Illinois PIRG Education Fund

# Privatization and the Public Interest

## The Need for Transparency and Accountability in Chicago's Public Asset Lease Deals



# Privatization and the Public Interest

## The Need for Transparency and Accountability in Chicago's Public Asset Lease Deals


Illinois PIRG Education Fund

Written by:
Tony Dutzik, Frontier Group
Brian Imus, Illinois PIRG Education Fund
Phineas Baxandall, Ph.D., U.S. PIRG Education Fund



Fall 2009

# Acknowledgments

Illinois PIRG Education Fund thanks the following individuals for their review and insightful suggestions: Robert Ginsburg, director of the Center on Work and Community Development, and Michael Likosky, visiting scholar at New York University and public-private partnership finance expert to the OECD and United Nations. Thanks also to Susan Rakov and Travis Madsen of Frontier Group for their editorial support.

The generous financial support of the Ford Foundation made this report possible.

The authors bear responsibility for any factual errors. The recommendations are those of Illinois PIRG Education Fund. The views expressed in this report are those of the authors and do not necessarily reflect the views of our funders or those who provided review.



With public debate around important issues often dominated by special interests pursuing their own narrow agendas, Illinois PIRG Education Fund offers an independent voice that works on behalf of the public interest. Illinois PIRG Education Fund, a 501(c)(3) organization, works to protect consumers and promote good government. We investigate problems, craft solutions, educate the public, and offer Illinois residents meaningful opportunities for civic participation. For more information about Illinois PIRG Education Fund or for additional copies of this report, please visit www.illinoispirg.org.

Frontier Group conducts independent research and policy analysis to support a cleaner, healthier and more democratic society. Our mission is to inject accurate information and compelling ideas into public policy debates at the local, state and federal levels. For more information about Frontier Group, please visit www.frontiergroup.org.

*Cover photos (l to r, top to bottom): Meter, Josh Wellington; Millennium Park Garage, Steve Geer, Istockphoto.com; Skyway, Thomas Frederick Banks; Midway, Carl Lukasewich, carlsville.com*
*Layout: Harriet Eckstein Graphic Design*

# Table of Contents

# Executive Summary

Chicago has been the most aggressive city in the United States in the privatization of public infrastructure. Since 2004, the city has privatized the Chicago Skyway toll road, four downtown parking garages, and the city's system of 36,000 parking meters, with only the recent financial crisis preventing the privatization of Midway Airport as well.

The recent privatization of city parking meters has drawn particularly harsh public criticism as a result of rate hikes, equipment malfunctions and questions about whether the city received fair value.

**The problems resulting from parking meter privatization could have been avoided had Chicago followed common-sense principles regarding the privatization of public assets and provided the public with the ability to monitor and influence the privatization process.** Chicago must adopt strong public interest protections and embrace greater government transparency before any further privatization of public assets takes place.

**The $1.16 billion parking meter privatization deal violated principles of good government, could lose money for Chicago over the long term, and has already resulted in negative impacts to drivers and the city's neighborhoods.**

- The idea for privatization of the city's parking meters was originally conceived of behind closed doors and months of preparatory work took place before the idea became public. The lead consultant to the deal received a no-bid contract. The City Council, which had already included expected revenues from privatization in the city budget, took only two days to approve the plan, and had minimal time to review the key documents.

- Analysis by the city's Inspector General suggests that the meter system would have been worth more to Chicago had it remained in public hands. The Inspector General claims that the true value of the system to the city was greater than $2 billion using valuation procedures common to privatization proposals.

- Since privatization of the city's parking meters, meter rates have increased sharply, the meter system has malfunctioned several times, and drivers reportedly have shied away from using parking meters—resulting in greater congestion on non-metered side streets and traffic problems for businesses in the city's neighborhoods.

**The process used to privatize Chicago's parking meters, like the city's previous privatization efforts, contained serious shortcomings:**

- **Contract terms that increase the concessionaire's profits by shifting risk onto the public,** such as contract provisions preventing the city from opening parking meters or garages nearby even if such facilities would be publicly beneficial.

- **No formal evaluation of impacts on the public interest** and failure to obtain an independent financial analysis of the value of the asset to the city.

- **A closed-door process** largely outside of the public eye, with no opportunity for public input and little outside scrutiny.

- **High transaction costs that undermine value while enriching deal makers.** For the three privatization deals competed to date, the city paid more than $26 million in fees to lawyers, accountants and other advisors, including investment banks such as Goldman Sachs.

- **Multi-generational leases.** The deals for the Skyway, Midway Airport and the parking garages involved 99-year leases, while the parking meter deal will last for 75 years. This time frame binds future generations of residents and city leaders far longer than future risks or problems can be anticipated.

**To prevent future bad privatization deals, the city of Chicago should embrace public interest principles for protecting the public, adopt rules and processes to ensure that privatization proposals receive a thorough vetting prior to a decision, and embrace a commitment to government transparency.**

*The city should ensure that any future privatization deals adhere to the following principles:*

- The public should retain control over decisions that affect the broader public interest.

- The public must receive full value so future revenues are not sold off at a discount.

- No deal should last longer than 30 years because of uncertainty over future conditions, because the risks of a bad deal grow exponentially over time, and because long contracts transfer unnecessary control to the concessionaire.

- Contracts should require state-of-the-art maintenance and safety standards instead of statewide minimums.

- There must be complete transparency to ensure proper vetting of privatization proposals.

- There must be full accountability in which the elected legislative body must approve both the authority to negotiate a deal and any terms of a final deal.

*In addition, the city should adopt procedural safeguards for future privatization proposals that include the following:*

- A minimum waiting period of 30 days between publication of the final terms of a privatization agreement and a vote (45 days for privatization of assets or services valued at more than $50 million).

- Competitive, transparent bidding for all professional services provided during the privatization process and for the privatization contract itself.

- Disqualification of city councilors from voting on privatization proposals when they have received campaign contributions from companies that bid on a given asset or performed professional services related to privatization. The Mayor's office should similarly reject contributions from such companies and publicize contributions received for a defined period prior to the decision to consider privatizing an asset.

- Thorough, independent analysis of the valuation of assets proposed for concession agreements along with a comparison of privatization with other alternatives (including the option of bonding against future revenues with the same schedule of user fee increases without a private lease or transfer of ownership).

- Prompt public disclosure of all documents related to privatization bids.

- Clear directions for how proceeds from the sale will be allocated, along with the development of tools to enable the public to track spending of proceeds from privatization over time. These tracking tools should be integrated into a city-wide budget transparency Web site that would enable citizens to have "one-stop" access to all city expenditures.

- Timely public disclosure of all documents relevant to a privatization proposal, including posting of such documents on a publicly accessible Web site.

*Finally, to bolster confidence, trust, and transparency in government, Chicago should follow the example of a growing number of cities and states that provide detailed and up-to-date searchable information about government contracting and expenditures on-line.*

Specifically, the city should create a one-stop, comprehensive, on-line database that would enable citizens to obtain information on contracts, the current status of city accounts, special tax breaks, fee services accrued, economic development subsidies and city budgets. The Web site should provide summary information and enable residents to drill down to detailed information on city payments, including the city's check register. The Web site should also retain previous years' data for comparison.

# Introduction

Chicago has a long reputation for backroom deals and political corruption. In 2006, the *Chicago Sun-Times* tallied 79 elected officials in Chicago, Cook County or Illinois who had been found guilty of a crime since 1972—a rate of more than two per year.[1]

Chicago has worked hard in recent years to change its reputation. Residents want to turn the page on machine politics and dirty dealing to become a metropolis known for good governance and positive innovation. City officials have sought to foster the view of Chicago as an innovative city, casting the recent wave of privatization agreements for public infrastructure as a step in the right direction.

While the payoffs from earlier privatization deals have received little public scrutiny, the recent privatization of the city's parking meters has sparked public outrage. As parking rates quadrupled overnight in some parts of the city and meters malfunctioned, critics—including the city's own Inspector General—argued that the city received hundreds of millions of dollars less for the meter system than it was worth.

All of these factors have led some streetwise Chicagoans to wonder what was *really* behind the privatization deal. The fact that the city spent millions of dollars on consultants hired via no-bid contracts to arrange the deal, provided inadequate time for the City Council to assess the plan by rushing consideration in only two days, and offered the public no way to scrutinize the deal or have an opportunity to be heard add to the sense of suspicion.

For a city that is trying to land the Olympic Games, attract new businesses and residents, and put its reputation for shady deals behind it, the parking meter controversy comes at precisely the wrong time. There is one way, however, that the city can turn recent events to its advantage—by taking action to join national leaders in embracing thoughtful principles for evaluating privatization deals and by implementing innovative state-of-the-art tools for government transparency.

It may be too late to undo parking meter privatization. But it is not too late for Chicago to apply its reputation for municipal innovation to the task of informing citizens about the operations of government and involving them in setting its direction. Similarly, just as Chicago has been aggressive in pushing infrastructure privatization, it can also become a national leader in protecting the public through privatization *safeguards*—helping other cities who wish to follow the city's example to avoid its mistakes.

This report reviews Chicago's experience with privatization and suggests a number of common-sense steps the city can take to protect the public from bad privatization deals and improve government transparency more generally—steps that ensure a role for citizens in determining the future of the assets they own as taxpayers and rely upon as consumers.

# What is Infrastructure Privatization and How Does it Affect Chicagoans?

Chicago is "ground zero" in the growing national debate over the privatization of public infrastructure. No city in the nation has moved as aggressively toward privatization—with such key pieces of city infrastructure as the Chicago Skyway, Midway Airport and the city's system of parking meters put up for bid.

Chicago's experience demonstrates both the attraction and the risks of infrastructure privatization.

## The Lure of Privatization

Privatization of public assets can provide a quick boost to government budgets in the form of large, upfront payments. These payments can be used to fill short-term budget caps, such as the massive deficits facing Chicago and many other cities. Privatization, at least in theory, can also shift public-sector risks to private companies and may, in some circumstances, improve the efficiency with which services are delivered.

### High Upfront Payments

The greatest draw of privatization for many cash-starved cities and states is the prospect of an immediate infusion of cash into government coffers without the need to increase taxes. The long-term lease of a revenue generating facility can bring in huge cash payments—for example, the $1.16 billion received for the 75-year lease of the city's system of parking meters is equivalent to nearly 20 percent of the $6 billion in total revenue the city was expecting to receive from all sources in 2009.[2]

Cities can use the revenue from privatization deals for a variety of purposes, including improving their long-term financial standing. Chicago, for example, has used revenues from privatization deals, in part, to pay down city debt, thus avoiding future debt service payments and improving the city's short-term credit rating, enabling the city to borrow money more cheaply in the future. The city has also used privatization revenue to create a capital fund for park improvements—thereby reducing the need to bond for those improvements.

In addition, the city has used some of the revenue to plug short-term budget gaps, to invest in social programs, and to

## What Is Privatization?

The term "public-private partnership" is frequently used to describe deals such as the lease of the Chicago Skyway or the city's parking meter system. The term, however, is imprecise. Public-private partnerships of one form or another are ubiquitous throughout government—from the subcontracting of cleaning services in government buildings to the wholesale sell-off of government functions.

The term "privatization" can be a more precise term. In this paper, we define privatization agreements as those that involve the long-term lease of a publicly held asset that conveys rights tantamount to ownership, including the right to generate revenue from the asset. Privatization can also refer to the granting of permission to private entities to build new assets in areas traditionally managed by government—for example, construction of a new toll road.

provide ongoing revenue to programs that had been supported by revenue from the privatized assets.

## Shifting of Risk

A second argument made by advocates of privatization is that it involves shifting risk from government to the private sector. While many privatization contracts, including those in Chicago, limit the risk faced by private-sector entities in important ways (see page 26), there are several types of risks that are presented as shifting to the private entity when an asset is privatized.

**Political Risk**

One argument made for privatization is that it shifts "political risk" related to unpopular decisions. Unlike government officials, private-sector executives cannot be voted out of office. Privatizing public assets therefore politically insulates public officials by shifting the blame to private companies that subsequently raise fees or take other unpopular actions. Public officials can find it very attractive to avoid public accountability for such decisions.

**Risk of Future Capital Investment**

Another risk supposedly transferred in privatization deals is the obligation to undertake unforeseen repairs or improvements to infrastructure. Chicago's recent privatization deals include requirements that the new private-sector owners rebuild the East Monroe Street Garage and replace existing coin-fed parking meters with "pay and display" meters. Chicago is presumably already paying for these foreseeable capital expenses by accepting a lower upfront payment than the city would have received for the assets without this obligation. In transferring the assets to the private sector, Chicago also avoids the potential extra costs if repairs were more expensive than anticipated, although this determination is also likely reflected in the level of upfront payment. However, the city also avoids the possible benefits if new technologies or other advances would make such repairs less costly.

