

# Issues and Questions about the Parking Operations Lease Proposal

Bruce Weide, Paul Beck, Enrico Bonello (Faculty Senators)

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The proposal calls for a private entity to give the University a one-time payment (minimum \$375M) for monopoly rights to run the campus parking operations for 50 years, in exchange for parking fees paid by faculty, staff, students (and their parents), and visitors. Annual parking rate increases will be limited to 7.5% for the first 10 years and the greater of 4% or inflation for the remaining 40 years. The one-time payment will be added to the OSU endowment, and some of the returns on it (currently a 4.25% maximum annual distribution) will be used to cover debt service on parking garages, the cost of the campus bus system, and other ongoing Transportation and Parking expenses, with the remainder going to “investments in the academic core.” The private entity will be obligated *only to maintain* the current level of parking services and will not be required to expand/improve parking services or to fund new parking facilities.

1. From a cash-flow standpoint, this transaction is identical to a loan (of \$375M, or perhaps more) from the private concessionaire/lender to OSU, on which those who park on campus will make escalating principal and interest payments for the next 50 years.
2. Current parking fees cover the costs of transportation and parking operations on campus, including enforcement, the campus bus service, and debt on parking garages. Past parking rates generally have been set to allow for no significant profit/loss and to cover the cost of new parking garages. Under the proposal, the concessionaire/lender will be responsible only for parking operations. It will be expected to make a profit and to pay off the debt it will incur to fund the one-time payment to the University. Its operating costs, profits, and debt payments will be paid by faculty, staff, students, and visitors who park on campus.
3. In setting the maximum parking rate increases that the concessionaire/lender could charge in the first 10 years, the University used an average past increase of 7.5% that included the costs of new garage construction, rather than the average increase of less than 5% since FY04. At a 5% increase, parking fees would be 63% higher in 10 years; at the 7.5% increase, they will be 106% higher. Bearing these circumstances in mind, it seems undeniable that faculty, staff, students, and visitors will pay more under privatization than they otherwise would have paid to park.
4. The maximum parking rate increases to be stipulated in the request for proposals will allow the concessionaire/lender to realize estimated gross revenues of about \$5.3 billion (resulting in gross profit from parking operations of about \$3.8 billion) over the next 50 years, as estimated in the independent spreadsheet analysis referenced in point 8 below. These figures will be even higher if inflation exceeds 4% in any year between 2022 and 2061, as it is compounded in subsequent years. Inflation was 3.2% in 2011 and averaged 4.2% in the last 40 years.
5. Morgan Stanley is advising the University on how to attract potential bidders for the parking operations lease by “valuing” the transaction as a potential bidder might. It will be paid only if OSU goes through with the deal. It apparently has not been asked to analyze whether the proposed transaction is a good financial deal for OSU.

6. Numerous issues that have been raised about whether the proposed parking lease will be advantageous to the University have not been satisfactorily addressed to date. Among these are:
  - a. The details of a University analysis apparently showing why this might be a good financial deal for OSU have not been made public. Instead, a request to release the model underlying this analysis has been denied on confidentiality grounds.
  - b. There has been no detailed reporting of transportation and parking expenses that OSU will retain (and the concessionaire/lender will not pay): existing parking garage debt service, funding the campus bus service, building new garages, etc. This makes it impossible to estimate how much net return drawn from the extra endowment funds will be available to invest in the academic core after these expenses are paid.
  - c. There has been no explanation of where the remaining endowment earnings will be invested in the academic core or what process will be followed to determine those areas of investment. Informal statements have been made about more undergraduate scholarships, graduate fellowships, endowed chairs, new facilities, etc.
  
7. Other possible consequences for OSU of going forward with this plan have not been adequately addressed so far. Here are a just few of the many questions that have been asked by members of Faculty Council:
  - a. Why should those who park on campus pay higher parking fees to subsidize contributions to the OSU endowment, or to a few specific academic programs that would be supported from returns on it?
  - b. If new parking garages are built, will their costs be added to what those parking on campus will pay?
  - c. What will happen to displaced Transportation and Parking employees?
  - d. Why should faculty, staff, students, and guests have to pay even higher increases than 4% due to inflation to generate even more profit for the concessionaire, when its up-front costs of borrowing to make the one-time payment to OSU will not rise at the rate of inflation?
  - e. How effectively, and at what cost in oversight and litigation, can the University monitor and enforce compliance with the arrangement over 50 years and deal with possible failures of the concessionaire/lender to fulfill its expectations?
  - f. Will the higher cost of parking or currently unanticipated changes in parking policies reduce the presence of faculty on campus or effectively restrict staff and student access to campus parking?
  - g. How might privatization of an operation that is so important to the daily lives of faculty, staff, and students inadvertently affect the University-area environment or culture?
  
8. An independent analysis (<http://cse.osu.edu/~weide/parking/Parking-2012-02-04.xlsx>) by a member of the Senate Fiscal Committee and of the Parking Advisory Committee and of Faculty Council, using figures contained in the University's reports on the proposal, is the only transparent accounting of its financial costs and benefits for OSU. This analysis has been shared with everyone who has asked to see it. To date, neither the details nor the conclusion of the analysis have been refuted either by University officials or by anyone else who has asked to see it.

Without a truly satisfactory resolution of the issues contained here, it is impossible to support this initiative.