Don't Hose LA

LA WATCHDOG

By Jack Humphreville

Chicago's "taxpayers have been hosed" according to the Chicago Reader. [LINK] And now it looks like it's LA's turn if the Mayor has his way. Chicago residents have ample reason to be upset. Parking rates are more than doubling this year and will go up five times over the next five years, from an average of 47 cents an hour to $2.40 an hour, an increase averaging 38% a year. Rates will be in effect for more hours and there will be more meters and less free parking. And Chicago has been issuing many more parking tickets. All this has resulted in a substantially higher level of vandalism and political turmoil.

In addition, while Chicago netted over $1 billion from the sale / long term lease (after deducting $7 million of fees to politically connected investment banks and law firms), Chicago sold the parking meters at a huge discount, estimated by Chicago Inspector General David Hoffman (now a candidate for the Democrat nomination for US Senate) to be 50%. This resulted in a gift of about $1 billion to an investment group led by Morgan Stanley, a New York City investment bank. (Check out Hoffman's report.) [LINK]

Parking meter revenues are expected to increase eight (8) times, from $20 million a year to over $160 million in five years. The investors expect to make at least 4 to 5 times on their investment, a compounded rate of return of around 35% per year. A massive home run for the investors, but not so hot for the taxpayers!

Unfortunately for taxpayers, Chicago has squandered a large portion of the proceeds to fund its operating deficit, including most of the funds that were allocated to the reserves for use by future generations. At the same time, Chicago lost the annual parking meter revenues, thereby increasing the operating deficit which, in turn, will require new taxes.

While Mayor Daley defends this transaction, the Aldermen, who were kept in the dark during this less than transparent transaction, are not in agreement, especially since they are taking considerable heat from their constituents. Furthermore, Chicago has lost control of its ability to set rates because of the onerous "True Up" provisions and related financial penalties contained in the sale contract.

As for Los Angeles, the City has retained Chicago based Scott Balice Strategies as its Financial Advisor to assess a potential Public-Private Partnership ("P3") for the City's Parking Facilities. Scott Balice is charged with gathering and validating the necessary financial and operating information, preparing projections, valuing the assets, and developing alternatives.

The proceeds from the sale / long term lease of our Parking Facilities will be used to pay operating expenses, such as to build reserves, to pay pension costs, and "to provide dedicated funding to each Council District for improvements" (a bribe, perhaps?). But as we all know, selling capital assets to fund operating expenses is bad financial policy and delays making tough, but necessary decisions to cure the Structural Deficit.

The Controller's November Status Report pointed out that the City has not developed a broad policy or acknowledged consensus on the general issues related to P3 transactions, including the structure of any transactions, the level of control, and the use of proceeds. As it is, the P3 for the Parking Facilities is just another one of the Mayor's one off budget gimmicks.

The Controller's Status Report implies that this is P3 transaction is a done deal.

However, there are other alternatives, such as maintaining the status quo, or maintaining the status quo and making the unpopular decision to raise parking rates, just like any private equity investor like Morgan Stanley would do.

Another alternative that a number of other cities have used successfully is to work with a professional parking management company that would operate the Parking Facilities pursuant to a mutually agreed operating and financial plan. The City would retain control, participate in the future revenues, avoid significant investment banking and legal fees, and limit future legal disputes with private investors who demand exorbitant rates of return.

As the Controller's Status Report stated, it is important to make sure that process be open and transparent. As such, before embarking on a transaction, before retaining a fee hungry investment bank whose compensation is contingent upon closing a transaction, and before sending out any Request For Qualifications, the City should conduct a thorough review of the Financial Advisor's report, including the projections, alternatives, and conclusions, which is open to all stakeholders, including the Neighborhood Councils and the press.

As it is, the level of trust is low, especially given the City's $25 BILLION financial shortfall associated with the projected four year budget deficit, the unfunded pension liabilities, and the deferred maintenance of our infrastructure.

An open and transparent process, including extensive community outreach, related to this controversial, financially questionable P3 transaction is imperative to make sure that the Los Angeles tax payers are not hosed.

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NEWS & COMMENTARY » FEATURE

April 09, 2009

FAIL, Part One: Chicago's Parking Meter Lease Deal

How Daley and his crew hid their process from the public, ignored their own rules, railroaded the City Council, and screwed the taxpayers on the parking meter lease deal

By Ben Joravsky and Mick Dumke

Feature archives »

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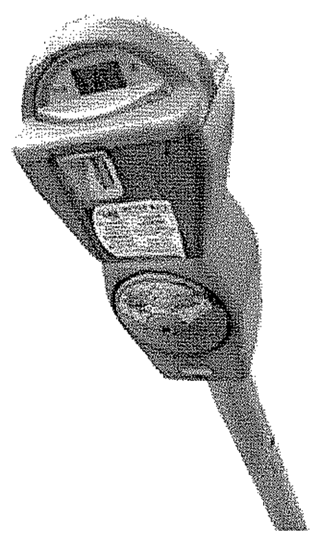

No one in Chicago has been happy about the recent hike in parking meter rates, but by last week the frustration had become outrage, and the outrage had become a political problem. Since the city's speedy decision in December to lease the meters for 75 years in return for about $1.2 billion in quick cash, what you get for your quarter has declined precipitously. Worse, residents are fed up with the tickets they're receiving thanks to broken meters and outdated labeling. Some are boycotting meters by parking on side streets or not driving at all; others have tagged or vandalized them.

Finally, on March 31, city officials called a press conference to confront the problem—or at least to offer up someone who could take the blame so the Daley administration didn't have to. They presented one Dennis Pedrelli, chief executive officer of Chicago Parking Meters, the private entity that's now responsible for operating the meters. Pedrelli delivered a mea culpa. "We regret any issues that occurred," he said. "We are working as quickly as possible to address those issues." He promised that the company wouldn't raise rates or write any more tickets until it had fixed the broken meters and posted accurate information.

But the event didn't touch on what's really behind the parking meter problems: the deal that put the city's 36,000 meters in the hands of Pedrelli's company. Once city officials decided to privatize the meters, they rushed into a deal with little regard for the financial risks or potential impact on the public, turning control of a revenue-generating city asset over to a company that had just qualified for federal bailout funds.

The origins of the meter debacle actually date back to 2005, when Mayor Daley began selling off public property for up-front cash payments without much scrutiny from the City Council or the public. Then last year, when tax revenues plummeted, the mayor increased the pressure, directing his staff to be "creative" in attacking budget problems. But even as city officials celebrated privatization agreements for Midway Airport and the meters, both worth billions of dollars, they refused to release the most basic information about how they'd been reached—such as which firms had bid, how much they'd offered, and short-or long-term cost-benefit analyses. Both plans were hustled through the City Council in less than a week. As one alderman told the *Reader*, but not for attribution, during a hearing on Midway: "Somewhere in this deal we're getting screwed. I just can't figure out where yet."

We can help with that. First off, a private company gives the city—i.e., the mayor—a big pile of cash that conveniently isn't subject to the same oversight as the rest of the budget. Eventually the private company will make a fortune off the deal—but by then everyone now running the city will be gone. In the meantime, fees are raised and management is moved out of the reach of voters.

With the parking meter deal the mayor has figured out how to get the public to pay more for less control. Daley gets more control over resources—and less responsibility for delivering services in return.

The ever-fearful City Council let him run roughshod over them, passing the deal with virtually no consideration. The citizenry never even had a chance. Now, thanks to the Freedom of Information Act, we've obtained documentation of the process that should have been made public in the first place. We've still got some unanswered questions, but we've managed to fill in some holes in the chronology of how the process got hijacked. Here's how it went down.

