Board Meeting: Retrofit One Discussion

11.06.2013

Presented by

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Retrofit Agenda

CHICAGO INFRASTRUCTURE TRUST

- Progress to Date
  - Issued RFQ and RFP with two subsequent addenda
- Retrofit Chicago Update
  - 2FM building renovations
  - CPS lighting renovations
  - DWM Springfield pumping station
  - Template for future retrofit projects, including:
    - CPS lighting renovations
    - DWM Springfield pumping station
    - Streetlight replacement program
    - 3 more water pumping stations
    - Lincoln Park Zoo energy facilities
    - DOA airport energy facilities
    - DOA O'Hare co-generation facility
    - Large cultural institutions (e.g., Museum of Science and Industry)
- Board Actions to Adopt Staff Recommendations
  - Approve transaction
  - Approve hiring independent financial advisor

Sequence of Events

CHICAGO INFRASTRUCTURE TRUST

Step	Respondents
➢ RFQ • Issued: January 29, 2013, Closed: March 6, 2013 • Purpose: Determine interest and qualifications for financial partners	13: Green Campus Partners, Johnson Controls, Robert W. Baird, Harvestons Securities, Metrus Energy, Citibank, U.S. Bancorp, Amalgamated, North South Capital, Energy Infrastructure Partners, PNC, Hapoalim Securities/CapX Partners, J.P. Morgan
➢ Board Resolution • Adopted August 19, 2013 • Purpose: Authorized CEO to make placement agent selection	
➢ RFP for Placement Agent • Issued: August 12, 2013, Closed: August 20, 2013 • Purpose: Solicit qualifications to serve as underwriter or placement agent	13: Bostonia Group/Hapoalim Securities, CBRE/Hannon Armstrong, Citi/Green Campus Partners, Goldman Sachs, Harvestons Securities, Piper Jaffray, PNC, Raymond James, Robert W. Baird, Siebert Brandford & Shank, Sterne Agee, Stern Brothers & Co., Stifel

Sequence of Events

Step	Respondents
➢ Addendum 1 – Contract Models • Issued: September 12, 2013, Closed: September 19, 2013 • Purpose: Determine familiarity with energy service agreements and lease financing	11: Bostonia Group/Hapoalim Securities, CBRE/Hannon Armstrong, Citi/Green Campus Partners, Goldman Sachs, Harvestons Securities, Piper Jaffray, PNC, Raymond James, Robert W. Baird, Siebert Brandford & Shank, Sterne Agee, Stern Brothers & Co., Stifel
➢ Addendum 2 – Final Clarification • Issued: September 30, 2013, Closed: October 1, 2013 • Purpose: Solicit responses to term sheet provisions • 7 teams provided terms for cost of capital, and 4 of those proposals were shortlisted	7: Bostonia Group/Hapoalim Securities, CBRE/Hannon Armstrong, Citi/Green Campus Partners, Goldman Sachs, Piper Jaffray, PNC, Stifel 4: Citi/Green Campus Partners, Piper Jaffray, CBRE/Hannon Armstrong, Bostonia/Hapoalim

Alternative Models Considered

- General Obligation Bond
  - Taxable or tax-exempt financial instrument that guarantees a set annuity backed by the tax-collection and appropriation power of the City
  - Not selected because it impacts credit rating, can constrain borrowing capacity and can be avoided for projects where an ROI exists
- Capital Lease
  - Taxable or tax-exempt financial instrument that creates a long term payment obligation for the provision of specified assets for which the user controls use and which are generally transferred to the lessee a t the end of the period. Unlike an operating lease, the lessee assumes some of the risks of ownership and enjoys some of the benefits. Consequently, lease payments are recognized as both an asset and a liability on the balance sheet. The lessee gets to claim depreciation each year on the asset and also deducts the interest expense component of the lease payment each year.
- Operating Lease
  - Taxable or tax-exempt financial instrument that creates a contingent payment obligation for the provision of specified assets for which the user controls use. At the end of the lease period, the lessee returns the property to the lessor. Since the lessee does not assume the risk of ownership, the lease expense is treated as an operating expense in the income statement and the lease does not affect the balance sheet.
  - Not selected because it may impact balance sheet and credit rating under forthcoming FASB rule changes requiring full disclosure on balance sheet
- Grantor Trust Model
  - Taxable or tax-exempt model that involves the City relinquishing to a grantor trust title to assets that backstop financial instrument issuances that still create a long-term payment obligation by the City to the Trust
  - Not selected because it is on-credit, requires transfer of title, and is novel and potentially not replicable
- ESCO Model
  - Taxable or tax-exempt model that involves the issuance of a financial instrument that is supported by an Energy Performance Contract (i.e., savings guarantee) to the end user
  - Not selected because it is on-credit
- ESA Model
  - Taxable or tax-exempt model that involves the issuance of financial instruments backed by both an Energy Performance Contract (i.e., savings guarantee) combined with an ESA (Energy Savings Agreement), which together form a consistent annuity stream for financiers. The ESA creates a contingent payment obligation per unit of energy savings generated via the provision of either unspecified assets or assets for which the end user does not control use.
  - Recommended for 2FM because it is off-credit and preserves City bonding capacity for projects that do not have an ROI

