



## *City Of Raleigh* *North Carolina*

**TO:** City Council  
**FROM:** J. Russell Allen, City Manager  
**DATE:** October 29, 2004  
**SUBJECT:** Proposed Underground Parking Structure

**MESSAGE:**

At the City Council meeting on October 19, Council referred a number of questions regarding the potential underground parking structure on the existing Convention Center site to staff. Council also authorized staff to negotiate a scope of work and fee with Kimley-Horn Associates, in partnership with Cooper Carry and OBrien Atkins Associates, for the design and construction management of the parking deck and related improvements.

- Attached to this memo is a proposed scope of work and fee structure negotiated with Kimley-Horn for the design and construction management of the underground parking deck, including coordination with the hotel and Convention Center projects. Also shown are scope and fee summaries for related projects that will be funded from sources other than the parking fund, including the demolition of the existing Convention Center, and the design and construction of Fayetteville Street streetscapes. The design and expenses cost for the underground parking deck, the back-of-house space and structural support for the hotel, and the underground corridor connection to the convention center is \$2,651,100. Estimated fees and expenses of \$477,725 associated with the Hotel portions are also shown, with the actual figure to be negotiated with the hotel developer as part of the parking agreement. The basic fees have been reduced through negotiation from the initial submittal by the designers by approximately \$700,000. The percentage equivalent of the fees relative to total construction cost for the underground parking deck portion of this proposal is approximately 7.5%. Fees for underground parking garages historically (national average) are around 8% according to RSMMeans.
- Also attached are financial scenarios for the underground parking deck, showing annual cash flows anticipated, and an updated Parking Fund model, including this deck proposal. See Exhibits I thru III attached and financial notes included in the body of this memorandum.
- Council requested that a list of anticipated Council actions related to downtown public improvements be prepared. Though it is inevitable that many of these dates will change over the next 3½ years, attached is the calendar of anticipated Council actions given the current project plans for these various projects.
- Finally, Council requested that an alternative analysis for an above-ground deck be prepared, to be able to contrast this underground deck proposal with a traditional above-ground deck. That analysis is included below in the body of this memorandum.

### **Recommendation:**

1. That City Council authorize staff to execute a contract with the Kimley-Horn team for the services directly related to the design of the parking structure, based on the attached scope of work and fee summary.
2. That Council authorize staff to develop an updated financing plan for the parking structure that would be based on more developed schematic design drawings and cost estimates, and that this updated model be referred to City Council for consideration in January, 2005.
3. That Council authorize staff to negotiate a parking agreement with Stormont Noble Development, to reflect the location of the parking structure and the designated hotel parking underneath the hotel, and to determine the cost-sharing arrangement for hotel-related construction that would be part of the parking structure. This agreement would be referred to City Council for approval in January, 2005.

### **Background and Questions:**

These questions were submitted by Councilor Taliaferro. Comments are in italics below each question.

- **When do we need to provide a “buildable pad” for the Hotel?**
  - *The date in the current Convention Center schedule calls for delivery of a “buildable pad” in May of 2006.*
- **How much was the Progress Energy Deck per space?**
  - *\$13,200 per space. This figure reflects the contract price the City paid for these spaces and may not include some costs generally associated with design / construction that were absorbed in the Progress Plaza 2 project.*
- **When will we break even on the Progress Energy deck?**
  - *The original pro forma for the Progress Energy Deck was based on early projections of expected parking levels and debt service expenditures. The results of that pro forma were annual shortfalls in revenues ranging from approximately \$100,000 to \$330,000 per year. There has not been a more current pro forma prepared, but there were annual debt service savings of around \$55,000 per year when we sold the debt. The original pro forma showed a positive cash flow in 2017. The overall parking fund model (Exhibit I) incorporates the projections for the Progress Energy deck along with the proposed new underground deck.*
- **What is the cost of hiring Kimley Horn?**
  - *Attached is a scope of work and fee structure negotiated with Kimley-Horn.*
- **How does the proposed deck fit into the downtown parking plan study?**
  - *The existing downtown parking plan has not been updated since 1985. A recommendation that will be forthcoming in the Cultural / Convention District plan will call for the updating of this plan in the light of anticipated development in the South End, as well as other changes and the advent of the regional rail service in 2008. In any scenario, the location of a parking structure where proposed is strongly supported by the number of surface parking spaces to be demolished in the immediate vicinity coupled with the obligation to provide parking for the hotel, the new demand created by the potential development of vacant city-owned sites, the demand we are seeing from existing tenants in the downtown as they renew leases, and the demand anticipated from the Convention Center.*
- **Have we begun the downtown parking plan study? At what cost? When will it be complete? How does the proposed deck affect that study?**
  - *A recommendation will be brought forward on November 16 as part of the Cultural / Convention District plan to pursue the update of the downtown parking study, in the light of the other*

