\$13.5 Million)

The General Fund has relied heavily on surpluses from the Parking Fund. The practice of transferring surpluses has resulted in reliance on the Parking Fund for infusions into the General Fund, where there is greater flexibility in determining how money is spent. Some unprofitable assets receive subsidies to cover operating costs. Planned revenue transfers have also come from the Convention Center sales taxes and tax increment financing to cover bond debt in specific facilities.

### ***System Goals:***

The System is managed by the Department of Public Works. Parking capacity is intended to help the City achieve three goals. These three goals include supporting transportation objectives, supporting economic development and maximizing revenue. The System assets' contribution to each goal is described below.

### **Goal 1 for the System – Supporting Transportation Objectives**

Transportation goals have influenced location, design and operation of many City facilities in the following ways:

- Locating ramps on the fringes of downtown served as one means of easing congestion in the central core
- Skyways helped encourage fringe ramp use, as did setting parking prices lower than parking amenities in the immediate downtown
- The City partners with the Minnesota Department of Transportation to operate and share the proceeds of three major ramps designed as transportation hubs for downtown. Third Avenue Distributor (TAD) ramps capture traffic coming into downtown from key interstates, and connect parkers to downtown through skyways, busses, and more recently, light rail.
- The City also operates an impound lot as part of the parking system. The impound lot is a temporary repository for vehicles obstructing general mobility (or maintenance of streets for mobility, i.e.: street snow removal)
- On-street meters provide convenient access for users to adjacent facilities.

### **Goal 2 for the System - Supporting Economic Development**

Increasingly since the mid 1990's, the City has collaborated on projects to provide parking facilities as a tool for economic development. The City partners with private and not-for-profit organizations contemplating investing in the City. Some argue that offering parking concessions stimulates economic development, especially in and near downtown.

### **Goal 3 for the System - Maximizing Revenue**

The third goal for the System is revenue generation. Parking fees are expected to cover operating and capital costs, and generate surpluses. Surpluses are transferred to other funds for use in other City operations. In recent years, the System has not had significant surpluses (due to declining use and under optimized facilities) after taking into account debt service and transfers to other funds.

### ***Fund Goals:***

Beyond solvency, there appear to be few formal goals for the Parking Fund. Some portion of surplus revenues could reasonably be expected to support operational improvements, including long term maintenance needs. The extent to which investments intended to improve operations has occurred is questionable, given the significant range in per stall operating costs.

### ***Assessing Fund and System Health:***

The Project Excellence Parking System Review Team reviewed both the System and the Fund in efforts to better understand and offer viable options for covering continued Parking Fund deficits and recommending ways to keep the System financially healthy. The Team spent half their time analyzing Parking Fund audit reports and still could not reach a clear verdict about the financial health of the System, the major contributor of revenues into the Parking Fund.

At the end of 2003, the Parking Fund had a \$6.4 million cash deficit. Projections indicated that by 2010, the Parking Fund balance would have a deficit of \$69.2 million if no intervention occurred. Analysis indicates that a combination of the following accounts for lower than hoped for Parking Fund balances:

- A weak economy resulting in lower ramp occupancy
- Increased competition from other parking facilities
- Expansion of alternate transportation modes
- Multiple transfers out of the Fund.

The Department of Public Works, together with the Finance Department, developed a plan to reduce projected Parking Fund deficits to approximately \$20 million by 2010. This “work out” plan was approved by the City Council in June, 2004.

The health of the System is not as easily characterized. Some System assets appear to produce healthy returns while others do not generate parking fees sufficient to cover operating costs. In recent years, transfers from other funds have covered expenses (including debt repayment) for certain facilities. Planned transfers, from Convention Center sales taxes for example, were established as a condition for approving some ramp finance plans prior to project approval. Complex Parking Fund activity and missing detail and consistency in accounting treatment complicate assessment of asset health.

While the health of both the Parking Fund and the System are difficult to assess in an eight week timeframe, remaining projected Parking Fund deficits and System utilization and parking need projections necessitate further analysis. Analysis should be accompanied by selection of strategies designed to improve management of both the Parking Fund and System assets.

