CHICAGO INFRASTRUCTURE TRUST

BOARD MEETING

CITY OF CHICAGO

BOARD MEMBERS:

MR. JAMES BELL, Chairman
MS. DIANA FERGUSON
ALDERMAN JOHN POPE
MR. DAVID HOFFMAN
MR. JORGE RAMIREZ

December 6, 2012
10:00 a.m.
Chicago Cultural Center
75 East Washington
Garland Room, 5th Floor
Chicago, Illinois

CHAIRMAN BELL: Good morning. I'd like to call the meeting to order.

Thank you all for coming out and sharing your time with us as we work our way through this. We've made very, very good progress, a process with the City, helping to improve this great City in a way that we would not only make wonderful for the existing citizens but to encourage others to come join us.

As you see, we have a pretty full agenda. It was posted on the web site, so I hope you've all had an opportunity to take a look at it and the members also.

Now, it's broken up into some administrative matters we just have to get through, but the bulk of this meeting we're going to spend on walking through the retrofit project that the City is working on.

As you can see, we have presentations by some of the stakeholders. We're going to walk through that and discuss both where we stand in the process and then how we're going to move forward.

With that, I'm just going to jump

right in with the organizational matters and start with the approval of the minutes. The minutes were provided to us. They're on the web site. I think we've all read them.

Any comments, any additions, adjustments, corrections?

(No response.)

Do I hear a motion?

MR. RAMIREZ: Motion.

CHAIRMAN BELL: So moved.

MR. HOFFMAN: Second.

CHAIRMAN BELL: All in favor.

(A chorus of ayes.)

All right. So the minutes are accepted.

Next on the agenda is approval of the bylaws. We had a few revisions. I'm going to turn it over to David. He can sort of characterize what they are, and then we can vote on the motion.

MR. HOFFMAN: So I think all the Board members have met Scott Falk and Henry Kleeman who are partners at Kirkland & Ellis who have been assisting us pro bono. They've spent time on these bylaws and a variety of other things. We're very appreciative of their time that they've been spending and donating to us and the public on this.

So they took a look at the bylaws that were passed early in our life and pointed out a variety of minor corrections that need to be made, all of which I agree with. You'll see in the red line version what those changes are, and the only two that are of any note at all in my mind is that on Page 8 there's an additional Article 8 that's added which has some basic statements about officers of the Trust to distinguish between officers of the Board as we appointed at the first meeting, so the fact that the Trust itself on the staff level will have, will have at least one officer -- the executive director. It may have others as we decide, so that was standard but something that was missing in our prior ones.

And then on Page 11 there's an article on indemnification, and they made in their experience, and I agree with them, some proper changes to the terminology and deleted some unnecessary provisions that were inconsistent with the Not-For-Profit Act of the State of Illinois about indemnification.

Otherwise, the changes are either cosmetic or minor, and so let me ask, Scott and Henry, any other comments other than what I've said on this?

MR. FALK: No.

MR. KLEEMAN: No.

MR. HOFFMAN: Any questions from the Board?

(No response.)

I move the admission of this. I think these are proper changes to our bylaws.

ALDERMAN POPE: Second.

CHAIRMAN BELL: All in favor.

(A chorus of ayes.)

All right. So the record will show the bylaws were approved.

You might notice that on the agenda we did have announcement of Advisory Board Members. We are going to postpone that to January, and quite frankly, it's only because I didn't realize that we had -- The Advisory Board Members have to meet some of the same requirements that we, the Board members, have to meet in terms of ethics and conduct, and it's only because we have not had an opportunity to talk to them about that. I don't think it would be an issue, but we do think we should do that and let them make those commitments before announcing the names.

The point is -- From the City's point we've already done it. It's pointless. Now it's half a Board, so we're going to wait until January. We'll announce the total Advisory Board at that time.

Any questions on that?

(No response.)

Moving on to reports. I'll start with the status of the Executive Director search. Spencer Stuart has done a wonderful job getting this out, getting widespread notification, getting it out to the public, and we've had a tremendous response to this position.

We have a selection committee assisting us, Diana, Jorge and I. We have gone through and met with Spencer Stuart and went through all the candidates, made the first cut down to the top seven which we will be interviewing over the next couple of days hopefully to get down to the top three to bring back to the Board and recommend a decision be made as to who that is, and we're hopeful to try to keep that into this year if all goes well, but we're working hard to get that done. But that's where we stand. That's where we are, and Spencer Stuart has just done a tremendous job of getting some very, very qualified people for us to consider.

Any comments, questions?

(No response.)

MR. HOFFMAN: I concur that they've done a good job so far.

CHAIRMAN BELL: It's been wonderful. Done wonderful work.

Okay. With that, we'll move on to the status of our directors and officers liability insurance.

Diana.

MS. FERGUSON: Thank you, Mr. Chairman.

Our process has gone well so far with respect to seeking our directors and officers liability insurance.

We've retained as our broker Risk Strategies. They are a broker that is experienced in the area of executive risk insurance. And I didn't see John here. Oh, there you are. Represented by John Morgan and his colleague Mark Madigan are here from Risk Strategies. They are serving as our broker on behalf of the Trust.

We have provided a preliminary application which they are using to approach potential underwriters. We are in the process of responding to underwriter inquiries, follow-up questions and providing additional final data.

We expect to have terms from potential underwriters in the coming days and will give a report at the next meeting, the full recommendation in terms of limits and the cost to the Trust, but the process is going well, and we appreciate the services of Risk Strategies.

CHAIRMAN BELL: Thank you, Diane.

Any questions of the Board?

MR. HOFFMAN: Do you have a sense of the life of the --

MS. FERGUSON: Based on where we are in the process, I believe that we will have preliminary terms as early as next week. Then the negotiation of finalizing those terms and making sure that we have the most competitive pricing and going to contract could take until the next meeting, so I think it will come over the next week. I'll defer to our broker.

UNIDENTIFIED SPEAKER: That's accurate.

CHAIRMAN BELL: So hopefully by the next meeting we'll have authorization and we can report on that.

MS. FERGUSON: That's right.

CHAIRMAN BELL: Thank you very much, Diana, for your work on that.

Moving on to the action items, the banking relationships, Diana has been working with PFM to establish a banking relationship for the Trust.

Diana, why don't you let us know where we are on that?

MS. FERGUSON: Sure. In October of this year, our financial advisor PFM acting on our behalf issued a request for proposal for banking services. That RFP went to a list of banks that were pre-approved by the Treasurer's and the Comptroller's Offices as well as the Chicago City Council as approved municipal depositories. Those banks include Albany Bank & Trust, Amalgamated, Bank of America, J.P. Morgan Chase, CitiBank, Cole Taylor, Fifth Third, First Eagle Bank, BMO Harris, Illinois Service Federal, Pacific Global, PNC, U.S. Bank and Seaway.

In addition to distributing an RFP to the banks referenced above, the RFP was also posted on the CIT web site so that it had broad distribution. We received a total of six responses to the RFP and evaluated the proposals based on the following criteria: Operational requirements, firm experience, financial strength, compliance with the requirements of the RFP, quality of the proposal and, of course, fees.

PFM professionals who have experience with banks and banking relationships participated in the review of proposals independently and completed evaluation score sheets on each proposal.

The highest scoring proposal was received from U.S. Bank. In addition, U.S. Bank presented the most competitive fee proposal, so we feel really comfortable that in addition to providing, being the most responsive in terms of their proposal, they are also the lowest cost.

Based on that, I am recommending that we select U.S. Bank as our banking partner and open that for discussion amongst the Board.

CHAIRMAN BELL: You might also mention the fact we might have eliminated some of the proposals due to potential conflict.

MS. FERGUSON: One of the responses that we received was from JP Morgan Chase. We made the decision to eliminate them from consideration because of Chairman Bell's association with JP Morgan Chase on their board, so they were eliminated from consideration not based on their proposal but because of the conflict.

MR. RAMIREZ: This is Director Ramirez. I'm not going to be voting on this matter. I'm director of the board of Amalgamated Bank at least through the end of this year. I'll be off the board effective December, end of December.

I wasn't aware that they were one of the finalists.

MS. FERGUSON: They were not. They were one of the originals who --

MR. RAMIREZ: So they were already eliminated.

MS. FERGUSON: They did not respond. They were not one of the respondents.

With that, are there any questions?

CHAIRMAN BELL: Any other questions?

MR. RAMIREZ: Disregard it.

MR. HOFFMAN: Was this -- Was U.S. Bank PFM's recommendation for us?

MR. MORSCH: My name is Tom Morsch from PFM.

It was based on, as Diana indicated, both the evaluation proposals as well as the most competitive fee proposal.

MR. HOFFMAN: That evaluation was done by PFM?

MR. MORSCH: Yes.

MR. HOFFMAN: So after that evaluation process was it PFM's recommendation that we select U.S. Bank?

MR. MORSCH: Yes.

MR. HOFFMAN: Okay. And can you, either you or PFM, just give us a quick summary of what they'll be doing for us, like what the banking services are that we're asking for? I mean I imagine that it means that's where we'll have bank accounts. But I just really wanted to flush out whether there's anything -- What it means that we're -- How we're going to use this bank.

MS. FERGUSON: At its most basic level we need to have, for lack of a better or more elegant way to describe it, a checking account so that we can receive funds, disburse funds, in the event that we have excess cash, make, invest those funds, excess funds in accordance with an investment policy, have a payroll once we hire staff, things like that, so administer the financial transactions of the Trust in accordance with our governance and bylaws.

MR. HOFFMAN: So this is simply where we're going to have our bank account?

MS. FERGUSON: Yeah. This is just a bank -- There is no expectation that this bank, that U.S. Bank as our recommended provider would have any additional competitive position with respect to any transactions that we might consider, anything like that. This is the service providing services to the Trust as a checking account.

ALDERMAN POPE: They would not be excluded from participating in other activities with the Trust?

MS. FERGUSON: I don't anticipate that they'd necessarily need to be excluded, but I don't think that by serving as the Trust's banking partner that they would necessarily have a more competitive position.

ALDERMAN POPE: Very good.

CHAIRMAN BELL: Any other comments, questions?

(No response.)

Do I have a motion?

MS. FERGUSON: So moved.

MR. HOFFMAN: Second.

CHAIRMAN BELL: All in favor.

(A chorus of ayes.)

All right. Done.

The next item on the agenda is the approval of the accounts payables.

Treasurer, do you have anything that needs to be paid?

MS. FERGUSON: Yes. I am in receipt of an invoice for the services of our court reporter which is due, and because we now have a banking partner available to help us execute the payment of that transaction I would submit it for consideration of payment.

MR. RAMIREZ: I think she heard that.

CHAIRMAN BELL: It's probably about time. Is that --

MS. FERGUSON: Yes. So --

CHAIRMAN BELL: Listen, what's the timing of when the 200 will get deposited? When will we open the account, the 200 gets deposited so we can actually execute payment? Do you have a sense of that?

MR. FERGUSON: Now that we have an account, we have a funding strip. Now it's just a question of walk it down to revenue and they should be able to transfer the funds sometime in the next week.

Alderman Pope would have a handle on that better.

CHAIRMAN BELL: Because we should really pay the court reporter --

(Laughter.)

-- before she cuts us off.

MS. FERGUSON: Right.

So I'm not sure the protocol for

approving this. Do we need the full Board to approve the payment or --

MR. HOFFMAN: You've examined the invoice and you recommend it?

MS. FERGUSON: I am -- Yes.

MR. HOFFMAN: So if we need a motion, I'm happy to move to approve it.

I think in the future that to the extent that we have bills that are of this magnitude I'm happy to delegate that to the Treasurer.

CHAIRMAN BELL: Yes.

MR. RAMIREZ: Second.

CHAIRMAN BELL: So that's the motion.

You didn't know you --

MR. HOFFMAN: I'm sorry. I move -- Let me -- Two ways that you can take it. One is to pay the invoice, and one is to create a process where we're delegating bills of a reasonable size for the Treasurer to approve on her own.

So moved.

MR. RAMIREZ: Second.

CHAIRMAN BELL: All in favor.

(A chorus of ayes.)

Okay. So moved.

MS. FERGUSON: Thank you.

CHAIRMAN BELL: Now we'll get to the meat of our agenda -- Retrofit Chicago update.

Lois, do you want to set it up or do you want -- How do you want to do it? Scott? David? Whoever. Let's just get into it.

MR. WINTERS: Mr. Ramirez, Mr. Chairman, Alderman, Ms. Ferguson and Mr. Hoffman, on behalf of Mayor Emanuel, our Chief Financial Officer Will Scott and the Corporation Council, I'd like to thank you all for your service to the City and for working with us.

In my own opinion, I'll be clear about that, it is my own opinion, I appreciate that both Mayor Emanuel, Alderman Pope and the rest of the City Council had the foresight and vision to understand that what was needed here was not another unit of local government but precisely a consortium of leaders of the labor industry, government, finance and the law to come together and assist us in working with the private sector for the benefit of the City, so thank you once again.

Our first purpose here this morning --

MR. HOFFMAN: David, thank you for the comment. Would you introduce yourself for the record, please?

MR. WINTERS: Oh, I'm sorry. My name is David Winters. I'm the Chief Assistant Corporation Counsel with the City of Chicago's Law Department, and the reason I'm here among other things is because the scope of my responsibilities these days is that I am responsible for all the legal aspects of all of the City's capital programs from the beginning to dispute resolution. So to the extent that you have any questions about how it is that our capital programs are developed, implemented, litigated, resolved, what have you, I'll be happy to answer those questions.

MR. HOFFMAN: Thank you.

Can the folks in the back row hear the speaker?

UNIDENTIFIED SPEAKER: Yes.

MR. HOFFMAN: Okay. Thank you.

I'm sorry, David. Go ahead.

MR. WINTERS: I generally don't use

microphones. It's a little awkward standing with it here and having the choice to face a blind screen or to look at you, so hopefully I can achieve both ends.

