

(January 29, 2007) Midway Privatization

Clouds over Midway deal

Daley's push to privatize faces turbulence in D.C.; foreign ownership a snag

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Mayor Richard M. Daley's plan to reap a cash windfall by leasing Midway Airport to a private operator is running into stiff headwinds in Congress.

Democrats now in charge of aviation policy want to reconsider airport privatizations, in particular the potential for foreign control of critical transportation assets in the post-Sept. 11 era.

More than 100 airports have been privatized in recent years, almost all overseas. Much of the investment capital and expertise in privatizing transportation assets also lie abroad, as with the Spanish and Australian firms that recently paid billions of dollars to lease the Chicago Skyway and Indiana Toll Road.

"There's about \$60 billion available in funds . . . for airport infrastructure" worldwide, says David Bentley, editor of Airport Investor Monthly, a British publication, who says a dozen or more groups around the world may bid on Midway.

But an airport is "much different" from a toll road, says U.S. Rep. Jerry Costello, D-Belleville, the new chairman of the House Subcommittee on Aviation. "There are security concerns unique to airports."

In an interview, Rep. Costello says foreign control of airports is a concern for Democrats on the panel, who met last week to discuss airport privatization and other upcoming issues.

The Downstate Democrat was one of the leading congressional critics who killed a Bush administration proposal last year to allow greater foreign ownership of U.S. airlines. He says the outcome of that debate was "a clear indication" of congressional sentiment, which "would apply" to airports as well. The prospect of allowing a foreign firm, Dubai Ports World, to operate U.S. seaports also proved to be a political flashpoint last year.

Another member of the aviation subcommittee, U.S. Rep. Daniel Lipinski, D-Chicago, concurs that foreign ownership would be a sticking point. "It will definitely be something that's raised, just because of Dubai Ports - the whole debacle we went through," he says.

But foreign ownership of Midway and other airports is not the only issue, Rep. Costello says.

"There are more questions out there than answers," he says. "We know in the short term it's good for local governments" to raise cash by selling or leasing public assets. "In the long term, is it good for public policy? Should taxpayers be funding an airport operated by a private operator? How can you control costs and fees passed on to the consumer?"

Rep. Costello, who met with Chicago officials Thursday about the Midway deal, says he's "impressed with the city's due diligence up to this point" on these broader issues, but still has doubts.

While the city is tight-lipped about it, outside observers say Chicago is expected to lease Midway for more than it got in the \$1.8-billion Skyway deal in 2005. After paying off the airport's debt, proceeds would likely bolster the city's pension funds among other pressing needs. As the largest tenant, Southwest Airlines has to approve the plan, but if an agreement is reached soon, the bidding process will begin shortly (Crain's, Jan. 15).

Based on recent deals, privatizing Midway Airport could earn Chicago more than \$3 billion. But lawmakers are fretting over the prospect of a foreign owner.

HOW MUCH?

"When Chicago goes forward, my sense is there will be a great deal of competition," says Joseph Aiello, president of Aecom Enterprises, a Los Angeles consulting firm putting together a group that is likely to bid. "The physical asset is in great shape," he adds, "and the concession side certainly has opportunities" to boost revenues. "We like those fundamentals."

As a multiple of cash flow, prices for airport deals have doubled in the last two years. Based on recent deal values, Midway could fetch \$2 billion to \$3 billion, or even more if there's a bidding war.

"It's certainly a propitious time," says Dana Levenson, the city's chief financial officer, who is leading the Midway privatization effort. "There's a fair amount of money chasing not too many deals."

But even if Congress doesn't block the deal, any uncertainty could have a chilling effect on suitors. "Why would a company go through the sunk costs of doing this one" deal if Midway's privatization doesn't lead to others, asks Rich Golaszewski, executive vice-president of GRA Inc., an aviation consultancy in Pennsylvania. Democratic control of Congress "has definitely changed the landscape."

As for the prospect of resistance in D.C., a spokeswoman for Mr. Levenson, the city's CFO, says, "The city would never enter into a lease agreement that didn't . . . meet the approval of the Chicago City Council and federal government."