

<b>TO:</b>	<b>CHAIR AND MEMBERS FINANCE AND ADMINISTRATION COMMITTEE MEETING ON SEPTEMBER 28, 2011</b>
<b>FROM:</b>	<b>MARTIN HAYWARD CITY TREASURER, CHIEF FINANCIAL OFFICER  TOM JOHNSON MANAGING DIRECTOR-CORPORATE ASSETS</b>
<b>SUBJECT:</b>	<b>REQUEST FOR REVIEW OF TRICAR GROUP PARKING PROPOSAL</b>

<b>RECOMMENDATION</b>
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That, on the recommendation of the City Treasurer, Chief Financial Officer, and the Managing Director-Corporate Assets and with the concurrence of the Division Manager, Parking and Traffic Signals that **DIRECTION BE PROVIDED** to Administration as to whether Council would like to proceed to negotiations concerning the draft proposal submitted by the Tricar Group for the lease of a parking garage at King Street and Ridout Street, noting the following considerations:

- Proposal should also be examined within the broader City discussion of the creation of a Parking Authority;
- Since this was an unsolicited proposal, we cannot advise as to available alternatives;
- No investigation of opportunities has been undertaken for Public Private Partnership (P3) funding alone or in combination with other facilities;
- The legal risks of such a proposal must be assessed, including clarification of definitions such as major and minor structural maintenance and repairs;
- The insurance and any other risks need to be considered;
- This proposed structure would be located in an area that has an identified need for more parking;
- Our preliminary analysis suggests that based on the conditions in the attached proposal (Appendix A), a lease would be a more cost effective scenario than the City self-constructing the asset, but further refinement is warranted on receipt of construction specifications;
- The financial investment and overall impact should be evaluated to determine if benefits outweigh costs; and
- The leased facility will operate at an increasing annual deficit.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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- Downtown Masterplan Background Study, Section 16.8 Parking Lots, June 2010
- Downtown London Parking Utilization Study, MMM Group, 2008
- London Downtown Parking Study, MMM Group, May 2010
- Long-term Transit Growth Strategy – Parking Policies and Practice, Dillon Consulting Limited, March 2006

<b>BACKGROUND</b>
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**Proposal Summary**

The Tricar Group has submitted an unsolicited, untendered draft proposal (Appendix A) to the City of London for the construction of a 300 parking stall above ground parking structure on Ridout Street North between King Street and York Street. The City would lease, operate and conduct routine maintenance for the facility, and have the ability to set parking rates. This structure would be built in conjunction with an underground parking garage that Tricar is building on the site, which would be dedicated to residents of two residential towers, and not available for City use.

## Proposal Evaluation

The preliminary evaluation of the proposal has been based upon the information contained in the attached proposal.

### a) *Role of City in Operating Parking Facilities*

As of 2008, there were 8,579 commercial parking spaces in the Downtown area of the City of London. Of these spaces, 57% were in parking garages and the rest in surface parking lots. When compared to other regional Municipalities such as Waterloo which owns/controls 67% of their Downtown parking, London comparatively owns/controls a lower share (26%<sup>1</sup>). The question of whether the City would benefit from owning or operating more parking facilities has been raised and is being addressed through a review exploring the possibility of creating a Parking Authority in London. This current proposal should be considered as part of the Parking Authority discussion.

### b) *Location of Proposed Structure Relative to Downtown Parking Needs*

The location of the proposed parking structure is at Ridout Street between King Street and York Street. The Ridout Street/King Street corridor was identified by a 2006 Downtown Parking Study by Marshall Macklin Monaghan (MMM) as an area in need of further parking. The study suggested that over the short term (0-5 years) a structure with 250 spots be constructed in the vicinity of King/Ridout Street. This need was anticipated to result from the loss of existing surface parking lots in the area. The study suggested that without the creation of parking further downtown development would be hindered.

A 2006 transit studies by Dillon Consulting contradicted the recommendations of the MMM study by suggesting no net increase to the number of parking spots in the Downtown area and suggested the use of metered parking as a means of controlling turnover and price.

Integrating these findings is beyond the scope of this current report, but referencing past work is imperative to evaluating the Tricar Group proposal. The *Downtown Master Plan Background Study* provides a good summary of past studies and available information.

### c) *Financial Commitment*

City involvement in a parking facility would require a financial commitment from the City. The 2006 MMM study identified that parking rates would not provide a sufficient return on investment to the private sector to encourage the development of a public parking structure. Public parking structures are rarely profitable and generally operate at a loss.

The financial impact of the Tricar Group proposal can be evaluated by:

- i) Examining the total cash and Net Present Value (NPV) cost to lease and operate the facility
- ii) Comparing these against the cost of the City constructing and maintaining a similar facility

It should be noted that this proposal was unsolicited, and that there has been no competitive process to determine if there are other options available or if the ability exists to integrate this project with others the City currently has planned.

