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INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF THE MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

JULY 1, 1998 TO DECEMBER 31, 2003

OFFICIAL AUDIT REPORT

DECEMBER 13, 2004

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Our review of the Massachusetts Bay Transportation Authority (MBTA) was conducted to determine the overall effectiveness of the MBTA in overseeing the activities of the private company contracted to manage its two master leases for parking facilities at MBTA transit and commuter rail stations. These lease agreements require parking vendors to adhere to specific revenue collection and reporting requirements and provide certain maintenance, snow removal, and police security at all parking facilities. The ultimate objective of these parking contracts is to allow the MBTA to maximize its non-fare revenues by utilizing experienced parking operators to manage the daily operations at parking facilities and provide to the MBTA a pre-established monthly net revenue stream from the gross parking revenues realized by the operators. We also reviewed other MBTA activities, including the present status of the MBTA's plan to construct a bus maintenance and storage facility at the Arborway Yard in Jamaica Plain.

Due to consolidation in the parking lot management business in the Boston area, resulting in only one bidder for the latest five-year parking contract, the MBTA negotiated with the sole bidder, Central Parking System of Massachusetts, Inc. (Central Parking), for this contract in order to secure a rent amount that at least equaled the amount realized under the previous contract. Furthermore, the MBTA's share of the total revenues reported by the parking operators has declined from 70% of the gross in 1998 to 54% in 2003. We also noted that the MBTA's estimate of additional parking rent to be realized from parking fee increases implemented January 1, 2003 was overstated, with 25% of the increased revenue being retained by the parking operators as a consequence of the contract language governing the method used to compute additional revenue.

Our review of the parking agreements currently in effect for the MBTA's parking facilities found that the MBTA had awarded two negotiated parking contracts for its parking facilities at Arborway and Hingham. Contrary to MBTA policies, these contracts were not competitively bid and were not included in the RFP and resulting master parking agreement between the MBTA and Central Parking. Instead, under these discrete agreements, the MBTA pays the operator a negotiated monthly management fee and reimburses all approved annual operating expenses incurred by the parking operator. We also found that the MBTA had allowed Central Parking to purchase parking equipment on behalf of the MBTA without evidence of formal competitive bids.

Instead, the parking operator purchased and installed the equipment and was authorized by the MBTA to reimburse itself directly from the parking revenues that it collected.

INTRODUCTION

Background

As part of an ongoing effort to maximize non-fare revenues, the Massachusetts Bay Transportation Authority (MBTA) has routinely solicited and awarded long-term contracts to qualified professional parking management firms to operate its network of parking facilities at MBTA transit and commuter rail stations. The successful bidders for these leases are required to provide personnel experienced in the management of similar parking operations, and they are responsible for collecting and accounting for all parking revenues; providing necessary revenue control equipment; performing routine cleaning, maintenance, and snow removal; and providing to the MBTA a guaranteed annual rent from the gross parking revenues collected. The operator's net profit is not a set amount; rather, it is a function of the operator's ability to maximize revenue while providing the mandated services in the most economical fashion.

The MBTA issued its most recent request for proposals (RFP) for the lease of parking facilities in May 2002 and offered the right to operate MBTA parking facilities for a five-year period beginning October 1, 2002, under two groupings (Group A and Group B), as follows:

	Group A	Group B	Total
Facilities			
Transit	12	15	27
Commuter Rail	23	30	53
Total	35	45	80
Parking Spaces			
Transit	7,209	9,145	16,354
Commuter Rail	6,248	11,996	18,244
Total	13,457	21,141	34,598

The RFP estimated that the total gross revenues that may be collected by the successful operator would be approximately $17.5 million per year. The MBTA also projected that parking capacity during the term of the contract would increase by approximately 3,100 spaces as a result of five new facilities becoming operational prior to July 1, 2002 and the addition of new spaces to current facilities.

The RFP stated that an MBTA selection committee would evaluate the proposals submitted for each parking group. Separate parking contracts would be awarded for Group A and Group B facilities based on a 100-point scoring system of weighted criteria, as follows:

Area Evaluated	Maximum Points
Proposed Rent	50
Experience, Management, and Financial Strength	35
Joint Venture Proposal	15
Equal Opportunity/Affirmative Action Compliance	(Pass/Fail)
Total	100

On May 6, 2002, the MBTA revised the original RFP to include in the evaluation criteria a provision allowing and encouraging smaller parking operators to form joint venture partnerships for bidding on these parking contracts. The MBTA undertook this effort as an acknowledgement of the consolidation in the parking business in the Boston area due to mergers that have resulted in the elimination of many small and medium-sized parking operators. The ultimate objective of this revision was to increase the potential pool of bidders and thereby make the bidding process as competitive as possible.

