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## Executive Summary

The Allentown Parking Authority maintains a two-fold mission - ***ensuring a fair and equitable parking system*** and ***supporting the development of downtown Allentown***. Our examination of the finances and operations of the APA find an inherent tension between these two missions. Over the past decades, the APA has purchased, rehabilitated, and constructed a large number of parking spaces in the downtown to support its economic development mission. In recent years, the combination of low prices and slack demand for parking has led the Authority to shore up its stressed finances with increased parking enforcement activities. Implementation of technology such as license plate readers and increasing the number of parking enforcement officers has allowed the APA the ability to continue to develop structured parking without a thorough and considered business plan.

Our report finds that:

1. 65% of APA revenue comes from Enforcement. The share of total revenue comprised of Enforcement is higher than comparable Pennsylvania Cities parking authorities.
2. 35% of APA revenue is generated by long term leases and transient parking at the Authority's garages and decks (Structured Parking Revenue) .
3. Structured Parking Revenue does not cover costs on the APA's parking garages. Revenue must increase going forward in order to A) finance the next \$19 mm garage project B) remain in compliance with their debt covenants and c) maintain a sufficient level of liquidity for operations and capex.
4. Some amount of enforcement revenue will be required to maintain the APA as a financially self-sufficient entity.
5. Eliminating enforcement revenue entirely would result in an increase to structured parking rates by 54% in 2024 and another 22% in 2026 after the Linden Street garage is financed.
6. The Authority did not meet their debt service coverage ratio (DSCR) for the year ended December 31, 2023 due to the City eliminating overnight ticketing.
7. Under our baseline projections, absent any changes as described above, the APA will not generate sufficient revenue to meet its debt service in 9 of the next 10 years. This will result in reduced liquidity (cash and investments) over this time period.
8. Assuming the APA's operations at this time would impact the City's rating over the near term, resulting in additional borrowing costs for the City.
9. We have identified several near- and longer-term operational changes that may stabilize the Authority's finances without overly burdening the residents, visitors and taxpayers in Allentown.

The Authority's mission is to operate a fair and sustainable parking system. The overarching need to generate revenue sufficient to pay the APA's expenses led to the implementation of an enforcement system that is justifiably perceived by residents to be unfair.

The City, as the creator of the APA, can make adjustments in the balance between sustainability and fairness without a wholesale takeover or dissolution of the Authority. This balancing must begin immediately, before the Authority takes on additional debt or construction obligations.

## Introduction and Background

The Allentown Parking Authority (APA, Authority) was established in 1985 to purchase several privately owned parking garages in the City of Allentown (City). The mission of the APA is “to provide efficient and equitable parking services to the public and meet the needs of a growing and changing City and to promote economic growth particularly in the downtown business area.”

Since its formation, the APA has maintained and developed new structured parking throughout the City. Table 1 lists the current garages and surface lots owned, managed, and maintained by the APA. The on-street parking program consists of 1,500 metered spaces.

**Table 1 Allentown Parking Authority Inventory and Contract Occupancy**

<b>Facility</b>	<b>Built</b>	<b>Capacity</b>	<b>Contract Occupancy</b>	<b>Contract Occupancy %</b>
Spiral Garage	1970	645	109	16.90%
Artswalk	1985	500	500	100.00%
Maple Street Garage	2022	1,113	437	39.26%
ATC Garage	2006	469	421	89.77%
Government Deck	2006	448	312	69.64%
Community Deck	2014	953	1,004	105.35%
Strata Symphony Deck	2016	106	54	50.94%
Decks		4,234	2,837	67.01%
Surface Lots		753	523	69.46%
Overall		4,987	3,360	67.38%

The APA is a component unit of the City and its financial results are reported in the City’s annual audit. The APA also reports separately. The Mayor appoints its five board members, subject to approval from the City Council. Board members serve a 5-year term and may be reappointed. Members of the board may be removed at the will of the City.

Although the APA has long had responsibility for enforcement of parking violations during business hours, in 2019, the City requested that the APA assume responsibility for overnight parking violations, a task formerly handled by the police department. The APA has hired additional enforcement personnel in the past several years to enforce parking regulations on a 24/7 basis. A result of the shift in overnight parking enforcement, hiring additional enforcement officers and implementation of new enforcement technologies, has been a dramatic increase in ticket revenue. Many residents and businesses in the City are frustrated with this sudden increase in parking enforcement and the resulting cost of tickets. In late 2023, at the request of the City, the APA limited enforcement of overnight parking.

This report is intended to answer several critical questions surrounding the future of the APA’s organization, operation, and mission, particularly:

1. Should the City take on all or part of the APA's operations? If so, what would be the impact on APA of City taking over enforcement operations? How would this impact the City?
2. What are the legal barriers to removing the enforcement on-street revenue stream from the APA or dissolving the APA entirely?
3. What ownership/operational alternatives are available to the City and APA?
4. Should the APA remain a separate organization?

This report examines the APA's financial and operational records to shed light on the economics and incentives surrounding the Authority's two-fold mission - ***ensuring a fair and equitable parking system*** and ***supporting the development of downtown Allentown***. We find that these two missions may conflict.

## Financial Analysis of the Allentown Parking Authority

We reviewed APA's published audited financial reports for the years ended December 31, 2028-2022 as well as fiscal year 2023's budget and estimated actual results through December 31, 2023. We have also reviewed loan documentation for the APA's 2018 A&B Bonds. We discussed future capital spending and borrowing plans with APA's management and its financial advisor. We have not reviewed any capital needs assessment or parking demand studies. We reviewed one of the long-term parking leases, for the Maple Street Garage.

## Financial Position of The Allentown Parking Authority

Summary financial statements for the years ending January 31, 2018-2022 are included in the attached **Exhibits A & B**. These are the basis for the discussion of the Authority's financial results below. For illustrative purposes, we have also included 2023's estimated actual results in the charts below.

## Balance Sheet and Capital Structure

Exhibit A summarizes the Assets, Liabilities and Net Assets of the Authority at December 31, 2018-22. As one would expect, the Authority is heavily invested in real estate and buildings with over 93% of total assets comprised of non-current assets and only 7% current assets. Most of the APA's current assets are cash, cash equivalents and investments.

The liability side of the balance sheet is similarly reflective of the Authority's mission. Current liabilities consist primarily of accounts and expenses payable and the current portions of long-term debt, lines of credit and capital leases payable. Long term liabilities consist of unearned revenue, long term debt and construction loans.

The Authority has increased its net position by 42% from 2018 to 2022 (7.3% compound annual growth rate) because of increased capital investment and retained cash. Total assets increased at a compound annual rate of 8% while Total Liabilities increased at a 4.5% rate.

The Authority's \$51.5 million of outstanding long term and construction related debt as of February 1, 2024 is summarized below.

