



Request for City Council Committee Action From the Finance & Public Works Departments

Date: June 8, 2004
To: Honorable Sandra Colvin-Roy, Chair Transportation & Public Works Committee
Referral to: Honorable Barb Johnson, Chair Ways & Means/Budget Committee
Subject: Recommended financial workout plan to improve the financial condition of the Parking Fund.

Recommendation:

The following short-term and long-term strategies are recommended to resolve the deficits within the Parking Fund (further detail on each recommendation is presented in an attached report):

1. Approve the parking initiatives in the workout plan developed by Public Works from their annual business plan. The initiatives result in a combination of decreased expenses and increased revenues within the Parking Fund. The initiatives are detailed in the attached report.
2. Commit to setting future Parking Fund budgets that support the initiatives contained in the workout plan.
 - ◆ No Council action necessary in 2004, although future budgetary changes within the Parking Fund may be necessary in subsequent years to support the workout plan initiatives.
3. Increase the amount of variable rate debt to 20% of the fund's total debt. This will take advantage of current market conditions and allow long-term debt structure to fit within estimated cash flows.
 - ◆ No additional Council action needed in 2004. City Council approved the current restructuring on April 30, 2004
4. Develop a 5-year Major Repair & Replacement capital program for the Parking System Infrastructure.
 - ◆ Direct the Public Works and Finance Department to prepare a 2005-2009 Capital Budget Request and financing plan that addresses the Parking Fund's need for a Major Repair and Replacement program.

5. Reduce the planned current and future transfers from the Parking Fund to the General Fund. Any reduction from the current level of transfer (2004 transfer is planned to be \$9.8 million) is temporary until the Parking Fund cash balance returns to positive financial performance. Reductions in the transfer may take the following forms:
 - ◆ One-time reductions in the transfer if the General Fund's financial performance is positive and there are no adverse credit rating implications in the opinion of the Finance Officer. Note: The City Council has adopted a policy to use General Fund balance in excess of the Council's minimum (10% of General Fund Revenues) to reduce deficits in the Internal Service Funds. The estimated reduction in 2004 is \$5-6 million. The Finance Officer will recommend a specific amount when the final 2003 financial results are known.
 - ◆ Planned reductions in the transfer according to the City's adopted 5-year financial direction. The workout plan recommends a planned reduction from 2005 through 2009.
6. Evaluate the possible sale of off-street parking ramps and recommend sale of ramps if the result improves the long-term financial condition of the fund and meets the City's transportation needs.
7. Increase the transfer from the Convention Center Fund to the Parking Fund, subject to the financial condition of the Convention Center Fund. The Convention Center Fund may reimburse the Parking Fund the cost (operating, maintenance and debt service) of Convention Center parking ramps.
8. Decrease the planned transfers from the Parking Fund to the Target Center if other revenues in the Target Center finance plan exceed estimates.
9. Direct Regulatory Services, Public Works and Finance to examine the traffic control needs, revenues and expenses to enhance the General Fund and Parking Fund financial condition and to properly match the related revenues and expenses.

Previous Directives:

City Council study session on Feb 6, 2004 in which an overview of the Parking system was presented along with the current and projected financial position of the Parking Fund. During that session, Public Works and Finance committed to presenting a financial workout plan in 2004.

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Klara Fabry, City Engineer _____

John Moir, City Coordinator _____

Presenters in Committee: Patrick Born, Finance officer
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Financial Impact (Check those that apply)

No financial impact - or - Action is within current department budget.

(If checked, go directly to Background/Supporting Information)

Action requires an appropriation increase to the Capital Budget

Action requires an appropriation increase to the Operating Budget

Action provides increased revenue for appropriation increase

Action requires use of contingency or reserves

Other financial impact (Explain):

Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (use any categories that apply)

Neighborhood Notification

City Goals

Comprehensive Plan

Zoning Code

Other

Not applicable

Background/Supporting Information Attached:

In Exhibit 1, you will find a report that provides a financial workout plan for the Parking Fund.

The financial workout plan has been developed in response to Mayor and City Council direction to develop a financial and operating strategy to address both the declining results of operations and cash deficits within the fund.

The plan includes a combination of:

A business strategy that:

- ◆ Addresses the flagging use of the City's parking facilities;
- ◆ updates aging revenue control equipment and management functions;
- ◆ increases revenues for existing programs;
- ◆ improves the maintenance program on facilities to reduce future capital expenses and lost revenue.

A financial strategy that:

- ◆ Reduces expense transfers to an amount proportionate to income levels;
- ◆ Structures debt in a way that allows the fund to decrease interest expense and match estimated cash flows.

Although the current proposed workout plan does not completely erase the projected cash deficit in the Parking Fund, it is a significant first step. Because of the cyclic nature of the parking business and other external factors affecting the current financial condition of the Parking Fund; Public Works and Finance felt it was prudent to gauge the economic conditions (especially in the downtown area), and changes in the parking utilization levels before implementing more significant future changes to the Parking Fund. Future significant changes may include: sale of parking ramps, reduce Target Center transfer, increase Convention Center sales tax transfer and further General Fund transfer reductions. This plan will be monitored quarterly as conditions change and an updated plan, with recommendations, will be submitted at the end of each fiscal year.

**Exhibit 1
Parking Fund
Report on Financial Workout Plan
June 2004**

Summary of Recommendation

The City of Minneapolis is faced with a financial challenge with respect to the Parking Fund. The City remains financially sound because it deals with financial challenges in a deliberate and timely manner. The purpose of this report is to propose to the Mayor and City Council a recommended financial workout plan for the Parking Fund.

