City of Springfield
Office of Internal Audit

Issued August 27, 2013

Financial Performance Review: On-Street Parking Program

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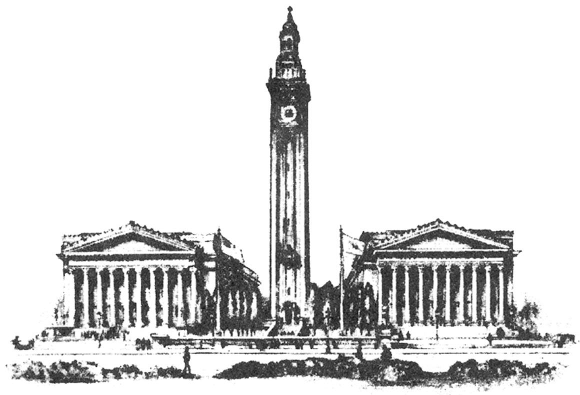

August 27, 2013

The Honorable Domenic J. Sarno, Mayor and
Members of the Springfield Audit Committee
36 Court Street
Springfield, Massachusetts 01103

Re: *Financial Performance Review: On-Street Parking Program*

At the request of the Honorable Domenic J. Sarno, Mayor of the City of Springfield and City Solicitor Edward M. Pikula, the Office of Internal Audit conducted a financial performance review of the City's on-street parking operation.

The accompanying report details findings and recommendations for improvement. The results of the review have been discussed with City officials and management has taken numerous positive actions in response to these recommendations. Written responses from City management have been incorporated into the report.

This report is not intended to be an adverse reflection of the City or of its vendors nor is it an audit. This review is intended to contribute to the improvement of the City's risk management, control and governance processes.

I wish to personally acknowledge the support received throughout this process by the Mayor, City Solicitor, CAFO, Comptroller, Chief Development Officer, Executive Director of the SRA, Parking Clerk, Treasurer/Collector, Springfield Parking Authority, their departmental staff members, and all others that helped to provide information during this review. I thank them for their cooperation and courtesies extended.

The attached report can be found at: http://www3.springfield-ma.gov/finance/auditor.html.

Respectfully submitted,

Cecelia R. Goulet
Acting Director of Internal Audit

Cc: Springfield City Council
T.J. Plante, CAFO
Kevin Kennedy, Chief Development Officer
Steve Lonergan, City Collector/Treasurer
Peter Sygnator, Asst. City Collector/Parking Clerk
Edward Pikula, Esq., City Solicitor
Pat Burns, Comptroller
Christopher Moskal, Executive Director SRA
Lauren Stabilo, Chief Procurement Officer
Mike Nelligan, Powers & Sullivan, CPA's

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Executive Summary

City of Springfield's outsourced on-street parking program needs monitoring and improvements to achieve desired results

In 2008, the City of Springfield, through the approval of the Springfield Finance Control Board, chose to outsource its on-street parking services (i.e. management of City parking meters and parking ticket violation enforcement) to the Springfield Parking Authority (SPA). The SPA initially used Republic Parking Systems, Inc. as its management vendor for both on-street and off-street parking operations. The SPA is currently using Executive Parking, Inc.

The Office of Internal Audit reviewed available City financial data to determine the financial effect of outsourcing the on-street parking program. A review of compliance with contractual terms was also performed. In lieu of the ability to review audited financial data for the on-street parking program from the SPA, standard financial indicators were utilized to review the audited financial statements of the SPA itself.

Financial information was compared to recommendations from a 2005 consultant's report to determine whether projected revenue increases were actually realized.

The full report is attached and may also be viewed at: http://www3.springfield-ma.gov/finance/auditor.html

The City has a mutually beneficial relationship with the Springfield Parking Authority (SPA). Economic development requires available affordable parking and an appropriate circulation of traffic while parking services are dependent upon the City's economic growth. Building on this relationship, the City's on-street parking program was outsourced to the SPA in 2008 as a result of negotiations and approval by the Springfield Finance Control Board. Favorable parking income to the City and to the SPA was assumed to be a beneficial byproduct of a well-managed parking program.

The Office of Internal Audit (OIA) was asked to examine the financial performance of the on-street parking program. In addition, the OIA was asked to determine whether the outsourcing of the City's on-street parking program has achieved the desired results. City Management requested this information to help in making informed decisions as to whether to renew and/or modify the existing contract with the SPA which had an impending expiration date of January 31, 2013.

It is evident from this review that the positive financial benefit from outsourcing the City's on-street parking program has been an evolution and not a revolution; favorable financial impact is changing with time rather than the City or the SPA seeing any immediate sweeping positive changes. Some of the processes are still evolving and need continued or enhanced monitoring. Issues identified in this review indicate the need for process enhancements to further improve contract administration and to achieve desired results.

Several significant issues that were identified in this review:

- Revenue was not deposited into the City's bank account daily in accordance with the original contract; instead collected funds were first deposited into the SPA's vendor's bank accounts and typically transferred to the City the following month.
- The City paid $35,000 for contractually required annual audits of the on-street parking program that were not received.
- From March 2008 to August 2012, approximately $800,000 was paid by the City to the SPA for "management fees" to assist in improving the SPA's financial position. Although the payments were properly approved to be made, there was no formal provision incorporated into the contract to pay these management fees.
- Records provided to the OIA along with a compilation of City financial activity obtained from its accounting system of record, MUNIS, indicated that from 3/4/2008 to 8/31/2012 for every $1.00 of parking related revenue the City netted approximately $0.28 cents *[$0.14 in FY 2012].*

To improve the City's on-street parking program it is recommended that:

- ➢ The City should enforce and/or modify the on-street parking program agreement to ensure that parking revenues are properly and timely deposited in City accounts.
- ➢ Procedures should be enhanced to ensure that required reports, especially those required from independent certified public accountants, are actually submitted to allow City management to properly monitor the on-street parking program.
- ➢ Any mutually agreed upon amendments to the terms of the contract must be formally executed before implementation, appropriation, and payment.
- ➢ Budget to actual activity must be routinely monitored to ensure City objectives are being met for the management of the on-street parking program.

Significant preliminary findings were shared with City management during the course of the review so that management had the ability to promptly address the findings. The City, the SPA, and its board of directors have subsequently performed some important work in developing cost containment solutions for the on-street parking program. These results are detailed in the *Management Response* sections of this report. The responses include recent contract revisions and a concurrent action plan implemented by the SPA. This plan includes the engagement of a parking consultant, elimination of the former Executive Director position, a successful debt restructuring, and the selection of a new management company.

Section 1 On-Street Parking Program: Introduction

Chapter 468 of the Acts of 2008 authorizes the Director of Internal Audit to examine the records of the City and its departments to prevent and detect waste, fraud and abuse and to improve the efficiency, effectiveness and quality of public services provided in and by the City. In accordance with this legislation, all offices and employees of officers, boards, commissions, agencies and other units of City government are required to comply with requests for information or access to systems and records by the Office of Internal Audit (OIA). The following review aligns the authority and goals of the OIA with those of the City. Specifically, this review addresses the City's values related to accountability such as integrity, fiscal responsibility and transparent practices. The review also supports the City's strategic priorities ensuring operational excellence, fiscal health and sustainability in all divisions, departments, programs and activities.

The City of Springfield currently has an agreement which outsources the management of its "on-street" parking program to the Springfield Parking Authority. The on-street parking program consists of the management of parking meters and parking ticket violation enforcement. The Office of Internal Audit was asked to examine the financial performance of the City's outsourced on-street parking program over the course of the original agreement. In addition, the OIA was asked to determine whether the outsourcing of the City's on-street parking program has achieved the desired results. This report is not intended to be an adverse reflection of the City or of its vendors nor is it an audit. The intent of this review is for City management to utilize these findings and recommendations to help in making well-informed strategic decisions in the near future regarding the on-street parking program while ultimately meeting City objectives.

Background

The Springfield Parking Authority (SPA) was established in 1981 as a "…body politic and corporate and political subdivision of the commonwealth…"[1] Additional legislation was later issued in 1985 to further regulate the SPA.[2] It was declared in the initial legislation that there was a lack of free circulation of traffic that was causing a public nuisance that was so severe that there was a risk of endangering the health, safety and welfare of the general public. The necessary solution was to require the construction and operation of conveniently located "off-street" parking facilities. The long-term strategic intent was to ultimately attract out of state visitors, promote tourism, correct a condition of economic dislocation, and create employment opportunities for residents of the Commonwealth. The SPA is managed by a five member board, all appointed by the mayor, who serve five year terms. The City of Springfield is not financially responsible for the operation of the SPA.[3]

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[1] Chapter 674 of the Acts of 1981

[2] Chapter 178 of the Acts of 1985

[3] Chapter 674 of the Acts of 1981 section 18(e) states, "Notwithstanding any other provisions of this act, unless authorized by other legislation, no funds raised by taxation or by any loan or pledge of the credit of the city or of the commonwealth shall be given, loaned to or used in aid of any individual, or of any private association, or of any corporation which is privately owned and managed, nor shall such funds be used by the Authority for any such purpose."

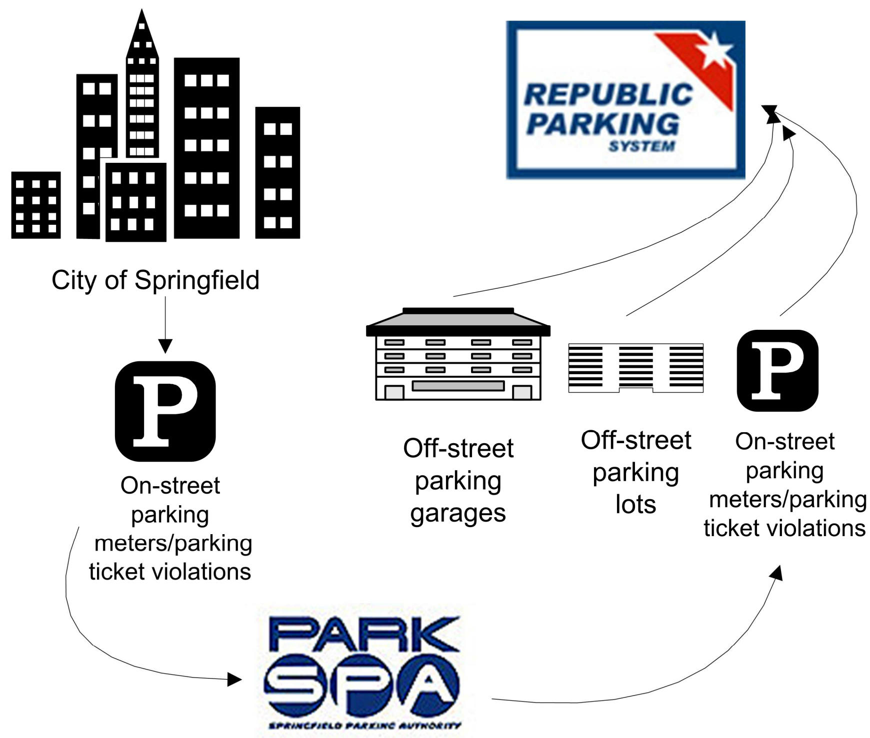
Historically, the City of Springfield internally administered the on-street parking program (i.e. the management of parking meters and parking ticket violation enforcement). While the City's finances were under the authority of the Springfield Finance Control Board from July 2004 to June 2009, the Finance Control Board hired a consultant, Infrastructure Management Group, Inc., to evaluate parking functions and to make recommendations that would improve the financial performance of both the City and the SPA. One of the consultant's recommendations was for the City to outsource the administration of the on-street parking program. Subsequently, per the recommendation, the management of the on-street parking program was transferred to the SPA from the City. The City through its Parking Clerk and Mayor, with the approval of the Finance Control Board, entered into an agreement granting the "…SPA the right to maintain, operate and manage the City's on-street parking program."[4] This contract between the City and the SPA began in March 2008 and expires January 31, 2014.[5]

The SPA now currently manages both off-street parking operations (parking garages/parking lots) and on-street parking operations (management of parking meters/parking ticket violation enforcement). The SPA's parking facilities are comprised of approximately 4,500 parking spaces in five parking garages: I-91 North, I-91 South, Columbus Center, Civic Center, and Taylor Street. Also included are five parking lots: Dwight Street, Apremont Triangle, Morgan Square, Winter Street, and Trolley Park. The SPA additionally administers parking ticket violations for 971 on-street parking spaces in Springfield's Central Business District, and 711 parking meters.

The SPA initially selected Republic Parking System, Inc. as its vendor for managing both the SPA's off-street parking operations and the City's on-street parking operations through January 31, 2013.[6] The original management of both the off-street and on-street parking programs from March 4, 2008 through January 31, 2013 is graphically represented below in Exhibit 1.1.

[4] City Contract #1244
[5] The initial contract expired 1/31/13. The current contract renewal expires 1/31/14.
[6] Subsequent to the time period utilized for this review, 3/4/2008-8/31/2012, the SPA entered into a new vendor contract with Executive Parking, Inc.

Exhibit 1.1
The City's on-street parking program was outsourced from the City to the SPA in 2008. The SPA originally selected Republic Parking to manage the City's on-street program as well as the SPA's off-street operations.



