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

ADVISORY BOARD MEMBERS:
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MR. DAMON SILVERS
MR. DAVID DOHNALEK
LOIS SCOTT, Chief Financial Officer
STEVEN KOCH, Deputy Mayor
MICHELLE CURRAN, Assistant Comptroller
DAVID WINTERS, Assistant Corp. Counsel
JIM McDONALD, Assistant Corp. Counsel

ALSO PRESENT:
JERRY WALLACK
HENRY KLEEMAN
CLAIRE TRAMM
SCOTT FALK
NICK EPSTEIN
GEORGE MARQUISOS
SCOTT YONOVER
TOM MORSCH
MICHAEL DOW
JOHN COAN

CHIEF EXECUTIVE DIRECTOR:
MR. STEPHEN BEITLER

November 12, 2013
3:00 p.m.
140 South Dearborn
Suite 1400
Chicago, Illinois

MR. BEITLER: It's going to be a little bit tougher today because there are people on the phone, so I would appreciate everybody's indulgence as we host the meeting with the individuals on the phone including the Chairman.

One thing we need to do because we have a stenographer with us today as usual is to ensure that everybody lets her know whom is speaking and particularly the folks on the phone. It's really important that you identify yourselves and so first before we begin -- before the Chairman begins the meeting, if I could just ask everybody on the phone to identify who's on the phone so we'll have an idea who is there and so that the stenographer can make sure she's got you from an attendance standpoint, I'd appreciate that.

So if you would, starting off with the Chairman, please.

CHAIRMAN BELL: James Bell. I'm on the phone.

MR. BEITLER: Anybody else on the phone?

MR. COAN: John Coan of Piper Jaffray is on the phone.

MR. DOW: Mike Dow from McGuire Woods.

MR. BEITLER: Anybody else?

MR. SILVERS: This is Damon Silvers.

MR. BEITLER: Say that again.

MR. SILVERS: Damon Silvers.

MR. DOHNALEK: David Dohnalek is on the phone. David Dohnalek, Advisory Board Member.

MR. BEITLER: Anybody else?

MR. SILVERS: Yeah, I think you've got me. This is Damon Silvers from the Advisory.

MR. FALK: We did. Thank you, Damon.

MR. BEITLER: Anyone else?

(No response.)

Mr. Chairman.

CHAIRMAN BELL: Okay. Let me call the meeting to order.

As you can see, we have a small agenda, but I think we have a few things that we want to talk about, and obviously it's all on the Retrofit Project that we left our last meeting on, and so I want to start on that particular subject with Steve giving us a brief update on the deal itself and some of the financials since we haven't really talked about it, and then I'd like to have Scott Falk give us an update on where the officers are documented.

Then I want to open it up to the Board for comments on the information we received since the subsequent -- since the last meeting and then go into the resolution itself.

Following that, although not on the agenda, I do want to open it up to public comments. I don't know if we have public there or not, but John can sort of deal with that since you're there in person, but I think we need to have that as long as there are public there.

So with that, Steve, why don't you start?

MR. BEITLER: So I just wanted to start briefly with a reminder for those people who hadn't thought about this lately, and frankly I'm probably among you, in terms of what the broader implications of the program are.

So from a big picture perspective, we're looking at 75 buildings being part of the program for a total of 5.9 million square feet. This includes 23 libraries, 25 police stations and buildings used principally by the police, 11 facilities that provide healthcare including community centers and facilities for the disabled and aging, including centers in West Town, Englewood, Uptown and Roseland.

We're also renovating many unique City properties including City Hall, the Cultural Center, the 311 Center, the 911 Center, the juvenile detention facility, the Police Academy and Fire Academy among others, so the projects that compose this project will be completed in 40 different wards of the City.

And we expect to have savings in the neighborhood of $2,000,000 per year and annual reductions in energy of 23.23 million kilowatts and 515,000 therms which is a reduction of about 18 percent of the energy used in the buildings in the program, and it's the equivalent of taking about 4.323 cars off the road on an annual basis. Additionally, the program will generate about 125 jobs.

So just as an overview of the program, I wanted everybody to be aware of that since we tended to talk about the transaction more than we have the broad scope of the program lately.

And with that, I'd like to turn it

over as the Chairman directed to Scott Falk who's going to talk a little bit about the transaction between when we last met and today.

MR. FALK: Great. Thank you, Steve.

As a recap, we -- as people I think know, the Trust issued RFPs to financial advisors back in August. We then refined those financial advisor presentations through addendums to the RFPs in September and then again in October.

Ultimately the Trust determined to engage Piper Jaffray as the lead placement agent. It then determined to engage one or more co-placement agents to support Piper Jaffray in their effort in the placement of the financing to support the purchases of the equipment that will underlie the retrofitting of the 2FM facilities.

Since last week we discussed the term sheet that was presented to the lenders that Piper Jaffray is soliciting for proposals to participate in the financing.

