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

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MR. DAVID DOHNALEK

CHIEF EXECUTIVE OFFICER:
MR. STEPHEN BEITLER

July 19, 2013
10:00 o'clock a.m.

Gleacher Center
450 North City Front Plaza
Room 306
Chicago, Illinois

CHAIRMAN BELL: Good morning. I see we are a little past 10:00 o'clock and all the Board Members are here, so I would like to call this meeting to order and thank all of you for attending and participating in this important process, especially in light of what just came out with the downgrade of the City.

I think this puts more onus and emphasis on why what we're doing is so important to try and create some alternative sources of financing to help support the City as it continues to try to improve its infrastructure.

I'm going to jump right into the agenda. First I want to apologize to our Board Members for the lateness of the material we got. I just wanted to be sure that we had it as complete as we could and have as current of data as we can have in the package.

And since we are at a real critical decision point, I thought it would just be good to have this update since we haven't had any update for ourselves or for the public in four months, and I just wanted to be sure we understand where we were in the process.

Going forward we're going to do a better job with that, so I just wanted to make that commitment to our Board Members and to all you all that if we get material late, we may have to look at moving the meeting so that the Board really has ample time to review it because now it becomes critically more important as we work our way through the detail of a deal that we do understand it and that we vet it properly, and that's what we will do, so my apologies.

First order of business today is the approval of the minutes from the April 13th -- April 3rd meeting. Any comments, discussions, corrections?

MR. RAMIREZ: Motion.

MR. HOFFMAN: Second.

CHAIRMAN BELL: All in favor?

(A chorus of ayes.)

Second order of business. Some of you may have met Tracy Mendrick (phonetic). She helped us in the announcement. She helped us with the press around the hiring of a CEO. And she is still helping us to deal with -- you know, help us to coordinate with the press in order to have consistency of message, the interface with the City to make sure we are all on the same page and to help us in anyway she can in terms of getting our message out.

Now, Tracy has 25 years of experience in this area, public relations, strategic thinking and within management, and we're absolutely pleased. Tracy, would you stand up so everyone can see you?

MS. MENDRICK: Thank you.

CHAIRMAN BELL: Welcome and thank you for your past support and thank you even more for what you're going to do for us. We appreciate that.

Moving to the second agenda item, the contracting manual. I'm going to turn it over to Steve to sort of run us through that. I'm not sure you all had an opportunity to read it, but essentially this is the document that will document how we're going to conduct our business.

Now it's a living document, but I think it's important that we get a framework in place so that we can get going. We're pretty far downstream on the retrofit project. We want to make sure that we have documented how we're conducting our business.

And, again, I know you haven't had a lot of time to read it, but why don't you briefly walk us through it, Steve? I think the Board can decide if they are ready to make a motion or not, but I would encourage us to, if we feel comfortable enough, just to have a framework in place and then we can obviously review and revise it, review and revise it. Steve?

MR. BEITLER: Thank you, James. Basically on Page 3 of the manual is the table of contents. It's in everybody's book in the room.

And as in a typical manual, there's a set of definitions and best practices concepts and so on. The heart of the manual really is two things. One, it's procedural. It's sort of if you want to respond to something, here is where you mail it, this is how many copies are required and those types of items, which I don't think we need to go over today.

And then there's the proposal selection process which is largely starting on Page 15 of the manual, and this takes us through the different processes that are available for the Trust from the perspective of conducting business.

So it ranges from the typical competitive process where you might have RFIs or RFQs, RFPs to a process where there could be a predevelopment agreement or there could be an unsolicited proposal that gets submitted and then a competitive process occurs after that unsolicited proposal is received.

So it provides for multiple methodologies for the purposes of considering a proposal, and that's probably the heart of the manual in these two or three pages.

The rest of the manual is largely again administrative in nature and determines just how to go about doing the procedure of submitting a procurement.

So that's really the manual. It's not a very long manual. It's a short manual. We've looked at a lot of analog organizations to be able to create the manual, so we've gone to Partnerships BC, Infrastructure Ontario, the State of Virginia, the State of Texas, the Commonwealth of Puerto Rico in particular to get information to be able to craft this particular manual, and those five organizations or locations are considered the leading edge places to go.

CHAIRMAN BELL: So we didn't reinvent the wheel. We did sort of piggyback on the --

MR. BEITLER: Actually we removed the footnotes at advice of counsel, but it was heavily footnoted as we went actually, and I hate to say it because there's probably no novel ideas in here.

We basically went and looked at all the analog organizations, talked to them and took what was working at those organizations and crafted it in this particular manual.

CHAIRMAN BELL: Questions? Comments from the Board?

ALDERMAN POPE: Yes.

CHAIRMAN BELL: Yes.

ALDERMAN POPE: Steve, this does not in

anyway take us away from the commitments we have in terms of City requirements, MBE, WBE, public solicitation? I just want to go on the record to ensure that it all meets public policy.

MR. BEITLER: It's not to meant supplement anything of that nature. Well, it is not meant to eliminate anything of that nature. It's a supplement as to how we do business.

And, in addition, it's not meant to eliminate the need to discuss in an RFP aspects of business that are requirements that would be laid out in an RFP. So this is a procedural manual as to how we would conduct business and then the RFP would contain specifics pertaining to any business requirements.

ALDERMAN POPE: Thank you.

CHAIRMAN BELL: Scott?

MR. FALK: Alderman Pope, it's Scott Falk with Kirkland & Ellis.

Alderman Pope, it may be worth pointing out there's also no formulaic procedure by which proposals are evaluated. There are a number of factors that are cited beginning on Page 20 for how you would take into account various facets of a proposal received by the Board, but the Board has retained flexibility to weigh those various factors in whatever way in its best judgment would be appropriate for any particular project, and so you can take into account those factors that are deemed to be in the best interests of the City of Chicago and the taxpayers when evaluating proposals.

There's no set formula baked into this manual as to how you need to, on a rote basis, process every proposal. It is very flexible.

ALDERMAN POPE: Nor does it exclude any particular process or requirements.

MR. FALK: Correct.

CHAIRMAN BELL: David?

MR. HOFFMAN: Two quick comments/questions. First on the -- Steve, first of all, kudos to you and all the folks at the Trust. I think you have some interns working on this.

MR. BEITLER: Actual Adam Hullin (phonetic) is here and Adam is a principal architect of the manual. He came to us from

Coca Cola and is processing leaving. Sorry to interrupt. Just to say thank you to Adam.

MR. HOFFMAN: That was a little bit where I was headed. Thank you to Adam. Thank you to you. I think this is a really worthwhile project, and I know it took a lot of time and it is not a finished product. So thank you both. I'm sorry, Adam, to see you go. Maybe we'll see you in the future.

Two points. First on Page 10 you talk about initial programs and project selection and there's something that defines how we're going to do project selection. In other words, post -- in addition to or other than Retrofit, how is the Trust going to select general topics and projects?

And I want to say how happy I was at how broadly this was written. The Trust will identify projects from a range of sources, its own research about emerging technologies and best practices, the City of Chicago and sister agency operational goals, infrastructure needs and capital budget constraints.

Of course we're going to be hearing

from the City about their thoughts in this and input from potential investors, citizens, public interest groups and other potential users.

In other words, it's as wide as it should be about where the ideas will come from. They may come from your own shop, our own shop. They may come from just anyone outside. And I know this is what you want to do as well as you find time for this, but I would encourage us, as soon as is practical, to set up something on the website that allows for citizens or anyone else to say here is an idea. I think that would be -- that will really help us in the future. So I want to give you praise for saying it exactly the way you did.

The second point I want to say is something about transparency with regard to our processes. So to me this is not a point worth spending significant time on because the manual says this will evolve over time, and obviously we can adjust and change and add and improve over time, and my guess is that that's what will happen.

I just want to make a preliminary

comment that, and you and I have discussed this, I don't think the manual says anything about how our process will be transparent.

In other words, it doesn't say -- and at this point in the process that part of the process will be we will provide all this information publicly or we will post all this information. It doesn't attempt to draw the line between what may be kept confidential in the middle of the procurement process or what will be transparent.

You know my view that we should be pushing as hard as possible to have everything transparent in the procurement process unless we can articulate some very compelling reason not to. I'm comfortable, since we haven't done a procurement yet, although that may be coming relatively soon, with that being a next step, but I think that needs to be a next step, as you and I have discussed.

So I think it's perfectly fine that it exists the way it does now, but I think in short order what needs to be added to this is what is the process for making things transparent and at what point and to the extent those involve difficult decisions, let's address those. To the extent it's easy, let's put it in there.

So I wanted to make that comment. I know you and I have discussed that. I know it's on your list. Whatever you can do to put it near the top of your list with our great advisors from Kirkland would be helpful.

MR. BEITLER: Let me add one comment now that we're addressing this particular manual today, which is the first time it's in a decent form. Basically we're hoping -- we're going out to various constituencies and asking them for comment, so we would expect that many people will come back and say like well, what about this or what about that or what about this, and so I would expect over the next several Board meetings that there will be potential changes to the manual.

MR. HOFFMAN: Okay. On those lines, and again this goes to the website, I know the website is an agenda item later so I don't want to push hard on this because I know there's been issues with the website. But again, just in the form of encouragement, I think that if it's feasible as soon as possible to put something on the website that allows for public comment.

For all we know the best expert that will help us answer the question about how this can be improved is someone out there, they may be in a different state, they may be in a different country, who can see this online and give us a comment.

I think the more we set up our website so that it's easy to hear their thoughts, the better we can do. So I would just encourage that if that's not set up already, I see you scrolling, if that's not set up already, I'd like to --

MR. BEITLER: Well, we have a schedule of things, but we just put on a contact us on the website to make sure that at the very least we had a place where somebody could send a comment. There's actually about five or six places on the website where you can contact us for different purposes.

MR. HOFFMAN: I'm no website designer. I'm imagining something bigger, more prominent, but you decide.

MR. BEITLER: That's just an interim.

MR. HOFFMAN: Yes, I understand.

CHAIRMAN BELL: That's just one place that's at.

MR. HOFFMAN: You decide. Thank you very much.

CHAIRMAN BELL: Any other comments?

Just one other thing, Steve, we'll probably get a lot of suggestions for revisions so let's block them, let's not do them one at a time. Let's gather them and let's do a revision so we're not always in that state of asking us as a Board to approve revisions.

MR. BEITLER: Yes, sir, we will.

CHAIRMAN BELL: Okay. With that I guess I'd like a motion if we're comfortable in putting this in play and then recognizing it's going to be a living document.

ALDERMAN POPE: Move do pass the resolution for the contracting manual.

MR. HOFFMAN: Second.

CHAIRMAN BELL: All in favor.

(A chorus of ayes.)

Great. Okay. We've been working hard on the budget for 2013. We've actually tried to look further out and I concentrated on '13 because I think we got to give Steve some authority to go out and get him a little help and get this infrastructure in place.

And I think, as you all know, we have been relying on the pro bono support from everybody that has been supporting us, including office space for Steve, and at some point we got to grow up and decide we're going to have permanent infrastructure.

Now, we are mindful we're spending public money so we are going slowly, and, you know, I've had Steve really drag his feet and that's been difficult, but I think we're okay for now, but I think now is the time for us to decide to give him some authority, and we've worked this budget pretty hard from where it originally was to get it down to what we think our spend rate given the first part of the year has been and what we think we'll spend in the second part given the things that we know we have in front of us.

So, Steve, why don't you sort of walk through it? And again we will not spend the money if we don't have the expenses, but we do need to provide for this and help the City plan in terms of what they're going to have to give to us over the next six months.

MR. BEITLER: Thank you. Basically you can see the budget on the two -- the Board can't see it, but it's in your book. The audience can see the budget.

The largest item is payroll. Basically the payroll item is for me for 11 months and then for three additional persons that we would hire in the last quarter of this year and the payroll related expenses that go with those four individuals.

Then you can see the expense categories that we created for purposes of managing the Trust. I think that as you'll note on the bottom of the page, there are some notes that address some of the major expense categories, so I think one difference today as opposed to for those of us who may have been running a corporation a decade ago is that software now comes as a service and so there's a large expense item for software.

The two largest expenses in that software area are actually for something called ShareVault which is a data vault that we would use in the deal process to provide information to potential investors and GIS mapping software that we're using or will be using.

Then there's all of the typical expenses that you would expect. Insurance is a very large expense area, and the D&O insurance in particular for the Trust is a very expensive insurance item.

