



THE MODEL PARKING CONCESSION AGREEMENT

**RELEASED BY THINK BIG SACRAMENTO
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About The Committee

Think BIG Sacramento is a regional initiative launched by Sacramento Mayor Kevin Johnson to facilitate construction of a new entertainment and sports complex (“ESC”) that promotes job creation, economic growth, cultural development and civic pride across the greater Sacramento metropolitan area.

Think BIG is comprised of a broad, bipartisan, and diverse group of 72 leaders from across the Sacramento region. The group includes a 15-member Executive Committee, led by Executive Director Chris Lehane, comprised of public and private leaders from the city, county, region, and state responsible for making final recommendations, a Committee of the Whole made up of additional business, labor, political and civic leaders who provide input and counsel, and a small team of experienced professionals to support the committee.

The Committee members are guided by five key principles:

1. **TAXPAYERS COME FIRST:** Think BIG is promoting a transparent process that puts the interests of taxpayers first.
2. **JOBS, JOBS, JOBS:** Think BIG will ensure that any public investment provides a compelling return, defined as short-term and long-term job growth, and a transformative economic development impact.
3. **BIGGER THAN BASKETBALL:** Think BIG will maximize the ESC’s potential as a broader cultural and civic catalyst beyond its value to the Sacramento Kings.
4. **WE WIN AS A REGION:** We will maximize our region’s viability as a top 20 market by aligning political, corporate and community will behind the shared vision and benefits of a new ESC
5. **THINK BIG, ACT BIG, BE BIG:** We will embrace the ESC as a big, bold and transformative project that expands what the Sacramento region is capable of achieving.

The Think BIG committee members will serve from June 2011 to March 2012. During this period, the committee is working to accomplish three key goals:

1. **BUILD:** The Committee will support progress on the ESC’s design and development timeline, including working with key public and private entities in the city, region and state.
2. **FINANCE:** The Committee will identify a menu of funding options and finalize a public-private funding plan.
3. **ENGAGE:** The Committee will conduct a series of public meetings and studies to educate the public and mobilize support from key stakeholders in El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba counties.

Introduction

As the City explores entering into a public-private partnership with a third-party parking operator to help finance the entertainment and sports complex (ESC), our community should look to data and lessons learned from other cities who have evaluated similar courses of action. To that end, Think BIG has reviewed and analyzed approaches taken in other municipalities, including Pittsburgh, Indianapolis, Chicago, Los Angeles, and San Francisco.

While every City is unique, the experiences of other cities can help shape and inform the concession agreement the City will ultimately enter into as part of a Parking Public-Private Partnership (P4). By incorporating lessons learned from other jurisdictions, the City of Sacramento will ensure that taxpayers are protected and that the City maximizes private investment that will create jobs and transformative economic growth for the Sacramento region.

Think BIG's analysis of the public-private parking partnership (P4) has yielded several key findings that we present as the basis for a potential model concession agreement.

Core Findings

Finding 1: Data suggest that the majority of people who park in city-owned parking live outside the city—making the P4 an effective way to capture significant regional participation in the proposed entertainment and sports complex.

As we analyze the proposed P4 model, it is important to consider the current customers of the City's parking assets. While the City does not collect demographic information on the people that park in City garages each day, the Sacramento Area Council of Governments (SACOG) collects data on the City and County of residence for people that work in the City of Sacramento. Given that the garages are currently filled during the day largely with people that work in Sacramento, this data serves as a good proxy for usage patterns for city parking.

Based on SACOG data, 37% of people that work in Sacramento live in the City of Sacramento, while 63% live outside the City limits. It follows that a comparably large majority of people making use of the City's parking assets originate from residences outside the City. In fact, 21% come from outside the County of Sacramento.¹ This trend mirrors similar usage patterns observed for the current facility detailed in Think BIG's *Capitol Corridor Impact Report*.

As a result, the leasing of parking presents an effective mechanism to monetize revenues for the city and ESC originating from users outside the City of Sacramento. In effect, the P4 will help further the goal of ensuring the region-wide benefits of a new ESC are matched with region-wide participation in its development.

¹ Source: U.S. Census Bureau - Census Transportation Planning Products (CTPP) based on 2006-2008 3-year time period

Finding 2: Revenue generated from a P4 Partnership, if allocated effectively, can accelerate and amplify investment in the City's long-term economic future.