*recommendations of the plan and Wake County's recent parking study related to the Courthouse complex and long-term County needs. If authorized by Council to proceed, a scope of work will be developed before estimates of the total cost of the study can be made. The proposed parking deck will affect the overall supply of parking downtown, and will likely affect proposed search locations for future parking facilities, but as stated above, it is hard to imagine in any scenario that a recommendation for a substantial parking structure in the immediate vicinity of the hotel, convention center and city-owned development tracts would not be a key result of any study. Taking into account the current demand, the current supply of parking, the number of spaces that will be lost due to planned construction, and the new demand anticipated with the new convention center and hotel, there is a shortage of spaces in this south end of downtown. Furthermore, when the Cultural / Convention District plan is completed, demand generated by the anticipated new developments will further increase this shortfall. We believe that the updated parking plan will eventually confirm the need for this proposed parking structure, and that additional parking facilities will be needed in the south end area in addition to it. Though it would be ideal to complete the overall downtown parking update prior to making a decision on the underground parking structure, it would not be possible to do this and meet the May 2006 obligation to deliver a buildable pad to the hotel developer, given the time necessary to design, permit and construct the underground parking facility.*

- **What is the annual debt payment on \$25 million?**
  - *Please see attached year-by-year proforma (Exhibit II).*
- **Provide a year-by-year forecast that shows the expected shortfalls, and when we might expect to break even.**
  - *Please see attached year-by-year proforma (Exhibit II).*
- **How much does the current parking fund generate per year?**
  - *The combined parking fund encompasses all of the parking deck operations, the on-street parking program, the parking debt service fund and the parking capital projects fund. In the context of these answers, the "parking fund" represents this combined set of components.*

*There are a number of variables that impact future projections of revenues, including the following:*

- *Utilization changes as new decks come on-line or the dynamics change*
- *New parking deck rates recently implemented*
- *New on-street meter rates and parking violation penalties recently implemented. These will impact a pending new contract for administration of that program*
- *Impacts on parking of the convention center closing for approximately 2 years*
- *New off-street parking management contract*
- *Unknown impacts of new development expected downtown and particularly in the south-end development initiative*
- *Determinations of "market" parking deck rates for the proposed underground facility*
- *Determinations of the impact of private use parking requirements, resulting in potential financing through taxable debt*

*Because of this, we can only try to use reasonable assumptions on these factors in projecting the amount of funds that the parking fund will generate. As also noted below, we have been attempting to get the parking fund to a fully self-sustaining fund which does not require any General Fund support. Exhibit I reflects what we feel are realizable future results based on current and anticipated parking variables. This exhibit layers onto the model the annual net revenues and debt service expected from a new 980-space underground parking facility (Exhibit II). It uses an assumed 3% growth in rates per year for the underground deck and shows a continuation of the current year's General Fund subsidy until FY 2007-08. All other revenue amounts reflected in the exhibits are increased 5% per year to reflect expectations of additional rate increases, higher downtown utilization and other income, such as investment earnings. Due*

*to increased diligence by the new Parking Division in the Public Works Department in maximizing parking revenues, we feel that this 5% is conservative and attainable.*

- **What is the relationship of the parking fund to the general fund?**
  - *For many years, the General Fund paid almost all of the debt service for any parking debt that had been issued, with only a moderate amount of funding coming from the parking operations. As the size of the parking operations expanded and the General Fund continued to pay for most of the debt service, reserve funds were created in the parking fund and were set aside for future parking deck facilities. Over the last ten years, the General Fund budget for parking debt service has been in the range of \$1 million to \$3 million per year (Exhibit III). In the most recent 3 years, we have attempted to transition to a parking fund that is fully self-supporting. The General Fund transfer to the Parking Fund in the current year is \$580,000. Our model continues that level of funding through 2007-2008 at which time the new underground facility would be in operation. The City's biannual budget also includes the \$580,000.*
  
- **If the parking fund cannot cover the expenses of the parking deck debt, where will the needed funds come from?**
  - *Should the General Fund's present budget support be continued until 2007-08, the expected gap as shown in Exhibit I is manageable within reserves maintained in the Parking Fund. Should we reduce the General Fund support prior to the end of 2007-08, there are several options available to meet the shortfalls, as follows:*
    - *Appropriation of additional parking capital reserves*
    - *Use of part of the City's \$1 million allocation of interlocal funds previously designated to support of the convention center and performing arts programs*
  
