

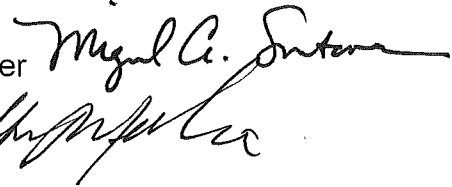
CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: January 05, 2011

To: Antonio R. Villaraigosa, Mayor
Honorable Members of the City Council

From: Miguel A. Santana, City Administrative Officer

Gerry F. Miller, Chief Legislative Analyst



Subject: **ALTERNATIVE PLAN TO THE CONCESSION AGREEMENT FOR A P3 WITH RESPECT TO THE CITY'S PARKING STRUCTURES (C.F. NO. 10-0139-S1)**

Pursuant to instructions received from the City Council as part of the Second Financial Status Report (FSR), the Office of the City Administrative Officer and the Office of the Chief Legislative Analyst have prepared this report with a recommended plan should the proposed public-private partnership involving the City's parking structures (P3) not move forward or the transaction fall short of the anticipated net financial target. Additionally, our Offices are recommending that a portion of this alternative plan be pursued regardless of the outcome of the P3 transaction. In light of the projected year-end deficit if the revenues from the P3 transaction do not materialize, the limited time remaining in the fiscal year to implement the alternative plan, and the complexity of the process to finalize the P3 deal, it is imperative that immediate action be taken on this alternative plan to ensure the City ends the year with a balanced budget.

P3 Background

With the adoption of the City's budget, the Mayor and the City Council formalized their support for the proposed P3 involving the City's parking structures and included \$53.2 million in revenue as a General Fund receipt to help close a budget gap of approximately \$490 million. Subsequent actions by the Mayor and Council provided additional support for moving this transaction forward under the condition that the final concession agreement would be evaluated on its own merits and a decision made based on this evaluation.

On August 18, 2010 the City Council authorized the CAO to issue a Request for Proposals (RFP) and Draft Concession Agreement to qualified bidders for a proposed P3 involving the City's parking structures, (C.F. No. 10-0139-S1). Pursuant to this direction, the P3 Parking Working Group, consisting of the CAO as chair, the

Mayor's Office, the Chief Legislative Analyst, the City Attorney and the City Controller as an ex officio member, issued the RFP and conducted due diligence meetings with the qualified proposers where input was received on the terms of the Draft Concession Agreement. More recently, the City has also received input from the community relative to the validation programs at the Hollywood & Highland and Broxton parking structures.

The City has evaluated this feedback and is now prepared to release the final version of the concession agreement to solicit proposals, pending approval by the Council on terms and conditions that will affect the concession value. Relative to the community's input, the P3 Parking Working Group has tried to address their concerns of limiting and/or eliminating the existing validation programs in Hollywood & Highland and Broxton parking structures. It should be noted that the more restrictions placed on these garages the higher likelihood of receiving a lower up-front payment. Should the Council approve releasing the final version of concession agreement for solicitation, this Office expects to bring final offers to Council by March 2011. As noted, anticipated revenue of \$53.2 million from this concession agreement is programmed in the 2010-11 Budget. In total, the City would need approximately \$250 million to be used for the current year budget, to defease the outstanding debt on the parking assets, and increase the Reserve Fund.

Given the various concerns raised relative to this proposed transaction, it is critical to understand the reasons for pursuing this initiative and the ramifications for stopping these efforts. As confirmed in our own assessment of our parking assets in the development of the RFP, the City has done a poor job in operating and managing the parking assets as demonstrated by the following:

- Automation and other efficiency and convenience tools such as credit card payment capabilities have not been fully implemented in the majority of the City's parking structures;
- The marketing of these assets has been limited resulting in some parking structures running significant below capacity as shown in the following table:

Parking Utilization by Structure

Parking Structure	No. of Spaces	Average Parking Utilization
Hollywood & Highland	3,006	43%
Cherokee	386	54%
Dickens St	198	7%
Robertson	334	37%
Broxton	366	92%
Ventura Blvd	397	17%
Friar St	237	89%
Pershing Square	1,590	65%
Cinerama Dome	1,717	52%
Total for P3 Structures	8,231	51%

- There has been a lack of control on the validation program at one of the primary parking facilities resulting in an annual revenue loss of nearly \$4 million;
- Capital improvements of these facilities have not been consistently planned-out or funded; and
- The rates at the parking facilities are below market rates thereby generating insufficient revenue to cover the required debt service.