**Table 2**

Debt	Outstanding (\$1,000's)	Maturity	Mode	Rate
Tax-Exempt Parking Revenue Bonds, Series A of 2018	22,926	2040	Fixed to 2025, variable thereafter	3.70% Fixed. 60% Prime capped at 4.35% Fixed. 100% Prime capped at 5.25%
Taxable Parking Revenue Bonds, Series B of 2018	5,396	2040	Fixed to 2025, variable thereafter	7.50% Fixed.
Taxable Parking Revenue Bonds, Series A of 2024	11,500	2048	Fixed to 2029, variable thereafter	5.93% Fixed.
Tax-Exempt Parking Revenue Bonds, Series B of 2024	6,668	2048	Fixed to 2029, variable thereafter	0%
City Center Loan	5,000	NA	NA	
Total	51,490			

## Statement of Activities and Changes in Net Assets

Exhibit B is the Authority's Statement of Activities (or P&L) for the years ending December 31, 2018-22. Over the past five years, **Operating Revenue** has increased by 50% from \$7.4 to \$11.2 million. The main driver of this growth has been enforcement revenue which increased by 78.1% from \$4.1 million to \$7.3 million. In contrast, revenue from Garages and Decks increased by 16.2%, rising from \$2.8 million to \$3.2 million. As shown in Charts 1 and 2, the largest components of the Authority's "business" are Enforcement and Garages and Decks (Structured Parking).

As a percentage of total operating revenue, Enforcement Revenue increased from 55% to 65% in 2018 versus 2023. Starting in 2019 and continuing through 2022, revenue from Parking Tickets increased from 30% to 46% of Operating Revenue. According to the APA and the City, this increase is attributable to several factors. First, the APA assumed responsibility for overnight enforcement of parking regulations beginning in 2020. The outbreak of COVID-19 coupled with a strong employment market impacting staffing during the rebound from the pandemic may have delayed the full impact on residents of APA enforcement.

Secondly, the implementation of new technologies including License Plate Readers has made enforcement more efficient. APA has a very effective and efficient enforcement program, currently uses 12 - LPR (License Plate Recognition) devices, so they can **continuously** enforce the entire city. Most PA cities only have 4-6 LPR devices. Lancaster has zero.

Chart 1 - Operating Revenue 2018-2023

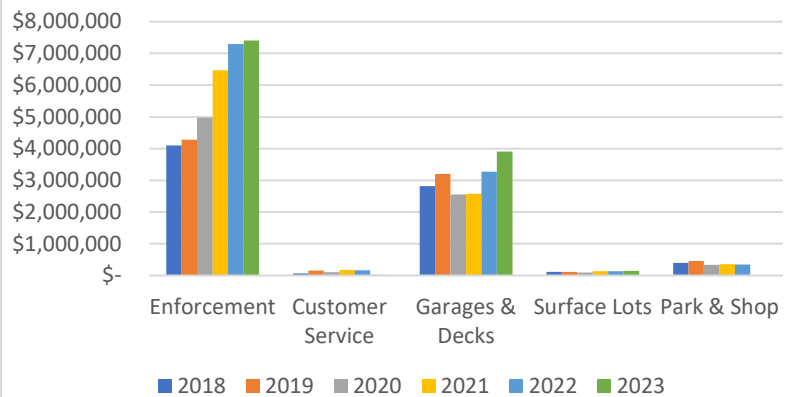
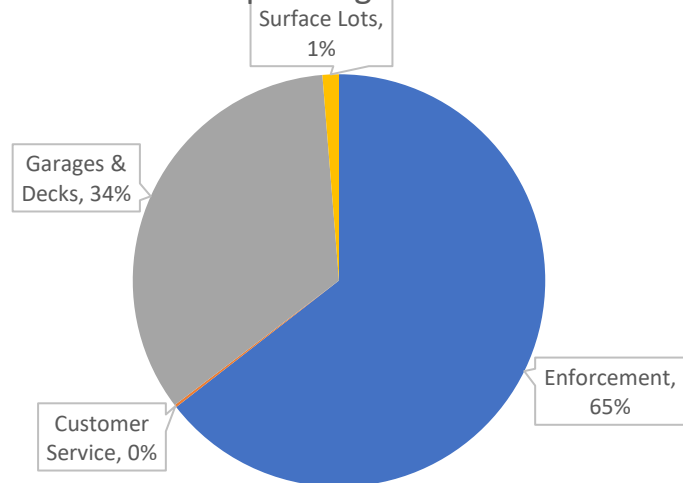
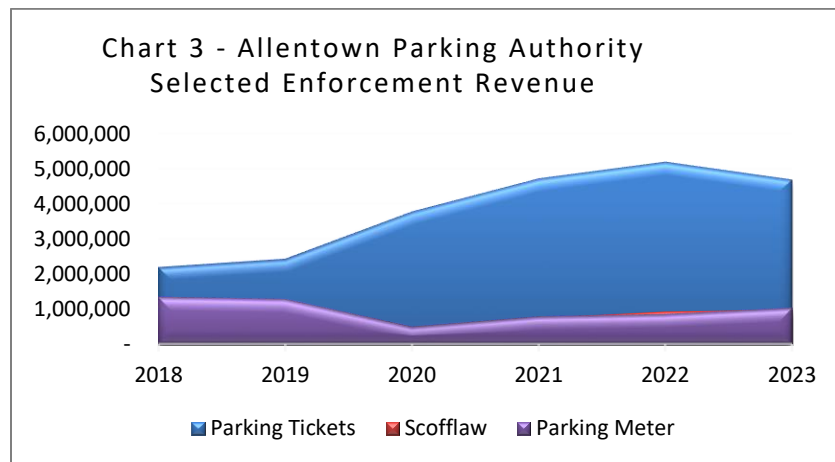


Chart 2 - Operating Revenue 2023



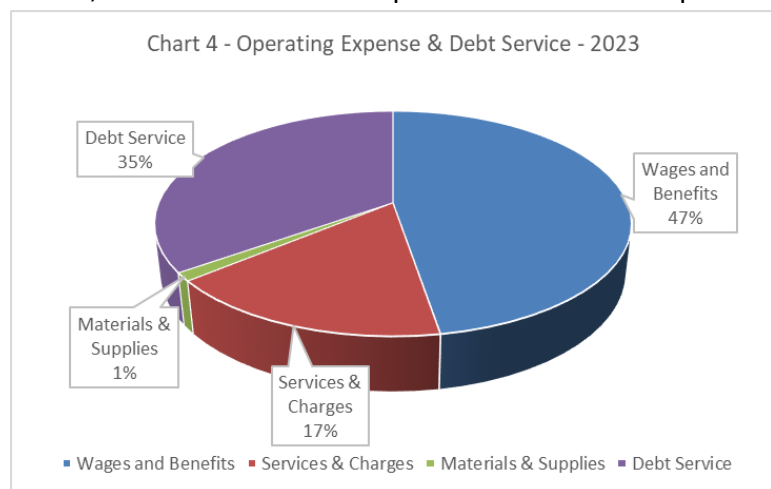


Operating Expenses have increased at a slower rate than operating revenue, increasing by 31.7% 2018-2022. The largest component of operating expenses has been Wages & Benefits which comprises 50% of operating expense and has increased by 46% over the past 5 years. Services & Charges has increased by 38% but represents a smaller, but consistent, 22% share of operating expense. Materials & Supplies and Depreciation Expense are relatively stable and represent a combined 24% of operating expense.