Objectives, Scope, and Methodology

The objective of this review was to determine the actual financial performance of the outsourced on-street parking program over the course of the original agreement. Included in this objective was the need to determine whether benefits originally projected by Infrastructure Management Group to be received by the City after outsourcing the on-street parking program were actually realized.

To initially gain an understanding of the process, the City's contract with the SPA for the management of the on-street parking program was reviewed. The minutes from several Finance Control Board meetings were also reviewed for relevant discussions regarding objectives of the transfer and also any projected benefits. Tests were developed to determine whether there had been proper contract compliance and whether the on-street parking program was functioning as designed.

A time constraint was inherent to the review as there was an impending contract expiration date of January 31, 2013. Management had to quickly make the decision as to whether to renew, change or terminate the existing agreement. There was a risk of negative financial consequences if the contract was renewed without a review of financial performance and compliance to date.

Key requirements from the contract were selected for review. Through interviews and testing it was determined how the City and the SPA were conducting the required services delineated in the contract. The potential for the occurrence of fraud was considered but the review was not designed to identify all deficiencies in internal controls. Compliance issues discovered were communicated to the Law Department for review and later communicated to City management during the course of the project.

Parking related revenues were obtained from the City's prior accounting system for fiscal years 2000 to 2007.[7] Parking related revenue and expenditure transactions were obtained from the City's current accounting system, MUNIS, for the period 7/1/2007 to 8/31/2012. Actual revenues and expenditures per the City's systems of record were compared to annual projected budgeted amounts submitted by the SPA to the City. The information was utilized as part of the basis for drawing conclusions as to the financial performance of the on-street parking program over the course of the current contract term.

Audited financial statements from the SPA specific to the on-street parking program were not made available to the City. This was prohibitive in enabling a proper reconciliation of City data to SPA data. In lieu of the ability to use audited financial data for the SPA's on-street parking program, audited financial statements for the SPA itself were reviewed to potentially determine the effects of the outsourcing of the on-street parking program. An opinion regarding the SPA's overall financial condition was already provided by the Certified Public Accountants engaged to audit the SPA, accordingly no such opinion is presented here nor should such inferences be made based on the limited data presented in this review. Previously audited transactions were not re-tested for this review.

Annual audited financial statements for the SPA as a whole were obtained for fiscal years 2004 through 2012. Information from the audited financial statements was compiled so that current financial condition could be compared with past results to look for financial trends. Part of the review of the financial statements included reviewing key financial statement elements through the use of business ratios. Consistency of data is essential in the presentation of multi-year ratios. Several of the audited financial statements presented the long-term portion of bonds payable as short-term. To produce "apples-to-apples" comparisons, the long-term classification was consistently maintained for all fiscal years.

Key business ratios are presented as graphs throughout this report to encourage management discussion and to present graphically some indicators of the Springfield Parking Authority's past financial results. There are numerous financial indicators that can be chosen when evaluating financial performance. By selecting only key business ratios to review, a manageable financial presentation is offered rather than communicating an unwieldy amount of financial indicators. City managers are encouraged to augment the approach used in this review with additional financial indicators or even replace any of the selected indicators with others when drawing absolute conclusions.

Calculating financial condition, position, and performance over time by reviewing trends as well as benchmarking the trends against data obtained from other municipalities assists in interpreting results. Data from the audited financial statements of five other communities were sampled for fiscal years 2009 and 2010 for comparison. The financial statements selected for comparison were from parking authorities in cities that have similar characteristics to the City of Springfield. Financial data from the parking

[7] The City of Springfield operates on a fiscal year basis which runs July 1st through June 30th.

authorities were also chosen if audited financial statements were readily available online or provided upon request.

The following factors per the U.S. Census Bureau were used to find a sample of five comparable cities with data similar to that of the City of Springfield:

- Location
- Population
- Percent of persons under 18 years old
- Percent of persons 65 or older
- Percent of persons living in the same house 1 year or more
- Number of persons per household
- Per Capita Income

The five cities ultimately selected as comparable cities to Springfield, Massachusetts for this review were: (1) Allentown, PA, (2) West New York, New Jersey, (3) Yonkers, New York, (4) Reading, Pennsylvania, and (5) Hartford, Connecticut.

Issues discovered during the course of the review along with recommendations and comments by City management are described in the following sections of this report. Significant preliminary findings were shared with management during the course of the review so that management had the ability to promptly address the findings.

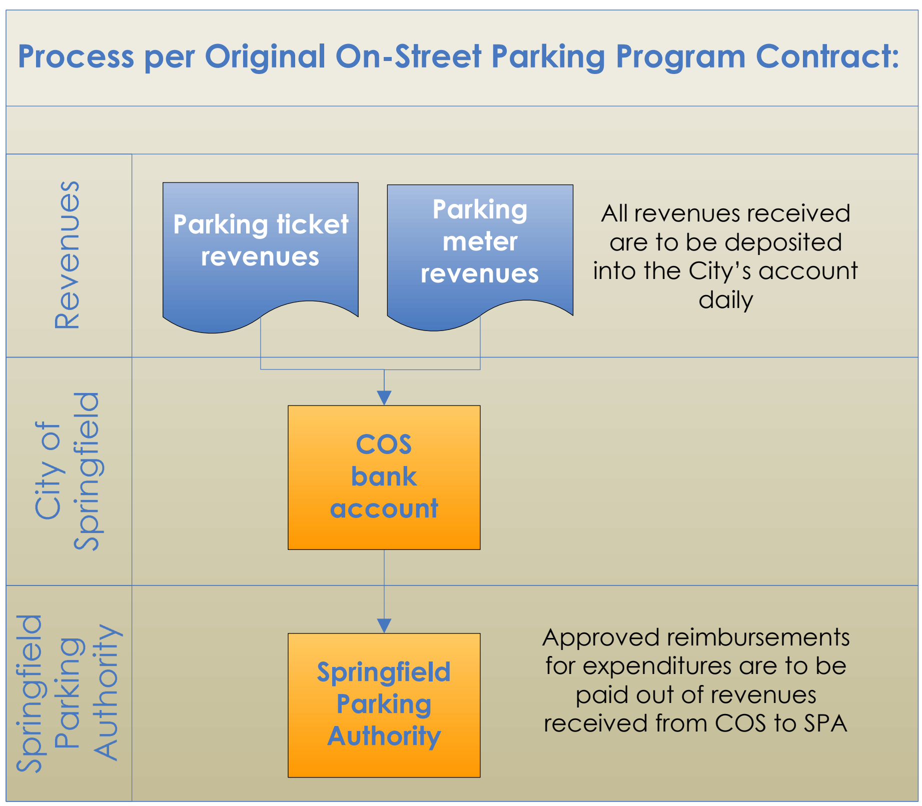
Section 2 On-Street Parking Program: Contract Compliance

As previously mentioned, management of the City's on-street parking program, including enforcement and collection of parking violations, was transferred to the SPA in March 2008. The City through its Parking Clerk and Mayor, with the approval of the Springfield Finance Control Board, entered into an agreement granting the SPA the right to maintain, operate, and manage the City's on-street parking program.

The original contract itself was reviewed to gain an understanding of the process and the objectives of the agreement. It was ascertained that the intent of the financial terms of the original on-street parking contract was to ensure that all revenue was to be paid to the City daily and then approved operating expenses would be subsequently paid to the SPA on a reimbursement basis by the City out of those revenues.

The original agreement required all funds collected by the SPA (or its vendor) for the on-street parking program to be deposited into a City of Springfield bank account on a daily basis. Exhibit 2.1 below shows the required on-street parking program process as outlined in the original agreement.

Exhibit 2.1: Process per original on-street parking program contract

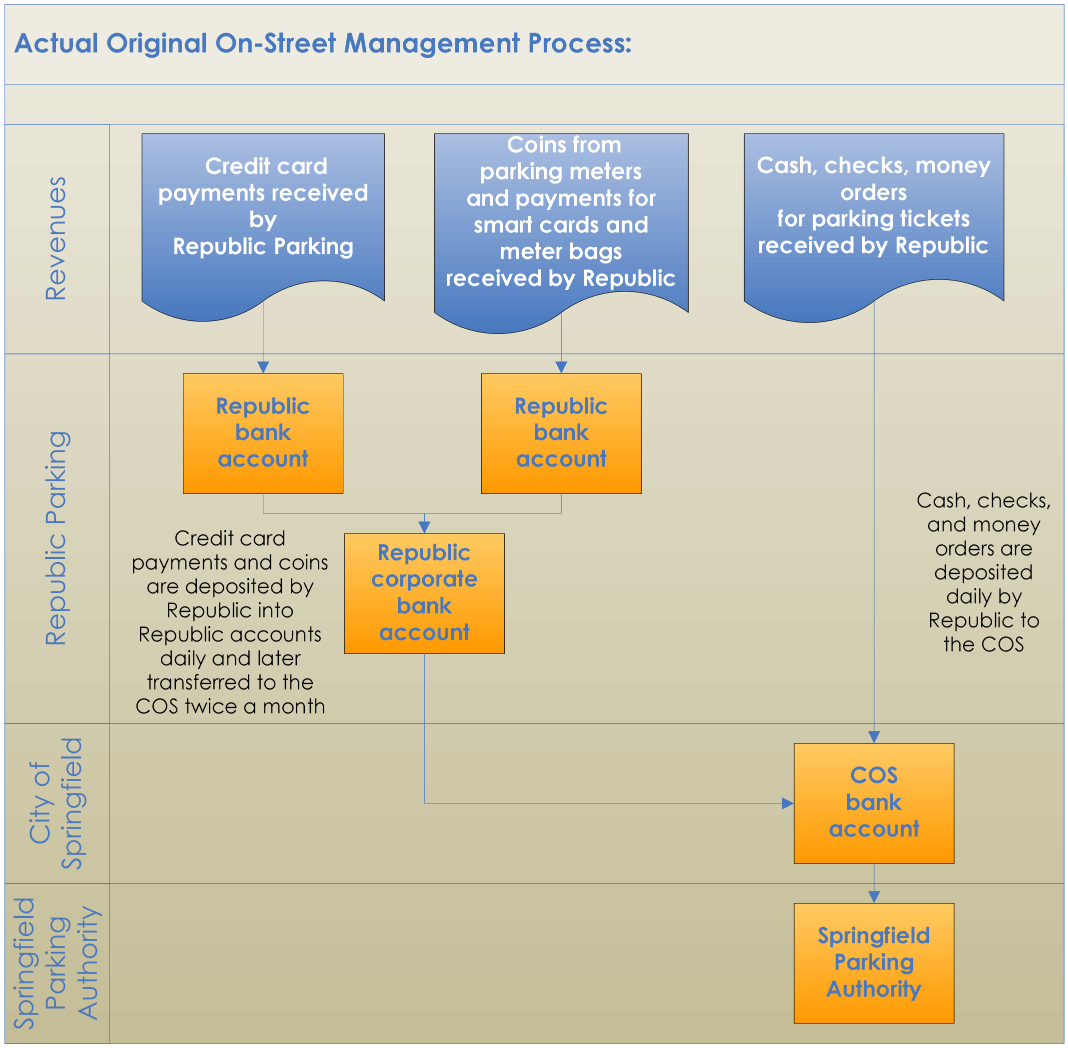


Finding 1:	Revenues that were collected by the SPA's original vendor, Republic Parking, were not within the control of the City. This resulted in revenue that was turned over to the City in an untimely manner and created risk of misappropriation.

During the period examined, it was discovered that, in practice, the contract provisions concerning revenue turnover were not followed. The SPA's initial vendor, Republic Parking (Republic), collected all on-street parking revenue and placed much of the revenue within two of its bank accounts. Both bank accounts were under the sole control of Republic. The City was not a signatory on the accounts. The money was then further swept into a corporate bank account (again under the sole control of Republic). City revenues were not subsequently paid to the City on a daily basis by Republic. Instead, Republic typically paid the City out of the corporate account in the month following the collection period.

Exhibit 2.2 below illustrates the *actual* process that was observed during the course of this review. The actual process differed significantly from the intended process that would have been in accordance with the original contract.

Exhibit 2.2:
Actual on-street management process



The process set forth in the contract was not followed. The actual process was complicated and not a best practice as City revenue was deposited into multiple vendor accounts instead of into City accounts. Moreover, on behalf of the OIA, requests were made by staff members of the City Treasurer's Office to representatives of the SPA and Republic for copies of a sample number of bank statements for Republic's corporate account. Even though bank statements for Republic's local accounts were provided, SPA and Republic representatives refused to provide copies of Republic's corporate bank statements to the Treasurer's Office on the grounds that it is "…not just City of Springfield money in there." This response indicates that City funds were potentially co-mingled by Republic with revenues from other municipalities. The refusal to provide copies of bank statements related to these revenues by the SPA or its vendor violates the contract provisions concerning the City's access and right to audit.

This is also not a best practice in that there is a risk that deposits may not be made intact. In other words, there is no evidence that what was actually collected matches what was actually deposited. Over the term of the initial contract with the SPA there were two alleged employee thefts at the SPA and at Republic totaling over $60,000. Both instances have been addressed by SPA management and/or law enforcement authorities but the instances potentially could have been avoided if there had been proper adherence to the process outlined in the contract. Whenever cash is moved or changes hands several times, especially without proper supporting documentation, there is a risk that funds could be misappropriated.