The next particularly large expense area is consulting. The major areas in consulting at this point are accounting audit, IT support, website design. There's a number of facets to our website design that we are spending money on, and so those are large expense areas this year in terms of website design and IT support which in subsequent years will decline as the website gets mature and the capabilities for engaging with investors in particular, but also the public are also put into place on the website.

So basically we have a total budget for this year of about $835,000. There's a large miscellaneous expense. I've never been a big fan of miscellaneous expenses. It's a hundred thousand dollars.

The reason for that is because of project expense which is very hard to get a handle on as we're just beginning to do projects, and we have certain expenses related to those projects that we're already committed to, such as an independent financial opinion for the deal that we're currently considering.

So those expenses for the moment are lumped into here until we can create project budgets which hopefully we'll begin to do in the next quarter.

So basically that takes us to a budget of about 835,000 between payroll and the other expenses, and that's for the entire 2013.

CHAIRMAN BELL: Questions or comments

from the Board?

MR. HOFFMAN: I'll ask you a few questions. The three new hires for one quarter each, can you just give us a little bit of information about your thoughts about what kind of positions you're thinking about?

MR. BEITLER: Yes. Basically one person is an admin person and also doing IT work, so somebody who's versatile, who can do bookkeeping and IT and whatever other administrative activities we require at the Trust.

And then the other two individuals are financial people that will be able to do financial analysis, heavy duty spreadsheet work and who have experience managing projects, doing project finance and so forth.

MR. HOFFMAN: I'm glad that the first position is the one that you described. I know given how hard you've been working and how much is on your plate, I don't need to encourage you to put that right at the top of the list, but I would encourage, having observed how much you're working, to put that up at the top of your list.

I think that would, as in any situation like this, help.

Question about -- on the miscellaneous expense, couldn't it be more -- I don't like items that say miscellaneous.

MR. BEITLER: I don't either.

MR. HOFFMAN: Let me just respond. I think what you said was really not miscellaneous. What you said was project expenses that are undefined at this time, which I think is fine. Let's define it that way because I think that's more limited than just miscellaneous.

And I think defining it that way, which therefore is not as open, wide open discretionary, it's just basically anything would be helpful. With that I think it makes sense, and I think what I would -- on consulting I was also going to ask. That's a large number, although it's not necessarily inappropriate, it just depends, so I had a couple questions. How much have we spent approximately from that already?

MR. BEITLER: Well, it's more a

function I think at this point of obligation as opposed to the amount that's been spent.

MR. HOFFMAN: Spent or obligated, that's fine.

MR. BEITLER: Right. So of the $189,000 that is down here, we probably spent in the neighborhood of 40 to $50,000 and the remaining has been obligated based on the projects that we've agreed to conduct with the various consulting organizations.

MR. HOFFMAN: So this is an amount that we -- that, you know, we are going to have to spend by year end because of either what's out the door already or obligations?

MR. BEITLER: That's correct.

CHAIRMAN BELL: As long as the timing holds, David. If it doesn't hold, if the timing doesn't hold and we don't get to all of them, it could slip to 14.

MR. BEITLER: But a significant portion is the website. We have a project planned for the website.

CHAIRMAN BELL: Remember he's got IT in there, he's got the accountants in there that's going to do our accounting, and he's got -- what was the other major thing, Steve?

MR. BEITLER: Well, the audit which we have --

CHAIRMAN BELL: The audit which will be at year end where we got to do an audit and get the financial statements.

MR. HOFFMAN: So can you just give us a general breakdown since it's known now how it's being -- it's expected to be spent? Can you give us a general breakdown of this $190,000?

MR. BEITLER: I can give you a general breakdown. I'm not exactly sure how things will wind up completely. For example, the accounting bills that we've had to date are about $5,500, but I'm not exactly sure how much our total accounting will be by the end of the year because as we set up systems that involve the accountants and the accountants participate in establishing those systems, our accounting bills will be slightly higher this year than they would be in a normal year where those systems exist.

So I think our accounting bills, you know, I would presume would come in at about 15,000, maybe 20,000 this year. The audit -- we haven't hired an audit firm yet. The accounting company is helping to make recommendations for our audit firms, and then the treasurer will, of course, need a process to determine who the audit firms will be. So at this point we're just beginning to look at audit firms. The IT support --

CHAIRMAN BELL: What do we think an audit would cost us, 20,000?

MR. BEITLER: I think it's somewhere in that neighborhood. I don't know. The treasurer might want to --

CHAIRMAN BELL: We have no idea because this is the first year. We have no idea what they will look at. Just say we're provisioning 20, 25 grand for it but we'll see.

MR. BEITLER: I'm hoping that it's somewhere in that ballpark.

And then the software, so the website design is about $68,000. The SharePoint internal portion of the site is another 20 or

$30,000, and the ShareVault site that goes with the SharePoint site is another 10 or so thousand dollars on top of that. So the software is a significant component. The D&O insurance is almost $40,000.

MR. HOFFMAN: I just wanted to stay with the consulting.

MR. BEITLER: So those are the major consulting.

MR. HOFFMAN: That's helpful. I mean, basically what I hear you saying is the website design is actually around half or more than half of that.

MR. BEITLER: More than half.

MR. HOFFMAN: That's fine. I think that over the next -- you know, up to the next Board meeting I think that as you're -- it would be helpful to get something that's a breakdown of this, especially as the money is getting spent more to show us the specifics of this line item since I think it's a big line item within the total budget.

MR. BEITLER: I've committed for the next Board meeting to have actuals forecast and the budget financials.

MR. HOFFMAN: But if you could break this line item down.

CHAIRMAN BELL: We will do better on that.

MR. BEITLER: Yes, I will.

MR. HOFFMAN: Thank you.

MR. RAMIREZ: Mr. Chairman.

CHAIRMAN BELL: Yes, sir.

MR. RAMIREZ: If I could, I just want to go back a little bit and talk about miscellaneous again. I too do not like the miscellaneous being in budgets. I don't think many folks do, but it's a necessary thing at the same time.

Although I do think we should show with specificity where the money is going, I'm in favor of keeping a miscellaneous item because especially we're still in our infant stage or maybe toddler, I don't know, however you want to describe it, but things happen and things come up and miscellaneous is allowed to give flexibility. I'm in favor of that flexibility as long as it's accountable.

So I am in favor of keeping that miscellaneous in the items and just encourage you to do it. I always tell folks the same thing, leave yourself some room for flexibility and never undercapitalize your projects.

I think it's an important and necessary thing to do, although I do agree with Director Hoffman's suggestion that it should be accountable to where it's going. I don't think you are suggesting otherwise. I just think if you define it too narrowly then it takes away your flexibility to any of the issues that come up later.

MR. BEITLER: I'll work with the treasurer to make sure that we do that.

MR. RAMIREZ: Okay.

CHAIRMAN BELL: Any other comments?

TREASURER NEELY: Mr. Chairman, can I ask a question?

CHAIRMAN BELL: Sure.

TREASURER NEELY: Can we have further breakdown on the three people you're looking to hire on what you're expecting to pay them?

MR. BEITLER: Yes. Base salary for the

assistant/accountant is $65,000. Base salary for the associate is 120. Base salary for the managing director is 170.

CHAIRMAN BELL: Other questions?

I just want to remind you that as a Board that we're a start up so we're going to get better at being able to figure out what the budget should be and is once we operate a year and then get some experience behind us.

Obviously I would not have asked -- allowed us to spend a hundred thousand on a website except that's the fundamental basis of our transparency and making sure that we're open and so we just had to do it. That would have been the last thing I would have put money in the budget for. You did a good job of putting that together.

MR. HOFFMAN: I've got one more comment. Sorry, James.

CHAIRMAN BELL: Sure.

MR. HOFFMAN: Just to clarify, Steve, all of this $835,000 is a -- is within, easily within the amount that's already been appropriated by the City to the Trust.

CHAIRMAN BELL: Absolutely.

MR. HOFFMAN: It is actually less than half of that amount. So this doesn't require us to ask for anything at all from the City because it's based on money already appropriated; is that right?

MR. BEITLER: Yes, that's correct

MR. HOFFMAN: Thank you.

CHAIRMAN BELL: We're just trying to get more finite with what we need and then let them -- and we got to start giving them insight on next year and the following year because they got to get it into their planning process.

So in the next meeting we'll probably be coming forth or the next two meetings coming forth with what that recommendation would be for the next couple of years.

Okay. Any other questions?

(No response.)

Do I have a motion?

ALDERMAN POPE: So moved.

CHAIRMAN BELL: Second?

MR. HOFFMAN: I'll second.

CHAIRMAN BELL: All in favor?

(A chorus of ayes.)

Great. Thank you very much. Website?

MR. BEITLER: Yes. So actually the website is on the screen behind the Board. This is the home page. Basically there is a section on the website on the top with the latest news that you can click through.

So in this case the meeting notice and agenda are posted twice on the website, once there, and you can click through to see the whole thing.

And then ideas and projects are actually focused on the left side of the page when you are facing the page. And then the latest Board meeting is also posted on the page in terms of the next Board meeting that will occur.

Then on the bottom and the top are the typical menus that will occur. In this particular case there's a video on the top that you can click on that shows President Clinton and Mayor Emanuel introducing the Trust and then there are initiatives that we're considering that are ideas or projects that are on the initiatives page.

There's an about page, and as you can see here, there's several menus in terms of how the Trust works, its strategy, operational principles, who we are, alumni.

Now, the website was hacked in the not too distant past so we remain in the process of restoring some of the functionality that was previously on the website and are in the process of doing that.

There will also be press information coming soon and then public records will be on the site and that will include scheduled meetings, meeting records and documents. For today, for example, in meeting records is the agenda for today's meeting.

The previous information that was on the website will be posted again to the website as we get to it hopefully in the next week or so.

And then the blog is, in fact, that portion in the front of the site on the home page that lists today's agenda and the next meeting.

So that's simply the website. It has been built so that we can add significant functionality in there over the next few months for the purpose of interacting with the public and for the purpose of interacting on projects.

So there will be, for example, functionality so that anybody will be able to sign up at any time there's a significant information that's posted on the website, that person who signs up will get notice that there's a change on the website and they can come and look and see what that information is.

So in particular if you are in a company that would be interested in an RFQ that we're posting then you will get notice of the fact that that RFQ is posted, which would be helpful because while we may have a list where we go out and send the RFQs to those people on a list, there may be others who would be interested in receiving the RFQ.

CHAIRMAN BELL: Steve, are you comfortable that this web design has better security and is less likely to be hacked? I mean, did we -- do we know that up front?

MR. BEITLER: Yes. As far as we know basically we did not have a very good situation in terms of where the website was previously located so it was on a sort of free server which you couldn't even contact by telephone and so there were a whole host of issues.

The WordPress as far as we know, and I didn't want to spend so much money to figure all of this ought distinctly, but based on spending enough money to see if we could recover the website, it would appear that that particular site did not maintain the WordPress security properly and that there are people that just troll on the web and they look for these security flaws and then they don't care who you are. So basically we fell victim to that.

The site was not really recoverable. Fortunately we were working on the design of the new site anyway, and we rushed to put that site up at least bare bones and now we're putting the functionality back that we were lacking that was previously on the previous site and adding functionality that will enable us to better conduct business.

CHAIRMAN BELL: Great. Thank you. Any questions, comments for Steve on the web?

MR. HOFFMAN: Steve, I know no one is more frustrated about this than you. You and I have discussed this. Just to state it out loud here, I would ask the folks who are working on the website that we're paying to put it at the top of their list to get the documents that were posted and our key documents back up.

I say that because A, it feels like it should be a relatively simple thing for them to do; and, B, it's at the heart of allowing someone on the outside to assess what's going on here.

At this point they go to the website, they can't figure out what's going on because they can't see the documents. I'm not saying anything that you don't feel even more strongly than I feel, I know, because you told me that, but I think, therefore, what I would ask is when it's up, when the documents are up, which as I said hopefully is in a week or so, would you send us an email saying just wanted to let you know, Board Members, the documents are up so that we know that that particular part of the frustration could end because somebody has fixed it. I would appreciate that. Thank you, Steve.

CHAIRMAN BELL: Any other questions?

(No response.)

Okay. The next item on the agenda are some of the other things the Trust is working on, so, you know, you're wondering -- just in case you're wondering is all the time being spent on just Retrofit One, it's not, so there isn't a lot of downtime when we're not making, you know, progress or we're in between steps on what we should be doing in the Retrofit process.