In summary, the City's management of these assets has resulted in a financial burden and a liability that will continue to divert resources away from the City's core functions under present conditions. At a time when the Council and the Mayor are making difficult decisions to align our expenditures with our revenues and cutting back on services including those considered to be a core City function, continuing to manage and subsidize a non-core function that can just as easily if not more efficiently be provided by the private sector is not fiscally justified.

The P3 for the City's parking structures offers the most immediate and cost-effective option for maximizing the value of these structures in a manner that will ensure these facilities remain operational for the next fifty years. Additionally, the P3 transaction will eliminate the City's ongoing debt obligation on all City-owned parking structures. This elimination of debt will provide long-term savings and allow for additional flexibility on the revenues generated from parking structures that are not part of this transaction and from parking meters that are currently deposited in the Special Parking Revenue Fund (SPRF). Finally, the P3 transaction represents a strategic approach to generate up-front revenue as opposed to deficit borrowing. Not only will the assets continue to operate as public parking structures, but the City is releasing itself from a significant level of risk and liability associated with the operation of these structures including their capital improvement needs.

As we have discussed in the past, while there are sound public policy reasons for proceeding with the P3 transaction, in the final analysis the decision on whether to ultimately proceed with the final Concession Agreement will depend upon the amount of money received and how that money is used. The amount received will be impacted by the policy decisions that the Council makes with regard to the final Concession Agreement. The City's advisors are in the process of obtaining feedback from the potential bidders on a Concession Agreement with the terms previously approved by the Council and some additional issues which have arisen in recent discussions with Councilmembers. We expect to be before the Council within two weeks with our best estimate of the total amount of funding the City should expect to receive if it proceeds with the transaction under the identified terms.

It must be noted that it would be difficult for our Offices to recommend proceeding if the net proceeds from the transaction are only enough to cover the

budgeted amount for the current year. Funds sufficiently in excess of the budgeted \$53.2 million would need to be received to help address future year shortfalls and help bridge the City's budget deficit until revenue growth meets the City's expenses.

P3 Budget Impact

Absent the revenue anticipated from the P3 transaction the City's budget deficit for the current fiscal year will increase by \$53.2 million. Together with the remaining deficit reported as part of the Operational Plan Report and the Second Financial Status Report (FSR), the projected year end deficit will increase from \$9.5 million to \$62.7 million. To close this gap, the City would have to save approximately \$10.5 million each month for the remaining six months of the fiscal year.

The magnitude of this loss cannot be understated. With only six months remaining in the fiscal year and having used the few remaining budget balancing options left in the budget as part of the Operational Plan Report and Second FSR, the City will need to implement drastic solutions to address this revenue shortfall. These solutions are beyond those included in the Adopted Budget, the Operational Plan Report, or the Second FSR. Furthermore, in some cases the recommended solutions will reverse prior recommendations made as part of the Operational Plan or Second FSR and will require departments to absorb additional reductions through a diminution of services.

The City's anticipated deficit of \$350 million for next fiscal year further underscores the need to take action now. The efforts required to address this deficit will be difficult enough and will necessitate ongoing budget reductions as well as financing strategies for temporary budget relief. Pushing this deficit into next year by drawing down the Reserve Fund to balance the current year would trigger negative financial consequences. With the remaining balance dangerously close to Emergency Reserve level of only 2.75%, the City would find the capital markets less receptive to its financing needs for next year thereby risking the City's ability to borrow funds as it normally does each year for cash-flow needs through Tax Revenue Anticipation Notes (TRANS).

Alternative Plan

Although final Council action on the P3 transaction is pending, as instructed by the City Council, our Office have identified an alternative plan to address the projected budget deficit for this fiscal year should the P3 transaction not move forward. The alternative plan is comprised of two phases to provide the City with flexibility in addressing the potential \$62.7 million deficit while the P3 process is completed. Phase 1 of the alternative plan includes approximately \$52.8 million in proposed budget balancing solutions that this Office recommends be approved now, regardless of the final outcome of the P3 proposal. Phase 2 of the alternative plan includes approximately \$9.9 million in additional potential budget balancing solutions in

the event the P3 transaction is rejected or if the transaction falls short of the financial target.