One purpose that we have for coming this morning and one of the many things that I do do is work with, and I have been for the last 20 years, I've worked, first of all, and it's a point worth making, that the concept of having private entities by agreement comply with City laws is nothing new. Twenty years ago under the City's CIA Tech agreement -- CIA Tech, which was the Consortium of International Airlines that funded and worked on the international terminal with the City, agreed to abide by the City's procurement law in the procurement of the common use airline equipment that they bought for T5 and sold for T5 and continued to operate at T5 at O'Hare, and I was their counsel during the procurement and construction of Terminal 5.

From there I remained with the City's Law Department where I was the director for the City for the Midway Terminal Development Program.

I then went to the Department of Procurement Services where I was the deputy commissioner for the Midway terminal development that they package out on the street which at the time was the largest the City had.

From there I went to the MPEA where I was responsible for the development and construction of the corporate center conference center and west expansion of McCormick Place. I returned to the City where I was responsible for getting the construction program for the Pier modernization program under way.

I then went to the Public Building Commission as an outside counsel to work on schools across Chicago and returned to the City to work on infrastructure matters as I've described, so for the past 20 years I've been doing public procurement and infrastructure in particular.

We're asking you today to work with us to issue an RFQ to the investment community, and an RFQ is a request for formal qualifications.

We've had discussions amongst ourselves and with your financial advisors and legal advisors regarding the nomenclature. We think a request for qualifications is appropriate because we want the investment community to take this as seriously as we do.

Quite often when the City goes out on the street with a request for information, request for interest, people take that as an indication that we are just not prepared to do a transaction, and we don't want to create that impression. We don't know -- And we're obviously we're going to work with you to fill out the precise terms of whatever transaction we enter into, but we do have an idea of where we want to go, and we intend to work with you and hopefully work with you over the coming months to bring that to fruition.

As far as the timing is concerned, we're more than anxious to get this under way, but at the same time we recognize the process that needs to be undertaken so that you all are comfortable, so that the public is knowledgeable and everybody is proceeding on a common basis. Again, we're more than willing and happy to work with you towards that end.

The construct of the RFQ as we see

it would be, first of all, to describe the Trust since the Trust is the new player in the game -- The City's been around for a while -- describe the City's projects that will be involved during the initial outreach to the investment community, state our objectives which include our policy objectives, social objectives as well as our financial objectives and state what we need to know at this point from the investors which includes the completion of the City's economic disclosure statement.

The reason we mention that in particular and put it upfront is because people find it difficult and -- But it is required by law, and our experience is the sooner people become familiar with that and start working their way through it with us the better off we all are. We have had transactions that come to an absolute halt because of that.

And from here we expect as you know to work with the Trust advisors to develop and document the process hopefully within January but, again, not before all of you are comfortable with what it is that we intend to do.

My colleagues from the City, Commissioner David Reynolds from the Department of Fleet and Facility Management, Commissioner Powers from the Department of Water Management and then our colleague from public schools Pat Taylor, the Chief Operating Officer of CPS, are going to present more details about each of their respective projects.

I was going to give a brief overview of the retrofit projects and the way our capital programs are developed and why it is that these particular projects are here before you and why we're discussing those rather than other projects.

All of the City's capital programs are a matter of public interaction. I want to be clear about that from the get-go.

Whether it's our commissioners out there in meetings with the community, interacting with aldermen, interacting with members of the community or taking the reports that they get from all of the consultants, engineers and so on that work with them regarding the condition of each and every sewer line, each and every water meter, each and every school, public building, what have you in the City of Chicago, each and every day City people are out there assessing the state of our infrastructure and prioritizing the needs and working with members of the community, leaders of the community to decide what our priorities should be.

Out of all of those what we've come up with are a series of retrofit projects, and the reason that we've selected these retrofit projects is because, first of all, they offer a revenue stream, and that makes them different from most of our other projects.

By implementing new lighting and new boilers, what have you in various facilities, we achieve savings. These savings can then be dedicated and paid into a trust, the Infrastructure Trust in this case, so that the people that loan us the money, whoever they may be, can get a return on their investment over time. And that simply put is the purpose.

MR. HOFFMAN: I'm sorry. I didn't hear that. That simply put is?

MR. WINTERS: Is the purpose.

We can go into whatever level of

detail you choose today or any other point regarding how it is the savings are calculated. My colleagues will go into more detail about their respective projects, but, as I said, for an overview, that's where we are.

All of the City's projects as I'm sure you are aware are brought before City Council whether it's during the course of budget review or for specific projects when it's warranted and necessary but they're brought to Council for approval.

CHAIRMAN BELL: David, question. I'm just going to assume that the City or the other agencies have processes in place --

MR. WINTERS: We do.

CHAIRMAN BELL: -- that these kinds of projects get vetted and all of these have been vetted via those processes.

MR. WINTERS: I'm glad you made that statement. Okay. I'll move on.

Another reason that we brought the retrofit projects is because energy savings contracts are well understood by the finance community. They're nothing new to them, and since the Trust itself is something new, rather than bring in new thing after new thing with all of the process, the effective notes, the mortgage to make anything happen we thought it more prudent that somebody from the marketplace already familiar with it be brought forward.

We are going to look for some innovations with respect to the structure of those transactions, and our advisors are already familiar with some of our costs in that regard. We'll continue to work with them and with you to question those items as we go along.

The one other key factor for us as far as the Trust is concerned is the transparency that it brings to this process. I know I've had this conversation with Scott Falk in particular regarding why it is that we see a single purpose entity being formed by the Trust at some point in the future to hold the Trust and stay from its first round and infrastructure trust projects, and there are good business reasons for it -- Remoteness from bankruptcy being foremost among those. Insulating the other assets of the Trust is another reason for that, but as far as the City's concerned, as far as the governance are concerned, we want the balance sheet to be as straightforward as possible. Money in. Money out. Posted for everybody to see. That's why we're doing it.

If you have any questions at this point, I'd be happy to answer them. Otherwise, I'll turn it over to Commissioner Reynolds who can speak to --

CHAIRMAN BELL: Just a general question, and I don't know if this should be before or after, but, you know, why choose this source of funding for these particular projects, why not the traditional sources?

MR. WINTERS: There's a lot of reasons. One is, as I said, we have both from the Chicago Public Schools and the City Clerk coordinating between agencies transaction costs for all agencies, and that's part of the purpose. Making it visible is another reason. Yes, it can go out. Yes, we can have all of this within the complications of our entire City budget, and people if they work hard enough work their way through all of that, but, like I said, part of the point is this stand-by-itself policy and understanding its (inaudible).

ALDERMAN POPE: David, thank you.

In the handout that we have before us, I don't know if you're going to show that on the power point, there's some specific information in terms of the draft terms sheet in terms of putting it in perspective. Could you address some of those or remind us of that?

MR. WINTERS: Actually, I'll let our financial advisors speak to that.

ALDERMAN POPE: I think that would be great. That would put it in perspective.

MR. HOFFMAN: Before you leave can I ask a question about what's going to happen next, the process here?

CHAIRMAN BELL: Yes.

MR. HOFFMAN: Who are we hearing from? I just want to sort of figure out when I want to ask questions. I want to be efficient about this. I gather we're going to hear from other City people?

MR. WINTERS: Yes.

MR. HOFFMAN: Who are we hearing from next?

MR. WINTERS: Commissioner Reynolds.

MR. HOFFMAN: Then were you anticipating that someone with the CFO's Office or financial advisors were also coming or up just as we have questions?

MR. WINTERS: Just as you have questions.

MR. HOFFMAN: Because what I'm thinking is that at some -- I'd be happy to dive in with questions to him now. I was also thinking, Mr. Chairman, as we discussed that at some point I wanted to have questions as well for our advisors.

CHAIRMAN BELL: Absolutely.

MR. HOFFMAN: I'd love to sort of do it when David's up here. I think that makes it efficient to sort of have more of a discussion but I don't want to be -- I don't want to get in the way of what our process is today.

CHAIRMAN BELL: Well, we have the part about the next steps after the presentations. We could do it then, all of it, or we could do it at the -- after the presentations. I mean I think whichever we think is -- You can get more specifics on your questions. I think all of the presenters are going to stay until the end. Is that correct?

MR. WINTERS: That's correct.

CHAIRMAN BELL: Why don't we try to do it at the end. I mean let's get through -- Unless you have some questions on the specific presentation then ask those, but at the end it probably would be better if we just went through all of these concerns.

MR. HOFFMAN: Fine.

CHAIRMAN BELL: And get our advisors, both the financial and legal, to just come up and help us work our way through those answers.

MS. FERGUSON: Can I follow up on a point?

CHAIRMAN BELL: Absolutely.

MS. FERGUSON: If it's addressed later, it's fine, but something you said sparked a question for me which is -- I agree with you that there are precedent type of transactions for these energy efficient type retrofit projects. I'd be curious to know what precedent transaction, if any, you are referencing when you crafted the term sheet for this and you specifically mentioned that you're seeking some innovations versus the term, the precedent transaction, so I'd be really curious for those to be culled out so that we understand where we're charting new territory and where we are.

MR. WINTERS: Courtney can get into those details with respect to the innovations. As far as what we're referencing, one immediate project that comes to mind is the Daley Center. It has gone through a retrofit process with an energy saving company -- ESCO Planning Transaction. This is a project that's been very successful. From what I understand the Daley Center is one of the greener 40-year old buildings out there because of that retrofit process.

MS. FERGUSON: Thank you.

MR. HOFFMAN: Mr. Chairman, I have a whole bunch of questions on a lot of the things he said, but I'm happy to wait, but I also was thinking I would address at least some of those -- I was going to address those questions to a mix of David and our advisors and I'm happy to wait until the end.

CHAIRMAN BELL: Do them when you're comfortable.

MR. HOFFMAN: I'm fully comfortable

waiting. I just wanted to -- If that's a process that's acceptable to everybody --

MR. WINTERS: That's fine with me.

MR. HOFFMAN: -- get through all the City presentations and then we can ask questions.

CHAIRMAN BELL: That's fine with me. Okay.

MR. WINTERS: Courtney.

MS. SHEA: My name is Courtney Shea. I'm with Kish Financial Group. I'm the financial advisor to the City's Department of Finance on this particular transaction.

In response to Ms. Ferguson's question, while we're trying to set this up, both the CHA and the Chicago Public Schools have done extensive retrofit projects, and there has been a way of doing this that basically the ESCO or the opposite party basically came in, guaranteed the savings and then they were paid back.

Our transaction is groundbreaking in one respect because as you know the City ordinance allows for at this point finance only, and the agencies themselves as well as the City would continue to not only own but maintain the project through the course of it, and it would be for financing only. It's a little bit different than what has been done in the past.

If you would --

CHAIRMAN BELL: Meaning that what's been done in the past is the people that provide the financing may also do the retrofit work?

MS. SHEA: Yes, exactly, and they guarantee the retrofit.

MR. HOFFMAN: If you don't mind, Mr. Chairman, I just would like to ask a couple of questions just to clarify because when you use phrases or words like the transaction, I just want to tell you what I think my understanding and our understanding is of where we are in the process because I wouldn't want the word transaction to communicate that we're farther ahead than where we are, so I'm confident we're all on the same page.

Let me just lay out what I think we're talking about here. As David Winters said, I think what we're talking about here is the development between the City and its advisors along with our advisors, PFM and Kirkland, of a document that -- It's undecided exactly what it will be called, but it will either be called an RFQ or an RFQ and something as David laid out, and the purpose of that document will be to ask for qualifications from potential financial investors and also to request information from the marketplace so that the City and the Trust are as well educated as possible about what should be the terms of a future RFP and that that RFP, once that's issued and we get proposals on that, will end up being the transaction, so that's -- My understanding is that there's a process that -- Seems a very constructive process where you as the City's financial advisor and the City officials and our financial advisors and legal advisors are talking to develop that first document that might be called an RFQ and that at some point that would be brought to us and the public for our consideration maybe next month. So a little bit of --

MS. SHEA: Perhaps I should have used contemplated transaction but as far as -- At least the way we've been referring to it as we've been speaking to each of the three departments, we've been referring to it as Retrofit 1 as a transaction for purposes of the Trust. Perhaps I should have used the word contemplated.

MR. HOFFMAN: That's fine. What I just laid out, does that seem accurate to you about where we are in the process?

MS. SHEA: Yes. Exactly. If you look at the handout that you've received, I think we walked through in rather painstaking detail exactly what it is we're trying to accomplish. Basically, as David said, the goal for this request is to gauge market interest, to make sure that as your advisor Mr. Morsch put it that it is a transaction that has value and is marketable.

Secondly, we want to establish a pool of people who are actually interested in working with your advisors, the City's advisors to make sure that we can bring a transaction to fruition, that we are putting terms in and conditions in that people will actually be able to live up to and establish a foundation for the bidding process.

This is the first of many transactions we hope to bring to the Trust, but we want to establish a repeatable process going forward so that we don't have to basically reinvent the wheel every time we do this.

We want to encourage maximum participation. One of the things that I really want to point out is this is a request for qualification information.

We want to use the word qualification because we want people to be engaged. We want people to tell us what's actually important for them to work with the Trust. We don't want this to be merely an exercise. We want to attract the broadest base of people we can -- banks, pension funds, labor funds, charitable foundations, infrastructure investors, socially responsible investors.

But we also want to make sure that the people who are responding are willing to live up to many of the important things that the City has put in the Ordinance -- for example, women and minority participation, basically making sure that they're ethically correct in their lobbying, the EDS as David mentioned.

But in addition to that, we want to make sure that we're innovative and we're bringing

the best transformative transaction to the Trust.
David went through briefly what we're going to do in the RFQ. Basically we're going to describe the investment opportunity.
MR. HOFFMAN: I'm sorry. Who's issuing the RFQ?
MS. SHEA: The RFQ is going to be issued by the Trust.
MR. HOFFMAN: So when you say we, do you mean the Trust or do you mean you?
MS. SHEA: I believe it would be the Trust and I -- There will be questions that will it be in conjunction with the City or not, but at this point we believe it is the Trust. But we, the City's advisors and your advisors and the City's attorneys and your attorneys are working together to put together this document, so I'm sorry if I used we in the wrong way.
MR. HOFFMAN: No, you can absolutely use we. I just wanted clarification. Thank you.
MS. SHEA: What the RFQ would like to do is describe the investment opportunity. We have two commissioners and Pat Taylor from CPS who are going to come up and describe the process they have

gone through to identify these retrofit projects, the process they've gone through working to measure and verify what we believe the savings are going to be.