The Parking fund, like any other Enterprise Fund is required to maintain a cash balance equal to three months of operating expenses. For the Parking Fund, that equates to roughly \$10 million. The cash *deficit* as of December 31, 2003 is \$6.4 million. Without a workout plan, that number is expected to grow to \$69.2 million by 2010.

The following operational and financial strategies are recommended to resolve the declining income and cash deficits within the Fund:

1. Implement the identified parking initiatives submitted by Public Works from their annual business plan. The initiatives result in a combination of decreased expenses and increased revenues within the Parking Fund.
2. Increase the amount of variable rate debt to 20% of the Parking Fund's total debt. This will take advantage of current market conditions and allow long-term debt structure to fit within estimated cash flows.
3. Develop a 5 year Major Repair & Replacement program for upgrades and improvements to the parking system infrastructure, along with a financing plan suitable to fund the program.
4. Reduce the current and future transfers from the Parking Fund to the General Fund.
5. Transfer General Fund reserve in excess of the 10 percent requirement to the Parking Fund annually.
6. Evaluate the possibility of selling certain off-street parking ramps. Make recommendations on selling ramps if doing so would improve the financial condition of the Parking Fund and meet the City's transportation objectives.
7. Increase the transfer from the Convention Center to the Parking Fund, subject to the financial condition of the Convention Center Fund. Transfers would be used to defray debt service, operating and maintenance costs for Convention Center related parking facilities.
8. Decrease the planned transfers from the Parking Fund to the Target Center to a level that is proportionate to Target Center finance plan revenues exceeding expectations.

9. Direct Regulatory Services, Public Works and Finance to examine and Explore the traffic control needs, revenues and expenses to enhance the General Fund and Parking Fund financial conditions and to properly match revenues and expenses.

Parking System Business Description

The Parking Fund performs the following services:

- Manage the operation, performance and maintenance of the City’s off-street parking system, which includes ramps, lots and skyways. Currently the City’s ramps includes the following statistics:
 - a) 22 ramps containing 24,185 spaces
 - b) 8 surface lots containing 1,550 spaces

- Oversee the assessment, planning, design, location and construction of new off-street parking ramps and lots.

- Manage the operation, performance and maintenance of the City’s on-street parking system, which includes meters, parking and loading zones. The City’s on-street parking system consists of the following:
 - a) 6,200 on-street parking meters
 - b) 25 Critical Parking Areas totaling approximately 4,600 permits
 - c) More than 200 other paid zones

- Coordinate the activities and manage the operation of the Municipal Impound Lot. The Impound Lot processes approximately 42,000 vehicles per year. This includes vehicles towed because of: abandonment, police related actions, snow emergencies and street sweeping activities.

Parking Fund Financial Background

The Parking Fund financial background reflects the varied operations it is involved in. Table 1 summarizes the financial inflows (revenue) and outflows (expenses):

Table 1

Parking Fund Inflows	Parking Fund Outflows
➤ On-Street Parking: Meters, Loading and No-Parking Zones	➤ On-Street Meter Maintenance and Collection
➤ Off-Street Parking	➤ Parking System Operations
➤ Towing and Storage Fees	➤ Impound Lot Operations
➤ Sales & Entertainment Tax from Convention Center	➤ Indirect Costs (Finance, HR, BIS)
➤ Tax Increment and Tax Abatement	➤ Transfers Out: General Fund, Target Center, Internal Service Fund Workout Plans, Solid Waste

Table 2 provides a numerical depiction of the financial activities within the Parking Fund for the year ended 2003. It is important to note that the Parking System has a positive gross margin (Operating Revenues less Operating Expenses).

2003 Parking Fund Activity Summary - Table 2

Activity Description	Revenue	Expenses	Operating Margin	Debt Service	Sales Tax and Tax Inc Transfers In	Operating Margin Less Debt Service	Running Cash Balance
Beginning City Cash Balance as of 12/31/02							1,298,195
On-Street Parking	5,912,936	903,648	5,009,288	498,937		4,510,351	5,808,546
Fringe Related Ramps	10,006,907	6,469,751	3,537,156	4,819,597		(1,282,442)	4,526,105
Lots	1,679,439	1,259,251	420,189	197,393	219,593	442,389	4,968,493
Development Related Ramps	9,698,340	5,856,097	3,842,244	8,841,241	5,342,473	343,475	5,311,968
Convention Center Related Ramps	10,835,153	5,484,035	5,351,118	8,367,266	8,598,392	5,582,244	10,894,212
Total Off-Street Parking	32,219,840	19,069,134	13,150,706	22,225,498	14,160,458	5,085,666	10,894,212
Impound Lot	5,637,450	4,861,588	775,862	22,853		753,009	11,647,221
Direct Operations							
PW Operations & Capital Programs	22,255	2,225,256	(2,203,001)			(2,203,001)	9,444,220
Traffic Control	30,775	2,394,912	(2,364,137)			(2,364,137)	7,080,083
Downtown Council		727,500	(727,500)			(727,500)	6,352,583
Total Direct Operations	53,031	5,347,668	(5,294,638)			(5,294,638)	6,352,583
Indirect Operations (Finance, HR & BI	592	1,166,016	(1,165,424)			(1,165,424)	5,187,160
Estimated Expense Allocation to TAD's		(938,129)	938,129			938,129	6,125,288
City Parking System Total	43,823,848	31,348,054	12,475,794	22,747,288	14,160,458		6,125,288
Transfers Out							
General Fund		10,890,203	(10,890,203)			(10,890,203)	(4,764,915)
Target Center		1,470,000	(1,470,000)			(1,470,000)	(6,234,915)
Sanitation		146,000	(146,000)			(146,000)	(6,380,915)
Total Transfers Out		12,506,203	(12,506,203)			(12,506,203)	
Estimated Ending 12/31/03 City Cash Balance							(6,380,915)
Beginning TAD (State) Cash Balance as of 12/31/02							12,523,447
Tad (State) Ramps	9,134,801	14,126,851	(4,992,050)			(4,992,050)	7,531,397
Estimated Tad Expense Allocation		938,129	(938,129)			(938,129)	6,593,268
Total Tad (State) Ramps	9,134,801	15,064,979	(5,930,179)			(5,930,179)	6,593,268
Total Parking Fund	52,958,649	57,981,107	(5,022,459)	22,747,288	14,160,458	(13,609,288)	212,354