It is also problematic that even if this adopted process of using vendor bank accounts was mutually agreed upon by both parties, the basic requirement of making daily deposits has not been adhered to for all revenue. In interviews performed, there seemed to be consensus among both City employees and those of the SPA and Republic that deposits were only required to be made twice a month. The contract set forth a process that would have eliminated and potentially rectified the practice of infrequent remittances. Infrequent remittances resulted in the City not having use of its own money and potentially resulted in less interest earned by the City on those funds. It should also be noted that the City occasionally was asked, but subsequently refused, to reimburse the expenses of the SPA prior to receiving City revenues from Republic. This is important because the City has been experiencing a severe budget crisis for the last several years and any decrease in cash flow, especially for projects that contain a high volume of transactions and large dollar amounts, would have been detrimental to the City's daily operations and services.

Sample data in Exhibit 2.3 demonstrates that payments were not made in accordance with the contract. The dates that daily revenue first went into Republic accounts and the dates that revenue was subsequently aggregated and remitted to the City for the sample period from January 2012 to August 2012 are shown below. Please note that the daily revenue received was ultimately remitted to the City one to two months after it was received by Republic.

Exhibit 2.3: Daily revenue collection dates by Republic vs. date revenue actually was turned over to the City of Springfield

Collection Period	Date Payment Received by COS	Amount Remitted from Republic to COS
01/01/12 - 01/15/12	2/10/2012	$ 23,670.00
01/16/12 - 01/31/12	3/02/2012	29,365.00
02/01/12 - 02/15/12	3/13/2012	46,257.50
02/16/12 - 02/29/12	4/05/2012	38,826.50
03/01/12 - 03/15/12	4/10/2012	24,751.00
03/16/12 - 03/31/12	4/19/2012	25,828.25
04/01/12 - 04/15/12	5/08/2012	22,373.00
04/16/12 - 04/30/12	5/22/2012	21,756.25
05/01/12 - 05/15/12	6/19/2012	22,725.50
05/16/12 - 05/31/12	6/19/2012	25,361.00
06/01/12 - 06/15/12	7/10/2012	23,685.00
06/16/12 - 06/30/12	7/10/2012	20,813.25
07/01/12 - 07/15/12	8/30/2012	17,741.25
07/16/12 - 07/31/12	8/30/2012	24,940.75
08/01/12 - 08/31/12	9/17/2012	43,403.41
Total Jan - Aug 2012		$ 411,497.66

Recommendations

The contract should be enforced "as is" which requires daily deposits into a City account. Otherwise an alternative best practice should be developed by City management, incorporated into the agreement, and enforced.

The City Comptroller recommends requiring parking ticket revenue to be collected by the City Collector's office as a potential change to the contract terms and City processes. The OIA and Treasurer/Collector's office concur with this recommendation as this would shift the collection of revenue by the SPA or its vendor to collection by the City. Funds would be immediately recorded in the City's system of record and deposited into a City owned and controlled account on the same day. Taxpayers could have a convenient "one-stop-shop" to pay all parking related fees at the City Collector's office. If this method is selected by management a corresponding adjustment may need to be made to fees paid to the SPA for this collection service.

Management's Response

*Through an Amendment to the On-Street Parking Management Agreement between the City and the SPA, all collections for **on-street citation payments** are now collected exclusively by the City Collector's Office. This allows the revenue to be turned over to, and under the control of the City on a daily basis. Additionally, the money is not comingled with any other sources, while providing accurate collection data. The deposits are also reconciled on a daily basis, while enforcing the City's internal controls regarding* *receipt and reconciliation of money. The new collection method will also provide better customer service, potentially resulting in an increase revenue collection for on-street payments.*

Additionally, said amendment revised the structure of how payments are made by the SPA from parking meter collections to address the issue of coin deposits made into a bank account that the City has established for these revenues.

Finding 2: The City's process of reconciling parking activity should be formalized and was hindered by incomplete and untimely documentation received.

Reconciliations, approvals, and monitoring are performed by City staff on an ad hoc basis. No formalized policies or procedures exist related to the administration of the City's contract with the SPA. Unstructured monitoring of contractual obligations can create ambiguity related to performance.

Staff members from the Treasurer/Collector's office that routinely monitor on-street transactions frequently expressed concern to the SPA and to City management regarding untimely remittances, documentation issues, and lack of responses to inquiries. The OIA learned that information was not provided to or accessible by the City's Parking Clerk regarding the number of tickets issued including range of ticket serial numbers, the number of tickets waived, and the reason(s) that the tickets were waived. Samples of backup documentation prepared by Republic contained mathematical and typographical errors, dates erroneously listed as "January 0, 1900", and totals displayed as "#####" or that were blank. Several Republic bank statements observed showed numerous deposits for meter revenue in even amounts (for example: $1,000.00, $2,200.00, etc.). Backup documentation showed uncommon line items with descriptions such as "Daily Meter Coin Not Deposited", "Meter Coin Daily Float", "Meter Coin Forward", and "End of Day Inventory". City employees noted that these issues created a challenge when trying to reconcile parking activity.

Recommendations

Though some monitoring and reconciliations are performed, additional steps could be taken to strengthen the review process. City departments should be directed by City management to work collaboratively in developing specific collection and reconciliation policies and procedures and either incorporate them into the contract or use them to augment the administration of the contract. In addition, City management should encourage the SPA to first properly monitor its vendor's records for accuracy before the records are submitted to the City. In general, controls should be strengthened to help eliminate accounting errors and establish proper oversight and administration of the City's contract to improve transparency between the parties.

Management's Response

The Amendment to the On-Street Parking Management Agreement addresses reconciliation and monitoring procedures to more accurately track SPA's collection and deposit activities and ensure that the provisions of the Contract are being adhered to. The SPA's Comptroller is now required to provide the City Treasurer with weekly accounting reports of all deposits made to the City, and the parties are responsible for meeting on a monthly basis to review all documentation submitted from the prior month.

Finding 3: Contractually required annual audits of the on-street parking program were not provided to the City of Springfield.

The original contract required the City to provide to the SPA up to $20,000 annually for the actual cost of an audit of the on-street parking program. The SPA was further required to submit the audit to the City's Chief Financial Officer.[8]

The full amount of $20,000 per year for fiscal years 2010 through 2013, or $80,000, was included in the operating budgets submitted by the SPA and ultimately approved by the City. Invoices totaling $35,000 were subsequently submitted by the SPA to the City for reimbursement in fiscal years 2011 and 2012 for fees paid by the SPA for: "Annual Audit for On Street Parking Program" and "Annual Audit". The City paid $35,000 per the invoices and backup documentation submitted by the SPA. However, annual audits related to the on-street parking program were not subsequently received by the City.

In lieu of the required annual audits, the City received two "agreed-upon procedures" reports prepared by a Certified Public Accounting firm utilized by the SPA. However it was expressly stated in each agreed-upon procedures report, "We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on specified financial elements, accounts, or items."

The contractually required audits are essential in enabling the City to properly monitor and reconcile the on-street parking program. Reconciliations, analysis, and monitoring of expected and actual performance have thus been a challenge for the City. The absence of audited financial data for the on-street parking program combined with a lack of City control over collecting revenues in a timely fashion has led to a lack of transparency and basically rendered the City's relationship with the SPA to be on the "honor system".

The contract also stipulates annual incentive payments shall be payable to the SPA after the City verifies revenue collections from the SPA's annual audit of the on-street parking program. Incentive payments were paid to the SPA from the City in fiscal years 2009, 2010, and 2011 totaling $39,355 without receipt or review of the required annual audits of the on-street parking program. Therefore incentive fees were paid without an appropriate reconciliation that would determine whether the payments were valid.

[8] This title has subsequently changed to Chief Administrative and Financial Officer (CAFO).

Recommendations

Reimbursement of payments, or a credit adjustment, for prior year audits should be explored by City management.

The contractual audit requirement should be enforced "as is" which requires an annual audit of the on-street parking program. Otherwise an alternative best practice should be developed by City management, incorporated into the agreement, and enforced. Mutual expectations as to cost, format, and deliverables should be clearly understood and adhered to by all parties.

City management should establish internal procedures for ensuring that a specific employee is given the responsibility of monitoring whether the audits are actually received and whether the reports are received timely. The reports should be subsequently analyzed and reconciled to City transactions.

City management should meet annually with the CPA firm that is engaged by the SPA to prepare the audit of the on-street parking program. Financial statements, notes to financial statements, and the management discussion and analysis section of the audit report should be reviewed and analyzed by City management with questions addressed to the preparers of the financial statements. Issues could therefore be discussed timely and resolved by management and fiscal sustainability could be properly assessed relative to the on-street parking program.

Requested incentive payments must be properly analyzed and reconciled to the annual audits before payment is made to the SPA. Strategic decisions as to the continuance of the practice of paying incentive fees should be the subject of further discussion and financial analysis by City management.

Management's Response

*By amendment, the **annual auditing process** has been revised to include two separate City approvals for an audit program as well as an annual meeting between the City Treasurer and the selected auditing firm. An initial City approval is now required prior to the SPA's selection of a firm to perform the services, and the City's approval must also be obtained for all invoices submitted for payment by the SPA for said audit. The City will now also be able to meet with the auditing firm to review all documents, financial reports and notes, as well as to provide an opportunity for the City to ask any questions it may have about any of the materials.*

We agree that a discussion and any credit(s) to the city for auditing services not provided for over the prior term of the contract. We believe that this can be concluded within the next 30 days.

*The **paying of incentive fees to the operator** are no longer part of the amended on-street agreement with the Authority.*

Finding 4:	**From March 2008 to August 2012, approximately $800,000 was paid by the City to the SPA for “management fees”; however, there was no provision in the contract to do so.**

From March 2008 to August 2012, the City paid the SPA $788,311 in “management fees”. Payments of these management fees originated in fiscal year 2010 and were calculated monthly as 10% of total collections. Towards the end of fiscal year 2011, the City agreed to further increase these management fees by $266,728 annually. Although approved by all appropriate parties, there was no formal provision incorporated into the contract for payment of management fees. An amendment to the existing contract to address these additional fees was not executed.

Supporting documentation was obtained that shows the City’s rationale for paying management fees to the SPA. The decision was made on the grounds that by doing so it would help the SPA to address its future debt service payments and to increase its debt ratio. Increasing the SPA’s debt ratio would enable the SPA to have the ability to restructure its debt in order to decrease future debt service payments and eliminate an impending balloon payment of approximately $4,000,000 which is due July 2013. There was not a corresponding proposal by the SPA to increase services rendered. It was noted that the City’s decision was made to increase management fees only on a short-term basis, i.e., after completion of the debt restructuring the City intended to decrease the management fees.

The mutual decision regarding the payment of management fees should have been clearly and formally documented and incorporated into the contract. If decisions concerning changes to existing contractual provisions are not formally incorporated into an agreement then the intent of both parties may not be properly understood, vetted or enforceable.

Recommendations

If it is management’s intent to continue paying management fees to the SPA, the contract must be amended to include a provision for doing so along with requirements for supporting documentation, calculations, and payment terms. Changes to the agreement must be in writing and signed by all authorized parties. Management should monitor and refine City processes to ensure approved amended items to pay are properly incorporated into the terms of contract.

However, because the additional management fees were only chosen to be paid as a short term option, strategic decisions as to whether the management fees should continue must be the subject of further discussion and financial analysis by City management. This is especially relevant if the SPA is able to obtain refinancing options for its bonds or if the City takes over all revenue collection activities. Management should ensure that fees paid result in a benefit to the City and are not merely a subsidy to the SPA.

Management's Response

The amendment addresses a revised fee structure, so as to eliminate all incentive fee payments to the parking operator, and to simplify the mechanism by which the City makes fee payments to the SPA. The SPA is now only paid a single monthly management fee equal to 10% of the gross revenue collected from parking meters during the preceding month as well as payment for one employee in the business office. Presently, the SPA collects approximately $30,000 in such revenue per month, resulting in a monthly management fee of roughly $3,000.

It is important to note that SPA's parking operator no longer collects any on- street citation payments, and as such, that fee has been removed and is not included in the calculation of the fee to SPA's operator, nor in the calculation of the City's management fees paid to the SPA.

We agree that the City Treasurer be the single contact in overseeing all aspects of the contract(s) with the Authority and reconciliation of all invoices for payment.

Finding 5: A recent copy of Republic's performance bond was not on file with the City and evidence of automobile insurance coverage for the SPA has not been provided.

The initial contract specifies that the SPA must require its vendor to obtain a $500,000 performance bond. The most recent performance bond received by the City's Office of Procurement from Republic showed an expiration date of February 1, 2010. Numerous requests were made for a current continuation certificate during the course of this review, however, a more current certificate was not provided to the Office of Procurement. Therefore it can only be presumed that a performance bond was not in place for the SPA's current vendor, Republic, from February 1, 2010 through January 31, 2013.