- **Explain how investing \$25 million saves on the Convention Center retaining wall (\$700,000).**
  - *The investment in the parking structure cannot be justified solely on the savings in construction cost for the Convention Center, but this savings is one factor to consider. The value of this public investment (which will be supported by revenues from the deck) is in the economic development that this parking structure makes possible, by locating parking in a key spot to help sell the Convention Center to convention groups, to make the hotel more attractive, to make development possible on the abutting City-owned parcels, to support existing office tenants in our major downtown buildings, and to leverage to the greatest extent possible the lively Fayetteville Street environment envisioned by the Livable Streets plan. To specifically address the savings on the convention center: If the parking structure were not to be built, the Convention Center exhibit hall would extend to the eastern edge of Salisbury Street, and where the underground exhibit hall stops, a retaining wall would need to be constructed between the Convention Center and the hotel that would be over 35 feet in height. By locating the parking structure here, constructed at the same underground elevation as the exhibit hall, the need for any retaining wall disappears.*
  
- **In all of our discussions about the hotel and Convention Center, convenient parking was a major issue. However, I do not recall this proposal and its costs to Raleigh being brought forward.**
  - *The consultant feasibility studies for the Convention Center indicated that sufficient parking exists for the demand generated by the new building. Though this seemed to be counter-intuitive to many, it is the reason why parking was never part of the program of the new Convention Center. The hotel developer's proposal did not include a specific need for underground parking and the City was willing to allow the Lenoir Street surface lot to function to serve the hotel's parking needs until such time as the Lenoir Street lot was redeveloped. An underground deck could be constructed on that site sometime in the future in association with that redevelopment. The genesis of the idea for an underground deck on the existing Convention Center site is related to our ongoing attempts to keep the cost of the new Convention Center as low as possible. The identification of potential significant savings by the design team through eliminating the retaining wall on the eastern side of the exhibit hall led to the development of a test financial model for a limited underground deck by the Finance Department. The consultants for the Cultural /*

*Convention district plan also raised the issue of potential parking in this block as part of that study. It was at this time that the idea began to seem realistic enough to warrant requesting from City Council the authorization to engage Kimley-Horn to develop a more in-depth feasibility analysis for the underground deck and to explore the maximum number of parking spaces that could be constructed on this site. This request was approved by the Council in August and a report was presented to you on October 19.*

- **What are the options for funding this parking deck with interlocal funds – for example, the \$1 million the City controls for Civic Center/BTI expenses.**
  - *As noted above, this would be available for use in the parking fund per Council discretion.*

### **Financial Notes:**

The proposed 980-space underground parking facility has been modeled based on the following assumptions:

- 2-year capitalized interest period until deck is producing revenues
- Initial monthly parking rate of \$120 for 280 spaces and \$140 for 200 premium spaces
- Special ½ monthly rate for 200 parking spaces for headquarters hotel
- 300 daily/hourly spaces generating \$10 per day initially
- 90% occupancy
- 3% rate increases per year
- \$25,000,000 estimated cost (@ \$25,000/space)
- 25% of revenues assumed to cover management expenses
- 25-year term, \$5 million taxable; \$20 million tax-exempt

Using this set of assumptions, the deck operations would run annual deficits ranging from an estimated \$50,000 to an estimated \$566,000 in the first half of the amortization. Over the life of the financing, the operations would cash flow if rates are increased 3% per year as shown in Exhibit II. To see the overall impact of this, it is necessary to layer that on to the full operations of the Parking Fund as is done in Exhibit I. Using this scenario, assuming growth levels of both revenues and expenses reflected in those schedules, the Parking Fund can absorb the annual deficits from some combination of reserves and/or use of interlocal funds (within the annual \$1 million allocation) and retain a good overall financial position for the fund. The fund projects a positive cash flow in fiscal year 2012.

Most importantly, should the General Fund participation continue until 2007-08, the Parking Fund would then be fully self-supporting, a situation not always seen in governmental parking operations. The continued achievement of that would depend on regular annual market/inflation rate increases and similar management expense levels as have been experienced in the past.

Discussions are ongoing with the City's bond underwriter to determine additional options for financing the parking deck, such as structuring of the taxable portion at the beginning of the amortization and possibly extending the amortization to 30 years, consistent with the convention center project. These options may add additional flexibility and economic benefit to the options modeled to date.

### **Alternate above-ground parking structure analysis:**

Assumptions:

- \$35 per square foot land costs (based on cost of Convention Center land)
- \$14,500 per space construction costs (based on cost of most recent deck plus inflation this year as per Engineering News Record)
- Above-ground deck must be as close as possible to hotel, convention center and other city-owned properties
- Approx. 1.8 acres will be necessary to construct a 980-space parking deck, which would be similar to the BTI Center deck.

