Date: February 7, 2022
To: Board of Finance
C.C.: Chapin Spencer, Director of Public Works
      Katherine Schad, Chief Administrative Officer
From: Jeffrey A. Padgett, Division Director for Parking and Traffic
      Richard Goodwin, Director of Finance
Subject: Parking Facilities Fund Update on Debt Management

BACKGROUND

As of June 30, 2021, Parking Facilities (Fund 265) audited losses were $4.5 million, offset by $1.2 million in pre-pandemic fund balance for a deficit of $3.3 million. The FY21 management letter from the City’s auditors made a recommendation that the City correct the $3.3M deficit in the Parking Facilities fund (Fund 265) before June 30, 2022.

The Parking Facilities losses were driven almost exclusively by impacts of the COVID-19 pandemic. During this audit period, Parking Facilities revenues were severely reduced, and in fact fell to nothing for many months. In total, this generated a loss of approximately $1 million. As stated in the Management Letter response, this operating loss caused the Parking Facilities Fund to not meet the Debt Service Coverage Ratio requirements for its long-term bank loan. To avoid breaching a condition of our loan and causing a non-compliance issue with Key Bank, our lender, and also potentially a negative effect to our Moody’s credit rating, the City paid off this $3.5 million loan. In summary:

- **COVID Operational Losses:** -$1.0 Million
- **Debt Payment:** -$3.5 Million
- **Fund Balance:** $1.2 Million
- **Total Deficit:** -$3.3 Million

Today, the City is unable to secure new commercial financing based on our audited Profit and Loss Statements and Balance Sheets. In order to remedy this deficit without affecting the general fund, we have developed the following strategy.
STRATEGY

Three funding sources have been identified to address this deficit:

- $1 million ARPA Funds - this was approved by BOF/CC on October 25, 2021 and is not yet reflected in the balance
- $300,000 fund balance from Traffic Fund (Fund 264) - leaving approximately $250,000 remaining in the fund balance in recognition of continued uncertainty of revenues in this fund
- $2 million Revenue Anticipation Note (RAN) - This instrument functions as a line of credit, which can be drawn upon as needed, and will be paid off using funds previously used to service the private loan. This instrument is backed by the full faith and credit of the City and is not awarded solely upon the merits of the garage revenues as was the private loan. We plan to come back to BOF/CC no later than April 2022 to approve these details. This strategy will cover $3.3 million deficit.

ONGOING RECOVERY

Despite the challenges of the pandemic and the slow recovery during FY21, changes to garage operations have led to a very optimistic revenue recovery in FY22 for the Parking Facilities Fund. Specifically, in April of 2021, the “2 Hour Free” rate was removed from the Marketplace Garage which had an immediate positive impact on revenues. Additionally, demand for monthly parking permits at the Lakeview/College Street garage remains strong and hotel guest parking has returned to pre-pandemic levels. The presence of the Burlington High School has improved the “energy” in the garage and also provided foundational revenue. Looking forward, we are in discussions with the State of Vermont to provide parking for up to 500 employees as they renovate their office building garage on upper St. Paul Street. These demands point to a bright future for revenues and also the need to closely manage occupancy.

Over all, these positive trends drove Parking Fund (Fund 265) revenues to exceed budgeted revenue in July 2021. This continued through October. In November and December, revenues dropped slightly, which is typical seasonally and also due to the Holiday Parking Promotion (1 hour free via ParkMobile), yet they remained very close to budget (~87%). This dramatic recovery to date in FY22 supports the reasonable expectation that FY22 will finish out at or near budgeted revenues and continue to be strong in FY23.

However, regardless of the revenue outlook, a sustainable operation and a sound approach to debt is needed. The proposed RAN will cover a $2M deficit that was generated by 1) reduced revenues due to Covid-19 and 2) the resulting required payoff of the loan due to not meeting the coverage ratio terms. The combination of ARPA funds and reallocation of Traffic funds (Fund 264) to cover some of the debt created a situation where, as the pandemic wanes and revenues continue to grow, the Parking Fund (Fund 265) will be carrying LESS debt than pre-pandemic. Therefore, the combination of reduced debt load and (expected) increased revenues should lay the groundwork for a rapid and full recovery of the Parking Fund (Fund 265).

RAN FINANCING MODEL

A RAN has a one-year term. To implement this strategy the Parking Fund (Fund 265) would utilize a series of RANs renewed annually that reflect the fund’s ability to pay off this loan. It is expected that the fund will continue to make the same annual debt service payment as have been made to service the former KeyBank: approximately $500,000. The KeyBank loan was $42,263/month, or $502,158 annually over 8 more years for a total of approximately $4 million.
<table>
<thead>
<tr>
<th>Year</th>
<th>RAN Needed</th>
<th>Interest Rate Estimate</th>
<th>Interest Amount Estimate</th>
<th>Paydown Amount</th>
<th>Total Cost to Traffic Fund</th>
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<tbody>
<tr>
<td>FY22</td>
<td>$2,000,000</td>
<td>3.0%</td>
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<td>FY23</td>
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<td>FY24</td>
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<td>FY26</td>
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<td>TOTAL</td>
<td></td>
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<td>$2,181,131</td>
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</tbody>
</table>

No formal action is needed at this time from the Board of Finance but we will return in the coming months to move a strategy forward.

**Future Plans**
Prior to the pandemic the City had plans to take on more Parking Facilities debt to make a major investment in the Church Street Marketplace Garage. As a result of the revenue challenges created by the pandemic as well as other factors we believe that such an effort is at least two years away. The strategy described in this memo will, if successful, put the City in better position to take on new debt to support that investment several years from now. In the shorter term we will continue to fund new maintenance efforts out of cash flow, and will continue to pursue revenue enhancing strategies including new residential parking agreements that allow the garages to be better utilized overnight, and bring down the cost of new housing by reducing the need for new structured parking for downtown housing projects.