**Risk of Lost Income**

Privatization advocates argue that a final risk is avoided through privatization: the risk that assets that are money-makers for the city now will cease to be money-makers years or decades down the line. For example, while a private operator would reap windfall profits if passenger traffic at Midway Airport booms, or more people drive the Skyway, or the demand for parking increases; the operator will make less money if the opposite takes place. With privatization, Chicago has already managed to secure some return on its assets, regardless of future demands for them. Again, however, the risk of declining income in future years is likely factored the upfront payment received by the city. (See "Putting a Price Tag on Public Assets," page 14.)

### Perceived Increased Efficiency of Private Sector Operators

In some cases, public officials may be lured by perceptions that private sector companies are inherently more efficient in managing assets than the government. Mayor Richard Daley made this argument in blunt fashion in February 2009, stating that "We [the city] can't compete with the private sector. The private sector has a complete idea of who your customers are. Government doesn't have customers. They only have citizens."[3]

There are some functions that can be contracted for more efficiently by the private sector. But there is no evidence suggesting that the private sector is inherently more efficient at running public infrastructure. First, increased operational efficiencies are rarely even mentioned by investors as a financial opportunity for privatization deals. Moreover, Chicago's privatization agreements have generally included protections for city workers that eliminate labor shedding, which is the most obvious form of potential cost savings. Indeed, a Government Accountability Office report that examined states' programs to contract out engineering and other highway work to private firms found that it was "difficult to conclude that the use of consultants and contractors is more or less expensive than using public employees over the long term."[4]

## Potential Pitfalls of Privatization

Without proper safeguards, privatization can also pose significant and long-term threats to the public interest. Among the dangers of privatization are the following:

### Loss of Public Control Over Key Infrastructure

Governments and private entities have different goals in mind when it comes to managing public facilities. For government, the primary objective is (or should be) to serve the broader public interest. For private entities, the primary objective is to maximize profit.

These goals often come into conflict. For example, the operator of a toll road might decide that it can maximize its profit by increasing tolls—even if the toll increase results in fewer vehicles using the road. If the cars and trucks deterred by higher tolls are instead driven on local streets or on free, government-run highways, the result can be increased traffic and wear-and-tear on those roads and decreased quality of life for local residents—impacts that harm the broader public interest.

Privatization agreements typically include provisions that deter governmental actions that will erode the value of a privatized asset—for example, by forbidding government from building publicly owned facilities that would compete for customers, or by forcing government to compensate the private operator when governmental actions threaten to reduce revenue. These non-compete and compensation clauses reduce the ability of government to respond to the future needs of its citizens.

In addition, privatization agreements

typically include schedules that stipulate the amount that the private operator can charge in tolls or other fees for years—if not decades—to come. By signing a privatization agreement, the government gives away the power to delay or defer fee hikes, even if it is necessary to protect the public interest.

## Failure to Receive Full Value for the Assets

Supporters of privatization often claim that private entities can operate facilities more efficiently than government. However, privatization imposes a series of added costs that make it unlikely that taxpayers will receive the full value for privatized assets.

For example, private companies have higher long-term borrowing costs than governments. According to analysis by Dennis Enright at the investment bank, NW Financial Group, in 2007 public sector costs for raising capital through debt were a full 35 percent less than the lowest cost a private entity could hope to obtain.[5] Other academic studies confirm these consistently higher private capital costs.[6] Lenders understand that, especially over the long-term, government default is far less likely than potential company bankruptcy.

The impact of the private sector's higher cost of capital must be reflected in one of two ways: either lower upfront payments for public assets, or higher user costs such as tolls and parking fees. Upfront payments from private firms, while large enough to entice many budget-weary politicians, typically do not match the value that the government would gain over the long term by keeping the asset in public hands and charging the same level of tolls or fees (See "Putting a Price Tag on Public Assets," page 14.)

In addition, private entities must return profits to their shareholders and investors. Publicly owned facilities are generally not operated to skim off a profit from users, or to channel surplus funds into other public services (although some generate revenue for government coffers as a side benefit). By contrast, privatized assets must set user fees high enough to not only cover the cost of operations and maintenance but also pay for the compensation of shareholders and executives.

Finally, privatization deals create significant legal and monitoring costs for state or local governments. For governments to avoid unintended consequences, they must hire lawyers and analysts to conduct asset valuation, performance monitoring, and contract enforcement. The city paid Goldman Sachs $9 million for financial advice on the Chicago Skyway deal, for example, and has made similar large payments to other professional service firms that have assisted in the preparation of privatization deals.[7] Under a private deal, additional inspectors, financial experts and lawyers would be needed throughout the contract term to interpret the contract and potentially litigate to ensure that a private operator is upholding the terms of the deal.

## Long Contracts that Obligate and Constrain Future Generations

The loss of control and lost value from privatization are greatly compounded by the fact that privatization contracts often extend many decades into the future. Private investors prefer deals that are at least 50 years long, because that length allows them to qualify for large tax subsidies predicated on a transfer of ownership. While concessionaires seek the tax benefits, they may not necessarily desire the responsibility of ownership.

To appreciate how profound future changes will be over these time frames, consider these transportation-related milestones: Henry Ford introduced the Model T in 1908, 101 years ago and Congress created the interstate highway system in 1956, 53 years ago. Similarly, population changes during these time periods can be dramatic. Metropolitan areas have doubled their populations in the course of a few decades, creating huge changes in transportation needs. Massive, unforeseeable changes will likely take place for transportation technology, demographics, and the distribution of population over a multi-generational timeframe. In the face of such uncertainties, governments cannot predict future needs accurately enough to negotiate a deal that fairly allocates risks, dictates policy, or sets a fair price.

No contract can be crafted well enough to solve these problems. Even the most public-minded elected officials with the best lawyers and consultants cannot draw up a lease or concession contract that will predict the public's needs and contingencies in the distant future. For this reason, contracts that seek to predict future events which are inherently unpredictable can be associated with a need to renegotiate when unanticipated circumstances occur. Ambiguities in the future interpretation of a contract under unforeseen circumstances may have huge stakes and may need to be litigated.

# Privatization in Chicago: A Checkered History

Chicago has the most experience of any American city with the privatization of public assets. Beginning with the lease of the Chicago Skyway in 2005, the city has privatized city parking garages and parking meters, and attempted to privatize Midway Airport. Chicago's experience shows that the risks of privatization to the public interest are very real—particularly when key decisions are made outside of the public's view.

## Previous Chicago Privatization Deals

### Chicago Skyway

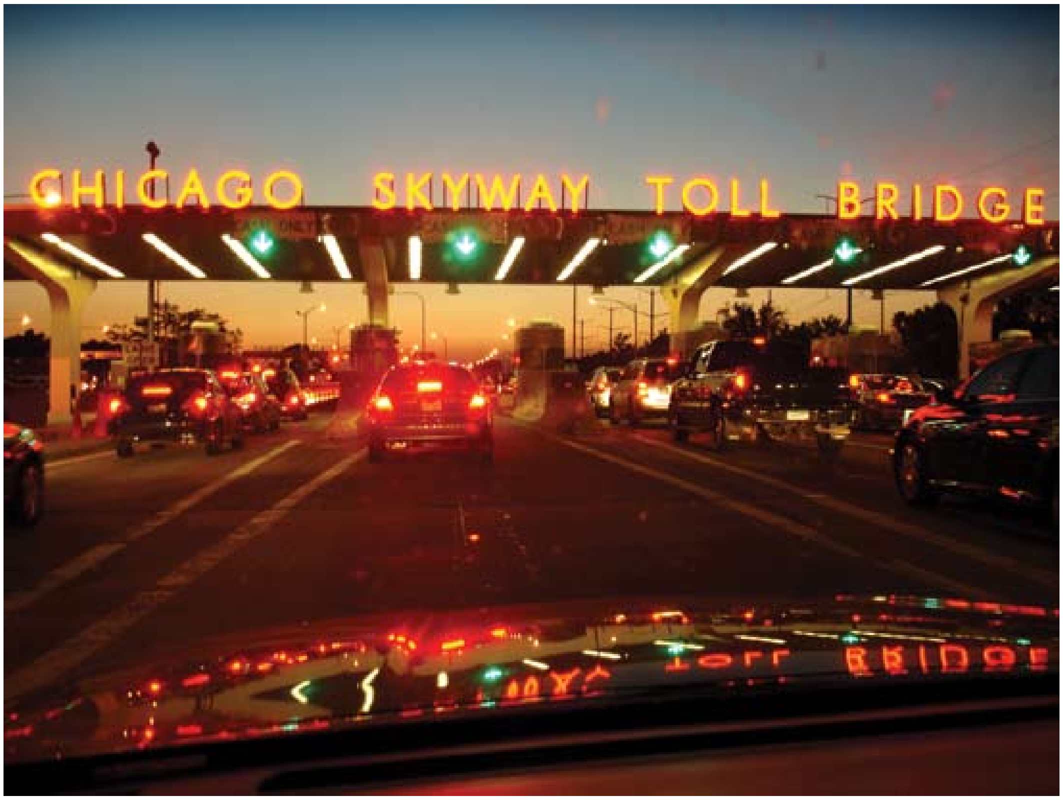
**Payment:** $1.8 billion
**When:** 2005
**Who:** Cintra-Macquarie
**Length:** 99 years

The 2005 lease of the Chicago Skyway to the Cintra-Macquarie consortium was the first long-term lease of an existing toll road in the United States.

Completed in 1958, the Skyway connects the Indiana Toll Road with the Dan Ryan Expressway. For many years, the Skyway was a mismanaged white elephant, even defaulting on the bonds used for its construction.[8] More recently, however, the Skyway had become a money-maker for the city, generating approximately $30 million in revenue annually from 1998 to 2002.[9] Indeed, by the late 1990s, Skyway revenue was helping to underwrite bonds used to pay for other citywide transportation projects.[10]

In 2004, the city opted to solicit bids for privatization of the Skyway. In an open bidding process, Cintra-Macquarie offered $1.8 billion for a 99-year lease of the road—twice as high as the nearest bid and much more than city officials were expecting.[11] Revenue from the Skyway lease was intended to fund a series of long-term and short-term city priorities, including:

- Retirement of $453 million in existing Skyway debt;
- Retirement of $392 million in city debt;
- Investment of $500 million in a




*The Chicago Skyway was the first U.S. toll road to be privatized.* Credit: Thomas Frederick Banks

long-term reserve, the interest from which can be used to augment city revenues.

- Dedication of $375 million to a short-term annuity to pay for city operating expenses (which expires in 2011).

- Dedication of $100 million to short-term social service programs (which expires in 2009).[12]

The most direct impact of the privatization on Skyway users was higher tolls. Tolls on the Skyway have already increased from $2 prior to privatization to $3 today.[13] The maximum toll level is scheduled to increase by 50 cents every two years, with tolls reaching $5 for cars by January 2017.[14] Beyond 2017, the privatization agreement allows Cintra-Macquarie to increase tolls by the rate of growth in inflation or per-capita gross domestic product (GDP), whichever is greater, or by at least 2 percent.[15] Over the 87 years between 1921 and 2008, nominal per-capita GDP in the United States increased nearly 70-fold.[16]

The amount paid for the Chicago Skyway was more than city officials were expecting, and it may have been higher than Cintra-Macquarie could sustain.[17] Macquarie has since written down the value of its investment in the Skyway—slashing its valuation by 20 percent during 2008.[18] In 2008, traffic on the Skyway dived by 7.1 percent, although revenue from the road increased by 3.3 percent due to higher tolls.[19]

In addition to the higher-than-expected price the city received for the Skyway, the Skyway privatization deal also did not include a "non-compete" clause, meaning that the city is able to improve free highways and public transportation options in the corridor without paying compensation to the Skyway's owner.[20]

The key question in evaluating the Skyway deal and other privatization deals is not whether the city could have obtained a larger upfront private payment or whether the deal is better than other privatization contracts. Rather, the important question is whether the city and its residents would be better off privatizing the road than maintaining ownership itself.

In the case of the Skyway, some analysts suggest that investors can still expect a substantial return on investment, even under conditions of low traffic growth, solely from their ability to increase tolls and obtain public tax subsidies.[21] Were the city to have proceeded with toll increases of similar magnitude to those allowed under the contract with Cintra-Macquarie, it is likely that the city could have generated even greater long-term revenue than it received in the Skyway deal. (See "Putting a Price Tag on Public Assets," page 14.)

The Chicago Skyway was, in many ways, the ideal resource for the city to privatize and it chose to privatize it at the ideal time. The Skyway is used largely by out-of-state commuters. There are competing free highways that offer drivers a (less convenient) alternative to the Skyway if they were to balk at higher tolls. The privatization also took place at a time when investors were prepared to offer generous terms as they sought out new opportunities for investment.

Still, there are legitimate questions about whether privatizing the Skyway was a good idea, given the potential for the city to generate similar or greater revenue from the resource over time.