January 24, 2005 Mayor Daley signs a deal to lease the Chicago Skyway for $1.83 billion to the Cintra-Macquarie Consortium, based in Spain and Australia, for 99 years. The dailies praise the deal—the *Tribune* calls it a "windfall"—and public officials around the country hail it as a model for privatizing public assets, indicating that it'd be a good way to manage the upkeep on toll roads and highways. Daley says he'll be looking into other lease agreements. And so it begins.

October 13, 2006 Daley announces plans to lease four parking garages under Millennium Park and Grant Park to a division of Morgan Stanley, the Wall Street investment bank, for $563 million. Daley calls the 99-year lease an "outstanding deal for the taxpayers of Chicago," which "allows for a massive shift of capital resources from downtown parking garages to neighborhood parks."

February 8, 2008 The city issues a request for qualifications (RFQ) inviting firms to present credentials for leasing the rights to the city's 36,000 parking meters. Collecting parking fees and fines is one thing the city seems to be pretty good at—with operating expenses of $4 million it hauled in almost $23 million in 2007. But chief financial officer Paul Volpe says a private company would do a better job managing the meters. The RFQ asks bidders to demonstrate their "financial capability" as well as outline plans to manage the system and provide service to meter users. Responses are due in March.

February 11, 2008 The Chicago Park District announces it's spending $22 million to buy the office it's been renting at 541 N. Fairbanks, in Streeterville. The building's owner donated $50,000 to Mayor Daley's 2007 reelection campaign; Park District officials say there's no connection.

Money for the purchase comes out of the $563 million the city and Park District received from Morgan Stanley for leasing the parking garages. Much of the money is already earmarked to pay off debt and after this deal there's only about $100 million left over for neighborhood parks. It turns out they'd have benefited more if the city had held on to the garages.

March 28, 2008 Ten groups have submitted packets detailing their "qualifications" for leasing the city's parking meters, including Morgan Stanley, JPMorgan Chase, Lehman Brothers, and partnerships led by Macquarie Capital Group and Cintra, the overseas firms that leased the Skyway. Several promise quick technology upgrades to make street parking easier for users and more lucrative for operators. Morgan Stanley says it would hire another company to manage the meters—LAZ Parking, a national firm based in Hartford, Connecticut. Morgan Stanley says LAZ would place a big emphasis on maintenance: "Since broken or jammed meters cannot bring in revenue, we will address preventive measures to ensure a reduction in malfunctioning meters." City officials keep the bids to themselves, declining to show them to the public and refusing a direct request from us. When we ask for details about the process, they say they'll spend the next few weeks determining whether the interested parties are qualified to continue with the bidding process.

August 14, 2008 The administration announces that its budget projections are a bit off—the city is $420 million in the hole. The figure grows to nearly $500 million in the following weeks as the housing market implodes and revenues from real estate transfer taxes dry up. Volpe rules out raising property taxes but admits, "We're going to have to make some tough choices." He declines to provide specifics, saying, "We're not here today to talk about solutions."

September 22, 2008 A week after Lehman Brothers is liquidated amid the biggest Wall Street crisis since the Great Depression, Morgan Stanley and Goldman Sachs, the largest remaining investment banks in the United States, announce they will become bank holding companies, which are subject to stricter regulation. The firms "requested the change themselves," according to the *New York Times*, "a blunt acknowledgment that their model of finance and investing had become too risky...." The *Times* calls this "a turning point for the high-rolling culture of Wall Street, with its seven-figure bonuses and lavish perks for even midlevel executives."

September 30, 2008 Two years after talks begin with federal and airline officials about privatizing Midway Airport, Mayor Daley announces the city has reached a $2.5 billion, 99-year deal with Midway Investment and Development Company. The consortium includes John Hancock Life Insurance and YVR Airport Services, a Canadian company that manages airports. City officials say six firms went through the initial round of the bidding process, but they won't name them or reveal which ones submitted formal offers until the deal is closed. Daley staffers call aldermen downtown for closed-door briefings over the next couple days.

October 3, 2008 Fearing a run on banks, Congress props up the industry by passing the Troubled Asset Relief Program (TARP)—the $700 billion bailout bill. About $10 billion goes to Morgan Stanley. JPMorgan Chase—whose midwest chairman is the mayor's brother William Daley—gets $25 billion. A few weeks later JPMorgan announces plans to buy a new fleet of corporate jets. Morgan Stanley quarterly dividends are paid out on schedule.

October 6, 2008 The Chicago City Council holds the first of two hearings to approve the proposed Midway lease. Many aldermen complain they haven't had enough time to study the details. Volpe says after paying off its debts the city should have about $900 million left to put toward pension obligations and $100 million for discretionary spending. He says aldermen will be consulted at a later date about where this money will go.

Under questioning from 38th Ward alderman Tom Allen, Volpe reluctantly concedes the city will probably have to spend at least $1 billion on police and fire protection for Midway over the next 99 years, meaning the deal is essentially a money loser. Nevertheless, the council's finance committee approves it, which virtually assures its passage.

October 8, 2008 The full City Council approves the Midway lease deal by a vote of 49-0. One alderman who's been critical of the deal speaks frankly to us on the condition that we not identify him: he says he didn't really think the mayor would withhold services from his ward in retaliation for a nay vote but he voted yes anyway, figuring, "Why take a chance?"

Another admits that privatizing assets gives city officials cover when fees are jacked up. If aldermen voted to raise the tolls on the Skyway or the price of parking downtown, citizens might get upset at them, he says—so why not let a private company take the heat while the city gets a quick injection of cash?

October 15, 2008 Mayor Daley releases his 2009 budget, which he says will be balanced despite the city's "financial challenges." It hinges on hundreds of layoffs, hiking various fees and fines, and an expected $150 million infusion from a parking meter lease. Many aldermen say this is the first they've heard that the city is close to such a deal.

November 19, 2008 The City Council approves Mayor Daley's budget by a vote of 49 to one. It projects a balance by firing workers, hiking various fees and fines, and leasing the parking meters. Daley and the aldermen congratulate themselves on working through a dire financial situation together. "Often the City Council is looked at as a body, that if we all vote one way or another, it's a rubber stamp," says 46th Ward alderman Helen Shiller. "But that doesn't fit the times." The lone dissenter, the 26th Ward's Billy Ocasio, has a different take: "Yes, these are hard times," he says. "But I think in this budget we haven't been that responsible."

November 21, 2008 Unbeknownst to the public or the City Council, the city receives two official bids for leasing the parking meters. (At deadline budget department spokesperson Peter Scales had not been able to provide an explanation of how the pool was winnowed down from ten.) According to the documents obtained by the *Reader* through the Freedom of Information Act request, the bids came from Morgan Stanley, for $1,008,500,000, and the Macquarie partnership, for $964,226,025.

December 1, 2008 Final bids on the parking meter lease are due. "We open the envelopes and the winning bidder is the highest bidder," Lisa Schrader, a spokesperson for the budget department, tells us later that day. In the last week Morgan Stanley has upped its bid to $1,156,500,000. The Macquarie group's final bid comes in at $1,019,022,803.

At 8:34 AM finance committee chair Ed Burke calls a special meeting for December 3 to discuss the deal; aldermen still have no information about who has bid or how much. At 3 PM, the mayor submits paperwork to the city clerk's office calling a full council meeting for December 4 "for the sole purpose" of approving the agreement.

December 2, 2008 Daley holds a press conference to announce that his administration has agreed to lease the meters for 75 years to Chicago Parking Meters LLC, a newly created entity led by Morgan Stanley, for nearly $1.2 billion. In its bid documents Morgan Stanley lists itself as the sole vendor, with no reference to creating Chicago Parking Meters or any other offshoot involving other investors.