Also, we're going to get some information on the background of the Trust primarily from the Ordinance, how you were formed, description of the projects as we've described.

A baseline term sheet, and by that we mean we're going to in a very high level determine what we believe the transaction will be. We are going to ask for feedback on that because if there are component parts of that term sheet that are not workable with a majority of the investors, we need to know that now. We do not want to get to the eleventh hour and have a problem.

The evaluation criteria, and the City's advisors working with your advisors are going to determine what those evaluation criteria are going to be.

The submittal requirements, that's what David basically suggested, both legal and financial requirements and compliance requirements.

And lastly we're going to determine

a high level time line with our hopes that should the Trust determine to accept Retrofit 1 that we could get this transaction completed, to fruition by summer of 2013. That is the goal of the City, and I believe that your advisors believe that that is a doable goal.

MR. HOFFMAN: Courtney, would you pause for a second?

MS. SHEA: Sure.

MR. HOFFMAN: I think is this the first time you appeared before us?

MS. SHEA: Yes.

MR. HOFFMAN: Would you say a little bit for the Board about who you are? I know but I just think so -- We appreciate your being here. I just think since this is the first time it would be helpful for folks to know who you are in the relationship.

MS. SHEA: My name is Courtney Shea. I'm with the financial advisory firm of Kish Financial Group which is a woman-owned financial advisory firm. I opened the offices here three years ago. We are a New Jersey-based company.

Prior to that I spent about 22 years

as an investment banker at various firms here in Chicago including being the head of LaSalle Bank's national public finance practice, and by training I have both a law degree and an MBA.

MR. HOFFMAN: That's helpful. The firm has been hired by the City --

MS. SHEA: The City of Chicago -- The CFO's Office, the Department of Finance to assist with this particular transaction. So we have been working on this with the City since I believe about the end of August.

MR. HOFFMAN: Thank you.

MS. SHEA: Going back to the draft term sheet provisions for consideration, as I said, it is very high level what we're trying to determine here. For example, we have put a size of a minimum of $50,000,000. I and my colleagues have done other infrastructure projects. In order to get the interest of many of these high-level infrastructure investors, $50,000,000 is a minimum, and many of them don't want to put in the work for a smaller transaction.

The length of the agreement, the maximum is 20 years. We have -- As Commissioner

Reynolds and Commissioner Powers and Pat Taylor will tell you, we have projects that range in the use of the life of 5 years like lighting to a boiler which may have, you know, 40 or 50 year average life, but we are saying it's going to be a maximum of 20 years.

We are targeting a 20 percent annual energy savings for these projects. We are pledging the sources of repayment to basically the energy savings themselves and certain operations and maintenance. For example, Commissioner Powers will tell you that once he's had a conversion of his plant he's going to need less employees to run the operations, so that is an operational savings, and that will be included within the 20 percent savings.

The facility ownership, all facilities will continue to remain the owners -- owned by the City or in this case the Chicago Public Schools. The operation and maintenance will be performed by the governmental unit as I suggested.

The measurement and verification will be provided by the governmental agency, and one of the things that we want to talk about is the risk transfer which is we -- There are certain things that obviously create risks in these transactions. As part of this sort of asking investors if they're interested, one of the things we're interested in is the risk transfer to our financial partners rather than that risk being maintained with the City.

And also what I previously suggested which is that the City's MBE/WBE policies, lobbying registration, all those things must be considered, and we need to let people know that because the private sector partners, sometimes they're not -- If they haven't done much governmental contracting and such, they're not aware of this.

MS. FERGUSON: Courtney, can I ask you a quick question?

MS. SHEA: Sure.

MS. FERGUSON: Is it okay if I --

CHAIRMAN BELL: Absolutely. We are not going to be perfect in this process. Everybody should ask what they like, whatever comes to mind. Let's do it.

MS. FERGUSON: At the highest level,

just on this term sheet page that you have up on the screen, before we get into the details from the commissioners, I'd be interested in your perspective as a financial advisor on how these terms work together. So, for example, just at a high level, my experience would suggest that the pledge sources work in correlation with the risk transfers?

MS. SHEA: Correct.

MS. FERGUSON: And the suggestion that the governmental agencies would retain ownership, performance of the services and be responsible for measurement, and yet you would expect to transfer risk to the financial investor to me just needs a little bit more clarification because I'm unclear as to why a financial investor would be attracted to that deal.

MS. SHEA: This is why this transaction is going to be ground breaking because this is not what has been typically done in this field, and one of the things that we're looking at is basically the measurement and verification is being performed by the City and their agencies, and part of our process of asking our financial partners is do they want to come and do this in addition to the City.

Also with risk transfer one of the things that we may have to look at is sort of a lock box for these savings where in a particular year they might be higher would it be required for us to hold onto some of the extra savings --

MS. FERGUSON: An escrow.

MS. SHEA: -- to create coverage.

MS. FERGUSON: Will the O and M savings that you referenced -- Those would have to be appropriated every year by each agency?

MS. SHEA: Well, what we are anticipating, again, this is very high level, is that the appropriation that is currently being made will be maintained through the course of the transaction, and we are assuming that the cost will be substantially less.

MS. FERGUSON: Yes. So each agency would have to --

MS. SHEA: Budget at the continuing appropriate level, and I'm assuming that that will be a financial covenant --

MS. FERGUSON: Yes. Okay. Thank you.

MS. SHEA: -- a part of the transaction.

MR. HOFFMAN: I have a question about this. Courtney, on the pledge sources line --

MS. SHEA: Yes.

MR. HOFFMAN: -- again, my understanding of the process that we're engaging in is that you and City officials and PFM and Kirkland are talking about these exact issues on this line item to figure out how that gets drafted in a document that's going to be styled like an RFQ or something like that that hopefully will be issued next month, and then one purpose of the document is to see how the marketplace reacts to that. So we can't, we can't and you can't, for instance, decide unilaterally that we know for sure these are going to be the terms of an eventual RFP because we anticipate this interim step, this preliminary step to issue something like an RFQ and then get reaction. Am I understanding correctly?

MS. SHEA: Yes, you are understanding that correctly, and to be very candid with you, we have not, your advisors, the City's advisors, we have not gone through the points of this term sheet yet. We are -- We have shared the document, but we have not walked through it on a line-by-line basis at this point, but we are intending to do that in the very near future.

MR. HOFFMAN: When you're saying a term sheet, and I'm not trying to lock anyone into what this document is called, but just to be clear, we're talking about the same document that is going to be issued in the future that David described as an RFQ. I don't really care what it's called. When you say term sheet, is that the same document?

MS. SHEA: Well, one of the issues that we are, we believe will happen is that it will be an appendices to the RFQ as a sample term sheet, and we'd probably ask potential investors for their feedback on it as far as if there's any terms that are egregious that they couldn't live with or if there's anything that potentially, you know, they would require that's not part of the term sheet. That's part of the evaluation process. There are certain -- For example, when the City does the swap, they cannot have one-day collateral. That's just a non-starter, so there are certain things that perhaps an investor is going to say I need this and the City just can't succumb to it. David's department says we can't give that up, so that investor may not end up being a qualified investor because of what they can agree to or not agree to.

MR. HOFFMAN: One follow-up on the line of pledge sources. So this says limited to. So that's a decision, meaning that could be what the RFQ document says is that we are only, we only want potential investors who are willing to engage in a potential deal down the road that would be limited to as you say energy savings, but that's a decision to be made once that document goes out and we'll see what the feedback is, but just so I understand what that would mean, if that decision gets made that's limited to energy savings and certain O and M, just from a lay person's perspective, not someone who is a finance person, does that mean that if the City estimates that there will be certain energy savings if certain building renovations are done successfully, there will be energy cost savings and certain O and M savings that the return an investor can expect would be calculated based on those savings? Is that what that means?

MS. SHEA: That is correct.

MR. HOFFMAN: And then if those savings don't materialize because the estimate was wrong, that the investor -- In that scenario, the investors would bear that risk because their return wouldn't materialize in the same way as if the energy savings were estimated properly?

MS. SHEA: Correct.

MR. HOFFMAN: Okay.

CHAIRMAN BELL: Just one other question. Was there any consideration for an off-ramp for this provision, an off-ramp provision? Say you get into the deal, a 20-year deal, 10 years in you don't like it. I mean is there a provision, thought about having a provision to be shopped with the market as to what would be acceptable in a case like that?

MS. SHEA: We haven't considered that at this point, Mr. Chairman, but it's something obviously with your advisors --

CHAIRMAN BELL: Think about it.

MS. SHEA: We will contemplate it.

CHAIRMAN BELL: I think that they wish that that -- something was built in so that was in there. We might want to think about it. It may be early on to do that but --

MS. SHEA: Yes, sir, but we will contemplate it as we go forward with the transaction.

CHAIRMAN BELL: Okay.

MR. HOFFMAN: On the same -- I mean it will be very helpful I think from you and from PFM as we go forward on this to hear about how this compares with other similar transactions around the country, around the world at least in this area of retrofit.

And I hear your point that you intend and the City intends this to be ground breaking. That would be great. Nothing wrong with ground breaking, but all we can do is compare based on experience, so I think to James' point, the point about the length of the term of the agreement and whether there's an out clause would be helpful to hear how that comes out.

Similarly, one thing that's come up in prior deals is whether there should be revenue sharing. Now revenue -- I don't know exactly how to think about revenue sharing here. I think one way to think about it is if the expected savings, both energy cost savings and O and M savings, are expected to be X does that mean the investors get all of X or it's split with the City? Do you have any thought -- Has there been any thinking about -- Is that one of the decisions to be made as this RFQ gets developed or is there any thought process on that?

MS. SHEA: I believe it's one of the decisions that the deal will contemplate, but, you know, we, the Trust, the City still needs to find out who is even interested in participating in discussions before we start talking about revenue sharing. All this has been contemplated and thought about. It's just we need to find people who are interested to talk to us on the other side.

May I go on with the time line?

MR. HOFFMAN: Yes, please.

MS. SHEA: Okay. Great.

What we'd like to do and our goal is to work with the Trust advisors and City advisors to create a document which we will get to you for your review with the hope of releasing the document to the investor community in January should you feel comfortable at your next meeting to give your advisors the opportunity to release that document with hopes that we would get responses back in February creating a pool into early March and then moving the process along where those bidders will discuss their thoughts with your advisors and the City advisors and perform due diligence so that we can come to fruition of getting the bid in and then, you know, figuring out what is the most economical way to proceed based upon the bids that the Trust receives.

So our goals are to work with your advisors in the very short term to get a document to you, the Board, that you can review that your advisors are comfortable with, the City's advisors and the City is comfortable with to move the process along.

MR. HOFFMAN: Mr. Chairman, although I was thinking that I would wait until the end to sort of call other folks up who are our advisors --

CHAIRMAN BELL: Do it now.

MR. HOFFMAN: I do think that as part of this, I think that with Courtney up here, if you wouldn't mind, I might want to ask Tom to come up and maybe, David, if you wouldn't mind coming up too. I just have some questions about the last point you were making, and I think it would be helpful if I asked them now.

CHAIRMAN BELL: Okay.

MR. HOFFMAN: Thank you very much.

David, you introduced yourself. Tom, would you introduce yourself again for the record?

MR. MORSCH: Tom Morsch with PFM.

MR. HOFFMAN: So as everyone at this table knows, PFM like Kirkland has been serving as our pro bono independent financial advisor, and as with Kirkland, I mean these folks have been spending a lot of time on this without getting paid. We really, really appreciate your spending time on this and helping advise us.

So one of the things that prompted my asking you to come up is you have a line -- Let me back up one step.

I have to say from my perspective I really appreciate and I know all of us do that we are moving. I know the City wants to move. We want to move, and there were certain, you know, there were obviously certain infrastructure and framework that we needed to set up, but I'm glad that we're moving, and we certainly share the desire to, if things can be moved forward in the proper way, to do that, and I appreciate the fact that there's a time line. I think that's all really good.

One question about -- Whatever this document is going to be called, whether it's an RFQ or something else, it seems like there's two -- And I want to ask you, Tom, your view on this. What should we be thinking about the purpose of this document? Because it sounds like it's really twofold. One is to hear from potential financial investors, to hear their feedback and to get their potential qualifications that then presumably we, meaning advised by you, PFM, will judge and that would -- The end of that process would be the creation of as it says here a pool or a list of potential financial advisors and second to get feedback, to get information from, you know, either -- This is one of my questions -- either those potential financial advisors or others to learn how does the detail that we're laying out here about how we envision this potential transaction, how does it strike you. Does it seem feasible? Do you have other ideas of things you've seen around the country, around the world? How should we be thinking about this in light of your experience?

MR. MORSCH: I think you've outlined it very well, and I think David outlined that too is the primary purpose of this document and this exercise.

It's critical to get the input. This is a partnership, right. It's not a one-way transaction, so the goal of these -- And what makes these successful is engaging in that partnership discussion, and I think the Trust provides a very good, transparent way to do that, and I think that's exactly what David outlined is the intention here.

And so I think this is best practice. I think that it's the way to move forward with this, and I think that the City is being very thoughtful in terms of the innovation, in terms of frankly stripping out the financing because in some cases these deals historically -- And this is partly to your question, Diana. Part of the, call it the profits or the other kinds of benefits that accrue to the private party. When they're all bundled together, it's a little harder to see what those are. What's happening here is the City really is looking to move forward with these projects which are proven in terms of pay-back periods for making investments in capital and then looking at purely from a financial standpoint can we engage a private party to take on some of that financial risk, pay them a fair and reasonable return, but we know exactly what that is.

I think that's really the goal of what David's outlined here and what Courtney has begun to address. So we're at the beginning of that. We're at the beginning of that process.

