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Proposal to Lease Parking to Fund Pensions Raises Opportunities, Questions

Seeking a major infusion of cash for the City's three pension plans, the Mayor of Pittsburgh has proposed leasing parking facilities owned by the City's Parking Authority. The Mayor is to be commended for this groundbreaking approach as it represents the type of new thinking Pittsburgh needs.

Clearly there is concern about the funding status of the three plans (police, fire, and non-uniformed). In the 2008 Comprehensive Financial Report the City Controller's office showed $375 million in assets set aside for $899 million in liabilities (meaning the plans were 41% funded). Last year's market slide has reduced the value of assets to about $260 million, pushing the funded ratio down to about 29 percent.

This enormous and growing shortfall has prompted the Mayor to raise the idea of leasing the parking facilities. According to Pittsburgh's website there are 8,190 spaces in the Parking Authority's attended lots and garages in Downtown Pittsburgh. In its 2007 annual report the Authority noted that parking facility receipts totaled $26.1 million with the preponderance of that likely coming from Downtown garages.

The ball gets rolling this week when the Parking Authority's board meets. Presumably the board will attempt to gauge potential investor interest in the facilities. If it is determined there is an opportunity, the board could then issue a request for proposals to lease the facilities. The Mayor has indicated he would like to see the Parking Authority's debt ($108 million) be erased by the agreement. Lease payments above that would be plowed into the pensions. It is estimated that $300 million of parking lease revenue would bring the pension funded ratio to over 60 percent.

While the Mayor's thinking is quite a departure from the City's norm, it is not entirely without precedent. Several Parking Authority garages have been operated by private companies in the past (one is currently under such an arrangement). The Mayor noted that he has "…been approached numerous times about the value of these [parking] assets", indicating some degree of interest. Last year the state was contemplating leasing the Pennsylvania Turnpike as a way to generate up-front funding for transportation needs. Then too, the City of Chicago recently secured $563 million in return for a 99 year lease of four garages containing over 9,100 spaces and will use the proceeds for debt and public improvements.

That's the big picture—as we know, the devil is always in the details. And there are a few important questions that arise from this proposal.

What happens to the Parking Authority? The Authority Board is appointed by the Mayor and is in the business of building, operating, and maintaining public parking facilities. Working for the Board are an executive staff and employees that carry out the Authority's business. If the Authority executes a lease that turns over a sizeable portion of facilities to private interests, it is fair to say that the Authority would look considerably different than it does today. The question is "how different"?

The City could assume responsibility for servicing the Authority's debt pledging parking lease revenues as the source of payment. In that case, the Authority could be shut down. But don't be surprised if that does not happen. Remember the Stadium Authority is still very much in business and has a major role in North Shore development decisions even though the sole asset it owned and managed, Three Rivers Stadium, is long gone. Then too, it might be argued that the Authority should continue to monitor street meters and facilities not included in the lease. Not a strong argument but undoubtedly one that will be made.

Will the lessee(s) be able to earn an adequate return? Before agreeing to a lease that includes sufficient payment to erase the Authority's debt and provide funding for the City's pension, the investor will obviously need to be confident that the arrangement will be profitable. That will require having the flexibility to cut costs and increase revenues, the latter coming through setting parking rates, the former through management controls over labor, operating procedures and maintenance. In all likelihood, the City will try to place constraining stipulations on the lessee. For instance, in Chicago the garage leases spell out requirements on maintenance, safety, compliance with the City's living wage ordinance, and preferences for hiring City residents. Obviously, too many or onerous constraints will diminish or negate earning potential for the lessee.

The Mayor has said cryptically it would be okay if parking rates go up since many parking customers are non-City residents and the benefit of shoring up pensions outweighs the negative impacts of higher rates. "I'd like to protect parkers, too, but not at the expense of City taxpayers and pensioners" was the Mayor's statement. Many pockets of government and the community are skeptical of the private sector to begin with, so it would not be a stretch to imagine accusations of "profiteering" and "selling off vital assets" during this discussion.

Will the plan succeed? Assume the Parking Authority solicits requests for proposals and the response is cool. Or maybe there are responses but they do not offer the "influx of cash" the Mayor wants for the pensions. The Mayor cited Chicago as an example of a parking lease arrangement. That lease with Morgan Stanley amounts to a price of $61,000 per garage parking space; it is questionable whether a Pittsburgh lease would produce as much. But it could depend on the generosity of lease terms. We simply must wait and see.

Other questions will surely arise, but it is definitely worthwhile for the City to explore this alternative meaningfully. It would allow the City to turn fixed assets into cash for a situation that is rapidly growing more desperate. Perhaps this is will be just the first step in a move toward real long-term solutions.

Eric Montarti, Senior Policy Analyst

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org