Parking Fund Financial Forecast

An important item to note: For the purposes of this report, the numbers presented and problems discussed do not include the State owned Third Avenue Distributor (TAD) parking ramps.

The City is faced with a severe cash deficit within the Parking Fund. As of December 31, 2003 the City-owned portion of the Parking Fund had a cash deficit of \$6.4 million. Based on current assumptions (weak economy, low ramp occupancy, current management initiatives, multiple transfers out) the fund's cash balance is expected to decline to a deficit of \$69.2 million by 2010. Table 3 shows the projected decline in the Parking Fund's cash balance from 2002-2010:

Table 3: Parking Fund Cash Balance (in thousands)

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010
Annual Change	(6,918)	(7,679)	(8,704)	(9,270)	(8,631)	(8,685)	(8,350)	(9,563)	(9,678)
Ending Balance	1,298	(6,381)	(15,085)	(24,355)	(32,986)	(41,671)	(50,021)	(59,585)	(69,263)

There are many factors that have contributed to the decline in the Parking Fund's cash position:

General Fund and Target Center Transfers. The City's policy has been to transfer cash annually from the Parking Fund to the General Fund to support General Fund operations. This policy has been in existence as long as the Parking Fund has been in existence. The Parking Fund has provided over \$110 million in transfers to the General Fund since 1989. The transfer amount is largely dictated by the needs of the General Fund. In recent years, the amount transferred has been greater than the Parking Funds ability to provide without having negative cash flow.

In addition, the Parking Fund transfers cash to support the debt service associated with the Target Center. This also creates a financial burden on the Parking Fund that it has been unable to fully finance without sustaining a cash deficit. Table 4 shows existing and previously programmed annual amounts of the Target Center and General Fund transfers:

Table 4: Target Center and General Fund Transfers (in thousands)

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund	10,575	10,890	9,800	9,800	9,800	9,800	9,800	9,800	9,800
Target Center	1,335	1,475	1,619	1,768	1,921	2,079	2,241	2,408	2,581
Total	11,910	12,365	11,419	11,568	11,721	11,879	12,041	12,208	12,381

The Economy: The weakened economy from 2001 to 2004 has created high office vacancy rates in downtown Minneapolis, particularly in areas that are in close proximity to City-owned parking facilities. The economic downturn and high office vacancy rates have created lower than expected demand for parking. This has had a negative impact on revenues and net income in the Parking Fund. Table 5 illustrates the decline in ramp occupancy per year and the accompanying decline in revenue for City owned ramps from 1999 to 2003. *Note: Ramps that were built during the time-period indicated are excluded.*

Table 5: Comparison of Occupancy and Revenue; 1999-2003

Year	1999	2000	2001	2002	2003
# of Cars Parked	3,877,400	4,015,710	3,906,279	3,707,689	3,250,061
Revenue	\$24,467,000	\$25,326,000	\$25,461,000	\$23,893,000	\$21,582,000
No. Of Stalls	12,511	12,511	12,511	12,511	12,511
Revenue per Stall	\$1,956	\$2,024	\$2,035	\$1,910	\$1,725

Growth of Parking System ahead of demand: The Parking system is continually growing. New ramps are constructed to support development initiatives, City transportation objectives and to maximize profit opportunities. The City of Minneapolis has added roughly 1000 off-street parking spaces a year for the last twenty years. Ramp construction is typically financed by issuance of debt; which requires the Parking Fund to make enormous principal and interest payments annually. Additionally, many of the ramps built recently have had high construction costs because the parking spaces were built underground. Because of the reasons listed previously, the Parking Fund has not produced enough cash flow over the last three years to make annual debt service payments without driving the fund into a cash deficit. Table 6 illustrates the annual debt service requirement for the Parking Fund:

Table 6: Parking Fund Annual Debt Service (in thousands)