You know, we need to begin to tell the investment community what it is we hope to achieve and get their feedback on what, in fact, they think about our hypothesis, and this is a little more than a hypothesis I think as you'll hear from the City departments.

MR. HOFFMAN: Couple follow-up questions. One, so let's say that eight financial entities come forward with comments and their qualifications and a ninth that turns out in the future would be a great entity to do a potential deal doesn't come forward because they look at this document, RFQ or whatever it's called, and they say we're just not convinced; we're not sure. Then down the road after we've received feedback and so on we issue an RFP. Now we're asking for responses about the details of an actual transaction, and financial entity nine says, oh, we would like to bid on that. I'm thinking to myself I would like to hear from them as well. There's no reason that this process should rule them out. I just wanted to clarify is it your view, Tom, that this RFQ, while it's helpful to get qualifications and may result in a list, it doesn't result in a closed list that means that someone in the future can't bid?

MR. MORSCH: I would say that's exactly right, and that's the intention of the City. An RFP would be another -- It would be a formalized bidding process, and it would be open to parties at that point that are qualified. I think we'd have to work through the details on how that occurs. I will defer to the procurement expert here David on that topic.

MR. WINTERS: Yeah, to give you another example, at the MPEA and in particular for Navy Pier -- This is no longer operative since Navy Pier now operates as Navy Pier, but in the past when the MPEA operated Navy Pier one of the things that we would do would be to develop a pool of concessionaires because people go in and out of business, and it was not in anybody's interest as far as the Pier was concerned to have dark space in there ever, so we had a pool on hand so that if somebody did go out of business we could go into that pool and find a concessionaire that might be able to take over the space and make it productive and profitable. At the same time we kept on taking entries into the pool so that when those future opportunities came up people were available to us. We never precluded anybody from just submitting their qualifications.

MS. SHEA: The City's Department of Finance -- And this is best practice, is to have basically a rolling pool for the Department of Finance, and that is what is intended here as well.

MR. HOFFMAN: Look, I know numerous times when the City does this and issues an RFQ, has the pool and then you have a master services agreement, at times, that makes sense a lot of times especially when you need services to be continuous. A concessionaire example is one. IT is another space. This is not where we need a continuous set of services. Each deal is going to stand on its own. On the other hand -- So I don't think those contexts necessarily apply.

On the other hand, it makes perfect sense to get qualifications and have a pool. I just want to make sure it's not closed off because I do think that one of the merits of this is -- When we issue the RFP, and we want innovation, I want to hear from people even if it's the first time that they've sent something in the RFP stage that they've got an innovative way, and that's what I'm hearing is that it won't be closed.

CHAIRMAN BELL: Let's just be clear that if you don't respond to the RFP it does not prohibit you from responding to the -- RFQ, it does not prohibit you from responding to a subsequent RFP.

MS. SHEA: Correct.

CHAIRMAN BELL: Let's just be clear. Then that's it.

MR. HOFFMAN: Second point on feedback. So this is really a question. I don't know exactly how to think about this since I'm no expert in this area. And I heard you loud and clear, David and Courtney, about the benefit of calling it something that communicates seriousness. I'm sure we're on board with that. I'm certainly on board with that. That makes a lot of sense to me.

On the other hand, I also think that this could be a very valuable document and process to get feedback about, especially since, as you say, we'd like to do something that may be a bit challenging for folks to respond to or the intent is that it be ground breaking.

I'd like to get feedback whether people are thinking that I might be a financial investor that would respond, that would bid on this or not. As an example -- And I want your input on this. It seems to me that whether it's the construction industry or folks who have expertise in putting renovations in buildings -- Since a key component in this is going to be are the savings going to actually materialize as estimated. That's where, it seems to be where the real risk factor is. Some of the people who are experts in that are not financial investors. They're folks who are on the ground, who know the details of the equipment, have experience around the country and the world in whether these things, whether the savings pan out. I'd like to hear from them. I think it would be helpful to hear from them about whether in their experience such and such would result in savings materializing or not.

But they -- If this is limited to only folks who might be bidders, it's not a vehicle for them to provide information. Can't we make this document not only a traditional RFQ but also something that gets feedback from the widest possible sources? Because I frankly see no downside in getting that feedback. Any comments on that?

MS. SHEA: I have one.

MR. HOFFMAN: Let me ask Tom first and then I'll hear from everybody.

MR. MORSCH: I think there's always

value in whatever -- The more we can broadcast what is being done in terms of the RFQ and that we're open to feedback the better we are, and our experience is that we'll get quite a few responses. We may not get everybody, and we can't compel people to respond.

The other part of it is I think that you're also asking a due diligence question which is that we really don't do all the due diligence we should do, and I expect that the City is in the process of looking at all, some of those topics that you mentioned which is making sure they're talking to experts in the field of installation, experts in the field of equipment, experts in the field of measurement, verification of these savings. That's part of the due diligence process that the City as an owner would conduct, and it's also due diligence the potential investor will conduct on their own.

We can't expect all the due diligence to be encompassed in one document. Okay. Some of it is -- Some of it is at a level of detail that I would not expect to be in the response.

MS. FERGUSON: I would think, David,

just to chime in here, not to usurp your thunder, but I think some of it would be proprietary to the vendor of the equipment, right, and they would probably be, they would probably partner -- Any financial institution that is considering putting up its capital into this type of transaction would I assure you vet their diligence, the projections that are associated with the savings and that are associated with the type of construction or installation that is being contemplated, and that would be the diligence of the lender or the investor and so I think we -- I'm not positive that they would want that necessarily to be public or would they consider that proprietary as part of their own diligence process if we -- We're expecting the risk transfer. I would think we would want them to be the ones conducting the diligence and be comfortable with that. Does that make sense?

MR. HOFFMAN: It does. I want to make sure Courtney and David as well --

MS. SHEA: The only comment I was going to make is the ordinance was very, very specific right now that it is not designed by the finance which is where a number of those partners would come in, and I don't disagree that those people probably have a lot of relevant information, but we are, at least for this particular transaction, we are -- Statutorily ordinance-wise it's very clear what we're supposed to do. If they want to bring in those experts, they do it on their own dime or they have to make them their partners, but it's not like those firms are going to come in and say I might have an opportunity to do this because that kind of as I call it holistic approach is not available to a company that normally does that on this particular transaction.

MR. HOFFMAN: I'll just say then, and then we can move on, one of my reactions whenever we are given a document to review and approve will be that I just -- I still don't see the downside in asking, and what I hear is we may not get anything very meaningful for the reasons that have been laid out, but my response to that would be, well, we might. Unless there's a downside in making the request to the world to advise us as they see fit, why not because you never know what you're going to get when you ask for that kind of information, and

I just want to make sure that we are as educated as possible, and, therefore, I see no downside to asking.

We can play this out I think as we get the document, but I want to preview that that's one of the questions I'll be asking if it doesn't make that clear.

MS. SHEA: Okay.

MR. HOFFMAN: David, did you have any --

MR. WINTERS: No, only that Tom is correct. We have been speaking with experts in the field throughout this process and have been doing our due diligence, and some of that will become obvious when the Commissioners speak.

MS. SHEA: Obviously that's a sample time line. We understand that you'll want to review the document thoroughly. You'll want to understand the components of it, and only at the time that obviously you would be comfortable would a vote take place. Obviously we can use a sample at this point.

MR. HOFFMAN: Tom, while we have you up here, do you want to comment a little bit about the -- Stepping back, since we haven't heard -- I mean it seems to me that what we're doing is moving forward in, for the first time in a very concrete way on Retrofit Chicago as opposed to just hearing briefings from the City about what they've been doing. Now it's clear that we're about to go down this road.

I would say that having heard what I've heard both from you in some discussions we've had between meetings and from the City, I have a comfort level that this is the right thing because we're not committing ourselves to anything now except let's just start walking down this road and here's the topic.

One thing I think would be valuable for the Board to hear and for the public to hear is you as, you know, a non-City person, as our independent advisor and from your experience, to comment on some of the things you've heard from David and Courtney about these kind of retrofit projects. Is this the first time this is happening around the country, around the world or is there a long track record of public entities going out to get private financing to help with environmentally friendly retrofit projects and how should we be thinking about that?

MR. MORSCH: No. There is certainly a good track record to look at. There's lots of best practices.

I think where the City is really kind of cutting the new ground here that's really beneficial is being able to pool these various assets from departments and create the kind of scale and interest level at an investor and private sector stage where we're going to, and as I indicated a few moments ago, be able to look at the component where it's not a bundled up mass of not to say confusion but a bundled kind of proposal where you don't, where the various benefits to the private sector are somewhat hidden. I think this allows for more transparency to the transaction. It allows for more scale, and it allows for City agencies really I think to pool together their assets that should drive down the capital costs, should drive down the financing costs because if you can create the pool and the scale, it should make it better for each of them individually to be part of that pool than to be able to have to go through as David indicated each separate transaction to try and do and accomplish the same thing.

So there's some innovation. There's some things that I think we all hope to achieve out of the transaction and I think it's really -- It could be very exciting if that could be done.

I think the market for these type of transactions is beginning to mature to that point where early on energy saving projects just because they were new and innovative required, you know, sophisticated technical people to be engaged to them on a one-off basis.

We're now getting to a point where there's a greater track record. There's best practices. There's ways to drive economies of scale, and I think that's what the City's outlined its intentions are. So from that perspective it really does fit nicely I think into what the Trust goals are.

I think the other thing that's pretty attractive here is that you've got pay-back period on some of this investment that are very quick, so it's not something that you have to look at 50 years from now and think about, well, let's hope and figure out what the outcome is going to be. I think we're going to know many of these things. Some are two years, three years, four years, five years, the pay-back period. You put in new windows. You know what you're going to get. That's the whole idea of this. That's the part that's attractive, and I think we can build on that.

MR. HOFFMAN: That's helpful. I just want to say I take great comfort in not only hearing from the City but hearing from our independent advisors that this area of energy saving private financing projects have a track record, that what the City is talking about makes a lot of sense from your perspective, that it's going to depend on the details as we play them out but that as an initial matter it makes a lot of sense.

Is this an ESCO? How is this -- What are ESCOs? And how is what we're walking down the road from different from those in any way?

MR. MORSCH: Again, I will defer somewhat to David in kind of addressing this. We're -- The goal here is to move beyond what an ESCO was. An ESCO was what I've more described before in terms. It's a company that, you know, works -- They're separate transactions of financing and energy savings and guarantees. And I think we're trying to move off of that and create a new model here. I'll look to David here to kind of outline.

MR. HOFFMAN: Does that go to your point that if we're -- By stripping out an isolated financing piece of it there's some benefits to that, and that's different than the way ESCOs typically are set up?

MR. MORSCH: And typically they were simply transactions that frankly the government entity was guaranteed. Okay. What we're trying to do here is create a better risk sharing model so that the private sector actually begins to bear some risk for the transaction.

I think that that's something that Lois Scott has indicated is critical and the Mayor has indicated is critical -- is let's move some of the risk sharing here so that this transaction does not look like government is just taking all the risk again.

I think from a public -- From the

public standpoint, that's the part that we're trying to be innovative, most innovative by which is it's okay to return, to get a return on investment but it's not okay to get a return on investment without taking some risk. You know, I think that's where the City is really moving forward here.

And, you know, the devil's in the details, David, as you've indicated, and we're getting there. We're walking through documents and walking through this, and it will take some time, but we're going to be back to you with the details of this in a way that we think, you know, we'll all be together nodding our heads saying we believe we've accomplished this.

MR. HOFFMAN: Just so I understand, when you say a typical ESCO means that the government is guaranteeing, what I hear that to mean is that the government is guaranteeing to the investors that you will get either X savings or you will get X return regardless of what we have on our end regarding savings, and we're talking about changing that risk calculus?

MR. MORSCH: We are.

CHAIRMAN BELL: Just to comment, just to address the broader issue, is this the right place, the right state to be in. I think this parallels the trends we're seeing in private industry where the investment level for productivity improvements have grown dramatically because of its body function. You can reduce your costs. You can control it, and here even though we're not going out getting private investment we are competing for the small resources we have for investments, you know, be it product development or things of that nature.

And time and time again we're seeing these projects getting a higher return, and that's where the investment dollar is going, and so I think you're in the right space. I think it sort of validates that we're going the right way. It's just now how do we get it done in a way that makes sense for both the investors and the City.

MR. MORSCH: Right. Just very quick on the economics, David, to just illustrate this. Let's say we invest $10 and we return $2 in savings on our energy bill. The 20 percent we're talking about there, that's a 20 percent IRR. Okay.

That's substantial. Can you go -- Can any of us go find an investment at that level? So what we're trying to do is we're trying to trim that down. We're trying to make it a reasonable return on investment. We're trying to have government share what it should share for the risks that it bears and have the private industry share what it should share based on the risk that it bears, so just at a high level, and so that's what we're trying to achieve.

MR. HOFFMAN: In terms of the process of what will happen regarding the creation of the pool, was it contemplated, Tom, that PFM would be judging the qualifications and then make recommendations to the Board about who meets the qualifications and is in the pool, PFM with the City? What's your view, Tom, about what the process should be on that?

MR. MORSCH: With the City.

MR. HOFFMAN: So one outcome of this document would be that we would get a recommendation from you but here are the entities that meet the qualifications?

MR. MORSCH: Yeah.

MR. HOFFMAN: Some joint recommendations.

MS. SHEA: It's a collaborative effort.

MR. MORSCH: Yes.

MR. HOFFMAN: Thank you.

CHAIRMAN BELL: Anything else, David?

MR. HOFFMAN: There may be but I am -- And to me this is the core.

CHAIRMAN BELL: Absolutely.

MR. HOFFMAN: I think that while not to diminish, of course, the what are going to be more detailed operational presentations from the Departments which are also important, but to me in terms of at least my and I think our getting an understanding about what the process looks like, I think this makes a lot of sense.

So in the interest of time, why don't we move ahead and then if I have a question I can ask then.

CHAIRMAN BELL: Yeah. Listen, I think that any question you have as this thing proceeds, let's just ask it because we need to walk away from here comfortable where we're headed here.

