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REPORT

THE LESSONS OF LONG-TERM PRIVATIZATIONS

WHY CHICAGO GOT IT WRONG
AND INDIANA GOT IT RIGHT

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About the Author



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Renn holds a B.S. from Indiana University, where he coauthored an early social-networking platform in 1991. He has created several widely used open-source software packages, including the only program for recovering data from corrupted gzip backups. In 1998, Renn launched one of the nation's first blogs, the Weekly Breakdown, to cover the Chicago Transit Authority.

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Executive Summary

In the U.S., privatization traditionally referred to the use of private businesses to deliver public services, such as garbage collection, landscaping, or municipal transport. Local or state governments awarded contracts to provide the services after competitive bidding; the goal was to improve services and/or reduce costs.

Today, cash-strapped cities and states are selling or leasing government assets, particularly transportation infrastructure. Because the goal is to raise cash, the revenue streams generated from, say, toll roads are attractive to potential buyers.

The sale or lease of such assets can be beneficial to the public; but the long-term nature of these deals makes them potentially far more risky than contracts to run bus service or repair city-owned vehicles. Get privatization right, and the gains can be substantial; get it wrong, and the financial consequences can last decades.

Cities and states contemplating asset privatizations need to answer two basic questions: (1) Which public assets should be considered for privatization? and (2) What are the right ways to privatize? Two recent privatizations, in Chicago and Indiana, illustrate the importance of answering these questions correctly.

In late 2008, the Chicago city council approved a long-term lease of its parking meters in return for a \$1.2 billion payment. The deal is almost universally regarded as a catastrophe. “This was a bad deal for our city and a bad contract for our residents,” says Rahm Emanuel, Chicago’s current mayor. “The city should never have done this deal. Period.”¹

In 2006, Indiana approved a long-term lease of the Indiana Toll Road in return for a \$3.9 billion payment. This lease, however, is largely heralded as a success. “It was the best deal since Manhattan for the beads,” says former governor Mitch Daniels, “except this time the natives won.”² What made Chicago’s deal so good and Indiana’s so bad?

This paper explains several key differences in how the leases were done, including: the way they were approved; how the transition to private operation was managed; the way the proceeds of the lease were spent; and the way the leases affected government budgets and future revenues. These factors involve “process.” But there is another, no less important, lesson for city and state governments. Even had Chicago better managed the parking-meter deal, the lease would still have been a grave mistake: parking meters and other similar public assets have attributes that make them unsuitable for long-term privatization.

THE LESSONS OF LONG-TERM PRIVATIZATIONS

WHY CHICAGO GOT IT WRONG AND INDIANA GOT IT RIGHT

I. Introduction: A Tale of Two Privatizations

Chicago's Parking-Meter Debacle

In 2004, Chicago leased its city-owned Chicago Skyway Toll Bridge for 99 years for \$1.83 billion. The deal was considered a win. Hoping for another, the city leased several downtown parking garages in 2006 for 99 years, in return for a payment of \$563 million.

Chicago next turned to parking meters and Midway Airport. The city developed both these deals in 2007 and 2008. In September 2008, amid the U.S. financial crisis, the city announced its deal for privatizing Midway, which was promptly approved by the city council. The Midway deal ultimately fell apart, as the winning bidder failed to line up financing.

In December 2008, Chicago Parking Meters LLC, a Morgan Stanley-led investment group, won a 75-year concession to control and operate approximately 36,000 parking meters throughout Chicago in return for a \$1.16 billion lump-sum payment. The lease required the company to install new multi-space kiosks for parking payments and to accept credit cards. The concessionaire also was empowered to write parking tickets, though Chicago retained the revenue. The city retained advertising and naming rights over the meters. Chicago also agreed to a non-compete clause that prohibited it from opening off-street parking lots that would compete with meters—unless the rates in the lot were at least three times those of the meter rate in the area.

In a lopsided vote, the city council approved the lease on December 4, 2008. The deal closed in early 2009 but almost immediately ran into trouble. The company initially increased rates in the Loop, the core of Chicago's central business district,

by a modest 17 percent (though parking rates would rise from \$3.50 per hour in 2009 to \$6.50 per hour in 2013). However, parking rates in other parts of the central business district doubled almost immediately and rose even higher elsewhere in the city.