That term sheet was subsequently distributed to the Board with annotated cross references to the various deal documents that are referenced in the term sheet. Those deal documents include an energy services agreement between the Trust and the City of Chicago. A loan agreement between the Trust and financing source is yet to be determined pursuant to Piper Jaffray's placement work. A guaranteed energy performance contract between the ESCOs that have been engaged for this project on the one hand and the City on the other will, in turn, be backstopped by the project management agreement between the Chicago Infrastructure Trust and the ESCOs. That project management agreement has yet to be completed or negotiated, but it is in process.

Those documents were, with the exception of that project management agreement that's in process, those documents were distributed to the Board over the weekend in substantially negotiated form except for the loan agreement which, of course, is subject to negotiation with the financing sources when they're identified. Those documents will continue to evolve a little bit, but what we're asking for today is the approval of the Trust Board of those documents in substantially consistent form with those presented to the Board over the weekend. To the extent that there are any material changes inconsistent with the documents presented over the weekend, the Trust staff would expect to come back to the Board for further approval of any of those material changes.

MR. BEITLER: Thank you.

Mr. Chairman.

CHAIRMAN BELL: Thank you, Scott.

So I would ask if the Board has all gotten copies of these documents.

At this point I would open it up for any comments, questions regarding the documents if there are any, and then I would like to move on with the resolution.

Scott, are there any questions or comments? Any comments on the resolution itself?

MR. HOFFMAN: Yeah, James, this is David. Let me make some comments since -- I'll give my thoughts about how we've moved from the last meeting and asked some questions.

Let me say by opening I very much appreciate the hard work of everyone -- Steve, Claire, Scott, Henry, the other advisors -- since the last meeting. Everyone's worked hard to get us to where we are today.

You know, when we last saw each other last week, we had not seen the September document that had been sent to the potential private placement agents that laid out the likely contours of our transactions and contained some of the key terms. We've received that now.

We hadn't seen the term sheet that was issued at the end of October that was sent out to the potential lenders by the private placement agent Piper Jaffray. We've seen that now.

We hadn't seen the drafts of the relevant agreements because those hadn't been created yet but those -- we've received those now, and we had only belatedly shortly before the meeting been provided a very short summary of the term sheet.

Today we're in a different position. We've been provided all those documents. We've had a chance to review those and given the opportunity, been given the opportunity to consult with the Trust's legal and financial advisors. I've had the opportunity to do that, and I have found that very helpful, and I appreciated that.

I can only just obviously state this

from my own perspective, but I think that that process is critical because it makes our review meaningful, and it allows us, gives us the ability to describe in a meaningful fashion what is going on, what we're approving, and it allows us to recommend in a meaningful fashion what we're approving which I think would always be important, but it's especially important when what's going to happen next is that the City Council will be called upon to examine this and make a decision and presumably among other things will be coming to us and saying why did you recommend this, what do you think about these documents, what do you think about these details. They will have those agreements and details in front of them, and so our ability to be able to explain why we approved them and agreed to them is I think important.

So I think all along we -- you know, this process has required us to ask do we understand the potential risks and the potential problems as well as, of course, the potential upside.

I say, I would say that at least personally I feel in a completely different position than at the last Board meeting because of the work that everyone's done to get us this information, so I appreciate that.

In terms of what I see as open issues which I think the resolutions adequately identify and, therefore, create a good path I believe in terms of how to proceed but I'd like to raise those and ask for some commentary on them.

The first one is -- we discussed this somewhat I'd say briefly at the last meeting and that's the question of ownership by the Trust of the projects, meaning the energy conservation measures, the boilers, the chillers, the other things that are gonna be installed, operated and maintained by the ESCOs. These documents call upon the Trust to own them, and so there's I think some legitimate questions about, well, what does that mean, what are the contours and consequences of that ownership, what is the potential liability to the Trust if there is an accident in relation to the equipment that causes significant damage. Typically as an owner you would think, well, there might be some liability here. Sometimes indemnification and insurance can cover that.

And I heard a couple things in consulting on this that I just wanted to ask you, Steve, to make sure that your understanding is consistent with this.

The first is that the intent of the overall transaction, the intent of these documents that are still in flux on this point but the intent is that while the Trust will own these ECMs, the Trust will not be at material risk of liability or financial responsibility for defending against claims if there is, for instance, an accident or an equipment malfunction. How the agreements will accomplish that sounds like it's still being determined which I think is fair and seems fine, but I want to be clear that that's the intent, and if so, then I think I'm comfortable with our moving forward and getting a report subsequently about how that was worked out.

Am I understanding the intent correctly?

MR. BEITLER: You are, and there is an insurance component of the transaction, and the City provides that, and let's put the word insurance in quotes because the City is self-insured for certain things. Since the City is here, they can discuss it if we need to, but an insurance component of the transaction so that in the event that something occurs, some mishap occurs, that there is coverage for that purpose, but not every detail around this is worked out yet.

MR. HOFFMAN: Right. So that's consistent with what I heard, and I think that that makes me feel comfortable in terms of the intent, that if we land at that point, that that's where the insurance obligation lies, that's fine.

I spent some time talking with Scott Falk who is here and Michael Dow who's on the phone of McGuire Woods who represents the Trust in this transaction, and they said something similar to what you said. Although they were -- they hedged more because it hasn't been worked out. It hasn't been finalized in the documents which is a fair point.