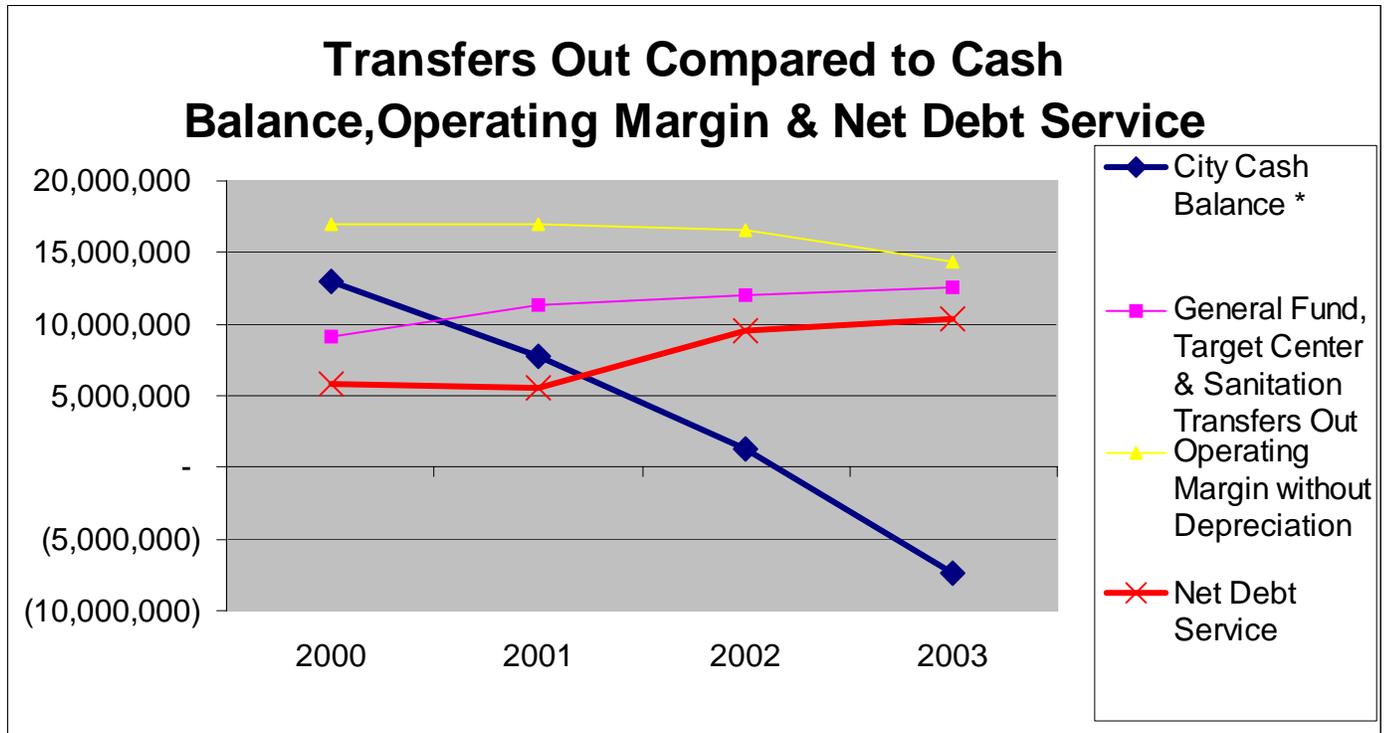
Year	2002	2003	2004	2005	2006	2007	2008	2009	2010
Annual Debt Service	26,644	22,747	25,635	25,753	29,227	29,616	29,427	30,149	29,388

As Table 6 illustrates, the Parking Fund's annual debt service will continue to grow and place additional demands on the Fund's deficit cash balance.

The line graph in Table 7 depicts all of the factors shown above over a four-year period. Note that operating margin (revenues less expenses) and cash are declining while demands on cash (transfers and debt service) are increasing. With this illustration, it is easy to understand how the Parking Fund came into its cash deficit situation so quickly. It is important to understand that during the 1980's and most of the 1990's, the Parking Fund generated net income and cash sufficient to service its own debt and provide an annual dividend to the General Fund. It is only in the last three years that it has been unable to support both the increasing debt service and transfers out simultaneously.

This can be attributed primarily to the weakened economy and the effects this has had on the occupancy rates in City-owned ramps.

Table 7: Comparing Cash Inflows to Outflows



Proposed Parking Fund Financial Workout Plan

Attachment A of this report includes a financial forecast for the Parking Fund. The forecast includes all components of the Public Works and Finance recommendations regarding: debt restructuring, reductions to General Fund transfers and Public Works business plan initiatives relative to the Parking Fund.

1. *Implementation of Public Works Business Plan Initiatives Relative to the Parking Fund*

During 2004, Public Works submitted the initial draft of their 2004-2008 business plan. It includes myriad initiatives designed to increase profitability and improve efficiency and effectiveness within the fund. These initiatives are a key component to restoring this funds solvency and ability to support the General Fund at previous levels.

The following information provides a brief description of each of the Parking Services business plan initiatives. Further detail for each of the initiatives can be found in the Parking Services Business Plan, and a summary of the financial impact for each initiative is attached as Attachment A.

A) Technology-Based Initiatives:

I. Centralized monitoring of security systems

The municipal parking security system includes over 2,000 cameras and 700 call-for assistance intercom stations. These components require monitoring on a continuous basis (24/7). The standard method of monitoring these systems involves operating a control center at individual locations, which could typically monitor 1 or 2 separate parking facilities. With the installation of a fiber-optic backbone, along with utilizing wireless transmission mediums, monitoring of multiple facilities can be accomplished at a single Security Command Center (SCC). In addition, technology is being upgraded to permit digital recording of incidents, and advanced capabilities for tracking alarms. The resulting savings in personnel and maintenance costs produce a two-year payback from implementing these upgrades.

The following facilities have been converted to date: Hawthorne, Hennepin at 10th, LaSalle at 10th, Plaza, Orchestra Hall, Gateway, Haaf, TAD 4, TAD 5, TAD7. The following facilities were set up to be centralized as part of initial construction: Downtown East, 11th and Harmon; Vineland Place, and any other new facility coming on line; The following facilities remain to be converted; Leamington; Hilton; Courthouse; Government Center; Centre Village.