MR. HOFFMAN: So since you -- With the

benefit of an additional 15 seconds, let me ask at least one more.

David, one of the things you mentioned -- I'm going to ask you about the single purpose entity you mentioned. If this is a discussion to be had later, that's fine because I don't think that there's any decision making that's going to need to happen on our side even next time before the RFQ gets issued. But you did mention it, so I want to both ask Tom about any comments and make sure I understood because I didn't really understand where you were going with this.

What I heard you say, and you were talking about the benefits of doing this in part through the Trust, was that a single purpose entity would be formed, I think I heard you say by the Trust?

MR. MORSCH: Um-hum.

MR. HOFFMAN: And that one of the benefits of that would be it would be transparent and simple because it would be one place where money was going in and going out. Can you say a little bit more about that to the extent there is more to be said? And then, Tom, if you do have any comment about that, I just want to know is that something that is so standard we should feel comfortable with it? Is it new but we should still feel comfortable with it in this way or as to be played out? Those are some of my questions.

MR. WINTERS: I really think it is as simple as I described it to you as you just related it. I don't have much to add to that description at this point.

CHAIRMAN BELL: Yeah, it's a common practice in airplane financing where you sell a bunch of airplanes. You form a separate entity. Those assets go into it. The investors invest. They have equity plays or whatever they want to do but that's it. It makes it very clean, that that's all that's on the table. You know, these assets either deliver the value that you said or the investors lose, but the people that have put it together, they're out of it unless, of course, you have to put some equity in and there's some sort of -- Usually you have to put some small piece in, but that's pretty commonplace.

MR. HOFFMAN: Would that be a single purpose entity, therefore, that would be basically formed by the Trust and, therefore, what, a subsidiary of the Trust?

CHAIRMAN BELL: It would be formed by the Trust. It would probably not be a subsidiary. It would be a legal entity.

MS. SHEA: It's none. The interesting part -- This was used commonly in tobacco, when the tobacco settlement came down since many of the states did tobacco financing. Some did a single purpose entity where their tobacco proceeds came in and paid off the plaintiffs.

In this case what's interesting about it and kind of unique is let's assume that this contemplated transaction did include the three departments, two departments and CPS that you'll hear from. Because the money would be coming from two City departments and a sister agency, it would be -- This would be the best way to do it because, otherwise, it would have to be two lock boxes or three lock boxes. This is a way that would simplify the process.

MR. HOFFMAN: Tom, any comments?

MR. MORSCH: No, I concur. I mean it's a very common vehicle for doing these type of transactions.

MR. HOFFMAN: So, therefore, it would be -- It would not be a City entity. It would be a private not-for-profit entity in the same way that we are?

CHAIRMAN BELL: Yes.

MR. HOFFMAN: Is that what would be contemplated?

CHAIRMAN BELL: Yes.

MR. HOFFMAN: Let me just turn to Henry and Scott at Kirkland. It may be premature to answer any questions about this since we're just talking about it at a very, very high level. But any comments from you guys in your experience about how we should be thinking about this?

MR. FALK: This is Scott Falk.

I agree with all the speakers that a separate limited liability company be called a special purpose entity, but it would be liability remote so that any losses in the entity wouldn't be, wouldn't create exposure for any other investment that's being funded through any investment pool. But as for whether we have one per transaction, one per tranche, per transaction, it's to be determined based on investor demand and complexity of the project.

MR. HOFFMAN: Okay. Thank you.

CHAIRMAN BELL: David, I should tell you it's easier to describe this than it is to do. I mean because there's precedence as in airplane financing. This is uncharted territory, but this is the right way to go if we can make it happen. Put it that way. I think this is the way you best protect the City and you best protect on a project-by-project basis.

MR. FALK: And they are very common.

CHAIRMAN BELL: They are common in other areas.

MR. HOFFMAN: Okay. Thank you.

CHAIRMAN BELL: Okay. Let's proceed with the presentations.

Good morning.

COMMISSIONER REYNOLDS: Good morning. My name is David Reynolds. I'm the Commissioner for the City's Department of Fleet and Facility Management.

It's a pleasure to be before you today and talk about some very exciting projects we're thinking about.

If I get too animated, it's because I love energy efficiency, and so just talk me down.

A little bit about my background. I'm an engineer by training. I spent five years working in the corporate world doing construction management for a major pharmaceutical company. I've worked for three different engineering consultants, one architecture firm. Spent eight years at the City of Chicago in the Department of Environment. Worked for a non-profit called the Illinois Facilities Fund that does development for other non-profits and back to the City since May, so I've had experiences in the private sector both corporate, consultant, non-profit and then back to the City.

MR. HOFFMAN: What were you doing for the Department of Environment?

COMMISSIONER REYNOLDS: At the Department of Environment -- I was there eight years, and I did a little bit of everything. When I left, I was the First Deputy Commissioner.

MR. HOFFMAN: Welcome back to the City.

COMMISSIONER REYNOLDS: Thank you. It's

good to be back.

A little bit of history about Fleet and Facility Management. If you were around the City in the past, it may be a new name to you. The reason is that we're a merger of two different departments -- the Department of Fleet Management and the Department of General Services.

One of the things that Mayor Emanuel asked us to do when he took office was to look for opportunities to improve services at a better price for the citizens by consolidation. We were one of the departments formed by consolidation.

We are responsible for 425 facilities, so the ones that we are responsible for include libraries, police stations, fire stations, not schools, not the airports, not CHA, not parks. Really the core public service buildings.

We're also responsible for all the equipment that is either owned or leased by the City of Chicago ranging from garbage trucks to street sweepers to police vehicles to fire engines.

In addition to our responsibility for the care and management of these facilities and equipment, we also buy utilities for all City operations. Our annual utility budget is about $100,000,000. We buy utilities for all of our City operations including those used by Water Management and by the Department of Aviation.

We have about 1,000 employees, and our annual budget is about 330,000,000.

A little bit about our goals and objectives for Retrofit Chicago. The first one coming out of the box is we're going to reduce energy consumption and look for ways of modernizing our facilities in an economically feasible manner.

A lot of the funding that has traditionally been available for energy efficiency whether it's grants, other types of fundings, it often is available for the quick hit project, things like lighting retrofits which tend to be a quick payback. What excites me and my staff about this particular opportunity is that it will allow us to invest in some of our infrastructure that isn't necessarily well suited for those quick hit sources of financing. Examples are things like boilers that have a much longer life. They also -- Their incremental improvement over older boilers, it's good but not necessarily enough for a quick payback, so through Retrofit Chicago we believe that we're going to be able to have a nice balance of some remaining quick payback projects as well as deeper projects like boiler retrofits.

We want to improve the comfort level and functionality of our buildings. All of our facilities are either used by City employees or used by the public. We want to make sure that whether it's our employees or the public they're in a facility that's the right temperature, that it's good to be there, so that's important to us as well.

We're looking for long-term savings but also long-term savings that could be measured and verified. We want to make sure that this is a really good investment for us, for the City, for the Trust, so that the savings aren't something that we do on the back of a napkin and then worry about it later; that we actually want some rigor to how we determine those savings as well as how we measure and verify them in the future.

We see this as a potential for job creation. We will incorporate MBE and WBE requirements, and it is supportive of Mayor

Emanuel's Sustainable Chicago 2015 plan which noted that -- A goal of improving energy efficiency in municipal buildings by ten percent by 2015.

So our process. We started this late in 2011. McKen (phonetic) has been providing pro bono services, so Fleet and Facility Management are two of them and the Mayor's Office. We did what we were calling a sizing exercise where the question was if you were to have a private source of funds to invest in energy efficiency how big would that project be. We looked at a variety of sources. We had a number, actually over 100 audits, that had been completed for our facilities by Commonwealth Edison's engineers, so for our larger facilities we had recent audits that indicated project size as well as potential savings.

We also looked at our other buildings that hadn't been audited, and based on their age, their building type, their use, we estimate very conservative potential projects and energy savings from those facilities.

That's where we got to a $40,000,000 target, so it's a combination of audits that have been done in the past, some projections based on what we expect we can achieve in other buildings. Again, this was a target.

As far as managing the project, we have retained the Public Building Commission. I'm sure many of you are familiar with them. They're a stand-alone unit of government and they -- Their purpose is to provide planning design, construction and management of publicly funded projects.

They work for the City. They work for the County. They work for various sister agencies. They're really a design construction program management arm of the various City governments, municipal governments in the region.

The Public Building Commission assisted us with a very rigorous procurement process to select ESCOs, the energy service companies that we talked about earlier. Through that process working with the PBC we identified three different ESCOs to proceed with the audits and assessments of our facilities. They're Ameresco, Noresco and Schneider Electric. These are big companies. Many of them have national presence. This is what they do as you can tell by

-- Especially the first of their names. It's Ameresco and Noresco.

MR. HOFFMAN: David, did you or PBC issue an RFP for that? Was that the competitive process?

COMMISSIONER REYNOLDS: Yes. It was actually a request for qualifications because we have to do the audits to know what the project is going to look like, and so it was a request for qualifications to identify firms that were capable of handling this volume and had a good demonstrated track record of actually delivering on energy savings.

MR. HOFFMAN: Have contracts been entered into with each of those three companies?

COMMISSIONER REYNOLDS: Yes, for the investment grade audit set which is the first step. Once financing is in place we'll move to the design and implementation step.

MR. HOFFMAN: Could you e-mail me and any of the Board members that want the RFP?

COMMISSIONER REYNOLDS: Yes.

MR. HOFFMAN: Maybe through Scott or otherwise. I'd be interested in reading it.

COMMISSIONER REYNOLDS: Sure.

MR. HOFFMAN: Thank you.

Continue.

COMMISSIONER REYNOLDS: With the three ESCOs, they certify evaluating 232 facilities, so we provided them preliminary, a bunch of information actually on design of those facilities, operating histories, utility bills.

Using their expertise they narrowed that down to a list of about 104 buildings that the ESCOs thought were prime candidates for investment grade audits. Investment grade audits are very familiar to the folks who finance projects like this, but it is an engineering way of assessing opportunities, calculating savings, demonstrating how those savings can be measured over time that can be used for making financial decisions, so it's a very rigorous type of audit.

Some of our baseline requirements for the program. We wanted the budget to be all-inclusive. We don't anticipate any other capital being used to support the project, so the $40,000,000 as a target needs to include design, construction, financing costs. It needs to include the management costs from the Public Building Commission. It all needs to be in there.

As we've determined or as we work on the payback and savings calculation, all of those assumptions or baseline requirements are built into those calculations.

For now we're focusing only on energy cost reductions for our savings. Part of that is that the way they operate our buildings, we have engineers and tradesmen who all work in multiple buildings, and so it's not necessarily going to result in a reduction of personnel. It will we believe obviously result in a great reduction in energy.

There are rebates and incentives that are available either through the Department of Commerce and Economic Opportunity or other private foundations. The way that we're currently approaching those incentives is that they are bonuses, meaning if you get them, we can use them to help pay down the finance.

What we're not going to do is to take a $40,000,000 project and give $4,000,000 in incentives, make it a $44,000,000 project. We're going to go the other direction.

We're requiring annual cash flows. The funding that we're going to commit to pay back this financing is the funding that is in our budget now to pay for utilities, and so it's important to us to have positive cash flows across the life of the projects.

And then as has been discussed before, verifying and guaranteeing savings is very important. I'm going to touch on this idea of three years. A lot of the traditional ESCO projects, the ESCOs will guarantee performance for the life of the payback period, and so if it's a 15-year payback, for example, the ESCO will sign on the dotted line. If the energy efficiency improvements don't deliver those savings across the 15-year period, they will write a check to make up the difference, so it's in their best interest to make sure the savings are delivered. That costs money to get a guarantee like that.

Our approach is to go for a three-year guarantee from the ESCOs rather than guarantee for the entire life. The reason is that if these energy efficiency improvements aren't performing after three years there's issues, and we're going to be talking to the ESCOs about how they make good on the warranty claims.

We feel like three years is a good period of time for the bugs to be worked out, to be in really standard operation and not necessarily need to continue paying for a guarantee from the ESCO.

However, a couple points that we're going to use to bolster this, make sure that we're making a good decision here -- it's really the second and third points on the slide -- is that we're going to have measurement verification plans in place. The ESCOs will provide those as part of their investment during audits. We're going to have a third party evaluate those to make sure that they're appropriate and consistent for the types of recommendations that are going to be implemented.

We're also going to implement a computerized maintenance management system as part of this. We already have a work order system that we use to manage our buildings. However, we're looking for this project to help upgrade it. The idea being that before the ESCOs leave they will have put together for us a maintenance system that tells us exactly here are the steps that need to be implemented to maintain this equipment over time. So we have schedules for replacing filters. We have schedules for replacing belts, everything that we would need as a maintenance and operation department to make sure that we know exactly what we should be doing over time to maintain those facilities so that they really continue to optimize that energy savings.

ALDERMAN POPE: Can I ask you a question? Talking about budget and measuring savings. I think Diana suggested earlier that monies be set aside in the annual budget to pay for those or the cost savings -- Will money be set aside in the budget annually to pay down the debt on these? Any ideas based on what you've already done to date? If you are realizing savings of 20 percent in the year 2014 on the project and you've got a debt of a million dollars, is that going to be allocated specifically in your budget for project X to pay down that debt?

COMMISSIONER REYNOLDS: Yes. Our budget, our annual budget will continue to show --

I mentioned before we're going to -- The money that we're currently budgeting to pay for utilities is now going to be -- Part of that will be set aside to pay back this debt, so for the life of the financing, the life of the payback period, we'll continue to have a -- Well, we will have a line item in our budget that is to repay this financing.

That's a very important point for a couple of reasons. As you mentioned, making sure that we have a commitment to pay it back. The second one is that that means that we're not going to -- As a city, we won't see the savings hit our bottom line until the financing is paid off, so it's in our best interest to pay off the financing as soon as possible so then the savings that we had set aside from the energy efficiency improvements, that actually becomes bottom line savings for the City.