## Observations

After reviewing provided materials, additional information from City staff and extensive discussion, collectively and in sub-teams, the Project Excellence Parking System Review Team offers the following observations.

### ***Observation 1: System assets are not fully optimized.***

- Assets are not managed in individualized ways that generate additional use
- Operational costs may be higher than necessary:
  - Staffing model may not fully support outsourced operation
  - Annual per stall operating costs vary significantly - from \$500 to almost \$2000. (See Appendix B for Annual Operating Costs per Stall).
  - Technology and other business improvement investments in off-street facilities vary - resulting in wide range of operational costs per stall
  - Operational and management processes are not altogether standardized and/or streamlined
- Limited alignment between specific product offerings and customer needs
  - Customer needs may not be fully understood
  - Thorough cost and benefit analysis of proposed parking facility locations and amenities not evident

### ***Observation 2: Fund complexity hinders effective System management.***

- Parking Fund receives planned transfers from Convention Center sales taxes and tax increment revenues to sustain specific assets
- Surplus Parking Fund monies are regularly transferred into the General Fund and used for non-parking related activities
- Some off-street parking facilities have generated fewer fees than expected since 2001
- Planned transfers from Convention Center sales tax and tax increment revenues offset debt on some ramps.
- Some ramps run annual operating deficits.
- Parking Fund activities cloud clear assessment of System's financial health (for example, the Parking Fund finances parking enforcement but doesn't recognize any revenue from ticketed violations as a result of this investment)
- Parking Fund's "work out" plan defers major system replacements on the recommended schedule in several System facilities.
- Under-funded maintenance will create bigger future liabilities and delay operational improvements that could decrease operating expenses.

### ***Observation 3: System planning and operations are not aligned.***

- Assumptions about parking needs have not changed substantially since 2000. However, the 2003 Downtown East/North Loop Master Plan has some updated projections.
- Current ratios of parking stalls per development may inflate overall parking needs
- Current ratios may not consistently consider demand management strategies like public or alternative transportation, including LRT, Busses, biking, walking or car pooling
- Planning and operations of parking facilities are conducted by separate entities (CPED and/or Finance may initiate a parking deal while Public Works operates parking facilities). Fund management occurs in yet another City department.

**Observation 4: Recent ramp developments do not balance all three System goals.**

- System goals have inherent conflicts requiring careful balance – making money, supporting development efforts and supporting transportation plans may be mutually exclusive without thoughtful planning
- Long term liabilities are growing quickly. Parking related debt accounts for more than 20% of total City debt. Current parking related debt is over \$300 million.
- Since 2000, the City has incurred \$180 million, effectively doubling parking related debt.
- There is an expectation that parking facilities will generate profits
- The cost of building parking facilities is increasing significantly as urban design objectives and standards evolve to address community preferences
- Average building costs per stall can exceed \$30,000
- Asset locations generally cannot justify parking fee levels needed to generate profits in the short or longer term
- Parking Fund increasingly absorbs development debt as the City uses parking ramps as development incentives

**Observation 5: Projected parking needs may result in oversupply.**

- System has grown by approximately 1000 new parking spaces a year over the past decade
- Future demand is estimated at between 15,000 and 20,000 in the next ten years<sup>2</sup>
- City financing for parking facilities is increasingly used as an incentive for new downtown developments – recent deals do not distribute financial risk among development partners
- Due diligence of pro forma for recently built facilities falls short – recent ramps are unlikely to be financially self-sufficient, one of three key System goals.