## Downtown Parking Garages

**What:** Four downtown parking garages (Grant Park North and South, East Monroe Street and Millennium Park)
**Payment:** $563 million
**When:** 2006
**Who:** Consortium led by Morgan Stanley
**Length:** 99 years

Chicago's renowned park system draws visitors from across the city and around the world. To improve access to the parks for the age of the automobile, the Chicago Park District opened the Grant Park North garage in 1953. Over the ensuing decades, the Park District would open a second garage at Grant Park, as well as garages at East Monroe Street and Millennium Park. Together, the four garages account for more than 9,000 parking spaces in the heart of Chicago.[23]

The parking garage system not only increased access to the parks and other attractions in downtown Chicago, but it also acted as a revenue source, providing roughly $5 million per year for the park system.[24]

In 2006, the Park District's garages were privatized in a complex, three-way deal between the district, the city, and a consortium led by Morgan Stanley. In essence, the Park District transferred title to the garages to the city, which then leased them to the concessionaire. Of the $563 million paid for the 99-year lease on the garages, $208 million was used to pay off bonds from the construction of Millennium Park, while the Park District received the remainder of the money, minus transaction costs.[25] In addition to the upfront payment, the concessionaires committed to shouldering the estimated $65 million cost of rebuilding the East Monroe Street garage.[26]

The $348 million Park District share of the transaction went toward paying off bonds for the parking garages, funding the reconstruction of Daley Bicentennial Plaza following the rebuild of the East Monroe Street garage, providing a $122

*(continued page 16)*

## Putting a Price Tag on Public Assets

Assessing the value of a public asset over several generations is difficult. There are two specific challenges: the difficulty of estimating future risks and the need to come up with a correct present-day valuation for revenues that will be received decades into the future.

The prospect of dramatic technological change makes it difficult to assess either the upside or downside risk of an asset lease. For example, if, 75 years from now, the car is supplanted by some other form of transportation, the value of the Chicago Skyway or the city's downtown parking garages will be less than it is today. (Although these assets may have value for other purposes that the city would be unable to unlock if the assets are in private hands.) Conversely, changes that would increase the use of an asset or increase the rates that could be charged for its use would tend to lead to higher values over the long term.

In addition, the value of an asset *today* depends critically on how much or how little one values revenues that will be received in the distant future. A dollar in revenue received today is more valuable than a dollar received five, 10 or 75 years down the road, because the dollar received today could be invested to yield greater returns in the future.

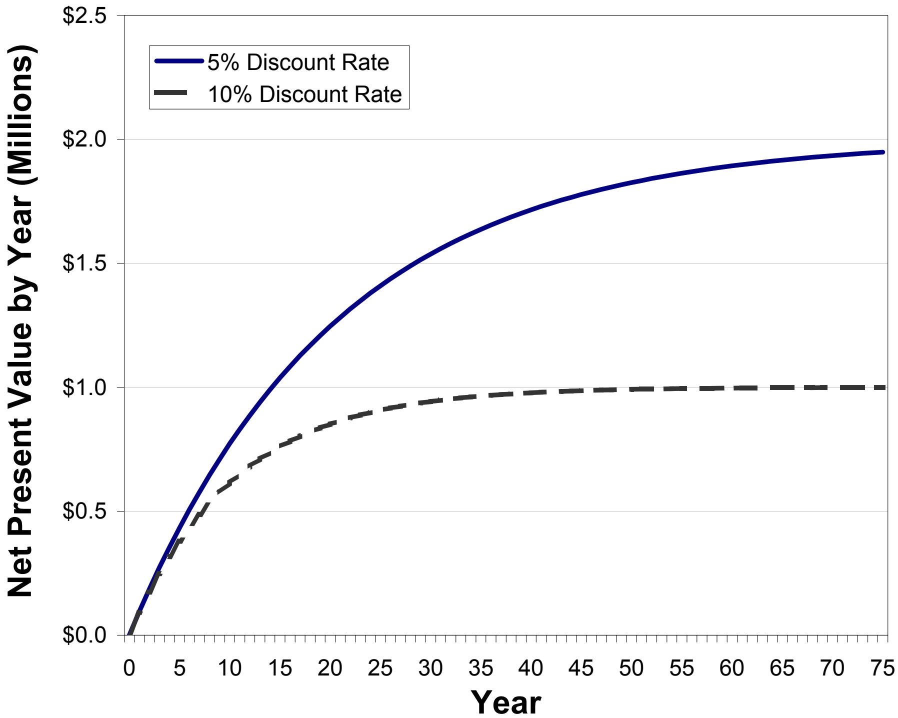
In economics lingo, the degree to which a dollar in revenue next year is perceived to be less valuable than a dollar received today is known as the "discount rate." For a long-term lease on a piece of public infrastructure, the selection of the discount rate is a critical factor in estimating the value of the infrastructure in present-day terms.

Consider an example of an asset that is expected to generate a net revenue stream of $100,000 each year in perpetuity. At a discount rate of 5 percent, the present-day value of $100,000 in revenues in year 25 of the investment is just over $29,000. In other words, exchanging $29,000 today is worth a payment of $100,000 to be received 25 years in the future. The present-day value of $100,000 in revenues to be received in year 75 is only $2,575. For the revenue stream as a whole, the *net present value*—the present-day value of all future revenues under this scenario—totals to just under $2 million.

By contrast, consider the same scenario, but with an assumed discount rate of 10 percent. Under that assumption, the present-day value of $100,000 of revenue in year 25 is only $9,200—less than a third of what it was with a 5 percent discount rate. The present-day value of $100,000 in year 75 is only $79. Thus, the net present value of all future revenues totals just under $1 million, or half of what it was with a 5 percent discount rate. (See Figure 1 for an illustration.)

The importance of the discount rate in valuing public assets was underscored in the Chicago Inspector General's report on parking meter privatization. The Inspector General calculated the value of the system under three different discount rates—the one used by the federal government when it sells public assets (approximately 5-5.5 percent), one produced by a leading model used in valuing public-private partnerships that incorporates future risks (7 percent), and the one

**Figure 1. Net Present Value of $100,000 Annual Revenues at Different Discount Rates and Time Frames**




used by the city's consultant on the deal, which assumed the higher cost of private capital (10 to 14 percent).

The results are startling. Using the 7 percent discount rate, the net present value of the parking meter system was estimated at between $1.7 billion and $2.6 billion (with the variation depending on assumptions about future parking meter rates and utilization). By contrast, the city received only $1.16 billion in upfront payments for the meter system, a "good deal" based on the city consultant's valuation of the asset.[22] These calculations were used to support the Inspector General's widely reported claim that the parking meter system would have been worth $974 million more to the city had it remained in public hands.

(For more discussion of the valuation of the city's parking meters, see "The Payout," page 21.)

The Inspector General's report illustrates an important point about public asset privatization—the fact that a public asset may fetch a lower private sale price than the value it would deliver if it remained in public hands. As a result, it is entirely possible that the city of Chicago may have gotten the best possible deal on its assets in the open market—and at the same time secured less value from those assets than would have been the case had they remained in public hands under the same terms as existed in the various lease agreements.


*The city leased its publicly owned downtown garages, including the one at Millennium Park (above), for $563 million in upfront payment.* Credit: Steve Geer, Istockphoto.com

million capital fund for neighborhood park capital improvements, and creating a long-term income reserve fund that will provide roughly $5 million per year to the Park District to offset the loss of parking garage revenue.[27]

The most immediate and visible result of privatization of the parking garages—as was the case with the Skyway—was an increase in user fees. Rates at the Park District garages, once among the most affordable options for parking in downtown Chicago, increased significantly. Rates at the Millennium Park garage, for example, increased by nearly 40 percent.[28] Unlike the Skyway lease agreement, the contract to lease the four parking garages set no limits on the rates the concessionaire could charge for parking, on the theory that the garages already face competition from numerous privately owned garages in the Loop.

The long-term implications of the lease are more questionable. The investment of $122 million in a capital fund for neighborhood park improvements should save the Park District the need to bond capital improvements, reducing debt service obligations while providing needed improvements around the city.

The $5 million income provided by the long-term fund, while it compensates for the loss of parking revenue in the short term, will come to be worth less and less over time, driving the Park District to dip into the fund's principal or to find new sources of revenue. Indeed, curbs in property tax revenue have already forced the Park District to tap $10 million in interest from the capital improvement fund and the fund set aside for reconstruction of Daley Bicentennial Plaza.[29] In addition, the Park District has sought to tap new revenue by converting 4,000 formerly free parking spaces along the waterfront to metered parking and increasing rates at existing pay spaces.

As with the Skyway lease agreement, the city spent large sums on professional services to make the deal happen. In total, $7.5 million was spent on legal, financial and professional services, more than 1 percent of the total upfront payout for the garages.[30]

## Midway Airport (canceled)

**Payment:** $2.5 billion
**When:** Privatization was approved by the City Council in 2008, but the deal was scrapped in 2009 when investors could not come up with financing.
**Who:** Consortium including Citi Infrastructure Investors, YVR Airport Services Ltd., and John Hancock Life Insurance Company
**Length:** 99 years

Chicago's first airport, Midway, plays an important role in connecting the Chicago region to the rest of the nation, serving as a center for low-cost airlines and a convenient option for travel close to the city's center. Midway has also served in recent years as an important revenue-generating asset for the city, netting approximately $8 million in operating revenue in 2006.[31]

The drive to privatize Midway Airport began in earnest in 2006, when the Illinois Legislature passed legislation to allow for privatization of the airport. A proposed 99-year lease for the airport was announced to the public in September 2008. Just eight days later, the City Council approved the lease arrangement, with no public hearings and little detailed information provided to the public.[32] The quick approval was said to be necessary in order to obtain approval for the deal from the federal government before the Bush administration left office.[33] The deal later collapsed, however, as the concessionaires were unable to secure financing.

Midway would have been the United States' first privatized major airport. The upfront payment would have been $2.5 billion, but approximately half of that

*Midway Airport would have been the first large U.S. airport to be privatized, but the deal fell through in the midst of the recent financial crisis.* Credit: Carl Lukasewich, www.carlsville.com amount—$1.1 billion—would have been used to pay off bonds used to finance capital improvements at Midway, including the major renovations completed earlier this decade.[34] An additional $225 million was dedicated to the costs of providing police and fire service at the airport over the first 20 years of the agreement.[35] Of the remaining approximately $1 billion to be paid to the city, 90 percent was required by law to be used for infrastructure projects and paying off the city's pension deficit, leaving approximately $100 million for other projects.

The Midway deal would have come with continuing obligations for the city, particularly the need to provide police and fire protection. Indeed, the cost of providing police and fire protection over the 99-year term of the lease could have exceeded $1 billion.[36]

Unlike the Skyway and parking garage deals, which did not require outside approval, the Midway deal was required to meet the conditions established by the FAA for its pilot airport privatization program. Among the FAA requirements were the approval of the lease by 65 percent of the air carriers using the airport.[37] Because the airlines—particularly Midway's largest carrier, Southwest—held the fate of the agreement in their hands, they received generous treatment under the agreement, including lower airport charges and substantial control over future capital improvements at the airport.[38] Airline fees to the airport were to have been capped for the first six years of the agreement, with increases over the next 19 years limited to the rate of inflation, not including levies for approved capital improvement projects.[39]

The ultimate impact the Midway deal would have had on travelers was unclear. The limitations on the increases in airline fees, combined with the continuing presence of competition from airlines flying out of O'Hare, meant that travelers were unlikely to see much impact in the prices of airline tickets. However, there was speculation that consumers might see higher prices for parking and for concessions. Because the fees paid by airlines would have been restricted under the deal, and because there is little room for additional development at the Midway Airport site, concessions—which accounted for nearly half of Midway's operating revenue in 2006—and parking would have been the main avenues for increasing revenue from the facility.[40]

The privatization agreement was approved by the Chicago City Council in late 2008, but the consortium's difficulty in obtaining financing for the purchase led to the plan being delayed and ultimately scuttled.

The Midway deal itself would have produced a short-term financial boost for the city, even as the city retained responsibility for providing public safety services at the airport over the long term. Ironically, however, the collapse of the deal provided a financial windfall for the city, as Chicago got to keep $126 million in upfront money provided by the concessionaires.[41]

## Parking Meter Privatization: A Bad Deal Done Badly

**What:** The city's system of 36,000 parking meters
**Payment:** $1.16 billion
**When:** 2008
**Who:** Morgan Stanley Infrastructure Partners
**Length:** 75 years

No city privatization deal has generated the same amount of public attention—or outcry—as the 2008 decision to lease Chicago's system of parking meters to a consortium led by Morgan Stanley. The early months of privatized parking meters were a debacle. Rates went up, quadrupling in some places, hours when drivers had to pay were lengthened, and malfunctions—ranging from jammed meters to meters with incorrect rate information—were common.

City drivers have responded with outrage—avoiding parking their cars at meters, organizing protests, and even engaging in outright sabotage.[42]

What is so different about the parking meter deal that it has created such a strong public outcry, while previous deals have not engendered widespread opposition?

The difference is *not* in the basic structure of the deal itself. Indeed, the parking meter deal follows the same basic template as all previous Chicago privatization deals—the city received a large upfront payment in return for a long-term lease of a revenue-generating asset. The terms of the deal allowed the private operator to increase rates on consumers, generally within limits. The city is deterred from "competing" with the privatized service (e.g., by setting up cheaper meters elsewhere). And the revenues from the sale are directed toward a mix of short-term projects and long-term funds intended to produce investment revenue the city can use for years to come.

