Government Asset Sales: A Watchdog’s Perspective

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ABOUT THE CIVIC FEDERATION

• Non-profit government research organization founded in 1894.
• Funded by major corporate and professional service firms in the Chicagoland region.
• Purpose:
  – To serve as a technical resource, providing nonpartisan research and information.
  – To promote rational tax policies and efficient delivery of quality government services.
  – To offer solutions which guard against excessive taxation, enhance financial reporting and improve the quality of public expenditures.

www.civicfed.org for more information
CONTENTS

• Alternative Service Delivery Guidelines
• Successful Asset Sales
• Unsuccessful Asset Sales
Alternative Service Delivery

- Appropriate safeguards
- Reduce costs and improve government efficiency
- Not a panacea
Attributes of a Appropriate Privatization

• Non-core

• Competitive marketplace

• Management oversight

• Reduce existing obligations
Successful Local Asset Leases

• 2005: Chicago Skyway
  – $1.83 billion

• 2006: Millennium and Grant Park Parking Garages
  – $563 million
Annuities Can Create Budget Gaps

• $325 million in Skyway revenues used for 5-year annuity

• Not a recurring revenue source

• What happens when the annuity runs out?
Midway Airport

- The Midway lease would have generated $2.5 billion

<table>
<thead>
<tr>
<th>Use of Midway Airport Long-Term Lease Proceeds</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retire Midway Debt</td>
<td>1,300,000,000</td>
</tr>
<tr>
<td>Establish 5-Year Annuity to Pay for Operating Expenses</td>
<td>100,000,000</td>
</tr>
<tr>
<td>Funding for Infrastructure Projects or to Reduce Pension Liabilities</td>
<td>1,121,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,521,000,000</strong></td>
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</tbody>
</table>

* The figures are preliminary and may be subject to change.
Source: Fran Spielman, "Midway Airport Leased for $2.5 Billion, Chicago Sun-Times, October 1, 2008.

- National credit crisis
- City retains $126 million in earnest money
- Should be rebid when conditions improve
Parking Meters

• 75-year lease to Chicago Parking Meters

• Generated $1.2 billion for Chicago
  – $749 million for operations over several years

• Subcontractor LAZ Parking’s lack of preparedness

• Better oversight necessary
Use of City of Chicago Asset Lease Proceeds

$ Millions

<table>
<thead>
<tr>
<th>Category</th>
<th>Operations</th>
<th>Capital / Pensions</th>
<th>Reserves</th>
<th>Retire Debt</th>
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</thead>
<tbody>
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<td>Skyway</td>
<td>$475</td>
<td>$500</td>
<td>$855</td>
<td>$158</td>
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<tr>
<td>Garages</td>
<td>$500</td>
<td>$563</td>
<td>$120</td>
<td>$278</td>
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<tr>
<td>Parking Meters</td>
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<td></td>
<td>$400</td>
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<tr>
<td>Midway</td>
<td>$100</td>
<td>$900</td>
<td></td>
<td>$1,500</td>
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</tbody>
</table>

Total: $1,830 + $1,200 + $2,500 = $5,530

$900 + $1,500 = $2,400

Source: The Civic Federation (est. 1894)
Other Non-Asset Sale Privatization Opportunities

• City of Chicago
  – Janitorial Services
  – Waste and Recycling
  – 311

• Cook County
  – Pharmacy
  – Print Shops
  – Dietary and Food Service
Are Asset Sales a Good Way to Meet Immediate and Mid-Term Budget Gaps?

- NO

- Should reduce debt or pension shortfalls

- Create future budget gaps