The deal "comes just at the right time," says Daley. Parking rates will go up, he says, but some of the money will help pay for social services.

The mayor and his aides won't reveal the names or number of other bidders or how much they bid. "We do not disclose information that is part of the competitive bidding process until the transaction is closed," explains a budget department spokesman.

Aldermen are invited to a briefing with city officials, who distribute an eight-page summary. It reads in part, "City Council retains the right to set rates, hours of operation and designate meter locations. However, reduction in meters, rates or hours that negatively impact the overall value of the meter system could result in a payment by the City to the Concessionaire." Due to the short notice some aldermen aren't able to attend.

December 3, 2008 An ordinance is required to finalize the lease deal, and the finance committee meets to consider it. Ten minutes into the meeting some aldermen point out that they still haven't seen it. After copies the orrdinance have been provided, many remain confused. Where are the details of the agreement? What's the rush? Why haven't you kept us informed before now? And who in the heck is the company that will be managing the meters?

Volpe tells the aldermen it's critical to finish the deal quickly, since interest rates are at an all-time low and any upward movement will cost the city money. But he also assures them that the city will replace the $20 million it now clears annually from parking meters with 5 percent interest on the $400 million it intends to put in the bank. No one bothers to remind him that in the current economic meltdown nothing is generating a 5 percent return.

Alderman Berny Stone praises Mayor Daley's fiduciary prowess by explaining that the lease will help avoid tax hikes: "You can't avoid death, but you can try to avoid taxes." Other aldermen pause to reflect on the deeper meaning of his remark.

Alderman Richard Mell points out that workers employed to write tickets and empty the meters won't be subject to the federal ban on patronage hiring. That means they could work the precincts or contribute to the campaigns of powerful politicians. The aldermen appear to consider the possibilities.

"We're rushing through this," says Alderman Robert Fioretti. "Why?"

"We've been working on this for the better part of a year, so we haven't been hasty," Volpe insists.

"You had a year, but you're giving us two days," says Alderman Ike Carothers.

To help aldermen understand some of the terms, Jim McDonald, a lawyer for the city, reads some legalese from the proposed agreement.

Ocasio bellows: "What does that all mean?"

City officials then pass out a corporate flow chart to offer some "clarity" on who exactly will be leasing the meters. At the top of the chart it says "Chicago Parking Meters LLC." It looks like the plan for a Rube Goldberg invention. (A copy of the chart is posted with this story at chicagoreader.com.)

Judging from the chart, Chicago Parking Meters investors include various arms of Morgan Stanley, JPMorgan Chase, the Teachers Retirement System of Texas, and other insurers and pension funds. Several aldermen turn the chart upside down to see if it makes more sense that way.

McDonald says the new company supplied the law department with its economic disclosure statement—required by city law—"yesterday." Meaning December 1. Even though according to the original request for bids in February, "Qualified Bidders will be required to submit an Economic Disclosure Statement and Affidavit and comply with certain other requirements before submitting final bids."

Alderman Burke warns that LLC stands for limited liability company, designed, as the name suggests, to help the owners avoid liability if they're sued. "It can be a shell," says Burke, who's recently delivered a series of populist speeches against the abuses of corporate America. "This is why we don't trust Wall Street. It's why they've brought us to the brink of financial disaster."

Still, after a couple hours Burke and his colleagues conclude it's too good a deal to pass up, and the finance committee gives its stamp of approval.

December 4, 2008 The full council meets to consider the deal. Many aldermen privately concede they still don't understand it. Alderman Scott Waguespack unveils an analysis his staff has put together that shows the city would make far more money if it just held on to the meters—he estimates their value over 75 years is about $4 billion. "I argued that the city was not getting a good deal, and that at a minimum the Council should see the City's numbers," he later writes in an e-mail to constituents. "They instead argued our numbers were wrong (without having seen them). I was then told I could see some numbers, but not before the vote."

Others are less critical. Alderman Mell contends the council has had more than enough time to study the deal: "How many of us read the stuff we do get, OK? I try to. I try to. I try to. But being realistic, being realistic, it's like getting your insurance policy. It's small print, OK?" From the council floor Alderman Stone assures any citizens who are listening that "this money is not going to be spent like a drunken sailor."

The full council approves the deal 40-5, with the nays coming from Toni Preckwinkle, Leslie Hairston, Rey Colon, Waguespack, and Ocasio. Five aldermen—Shiller, Carothers, George Cardenas, Ariel Reboyras, and Sandi Jackson—manage to miss the vote.

January 21, 2009 Mayor Daley suggests that newly inaugurated president Obama follow his lead in learning to "think outside the box" and start leasing public assets. "If they start leasing public assets—every city, every county, every state, and the federal government—you would not have to raise any taxes whatsoever," he says. "You would have more infrastructure money that way than any other way in the nation."

February 13, 2009 The city announces that it's finally finished all the final legal work and closed the deal with Chicago Parking Meters LLC and day-to-day management of the system will be turned over to LAZ Parking. Rates go up at some meters within days.

February 25, 2009 The *Reader* submits a Freedom of Information Act request asking for documents related to the parking meter lease agreement, including the materials submitted by all bidders at each stage of the bidding process—in short, all the stuff the city never got around to revealing during council meetings. By state law, the city is required to respond within seven working days.

March 10, 2009 Having received no response to our FOIA request, we follow up with several phone calls to the city's budget department. Eventually we receive an e-mailed form letter explaining that our request "cannot be compiled by the agency within the time limits prescribed" under state law. The department needs more time because the records are not readily available.

March 20, 2009 The *Tribune*'s Jon Hilkevitch reports that all hell is breaking loose on the parking meter front—the meters can't handle all the extra quarters required by the new rates. In some places the rates aren't posted clearly, and drivers are furious that they're getting ticketed as a result. City spokesman Ed Walsh tells Hilkevitch: "We feel it is too early to evaluate performance." Walsh also suggests that motorists report broken meters to the city's 312-744-PARK hotline so "this can be used later as a defense to an issued ticket, if need be." Thousands of grateful motorists thank Ed for his legal advice. Just kidding.

Meanwhile, Mayor Daley is in San Diego, speaking to a group of CEOs about the benefits of privatization. "Government can only do so much," Daley says, according to the *San Diego Union-Tribune*. "Government has to be more welcoming to business."

Later that day, we call and e-mail the budget department, asking for an update on our FOIA request.

March 22, 2009 *Sun-Times* columnist Carol Marin describes an emerging parking meter boycott. She quotes the Parking Ticket Geek, the blogger behind theexpiredmeter.com, on his efforts to reach someone with LAZ Parking: "I called for a week straight.... I am friendly and nice and polite on the phone... and never ever get a call back."

March 23, 2009 We send another e-mail asking about the bid documents. Peter Scales writes back, apologizing for the delay: "I'm still waiting for some documents to be returned to me. I should have them in a day or so. I'll turn this around in a couple of days."

March 24, 2009 The *New York Times* reports that Morgan Stanley paid chief financial officer Colm Kelleher $2.1 million last year to cover the expense of having to work in New York even though he lives in London. Kelleher also receives a monthly housing allowance of $28,600. Walid Chammah, a Morgan Stanley copresident who also lives in London, received benefits worth $790,150 in the form of flights on the corporate jet. CEO John Mack "informed the board that he would start reimbursing Morgan Stanley for his personal use of the company's corporate jet." No word on what impact this will have on parking meter rates in Chicago.