Driven by the large increase in Operating Revenue coupled with comparatively slower growth in expenses, **Net Operating Income** has more than doubled increasing by 182.5% from \$907,000 in 2018 to \$2.583 million in 2022.

**Non-Operating Revenue (Expense)** is added to Net Operating Income to get to annual change in net assets. On the non-operating revenue side, the Authority records interest income, rental income, grant income and gain/loss on sale of assets. Non-operating expenses include interest and principal payments on Authority debt and a variable amount contributed to the City on an annual basis. The largest driver of Total Non-Operating Revenue (Expense) are principal and interest payments. As illustrated in chart 4, Debt Service makes up 35% of the APA's expenses.

Over the 5-year period, interest expense has increased by 27.2% and principal repayment has increased by 142.9%. Part of this large increase was likely caused by a refunding transaction in 2018 that reduced principal repayment in 2018. Given the Authority's construction loan and plans for additional capital borrowing, it is likely that debt service costs will increase in future years. We examine that later in this report.





## Historical Financial Analysis

Table 3 presents selected historical financial ratios derived from the Authority's audited financial statements and compares the Authority against medians by rating category.

**Table 3**

<b>Allentown Parking Authority Selected Financial Ratios</b>		Actual	Actual	Actual	Actual	Allentown	Allentown	S&P "A"	S&P "BBB"
<b>FY Ending December 31,</b>		2018	2019	2020	2021	2022	2023	Medians	Medians
Total Operating Revenue		7,484	8,204	8,070	9,723	11,223	11,481	8,408	9,175
Total Operating Expenses		6,577	6,268	6,586	6,908	8,660	8,077	6,202	7,779
Net Revenue		3,345	4,349	3,919	5,112	5,101	3,729	4,006	3,331
Debt Service Coverage		1.65x	1.72x	1.54x	2.01x	1.60x	0.87x	1.49x	1.06x
Debt to Net Revenue		10.2	7.7	8.0	8.8	10.0	0.0	3.7	17.6
Debt		34,264	33,463	31,265	45,226	51,014	46,690	20,570	48,605
Unrestricted Cash and Investments		4,219	4,497	4,805	5,389	5,659	NA	4,312	3,790
Days Cash		177.9	210.6	207.9	230.3	199.3	NA	292.0	142.0
Unrestricted Reserves to Debt		12.31%	13.44%	15.37%	11.92%	11.09%	NA	31.00%	6.00%
Operating Revenue per Space	\$	1,668	\$ 1,828	\$ 1,799	\$ 2,167	\$ 2,501	\$ 2,559	\$ 4,008	\$ 3,331
Enforcement Revenue as % of Total Operating Reve		55%	52%	62%	67%	65%	64%		
Average Age of Plant		12.25	12.81	13.81	15.06	15.72	NA		

Except for 2018, the Authority has achieved adequate operating margins and strong debt service coverage. Debt Service coverage has been comfortable historically due to the large amount of depreciation relative to current debt service. The Authority has maintained good liquidity by all measures. The Days cash on hand measure is particularly strong. Leverage is typical of an entity that owns and operates fixed assets. Based solely on 2018-2022 results, compared to rated medians, the APA would likely fall in the low "A" category which is in line with the City's A3/A- ratings. However, the preliminary results from 2023 would result in a substantially lower rating, likely in the BBB category.

Table 4 compares the APA's FY 2022 results against comparable local parking authorities.

**Table 4**

<b>Allentown Parking Authority Selected Financial Ratios</b>		Allentown	Allentown	Lancaster	Bethlehem	Reading
<b>FY Ending December 31,</b>		2022	2023	2022	2022	2022
Total Operating Revenue		11,223	11,481	9,941	7,150	12,899
Total Operating Expenses		8,660	8,077	9,033	5,084	11,189
Net Revenue		5,101	3,729	6,066	4,335	3,611
Debt Service Coverage		1.60x	0.87x	1.65x	2.08x	1.44x
Debt to Net Revenue		10.0	0.0	8.6	6.1	7.0
Debt		51,014	46,690	52,094	26,301	25,281
Unrestricted Cash and Investments		5,659	NA	4,476	6,686	2,698
Days Cash		199.3	NA	226.8	726.5	103.2
Unrestricted Reserves to Debt		11.09%	NA	8.59%	25.42%	10.67%
Operating Revenue per Space	\$	2,501	\$ 2,559	\$ 2,662	\$ 5,500	\$ 2,531
Enforcement Revenue as % of Total Operating Revenue		65%	64%	30%	25%	42%
Average Age of Plant		15.72	NA	15.65	14.12	23.01

The financial ratios of the APA are comparable to Bethlehem, Reading and Lancaster. The only exception is the amount of Total Operating Revenue from Enforcement. In this case, only the City of Reading comes close to Allentown.

### **Projected Financial Position of The Allentown Parking Authority**

To evaluate the financial capacity of the APA's cash flow to support current operations and existing and future debt, we created projections of the APA's future cash flows. This allows us to evaluate the impact on APA of removing all or portions of its responsibilities. This model necessarily makes assumptions about the future revenues and expenses of the Authority. To the extent available, we have utilized information and assumptions provided to us by management of the APA. A summary version of our baseline projections are included in **Exhibit C**.