During the bid process, several smaller and medium-sized companies expressed an interest in forming joint partnerships in anticipation of submitting a bid for these MBTA parking leases. However, when the deadline for bid submissions had passed, only one company, Central Parking System of Massachusetts, Inc. (Central Parking), the current operator of these parking facilities, had submitted a bid for the MBTA's consideration. The annual rent proposed by Central Parking for parking groups A and B was approximately $8.7 million per year, or $800,000 per year less than Central Parking was paying to the MBTA for the expiring leases. As a result of this proposed rent reduction, the MBTA entered into negotiations with Central Parking in an attempt to restore the proposed rent at least to the then-current level. Ultimately, the MBTA was able to secure an increased rent offering from Central Parking of approximately $9.8 million per year, or $1.1 million more per year than originally offered.

Effective October 1, 2002, the MBTA and Central Parking executed a five-year lease agreement for Group A and Group B parking facilities, as follows:

	Annual Rent
Group A	$5,106,388
Group B	$4,693,612
Total	$9,800,000

In addition, Central Parking agreed to annually reimburse the MBTA $1,375,000 for security services at the Group A and B parking facilities.

Also, the MBTA awarded to Central Parking two separate, "discrete" management agreements to manage the Authority's parking facilities at Arborway (in Jamaica Plain) and Hingham Boatyard. These agreements, which run concurrently with the five-year master lease for Group A and B, expire on September 30, 2007 and provide for the reimbursement of all approved operating expenses incurred by Central Parking, plus a monthly management fee.

Parking Fee Increase

Effective January 1, 2003, the MBTA implemented a parking fee increase—ranging from $0.50 to $2.00 per space—in the daily rates charged at transit and commuter rail locations. Under the terms of the master parking lease between the MBTA and Central Parking, any increase in gross revenues that exceeds the average gross revenues for the preceding twelve-month period resulting from parking fee hikes are to be passed on to the MBTA. Because of this rate increase, the MBTA expected to realize approximately $6.3 million more in annual income from the master-lease parking facilities. However, through the latest 12-month period ending December 31, 2003, of the additional $6 million collected, the MBTA has received approximately $4.4 million in additional adjusted parking revenue from Central Parking, or $1.6 million less than was actually collected. The MBTA portion of increase is 25% less than originally projected, partly due to the use of the guaranteed minimum annual revenue of $17.5 million rather than actual increased revenues computed by using car counts. Article VI, Section B, of the master lease parking agreement provides for the use of average monthly gross revenues as the yardstick for computing additional parking fee revenues realized—and, therefore, additional rent to be paid by the operator to the MBTA. Also, the MBTA agreed to reimburse the parking operator approximately $409,000 in additional expenses that the operator claimed would be incurred due to the parking fee hike. These expenses included estimated incremental costs for items such as violation envelopes, bank service charges, added payroll costs, and miscellaneous supplies.

Arborway Bus Storage and Maintenance Facility

As part of the MBTA's commitment to alternative fuel, the MBTA has purchased compressed natural gas (CNG) buses for use in the City of Boston. To properly store, fuel, and maintain these vehicles, the MBTA undertook a detailed study of various development schemes at its Arborway Yard, in Jamaica Plain. The proposed development at that site consisted of the construction of a 350-space parking garage, the reconstruction/or replacement of the MBTA's administration building at 500 Arborway, and the construction of a new bus storage and repair facility for these CNG vehicles.

A consulting design-engineering firm was hired by the MBTA to propose various construction scenarios and corresponding cost estimates. Ultimately, three proposals were presented for the MBTA's consideration: Schemes A, B, and C. In addition to the design and location of the proposed new bus facility, the variations in the schemes included locating the proposed parking garage either above or below ground and either rehabilitating or building a new administration building. The three proposed development schemes and estimated construction costs are as follows:

Development Scheme	Cost Estimate
A: New Bus Storage & Repairs Facility, with Elevated Parking and Rehabilitation of 500 Arborway Structure	$110,571,801
B: New Bus Storage & Repairs Facility, with Below-Grade Parking and Rehabilitation of 500 Arborway Structure	$120,665,229
C: New Bus Storage & Repairs Facility, with Below-Grade Parking and new 500 Arborway Structure	$121,727,135

Due to the construction sequencing considerations—i.e., allowing the continued occupancy of the 500 Arborway building by the MBTA's employees while a new building was being constructed and greater overall square footage of realizable space—the design engineers concluded that Scheme C was the preferred and most cost-effective alternative. However, as of January 2004, the MBTA had yet to commit to this recommendation due to continuing design and use reviews with the local community planning committee. In the interim, the MBTA has awarded several construction contracts to erect a CNG fueling and storage facility for $12.5 million and construct a temporary CNG maintenance building for $5.5 million.

