

Agenda Report

December 9, 2002

TO: City Council
THROUGH: Finance Committee

FROM: City Manager

SUBJECT: APPROVAL OF AN AGREEMENT WITH THE OLD PASADENA MANAGEMENT DISTRICT FOR THE MANAGEMENT OF THE SCHOOLHOUSE, DELACEY AND MARRIOTT GARAGES

RECOMMENDATION

It is recommended that the City Council authorize the City Manager to enter into an agreement with the Old Pasadena Management District (OPMD) authorizing the OPMD to manage the Schoolhouse, Delacey and Marriott garages (Old Pasadena garages) consistent with the terms and conditions discussed below.

It is also recommended that the City Attorney be directed to modify Title II of the Municipal Code to reflect that so long as this management agreement is in place the Old Pasadena Parking Meter Commission will not have oversight responsibilities of the Old Pasadena garages.

OLD PASADENA PARKING METER ZONE ADVISORY COMMISSION

This proposal was reviewed by the Old Pasadena Parking Meter zone Advisory Commission (Commission) and was unanimously approved along with the stipulation that the final contract be presented to the Commission.

BACKGROUND

On June 27, 2002, the City received an unsolicited proposal from the OPMD to operate the Old Pasadena garages. The initial proposal included:

1. An initial three year term with the right to extend the terms for an additional five year period and/or the option to buy or lease the garages.
2. Funding the Parking Fund Reserves from net operating income from the Old Pasadena garages for the use of capital improvements.

3. Expenses to be paid from revenues from the Old Pasadena garages included:
 - a) Debt Service
 - b) Operating Expenses
 - c) Management Fee
 - d) Capital Improvements
4. Sharing in any net income between the City and OPMD, with OPMD's share being used for new customer services and other Old Pasadena related programs.

After several meetings with representatives from OPMD and discussion with the City's bond counsel because of the outstanding tax-exempt bonds on the garages, the ultimate structure had to be a management arrangement and not ownership or profit sharing.

DISCUSSION

Given the above, the following structure is being recommended:

1. The agreement between the City and OPMD will only cover the management of the Old Pasadena garages and will not include parking meters or rental of tenant space.
2. The initial term of the agreement will be for three years with the ability of either party to terminate the agreement, with or without cause, with a 60 day written notice. The City and OPMD will set a mutually agreeable net income and cashflow target to be achieved by OPMD while the parking operations are under its management. This process will be part of the City's annual budget process that will be approved by the City Council. If OPMD is not able to meet these targets in any given fiscal year, this agreement will be terminated. At the end of the initial term, the parties may mutually agree to extend or renegotiate the management agreement.
3. Currently revenues from the garages reimburse the City \$350,000 for funds it advanced to the Old Pasadena Parking Structure Fund (Parking Fund). As of June 30, 2002, the balance owed to the City's General Fund is \$4,886,545. During fiscal year 2004, this reimbursement amount will be increased to \$400,000. As part of the fiscal year 2005 and 2006 budgets, OPMD will attempt to incorporate \$450,000 and \$500,000, respectively, into the operating budget as repayment to the City for funds it previously advanced. Under no circumstance will the amount decrease below \$400,000.
4. The City will pay OPMD a flat management fee of \$10,000 per month for services performed. This fee will be paid on a monthly basis to OPMD. In addition, the City will pay OPMD up to a maximum \$25,000 in one-time start-up costs to be reimbursed to the OPMD based upon actual billings. Mutually agreeable performance measures will be developed, including both financial and operational measurements. To the extent permissible by federal and state tax laws, the City will consider establishing a bonus arrangement based upon performance. To the extent that the City's repayment as described in paragraph 3 above or that the debt service on the bonds cannot be repaid or are in jeopardy of being paid, the City will have the right to withhold OPMD's management fee.


5. For the initial three-year period, the City will commit all revenues currently assigned to the Parking Fund, including the tax increment dollars currently committed to the Old Pasadena garages that are used to pay a portion of the debt service on the outstanding bonds. The City and OPMD will review the need for the continued commitment of tax increment dollars. Should the management agreement be continued beyond the initial three years. It is the City's desire to reduce and/or eliminate the tax increment currently committed to the Old Pasadena Parking Fund following the initial period. In addition, all cash balances currently in the Old Pasadena Parking Garage Fund will remain within the Fund to cover anticipated operating and capital expenses.
 6. All cash collected at the garages will be remitted to the City and deposited into the City's bank account. OPMD will establish a separate bank account or general ledger account and pay the bills associated with the various Old Pasadena garage contracts (i.e. operations, security, cleaning, etc.). On a monthly basis, the City will transfer enough funds, along with OPMD's management fee, to cover the actual operating expenses. In addition, the City will have the right to audit the expenses of the OPMD relating to this management agreement.
 7. The annual operating and capital budget for the garages will be prepared by OPMD and will be subject to City review and City Council approval consistent with the City's operating and capital budget processes and timetable.
 8. A joint financial and operations monitoring committee comprised of two representatives from the City and three from OPMD will be established and will meet quarterly. The primary purpose of this committee is to review operations and make recommendations to both the OPMD Board and City Council as appropriate. This committee will not have binding decision making authority.
 9. The City Council retains the right to set parking rates at the Old Pasadena garages; however, during the term of this agreement, no rate adjustments will be considered by the City Council unless they are being recommended by OPMD.
 10. The City will assign its Old Pasadena garage parking management contracts to OPMD. Since the security contract covers citywide security services, this contract will not be assigned; however, OPMD will be authorized to manage the security services provided at the three Old Pasadena garages. Should it be necessary, for the efficient management of the Old Pasadena garages, to separate out security services for these garages from the rest of the security contract, the City will agree to do so and allow OPMD to enter into a separate agreement for these services. OPMD will have the right to terminate or renegotiate any of the assigned agreements and enter into new agreements.
 11. While the lease revenue from the rental of tenant space in the garages will be deposited into the Old Pasadena Parking Fund to cover the costs associated with managing these leases, the management and negotiation of the leases between the City and its tenants will remain with the City. The City will transfer the management and oversight of the dumpster in the alley to the OPMD.
 12. The City will retain ownership of the garages and will maintain the necessary insurance coverage. Any premiums and deductible portion of any policy will be the responsibility of the Parking Fund.
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13. City will determine a yearly capped overhead allocation to be charged to the parking garage expenses. This number is to be determined and agreed upon by the City and the District prior to entering into an agreement. This includes but is not limited to, City overhead, debt service, City advance repayment, capital and maintenance expenditures, etc. These costs will increase annually by a consumer price index (CPI) comparable to the negotiated salary increases approved by the City Council for its management employees. Should the costs need to be increased by an amount greater than this CPI, the City and OPMD will meet and discuss.

FISCAL IMPACT


OPMD has represented to the City that it will be better off financially and that OPMD will better manage the Old Pasadena garages by a combination of increasing revenues and reducing operating expenses. During the initial year of the agreement, the City will receive an additional \$50,000 towards the repayment of its advances, while all bonds and other operating expenses will continue to be paid. Any excess revenues will be retained in the Old Pasadena Parking Fund for uses associated with the Old Pasadena garages. All expenditures of funds will be approved by the City Council, consistent with the approval process for the expenditure of any other City funds. Attached are income statements and balance sheets for the Old Pasadena Parking Fund for the past five years.

Respectfully submitted,



Cynthia J. Kurtz
City Manager

Approved by:



Jay M. Goldstone
Director of Finance