The higher rates provoked outrage. Meters broke as they overflowed with quarters before the new credit card-reading kiosks were installed. Several parking meters were vandalized. The deal rapidly became a public-relations disaster for Mayor Richard M. Daley and his administration. The public's ire was further stoked when aldermen began complaining that they could no longer adjust parking policy in their wards because doing so would trigger hundreds of thousands of dollars in penalty payments.³

In June 2009, Chicago's independent inspector general issued a report claiming that the parking meters had been leased for only about half of what they were worth.⁴ Even as city officials and others disputed the claim, public opinion turned solidly and irrevocably against the lease. By September, Mayor Daley's approval rating had fallen to 35 percent, and he ultimately decided not to run for reelection.⁵

The \$1.16 billion payment that Chicago got for the lease was originally intended to be distributed to a variety of funds, including: \$400 million to a long-term reserve (to generate revenue to replace the city's existing parking-meter revenue stream); \$325 million to a midterm reserve; \$326 million to a budget stabilization fund; and \$100 million to a "human infrastructure" fund.⁶ Instead, the city nearly immediately started using the money to cover its budget deficits during the Great Recession, including spending most of the long-term reserve fund. By 2010, only \$180 million was left.⁷

Rahm Emanuel took office in 2011 as a critic of the deal, joining virtually everyone else in the city. The new mayor battled with Chicago Parking Meters over compensation claims for out-of-service meters and free parking for the disabled. Ultimately, Mayor Emanuel amended the deal in 2013, which he claimed as a victory⁸ but others dismissed as a further giveaway. Either way, the amendment did not materially change the lease. To this day, Chicago's parking-meter lease is viewed as a civic debacle and is a source of lingering public anger.

Indiana's Toll-Road Lease

Mitch Daniels was elected governor of Indiana in 2004. During his campaign, he learned that the Indiana Department of Transportation's (INDOT) list of programmed projects vastly exceeded the state's financial resources.

After entering office, Daniels commissioned a study that revealed a \$1.8 billion funding gap over the next decade. INDOT then developed a program, "Major Moves," that included only projects that could be paid for. The projects were selected via a scoring and public-input process. The result: many major projects were pushed off more than a decade and were de facto canceled.⁹

In the meantime, the Daniels administration investigated more than 30 potential ways to address the funding gap in its highway plan. Likely inspired by Chicago's successful Skyway lease, Indiana undertook to lease the Indiana East-West Toll Road, a 156-mile highway across the northern edge of the state.

The East-West Toll Road, like many others, was conceived and built in the pre-interstate era and was opened in 1956, the same year the Federal Aid Highway Act was enacted. Today, it's part of the interstate system as I-90. By 2005, it was a break-even operation and still carried \$200 million in debt.

The East-West Toll Road flowed directly into the Chicago Skyway and was, in effect, the Skyway's only source and destination of traffic. This meant that it had leverage over the Skyway, which had recently increased tolls; unsurprisingly, the firms—led by Spanish infrastructure developer Cintra and Australia's Macquarie Bank—that led the consortium that won the Skyway lease also won the Indiana Toll Road lease.

The Indiana Toll Road Concession Co. paid the state a lump sum of \$3.85 billion for a 75-year concession. The consortium was required to implement electronic tolling and invest in upgrading and widening portions of the toll road. And it had to maintain certain levels of service in rural and urban areas.

In return, the company could increase tolls—which it did, significantly. Tolls were raised 72 percent initially, with passenger-car tolls for an end-to-end ride increasing from \$4.65 to \$8.00. Rates also increased annually, for trucks, through 2010. Thereafter, rate increases for all vehicles were capped to the greater of three: 2 percent or the rate of inflation or the rate of increase in per-capita GDP. The deal also included a non-compete that prohibited the state from building a competing interstate highway.¹⁰

The lease deal was announced on January 23, 2006. Because of the amount of money involved and the projects it could finance, the Daniels administration expected widespread

support for the deal. Instead, there was immediate, vociferous opposition:¹¹ from Democrats who wished to oppose the agenda of a Republican governor; from those who saw themselves as losers in the deal, including the trucking industry and residents in the counties through which the toll road passed, who would be paying the higher tolls (still, 66 percent of toll revenue came from out-of-state drivers); and from people concerned that foreign corporations were taking control of a state asset.

