POLICY BRIEF
An electronic publication of
The Allegheny Institute for Public Policy

October 20, 2010 **Volume 10, Number 58**

Garage Privatization in Pittsburgh Should Remain an Option

With City Council's final vote and the Mayor's pronouncement that it is "time to move on" to other issues, the stage appears to be set for the troubled pension plans to move from City administration to that of the Pennsylvania Municipal Retirement System (PMRS) under the terms of Act 44. After the vote on the Mayor's lease plan the Council and Controller rolled out yet another plan to raise the $220 million needed to avoid the state takeover of the pension funds. The Mayor's office indicated the Council-Controller plan is a non-starter and would not get his approval.

Indeed, the Council-Controller plan requires significant study and many questions would have to be answered before it could expect to receive the Mayor's support. A preliminary analysis raises several issues with the funding plan that would need explanation. One, is the assumption of just 2 percent per year increases in operating expenses reasonable? Two, if the Parking Authority is purchasing the meters from the City, why is the garage parking tax rate not imposed on the meter revenue? Three, can the Authority borrow $260 million through a bond issue with an interest rate of 5 percent that pays only interest for the first 10 years? Four, even if the Council votes for legislation to enact the Council-Controller plan and then overrides a veto, will the legislation have the legal power to force the Parking Authority to buy City owned parking facilities and issue bonds of $260 million?

Certainly, the Authority will want to have an independent evaluation of the new plan and very likely will want the Mayor's blessing before it undertakes such a review.

If the Mayor's comments truly reflect an unmovable position, then the City pension funds will be taken over on January 1. And that will mean the City must begin contributing tens of millions more to the pension funds at some point in the future.

At that point, it will be time to take a cool headed look at how City and Parking Authority owned assets can be used to generate revenue funds to help meet the enormous hike in pension fund payments. The City should not abandon the idea of moving parking assets to the private sector. It just needs to come at the notion in a different direction, one that does not involve long-term leases with favorable tax terms for the lessee or issuing more debt, either on its own or by the Parking Authority.

Such rethinking is critical in light of the $1 billion tab that the City has for all of its legacy costs (unfunded pension liability, unfunded retiree health care liability, and long-term workers' compensation liability) as well as $700 million or so in general obligation debt. The parking lease plan dealt with only the pension issue.

The motivation to lease or sell the parking system must be predicated on the City's realization that it should get of out of the parking garage business. There is no economic justification for the City (or a related Authority) to be in the business of building, owning, operating, or setting rates for a product that can be provided by the private sector where rates and product quality will be determined by market forces and competition.

Unfortunately, the prevailing view on Council is encapsulated by a statement in the Council-Controller plan declaring that providing taxpayer subsidized parking is an important component of City economic development. Said another way, the Council is strongly opposed to privately owned parking because it will charge more than the taxpayer subsidized publicly owned parking. And that is the result primarily of the fact that the publicly owned facilities do not pay property taxes or other business related taxes and they do not have to earn a return on investment.

How ironic then that the Council wants to implement a plan calling for very large parking rate increases—increases which, once in place, will eliminate most of the price advantage currently enjoyed by Parking Authority garages. Thus, the subsidy effect on parking rates will be wiped out. It is doubly ironic that the Council's and Controller's perceived need to subsidize parking is a direct result of the high parking prices in the City, which are in turn a reflection of Pittsburgh's extraordinarily high parking tax—currently standing at 37.5 percent.

But in light of the tremendous challenge to raise money without large tax hikes and the Council's willingness to give up the publicly owned price advantage as demonstrated in its latest plan, the Council and Mayor should look at outright sales of assets. Once the state takes control of the pension funds there is nothing to prevent the City from seeing what the market will offer for publicly owned facilities.

Here's how the City could and should pursue its next effort to generate cash from publicly owned garages. It will of course have to work with the Authority to achieve its goals.

1. Instead of a long-term lease for all garages and lots, offer garages and lots for sale one or two at a time. See what the market says they are worth and, if an acceptable offer is made, take it. After the sale, the buyer will have to pay real estate and other business related taxes as the title to the facilities will not remain with the City or the Authority. The buyer would be free to do with the property what they wish; including tearing down the garage and building something else if that was deemed the most profitable use of the property.
2. The proceeds from the sale should be used first to secure in escrow the debt obligations backed by the particular garage or its pro rata share of the debt and the rest forwarded to the City as a payment in lieu of taxes.
3. Once all Authority debt is retired from sales, the Authority should vote itself out of existence. Any remaining parking facilities would be turned over to the City and sold as soon as possible.

In a *Policy Brief (Volume 4, Number 38)* we examined the possible assistance the Authority could extend to the City. In that piece we noted "the City needs capital to take care of its unfunded pension liabilities, debt obligations, and capital projects…by phasing itself out, the [Parking] Authority would allow the private sector to resume its proper role in providing parking in a market driven environment". That is just as true now as it was then. Abandoning the idea that the City needs to subsidize parking while it levies outrageously high parking taxes would be a giant step toward moving the City out of its financial paralysis.

If the Mayor's forecast that a state takeover "…will be painful and extremely difficult" is correct, then why not utilize the parking garages and lots in a way that could make the bitter pill easier to swallow?

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