What made the parking meter deal especially problematic—even by the standards of previous deals—was the nature of what was privatized. The Skyway, Midway Airport and the downtown parking garages could all be considered "non-core" assets of the city. Each facility provides important public services, and each generated revenue to support other functions of city government. But many city residents could go months, years, or even decades without using any of those facilities. And in some cases, such as the Skyway, the main users of the facility reside outside of Chicago's city limits.

The parking meter system, on the other hand, touches the lives of most Chicago residents—many of them on a daily basis. With more than 36,000 meters, the city's metered parking system includes four times as many spaces as the city's four now-privatized downtown parking garages. The greatest concentration of metered spaces is downtown, but metered spaces exist in many of the city's wards. By reason of the system's size and extent, the impact of parking meter privatization was always going to be more deeply felt than previous privatization efforts.

Moreover, regulation of curbside parking is a major element of transportation policy—a central function of city government. Curbside parking, as any Chicagoan knows, is a scarce resource. Without parking meters, drivers would be free to occupy choice parking spaces at no cost for hours or days at a time—making it hard for shoppers or others making quick stops at local businesses to find convenient places to park.

Setting the right prices, time limits, and hours of operation for curbside parking is no simple matter. Despite the inevitable complaints from drivers when parking meter rates rise, charging more for parking can be a *good* thing—encouraging would-be drivers to walk, bike or take public transit instead of driving, and promoting faster turnaround of parking spaces to reduce the amount of time drivers must spend "cruising" for a spot. This is particularly true in the Loop, where public transportation options abound. On the other hand, however, setting rates too high in a given area can discourage people from shopping or doing business in city neighborhoods, encourage drivers to seek free parking on side streets, or push drivers to "chance it" by parking illegally.

Cities face similar difficult decisions in determining where to put parking meters—or answering the more fundamental question of the degree to which the city's valuable "curbfront property" should be devoted to the storage of cars as opposed to bike lanes, bus stops, wider sidewalks or other urban amenities.

The amount of money parking meters generate for city coffers, therefore, is but one of many competing factors in determining how the city's parking meter system should be run—and, arguably, should be among the less-important factors influencing those decisions. As a result, any privatization deal must not only deliver financially for the city's taxpayers but must also deliver benefits for the broader public interest if it is to be judged a success.

How did Chicago end up in its parking meter mess? And what have been the ramifications?

## The Process

As with other privatization efforts, the city's parking meter leasing scheme was initiated behind closed doors. Reportedly, the idea for privatizing parking meters emerged not from city officials but from William Blair & Company, a consultant that had been paid millions of dollars for its work with the city on previous privatization deals and would eventually bill the city more than $4 million for its work on parking meter privatization.[43]

The city began exploring a deal to privatize the parking meters during the summer of 2007, but the plan was first announced to the public in early 2008 as the city opened its process for seeking qualified bidders from private firms interested in running the system.[44] In April, the city sent out an information packet to bidders with the outlines of the proposed lease—including the city's proposal to increase parking rates dramatically.[45] The city finalized the proposed lease agreement in September and solicited bids. In October, anticipating the meter lease, the city included $150 million in proceeds from the anticipated sale in the city's budget—creating intense pressure to complete a deal at a time of a growing budget crunch because failing to do so would force critics of meter privatization to propose substantial tax increases or cuts in other city services that would otherwise be seen as avoidable.[46]

In late November, the city received formal bids for the meter privatization and on December 2 the city announced that a Morgan Stanley-led consortium was the high bidder. The deal was then hustled through the City Council with little information or time for public debate. There were no public hearings and no independent analysis of the deal assessing the pros and cons of leasing the meters. Importantly, there is no indication from the city's official timeline of events that the city ever formally considered alternatives other than privatization for the city's parking meter system—such as bonding against future meter revenue while retaining ownership of the system or contracting out the management of the system for a set fee.[47]

Aldermen were not provided with a copy of the ordinance approving the lease—which, including the contract itself and attachments, ran to 277 pages—until the morning that the Finance Committee approved the deal, on December 3. The next day, December 4, the City Council approved the lease deal by a vote of 40-5, committing the city to a 75-year lease of its parking meter system.[48] By February, the deal had been closed and control over the meters turned over to the consortium, with the day-to-day operation of the system taken over by LAZ Parking.

The process for the parking meter lease was similar to that employed in previous privatization agreements. While aldermen and the public had less time to consider the deal than previous agreements, the difference was not great (two days versus one to two weeks for previous deals). The most important parts of the process—the drafting of the privatization agreement in particular—took place almost entirely out of the public eye. There was no formal process for evaluating or publicizing the costs and benefits of the parking meter privatization plan—either for the city's finances or the public interest as a whole. And there was no formal way for the public—even if it had been given the tools to assess the impact of the deal—to make its voice heard and influence the outcome.

The result is a deal that Chicagoans will have to live with for the next several generations—or pay dearly to escape.

## The Payout

The city received $1.16 billion for the parking meter lease. The proceeds were divided among a mix of short-term spending and long-term investments. Specifically, funds were allocated as follows:

- $400 million for a long-term reserve/reinvestment fund (which is anticipated to provide $20 million per year to replace lost revenue from the meters)[49]
- $325 million in "mid-term budget relief" to help cover city deficits through 2012 (of which $100 million has already been used, with another $50 million used in 2009)[50]
- $100 million to a human infrastructure fund for social programs
- $320 million in a "budget stabilization fund" that could be used if the recession proves to be deeper or longer than expected.[51] This entire "rainy day fund" could be drained by the end of 2010.[52]

Of the $1.16 million payout, then, only $400 million will likely remain available to the city beyond the next several years. As was the case with the parking garage privatization deal, the estimated $20 million in annual revenue provided from the long-term reserve/reinvestment fund will help replace parking meter revenues in the city's budget in the short term, but could lose value over time due to inflation. Eventually, the city will need to replace revenue that would have been gained through increases in parking meter rates with revenue from other sources, such as taxes.

One of the most controversial questions regarding the parking meter deal is whether the city received full value for the resource. The city's Inspector General criticized the privatization agreement as a "dubious financial deal," claiming that the parking meter system was likely worth at least $2 billion to the city over the term of the agreement.[53] City officials criticized the findings on the grounds that the inspector general placed greater value on meter revenues in the distant future than was warranted.[54]

Who is correct? The simple answer is that we'll know for sure in 75 years. There is, however, ample reason to be skeptical about whether the city received its money's worth.

The city's defense of the privatization deal hinges on the notion that the private sector delivered something that the public sector couldn't deliver—either in the form of higher meter rates that bring in more revenue, better meters operated with greater efficiency, or a better deal on financing.

**Higher meter rates** – In the case of higher meter rates, the city's case is that the city would not have had the political will to embrace a rate hike of similar size without privatization—in other words, that the city is receiving revenue from the meter privatization deal that it would not have received otherwise. Indeed, the city had not increased rates at some meters in decades and previous discussions of meter rate increases had been met with strong reservations from elected officials. However, the city *did* impose a major rate increase as part of the privatization deal. It is hard to imagine that the negative reaction to a similar rate increase would have been any greater than the hostile reaction provoked by the privatization deal. Finally, as the Inspector General's report pointed out, several other cities have imposed rate increases of similar size without privatization.[55]

**Advanced meters** –Another argument, presented by the city's consultant in the meter deal, William Blair & Company, is that the capital improvements made to the meter system—specifically the installation of "pay and display" meters—would have been difficult for the city to finance itself.[56] Without privatization, the argument goes, the city would have continued to rely on coin-fed meters indefinitely. However, the city did have alternative ways to finance meter modernization, which brings increased revenue into the system. It could have chosen to issue general obligation bonds, thus obtaining capital far more cheaply than a private investor could. Or it could have issued revenue bonds secured by parking meter revenues, as the city of San Francisco has done for many years. In any case, the new pay and display meters, while paid for by the concessionaire, are not a "free" bonus in the deal. On the contrary, they have either already been paid for in a lower upfront payment than the city would have otherwise received, or will be paid for in the form of increased meter fees paid by Chicago drivers.

In terms of operational efficiency, as mentioned earlier, private companies enjoy no inherent advantages in the operation of public infrastructure. Even if they did enjoy such advantages, the annual operating cost of the meter system is only approximately $4 million—a small fraction of the nearly $22 million in revenue brought in by the system in 2006.[57] Even a dramatic reduction in operating costs would only provide a relatively small increase in the amount of additional net revenue produced by the system—and nowhere near the amount of additional revenue generated by the recent rate hikes.

**Financing** –Finally, the city's consultant argues that a similar deal would have been difficult or impossible to finance without privatization. The consultant claims that the issuance of $1 billion in bonds secured by parking meter revenue would result in bonds that sold at prohibitive double-digit yields, "if they could be sold at all."[58]

The argument made by the consultant suggests that the private-sector bidders for the parking meter system could secure financing at lower expense than the city could under the same conditions (i.e., with the rate hikes in place). Such a circumstance would be highly unusual—as noted above, governments are nearly always able to borrow money less expensively than private sector actors. (See page 9.) Few would argue, for example, that the city of Chicago is inherently more risky than Morgan Stanley, which, it should be recalled, was the beneficiary of a federal bailout just weeks before submitting the winning bid for city's parking meter concession.

Even if the consultant is correct that the city would not have been able to finance the same deal under the same terms, that is not to say that the city could not have financed a *different* deal under *more beneficial* terms. Among the consultant's reasons for arguing that the Inspector General's higher valuation of the parking meter system was incorrect was that the Inspector General understated the riskiness of the deal for the private investors, with two leading contributors to that risk being the large size of the deal and its 75-year length.

Instead of choosing a long-term lease for all of the system's revenues, the city could have chosen a shorter-term lease, or to issue bonds off of a part—rather than all—of the city's parking meter revenue, thereby reducing the risk and enabling the city to get a better interest rate on the deal. The city of San Francisco has pursued this approach for years, issuing bonds secured by parking meter revenue to fund the construction of parking garages.[59]

Finally, unlike previous privatization deals, the parking meter lease deal did not result in a reduction in the city's long-term debt obligations—thereby improving the city's financial standing. The deals for the Skyway and the parking garages, and the failed deal for Midway Airport, all involved the retirement of substantial amounts of debt tied to those facilities. On the contrary, the parking meter deal threatens to *harm* the city's long-term financial standing by diverting a stable source of funding—parking meter revenues—from the city's general fund.

In summary, while the financial winners and losers of the parking meter deal can't be known for decades, there is ample reason for skepticism that the city received full value for the meter system. As the Inspector General's report suggests, the parking meter system was likely worth more to the city if it had remained in public hands than as a privatized asset. And the city could have achieved similar results, with less long-term risk, if it had leased the meters for a shorter term or found a way to monetize the value of the meters without privatizing them.

The financial impact of the parking meter deal, however, is just part of the story. Even if the city were to have received financial gain from the privatization, the other impacts of the deal may have made it a losing proposition for Chicagoans.

## The Impacts

### Higher Rates and Longer Hours

Parking meter rates increased immediately upon the transfer of the city's parking meters to the private entity. Meter rates in the city's neighborhoods increased from between 25 and 75 cents per hour to $1 per hour. Meters in central business districts outside of the Loop doubled in cost from $1 to $2 per hour, while meters within the Loop increased from $3 to $3.50 per hour.[60] Rates are scheduled to continue to increase over the next several years—by 2013, meters in neighborhoods will cost $2 per hour (an increase of between 167 to 700 percent versus rates in place prior to privatization), while business-district meters will cost $4 per hour and meters in the Loop $6.50.[61]

Along with higher rates have come longer hours of operation. The days of free Sunday meters and meter holidays are largely over. Now, most meters throughout the city will operate from 8 a.m. to 9 p.m., seven days a week, with meters in the Loop operating 24 hours a day (albeit at discounted rates during the overnight hours).[62] The Inspector General's report estimates that the new meter policies will add 35 million hours of parking meter operation each year, creating additional opportunities for the private entity to gain revenue from the meters.[63]

The city has argued that parking meter rates prior to privatization were too low, and that rates at many meters had not been increased in 20 years. Indeed, there are good reasons why Chicago might want to increase meter rates—to encourage the use of transportation alternatives, perhaps, or to encourage faster turnaround of parking spaces so as to discourage "cruising" for spaces, which wastes fuel and contributes to traffic congestion.[64] But the schedule of rate increases included in the privatization plan is inflexible (the city must pay compensation to the concessionaire if it opts not to move forward with the rate increases) and does not appear to be have been grounded in any serious analysis of its impact on the transportation system.

In essence, the privatization deal marked a paradigm shift from one in which parking meters were mainly an instrument of transportation policy (and only incidentally a money-raiser) to one in which parking meters are primarily a cash cow. With the privatization deal, Chicago has already milked that cow for the next several generations.

