

Parking Meter Modernization Will Improve Infrastructure and Spur Economic Activity

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It was with great interest that those of us involved in negotiating Mayor Ballard's parking modernization proposal read Mr. Aaron Renn's blog post; while Mr. Renn (who is rightfully considered a serious thinker on urban policy matters) raises many important policy questions for City-County Councillors and community stakeholders regarding City of Indianapolis (City) parking policy, his analysis contains a number of unsupportable conclusions and erroneous assumptions that merit correction and clarification.

The availability and affordability of public parking has a significant impact on the livability of our city and its ability to attract visitors, businesses and major events. Because of this impact, in 2008, Mayor Ballard challenged his enterprise development team to complete the city's first comprehensive review of our government-owned parking assets.

The result of this comprehensive review is an innovative solution that improves on-street parking technology and convenience, creates more turnover in active commercial districts, and creates both an up-front payment and ongoing stream of infrastructure capital to make long overdue improvements to city streets, curbs, and sidewalks.

During our review, we concluded an effective parking program achieves several goals:

- it helps manage scarce on-street parking
- promotes curbside turnover to support economic development
- provides flexible payment options (credit/debit cards and currency)

We discovered Mayor Ballard was correct: our parking meter system was underperforming and the management of our government-owned garages and lots was inefficient. Additionally, proceeds from parking meters, which by Indiana statute must support infrastructure improvements on streets where parking meters reside, are inadequate to make a significant impact on City streets and sidewalks.

After nearly a dozen meetings with stakeholders and City-County Councillors throughout the fall of 2009, Mayor Ballard decided to proceed with modernizing our parking system and streamlining the management of local government-owned (including City, CIB, and Health and Hospital) garages and lots. To accomplish this, Mayor Ballard issued a Request for Qualifications (RFQ) in February 2010.

After receiving 16 responses to the RFQ, we have collaborated with our project partners – the State of Indiana, Simon Property Group, the Capital Improvement Board and Health and Hospital Corporation. We also held dozens of stakeholder briefings, including the Greater Indianapolis Progress Committee, the Mass. Ave. Merchants Association, Broad Ripple Village Association, Downtown Restaurant Association, Indianapolis Downtown Inc and the Greater Indianapolis Chamber of Commerce.

In addition to these briefings, we also held five public forums to gain feedback from our residents, business owners and visitors.

After a thorough procurement process and aggressive negotiations over the past four months, Mayor Ballard announced the City will partner with a team led by ACS (a Xerox Company) to streamline our government-owned garages and lots and modernize our parking meters.

By selecting ACS and its local partners, Denison Global Parking (a minority-owned enterprise) and Evens Time (a woman-owned business), Mayor Ballard is ensuring meter technology upgrades, financial flexibility and operating expertise.

The ACS team has a history of delivering parking management products and services both locally and around the world. ACS, along with its partners, will use its expertise to improve

traffic flow, optimize revenues to the city and improve the overall quality of life for Indianapolis residents and visitors. We anticipate through this agreement the City will realize more than \$40 million in operational savings.

Because of the transparent, detailed, and comprehensive way in which this proposal was discussed, we are confident Mayor Ballard's idea to modernize the parking meter system and streamline the management of government-owned parking garages and lots will benefit Indianapolis—both immediately and long-term. The proposal will turn historically underutilized assets into assets that do what they were intended to do (create turnover, help businesses, and fund infrastructure).

In the sections below, we have highlighted Mr. Renn's key points about the parking proposal (in red) and included additional details and considerations to clarify the Concession Agreement and other important details discussed.

Parking Meters Will Be a Cash Register That Never Stops Ringing for the Vendor...the operations of the parking system only costs the city \$844K/year right now.

It is important to note that modern, electronic parking meters systems are anything but basic. In his blog post, Mr. Renn assumes that the City's current process for managing the meters would remain essentially the same with the implementation of electronic meters, and in doing so, considerably underestimates the increased expense of managing a modern, electronic system.

First, the \$844,000 figure Mr. Renn mentions represents only today's direct operating costs of the meters and does not include the substantial enforcement and other related expenses. The City's actual expenses amount to roughly \$3.1 million in 2009, leaving only about \$750,000 for infrastructure improvements or parking meter upgrades.

In fact, it is likely ACS will invest more than \$10 million in needed improvements to remove and replace all existing meters and to create a 21st-century parking meter system. Also, ACS, not the

City, is required to make technology upgrades over the life of the contract. Assuming the useful life of a meter is approximately 10 years, there will be at least three to four refreshes of technology over the course of the contract.

In his blog post, Mr. Renn also significantly underestimates the actual costs related to operating the parking system by ACS. He mistakenly assumes the City's existing costs of collecting coins and enforcing traditional meters will remain steady.