## Financial Analysis

A Net Present Value (NPV) analysis has been undertaken to evaluate the financial impact of this investment. NPV is a means of analyzing cash flows to measure the impact of time on the value of money. For example \$1 today, in 25 years discounted at 7% would only be worth \$0.13. Over time the value of money decreases.

This can assist in evaluating the total financial commitment required and whether an investment is a beneficial one for the City. A partial list of the assumptions used in the analysis is attached as Appendix B.

## Analysis

### (a) *Scenario 1 City Lease from Tricar Group*

If the City were to accept the Tricar Group proposal, the estimated total costs over a 25 year period are estimated to be as follows:

Cost	Cash Cost	NPV Cost
<b>Total Cost</b>	\$ 33,203,300	\$15,994,200

<sup>1</sup> As per Division Manager, Parking and Traffic Signals

<b>Total Revenue</b>	\$ 16,081,700	\$7,985,200
<b>Net Cost to the City (Years 1-25)</b>	<b>\$ 17,121,600</b>	<b>\$8,008,990</b>
Increase in operating budget in Year 1 (estimated). Costs increase each year for 25 years.	\$ 485,600	N/A
<b>Net Cost per stall for Years 1-25</b>	\$ 57,100	\$26,700

These costs do not include any property taxes, administrative and/or operating fees that may be charged by the Tricar Group. The above analysis is preliminary and based on the proposal received. Further refinement of the analysis based upon final lease conditions should be completed.

In addition, further investigation is warranted to verify that the proposed parking stalls are within the required size for City use and that the design of the facility is in compliance with design and structural standards for City operated facilities.

*(b) Scenario 2 City Cost to Build Similar Proposal*

If the City were to construct a comparable facility, the estimated costs over a 25 year period are estimated to be as follows:

<b>Cost</b>	<b>Cash Cost</b>	<b>NPV Cost</b>
<b>Total Cost</b>	\$37,895,800	\$20,557,160
<b>Total Revenue</b>	\$16,081,680	\$7,985,200
<b>Net Cost to the City (Years 1-25)</b>	<b>\$21,814,130</b>	<b>\$12,571,950</b>
Increase in operating budget in Year 1 (estimated). Costs increase each year for 25 years.	\$633,100	N/A
<b>Net Cost per stall for Years 1-25 per stall</b>	\$72,710	\$41,910

It is estimated that the costs for the City to acquire the land and build the facility would be higher.

**Scenario Discussion:**

From a financial perspective, a lease is a better investment for the City. Both the cash and NPV cost of a lease are lower than the cost the City would incur to self-construct the facility. There are conditions within the Tricar proposal that require clarification, such as the building and construction specifications which may or may not conform to City standards. If the City requires changes to the plans, this could also increase the cost of the planned project and/or influence the proposed lease rate.

Maintenance and repair costs are also influenced by construction standards, and these should be defined within the proposal to enable a more accurate estimate of the required maintenance costs. Should Council choose to move forward with the proposal, more detailed information should be requested to refine the preliminary analysis summarized in this report.

**Facility Operating at a Deficit**

Despite generating revenue, it is estimated, based upon conservative estimates, that the facility will incur an operating of \$485,600 in year one. Under the conditions of the agreement, the cost will continue to increase each year of the twenty-five year lease commitment.

<b>CONCLUSIONS</b>
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Creating linkage between the goals and objectives for transportation and parking strategies in the Downtown core is important to ensure public interest is balanced with the need to grow. Ensuring the Downtown region remains vibrant and provides a positive image of the City of London is essential, but the cost of maintaining and meeting this vision must be understood.

If the City requires changes to the planned construction specifications, this could also increase the cost of the planned project and/or influence the proposed lease rate. Should Council choose to move forward with the proposal, more detailed information should be requested to refine the preliminary analysis summarized in this report.

Civic Administration is seeking direction from the Committee on whether they would like to proceed with further negotiations with this project, consider the project as part of another development, or decline the opportunity at this time.

<b>PREPARED BY:</b>	<b>CONCURRED BY:</b>
<b>CARMEN REIS, SPECIALIST II, CORPORATE ASSET MANAGEMENT</b>	<b>SHANE MAGUIRE, DIVISION MANAGER PARKING AND TRAFFIC SIGNALS</b>
<b>RECOMMENDED BY:</b>	<b>RECOMMENDED BY:</b>
<b>MARTIN HAYWARD CITY TREASURER, CHIEF FINANCIAL OFFICER</b>	<b>TOM JOHNSON MANAGING DIRECTOR-CORPORATE ASSETS</b>

Attachments (2)

Copies to:

- K. Shahata, Specialist II, Corporate Asset Management
- L. Burgess, Divisional Manager, Corporate Asset Management
- P. McNally, Executive Director - Planning, Environmental & Engineering Services
- M. Turner, Deputy City Treasurer