The Value of Public-Private Partnerships

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"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."

RC Longworth. "Chicago: City on the Brink,"
***Chicago Tribune,* May 10, 1981.**



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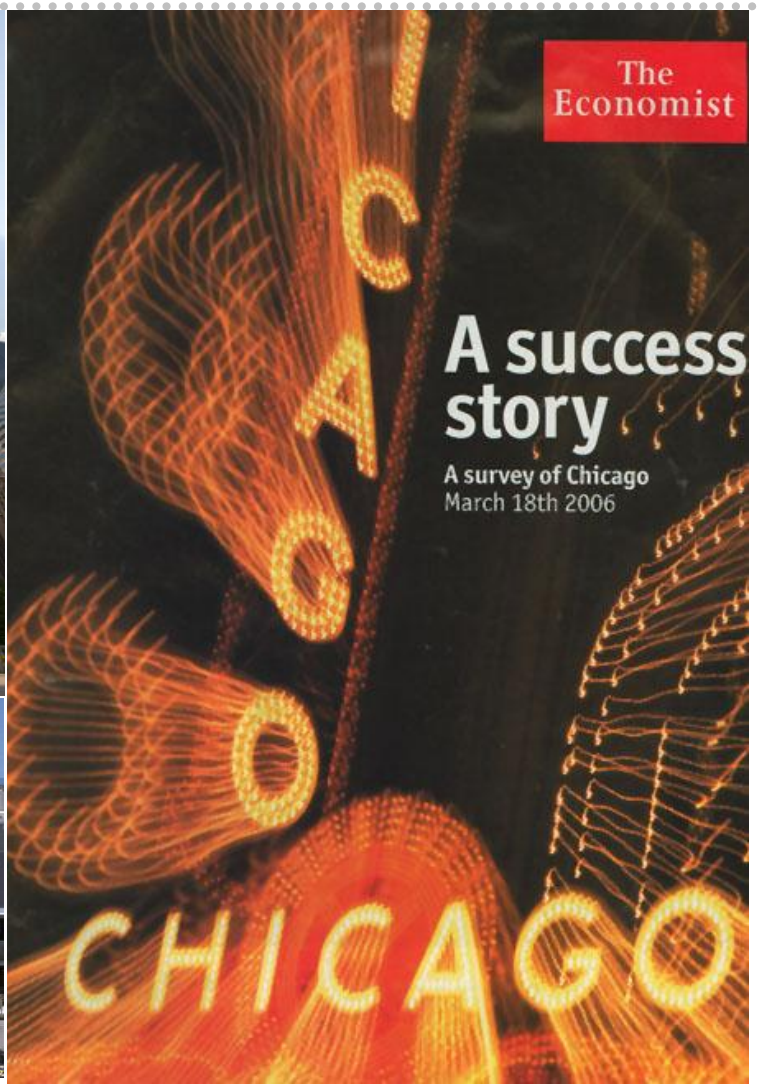
The Economist
A success story
A survey of Chicago
March 18th 2006
CHICAGO

Growth and Importance of Cities and Regions

- 600 of world's largest cities (2007)
  - Represented 22 % of the global population
  - More than half of global GDP
- United Nations predicts 37 megacities by 2025
  - 10+ million people



Successful Cities

- Attract and incubate talented people
- Move goods, services and information efficiently and cost-effectively
- Invest in physical and virtual infrastructure
- Take and innovative approach to dealing with economic challenges

Value of Partnership

- Partnership between government and the private sector are key for future growth of cities
- Governments must do more with less
- Need for new and innovative ideas to finance municipal projects and services
- Infrastructure projects are costly but become more costly the longer they are neglected

Public-Private Partnerships in European Cities

- European Cities have been using the P3 model for years
  - Privatizing Toll Roads
    - Australia, South America
  - 50 Airports Privatized
    - London, Rome, Paris, Sydney, Zurich, Frankfurt, Vienna, Beijing, Belfast
  - Ports

Benefits of Public-Private Partnerships

- Finance major capital projects
- Pay off substantial amounts of debt
- Establish cash reserves
- Invest in services to improve quality of life for residents

Getting Started: Is a PPP Right for You?

- High-Level Considerations
  - Is there a potential financial benefit to residents and taxpayers?
  - Is this area a core competency of government?
  - Are there experienced and professional operators that can improve the efficiency and quality of service to end users?