Audit Scope, Objectives, and Methodology

Our audit covered the period July 1, 1998 to December 31, 2003 and was conducted in accordance with applicable generally accepted government auditing standards for performance audits. The objectives of this audit were to review the following:

- The MBTA's compliance with competitive bidding requirements over the awarding of its parking leases
- The payment terms and conditions of the approved parking leases

- The reasonableness of operating expenses incurred by the MBTA under these leases
- The monitoring by the MBTA of revenues collected and lease payments made to the parking operator
- The development status and cost estimates to construct a CNG bus maintenance and storage facility, parking garage, and administration building at Arborway Yard, in Jamaica Plain

Our methodology included reviewing (1) MBTA documents related to the RFP for the parking facilities' master leases, executed in December 1998 and October 2002; (2) signed contracts, exhibits, and related work specifications; (3) MBTA policies and procedures for the monitoring and reporting of the parking contractor's activities; (4) consultant studies and cost estimates regarding the proposed CNG bus facility, parking garage, and administration building at the Arborway Yard in Jamaica Plain. In addition, we interviewed appropriate MBTA officials.

AUDIT RESULTS

1. IMPROVEMENTS NEEDED IN PARKING CONTRACT SOLICITATION PROCESS AND TERMS IN ORDER TO INCREASE COMPETITION AND MAXIMIZE MBTA SHARE OF PARKING REVENUES

Despite the efforts of the Massachusetts Bay Transportation Authority (MBTA) under its request for proposals (RFP) regarding the master parking lease for the five-year period beginning October 1, 2002, there was only one bidder, Central Parking System of Massachusetts, Inc. (Central Parking), with which the MBTA negotiated a lease. This situation is the result of increased consolidation in the parking lot management business in the Boston area, and a lack of small- and medium-sized parking operators willing to participate in the RFP process.

Ultimately, the MBTA's only alternative was to enter into negotiations with Central Parking to secure an annual parking rent amount that at least equaled the amount realized under the previous five-year parking contract. This lack of competition in the marketplace undermines the MBTA's negotiating position for a reasonable annual rent and share of the gross revenues realized by the parking operator.

An analysis of the total parking revenue generated and the MBTA's share over the last six fiscal years disclosed that the MBTA's share of revenues reported by parking operators has declined from 70% of gross revenues in 1998 to 54% in 2003. Meanwhile the parking operator's share of gross revenues has increased from 30% of gross revenue in 1998 to 46% of gross revenues in 2003.

Although the MBTA has, in its current lease, increased the amount of the base parking rent received from the master leases by $300,000 per year, this amount represents less than 2% of the gross revenues received in 2003. A composite look at the period from 1998 to 2003 shows that the total number of automobiles at MBTA parking lots increased incrementally from 6.4 million in 1998 to 8.5 million in 2003, yet the MBTA actually realized only $300,000 in increased revenue as a result of the above referenced increase, while the parking lot operator received approximately $16.1 million.

A summary of the MBTA's total parking revenue reported, the MBTA's rent, the operator's share of revenues, the total number of cars parked, and the average revenue per car is presented in the following table.

Fiscal Year	Gross Revenues (in Millions)	MBTA Rent Revenue (in Millions)/Share	Operator's Revenues (in Millions)/Share	Total Cars (in Millions)	Average Revenue Per Car
2003	$18.1*	$9.8 (54%)	$8.3 (46%)	8.5	$2.13
2002	$16.9	$9.5 (56%)	$7.4 (44%)	8.3	$2.04
2001	$17.2	$9.5 (55%)	$7.7 (45%)	8.4	$2.05
2000	$16.6	$9.5 (57%)	$7.1 (43%)	8.1	$2.05
1999	$15.1	$9.5 (63%)	$5.6 (37%)	7.3	$2.07
1998	$13.5	$9.5 (70%)	$4.0 (30%)	6.4	$2.11

*Does not include $2,166,785 of parking revenue received as a result of increased fees effective January 1, 2003.

