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In 1981, the *Chicago Tribune* published a series of articles called "City on the Brink". This is how the first article in the series began:

"The City of Chicago has become an economic invalid. The condition may be permanent – unless the people responsible for its economic future can reverse the long, steady, and seemingly endless slide .... Chicago is losing the industry that was its original reason for existing and has found nothing to replace it. Often, cities stricken in this way become irrelevant. Business moves away. So do the best young people. The population ages. The City becomes a backwater."

That's not what happened. Instead, under Mayor Richard M. Daley's leadership, we built a better future in Chicago because of remarkable business, civic and political leadership – leadership from the kind of people that are in this room.

This session will offer several thoughts about how cities and regions can successfully address current economic challenges.

First, we must recognize that cities and regions are more important than ever before. In 2007, the world's largest 600 cities represented just 22 percent of our global population but more than half of our global GDP.

There is a reason for this. A modern economy depends on ideas and information. Cities bring talented people in contact with one another, so that the whole is greater than the sum of the parts.

Of course, we must still strive to make our cities and regions work better. Successful cities and regions must be able to move goods, services and information quickly and cheaply. If we can't do this, businesses will go somewhere in the world that can.

Too much of our physical infrastructure is old and outdated. We will squander our potential if we cannot provide infrastructure that is up to the tasks of our 21st Century economy.

We have to be innovative in how we finance our necessary infrastructure upgrades. I don't need to tell you that cities, states and provinces are in dire fiscal shape. There are limits on how much governments can borrow or tax.

We must instead look to creative partnerships with the private sector to make the kinds of investments that will promote future prosperity. As local governments are continually challenged to do more with less, they must find new and innovative ways to finance municipal projects and services. Chief among them is the need to build and maintain infrastructure.

European cities – and more recently those in Australia and South America – have solved the need at least in part by privatizing toll roads. But worldwide infrastructure privatization has not been limited to toll roads and other ground transportation assets.

In fact, at least 50 airports world wide are now owned and operated by private companies, including airports in London, Rome, Paris , Sydney, Zurich, Frankfurt, Vienna, Beijing and Belfast.

Cities pursue these transactions because they enable them to finance major capital improvement projects, pay off substantial amounts of debt, establish cash reserves and invest millions of dollars in services that improve the quality of life for residents.

Getting Started: High-Level General Analysis Before Deciding Whether a P3 Transaction is Right for Your Asset

1. Whether there is a potential financial benefit to residents and taxpayers;
2. Whether the areas are core competencies of city government;
3. Whether there exists in the market experienced and professional operators that can improve the efficiency or quality of service provided to users of the assets.

General Issues to Keep in Mind Throughout P3 Transactions

1. Finding the Appropriate Investor
   - Financially sound
   - Capacity to keep system running
   - Overall goals
2. Valuing the Investment
   - Many of these assets have never been valued – What is the actual value?
   - Is the return on the investment worth the price – political and financial - of the process?
3. Maintaining a Level of Control
   - The more control the municipality keeps over the asset, the less financially valuable it becomes.
   - But ultimately, the municipality is responsible for the operation and will be held accountable.
   - The municipality should, at the least, maintain approval over how fast rates will increase and by how much.
4. Treating Employees Fairly
   - Allow current employees of the municipality to at least interview for, if not be guaranteed, jobs at comparable salary and benefits with the new operator.
   - Require compliance with living wage standards as well as those for contracting with minority and women owned businesses.
   - Consider building into the agreement a city residency requirement.
5. Maintaining Safety and Security
   - Police and other public safety agencies continue to provide services, e.g., if leasing an airport, TSA to

continue providing passenger and baggage screening, oversight of security program and airline compliance with federal security regulations.

6. Dealing with Public Opinion
   Must have support of administrative personnel as well as elected officials, businesses and community groups.
   Will you be able to sell the public?
   Do you have the support of local as well as state-wide elected officials?
7. Coordinating the Process
   City departments that normally don't work together have to do so to get the deal done.
   Operational departments have to disclose comprehensive information to financial and legal departments.
8. Funding the Process
   The process is expensive and time consuming.
   Costly experts have to be retained to analyze the viability of the proposal.
9. Maintaining Specific Operating and Engineering Standards
   Require concessionaires to make necessary, identified capital investments to maintain the asset's structural integrity and operational efficiency.
10. Competitive Nature of Process
    Process often begins with the issuance of an RFQ. An objective checklist of qualifications should be developed prior to the RFQ's issuance.
    Then, the qualified responders are invited to submit a proposal to a more detailed RFP which is evaluated by a selection committee (who?, standards?).
    Makes sense to identify at least two bidders as the final bidders so that they have to bid against each other and make concessions to be successful.
11. Limiting Use of Proceeds
    Identify how the proceeds will be used: infrastructure investments, protection of taxpayers.
    Pay-off debt, short-term budget relief, long-term reserve?
12. Ongoing monitoring and administration of the contract
    Who is going to monitor?
    Based on what criteria is the monitoring going to occur?