At its core, the P4 is an opportunity to leverage an existing, publicly-owned and underutilized asset to invest in the long-term economic expansion of the Sacramento region. In prior instances, policymakers have opted to use P4 revenues as a one-time stopgap measure to address year to year budget shortfalls. While this approach provides temporary fiscal relief, it represents a significant missed opportunity to leverage P4 revenues as a long-term investment with returns in the form of substantial job creation and economic development. By leveraging potential P4 dollars for the entertainment and sports complex (provided the overall financing plan ensures no net decrease to the City's general fund), Sacramento will reap a return in the form of 3.1 million new downtown visitors, 4,100 jobs, and \$7 billion dollars in economic activity for the entire region.²

Finding 3: The framework behind the proposed parking public-private partnership is far more commonplace than some may realize.

Sacramento's consideration of a P4 arrangement is far more common than some might anticipate. Across the state, country and globe, cities are increasingly looking to public-private partnership models as they seek to reconcile competing pressures for service quality, efficiency, and cost. In fact, municipal parking is a function that is commonly performed by private entities already – including several examples right here in Sacramento.

In this sense, there is not really very much that's extraordinary about the transaction. As Sacramento and many other cities have done in prior arrangements, the City will seek to generate an upfront cash payment in exchange for a commensurate level of expected future cash flows. As in any arrangements of this nature, it is incumbent upon the City to perform a careful review that ensures City reaches a fair deal that protects taxpayers, ensures no net decrease to the City's General Fund, and enhances its long-term economic future. To that end, the City would be wise to pursue a competitive bidding process and maintain oversight over any securitization financing of the lease to ensure that the City secures the best possible deal for taxpayers.

Finding 4: The P4 arrangement is a smart way to finance the entertainment and sports complex while protecting the City's General Fund and overall financial position.

One of the common risks confronted by cities evaluating sports infrastructure projects is how to develop financing plans that are both viable and fiscally responsible. When done poorly, other cities have approved financing deals that prove over time to be overly dependent on volatile

² Source: *The Economic Engine Report*, Capitol Public Finance Group, June 30, 2011.

revenue streams that pose risks to the city’s credit rating, debt capacity, and overall fiscal health.³

Fortunately, the P4 arrangement presents an alternative strategy to generate upfront revenue while greatly reducing taxpayers’ exposure to these risks. First, the lease is effectively non-recourse; that is, the City is not guaranteeing any particular return to the lessee. Second, the lease would likely allow a higher amount of upfront dollars, as the operator (unlike a lender) would have at minimum a substantial share in the upside of the parking business and thus could pay more for the position. By allocating upfront P4 revenues to the ESC (provided the General Fund is held harmless), the City would reduce or potentially even eliminate its reliance on more long-term, less predictable revenue streams to finance the facility. Finally, the private operator will have a very strong incentive to extract and capture any additional value from scale economies or synergies created by the building and operation of the ESC, which in turn should then (assuming competent negotiation by the City) increase either the City’s upfront payment or its residual share of parking cash flow – increasing the utilization of an under-utilized asset to create more value for the public.

Finding 5: A P4 lease arrangement could generate more parking revenues further enhanced by development of the entertainment and sports complex.

The relatively stable and predictable current usage patterns for City parking assets present an attractive opportunity for prospective lessees. Beyond currently generated levels of revenues, however, the City and prospective lessees will encounter several opportunities to generate additional revenues.

First, lessees will seek to identify operational changes in response to new scale economies or synergies that could increase net cash flow. In addition, the ESC will undoubtedly increase parking cash flow based on the significant number of visitors that are expected to attend the ESC’s evening and weekend events (times when downtown parking is currently relatively sparsely used). Because the incremental revenue from evening and weekend parking presumably has little or no additional associated fixed costs, it will likely generate higher revenues and bottom line margins than current operations.

Finally, because development of a downtown ESC will in turn generate 3.1 million new annual visitors to the city’s downtown core, parking utilization will likely increase across a broader footprint - with a significant portion of these new visitors parking in City facilities. The City’s lease approach will effectively capture this new future revenue that would otherwise not exist but for the ESC being built.