The Phase 1 solutions detailed in Attachment 1 consist of sweeping unspent funds from various departments and funds, imposing additional furloughs on employees as well as on previously exempted positions, reducing appropriations to the Department of Recreation and Parks, Planning Department, Board of Public Works, Mayor, and Council, increasing related cost reimbursements from special funds, delaying the hiring of police recruits from the March class to the classes in April, May, and June, and decreasing the amount of funds that the CAO had previously recommended be transferred to the City Attorney and Information Technology Agency as part of the Operational Plan and Second FSR.

The majority of the proposed savings from Phase 1 are derived from increasing civilian furloughs by up to an additional 10 days except for EAA-represented employees. The logistics relative to implementing these additional furlough days will require further analysis and coordination due to their impact on services including staff availability for Council meetings. However, it is likely that through June 2011, entire departments may need to be closed for a full day each week.

The total amount of projected savings and revenue from Phase 1 would offset 99% of the non-realization of budgeted P3 revenue of \$53.2 million. Should the P3 transaction not move forward or if the transaction falls short of the financial target, the remaining deficit will need to be addressed through additional solutions such as those presented in Phase 2 as detailed in Attachment 2.

Proposed actions within Phase 2 include suspending police hiring after the January class and reducing by 50% the previously approved reimbursements to several departments for the reduced number of EAA furloughs (City Clerk, Controller, Cultural Affairs, Emergency Management, General Services, Police, and Transportation). This action would require these departments to absorb this reduction in funding by suspending hiring, forgoing purchases, or laying off employees.

Also included in Phase 2 is the enhanced utilization of the SPRF for General Fund purposes. This enhanced utilization can be achieved by transferring additional surplus funds while suspending the need to repay the SPRF for this transfer of funds. Additional surplus funds within the SPRF may be generated by moving forward with the same rate increases for the parking structures that are contemplated as part of the P3 transaction. Furthermore, reducing the parking validation subsidy at the Hollywood & Highland structure will also generate additional revenue for the SPRF which can then be transferred to the General Fund.

The projected savings from fully implementing both phases of the alternative plan total \$62.7 million for this fiscal year; the same amount as the projected year-end deficit without the P3 revenue. Nevertheless, typical delays in implementing these solutions can easily cause an imbalance. As such, if the decision is made now or

in the near future not to pursue the P3 transaction, to ensure a balanced budget there can be no delay in implementing the Phase 1 solutions or exemptions granted. Delays in implementation or the rejecting of any of these solutions will require alternative solutions of equal or greater value to be identified, approved, and implemented in a shorter timeframe. Furthermore, the majority of the solutions proposed in the alternative plan are considered one-time such as the additional furlough days for employees to address a one-time source of revenue. Continuing these reductions including the additional ten furlough days in the upcoming fiscal year may address up \$40 million of projected \$350 million deficit.

Recommendations

That the Council and the Mayor:

1. Approve all of the Phase 1 Options in the alternative plan (Attachment 1);
2. Authorize the City Administrative Officer to implement the Phase 1 Options of the alternative plan including the submission of technical instructions as necessary;
3. Direct all impacted departments to immediately facilitate the implementation of the Phase 1 Options of the alternative plan including the increased number of furlough days and to work with the City Administrative Officer to develop and implement a coordinated furlough plan
4. Instruct the City Administrative Officer to report back on the status of the furlough implementation plan in the Mid-year FSR or a subsequent report;
5. Consider approval of all the Phase 2 Options of the alternative plan (Attachment 2) concurrent with the final decision on the P3 Concession Agreement;
6. Authorize the City Administrative Officer to make technical corrections as necessary to implement Mayor and Council intentions.

Fiscal Impact

Adoption of the above recommendations will offset the potential loss of revenue should the proposed public-private partnership involving the City's parking structures not move forward or the transaction falls short of the anticipated net financial target. The solutions identified in the Phase 1 Options of the alternative plan total \$52.8 million which offsets 99% of the non-realization of budgeted P3 revenue. The remaining deficit will need to be addressed through solutions presented in Phase 2 as detailed in Attachment 2 unless the Phase 1 Options are implemented and the P3 transaction is completed.