So I've asked Steve to sort of give us a feeling for what other things are being considered and what are the things they are working on and do a brief overview of that so that we have the bulk of the time available to really talk about the update on Retrofit. Steve?

MR. BEITLER: Thank you. As you can see on the chart in your book or behind you, there are four areas that we as the Trust have begun to focus on, energy, underutilized property, transportation and opportunistic, but really the first three areas.

One of the reasons that we're focusing on these areas in particular is because there are clear paybacks available from the projects in these project areas, and they are also potentially quite beneficial to the City.

So among the focus areas in energy are retrofits that go beyond the current retrofit program that we're talking about today, including projects for lighting, the Lincoln Park Zoo, O'Hare Airport and then PACE, Property Assessed Clean Energy, which we can do under current legislative authorization for commercial buildings and are reviewing.

Citywide solar and wind which for solar the economics appear to be there for the purposes of doing a very large solar project in the City and so we're examining that. We're also looking at wind. Some people get skittish about large wind turbines in an urban area, so we are looking at distributed wind, particularly on right-of-ways around the City.

And then we're also looking at geothermal which is an idea. There are a number of cities in the United States that actually have eliminated the need for snow plowing through the use of geothermal melting in our streets, so we have to do an analysis of the cost per square meter of snow removal versus the cost per square meter of geothermal.

And then we're looking at compressed natural gas as an option for use in the City fleets and for filling of non-city vehicles as well.

In the underutilized property area, which is I think is a very exciting area, we're looking at the development of many properties that the City owns. So the City actually owns 15,500 vacant lots as well as significant air rights that are not developed, and we believe that there are areas of great potential in terms of developing those air rights for transit oriented development, for agriculture, for data centers and for affordable housing.

So we are in the process of cataloging all of the property for the City and the sister agencies in a single database and looking at which properties are congruent to each other and which properties have adequate space for development, and that project should probably be done in the next month or so and then we will be able to come back with recommendations about the property.

For transportation we've begun discussions in particular with the CTA and are looking at how the Trust can collaborate with the CTA regarding the red line and on station redevelopment as well as aps for parking, for park and ride and neighborhood parking.

So those are the major areas that we are looking at.

CHAIRMAN BELL: Give them a sense of the number of identified projects you have even though we're not off and running, but there's a lot of opportunity in these areas.

MR. BEITLER: There's a tremendous

amount. One of the surprising things is how the underutilized property really affects most of these projects areas. For example, for solar developers, the thing that they're looking for are customers and property, and there are some significant swaths of property in the City.

We have actually been approached by some corporations to see if there's property that we, the Trust, might be interested in that they have that they feel is underutilized for them. So there's some very interesting developments, and I think that these program areas have significant potential.

Additionally, if we can be successful and structure these program areas properly so that the Trust can make a certain amount of money from these program areas, then we could theoretically funnel that money back into programs and projects that don't have a return.

So if there's a bridge that needs to be rebuilt and the Trust is able to make money from one of these programs, then we could theoretically spend that money on the bridge for which, for example, we're never going to charge a toll to go over the Chicago River.

CHAIRMAN BELL: And I think all of you know that the intention is that this Trust be self-funded over time and so that's why we're looking at some of these other projects that would have a greater return and would allow us to do something to benefit the City but also to pay for the effort that's spent in order to make it happen. There's a lot -- he showed me hundreds of them. I said we're not ready to talk about these yet.

MR. BEITLER: No.

CHAIRMAN BELL: We got to get through this first one to get the process down and make sure we are comfortable with how transparent we are and that we have a real way to get down to understanding that the deal we come up with is really is in the best interests of the City, and that's not as easy as it seems. It just isn't.

We got to figure that out on this first one and then I think we'll let them know on the others.

MR. BEITLER: If I may, I think we have

learned that we should probably think about these things as ideas, projects and programs, and that principally at the moment we're investigating ideas as opposed to creating projects.

CHAIRMAN BELL: Okay. Any questions of Steve on that activity, on the other things the Trust is engaged in?

MR. HOFFMAN: No questions from me. I would just say nice job, keep it up.

CHAIRMAN BELL: Okay. Why don't we get into the major agenda item and that's the Retrofit update? Steve, why don't you set it up and then let us know how we're going to go through this.

MR. BEITLER: I think the best thing to do here is to go through the presentation which is in the back of everybody's book. It's the last tab.

For that purpose I will be assisted at a certain point by David Winters who's the Chief Assistant Corporation Counsel of the City and Jerry Wallack from Kutak Rock who is representing the City for bonding. So would you like to proceed?

MR. HOFFMAN: Yes.

CHAIRMAN BELL: Yes, do it.

And, by the way, as we go through this, be mindful we're going to ask questions as we go, we're not going to wait until the end so I don't want anybody to think we should do that. It may be a little disruptive, but I would rather people at the end of this have a good feeling and understanding of where we really are and what you're really asking us to do based on that.

MR. BEITLER: Yes, sir.

CHAIRMAN BELL: Everybody, it's not personal. I just want to make sure we understand it.

MR. BEITLER: The first slide discusses the CPS lighting project. It's approximately $20 million of funding, exclusive of grants. So the first line in the next three slides would be an approximate number because it includes fees that are associated with the financing and we're not precisely sure of what those fees are so we've estimated them.

In this particular case the grants and rebates that CPS has or will receive have not yet been recognized as revenue so we're looking for $20 million exclusive of grants.

TREASURER NEELY: Do we know how many grants we're going to receive?

MR. BEITLER: Yes, $7 million. We expect that the annual energy savings will be $2.2 million for project purposes.

CHAIRMAN BELL: And on that, we are comfortable that the methodology used to determine and estimate those savings there like meet standards of some sort for developing energy savings?

MR. BEITLER: Well, in each of these projects there are several gates that have already been gone through. So, first, the agency involved does their own analysis. Second, there is a consulting organization that has done an analysis for the Trust, an engineering consulting organization with expertise in energy that has done an analysis for the Trust.

Then the Trust through PFM has also

done a financial analysis beyond the engineering analysis. And then finally we will engage an independent financial organization for the purposes of an opinion as to whether or not we correctly did the analyses, as well as whether the deal structure is appropriate. So we have those four wickets, if you will, for the purposes of --

CHAIRMAN BELL: What I'm trying to get at is are those sort of recognized, an industry standard? Essentially what we're going to do is try and sell these revenue streams, and I want to be sure -- the only way we're going to get good pricing is if they don't think it's high risk, and there's got to be a way for that assessment to take place.

MR. BEITLER: The Energy Services Corporations who did the analyses used standard methodologies, and all savings have been vetted against standard methodologies.

So once again we're not reinventing anything. We're not creating any methodologies. We're adhering to best practices within the industry.

MS. FERGUSON: Can you remind us who those firms are?

MR. BEITLER: There are three ESCOs that were involved, AE Com, Schneider and Ameresco. Then there's one additional firm that we hired through the PBC whose name escapes me at the moment.

MR. FALK: Arcadis.

MR. BEITLER: Thank you. And Arcadis. They did the additional analyses beyond the ESCO analysis for the Trust and the City to determine on a financial level, and then PFM did a financial analysis for the Trust to determine savings rates and terms.

So in the case of CPS, we believe that we have sufficient cash flow to fund improvements based upon a 10 year term.

CHAIRMAN BELL: Thank you.

MR. HOFFMAN: I had questions on this area as well that I think relate a bit to all three of the categories, but since we're talking about it now let me just -- what you're saying is responsive to it.

You know, we hadn't heard from the

City departments since December so some of this is me trying to get a handle on whether you received different information or what additional information you may have.

My sense, Steve, is that a lot of what we're doing is relying on information from the City, but to the extent that it's independently verified, you know, it would be helpful to flush that out.

I remember the 2FM Department came in and said that they had ESCOs that were doing verification with regard to the 2FM projects, but I don't think we heard that from Water Management and then the schools.

So when you're talking about this slide and the schools estimated savings, is that from the Arcadis estimate or is it from Arcadis plus others who have looked at the school lighting savings?

MR. BEITLER: Well, it's from CPS and their consultants who I can't tell you who those are at the moment. I don't remember. And then it's from Arcadis at the request of us.

MR. HOFFMAN: Okay. So the Arcadis

numbers as I understand them showed savings as listed there, but really my question with regard to the --

MR. BEITLER: This is our savings number.

MR. HOFFMAN: Right, the 2.17.

MR. BEITLER: Yes, that's correct.

MF. HOFFMAN: But in terms of the cost and what funding they're seeking, I'm confused about that. If you want to punt that until --

MR. BEITLER: I'm sorry, when you say cost, you mean?

MR. HOFFMAN: Meaning how much of the -- when I say cost, that may have been the wrong term. I mean how much funding they're seeking from this project and how much funding we would be -- how much CPS funding we would be including in the Retrofit.

The original number I think that we were told with regard to these lights back in December by CPS was 14 million. Then I think the numbers that Arcadis had been using to define the cost was 11 something and now it's 18.

And so I'm wondering where that change in numbers comes from, number one, and help us -- help us think about the CPS part of this versus the other two because unlike the other two, what we were told from CPS was that the project of replacing the light bulbs was almost all done when they met with us in December and they expected it to be done in February 2013.

So unlike the other two parts of this, it feels like it's a project where CPS -- the money is out the door. The work has been done. It's been paid for. It looked like what we were going to be asked to include in -- what the schools was asking us to include in our funding project was 11 million and now it's 18 million. So help us address those two things because those are both concerns.

MR. BEITLER: So first the numbers shift principally because of the amount of rebates and grants, and the total amount of rebates and grants to my knowledge were not all static on any particular day.

So they, you know, apply for

different rebates, they apply for different grants and at different times they receive responses as to whether or not they will receive them, and so the numbers fluctuate based upon how much in grants or rebates they will be receiving as of a particular day.

So that doesn't -- I mean, I expect that type of fluctuation in project finance. I don't think there's been anything unusual that has occurred in that regard.

MR. HOFFMAN: You know. That's kind of general. I mean, it goes from 11 million to 18 million.

MR. BEITLER: Well, the 11 to 18 is a different set of numbers. So the 11 to 18 is the difference between the total set -- the total final grants and rebate number and the fact that the Chicago Public Schools have a particular revenue recognition methodology and that how they do revenue recognition, which I'm not making a comment on about whether it's proper or improper or anything like that, is just the business of the Chicago Public Schools.

So we as the Trust in support of

them need to adopt our work on the basis of how they conduct their finances, and so at the moment they have not recognized revenue for the 7 million in rebates or grants. They don't have it. They don't have it in hand.

So because they don't have it, we are now asking -- we are asking for approximately 20 million because that is to cover the entire cost of the project plus other expenses related to the project, and that number could change if the CPS says to us okay, we've received the rebates and grants and now we would prefer to use a lower number. They could do that.

MR. HOFFMAN: Well, I don't think we were called upon to make a decision on this today. Let me just register a concern. I think all of us it should get more detailed information on this if it's going to be included in Retrofit because I think the numbers we've gotten from CPS have been inconsistent, and it starts with the fact that in their capital budget a year ago, before we had even met, they said we're going to be getting $40 million from the Trust, which was impossible for them to say because we hadn't even met yet.

And then it was, you know, we are asking for $14 million with some, and this was in December of 2012, with some information about presumably grants that they had or if they were going -- if the total cost of the project to replace these light bulbs, which has already happened, is 18 million, they will know whether they received some of this money.

And so I would -- we're going to need I think more detailed information from them that's hard about what did your project cost, how much have you received or do you know that you're going to receive and what really do you need if the Trust decides that we're going to reimburse the schools for light bulbs that have already been installed.

So I don't think we're called upon to decide that today, but if we're called upon to decide something like do we include this in the retrofit next time, we need to get more specific information. Does that make sense?

MR. BEITLER: Yes. We do have specific

information, and I do believe that the schools are aware, you know, presumably of approximately how much money they will be receiving or expect to receive in rebates and that the project cost is 11.2, the rebates are 7, the total project is 18.2.

The 44 million to which you're referring basically is for two other projects in addition to --

MR. HOFFMAN: I know that when they were presented, they gave us three projects. This is just about the lighting.

MR. BEITLER: Right. So basically the two other projects were dashboard and something called retro commissioning which is calibration of operating --

MR. HOFFMAN: So if we have more specifics -- Let me just be clear. Next time if we are going to be called upon to say let's include this, I will need, and I think we should all receive, those specifics.

If the money that they need to reimburse them for the cost they have already had is 11 million, then that's the maximum that should be put in.

MR. BEITLER: I will work with the Board to figure out what type of exhibit we need in order to be as specific as possible.

