STUDY OF THE LEASE OF THE PARKING GARAGE BY
THE HEALTH EDUCATION AUTHORITY OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
New Orleans, Louisiana

Staff Study
May 16, 1991

A staff study is information compiled to answer a specific question about a state government program or activity. The questions are usually posed by a goverment task force or the legislature. The primary sources of information for staff studies are interviews and questionnaires. The auditors do not attest to the accuracy of any information contained in the staff study because none of the information contained therein has been audited.

Under the provisions of state law, this staff study is a public document. A copy of this staff study has been made available for public inspection at the Baton Rouge and Metairie offices of the Legislative Auditor.

June 26, 1991

OFFICE OF
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STATE OF LOUISIANA
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June 26, 1991

Honorable Samuel B. Nunez, Jr.,
President of the Senate
Honorable Jimmy N. Dimos,
Speaker of the House of Representatives
and the
Legislative Audit Advisory Council

Transmitted herewith is the staff study of the Health Education Authority of Louisiana (HEAL) parking garage. This staff study was conducted to determine the various options available to the HEAL when the current operating lease for the parking garage expires on December 31, 1997.

This staff study presents information obtained by the auditors through interviews of HEAL employees, persons currently employed in the parking industry, and a questionnaire submitted to the Comptroller for APCOA, Incorporated, (the current operator of the garage), as well as the auditors' conclusions and recommendations about the information. The information provided to the auditors has not been audited by this office. The methodology used in this study and the responses of the Health Education Authority of Louisiana are included in Appendices A and B, respectively. In accordance with Louisiana Revised Statute 24:513(E)(6), the report is intended to assist the legislature in evaluating the operation of the parking garage.

Respectfully submitted,

Daniel G. Kyle, CPA
Legislative Auditor

DGK/rlt

[healpark]

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CONTENTS

STUDY OF THE LEASE OF THE PARKING GARAGE BY THE HEALTH EDUCATION AUTHORITY OF LOUISIANA DEPARTMENT OF HEALTH AND HOSPITALS STATE OF LOUISIANA

This staff study contains a synopsis of the powers and duties of the Health Education Authority of Louisiana, background information of the events leading up to the construction and lease of the parking garage, and the auditors' conclusions and recommendations as they relate to the lease of the Health Education Authority of Louisiana parking facility.

PURPOSE AND OBJECTIVES

The purpose of the staff study was to determine whether or not it was, and is today, more cost efficient for the Health Education Authority of Louisiana (HEAL) to contract out the operations of its parking facility as compared to operating the facility itself.

The objectives of this staff study were to determine:

a. the cost to run the facility;

b. the net profits earned by APCOA, Incorporated, (lessee) over the life of the lease agreement; and

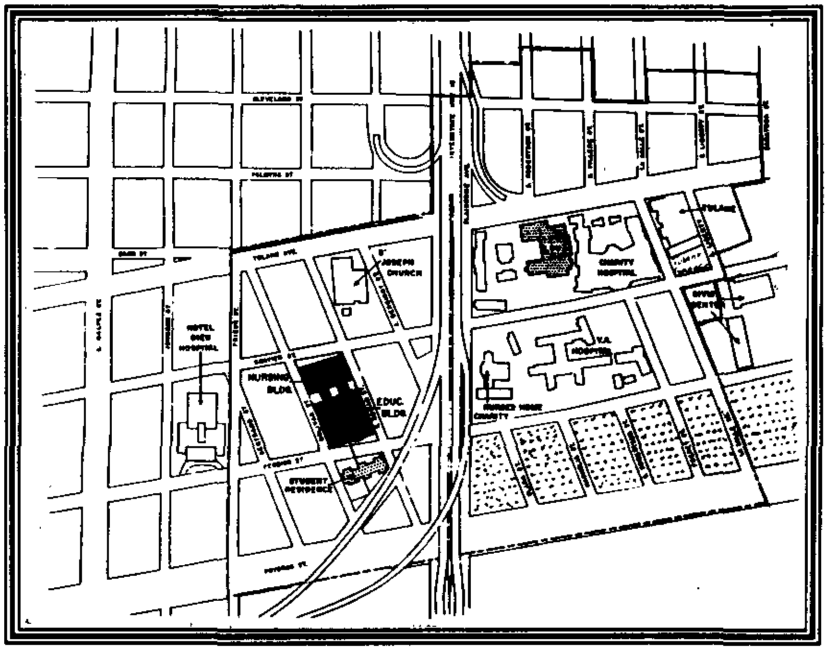
c. the potential benefit to the HEAL of operating the facility itself as opposed to leasing the operations to a private management company.