So that's why I think what I recommended as an outcome here is that the resolutions identify this as an issue and state that you'll come back to us once it's worked out in the documents and report to us about how it's worked out so we can feel comfortable that the documents wound up where our intent is.

So is that consistent with how you see the process going?

MR. BEITLER: Yes, I believe that's what the resolution says, so --

MR. HOFFMAN: Great. I say that, you know, knowing that I've talked with Scott and Mike about this but also for the benefit of my fellow Board members to know how this will hopefully play out.

The second issue is that --

CHAIRMAN BELL: I think even more importantly, David, it has to be that or they have to come back to us, so we're not going to agree to a deal that doesn't happen. That's part of the tenent of the terms, so --

MR. HOFFMAN: That's right. I think that -- So to be clear, I think that what you're saying, James, even though that is not an explicit term, I would say the documents or the proposed term sheet, I think what you're saying which is what I'm saying is it's the understanding of the Board that that's what the ownership arrangement will be and that if the ultimate deal documents are inconsistent with that, they'll be inconsistent in some material term and you'd have to come back to us.

I would say but even if they are consistent at least come back to us as a matter of notifying and advising us about how it wound up and how the documents accomplish that because I think that's an open issue about how the documents are going to accomplish that intent.

MR. BEITLER: I believe staff is basically committed to come back to the Board in the event of any change, material change to the current documentation. Is that a correct way of stating that?

MR. FALK: Yeah. I think there's -- there's also an affirmative obligation in the resolutions for staff to report to the Board on filling in the holes that still have yet to be filled in and that is --

MR. BEITLER: I guess what I'm saying is yes, but it would apply to other things not just --

MR. HOFFMAN: Yeah, I agree. I think on this one though I'm presuming that's what's going to happen is these documents are going to be consistent with everything we're saying today regarding the intent about ownership.

MR. BEITLER: I certainly hope so.

MR. HOFFMAN: That's right. And even if that's the case, the resolution says come back to us and let us know how you accomplished that which is a matter of advising us about a consistent condition but one that's not yet worked out.

The next issue, and you raised this a bit, Scott, is that we still don't have an agreement worked out or key terms worked out regarding an agreement between the Trust and the future construction manager, and that may end up being the PBC. That's obviously been the main entity that's been contemplated here. What the terms of that are and whether it ends up being the PBC is up in the air.

And having thought about that and talked with our advisors, I think that's fine if that's the state that that's in today and that we are going forward with the approval of the deal documents provided that, same scenario I would say, provided that you come back to us once you've worked it out and explain what the terms are.

I think there's an overlap with the first issue about ownership and protection from liability because obviously, you know, unless I'm wrong I don't think you're going to have Scott Falk out there overseeing the ESCO to make sure they're installing the equipment correctly, but our construction manager is the one that will be in charge of that oversight, and so selecting that construction manager and having the right terms with them, including indemnification and insurance, will be important in answering the ownership question.

So, Steve, am I understanding it right both in terms of what's -- how that issue is open and what will happen next?

MR. BEITLER: Could whoever just joined us please announce themselves?

MR. SILVERS: I'm sorry. This is Damon Silvers. I hung up by accident and rejoined you.

MR. BEITLER: Thank you.

MR. HOFFMAN: Steve, am I understanding it right?

MR. BEITLER: Oh, so I -- George

Marquisos from the PBC is in the room, so, George, if I misspeak, please feel free to correct me.

But clearly the ESCOs that we're contemplating engaging for these projects, Schneider Electric, Ameresco and Noresco, are the construction managers for completing the construction, and then the PBC or some other organization, although there's not another organization identified at the moment, would provide oversight for that particular purpose.

So if that is the same as what you just said, then -- I'm not sure -- I just want to make clear the term construction management. So, George, you're looking directly at me. Am I correctly relating that?

MR. MARQUISOS: Yeah, the terms are a little bit -- so the role that we currently contemplate -- so the ESCOs are described as a turn key design builder, so they are responsible for the audit, the design, the installation and the performance of everything that they are contracted to do. So they theoretically give you a finished product that you should -- that should meet every specification that we lay out in advance of the contract.

But it should be known that there is an owner's responsibility or in this case the CIT's responsibility to kind of help them coordinate these activities, so a representative, a program manager.

The other complication we have here is we have three ESCOs, and we want to make sure that we're coordinating and making sure that they are largely cohesive and are doing the same thing throughout. There's a consistency that's required by 2FM, and so the role of the program manager, if you will, is to kind of ensure that consistency and make sure the goals are being followed throughout the project. That's what we're currently --

MR. BEITLER: Yeah, so nothing that George or I just said I think in any way contradicts anything that you just stated.

I just want to be clear about the idea of a construction manager role and the fact that the ESCOs themselves are managing their construction and that we're providing oversight for that construction.

MR. HOFFMAN: Yeah, that's how I see

it -- as an oversight.

MR. BEITLER: Right.