P3 Transaction – Checklist and Issues

- Finding the appropriate investor
- Valuing the investment
- Preserving a level of control
- Treating employees fairly
- Maintaining safety and security
- Dealing with public opinion

P3 Transaction – Checklist and Issues

- Coordinating the process across departments/agencies
- Upholding specific operating and engineering standards
- Implementing a competitive process
- Limiting use of proceeds
- Monitoring and administration of contract

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Case Study: City of Chicago P3 Transactions

- First city in the United States to lease a publicly-owned toll road and major parking system
- Yielded $2.4 billion to Chicago taxpayers
- Enabled city to pay off debt, invest in city infrastructure, establish cash reserves, fund programs for most needy residents
- $500 million Skyway reserve still intact

The Chicago Skyway: $1.8 Billion

- Chicago Skyway Toll Bridge System is a 7.8-mile-long toll road which links Interstate 90 from Illinois to Indiana through Chicago.
- Leased to an Australian-Spanish consortium for $1.8 billion
- Funds used to pay down debt, improve bond rating, creating long term cash reserve, expand social services



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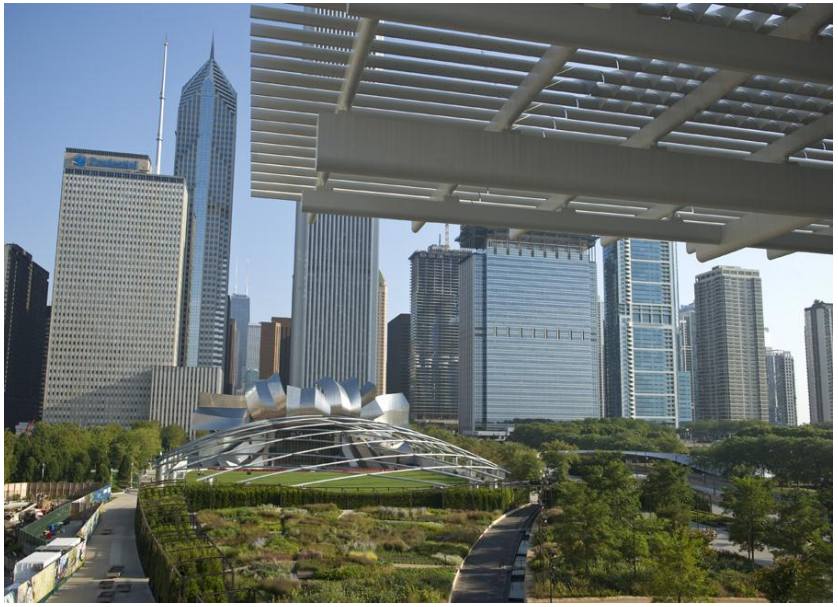
Chicago Parking Garages: $563 Million

- Four large downtown parking garages were leased to Morgan Stanley for $563 million
- Lease retired parking garage debt and generated $122 million for neighborhood parks



Chicago Parking Meters: $1.16 Billion

- Leased the city's parking meter system for 75 years
- Funds went to provide critical services and programs to residents during the worst recession since the Great Depression
- Majority of meters located downtown and rates at 75% of the meters had not been increased in two decades
- Sound financial deal, challenges with implementation



Chicago Parking Meters: Benefits

- Created turnover and parking availability, good for business and the environment
- Concessionaire installed more than 3,000 pay and display boxes throughout the city
  - Two years ahead of schedule
  - Exponentially faster than the city could have
- Pay boxes provided flexibility to residents and visitors
- Real time reporting to the operator to address issues
- Energy-efficient, solar-powered
- Ability for motorists to port time between meters

Chicago P3 Results – Three Transactions

- Enabled Chicago to finance major capital improvement projects
- Pay off substantial amount of debt
- Invest millions in Chicago's people, neighborhoods and businesses during tough economic times
- Models mimicked by many other cities
- Hundreds of millions in long-term reserves remain intact generating significant interest revenue
- U.S. cities are newer to these types of transactions so there is opportunity to learn from challenges

Other Chicago P3 Projects

- Chicago Transit Authority Partnership with Apple
  - North/Clybourn Red Line Station benefitted from $3.9 million in station improvements
  - Apple built retail store above station and was given advertising rights and potential future naming rights of station
- Potential to lease Midway Airport
- Chicago Infrastructure Trust

Global Urbanization

- In 2008, the majority of the world's poputation lives in urban areas
- Trend is expected to continue



Impact of Urbanization

- Increased in:
  - Traffic
  - Energy usage
  - Pollution
  - Pressure on government services
  - Strain on infrastructure
- New levels of government and private sector collaboration is critical

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P3s: Collaboration and Innovation

- P3s provide financial and operational benefits to taxpayers without further burdening them
- Require new levels of collaboration between government and business but also within government
- Past challenges should be seen as opportunities to learn from
- Investment in long-term health of city

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