CREATION AND DUTIES

The HEAL is under the supervision of the Louisiana Department of Health and Hospitals and is composed of a board of trustees consisting of the governor, as ex-officio trustee, and 13 members. The authority, established under the provisions of Louisiana Revised Statutes 17:3051-3060, is charged with the development and operation of a coordinated and cooperative multi-institution (which includes both primary and participating institutions) at the Louisiana Medical Complex in New Orleans. The purpose of the authority is to promote medical education, research, and health care for the benefit of all the people of Louisiana. To date, the primary institutions are the Charity Hospital of Louisiana at New Orleans, the Louisiana State University Medical Center, and the Tulane University Medical Center. The participating institutions are the Veterans Administration Hospital, the Eye, Ear, Nose, and Throat Hospital, and the Alton Ochsner Medical Foundation.

The primary service area referred to above is the area within a ten-mile radius of Charity Hospital of Louisiana at New Orleans.

LOUISIANA MEDICAL COMPLEX



NOT PART OF COMPLEX

The Louisiana Medical Complex at New Orleans consists of the area of land within the primary service area. However, the area of land bounded by and including LaSalle Street, Perdido Street, Clara Street, and Poydras Street in the city of New Orleans is not included within the Louisiana Medical Complex. The complex is depicted in the map shown above.

By Act 112 of the 1968 Regular Session of the Louisiana Legislature, the HEAL was authorized and empowered to:

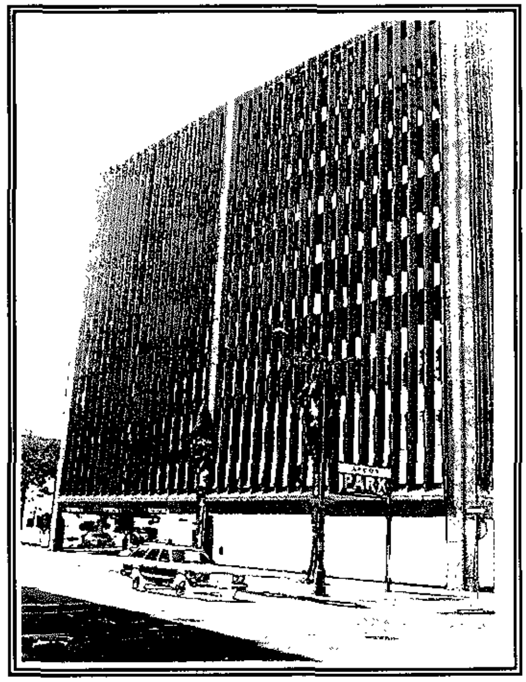
i. finance, own, and construct support facilities for the common use of members of the medical complex and to acquire all land necessary for such purpose;

ii. lease any facilities owned or acquired by it; and

iii. issue negotiable bonds and to pledge for the payment of the principal and interest of such negotiable bonds the income and revenue derived or to be derived from the properties and facilities maintained and operated by it.

BACKGROUND

On November 6, 1970, the Board of Trustees of the Health Education Authority of Louisiana received a letter from the three primary institutions of the Louisiana Medical Complex at New Orleans. In that letter, the primary institutions requested that a study be conducted to determine the feasibility of



constructing an additional parking facility to serve the members of the medical complex, its employees, patients, and visitors. The Board of Trustees of the HEAL then contracted with Barton-Aschman Associates, Incorporated, Consultants for a feasibility study.

In December 1971, Barton-Aschman Associates, Incorporated, Consultants presented the Board of Trustees of the HEAL with its report. The report indicated a need for an additional parking facility within the medical complex, suggested revenues generated from the operation of the facility would be sufficient to support a bond issue to finance the construction, and recommended that the parking facility be constructed on a vacant site at 300 LaSalle Street.

Acting upon the recommendations made in the aforementioned report, the HEAL entered into a lease agreement with the State of Louisiana on February 15, 1972. The provisions of the lease required the HEAL to construct a multi-level parking facility and to pay the state an annual rental of $10 for the land. The completed parking facility is shown in the photograph above. When the lease expires on February 14, 2002, all land improvements constructed thereon become the property of the State of Louisiana.

Once the HEAL decided to construct the parking facility, the next decision it faced was who should operate the garage. The HEAL had to decide whether to hire employees and operate the garage itself or to lease the garage operations to a private company.