MR. HOFFMAN: I think the GEPC, whatever that contract spells out to, calls that entity the project and construction manager, so we'll enter into an agreement with that future project and construction manager. Just as you all said, it seems like basically an oversight function which is important that there be some entity that does that because there's no one on our staff who is really going to do that.

So I think -- as I said, while that is an open issue, and depending on those terms, that could end up being important in terms of what the consequences of our ownership are.

I'm comfortable saying that can happen after today and after tomorrow. Obviously it has to happen relatively quickly, and the resolutions state that you'll come back to us and tell us how that wound up so that we can assess it.

The third and last open issue is also handled by the resolution, and that is the cost of doing these projects for 2FM and all these different buildings is right about $25.8 million, and the expected value of the loan is gonna be about $1.7 million. More than that, we don't know exactly what the dollar amount is I don't believe. And so the reason for that as I understand it is a combination of initial interest payments and fees.

And I think what I, and the resolutions spell this out, think would be appropriate for you to come back with in terms of details once the transaction is finalized and the agreements are finished is what those exact numbers are and how they break down. Presumably that -- let's say it's $1.7 million. Presumably that would mean you'd come back to us with a breakdown of the $1.7 million -- X amount is interest payments in this way, X amount is fees, here's how the fees are broken down.

I think just in terms of our keeping track of how the money is intended to be spent, that would be information that we don't have now, understandable we don't have it now, but we will have it in the short-term future, and the resolution calls upon you to come back to us with that information.

I just want to make sure you didn't

see any problem with that and that's consistent --

MR. BEITLER: I agree. We also actually have a legal requirement to provide it to the City Clerk or Treasurer, I forget which exactly, but it's actually in the documentation buried somewhere that it says we have other legal requirements to provide that same information, not that that has anything to do with the Board, but just simply we have multiple legal requirements for that.

MR. HOFFMAN: Good.

So I really wanted to, apart from those, I wanted to ask about two broader questions, one broad question and one sort of I think minor issue.

One is: So what is in your mind the worst case scenario here? What is the biggest risk? What could go wrong here and how do the agreements or this structure address it?

MR. BEITLER: I don't want to minimize -- I mean risk is always an important component of any transaction, so I suppose here there are two types of risks that you have addressed in some fashion or another. One of those is financial transaction risk, and the other is, let's call it construction risk or physical, you know, the actual physical risk.

So this particular project is a very basic project. We are doing things here that are known. There's nothing that we're doing that's unknown. People have been installing chillers and heaters and insulation and other types of energy conservation measures of that type or other HVAC measures forever, literally 100 years.

So the things that we're doing are very known. The ways to accomplish these things are very known. There's diminimus risk involved with these activities.

So -- and there's not really chillers or heaters or whatever blowing up all over the place, you know, as a matter of course. The people who install these things just generally speaking know what they're doing and tend to generally do a good job in everyday life accomplishing this.

There's nothing going on in our projects that, for which we should have any other expectation than that they will be accomplished in a similar fashion.

So I think that you can never exclude the possibility that there will be some sort of complication either down the road or during construction that will cause something to happen somewhere, but I would say that the risk is just extremely diminimus and that it's not really something that we should be overly concerned with out of the normal course of activities.

In terms of financial transactional risk, again, we sort of bear the normal risks that anybody else would bear such as you have a particular, you know, unemployment report and the markets assume that the Fed may stop buying bonds and the interest rates increase, so -- which was sort of what happened if I remember correctly last Friday.

MR. HOFFMAN: Are you talking about the risks before the transactions close?

MR. BEITLER: Yes. Yes, in terms of interest rate creep or other things like that in the financial markets.

There's also the possibility that as the respondents to the placement agents -- agent reviews or review the detail that we've provided there may be some projects they like, there may be some projects they don't like, and there's the tendency for some maybe to cherry pick, for others to not cherry pick.

So these are all activities that when you're privately placing like we're doing at the moment are more common, and they're risks, but they're, again, consistent, normal risks that everybody has as they do these kinds of deals, and I don't think that there's any particular risk that we're facing at the moment that I would consider to be an abnormal, unusual risk.

MR. HOFFMAN: Can you answer the financial transaction risks? Assuming that the deal closes within the interest rate parameters that are set, so now we're a year from now, four years from now, ten years from now. Just assess it that way. What -- how do you see the financial risks to the City or the Trust, if any, from this arrangement and how does the arrangement or the documents address that?

MR. BEITLER: So the first thing is that I would just tell you, in terms of answering your question broadly, you know, I was a venture capitalist, and I used to see a lot of people pitching for their company, and, you know, in order to do different kinds of calculations you need five years of numbers and so on. Typically I would tell people don't bother providing me year three through five because I can make up those numbers as well as you can.

So essentially I would say to you that the ten year part of your question, you know, getting out to a certain point, you know, it's the typical crystal ball answer. I don't have a particular unique crystal ball, and it's kind of tough to predict that far out.

Having said that, we're doing a transaction that has some longevity to it, so basically I believe that this is an excellent transaction.

We are doing what will be the second tax exempt --

MR. HOFFMAN: But talk to me about the risks.

MR. BEITLER: Yeah, I'm headed there.