Given the millions of dollars in technology upgrades contemplated by this proposal, Mr. Renn does not include millions of dollars in new expenses that would be incurred by the vendor, including the operation and maintenance of high-end technology systems (including new hardware and software), the additional personnel required to operate a stand-alone business, or the proposed extended hours of the parking system.

In addition to the upfront payment of \$35 million to the city, Indianapolis will share in the revenues generated by the new meters throughout the life of the agreement. This revenue share will have a much higher profit margin to the City than ACS' margin, given the vendor's responsibility to pay all operating and capital costs.

ACS has stated they expect to make between a 10 percent to 15 percent return on its \$35 million upfront investment. Mr. Renn's calculations imply a rate of return far in excess of that.

According to Morgan Stanley, at a 10 percent rate of return, ACS' undiscounted annual returns would amount to \$3.53 million per year, or approximately \$177 million over the 50 year contract. Even at a 15 percent rate of return, ACS' undiscounted annual returns would amount to approximately \$5.3 million per year, or approximately \$265 million. These are far less than the profit statistics Mr. Renn quotes (and remember the \$35 million only includes the upfront cash payment and not ACS' other upfront investments).

Compare this to the potential \$400 million that we estimate the City may receive over the life of the contract from the revenue sharing mechanism.

It should also be noted that it would be very difficult for the City to modernize the parking meter system alone without incurring substantially higher expenses and, very likely, without using the moral obligation of the City to sell bonds given the lack of detailed historical financial information regarding parking revenues.

The Timing and Approach Is Flawed...so why would be it a good time to do a 50 year sale of parking meters?

The City's goal was to attract a large group of interested firms to propose on this project to ensure a very competitive process. The City considered a shorter term when drafting the Concession Agreement, but learned that terms less than 50 years would likely not attract infrastructure investment firms that could help generate significant up-front payments and annual revenues.

Anything less than the term we proposed would have likely limited the competitive RFQ process to a competition among management/operating companies that would likely not have been able to afford the magnitude of upfront investment that was offered by multiple competing teams, including the ACS Denison Global/Evens Time team. In the end, there was significant public interest in parking assets as demonstrated by the number of responses (16) to the RFQ.

Mr. Renn also declares that the same Morgan Stanley team that won the City of Chicago parking meter concession is also advising the City of Indianapolis on this transaction. This is false.

The Chicago parking meters were acquired by Morgan Stanley Infrastructure Partners, a dedicated private equity fund backed by third party capital focusing on infrastructure investments. The financial advisors to the City of Indianapolis are from Morgan Stanley's Investment Banking and Public Finance groups (specializing in advising municipalities on infrastructure financing). Our Morgan Stanley advisors are separate and distinct from the entity that acquired Chicago's parking meters.

According to Morgan Stanley, the market for parking meter assets has not fallen during the recession like it has for other markets, *e.g.* real estate. More than \$50 billion of equity capital is currently available for infrastructure investments worldwide.

As a result, Mayor Ballard believes that this is an excellent time to pursue this transaction. The funds generated will be dedicated to improving the street and sidewalk infrastructure of downtown and Broad Ripple. Like the City's proposed transfer of water and wastewater systems to Citizens Energy Group, the parking proposal will create a significant capital fund to make infrastructure improvements benefitting Indianapolis for decades, creating construction jobs at a time when the construction industry is experiencing double-digit unemployment.

Mr. Renn references the Chicago Inspector General's report on the Chicago meters transaction in his blog post. According to the Chicago-based investment firm William Blair, the financial calculations in the Inspector General's report were deeply flawed and significantly inflated the value of the City's assets. William Blair provided a comprehensive response to the Inspector General's report and explained why the Inspector General's reports conclusion were flawed.

William Blair's report can be found at:

http://www.cityofchicago.org/content/dam/city/depts/rev/supp_info/ParkingMeter/ValueAnalysisByWilliamBlair.pdf

The Contract Is Unconscionably Awful for the City

1. [This is the Chicago parking meter lease.](#)

Indianapolis and Chicago may be similar in certain provisions of the contract, but that is where the similarity ends. **Contrary to the Chicago structure, Indianapolis did not propose monetizing all of its future parking revenues into a single upfront payment.** Mayor Ballard's proposal emphasizes a long-term revenue stream that will benefit the City, increase over time, and will properly align the interests of ACS with the City's interests.

The form of our Concession Agreement is also very similar to the proposed Harrisburg, Pa.

Concession Agreement, the Toll Road Concession Agreement and the Chicago Skyway Concession Agreement. These agreements by design follow a similar form and structure, and parties involved in transactions like this are used to seeing and negotiating based on this basic agreement format.

2. The city has no right to terminate the agreement.

Mr. Renn is incorrect in his statement that the City has no right to terminate the agreement.