LEASE AGREEMENT

After careful deliberation, the Board of Trustees of the HEAL determined that it was in the public interest to lease the operations of the facility to an experienced and financially sound parking garage operator who could provide the expertise and operational personnel to ensure that the project was run efficiently, pay a rental amount sufficient to enable the HEAL to finance the entire cost of the project, provide a number of parking spaces for personnel of the primary institutions at a reduced rental, and provide a potential source of revenue for the other purposes of the HEAL.

The reasons for leasing the operations of the parking facility were documented in the lease agreement between the HEAL and ITT Consumer Services Corporation (CSC) dated March 1, 1973. Actual operations were to be handled by APCOA, Incorporated, a subsidiary of CSC. The following reasons were stated in the lease.

1. The HEAL determined that it would be in the public interest to lease the project to an experienced and financially sound parking garage operator.
2. The HEAL desired to raise the necessary funds to construct the project through the issuance of revenue bonds payable solely from the rentals received from the lessee of the project.
3. The proposal submitted by CSC best met the terms and conditions contained in the invitation for proposals, and that proposal was accepted by the HEAL.
4. CSC was willing to lease the project and make the payments outlined in the lease agreement in exchange for the HEAL constructing the project and issuing its bonds to finance the cost.

The lease agreement with CSC was for a period of 22 years and provided that the HEAL would receive the greater of ten per cent of the gross receipts or a minimum rental amount for the first two years. The amount to be received by the HEAL for the third through the twenty-second year of the agreement increased to the greater of 20 per cent of gross receipts or a guaranteed minimum rental amount between $235,000 and $360,000. The lease also contained a provision that, as long as any bonds are outstanding, CSC cannot terminate the lease or abate or reduce the rentals payable thereunder.

ESTIMATED COSTS AND PROFITS

In order to determine the cost to operate the HEAL parking garage and the net profits earned by APCOA, Incorporated, the auditors requested that APCOA, Incorporated, provide the following information.

1. A breakdown of gross receipts by type (i.e., transit fees, monthly fees, etc.) for the years 1987, 1988, and 1989;
2. Total expenditures by year for the years 1976 through 1986;
3. A breakdown of expenditures by line item category for the years 1987, 1988, and 1989; and
4. A subsequent request for the total receipts and the total amount collected from monthly parkers for 1990.

In response to the auditors' request, APCOA, Incorporated, agreed to provide the information relating to gross receipts but declined to provide the expenditure information for the following reasons.

1. The lease only allows the lessor and the Legislative Auditor to examine the lessee's books, records, and accounts to determine the amount of gross receipts. Therefore, the lessee is under no legal obligation to provide the books, records, and accounts of the lessee's expenditures.
2. Because of the very competitive nature of the parking business, it is the company policy of the lessee not to make available, to any person outside the employment of the company, the books and records of expenditures.

Because the auditors were unable to obtain the needed expenditure information from APCOA, Incorporated, they reduced the scope of this staff study to include only the last four completed years of operations. In addition, the auditors had to find an alternative means of determining the cost of operating the facility.

Through research, the auditors located an article contained in the June 1985 issue of *The Parking Professional* magazine entitled , "The ABC's of Parking Garage Operating Costs." From that article, the auditors identified the following items that are directly related to garage operating costs.

1. Employee wages.
2. Employee fringe benefits.
3. Utilities.
4. Garage maintenance equipment.
5. Insurance (relating to public liability, the structure, etc.)
6. Security.
7. Supplies.
8. Other miscellaneous charges.

In addition to the cost factors listed above, three parameters affect those cost items significantly.

1. the size of the garage;

2. the number of hours the garage is operated each week; and
3. the method of operating the garage and type of revenue collected.

Using information contained in the magazine article and the methodology explained in Appendix A of this report, the auditors estimated the total operating cost of the HEAL garage for the years 1987, 1988, 1989, and 1990. That information is presented below on a fiscal year basis. The fiscal year is July 1 through June 30.

