

## INFRASTRUCTURE CASE STUDY:

# *Chicago Skyway Bridge*

## SUMMARY

| PROJECT TYPE       | YEAR | DEAL STRUCTURE                            |
|--------------------|------|---|
| Elevated toll road | 2005 | Long-term operating lease (privatization) |

### TOTAL COST

\$1.83 billion payment to the city

### FINANCING

Private equity, bank loans, capital accretion bonds, and subordinated bank debt

### FUNDING

User-paid toll

### PUBLIC BENEFIT

Upfront payment allowed city to establish a people, neighborhood, and business investment fund



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# Background

The Chicago Skyway Bridge is a 7.8-mile toll road built in 1958 to connect the Dan Ryan Expressway to the Indiana Toll Road.<sup>1</sup> In 2013, it recorded an average daily traffic of 41,249 vehicles.<sup>2</sup> It was privatized in 2005, the first privatization of an existing toll road in the U.S.<sup>3</sup> It is currently owned and operated by the private consortium “Skyway Concession Company, LLC” (SCC) which consists of a partnership between Cintra Infraestructuras and Macquarie Group.<sup>4</sup>

## Project Description

The Skyway Concession Company (Cintra-Macquarie) won the competitive bidding contest for the Chicago Skyway in January 2005, paying the City of Chicago an upfront payment of \$1.8 billion.<sup>5</sup> The privatization was part of Mayor Daley’s “continued commitment to innovative financing techniques.”<sup>6</sup> The Chicago Tribune referred to it as “a brilliant political move” to obtain “much-needed cash.”<sup>7</sup> The agreement was for a 99-year lease to the private consortium.<sup>8</sup> Under the agreement, SCC may raise and collect all toll revenue, but must handle all operational costs (including repairs).<sup>9</sup> Toll increases were restricted by caps that increased over time.<sup>10</sup> After 2017, rates can increase annually in relation to inflation or per capita GDP.<sup>11</sup> SCC is also responsible for certain capital improvements.<sup>12</sup>

During the initial transition period, the City of Chicago performed some functions, such as snow removal, for which it was reimbursed by the private consortium.<sup>13</sup> SCC has been responsible for several toll increases since its acquisition of the Chicago Skyway. The City of Chicago has the right to terminate the SCC’s involvement if they declare bankruptcy or violate terms of the agreement.<sup>14</sup> The involvement of the Skyway Concession Company will be ending soon, as they have sold their stake in the project to another private investor (this would not be likely to impact day-to-day operations of the Chicago Skyway).<sup>15</sup>

The original agreement was for a single, upfront payment of \$1.83 billion. This arrangement encourages SCC to not only maintain, but increase, the profitability of the Chicago Skyway Bridge so as to make a return on its initial investment.

To pay for the Chicago Skyway Bridge, Cintra-Macquarie took out two series of bonds totaling \$1.4 billion.<sup>16</sup> Interest expenses were \$23.4 million in 2014, and their balance sheet also suffered \$25.7 million in derivative losses leading to the consortium operating at a net loss of over \$1 million that year. Since 2005, SCC only turned a profit in one year: 2013, even though year-to-year revenue only dropped once (marginally), from 2009 to 2010.<sup>17</sup> The cost of paying back their initial bonds has seriously impacted the private consortium’s ability to be profitable.

This does not affect the City of Chicago, which is insulated from Cintra-Macquarie’s financial situation. However, the burden does fall on the Skyway users to a certain extent. In an attempt to boost the profitability of their asset, SCC has raised tolls to the maximum allowable amount as per the concession and lease agreement. See Figure 1 on how tolls have increased under private ownership (toll costs are based on number of axles, and are for the peak hours of 4:00 AM to 8:00 PM).<sup>18</sup> The last time such a significant hike was made was in the 1980s when tolls were raised from \$1 to \$1.50, followed by eventual increase to \$2, to help pay for major repairs and developments.<sup>19</sup>

Average daily traffic in 2005 was 48,422<sup>20</sup> and average daily traffic in 2013 was 41,249,<sup>24</sup> a decline of about 17 percent. Seeing as other factors were also in play, notably the 2008 recession, it is not possible to conclude that SCC’s toll increases drove consumers away from the Skyway. It is also important to note that these toll hikes were within the original boundaries allowed by the agreement, and therefore within the scope of what the City of Chicago deemed acceptable.<sup>22</sup> The toll hikes were a success for SCC, boosting toll revenues from \$50.4 million in 2005 to \$80.7 million in 2014, helping to mitigate expensive interest payments.<sup>23</sup>

**Figure 1. Chicago Skyway Bridge Tolls 2005 – 2015**

| Axles | 2005    | 2008    | 2011    | 2013    | 2015    | Percentage Increase |
|-------|---------|---------|---------|---------|---------|---------------------|
| 2     | \$2.50  | \$3.00  | \$3.50  | \$4.00  | \$4.50  | 80%                 |
| 3     | \$5.10  | \$7.60  | \$10.10 | \$12.60 | \$15.20 | 198%                |
| 4     | \$6.80  | \$10.10 | \$13.50 | \$16.80 | \$20.20 | 197%                |
| 5     | \$8.40  | \$12.60 | \$16.80 | \$21.00 | \$25.20 | 200%                |
| 6     | \$10.10 | \$15.20 | \$20.20 | \$25.20 | \$30.30 | 200%                |
| 7     | \$11.80 | \$17.70 | \$23.60 | \$29.40 | \$35.50 | 201%                |

## *Benefits and Criticisms*

The City of Chicago came out ahead in this agreement. They were able to collect on 99 years’ worth of net revenue for a project that they no longer have to maintain and operate. The money was used to retire existing debt on the Skyway (\$463 million), pay down long-term city debt (\$134 million), eliminate short-term debt obligations (\$258 million), establish the first ever long-term reserve (\$500 million), establish a mid-term reserve (\$375 million), and establish a “people, neighborhood, and business investment fund” (\$100 million).

The private investor, Cintra-Macquarie, has so far been unable to convert the Skyway into a profitable asset. Whether the project was a win or a loss for the people of Chicago is open to debate. On the one hand, the city received a large upfront payment that they could dedicate to other programs. On the other hand, the users of the toll road are paying more than they were before. To compensate for the debt they incurred, Cintra-Macquarie raised tolls by 80 percent for individuals, and as much as 201 percent for large trucks. In 2011, even before tolls reached their current levels, the Skyway was already one of the most expensive interstate toll roads in the nation.<sup>24</sup> Rising tolls have soured public opinion of privatization projects to an extent.<sup>25</sup>

## *Takeaways*

Privatization projects such as the Chicago Skyway can result in large cash infusions for public entities, with the added benefit of removing the costs and commitments of maintenance and operations. This project shows that significant toll increases may not always result in declines in ridership, but they also may taint the idea of P3 projects and mask other benefits for both citizens and governments. More restrictive caps on toll increases could have helped to mitigate this issue; however, additional restrictions may have pushed the private partners to walk from the original deal, leaving the operations and maintenance costs of the Skyway to the city. One of the major challenges for this project was the cost of capital. Future P3 projects facing this situation should consider the federal TIFIA program and private activity bonds (PABs), which allow the federal government to reduce some interest costs of P3 projects.

## Endnotes

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