-- the second tax exempt energy services agreement that will ever have been completed, and basically one of the hallmarks of that particular agreement is if there's no savings, then the City and the Trust don't have to pay. So essentially that is a particularly interesting arrangement because I think it provides significant protections for the purposes of ensuring that adequate work is done to get the savings that are contemplated. And if those savings don't arise, then there are protections built in in the event that those savings don't occur, and I find that to make this transaction extremely attractive and to significantly reduce risk that you would otherwise potentially anticipate in other types of instruments.

MR. HOFFMAN: Let me ask a follow-up about year ten. Under the agreements with the ESCOs, their obligation to guarantee those savings, that obligation is the same in year one, year five, year ten, year twenty?

MR. BEITLER: It runs the term of the agreement.

MR. HOFFMAN: So provided that the ESCOs are still in existence, the point that Damon raised last time, provided that they're still in existence and able to make these payments, regardless of how the machinery operates, regardless of what the kilowatt per hour charge is ten years from now or what the savings are, the City is not obligated and the Trust is not obligated to pay more than the expected savings; is that correct?

MR. BEITLER: Yes, that's correct.

MR. HOFFMAN: Okay.

MR. BEITLER: So -- And let me just say that the three companies that are involved in this particular transaction are extremely established, highly regarded, well-run, very large companies that have excellent balance sheets and who have submitted their, you know, financial picture to -- for the purposes of being able to engage in this transaction.

MR. HOFFMAN: Right. So, in other words, whether it's year one, five, ten or twenty, the risk of having to pay more than the guaranteed, than the expected savings, that risk is effectively laid off on the ESCOs?

MR. BEITLER: Yes, that's correct.

MR. HOFFMAN: Scott, is there --

MR. FALK: Mike Dow, do you want to

address for the Board the duration limitation on the guarantee?

MR. DOW: Well, as I understand it, that's -- that point is in flux, if I'm not mistaken. Maybe John Coan could weight in on that. Initially the guarantee period, the period during which the ESCOs regard to guarantee certain performance levels, guarantee savings was essentially left in the full term of the transaction, after which period the City would agree that the savings would continue on as proven out during that initial period.

That may change. I understand that it may be possible to have the ESCOs guarantee savings throughout the term, but, again, that's an open issue as far as I understand it.

MS. TRAMM: Michael, if I can build on what you're saying. This is Claire Tramm, Energy Director for the Trust.

We have been in conversations with the three ESCOs in the last several days. They are prepared to extend the term of their guarantee for the full 20-plus-year agreement. It just adds a slight cost increment to the transaction, so part of what then comes out of the savings every year is a couple percent that pays for their M and V, their monitoring and verification, and that energy savings guarantee.

So still the model works. The numbers work. The deal still looks great. It just means that we're extending the term of their energy performance guarantee.

MR. BEITLER: That's the direction that we're headed at the moment.

MR. HOFFMAN: While I haven't heard that before, I think what you're saying seems like a good result.

Let me just ask a few questions to make sure I understand it.

So I reviewed the draft documents with Scott and the lawyers. I didn't see, Scott, anything in there that limited the duration. Is that a new development since the agreements were drafted or did I miss it in there?

MR. FALK: It was blank, and so there was a negative implication that maybe they intended to make it less than the duration of the financing.

What you're hearing today is good

news which is they've come around and, yes, they're getting paid for this risk, but they're going to take that guarantee all the way out through the duration of the loan.

MS. TRAMM: We have those estimates from all 3 for 20 years.

MR. BEITLER: But I should also say this was a cost calculation where we're figuring out the cost benefit arrangement of this, so it's not just that a particular company wouldn't want to assume that risk. It's what is the cost benefit to us and which is best.

MR. HOFFMAN: So that's fine. I want to ask a couple questions about costs but just in terms of -- can we have an understanding here that one of the material terms of these agreements is what Scott just laid out, that the duration of the guarantee is the full length of the term of the loan and if, therefore -- if things change after we leave this meeting and the ESCOs back off of that oral commitment, that it would be considered a change in the term that would be inconsistent with the material term?

MS. SCOTT: May I raise a point on that?

Sorry. Lois Scott, Chief Financial Officer for the City.

Couple things you said I just want to fine-tune maybe just a little bit.

MR. HOFFMAN: Yeah, please.

MS. SCOTT: You said that the savings that are paid are the expected savings. I want to be very clear that it's the actual savings is what is paid to the investor -- the guarantee and the risk to the benefit of the investor. So when we extend for the entire term, we, the City, and through the Trust, are paying more for protections that inures to the benefit of the investor which should reduce the rate, but we're paying for it over here.

Finding that balancing point between how much you said pay for the M and V versus what you have to pay on the interest rate is what Piper Jaffray will be working on.

MR. HOFFMAN: Now I think I understood what you said. However, just to match that with the way I'm talking about it in terms of the duration of the guarantee, I know that the term of the loan may end up being longer than 20 years.

Let's just say 20 years for the sake of this. If we knew today that the ESCOs were only gonna give a guarantee for ten years, wouldn't that create a concern for the City and, therefore, the Trust that in the second ten years of this agreement if the actual savings turned out to be significantly lower than the expected savings today the City would somehow have to cover that?