CHAIRMAN BELL: Steve, what it gets down to is what are they asking us to go out and finance.

MR. BEITLER: $18.2 million.

CHAIRMAN BELL: And how do they get to that number, costs, rebates and how do they get to that net? I'm not asking you to answer this now, but this is what we want to have so that we can understand the flow as to, you know, how they get down to their request.

And I'm assuming that they're going to -- they want to do that so they can reallocate that money to other projects that would not be funded, something that we could go out on.

I mean, what David is getting at is we need to have an understanding and appreciation of it, that's all. It's not like we are going to say yea or nay but we ought to know why we're doing it, and so that's what I would ask that we go do is just simply understand how they get to the request and then why.

MR. BEITLER: We'll try to --

CHAIRMAN BELL: That's money already spent. And that's where I think you're coming from.

MR. HOFFMAN: And, Steve, look, what we're going to hear shortly I think is going to be a description of what some people, including experts, think is an interesting, somewhat novel, somewhat complicated perhaps approach to financing.

And maybe it's exactly the right answer, but I think what it's going to do ultimately is it's going to force an even greater scrutiny on what are these projects and are they really a good idea. Let me just finish this thought, okay?

Maybe all these projects are exactly -- are really great things, but the schools one seems different than the other two in a couple of respects. Number one, it's already done. The light bulbs are already in.

When I look at how the Water Department is handling this, they came to us in December and said we're going to need 75 million. Now they're coming and saying we have already spent 36 million on this project so we don't need that. What we need is only $37 million.

The schools are doing the opposite. They're saying we've already spent all of it and we need all of it from you. I don't know exactly how to assess that, but it raises an eyebrow in my mind.

So we're going to need more information about that to determine does that make any sense. And again we don't need to get into this decision today, but I want you to be aware that we're going to need to get a handle on this.

You know, the Tribune had a good story today about how some of these light bulbs that have been put into these schools that are going to be closed apparently. Presumably then the lights are going to be off so the energy savings are going to be a hundred percent.

Well, if we enter into a deal that obligates the schools to be paying out what they expected to have in energy savings, isn't that a worst deal with regard to the schools where it's a hundred percent savings?

Now, I'm not expecting you to answer that question. The burden is not on you. The burden is on the schools it seems to me.

CHAIRMAN BELL: Right.

MR. HOFFMAN: But if we're going to be asked to include it in there, I would expect you to get that information from the schools or the schools to come in front of us and tell us.

MR. BEITLER: So, if I may, I think the Board is raising a broader philosophical issue which we haven't necessarily had to encounter yet which is given in this particular project we're doing financing as opposed to the actual project, to what extent do we reach into our agencies and get how much information from them pertaining to their projects and their engineering. We don't need to be very far in for that purpose, for the purpose of doing the analysis for this project.

For the second point, we actually have had, just to reassure you, discussions about whether or not there would be any schools that were on a closing list. At the time that that question was asked, the closing list did not yet come out, and the Board of Ed knew -- did not know whether any of the schools would be on the closing list.

They were proceeding with their project plans and retrofitting lighting in the schools according to their project plan from an engineering standpoint, and eventually a decision was made on whether or not to close the schools.

So we are putting up a data vault at the moment for the purposes of our investors looking at the data pertaining to these projects. When all of the data is ultimately available in that data vault, it will be correctly displayed in terms of schools that are open or schools that are closed.

MR. HOFFMAN: Let me just ask one more follow-up because I do think all of this jumps directly off of the first question that James asked which was what is the level of guarantee or confidence or process that has been done to confirm these savings because that's going to be one of the critical things for investors.

Hang on. Let me -- You say well, you know, we have to decide how much data we're going to be getting from them. First of all, absolutely, we should be feeling free to ask them for whatever we need to make our decision.

Second, more than that, and this is not on you, this is for the City, our expectation should be that we shouldn't have to read about it in the Tribune if their situation has changed, and if now some of the schools they're asking about have closed, they should be proactive providing us with that information.

Another question that comes to mind is if they've already put the light bulbs in, it seems great that they put the light bulbs in in general. They put the light bulbs in. Well, guess what, I would assume they did it to save money and energy.

They have been getting monthly bills. They should have data already over the last bunch of months that show what the savings are. That's the best data you can have about what the savings are, and I'm sure investors would want to see that.

We should have that too. If you haven't received that, I think it's incumbent upon the City to provide that to you, and if you haven't received it and you want to ask them, we should.

So, again, I know these are decisions for next time, not this time, but if there's uncertainty in this regard, as there is for me, we're going to need to see that level of detail from them to justify why it's not only a good project but a good project where some sort of novel alternative financing is appropriate.

MR. BEITLER: So first there is a significant amount of data that's available that is being prepared for purposes of providing to the investors; and, we can, of course, provide access to the Board to the data room to review any data in there that you would care to review, which includes all of the financial analyses that impact on how we arrived at savings numbers.

And, second, in terms of the work that the staff and his representatives have done, we have not just simply accepted the savings number from other agencies, but, in fact, the savings numbers that you're looking at right now are not the same as the savings numbers that were provided to us by other agencies as we have asked questions regarding, you know, what about this or what about that and so on.

So we have done significant analysis, and the savings numbers that are here are based upon our analysis as opposed to the analysis of the agencies that are involved in this project.

CHAIRMAN BELL: Okay. I want us to keep going.

TREASURER NEELY: Can I ask a quick question on this topic?

CHAIRMAN BELL: Let me make this

comment first. Philosophically this Board is going to want to know a couple of things, that there's an independent verification of the revenue stream going to support the service of the debt; and, secondly, we want to have a good idea of what we're borrowing for.

It's clear on the other ones because they haven't spent it. It's going to be on this project. On this they've already spent the money, and we want a sense of well, why are they going out and financing it now because we want to be able to answer that question.

You know, it may not be -- it may not be something that we're going to influence, but we do want to know that they are borrowing the money because they got this other project that they needed to do and they used that money to put the lights in early.

I mean, philosophically we're going to need that kind of info. I don't want you to answer it now. I just want you to just know that that what's the Board expects.

TREASURER NEELY: And I'm not sure if you have the answer to this question yet, but as

we try to monetize this revenue stream, what is
the coverage the marketplace is asking for?

MR. BEITLER: I don't have that answer
to that question.

CHAIRMAN BELL: We don't know.

TREASURER NEELY: Do we know what the
coverage, and maybe, Steve, you know the answer
to what the coverage is in the municipal market
for it?

MR. BEITLER: I don't know offhand what
that coverage is.

TREASURER NEELY: I think that's an
analysis that we need to know, what the public
market versus the private market requires in
terms of coverage.

CHAIRMAN BELL: Yes, definitely. As we
look at the alternatives, we've got to -- we
have to have a way to sort through that the
alternatives that we came up with is the best
value for the City, and that can be a lot of
things.

Pricing is part of it. Some it can
be to reduce what their reliance is on the
public market and start to open up other

avenues, and there's a value to that, but we got to make sure the pricing isn't so disparate that that --

TREASURER NEELY: In terms of pricing also, it's coverage of how much money we're actually pulling out and monetizing it. That's different than pricing.

CHAIRMAN BELL: I got it.

TREASURER NEELY: We might be getting 50 percent on the dollar versus 70 percent on dollar. That has to be part of the analysis. So when we talk about $2.2 million in expected savings, I'm just trying to get a sense of what we're talking about after the coverage is calculated.

MR. BEITLER: Right.

CHAIRMAN BELL: Yes.

MR. SILVERS: This is a rather limited point for the Board to consider, but the experience of the AFL/CIO where I work with retrofitting our headquarters building, replacing the light bulbs was a key component of what you would do and that it has the economic characteristics that are appropriate for considering alternative financing because essentially what it does is it generates an energy savings that can be capitalized if you've got your engineering right and if the alternative financing provides better terms both in terms of interest rate and coverage to conventional financing.

Those are all big ifs that your Board is appropriately discussing. I just want to make the point to you all that refinancing, and I think refinancing is the appropriate term for what you're discussing, refinancing light bulb replacements with alternative financing may turn out to be a wise and useful thing to do if you get the right answers to all those questions.

CHAIRMAN BELL: Right. Or it may not and we'll say that at the time.

MR. SILVERS: Or it may not, but it's just -- sort of conceptually it's an appropriate thing to look at in the way that the Trust is looking at it.

CHAIRMAN BELL: Okay. Any other comments on this page?

(No response.)

Okay. Next page.

MR. BEITLER: The next project is with the Department of Water Management. It is a $73 million project requiring approximately $40 million in funding and it has 4.6 million in annual labor maintenance and energy savings of which actually 1 million is energy savings and the remainder is operations and maintenance, and there's sufficient capital and fund improvements based upon a 15 to 20 year term.

MR. HOFFMAN: Quick question along the same lines as the other ones about verification. There seems to be one difference here is, as you've said, and I remember Tom Powers came and told us this, that really the bulk of the savings here are personnel. It's maybe 50 to 70 percent. I forget the numbers.

So we can think about, you know, how do you normally -- how do investors normally want to see some sort of verification of energy savings. This is different, right? Because it's 50 to 70 percent.

In terms of either what Arcadis has

done or anyone else who's looked at this and says here is the verification we can give of the savings, what's your impression of where we are and what information we have about that?

Is that in the same category as an ESCO who says I can put a guarantee around this level of savings? How do we think about that or is it just analogous and not the same?

MR. BEITLER: Well, what we looked at is where are the people going, for example. In many cases they are retiring and they're not being replaced, so, in fact, you can ascertain that savings are occurring. Now, it's up to the City, for example, to reduce the Department of Water's budget by X amount.

MR. HOFFMAN: Exactly. I mean, how do you guarantee that?

MR. BEITLER: Well, I don't guarantee that. The City has to guarantee that.

MR. HOFFMAN: So when we're talking about what Arcadis or someone in that situation is doing, how does that --

MR. BEITLER: We can reflect what the results will be if the City takes those actions.

MR. WINTERS: Steve, if I could, what Arcadis has done has been to evaluate what our measurement of the savings has been to date to get us to a point where we think it's prudent to continue to proceed.

The next step in this is going to the marketplace, and by the time that the marketplace is done with this, all of these questions will be answered in detail, but at this point they're not.

We think we know what we're doing to this point, but as Mr. Silvers just said and as the Chairman just said, it may work, it may not. We're still in the process of not only collecting the data and analyzing the data but also talking with the marketplace about what level of data they're going to want, and I'm certainly going to want everything that you want.

MR. HOFFMAN: So that makes sense to me, although one potential -- one additional point is that you say we'll have all of the questions answered before we go to the marketplace, but you also need -- I'm sorry, did I misstate what you said?

MR. WINTERS: Yes.

MR. HOFFMAN: Okay. Go ahead.

MR. WINTERS: We had questions about whether it's prudent to continue to proceed, but we don't know the answer to everything as yet. We don't know precisely what the market is going to tell us. We have ideas and we want to present some of those ideas to you in a few minutes, but it's still very much a question.

MR. HOFFMAN: So just then to clarify my thinking on this for the City, before the Trust decides whether to agree to what the City is proposing and maybe what Steve ultimately agrees is recommended to us, before the Trust agrees to that, we're going to need to see what you said, you know, that's going to be flushed out before it goes to the marketplace, we're going to need to know the answer to well, how is the City going to verify, guarantee or provide some statements about what's going to happen in the future about operations and maybe savings, especially in the uncertain area of personnel spending.

So if the answer is we don't know yet, that's fine, but I just think if we're going to be asked at the next meeting -- Wait. Wait, David.

MR. WINTERS: The answer is we do know well enough for the purposes that we have had to date, and what we have done to date has been to work with the Trust and with Steve and with their counsel at Kirkland and with BFF and we have collectively agreed that we have enough knowledge to continue to proceed along these lines.

MR. HOFFMAN: Okay. Would you mind passing on that knowledge to me with regard to Water Department operation savings?

MR. WINTERS: We have Arcadis who will give the numbers. As we stated, they are consistent with what the industry standard is, and they've agreed that consistent with the industry standards, there is a savings in there that will support the escrows in the amounts that we're looking for.

MR. HOFFMAN: I'm not sure I

understood. I mean, I understood the general terms of what you just said, but the question is how can there be -- since the City could say yes, we're going to have fewer employees who would work on this water plant and then the Water Department budgeted --

MR. WINTERS: Are you asking me if the Water Department's budget is sufficiently detailed to identify the individuals that will be gone out of the budget from this particular plant? The answer is yes.

