Memorandum

To: Kurt Summers, Treasurer of the City of Chicago
Re: Chicago Parking Meter Privatization

From: Jordan Dale
Date: May 4, 2015

This memo seeks to examine the privatization of Chicago's parking meters. Two specific areas of focus are the logistics of the privatization itself, as well as the future implications of the existing agreement. I will be presenting two main categories of recommendations. The first is a series of checks to provide higher levels of scrutiny by experts, the public, and elected officials when the city makes large-scale financial decisions. The second is a financial contingency plan for how the city government can best mitigate the financial losses and loss of city planning capabilities that are inherent in the current agreement.

Contextual Analysis

By the mid 2000s, Chicago was dealing with severe budget shortfalls. One tactic utilized by the Daley administration to alleviate this dilemma was privatization. In 2005, Chicago privatized the Interstate 90/94 Skyway Toll Bridge. A year later, Chicago went on to privatize many of its publicly owned garages (Frank, 2009). However, continuing budgetary struggles, particularly pensions, as well as the impacts of the 2008 recession, created the need for an immediate revenue source (ibid). At the time, the City of Chicago had 36,000 parking meters, making it a substantial financial asset to lease out (Perlstein, 2013).

The process used for the parking meter privatization agreement was troubling for multiple reasons. The city awarded the lease to Chicago Parking Meters LLC, which is a conglomerate that is comprised primarily of Morgan Stanley, Allianz Capital Partners, and the Sovereign Wealth Fund of Abu Dhabi, as well as some smaller firms. It was formed immediately before the lease was awarded (Clawson, 2013). The terms of the lease gave the rights of the city's

36,000 parking meters to Chicago Parking Meters LLC for 75 years. They paid $1.2 billion in upfront cost for the ability to collect revenue from the meters as well as having enforcement power (ibid).

There was a glaring lack of analysis and deliberation prior to the lease being awarded. No independent studies were performed. The $1.2 billion cost was determined exclusively by the city's Chief Financial Officer. Aldermen were only given two days to vote on the lease, and there was no public comment or deliberation (Perlstein, 2013). This process was antithetical to the democratic nature of government, and the haste it was made in allowed for a number of negative consequences.

Implications of Current Lease

The first type of consequences that will be examined are the implications toward city planning. There were several positive effects that have been observed since the deal was enacted, though it is highly questionable if the effects can be directly attributed as a result of the lease. Chicago maintained a reasonable amount of autonomy, retaining the ability to set rates and hours (Chicago Meters, 2014). The city's parking meters have also been modernized following the deal. In a $35 million effort, the city's 36,000 coin operated meters were replaced by 4,700 digital meters, which are able to receive payment via credit card and cell phone (ibid). It should be noted that this $35 million effort by Chicago Parking Meters LLC pales in comparison to the amount of revenue that the City of Chicago will lose as the result of the lease agreement, which will be analyzed later in this section.

Another positive factor observed is that Chicago scored as the #1 ranked city in the world in IBM's Global Parking Meter Survey, a report which was released after the lease was given

(Galligan, 2011) (See Table 1). The methodology of this survey asked respondents about traffic flow, time to find a parking spot, availability of spots, as well as their likelihood of receiving a ticket (ibid). While this is certainly a positive statistic for the City of Chicago, the results are largely based on the city planning efforts that created the parking spots in the first place. It is unreasonable to claim that leasing the existing meter system out to a private firm is what caused Chicago to score well on the survey.

There are many negative implications related to city planning. Under the lease contract, Chicago Parking Meters LLC is entitled to all of their parking spots, and the city must pay fair market valuation when they are closed (Clawson, 2013). For instance, if a road is temporarily closed for an event or construction, the city must pay Chicago Parking Meters LLC the amount of revenue those meters would have been expected to earn for the entirety of the closure. If a parking spot is permanently removed, the city would have to pay what that meter would have earned over the remainder of the 75 year lease. This creates major financial disincentives for city planning efforts to construct bicycle lanes or add new bus lines, as their development would necessitate the removal of many parking spaces (Cohen, 2014). This dynamic greatly limits Chicago's ability to develop into a "green" city in the coming decades.

The second type of consequences that will be examined are the implications toward the city's financial state. The most basic question of analysis is whether or not the $1.2 billion payment by Chicago Parking Meters LLC for a 75 year lease on the city's parking meters was a fair deal. According to every available piece analysis, the City of Chicago was vastly underpaid. The city's Chief Financial Officer arrived at the $1.2 billion cost by taking current parking meter revenues, and calculating their value over a 75 year period using an 11 percent discount rate (Hoffman, 2009) (See Table 2). After the lease was implemented, the Chicago Inspector General released a report on the agreement. This report valued the rights to the meters for 75 years as being worth approximately $2.13 billion, almost twice what was actually paid (ibid). A 2010 report by Bloomberg Business was far more scathing. They projected that Chicago Parking Meters LLC would earn $11.6 billion in total revenue during the 75 year lease, more than ten times what they paid, with $9.58 billion of that revenue as profit (Preston, 2010). While it is unclear which of these two reports is closer to the true value of the lease, it is very clear that the City Chicago received significantly less money than its meters would be expected to generate over the next 75 years.