Impact of Different Models

	Bond	Capital Lease	Operating Lease	Grantor Trust	ESCO	ESA
Off Credit? - Do ratings agencies perceive that the City has issued debt and is creating fixed payment obligations?	No	No[1]	No[1]	No	No	Yes[2]
Off Balance Sheet? - Is the debt non-recourse to the City and third party repayment obligation?	No	No[3, 4]	No[3, 4]	Yes[4]	No	Yes[4]

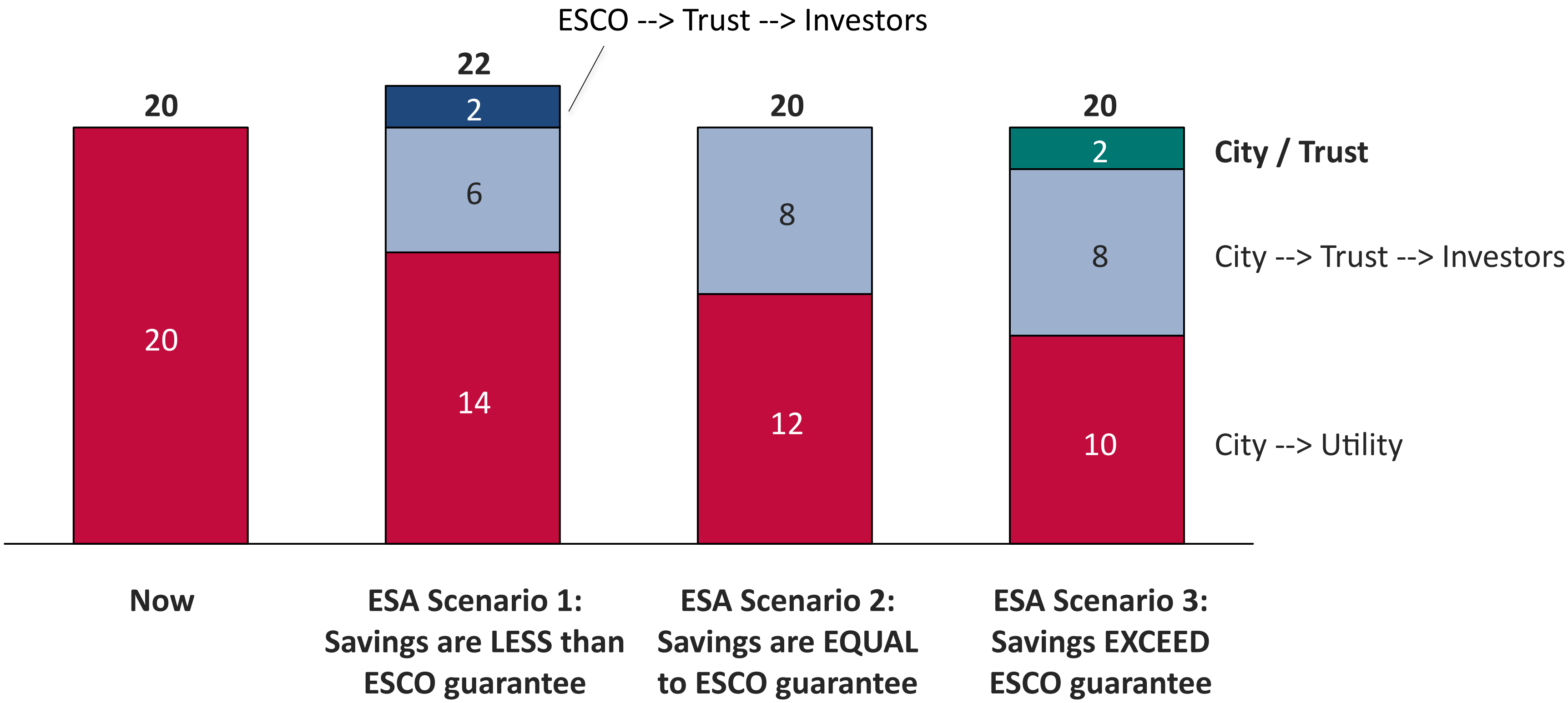
1 Long-term leases may be viewed as debt and require annual appropriation, therefore impacting credit. There could be a chance of avoiding this if structured as an operating lease with CIT, which would need to take title to assets.
2 Particular ESA offerors (e.g., Hannon Armstrong, Piper Jaffray) have confirmed the off-credit treatment with ratings agencies
3 Only off balance sheet if CIT takes title to assets and structures through operating leases
4 Pending FASB ruling expected in 2014 (leases may or may not continue to be treated as off balance sheet, but it is expected that services agreements will continue to be treated as off balance sheet)