After a heated public debate, the deal was approved on a largely party-line vote. The consortium took over operations and implemented the required widening and electronic tolling. Indiana allocated the lease proceeds in a variety of ways, including: \$200 million to retire existing toll-road debt; \$240 million for local aid to the seven counties through which the toll road passed; \$150 million in infrastructure aid to all local governments in the state; \$120 million to the Northwest Regional Development Authority; \$500 million to a long-term reserve, the Next Generation Trust Fund; and the balance to financing the

expanded Major Moves highway program. Projects included 413 miles of new highway—notably, the construction of the initial stages of a long-proposed I-69 extension from Indianapolis to Evansville. The state also rehabbed or replaced 1,190 bridges and 4,000 miles of pavement over a ten-year period.¹²

Traffic on the toll road fell short of Indiana Toll Road Concession Co.'s expectations, and, as a result, it filed for bankruptcy in 2014.¹³ Australia's IFM Investors, backed by a group of pension funds, bought the concession, which exited bankruptcy in 2015.¹⁴ There was no disruption in highway operations during bankruptcy.

Critics still snipe at the terms of the lease or complain that the state faced a funding shortfall at the end of the expiration of the Major Moves program. But many others, inside and outside Indiana, have generally assessed it as a good deal for the state.¹⁵ So what did Chicago get wrong with its parking-meter lease that Indiana got right with its toll-road lease?



II. Lessons Learned

Public Review Matters

In Chicago, the Daley administration largely developed the parking-meter lease behind closed doors,¹⁶ giving the city council only three days to vote on the deal after the mayor released its terms. After only one hour of debate, the council approved the lease by a 40 to 5 vote.¹⁷ Among those who voted no was alderman Toni Preckwinkle, now president of the Cook County Board of Commissioners, who said that she did not have time to review the deal. That's not surprising: a scanned copy of the approval ordinance, which includes the text of the lease agreement, is 512 pages.¹⁸

The Daniels administration developed the Indiana Toll Road lease largely out of public sight, too. But public vetting of that lease was another matter. The Chicago city council, composed almost entirely of Democrats, had a history of approving Daley proposals rapidly, by lopsided margins. Though Daniels had a Republican majority in the Indiana General Assembly, he faced a large Democratic minority caucus who would fiercely contest any policy that he proposed.

This meant that the toll-road release had to go through a traditional legislative approval process, with hearings and significant media scrutiny. Daniels announced the deal on January 23, 2006.¹⁹ It was later approved by the assembly, in a largely party-line vote, on March 14, 2006.²⁰

The opposition was significant and well financed. The yes and no camps both ran ads in support of their positions. The Kokomo Tribune reported on the intensity of the debate:

The legislative battle over Gov. Mitch Daniels' "Major Moves" highway plan [including the toll-road lease] has almost surpassed the intensity of last year's fight over daylight-saving time, and has all the firepower of a high-stakes election campaign. Bitter, partisan shots not only fired by legislators but also their state political parties; television and radio ads; highly charged rhetoric; polls; staged rallies, and strong opinions conveyed by lots of average Hoosiers.²¹

The review period and debate gave opponents plenty of time to analyze the 112-page concession agreement²² to identify troublesome provisions. No such provisions were identified, and the contract has functioned well since its approval.

While a longer vetting process does not necessarily mean that the final deal will be better, two important facts emerge from Chicago's ill-fated parking-meter lease:

- ◆ The rushed approval process created a public perception that the parking-meter deal was illegitimate, if not crooked. While many in Indiana disapproved of the toll-road deal, no one questions its legitimacy.
- ◆ Had there been a longer review and debate process over Chicago's parking-meter lease, the troublesome provisions of that deal may have been discovered before it was too late.

