Traffic Engineering and Parking Divisions

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November 15, 2005

To: Mayor and Common Council

From: David C. Dryer, P.E., City Traffic Engineer

RE: 2006 Operating Budget Amendment No 6 Increased PILOT Fee from Parking Utility to General Fund

Budget Amendment No 6. proposes to increase the payment of PILOT from the Utility to the General fund in an amount of $500,000.

The City Attorney has provided a memo dated 11/14/05 which the Council has received and which provides a general discussion of PILOT exactions, other transfers from the Parking Utility to the general fund and a specific discussion of ordinances, laws and bond covenants applicable to Parking Utility revenues. This memo provides the legal background to frame the decision.

This memo is presented to the Council to provide additional background on Parking Utility PILOT and the impacts this additional cost will have on Utility finances.

CURRENT UTILITY PAYMENTS

The Parking Utility currently pays PILOT to the City of Madison; the amount projected for 2006 is $1.2 million—not including the additional PILOT amendment No 6. Mr. Brasser's memo of November 8th (attached) provides additional background information as to how this PILOT is calculated and what it is intended for.

Table 1 provides a view of Utility PILOT payments over the last 5 years. It shows the general increasing trend, and shows PILOT as a percentage of Gross revenue. Industry rule of thumb is that taxes/PILOT generally should not encumber a Parking operation beyond 10% of gross revenue.

	Year						
Table 1	1999	2000	2001	2002	2003	2004	2005 est.
PILOT (000)	$648	$752	$898	$1,135	$1,106	$1,130	$1,247
GROSS INCOME (000)	$7,226	$7,566	$7,466	$8,655	$8,956	$9,037	$9,240
PILOT AS % of Gross Income	9%	10%	12%	13%	12%	13%	13%

In addition, the Utility funds five (5) Parking Enforcement Officers within the MPD at an annual cost of $385,000 and, unlike other municipalities, $5.6 million in parking ticket fees go directly into the General Fund.

The Parking Utility has historically funded large capital projects through the use of bonds. The current bonds total $4.5 million. To cover debt service, operating, fixed asset and capital costs, a reserve of $3.4 million is maintained. At year end 2004 the Utility's reserve balance was $9.0 million.

UTILITY IMPROVEMENT PLAN

The Parking Utility is currently working with downtown stakeholders and other City agencies in planning for a future Mid-State Street parking ramp. This ramp is planned to sit on the current Buckeye Lot site. The ramp is projected to cost $11.5 million or more. Funding from the Utility for this project is anticipated to be $6.0 million, $3.0 million reserves and $3.0 million borrowed.

Government East or GE Ramp is the oldest parking ramp in the Parking Utility system. Built in 1957 it is reaching the end of its useful life. It is anticipated that the GE Ramp will need to be torn down and replaced in 2011 or shortly thereafter. This project is estimated to cost $15.0 million assuming no increase in size. Project costs would be fully borrowed; construction is projected to take one year. Alternate parking arrangements have yet to be made for displaced parkers.

Given these noted major improvements as well as increased operating costs over time, the Utility is projecting that rate increases of $0.25 will be required in 2008, 2010, 2012 and 2014. The last rate increases implemented by the Utility occurred in 2002 and then again in 2003, and the full two-year package generated $1.5 million.

FUTURE PILOT INCREASES

Amendment No. 6 provides an additional PILOT amount of $500,000. To provide a range of analysis or sensitivities for Council consideration, the PILOT payments were considered from a low of $100,000 to the high of $500,000.

Shown in Table 2, is the currently project PILOT payment for 2006, as well as these potential PILOT increases.

TABLE 2	**2006**	**2006 +$100,000**	**2006 +$500,000**
PILOT (000)	$1,247	$1,347	$1,747
GROSS INCOME (000)	$9,240	$9,240	$9,240
PILOT AS % OF GROSS INCOME	13%	15%	19%

NOTE: The percent of gross income well in excess of 10%.

The additional transfers of revenue to the General fund through PILOT impact the timing of rate increases to customers. Table 3 shows the expected advancing rate increases as a result. Note that in this scenario the outstanding bonds are not paid off.

TABLE 3*	**Year and Amount of Rate Increase**								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Current Planned Increase			$0.25		$0.25		$0.25		$0.25
Rate Increase as a result of **$100,000 PILOT**		$0.25		$0.25		$0.25		$02.25	
Rate Increase as a result of **$500,000 PILOT**	$0.25		$0.25		$0.25		$0.25		$0.25
*NOTE: All scenarios anticipate the building of the Mid-State Street Ramp and the replacement of GE Ramp in 2011 or later.									

The current downtown on-street meter costs $1.00/hour. Increasing the rates to $1.25 in 2008 and $1.50 in 2010 enable the Utility to participate in the Mid-State Street project and replace the GE Ramp. An

increase of $100,000 PILOT requires a rate increase sooner, in 2007 to $1.25. A $500,000 increase in PILOT requires an immediate rate increase, for a total of five increases between now and 2014.

IMPACT OF PAYING OFF THE BONDS

Paying off the bonds while increasing the PILOT is not advisable as it diminishes the Utility balance and further necessitates steeper rate increases. Retiring the bond balance eliminates the funds the Utility can provide for Mid-State Street and therefore requires that the entire $6.0 million share projected for Mid-State Street be borrowed. To retire this additional debt, fund GE replacement and make additional PILOT payments is unlikely to be supported by customers facing a series of $0.75/hour rate increases.