---

<sup>2</sup> 2000 Downtown Parking Study

## Recommendations

The Project Excellence Parking System Review Team offers the following recommendations as a means of addressing issues raised by observation and assessment of both the System and the Parking Fund:

### ***Recommendation #1: Optimize existing System assets.***

A. Create an individual business plan for each ramp. This could be something required as part of the Request for Proposal (RFP) process for a parking system operator/vendor. Each facility business plan should consider the following:

- Analysis of facility specific Strengths, Weaknesses, Opportunities and Challenges
- Definition of targeted users
- Operational review, including analysis of hourly, contract, event and car pool fees and utilization rates
- Discussion of opportunities to attract new users
- Discussion of ways to foster stronger relationships with the real estate broker and property manager community
- Financial and operational goals and objectives, including modernization, standardization, customer centric service delivery and improved security
- Discussion of ways to more aggressively approach any new developments to provide parking – new building tenants, new buildings/facilities
- Discussion of space leases to coffee stands, sundries, dry-cleaning and similar services, and recreational vehicles (boats, snow mobiles, ATVs and other non-automobile vehicles)

B. Streamline operational and overhead costs at each facility, including the Impound Lot.

- Audit each operation on a regular basis – ensure effective cash and reporting protocols and controls
- Work to generate greater pride of ownership by clarifying performance expectations for each facility/asset – reference goals and objectives in individualized business plans for each asset
- Look for ways to specifically decrease the operating costs associated with the Impound Lot
- Consistently measure and monitor the level of service provided, per goals and objectives in each asset’s business plan
- Reexamine the need for more permanent professional analysts – ensure that desired skill set matches business need
- Ensure maintenance plan is in place, funded and implemented for each asset
- Be customer focused (for example, move City owned cars to upper levels in the Haaf Ramp, facilitate electronic and other payment methods).

C. Re-brand City Ramps and other parking assets, and strengthen marketing capabilities

- Set clear objectives for marketing dollars and other resources as part of comprehensive marketing and public relations planning (something the City might ask bidding System operation vendors to include in their proposals)
- Invest in a re-branding campaign that improves recognition and utilization of City facilities based on key messaging
- Use ramps and other assets as marketing vehicles
- Develop specific marketing plans, based on clear objectives, for parking cards and other products

D. Use the RFP for parking system operators to drive operational improvements

- Consider breaking up the facilities by type or geography and contracting with multiple operational vendors – offer incentives for excellent performance. Consider the impact of competition in structuring operational awards over the longer term
- Consider adding ramp specific business planning into the RFP for a System operator – what ideas do prospective operators have for improving utilization and/or optimizing asset use? What will these ideas cost to implement? How will any investments pay off, and how will returns on investment be shared?

E. Continue to identify and pursue additional revenue generation opportunities

- Parking cards present an opportunity for businesses to market/advertise. Could these be converted to ramp use as well? Offer business logo imprint on large quantities.
- Advertising spaces in existing facilities could include bill boards and interior walls
- Ramps that use a stamp ticket system might have ads and/or maps on the reverse side
- Continue looking for ways to improve signage/way finding
- Continue studying parking meter use patterns and fee tolerance – take advantage of use patterns to optimize fees
- Continue exploring alternative uses for underutilized assets in regular revisions to facility-specific business plans

***Recommendation 2: Assemble and use clear financial performance information about System assets to drive operational improvements.***

- Determine business information and analysis needed to assess health of each asset, and the portfolio of assets – base information needs on total cost of ownership
- Obtain true market value of assets – off-street ramps, at a minimum
- Reconstruct a 5-8 year history enabling comparative analysis of performance over time
- Determine which assets are truly profitable
- Develop specific “work out” plans for ramps that are not profitable – including divestiture/sale if financial conditions permit
- Coordinate any “work out” planning with business planning for specific ramps

***Recommendation #3: Realign System and the Fund goals, and improve accountability for performance of both the System and the Fund.***

- Re-align Parking Fund to better reflect financial management activities/transactions of the System
- Ensure that proposed development of new assets strike a better balance between all three objectives for the System. Decisions appear to have become too heavily weighted towards development objectives in last 3-5 years.
- Formulize transfers out of the Fund – ensuring that there is sufficient Fund balance to cover economic downturns and make operational improvement investments. Tie transfers to the General Fund to a specific formula based on Fund surpluses.
- Explore and assess a range of development tools before determining that a parking facility is the most appropriate development incentive offered by the City
- Set clear accountabilities for performance of the System and the Fund
- Develop processes needed to keep System and Parking Fund management accountabilities coordinated

