Chicago diverts taxes to investors, plans privatization of services

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Democratic Party Chicago Mayor and former Obama adviser Rahm Emanuel is making the case for the closure of nearly 20 percent of the city's schools and a sweeping assault on the pensions of public sector workers. The claim is that the city and the state are broke and there is no money for needed social services. Cuts must be made in order to avoid disaster, just as the "fiscal cliff" is being used on the national level to push through cuts to the most basic services.

The city's budget crisis is a manufactured disaster, however. The publication of a pair of investigative articles in the *Chicago Reader* on December 12 has revealed the extent to which Emanuel has continued and deepened policies begun by his predecessor Richard M. Daley. These policies include the diversion of hundreds of millions in city tax revenue to private interests, coupled with the privatization of public services.

Ben Joravsky's report in the *Reader* concerns the continued use of Tax Increment Financing (TIF) districts. Emanuel made a campaign pledge to reform the unpopular TIF program, which is widely understood to be a mayoral slush fund. However, Emanuel has continued using the TIF financing for multimillion dollar corporate real estate development projects, as Daley did.

TIF districts are designated areas of the city where significant portions of property taxes are diverted to a fund that is controlled by the mayor. In 2009, the TIF fund was estimated to amount to nearly one-sixth of the total city budget, or $1 billion. Taxes which would normally go to the city general fund to pay for libraries, clinics, emergency services, schools, or parks are instead spent on a variety of projects benefiting private interests according to the mayor's whim.

Joravsky reports on a project approved in May of this year where $30 million was spent to help construct a 45-story office building on expensive riverfront property. Previous expenditures include over $31 million given to the owners of the Willis (formerly the Sears) Tower for building improvements and rehab, and $35 million given to United Airlines to help pay for the corporation's move into the city.

By diverting tens of millions in tax revenue away from the public entities that would normally receive it, the mayor's office contributes to the budget crisis. Emanuel has used the opportunity created by his party's policies and that of the Republicans, to attack public education, mental health services, libraries, and pensions.

In another article, "City for Sale," Mick Dumke details Emanuel's recent privatization efforts, part of plans drawn up from the very beginning of his administration with Chief Financial Officer Lois Scott and budget director Alex Holt. Scott is a founding partner of Scott Balice Strategies, a firm which advises municipalities on privatization deals. Holt is a lawyer who worked on a deal that would have privatized the operations of Midway Airport. Part of the city's 2012 budget included a provision to give the city's chief financial officer the power to make deals involving city assets in exchange for cash payments. In conjunction, the city issued a solicitation notice that "invited firms to come forward with ideas for how they'd like to make money off city properties."

The first of these deals, recently approved by the city council 43-6, involves the creation of 34 one hundred-foot-tall billboards on city-owned land along area expressways, in exchange for payments of between $180 million and $300 million over the next 20 years. Some aldermen made the excuse that they did not know what they were approving. Ed Burke, head of the city council finance committee, said, “I have to admit that as I tried to go through these pages of documents over the weekend, I don’t have the expertise to really understand them.” This is entirely typical of the city council, which operates as a panel of yes-men for the mayor. The first $15 million from this deal has already been spent.

Emanuel has also revived an older plan to lease Midway Airport, which fell through when attempts to secure financing by private investors faltered as a result of the banking crisis.

More significant are plans to privatize aspects of the city water system under Emanuel’s “infrastructure trust” system. The infrastructure trust scheme, approved in April by the city council, created a separate non-profit agency controlled by the mayor with the mandate to find ways to secure private financing for public infrastructure projects, and to coordinate repayment by the city to these private investors.

The infrastructure trust represents a significant move towards complete privatization. Previous privatization plans involved votes by the city council, while infrastructure trust projects will avoid such scrutiny and allow unelected representatives of finance capital to make significant decisions involving public property.

By essentially creating a system of private loans for city projects, the city will be able to funnel payments to investors at rates in excess of what they could have made in the bond market. Another bonus for financiers is that they can entirely control which infrastructure will receive improvement and favor projects benefiting the wealthy.

Chicago has been at the forefront of municipal privatization efforts for over two decades. As the article notes, shortly after Daley was elected in 1989, he began efforts in this direction by privatizing the management of mental health clinics, as well as “abandoned vehicle towing, parking ticket collections, tree stump removal, parking at O’Hare, and some janitorial services.” More significant were leases of the Chicago Skyway—a toll bridge over the Calumet River connecting Illinois and Indiana—and the city’s parking meter system.

The privatization deals for the Skyway and parking meters involved leasing these city-owned assets for 99 and 75 year terms, respectively, in exchange for up-front payments amounting to just under $3 billion. These deals, involving Goldman Sachs, JP Morgan, Citibank, and a host of other investors, have resulted in vastly increased fees for city residents. The parking meter lease in particular is widely despised, with rates jumping 500 percent in some areas, and all the extra money being pocketed by investors rather than being used to fund improvements to Chicago’s perennially crumbling streets.

Only $623 million remains of the up-front payments the city received for the Skyway and parking meters. The rest of the funds have been used to shore up city budget deficits.

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