MS. SCOTT: No. That's the way the deal works. The investors are only benefiting from the actual savings achieved. If the equipment fails or doesn't work as planned, that would be transferred through the Trust. We've transferred that risk to investors away from away from taxpayers. If the savings don't materialize, that's their concern not ours.

MR. HOFFMAN: So what you're saying -- so that's helpful.

MR. BEITLER: If I may also, Lois, to supplement that.

MR. HOFFMAN: Yeah.

MR. BEITLER: There may be some of the projects among the total number of projects where it's more effective to Lois' point to just simply stipulate to the savings as opposed to be really concerned about measurement and verification of savings if that could save us money in the long run, and it is possible that we could have a mix of projects, some of which are stipulated to and some of which have an M and V actually running on the project for the duration of the term of the instrument.

So I think that it's fair to say that we really need to have some latitude on this because we need to be able to make the judgment as to whether a particular sub-project of all of the projects is better off to be stipulated at because it's cheaper and it's common, for example, versus it is something that's unusual, and measurement and verification would be a good thing.

MR. HOFFMAN: Well, I'm not sure I -- so isn't -- I mean as I was understanding this, the reason this seems like such a good deal is that ultimately if the bad situation arises in the future where our estimate of the savings from these energy conservation measures, our estimate of that savings ten years from now, if that turns out to be wrong and it's much, much, much lower because of changed circumstances in the world, the City doesn't bear a significant risk of that either because, A, the ESCOs are gonna make up the shortfall because there's a guarantee or, B, what Lois just said, which is that even if there's not such a guarantee the only thing the City and the Trust owe the investors is the actual savings.

MS. SCOTT: Right.

MR. HOFFMAN: I want to make sure I didn't hear something inconsistent with what you said, Steve, which is that if you had stipulated savings as opposed to actual and the City was on the hook for "stipulated savings," that sounds like that might be here's the number that we expect the savings to be over the years and the City and the Trust are on the hook for that even if the numbers are less. I can't -- that's what I hear when I hear stipulated savings. If so, that would be different than I think what I just laid out.

MS. SCOTT: I'll clarify that a little bit further.

There are some improvements that are more tried and true with more predictable outcomes in situations like that. It might be more cost effective to stipulate because paying for measurement and verification is actually paying somebody to do that when, in fact, it could be well established what the savings of this particular project are.

MR. HOFFMAN: Can you give an example?

MS. SCOTT: Light bulbs. Well, you know, if you change them out and make them more energy efficient, does it make sense for somebody to come in and measure that savings when you have reams of technology data that demonstrates the savings? It's more -- it's cheaper just to say we all agree these are the savings from this particular product than to pay a third party to come in and calculate that each year.

MR. HOFFMAN: Yeah. Again --

MS. SCOTT: What is the lowest cost possibility we can do, how little measurement and verification do we need to purchase to make the investors happy for the projects being financed.

MR. HOFFMAN: Yeah. Again, isn't the risk there that ten years from now unexpectedly the cost of electricity per unit is much higher so no matter what light bulbs you have in it turns out that we're not saving of money?

MS. SCOTT: That's the investors' risk not ours.

MR. HOFFMAN: Wait. Because, as you said, the only thing that the City and the Trust owe is the actual saving.

MS. SCOTT: Um-hum.

MR. HOFFMAN: But stipulated savings are different from actual savings; right, or am I misunderstanding that?

MS. SCOTT: Yes, that's correct. That's correct.

MR. HOFFMAN: So when you say the only thing we would have to pay in my bad case scenario is what the City was actually saving, what if the actual savings were only ten percent of the stipulated savings and then the City somehow has to make up that shortfall because the guarantee is gone and it turns out the actual savings are much lower than the stipulated savings?

MS. SCOTT: In that unique set of circumstances, that could be --

MR. HOFFMAN: That's a risk, right. I understand we can assess the likelihood of that but that's different than --

MR. BEITLER: George.

MR. MARQUISOS: I just want to make a point of clarification. This is George Marquisos from the PBC.

The ESCO's guaranteeing energy savings. They are not guaranteeing utility costs over the next 20 years. So if the cost per kilowatt hour increases dramatically over 20 years, there is no guarantee the City will have -- will be glad that they did the savings measures they did because they'll be saving even more relatively, but they are guaranteeing kilowatt hours and therms. Those are energy units that are being guaranteed not dollars, so the risk associated with utility rates is not covered in this agreement at all.

MR. HOFFMAN: That's a fair point. I think that sounds like it might answer my question which is that --

MS. SCOTT: Yeah.

MR. HOFFMAN: -- which is that the stipulated savings, the risk of the spread between actual savings and stipulated savings is low.

MS. SCOTT: Um-hum.

MR. BEITLER: Particularly for things where you may have a 20-year history, so like certain types of light bulbs. For 20 years somebody has been examining that and determining that this is the savings you get over a 20-year history, and that history is pretty predictive going forward for say light bulbs. People are very comfortable with light bulbs.

