

**PHILIP A. AMICONE
MAYOR**



**CITY HALL
YONKERS, NEW YORK 10701**

**DAN SCHORR
INSPECTOR GENERAL**

**Ph: 914-377-6107
Fax: 914-377-6990**

**DEPARTMENT OF
INSPECTOR GENERAL
CITY OF YONKERS**

TO: Philip A. Amicone, Mayor

CC: Chuck Lesnick, City Council President
All City Council Members
William Regan, Yonkers Parking Authority Chairman
Joseph Dalli, Yonkers Parking Authority CFO
James LaPerche, Finance Commissioner

FROM: Dan Schorr, Inspector General *DS*

SUBJECT: Yonkers Parking Authority Debt Service

DATE: July 1, 2010

This report is issued in response to Mayor Philip A. Amicone's letter dated May 6, 2010, which directed the Inspector General to "research and then recommend an appropriate course of action regarding the Yonkers Parking Authority's (YPA) request to amend its 1964 Master Service Agreement so that the debt service for refinancing will be guaranteed in the unlikely event of a default on the part of the YPA."

Summary of Findings and Recommendations

In order to restructure existing debt of approximately \$2.3 million and pay for the anticipated judgment regarding the prior acquisition of property located at 310 Saw Mill River Road, the YPA has proposed issuing a new bond for approximately \$3.5 million. The City would guarantee the bond and each year must appropriate \$350,000 in the budget in the event the YPA could not make the monthly payments. A more prudent short-term option would be for the YPA to deed the property to the City and for the City to advance the YPA \$800,000 from a Capital Improvement Plan bond issue. The YPA would then re-pay the City annually through direct payments or a reduction in the annual City payment related to the Buena Vista parking garage. Furthermore, the City should study the potential advantages and disadvantages associated with consolidating the YPA into the City.

Background

The YPA was established in 1964 and is governed by a Master Service Agreement with the City which was adopted that year and subsequently amended. The YPA currently has just under \$2.3 million in bonded debt, for which it must make annual payments of approximately \$240,000 until 2024. Additionally, the current bond requires a 1.25 coverage ratio, meaning that the YPA must show a net surplus of 1.25 times the annual payment, or approximately \$300,000, in order to demonstrate the financial stability the bond agreement mandates.

In 2001, the YPA took possession by eminent domain of property located at 310 Saw Mill River Road and is currently in litigation with the prior owner regarding valuation of the property and appropriate payment. The YPA anticipates an imminent final settlement that will require it to compensate the owner with approximately \$800,000, all of which will have to be paid this year. Due to the fact that the YPA does not have available funds to cover this judgment, nor the ability to independently borrow them, it is seeking assistance from the City. The YPA has proposed that the City guarantee a new \$3.5 million YPA bond which would cover the debt on the original bond and the above-mentioned costs associated with the 310 Saw Mill River Road property.

Mayor Amicone directed the Inspector General to research this proposal and recommend an appropriate course of action. The objectives of our review were to:

1. Research the new YPA bond proposal and assess the benefits and drawbacks for the City.
2. Analyze whether alternatives would be more cost-effective and limit the financial exposure of the City while still keeping the YPA solvent.
3. Recommend an appropriate course of action for the City and the YPA.

We reviewed all relevant documents, including the 1964 Master Agreement, amendments to the Agreement, the 2010 YPA operating budget, a proposed Supplemental Parking Permit of Use and Operating Agreement, and a proposed City Council resolution. Additionally, our office conducted a site visit to the relevant parking facility and interviewed YPA Chairman William Regan, YPA CFO Joseph Dalli, City Finance Commissioner James LaPerche, bond underwriters Herman Charbonneau and Chuck Stavitski, bond counsel Aurora Cassirer, members of the City Council, and other individuals.

Discussion

YPA Proposal for City to Guarantee Approximately \$3.5 Million in Debt

The YPA initially proposes that it convey the property at 310 Saw Mill River Road to the City and that the City grant the YPA a permit of use for the parking facility. The YPA would then issue a new bond, guaranteed by the City, for approximately \$3.5 million to re-finance its current bond debt and pay the expected judgment regarding the property. The YPA would have to pay approximately \$325,000 per year thru 2024, with the City using its already-limited funds to make up for any YPA shortfall.

The advantages of such a proposal are that the YPA would no longer have to abide by a 1.25 coverage ratio on their new debt and it would have the funds to pay for the expected legal judgment involving 310 Saw Mill River Road.