ESA Model

- An ESA (Energy Services Agreement) is a PPA (Power Purchase Agreement) for an unspecified amount of “nega-watts” (i.e., energy savings) or a sharing of expected energy savings
- Similar to a revenue bond, creditors’ claim is on only the particular revenues/savings associated with the project
- Similar to a utility bill, it has a variable payment stream that is contingent upon a product or service’s delivery, so is treated as “off credit” by ratings agencies
- Unlike a bond, it requires no guarantee or reserve (just a UCC 9 Fixture Filing to secure contractor in case of default on proven savings)
- Because the contractor is responsible for maximizing savings, it is also responsible for design, installation, O&M, and monitoring

Trust Keeps Potential Upside, Not Investors

Diagram of Example Energy Payments under ESA Model
$USD Millions



Capital Lease Model

- Taxable or tax-exempt financial instrument that creates a long term payment obligation
- Has less deleterious impact than traditional debt or bond
    - Lower coverage requirement
    - Lower security requirement
    - Lower cost of capital
- Leases can be funded from operating budget

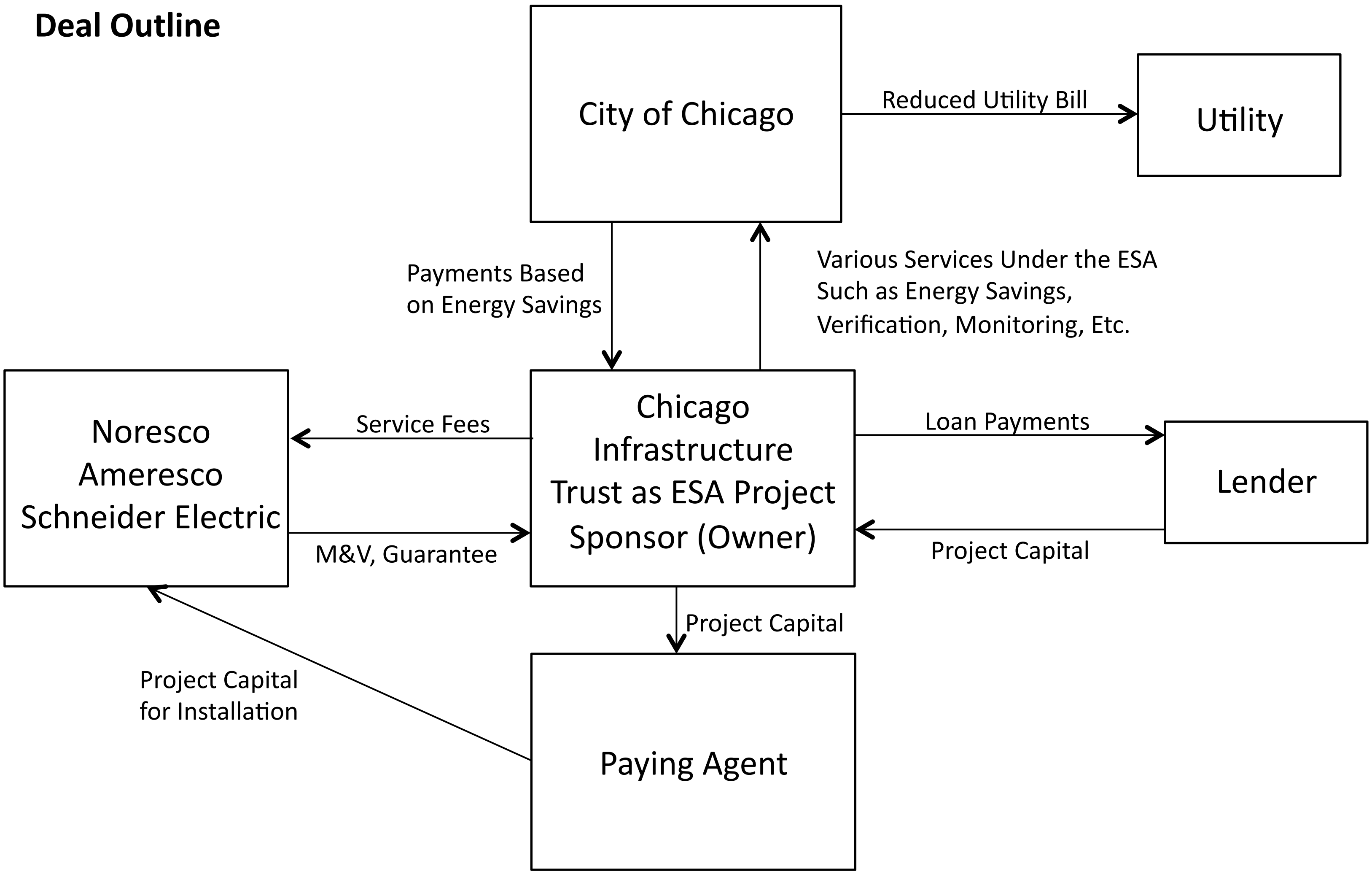
2FM ($27.5 MM): ESA Recommended

= Recommended contract type   = Reason for elimination

	Capital Lease	ESA
Tax Status	Tax-exempt	Tax-exempt
Credit Impact	On	Off – no savings, no payment
Balance Sheet Impact	On	Off – no savings, no payment
Trust Role	Trust issues tax-exempt debt instrument	Trust issues tax-exempt debt instrument
Security Interest	UCC Fixture or Personal Property	UCC Fixture or Personal Property
Ownership at End of Term	Automatically reverts to City through nominal purchase option	Automatically reverts to City through Trust abandonment of property (City has fair market value purchase option)
ESCO / Savings Guarantor	No	Yes
Indicative Interest Rate + Fee	3.84 – 4.75%	3.84 – 4.75%