The lesson: governments undertaking privatization deals benefit from an adequate public review and comment period. Time is needed to explain these complex deals to the public and to ensure that they are properly vetted and seen as legitimate.

Carefully Manage the Transition from Public to Private Operation

Chicago's parking-meter lease significantly increased parking-meter rates and required the private company to install new multi-space kiosks that would accept credit cards. However, to maximize its revenue, Chicago Parking Meters reprogrammed the existing meters to higher rates before installing the new kiosks. People had to carry many more quarters—annoying enough. But there was more, as the Chicago Tribune reported:

City Hall is weathering a storm of controversy over failures in its \$1.15 billion lease of all city parking meters.... But problems quickly surfaced. They ranged from poor preparation by LAZ to take over such a large meter system to the company's failure to repair broken meters and regularly empty the coin banks in the meters, which often filled up with quarters and jammed after meter rates quadrupled this year. On May 27, about 250 pay-and-display boxes—many of them new devices recently installed—failed in the downtown area.²³

The lesson: don't overlook the transition. The initial experience of a privatization deal will be difficult to overcome if it's a bad one.

Don't Blow the Up-Front Payment

As a general principle, one-time revenues should be used on one-time expenses, not on recurring ones. Indiana heeded

that principle. The majority of the \$3.85 billion that the state got from the lease financed Major Moves, Indiana's new road-construction program. Additionally, \$500 million was put into a so-called Next Generation Trust Fund that would maintain additional road and bridge capacity over the long term. Some monies were distributed to localities for infrastructure projects, and some special funds were granted to counties through which the toll road passed.²⁴

Unfortunately, Chicago used much of its \$1.16 billion lease payment to cover the city's budget crisis.²⁵ Less than two years after the deal, only \$180 million of the meter money remained.²⁶ Meanwhile, the Daley administration put off financial reforms to address the city's structural financial problems—problems that continue to plague Chicago.

Watch Out for All the Budget Implications of Privatization

The Indiana Toll Road had been a break-even operation, so the lease payment was a pure windfall for the state. Chicago's parking meters, however, had contributed \$16 million—\$17 million in net revenue annually to the city's corporate fund.²⁷ That money would be lost: under the terms of the lease, the company was entitled to 100 percent of the meter revenue.

Chicago did plan to replenish its coffers from a Revenue Replacement Fund. This long-term reserve account initially received \$400 million from the lease proceeds, and a city ordinance required annual transfers of \$20 million to the city's corporate fund. But after significant drawdowns, including \$210 million in 2010 for the city's budget deficit, the fund had only \$122 million at the end of September 2015. As a result, the fund is now budgeted to contribute only \$2.5 million annually to the city's corporate fund.²⁸

This small but telling example of financial mismanagement also demonstrates how difficult it is for governments to avoid raiding the cookie jar. Indiana is not immune: the state has begun drawing from the balance of the Next Generation Trust Fund to finance current road construction.²⁹

The lesson: governments should not impair future revenue streams in privatization transactions, and they should be skeptical of the long-term viability of revenue replacement reserve funds as a mitigation tool. At a minimum, privatization deals that affect an existing revenue stream should replenish that stream, with inflation adjustments in the form of future payments from the concessionaire.

Beware of Compensation Payments

Some privatization advocates³⁰ have defended Chicago's parking-meter lease while agreeing that its implementation was botched. But subtle financial pitfalls can make it difficult for a government to cope with even a well-managed privatization lease.

Compensation payments are one such pitfall. Because the concessionaires in both Indiana and Chicago paid large, one-time lump-sum payments to lease an asset, they needed reassurance that they could recover the money as well as earn the rate of return they anticipated. So the lease contracts have compensation clauses that protect these vendors against any adverse changes by the government.

Consider, for example, what would happen if Chicago passed an ordinance that lowered parking-meter rates in defiance of the lease. For protection, provisions in the lease require compensation if the city takes any such action that impairs the financial value of the meters. Similar provisions protect the lessee of the Indiana Toll Road. (Compensation terms do not protect against the loss of revenue if fewer people park or drive on a toll road; that is, part of the risk the lessee properly bears.)