Higher rates and extended hours have

not only sucked more money out of Chicagoans pockets, but have also changed the way drivers are using (or not using) metered parking spaces. (See “Impacts on Businesses and Neighborhoods,” below.)

### Equipment Malfunctions

The transition to private management of the city’s parking meters was anything but smooth. Following the rate increase, drivers complained that many meters had incorrect rate information, while many meters became jammed with quarters once the new, higher rates took effect.[65]

The privatization contract requires the concessionaire to replace traditional coin-fed meters with “pay and display” meters once the rate in a given area exceeds $1.50 per hour. However, even the new machines have experienced problems. In May, an outage blamed on a “computer glitch” disabled some new pay-and-display machines, leading Chicago police to cease writing parking tickets for the day.[66]

In response to the operations breakdowns this spring, city workers were forced to help fix problems with the meters, billing the concessionaires for the expense.[67]

Also hampering the operation of meters has been a wave of vandalism, as drivers frustrated by the new parking meter system took matters into their own hands.[68]


*Vandalism of city parking meters spiked in the wake of the privatization deal.* Credit: Josh Wellington

### Impacts on Businesses and Neighborhoods

One result of the increase in rates and general outrage about the parking meter deal is a sharp drop in the utilization of meters. There is plenty of anecdotal evidence of metered parking spaces being left vacant as drivers scramble to take advantage of the limited free spaces available on side streets across the city. During City Council hearings held in early July, at least two aldermen complained that many meters in their wards remain empty—a situation that was drawing complaints from local businesses.[69] According to one Albany Park businessman, interviewed by NBC5 News, “You start looking out the window and there are less and less cars parked. And there’s less customers coming in.”[70] The change in operating hours for many meters across the city has forced some residents—including those who may have enjoyed free parking on Sundays or in the evening—to change their habits. The overflow of cars from drivers seeking to avoid metered spaces, meanwhile, threatens to increase congestion on side streets with free spaces.

Under the now-privatized system, the concessionaire bears the *financial* risk of reduced parking meter utilization. But it is the city’s drivers and businesses that bear the *public policy risks* of abandoned meters in shopping districts and crowded residential side streets.

### Loss of Control Over Transportation Policy

Among the biggest downsides of the privatization of parking meters in Chicago has been the loss of control over transportation policy.

Recall that the primary role of parking meters is not to make money for the city. Rather, it is to promote effective transportation policy, ensuring the turnover of parking spots in business districts, discouraging drivers from "cruising" for parking, and the like. Rules regarding the placement, rates and hours of operation of parking meters can have a significant effect on the ease with which Chicagoans can get to work, shop, visit family and friends, and even maintain a comfortable lifestyle as city residents.

As such, it is dangerous for a city to become reliant on parking meters for revenue, particularly when those revenues are directed to the city's general fund (as was the case in Chicago), as it increases pressure to see meters as a cash cow, rather than as an instrument of sound transportation policy.

City officials strenuously contend that the parking meter privatization deal has not resulted in the city ceding control over transportation policy. They argue that the city retains control over the public way and that the privatization agreement vests with the city the ability to dictate parking rates, meter location and hours of operation. Moreover, while the city must pay the concessionaire compensation if changes to the meter system were to reduce revenues, city officials argue that the situation is no different than the situation prior to privatization, when the city would also have had to account for lost meter revenue.[71]

However, privatization of the city's parking meter system has had the effect of *raising the price tag* on future changes. The higher rates and longer hours of operation included in the privatization agreement will more than double the amount of revenue brought in by the parking meter system.[72] An April 2008 analysis by William Blair & Company, the consultant that developed the deal, found that the greatest increase in revenue will come not from parking meters in the Loop, but rather in the city's outlying neighborhoods, where meter rates quadrupled overnight.[73] The compensation the city will be forced to pay the concessionaire for removing meters will therefore be much greater than it would have been prior to the rate increases—especially in the city's neighborhoods.

Making changes to the system appear even more costly is the fact that the city of Chicago has already received the revenue from higher parking meter rates as part of the upfront payment it got from the privatization deal. If the city were to remove parking meters, or make other adjustments that cut into revenue, it must essentially pay the concessionaire back.

The threat of having to pay compensation for changing the location, pricing or hours of operation of meters is already hanging over the heads of city decision-makers. As reported in the *Chicago Reader*, one alderman, unhappy with the extension of hours of operation for meters in his ward, inquired with the city about restoring the old hours of operation for 270 meters. The cost, he was told by the city's Department of Revenue, would be $600,000 over three years. The alderman dropped the proposal.[74]

The requirement to pay compensation for the removal of meters limits the city's flexibility in changing the use of some of the city's most valuable real estate—the "curbfront property" on its streets.

The concession contract also cedes control over public policy in other ways:

- **Enforcement**: The contract assumes that the city will continue to enforce parking laws—including the city's vehicle immobilization policy (the "boot")—in substantially the same manner that it had prior to privatization. The city is contractually required to boot the vehicles of parking ticket evaders and to pursue license suspensions, even when tickets are issued by the private operator. The contract even stipulates the maximum number of notification letters the city can send to violators before booting their vehicles (three) and the amount of time that can elapse before the city refers unpaid tickets to a collection agency (180 days).[75] In addition, the contract requires the city to pay compensation to the concessionaire if the fine for a parking violation falls below a certain ratio in comparison to the hourly parking rate.[76] The city must even compensate the concessionaire if meters are taken out of operation for emergency parking bans, snow closures, street closures or construction for more than a certain number of days in the year.[77]

- **Non-compete clause**: The contract also states that the city "will not operate" and "will not permit the operation of" a new competing public parking facility, including off-street lots or garages within one mile of a concession parking space, unless it charges rates at least three times higher than those in place at the metered spots. There are some exceptions to this—including park-and-ride lots, lots supporting affordable housing, and those at sports stadiums or used for special events.[78] In general, however, the agreement sharply limits the city's ability to expand public parking outside of the concession, should it become appropriate to do so.

**No Way Out**

As public outrage over the parking meter situation has reached a boiling point, many Chicagoans have asked why the city can't just get out of the deal. The problem is that the terms of the agreement make it very difficult for the city to escape—at least without paying a hefty price.

Revocation of the agreement would at least require the city to pay "fair market value" for the remaining value of the concession, as well as any additional expenses imposed on the concessionaire stemming from the early termination.[79] The city also could be open to a lawsuit.

Given that a significant amount of the upfront money paid to the city in the privatization deal has already been spent, Chicago would need to dig deep to buy back a parking meter system that it had just sold off. And because the city negotiated an extremely long-term lease for the meters—75 years—city residents could instead be stuck with the deal for generations.

## Common Elements of Chicago Privatization Deals

Privatization of the city's parking meters may hold the most profound implications for the city's future of any of the privatization deals considered thus far. But, as noted earlier, the process by which the parking meter deal was developed and approved and the actual structure of the deal itself were not substantially different from previous privatization deals. Indeed, the city's privatization deals share several characteristics:

- **Contract terms that limit concessionaire's risk.** The city must pay the concessionaire compensation if it takes actions that reduce income to the concessionaire—for example, by entering the Skyway to conduct repairs on neighboring roads or to do utility work. The city's privatization contracts shield the concessionaire from certain future changes in the tax code, including the imposition of a leasehold tax, which could trigger the termination of the agreement and require the payment of compensation by the city. In the case of the Skyway contract, the concessionaire is also protected from the risk of a *force majeure* (colloquially known as an "Act of God") that would destroy or render parts of the Skyway unusable, by enabling the concessionaire to raise tolls or extend the term of the agreement to recover lost revenue.[80] Finally, both the contracts for the parking garages and the parking meters include non-compete clauses that prevent the city from opening similar facilities nearby, even if they are deemed necessary to serve the public interest.

- **No formal evaluation of impacts on the public interest and failure to obtain an independent financial analysis of the value of the asset to the city.** Chicago has not undertaken important evaluations to ensure that its privatization deals are in the best interests of the public or the city. A report by the U.S. Government Accountability Office (GAO) noted that the city did not undertake rigorous tests of how the Skyway deal would affect broader aspects of the public interest, such as impacts on local communities and regional mobility.[81] In addition, the city did not undertake a financial evaluation that compared the value of the privatization deal with the value to the city of keeping the asset in public hands with the same toll hikes. The lack of an independent financial analysis that compared the benefits of private versus public ownership was a critical shortcoming of the process used for privatization of the city's parking meters—a deficiency highlighted by the city's Inspector General.[82] Such evaluations must take place in order to ensure that the public interest is safeguarded in any privatization deal.

- **A process that takes place largely outside of the public eye, with no opportunity for public input and little outside scrutiny.** In each of the city's privatization efforts, the initial stages of development took place behind closed doors. In the case of the Skyway, privatization was under discussion and development for several years prior to the issuance of a formal request for qualifications in March 2004.[83] Only 16 days elapsed between the due date for final bids and the City Council's approval of the winning bid for the Skyway in October 2004.[84] The timeline for approval of later privatization deals was even shorter—eight days in the case of the Midway Airport deal and just two days for the parking meter deal. In each case, there were no formal public hearings that would have enabled city residents to voice their opinions—or raise questions—about the potential impacts of privatization.

- **High transaction costs that cut into the value of the deal.** The city has hired a variety of legal and financial advisors to structure its privatization deals and usher them to completion. For the three deals completed to date, the city has paid more than $26 million in fees to lawyers, accountants and other advisors.[85] In the case of the Skyway, these advisors cost $12 million. The investment bank, Goldman Sachs, received the lion's share of these funds, taking away $8.4 million in consulting contracts.[86] Not only are these fees expensive, but in some cases, the city has secured the services of these advisors outside of the normal bidding process, leading to questions about the potential for conflicts of interest.[87]

- **Multi-generational leases.** The deals for the Skyway, Midway Airport and the parking garages involved 99-year leases, while the parking meters deal will last for 75 years. In each case, by negotiating such long-term deals, the city has given itself limited options for getting out of an agreement if it were to prove disadvantageous, and has saddled future generations with the prospect of privatized assets, even though the revenues from the sale of those assets will likely have been spent long before.

These shortcomings are not the inevitable by-product of privatization deals. Indeed, there are jurisdictions that pursue a more careful and rational approach to privatization—and that have tools for guaranteeing the transparency of governmental decision making in all areas, including privatization of public assets.

# Protecting the Public and Ensuring Transparency in Privatization Deals

As the experience of privatizing Chicago's parking meters has demonstrated, there are major risks involved in privatization deals, and bad deals can burden a city for generations to come. At the same time, the city's experience with privatization has shone a spotlight on the lack of transparency and accountability in city government more generally.

To prevent future bad privatization deals, the city of Chicago should embrace thoughtful principles for asset privatization, adopt rules to ensure that privatization proposals receive a thorough vetting before they are adopted, and embrace a commitment to government transparency more generally. City and state governments across the country provide examples of how privatization can be handled in a more transparent and effective way—and how cities and states can provide greater transparency in all aspects of government.

## A Thoughtful Approach to Privatization

The decision to privatize a public asset is an important one with long-term implications for the taxpayers and government as a whole. It is critically important that jurisdictions considering asset privatization do so carefully and according to principles that put the broader public interest ahead of the desire for a short-term infusion of money.

### Principles for Privatization

Any proposed privatization of a public asset should be done with goals in mind that extend beyond maximizing the initial payout for the asset. Specifically, there are six principles that governments should use in evaluating privatization proposals:

**The public should retain control over decisions that affect the broader public interest.**

Governments invest in building infrastructure with broad public interest goals in mind. For example, a city may build a parking garage to encourage tourists to visit the city or to correct a market failure in which private entities provide too little parking. The fact that these assets generate revenue is a nice bonus to taxpayers, but not the primary reason for the initial investment.

As such, any deal to privatize a public asset must ensure that the public retains control over uses of that asset that affect the broader public interest. The Chicago parking meter privatization deal, for example, explicitly retains the city's control over the use of public ways and gives the city permission to establish the location, rates and hours of operation of parking meters. The structure of the deal, however, imposes financial costs for the exercise of that authority, creating serious obstacles to making policy in the public interest.

**The public must receive fair value so future revenues are not sold off at a discount.**

Public officials—particularly during times of budgetary stress—face extreme pressure to meet their budgets without raising taxes or cutting services. Long-term asset privatization deals can provide a quick fix, delivering an immediate infusion of funds while deferring the consequences until well after current public officials leave office.

That is why it is critical that there be close scrutiny of the terms of privatization deals to ensure that the public gets fair value for the asset. In particular, there must be independent, third-party valuation of the resource to be privatized that compares the likely price that could be received for the asset on the open market with the value of keeping the asset in public hands with the same allowable fee schedule sought by the private entity. It is also important that privatization be compared with other options—including monetization of future revenue and the privatization of management functions without a transfer of ownership—so that decision-makers can choose among several viable options for achieving their goals.