***Recommendation #4: Improve decision-making if System assets are added.***

- Refrain from adding City funded parking until there is a new investment decision-making process that balances all three system goals
- Rethink prescribed ratios of parking stalls for developments – change plans and zoning as needed (Chapter 541 last amended in 1999) to help manage parking demand
- Analyze both the current and future parking supply/demand conditions for proposed facilities, as well as the broader city-wide needs every time a proposal is considered.
- Develop a work schedule to create consistency between zoning ordinances with comprehensive land use plans
- Proposed developments should consider public transportation, car pooling, fringe parking, shuttle options, etc.
- Refine and communicate a clear process for making decisions about parking facilities as a development tool, given their impact on overall debt and the expectations for meeting revenue generation goals. Develop parking program guiding principles to serve as a strategic framework for parking planning.
- Decision making about city owned parking facilities should involve affected parties from the beginning, guided by all three system goals
- Develop and apply clear, consistent decision-making criteria for City investments in parking facilities – criteria should include financial self-sufficiency for each added asset
- Provide better information about the performance of existing assets as a basis for improved management decision-making about short and long term operations. Performance information should be clear, timely, accessible, and complete.

## Implementation of Recommendations

The team has identified a number of recommendations. The following section is intended to suggest how the City might clarify accountabilities, establish management processes and set expectations for timeframes associated with implementation of recommendations.

### ***In the next 3 Months:***

- The City Council should discuss and adopt the recommendations contained in this report
- The City Coordinator, Public Works and the Community Planning and Economic Development Departments should collaborate to develop a comprehensive implementation plan for adopted recommendations
- The City Council should set expectations for the Fund and the System, reconciling goals and more fully describing measurable performance objectives
- The City Coordinator's Finance division should then prepare credible, clear financial information about each asset and the portfolio as a whole
- The City Council should determine clearer accountabilities for Parking Fund and System management and performance results
- The Public Works Department should develop a plan to improve marketing and management capabilities – ideas might be solicited from the business community and as part of the RFP for a new System operating vendor
- Public Works should work with the City Coordinator and the City Attorney to innovatively structure the RFP for a System operator, making the resulting contract more performance based and outcome driven. Prospective vendors could be asked for individual asset business plans that address marketing and other asset optimization approaches. The feasibility and comprehensiveness of these plans would then influence vendor selection and contract parameters.

### ***In the next 6 Months:***

- The Community Planning and Economic Development Department, Finance and Public Works should jointly develop a decision-making process for future investment in new Parking System assets – including financial self-sufficiency and shared risk as key criteria
- Public Works should re-assess System performance measures, based on goals and objectives in facility specific business plans
- Public Works, the City Attorney, the City Coordinator and the selected System Operator should collaborate to develop a performance assessment regimen for the System contract. This regimen should identify the information needed to help assess value added of selected operator and performance based compensation.

### ***In the next 12 Months:***

- The Project Excellence Parking System Review Team should be reassembled to assess progress towards implementation of adopted recommendations
- The Project Excellence Parking System Review Team should issue an update on implementation progress after reviewing annual progress