MR. HOFFMAN: Unless, as we discussed earlier, the revenue sharing concept is applied here so that if, for instance, if a deal is struck so that the City is sharing the savings with the investor, then actually you would be seeing some of the bottom line savings earlier.

COMMISSIONER REYNOLDS: Right. Depends on how the financing is structured.

MR. HOFFMAN: One follow-up question on John and Diana's point about budget. For the 2013 budget for your department, are there any assumptions made about the possibility of there being this kind of private financing? Is that part of your budget -- Is that part of your budget that has been passed?

COMMISSIONER REYNOLDS: Our budget that was passed -- The quick answer is no, not yet because the implementation for this will happen later in 2013 and early 2014, so the savings, we're really not going to start racking those up until after the first of the year.

MR. HOFFMAN: Let me ask it a different way. Let's say that to everyone's disappointment no deal is struck. Does that have any tangible effect on your budget for 2013?

COMMISSIONER REYNOLDS: For 2013, no, because we have set up our budget for utilities as if these changes won't be made. The long-term effect it would have on us is that many of these changes won't be made.

MR. HOFFMAN: Sure. I mean you're doing budget planning for 2014 and afterwards.

COMMISSIONER REYNOLDS: Correct.

MR. HOFFMAN: But no one in the City including the City Council -- Of course, there has been no action taken as to what the 2014 budget will be?

COMMISSIONER REYNOLDS: Correct. Yes.

MR. HOFFMAN: It's just a planning exercise?

COMMISSIONER REYNOLDS: Yes.

CHAIRMAN BELL: Well, it's got to be a little more than that. I mean ultimately you'd have to pay the difference of your actual cost and the budget you put in place to this entity that holds the debt.

COMMISSIONER REYNOLDS: Correct, but that --

MR. HOFFMAN: If there's financing.

CHAIRMAN BELL: Yeah, if there's financing. You have a deal. I mean they still would have to keep a certain level in the budget that's higher than their actual experience because they're going to have to pay the difference between that and that budget into the entity to service the debt.

MR. HOFFMAN: Yeah. I guess I was asking for 2013. You do not have that line item; right?

COMMISSIONER REYNOLDS: For 2013 --

MR. HOFFMAN: You do not have that financing item?

COMMISSIONER REYNOLDS: Correct, we don't because, again, by the time the financing is in place, the implementation, it's a little bit down the road.

MR. HOFFMAN: And the flip side, if a deal was entered in too quickly?

COMMISSIONER REYNOLDS: Yes.

MR. HOFFMAN: And you would be basically looking at the line item related to utility payments to sort of figure out is that going to be decreased if for some -- Although this is unlikely you're going to see savings in 2013?

COMMISSIONER REYNOLDS: Correct. If we came out of the box and did all of our projects in a month and we had savings right away, then the portion of our utility budget that we currently have set aside to pay for natural gas and electricity would pay for the financing.

MR. HOFFMAN: I have a question on this bullet point, the bottom one.

COMMISSIONER REYNOLDS: Yes.

MR. HOFFMAN: So it seems -- Obviously one of the things that's going to be very important for us to discuss, get a handle on and try to manage on is risk. Although, you know, this will be flushed out in the coming months about how we should be analyzing and thinking about risk. Clearly one of the top line issues is going to be the risk that the savings will materialize. This bullet point is in part about that.

COMMISSIONER REYNOLDS: Yes.

MR. HOFFMAN: You were talking about ESCOs guaranteeing the savings, and you talked about the length of years and so on.

COMMISSIONER REYNOLDS: Yes.

MR. HOFFMAN: This is very preliminary, so I don't want to lock you into anything but just in the interest of trying to understand this. Even if the ESCOs are guaranteed for three years, they're only guaranteed for three years, does that mean that there's risk after the three years to the City and to the Trust if the savings are less than anticipated after that?

COMMISSIONER REYNOLDS: At the three year -- We -- Our feeling, our understanding is that -- Let me back up just a little bit.

When one of these conservation measures is implemented, there will be first a warranty period. During that warranty period is when we will work with the Public Building Commission and the ESCOs to make sure the equipment is performing as it was designed. After that we get into the guarantee period, so we've already determined that it's been sized properly, installed properly, set up properly. It's operating properly.

During those first three years of its operation, any bugs that are left will be worked out because the ESCOs will have to be writing checks every year if we don't achieve our savings for those first three years, so it's in their best interest to help us make sure the equipment is all operating perfectly and as designed during those three years.

At that point in time is when we will move into managing. The guarantee goes away. We will have been managing the equipment already, but we no longer have the backstop of the guarantee.

Now, to directly answer your question, this is greater risk than a traditional ESCO deal because the traditional ESCO, the guarantee would be for the entire pay-back period. That costs money -- a couple percentage points, and so our feeling in getting this is -- Everything will be --

CHAIRMAN BELL: David, I think we can be clear in answering David's question. The answer is no. There will be no risk -- If we're going to get this financing, the risk is going to go into this private entity. The issue is -- what you're buying is pricing -- is what is it going to cost us to get the investor to accept this risk if we only have a three-year guarantee.

But to answer your question, if we structure a deal, the City is not going to incur -- have any risk. There will be no go back to the City, no go back to the Trust. It's going to all reside in that entity, but it is going to have an impact on pricing because if they, if the investor perceives that the risk is higher because they only got a guarantee for three years, they're going to want a greater return.

MR. HOFFMAN: Doesn't it depend on how it's structured because the payments that flow, the money that flows into the single purpose entity are going to flow to the investors. That money is going to come from the City pursuant to these savings; right?

CHAIRMAN BELL: Exactly. If we don't make them, then the investor eats it.

MR. HOFFMAN: If the deal is structured?

CHAIRMAN BELL: That's the only way we're going to structure it. That's the only --

MR. HOFFMAN: And this is -- This may be just my moving along and understanding.

CHAIRMAN BELL: It's good because we need to air this out.

MR. HOFFMAN: Let me ask what I think you mean by that. So that means that if -- Under that scenario the deal would provide that if -- The City would put X amount of money into the single purpose entity that come from savings, but if the energy savings are half of that, then the City is only putting half of that, and the investor knows that upfront and, therefore, will bear that risk. That's the way that deal will be structured?

CHAIRMAN BELL: Exactly.

MR. HOFFMAN: We'll, of course, see how, we'll see what we get back from folks but that --

CHAIRMAN BELL: That's the way it works. That's the model.

MR. HOFFMAN: All right. And is that your -- I mean you're not the finance guy. You're the building and energy efficiency environmental person but does that -- Do you see any -- Does that create any questions or concerns for you or do you agree with James?

COMMISSIONER REYNOLDS: I agree with James.

CHAIRMAN BELL: The question is going to be the market is going to question it.

MR. HOFFMAN: Right.

CHAIRMAN BELL: The market --

MR. HOFFMAN: We don't have them in front of us now. We have the City.

Now let me focus on the first three years. So warranties, we all deal with warranties in our lives and so on. It sounds very clear upfront, but then sometimes the company that provides the warranty says, well, you're at fault.

And I noticed you mentioned the PBC, the City entity, is going to be in charge of construction and design of the building. And I -- One of the things I want to be worrying about is worst case scenarios. That's one of our jobs. In that scenario, when we hear someone say guarantee, three-year warranty, no problem, do we need to worry that the company who is providing the warranty or the guarantee would say it's not our fault? The equipment we bought worked pretty well but a City person, someone from the PBC installed it incorrectly or designed it incorrectly, so the warranty does not apply and, therefore, even in that three-year period there is risk. Is that correct or am I thinking about it the wrong way?

COMMISSIONER REYNOLDS: That's not exactly correct. The reason is that as the ESCO has taken full responsibility from audit through installation and start-up, so if it was designed incorrectly, the ESCO designed it incorrectly, and it's their responsibility. If it was installed incorrectly, the ESCO installed it incorrectly, and it's their responsibility.

So during that whole interim from audit through the end of the guarantee, the ESCO pretty much has full responsibility for the design, construction, operation of that. The exception being that our City personnel will still manage the buildings, and so routine changing filters, things like that, we'll continue to do. That's also something that we're interested in seeing how the market reacts to that because their -- Another service ESCOs provide is that they can provide those services through the term of the guarantee.

MR. HOFFMAN: Last question. When you look around the country or the world, do you say that's the place we want to model after because they've done it just like this or do you feel like we're so new on what you're doing on this that there's really no good model?

COMMISSIONER REYNOLDS: ESCOs are not a new idea. They've been around for a while. They got a bad wrap probably in the '80s and '90s as a little bit of snake oil but I think that has really -- The industry has really straightened up, and it's a very respectable industry.

What other cities aren't doing is bringing the private financing to this. So ESCOs, it's been done. People do it all the time. The idea of bringing the financing as opposed to self-financing or asking the ESCO to finance it is what's new.

MR. HOFFMAN: Thank you.

COMMISSIONER REYNOLDS: Our findings so far in the work that's been done because we've already started the site visits, the audits, the announcements, the data, the types of energy conservation measure that we will most likely see in our facilities include building automation systems, so these are the types of systems that turn the boiler on and off. They manage temperature in a room, everything that makes the system operate as automatically and smoothly as possible.

We're going to see some lighting replicas. We've done a lot of lighting replicas. However, there's still opportunity for improvement and also for adding controls, whether they're dimmers, motion sensors, timers to make sure if there's no one in the room the lights aren't on.

We're going to see some repair and replacement to our heating and ventilation systems, this could be fans and boilers, chillers, as well as improvements to the building envelope, things like tightening up windows, perhaps working on the roof, doing things to make the exterior shell of the building more energy efficient.

So at a high level this is our preliminary findings. The ESCOs have been working for a few months. They've done quite a number of site visits. These numbers are continuing to refine over time.

One thing I want to start by explaining is how we distributed the facilities among the different ESCOs because you'll see there's the police service, public safety headquarters and similar restrictions.

We started by giving each of the three ESCOs a core building type, so one of them got police, one got fire, one got wireless. Those, a lot of those facilities had been built around the same time. They're operated similarly, so it made sense for us for one ESCO to get really good at police stations, one to get really good at wireless, so that -- In our facility types that's the first group.

The second group are more one-off facilities, not specifically one-off, the more unique facilities like a maintenance garage. We've got 14 maintenance garages. None of them are really the same.

The third facility -- Each category is a show case building or another way of looking at it is that is a very large building where there can be lots of impact. Those are public safety headquarters, City Hall and the Cultural Center.

Each of the three ESCOs got a group of facilities assigned to them. The first part of that group is some core of similar type buildings followed by some additional buildings that we know we need to do followed by the large buildings.

Based on the work the ESCOs have done so far we believe about 104 of the facilities will result in investment grade audits which means that the ESCO has identified and we've agreed that there's significant opportunity there that's worth doing the investment grade audit and including it in its portfolio.

You'll see a list of the different types of projects that we intend to do in the buildings, we anticipated doing, the cost of those projects, our annual savings based on year one projections and then finally a simple pay-back period.

Again, this is preliminary. We're not done yet, but it's shaping up to be -- Rather than a $40,000,000 target, it's more like a $37,000,000 target with a pay-back period of about 11 years, so estimated savings of 3.3 million a year.

MR. HOFFMAN: Can you say something briefly on the last column and explain how you calculated this simple pay-back period?

COMMISSIONER REYNOLDS: Sure.

The ESCOs as part of their work so far have used their experience to estimate the costs of the projects, and so it's the designs, the buying materials, doing the implementation. That's the all-inclusive costs. So the third column --

Actually, the fourth column is that cost.

The second thing is from their experience they have estimated what those savings would be from the retrofits. For lighting it's straightforward. You take a big bulb and put a smaller bulb in it. Do the math, and you come up with estimated savings. For things like boilers it might be more complicated.

The third column is putting the total cost in the numerator, so 19.7 million, the same thing in the denominator -- 1.6 in the bottom and divide it. So it's saying we have a 19.7 million dollar project. We're saving 1.6 million a year. It will take 12.2 years of savings to pay back the cost of the project.

MR. HOFFMAN: Thank you.

COMMISSIONER REYNOLDS: Next steps for us -- The investment grade audits will be complete. I'm sorry. The facility list -- 104 facilities will be confirmed. That still is in limbo a little bit, and we will have approved all the energy conservation measures, so we'll have said building by building this is the type of improvement we want you to do in each building based on your recommendations.

By the middle of January we're going to be complete with all the facility inspections and the contractor walk-throughs. The contractor walk-throughs, what happens in that step is that the ESCOs bring in the companies that will actually do the work and get hard bids for the work, so the numbers become more and more and more secured, more precise.

At the end of February we're going to have the investment grade audits done. Depending on financing, in mid 2013 we anticipate moving into design and implementation and then sometime in 2014 be substantially complete with all these improvements.

Any additional questions?

ALDERMAN POPE: Dave, I have a couple.

The assets that were not chosen that were eliminated from this list, can you provide to us when appropriate what the reasons were that they were not included --

COMMISSIONER REYNOLDS: Yes.

ALDERMAN POPE: -- strictly a cost savings perspective or some other issues?

COMMISSIONER REYNOLDS: We will provide that. That's actually one of the things that we have tasked the ESCO to do which is to tell us why you thought this building wasn't worthy of putting in the program.

ALDERMAN POPE: My concern with that, and I've expressed that before, especially as it comes to Chicago Public Schools, are certain facilities -- I'm wearing my aldermanic hat here -- going to be eliminated because they don't produce the kind of cost savings that would be desirable or the return that would make the projects work? So I'm interested in that.

Secondly, not necessarily a traditional asset but the City's streetlight system, ongoing concerns. All of us have seen streetlights out. It affects each and every one of us regardless of where we live, work or play. Any particular reasons why that was not chosen as part of this first round? Is it just too complicated at this point? Are these more sure-fire assets to analyze?

COMMISSIONER REYNOLDS: Yes. Using ESCOs in a manner such as this is a more tried and true approach. Just from sitting in meetings as we talked about Retrofit Chicago, I understand that lighting could be on the horizon. There's just a lot more work and understanding to do before it's ready to bring forth this project.