**No deal should last longer than 30 years because of uncertainty over future conditions and because the risks of a bad deal grow exponentially over time.**

Multi-generational time frames—such as 75 or 99 years—are common in privatization agreements because they allow private companies buying public assets to gain preferential tax treatment. However, these terms bind future generations to the consequences of decisions made by today's political leaders. The Chicago Inspector General, in his report on the parking meter privatization, noted that the city had several options for pursuing shorter-term leases of the meter system that could have generated significant revenue while reducing the long-term risks of a bad deal.[88]

**Contracts should require state-of-the-art maintenance and safety standards instead of statewide minimums.**

It is likely that great technological changes will occur between now and the time that today's concession contracts have ended, 75 to 99 years from now.

Currently, concession contracts come with detailed and elaborate operating standards that lay out in detail exactly how the asset should be maintained and managed. The concession agreement for the Chicago Skyway, for example, includes a 226-page manual of operating standards that details the criteria for proper maintenance and operation of the Skyway.[89] However, it is impossible for any manual or contract to anticipate all future conditions. For example, the Skyway operating standards include a requirement that the concessionaire operate a Web site with consumer information—a requirement that would certainly not have been a part of the operating standards had they been written 15 years ago. The Skyway agreement does give the city the right to update the standards to reflect new laws or the most recent practices adopted by other governments operating similar highways.[90] Further changes, however, must be paid for by the city and could trigger the payment of compensation to the concessionaire. The Midway Airport concession deal, which ultimately fell through, included a provision required under the Federal Aviation Administration's pilot privatization program that assures that "safety and security at the Midway Airport Facility will be maintained at the highest possible levels."[91]

**There must be complete transparency to ensure proper public vetting of privatization proposals.**

The process of privatizing a public asset must take place in the open from beginning to end. The public should be aware of every step that is taken in pursuing a privatization proposal—from the initial hiring of a consultant to develop a valuation to the development of a draft agreement to the solicitation of proposals to the selection of a winning bidder. The selection of vendors should take place according to a jurisdiction's open bidding laws, and there should be a strong presumption that all information gained during the privatization process be made public. Legitimately proprietary information such as traffic analysis studies may be restricted for a few years from general public disclosure, but some public entity rather than the companies themselves must judge what documents deserve to be treated as proprietary. There should also be a proper amount of time allotted, including time for public hearings and ample time for review of the proposed agreement, before a privatization agreement is finally approved.

**There must be full accountability in which the governmental body must approve both that a deal be negotiated and the terms of a final deal.**

Legislatures or city councils must be involved at two stages of the privatization process—the decision to solicit bids under particular terms and the acceptance of a final deal. It is not good enough for legislators to approve the authority to solicit bids and then avoid being counted in terms of their position on a final deal. In other words, elected officials must have the ability to both shape the terms under which assets may be privatized and to approve the final deal that is presented to them. Transparency is also critical to avoid both corruption and the appearance of corruption, thereby helping to assure public legitimacy for any privatization deal.

## Who Is Getting It Right?

There are some jurisdictions that have applied these principles to privatization proposals, producing results that are more legitimate in the public eye and that result in greater benefits for the public.

**Public Interest Tests**

As noted earlier, public infrastructure is built not primarily to make money but rather to achieve other public interest goals. As a result, efforts to privatize public assets should be rigorously evaluated in order to ensure that privatization protects the broader public interest.

Among industrial nations, Australia has perhaps the most experience with privatization of public infrastructure. The Australian state of Victoria subjects proposed public-private partnerships to a series of tests designed to evaluate whether they are in the public interest, including evaluations of the proposed project's:

- effectiveness in meeting specific public policy goals
- accountability and transparency
- impact on affected individuals and communities
- equity, in the sense that it provides for

disadvantaged groups to also make use of the infrastructure

- guarantees of public access
- protections for consumer rights
- safety and security
- protection of privacy[92]

While some of these criteria are more applicable to certain privatization proposals than others, these are the minimum criteria by which projects should be evaluated.

**Assuring Fair Value: Comparing the Alternatives**

In the case of the parking meter privatization proposal, aldermen were called upon to make a single up-or-down vote on a plan, the revenues from which were already included in the city's budget. Other ideas for generating revenue from the parking meter system while maintaining city ownership—from raising rates to contracting out the day-to-day operation of the system to securitizing future revenue from the meters—were apparently never considered, and were certainly not pursued as serious options.

No government entity should pursue a long-term privatization agreement without considering all of the available options for meeting its public policy goals. When governments take the time to undertake a thorough, rigorous analysis of privatization, they often come to the conclusion that options other than full privatization make sense.

The state of Oregon, for example, developed a model that compared the costs of a public-private partnership with the costs of pursuing a project as a public endeavor. They determined that the added costs of the public-private partnership were not worth the risk transferred from the public to the private operator.[93]

Similarly, Harris County, Texas, conducted an evaluation that examined several different models for the future of its toll road system, including privatization. The analysis concluded that there was little to gain from a long-term lease and the county ultimately maintained control of the asset.[94]

Foreign governments considering privatization conduct similar analyses, evaluating whether entering a public-private partnership creates value for the public compared with other alternatives.[95]

By undertaking rigorous analysis of privatization proposals and comparing them with other alternatives for management of those resources, cities and states can make sure that they are taking actions that are in the long-term public interest.

**Limiting the Length of Privatization Agreements**

Governments can also impose specific limits on the length of concession agreements with an eye toward avoiding committing future generations to the ramifications of a privatization contract. In 2007, Texas, which has had a great deal of experience with infrastructure privatization, adopted legislation that limits the terms of concession agreements to 50 years.[96]

European countries, which have extensive experience with infrastructure privatization, now generally limit the length of concession agreements to 21 to 35 years, compared with earlier contracts of 75 to 99 years.[97] An evaluation of European practices produced for the U.S. Department of Transportation explained that contracts of this length correspond with "the accepted lengths of government bonds, commercial mortgages, and *reasonable risk assessments*" (emphasis added).[98] Some countries, such as England and France, are considering requiring infrastructure concessions to be renegotiated every 7.5 years to ensure that the agreements do not deliver excessive profits to the private entities.[99] The evaluation recommended that the United States adopt contract lengths of 30 to 35 years for similar projects.

### Transparency in the Privatization Process

To ensure that the public has the ability to scrutinize and voice its opinion about privatization proposals, all aspects of the privatization process should be open to the public.

In early 2009, citing Chicago's experience, the city of Pittsburgh began exploring privatization of its system of city-owned parking garages. Pittsburgh officials, however, have thus far followed a markedly different and more transparent path in their exploration of privatization. First, the city's mayor announced publicly that he was considering privatization.[100] The city clearly, and from the very beginning, identified how it would use the proceeds from the sale: to bail out the city's pension fund. The city's Parking Authority solicited bids from consultants to explore the potential for privatization, charging the consultants not only with identifying the plan that would "yield the best return … on assets" but also with evaluating a plan that would "provide the most efficient means of providing public parking."[101]

In April, the Parking Authority, having received bids from and interviewed various consultants, selected a winning vendor and charged it with exploring various options for monetizing the value of the garages including, but not limited to, privatization.[102] In July, the City Council adopted a five-year budget blueprint that includes privatization of the garages, but that document leaves the city's options open, notes that detailed study of the idea is ongoing, and suggests that the city could also retain the garages but increase rates instead.[103]

By contrast, Chicago reportedly began working with financial advisors to explore the prospects of a parking meter privatization deal four months before word of the idea was first leaked to the media and eight months before the city issued a request for qualifications from bidders.[104] Other options besides full privatization were apparently never seriously considered.

The Pittsburgh experience with garage privatization, while far from complete, shows that cities can explore privatization in a transparent and thoughtful way, providing the public with openings to make its voice heard.

## Policy Recommendations to Improve Chicago's Privatization Process

The best way not to repeat the mistakes that led to Chicago's parking meter privatization debacle is to ensure that all future privatization proposals in Chicago are subjected to a clear, thorough and transparent process of evaluation that includes public participation. Specifically, the city should adopt requirements for significant future privatization proposals (those greater than $1 million) that include the following:

- Requiring a minimum waiting period of 30 days between publication of the final terms of the agreement and a vote on an infrastructure deal (45 days for privatization of assets or services valued at more than $50 million).

- Competitive bidding for all professional services provided during the privatization process and for the privatization contract itself.

- Thorough, independent analysis of the valuation of assets proposed for concession agreements along with a comparison of privatization with other alternatives (including bonding against future revenues while keeping the asset public and contracting out management tasks without transferring ownership).

- Clear directions for how proceeds from the sale will be allocated, along with the development of tools to enable the public to track spending of proceeds from privatization over time. These tracking tools should be integrated into a city-wide budget transparency Web site that would enable citizens to have "one-stop" access to all city expenditures.

- Timely public disclosure of all documents relevant to a privatization proposal, including posting of such documents on a publicly accessible Web site.

## The Bigger Picture: A More Transparent and Accountable Government

The lack of transparency that surrounded the city's privatization efforts is sadly typical of the way Chicago informs and involves ordinary citizens in governance. Transparency—particularly in the critical areas of government contracting and spending—is a critical tool for preventing corruption, boosting public confidence in government, and ensuring fiscal responsibility.

While Chicago has made some steps in recent years to provide greater public access to government information—including government contracts—the city still requires citizens to work very hard to find the information they are looking for. Sometimes the information the public is looking for isn't even there. For example, the contracts between the city and the firm advising the city on the parking meter privatization deal were not initially available on the city Department of Procurement Services Web site, reportedly because the contracts were issued by the city's budget office, and not through the procurement process.[105]

The Internet provides a host of new opportunities for citizens to find out about government operations and become involved in city governance. Unfortunately, Chicago's on-line government information services are typical of those of the first generation of Internet government transparency efforts (Transparency 1.0), when posting City Council proceedings or budgets in PDF format on a Web site was a big improvement over having to ferret out hard copies from a local library.

Transparency 1.0 governments are characterized by on-line information sources that are:

- **Incomplete:** Citizens have access to only limited information about public expenditures. For example, until recently, the city of Chicago provided only limited information about funds generated through tax increment financing (TIF) districts.

- **Scattered:** Determined citizens must visit numerous agency Web sites or make public records requests to gather information on government expenditures, including contracts, subsidies and special tax breaks.

- **Provide Tools for Informed Insiders:** Researchers who already know what they are looking for and understand the structure of government programs can dig through reports for data buried through layers of subcategories and jurisdictions.

By contrast, a growing number of "Transparency 2.0" governments are arming citizens with new tools to learn about government spending and operations. These governments provide tools that are:

**Table 1. Transparency 2.0 is Comprehensive, One-Stop, One-Click Budget Accountability and Accessibility**

| Transparency 1.0 | Transparency 2.0 |
|---|---|
| **Incomplete:** Citizens have access to only limited information about public expenditures. Information about contracts, subsidies, or tax expenditures is not disclosed online and often not collected at all. | **Comprehensive:** User-friendly Web portal provides citizens the ability to search detailed information about government contracts, spending, subsidies, and tax expenditures. |
| **Scattered:** Determined citizens who visit numerous agency Web sites or make public record requests may be able to gather information on government expenditures, including contracts, subsidies, and special tax breaks. | **One-Stop**: Citizens can search all government expenditures on a single Web site. |
| **Tool for Informed Insiders:** Researchers who know what they are looking for and already understand the structure of government programs can dig through reports for data buried through layers of subcategories and jurisdictions. | **One-Click Searchable:** Citizens can search data with a single query or browse common-sense categories. Citizens can sort data on government spending by recipient, amount, legislative district, granting agency, purpose, or keyword. |

- **Comprehensive:** A user-friendly Web portal provides citizens the ability to search detailed information about government contracts, spending, subsidies and tax expenditures.

- **One-stop:** Citizens can search all government expenditures on a single Web site.

- **One-click searchable:** Citizens can search data with a single query or browse common-sense categories. Citizens can sort data on government spending by recipient, amount, legislative district, granting agency, purpose, or keyword.

## Who Is Getting It Right?

In 29 states, citizens now or will soon have access to searchable Web sites with detailed information on state expenditures. (See Figure 2.)

The state of Illinois recently joined this list of states with the launch of its Transparency & Accountability Web site (www.accountability.illinois.gov). The Web site allows users to review payments from government agencies by agency, function and vendor. (See Figure 3, see page 37.)