Estimated Operating Cost

	1987	1988	1989	1990
Fees paid for monthly parking divided by	$706,686.09	$817,848.38	$728,841.25	$843,114.74
Yearly gross parking fees collected	919,609.68	1,084,318.83	1,024,321.23	1,065,081.19
Percentage of monthly parking to gross receipts	77%	75%	71%	79%
Cost per matrix multiplied by	0.050	0.055	0.060	0.050
Hours per week operated multiplied by	168	168	168	168
Fifty-two weeks per year	52	52	52	52
Estimated annual unit operating costs multiplied by	436.80	480.48	524.16	436.80
Total number of spaces	847	847	847	847
Estimated total annual operating cost	$369,969.60	$406,966.56	$443,963.52	$369,969.60

The auditors then estimated the net profits earned by the lessee over the last four years.

Estimated Net Profits

	1987	1988	1989	1990
Gross receipts less	$919,609.68	$1,084,318.83	$1,024,321.23	$1,065,081.19
Estimated operating cost	(369,969.60)	(406,966.56)	(443,963.52)	(369,969.60)
Guaranteed payments to HEAL	(355,000.00)	(357,500.00)	(357,500.00)	(355,000.00)
Estimated net profits	$194,640.08	$319,852.27	$222,857.71	$340,111.59

It should be noted that APCOA, Incorporated's, actual net profit will differ from the auditors' estimated net profit figures for a number of reasons. A few of those reasons are listed below.

1. The salaries for the management team employed by APCOA, Incorporated, in New Orleans in all likelihood is prorated among the four and possibly more parking garages and lots they operate.

2. Insurance premiums paid by APCOA, Incorporated, are probably cheaper since they operate parking facilities all around the United States and it is possible for them to purchase the needed coverage at a lower rate because the risk is spread over a broader base.

3. The amount of various taxes paid by APCOA, Incorporated, would increase its operating cost.

In order to determine if the estimated annual operating cost were reasonable, the auditors requested assistance from Mr. Robert A. Weant, Vice-President, ENO Foundation for Transportation. A copy of the estimated operating cost and estimated net profits tables along with the cost estimating matrix used to compute the estimated operating cost and net profits were sent to Mr. Weant. In order to compare the estimated operating cost with the ENO Foundation data, Mr. Weant converted the auditors' estimated operating cost to non-personnel operating cost. This conversion was achieved by reducing the estimated operating cost per the HEAL garage by fifty per cent (typical labor cost). The remaining non-personnel operating cost was then divided by the number of spaces in the garage (847) and then divided by the number of hours per week the garage is operated (168). The resulting figure is the annual non-personnel operating cost. Mr. Weant's calculations indicate that the annual non-personnel operating costs for the HEAL garage were $1.30 per parking space for 1987 and 1990, $1.43 for 1988, and $1.56 for 1989. When compared to the annual non-personnel operating cost data compiled by the ENO Foundation, which typically ranges from $1.32 to $1.54, Mr. Weant stated that the annual non-personnel operating costs for the HEAL garage are reasonable.

RECOMMENDATIONS/ALTERNATIVES

ACCURATE EXPENDITURE INFORMATION NEEDED

The Board of Trustees for the Health Education Authority of Louisiana should try to obtain from APCOA, Incorporated, actual expenditure information on the operations of the garage for the last five years. This information will be needed by the board in making its decision about whether to re-lease the operations of the garage or to hire its own employees to operate the garage before the current operating lease expires on December 31, 1997.

PUBLIC VS PRIVATE OPERATION

The board will also need to consider the benefits of both private and public operation. Outlined below are some of those benefits.

THE CASE FOR PRIVATE OPERATION

1. Labor costs are usually lower.
2. Private firms can more efficiently deploy their employees because of greater flexibility in work rules and other regulations.
3. Using a private operator removes the burden of supervision from a government agency.
4. Bookkeeping and audit control responsibilities are handled by the private firm, which frees the government agency to use its time in other ways.
5. Capital expenditures for such items as sweepers, ticket dispensing machines, et cetera, can be avoided by the government agency since the operator would supply these items.
6. A private operator has a large labor pool of trained personnel it can call on to meet the peak needs of the garage.

THE CASE FOR PUBLIC OPERATION

1. A government agency can have direct control over the operations of the garage that will help them to become more familiar with it.
2. The need to generate a profit is eliminated. Any excess of revenues over expenditures could be directed to other HEAL projects.
3. Operating strategy can be quite flexible since there is no lease agreement dictating how the facility shall be operated.

ACCESS TO EXPENDITURE INFORMATION

Any future lease-operating agreements signed by the HEAL for the operations of the garage should contain specific language that will allow it or its designee access to the lessee's books, records, and accounts for the purpose of determining the operating expenses of the garage.