### **Analytical Assumptions - Baseline**

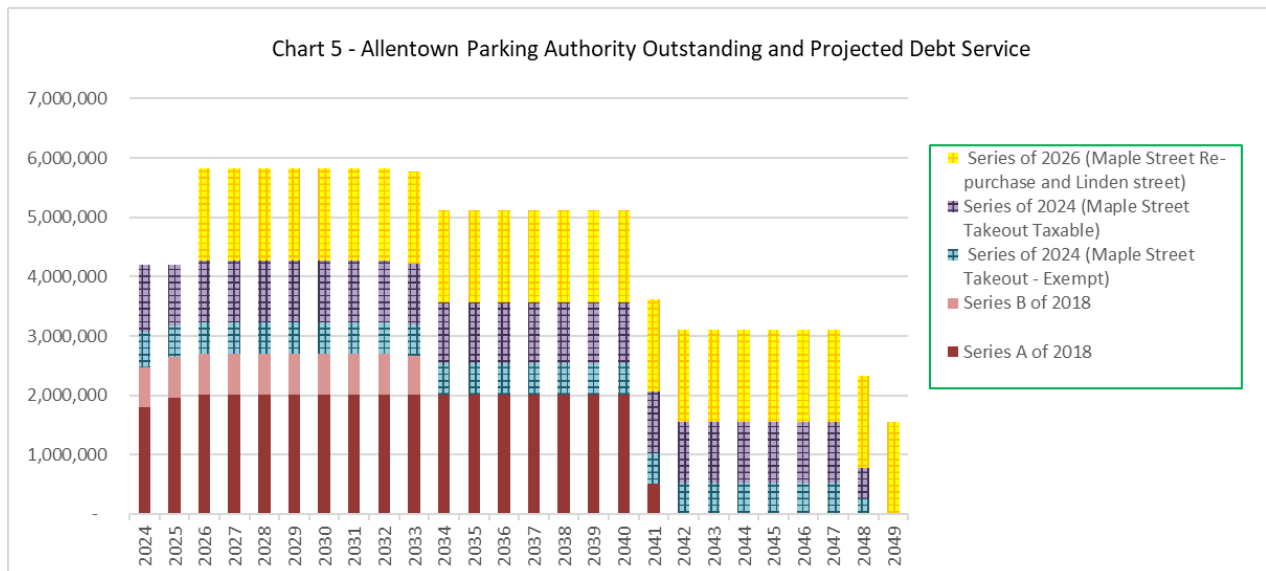
#### **1. Revenues**

- a. Enforcement revenue – We based our projections on the APA's 2023 estimated actual results of \$7.4 million. We've escalated enforcement revenue by 1.5% per year thereafter.
- b. Customer Service – We based our projections on actual Customer Service revenue from 2023 and escalated by 1.5% per year thereafter.
- c. Park & Shop – Since the Authority does not budget for this, we have not included this in our projections.
- d. Surface Lots & Garages except Maple Street and proposed Linden garages - We based our projections on the APA's 2023 estimated actual amounts and escalated parking revenue by 1.5% per year thereafter. This assumption differs from the potential price increases that the Authority may implement for these facilities. It may also overstate near term revenue since many of the spaces in the Authority's garages are subject to long term contracts and may have fixed prices for some time.
- e. Maple Street and Linden Street Garages – We have incorporated the Authority's projections without any changes. These projections are included in **Exhibit D**
- f. Nonoperating Revenue – We used the Authority's 2023 estimated actual amounts for Interest income, Lease and Miscellaneous revenue. These amounts were not escalated.

#### **2. Operating Expenses – We based our operating expense projections on the Authority's 2023 estimated actual amounts escalated at 3% per year with the following exceptions.**

- a. Utilities – We included a one-time increase in baseline utility costs in 2024 to recognize the expenses related to the Maple Street Garage.
- b. Insurance - We included a one-time increase in baseline insurance costs in 2024 to recognize the expenses related to the Maple Street Garage.
- c. Repair & Maintenance - We included a one-time increase in baseline repair & maintenance costs in 2024 to recognize the expenses related to the Maple Street Garage

3. Non-operating expenses – This category includes depreciation, debt service and occasional contributions to the City.
  - a. Depreciation – We used a constant \$2 million of depreciation expense in our projections.
  - b. Current Debt Service – We used the Authority’s actual debt service for the 2018 and 2024 Bonds. The Authority’s outstanding financing has rate resets before maturity. We have assumed that these financings are reset at the current rates.
  - c. Future Debt Service – The Authority is contemplating an approximately \$19 million financing to complete the purchase and construction of a garage on the Linden Street site and to repurchase the spaces in the Maple Street Garage from Central City Investment Corporation (CCIC). We have assumed that this financing is structured in a manner consistent with the APA’s past financings. We assumed that the financing is completed in 2025 with 20 years of level annual payments beginning in 2026. We assumed a 6.5% rate. Chart 5 illustrates both existing and projected debt service.
  - d. City Contribution – We have not assumed payments to the City.



We evaluated the ability of the Authority to cover its operating costs and to service outstanding and projected debt by calculating Net Revenue Available for Debt Service (NRADS) and the resultant debt service coverage ratios (DSCR) for the period 2024-2034. We created four sensitivity analyses:

- A. 100% Reduction of Parking Ticket Revenue. Reduction of 36% in wage and benefit costs.
- B. 50% Reduction in Parking Ticket Revenue. No Reduction in staffing costs.
- C. 25% Reduction in Parking Ticket Revenue. No Reduction in staffing costs.
- D. Ability of Garage Revenue to cover costs.

Table 5 summarizes the financial ratios for the baseline and scenarios A-C.

**Table 5**

**Allentown Parking Authority**

<b>Selected Financial Ratios</b>	Projected (Baseline)	Projected (Baseline)	Projected (Baseline)	Projected (A)	Projected (B)	Projected (C)
<b>FY Ending December 31,</b>	<b>2024</b>	<b>2025</b>	<b>2030</b>	<b>2030</b>	<b>2030</b>	<b>2030</b>
Total Operating Revenue	12,204	13,116	14,633	9,434	11,990	13,269
Total Operating Expenses	8,077	8,368	9,992	7,416	9,992	9,992
Net Revenue Available (NRADS)	6,127	6,747	6,641	4,018	3,998	5,276
Debt Service Coverage	0.99x	1.16x	0.86x	0.56x	0.55x	0.63x
Debt to Net Revenue	10.6	9.3	7.8	13.0	13.0	9.9
Debt	64,932	62,857	52,073	52,073	52,073	52,073
Unrestricted Cash and Investments	5,061	5,716	5,094	(15,987)	(9,935)	(6,157)
Days Cash	150	166	118	(441)	(229)	(142)
Unrestricted Reserves to Debt	7.79%	9.09%	9.78%	-30.70%	-19.08%	-11.82%
Operating Revenue per Space	\$ 2,720	\$ 2,923	\$ 3,261	\$ 2,103	\$ 2,672	\$ 2,957
Debt Service	4,203	4,204	5,816	5,816	5,816	5,816

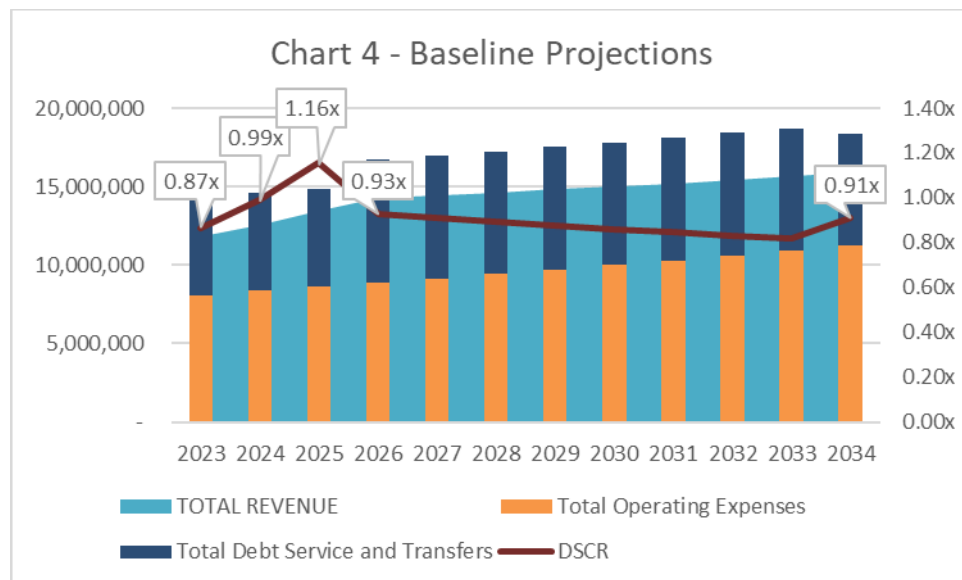
(A) 100% Reduction of Parking Ticket Revenue. Reduction of 36% in wage and benefit costs.