MR. HOFFMAN: And then that would mean that there would be fewer overall employees in the Water Department and that's how --

MR. WINTERS: That's correct.

MR. HOFFMAN: So that's the kind of analysis that the City would need to do and be communicating to potential investors to say here's --

MR. WINTERS: That's correct.

MR. HOFFMAN: -- how you can have assurances that these will be real savings?

MR. WINTERS: Yes.

MR. HOFFMAN: Okay. Thanks.

CHAIRMAN BELL: And you can bet the investors are going to have their own opinion of that. They're going to challenge that. What the team is saying is that we're comfortable now that these savings can be reduced and we've done enough independent verification to go to the next step. We're not done because the investors are going to weigh in on that.

MR. WALLACK: The investors are ultimately certifying that they have asked the questions they need to ask to feel comfortable, and they're prepared to take the risk that the estimates aren't wrong.

MR. HOFFMAN: Sure. But, I mean, look, we're going to be discussing this, Jerry, when we're talking about the slide that you have, but the fact that an investor is willing to say this is a deal we'll do, I'm not convinced that that's the end of the analysis for us because if the deal goes bad down the road and the investors want to take some recourse against the City or the Trust, we need to think about that now.

So I wouldn't want to end the

analysis with the investors will be satisfied they'll have enough information.

CHAIRMAN BELL: I think the path we're heading down is no recourse, right?

MR. WINTERS: Yes.

CHAIRMAN BELL: So that's the protection.

MR. HOFFMAN: Well, that's an important part of it.

ALDERMAN POPE: Thank you, James.

From my experience too working in the Budget Office with the City, there are specific details within the City budget. I know we have plenty of folks who worked on that that will be sufficient in terms of demonstrating that there is cost savings as detailed as a specific line item with the title as well as specific line items with maintenance that will show or should show a reduction to accommodate the savings as being predicted here.

So you can physically look at the budget and see that in year one there was ten personnel budgeted, in year two there's eight. That should be sufficient enough to support the savings that we're anticipating.

MR. HOFFMAN: I don't want to belabor this. I think the obvious point is when light bulbs are in, the light bulbs are in and you can have a company come in and say here's what we expect in savings given these factors.

When you're having fewer employees you can say here is the budget for next year, we can verify that next year's budget has the savings. What you can't verify is the budget after that or the year after that or the year after that is going to include those savings because the City government may decide we're going to increase the funding of the Water Department and then the savings that the investors are relying on would go away.

TREASURER NEELY: That's like an annual appropriation, so it will be priced if it's an annual appropriation.

MR. HOFFMAN: And I understand if that's the risk that gets priced by the marketplace, then that's the risk, but that was the source of my question which was is there anything -- I assume the answer, which it sounds like, is no, there's nothing that's ESCO equivalent that's being done to provide assurance with regard to personnel savings but that was what was behind the question. I understand that it's an appropriation risk.

CHAIRMAN BELL: Okay. Steve, next project.

MR. BEITLER: The next project is for the Department of Fleet and Facility Management. It's approximately $26 million in funding.

I should mention here that we had three alternatives for the Department of Fleet and Facility Management, sort of small, medium and large, if you will, in terms of the numbers of projects that were considered in each of the three alternatives, and this particular number represents the large project, which is the maximum number of projects, that we could do for the Department of Fleet and Facility Management.

There's approximately $2 million in new energy savings from these projects and sufficient cash flow to fund the improvements based upon a 20-year term.

This project includes buildings like City Hall, the Cultural Center and many other major City buildings.

CHAIRMAN BELL: Any questions? I'm assuming you have a similar methodology to ascertain these savings.

MR. BEITLER: This particular project is, in fact, where the three ESCOs did all of the work.

ALDERMAN POPE: Mr. Chairman.

CHAIRMAN BELL: John.

ALDERMAN POPE: Quick question. Steve, the overall project cost of this one? You see $26 million in funding request of the Trust, but do you recall the overall?

MR. BEITLER: It's about 24.2 million I believe.

MS. FERGUSON: I'm sorry, the overall cost is 24.2 but they're asking for 26 million?

MR. BEITLER: There's other fees in there for the ESCOs.

TREASURER NEELY: This is 100 percent for the Trust?

MR. BEITLER: Yes.

MR. HOFFMAN: And they had come in originally and asked for 30 something, so this is actually decreased from when David Reynolds was here. They were asking for more. Does that seem like --

MR. BEITLER: It was before my time.

MR. WINTERS: That's correct.

CHAIRMAN BELL: Okay. By the way, good discussion. I mean, there's no point in going through the rest of it if we can't get through the first three pages.

MR. BEITLER: So to date we've released the RFQ. We also circulated a model term sheet and we received responses from the firms that are on the chart in your book or on the screen and came to the conclusion on a number of terms, and the City, in particular, deciding what would be acceptable for the City or would not be acceptable for the City.

So if we go to the next page basically we wound up with a set of potential retrofit delivery models that run from being publicly financed, to an alternative structure, to be being privately financed and gauging those based upon the impact on balance sheet and credit.

So you can see here a list of considerations and potential benefits on each of those methodologies. And largely the City came down in the center from an alternative structure perspective, and to assist us in addressing that particular perspective and structure are David Winters and Jerry Wallack who will go through the next couple of slides in terms of the structure that they perform.

MR. WALLACK: Basically we worked with the Departments of Law and Finance --

MR. HOFFMAN: Can you introduce yourself, Jerry?

MR. WALLACK: Yes, Jerry Wallack and Dennis --

CHAIRMAN BELL: We're bringing you a mic.

MR. HOFFMAN: And so you guys may not know, we have a wonderful court reporter here who actually creates a transcript of this that gets posted, so if you gentlemen -- I see Jerry your named is spelled there, but if you wouldn't mind spelling your names for her, that would be great.

MR. WALLACK: Jerry Wallack, W-a-l-l-a-c-k, Jerry with a J. Dennis Holsapple. Dennis normal way of spelling it, H-o-l-s-a-p-p-l-e. We are partners in the Law Firm of Kutak, K-u-t-a-k, and Rock, R-o-c-k in Chicago.

We were brought in by the Departments of Law and Finance of the City to bring our municipal finance expertise to the public policy concerns of the City and the Trust and CPS all of whom we have worked with over the years, the City and CPS, in order to create a financing model that hopefully will achieve certain public policy goals, which I'll say in a minute, but primarily we -- not to make a judgment on the credit which are the questions you were talking about whether savings are real or not, these are things that relate to the investment market and not the legal structure.

So we were looking at basically five goals of the City in putting together a financing structure which were inherent in the creation of CIT itself and all of the background work.

First of all, the City wanted to alleviate some of the risk off of its budget from a general obligation point of view, and we were lead to believe that financing these projects, given the limited budget resources, necessitated a new approach that wasn't tax based.

Second, not to surrender ownership or control of the assets. The City wants to continue to own these assets. They're public assets. It needs to maintain and run them, not to pledge them.

Third, to create a public/private partnership in a way by shifting risk and not ownership, so how to shift some of the risk away from the taxpayers into the private market, whether that's through investments or otherwise. That's what ESCOs do also in the 2FM context.

Then structurally how to blend disparate credits. You had three different payment streams here as you've been going through these projects, and you can see that the CPS is one versus the ESCO backed 2FM project versus the personnel related Water Department.

Another gloss on the Water Department that is in there is that the water system is financed through a very complicated bond structure which as I look back on it historically we were involved in financing the second lien years ago and now we're up to the sixth lien.

There is kind of a flow of funds of water revenues that are grabbed by different bondholder groups over time. How do you capitalize the residual stream there?

And then how to take advantage of tax exemptions which is really our forte is tax-exempt bonds and how to try to get debt from the market, the benefit of tax exemption and the structure that kind of went through you where you're not really a governmental body, you're kind of a quasi governmental body, but you're not a political subdivision of the City.

So taking all of those concerns together, we worked with the City departments and they are more knowledgeable and David is more knowledgeable about all the background here and the verification of savings.

But we set out to create a revenue obligation, not a general obligation, and one that would be limited recourse to the City and CPS. When we speak of the City, we're just aggregating the Water Department and 2FM for this purpose, but they would be separate obligations and separate savings streams.

So we started with that, how to create an obligation that preserved tax exemptions and with limited recourse that could get through to the credit market and get a blend of credits of the three entities.

And what we came up, you'll see on the next slide when you flip your books, which is kind of a simplified version of a flow chart, we have CIT making loans to these three entities.

These are limited recourse loans to the three entities payable solely from the savings, whatever that is denominated to be. In the case of 2FM, the intention was that the savings would have a pass through of the ESCO payments that underlie it.

The City wanted to keep ESCO kind of outside the financing because of the -- they don't really want the investment market having to go and diligence, you know, the different ESCO providers. You know, the City was willing to take the risk that the ESCO would pay the City the money that was promised and the City basically would pay savings that were based upon the projections that the ESCOs were guaranteeing.

Then separately a risk shifting mechanism was the City believes that there's room for private indemnity of a portion of the risk, so almost like an insurance policy that would take a portion of the savings risk that would be there, and the City would arrange that and CPS would arrange that with private entities.

I don't know who those entities are other than they talk about various -- David could say who they are if he wanted to, but various funds and, you know, public trusts.

CHAIRMAN BELL: It's like an insurance policy and they would have to pay for it?

MR. WALLACK: It's like an insurance policy that the City would pay a premium from the savings for and it would transfer maybe -- it would create what we call in the bond world a debt service reserve.

TREASURER NEELY: Would it increase the risk profile because this is (unintelligible) revenue bonds?

MR. WALLACK: Yes, it would.

TREASURER NEELY: So it's like a bond insurance.

MR. WALLACK: Exactly, but it's limited. It's not a hundred percent. It's basically like -- in the discussions it was like take the top 10 percent of the risk that there might be a shortfall and the savings that would project and then give the note back to the indemnitor that would be payable from the future savings when they were realized.

And before you even got to that, there would be an aggregation of any savings that weren't capitalized into the debt already, so you would be creating not only a payment obligation from the savings stream, but say the savings stream was supposed to be $5 a year --

TREASURER NEELY: You lost me.

MR. WALLACK: Okay.

TREASURER NEELY: I've done public finance for 25 years so --

MR. WALLACK: I've done it for 34. It must have been those other nine years.

TREASURER NEELY: Is it a debt service reserve fund?

MR. WALLACK: Actually it's not going to funded with cash. It's going to be basically the guarantee of the loan payments.

TREASURER NEELY: But you said something about 10 percent.

MR. WALLACK: Well, the City was talking about an amount that would be the exposure of a certain number of dollars.

MR. SILVERS: It would be first dollar loss up to 10 percent, right?

MR. WALLACK: Exactly. That's a better way. You must have been there for those nine years.

MR. SILVERS: Not one day.
MR. WALLACK: But, yes, he's stating it, basically a first loss reserve in the form of a guarantee.
MR. SILVERS: I have a second question for you.
MR. HOFFMAN: Damon, can you speak up just a little bit?
MR. SILVERS: Oh, I'm sorry, I'm turning the wrong way.
MR. HOFFMAN: No, no, you're turning the right way, I just can't hear you.
MR. SILVERS: I have a second question for you in terms of what you're describing. If the credit insurance, the first dollar loss credit insurance that you're describing, and I know that legally it cannot be in the form of an insurance policy, but that's economically.
If that's being paid for out of the savings realized, what happens if catastrophically there are no savings?
MR. WALLACK: What we've been told, and of course this is not something that we don't make a credit analysis, but what we've been told

they have been looking at it, it's almost like a term amount after the debt is paid.

So they would give a note back to the indemnity provider. That note would be payable from future savings. So if in year two there was $6 of savings but only $5 of debt service, they would pay the note, the indemnitor back.

If the indemnitor didn't get paid back at the end, then when this debt is ultimately retired, then future savings would pay the indemnitor back and if not --

TREASURER NEELY: (Unintelligible).

MR. WALLACK: Until they're paid back. They are making an advance to pay the debt service and getting reimbursed on a deferred basis.

MR. SILVERS: I'm not sure I follow.

MR. HOFFMAN: I'm not sure I follow either, but just to clarify one point. Look, I understand what we have is one power point slide and then a graph so obviously this needs to get flushed out.

MR. WALLACK: I didn't get out of the

first box yet.

MR. HOFFMAN: The indemnity or the insurance, the quasi insurance policy or whatever we're talking about here, would the obligation of these third parties who would be coming in if the savings didn't provide enough money to pay the investors, would the obligation that would be contemplated that they would only be responsible for paying a portion of the shortfall?