As shown in the following chart, over the last six fiscal years annual gross parking revenues have increased over 34% from $13.5 million to $18.1 million. However, during this period the MBTA's rent revenue has remained fairly constant, while the operator's revenues have more than doubled from $4 million to $8.3 million.

Error! Not a valid link. As shown below, the MBTA received approximately 70% of gross parking revenues in fiscal year 1998, but only 54% of gross parking revenues in fiscal year 2003.

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In addition, the MBTA will not generate all the additional revenue it projected to collect from a recent parking fee increase. We noted that the MBTA's estimate of additional parking rent to be realized from parking fee increases implemented January 1, 2003 was overstated as a consequence of the contract language governing the method used to compute additional revenue. The MBTA estimated additional annual rent of approximately $6.3 million from parking hikes at Group A and B facilities. For the six-month period ended June 30, 2003, we computed the additional revenue earned by the MBTA, based on actual car counts, to be approximately $3 million, or $6 million annualized. However, the MBTA received adjusted additional rent from Central Parking of only $2.2 million, or $800,000 less than actually collected ($1.6 million annualized). The annualized amount is 25% less than originally projected, partly due to the use of the guaranteed minimum annual revenue of $17.5 million rather than actual increased revenues computed by using car counts. Article VI, Section B, of the master lease parking agreement provides for the use of average monthly gross revenues as the yardstick for computing additional parking fee revenues realized—and, therefore, additional rent to be paid by the operator to the MBTA. That Article states, in part, as follows:

> *If the MBTA increases parking fees at any Parking Facility or Facilities…during the term of this lease…rents for the remainder of the term of the Lease will be adjusted based on the increase in gross revenues…for each succeeding month over the average gross monthly revenue for twelve (12) full months of operation preceding the commencement of the adjustment or as the MBTA reasonably deems appropriate.*

Also, the MBTA agreed to reimburse the parking operator approximately $409,000 in additional expenses that the operator claimed would be incurred due to the parking fee hike. These expenses included estimated incremental costs for items such as bank service charges, added payroll costs, miscellaneous supplies, and refunds.

However, we determined that the most accurate method for computing the additional parking revenues and the operator's rent would not be to use either a guaranteed minimum annual revenue amount or the average gross monthly revenue, but instead to use the actual car counts and the added revenue generated per vehicle. The effect of using this guaranteed minimum annual rent versus actual car counts, and reimbursement for additional operator expenses, for the six-month period ended June 30, 2003 is as follows:

Revenues computed on actual car counts	$2,969,737
Adjusted revenues received by MBTA	2,371,285
Parking revenues lost to adjustment	$ 598,452
Add: Reimbursements to operator for additional Operating expenses and Refunds	204,500
Unrealized parking revenues (6 months)	$ 802,952
Annualized unrealized parking revenues (above x 2)	$1,605,904

Using any method other than actual car counts to compute incremental revenue realized from parking fee hikes diminishes the amount of revenue to be paid to the MBTA and enriches the parking operator at the MBTA's expense. In effect, the parking fee increase was first applied to meet Central Parking's guaranteed minimum before any amount was given to the MBTA.

Recommendation

The MBTA should take the following measures to improve the effectiveness of its next parking master lease RFP process and ensure that the MBTA's share of revenues is proper:

- Revise the terms of the next RFP to require that the MBTA receive either a minimum annual rental amount or a predetermined percentage of the gross revenues each month, whichever is greater

- Revise the lease terms to ensure that all future parking fee hikes are calculated on actual monthly car counts and actual revenues and not on guaranteed annual revenue or adjusted average revenues

- Redouble its efforts to encourage small local and regional parking operators to form joint venture proposals in order to increase competition for the right to operate MBTA parking facilities

Auditee's Response

Overall, the Authority is in agreement with many of the suggested recommendations. It is agreed that a minimum annual rent be included in the next bid and that increased competition is in the MBTA's best interest. Accordingly, the plan for the next bid process is to break up the two current parking groups into four or five smaller groups. It is hoped that this will encourage and enable smaller parking firms in the Boston area to bid on the lease agreements. In addition, it is agreed that the contract minimum language must be revised. The emphasis of the new language will be to establish a potential total revenue amount that the bidders may realize, not a contract guaranteed revenue minimum, as it is currently interpreted. Finally, it is agreed that future lease terms will include language to provide for parking fee increases to be calculated on actual monthly car counts and revenue.

Auditor's Reply

We believe the Authority's proposed changes will foster increased competition, improve the effectiveness of the next parking lease RFP process, and ensure that the MBTA is receiving its proper share of parking revenue.