The City has every right to terminate the agreement in the event of default or failure by the ACS to provide the required services according to the City's operating and financial standards specified in the contract.

Mr. Renn is, however, correct in saying that the contract does not contain a general "termination for convenience" provision. There is not any applicable precedent for the governmental entity to be able to terminate a public-private agreement for convenience when there is a substantial upfront cash payment, even in the case of the Indiana Toll Road lease, which Mr. Renn has praised.

This is a long-term investment by ACS (*e.g.* technology upgrades, facility leases, employee hiring) and if the City could simply walk away at any point in the contract, there would no practical reason for ACS or any third party to make an up-front investment without substantial penalties to the City for termination. Termination only for breach is the market approach, but with aligned incentives to provide top flight service to the public—all in accordance with the Operating Standards.

It's a fair argument for Mr. Renn to refer to the \$35 million up-front payment as "modest." The City could have demanded a much larger initial payment as part of the concession agreement, but Mayor Ballard was determined to leave significant revenues in place for future generations.

3. Penalties are often higher than the actual meter value.

Mr. Renn is incorrect in his analysis of this provision.

During the first year of the contract the City has agreed to a flat fee for removal of a meter. However, after the first year the formula for removing a meter specifically calculates the exact utilization amount (based on historical data) of the particular parking meter in determining the fee for removal. Data from the new electronic meters will allow ACS and the City to determine the occupancy level for each meter, which means if a meter is closed, the fee will be based on the average occupancy level in addition to the length of term of the concession agreement.

The calculation does not assume 100 percent occupancy as Mr. Renn charges.

Indianapolis' current daily fee charged to a private party to close a meter for a day is \$15. This charge is in place despite the fact that the current hourly rate is \$0.75 and the hours of operation are generally 7 a.m. to 6 p.m. Fees that will be paid to the vendor to temporarily close meters also includes the cost of vendor personnel to close and later reopen meters.

4. The vendor gets the rights to collect parking ticket revenue and sell advertising and naming rights.

In order to maximize upfront proceeds the City agreed to allow all ticket revenue to be collected by ACS, but all revenue is subject to the revenue sharing model specified in the contract. The City also selected this formula to separate those writing the tickets from those adjudicating tickets (to remove any improper incentives). The revenue share model incorporates all gross revenue. The City, therefore, still receives revenues associated with parking tickets.

Mr. Renn's analysis of the advertising and naming rights provision is incomplete. Regarding advertising, all advertising and naming rights are subject to the approval of the City. Any revenue generated from advertising or naming rights will be shared by ACS and the City

according to the revenue sharing model. As a practical matter, local ordinances greatly restrict the use of outdoor advertising downtown and this administration does not anticipate authorizing advertising on the meters themselves.

5. Residential permit parking is coming to Broad Ripple.

A residential parking permit in Broad Ripple and a parking garage have been considered a high priority long before this parking modernization effort began. With the proposed increase in operating hours and rates, residents are concerned that even more Broad Ripple customers will look for free parking in their neighborhoods. A residential parking permit program would help mitigate this, keeping customers parking in designated areas and out of the neighborhoods. This approach has received widespread support from merchants and Broad Ripple residents during stakeholder meetings and public forums held by the Mayor's Office.

We disagree with Mr. Renn's statement that "the City has actually limited its ability to establish residential permit parking zones." Under the agreement, the City may establish a residential permit program in any area approved by the City-County Council. In areas not impacting the metered parking system, ACS essentially has a first right of refusal to manage that area. The City specifically requested that ACS administer these programs because ACS can only recover a "nominal fee to cover the reasonable costs of administration (subject to approval by the City)." The enforcement of the program would also be a responsibility and cost of ACS, with any revenue being shared by the City.

6. The vendor even gets revenue from tickets written by IPD or other city agents.

This is correct. Mayor Ballard's administration, using feedback from stakeholder meetings and public forums, was adamant that IMPD retain the ability to write tickets. These revenues, like all gross revenues from the metered parking system, would be subject to the revenue sharing agreement. Parking enforcement must be performed in accordance with the Operating

Standards specified in the concession agreement; writing tickets in violation of the Operating Standards is a breach of the Agreement.

Mr. Renn believes that the City's indemnification of the vendor for ticket writing responsibilities is "a hugely risky item." We respectfully disagree with this view. The City of Indianapolis has outsourced its parking enforcement functions for the past 10 years. Mr. Renn's view of this provision appears to conflict with an observation earlier in his blog post, "Denison Parking does the job today in fact, and I haven't heard complaints."