MR. WALLACK: Yes.

MR. HOFFMAN: So to the question that was just asked, if there are close to no savings there still, even with this indemnity or insurance fund, they're still contemplated there would be a significant shortfall to the investors.

MR. SILVERS: Let me just be clear. The question I was asking was not the question of ultimately -- of who ultimately would bear the loss in case the policy is called upon, if the guarantee is called upon.

My question was if we're paying the premium, if the Trust is paying the premium for to 10 percent --

MR. FALK: No.

MR. WALLACK: The borrower would be paying.

MR. KLEEMAN: The City is paying for the premium.

TREASURER NEELY: That's another cost that has to be layered in.

CHAIRMAN BELL: Right. Exactly.

MR. SILVERS: So the City is paying the premium for that 10 percent guarantee and therefore it's not being paid for out of the savings. The City has an absolute commitment to pay that premium.

MR. KLEEMAN: Correct.

MR. SILVERS: That answers my question. Then the concern I was raising is not -- I'm satisfied.

MR. WALLACK: The nature of the reimbursement to the indemnity provider is outside of the scope of what we've discussed, whether it's payable solely from savings or whether there's some other thing the City is going to use to make the indemnitors --

MR. HOFFMAN: But, Jerry, just to clarify. I mean, we're in the weeds on this, but there's two different things here. You said reimbursement, but I think the question was about basically the fee, that even if they're never asked to pay anything on the guarantee, the City is going to be paying basically a fee --

MR. WALLACK: Facility fee, yes.

MR. HOFFMAN: -- for the guarantee to be in place.

MR. SILVERS: But the concern I was raising was circularity, was that you're buying insurance against the possibility that there are no savings, but you're using the savings to pay for the insurance.

If you're paying for the insurance out of some other source, my concern is resolved. And the lawyers are all nodding which I think means that you're paying --

MR. WALLACK: I think there's two answers to that. One, it probably will have to be paid out of some other source; but, two, they're trying to program into the cash flow a fee to pay for it and to repay it if it's drawn upon would be payable not only from other sources but only if -- it's also not just meant to cover a shortfall, it's meant to cover fluctuations.

TREASURER NEELY: But I still go back it's up to 10 percent.

MR. WALLACK: I don't know.

TREASURER NEELY: Well, you said that.

MR. WALLACK: That's what we were told. Okay? We were told that they're looking at a first loan loss reserve of a limited amount from private parties as a way to shift some of the risk.

MR. HOFFMAN: And, Jerry, when you say we were told, I mean, I just -- I think I understand what you're saying, but just to clarify, your clients are -- your client is the City. You're talking to City departments. You guys were just brought into this relatively recently, right?

MR. WALLACK: Yes, fairly recently.

MR. HOFFMAN: A week or two ago?

MR. WALLACK: Fairly recently.

MR. HOFFMAN: And so -- I mean, I think this is all a completely good and appropriate process, I'm just trying to clarify what it is. You're getting information from City departments as they're trying to figure out what they want to recommend, and that's what you're describing?

MR. WALLACK: We've met extensively with the CFO, the director of debt for the City, the Comptroller's Office, the Finance Department, the Law Department a number of times where they presented their economics of how they would like to do this.

The concept of paying debt service reserve, whether funded with cash or with instruments such as this, was presented. It was decided to put it as a first loan loss guarantee on each note that would be coming from the three entities and that repayment of that -- payment of the fees for that would be programmed into the cash flow or would come from some other source, and repayment of draws on that facility would come from future savings if they were there, but if that turned out not to be marketable would have to be backed up by some other unnamed source.

MR. HOFFMAN: But just to be -- I mean, because we're in the weeds on this important discussion, and you say I don't know, it's because this is still in development with regard to some of the key details, is that fair to say?

MR. WALLACK: Yes.

MR. WINTERS: The marketplace will provide a lot of these answers.

MR. WALLACK: That's what I was going to say mostly is that they are not at the point of negotiating with actual parties. These are more conceptual structural terms that they plan to now go to parties who they've had some preliminary discussions with who would be interested in doing this, kind of hammer out the details.

MR. HOFFMAN: And when you say they plan to go to those parties, you mean the City?

MR. WALLACK: City Finance Department.

MR. HOFFMAN: Okay. So does that involve the Trust at all?

MR. WINTERS: Of course. Steve and I talk every day.

MR. HOFFMAN: Well, I certainly know you do, but I'm just reacting to Jerry's point that the City -- look, we can address those issues with the City, and I know that you guys -- that your firm is relatively new in this process and you're trying to provide what is excellent expertise about what might be an alternative financing structure.

I just want to be, you know -- let's be -- let's be sharing information about what the process has been which is that there's been extensive talks before you arrived for months with the City, with Steve and the Trust with an RFQ issued to try to get information and there was another -- there were rounds of discussions with the respondents to the RFQ.

Things seemed to be heading in a certain direction that Kirkland and Steve were working with the City on something, and then I think it's a beneficial development that the two of you or your firm was brought in, and we have this now new concept that was provided to Steve and the Trust advisors Tuesday evening and we're walking down this road to see what this -- how this concept gets flushed out.

So that's my understanding of what's happened. I think that's part of this good process of brainstorming, figuring things out, but it's all -- we now have sort of a three or four-day old concept that you're starting to explain, and I think some of it is going to need some more time to get flushed out. Do you agree with that?

MR. WALLACK: Yes. This is not unusual in a municipal transaction because to be at a preliminary stage where you go to a board and you present a concept, the board listens and asks questions to try to understand what's going on, and then the financing team, whatever that is, goes back and spends a substantial amount of time, you know, putting it in the shape where the financial advisors, investment bankers and others, the finance people then go out and implement the types of things, negotiate term sheets and flush out.

Then you come back to the board with

the deal and the board understands that again before it votes on it.

It's just like the question you were asking about the CPS light bulbs at the beginning. There will be a complete tax analysis and discussion with CPS about where the money is being spent, you know, every dollar in order to gain tax-exempt debt, the IRS requires that, and, you know, certifications and things would be disqualified or qualified.

We're not at that point yet. We haven't been given that opportunity. We're at the structuring of the deal stage.

MR. HOFFMAN: To be clear, when you say come back with a deal, it may be -- we don't know what the investor appetite is for any of this in part because some of the details haven't been worked out on what's going to be communicated to the investors, in part because this concept hasn't yet been -- we haven't yet asked potential investors. So is it fair to say we just don't know and we have to go down -- the request is --

MR. WALLACK: Yes.

MR. HOFFMAN: -- let's go down this road and figure out more about the investor appetite.

MR. WALLACK: Yes and no. I think the Department of Finance has, through its experience in these things and through talking to whoever it talks to on an informal basis, kind of not just throwing this out there to see if it sticks, I think that they have enough substance in back of it to think this is an idea.

MR. HOFFMAN: Is the Department of Finance here?

MR. WINTERS: They are otherwise engaged today.

MR. HOFFMAN: Okay. That's fine. But the City, to press that point, the City believes that this is going to be well accepted by the marketplace or --

MR. WINTERS: We do.

MR. HOFFMAN: -- is my impression, we just don't know?

MR. WINTERS: We think there will be an appetite for it.

MR. HOFFMAN: And what's that based on?
MR. WINTERS: It's based on what Jerry just described.
MR. HOFFMAN: In other words, the experience of Lois? Is that the idea?
MR. WINTERS: Lois and, you know, commissioners, and I know you know this, but --
CHAIRMAN BELL: Well, we'll see. We'll see. Because the other thing we haven't said that in this construct, the investor is going to take 90 percent of the risk if their savings don't materialize, correct?
MR. WINTERS: That's correct.
CHAIRMAN BELL: So we'll see.
MS. FERGUSON: Can I ask one clarifying question on this? The concept of a debt service reserve, of course, is not new, and the concept of some sort of bond insurance type structure is not new, but what you're describing it sounds like is the provider of that insurance is a new private party.
MR. WINTERS: Yes.
MS. FERGUSON: And that's the part of this that's novel?

MR. WALLACK: Yes, that's exactly right.

MS. FERGUSON: Can you characterize the type of party you're envisioning would be this private provider?

MR. WALLACK: No.

MR. WINTERS: Yes.

MS. FERGUSON: He says no and he says yes. I like your answer better. I like John's answer better.

MR. WINTERS: There are a variety of --

MR. HOFFMAN: David, can you speak up a little bit because she's having trouble hearing you.

MR. WINTERS: Sure.

MR. HOFFMAN: Thank you very much.

MR. WINTERS: There are a variety of people that there have been discussions with dealing with facilities foundation, for instance, as one of the parties that we want to engage with. You have heard the discussions about how they might possibly help us assemble the sum of either notes or cash that we're looking for.

And so there are labor unions that have expressed interest in working with us to that effect. Those would be the type -- and also foundations, and those would be who we're talking with.

MS. FERGUSON: Thank you.

MR. SILVERS: Can I just ask a question that might be perceived as a little skeptical? I just want to express the view that there's a lot of logic to what you're talking about.

If you're going to go to public market -- public credit companies for a structure of this kind, it could very well be the case that it would be possible to explain the savings and get comfort with those savings with a private guarantor who then is recognized by the public markets as creditworthy, right, and thereby create genuine savings because of this information I assume that you're getting that exists, that the public markets are not going to feel comfortable going through all the kind of details that we went into, not feel comfortable that they really understand.

A private guarantor who's

creditworthy may be able to do that. If there's a real economic benefit to that, we don't know obviously. But that for the type of innovative financing an innovative operational exercise that we're going through, this idea makes a lot of sense at least to me.

MR. HOFFMAN: Jerry, can I get -- I think when we went on this side track which was important and a lot of time on the reserve fund, part of what you were in the midst of describing was putting aside the reserve fund, the sort of core elements of the structure, and I want to make sure you get back to that and are able to fully describe that.

I like this slide, but I also like the prior slide, so feel free to tell Steve to toggle back and forth if you want.

MR. WALLACK: Steve, toggle back.

MR. HOFFMAN: I want to make sure there's a full flushing out from your expertise about what this structure is.

MR. WALLACK: Okay. If we didn't, and we flipped before, I didn't feel I was at liberty to answer the question because we're not supposed to talk about financial things.

In any case, the basic elements here are a loan structure from CIT to the three entities, each of the loans being represented by a note. The note will represent debt. The note will have an interest component which will be tax exempt to the extent that the property finance qualifies for tax exemption.

And part of establishing the tax exemption is to investigate all the uses of the property and all the uses of the money to finance the property.

So your question about if it's otherwise paid for has two answers in the tax world. I can get off on a tangent. One is you can reimburse expenses that have been already paid for and still for IRS purposes treat it as essentially a new bond.

On the other hand, if you've been given money to pay for something and you've paid for it, then the question becomes if you get more money, what are you doing with it and that's argues that it's working which has different meanings.

So we have to get to that as part of the next step of asking the questions that you, David, are asking which is in each structure what's the money used for and is it qualified property.

That's kind of the side show to the structure because you could do this with taxable debt as well as tax exempt. It's a borrowing cost structure of whether the ultimate investor will value the tax exemption.

So we're creating a structure at the request of the Department of Finance that allows it to be tax exempt and allows it to be passed through up to the ultimate investors.

So the concept --

MR. HOFFMAN: I have a question on the tax exempt point you were just making. I think I follow you and not as a tax lawyer. You're saying that even if the payments are coming from the investor to the Trust, a nongovernmental entity, who is then providing those payments back to the City pursuant to the note or pursuant to the loan agreement, that those payments from an investor to a nongovernment entity could be considered tax exempt because the ultimate recipient and the ultimate use of them is for a public entity.

MR. WALLACK: Well, it goes two ways. That's two questions. The application of the proceeds of selling the notes, securitizing the notes, which is what we're doing with the notes when we put them into a trust, is we basically break them up into the trust and sell those to public investors.

That's a pass through entity for tax purposes so that the people who are ultimately purchasing the investment are really buying an interest in an underlying municipal obligation, the notes that evidence the loan obligation.

The payments upwards on those loans, which would be tax exempt to the payee, are assigned or transferred to those investors so that they are for tax purposes deemed to be the owners of the underlying City note, the 2FM note, the DP -- Department of Water, DPM note, the CPS note. So, yes, the middle of the chart is a conduit. It doesn't affect the tax status.

MR. HOFFMAN: So that's the theory.