In the case of the Indiana Toll Road, there has been only one event that required compensation.³¹ In 2008, the Borman Expressway, which runs parallel to the Indiana Toll Road for part of its length, flooded and was closed for about a week.³² The state made the toll road free for that period as an alternate route—and it paid the Indiana Toll Road Concession Co. \$500,000 to make up for lost revenue.³³

The Chicago parking-meter lease requires the city to reimburse the concessionaire for free parking provided to the disabled, as well as for any meter closures—including road construction, street fairs, and special events—in excess of an annual closure allowance.

Unlike floods, the events triggering compensation in Chicago are not unusual; they occur regularly. And the compensation payments turned out to be far higher than anticipated.

Compensation payments for free disabled parking alone reached as much as \$21 million per year. This prompted Illinois to change its law on disabled parking to restrict free parking to only those who are physically unable to use a parking kiosk. But this was still expected to result in \$5 million in annual compensation payments.³⁴ (Initially, the

Emanuel administration disputed the concessionaire's claims for compensation for meter closures. Yet after a negotiation, the administration projected that the city would pay compensation of \$6.5 million per year.)³⁵

So Chicago not only lost \$16 million–\$17 million in annual meter revenues that it received pre-lease; it also became burdened with an annual \$11.5 million in compensation costs. The total annual revenue swing is now about \$26 million per year over the 75-year life of the lease (assuming that the Revenue Replacement Fund continues to generate \$2.5 million per year).

The lesson: governments should be highly skeptical of any privatization deal that involves regular, recurring compensation payments. Put another way, any public asset that requires recurring closures that might require compensation is a poor candidate for a long-term privatization lease.

III. The Limits of Privatization: Public Assets and Public Policy

In the case of a highway, the state, a toll authority, or a private entity builds, constructs, and operates a tangible capital asset. That asset's construction, maintenance, and operations costs—as well as potential profits—are recovered through user charges. This is a simple-to-understand model similar to many private businesses. For this reason, some new toll projects are private concerns from the beginning.

Highways also have a characteristic known as “overdetermined form”—that is, it would be very difficult to repurpose them for anything else. The same is true of hospital buildings, which are very difficult to retrofit for other uses, except at great expense or by demolishing them and starting over. Overdetermined form holds for highways regardless of whether they are run publicly or privately.

There are crucial differences between a highway, an airport, a bridge, and a typical three-story building on Main Street. These differences help us understand which public assets are suitable for privatization. Consider the three-story building.

The ground level could have a retail outlet, a restaurant, or an office. The upper floors could be used for offices, a warehouse, or apartments. These buildings are more easily adapted for new uses.

Another characteristic of highways and toll roads sets them apart: they tend to be separated from the areas through which they pass—by definition, they are limited access. This is one reason many people do not like them, particularly in cities, because they can divide neighborhoods in two or otherwise create a difficult-to-cross barrier. Highways and toll roads are often criticized for visual and sonic blight, too.

The upshot of having these characteristics is that, after the decision is made to build them, highways and toll roads are only weakly related to other urban-planning considerations. Instead, the main policy considerations relate to the operations of the road itself, such as congestion.

These characteristics make highways and toll roads—and, by extension, similar public assets—good candidates for privatization lease: they are predictable, stable, and largely stand-alone. It's not likely, for example, that a state will want its road back in order to use it for a higher-value public good. Even if a state did want its road back, by its very nature, changing a toll road to something else would be very costly.

Of course, such public assets are not immune from risk. For example, who knows what driverless vehicles may mean for the Indiana Toll Road? But this risk is borne principally by the concessionaire. Given the history of changes in transportation technology, unforeseen developments will likely require contract modifications. Such circumstances would potentially enable the concessionaire to renegotiate the terms of the lease; yet such circumstances would also put the concessionaire at risk, giving the state leverage in a renegotiation. In any event, the risks associated with toll-road privatizations have so far proved manageable.

Parking meters are qualitatively different: Are they primarily a capital asset? Are they a government service, as traditionally understood? The answer to both questions is no. Parking meters are primarily an urban-planning tool that cities use to manage the utilization of precious on-street curb space for the benefit of the surrounding neighborhood. Only secondarily do parking meters represent economic rights to profit from public spaces.