MAS:RPC:BC:01110037

Attachments

Attachment 1

ALTERNATIVE PLAN TO OFFSET P3 REVENUE PHASE 1 OPTIONS

	2010-11
<u>DEPARTMENTAL</u>	
Increase civilian furloughs up to an additional 10 days except for EAA employees. Entire departments may need to be closed for a full day each week.	\$ 20,000,000
Implement 10 furlough days for GSD Police Officers. Furlough days to be coordinated with possible department-wide closures.	300,000
Implement 10 furlough days for Fire Special Duty positions to coincide with additional furlough days for civilian employees.	700,000
Instruct the Fire Department to absorb their projected remaining deficit of \$10 million. The Fire Department will be required to reduce their expenditures by \$10 million. This may require additional resource closures beyond the expanded MCP recently implemented by the Fire Department.	10,000,000
Transfer savings from Aging.	150,000
Instruct City Attorney to absorb \$1 million of the reported remaining deficit of \$4 million. City Attorney will be required to reduce projected expenditures by \$1 million.	1,000,000
Increase related cost reimbursement from the Convention Center.	100,000
Transfer audit monies from TDA. ITA to absorb the remaining deficit of \$734,000 through attrition.	900,000
Reduce Funding for Mayor and Council.	1,000,000
Reduce funding for the Planning Department. This reduction will require the department to hold additional positions vacant and will increase the time required to complete the community plans currently in progress.	1,000,000
Reduce funding for Graffiti Removal Services by 50% of the estimated remaining balance.	1,500,000
Reduce Clean and Green Funding by 40%.	500,000
Suspend March Police Hiring Class and increase class size for April, May, and June to account for one less class.	200,000
Reduce the appropriation to Recreation and Parks for As-Needed Salaries. The department may need to implement furloughs to absorb this reduction.	1,000,000
Instruct Recreation and Parks to reimburse the General Fund for refuse services. The department may need to implement furloughs to absorb this cost increase.	1,800,000
Subtotal Departmental	\$ 40,150,000
<u>NONDEPARTMENTAL</u>	
Sweep savings identified in Capital Finance.	\$ 10,100,000
Sweep identified CIEP savings from completed projects.	2,000,000
Subtotal Nondepartmental	\$ 12,100,000
<u>ADDITIONAL REVENUE</u>	
Increase related cost reimbursements from Stormwater Pollution Abatement Fund and Gas Tax.	500,000
Subtotal Additional Revenue	\$ 500,000
TOTAL REDUCTIONS - PHASE 1	\$ 52,750,000

Attachment 2

**ALTERNATIVE PLAN TO OFFSET P3 REVENUE
PHASE 2 OPTIONS**

	2010-11
<u>DEPARTMENTAL</u>	
Reduce reimbursement funding for EAA Furloughs by 50% for City Clerk, Controller, Cultural Affairs, Emergency Management, General Services, Police, and Transportation and direct departments to absorb this reduction in funding by suspending hiring, forgoing purchases, or laying off employees.	3,000,000
Suspend Police Hiring after the January class (partial savings already counted in Phase 1).	1,750,000
Subtotal Departmental	\$ 4,750,000
<u>NONDEPARTMENTAL</u>	
Reduce Funding for Mayor and Council Programs.	500,000
Subtotal Nondepartmental	\$ 500,000
<u>ADDITIONAL REVENUE</u>	
Increase SPRF transfer of surplus funds to the General Fund and suspend requirement to repay fund.	\$ 3,000,000
Increase parking rates at parking structures contemplated in P3 transaction and transfer surplus funds to General Fund while suspending requirement to repay SPRF.	700,000
Reduce parking subsidy at Hollywood & Highland and transfer surplus funds to General Fund while suspending requirement to repay SPRF.	950,000
Subtotal Additional Revenue	\$ 4,650,000
TOTAL REDUCTIONS - PHASE 2	\$ 9,900,000
TOTAL REDUCTIONS - PHASE 1 AND 2	\$ 62,650,000