Current copies of the Certificates of Liability Insurance for both the SPA and Republic were provided by the City's Office of Procurement. Initial testing indicated one of the listed insurers was not licensed in Massachusetts. However, further research showed the producer had inadvertently listed the agency rather than the insurance company on the certificate. A corrected certificate was subsequently issued which correctly listed insurers licensed in Massachusetts. However, under further review, it was discovered that the SPA's insurance certificates did not contain any information related to automobile liability coverage.[9]

[9] Per City contract #1244, "The SPA shall at its sole cost and expense shall (upon the execution of this Agreement by the SPA and at all times thereafter) obtain, carry and maintain in force policies of automobile liability insurance written by insurance companies licensed in Massachusetts. The said insurance shall include but not be limited to minimum limits for bodily injury liability of Five Hundred Thousand Dollars ($500,000.00) for each person and One Million Dollars ($1,000,000.00) for each accident and a minimum limit of One Hundred Thousand Dollars ($100,000.00) for property damage liability for each accident. This coverage may alternatively be provided with a minimum combined single limit of One Million Dollars ($1,000,000.00) for bodily injury liability and property damage liability for each accident."

These are fundamental compliance issues as the lack of a required performance bond and/or required insurance coverage potentially prohibits the City from recovering losses or damages that may arise. The immediate financial burden associated with vendor performance risks is potentially shifted to the City.

Recommendations

City management must ensure that the SPA's vendor provides evidence of a performance bond or continued performance bond per contractual requirements on a timely basis. It is recommended that as an internal process, all contract amendments should include the City's Chief Procurement Officer in the signature process. The Office of Procurement would then be forewarned that updated performance bond information needs to be provided or requested. City management could subsequently receive earlier notification of issues with non-compliance.

The Law Department and City management should clarify whether the provision for automobile insurance is still a necessary requirement for the SPA. If it continues to be a valid necessity, compliance must be enforced. If the requirements have changed then the agreement should also be changed accordingly.

Management's Response

We agree that all Authority vehicles must be insured and certificates provided to the City. Further, in order to ensure the continued presence of a performance bond, and escrow account funds and automobile insurance coverage the City Treasurer shall institute internal controls and procedures for monitoring the SPA on enforcing the requirements of the contract, and the City's Chief Procurement Officer shall be added as a signatory to all City–SPA Contracts and Amendments.

The current operator maintains a performance bond in the amount of $250,000, as required under the SPA–City On-Street Parking Management Contract Amendment. Additionally, the operator maintains a line of credit in the amount of $150,000 for the specific purpose of providing emergency capital if necessary to ensure the performances of parking management services for the SPA.

Section 3

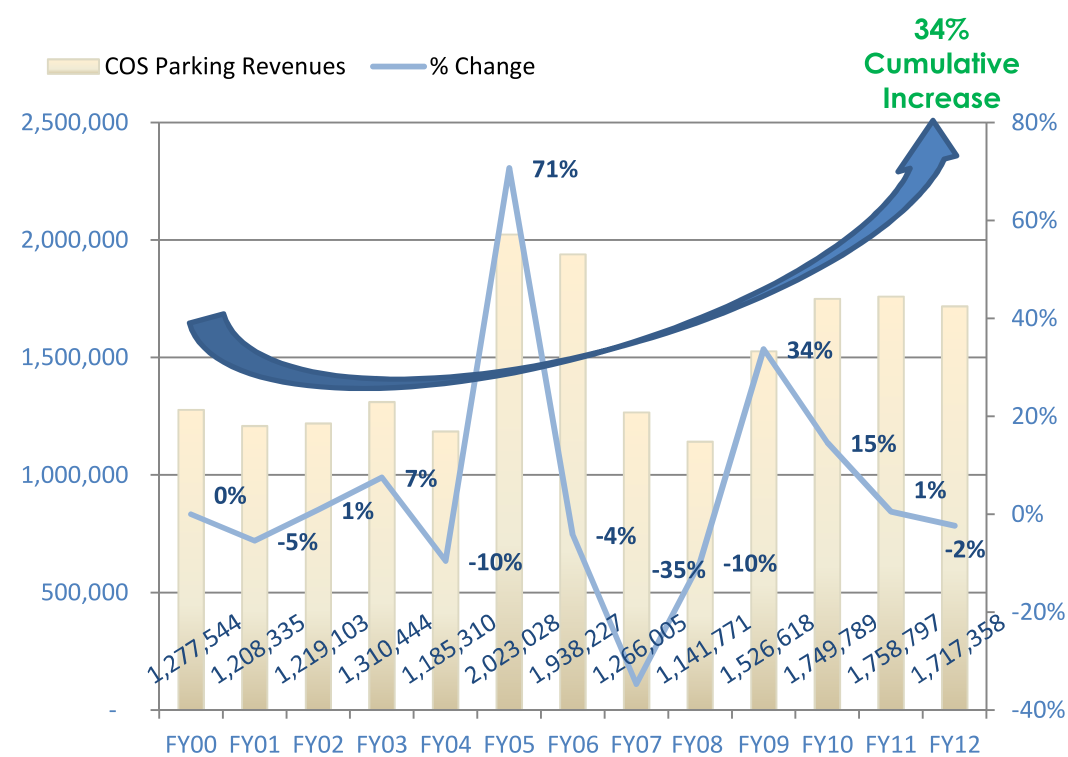
On-Street Parking Program: City of Springfield Financial Data

The Office of Internal Audit was asked to examine the financial performance of the on-street parking program. Additionally, the OIA was asked to determine whether benefits that were originally projected to be received from outsourcing the on-street parking program were actually realized. This report is not intended to be an adverse reflection of the City or of its vendors nor is it an audit. The intent of this review is for City management to utilize these findings and recommendations to help in making well-informed strategic decisions in the near future regarding the on-street parking program while ultimately meeting City objectives.

Audited financial statements were not made available to the OIA specific to the on-street parking program. Therefore, the financial information below is based solely on data compiled from the City's accounting systems.

City revenue records for the on-street parking program were obtained for review. Revenue transactions were totaled for fiscal years 2000 - 2012. This period reflects revenues received by the City during both the City's and the SPA's management of the on-street parking program. The total revenue by fiscal year is illustrated below in Exhibit 3.1. The revenue data indicates that there was a 34.43% increase in revenues between fiscal year 2000 and fiscal year 2012. The percentage changes in revenue received from year to year during this multi-year period is also included in the exhibit.

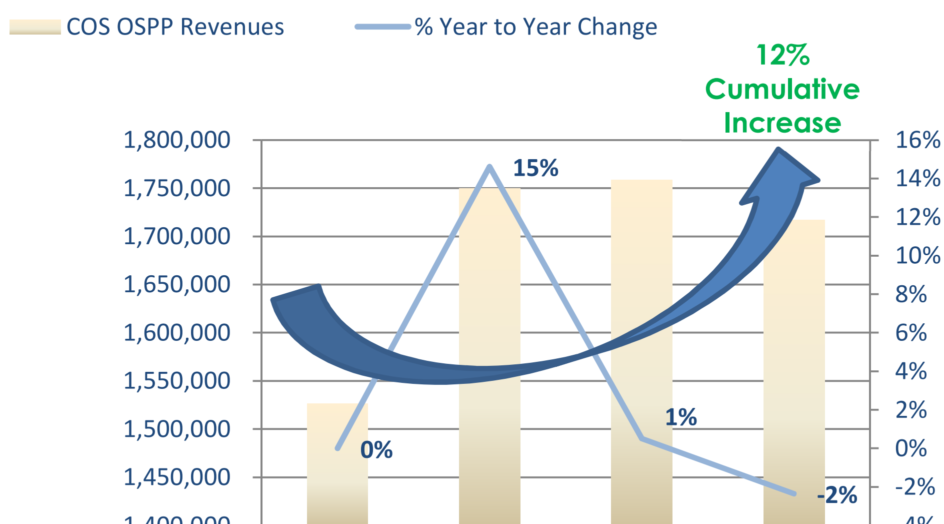
Exhibit 3.1: City of Springfield on-street parking total program revenue 2000 - 2012



As previously mentioned, while the City's finances were under the authority of the Finance Control Board from July 2004 to June 2009, the Control Board hired a consultant, Infrastructure Management Group, Inc., to evaluate parking functions and to make recommendations that would improve the financial performance of both the City and the SPA. Some of the recommendations made by the consultant included outsourcing the on-street parking program, selling under-performing properties, selling the Civic Center garage and implementing a PILOT program (payment in lieu of taxes) of 5-10% of gross revenue[10]. The consultant projected a 20-24% increase in future annual revenue after adhering to the suggested recommendations. The recommendation to outsource the on-street parking program was implemented in fiscal year 2008. The Civic Center was not sold and no payments have been received by the City from the SPA for payments in lieu of taxes. The OIA was unable to determine how many of the other recommendations suggested by the consultant were actually effected.

The parking related revenue received by the City after outsourcing the on-street parking program is illustrated below in Exhibit 3.2 which shows the City received an approximate increase in revenue of 12.49%. Thus actual increases in revenue for the on-street parking program for the City are lower than original projections of 20-24%.

Exhibit 3.2: City of Springfield on-street parking program revenue during original agreement 2009-2012



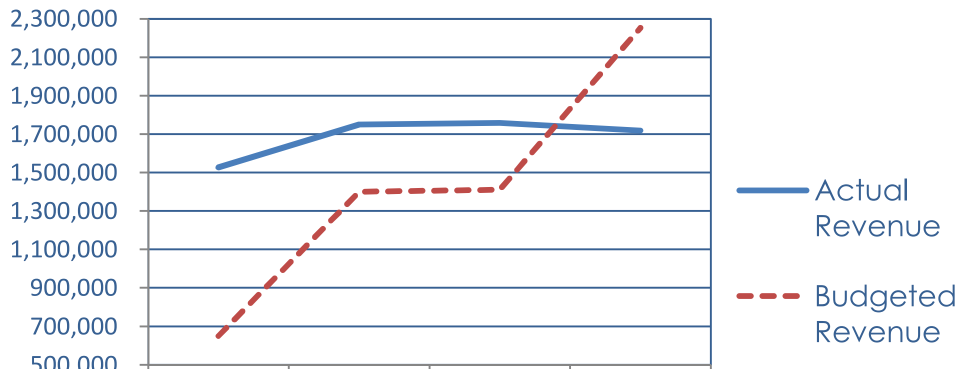
	FY 2009	FY 2010	FY 2011	FY 2012
COS OSPP Revenues	1,526,618	1,749,789	1,758,797	1,717,358
% Year to Year Change	-	15%	1%	-2%

<u>Note</u>: 2008 was the initial year of the contract; partial year data is not included in this illustration.

[10] The SPA is authorized to make payments from revenue received to the City from time to time in lieu of real estate taxes, personal property taxes, and betterment or other assessments per Chapter 674 of the Acts of 1981 in Section 5(t).

Budgeted revenues as compared to actual revenues are presented below in Exhibit 3.3. Budgeted revenues increased every year and actual revenues were generally favorable except in FY12 where actual revenues received fell below budgeted amounts by $535,702.

Exhibit 3.3: City of Springfield budget to actual parking related revenue during original agreement 2009-2012



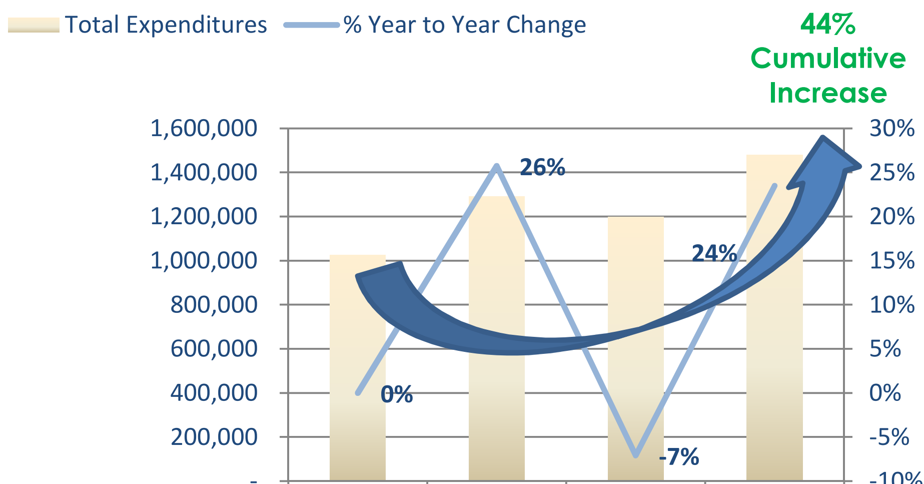
	FY 2009	FY 2010	FY 2011	FY 2012
Actual Revenue	1,526,618	1,749,789	1,758,797	1,717,358
Budgeted Revenue	650,000	1,400,000	1,410,060	2,253,060

Note: 2008 was the initial year of the contract; partial year data is not included in this illustration.

Finding 6:	Small increases in revenue combined with a trending increase in expenditures paid to the SPA have resulted in an unfavorable performance trend to the City.