2010 cumulative financial impact: \$2,681,268 net benefit to Parking Fund

II. Extension of the parking system fiber-optic backbone

Beginning in 1997 and currently ongoing, Parking Services has been building a fiber-optic communications backbone to support its parking ramp operations. Originally intended as a method for ramp data networking and security systems consolidation, the fiber optic backbone has grown to have significant benefit for many other City operations (Convention Center, Property and Equipment Services, Fire, Park Board, Police); and has the potential to continue to support enterprise-wide technology initiatives. The system generates savings by eliminating the need for costly T1 phone lines, in addition to allowing centralization of processes, and real time data analysis to permit better management and timely decision making.

Parking Services will continue to partner with other City and County departments to build on this fiber-optic backbone, with the goal of creating a continuous ring in order to ensure redundancy of service.

2010 cumulative financial impact: \$224,837 net benefit to Parking Fund

III. Automation and centralization of processes:

Advances in technology have allowed the parking industry to operate more efficiently, enhance customer service, and reduce operational expenses. This initiative is intended to allow the City to maintain competitiveness within the industry by offering customers multiple payment options such as credit, debit, smart card and web payment; reduce operational expenses by providing self-serve pay-on-foot technology; and centralize the monthly contract application and billing functions. All new facilities will utilize the new technologies and formats. The current revenue control equipment in use at some of the older facilities is outdated and replacement parts are no longer available. Replacement schedules have been developed for implementation.

Other benefits and features include online customer account access, rideshare enforcement using biometrics, Interactive parking information, Community information, Marketing activities, and Traffic information.

2010 cumulative financial impact: \$2,999,585 net benefit to Parking Fund

IV. Way-finding programs:

Parking Services wayfinding programs include on-street electronic message systems, “blue waters” skyway signage, the trailblazing “circled P” program; and the traveler advisory system. The purpose of these programs is threefold: 1) enhance movement within the downtown transportation system; 2) Maximize occupancy of the Municipal parking ramps; and 3) Enhance customer service levels.

Currently, upgrades and/or replacements are required to all of these systems in order to optimize the impact of the programs.

2010 cumulative financial impact: \$645,000 net cost to Parking Fund

V. Impound lot technology and space improvements:

Vehicle inventory system:

The impound lot currently uses a paper based vehicle inventory system that does not allow for efficient or accurate tracking of vehicles entering and leaving the impound lot. A new electronic vehicle inventory system will improve customer service, provide better data retention, and reduce processing time. The system can be integrated with the new CRM (311) program that is being installed, which will automatically provide information to operators handling customer’s calls. The system can also be incorporated into the police and traffic control operations, so that tows can be ordered electronically through their mobile data computer system.

Space Improvements:

Physical space improvements are also necessary for improved impound lot operations. Expanded customer waiting areas, public restrooms, record storage and HVAC system improvements are all required for optimal functionality. There are also ongoing discussions regarding locating the Police traffic unit at the impound lot, since many of the duties of the two operations overlap. A proposal is being submitted to CLIC involving the impound lot upgrades and discussions with the Planning Dept are ongoing, since there is some conflict with their master plan for the location.

2010 cumulative financial impact: None, since increasing the vehicle storage fees will finance the costs.

B) Staffing-Based Initiatives:

VI. Greater oversight and analysis of parking system:

The Municipal Parking System has grown by an over 1,000 parking stalls per year averaged over the last 20 years; from 5,450 in 1984 to 25,735 in 2004; accounting for upwards of 6 million parking transactions per year. In addition, the responsibility for managing the on-street meters (6,200 total) and impound lot (42,000 vehicles/year) have also been added to Parking Services business lines during this period.

Additional employees are recommended to properly manage the system and reduce operating risks. The benefits to be derived include: better auditing and monitoring of the City's private operator's activities; increased responsiveness to changing business conditions; ability to research and assess new technologies for potential applications in the City's system; more frequent reviews of security processes and procedures, maintenance activities and customer satisfaction levels.

Parking Services suggests a model of 1 analyst position per 5,000 parking stalls, and 1 engineer position per 10,000 parking stalls. 2 new engineers have just been hired, and we are requesting authority for an additional 3 Parking System Analyst positions, and 1 Assistant Manager of ramps and lots.

2010 cumulative financial impact: \$2,646,178 net cost to Parking Fund

VII. Enhanced parking marketing activities:

The recent downturn in the economy has impacted the Municipal Parking Facilities financial projections in a variety of ways. Revenues are not able to keep up with rising operating expenses, especially utilities and insurance costs, since in order to try to retain customers, the trend is to reduce or keep parking fees flat. This initiative will implement new methods for attracting customers, including promotional discounts for new customers, converting facilities from

monthly to daily parking, and offering value added services such as advance reservations and self-service kiosks.

2010 cumulative financial impact: \$ 6,020,611 net benefit to Parking Fund

VIII. Infrastructure maintenance plan

Many elements of the Municipal Parking System are in need of upgrading or are in danger of failing altogether. This would include items such as the parking revenue control equipment, security systems, ramp signage, elevator upgrades, skyway glazing, exterior facades, lighting, stairs, lobbies, fire protection, flooring, painting, etc. Major maintenance to all of these elements in varying degrees is required at a large number of the facilities. Parking Services has been working with Property Services to identify the scope of repairs and develop a long-term Infrastructure Maintenance Plan. Replacements and upgrades of parking revenue control systems will also permit the conversion to automated facilities, which will reduce operating costs.