ALDERMAN POPE: Thank you.

MR. HOFFMAN: Thank you very much for your presentation. That was really good.

CHAIRMAN BELL: Thank you.

I need to make one comment here. We're at two hours. We have to be done by 12:45 principally because Diana and I have to participate in the process for potential candidates for our CEO job. And the only other thing we have to get involved, get it done other than I think get through these presentations, we have to get to the public comment section, so we need to manage our time accordingly with that in mind. I don't want to cut off questions but --

MR. HOFFMAN: Very reasonable, Mr. Chairman.

CHAIRMAN BELL: All right. Good.

MS. TAYLOR: Good morning. Unfortunately I don't have much of a voice today.

CHAIRMAN BELL: Good afternoon now.

MS. TAYLOR: I am Pat Taylor, and I am the Chief Operating Officer for the Chicago Public Schools, and we are very greatful to have the opportunity to stand before the Commission today and tell you about our projects.

The first slide is really presenting our overall goals and objectives of the initiatives. We have three initiatives -- one being lighting retrofits, the second energy dashboards, and the third being retro commissioning.

The main goals are obviously saving district dollars, increasing condition of classroom lighting, creating local jobs.

The next slide speaks more specifically to the scope of the work, and that is basically removing old, inefficient lamps and replacing them with high efficiency lamps, adding in occupancy sensors, changing exit signs over to LED exit signs, and all cracked and broken lenses are being replaced.

This slide shows the total cost in savings projections by school type based on bids received by contractors. The total cost of the project is estimated at 19,000,000. However, 5 -- Do I have the right --

MS. FERGUSON: Yeah. This is 14.

MS. TAYLOR: Well, it's 19,000,000. However, 5,000,000 of that is coming from IDCEO overhead which then reduces the cost to 14,000,000. I can also mention that there is a potential for an additional 3,000,000 in grants, so then that would take it down again.

The energy savings is estimated by taking the actual load reduction from the old system versus the new system multiplying it by the number of hours of operation.

Our project team is a team that's already employed by our offices. It's the program manager who helps us put the program together, the design manager who puts the drawings together and then our project directors and construction managers helping us to manage the 242 schools that are currently getting the lighting retrofits.

We started the project in June, and we will have the entire project completed by February 28th, 2013.

MR. HOFFMAN: Let me just ask you -- In that regard, it sounds different from what we heard from the department with the new name.

MS. TAYLOR: 2FM.

MR. HOFFMAN: 2FM. Because you, as you say, you're in the middle of it and you're about to be done. What, if anything -- With regard to the lighting project, what, if anything, is contemplated that relates to us and potential private financing?

MS. TAYLOR: We would hope to be reimbursed for the investment based on the savings that would come back to support that.

MR. HOFFMAN: And the process that David was describing regarding either ESCOs or some process to explain how energy savings can be either guaranteed or maintained or verified, with regard to this project that's close to being done, is there something in place from CPS that's similar to that or how should we think about that?

MS. TAYLOR: I'm going to let Brian talk to you about that. This is Brian Martin. He's my energy manager.

MR. HOFFMAN: If you were going to get

to that later, I didn't mean to interrupt your flow. You can do it now or later, whatever is convenient for you.

MR. MARTIN: Brian Martin, Energy Manager of Chicago Public Schools.

So as of June of this past year we've started on the design and moving into construction. We'll be finalized in February of 2013.

As you were talking to the measurement verification for lighting, on a very high level, you're looking at moving a very inefficient lamp and replacing it with a very high efficient lamp at a much lower wattage, but our measurement verifications are all being tied to the Illinois Technical Reference Manual which is a standard manual created by the Illinois Association, Energy Association that was funded by DCO. It's basically transparent, consistent manual that identifies measurement verification procedures that can be done for various projects including lighting retrofits, so we have been utilizing that manual for the measurement and verification of our lighting projects.

Specifically we're looking at existing system wattage versus new system wattage, identifying what that load reduction is, multiplying it by the number of hours for a particular facility.

On the occupancy sensor side we're looking at a percentage reduction in hours based off of that technical reference manual. We're also taking an additional step further where we're doing data logging within a sample set of schools so we can identify if that percentage identified in the Illinois Technical Reference Manual is consistent with what we're seeing in schools with regards to reduction in hours from the occupancy sensors.

MR. HOFFMAN: Tell me your last name again.

MR. MARTIN: Martin, M-A-R-T-I-N.

MR. HOFFMAN: You said energy -- Tell me your title.

MR. MARTIN: Energy manager.

MR. HOFFMAN: Thank you.

MS. FERGUSON: Can I just get clarification on one of those?

Pat, you said that CPS would seek to

be reimbursed for the capital expenditure related to this phase one, and maybe it's a question for our advisor or something, but is there appetite from the investment community to fund previously conducted projects or completed projects? We can table that for later perhaps but I'm just -- I'm confused.

MS. TAYLOR: I have to defer to the City because we have been in ongoing conversations with them. We are moving forward with this.

MS. FERGUSON: We can table the question for now. In the interest of time, for our advisors maybe earmark that to come back to.

MR. HOFFMAN: It seems different.

MS. FERGUSON: Yeah, it is a little different than the previous presentation. That's why I want to -- But --

CHAIRMAN BELL: Okay.

MS. TAYLOR: This slide is the cash flow analysis which you'll see to the right of the slide it is an example of the cash flow analysis that we'll do for every school. It, again, just speaks to the initial investment -- 19 minus the 5. And then the costs were identified through actual bids received by contractors for the sites.

We did have to estimate costs for approximately 22 of those sites due to the time we were putting this together. The bids had not been finalized. Cost does include design, materials and installation.

Savings and verification process. Brian has spoken mostly to this already. Savings are being generated by changing out the old, inefficient lighting systems with low wattage, higher efficiency lighting system.

Occupancy sensors will decrease the run hours of the system by shutting off lights when spaces are not in use, and the Illinois State Wide Technical Reference Manual was used to help drive estimates for the occupancy sensor savings. The Manual was developed in June of 2012 to provide a transparent and consistent basis for calculating energy savings, so in order to verify the actual dollar savings CPS will monitor each site's weather normalized energy consumption and costs and compare it to previous years weather normalized consumption and costs.

ALDERMAN POPE: Just a technical

questions. 2FM indicated they had two years worth of data. Is CPS also looking at a similar time period to see what the true cost savings might be? Is that the standard in the market?

MR. MARTIN: Yeah, we're looking at -- We're working on developing a baseline. We're always looking at three years worth of data.

ALDERMAN POPE: Three years. Thank you.

MS. TAYLOR: The next project is our -- The last slide on this is we're filling in the construction mode right now, and we'll be complete with the lighting retrofits by February 28th.

The next project is the energy dashboards. This is a real-time energy monitoring tool that will allow CPS to obtain daily energy consumption and demand at each site. This will be a web-based system that will be accessible to all staff and students. It will display current usage compared to a baseline usage so that schools can identify how their consumption compares this year versus last year, and the picture, again, displayed is just a sample shot of what a dashboard would look like when in place.

Part of the thing that's changed for

us this year is the engineers report to my group. We have more facility people on the street, and this gives us better control of putting out staffing plans to manage energy.

CHAIRMAN BELL: I'm sorry. I had to step out for a moment. But you're not using ESCOs to go do this audit for you?

MS. TAYLOR: No.

CHAIRMAN BELL: Okay. Just want to be sure.

MS. TAYLOR: So the cost estimate at this time is a high level estimate based on the costs from the standard pricing schedule from some dashboard vendors. This is still a very high level cost estimate, and better cost assumptions will be available once the proposals are received from our RFP.

And we are currently also pursuing any grants and/or support from Com Ed and other partners on this effort to help reduce the overall cost and increase the payback.

Facility managers and engineers as I mentioned will be held accountable for monitoring and ensuring that their buildings are being scheduled accordingly and any variances in consumption are addressed immediately and corrected.

Centrally CPS will monitor and measure each site's weather normalized energy consumption and cost versus the previous year's weather normalized cost -- energy consumption and costs, so by using weather normalized energy data we effectively remove weather related consumption each year.

Project status is the scope is being finalized for the RFP, and it's scheduled to hit the streets January 2013. We will have a preliminary scope completed by this Friday, and once we have the scope finalized we need to go through our internal review prior to the RFP actually going out.

The third project is our retro commissioning. It's basically a tune-up of a building where a contractor is brought in to audit current conditions and provide certain measures that will bring the building system operation back into its original design intent.

Retro commissioning will concentrate

on identifying energy conservation measures that will provide a payback of up to five years by targeting in on low costs and operational efficiency measures including repair or replacing motors, pumps, building controls and schedules. This method requires contracting with a retro commissioning agent who will assist us, CPS, through the phases of the process including planning, investigation, implementation and then a measurement verification.

MR. HOFFMAN: I'm confused. This looks like a description of a process. This looks like a description of a process. It seems like a good process.

MS. TAYLOR: Yes.

MR. HOFFMAN: So my question is: If -- In the subject of what you would be seeking private financing of that would go to the Trust, would that be private financing that relates to the development of this process or --

MS. TAYLOR: It would be for the actual retro commissioning. This is a part of the three phases that we're doing. This is the last phase. We're not as far ahead as two -- We haven't identified the schools yet. We've been looking at 50 to 100 most inefficient buildings, but there's still some work to be done at CPS before we would bring this to the Commission for funding.

MR. HOFFMAN: Okay. Thank you.

MS. TAYLOR: So all costs are estimated by CPS top 50 most inefficient facilities using approximately a dollar per square foot in cost, so that $1 to $1.50 derived from sample retro commission projects completed through the IDCEO Retro Commissioning Program.

This is still a very high level assumption. Sites have not been finalized, and we would need the assistance of the retro commissioning agent to make those final decisions, and then savings would be estimated using an estimated 15 percent in savings which is based on and derived from other, again, retro commissioning projects through the IDCEO's retro commissioning program.

We are currently working on developing the process which you've seen and the plan for the retro commissioning program with our program management internally and with Com Ed.

This project would certainly be a second phase to the first two.

MR. HOFFMAN: I have the same question that I asked David, David Reynolds about budget. I'm embarrassed that I don't know this, but is CPS on a calendar year? Is it a fiscal year or calendar year?

MS. TAYLOR: No. Our budget goes from July 1st through June 30, so we're in, currently in our FY '13 calendar budget.

MR. HOFFMAN: So in that FY '13 capital budget are there any assumptions made that there will be a private financing deal to the Trust, savings, either financing as a result of that or savings on projects that are going through the Trust?

MS. TAYLOR: Our budget currently shows support for all three of these projects as well as savings. You would have to -- In case the Commission didn't come back and help to support with funding, we don't move a project forward unless we actually have the funding in place, so we've included in our budget obviously based on how those, how these projects roll out and how quickly we would be able to find out would depend on how quickly we'd have to bond to support those funds, and hopefully then we wouldn't have to go through that process. We'd recognize a partnership with the outside funders, and then the savings would go to outside --

MR. HOFFMAN: Let me make sure I understand. In the FY '13 budget there is -- It is included in there that there would be financing provided for some of these projects --

MS. TAYLOR: No.

MR. HOFFMAN: -- that's through the Trust or just in general?

MS. TAYLOR: We have already put in funding to support the three budget -- The projects in our budget, so they're actually listed in my capital budget right now to seek to be reimbursed.

MR. HOFFMAN: And is the -- In terms of the timing of the FY '13 budget, the year that would start July 1st, is that in development or has that specifically been decided on?

MS. TAYLOR: Our FY '14 budget would have to be up by May 1st, capital budget would anyways, as driven by the --

MR. HOFFMAN: Do you anticipate putting in that budget financing that would go through the Trust or savings that your either, A, financing that comes to the Trust or savings that are assumed from these projects?

MS. TAYLOR: I wouldn't have to put any additional financing in the FY '14 because I've already included the cost to cover all three of the projects in FY '13. The savings would obviously -- If we're not getting funds back from or reimbursement from the Commission, then the savings would be recognized by taking down utility costs.

MR. HOFFMAN: In other words, you're doing these projects anyway, and your budget reflects what -- the fact that you are budgeting for internal financing of that, and you're estimating your savings based on what you think they're going to do?

MS. TAYLOR: Correct.

MR. HOFFMAN: Even if we did nothing?

MS. TAYLOR: Correct.

MR. HOFFMAN: And when you say that, you know, if you don't get financing from the Commission, you mean us; right?

MS. TAYLOR: Correct.

MR. HOFFMAN: That's not in -- Whether you do or not would not affect the current budget you provide?

MS. TAYLOR: Correct. Certainly it is our hope to get reimbursed so that we don't have to take it to --

MR. HOFFMAN: Sure. Obviously I understand why you're here. I just want to figure out whether there are any assumptions that have been made in any of these budget documents.

MS. TAYLOR: Yes. Our FY '13 budget does cover the projects or we wouldn't have been able to start them.

MR. HOFFMAN: Along the same lines -- You know, I know one of the things that was discussed very briefly was the comparison with the standard private financing markets like bond markets. Have there been bond presentations by CPS to potential bond investors that discuss financing from the bond market for any of these energy savings projects?

MS. TAYLOR: No. I'm going to say no, but I actually am going to check back with my chief financial officer and I can get that definitive answer.

MR. HOFFMAN: Yeah, and this may be a different area --

MS. TAYLOR: Yes.

MR. HOFFMAN: -- than the COO area. But one question especially as to CPS is why not just issue bonds. That's sort of along the lines of my question. Have you already started going down the road of talking with bond investors?

MS. TAYLOR: We have not.

MR. HOFFMAN: When you talk to the CFO, if you find anything different, would you let us know by e-mail again through Scott or otherwise?

MS. TAYLOR: Absolutely.

MR. HOFFMAN: Thank you very much.

MS. FERGUSON: Maybe just to expand on David's question, when you go back to the CFO or the relevant parties at CPS, confirm what has been presented to rating agencies not just bonding.

MR. HOFFMAN: That's right.

MS. FERGUSON: That's the specific question -- What has been -- What has CPS presented to rating agencies and potential bond investors on this topic of these financings and the assumptions that David is asking about.