In reviewing expenditures of the on-street parking program, it was noted that the SPA submits monthly invoices to the City requesting reimbursement of wages for approximately ten (10) SPA/Republic employees, related benefits, operating expenditures, capital expenditures, incentive fees, other contractual fees, and miscellaneous additional fees. Exhibit 3.4 illustrates a 44.26% cumulative increase in expenditures over the course of the original agreement through fiscal year 2012.

Exhibit 3.4: City of Springfield on-street parking program expenditures during original agreement 2009-2012

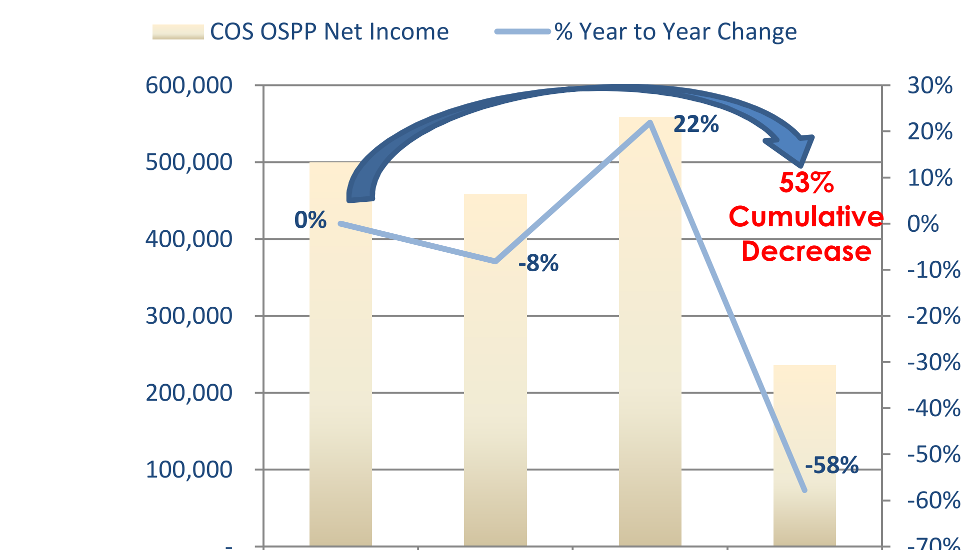


	FY 2009	FY 2010	FY 2011	FY 2012
Total Expenditures	1,026,769	1,290,892	1,199,374	1,481,234
% Year to Year Change	-	26%	-7%	24%

Note: 2008 was the initial year of the contract; partial year data is not included in this illustration.

Even though there was, in general, an increase in revenue for the on-street parking program for the City, it appears that the costs increased faster [+44.26%] than revenue [+12.49%] resulting in less profit than if costs had been better controlled by the SPA. Overall there was a 52.76% decrease in net income realized by the City from 2009 to 2012 as illustrated in Exhibit 3.5.

Exhibit 3.5: City of Springfield on-street parking program net income 2009-2012



	2009	2010	2011	2012
COS OSPP Net Income	499,849	458,897	559,423	236,124
% Year to Year Change	0%	-8%	22%	-58%

Note: 2008 was the initial year of the contract; partial year data is not included in this illustration.

After compiling cumulative expenditures paid and subtracting those expenditures from revenue received by the City, calculations indicate that overall the City's net profit was approximately 28% of parking related revenues collected from 3/4/2008 through 8/31/2012. Approximately 72% was paid out of revenues to the SPA, and subsequently from the SPA to its vendor, Republic. In fiscal year 2012 the City's net profit was only 14%.

Exhibit 3.6 below illustrates the general breakdown of the on-street parking program revenues and expenditures as recorded by the City from 3/4/2008 through 8/31/2012.

Exhibit 3.6:
City of Springfield on-street parking program 3/4/2008 – 8/31/2012

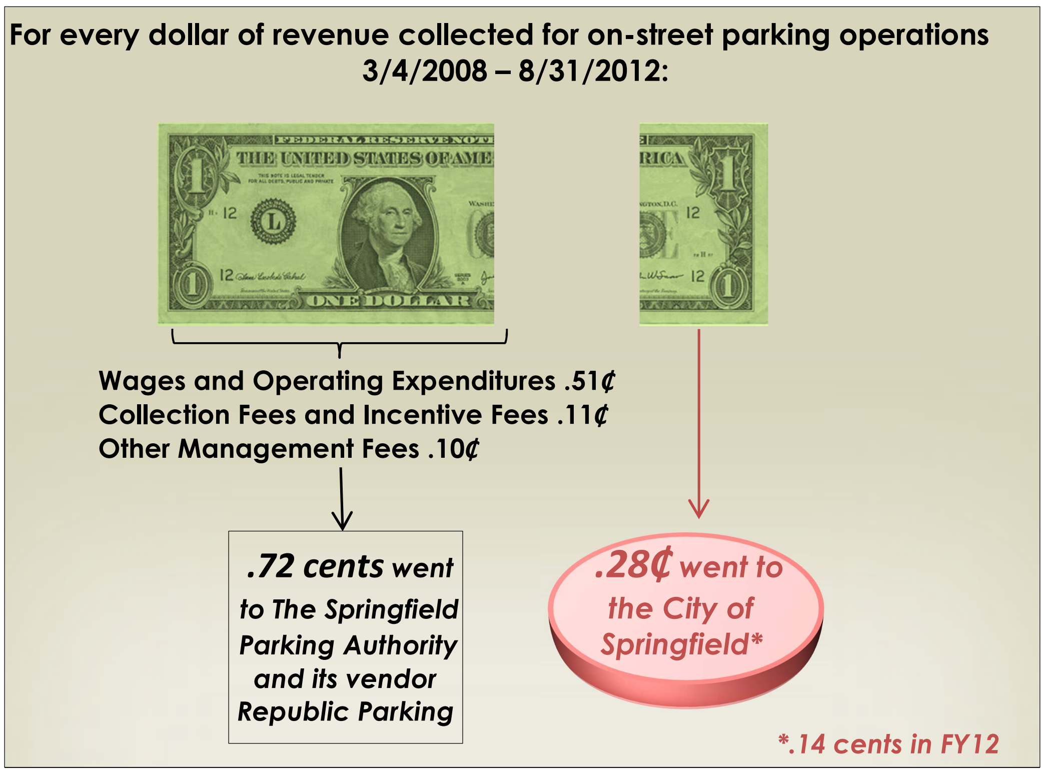


Exhibit 3.7 below shows the detailed amounts of revenues and expenditures from the on-street parking program during the course of the current agreement. Of particular concern is fiscal year 2012 where revenue decreased while expenditures increased. 28% of revenue was retained by the City of Springfield during the course of the agreement with only 14% retained in FY12.

Exhibit 3.7: City of Springfield on-street parking revenues and expenditures 3/4/2008 – 8/31/2012[11]

	FY 2008 (partial year)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 (partial year)	Total
Revenues received by COS:							
Parking tickets	298,944	1,136,161	1,344,230	1,289,763	1,269,282	197,711	5,536,090
Parking meters and related	86,428	310,395	342,884	399,195	387,964	66,388	1,593,253
Handicapped parking	19,415	80,063	62,675	69,840	45,794	7,155	284,941
Restitution for employee theft					14,319		14,319
Total revenues received by COS	**404,787**	**1,526,618**	**1,749,789**	**1,758,797**	**1,717,358**	**271,254**	**7,428,603**
Expenditures to SPA from COS:							
Operating expenditures							
SPA employee salaries and benefits	-	161,535	92,108	100,764	134,469	9,605	498,481
SPA operational expenditures	159,039	660,274	752,282	690,919	779,728	-	3,042,242
SPA additional expenditures	18,303	23,289	56,988	98,099	26,791	379	223,850
Subtotal operating expenditures	177,343	845,098	901,378	889,782	940,989	9,984	3,764,573
Contractual fees paid to SPA:							
Collection fees (10%, 15%, or 23%)	32,357	173,717	196,208	136,931	161,653	84,332	785,199
Incentiv e payments (8%)	-	7,954	16,729	14,672	-	-	39,355
Subtotal contractual fees	32,357	181,671	212,937	151,603	161,653	84,332	824,554
Other fees paid to SPA:							
Management fees (10%)	-	-	176,577	157,989	378,592	75,153	788,311
Total expenditures to SPA from COS	**209,700**	**1,026,769**	**1,290,892**	**1,199,374**	**1,481,234**	**169,469**	**5,377,438**
Net income/(loss) to COS	**195,087**	**499,849**	**458,897**	**559,423**	**236,124**	**101,785**	**2,051,164**
Percent	**48%**	**33%**	**26%**	**32%**	**14%**	**38%**	**28%**

The expenditure trend can also be observed in the budgeted amounts provided by the SPA vs. the City's actual appropriated amounts. The original proposed operating budget amounts submitted by the SPA for Fiscal Years 2008 through 2013 totaled $6,362,367. The City initially appropriated $6,625,603 or $263,236 more than what was requested per the SPA's submitted budget documents. An additional $536,421 was requested by the SPA and subsequently appropriated by the City during these fiscal years after the City's normal budgeting season. This resulted in total appropriations of $7,162,024

[11] One example of an area that needs further reconciliation is related to the collection of Handicapped Parking fines. Pursuant to MGL Chapter 40 section 22G, the City has segregated the SPA's reported Handicapped Parking fine collections and kept what was collected at 100% so that it can be used solely for the benefit of persons with disabilities. Because the SPA and its vendor are paid 72% of all collections, the portion related to Handicapped Parking fines is ultimately paid out of revenue in another area. City management should reexamine the matter of Handicapped Parking fines to determine whether they should be included, excluded, or handled in a different fashion than other revenues in the fee calculations per the agreement. Management should ensure that handicapped revenue per SPA's backup documentation and audited financial statements is reconciled and corresponds to the balance per that fund on the City's system of record.

which was $799,657 over what was originally requested by the SPA. Exhibit 3.8 below lists the amounts requested by the SPA and the amounts ultimately appropriated by the City. The trend in City appropriations seems to be increasing rather than decreasing. Of particular concern is fiscal year 2012 in which the City appropriated the highest amount since inception of the contract towards expenditures.

Exhibit 3.8: SPA operating budgets submitted and City of Springfield amounts appropriated FY 2008-2013

Fiscal year	Amount per original proposed operating budget submitted by the SPA	Amount initially appropriated by the COS	Difference = (less) or more than the SPA's proposed operating budget	Additional City Council transfers during the fiscal year	Total City appropriation for the fiscal year	Difference = (less) or more than the SPA's proposed operating budget
2008	$ 277,519	$ 285,611	$ 8,092	$ -	$ 285,611	$ 8,092
2009	827,589	850,000	22,411	195,000	1,045,000	217,411
2010	1,119,238	1,397,072	277,834	-	1,397,072	277,834
2011	1,279,521	1,234,419	(45,102)	45,102	1,279,521	(0)
2012	1,360,617	1,360,617	-	296,319	1,656,936	296,319
2013	1,497,883	1,497,884	1	-	1,497,884	1
Totals	$ 6,362,367	$ 6,625,603	$ 263,236	$ 536,421	$ 7,162,024	$ 799,657

Additional amounts needed throughout the year by the SPA indicate that original budgets submitted were potentially understated and did not properly reflect accurate estimates of the amounts needed. This was also coupled with the City's willingness to give more of its revenues to the SPA in the form of management fees to temporarily help the SPA in obtaining refinancing options for its long term debt.

The SPA's proposed operating budgets are contractually required to be submitted on or before January 31st for the next fiscal year to allow timely budgetary approval by the Mayor/City Council and incorporation of the approved budget as an annual amendment to the contract. However, historically the City was not able to execute these contract amendments in a timely fashion. Sometimes the amendments were not implemented until halfway through the new fiscal year. As of the date of this report, the FY13 contract amendment has not yet been signed and formally incorporated into the contract. This amendment should have been signed and approved before 7/1/12. If proposed operating budgets are not submitted timely and properly approved, or if amounts are not projected accurately, it creates a challenge for the City to accurately appropriate the amounts on a fiscal year basis and to formally incorporate the amounts into the contract. It also impacts the City's ability to properly perform budget to actual analysis and to monitor performance.

Recommendations

The on-street parking program was found to be resulting in a small profit margin to the City. From 3/4/2008 through 8/31/12, out of every dollar in revenue collected, $0.72 was paid to the SPA and/or its current vendor, Republic. Many variables potentially contributed to the lower than expected revenue received and the high expenses incurred for the on-street parking program including the economy, personnel/management changes, and the negotiated terms of the contracts. Continued collaboration between the SPA and City management to find efficiencies is necessary to improve performance. This may include improving contractual relationships through a new management agreement. City funding for numerous positions within the SPA and its vendor should also be re-evaluated by City management. There are likely several ways to bring actual net income more in line with expectations. Any reasonable proposal that would support such a goal deserves immediate attention.

City management should re-examine the current contractual fee calculations and the annual revenue and expenditure budgets submitted by the SPA. Again if additional fees were chosen to be paid by the City as a short term option, strategic decisions as to whether the fees should continue must be the subject of further discussion and financial analysis by City management. The contractual fee provisions and maximum potential annual City appropriation should be changed to reflect the desired bottom line required by City management while balancing the minimum amount needed by the SPA and its vendor to provide required and necessary services to the City. Percentages retained by other municipalities with similar parking authority agreements should be analyzed for industry standards.