It's not known for sure at this point but that's the theory to pursue about what it can be.

MR. WALLACK: That's the law.

MR. HOFFMAN: So these will be tax exempt?

MR. WALLACK: Depending on what the property financed is. If we're financing municipal improvements like we've been told when we got down to dotting the Is and crossing the Ts, yes, the property will be tax exempt.

CHAIRMAN BELL: That's what the structure you are proposing is.

MR. WALLACK: That's the structure. That's what we were --

CHAIRMAN BELL: Otherwise there's no point in doing it.

MR. WALLACK: We, like you guys, we do an investigation. We want to see it on paper. If it turns out that the money was being used for something else, it wouldn't necessarily have the same tax stream. Assuming that it's used for infrastructure improvements that are publicly used, it will be tax exempt.

The idea here is for CIT as an

intermediary basically to lend the money it gets from sellers from securitizing the municipal notes on a limited recourse basis payable from the savings, however they are quantified, ultimately to private investors who are able to evaluate the risks here where the City has created and CPS had created some kind of protection of a limited nature with privately organized indemnification arrangements.

TREASURER NEELY: I have a quick question. So the potential investors, their cost of borrowing would be at whatever their bothering rate probably would be higher than the City because they are not public, and then we would blend -- the CTI would blend at a tax exempt rate.

MR. WALLACK: Exactly.

TREASURER NEELY: Isn't that a negative arbitrage position?

MR. WALLACK: You're going to lend as a pass through whatever the blended rate is.

MR. HOFFMAN: Jerry, speak up, please.

TREASURER NEELY: But the people who are investing, their cost of bothering in theory would be higher than the City's.

MR. WALLACK: Why? They're buying tax exempt --

TREASURER NEELY: Because their cost of borrowing is higher because they don't borrow at a tax-exempt rate.

MR. WALLACK: Then they might not be the people you want to sell this to.

TREASURER NEELY: But in general municipalities have a lower cost of borrowing because of their tax exempt status of borrowing.

MR. WALLACK: This would be tax exempt.

TREASURER NEELY: Okay. Maybe I'm just confused because if we're saying that people who are potentially investing, their cost of borrowing is going to be higher than the City's just by the nature because municipalities' tax-exempt rates are lower. Would you agree with that, the tax-exempt rates are lower than tax --

MR. WALLACK: It's a tax-exempt bond, just like any other tax-exempt bond. If the investor has tax liability that can protect against by buying a tax-exempt investment --

TREASURER NEELY: I guess I'm saying the rate that we'll be getting from our investment is a higher rate.

MR. WALLACK: You'll be getting a higher rate because it's a revenue obligation.

TREASURER NEELY: Is that taking an arbitrage position?

MR. WINTERS: We are cognizant of the possibility that we're creating a higher rate than we would over our general obligation bonds.

MR. WALLACK: If that's your question, it's limited obligation.

TREASURER NEELY: Why are we willing to do that?

MR. WINTERS: We're willing to do that to be able to do the projects that we intend to do with this money or to reimburse the projects that we did, and we're willing to do it because this is a way that we can take the savings, not tax dollars, and put them to work in infrastructure, and that's the whole point.

MR. HOFFMAN: Can I ask --

CHAIRMAN BELL: Damon?

MR. SILVERS: Yeah, I want to follow this up a little bit because this is the critical trade off in what infrastructure is doing.

MR. HOFFMAN: Can I just pause for a second? I'm not sure if anyone in the back can hear. Can I ask just ask everyone involved to speak up I know for the reporter and everyone else. It's a little bit of a big room. Thank you. Sorry, David.

MR. SILVERS: I'll just repeat myself. This is the critical trade off that this Trust is always going to be faced with is the trade off between freeing up access to capital that might not otherwise be available for projects of important public benefit against the possibility that sometimes the structures are going to have higher cost of capital than if you went simply with general obligation of the City.

TREASURER NEELY: But I'm saying revenue. I didn't say general obligation of the City.

MR. SILVERS: Well, it might be that a bond issued by the Trust as a new entity might be more expensive than a revenue bond. I don't know. That's a revenue bond issued by the City.

MR. WALLACK: I think the answer to that question is the nature of the revenue stream. What makes it more expensive is the quality of the revenue stream being determined by savings. If the savings are speculative and --

TREASURER NEELY: I guess I disagree with you on that. I'll take the mic. Only because the City can borrow the tax-exempt rate and non municipalities can't. That's not debatable. That's a fact.

MR. WALLACK: Okay, but I don't understand what your point is.

TREASURER NEELY: David has already said that they are willing to take that risk.

MR. WALLACK: They are borrowing at a tax-exempt rate. The level of the tax-exempt rate, whether it's 3 percent versus 4 percent, is determined by the risk associated with the payment. It's a different question.

TREASURER NEELY: Who is "they"? Who is "they" in that sentence?

MR. WALLACK: The City.

MR. HOFFMAN: I think Stephanie is saying that the investor's borrowing cost. The investor has to borrow money in order to fund this. They can't borrow at a tax-exempt rate. It may be that their payments on this count as tax-exempt payments, but that they can't borrow. I think that's where she's going with this.

MR. WALLACK: Every bond purchaser who buys a bond, whether it's from the City or Boeing or anybody else, to the extent they don't have free cash sitting in the bank, borrows at a cost to finance and their rate of return on that investment, which from their point of view they're arbitraging the money, so I'm borrowing it and I'm going to buy a City investment which has a tax return of X is going to be determined by the tax status of the investment whether I have income to offset it and the likelihood of me being repaid.

The likelihood of being repaid here is not as great as if it was a general obligation of the City. They're both going to enjoy the same tax status as instruments of municipalities. The cost of an investor borrowing money to purchase that investment or to fund a loan is going to be the same to them. It's really a risk return issue.

MR. SILVERS: Jerry, can I read that back to you if you don't mind?

MR. WALLACK: Maybe you can do it better than I can.

MR. SILVERS: Maybe. I mean, you're telling us that the obligations that will be sold to the public as a result of this structure would be tax exempt in your opinion?

MR. WALLACK: Yes.

MR. SILVERS: The difference would be that the issuer of the obligations and their revenue obligations are based on a cash flow statement, not a general obligation?

MR. WALLACK: Yes.

MR. SILVERS: The difference between -- potentially in terms of what we have to -- what this structure would have to pay in terms of the cost of borrowing is largely going to be a function of the fact that this is the Trust issuing these bonds, issuing revenue bonds and not the City issuing revenue bonds.

MR. WALLACK: No.

MR. KLEEMAN: No.

MR. WALLACK: The issuer of the tax exempt obligation is really the City. It's the credit quality of the repayment that will affect the rate.

MR. SILVERS: And the credit quality of the repayment is the function of the projects, is a function of the liabilities, the cash flow stream.

MR. WALLACK: It's a function -- Exactly. It's a function of what you are designating as the source, the limited source of funds.

The difference between the general obligation and the special limited obligation is the breath of the cash flow to pay it. There's no tax base supporting this.

MR. SILVERS: So this structure is not creating a higher -- in your view is unlikely to create a higher cost of capital than a simpler structure because of what you just said, because the fundamental issue is the quality of the cash flow that's coming in.

MR. WALLACK: Yes. The judgment made by the Department of Finance of CPS and others has to be that the cost of capital here is worth the relief from the general obligation.

MR. SILVERS: And I'm coming to that. So my next question to you is this, and this I think goes to what Stephanie was asking, which is the investors, people who buy these bonds, are people who buy tax exempt bonds normally, largely high net worth individuals with high tax liability.

MR. WALLACK: These would be institutions --

MR. SILVERS: These would be institutions.

MR. WALLACK: Credit investors and whether the city, CIT or others can open up new investor markets is not my question.

MR. SILVERS: It's the same pool of institutions.

MR. WALLACK: Yes, people who buy tax exempt municipal bonds or institutions that buy it, whether it's for the treasuries or for funds will be the ones.

MR. SILVERS: Do you have a view coming back to the slide that we went through a couple places before where you basically say that there is a cost of capital trade off between this rather sophisticated structure and a simple public borrowing.

MR. WALLACK: Yes.

MR. SILVERS: Do you have a view as to what that trade off is?

MR. WALLACK: No. The market is going to tell us that.

CHAIRMAN BELL: The market is going to tell us that.

MR. SILVERS: We don't have a guess right now?

MR. WALLACK: The market is going to tell us that. The City and particularly the treasurer would know the cost of borrowing on a GO basis, but I believe, and I'll pass it to David to answer this --

TREASURER NEELY: You keep saying GO. You can issue revenue bonds also. This is supposed to be off balance sheet.

MR. HOFFMAN: And let me join Stephanie in that question. There's general obligations bonds. I know far less about public financing than anyone sitting at the table or Stephanie or probably a lot of people in this room.

But there's general obligation bonds, there's revenue bonds, there's asset backed securities, but this looks like a revenue bond, and one question would be -- I guess there's two questions.

One, therefore, isn't that going to be the relevant comparison; and number two, why can't the City do exactly what we're describing and either, let me finish the question, and either issue a revenue bond or if you want to do some sort of other alternative structure, do it in the exact same way?

MR. WALLACK: I have an answer. It's going to sound sarcastic but it's not. There are no revenues here. I mean, this is savings that we're talking about.

The City is trying to quantify almost like a negative revenue and so it's not like the water revenue bonds that are sold by the water system which are payable from the water revenues that you can look at, you know, a million users in 74 municipalities that buy water.

This is something that the City says we're going to save X dollars by doing this. We want to capitalize --

MR. HOFFMAN: You're saying the City could not issue a revenue bond on this?

TREASURER NEELY: And I disagree.

CHAIRMAN BELL: Let me get here for a process check because we're running out of time. I think we got to get to what do we want to do with this discussion.

I think the sole purpose of this discussion is do we want to go forward and create this alternative so we can look at it to see if it makes more sense than conventional financing or not, and it may not.

MR. HOFFMAN: I agree, but I think -- and I appreciate how long this meeting has been going. On the other hand, I do think this kind of getting a sense of what this thing is is really important. I think we have made progress in the last 20 minutes, but I hope that we can continue discussion at least for a little bit longer because what this is and then how we make that judgment about what we compare it to I think are the key questions which we're kind of in the middle of discussing right now.

CHAIRMAN BELL: Yeah, but I don't think we have to answer them today. What I got to make sure we got an understanding of is what this is.

MR. HOFFMAN: Right.

CHAIRMAN BELL: This is what you see. Believe it because they've said and that's what it is. It's a more complicated structure, but the whole intent is to expand capacity for the City, and whether it's affordable or not in comparison to the conventional, the market is going to tell us that.

I mean, the market is going to say this is more expensive than conventional financing and then the City has to decide is that difference worth the additional capacity in a new market.

MR. HOFFMAN: But I don't understand at

this point, and maybe the next five or ten minutes will clear this up, how it expands capacity. I mean, one way it might expand capacity --

CHAIRMAN BELL: You're not going to the same market for the money. You're not going to the conventional sources for the money. You're not encumbering the balance sheet basically.

MR. HOFFMAN: But doesn't revenue bond encumber the balance -- it certainly doesn't encumber the balance sheet in the same way and it may not encumber the balance sheet at all since it's based on revenue. So I don't hear the idea that it somehow frees up other general obligation bonds to really be responsive to --

CHAIRMAN BELL: That is the intent though, is it not?

MR. WINTERS: Yes.

MR. HOFFMAN: I'm confused. How does it connect with the capacity issue of GO bonds?

MR. WINTERS: Well, first of all --

MR. FALK: I think David's question is relevant, but I think actually without people from the Finance Department here it's really hard to put the lawyers on the spot to answer that question. What you're pointing out is that this has been preliminary.

If we can just drop back five yards and understand where we've been. So for four months we've tested various versions of financing structures. We've created a bunch of different term sheets. We've worked it through with the markets.

Steve has talked to investors, talked to the City. The finance personnel have identified concerns they have about various iterations of the prior term sheets.

There are lots of other ways this could have been done. What we determined was that the feedback from the market and a lot of the market participants gave us indicative interest rates that suggested that these were financeable at a rate that would be attractive if the City gave certain levels of credit support.

The City didn't care for that alternative. The City didn't want to provide those sorts of credit support and brought in municipal bond experts to make this look more like a tax exempt because the incremental savings from a tax-exempt bond, which was not the structure previously envisioned, might help offset some of additional coupon expense associated with the lack of credit support from the City, lack of budget commitment, lack of collateral, back stopping the loans and so on.