2010 cumulative financial impact: \$ 4,292,778 net cost to Parking Fund, but neglecting to invest in improvements will reduce ability to generate increased revenues.

IX. Parking meter management plan:

The parking meter management plan includes the following recommendations in order to maximize revenue generation potential:

- ◆ Aggressively pursue increasing enforcement of on-street parking regulations by balancing personnel levels with desired enforcement activities.
- ◆ Improve the use of electronic parking meter technical capabilities including split rates/time limits; trend/usage monitoring; revenue projections
- ◆ Conduct annual parking meter system reviews to balance turnover with demand and compare pricing strategies with off-street facilities.

2010 cumulative financial impact: \$ 6,192,738 net benefit to Parking Fund

X. Collection of unpaid tow and storage fees for abandoned vehicles:

Approximately 10,000 abandoned vehicles per year are sold at auction by the impound lot. The revenue generated by the sale of these vehicles does not fully recover the cost (towing and storage) of handling the vehicles. The revenue shortfall is approximately \$3.6 million per year. This initiative involves recovering the towing and storage costs by invoicing the abandoned vehicle owners for the net shortfall, with referral to a collection agency for non-payment. Research will also be performed exploring the potential for preventing owners who abandon vehicles from applying for licensing any other vehicles until all costs have been

recovered. This initiative is intended to result in a reduction of vehicles abandoned on City streets, which translates into less need for towing, less processing at the impound lot, and fewer auctioned vehicles overall.

2010 cumulative financial impact: \$ 8,220,000 net benefit to Parking Fund

2. Restructuring of Parking Fund debt.

During April 2004, the City Council approved a refunding of debt related to the Convention Center expansion and a Convention Center parking ramp. The refunding involved converting existing fixed rate debt to variable rate; or refunding fixed rate debt service at a lower interest rate. The savings realized from the refunding will allow the Convention Center to transfer additional sales tax revenue to the Parking Fund to pay for operating costs associated with the parking ramp that supports their facility. The transfer from the Convention Center that is used to make ramp debt service payments will remain at current levels; thus, the savings is realized within the Parking Fund as a result of lower debt service payments with transfers remaining constant. Table 8 displays the *estimated* savings, per year to the Parking Fund:

Table 8: Parking Fund Savings from Debt Refunding (in thousands)

Year	2004	2005	2006	2007	2008	2009	Total
Savings	312	1,053	1,054	1,054	1,058	1,046	5,577

Note: The savings presented above are based on current variable interest rates and an estimation of future interest rates. The future realized savings might vary from this projection.

3. Reduce the transfer from the Parking Fund to the General Fund.

The City expects that the Parking System will be profitable and provide a dividend to other City operations. Because of this expectation, the Parking Fund transfers cash to the General Fund annually. The transfers are arbitrary and largely based on the needs of the General Fund. With declining parking revenues, increasing debt service and operating costs, the Parking Fund has been unable to support the planned level of transfers to the General Fund.

In order to restore this Fund to a positive cash and net income position, the City must reduce the transfers from the Parking Fund to the General Fund. The reductions will be considered temporary and the intent is to restore the transfer amount to a level that is preferred. In the future, greater care will be taken to match expected profits in the Parking Fund with the dividends paid to the General Fund.

In addition, at year-end, Finance will review the change in General Fund Reserve. If the change is positive and there are reserves available, the Finance Officer will recommend transferring excess General Fund Reserves to either one of the Internal Service Funds that have adopted workout plans or to the Parking Fund.

Table 9 shows the current and revised transfers to the General Fund:

Table 9: Reduced General Fund Transfer Schedule (in thousands)

Year	2004	2005	2006	2007	2008	2009	2010
Current	9,800	9,800	9,800	9,800	9,800	9,800	9,800
New Amt.	3,800	8,800	7,800	6,800	5,800	5,000	5,000
Change	6,000	1,000	2,000	3,000	4,000	4,800	4,800

Note: The \$6 million reduction in 2004 includes the estimated one-time reduction in the transfer because of excess General Fund Reserves available at year-end 2003.

4. Future Steps:

As indicated in Attachment A, the workout plan recommendations do not fully return the Parking Fund to a positive cash balance. The projected cash balance in 2010, given the conservative approach to future revenue and assuming a continued depressed economy with high office vacancy rates downtown is \$19.3 million. The gap in the workout plan is expected to be filled by a turnaround in the economy and subsequent increase in employment, office occupancy and higher occupancy rates in the City’s parking facilities.

Public Works and Finance will regularly monitor the financial performance of the Parking Fund and will make decisions about taking further steps to improve the financial condition of the fund. Parking Services will provide regular parking “benchmarking” information to Finance to gauge the impact of the initiatives and the change in ramp utilization levels and to determine when and if revisions to the workout plan are warranted. In addition, updates to the workout plan will be presented to the City Council after the fiscal year has ended for every year the plan is in effect.

As mentioned, if necessary Public Works and Finance will recommend further steps be taken to improve the Parking Fund’s cash balance to a positive position. Those planned future steps, in order of priority, are listed below:

Sale of Parking Ramps: Much interest has been expressed over the last 2 years as to the possibility of the City selling its parking ramps. Public Works and Finance have been analyzing the viability and impact to the City of divesting itself of these assets.

Several facilities were identified as candidates for potential sale based on the following criteria:

1. There are no restrictions or laws prohibiting the sale of the Municipal Ramp.
2. The potential buyer maintains all construction/developmental agreements.