Term	15 – 20	15 -20

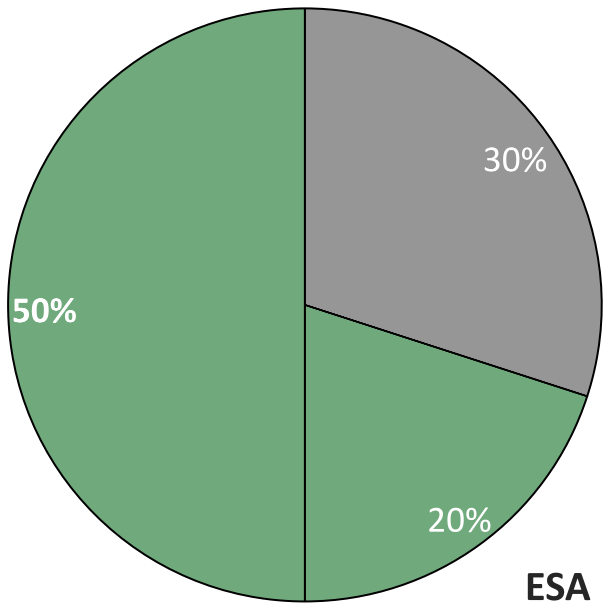
2FM Deal Structure: ESA

Deal Outline



ESA is the Preferred Structure

% of Recent RFP Addendum Respondents Proposing by Contract Type



Lease

- Goldman Sachs
- Siebert Brandford Shank & Co.

ESA or Lease

- Bostonia Group & Hapoalim Securities
- Citi & Green Campus Partners
- Piper Jaffray
- CBRE & Hannon Armstrong
- Stifel

ESA

- Sterne Agee
- Stern Brothers & Co.

Recommendation*: Piper Jaffray

Piper found to be:

- **Least cost**
- **Most favorable terms & conditions**
- **Best value**

	Tax-exempt ESA			Taxable ESA			Tax-Exempt Lease	
	Respondent 1	Respondent 2	Piper	Respondent 1	Respondent 2	Piper	Respondent 2	Piper
Term	15	20.8	15	15	22.9	15	17.7	15
Interest rate	4.750%	5.360%	3.750%	5.350%	5.910%	5.450%	4.200%	3.750%
Placement fees	0.410%	0.082%	0.070%	0.410%	0.082%	0.070%	0.082%	0.070%
Spread adder	0.000%	0.300%	0.000%	0.000%	0.250%	0.000%	0.250%	0.000%
Legal & other	0.000%	0.000%	0.020%	0.000%	0.000%	0.020%	0.000%	0.020%
Total	5.160%	5.742%	3.840%	5.760%	6.242%	5.540%	4.532%	3.840%
Fees only	0.410%	0.382%	0.090%	0.410%	0.332%	0.090%	0.332%	0.090%

* Respondent 3 ESCO model proposal not included since this arrangement is less desirable than the above options under any circumstances

Schedule

- 6 November – CIT Board decision
- 7 November – Memo to Legislative Counseling & Govt Affairs (LCGA)
- 13 November – Draft Ordinance, including designating CIT as "On Behalf Of Issuer"
- 13 November – 2FM bid sheet due
- 13-20 November – CIT Board decision (if necessary)
- 13 November – Introduce ordinance to City Council
- 20 November – Rate lock (contingent on City Council)
- 2-6 December – City Council and Finance Committee Chairman briefings
- 4 December – Report from independent financial advisor
- 9 December – Finance Committee meeting
- 11 December – City Council vote
- 19 December – Close