March 25, 2009 The *Sun-Times* notes a surge in parking meter vandalism, and Marin suggests that the meter rate hikes and breakdowns could ignite a voter backlash similar to the one that drove Mayor Michael Bilandic from office back in 1979, after his response to a blizzard was perceived as inadequate.

March 26, 2009 Mayor Daley sends out city work crews to fix broken parking meters, even though Morgan Stanley and LAZ Parking are supposed to be responsible for maintenance now.

March 31, 2009 City officials stage the press conference with Chicago Parking Meters CEO Dennis Pedrelli. In addition to promising not to raise rates or write tickets till the sytem's been cleaned up, he announces plans to reimburse the city for the labor of its work crews.

March 31, 2009 The *Sun-Times* reports that the Midway privatization deal is on hold: Midway Investment and Development Company LLC is having trouble lining up the funds. City officials say they'll give Midway Investment up to six months to get the money together.

April 1, 2009 Mayor Daley holds a press conference in Douglas Park to assure the world that the city has a plan to pay for the 2016 Olympics that "protects taxpayers."

April 3, 2009 On a Friday six weeks after our original request, we call and e-mail the budget department about those documents again. At 7 PM, we're told they're ready.v

The documents mentioned in this story are posted along with it at chicagoreader.com. And for more on the parking meter lease deal, see our politics blog, Clout City.

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FAIL, Part Two: One BILLION Dollars!

New evidence suggests Chicago leased out its parking meters for a fraction of what they're worth.

By Ben Joravsky and Mick Dumke

Politics archives »

When Daley administration officials announced in December that they were leasing out the city's parking meters for nearly $1.16 billion over 75 years to a consortium of investors headed by Morgan Stanley, they assured the media and anyone else who asked that this was a great deal for taxpayers in economic hard times.

Yet not three months later administration officials inadvertently revealed to an alderman that the potential revenue from the meters was as much as four times more than what the city got for them.

By then the city had already given the Morgan Stanley consortium, known as Chicago Parking Meters LLC, the authority to raise rates and extend hours. Though the city technically retained final say over meter placement and pricing, any changes to their lease agreement, such as reducing the number of meters or even their hours of operation, would cost taxpayers big money in penalties—potentially more in just the next few years than the city had been paid.

How the value of the meter system shot up in a matter of weeks—or, to consider the more logical alternative, why the city agreed to lease it for far less than it was worth—is a question the administration still can't or won't answer, five months after the City Council consummated the deal.

In fairness, even critics of the deal concede that trying to project the value of 36,000 parking meters is hardly a straightforward task. There aren't really any models, since no municipality has ever forged a deal quite like this. Because the agreement is supposed to last so long, the financial projections are complicated and by necessity somewhat speculative.

But the city has made things murkier by resisting the release of information showing how it determined what would be a fair price. And the little it's released so far suggests the deal was structured to benefit Morgan Stanley and the current occupants of City Hall rather than Chicago's taxpayers.

For much of the past decade the meters have brought in about $20 million a year, costing $3 million to

$4 million a year to maintain. But as the economy began to cool in fall 2007, the administration proposed a series of fee and tax hikes for the next year's budget. Among them was a doubling of parking meter rates: in documents released publicly in October 2007, city officials predicted the hike would boost meter revenues from about $22 million in 2007 to $56 million in 2008. Aldermen protested that the increase would be bad for business.

The administration eventually pulled it off the table, but it wasn't the victory for the common man that it might have seemed at the time. The proposal now looks a lot like a maneuver by the city to boost the value of the meters while persuading aldermen it would be better to let a private company raise the rates and take the heat.

On October 17, 2007, *Sun-Times* columnist Michael Sneed reported that a source had told her that "a super secret deal is afoot at City Hall. . . . Sneed is told Mayor Daley's fiscal advisers are working on a deal to privatize the city's parking meters, which could potentially reap 1 BILLION bucks for the cash-strapped city."

Sneed went on: "The sweetener to the deal is already on the books: a provision to raise the parking meter rates, which is clearly a carrot for whomever buys the meters." Her source also told her the city had already hired legal and financial advisers to help work out a deal.

On February 8, 2008, the city announced that it was looking for qualified firms interested in leasing the meters. In words that would come back to haunt him, Paul Volpe, Daley's chief financial officer at the time, said a private company would do a better job of running the meter system. He said the lease would probably last 50 years.

DePaul professor H. Woods Bowman, an expert in public finance who in the early 90s served as chief financial officer of Cook County, says the idea didn't make much sense to him. "The argument in favor of selling public assets is that a lot of the assets aren't tied to the core functions of the government, or that there are cost inefficiencies associated with them," he says. "Parking [policy] ought to be a core function of the city, and there are no appreciable operating efficiencies to be gained here. It only costs the city a couple of million dollars a year to run the system."

But the Daley administration, interested in the cash it could get up front, quietly pushed ahead with the bidding process, which yielded just two offers. Along the way neither Daley nor his staffers commented publicly on the pending lease. There were no hearings on the value of the meters as a revenue producer or as a tool to shape traffic or parking policy.

When budget time came around again last fall, the city was in an even tougher spot than it had been a year earlier, with a deficit approaching half a billion dollars. Administration officials proposed setting off $150 million of it with proceeds from the proposed meter lease but offered few specifics.

In one closed-door budget meeting, Volpe was asked for more details, and "he threw out $2 billion" as a rough estimate of what the city might get in the deal, says Scott Waguespack, alderman of the 32nd Ward. But Volpe, he says, emphasized that the bidding process wasn't complete.

The administration made no other pronouncements on the subject until the December 2 press conference where they announced the deal. Two days after that the council met to consider the agreement. "The most important thing is that we have these funds when we need them most," Volpe told aldermen.

The aldermen didn't discuss whether $1.16 billion was a fair price or what the administration had done to analyze the meters' value. But several indicated that they wanted to make sure they'd still have a say in deciding where meters went in their wards and what hours they're in operation. Volpe said they would, though there was a caveat: "If we remove too many the payout to the city will be reduced."

By their own admission, most of the aldermen at the meeting had not seen the proposed contract, but it probably wouldn't have clarified matters—the formula it offers for determining what the city would lose in these circumstances is based on a complicated set of calculations involving "the then current Metered Parking Fee, Period of Operation, Period of Stay, Rate to Fine Multiple Factor and Expected Utilization Rate."

Even without this information, the city council voted 40-5 to approve the deal, and within weeks Chicago Parking Meters as much as quadrupled hourly rates at meters all over town, igniting outrage among motorists.

Waguespack, one of the five nay votes, says he dinged the deal for a number of reasons, including a not-baseless hunch that the city had given up too much for too little. Two of his staffers had used their training in finance to calculate a range of projections for what Chicago Parking Meters would collect over the next 75 years. They concluded that under most scenarios the meters were worth between $2 billion and $5 billion.

Administration officials told Waguespack that his numbers were way off, but they didn't show him any of their own—until he attempted to change parking policies in his own ward in early February, days before the new rates went into effect.

For a couple years the rookie alderman had been working with Bucktown residents on a congestion and parking plan for stretches of Milwaukee, North, and Damen. When Chicago Parking Meters took control of the system, the company announced that the hours for all of the meters in the area would be extended—going from 9 AM-6 PM Monday through Saturday to 8 AM-9 PM seven days a week. Waguespack decided it was in the best interest of businesses and residents to stick with the old schedule for 270 of those meters. After all, he had been told this was his prerogative as alderman.

When he notified the Department of Revenue, though, deputies to commissioner Bea Reyna-Hickey told him the city would have to return money to Chicago Parking Meters to account for the loss of revenue: $162,334 in the first year, $202,918 in the second, and $243,501 in the third, or $608,753 total. Waguespack, who considers himself a budget watchdog, felt he had to back down.