3. Proceeds from the ramp sale should be sufficient to extinguish remaining debt associated with the ramp.
4. The public purpose of the ramp should have been met.
5. The sale of the ramp would not have a negative impact on the Municipal Parking System.

Parking Services solicited formal appraisals of four of its facilities: Seven Corners; Centre Village; St. Anthony; and Loring ramps.

Based on the appraised value of the facilities, Finance performed an analysis to determine the impact to the parking fund of selling these and other ramps, taking into consideration the reduced revenue and expense implications, outstanding debt, and potential net sale proceeds.

The analysis in Attachment B shows that selling facilities for at or near the appraised value does not result in a positive impact to the Parking Fund. However, if a particular buyer is willing to pay a premium price for a specific parking facility, the City should entertain the idea.

Increasing the Convention Center Sales Tax Transfer: Currently, the Convention Center transfers sales tax revenue to the Parking Fund in an amount that is sufficient only to pay the debt service associated with the parking ramps that support the Convention Center. With the aforementioned debt refunding for the Convention Center expansion and parking ramps, more sales tax revenue is available to transfer to the Parking Fund to support operating costs associated with the management of the Convention Center parking facility. In addition, sales tax revenue could be transferred to the Parking Fund to pay for maintenance, major repair and replacement and indirect costs associated with the management of the parking ramps. Finance and Public Works will review the operating statements and results of operations within the Convention Center Fund to determine if additional sales tax revenue could be transferred to the Parking Fund. These transfers will not take place if it is determined that doing so would have a detrimental effect on the Convention Center Fund.

Target Center Transfer: The Parking Fund transfers cash annually to the debt service fund to make principal and interest payments for debt associated with the Target Center. One alternative would be to reduce or eliminate the transfer from the Parking Fund. If this alternative were chosen, decisions would have to be as to what funding source(s) would be used to replace the Parking Fund. Finance and Public Works staff will monitor the planned to actual performance of the Parking Fund to determine if reducing the Target Center transfer is necessary.

Further General Fund Transfer Reductions: The recommendations in the workout plan portion of the report recommends cumulative annual \$1 million reductions in the General Fund transfer. The reductions bring the transfer to its lowest point of \$5 million in 2009. If it is determined that all of the recommendations listed in the workout plan do not bring the Parking Fund to its desired financial state; additional reductions to the transfer may be necessary. This option will be considered only as a last resort. A better option would be to review the changes in General Fund reserves on an annual basis to determine if reserves are available to transfer to the Parking Fund. This exercise will be conducted annually by the Finance Department with recommendations made by the Finance Officer to the City Council.

Attachment A- Parking Fund Workout Plan

Attachment B- Ramp Sale Analysis

Attachment C- Parking Fund Cash Balance

Respectfully Submitted,

Patrick Born
Finance Officer

Klara Fabry
City Engineer

Parking Fund Workout Plan - Attachment A

	Pre 2003 & 2004 Projection	2005 Projection	2006 Projection	2007 Projection	2008 Projection	2009 Projection	2010 Projection
Baseline Annual Cash Balance	(15,084,599)	(9,270,054)	(8,631,310)	(8,684,886)	(8,350,282)	(9,563,513)	(9,677,964)
Public Works Infrastructure Upgrades							
Enhanced Wayfinding Program	-	(205,000)	(156,000)	(127,000)	(138,000)	(9,000)	(10,000)
(1) Debt Service for Repair & Replacement Program	0	(204,418)	(408,836)	(613,254)	(817,672)	(1,022,090)	(1,226,508)
Public Works Initiatives							
Completion of Centralized Security Monitoring	168,350	28,434	275,454	535,963	546,682	557,616	568,768
Extend Fiber Optic Communications Backbone	24,000	(145,000)	(22,000)	83,000	88,960	94,939	100,938
Automation and Centralization of Processes	-	277,600	361,484	572,714	584,168	595,851	607,768
Greater Oversight and Analysis of System through increased staffing levels	(99,374)	(367,846)	(391,889)	(413,780)	(436,369)	(457,307)	(479,614)
Enhanced Parking Ramp Marketing Activities	0	641,254	793,579	994,940	1,162,960	1,197,019	1,230,859
Parking Meter Management Plan	0	1,029,012	1,030,227	1,031,464	1,032,723	1,034,004	1,035,307
Collection of Unpaid Tow and Storage Fees for Abandoned Vehicles	0	870,000	1,470,000	1,470,000	1,470,000	1,470,000	1,470,000
Sub-Total	92,976	1,924,036	2,952,020	3,534,047	3,493,453	3,461,033	3,297,519
Financing Changes and Potential Asset Sales							
Restructure Conv Center Debt to Reimburse Ramp Operating Expenses	-	754,870	755,450	755,020	754,385	751,175	3,343
Restructure Conv Center Parking Related Debt	312,226	298,460	298,968	299,115	303,408	295,290	7,428
Reduce General Fund Transfer	6,000,000	1,000,000	2,000,000	3,000,000	4,000,000	4,800,000	4,800,000
Sub-Total	6,312,226	2,053,330	3,054,418	4,054,135	5,057,793	5,846,465	4,810,770
Annual Net Cash Impact	6,405,202	3,977,366	6,006,437	7,588,182	8,551,245	9,307,498	8,108,289
Annual Cash Balance	(8,679,397)	(5,292,688)	(2,624,873)	(1,096,704)	200,963	(256,015)	(1,569,675)
Running Cash Balance	(8,679,397)	(13,972,085)	(16,596,958)	(17,693,662)	(17,492,698)	(17,748,713)	(19,318,388)
Estimated Annual Cash Balance without Infrastructure Upgrades	(8,679,397)	(5,497,397)	(2,907,291)	(1,466,831)	(276,872)	(771,560)	(2,187,929)
Estimated Running Cash Balance without Infrastructure Upgrades	(8,679,397)	(14,176,794)	(17,084,085)	(18,550,916)	(18,827,788)	(19,599,348)	(21,787,277)

Assumptions:

Baseline annual revenue increases from 1 to 2% and expenses 2%.