(B) 50% Reduction in Parking Ticket Revenue. No Reduction in staffing costs.

(C) 25% Reduction in Parking Ticket Revenue. No Reduction in staffing costs.

**Pro-Forma Analysis**

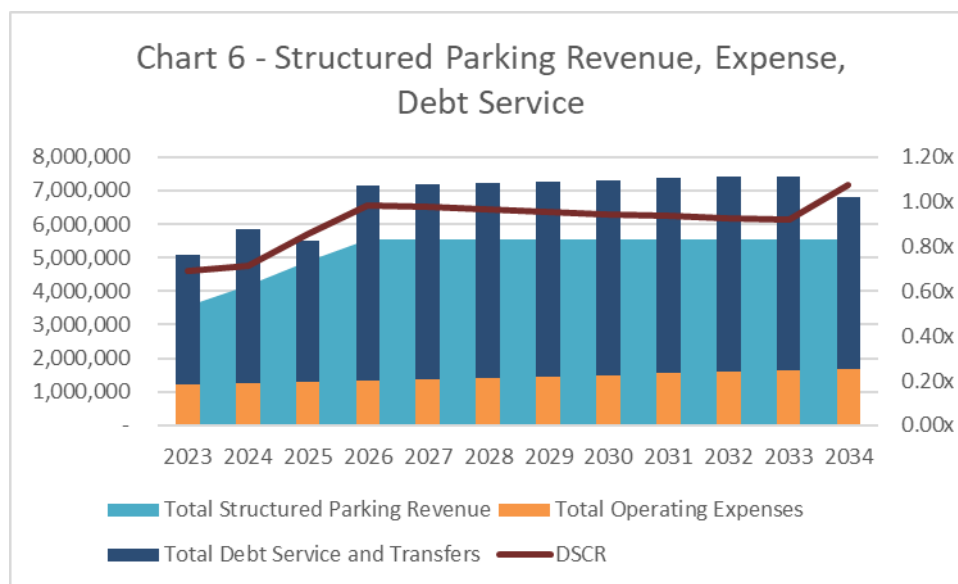
Under our baseline assumptions, the Authority is unlikely to make its debt coverage covenants over the long term. In fact, the APA is currently in discussions over this issue with its lenders, having missed its coverage in 2023. In discussions with the Authority's staff, the elimination of overnight ticketing had a roughly \$2 million reduction in ticket revenue relative to budget.



If the Authority were to experience significant declines in enforcement revenues, the picture changes dramatically. As shown in Table 5, under Scenarios A, B & C, reducing or eliminating enforcement revenue leaves the Authority unable to cover its fixed costs and results in continuing operating deficits. The negative cash and investment balances are for demonstrative purposes only. These would represent a cumulative amount of external financing needed to make the Authority self-sustaining. If the lender of last resort were to be the City, this would represent a significant impact on the City's finances.

### Comparing Parking Garage Revenue to Parking Garage Costs.

Over the past two decades, the Authority has placed significant emphasis on that part of its mission "to promote economic growth particularly in the downtown business area" by constructing or rehabilitating its garages. Part of this is done by necessity caused by older facilities reaching the end of their useful life or needing significant rehabilitation. It is fair to ask if the structured parking component is self-sustaining over the long term. To look at this, we have broken out the garage parking revenues, allocated a small portion (15%) of the Authority's operating expenses and all the Authority's debt service. We have not included depreciation expense. The results are shown in Chart 6. Under these assumptions, the structured parking generates insufficient cash flow to cover its debt service and allocated operating expenses.



Our analysis indicates that the APA would need to generate an additional \$1.3 million in revenue from structured parking to meet its 1.10X debt service covenant. An additional \$700,00 would be required in 2026 to pay for the construction of the Linden Street facility and repurchase the spaces in the Maple Street Garage from CCIC. These would represent 54% and 22% increases in rates.

**Legal and Organizational Issues** - What are the legal barriers to removing the enforcement on-street revenue stream from the APA or dissolving the APA entirely?

The Allentown Parking Authority was established by an ordinance of the City of Allentown, pursuant to the Parking Authority Law of 1947, codified at 53 Pa. C.S.A. Chapter 55 (the “Act”). The purposes and powers of the APA are constrained by the Act and enabling legislation of the City. Since its creation in 1985, the Authority has been per Section 5505 (a),

“a public body... shall not be deemed to be an instrumentality of the municipality... may not engage in municipal functions except for [those] delegated to it by municipal ordinance or resolution.”

The relevant powers authorized by the Act (Section 5505(b)) and by City resolutions include, inter alia, the power to :

- acquire, purchase, hold lease and use real and personal property;
- to fix, alter, charge and collect rates and other charges for the construction, improvement, repair, maintenance and operation of its facilities;
- to borrow money and to make and issue bonds;
- to ensure payment of such bonds by pledge or deed of trust of all or any of its revenues and receipts;
- exercise eminent domain;
- to pledge, hypothecate or otherwise encumber all or any of its revenues or receipts as security for any of the obligations of the authority.

Under Section 5505 (d)(21) the Authority may also:

“if authorized by resolution or ordinance of the legislative body of the parent municipality, to administer, supervise and enforce an efficient system of on-street parking regulation. This .... includes the power... to issue parking tickets for illegally parked vehicles; to collect on behalf of the municipality rates and other charges, including fines and penalties, for uncontested on-street parking violations and to boot or tow a vehicle which is parked or which owner is delinquent in payment...”

Importantly, Section 5506(e) explicitly states:

“money collected or received by the authority on behalf of a municipality under section 5505(d)(21) shall not be deemed to constitute revenues and receipts of the authority under this Chapter or be subject to any debt or obligation of the authority”

All of these are relevant to the question posed above. Based on our experience with other municipalities and authorities, the City has several structural options available to it.

## **Dissolution/Termination of the Authority**

It is very clear under the Act that any Authority may only be terminated once its debt obligations are discharged. This can occur at maturity or earlier via redemption, refunding or repayment. Once that has happened, the Act allows for the City to approve termination of the Authority and apply to the Commonwealth Secretary of State to do so.

