Chicago burning through Skyway privatization cash
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CHICAGO | It may not be as hot as the blaze once blamed on Mrs. O'Leary's cow, but the city of Chicago is burning its way through millions of dollars made through privatization deals, threatening to leave the long-term financial health in ashes.

Since Chicago Mayor Richard M. Daley struck a deal to lease the Chicago Skyway to a private group for $1.83 billion in 2005, the city has had immediate access to hundreds of millions of dollars.

Privatizing four downtown parking garages in 2006 and the city's entire parking meter system two years later bolstered this fund of available cash.

However, experts say the city is not channeling enough of these proceeds into long-term funds or using them to pay off bonds and pension liabilities. Instead, they say, the city is using too much of the money to fill budget gaps and cover other day-to-day expenses, in turn masking significant financial problems.

"It's not a long-term solution because we will have the same challenges next year," said Peter Skosey, vice president of the Metropolitan Planning Council, an area nonprofit that promotes regional growth. "This is masking the real problem of the government spending more than it brings in."

While the city used most of the proceeds from the parking garage deal to pay off old debt, almost half of the combined Chicago Skyway and parking meter money already spent or set aside for the 2010 budget has gone toward operating expenses.

This is a practice John O'Leary, of Harvard University, warns against, because the city is spending in less than half a decade revenue intended to cover 75- or 99-years, depending on the terms of the individual deal.

"In general, proceeds from a long-term revenue stream should be dedicated to long-term needs and expenses," said O'Leary, a research fellow at the Ash Center, a branch of Harvard's Kennedy School of Government.
Burning through cash

When Chicago leased its parking meters to a private company for 75 years, it received $1.16 billion. The city already has spent almost $973.6 million of that. Of this amount, more than 94 percent has been used for day-to-day needs.

A $422 million chunk of this parking meter money was woven into the city’s 2010 budget - including $250 million originally set aside for long-term needs. Much of the money was used to help fill last year’s hefty budget gap.

The city has tapped into the Chicago Skyway proceeds less, retaining $500 million in a long-term fund after the deal was completed in 2005. Still, Mayor Daley and the City Council have poured almost a half billion dollars into daily expenses during the last five years.

Skosey said the extra money has come in handy considering the tough economic times that have the city bringing in less sales tax and tourism revenue, but he cautions the model is inherently unsustainable.

"If we keep doing this, we're going to run out of revenue in the not too distant future," he said.

The city did not return requests for comment.

Skosey said the city will have to slash spending and raise taxes to fix the problem, but because both are politically unpopular maneuvers, the mayor and aldermen are hesitant to pull the trigger.

H. Woods Bowman agrees. Bowman, a professor of public service management at DePaul University, said the city is papering over the financial problem instead of fixing it because of a lack of discipline in City Hall.

"It is very tempting to have a pot of money lying there, whether or not it has a label that says it's supposed to be used for something else," said Bowman, a former Cook County chief financial officer and state legislator. "The longer they delay fixing the problem, the larger it gets."

The Hoosier Model

Bowman said a more responsible use of the proceeds would be to cover one-time expenses, such as bonds the city has issued to finance projects or Chicago's mounting pension liabilities. Funding for Chicago's four pension funds ranged from 40 percent to 89 percent of the state-required contribution amount last year, according to a ratings agency report.

Leonard Gilroy, of the Reason Foundation, supports Chicago's privatization deals, but said the city could have used the proceeds from the parking meter lease more responsibly.

"You have a one-time revenue influx -- don't go blow that," said Gilroy, the free-market think tank's director of government reform.
Gilroy points to how Indiana Gov. Mitch Daniels used the $3.85 billion from leasing the Indiana Toll Road in 2006.

After paying off toll-road debt, Daniels put $2.1 billion into a 10-year transportation plan that calls for 104 new roads by 2015. This comes at a time when most states are struggling to maintain core infrastructure, such as roads and bridges.

The remaining money from the deal was placed in a trust fund, which still holds $578 million. Chris Conner at the Indiana Treasurer's office said every five years the state "scrapes off" the interest the fund accrues and diverts it to the transportation plan.

Gilroy favors a similar plan for Chicago.

"Put the money into a dedicated account that would generate money for highway rebuilding," he said. "Invest in transportation."

Whether the city funnels more of the proceeds to cover bonds, pension liabilities or transportation maintenance, Skosey at the Metropolitan Planning Council says something must change.

He said if Chicago continues to mismanage the money the city might pin itself in a position where it is playing catch up just to cover its expenses.

"You wouldn't mortgage your house to pay your electric bill."