But the information was revealing. It confirmed that Chicago Parking Meters assumed its revenues would go up each year. If the middle number can then be seen as a conservative base, it means the company puts a value of $202,918 on 519,480 hours of meter use (37 hours a week per meter x 270 meters x 52 weeks a year), or about 39 cents an hour. For 36,000 meters that works out to more than $66 million a year—and nearly $5 billion over the life of the agreement. Some meters elsewhere in the city may not generate as much money, but others, such as those in the Loop, could be expected to yield more. Plus, it's likely that more parking spaces will be added to the system as the company switches from meters to pay boxes.

Even if investment costs and inflation knocked the total value down by an astronomical amount—say 50 percent—that would still suggest the city got less than half what the system was worth.

"When it comes to finding a figure for the citizens of Chicago, they say the meters are worth $1.16 billion," says Waguespack. "But when it comes to finding a figure to cover Morgan Stanley, they say they're worth, what, $5 billion? Who are they looking out for, the residents or Morgan Stanley?"

On February 25, we submitted a Freedom of Information Act request to the city seeking "copies of all materials and correspondence submitted by bidders or potential bidders" and "copies of all analysis, correspondence, memoranda, or other documentation related to the city's evaluation and concession-awarding process."

On April 3, after weeks of back and forth, budget department spokesman Pete Scales let us know our materials were ready. But what he gave us didn't include any financial analysis, which meant that either budget officials hadn't done any or they hadn't fully complied with our request. The state FOIA law requires that "each public body or head of a public body denying a request for public records shall notify by letter the person making the request of the decision to deny such, the reasons for the denial, and the names and titles or positions of each person responsible for the denial."

On April 14 we sent another request asking specifically for "records showing how the city analyzed the financial costs and benefits of entering into a lease agreement."

Two weeks later Scales e-mailed to tell us he had some more materials for us. We asked why they hadn't been included the first time around. He said he would check with other officials and get back to us; a week later he hadn't yet.

The new documents offered only minimal evidence of financial analysis by the city. Among them were a series of meeting agendas that suggested city officials had met separately with representatives of eight interested firms and, after greetings and "refreshments," had asked them to review their qualifications, explain why they "would be a good partner for the City of Chicago," and lay out "what concession terms will be most important in maximizing the value of the concession." No record of the firms' responses is provided.

Other records show that the city hired Chicago-based investment firm William Blair & Company as a consultant on the leasing process. On April 22, 2008, William Blair representatives presented city officials with a "Summary of Preliminary Valuation"—a sketch of what the meters might be worth on the market. The analysis, which is labeled confidential on every page, notes that at that point in time each meter collected 47 cents an hour, on average—a figure higher than the one used to calculate penalties in the 32nd Ward. It also discusses plans to raise rates by as much as 700 percent (from 25 cents an hour to $2) by 2013.

But because any private investor would have to borrow big sums of money to finance a long-term deal, pay corporate taxes, and make capital investments, Blair concluded that the "estimated value of the Chicago On-Street Parking System is approximately $1 billion."

It wouldn't be free money. "Value is linked to control," Blair advised. "Maximizing prepaid rent depends on the City's willingness to concede its interest in future revenues derived from its System." In other words, the more money the city wanted up front, the less control it would have over the next 75 years.

That's the kind of mind-set that galls Bowman. "Blair is doing this from the point of view of the investor," he said when we showed him the analysis, noting that the firm factored in costs like taxes that the city wouldn't be responsible for. "They should have done this from the city's point of view too. I mean, if you're going to put this on the market, you want to know what it's worth. But to see what the city's leaving on the table you need to check the differences. I guarantee you the value would be higher for the city."

Only two of those eight firms followed through with bids. On November 21, 2008, according to a two-page meeting agenda obtained from the city, Volpe, Reyna-Hickey, former Daley chief of staff Lori Healey (now president of Chicago's Olympic bid committee), and other administration officials gathered to review the bids in a 29th-floor conference room in the Adams Street offices of William Blair & Company.

The process started with Jim McDonald, a lawyer for the city, taking a look at the bid packages. Then . . . we don't know. On our copy of the agenda almost a full page of bullet points is blacked out.

We later learned that both bidders—Morgan Stanley and a partnership led by Macquarie Capital Group, one of the investors that leased the Skyway in 2005—offered about $1 billion, right around what Blair had pegged as the "estimated value" of the meters. Scales, the budget department spokesman, says the bids were so close together that the city asked both firms to go through a second round: "Per the bidding rules, when two bids came in within 10 percent of each other, the City acted on its right to ask for a best and final bid from each. This is a common practice in these transactions, and it ensures the city receives the highest possible value for the asset."

About two weeks later, records show, the same city officials met in the same conference room to go over the final bids. McDonald was again charged with reviewing the bids, and again we don't know what else the process consisted of, since the second half of the agenda we received is also blacked out.

That afternoon Morgan Stanley was declared the winner with an offer of $1,156,500,000, topping the Macquarie group's $1,019,022,803.

Bowman says his "back of the envelope" calculations suggest the city might have been able to get as much as $3 billion for the meters, though he admits there are so many variables that projections are basically a "crapshoot."

And he says that just proves his point that the city shouldn't have privatized this asset at all. "What the investors are interested in is the ability to set fees. The city has traditionally had trouble doing it," because it's politically unpopular to raise meter rates. But that's hardly a reason to sell the whole system off. "There's nothing that the lessor is going to do to raise money that the city couldn't do itself without a little moxie," says Bowman.

Worse, he adds, is that the Daley administration appears to have given very little thought to the long-term consequences of the deal. City officials have promised to set aside enough money to replenish the $20 million per year that the meters have generated over the past few years—but that's a fraction of what Chicago Parking Meters will reap starting this year and not half what the city estimated, in its withdrawn proposal from 2007, that it could collect by raising rates on its own. By privatizing the meters, the city has created at least a $30 million gap in its annual budget that it will have to fill with other taxes, fee hikes, or service cuts. So as taxpayers spend more to park on city streets, they'll likely get worse city services in return.

"For the next 75 years we have to live on the money we're getting now," Bowman notes. "There is no growth built into the money stream. Down the road it's going to put increasing pressure on city budgets."

Meanwhile, officials with the ~~city and~~ Chicago Parking Meters want you to know there's good news for people who use the meters. LAZ Parking, the firm hired by Chicago Parking Meters to oversee day-to-day operations of the system, has been aggressively replacing old, poorly functioning meters with new parking boxes, so that by the end of the summer drivers around the city will be able to pay the soaring meter rates with their credit cards. "CPM, through its operational partner LAZ Parking," Scales announced in a press release, "has successfully addressed the majority of the issues associated with the transition of the metered parking system."

Not everyone's convinced. At a hearing on Monday, five and a half months after the council approved the deal, angry aldermen fired questions at officials from Chicago Parking Meters, LAZ, and Morgan Stanley. A couple even demanded that city lawyers determine whether the contract can be terminated. They vowed to take the matter up again soon, once they have more information—including copies of the contract itself, which, incredibly, none of the aldermen present had seen yet.

Testimony at the hearing confirmed that the City Council had voted before receiving a substantive analysis of what the meters were worth and what leasing them out for 75 years might cost. At one point alderman Helen Shiller asked Fred Pollock, an executive with Morgan Stanley, to explain how much more money they expected to collect this year through rate hikes and the switch to pay boxes. "I would like to know what assumptions you made when you were looking at this deal," she said.

"Some of the assumptions you've asked for are proprietary," Pollock told her. "We don't want to share those pieces of information—it's valuable to us as a business in terms of other transactions we may pursue."