MS. TRAMM: You don't even need the history, in fact. You just look at the wattage measurements. They're very, very accurate for lighting, so you just stipulate to the number of hours that that light bulb is turned on in buildings based on how, you know, exactly it's being used in the building.

MR. BEITLER: At this point all we're suggesting is we go back and forth through these calculations to make a determination on a project-by-project basis as to what is the best way to get the best savings for the City and the Trust, what is the best way to get the best savings for the City and the Trust based on each particular sub-project within the overall project.

CHAIRMAN BELL: We have to move on,

David.

MR. HOFFMAN: I think we're getting there. I mean this is a new description that is making sense as it's being flushed out but it is -- I think the bottom line is that my understanding of this is that the City and the Trust, therefore, didn't run any significant risk of unexpected payments in the future because the expected savings -- all the City was gonna have to be on the hook for in the future were the actual savings that were happening only because these energy conservation measures were being put into place, and, therefore, the City was completely protected from having to pay unexpected payments in the future even if the savings were lower.

And as long as -- and I felt comfortable with that based on, A, the guarantee and, B, what Lois said -- even if there's not a guarantee, all we're on the hook for is the actual savings.

The stipulated savings is kind of an asterisk to that, and I think what you're saying is even if we measure it based on -- even if we are agreeing with the investors based on stipulated savings, you're telling us that the City does not have a risk of making more payments than, in any significant way than the actual savings in the future. If that's the answer, that's fine. I think we can rely on that, but I wanted to clear up this stipulated savings point.

MS. TRAMM: Yes, that's absolutely true. So the City will only be paying the actual savings which for some particular measures may agree to at the outset what those stipulated savings will be like lighting. Most things will be actually measured, and we will only pay, the City will only pay the actual savings.

MR. HOFFMAN: Okay. Now in terms of cost, if the guarantee is much less than the full term, should we expect this is going to significantly increase the cost of this, the interest rate of the loan and so on?

MR. FALK: No. The whole purpose, just to be clear, the whole purpose of the guarantee -- so I apologize if we miscommunicated on this before. But the purpose of the guarantee is to make the deal saleable. The number one goal at this point is to raise the financing. That's what we're looking at. That is the key hurdle that lies ahead. That's what John Coan and his team are now engaged in.

The guarantee is a tool that he can use to help sell the deal to the financing sources. That's really the way I think about it, and I think it's the way the Board should think about it.

It's a net positive tool. It can only help. It's not a guarantee of any of your obligations, the Trust's obligations. It is merely a way to reduce risk for the lenders. So the stronger the guarantee, right, the lower the cost should be for the financing. The weaker the guarantee, at some point it may incrementally cost you something.

MR. HOFFMAN: Right. That was my question -- whether there was --

MR. FALK: But I think -- what we've done is -- what Claire's been able to do is achieve an understanding with the ESCOs that we have -- that John Coan can take to the market maximum flexibility. If he can get the same pricing for a 15-year guarantee, then maybe that's where we ought to look.

MR. HOFFMAN: That's fine. If the guarantee is not the ultimate protection for the City because the ultimate protection for the City is its only actual savings that need to be paid or stipulated savings where it's virtually the same, then that's the protection. I just wanted to be clear about, you know, that's the protection that avoids the risk.

MS. TRAMM: Absolutely. That's a great way to think about it -- that the guarantee has really nothing to do with the fact that the City has no risk to pay anything more than its actual realized savings.

The guarantee -- I think I described it in our last meeting as being two perfect puzzle pieces, that with the energy savings agreement linked up with the energy performance guarantee, those two things to the end financier in the private market give them substantial belief that they will definitely get their money back one way or the other either because the savings materialize and the City does pay through the energy service agreement those savings or because the savings don't materialize and the contractor -- the ESCOs are on the hook to compensate them for that shortfall, so the two puzzle pieces are what create a nice, stable annuity, stable cash flows that they are comfortable investing in. That is the balancing act that we've created to make this an off credit and off balance sheet for the City.

MR. BEITLER: So have we addressed that question?

MR. HOFFMAN: Yeah. Right. The overall question was what are the big risks, and the question is making sure that the City and, therefore, the Trust are protected. Basically this is a public interest analysis -- is the City protected from unexpected large payments in the future, and I understand the answer which is yes.

The only other question I have before we finalize was this Com Ed issue that's arisen in the media aspect. I've seen your comments on this. Just to confirm, this transaction has nothing to do, as I understand it, with the presentation that the Trust has made to Com Ed relating to how the Trust might be able to use or intersect with its energy efficient funds. Am I understanding that right?

MR. BEITLER: That's correct.

MR. HOFFMAN: That discussion is for potentially something in the future?

MR. BEITLER: That's correct.

MR. HOFFMAN: That something in the future, it's not your or the Trust's intent to do anything that would raise anybody's Com Ed rates; is that correct?

MR. BEITLER: That's correct.

MS. TRAMM: Correct.

MR. HOFFMAN: That's what I picked up from reading. I just wanted to confirm that here.

MR. BEITLER: Okay. So just go to the Chairman.