2. THE MBTA AWARDED NO-BID DISCRETE PARKING CONTRACTS AND ALLOWED THE NO-BID PURCHASE OF PARKING EQUIPMENT BY THE MASTER PARKING OPERATOR

Our review of the parking agreements currently in effect for the MBTA's parking facilities found that the MBTA had awarded two negotiated parking contracts for its parking facilities at Arborway and Hingham. These contracts were not competitively bid and were not included in the scope of work under the master parking agreement RFP. Therefore, the responsibility for managing these facilities is not covered under the parking facilities contracts for Group A and B. Instead, under these discrete agreements, the MBTA pays the operator a negotiated monthly management fee and reimburses all approved annual operating expenses incurred by the operator. The following table summarizes certain details of these discrete contracts:

Location	Contract Term	Daily Car Capacity	Annual Gross Revenues	Annual Management Fee	Management Fee During Life of Contract
Hingham	1-6-03 to 9-30-07	1,608	$ 836,160	$175,464	$ 833,454
Arborway	10-1-02 to 9-30-07	214	166,920	34,200	171,000
Total		1,822	$1,003,080	$209,664	$1,004,454

Because these contract terms are the result of negotiation and not competitive bidding and open competition, they run counter to MBTA's written policies requiring competitive awards for all purchases in excess of $5,000; moreover, the MBTA cannot be assured that it is obtaining these services in the most cost-efficient and effective manner. If the MBTA is to increase the pool of potential bidders for the next master lease, one way to do so would be to nurture future bidders—small and regional parking operators—by offering them opportunities to bid for these smaller parking facilities rather than awarding a no-bid contract to the largest parking operator in the area. As a result, the MBTA has effectively awarded no-bid contracts of approximately $1 million for these parking facilities.

Moreover, we determined that the MBTA allowed Central Parking to purchase parking equipment and improvements (worth approximately $52,000), without evidence of formal competitive bids, on behalf of the MBTA, for the Hingham Boatyard facility. The parking operator purchased and installed the equipment and, after providing copies of purchase invoices, was authorized by the MBTA to reimburse itself directly from the parking revenues it collected.

Because these contracts were not awarded in an open and competitive manner, contrary to the MBTA's own written policies, there is inadequate assurance that these services were obtained in the most cost-efficient and effective manner; moreover, the MBTA was exposed to potential fraud, waste, and abuse.

Recommendation

The MBTA should discontinue the practice of awarding discrete parking contracts on a non-competitive basis. Also, it must ensure that all future parking equipment and improvements are procured in compliance with the MBTA's purchasing policies and procedures to ensure that these purchases on behalf of the MBTA are conducted in an open, efficient, and documented manner. Finally, the MBTA should discontinue the practice of allowing reimbursement of purchases to be made directly from parking revenues. Rather, it should be billed by the operator, and payment should be made from general revenues and reflected in the MBTA's accounting records.

Auditee's Response

The Arborway parking facility was not included in the base lease due to the fact that it was scheduled to close during the early term of the lease agreement. If Arborway had been included in the base, the MBTA would have been required to provide Central Parking with a rent abatement. The rent would be decreased by the net loss in revenue earned by the facility, less the amount in incremental costs saved by the closure. By excluding the Arborway facility, this abatement was avoided.

The Hingham parking facility was not included in the base lease agreement due to it opening in January 2003. This was after the commencement of the current lease agreement of October 1, 2002. Accordingly, we could not have included the facility in the base lease.

In both cases, an analysis of the proposed cost and revenue for each facility was performed. This included reviewing the reasonableness of the proposed cost and projected revenue and comparing average cost per space to prior parking agreements. Based on these reviews, the cost and revenue for both agreements were found to be acceptable.

Finally, the costs associated with the purchase of the parking equipment by Central Parking were also reviewed. The revenue equipment, manufactured by Southern Specialties, is required in all MBTA parking construction contracts. This is due to quality of the equipment and the tamper resistant features they include in their construction. These features make this revenue equipment superior to types manufactured by other companies. Upon review of the proposed cost, it was concluded that the unit cost was less than the regular list cost charged by Southern Specialties.

Auditor's Reply

The parking leases for the Arborway and Hingham facilities should have been targeted for competing bids from smaller parking operators. By reserving individual facilities such as these for bids from small local and regional operators, the Authority would be laying the groundwork for fostering increased competition for the master parking leases in the future. Finally, we reiterate the need for the Authority to ensure that all parking equipment and improvements are procured in an open and competitive manner.