Shiller impatiently cut him short a few times. "Some of us, at least, were under the impression that we would have flexibility and we would be able to make changes and make it work based on the needs of our community," she said. "We then discover, any time we raise any questions about making changes, that oh no, we're either going to lose money or we can't because it's not in this agreement."

Pollock said he understood her need for information and would find a way to tell her what the costs would be of changes to the meters in her ward.

For related documents, including the contract, find this story at chicagoreader.com.

Tags: Works, Chicago politics, Parking meters, Richard Daley, Morgan Stanley, LAZ, William Blair, H. Woods Bowman, Chicago Parking Meters LLC, Paul Volpe, Scott Waguespack, Freedom of Information Act, FOIA

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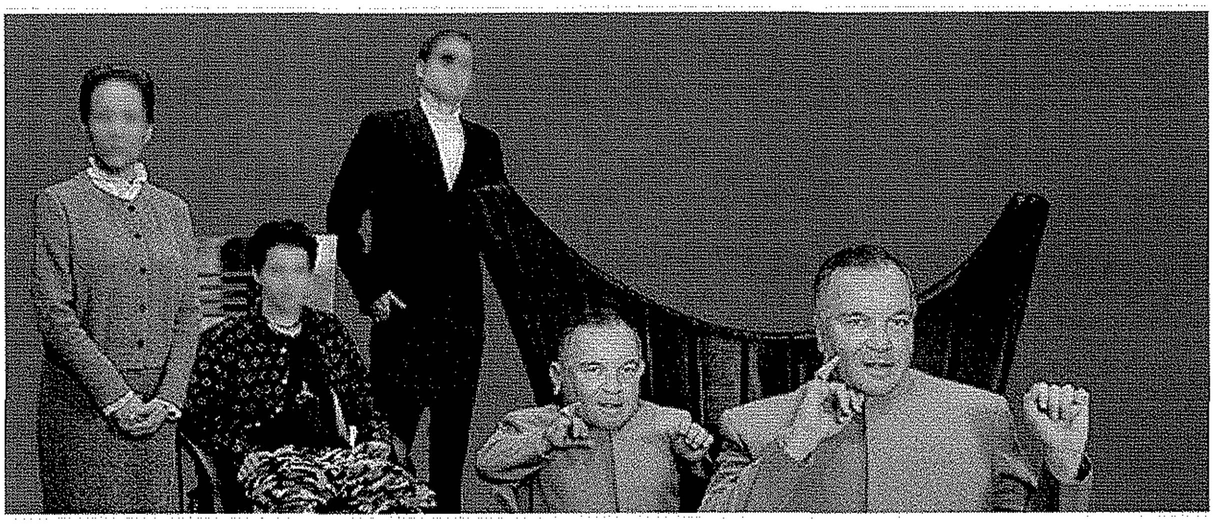

On June 1, city inspector general David Hoffman joined the chorus slamming the $1.16 billion parking meter lease agreement as a loser for taxpayers. The next day Mayor Daley struck back, holding a press conference to offer an impassioned, occasionally coherent defense of the deal.

Gripping the podium like it was Hoffman's neck, Daley informed the City Hall press corps that he and his administration, including chief of staff Paul Volpe, would never, ever enter into a contract that wasn't great for the city. "My chief of staff detailed—detailed!—why we think this is a very, very responsible agreement," Daley said. "As mayor it is my job to be responsible."

When reporters asked about Hoffman's suggestion—endorsed by a growing number of aldermen—that any future sale of a public asset be subjected to "independent analysis" before being finalized, Daley snapped that the city had commissioned outside experts to do just that, most notably the Chicago-based investment firm William Blair & Company. "This agreement had the best professional people with regard to this agreement," he said.

When asked why that company had been selected, as opposed to any of the dozens of other investment firms around the country, Daley became indignant: "Those are good people!"

This testy exchange with reporters turned the spotlight, if only for an instant, on one element of the parking meter agreement that's so far received very little attention: the battery of well-connected, highly paid financial and legal consultants who executed the deal on the city's behalf—and who are immune from the regulations that govern most contractors doing business with the city.

In April the *Reader* published a cover story explaining how the deal went down: City officials worked on it for months, refusing to disclose to the public even basic information such as who had bid on the contract and how much. Then, two days after the first announcement about the agreement, and before aldermen had seen copies of it, the City Council voted to approve it. In May we published a second cover piece, revealing that the meters had been leased for a fraction of their actual worth. The taxpayers had been hosed. Why?

The implementation of the plan has been a mess: parking rates have doubled, mislabeled and malfunctioning meters have led to citations, and response from LAZ Parking, the firm contracted to run the system, has been less than acceptable. In the weeks since our first story was published, angry residents have been pelting their aldermen with complaints. The aldermen, in turn, have gotten outraged as well, ordering city lawyers to investigate whether the contract can be terminated and passing an ordinance requiring a 15-day waiting period before the sale of an asset can be approved. At the end of May a spokesman for Illinois attorney general Lisa Madigan announced that she had launched an investigation into the "transaction and implementation" of the parking meter deal. And then Hoffman, a mayoral appointee, released his scathing report, charging that the city had rushed into the "dubious" deal and estimating that it had handed off the meters for barely half their value.

Daley and other top administration officials now say the meter agreement was the result of more than a year and a half of study, legal work, and competitive pricing. "The city conducted a robust, open, transparent, and competitive bid process," Volpe said, in a prepared response to Hoffman's report. William Blair had determined that the meters could fetch between $650 million and $1.2 billion on the open market, he said, and the winning bid was at the upper end of that range.

But the sad fact is that city officials have avoided openness and transparency almost every step of the way. And they don't appear to be changing their tune now, as we attempt to determine exactly how William Blair was chosen to evaluate the deal and what its role was in pulling the agreement together. One thing they've conceded, however, is that there was no bidding process for the job: they say Blair was deemed to have expertise that made it particularly suitable for this kind of work. But our latest investigation—piecing together public documents, records of City Council hearings, interviews with elected officials and financial experts, company profiles, and previous news reports—reveals that there's a lot more to the story:

aNot only did William Blair advise the city on the deal—it came up with the idea in the first place. Then it provided the city with the only estimate it ever received of what the system was worth and coordinated the bidding process.

aTwo other financial services firms and three law firms were brought in to assist. All were given no-bid contracts for the work, and all appear to have political or personal ties to the Daley administration (which is not unusual for the way the city of Chicago does business).

aThe financial advisers were each paid a share of what the city made in cash on the lease deal. William Blair received 0.375 percent of the payout, or about $4.3 million, according to records obtained from the city through a FOIA request. The others, Gardner Rich and Ramirez & Company, each received 0.0625 percent, or $722,813. The attorneys' fees added up to another $1.3 million. All told, the city paid its legal and financial advisers more than $7 million for their work on the deal.

aAt the same time they were helping the city prepare and conduct the bidding process for the parking meter lease, all of the financial firms, including William Blair, were working on other multibillion-dollar deals with the company that emerged as the winning bidder, Morgan Stanley. The overlapping relationships are in violation of the city's own contracting rules.

aPartners in two of the three law firms hired to work on the deal had previously donated money to Mayor Daley's campaign. City rules ban contributions to the mayor from employees of city contractors but don't apply to law firms.

aTogether the lawyers and financial advisers—not anyone in city government—determined who would control the parking meter system for the next several generations and how much money they'd make off it. But as private entities, none of these firms are required by law to disclose to the public how they arrived at their plan. And none would talk to us for this story.