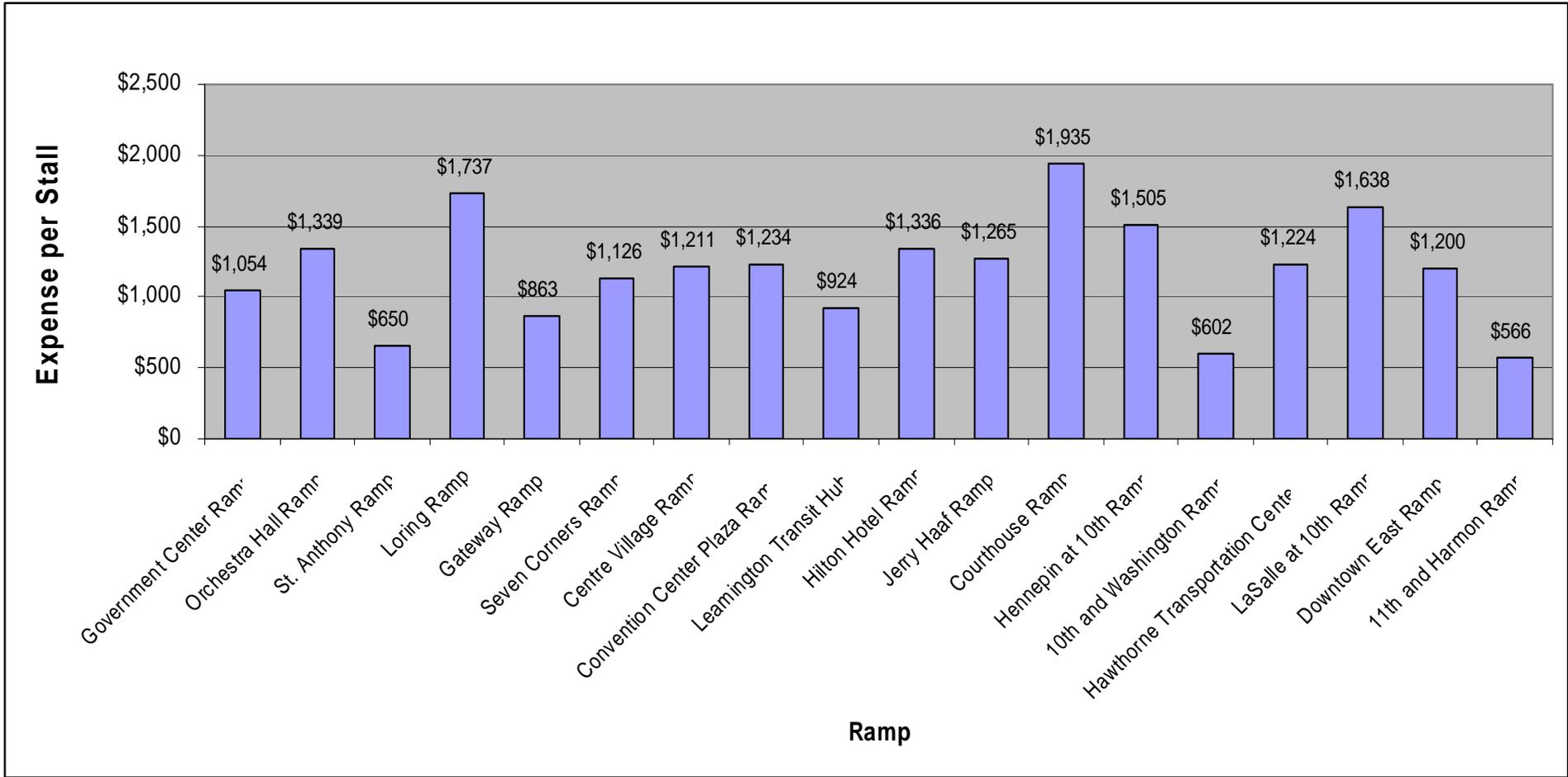
The Parking System Review Team looks forward to working with the City as it determines which recommendations to implement and sets expectations for implementation timetables and accountabilities.

## Appendix A – Operational Expense per Stall Comparisons for Parking System Assets

Several factors influence annual per stall operating costs, including:

- Automation (11th and Harmon, 10th and Washington) of cashiering function
- Centralization of security monitoring
- Facility utilization which affects sales tax expenses, supplies expenses, and staffing levels
- The ability of larger facilities to spread fixed costs over more stalls (see 7th Street Garage (largest) vs Courthouse (smallest))
- Associated skyway expenses
- Public amenities like transit layovers and lobbies require higher janitorial staffing and upkeep
- Number of “event” days at the facility that require higher staffing levels
- Underground ramps, which cost more to operate than above grade facilities (ventilation fans, lights on 24/7)

The following graphic depicts per stall annual operating costs for current System assets.



## Appendix B – Past, Current and Projected Municipal Parking Fund Balance

Prior to developing a “work out” plan for the Parking Fund, the balance had projected deficits as illustrated below. Current projected deficits assume implementation of work out plan recommendations and erase Fund deficits by 2010.