However, there are significant detriments to the proposal. First, the City would be responsible for \$3.5 million in new debt if the YPA is unable to remain solvent. Incurring new debt on the part of the City should be avoided if possible, and other options should be evaluated in order to not subject the City to such financial exposure, especially while the YPA's finances are not directly monitored and controlled by the City.

Furthermore, Herman Charbonneau, the bond underwriter retained by the YPA, is requiring the City to add a \$350,000 line item in each year's budget, starting with fiscal year 2012, so that money is appropriated in the event the YPA cannot make its payments. Any unused money from this line item would be rolled over into the next year's budget. Clearly, in this financial climate it is especially difficult for the City to add \$350,000 to the budget. We have been informed by YPA officials that this requirement could not be avoided by utilizing a different underwriter.

Additionally, the YPA will be making monthly payments towards the annual \$325,000 requirement, and although it anticipates being able to cover this amount each year, it may not always have sufficient funds for each month's payment because of seasonal swings in revenues. Thus, the YPA may need the City's assistance for anticipated cash flow issues.

Thus, in some months the City could be sending funds to the YPA, and in other months the YPA will be paying back the City. In this scenario, funds could very often be moving back and forth between the YPA and the City, raising significant issues with transparency, stability, and accountability.

Finally, with the guarantee that the City must cover any shortage in a given month, there is less urgency for the YPA to come up with solutions to address any future financial issues. Any shortfall of the YPA will be made up by the City through the \$350,000 it must allocate in its yearly budget for possible YPA debt service. The City's guarantee of the new bond is too easy to rely upon in this arrangement.

More Limited Proposal for Assistance to YPA

Failing to provide assistance to the YPA with its expected judgment regarding the 310 Saw Mill River Road property will most likely lead to the YPA being unable to pay the judgment and cause serious financial consequences. Although the YPA is independent, financial failure on its part could very well result in damage to the City's operation and reputation regarding financial responsibility. We suggest a revised plan of City assistance that will aid the YPA in the short-term while limiting the City's financial exposure.

As with the YPA proposal, we recommend that the YPA deed the property to the City and that the City grant the YPA a permit of use. However, instead of the YPA issuing a new bond for approximately \$3.5 million, another solution is for the City to bond enough money through their

Capital Improvement Plan to advance the YPA approximately \$800,000 to cover the expected judgment.

In order to pay for this new bond, the YPA will have to compensate the City with approximately \$85,000 per year until 2024. One option is to reduce the City's annual payment to the YPA related to the Buena Vista parking garage by \$85,000. In addition, the City can explore the option of selling the 310 Saw Mill River Road facility, which is not currently generating significant revenue. Proceeds from a sale would be used to pay down this new debt.

With this option, the City will not be responsible for \$3.5 million in YPA debt, and will not have to add a budget line in an already stretched budget. The YPA will have to pay approximately \$325,000 each year for debt service (\$240,000 for their existing bond and \$85,000 for the City), basically the same amount as in the original proposal. If the \$800,000 is bonded over a longer period of time, the annual debt service payment of \$85,000 would be reduced.

This plan provides greater financial incentives for the YPA, as it will not automatically receive additional funds from the City if it incurs a budget deficit. It will not be able to simply dip into the City's money each month to pay the debt service.

Long-Term Prospects for the YPA

We recommend that the City explore folding the YPA into the City government. Consolidating the YPA into the City might allow for greater oversight and certain cost-savings, such as with salaried positions that duplicate functions already existing in the City. Potential drawbacks of consolidation, including combining workforces from different bargaining units and the possible politicization of parking decision-making, must also be investigated and considered.

Consolidation should be analyzed and enacted if it appears to be beneficial for the City.

Conclusions and Recommendations

Our analysis of the YPA request to amend its 1964 Master Service Agreement so that its debt service for refinancing will be guaranteed by the City in the event of a default on the part of the YPA leads us to conclude that a more modest plan of City assistance is warranted in order to limit the City's financial exposure, while still preventing the financial collapse of the YPA.

We make the following specific recommendations:

- The City take ownership of the property located at 310 Saw Mill River Road and advance the YPA funds to pay off the anticipated judgment by bonding approximately \$800,000 in the Capital Improvement Plan
- The YPA repay the City with either annual payments or a reduction in the annual City payment to the YPA related to the Buena Vista parking garage
- The City analyze the potential cost-savings and investigate other advantages and disadvantages of consolidating the YPA into the City and proceed with consolidation if it appears beneficial