The City of Chicago's P3 Transactions

The City of Chicago has been a national leader in successfully pursuing public-private partnerships of certain city infrastructure assets.

A. The Chicago Skyway Transaction

Chicago was the first city in the United States to lease a publicly-owned toll road and a major parking system, which yielded $2.4 billion to Chicago's taxpayers. This unprecedented monetary infusion of cash enabled Chicago to pay off debt, invest in city infrastructure, establish cash reserves for the first time, and fund programs for the most needy residents.

The Chicago Skyway was leased to an Australian-Spanish consortium for $1.8 billion, and the city used the money to pay down debt, improve its bond rating, and expand social services.

B. The Parking Garages

Four large downtown parking garages were leased to Morgan Stanley for $563 million. The garage lease generated $122 million for neighborhood parks, and retired the parking garage debt.

C. The Parking Meters

The City received a winning bid of $1.157 billion from Chicago Parking Meters LLC to operate the city's parking meters for 75 years. The funds from this agreement strengthened Chicago's finances for the long term and gave the city the ability to protect residents and fund critical city programs that were sorely needed during the worst recession since the Great Depression.

The long-term parking meter concession was a sound financial deal for Chicago.

The majority of Chicago's parking meters are located in the downtown area. Rates at nearly 75% of the city's parking spaces had not been increased in more than two decades. Meter rates failed to keep pace with demand, creating congestion and pollution problems. Properly priced

meters, however, create turnover and availability, and that's good for business and the environment.

As the City addressed multiple times, there were challenges with the transition to the private operator, Chicago Parking Meters, LLC, and the transition should have occurred over a longer period of time. These problems impacted people negatively.

However, there were many benefits to the deal that residents of and visitors to Chicago enjoy today.

The concessionaire installed more than 3000 pay and display boxes throughout the City, a vast majority were installed two years ahead of schedule.

The pay boxes make it easier for Chicagoans to use parking meters by offering the convenience of credit and debit card payment options as well as the continued use of quarters or dollar coins.

The pay boxes provide real-time reporting to the operator, allowing problems to be addressed much more quickly.

Further, the pay and display boxes are "green." They are solar-powered, reducing the need to dispose of nearly 45,000 batteries per year.

Motorists are able to port their time between meters if they still have time left on their ticket.

Results of Chicago's Public-Private Partnerships

These three transactions enabled the City of Chicago to finance major capital improvement projects, pay off a substantial amount of debt and invest millions of dollars in Chicago's people, neighborhoods and businesses. Leasing assets has been an important strategy for Chicago, mimicked by many other cities, to help fund critical city programs that residents sorely needed during the worst recession since the Great Depression. Additionally, the $500 million long-term reserve set up by the Skyway transaction remains intact and is generating significant interest revenue which is added to the City's operating fund. Cities in the U.S. are newer players in the P3 arena, and as a result, the challenges of these

arrangements are still being identified and rectified. Those challenges shouldn't be a basis for taking P3s off the table as viable options for financially strapped cities.

CTA North/Clybourn Red Line Station Partnership with Apple

The Chicago Transit Authority's relatively new North/Clybourn Red Line Elevated Train Station is a great example of a public private partnership.

Apple built a retail store above the station and provided $3.9 million for station improvements in return for advertising rights and possible future naming rights at the station.

Conclusion

As of 2008, for the first time in history, the majority of the world's population lives in urban, not rural, areas. The trend toward urbanization is expected to continue. Increased urbanization brings, among other things, more traffic, more energy usage, more pollution, more pressure on government services. In order to survive, urban areas will have to adapt. New levels of collaboration among government and the private sector are critical for such adaptation. P3 transactions are just one tool in the arsenal of cities to collaborate with the private sector and allow for financial and operational benefits for their taxpayers.