THE RIGHT MOMENT

How (and why) to know when it's time to issue a new RFP for parking services.

By Phill Schragal

When it comes to independent parking operators, owners, and property managers often adhere to the old adage, "If it's not broken, don't fix it." However, when assessing the bottom-line performance of an operator, it makes sense to take a closer look every now and then—"broken" can be relative.

When property owners and managers become complacent about their outsourced operations, they often end up leaving money on the table that could otherwise flow to their bottom lines. Owners and managers have to work hard to eliminate unnecessary expenses and keep every hard-earned dollar, but ignoring their parking operations may lead to deficiencies in a number of key areas, including audit control, facility maintenance, marketing policies and pricing (daily and monthly rates), staffing requirements, and technological advances.

For owners and managers who have concerns about their operation or who just haven't revisited their parking portfolio in a number of years, it may be time to put operations back in play by issuing a request for proposal for a parking operator. The RFP process provides an opportunity to evaluate a parking operation on a number of criteria in addition to cost, and if necessary, select a new operator. Of course, because the property manager is choosing an operator who may not be offering the best economic package or price point on the surface, it's imperative that competing operators and the general public (in the case of public facilities) are satisfied that the selection process was fair and impartial and that no favoritism was shown toward the winning operator.

Considering Change

The following two case studies illustrate the value of issuing an RFP to assess the competence and competitive value offered by an incumbent parking operator.

In the first situation, a contracted operator handled the day-to-day management of a parking facility to the satisfaction of the property manager for more than 20 years. However, because of continuing economic challenges and a new company-wide policy to obtain competitive bids for all third-party services, an RFP for parking management services was issued. Through this process, the property manager discovered that his company was not receiving the best possible value for the management services provided.

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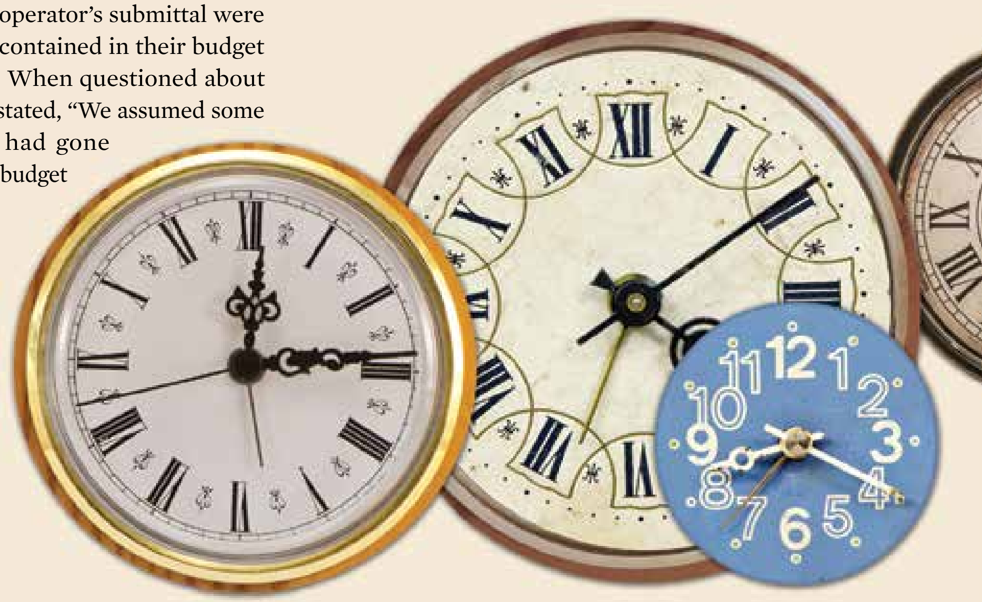
The RFP contained staffing schedules as well as historical revenue data that clearly defined the scope and magnitude of the operation. After receiving responses from several qualified operators, a side-by-side comparison matrix of proposed operating expenses was developed. The matrix compared the operating expenses proposed by the longtime operator with other proposals. Additionally, all the proposed expense budgets were compared to the annual budget submitted by the operator three months prior to issuing the RFP, which the property manager felt was representative of the actual operating expenses required to manage the facility.

