

Bond Case Briefs

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Muni Credit: Harrisburg Parking Bond Sale Avoids Chicago Regret.

Harrisburg is set to be the first U.S. city in three years to lease its parking operations, part of a plan to rid Pennsylvania's insolvent capital of \$363 million of debt from an ill-fated incinerator project.

The deal is slated to move forward next month with the sale of about \$285 million in bonds backed by parking revenue, said Steven Goldfield of Public Resources Advisory Group, which is working for the receiver charged with stabilizing Harrisburg's finances. Bond proceeds will retire parking-authority debt and repay creditors of the incinerator venture, which hasn't generated sufficient revenue to cover debt costs.

Officials in the city of 50,000 say they've learned from Chicago, which in 2008 agreed to a 75-year parking-meter lease for a \$1.15 billion upfront sum amounting to about a 10th of the potential profit. Harrisburg, which would see rates as much as double next year, would earn annual revenue, letting it benefit from gains in collections during its 40-year lease. That could be a model for other localities considering consigning assets to private operators, said Howard Cure at Evercore Wealth Management LLC.

"Cities are struggling still," said Cure, head of municipal research at the New York-based firm, which manages about \$4.7 billion. "These types of transactions are going to be scrutinized."

Recovery Key

U.S. cities' revenue is projected to rise this year for the first time since 2006, as they repair their finances following the longest recession since the 1930s, according to a survey by the Washington-based National League of Cities. The collections still can't keep up with outlays for pensions and health care.

For Harrisburg, the deal is key to recovery, as the incinerator debt burden is about seven times the general-fund budget, according to William B. Lynch, the state-appointed receiver.

The community guaranteed debt for the overhaul and expansion of the plant in 2003. A fiscal crisis developed after the facility, originally built in 1972, didn't produce enough revenue for the obligations. Harrisburg started skipping payments and in 2011 its city council filed for bankruptcy protection. A federal judge threw the case out after concluding it wasn't authorized. Harrisburg has been under receivership, the state's only one for a municipality, since 2011.

Ripple Effect

Harrisburg's lease would be the first parking deal for a U.S. city since Indianapolis in 2010, according to Xerox (XRX:US) Corp.'s Parking Solutions unit and Walker Parking Consultants, the largest parking consultant by revenue. Cincinnati also intends to lease its system.

The paucity of municipal parking transactions shows the lingering effects of Chicago, whose meters

may earn a Morgan Stanley-backed partnership \$9.58 billion in profit, according to a Chicago Parking Meters LLC document.

“There was a lot of backlash over the Chicago deal that scared government officials in cities who didn’t want to have the same thing happen to them,” said David Cummins, senior vice president of Parking Solutions in Washington for Xerox. The company provides parking services in 30 U.S. cities and about 100 municipalities in the U.K.

The approach in Cincinnati and Harrisburg would accelerate efforts by other cities to relinquish their parking operations, Cummins said.

Xerox Meters

“You won’t have the concern that a private entity would try to gain more profits on the backs of the citizens,” he said. He said he expects four or five parking deals from cities and universities next year. Xerox manages the Indianapolis system and would assume Cincinnati’s meters under the city’s proposal.

Cincinnati officials also applied lessons from Chicago by detailing rate increases upfront, said Meg Olberding, a city spokeswoman.

“We had a whole comparative chart of how this is not Chicago,” she said. “We’re the next generation.”

Some municipal investors don’t see a trend taking hold.

“A handful of one-off deals is about all you will see, because too many things need to fall in place,” said John Donaldson, who helps manage \$750 million in munis at Radnor, Pennsylvania-based Haverford Trust Co. He said potential buyers prefer assets that don’t need a turnaround, and those systems make up a short list.

Garage Takeover

Under Lynch’s court-approved blueprint, the Pennsylvania Economic Development Financing Authority would take over Harrisburg’s 9,100-space parking system, including garages and lots, under a lease from the Harrisburg Parking Authority, the city agency that owns them. Next year, hourly meter rates would double to \$3 from \$1.50, and two hours in most garages would cost \$7, up from \$5.

The state authority would sell about \$285 million in tax-exempt revenue bonds to retire about \$100 million of debt from the Harrisburg parking agency and pay creditors of the incinerator project.

By Romy Varghese October 15, 2013