³ One example: “A Stadium’s Costly Legacy Throws Taxpayers for a Loss,” *Wall Street Journal*, July 12, 2011.

In short, the incremental increase in parking revenue that would be generated by the development of an ESC would be captured by the City at the front end -- and, if the leasing of the parking is the most straight-forward way to providing the needed contribution for an ESC - would exist because of the deployment of the City's parking.

Finding 6: The City can expect a robust return on the leasing of parking.

On several levels, the City can anticipate a robust return from the leasing of parking.

- First, the City will gain ownership of a facility that is built with dollars other than just those from the City; that is, because the ESC is expected to be partially privately funded (especially from those private entities that stand to gain the most from the ESC being built) and partially funded by various user fees such as ticket surcharges, the City is effectively buying the ESC at a (presumably very substantial) discount; the City ends up owning 100% of the ESC but only paying a fraction of the cost.
- Second, as has been noted numerous times in various reports and in the press coverage, the ESC is expected to substantially increase dollars spent in the City of Sacramento, giving a boost both to local businesses and to the City's tax revenues.
- Third, given what the economy has done to the construction industry here in Sacramento, bidding should be very competitive, so the ESC cost itself should be low relative to what it would have been had it been built in better times, so this makes the deal a still better bargain for the City.
- Fourth, with interest rates at historic lows and investors finding it very difficult to get any meaningful yield, presumably securitization financing would be available at very good rates, making either the upfront payment or the share of the cash flow retained by the City larger than it would have been in most other times.

Recommended Concession Overview

As the City considers the serious public policy decisions necessary in evaluating a public private partnership with a private parking operator, it is important to consider specific issues of significant importance to the public. In an effort to discuss these issues in a productive and open dialogue, Think BIG is releasing the following recommendations to be considered in a concession agreement, which outline issues that have been raised and seen in other cities that have evaluated similar opportunities.

The issues of highest importance are:

- 1) Moratorium on fees and future changes subject to approval by Council
- 2) Citizen involvement and oversight
- 3) Required technology and infrastructure upgrades
- 4) Ongoing risk and operations
- 5) Employee protections, and
- 6) Neighborhood parking enforcement.

Recommended Considerations for a Concession Agreement

1. Moratorium on Fees and Future Changes Subject to approval by Council

- There should be a moratorium freezing existing meter rates for a designated time period.
- Any changes to parking rates to should allow for public input and be subject to approval of the Council.
- The City should consider guidelines that tie rate changes to completion of upgrades by the operator to any outdated assets (e.g. outdated coin-operated meters)
- The City and operator should evaluate dynamic pricing model strategies designed to link rates to event times so as to target revenue generation from patrons specifically using the facility (75% of which come from outside Sacramento).
- The City should require the operator to pay all relevant taxes to the City on time or risk default.

2. Oversight

- The City should explore mechanisms to ensure ongoing citizen involvement in future parking decisions on issues such as monitoring the operator's compliance with the agreements, and reviewing changes to parking rates, subject to the approval of the Council.

- City should retain ownership of all its parking assets and the concession agreement should establish rate increase policies.
- Operator should be required to have an office in Sacramento through the entire lease agreement.

3. Technology/Infrastructure Upgrades

- The Operator should make significant investments in maintenance, repairs and technology upgrades.
- The Operator should implement technology for local businesses to provide validation or discounts for parkers at meters and parking lots.
- The Operator should rehabilitate designated parking facilities, as needed.
- The City should consider methods for the operator to integrate parking assets into the existing and future network of public transportation.

4. Operations/Risk

- The terms of the agreements should address the future need for the City to build more parking garages for economic development purposes if needed.
- The City should transfer the future risk of escalating labor costs, capital expenses, and parking demands to the operator.
- The operator should agree to adhere to strict standards for maintenance and operation, such as cleaning system facilities and providing security.
- The City should work with the operator to ensure that the needs of the City's parking customers are met at all times.

5. Employee Protections

- All current parking facility employees should be protected.

6. Enforcement

- The City should avoid potential negative impacts to neighborhoods through careful enforcement policies and neighborhood parking plans, including possibly increasing the amount of monitoring in the neighborhoods.
- Subject to ultimate valuation of P4, the concession agreement should consider allocation of funding for increased public safety.