Baseline Utilization remains at 2003 levels.

General Fund Payment Remains at \$9.8 Million

Target Center Transfer Schedule follows the revised schedule.

Any ramp proceeds go to reduce the debt service associated with that ramp and then other parking fund debt service.

Assumed cost to fund of not upgrading infrastructure is 50% of the annual upgrade.

Ramp Sale Analysis - Attachment B

Direct Capitalization Method

Definition: Used to convert an estimate of a single year's income expectancy into an indication of value in one direct step.

Formula: Present worth sum equals net operating income divided by capitalization rate (expected return on the investment)

	2003	2002	2001	2000	1999
Effective Gross Income:	32,035,006	33,057,004	32,650,485	30,362,451	28,604,284
Operating Expenses:					
Total operating expenses without Depreciation and Downtown Council Payment	21,064,757	19,355,535	19,236,060	15,389,192	16,320,198
Net Operating Income	10,970,248	13,701,469	13,414,425	14,973,259	12,284,086
(2) Capitalization Rate:	9%	9%	9%	9%	9%
Value based on direct capitalization by year	121,891,649	152,238,548	149,049,168	166,369,548	136,489,841
(3) (4) Outstanding Bonds Payable:	282,489,058	276,124,504	264,004,618	279,924,056	183,124,417
Proceeds (loss) on sale of ramp system	(160,597,409)	(123,885,956)	(114,955,450)	(113,554,508)	(46,634,576)

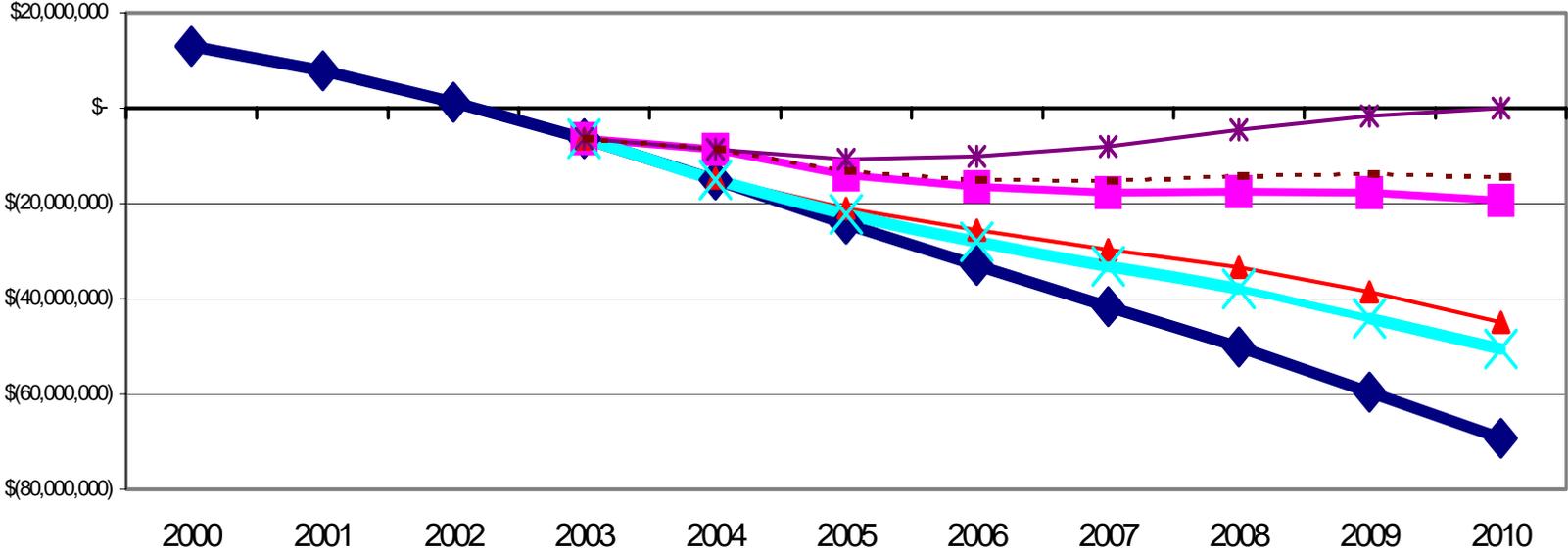
(1) Note this is not include expenses for real estate taxes that a private owner would pay or a reserves for replacement (typically 3% of Effective Gr

(2) Based on sales of ramps in Minneapolis in recent years

(3) Does not include interest payable to call dates that city owes bond holders.

(4) Includes temporary construction bonds and notes and debt reimbursed by sales tax & tax increment financing.

Parking Fund Cash Balance - Attachment C



* The line representing "Future Steps" includes: Increasing the transfer from the Convention Center, reducing the transfer to the Target Center and further General Fund transfer reductions. City staff will make recommendations on amounts during subsequent updates to the plan.