The City should work collaboratively with the SPA to perform frequent budget to actual comparisons along with strategic cost-benefit analyses to facilitate a baseline or expected net income stream that could be analyzed for performance. Indirect costs incurred by the City should also factor into these analyses. Management and/or the contract should also specify who “owns” the City’s analysis and reconciliation processes so that they will be consistently performed, monitored, and championed.

As improvements are made, City management should work collaboratively with the SPA in possibly establishing a PILOT program where payments would be made to the City from time to time in lieu of taxes. The earlier recommendation from the consultant, Infrastructure Management Group, Inc., stated that typically this amount averages 5 to 10% of gross revenue and implementation could possibly include a graduated program based on cash flow.

The current contract should be enforced and properly monitored by the City to ensure that the SPA’s proposed annual operating budgets are received on or before January 31st for the next fiscal year. For example, the SPA’s proposed FY14 budget should have been submitted to the City by 1/31/13 so that it may be adjusted and/or approved during the current FY14 budget process. The SPA’s proposed annual operating budgets (as well as the amounts subsequently appropriated by the City annually) should properly include thoughtful estimated amounts for all estimated expenditures and contractual fees. Additional requests submitted subsequent to this process should be the exception and not the norm. Otherwise an alternative best practice should be developed by City management and incorporated into the agreement.

City management should annually incorporate approved budgets as formal contract amendments as soon as approval is received by the Mayor and City Council for the related appropriation. Purchase orders should not be processed and payments should not be made in any fiscal year without a corresponding signed contract amendment in place.

Management's Response

Since July 2012 the following have been addressed resulting in the following:

An amendment to the On-Street Parking agreement with the Authority that includes:

- *Savings in SPA personnel funded by the city in the annual amount of **$72,876**.*
- *Reduction in management fees, elimination of collection fees and incentive fees resulting in an annual savings of $391,468.*
- *Elimination of a **$15,000** annual contingency fund.*
- ***TOTAL ANNUAL SAVINGS: $479,000***

The changes in the contract will result in a rate of return to the city for the on-street revenues of 40%. Over the last two years the rate of return to the city after expenses averaged just 18%.

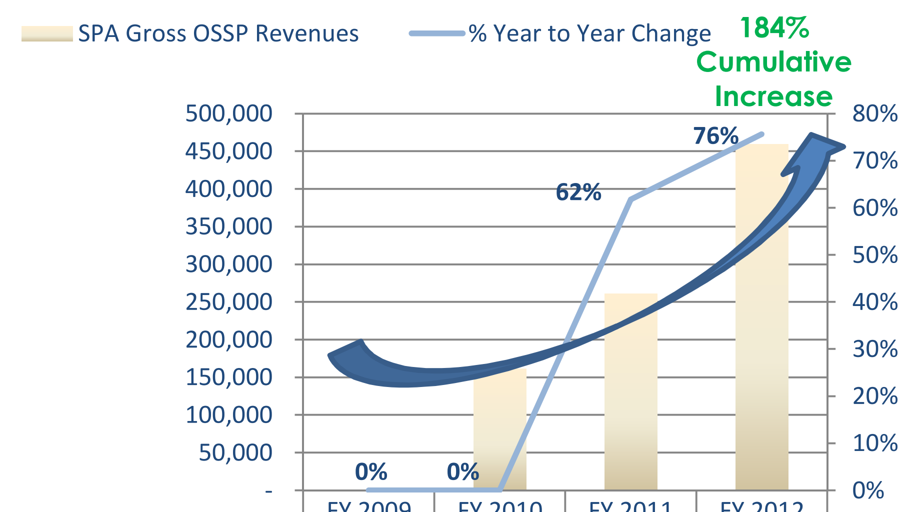
Section 4 Springfield Parking Authority: Financial Data

This section does not include specific findings related to areas of improvement for the City of Springfield. The information presented in this section is merely informational to City management to help in making well-informed strategic decisions in the near future regarding the on-street parking program.

Audited financial statements were not made available to the OIA specific to the on-street parking program. Audited financial data for the on-street parking program would have assisted in reviewing performance. In lieu of using on-street parking program audited financial statements, financial statements for the SPA itself were the only source of audited data available for review. The SPA's audited financial statements were used to try to determine how the outsourcing of the on-street parking program piece has affected the SPA's performance.

The Springfield Parking Authority annually engages an independent certified public accounting firm to prepare its audited financial statements. Copies of the reports were obtained by the OIA for fiscal years 2004 through 2012. The following review is based solely upon information obtained and compiled from the SPA's independent audited financial reports. Again, data pertaining specifically to the on-street parking program was not available. Per the SPA's audited financial statements it can be gleaned what the SPA's portion of on-street revenues realized were. Table 4.1 below illustrates that the SPA realized a 184% cumulative increase in on-street parking program revenues from fiscal years 2009 to 2012. During that same time period the City of Springfield realized a 12% increase as referenced earlier in Table 3.2.

Table 4.1: SPA on-street parking program revenues 2010-2012



	FY 2009	FY 2010	FY 2011	FY 2012
SPA Gross OSSP Revenues	-	161,733	261,642	459,427
% Year to Year Change	0%	0%	62%	76%

Source: "On-street income" revenue line item per SPA's audited financial statements

Note: 2008 was the initial year of the contract; partial year data is not included in this illustration.

The audited financial statements contain additional elements of financial data that can be used for financial review. Financial ratios are the most common tools used as indicators for review of financial performance. There are numerous business and governmental ratios available for assessing financial performance. Many ratios have become standardized and are extremely valuable in evaluating business operations. Ratios are also useful in comparing current financial information to that of previous years or of other entities.

Some selected key financial ratios are presented below and are used to graphically present some elements of the SPA's financial performance.[12] The selected ratios can be utilized to review trends or identify areas that may need further review. City managers are encouraged to augment the approach used in this review with additional financial indicators or even replace any of the selected indicators with others.

The following types of business ratios were utilized and are presented below:

- Solvency/Liquidity Ratios
- Efficiency Ratios
- Profitability Ratios

These selected indicators are merely a starting point for trying to evaluate financial data related to how the on-street parking program has affected the SPA's financial performance and should not be considered the standard for meeting all evaluation needs.

Included in each table below is a dotted line indicating the average ratio as calculated from other parking authorities in similar cities for fiscal years 2009 and 2010. This is included because calculating performance over time as well as benchmarking trends against data obtained from other municipalities are common components typically used to assist in interpreting results.

Solvency/Liquidity Ratios

Liquidity is the ability to pay current obligations and also the ability to meet unexpected needs for cash. Solvency or liquidity ratios measure how well short and long-term obligations can be satisfied. Each selected solvency/liquidity ratio is discussed in the following sections.

Debt Service Coverage Ratio

A significant ratio noted in the audited financial statements of the Springfield Parking Authority, is the debt service coverage ratio (DSCR). This ratio calculates the amount of cash flow that is available to meet annual principal and interest debt payments. The ratio is generally calculated by dividing net operating income by total debt service. A DSCR of 1.0 indicates a break even cash flow; it is at this point that the net operating income is exactly sufficient to cover any debt service payments. A DSCR less than 1.0 indicates a negative cash flow.

[12] Selected ratios were obtained from Dun & Bradstreet's "Fourteen Key Business Ratios" and also from the *Journal of Government Financial Management*

Per the SPA's audited financial statements, there is a requirement that the SPA must maintain a DSCR of 1.0 to 1.10. The DSCR is required to be measured on a quarterly basis. In the event that the SPA's DSCR falls below 1.0, it has 90 days to cure the violation. The violation can only be cured by bringing the DSCR to 1.20.

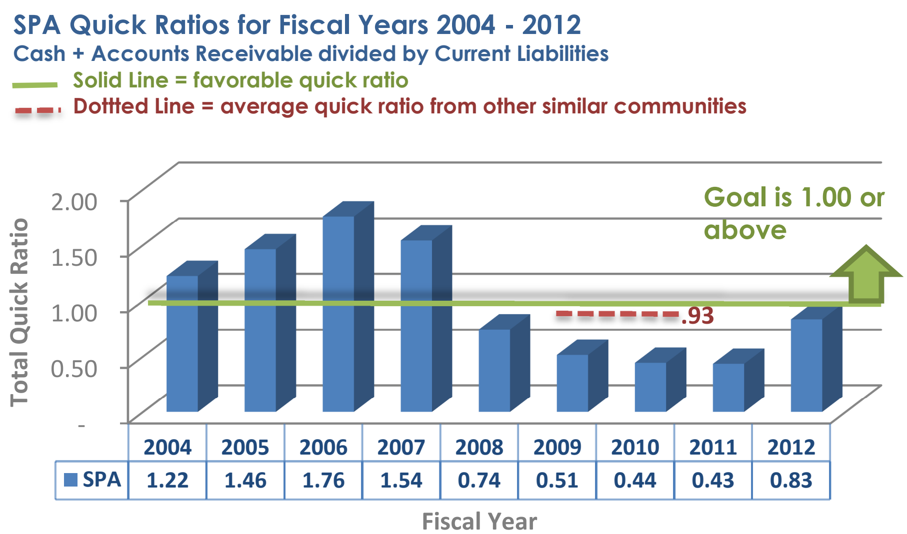
The ratios were only mentioned in the notes to the audited financial statements as to whether the SPA was in compliance. In fiscal years 2008, 2009, and 2010, the SPA was not in compliance with this requirement and also was unable to cure the violation within the 90 day required period. The SPA was recently in compliance with the requirement for fiscal years 2011 and 2012.

Quick Ratio

The quick ratio is a measurement of the extent current liabilities can be covered by current assets that are readily convertible into cash. It is a measurement of the ability to access resources to meet immediate needs including the payment of short-term debt. When the ratio is 1:1 (1.00), the business is said to be in a liquid condition. A larger ratio indicates greater liquidity.

Exhibit 4.2 shows that the SPA's quick ratios in the last five fiscal years have fallen below the target of 1.00. However, favorable recovery was realized in fiscal year 2012 which shows an increase by 93% over fiscal year 2011.

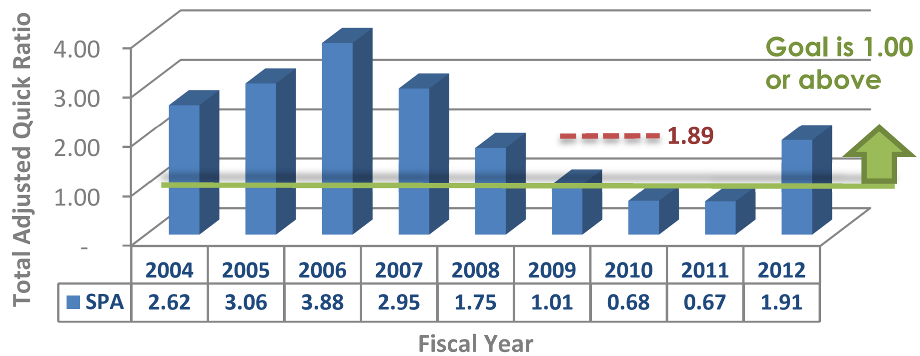
Exhibit 4.2
SPA Quick Ratios



Expanding on the typical formula for calculating a Quick Ratio, Exhibit 4.3 presents the same ratio but with the current portion of notes and bonds payable omitted. This is a less severe indication of the ability to meet immediate operating liabilities. The goal of 1.00 was still not reached in either fiscal year 2010 or 2011. However, fiscal year 2012 indicates significant recovery from the previous two fiscal years achieving a ratio of 1.91.

Exhibit 4.3
SPA Adjusted Quick Ratios

SPA Adjusted Quick Ratios for Fiscal Years 2004 - 2012
Cash + Accounts Receivable divided by Current Liabilities
[with notes and bonds payable omitted]
Solid Line = favorable adjusted quick ratio
Dotted Line = avg, adjusted quick ratio f

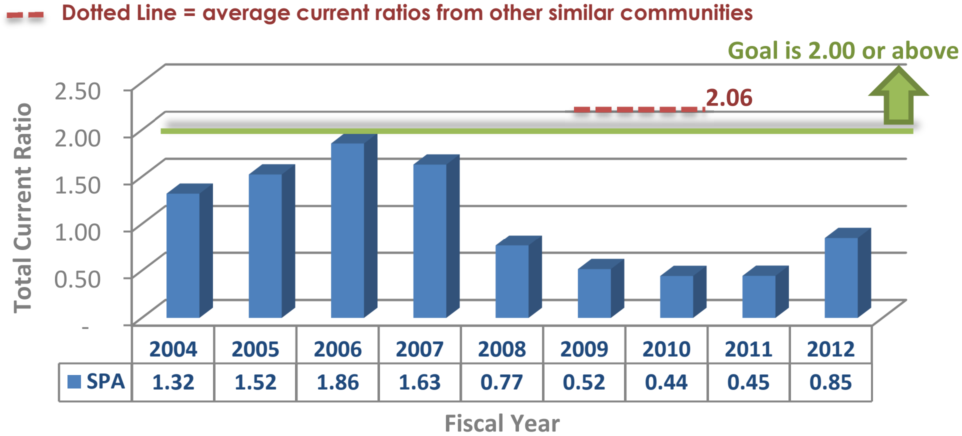


Current Ratio

The current ratio is frequently used as a broad indicator of liquidity. It can also be used as an indicator of current debt-paying ability. The ratio measures the degree to which current liabilities are covered by current assets. A higher ratio indicates a more favorable ability to meet liabilities. The customary standard for the ratio is 2.0 or higher. The current ratios for the SPA in Exhibit 4.4 suggest a decrease in liquidity from fiscal years 2007 to 2010 but, even though the goal has not been reached, there has been current improvement seen in the last two fiscal years.