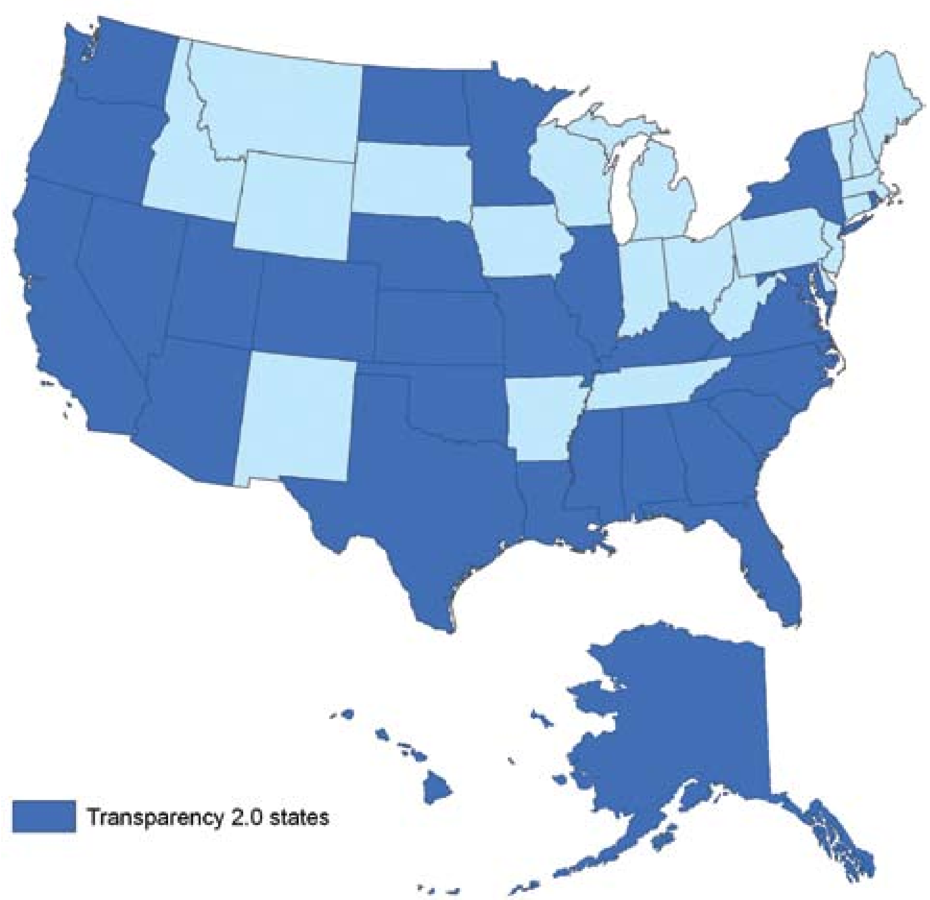
The initial start-up cost of transparency Web sites varies—some states have been able to pay for development of the sites out of existing resources, while others have spent in the neighborhood of $30,000 to $300,000.[106]

Local governments have been slower to implement transparency Web sites, but several are now moving in that direction. New York City has launched an online "Stimulus Tracker," which provides details about the cost and status of projects undertaken through the American Recovery and Reinvestment Act (though not specific contracts issued for those projects). The Web site even includes a clickable map to identify stimulus projects by neighborhood. (See Figure 4.)

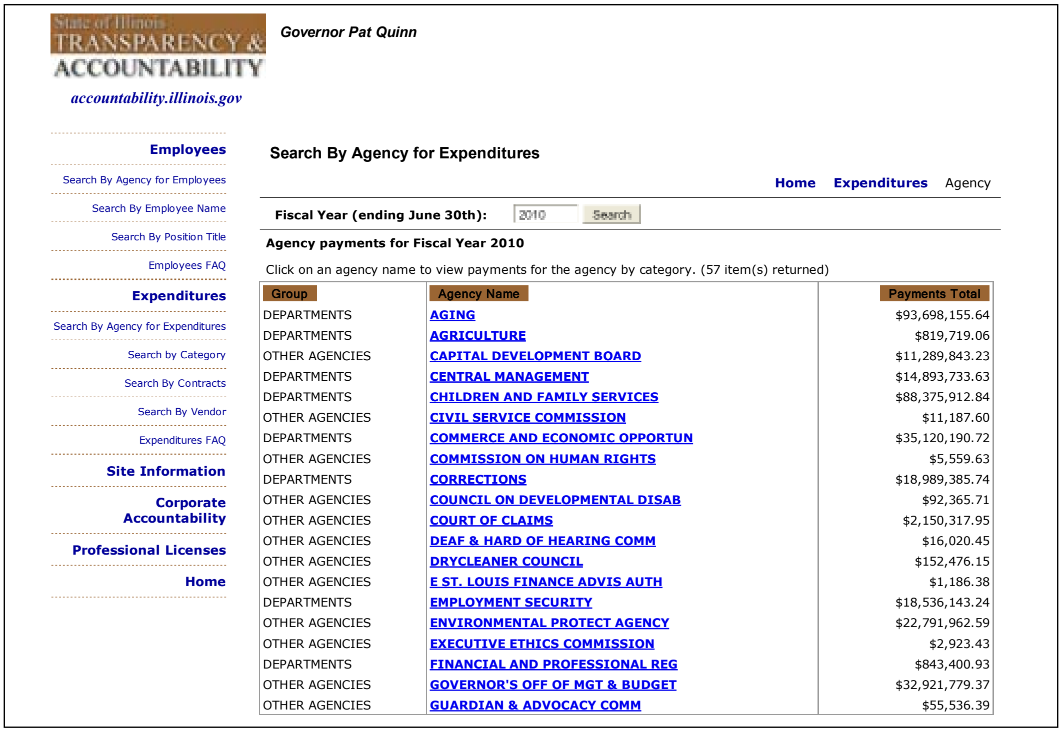
Some local governments—even small ones—have taken the first step toward greater transparency by placing their city check registers online in PDF format, allowing residents to find out exactly how their tax dollars are being spent.[107]

Chicago can and should be a leader in providing information on government budgeting, spending and contracts to the public. The city's roughly $6 billion annual budget is comparable to that of states such as Rhode Island that have implemented transparency Web sites. Moreover, investing in greater transparency can help Chicago transcend its long-time reputation for backroom politics and corruption—helping to position the city as an innovator in local governance.

**Figure 2. States with "Transparency 2.0" Online Transparency Tools**



## Figure 3. Illinois's Transparency & Accountability Web Page



State of Illinois TRANSPARENCY & ACCOUNTABILITY

*accountability.illinois.gov*

*Governor Pat Quinn*

**Employees**
Search By Agency for Employees
Search By Employee Name
Search By Position Title
Employees FAQ
**Expenditures**
Search By Agency for Expenditures
Search by Category
Search By Contracts
Search By Vendor
Expenditures FAQ
**Site Information**
**Corporate Accountability**
**Professional Licenses**
**Home**

Search By Agency for Expenditures

**Home** **Expenditures** Agency

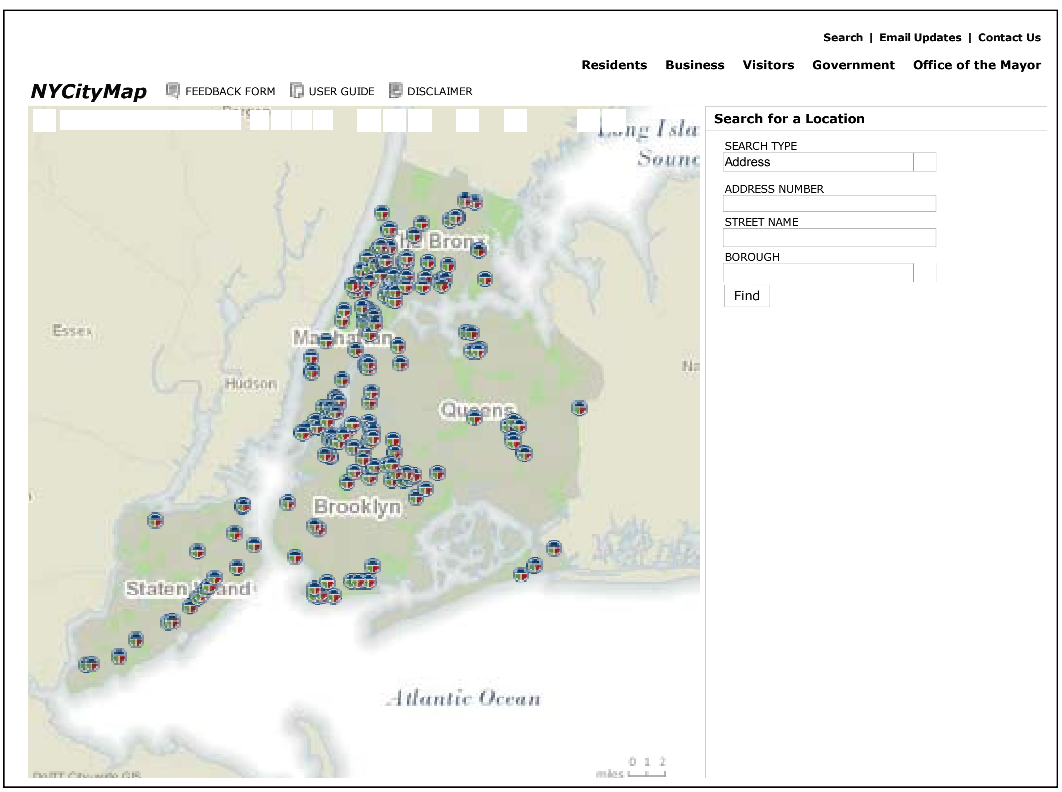
**Fiscal Year (ending June 30th):** 2010 Search

**Agency payments for Fiscal Year 2010**

Click on an agency name to view payments for the agency by category. (57 item(s) returned)

| Group | Agency Name | Payments Total |
|---|---|---|
| DEPARTMENTS | AGING | $93,698,155.64 |
| DEPARTMENTS | AGRICULTURE | $819,719.06 |
| OTHER AGENCIES | CAPITAL DEVELOPMENT BOARD | $11,289,843.23 |
| DEPARTMENTS | CENTRAL MANAGEMENT | $14,893,733.63 |
| DEPARTMENTS | CHILDREN AND FAMILY SERVICES | $88,375,912.84 |
| OTHER AGENCIES | CIVIL SERVICE COMMISSION | $11,187.60 |
| DEPARTMENTS | COMMERCE AND ECONOMIC OPPORTUN | $35,120,190.72 |
| OTHER AGENCIES | COMMISSION ON HUMAN RIGHTS | $5,559.63 |
| DEPARTMENTS | CORRECTIONS | $18,989,385.74 |
| OTHER AGENCIES | COUNCIL ON DEVELOPMENTAL DISAB | $92,365.71 |
| OTHER AGENCIES | COURT OF CLAIMS | $2,150,317.95 |
| OTHER AGENCIES | DEAF & HARD OF HEARING COMM | $16,020.45 |
| OTHER AGENCIES | DRYCLEANER COUNCIL | $152,476.15 |
| OTHER AGENCIES | E ST. LOUIS FINANCE ADVIS AUTH | $1,186.38 |
| DEPARTMENTS | EMPLOYMENT SECURITY | $18,536,143.24 |
| OTHER AGENCIES | ENVIRONMENTAL PROTECT AGENCY | $22,791,962.59 |
| OTHER AGENCIES | EXECUTIVE ETHICS COMMISSION | $2,923.43 |
| DEPARTMENTS | FINANCIAL AND PROFESSIONAL REG | $843,400.93 |
| OTHER AGENCIES | GOVERNOR'S OFF OF MGT & BUDGET | $32,921,779.37 |
| OTHER AGENCIES | GUARDIAN & ADVOCACY COMM | $55,536.39 |

## Figure 4. New York City's Stimulus Tracker Web Site



## Increasing Government Transparency in Chicago

The city should create a one-stop, comprehensive, on-line database that would enable citizens to obtain information on contracts, the current status of city accounts, special tax breaks, economic development subsidies and city budgets. The Web site should provide summary information and enable residents to drill down to detailed information on city payments, including the city's check register. The Web site should also retain previous years' data for comparison.

# Appendix A: Transparency 2.0 States

| State | Web Address |
|---|---|
| **Alabama** | open.alabama.gov/ |
| **Alaska** | fin.admin.state.ak.us/dof/checkbook_online/index.jsp |
| **Arizona** | To be operational by January 1, 2011 |
| **California** | www.reportingtransparency.ca.gov/ |
| **Colorado** | tops.state.co.us/<br>expenditure info by Sept. 1 and revenue info by Jan 1., 2010 |
| **Florida** | myfloridacfo.com/transparency/ |
| **Georgia** | open.georgia.gov/ |
| **Hawaii** | hawaii.gov/spo2/source/ |
| **Illinois** | accountability.illinois.gov/ |
| **Kansas** | kansas.gov/kanview/ |
| **Kentucky** | opendoor.ky.gov |
| **Louisiana** | doa.louisiana.gov/LaTrac/index.cfm |
| **Maryland** | spending.dbm.maryland.gov/ |
| **Minnesota** | mmb.state.mn.us/tap |
| **Mississippi** | merlin.state.ms.us/ |
| **Missouri** | mapyourtaxes.mo.gov/MAP/portal/ |
| **Nebraska** | nebraskaspending.com/ |
| **Nevada** | open.nv.gov |
| **New York** | openbooknewyork.com/index.htm |
| **North Carolina** | ncopenbook.gov/ |
| **North Dakota** | To be operational June 30, 2011 |
| **Oklahoma** | ok.gov/okaa |
| **Oregon** | planned to be operational January 1, 2010 |
| **Rhode Island** | ri.gov/opengovernment/ |
| **South Carolina** | https://ssl.sc.gov/SpendingTransparency/Budget<br>TransparencyMain.aspx |
| **Texas** | window.state.tx.us/comptrol/expendlist/cashdrill.php |
| **Utah** | utah.gov/transparency/ |
| **Virginia** | datapoint.apa.virginia.gov/ |
| **Washington** | fiscal.wa.gov/ |

# Notes

1 Mike Brunker and the Associated Press, "Illinois Has Long Legacy of Public Corruption," *MSNBC.com*, 9 December 2008.

2 "$6 billion" from City of Chicago, *2009 Budget: Overview and Revenue Estimates*, undated.