CHAIRMAN BELL: So are there any other comments from the other Board members?

ALDERMAN POPE: No.

MR. RAMIREZ: No.

MR. BEITLER: Mr. Chairman.

CHAIRMAN BELL: Okay. Are we ready for a resolution?

MR. FALK: Yes.

MR. BEITLER: Yes, Mr. Chairman.

CHAIRMAN BELL: I need a motion if we

are.

MR. BEITLER: Would one of the Board members care to make a motion?

ALDERMAN POPE: Move to accept the resolution.

MR. HOFFMAN: I'll second it, but I do want to make some comments about why I think it's appropriate, and I know that we've been going on close to an hour today but consider this --

CHAIRMAN BELL: I think we know why you think it's appropriate, David. You've told us.

MR. HOFFMAN: Okay. Well, actually, I don't think -- I've been asking a lot of questions, so with your permission, Mr. Chairman, I would like the chance to make some comments about -- now that we have a full understanding of the why, I think this is a good deal and a very good day in the history of the Trust assuming we can get the interest rate consistent with it.

CHAIRMAN BELL: Sure.

MR. HOFFMAN: Thank you.

So I'd say that there are a handful of points I want to make briefly.

Number one, I do think this loan is

gonna allow us -- and I'm making these points thinking about our future projects as well. I think these are going to be good guide posts for what it -- you know, we look to some projects here that ended up going by the wayside which I also think was appropriate and important.

The first is that this loan is gonna allow us to pay for important projects that wouldn't otherwise be done now, and I think that that wasn't true of everything we looked at and it's true of these.

The second is that when we look carefully at these specific projects, they are, in fact, helpful and in the public interest. They weren't hastily decided upon.

The 2FM commissioner who's not here, David Reynolds, deserves significant credit for sometime ago lining up the buildings and the investment grade audits and the study of what should be done to improve the buildings.

The equipment in a lot of these buildings, police stations and libraries, is old. It needs updating. It's not something the City can do right now. This project can allow it to do it.

It's gonna make a very significant change in the real world. That's important.

Third, and this is the point we were just discussing for the last 20 minutes, the cost to do this is all paid for solely out of either energy savings themselves that would come through this or the guarantee. Therefore, it really is a project that pays for itself. That will not always be the case. That's makes it an especially good model for what we're doing.

There are no other costs or fees being imposed on City residents or users. It's a project that pays for itself. That's a great thing.

Fourth, the upside is not limited. As Claire laid out last time, the Trust and the City will receive the extra savings if the opposite of what I was talking about comes true and there's more savings.

Fifth, we wanted to ask from the beginning is this better than a bond. Why can't the City just issue a bond? It's clearly better than a bond. In a bond you don't have this downside guarantee. Regardless of the duration, there's some significant guarantee, and there's clearly a different credit analysis because of the guarantee and because of the savings stream.

Six, we were going to ask should -- could the City just do this itself. Why do we even need the Trust here? I think the same thing. It's very unlikely the City would be able just to spend this money out of its coffers on its own and the City would not be able to limit its downside risk in the same way, so I think we also answered that question affirmatively.

And, finally, I appreciate this process, and I think this was important. Look, there clearly was substantial and transparent thought and analysis that went into this option.

We were here three months ago at the -- two meetings ago and we were talking about a grantor trust. Well, look, the staff and Piper Jaffray and others turned this around and went in this new direction which clearly is a very good direction. Taking our time to flush it out, talk about it in a deliberate public way made a difference and landed us where we were now as opposed to doing it behind closed doors in a hasty fashion.

So I think this was a good lesson in terms of taking our time and making sure that we deliberate about it and get to a point where it's well thought out.

All of the documents that are gonna be defined in this deal are going to be revealed publicly to the City Council with adequate time for them to consider it, deliberate on it, act in a public fashion. That's significant as well.

So, look, we haven't done this before, and I think that those are the reasons -- I was thinking about what are the reasons that we can look to in the future that would make it a good deal. I think that those in my mind are gonna be the guide posts to the future. I think they're met here, so that's why I think that it's a -- assuming we can get the interest rate within the parameters, it's a good transaction, good model for the future.

Thank you, Mr. Chairman.

ALDERMAN POPE: Chairman, I renew my motion to approve the resolution.

MR. HOFFMAN: I second it.

MR. BEITLER: Mr. Chairman.

CHAIRMAN Bell: All in favor.

(A chorus of ayes.)

Okay. Pass.

I'd like to open it up to public comment.

I think, John, you need to work to fill that because you're there. If there is public that has any comments they'd like to share at this moment.

MR. BEITLER: Thank you, Mr. Chairman.

Is there any comment from the public? Anyone at all that cares to make a comment?

(No response.)

Mr. Chairman, there are -- there is nobody from the public audience who would care to make a comment.

CHAIRMAN BELL: Okay. Any other business?

(No response.)

With that, I think we're adjourned.

MR. HOFFMAN: Thank you, Mr. Chairman.

ALDERMAN POPE: Thank you.

(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 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 Meeting.

KELLY A. BRICHETTO, C.S.R.

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

NOTARY PUBLIC