7. The vendor automatically gets the right to any new meters, but the city has to pay to remove any meters.

Mr. Renn's analysis of this provision is seriously flawed. If the City and ACS agree to add new meters, ACS pays all of the upfront installation cost and the revenue from these meters will be part of the revenue share. If ACS does not think that additional meters requested by the City will be economically viable and the number of new meters exceeds 10 percent of the meters in a particular Zone, the City can pay to have meters installed and ACS will be responsible for operating and enforcing such meters. These types of meters are called "Reserved Metered Parking Spaces." The City keeps 75 percent of the revenue and ACS keeps 25 percent (Mr. Renn incorrectly asserts that all revenue goes to ACS).

8. Temporary closure policies are worse than Chicago's.

Mr. Renn questions why Chicago has the flexibility to close its meters for 8% of days during a given year, while Indianapolis' proposed allowance is only 6%. Mr. Renn ignores the fact that Indianapolis' proposal does not contemplate Sunday parking or 24/7 hours of operation, while many of Chicago's parking meters are in operation 24 hours a day, seven days a week.

Additionally, analysis of Indianapolis' metered parking system estimated the historical temporary closure rate across the system was approximately 3 percent to 4 percent. If Mayor

Ballard's parking proposal had accepted a closure rate more than double Indianapolis' historical rate, the City would be giving up significant revenues for a contingency that may never occur. It should be noted that significant annual events including the 500 Festival Parade and the Final Four are already exempted from this 6% calculation.

Mr. Renn's statement "The Indianapolis closure allowance is worse than Chicago's," is a misguided. While it is true that Indianapolis' allowance is four hours compared to Chicago's six, Mr. Renn does not take into account the average daily hours of Chicago parking meters, which are on average much longer than the hours in Mayor Ballard's proposal.

Six hours in Chicago only represents one-fourth of a parking meter's daily hours, while in Indianapolis, four hours represents one-fourth of a day's allowance. In this respect the recommended temporary closure threshold is about the same for both Indianapolis and Chicago.

9. Will festival and events organizers see new fees?

Mr. Renn's analysis of this provision is greatly exaggerated. Today, the City currently charges some organizers for closing meters. This practice will continue going forward except for events involving the closing of meters of four hours or less on Saturday and two hours or less during the week (from 9 a.m. to 5 p.m.).

If the City deems that a specific event or organization will not be required to pay to temporarily close meters, the City has the flexibility to close meters beyond its 6 percent allowance, and the vendor will withhold a proportionate amount of revenue share for that right. The City, however, is not required to charge event organizers for closing down meters. The current policy will not change, and each program or request will be assessed on its merits (a continuation of the current policy).

Mr. Renn refers to the City's current valet policy that requires valet operators to pay for the use of parking meters as a valet zone. This policy will continue, although the cost will increase over

time due to the increase in meter fees and hours of operation.

10. Even the city has to pay to use the spots.

We agree with Mr. Renn's assessment that the City's parking placard program has been abused in the past, which is why Mayor Ballard revoked more than 800 parking placards in September 2008. The City must be able to administer and audit which City-County employees are utilizing parking meters intended for public, temporary parking.

The employee parking program established under this proposal will allow the City to better manage how/when/where/why an employee parks at a parking meter. It makes little sense for a person working in the City-County Building to drive to a meeting a few blocks away, and yet anecdotally, we know this scenario occurs all too frequently.

Once electronic metering is in place, the City's placard system for various City employees and elected officials will be replaced with a debit/credit type of system. Use of metered spaces by these individuals will be tracked and charged to various departments using these cards.

Payment to ACS will be offset from amounts owed to the City under the revenue share. This approach basically reduces the City's revenue share by the actual amount of use of the meters by the City rather than a significant reduction of upfront proceeds.

Additional Comments: In the future, the City will not be able to implement electric car stations or close streets to traffic without paying a "big fee."

Mr. Renn's statements to this extent are exaggerated and misleading. Today, under current policy, there already exists a significant cost to the City to remove a parking meter from the metered parking system for any reason (a fact Mr. Renn unfortunately does not acknowledge).

In deciding to remove a meter today, the City chooses to forego future revenues at \$0.75 per hour, depending on the usage of the meter. Under the current proposal, the fee paid by the

City would be higher than status quo, but these fees would reflect 1) the utilization of the parking meter in question, and 2) the increased meter revenues from factors including the proposed rate and hour increases.

Our Conclusion

Mayor Ballard's parking proposal represents a strategic vision for Downtown Indianapolis and Broad Ripple that will benefit these neighborhoods for the next generation and beyond.

It will stimulate economic activity, improve local government efficiency, provide much-needed infrastructure capital, and provide more convenient on-street parking.

Mr. Renn's blog post, while certainly thoughtful and a welcomed entry into this policy debate, has significant factual errors and flawed conclusions.

As with the utility transaction involving Citizens Energy Group, Mayor Greg Ballard has found an innovative way to fund critical infrastructure projects, create jobs, improve government efficiency, and invest in the local economy.