Recommendations

My first set of recommendations is intended to deal with future public private partnerships in the City of Chicago. While it is too late to prevent the parking meter lease agreement from being made, there are lessons to be learned from what happened. The deal with Chicago Parking Meters LLC was bad on numerous levels. It was only able to be approved by the city council because it was hastily voted on in secrecy. Simply put, this degree of unchecked power is dangerous, and should not be possible for the city's large-scale financial decisions. I am proposing several requirements for all city council votes on projects that are valued at $50 million or more in scope. All projects will have a mandatory 60 day review period to prevent future decisions being made in haste. There will be a required independent study to control for internal biases, such as what was observed with the Chief Financial Officer in 2008. Finally, the process must be made open to the public. The independent studies must be made available to all, and the votes on these projects must have public deliberations, with the opportunity for citizen input through public comments. Doing so will allow for sufficient deliberation, democratic control, and mitigate the risk of detrimental backroom deals.

My second set of recommendations is for how to deal with the current lease. I propose an additional cost analysis study to determine the expected revenue for the remainder of the lease. The multibillion dollar discrepancy between the Inspector General's report and Bloomberg Business must be reconciled in order to make an informed financial decision. Based on the billions of dollars the city lost on the valuation of the lease as well as the potential for paying penalties, the current deal is unacceptable. I propose that the city looks to renege on the current contract, and pay the associated penalty, assuming it is not larger than the billions lost on the initial deal as well as the potential penalties associated with removing parking spaces. Hypothetically, simply giving Chicago Parking Meters LLC a full refund and an additional compensatory fee would be a financially intelligent decision for the city in the long run. If it is not possible to renege, I would recommend renegotiating the terms of the contract by using political support to create a preferable agreement. For instance, since the city still exclusively controls parking rates and hours, something which could be used as leverage.

Conclusion

Overall, the 2008 agreement to lease Chicago's parking meters to Chicago Parking Meters LLC was a bad decision. It was made without sufficient information or oversight, and as a result, had terms that were harmful for the city. This included being substantially underpaid for the value of the lease, as well as steep fines for removing spaces. Future privatization debacles can be avoided by implementing mandatory oversight and checks. For the current parking meter deal, some form of change is necessary. The city should renege on the agreement if the associated penalties are lower than the aggregated lost revenue and fines for removing spaces. If a renege is impossible, some type of reform to the current agreement would be preferable to simply continuing it in its existing form.

Table 1


GLOBAL PARKING INDEX
New Delhi 140
Bangalore 138
Beijing 124
Moscow 122
Shenzen 122
Paris 122
Milan 117
Nairobi 111
Madrid 104
Singapore 97
Mexico City 97
Stockholm 90
87 Johannesburg
86 London
85 New York City
85 Montreal
80 Buenos Aires
77 Toronto
61 Los Angeles
51 Chicago
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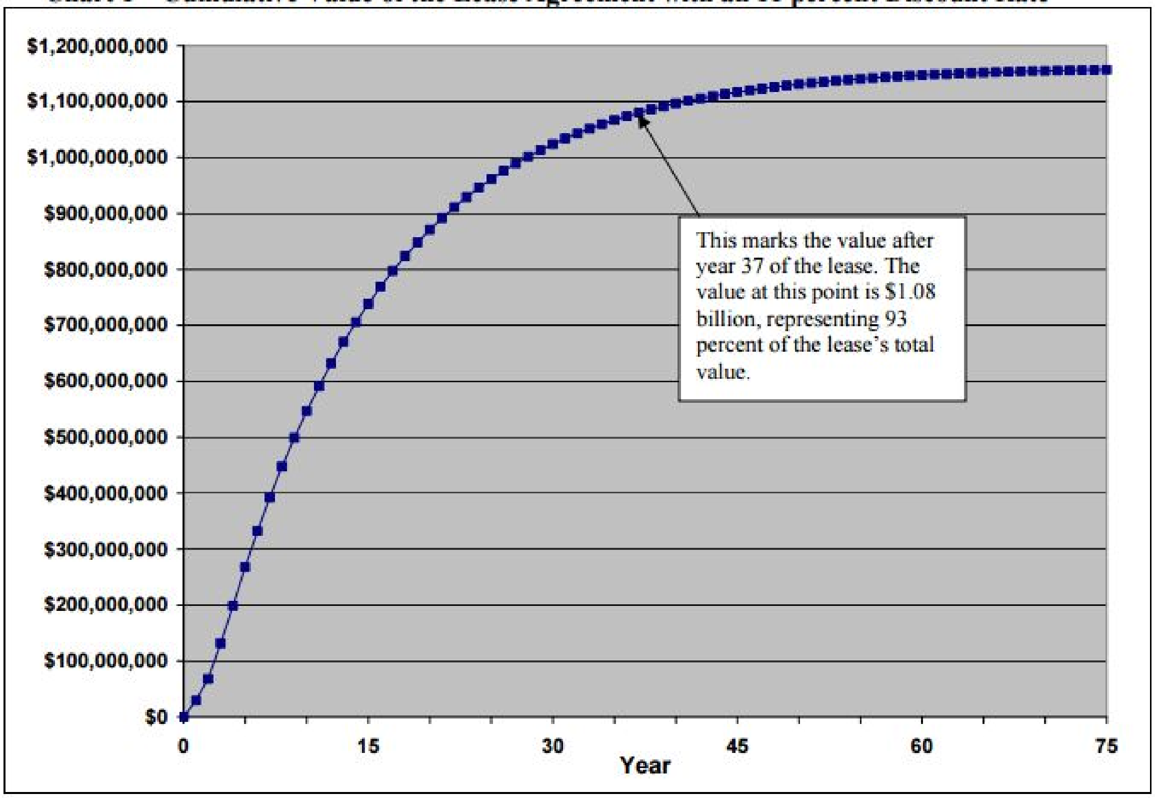
Table 2

Chart 1 – Cumulative Value of the Lease Agreement with an 11 percent Discount Rate



Note: Assumes $117 million in net revenue in year 5 and a discount rate of 11 percent.

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