There are some practical constraints to this. First, the APA currently has \$46.7 million of debt outstanding with another \$19 million to be added within several years. This would need to be repaid prior to any termination. Additionally, the other long term obligations of the Authority would need to be honored (parking contracts, union & Employment contracts, pension and OPEB obligations.)

Lastly, the Authority would likely need to agree to this termination.

## **Removal of On-Street Enforcement**

It is likely that through action of City Council, the on-street enforcement activities could be returned to the City. This has significant financial ramifications for the City and the Authority.

The Authority needs some component of off-street parking enforcement revenue to service its large and growing debt service. Although this amount might diminish over time as garage revenue grows (through repricing expiring long-term contracts or completing additional garages), our projections indicate that the APA needs a minimum of \$1.3 million per year of non-garage revenue in 2024 to satisfy its rate covenants with lenders. Alternatively, as discussed above the Authority could fully price the cost of its off-street parking into its rates.

The discussion of legal issues is broad and is not intended to be a legal analysis. We are not attorneys. If the City elects to proceed with changes to the Authority and its relationship with the City, we suggest the City rely on its solicitor for a more exhaustive analysis.

## **Organizational & Operational Alternatives**

In some respects, the APA is a highly functional organization. A component of the frustration with the APA may be attributable to inadequate and infrequent communication. A board-led, strategic communication program could:

- Orchestrate and lead an Informative roadshow to explain how the APA operates, why they exist, and to illustrate their mission: *The mission of the APA is to operate, monitor, and maintain convenient and accessible parking facilities and on-street parking opportunities within the City of Allentown. The APA works to balance the parking needs of residents, employees, business and property owners, and visitors while enforcing parking ordinances and providing appropriate access to parking.*
  - Present at Allentown and regional Business/Chamber meetings, think tanks, Rotary, economic development symposiums, Lehigh Valley Real Estate Associations, etc.

- Conduct a series of Town Halls in which citizens are given the same presentation and have a Q & A session. Residents, business owners and stakeholders may ask questions to address their concerns.
- Establish a customer “Advisory Committee” (example attached as Exhibit E)
  - APA administration and leadership should attend various meetings, neighborhood watch parties, city council, chamber of commerce, NIZ committees, etc.
- APA does a great job with their Parking Day event; this should expand.

In addition to a strategic communications effort, the Authority could benefit from any of the following.

- Increase rates for street parking, making them more than that of the garages. Currently both are @ \$2.00 per hour.
  - Increase on-street rates to \$2.25 in 2024. In 2025 increase to \$2.50.
  - Work with ParkMobile and Kiosk vendor to pilot a “Dynamic Pricing” model in the core downtown. This will reflect the business activity and ensure spaces will be available in every block. This program will reduce time spent looking for a space (reduce congestion) and minimize the carbon footprint.
- Increase parking ticket/citation fines to come in line with other Third-Class cities of like size. \$10 is 50% too low and reduces motivation to park in a structure.
  - Enact a program to increase fines every year. For example, increase by \$5.00 each year until \$25.00 (or some other goal) is reached. City of Reading’s ordinance states their rates can be as high as \$45. (It’s currently, at \$25.) Bethlehem fines are \$15 and will be raised to \$20.
- Decriminalize parking tickets: SB 736 of the 2017 Session was signed into law allowing cities of the Third Class to adjudicate parking tickets, thus removing them from the MDJ system. Historically, too many ticket fines are uncollected or forgiven by MDJ’s. Adjudication will allow the APA to enter offenders into payment plans, amnesty, or limit the excessive fees. Ultimately, it will allow more money to stay in Allentown.
  - Recommend discussions with the President Judge to explore this option.
- Enact event pricing. Explore increasing the price for parking options within proximity to the venue. Create more momentum for reserving parking through ParkMobile by touting convenience.
- Enact notices for expired registrations/inspections prior to issuing the citation. (could be the owner didn’t realize they expired) Currently, no notice is given. Bethlehem waits a week (in case owner simply forgot.) Reading waits three months after the first notice.
  - Investigate an agreement with City police listing which infractions APA may ticket.



- When ticketing, APA issues numerous citations at once; should look at only one per stop versus 2-3 tickets per stop.
- Clarify role of Loading Zones. There has been rampant abuse of such zones since Covid, especially with the rise in deliveries from Amazon, Lyft, Uber, FedEx, UPS, Door Dash/Uber Eats, etc.
  - Important talking point in the roadshow and presentations.
  - Clarify who owns loading zones; the city owns them, not the business.
  - Clarify time allowed for parking in a loading zone (typically 15-30 minutes.)
  - Clarify fees: should loading zone violations carry the same fee as other infractions?
  - Explore technology that charges the license plate via camera such as EZ-Pass.
  - Research the impact of a similar program that Pittsburgh is piloting. Vehicles have to register license plate numbers online to allow prepayment in loading zones, designated by magenta color-coded curbs. Camera enforcement ensured that unregistered plates automatically received a ticket/citation.
- Residential Parking Permit (RPP) program was not evaluated during this review.
- Conduct a parking demand study and a comprehensive structural engineering in the next two years for structural parking.
  - Explore parking utilization rates and alternatives. Since the end of Covid, a new business paradigm has emerged, the remote workplace. For most Parking Authorities, the monthly parker was their leading revenue source, now cities are trying to redevelop these structures as they struggle with less revenues.
  - Investigate using Reserve Spaces in garages to obtain a better ROI.
- The Authority would be well served by strategic and long-term capital planning. Our impression is that, historically, the Authority has been reactive to proposals to build new structured parking. Longer-term projection of revenues and expenses can yield ongoing insights into how to create value for all stakeholders and ensure sustainable operations. This is particularly helpful when combined with a parking demand study and systems conditions reports.

## Privatization

One potential avenue for the City to explore is to sell, lease or otherwise convert the APA into a private entity. The City has experienced this practice due to the long term lease of its water and sewer assets to the Lehigh County Authority in 2013.

In the US PPP deals have gone through a change of emphasis over time as illustrated below:

	Pre 2006	Post 2006	Post 2008	Post 2012
Primary Objective	P3 as a way to achieve private sector efficiencies to public projects	P3 as a way to monetize governmental assets	P3 as an alternative tool for project delivery	P3 as a way to unload public responsibility
Funding	100% Public Funding	100% Private, high leverage 85% debt	Private with, equity in the 10-20% range	Can be all Private with 35% equity
Concession Fees	Small Concession Fees	Large Upfront Fee for 75 year deals	Less emphasis	Large to pay off debt, small net to public
Risk Transfer	Limited Risk Transfer, closer to Operating Contracts	All major risks transferred to private sector, including revenue risk	Birth of "Availability Payment" model which leaves revenue risk in public sector	High risk transfer with a "revenue path" approach

Most PPP projects are large in scope and have an economic value of over \$300 million, but some smaller transactions have been achieved where there are strong provisions for investor returns.