In responding to the question, “Why does the city have parking meters?” Chicago says that “meters play a vital role in facilitating traffic management, promoting business,



and reducing congestion and pollution.”³⁶ Note the inclusion of promoting business as a key rationale for meters. Cities install parking meters because there is more demand for parking spots than there are spots to park in, particularly spots that are conveniently located adjacent to storefront businesses. Without some form of meter system or other time limits on parking, employees of nearby businesses (or others) might grab all the spots and make it difficult for would-be business patrons to find parking. Parking meters help ensure that storefront businesses have enough parking for customers.

Traditionally, technology limited parking meters to simple pricing schemes, such as 15 minutes for every quarter inserted, up to a maximum of two hours. Such pricing schemes were in effect at all times when meters were being enforced. Today, modern technology allows more dynamic pricing systems.

San Francisco recently implemented a system, SF Park, that varies parking-meter pricing by neighborhood and time of day to target 85 percent occupancy. The goal: to ensure that parking spots are well utilized and that a few spaces are always available for people who want a spot at the prevailing price. In other words, the goal is optimal occupancy, not revenue maximization or rate maximization. (One interesting result of the SF Park implementation is that the pilot zone’s parking-meter rates actually declined by 4 percent, on average.)³⁷

There is an additional complication with a parking-meter lease, or a lease with similar public assets. The city retains responsibility for maintaining the streets and sidewalks; only the meters and the right to collect money from them are privatized. The equivalent situation in the case of a toll road would be to privatize just the toll booths while the state retained all responsibility for the road.

What’s more, unlike a toll road, the curbside asphalt on which people park is not an asset with overdetermined form. This real estate is more like a building on Main Street, easily and cheaply repurposed. For instance, San Francisco implemented a pop-up café concept in which parking spots became space for sidewalk cafés. Parking spots also could easily be turned into protected bike or bus lanes, space for street vendors, or other uses. Even the street itself can be repurposed—as in New York City, when Broadway in Times Square and Herald Square was turned into a pedestrian plaza. (This was initially done very cheaply with paint and lawn chairs.)

What’s in the best interest of a neighborhood may be very different as conditions change over years and decades—so the curbside could be repurposed, returned to use for parking, etc.

Unlike a toll road, parking spaces are intimately integrated with the functioning of a neighborhood. Parking spaces are a core part of the city’s largest supply of public space—namely, its streets—and profoundly affect the adjacent properties. Parking spaces are intimately tied to neighborhood health.

Returning to the goal of promoting business, business conditions change over time in neighborhoods, so parking policy needs to respond accordingly. In summary, parking meters:

- ◆ Are primarily an urban-policy tool, not a capital asset
- ◆ Involve utilizing general-purpose, flexible real estate
- ◆ Are strongly connected to the surrounding areas
- ◆ Are strongly connected to other public-policy concerns
- ◆ Need to respond dynamically to changing neighborhood conditions and priorities

When a city like Chicago signs a long-term concession for parking meters, it is: 1) selling economic rights to its streets, treating parking meters as primarily a revenue source instead of an urban-planning tool; and 2) severely restricting its ability to change future public policy regarding its streets and neighborhoods. In other words, the city takes a particular public policy and freezes it in place for decades.

The lesson? Parking meters—as well as other general-purpose public assets integrated with neighborhood functioning and tightly bound to public policy—should not be subject to long-term privatizations. This rule should include long-term deals involving a significant amount of streets and sidewalks. Otherwise, a city will limit its ability to change public policy as circumstances change.

Technically, Chicago retains the right to do anything it wants with parking policy and the spots in question. However, as noted, changes can involve compensation to the concessionaire for lost revenues. To be sure, had Chicago retained control of the meters and then decided to remove them, it would still lose the revenues. But under the terms of its current lease, removing the meters now would be far more costly.

