

## **Questions about Indianapolis' Proposed Parking Privatization**

### **Why is Indianapolis considering leasing its public parking system in the first place?**

Cities throughout the country have been considering leasing important public assets in response to budget crises. Unlike ordinary outsourcing to private companies, these deals provide elected officials with upfront cash that is borrowed against the higher fees they agree to charge citizens in future decades. The current proposal is akin to introducing a new tax, while borrowing \$20 million against its future revenue and dividing the proceeds with a private tax collector. If the goal of the City-County Council is merely to outsource the operation of its parking system and pay for those services with a share of revenue, then there is no need for an upfront payoff and future parking fees charged to citizens could be much lower. The Mayor has stated his intention to use upfront proceeds from a parking deal for capital improvements. The city, which can borrow at much lower rates than a private company, would ordinarily finance capital improvements through bonds.

### **What is the current status of the proposal?**

The Mayor has asked the City-County Council to grant him authorization to sign the proposed contract by the end of December. The Mayor selected the bid from Affiliated Computer Services (ACS) on August 20, 2010. The original contract and corresponding ordinance were introduced to the City-County Council on August 23. Subsequently, members of the City-County Council voiced concerns and the Mayor negotiated some provisions in the proposal without changing its basic features.

### **What would happen to parking rates?**

Under the current proposal, the private operator would have the authority to raise rates nearly 1,000-percent over the course of a fifty year lease. This means an hourly rate increase from \$0.75 per hour to about \$7.50 per hour.

### **Did the changes that the Mayor made to the proposed deal fix the problems?**

Some sections were improved slightly, but a few new problematic provisions were introduced. The main changes were: a provision for early contract termination, a reduction in the city's upfront payment, and an increase in its share of revenues. The

mechanism for the city paying compensation to ACS for policies that reduce profits has also changed. Instead of paying penalties separately, the city will simply have the money docked from its monthly share of meter revenue shares. A provision added to the new contract proposal also states that should 30 percent of validly issued parking tickets be challenged, the city must pay a penalty to ACS.

### **Would the city maintain full control of the public parking system?**

Not if the private company believes public decisions would hurt its bottom line. Under the contract, the city would cede much of its control over Indianapolis' parking system to Affiliated Computer Systems, a Xerox affiliate, and other contractors including the companies Denison Global Parking and Evens Time. When making future decisions about the city's parking systems and street management, the public would need to weigh decisions about what is best for the community against their contract's requirement to pay compensation to the concessionaires for actions or inactions that the companies claim infringe upon their profits. In response to virtually any action taken by the city that might reduce the parking system's revenues or divert drivers to other locations, the city could be forced pay compensation to ACS. These actions might include holding new parades or street fairs, repairing nearby roads or closing roads to repair other infrastructure, improving nearby public facilities for parking , reducing scheduled parking rate increases, changing parking tax rates, or not enforcing ticketing rules strictly enough. Even the calculation of the compensation contains additional hidden costs. The city would be forced to pay for a day's worth of meter revenue even if the meter is only blocked for four hours. In some areas, the contract would require the city to pay ACS compensation for meter "closure" that would nonetheless exceed the amount that the meter could collect if it was occupied for every minute of the long operating day.

### **Does the deal shift future financial risk from the city and onto the private operator?**

Proponents tout parking privatization as a means for reducing the city's financial risk in the future. If people stop using parking lots or meters in Indianapolis, the private companies would lose out. But the measures in the proposed contract that require the city to pay compensation are designed to shift those risks instead onto the public. Meanwhile, the city takes on the added risk of ACS demanding anticipated compensation for city policies that could be decades in the future and may result in expensive lawsuits.

### **Bottom line, how much would the city receive, and how much would residents pay?**

ACS estimates the city would receive \$620 million over the fifty-year lease. Plugging this figure into the contract implies that city drivers would pay at least a billion dollars and perhaps as much as \$1.448 billion. ACS' share would therefore range between approximately \$400 million to \$828 million. These are conservative figures because they

assume the city never pays any compensation for actions that inadvertently block meters. The company's anticipated profits are not known because they will not disclose revenue predictions or expected costs.