### Types of PPP deals

- Full Risk Transfer Concession
- Availability Payments
- Asset Monetization
- Greenfield
- Brownfield
- Operating Contracts
- Design, Build, Operate, Manage (DBOM) with public funding
- Design, Build, Finance, Operate, Manage (DBFOM) with private funding
- Sectors – Transportation, water, wastewater, social infrastructure, solid waste, health care, redevelopment, sports arenas, parking

If Allentown were to pursue a parking PPP deal they would be surrendering virtually all of the day to day control of the parking assets in return for an upfront payment or perhaps a

combination of upfront and annual concession payments that reflect the negotiated value of the assets over the term of the deal, likely 30 years.

In a PPP deal there are many important policy factors that must be taken into account, including:

- Key is understanding cash flows
- Need good operating expense data
- Need realistic rate forecasting
- Need good capital expense plan
- Who gets growth revenues?
- Need to consider full capital recovery within concession period or public payment at end
- Need to consider future demographic factors
- Need to consider future technology factors

There is limited experience in the United States in the privatization of public parking assets as most cities tend to self-manage these assets. The two notable transactions done in the last 20 years are the City of Chicago, Illinois and the City of Harrisburg, Pennsylvania. In both of these cases the cities were seeking primarily to monetize the assets and not focused on other aspects of the transaction such as fair pricing and other policies.

In the wake of the City of Chicago privatizing both its parking garages and its off-street parking system in exchange for a lump sum upfront payment, many large cities around the country investigated the potential of monetizing parking assets either through public private partnerships or through self-monetization structures. In most cases the lessons learned in Chicago mitigated against proceeding with a transaction. In many cases the overall condition of garages was a factor as they were near the end of their economic life and required major repairs.

Results of any asset optimization will be directly impacted by the following key economic drivers:

- Term of program
- Permitted rate increases
- Cost of capital
- Operating efficiency
- Operating responsibility and rules
- Current asset condition
- Demand/supply for parking
- Traffic generating land uses
- Population growth
- Mass transit options
- Cost of automobile ownership and usage
- Tourism

In the private sector, a bidder for the parking system would raise its capital from a combination of debt and equity, and lenders in the private sector will not fully fund the capital required to purchase the parking system. As a result, the cost of capital in the private market is significantly higher than the cost of capital in the municipal market due to the use of equity as a major component of the financing. Equity capital is the most expensive form of funding since it takes all the downside risk in a financing. As a result, equity investors in today's market will demand a cash-on-cash return for their investment in the 12% to 16% range. The more equity required in a funding, the higher the Weighted Average Cost of Capital ("WACC").

On the loan side the private sector only lend about 60% of funding needs and in some cases even less. For the purposes of establishing WACC, we have assumed a private financing could be achieved using bank loans for 60% of funding needs with an interest rate of 7.00% and a term of ten years and private equity capital with a minimum rate of return hurdle of 12%. The resulting WACC is 9.00% which will result in a lower valuation than a purely public financing approach.

The next step in pursuing a PPP alternative would be to more precisely value the assets in the context of future customer pricing considerations.

## **Should the APA remain a separate organization?**

There are many advantages to maintaining the APA as a separate organization.

1. A municipal authority allows the debt and other long-term obligations of to be “off-credit” for the City. This means that the Authority’s finances do not impact the City’s credit rating. As an entity that frequently borrows money to finance ongoing capital renewal and replacement, a strong rating allows the City to borrow at lower interest rates. The City is planning and evaluating several large-scale capital projects in the immediate future. A struggling parking operation will put pressure on the City’s credit rating.
2. A separate organization may result in more efficient development of parking in the City. A parking authority with industry specific expertise should result in cost effective development of new structured parking. This may not have always been the case in the past, but with additional oversight by the board of the APA on future parking agreements, the APA could possibly reduce the long term costs of parking.
3. The APA is remarkably good at enforcement. All comparable 3<sup>rd</sup> class Cities in eastern Pennsylvania use enforcement as a component of their parking systems. Enforcement regimes are designed to drive parking from on to off-street. With some thought to pricing of tickets versus the cost of parking in a garage, the APA could generate additional structured parking utilization and revenue.
4. The APA’s board is wholly appointed by the City. This gives a significant amount of oversight to the operations of the Authority. This was demonstrated this past year with the cessation of overnight enforcement.

There is one disadvantage to an independent Parking Authority. If APA’s operations were assumed in their entirety by the City, the cost of capital would be significantly lower than APA’s current cost of capital. This would be true for both tax-exempt financing and taxable financing. Lowering the cost of capital in this way would potentially expose the general taxpayer to the authority’s finances, e.g. the City might need to spend its general funds on the parking enterprise if parking and/or enforcement revenue were insufficient.