Exhibit 4.4
SPA Current Ratios

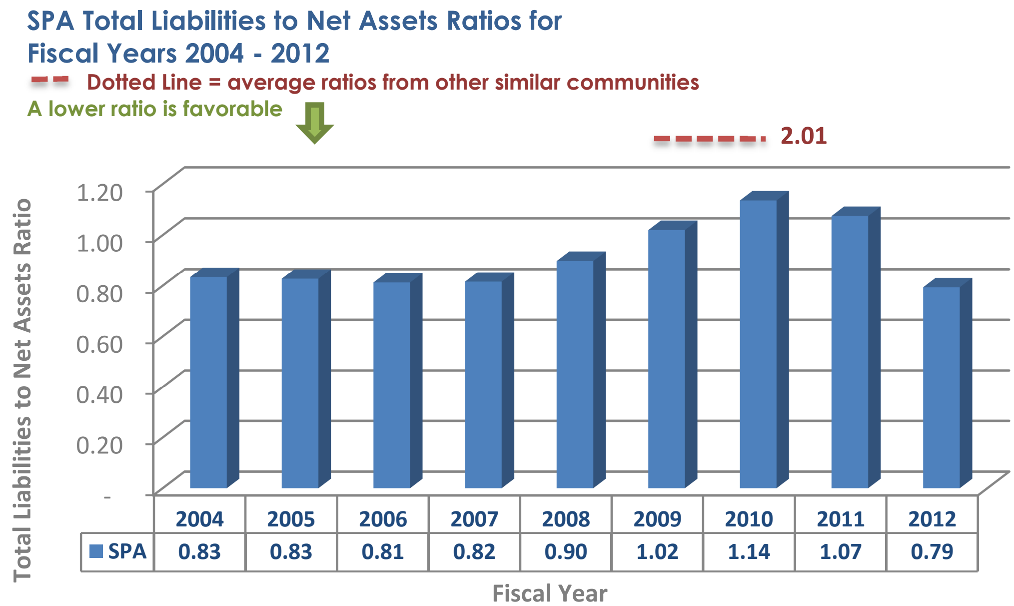
SPA Current Ratios for Fiscal Years 2004 - 2012
Current Asets divided by Current Liabilities
Solid Line = favorable current ratio
Dotted Line = average current ratios from other similar communities



Total Liabilities to Net Assets Ratio

This measurement is an indicator of how the total debt relates to the equity of the owners. It measures the extent to which the SPA is leveraged. A lower ratio is favorable and could indicate greater flexibility to be able to borrow in the future. As illustrated in Exhibit 4.5, the initial trend was fairly consistent. The ratios increased from fiscal years 2008 through 2011 with a favorable decrease in 2012.

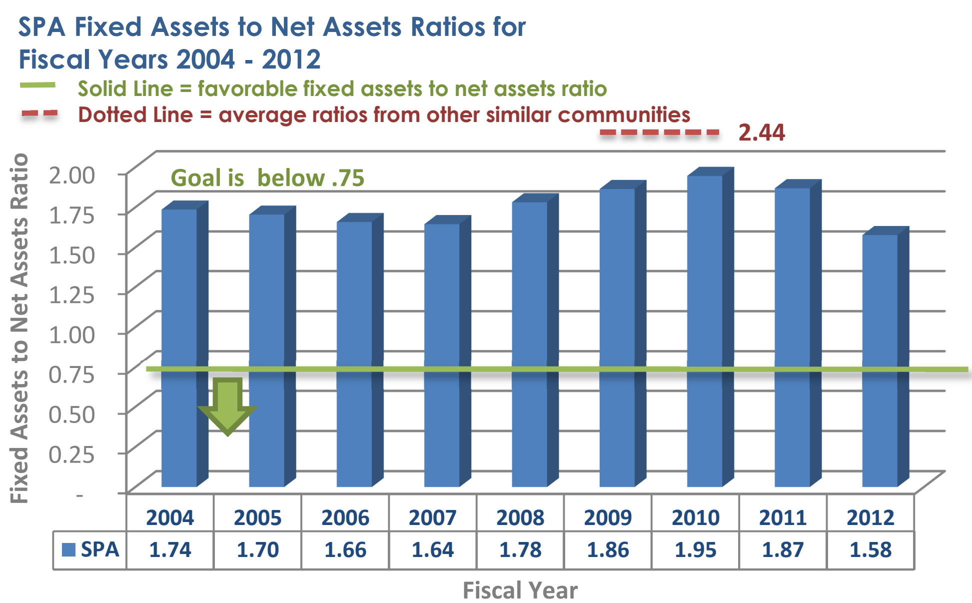
Exhibit 4.5
Total Liabilities to Net Assets Ratios



Fixed Assets to Net Assets Ratio

This ratio illustrates the investment of fixed assets as a percentage to total equity. In general, percentages that exceed 75% indicate that it could be a challenge for the entity to handle business climate changes. Capital is not easily convertible into cash which can affect supporting operations or unexpected issues. Exhibit 4.6 illustrates that the SPA, as well as the other similar communities reviewed, has a large amount of total investment in fixed assets which potentially could be the reason for the trends seen in the previous ratios. The ratio has favorably decreased in the last two fiscal years.

Exhibit 4.6
Fixed Assets to Net Assets Ratios



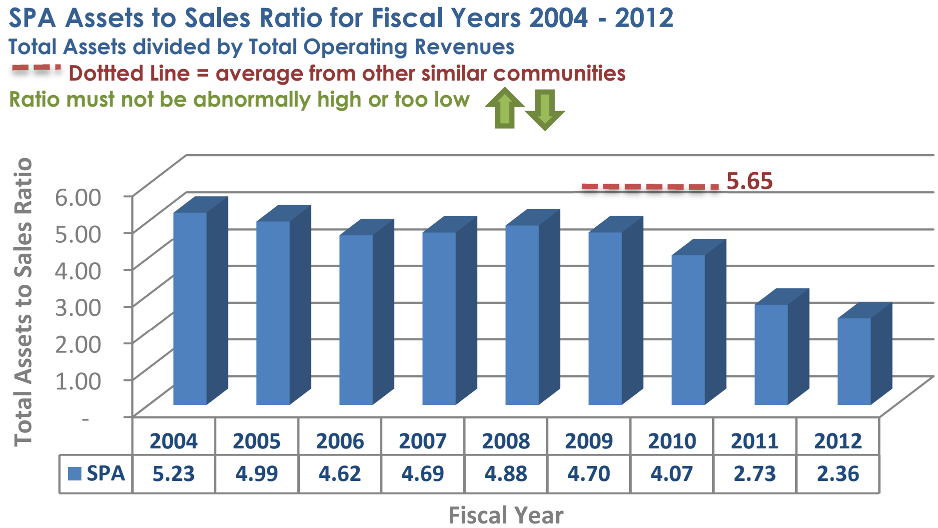
Efficiency Ratios

Efficiency ratios can be used to determine how proficiently economic resources are being utilized and how effectively suppliers are being paid. Each ratio is discussed in the following sections.

Assets to Sales Ratio

This indicator measures sales against the total investment that is used to generate those sales. An unusually high ratio may indicate that assets are not fully being utilized. Very low percentages could indicate overly conservative sales efforts. The SPA's assets to sales ratios have decreased in recent years. However, the ratios do not indicate a pattern or appear to be trending either too high or too low as is illustrated in Exhibit 4.7 below.

Exhibit 4.7
SPA Assets to Sales Ratios

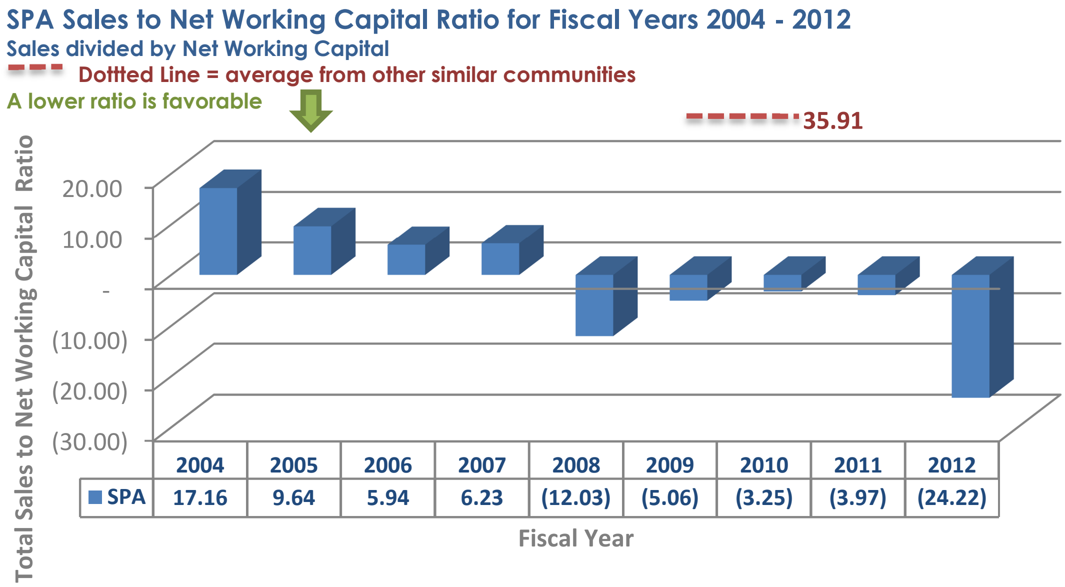


	2004	2005	2006	2007	2008	2009	2010	2011	2012
SPA	5.23	4.99	4.62	4.69	4.88	4.70	4.07	2.73	2.36

Sales to Net Working Capital Ratio

Working capital is calculated by subtracting current liabilities from current assets. When the amount of sales is divided by this working capital calculation, it can be used to measure the number of times that working capital turns over annually in relation to sales. A higher turnover rate can indicate that the business entity is relying extensively upon credit as a substitute for a sufficient margin of operating funds. Therefore a lower ratio is favorable. Exhibit 4.8 below shows that the SPA has consistently maintained a ratio that has favorably trended downward over the years.

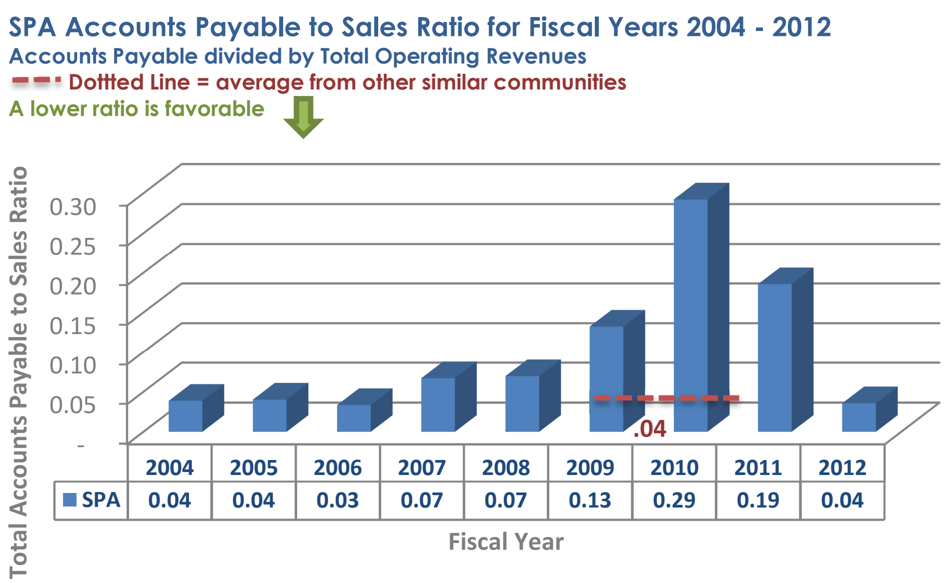
Exhibit 4.8
SPA Sales to Net Working Capital Ratios



Accounts Payable to Sales Ratio

This ratio is a measurement of how suppliers are paid in relation to the sales activity being transacted. A higher ratio can indicate that suppliers are being used to help finance operations. Therefore a lower ratio is favorable. Exhibit 4.9 indicates there were some increases in fiscal years 2007 through 2010 with favorable decreases in the last two fiscal years.