TRAINING CONTRACT

If the HEAL decides to operate the facility, it should consider either hiring a management firm for one year to train the HEAL employees who would operate the garage or hire an experienced manager who would hire and train the employees.

JOINT VENTURE

The HEAL should seriously consider approaching both Louisiana State University Medical Center and Tulane University Medical Center to see if either would like to operate the garage or if they would be willing to jointly operate the facility. A joint venture with Louisiana State University Medical Center or Tulane University Medical Center is probably the best alternative for the HEAL to pursue, since these two medical schools are each presently operating parking facilities and, therefore, have the expertise, personnel, and computer system to operate the garage in an efficient and effective manner. In addition, the HEAL would be in a better position to obtain a larger percentage of the garage's net income, which could be used to further the purpose for which the HEAL was created.

FIXED FEE AGREEMENT

If the HEAL decides to lease the operations of the garage to a private operator, it should consider using a fixed fee management agreement with the length of the agreement not to exceed three years. According to current literature from the parking industry, a three-year lease for private operations of a parking facility is the desired maximum.

APPENDIX A

METHODOLOGY

GENERAL METHODOLOGY

To accomplish the staff study objectives, the auditors used the following methodology. The auditors reviewed the minutes of the Board of Trustees meetings in 1971, 1972, and 1973 in order to determine why the board leased out the management and operation of the parking garage, instead of operating the garage itself. The auditors then reviewed the lease agreement between the HEAL and ITT Consumer Services Corporation, dated March 1, 1973, to determine if the lease contained a provision for either the lessor or the Office of Legislative Auditor to have access to the lessee's books, records, and accounts for the purpose of determining the cost of operating the parking facility. Since the lease agreement did not contain such a provision, the auditors had to use alternative means to arrive at estimated operating expenses for the four most recent years of operations (1987, 1988, 1989, and 1990) and then use that information to estimate the net revenue earned by the lessee.

COST AND PROFIT ESTIMATION METHODOLOGY

The magazine article referred to on page 6 of this report included a cost estimating matrix. The (y) axis of the matrix corresponds to the percentage of gross revenues collected from monthly parkers, and the (x) axis corresponds to the total number of hours the garage is operated per week. In order to use the matrix, four steps must be performed to obtain an estimated total yearly operating cost for a garage.

1. Determine the percentage of gross revenue collected from monthly parkers (y axis).
2. Estimate the total hours the garage will be operated per week (x axis).
3. Multiply the unit number in the appropriate cell from the matrix by the number of operating hours per week and by the number of weeks per year. The result is the estimated unit operating cost in dollars per parking space per year.
4. Multiply the unit operating cost by the number of spaces in the garage to arrive at the total operating cost of the garage.

The auditors performed these steps to arrive at an estimated total operating cost for the HEAL garage for the years 1987, 1988, 1989, and 1990. The cost estimating matrix is shown on the following page.

NOTE: When using the estimating matrix, the greater the percentage of gross receipts received from monthly parking fees indicate the less it costs to operate the garage.

Cost Estimating Matrix

Y

0 25 50 75 90 100

NA	.05	.06	.07	.08
NA	.04	.05	.06	.07
NA	.03	.04	.05	.06
NA	.03	.03	.04	.05
NA	.025	.025	.03	.04

0 60 90 110 125 168 **X**

Hours per week operated

APPENDIX A

APPENDIX B

MANAGEMENT'S RESPONSE

State of Louisiana
Department of Health and Hospitals
HEALTH EDUCATION AUTHORITY OF LOUISIANA
STATE OFFICE BUILDING
ROOM 213
325 LOYOLA AVENUE - PHONE - 504/568-5835
NEW ORLEANS, LOUISIANA 70112

Buddy Roemer
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David L. Ramsey
SECRETARY

May 28, 1991

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JUN 6 1991
LEGISLATIVE AUDITOR

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Auditor
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Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

On May 16, 1991 Mr. Janet and Mr. Trahan, along with Ms. Brown, conducted an exit interview with me concerning the staff study that was done on the HEAL-APCOA Parking Garage in New Orleans. The proposed draft was reviewed and discussed. Suggestions were made to include certain data that had been deleted.

The proposed draft has been reviewed including recommendations that were made and we concur with the proposed draft as amended.

The information contained in the report should be helpful when it becomes necessary for this office to make a decision regarding future operations.

Sincerely,

Marshall J. Ryals/dps

Marshall J. Ryals
Executive Director

MJR/dps

APPENDIX
B