Much to the chagrin of the property manager, the expenses contained in the operator's submittal were 12 percent less than those contained in their budget submitted months earlier. When questioned about this variance, the operator stated, "We assumed some economies of scale that had gone unnoticed during the annual budget preparation cycle."

Whether the owner or manager feels the operator provides great service or there's speculation that a replacement can provide similar service for less cost, issuing an RFP can be an eye-opening experience.



Unhappy with this response, the property manager requested a best and final budget proposal from the incumbent operator. Ultimately, the operator with whom the parking manager had done business for two decades did not survive the final review process and was replaced by another respected third-party firm. Other bidders offered an array of marketing opportunities the incumbent operator had failed to explore. Additionally, the successful bidder also noted under-market pricing and proposed to manage the parking facility with the same level of staffing at considerably less cost. The end result was additional bottom-line profit for the owner.

This situation isn't unusual. It's easy for long-term vendors to become so comfortable in their relationships with owners that they fail to look for new opportunities to improve the operation and find efficiencies. That's why it's important for owners and managers to avoid becoming complacent with their operators no matter how well things seem to be going or how close a personal relationship they may enjoy.

In the second case study, an operator managed a parking facility since its opening 15 years earlier. During this period, the property was sold and the operator was retained by the new owner under the terms and conditions of an existing agreement with the previous owner. Two years after purchasing the property, the new owner issued an RFP to assess operating costs along with the fees charged to manage the asset.

The proposal review process and subsequent short-listed operator interviews resulted in several bidders offering new marketing initiatives and technological enhancement opportunities. The incumbent operator promised business as usual.

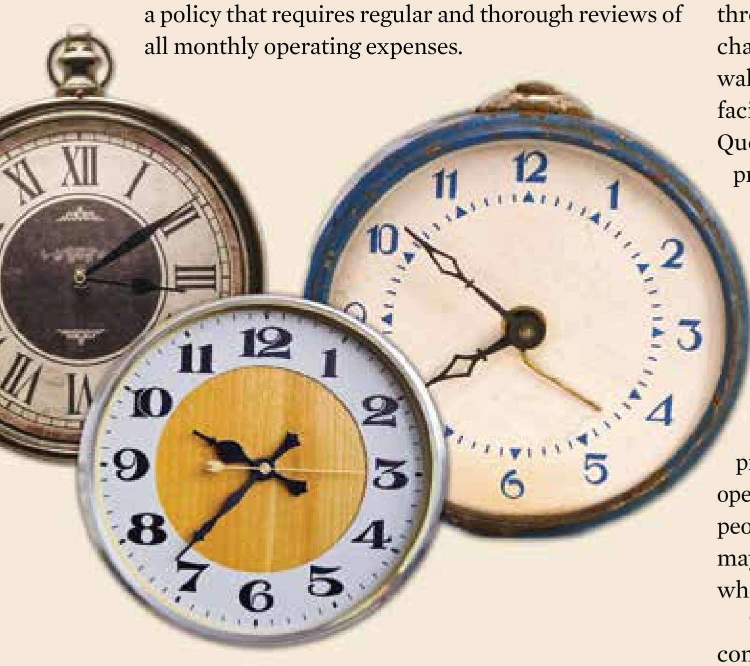
A comparison matrix of proposed operating expenses revealed that the incumbent's proposed annual operating costs were 11.5 percent higher than the nearest bidder and 47 percent higher than the least expensive, even though a base staffing schedule was included with the RFP to ensure apples-to-apples responses. The owner subsequently requested that the operator submit a best and final budget proposal and revised marketing plan. Much to the owner's dismay, the best and final budget was still 5.5 percent greater than the nearest bidder and 26 percent higher than the least expensive. Additionally, the revised marketing plan clearly lacked the creativity shown by other respondents.