MR. HOFFMAN: To be clear, if something has been presented, I would like to see copies -- We would like to see copies of that.

MS. TAYLOR: Absolutely.

MR. HOFFMAN: That would be appreciated. Thank you.

MS. TAYLOR: Thank you very much. I appreciate it.

CHAIRMAN BELL: While the next presenter is coming, can I get a sense of -- Maybe a show of hands of how many people have public comment?

UNIDENTIFIED SPEAKER: I think they left.

CHAIRMAN BELL: Everybody left.

MR. HOFFMAN: Go ahead and ask the question.

CHAIRMAN BELL: Is there anyone here because I want to manage our time?

(No response.)

Okay. Let's go.

COMMISSIONER POWERS: My name is Tom Powers, and I am the Commissioner for the Chicago

Department of Water Management.

I've been with the City for 17 years. Started in Transportation. Actually started out out in the field as a resident engineer on bridge projects. I'm a structural engineer by trade and worked myself, worked my way up the ladder, and I moved over to the Water Department in 2010, and now we're embarking on one of the largest capital improvement programs certainly in the history of Chicago but also in the water industry in general.

I usually start off these presentations, give people a little bit of a perspective on what the system entails.

So it all starts out with the islands that you see out in the lakes. Those are what we call cribs. That's where we draw the water from. They come into our two water purification plants.

The first is the South Plant. It's down by Rainbow Beach. We put it in in 1947. At the time it was the largest conventional water treatment plant in the world.

In '64 the City put in the James

Jardine Plant right by Navy Pier, and in the spirit of Daniel Burnham, again, it is the largest conventional water treatment plant in the world still today.

So between the two plants we treat and pump about 1.2 billion gallons of water every single day. A lot of people don't understand the ramifications of that number and what that comes down to. That's synonymous to filling the Sears Tower about five and a half times every single day. That's our capacity. We're nowhere near our capacity. We have extra capacity in our system, but that's what we have the ability to do.

The way the system works is as I said we draw the water from the lake. It enters into our 2 treatment plants, and then from our treatment plants we have a network of tunnels that reach out to 12 pumping stations throughout the City of Chicago. Eight of these stations are electrified. Four of them are still steam powered, so those are important numbers as I go through this.

Then there's another really big point. The difference between the City of Chicago and say a suburb that most people don't know is that we don't have any water towers. We have no storage in our system. We have -- I shouldn't say no. We have a very limited amount of storage in our system unlike a suburb that will have a couple days storage, you know, in a water tower.

Ours is pump on demand which makes these projects very challenging because you have to retrofit them and change them while it's an operating station, so it's very difficult to endeavor.

Our network on the water side is 4400 miles of water mains. They range anywhere from 16 inches all the way up to 78 inches.

So now we'll focus in on Springfield. This is Springfield pumping station. Again, it's 1 of our 12 pumping stations, so the pumping stations, what they do is they draw water up out of the tunnels and then they pressurize the local distribution system that then, in turn, services everybody's home.

Again, Springfield is one of our four remaining steam stations. It was last refurbished in the 1950s when we went from coal to steam with the natural gas, and now we are going to switch it over to electricity.

It's located in -- almost at North Avenue and Springfield, so right near the northwest side there. And our -- We serve not just the City of Chicago. We serve water to 41 percent of the state. One hundred twenty-five suburbs either direct connects or secondary or tertiary connects in the network, so we have basically a very reliable system of customers in our customer base.

In the '50s the way it worked was you bring in the natural gas. The natural gas would power a boiler. The boiler would generate steam, and it would turn a turbine, and it would turn a pump. The challenge here is because it takes awhile to basically build up that pressure. In order to run that turbine you have to have two boilers running at any given time in case the first one fails because you can't just turn a switch and expect that pressure to be there.

However, with an electrical system, we would pull a Com Ed feed. We have a high efficiency variable speed drive. It's kind of like a dimmer on a light switch. You can turn it up and off. Then we have a high efficiency induction motor which is basically -- It's a more efficient motor, but it's also a more reliable motor which then turns a pump and pressurizes the system.

So the goal of the Springfield Avenue pumping station is to, is basically reduction. It's reduction of energy. It's reduction of manpower. Reduction of ongoing maintenance. It's an improvement in our carbon footprint, and it gives us the ability to monitor and control this station remotely from our control center.

So this project is currently under way. We're about 20 percent complete with construction. Again, what we're doing here is we're replacing an entire station while it's operating, so we're taking part of it out of service, and we're eliminating -- We're removing some of our redundancy now during construction, and it will all be put back in service at the end of the project in 2015.

So we're demolishing the old buildings, the old boiler stacks, the boiler system itself. We're constructing a new electrical building, and we're actually going for a silver LEED certification on that building. As I said, we're installing variable speed drives, and this is one of the most green water pumping stations in North America, so we're installing a green roof and solar panels as part of this project.

A little bit about the costs on, the existing costs to the station. There are electrical costs --

MR. HOFFMAN: One second. Part of the construction?

COMMISSIONER POWERS: Excuse me?

MR. HOFFMAN: The construction?

COMMISSIONER POWERS: Yes.

MR. HOFFMAN: So this is a project that's ongoing?

COMMISSIONER POWERS: That is correct.

MR. HOFFMAN: And just to get a handle on the documents that might describe it, was there one or multiple RFPs or low bid issue that then resulted in the choice of contractors who worked on the project?

COMMISSIONER POWERS: That's correct. We went through the standard procurement process with the City of Chicago, advertised in the newspaper for the contractor, and the lowest bid, the lowest responsible bidder was selected.

MR. HOFFMAN: So you issued one spec that then resulted in the contractor chosen who's running this project?

COMMISSIONER POWERS: That's correct.

MR. HOFFMAN: Can you have -- Similarly as I asked about the RFP that was issued, can I get e-mailed another copy of that spec? I gather it might have been a year or more in the past when it was issued, but that would be interesting to see that description in the spec of the project.

COMMISSIONER POWERS: Sure. We can provide that.

MR. HOFFMAN: Thank you, Tom.

COMMISSIONER POWERS: Sure.

Again, we have electrical costs associated with the operation of the existing system. That's the secondary tertiary systems in the building. By and large, as I said before, the pumping station is run primarily through natural gas. Last year or in 2011 -- All the (inaudible) for 2011 and 2012 obviously are not over, so we spent about $2,000,000 on natural gas last year, so the total cost to run the station in 2011 was about $2.1 million just in energy costs alone.

Now when we look forward -- After we convert the station we actually have data we can draw on because as I said before eight of our current stations are already electrified, so the way that we looked at what are the actual energy savings, we looked at what it costs for those eight stations on average to pump a million gallons of water, and it's about $43.28 to pump a million gallons of water. Based on that we came up with an energy savings -- I need to do the math. I'm not going to waste everyone's time -- of nearly $1,000,000 just in energy savings alone, so that's part of the savings on retrofitting this station.

The second portion of it is -- So you have the energy savings. You also have -- As I said before, you have the personnel savings, and then you also have maintenance savings. So the personnel side, currently as I said before, these are pump on demand stations, so that means they're manned 24/7 365. There's no Christmas holidays. There's no Thanksgiving holidays. We're the dopes that are out there all day long every day.

As I said, people don't understand the value of water until that water main breaks out in front of their house, so, you know, there are a number of (inaudible) for these folks.

Currently we have a staff of 33. As I said, multiple shifts on each 1 of these 4 stations, but in this case it's 33. When we convert the station over, we'll be able to pull those people out of that station and we can drop that number of positions down to six. So, again, we have a reduction in 27 FTEs for a savings of about 2.9 based on our 2012 salaries.

Then this is the breakdown of what trades will be pulled out of that station and then their subsequent salaries and these savings as well.

On the maintenance side, as I said, Springfield was put in service back in the '50s, and there's a lot of maintenance. It's reaching the edge, the end of its useful life. We spend about half a million dollars on boiler maintenance, another 100,000 on turbine and chemicals, and then post conversion we'll still see some maintenance required on an electrical station but it's not nearly the same order of magnitude. So we anticipate over a half a million dollar savings on operational maintenance that will be -- we won't have to do anymore.

Again, we have almost $1,000,000 in energy. We have 2.9 in personnel and half a million in maintenance for a total of about $4.46 million annually by converting this station.

Questions?

MR. HOFFMAN: I have a question for Tom Morsch. Can you come up, Tom, and stand with the other Tom?

MR. MORSCH: Yes.

MR. HOFFMAN: That was a very good presentation, and I appreciate the clarity of it. I think I have at least a decent understanding of the project, the expected savings and so on. So that was -- So then I suppose the challenge obviously for the finance folks, PFM, the City, us is to think about whether that can translate into how investors would react if there was going to be a private financing deal, and I know that a big percentage of the expected savings comes from personnel savings, so different from we put this in and our energy costs will be lower. That's part of it.

MR. MORSCH: Yes.

MR. HOFFMAN: And this can be very preliminary. Just a couple minutes. But in your experience in seeing these kind of deals around the country and around the world, is -- Have you seen that before where a substantial amount of the savings is coming from expected personnel savings and that translates into private financing deals or is that going to be out of the ordinary and significantly different than the typical private financing deals in this area?

MR. MORSCH: That's a good question.

MR. HOFFMAN: If you don't know, you don't know.

MR. MORSCH: Well, I would say that I don't have a great knowledge of that. I would say in the same way there's a commitment to deposit savings from energy there could be a similar commitment to deposit savings from personnel, so that's really a better question for Tom and how he manages his department and what commitments he's willing to make and how investors look through to his commitment. You see what I mean?

MR. HOFFMAN: I do. I think that one interesting thing which I don't think we have time to discuss now, so I think we can just sort of peg it for the future, although I know I want to hear more about this later, is when we think about risk and we think about it just in terms of energy savings, one of the things we're hearing back is, well, we have a certain amount of control and really when we make an estimate we'll have a lot of control whether that estimate comes true, so applying those same sort of thoughts to personnel, one question will be is there really complete control. The answer may be absolutely, we know for sure that we'll be able to reduce the work force and this way we'll get these savings. But I can imagine responses where you don't have that control, and there's going to be uncertainty about whether those personnel savings will materialize.

I think to Tom's point, I think he's right that those are questions we'll have to address to the operating departments to say, you know, what are the, what would be the uncertainties in that area of estimate of savings.

COMMISSIONER POWERS: Well, the uncertainties I guess would be -- The way I would envision this is as we start turning this station over, we will be moving these people that are currently in the station out and then not hire people back to attrition elsewhere in the Department, so we would want to keep the employees, the knowledgeable employees that we have in the Department and we would defer -- Or not defer. We would not hire replacement people through attrition, so that's something that I would have to talk to the Budget Director about, how to acknowledge that, and how you would have a line in the budget on something like that.

MR. HOFFMAN: So I would just say this is probably going to be a developing story?

COMMISSIONER POWERS: Absolutely.

MR. HOFFMAN: And I would say that whatever we will need, and I would imagine the investor will need to dig in the details of this, if this is part of the return on investment. I would say if you haven't already had folks internally digging in on a more integral level than that that would probably be necessary. I think that I can imagine there would be a lot of uncertainty on that, but I'd be happy to hear in the future.

CHAIRMAN BELL: Typically, I will say this though, typically in an industry you would see those three components of savings. You have significant productivity when you're upgrading and maintaining a piece of equipment. You could see better operating costs. You would see fewer people needed to do it and maintenance costs to do it. Typically you'd see it. I don't know how it normally plays out here.

But, again, let's all be clear. What this is going to convert to is the risk posture that goes to that single entity, and it's going to convert to what kind of pricing is going to be in the marketplace.

COMMISSIONER POWERS: Understood.

CHAIRMAN BELL: The more assurance we have the better probability we're going to have to get the deal. They will get to a point where the risk is just too great nobody is going to be interested in buying it.

COMMISSIONER POWERS: Understood.

CHAIRMAN BELL: Okay. Thank you.

Any other questions?

MR. HOFFMAN: Is that 73 -- I think it's $73,000,000 in terms of the cost, is that -- How set is that cost?

COMMISSIONER POWERS: Well, that $73,000,000 also includes the initial design of the station that transpired about three years ago. That's pretty set. We're on schedule. As I said, we're 21 percent complete with the job, and we're on budget with that project.

CHAIRMAN BELL: Okay. Thank you very much.

I'm going to go to public comment to see if there is any because we only have ten minutes basically left.

Not seeing any then I will go back. Let the record show there was none.

Go back to other business first. Is there any other business?

(No response.)

Good.

Approval of the meeting dates for

'13. We only have a few in here. I'm actually thinking our e-mail, Scott, is the best way to do that than trying to iron it out here. We've already changed one date to the 10th.

MR. YONOVER: The next meeting is going to be on the 10th.

CHAIRMAN BELL: January 10th. I think we've already all agreed to that, so let's document that and let's just go work the rest of the dates for 2013.

Anything else?

(No response.)

Well, thank you for your patience. We really appreciate the input from the City, and all the presentations were outstanding. The Q and A was perfect. Thank you for providing that in-depth information.

MR. HOFFMAN: What time is the next meeting?

CHAIRMAN BELL: 10 o'clock central standard time. It will be here. I don't know if you all know I'll be out of the city, so I'll be by phone.

Thank you very much. The meeting is

adjourned.

(Which were all of the proceedings had in the above-entitled cause this date.)

STATE OF ILLINOIS)
) SS.
COUNTY OF C O O K)

KELLY A. BRICHETTO, being first duly sworn on oath says that she is a Certified Shorthand Reporter doing business in the City of Chicago, County of Cook and the State of Illinois;

That she reported in shorthand the proceedings had at the foregoing Board Meeting of the Chicago Infrastructure Trust;

And that the foregoing is a true and correct transcript of her shorthand notes so taken as aforesaid and contains all of the proceedings had at said Board Meeting.

KELLY A. BRICHETTO, C.S.R.

SUBSCRIBED AND SWORN TO
before me this
day of January, A.D. 2013.

NOTARY PUBLIC