**Exhibit A – Allentown Parking Authority**  
**Summary Balance Sheets 2018-2022**

<b>Allentown Parking Authority Statement of Net Position (Balance Sheet) FY Ending December 31,</b>	<b>Actual 2018</b>	<b>Actual 2019</b>	<b>Actual 2020</b>	<b>Actual 2021</b>	<b>Actual 2022</b>
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and Equivalents	\$ 2,705,359	\$ 2,819,795	\$ 2,592,978	\$ 3,175,556	\$ 3,430,059
Investments	1,514,052	1,677,187	2,212,293	2,213,635	2,228,843
Accounts Receivable	180,082	286,227	155,163	204,616	343,432
Note Receivable	-	-	-	400,000	-
Accrued Interest /Lease Receivable	14,927	36,203	29,816	41,983	40,436
Inventory	26,618	19,327	-	-	-
Prepaid Expenses	<u>132,555</u>	<u>249,588</u>	<u>267,975</u>	<u>244,673</u>	<u>259,697</u>
<b>Total Current Assets</b>	<b>4,573,593</b>	<b>5,088,327</b>	<b>5,258,225</b>	<b>6,280,463</b>	<b>6,302,467</b>
<b>Noncurrent Assets</b>					
Capital Assets (Net)	55,460,222	55,657,808	55,371,041	71,941,551	78,602,282
Note Receivable	400,000	400,000	400,000	-	-
Lease Receivable	-	-	-	-	3,837,542
Net Pension Asset	-	<u>389,378</u>	<u>877,272</u>	<u>928,655</u>	<u>121,058</u>
<b>Total Noncurrent Assets</b>	<b>55,860,222</b>	<b>56,447,186</b>	<b>56,648,313</b>	<b>72,870,206</b>	<b>82,560,882</b>
<b>Total Assets</b>	<b>60,433,815</b>	<b>61,535,513</b>	<b>61,906,538</b>	<b>79,150,669</b>	<b>88,863,349</b>
<b>Deferred Outflows of Resources</b>					
Deferred Charge on Refunding	571,649	535,733	499,818	463,903	427,988
Pension	<u>139,565</u>	<u>5,116</u>	<u>-</u>	<u>69,767</u>	<u>375,165</u>
<b>Total Deferred Outflows of Resources</b>	<b>711,214</b>	<b>540,849</b>	<b>499,818</b>	<b>533,670</b>	<b>803,153</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts Payable	485,531	146,970	674,661	2,654,025	1,884,519
Accrued Expenses	268,395	319,390	328,815	361,005	380,659
Accrued Interest Payable	-	-	-	-	112,360
Unearned Revenue, current portion	265,285	288,711	287,371	374,164	297,266
Line of Credit, current portion	-	-	758,754	300,000	5,000
Bonds Payable, current portion	1,160,588	1,203,085	1,254,494	1,304,353	1,346,479
Capital Lease payable, current portion	19,793	58,163	52,202	50,773	31,975
PPP Loan Payable	-	-	581,400	-	-
Other Current Liabilities	<u>42,557</u>	<u>322,702</u>	<u>40,128</u>	<u>38,928</u>	<u>38,458</u>
<b>Total Current Liabilities</b>	<b>2,242,149</b>	<b>2,339,021</b>	<b>3,977,825</b>	<b>5,083,248</b>	<b>4,096,716</b>
<b>Noncurrent Liabilities</b>					
Unearned Revenue, net of current portion	8,121,602	7,892,594	7,663,586	7,434,578	518,700
Bonds Payable, net of current portion	33,199,317	31,996,232	30,741,738	40,013,664	28,095,681
Line of Credit/Construction Loan Payable	-	758,754	0	0	17,736,849
Capital Lease Payable, net of current portion	75,766	180,340	128,138	71,752	39,459
Other post-employment benefit liability (OPEB)	944,331	527,770	395,145	140,923	142,417
Other long term liabilities	<u>44,235</u>	<u>-</u>	<u>-</u>	<u>5,000,000</u>	<u>5,000,000</u>
<b>Total Noncurrent Liabilities</b>	<b>42,385,251</b>	<b>41,355,690</b>	<b>38,928,607</b>	<b>52,660,917</b>	<b>51,533,106</b>
<b>TOTAL LIABILITIES</b>	<b>44,627,400</b>	<b>43,694,711</b>	<b>42,906,432</b>	<b>57,744,165</b>	<b>55,629,822</b>
<b>Deferred Inflows of Resources</b>					
Leases	-	-	-	-	10,519,921
Pension	2722	274,151	545,466	526,274	-
OPEB	<u>-</u>	<u>23,324</u>	<u>33,765</u>	<u>40,528</u>	<u>-</u>
<b>Total Deferred Inflows of Resources</b>	<b>2,722</b>	<b>297,475</b>	<b>579,231</b>	<b>566,802</b>	<b>10,519,921</b>
<b>Net Position</b>					
Net Investments in Capital Assets	\$ 21,576,407	\$ 22,755,721	\$ 23,694,287	\$ 25,694,912	\$ 26,779,827
Unrestricted Net Position	<u>(5,061,500)</u>	<u>(4,671,545)</u>	<u>(4,773,594)</u>	<u>(4,321,540)</u>	<u>(3,263,068)</u>
<b>Total Net Position</b>	<b>\$ 16,514,907</b>	<b>\$ 18,084,176</b>	<b>\$ 18,920,693</b>	<b>\$ 21,373,372</b>	<b>\$ 23,516,759</b>

**Exhibit B – Allentown Parking Authority**  
**Summary Statement of Activities (Income Statement) 2018-2022**

<b>Allentown Parking Authority</b> <b>Statement of Activities</b> <b>FY Ending December 31,</b>	<b>Actual</b> <b>2018</b>	<b>Actual</b> <b>2019</b>	<b>Actual</b> <b>2020</b>	<b>Actual</b> <b>2021</b>	<b>Actual</b> <b>2022</b>
<b>Operating Revenue:</b>					
Enforcement	\$ 4,094,808	\$ 4,282,040	\$ 4,975,485	\$ 6,472,888	\$ 7,292,994
Customer Service	67,530	154,108	102,127	178,465	169,357
Garages & Decks	2,816,350	3,198,243	2,554,882	2,575,173	3,273,621
Surface Lots	111,803	112,584	97,625	139,120	134,921
Park & Shop	<u>393,812</u>	<u>456,614</u>	<u>340,103</u>	<u>357,557</u>	<u>352,294</u>
<b>Total Operating Revenue</b>	<b>7,484,303</b>	<b>8,203,589</b>	<b>8,070,222</b>	<b>9,723,203</b>	<b>11,223,187</b>
<b>Operating Expenses:</b>					
Wages & Benefits	3,037,222	2,714,987	3,172,727	3,268,074	4,435,142
Services & Charges	1,485,850	1,433,915	1,290,470	1,533,441	2,062,724
Materials & Supplies	90,048	93,818	103,620	132,533	149,304
Depreciation	<u>1,963,830</u>	<u>2,025,730</u>	<u>2,019,107</u>	<u>1,973,526</u>	<u>2,012,521</u>
<b>Total Operating Expenses</b>	<b>6,576,950</b>	<b>6,268,450</b>	<b>6,585,924</b>	<b>6,907,574</b>	<b>8,659,691</b>
<b>Operating Income</b>	<b>907,353</b>	<b>1,935,139</b>	<b>1,484,298</b>	<b>2,815,629</b>	<b>2,563,496</b>
<b>Non-Operating Revenue (Expense):</b>					
Rental Income	224,813	227,696	230,421	229,475	241,975
Miscellaneous	205,245	112,214	156,786	79,702	266,941
Gain on Sale of Assets	(185,443)	(3,610)	11,799	528,645	966,510
Grant Income	-	666,947	13,656	581,400	-
Cancellation of Financing Arrangement	-	-	266,470	-	-
Interest Income	43,714	48,488	28,720	13,509	15,762
Interest Expense	(1,494,580)	(1,373,658)	(1,336,547)	(1,268,842)	(1,900,621)
Principal Payments	(528,851)	(1,160,588)	(1,203,085)	(1,269,354)	(1,284,718)
Contribution to City	<u>(345,068)</u>	<u>(43,947)</u>	<u>(19,086)</u>	<u>(526,839)</u>	<u>(10,676)</u>
<b>Total Non-Operating Revenue (Expense):</b>	<b>(2,080,170)</b>	<b>(1,526,458)</b>	<b>(1,850,866)</b>	<b>(1,632,304)</b>	<b>(1,704,827)</b>
<b>Cash Flow Before Adjustments</b>	<b>\$ (1,172,817)</b>	<b>\$ 408,681</b>	<b>\$ (366,568)</b>	<b>\$ 1,183,325</b>	<b>\$ 858,669</b>
<b>Change in Net Position</b>	<b>\$ (643,966)</b>	<b>\$ 1,569,269</b>	<b>\$ 836,517</b>	<b>\$ 2,452,679</b>	<b>\$ 2,143,387</b>

**Exhibit C – Baseline Financial Projections**  
**(Pro-Forma)**



**Exhibit D – Allentown Parking Authority Projections  
for the Maple Street and Linden Garages**

**Exhibit E - Allentown Parking Authority**  
**Advisory Committee Template**