Roosevelt University’s Stephanie Farmer conducted interviews with Chicago-area transportation planners about the effect of the parking-meter lease, and concluded: “New planning and fiscal risks work as obstacles for transportation planners altering current street-level transportation configurations.”³⁸ This is not a theoretical risk. When Chicago alderman Scott Waguespack wanted to reduce meter-enforcement

hours in his ward, he discovered that it would cost \$600,000 in compensation payments in just the first three years. His chief of staff said, “Now these decisions aren’t being made based on what’s most efficient and what’s best for small businesses. It’s all about avoiding having to compensate the leaseholder.”³⁹

There are other public-policy effects, many probably unanticipated, of the parking-meter lease. The Chicago Transit Authority selected Ashland Avenue over Western Avenue for a proposed Bus Rapid Transit line in part because Ashland

had fewer leased meters than Western.⁴⁰ Illinois changed its law on disabled parking because of unanticipated compensation charges. It may well be good public policy that the disability law was modified—but in response to an unexpectedly onerous provision in a lease?

It is certainly possible to successfully involve the private sector in the installation, management, and operations of parking meters. However, because of their effects on public policy, parking meters and other similar items are not suitable for long-term leases to private entities.

IV. Conclusion

The Indiana Toll Road and Chicago parking-meter leases provide important lessons for governments considering major privatization transactions. The first is that, done correctly, privatization can be a big win for the public. The Indiana Toll Road lease is a case study in success. The second lesson is that the cost of getting it wrong can be high. Chicago’s parking-meter lease is exhibit A in failure.

Because of their long length, the stakes in these deals are higher than for outsourced services, such as printing or landscaping. Those deals typically have shorter durations and are regularly rebid. A 75-year contract can’t be easily, or cheaply, renegotiated or terminated.

Getting long-term privatizations right starts with picking the right asset (see chart). Toll roads have a track record of success. Assets that have similar characteristics, such as airports, are

also more likely to be good candidates. Parking meters, or anything related to city streets, are poor candidates.

One final note: assets whose privatization would result in having to pay regular, recurring compensation to the lessee as part of the ordinary business of civic life—such as offering discounted parking to the disabled or closing streets for special events—are probably best kept under the day-to-day management of municipal government.

Picking the Right Asset to Privatize

Criteria	Better for Long-Term Privatization	Poorer for Long-Term Privatization
Tangibility of asset	Primarily tangible capital asset	Primarily intangible economic rights
Degree of overdetermined form	Higher	Lower
Connection to adjacent land	Weaker	Stronger
Connection to other policy considerations	Weaker	Stronger
Degree to which management must respond dynamically to change	Lower	Higher