### **What is ACS' track record as an operator of privatized public assets or services?**

ACS does not have a favorable track record in operating public assets and services. The company is best known for its role in Indiana's failed privatization of social services and the additional costs that Washington D.C. suffered as a result of ACS mismanagement detailed in the City Auditor's scathing 2007 report. When Chicago and Pittsburgh were considering exploring privatization of their parking systems, they opted against ACS.

After Indiana contracted with ACS to manage the state's social service eligibility review and claims processing, the state decided to cancel the ten-year contract after less than a third of the term. State officials justified this move because of inferior quality of service, including long waits, slow approvals, lost files, and erroneously cancelled or denied eligibility for food stamps, Medicaid, and welfare. Governor Daniels brought the privatized functions back in-house after losses that some estimate may have reached \$500 million to the taxpayers of Indiana.

The Washington D.C. auditor's report on the performance of ACS in the maintenance and operation of the leased parking system showed that from the years 1999 to 2005, costs under ACS privatization were 33.4 percent higher and resulted in \$8.8 million additional spending of taxpayer funds than if services had remained in-house. ACS also improperly fined patrons \$159,975 when they parked at broken meters. Overall meter complaints increased over 900 percent. Moreover, ACS inappropriately billed the city for \$644,952 in penalties that the city did not owe them for temporary meter closures.

### **How long would the parking system lease last?**

The lease would last fifty years. Provisions that were recently added to the contract for early termination would be extremely expensive to make use of because of crippling hidden fees. After the first ten years, the penalty for the city to terminate the contract is \$19.8 million—nearly the entirety of the upfront payment received from ACS. If the city, having lost the in-house capacity to manage its parking system, seeks to contract out to other companies after terminating with ACS, then the city would owe ACS an additional \$5 million. With a 50-year contract and these hidden fees, ACS would feel almost no competitive pressure to perform well to renew its contract. Moreover, toward the end of fifty years the private operators will have less and less incentive to properly maintain and invest in the facilities. A reduction in the length of the contract would relieve the numerous types of risks posed by privatization to the city.

### **What about ACS' promise to bring 200 jobs to Indianapolis?**

As a part of a separate agreement that is not tied to the lease of Indianapolis' parking system, ACS made this promise. The promise is not dependent upon the parking system contract. Moreover, the separate agreement does not stipulate the quality of jobs that ACS would bring to Indianapolis or even if they would be full time jobs. Nor are there provisions for the city to adequately hold ACS accountable and determine whether they created the promised number of jobs – Indianapolis must rely on reports from ACS itself that can not be easily validated and penalties for noncompliance are relatively small.

### **Is the Indianapolis privatization proposal being handled better than in Chicago?**

There are some improvements from the Chicago meter privatization deal. The simple fact that we have the opportunity to view various versions of the proposed agreement, that both the mayor and council have accepted and requested public comment, and that there have been changes made to the original agreement are improvements in themselves. That said, the Indianapolis proposal still contains many of the same problems as the Chicago deal.

### **Could the proposed parking lease agreement be improved?**

Greatly. Despite the fact that the lease agreement has been improved from its original form, there are major problems and areas of concern. City-County Councilors could demand removal of provisions that require compensation to the companies for actions that indirectly hinder parking revenues. The deal could also be made shorter to better manage unanticipated risks in future decades. All these changes would likely result in an even lower upfront initial payoff on the deal.

### **Is the proposal process fully transparent and protected against conflicts of interest?**

By revising the original contract, posting the contract online, and holding public comment periods, Indianapolis has improved upon the abysmal lack of transparency in the Chicago parking privatization deal. But public disclosure is lacking when it comes to the financial arrangements and assumptions set out between ACS and its financiers. This information is vital to understanding the private partners' expected costs, profits, and respective legal obligations. If ACS wishes to do business with the city, it should not keep this information secret under the guise of "proprietary" business secrets.

Indianapolis' earliest mistake was to pay Morgan Stanley as its advisor. The company is one of the primary investors in the Chicago deal and stands to gain from the deals they advise on. That is a clear conflict of interest. Likewise, a senior advisor to the Mayor, Joe Loftus, is a registered lobbyist for ACS. After the apparent conflict was revealed, Mr. Loftus claimed his duties with ACS were unrelated to the parking deal. Regardless, disclosure should have provided upfront.