Needless to say, it's standard operating procedure for the city to hire financial firms to help with big-money transactions and outside attorneys for work on everything from defending against lawsuits to negotiating labor agreements. But city officials are bound by few rules in determining who gets these lucrative jobs and why, and thanks to a gaping loophole in city procurement rules, the contracts for them are rarely put up for bid.

Mark Hands, a managing deputy procurement officer for the city, said city contracts are competitively bid on except in those instances where certain firms demonstrate a "unique or exclusive capability" for goods or services the city needs. "The Illinois Municipal Code exempts contracts 'which by their very nature are not adapted to award by competitive bidding, such as but not limited to contracts for the services of individuals possessing a high degree of professional skill where the ability or fitness of the individual plays an important part,'" Hands explains.

The city brings on private-sector lawyers for three reasons, according to law department spokeswoman Jenny Hoyle: they have expertise city attorneys lack, an outside attorney is needed to avoid a conflict of interest, or the city doesn't have enough lawyers available. Private lawyers are selected by the city's top lawyer, the corporation counsel, "based on their expertise in the relevant areas of the law," Hoyle said.

Word that the city had plans for a "super secret" long-term lease for the parking meters first went public in a leak to *Sun-Times* columnist Michael Sneed. On October 17, 2007, she wrote, "Sneed is told Mayor Daley's fiscal advisers are working on a deal to privatize the city's parking meters, which could potentially reap 1 BILLION bucks for the cash-strapped city." She reported that the city had hired legal and financial advisers to help.

In fact, the advisers had been working on the deal for months. In his recent press conference, as he tried to ward off criticism that the deal had been rushed, Daley pointed to a placard showing a timeline of the meter privatization process. This was the first time reporters had been shown these dates, and they indicated that the city hired William Blair in June 2007, four months before Sneed tipped us off that something was afoot, to begin "preliminary due diligence."

"This wasn't an idea just picked out of a hat to do this," Daley said. "This had been talked about for two years!"

When pressed for details on how and why William Blair was hired, Daley turned to Volpe, who said the firm had specialized experience in municipal finance—as did the two other firms that had worked as financial consultants on the deal, Ramirez & Company and Gardner Rich. "There are very few firms that are qualified in this area," Volpe said.

The city has so far been unable or unwilling to provide more information on those qualifications.

Daley and Volpe have boasted that Chicago's long-term lease agreements have become a model that other municipalities are now seeking to emulate. But other cities have found other ways to do business.

For instance, in January Pittsburgh mayor Luke Ravenstahl announced that he wanted to explore leasing his city's public parking garages and meters in return for cash he could pour into the city's pension fund. A few weeks later the authority that oversees Pittsburgh's parking system invited firms to submit proposals for an analysis of the idea. It received nine responses and determined four were qualified. Next a committee made up of city officials, an authority attorney, an authority board member, and a union representative interviewed the firms before recommending a winner at a public meeting of the authority's board. Board members then approved up to $100,000 for the study.

The winner was Scott Balice Strategies, a woman-owned financial advisory firm based in Chicago.

As evidence of their commitment to "transparency," Daley administration officials often point to the city's Department of Procurement Services Web page, which includes a searchable database of city contracts, contractor records, and payment histories. But the site doesn't include any information about William Blair's work on the parking meter deal. Nor does it say anything about Gardner Rich or Ramirez & Company. Mark Hands said the information wasn't in the database because the firms were selected not through a procurement process but by the city's budget office.

On Friday, May 8, we requested an interview with Volpe to discuss the origin and terms of the deal, but budget department spokesman Pete Scales asked that we submit our questions in writing to him instead. Among those we sent in the following Monday: How was William Blair selected to consult on the meter lease agreement? How much was the company paid?

Scales hadn't responded to us by May 27, when we submitted Freedom of Information Act requests for copies of the agreement between the city and William Blair and all records generated by the firm during its work on the meter deal. The Illinois Freedom of Information Act requires a written response in seven working days, and Scales promised to get back to us. But he didn't respond to numerous follow-up calls and e-mails over the next couple of weeks. Finally, on Friday, June 12, just before 5 PM (not the first time we've heard back from the city at the end of the day on a Friday), he e-mailed us a copy of a "confidential" agreement between William Blair and the city outlining the company's responsibilities and pay rate on the parking meter deal. He also referred us to some documents, including the meter lease agreement and payment totals to William Blair, that had apparently just been posted on the Web site of the city's Department of Finance.

The agreement with William Blair that he forwarded us was dated January 7, 2008—a full six months after the date Daley gave for the commencement of the firm's work on the deal. Why was there a delay? Why didn't the city draw up a contract before the work began? Would the company possibly have worked for half a year without the compensation outlined in a contract? Scales didn't respond to e-mails asking those questions.

The agreement describes the company's work on the deal in the broadest terms: It was to "familiarize itself to the extent it deems appropriate" with the parking meter system, then "provide the City with financial advice and assistance" on a lease deal, such as conducting financial analysis and research, "developing and implementing" the solicitation of companies interested in bidding, and helping the city negotiate financial terms on the deal. It instructs the firm to work with Ramirez & Company and Gardner Rich as co-advisers and lays out what they'll be paid.

We've pieced together additional facts from documents the city provided in response to earlier questions we had about the value of the meter system. They suggest that William Blair oversaw nearly every aspect of the lease agreement. Companies interested in bidding on the meters were told to contact Tom Lanctot, a top official at the firm, and the official bids were opened at William Blair's headquarters under Lanctot's direction.

Blair's Web site notes that the company was the principal player in an earlier privatization effort: the leasing of the city's downtown parking garages, which in 2006 were turned over for 99 years to a partnership led by Morgan Stanley in return for $563 million in cash up front. "Our P3 team," for public-private partnership, "originated the idea for the long-term concession and lease of the 9,178 space Chicago Downtown Public Parking System," it says. Blair was paid $2.2 million for its work on that deal, according to the city.

The company's site also explains that the firm was even more deeply involved in the meter deal. "In our role as lead financial advisor, we managed a Request for Qualifications process to identify prospective bidders, developed a Confidential Information Memorandum, organized and presented bidder information meetings and system tours, structured the financial aspects of the concession, led the negotiation of the Concession Agreement, coordinated the bidder due diligence process and managed the competitive bidding process that involved North American and international bidders."

And there's one more thing: "William Blair & Company originated the idea for the transaction."

We called and then e-mailed Lanctot asking what that meant. Did someone at the company actually suggest to Mayor Daley that he lease the meters? If so, when?

Lanctot didn't respond, but a few minutes after our e-mail was sent, Tony Zimmer, Blair's spokesman, called. He referred us to Pete Scales.

The city has been no more forthcoming regarding Gardner Rich and Ramirez & Company. But both are minority-owned firms—a crucial political consideration, given that the city's low minority contracting numbers are a regular source of contention in the otherwise pliant City Council.

All three financial firms were well-known to administration officials—and to each other—before the meter deal was under way. Last fall the *Sun-Times* reported that William Blair had donated at least $104,500 over the previous two years to After School Matters, a charity founded and run by Mayor Daley's wife, Maggie. William Blair's chairman, Edgar D. Jannotta, serves on the board of directors of Aon, which was founded and led for years by Patrick Ryan. Ryan retired from Aon last year and now serves at Daley's behest as chairman and CEO of Chicago's Olympic bid committee.

Gardner Rich also has ties to the city's political establishment. The firm is led by CEO Christopher P. Gardner, whose rags-to-riches story was the basis of the 2006 movie *The Pursuit of Happyness*. In 1994 Mayor Daley appointed Gardner to the School Finance Authority, a board that at the time oversaw school-reform policy for the Chicago Public Schools. Over the last few years his firm has worked on more than $1 billion worth of bond issues for the city, schools, Park District, and Water Reclamation District. "The day Richie is no longer mayor is the day I move out of here," Gardner told the *Sun-Times* in 2006.