Endnotes

- ¹ See <https://www.dnainfo.com/chicago/20130429/chicago/rahm-rips-daley-on-lemon-of-parking-meter-deal-he-left-behind>.
- ² See <http://www.wndu.com/home/headlines/80032922.html>.
- ³ The preceding narrative was adapted from a *Chicago Reader* investigative series. See <http://www.chicagoreader.com/chicago/fail-chicago-parking-meter-privatization-archive/Content?oid=1265254>.
- ⁴ See <http://www.chicagoreader.com/features/blogs/pdf/IGO-CMPS-20090602.pdf>.
- ⁵ See http://articles.chicagotribune.com/2009-09-13/news/0909120434_1_mayor-richard-daley-paul-vallas-olympic-games.
- ⁶ See <https://www.civicfed.org/civic-federation/blog/expiring-parking-meter-and-skyway-funds>.
- ⁷ See <http://theexpiredmeter.com/2010/07/1-billion-in-meter-money-nearly-depleted>.
- ⁸ See <http://www.chicagoreader.com/chicago/mayor-emanuel-locks-in-parking-meter-deal/Content?oid=9931786>.
- ⁹ See http://www.in.gov/indot/files/10_majormoves.pdf.
- ¹⁰ See <http://tollroadsnews.com/news/concession-contract-for-indiana-toll-road-detailed>.
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- ¹⁵ See, e.g., <http://www.governing.com/topics/mgmt/indiana-toll-road-model-privatization.html>; and <http://finance.yahoo.com/news/how-taxpayers-fleeced-well-heeled-investors-for-once-154833010.html>.
- ¹⁶ See <http://www.chicagoreader.com/chicago/features-cover-april-9-2009/Content?oid=1098561>.
- ¹⁷ See http://newsblogs.chicagotribune.com/clout_st/2008/12/aldermen-deba-1.html.
- ¹⁸ See <http://chicagoinspectorgeneral.org/wp-content/uploads/2011/03/Parking-Meter-Report.pdf>.
- ¹⁹ See <http://www.theindychannel.com/news/daniels-announces-3-8-billion-bid-to-operate-toll-road>.
- ²⁰ See http://www.nwtimes.com/news/local/general-assembly-oks-toll-road-lease/article_0aacac2a-f3a5-5c65-8b4a-f4004154a904.html.
- ²¹ See http://www.kokomotribune.com/opinion/major-maneuverings-behind-major-moves/article_98a8b5f0-9fcd-58f9-a764-eb80dfa80cb2.html.
- ²² See <http://www.in.gov/ifa/2328.htm>.
- ²³ See <http://www.chicagotribune.com/news/chi-parking-meter-bogus-ticketsjun04-story.html>.
- ²⁴ See Indiana Department of Transportation, "Major Moves," June 29, 2011. <http://www.urbanophile.com/documents/INDOT-toll-road-handout.pdf>.
- ²⁵ See http://newsblogs.chicagotribune.com/clout_st/2009/06/city-hall-to-dip-into-parking-meter-rainy-day-fund-to-balance-budget.html.
- ²⁶ See <http://theexpiredmeter.com/2010/07/1-billion-in-meter-money-nearly-depleted>.
- ²⁷ See <http://www.chicagoreader.com/chicago/one-billion-dollars/Content?oid=1123046>.
- ²⁸ See http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/AssetLeaseAgreements/MeteredParking/CMPS_Revenue_Replacement_Fund.pdf.
- ²⁹ See <http://taftlaw.com/news/publications/detail/1342-indiana-legislature-loosens-purse-strings-in-non-budget-year>.
- ³⁰ See, e.g., <http://reason.org/news/show/setting-the-record-straight-on-1>.
- ³¹ Information provided in an e-mail from the General Counsel of the Indiana Finance Authority.
- ³² See <http://abc7chicago.com/archive/6391816>.
- ³³ There were additional compensation payments of about \$45 million at the beginning of the contract related to the discounting of tolls until electronic toll collection was in place. This was effectively a buyback of some of the near-term toll increases in order to secure deal approval—not a compensation event as such. See n. 24.
- ³⁴ See http://articles.chicagotribune.com/2014-07-03/news/ct-chicago-parking-meters-met-0703-20140703_1_chicago-parking-meters-city-rises-free-parking/.
- ³⁵ *Ibid.*
- ³⁶ See http://www.cityofchicago.org/dam/city/depts/rev/supp_info/ParkingMeter/MeterFAQs.pdf.
- ³⁷ See <http://sf.streetsblog.org/2015/04/17/all-meters-now-sfpark-ready-more-demand-based-parking-pricing-to-come>.
- ³⁸ See <http://epn.sagepub.com/content/46/9/2160.abstract>.
- ³⁹ See <http://www.chicagobusiness.com/article/20090926/ISSUE01/100032422/wholl-feed-meters-that-go-away>.
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Abstract

Today, cash-strapped U.S. cities and states are selling or leasing government assets, particularly transportation infrastructure. The sale or lease of such assets can be beneficial to the public; but the long-term nature of these deals makes them potentially far more risky than contracts to run bus service or repair city-owned vehicles.

Key Findings

1. The Indiana Toll Road and Chicago parking-meter leases provide important lessons for governments considering major privatization transactions: the former is a case study in success; the latter is exhibit A in failure.
2. Getting long-term privatizations right starts with picking the right asset: toll roads—as well as assets with similar characteristics, such as airports—have a track record of success; but parking meters, or anything related to city streets, are poor candidates.
3. Assets whose privatization would result in having to pay regular, recurring compensation to the lessee as part of the ordinary business of civic life—such as offering discounted parking to the disabled or closing streets for special events—are best kept under the day-to-day management of municipal government.