Eventually, because the operator was reluctant to reduce expenses, instead explaining that "some operators are just better and, in fact, command greater fees," the owner awarded the asset to another firm.

Providers, Not Partners

In the past, owners often regarded parking operators as their partners. Today, parking operators should be viewed as service providers. The RFP process can help determine just how much they are providing and how proficiently their services are being delivered.

Parking management has changed dramatically in recent years. Operators work differently than in the past, when owners would pay only the actual direct costs incurred for their operation, including a fair profit for the operator. Some providers assess additional fees for the cost of insurance, uniforms, payroll taxes, equipment, and credit card fees. This is a way of marking up expenses and an approach that many owners and property managers do not recognize. To ensure that only those direct costs associated with managing your asset are being paid, property managers should implement a policy that requires regular and thorough reviews of all monthly operating expenses.



If an owner and manager feel they are leaving money on the table each month, it may be time to issue an RFP. The RFP process lets the owner and property manager know if they are paying too much, whether their parking operator is using the latest technologies that can save money, or if a high-volume parking structure is being operated as efficiently as possible.

A sample management agreement should be included as an exhibit with the RFP documents. This is the best way to ensure that an exact comparison is made. The management agreement will explain and differentiate:

- Expenses that are reimbursable and nonreimbursable by the owner.
- Insurance limits.
- Where revenue is to be deposited (owner's account or operator's account).
- Reporting requirements.

The processes for public and private entities can differ slightly. In the public sector, the agency must advertise for proposers even though it may establish reasonable minimum qualifications to participate in the RFP process. It may be advisable for public agencies to add to the process a request for qualifications (RFQ), whereby operators are asked to submit only their qualifications. Respondents that meet the minimum qualifications are then invited to participate in the RFP process. This can save the selection committee and the agency's parking consultant valuable time otherwise spent reviewing proposals from nonqualified operators.

In the private sector, the owner or property manager, with assistance from a consultant, will prepare a list of qualified operators from whom they would like to request proposals. A pre-proposal meeting and walk-through is held after interested operators have had a chance to review the RFP document thoroughly. The walk-through familiarizes potential operators with the facility or facilities on which they will be proposing. Questions are not typically allowed during the pre-proposal meeting and walk-through to ensure that no operator will have an unfair advantage by reason of unilateral conversations with the owner or the owner's consultant. Any questions resulting from reviewing the RFP or from the walk-through are solicited from the operators and answered through the issuance of a written addendum.

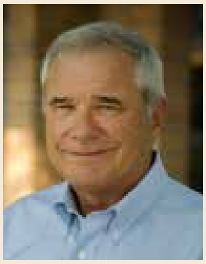
Most public agencies and many private companies select a committee to evaluate the proposals, attend finalist interviews, and select the best operator. The selection committee is usually comprised of people involved in overseeing the facility but sometimes may include people engaged in the parking business who are employed elsewhere.

The owner's parking consultant assists the selection committee with the evaluation process by preparing an objective analysis of the proposals and answering questions the selection committee may have when it performs its own analysis. While they usually attend potential supplier interviews, most consultants prefer—or even demand—to be nonvoting committee members. In the public process, the consultant generally participates in the presentation to the final decision-making body (city council, airport commission, etc.).

If these guidelines are followed by the owner and consultant, everyone, including the losing operators, knows the selection process was fair and impartial.

An Eye-Opening Experience

For owners or property managers, the RFP can be an important tool. Whether the owner or manager feels the operator provides great service or there's speculation that a replacement can provide similar service for less cost, issuing an RFP can be an eye-opening experience. It can often get the owner and property manager back on track when it comes to managing their parking asset to its fullest potential and help achieve the maximum bottom-line profitability for the owner.



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