In September 2007 Volpe announced that Ramirez & Company would be one of the chief managers of a $2 billion bond issue, the city's biggest led by minority-owned firms. Aldermen were pleased at the news; Volpe said the council and administration both deserved credit. "Our joint efforts to help grow the size and capacity of minority-owned firms have resulted in a larger, stronger stable of firms from which we can choose when we seek to issue bond transactions."

The truth, though, is that in recent years the city and other local government entities have typically relied on the same small group of firms for their big financial deals. Gardner Rich received $252,080 from the city for helping lease the Skyway in 2005, and along with Morgan Stanley was hired to work with Ramirez on the 2007 city bond issue. Ramirez was paid $351,875 to assist Blair with leasing the parking garages, and last July it was hired to work on a $150 million bond issue for Cook County—a deal that caused a minor stir because Morgan Stanley was also employed to work on it not long after hiring William Daley Jr., nephew of both the mayor and his brother John, chairman of the county board's finance committee.

But what may have been just as notable about the county bond deal was the potential for conflicts of interest it created in the city's parking meter leasing process. At the same time Ramirez was advising the city on its "robust, open, transparent, and competitive bid process" for the meters, the firm was also working on a county bond issue with one of the bidders—the one, in fact, that ended up winning the contract.

And that's just one of several instances where the advisers on the meter deal were working alongside the winning bidder, Morgan Stanley, even as the bidding process was going on. In March 2008 Gardner Rich and Morgan Stanley helped the city issue up to $560 million in water revenue bonds. That same month Morgan Stanley, William Blair, and Ramirez & Company all worked on a $2 billion bond deal for the CTA.

Experts say there's no reason that a firm with a history of working successfully with the city shouldn't be hired again. But they stress that it's not smart for a government to simultaneously use the same firms as advisers and bond managers. "It is definitely inadvisable because it reduces independent judgment—which is what governments need when making investment decisions," says H. Woods Bowman, a professor of economics, finance, and ethics at DePaul who served as the county's chief financial officer in the 1990s.

But, he added, "I presume you will agree that what's weird elsewhere is sometimes normal in Chicago."

Normal or not, the overlapping relationships of the lease deal's top adviser and winning bidder appear to skirt the city's own contracting rules. The city's procurement law, posted on its Web site, says, "If the contracting parties assist the city in determining the advisability or feasibility of a project or in recommending, researching, preparing, drafting or issuing a request for proposals or bid specifications for a project, the Contracting Parties must not participate, directly or indirectly, as a prime, subcontractor or joint venturer in that project."

"The Contracting Parties may, however, assist the city in reviewing the proposals or bids for the project if none of the contracting parties have a relationship with the persons or entities that submitted the proposals or bids for that project."

Every big government financial deal also needs lawyers, and the meter lease was no exception. Among the firms who performed legal work for the deal were those who worked on the big CTA bond issue at the same time: Katten Muchin Rosenman and Gonzalez Saggio & Harlan. They were joined by a third, Charity & Associates.

Law department spokeswoman Jenny Hoyle said the firms were picked by corporation counsel Mara Georges and first deputy corporation counsel Jim McDonald, the primary city lawyer working on the meter deal. They were chosen for their expertise "and the fact that they met our diversity objectives in the retention of outside counsel," Hoyle said.

Work on the meter deal was divided up among the three firms. According to Hoyle, Katten wrote the lease agreement and researched state legal issues. Gonzalez Saggio wrote the ordinance authorizing the city to enter into the agreement—which the City Council passed by a 40-5 vote. And Charity "worked on operating standards and real estate aspects," Hoyle says.

The firms were paid $475 per lawyer per hour, according to letters the city sent the firms outlining the scope of their work. By the time the work was done Katten had been paid $662,759.64, Gonzalez Saggio $162,461.50, and Charity $522,485.50.

All three law firms have long-standing relationships with the mayor and his administration. Since the 2005 Hired Truck scandal, when the *Sun-Times* revealed that politically connected trucking firms were paid millions to do little or no work, the city has been sending a letter to contractors warning them that it "prohibits bidders, contractors and subcontractors from making political contributions to the Mayor or his fundraising committee." But law firms hired by the city aren't covered by these contracting rules, and according to state campaign finance records, since 2001 attorneys with Katten have written Daley checks adding up to more than $33,000. Meanwhile the city paid the firm a total of $160,000 for legal work on the leases of the Skyway and downtown parking garages.

But if Katten has a special connection to Mayor Daley, it's through partner Terry Newman. According to the Katten Web site, Newman's legal specialty is "real estate taxation," but he's known around town as one of the mayor's best friends. Before joining the firm he worked as a prosecutor under the mayor, then the Cook County state's attorney. Over the last 15 years, Newman has been mentioned frequently in local gossip columns as a regular at Daley's private parties. "As often as three nights a week Daley indulges in a 'boys' night out,'" Fran Spielman wrote in the *Sun-Times* in 1995. "Around the dinner table at Carlucci's, Marche or Parrinello's is what one friend calls a 'floating crap game of associates.' The list almost always includes Loop attorney Terry Newman, a jovial type considered one of the mayor's closet friends."

In 1992 the mayor appointed Newman to the board of trustees of the City Colleges of Chicago; he's now its secretary. He's also the chairman of the board of directors for After School Matters. In November 2006 Newman cohosted a $1,000-a-ticket fund-raiser for Daley.

The other firms have their own ties to the administration. Elvin Charity, one of the partners in Charity & Associates, has donated about $3,500 to Daley since 2001 and thousands of dollars more to the coffers of many aldermen, including Ed Burke, chairman of the City Council's finance committee, which held the hearings on the parking meter deal. In 1992 the mayor tapped Charity for the Community Development Commission, which oversees the tax increment financing program; he served until 2000. In 2006 the city paid Charity & Associates $420,000 for legal work on the lease of the downtown parking garages.

Gonzalez Saggio & Harlan has been paid thousands of dollars over the last three years for work related to the city's potential leasing of its garbage sorting centers. The partner who worked on the parking meter deal was Timothy Wright, who recently served as the attorney for his own former law partner, Senator Roland Burris, who's also donated to the mayor and numerous aldermen over the last several years. Another Gonzalez partner, Ferhan Hamid, worked as an assistant comptroller for the Daley administration, where, according to his bio, he was an "integral part" of the city finance team that worked out long-term lease deals for the Skyway, Midway airport, and the parking garages.

The company that won the rights to the parking garages? Morgan Stanley. In its damning report on the agreement, the inspector general's office concluded that the city may have leased the meters for $974 million less than they were worth. The reason, the report concluded, was that William Blair's calculations of the system's value were all done from the perspective of an investor—they were based on what that investor might be willing and able to pay for the meters, not what their value was to the city. "The City should have conducted this analysis so that its decision about whether to lease the parking-meter system now—and if so, under what terms—could be made in the most informed fashion possible," the report states. "The failure to conduct this analysis strongly suggests that the decision had already been made that the City was going to lease the meters for the best-available price on the market."

The report didn't address questions such as why that analysis wasn't conducted, who made the decisions to put the system on the market regardless of other factors, how it was determined which advisers would be brought in, how much decision-making power they would have, whether any conflict-of-interest safeguards were put into place, and just what communications occurred among all of the parties while the deal was being conceived, designed, and executed. The public doesn't have any of these answers. The companies involved aren't required to say. The mayor and his top aides say they're committed to transparency. But so far nobody's talking. v

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