CONCLUSION

The Council needs to carefully consider how much parking customers can sustain in the way of continuing rate increases. Current on-street meter rates of $1/hour are consistent with on-street parking spaces in Milwaukee, while Chicago currently charges $1.50/hour for its most expensive on-street spaces. The Council will need to consider if Madison residents can afford parking rates similar, if not in excess of those found in Chicago, and what increased fees mean to the attractiveness of the downtown to current and potential customers.

Any rate increases would be applied across the system, both to on-street and ramp spaces. A rate increase applied to ramp users alone is not recommended as this simply discounts the most desirable spaces (the on-street), making them less likely to be available for business customers. Generally, in the parking industry, the ramp parking should be less expensive than on-street spaces.

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ATTACHMENT

CITY OF MADISON

INTER-DEPARTMENTAL

CORRESPONDENCE

DATE: January 10, 2006

TO: Alder Ken Golden, Common Council Members, Mayor Cieslewicz

FROM: Dean Brasser, City Comptroller

SUBJECT: **Parking Utility PILOT Questions**

The Payment in Lieu of Taxes (PILOT) paid by the City Parking Utility to the City General Fund was a topic of discussion at the Common Council's budget briefing session last Tuesday evening. As a result of that discussion, you asked me to research two related questions. After consultation with staff from the Assessor's Office, Comptroller's Office, Attorney's Office and the Parking Utility, I'm writing to answer those questions.

What is the basis for the Current Parking Utility PILOT calculation?

The Assessor's Office has historically used a cost approach to establish a value for the Parking Utility's structured facilities and surface lots for PILOT purposes. Generally, this approach to valuation takes into consideration the market value of land and the estimated cost of replacing structures, less depreciation. When compared to the alternative "market" or "income" approaches to valuation, this approach is the least reliable and seldom used in the assessment of taxable properties. It was chosen here, however, because it results in a substantially higher value estimate than would result from the alternatives. The "assessment" for Parking Utility property has been increased from $36.8 million in 2000 to $63.9 million in 2005, due primarily to the increased value of surface lots and the land beneath the aging parking structures.

Although City Ordinance Section 4.18 authorizes a "payment of tax equivalent on City owned parking lots" using "the mill rate as adopted by the Common Council in December," the mill rate historically applied to Parking Utility property has been the City of Madison mill rate, plus the Madison Metropolitan School District mill rate, less the state school credit rate. For the 2004 PILOT, that combined rate was 18.11 mills. This combined rate was approximately 2.4 times greater than the City mill rate of 7.79 mills, and generated a PILOT of $1,130,000 paid entirely to the City General Fund. If the City of Madison mill rate had been applied to Parking Utility value, the resulting payment from the Parking Utility would have been only $486,000.

The 2005 budget was based on the prior year's estimated combined City/School rate of 18.84 mills and an estimated 5% increase in value, resulting in a budgeted 2005 PILOT payment of $1,247,000. Recent school district budget decisions suggest that the actual 2005 rate will be significantly lower, and I now expect the actual 2005 Parking Utility PILOT payment will fall at least $100,000 short of the budgeted level for this year. While the 2006 "assessed value" of Parking Utility property and the 2006 mill rates will not be determined until next year, the 2006 PILOT budget assumes only a modest reduction of $70,000 from the 2005 budgeted level to reflect a likely decrease in mill rates.

What is the "value" of on-street parking spaces for purposes of inclusion in a PILOT calculation?

The street right-of-way used for metered parking has never been included in the Parking Utility PILOT calculation under the premise that the land is not "owned" by the Utility and is not available exclusively for parking purposes. There are presently 1,386 metered parking spaces in the public right of way. With an estimated average area of 176 square feet, these spaces cover approximately 244,000 square feet. No value estimates have been made in the past.

In attempting to estimate a value, the market approach is unavailable. Since public right-of-way is not commonly sold as a result of arms-length transactions between willing buyers and sellers, there is no reliable pool of comparable sales data.

An income approach, which uses the net income generated from real property, is the method most commonly used for commercial property valuation. Based on Parking Utility operating cost data and the total net income from street meters, the Utility's uses would generate an estimated value of these spaces in the range of $5,000,000 to $8,000,000. Using an estimated mill rate of 18 mills, this value would result in a PILOT of between $90,000 and $144,000.

Based on the location of the on-street parking spaces, adjacent property has assessed value in a range of from $50 to $100 per square foot with an estimated average of $70 per square foot. While there is no market sales history to support the application of these values to parking in the public right-of-way, it could be argued that the 244,000 square feet of right -of-way used for public parking purposes has a total value of $17,000,000 if it were sold and could be redeveloped in conjunction with the adjacent land parcels. If this valuation and a rate of 18 mills were used to calculate a PILOT, the resulting payment would be $306,000.

I want to emphasize that this comparison of valuation approaches has not taken into consideration the impacts that additional PILOT payments would have on parking rates or the ability of the Parking Utility to fund operating and maintenance costs in the long term. Before implementing any change to the current Parking Utility PILOT calculation formula, I would recommend that the City Attorney be consulted to determine if existing Parking Bond ordinances present other legal limitations. We would also need to allow the Assessor's Office an opportunity to do a more complete and accurate review than the general valuation analysis presented here. I hope this information is helpful as you work through issues related to the 2006 Operating Budget and the financing of public parking.

cc: Mike Kurth, Chief Assessor
David Dryer, City Traffic Engineer
Bill Knobeloch, Parking Operations Manager
Bill Kreitzman, Enterprise Accountant
Dan Bohrod, Administrative Analyst
Mike May, City Attorney