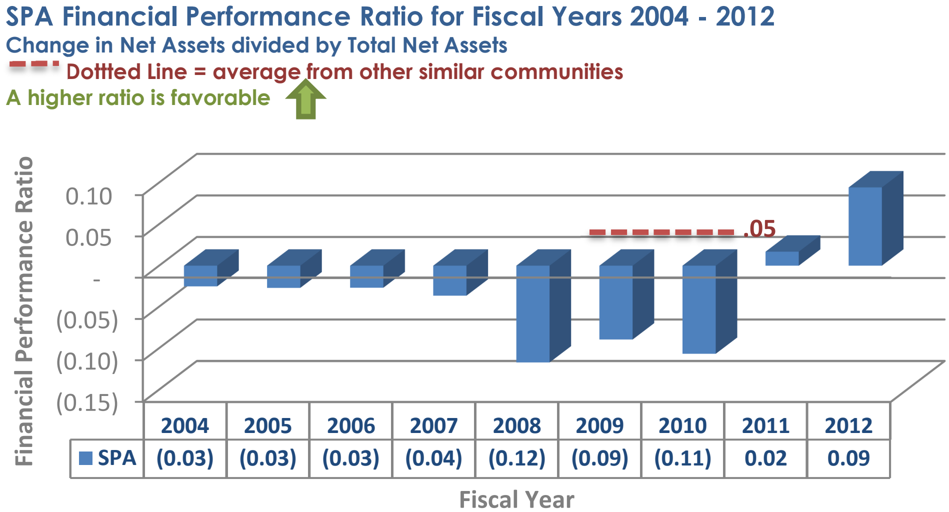
Exhibit 4.9
SPA Accounts Payable to Sales Ratios



Financial Performance Ratio

According to the Journal of Government Financial Management, financial performance has traditionally not been measured as an overall indicator of financial condition. However to help users to appreciate the effect of a current year surplus or deficit on total net assets, the authors suggested dividing the change in net assets by total net assets. It was also suggested to perform the review as a trend over at least five years. Exhibit 4.10 below illustrates a favorable cumulative change over the last nine fiscal years from (.03) to .09.

Exhibit 4.10
SPA Financial Performance Ratios



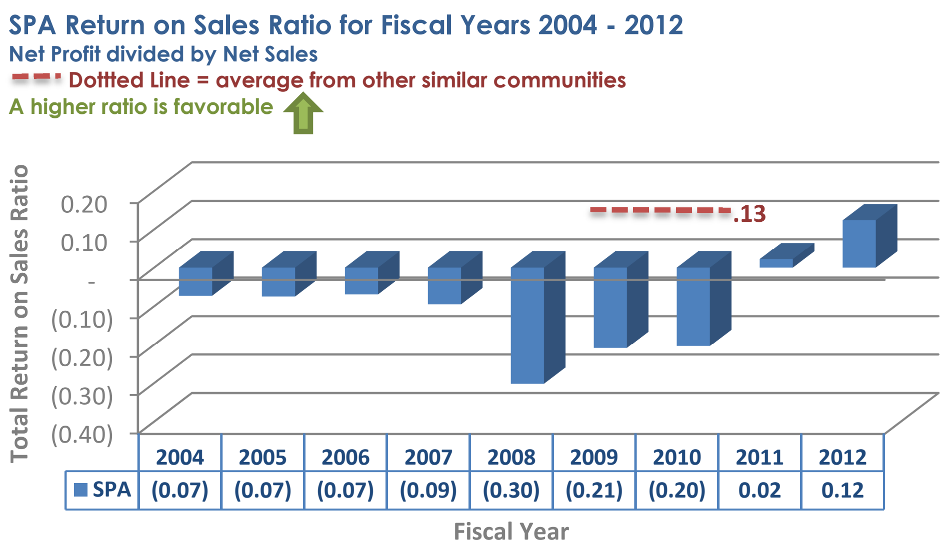
Profitability Ratios

Profitability ratios measure how profit was earned relative to sales, total assets and net worth. Each ratio is discussed in the following sections.

Return on Sales Ratio

This indicator is also known as a "profit margin" ratio. It is commonly used to evaluate efficiency in controlling costs in relation to sales. It measures the profits earned for each dollar of sales. A higher ratio can indicate how prepared an entity is to handle downtrends that are a result of adverse conditions. After seven years of negative ratios there was marked improvement in fiscal years 2011 and 2012 as shown in Exhibit 4.11.

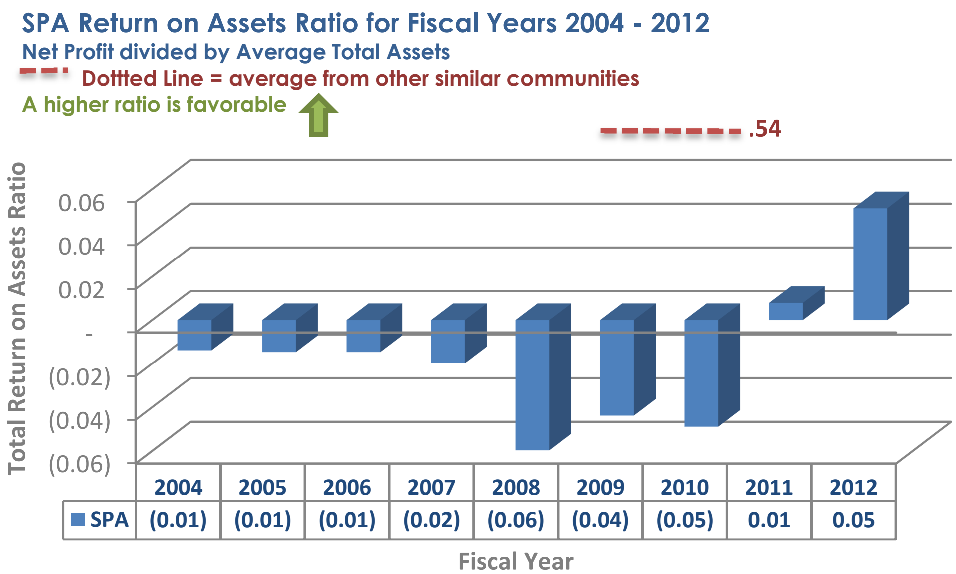
Exhibit 4.11
SPA Return on Sales Ratios



Return on Assets Ratio

This ratio is a key indicator of profitability. It measures the amount earned on assets invested. A higher ratio indicates a healthy return on assets. Exhibit 4.12 below illustrates seven years of negative ratios with a marked improvement in the last two fiscal years of 2011 and 2012.

Exhibit 4.12
SPA Return on Assets Ratios

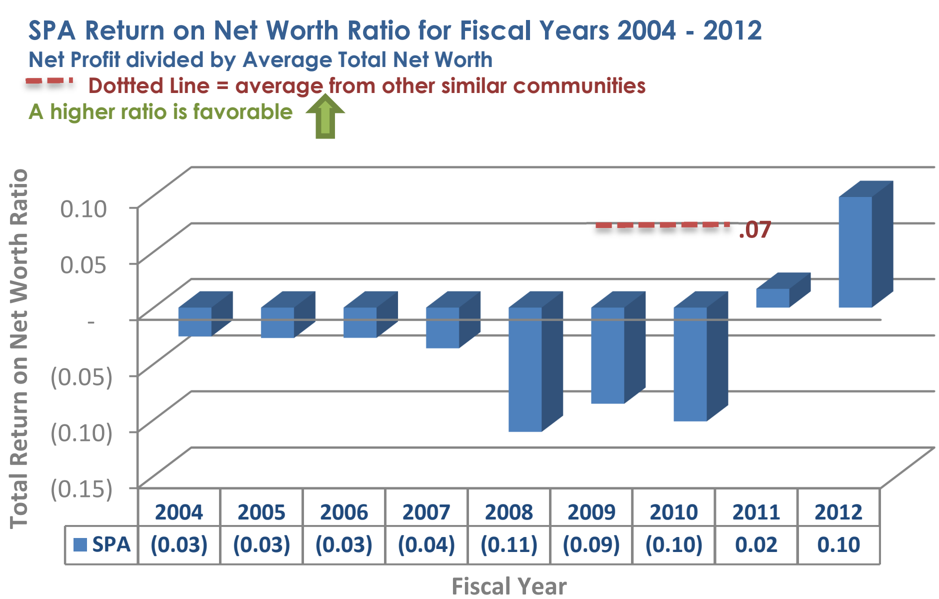


	2004	2005	2006	2007	2008	2009	2010	2011	2012
SPA	(0.01)	(0.01)	(0.01)	(0.02)	(0.06)	(0.04)	(0.05)	0.01	0.05

Return on Net Worth Ratio

Also known as the "return on equity" ratio, this indicator measures an entity's ability to realize an adequate return on capital invested. A higher measurement indicates favorable financial leverage. Exhibit 4.13, consistent with the prior two profitability ratios above, illustrates that the return on net worth ratio for the SPA went up from a low of (-.11) in 2008 to a high of .10 in 2012.

Exhibit 4.13
SPA Return on Net Worth Ratios

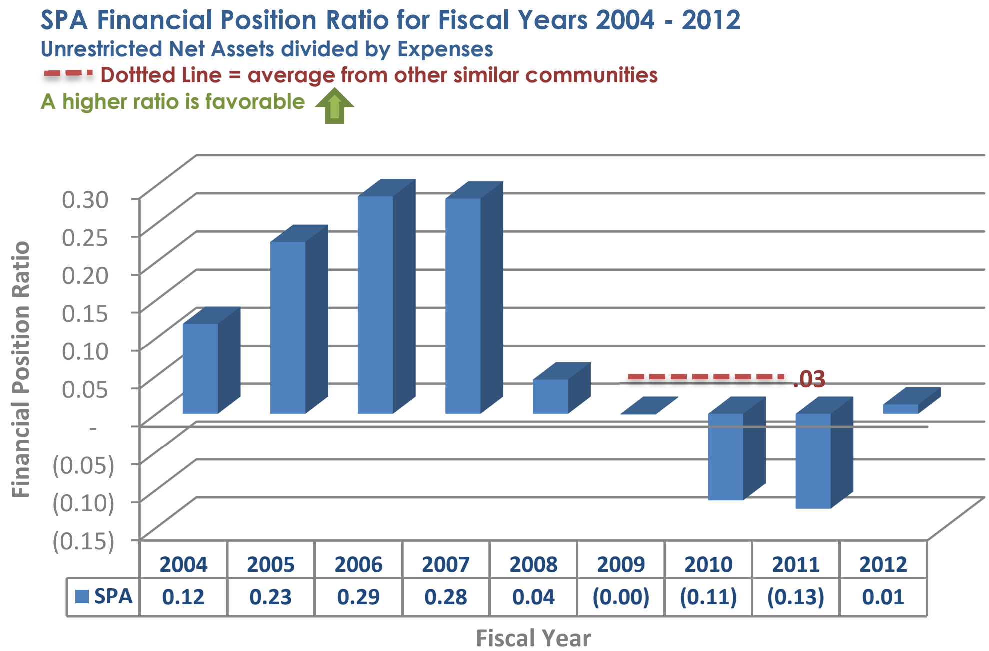


	2004	2005	2006	2007	2008	2009	2010	2011	2012
SPA	(0.03)	(0.03)	(0.03)	(0.04)	(0.11)	(0.09)	(0.10)	0.02	0.10

Financial Position Ratio

There are various reporting models used for reviewing financial position. The Journal of Government Financial Management suggests using a financial position indicator that focuses on accumulated net assets and how much of those net assets are available for providing future services. Therefore a higher ratio is favorable. This suggested indicator is illustrated here in Exhibit 4.14 where, as was seen in the previous profitability ratios, there was also a favorable increase in fiscal year 2012.

Exhibit 4.14
SPA Financial Position Ratios



	2004	2005	2006	2007	2008	2009	2010	2011	2012
SPA	0.12	0.23	0.29	0.28	0.04	(0.00)	(0.11)	(0.13)	0.01

In summary, the selected ratios may indicate that there was not an immediate favorable impact for the SPA as a result of the City outsourcing the on-street parking program but that favorable results have recently been realized. These indicators were potentially affected by other variables which should be further determined by City management before using them to draw absolute conclusions. It may be possible for the SPA to mitigate the effects of business cycles and economic uncertainties by restructuring existing debt, obtaining more favorable contractual arrangements with vendors, or by finding other ways to generate positive operating cash flow.

Conclusion

The City has a symbiotic relationship with the Springfield Parking Authority (SPA). A well-functioning parking program is an important component of a revitalized downtown and an essential source of revenue for the City. Affordable parking is necessary to the City's economic development and the SPA in turn needs the support of the City in order to continue to serve the parking needs of Springfield. Parking income to the City is a beneficial byproduct of a well-managed parking program.

After reviewing aspects of the current on-street parking program, it is evident that the positive financial benefit from outsourcing the City's on-street parking program has been an evolution and not a revolution; favorable financial impact is changing with time rather than the City or the SPA seeing any immediate sweeping positive changes. There are indications that the original on-street parking program vendor was reimbursed at a rate that was not as advantageous as anticipated to the City or the SPA.

Six issues were identified that indicate the need for enhancing City oversight and monitoring efforts to mitigate identified risks. City departments should strive to fully understand their service providers, services performed, roles of affiliated companies, and financial performance of programs. The recommendations above are intended to be used by City management in making well-informed strategic decisions in the near future regarding the SPA and its vendor while ultimately ensuring that City objectives are achieved.