3 Sun-Times News Group, "Daley: City Workers Not as Good as Private Sector," *CBS2 Chicago*, 5 February 2009.

4 U.S. Government Accountability Office, *Federal-Aid Highways: Increased Reliance on Contractors Can Pose Oversight Challenges for Federal and State Officials*, January 2008.

5 Dennis J. Enright, *The Public Versus Private Toll Road Choice in the United States*, NW Financial Group, LLC, June 2007, 8.

6 Paul A. Grout, "Public and Private Sector Discount Rates in Public-Private Partnerships," *The Economic Journal*, Vol. 113, Mar. 2003, pp. C62–C68. Available at www.bristol.ac.uk/cmpo/publications/papers/2003/wp59.pdf

7 Daniel Schulman and James Ridgway, "The Highwaymen," *Mother Jones*, January/February 2007.

8 Greg Hinz, "City Council Giddy Over Skyway Lease," *Crain's Chicago Business*, 27 October 2004.

9 Craig L. Johnson, Martin J. Luby and Shokhrukh I. Kurbanov, *Toll Road Privatization Transactions: The Chicago Skyway and Indiana Toll Road*, September 2007.

10 Ibid.

11 Ibid.

12 Gary Washburn, "Daley's Way, Not Skyway," *Chicago Tribune*, 25 October 2007; See note 9.

13 $3 today: Chicago Skyway, *Tolls*, downloaded from www.chicagoskyway.org/tolls/, 21 July 2009.

14 City of Chicago, *Authorization for Execution of Concession and Lease Agreement for Operation of Chicago Skyway Toll Bridge System*, 27 October 2004.

15 U.S. Department of Transportation, Federal Highway Administration, *Public Private Partnerships: Chicago Skyway Concession and Lease Agreement*, downloaded from www.fhwa.dot.gov/PPP/agreements_chicago_skyway.htm, 21 July 2009.

16 Based on MeasuringWorth, *What Was the U.S. GDP Then?*, calculator accessed at www.measuringworth.org/usgdp/, 2 September 2009.

17 Some critics among privatization

supporters suggested at the time that Cintra-Macquarie may have paid too much. See "Cintra-Macqarie Paid Too Much for the Chicago Skyway—An Opinion," *Toll Roads News*, 14 April 2005.

18 "Macquarie Says at Present Stock Price No Mandate to Invest in New Projects," *Toll Roads News*, 19 February 2009.

19 Macquarie Infrastructure Group, *Macquarie Infrastructure Group 2008 Annual Report: Asset Portfolio*, downloaded from www.frostdesign.com.au/MIG_annual_report_2008/asset-html.html#Skyway

20 See note 15.

21 Dennis J. Enright, NW Financial Group, LLC, *The Chicago Skyway Sale: An Analytical Review*, 1 May 2006.

22 Office of the Inspector General, City of Chicago, *Report of Inspector General's Findings and Recommendations: An Analysis of the Lease of the City's Parking Meters*, 2 June 2009.

23 Millennium Garages, *About Our Garages*, downloaded from millenniumgarages.com/about/, 21 July 2009.

24 Associated Press, "Daley Proposes Leasing of Downtown Garages," *CBS2 Chicago*, 14 October 2006.

25 Chicago City Council, "Authorization for Execution of Intergovernmental Agreement with Chicago Park District and Lease Agreement with Loop Parking, LLC for Chicago Downtown Parking System," *Journal of the Proceedings of the City Council of the City of Chicago, Illinois*, 1 November 2006, 88893-89296.

26 Greg Hinz, "City Picks $563-Mil. Bid to Run Parking Garages," *Crain's Chicago Business*, 13 October 2006.

27 Chicago Park District, *Comprehensive Annual Financial Report For the Year Ended December 31, 2006*, 27 July 2007; Associated Press, "Daley Proposes Leasing of Downtown Garages," *CBS2 Chicago*, 14 October 2006.

28 Dan Mihalopolous and Hal Dardick, "Drivers Would Pay Up to 4 Times More if City's Deal to Lease the Meters is Approved," *Chicago Tribune*, 3 December 2008.

29 Chicago Park District, *2009 Budget Summary*, undated.

30 City of Chicago, Department of Finance, *Parking Garages Privatization Expense Summary*, downloaded from egov.cityofchicago.org, 21 July 2009.

31 Chicago Airport System, *2006 Annual Report*, undated.

32 Ben Joravsky, "Easy Money: Is the Midway Lease Really a Good Deal for Taxpayers?" *Chicago Reader*, 16 October 2008.

33 Ibid.

34 Ibid.

35 Ibid.

36 Ben Joravsky and Mick Dumke, "Fail: The Story of Chicago's Parking Meter Lease Deal," *Chicago Reader*, 9 April 2009.

37 David Narefsky and John Schmidt, Mayer Brown, LLP, *U.S. Airport Privatization: Chicago Midway Airport and Beyond* (Power Point presentation), 25 March 2008.

38 Steve Stanek, Heartland Institute, "Chicago Midway Airport Privatization Takes Wing," *Budget & Tax News*, 1 June 2008.

39 Airports Council International—North America, *Chicago Midway Airport—Long Term Concession and Lease*, downloaded from aci-na.org/static/entransit/midway_factsheet.pdf, 21 July 2009.

40 See note 31.

41 Associated Press, "Chicago Scuttles $2.5B Midway Airport Lease Deal," *MyNews4.com*, 20 April 2009.

42 Sabotage: Fran Spielman, "City Council Explores Cutting Meter Parking Rate," *Chicago Sun-Times*, 12 July 2009.

43 "the idea": Ben Joravsky and Mick Dumke, "The Parking Meter Fiasco: Part 3: The Insiders," *Chicago Reader*,

18 June 2009; “$4 million”: City of Chicago, Department of Finance, *Parking Meters Privatization Expense Summary*, downloaded from egov.cityofchicago.org, 21 July 2009.

44 “Summer 2007” from Ben Joravsky and Mick Dumke, “The Parking Meter Fiasco: Part 3: The Insiders,” *Chicago Reader*, 18 June 2009; “February 2008” from Ben Joravsky and Mick Dumke, “Fail, Part II: One Billion Dollars!” *Chicago Reader*, 21 May 2009.

45 See note 22.

46 Ibid.

47 City of Chicago, *Chicago Metered Parking Transaction: Timeline*, downloaded from egov.cityofchicago.org/webportal/COCWebPortal/COC_EDITORIAL/SelectionProcessAndTimeline.pdf, 20 August 2009.

48 See notes 22 and 36.

49 City of Chicago, Department of Finance, *Chicago Metered Parking System Revenue Replacement Fund*, downloaded from egov.cityofchicago.org, 21 July 2009.

50 City of Chicago, Department of Finance, *Chicago Metered Parking System Mid-Term Reserve Fund*, downloaded from egov.cityofchicago.org/, 21 July 2009.

51 Chicago Office of the Mayor, *City Stands By Parking Meter Transaction and Valuation* (press release), 2 June 2009.

52 Hal Dardick, “Daley Budget Chief Says 2010 Looks Worse than This Year,” *Clout Street: Chicago Tribune's Local Political Coverage*, 30 July 2009.

53 See note 51.

54 Ibid. See also a detailed response by William Blair & Company, *Chicago Metered Parking System Transaction Summary and Valuation Analysis*, 30 June 2009.

55 See note 22.

56 William Blair & Company, *Chicago Metered Parking System Transaction Summary and Valuation Analysis*, 30 June 2009.

57 William Blair & Company, *Project Magee: Summary of Preliminary Valuation* (draft), 22 April 2008.

58 See note 56.

59 City and County of San Francisco, Parking Authority of the City and County of San Francisco, City and County of San Francisco Finance Corporation, Redevelopment Agency of the City and County of San Francisco (Lease Revenue Bonds), *Annual Report for Fiscal Year Ended June 30, 2008*, 27 March 2009.

60 See note 22.

61 Ibid.

62 Ibid.

63 Ibid.

64 See, for example, Donald Shoup, *The High Cost of Free Parking*, 2005.

65 Jon Hilkevitch, “Chicago Parking Meters: Changes Leave Drivers Angry, Confused,” *Chicago Tribune*, 20 March 2009.

66 Dan P. Blake, “Daley: Parking Box Meltdown Caused by ‘Computer Glitch’”, *ChicagoTribune.com*, 28 May 2009.

67 Jon Hilkevitch, “City Workers to Address Meter Problems,” *ChicagoBreakingNews.com*, 25 March 2009.

68 See for example: Sally Ho, “50 Parking Meters Vandalized, Many in Uptown,” *ChicagoBreakingNews.com*, 4 June 2009.

69 Fran Spielman, “City Council Explores Cutting Parking Meter Rate,” *Chicago Tribune*, 2 July 2009.

70 Carol Marin, “Meter Madness: Bad for Business,” *NBC5 News*, 10 June 2009.

71 City of Chicago, *City of Chicago Response to ATA Report*, 23 June 2009.

72 See note 57.

73 Ibid.

74 Ben Joravsky and Mick Dumke, “Fail, Part II: One Billion Dollars!” *Chicago Reader*, 21 May 2009.

75 City of Chicago and Chicago Parking Meters, LLC, *Chicago Metered Parking System Concession Agreement*, 4 December 2008.

76 Ibid.

77 Ibid.

78 Ibid.

79 Ibid.

80 See note 14.

81 JayEtta Z. Hecker, U.S. Government Accountability Office, *Highway Public-Private Partnerships: Securing Potential Benefits and Protecting the Public Interest Could Result from More Rigorous Up-Front Analysis*, Testimony before the U.S. Senate Committee on Finance, Subcommittee on Energy, Natural Resources and Infrastructure, 24 July 2008.

82 See note 22.

83 See note 9.

84 Ibid.

85 See summaries of expenses for the Skyway, parking garages and parking meters privatization deals available at City of Chicago, Department of Finance, *Asset Lease Agreements*, downloaded from egov.cityofchicago.org/, 21 July 2009.

86 City of Chicago, Department of Finance, *Skyway Privatization Expenses Summary*, downloaded from egov.cityofchicago.org/, 21 July 2009.

87 Ben Joravsky and Mick Dumke, "FAIL, Part Three: The Insiders," *Chicago Reader*, 18 June 2009.

88 See note 22.

89 See note 14.

90 Ibid.

91 City of Chicago, *Authorization for Execution of Concession and Lease Agreement and Associated Agreements with Midway Investment and Development Company, LLC and Amendment of Titles 10 and 13 of Municipal Code of Chicago in Connection with Lease of Chicago Midway International Airport*, 8 October 2008.

92 U.S. Government Accountability Office, *Highway Public-Private Partnerships: More Rigorous Up-Front Analysis Could Better Secure Potential Benefits and Protect the Public Interest*, February 2008.

93 See note 81.

94 See note 92.

95 Ibid.

96 Texas Transportation Code Sec. 223.203.

97 John P. Jeffers, C. Lamar McDavid, et al., *American Trade Initiatives, Audit Stewardship and Oversight of Large and Innovatively Funded Projects in Europe*, produced for the U.S. Department of Transportation, March 2007.

98 Ibid.

99 Ibid.

100 Rich Lord, "Parking Authority Takes First Step Toward Privatizing Garages," *Pittsburgh Post-Gazette*, 22 January 2009.

101 Pittsburgh Parking Authority, *Request for Proposals from Consultants for Infrastructure Monetization*, downloaded from www.city.pittsburgh.pa.us/pghparkingauthority/assets/bids/Monetization_RFP_02-19-09.pdf, 22 July 2009.

102 Pittsburgh Parking Authority, *Minutes of the Regular Meeting of the Public Parking Authority of Pittsburgh Thursday*, April 16, 2009.

103 Public Financial Management and Eckert Seamans Cherin and Mellott, for the Commonwealth of Pennsylvania, *Municipalities Financial Recovery Act Amended Recovery Plan: City of Pittsburgh, Allegheny County, Pennsylvania*, 30 June 2009.

104 See note 87.

105 Ibid.

106 Jerry Brito and Gabriel Okoski, Mercatus Center, "The Cost of State Online Spending-Transparency Initiatives," *Mercatus on Policy*, April 2009.

107 E.g., Myrtle Beach, SC, see: City of Myrtle Beach, Weekly Check Register, downloaded from www.cityofmyrtlebeach.com/checks.html, 24 July 2009. South Carolina's comptroller general has been pushing localities to improve transparency.