And so now we're at a place where we've got an alternative structure that removes some credit support but provides tax exempt status. Those won't entirely offset, but it at least gets us back in a neighborhood where the rates will be hopefully at a level that will be acceptable to the City and to the Trust.

But because this structure is the latest of say four iterations of different variations on a theme, we don't have all the answers yet. We've not gone to the market to test this latest structure so we don't know -- we don't have indicative pricing on this particular structure.

So what we're hoping to get out of

this meeting frankly is to get authorization to go do that work, finish that work, answer some of the questions through the Finance Department that you're asking right now, David, authorize your CEO to engage a placement agent to do some market testing, that's in the resolutions in the Board book, and get to a place where within hopefully the next several weeks we have market driven answers to help solve some of these concerns that are still there.

MR. HOFFMAN: I appreciate we need to wrap this up so let me just ask one question of David which if you can't answer now and we need Finance Department consultation then it can be answered on a going forward basis.

But the question is what is the relevant comparison in terms of what the City could do? What I'm picking up from this discussion is the relevant comparison is what if the City issued a revenue bond and that we would be looking at information we don't have now but ultimately a comparison between what it would cost the City to do a revenue bond or something that's like a revenue bond that's similar to this --

TREASURER NEELY: Can I just add?

MR. HOFFMAN: Listen. Versus this. That to me is -- If the answer as Jerry said the City couldn't do this, the City couldn't issue a revenue bond or do this, I'd like to know that. That's not my sense.

TREASURER NEELY: So the thing I would add to that is very similar that cities across this nation have issued tax increment financing where you freeze the tax rate and you bond them against whatever the increment is.

It would be very similar to what we've budgeted in terms of energy savings are. That is a way -- that's the only thing I would add to what you said is that's the comparison I would like.

MR. HOFFMAN: And the reason is that if what we are describing is more complicated than what the City can do and more expensive than what the City can do then we need to ask why. Why are we doing something more complicated and more expensive?

MR. WINTERS: The first box answers

that question.

TREASURER NEELY: Investors?

MR. WINTERS: No, the one on the bottom right over Mr. Bell's head.

CHAIRMAN BELL: The limited recourse.

MR. WINTERS: Not the limited recourse. The fact that it's the City and CPS, and maybe the next time we come before you it's the City and the Chicago Park District. Maybe the time after that it's the Metropolitan Water Reclamation District and the City's Water Department. Who knows? But that's why we're --

MR. HOFFMAN: What's so interesting about that, which we'll have to discuss some other time, but the idea that combining different legal entities here, Chicago Public Board of Education and the City of Chicago Municipal Corporation somehow we can't do otherwise. The only way to do it is through this Trust. First of all, I'm a little bit dubious about that. Second, that's what has put so much pressure on what is it --

MR. WINTERS: I don't see the reason we can't, but we're choosing to at this time.

MR. HOFFMAN: Well, if you're choosing to and it's more complicated and more expensive then we have to ask well, if you didn't choose to and if you just decided to do it as the City, could you do that, what would be the price and why would we do it in a more complicated way.

The answer -- there may be very good answers to that, but that's the question. That's why I think it puts so much pressure on the CPS thing because if the City thinks it's so important to get the benefit of combining these things, but the CPS one is ultimately going to be more expensive and higher risk because of the things we've discussed, why would we combine it?

MR. WINTERS: I think Mr. Bell touched on it right at the outset of this meeting when he said that because of the downgrade yesterday, the role of the Trust is more important than offer.

The role of the Trust has not been completely defined as yet, but the fact is that as we face a future in which our credit has been downgraded, the school's credit has been downgraded and eventually this is going to roll into affecting Park District and it's going to affect all of the other agencies around the City, the fact is there is no help coming from anywhere else. There's no help coming from Washington. There is no help coming from Springfield. We need to think of other ways to fix this.

CHAIRMAN BELL: Got it, guys. Listen, we're going to have much more opportunity to ask more questions and to sort through this, but today I think we have to do two things.

We've got to decide do we want to pursue this option so that we can further sort it out, and I think we'll have better questions and we'll have the City's Finance Department come to support it or not.

I mean, that's the thing. I don't know the right answer. I'm not suggesting that us saying that we should pursue this course so that we can really sort out and really understand this as an option means we'll select it. I don't think anybody should feel that us doing that is going to say that this option is going to prove out to be better than, you know, us saying go back to conventional financing.

But I think it is in our best interests to start, you know, this first round through to figure out what other options we do have. We can't make that decision. So I would like us to get to that point and because I surely want us to open it up to public comment before they start leaving. Thoughts?

MS. FERGUSON: I actually have a question. I fully support the notion of exploring the structure. My question is: Do we need to retain, does the Trust need to retain a placement agent to do that and does that retention of the placement agent, if we approve it, obligate us to use that firm in executing the structure or is this just an exploratory -- what exactly are we asking the placement agent to do?

MR. FALK: I think it's highly likely that if you're going to get a bank to sign on to help you explore the structure that they are going to expect that they're going to have fair opportunity to bid to do the actual placement work.

I don't know that you're locked into a commitment to use them for the full deal, but I would expect as a matter of efficiency you would want to get somebody on board today that has the capability of taking you through the full process.

The reason to let Steve engage a placement agent now is so that we have the best conduit into market intelligence that we can get. We need somebody who plays in this market to talk to the right participants.

This is not a typical tax-exempt bond marketplace. This has quasi equity features. The coupon is probably going to be higher than a typical tax exempt bond because of the lack of credit support.

We need someone who knows the marketplace and can help us survey and probe to what's available. So I think if you want us to explore it, you need to permit him to get a professional assistance.

CHAIRMAN BELL: But we're not committed to do the deal by doing that?

MR. FALK: Of course not.

MR. KLEEMAN: No.

CHAIRMAN BELL: We can stop and say okay, we don't like it, we think we ought to go another route?

MR. KLEEMAN: Correct.

CHAIRMAN BELL: Any other comments on this that need to be addressed today relative to us moving forward with just exploring this as an option?

(No response.)

Are we comfortable? Can I get a motion from the Board?

MR. HOFFMAN: Well, I have some questions about the private placement agent aspect of this. I think the comments from the -- I know all of us appreciate the Advisory Board Members and the comments today have been helpful.

I think I would reframe your question is if there's very strong objection to moving forward with the private placement agent given what's been described and I would want to hear as well, I know we all would, from the

Advisory Board Members.

The process point that would be important to me that I've discussed with Steve is that if we're going to get a private placement agent now to advise us on market intelligence but that likely ends up as the private placement agent as the deal goes forward, we should have some at least informal competitive process to say we are interested in having a private placement agent, give us information if you're interested in being our private placement agent, and then Steve and Kirkland and so on can judge those people and we can choose one.

It doesn't seem like that should take very long, but as long as we're going to use that -- something like that as a process then and it's exploratory and it doesn't -- certainly doesn't commit us to using the information in deciding whether it makes sense, then I don't have any objection to proceeding as you described.

MR. BEITLER: There is a timeline on the last page.

CHAIRMAN BELL: Hold on, Steve. Can we agree to do it the way he described it?

MR. BEITLER: That's what the timeline describes.

CHAIRMAN BELL: We don't need to look at it. Under that agreement that we're going to have some kind of competitive process to select him, I think you guys have already done some of that, and that's fine, but we have to document it. Do we have an agreement on this Board that we'll go forward and explore this?

ALDERMAN POPE: Yes.

MR. HOFFMAN: We do.

CHAIRMAN BELL: Okay. Now, I know everybody wants to talk more about this. There will be plenty more opportunities to do that. This is an interesting topic.

But before we close today, I do want to open this up for public comment. Yes?

MR. HUMMEL: Greg Hummel from Bryan Cave. I'd like to commend the Trust and their advisors. I think this is really a thorough process that you're going through.

I had one technical question really

in the form of a comment. How do you establish the base line of energy use? How do you monitor it? And what about landscape changes?

Because that really is the thing which is going to create the savings that you're going to pay as the security or using the security for the bonds. I haven't thought of how that might be done.

Is that something the ESCOs are going to do or how is that baseline going to be settle and measured? And are there a set of assumptions that could change that would effect the realization of the savings?

MR. BEITLER: We are looking at M & B methodologies right now as part of this process, and there is not an M & B methodology that has been agreed to as the methodology yet, and the City has to essentially decide what methodology is acceptable to it.

MR. HUMMEL: Thanks.

CHAIRMAN BELL: But I think to sort of answer your question, we're going to have to go through that. We're going to have to validate it. It's got to be something we can market because that's going to be very contingent on what the investment community is willing to, you know, offer up as rates. So, I mean, clearly we're going to have to --

MR. BEITLER: It's an active subject of discussion.

CHAIRMAN BELL: Exactly. Yes?

MR. JOHNSON: Thank you, Mr. Chairman, and Members. My name is Dan Johnson. I am with the Midwest High Speed Rail Association.

Just briefly, on the website you have got some great ideas. Sort of taking a few steps back, some of the ideas you're are exploring solar power, wind power.

I ask you to ask consider building railroad tracks as well. We discussed earlier about looking for new market participants and there is a mature global marketplace for design, build, maintain, operate and finance high speed rail developers.

IC rail just opened, literally just opened up a brand new high speed rail network, grants at 7.5 billion euro project I think last year, and Chicago can be the hub of a midwest high speed rail network where the infrastructure owner of the tracks can charge an operator fees to use these new tracks, and I think expand out into the midwest.

It's consistent with Mayor Daley as you'll recall in his last year of office put out a blue ribbon panel to discuss an O'Hare to downtown express train for a lot of the city folks to take a look at it and trying to get it privately financed.

As this innovative entity is getting created, I would ask you to consider as part of your ideas raising the flag that all these global developers that are looking for investments, infrastructure investments to make to consider Chicago as a place to start.

CHAIRMAN BELL: Thank you. Thanks for those comments. I think that falls in your transportation. We are sort of looking at that, but thank you very much for that.

MR. DOODY: My name is Larry Doody, D-o-o-d-y. Thank you, Commissioner, Board and Mr. Beitler for allowing me a quick opportunity to speak.

I maintain a high level of expertise in the PACE financing industry starting in 2009 so I am very proud to see you guys have that as an idea that you want to consider, and it sounds like that might be something you want to go forward with in the future.

But I would like to just expound on a couple of things for your own data. I became an early stage employee and investor in what has became the largest -- a company that supports the largest PACE program in the country, Western Riverside Council, the government's HERO financing program.

That program to date in a year and a half has approved more than 10,000 homeowners in one half of one county for over $225 million of privately funding capital that doesn't cost the taxpayers a cent.

In essence, a PACE program allows the Chicago Infrastructure Trust to tell the constituency of the City of Chicago and the State of Illinois that you too, homeowner, you too, commercial building owner have access to your own personal infrastructure trust.

And I think that's a very important branding and messaging that can be included in the Chicago Infrastructure Trust Program because the general public hears all these programs in the press. They hear the negatives and they never really see how is this benefiting me. They don't see how things benefit a lower tax bill.

With PACE financing it provides that upfront critical capital that allows building owners to make the important decision to align the consumer's goals with the municipality's goals to reduce greenhouse gases and carbon emissions that reduces their utility bills, creates payroll taxes, sales tax and creates jobs.

Those 10,000 applicants that have been approved for 225 million where 6 million has already been funded created 2,500 jobs. The four most important letters I think are j-o-b-s.

This creates jobs today with privately funded dollars costing the Trust nothing, the City nothing, the County nothing, the State nothing other than the cost that it takes to put the manpower in play to service at the various levels. Not a question, just comments.

Thank you for your time. If I can do anything as an expert as a resident of Chicago, I'd love to help with that. Thank you.

CHAIRMAN BELL: Thank you. Steve, why don't you get his name?

Any other public comment? Yes?

MR. SNYDER: Tom Snyder, just a quick question. OM on your slide?

MS. FERGUSON: Offering memorandum. Also on that slide I'm assuming that what he meant to say is the Board would consider approval of the offering memorandum and the Board will consider approval of the transaction.

MR. HOFFMAN: And the City Council and the CPS Board.

CHAIRMAN BELL: Exactly. Any other comments?

(No response.)

Thank you very much for your time and your patience.

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

STATE OF ILLINOIS)
) SS:
COUNTY OF COOK   )

I, MARI BETH KAWULIA, a Certified Shorthand Reporter of the State of Illinois, do hereby certify that I reported in shorthand the proceedings had at the hearing aforesaid, and that the foregoing is a true, complete and correct transcript of the proceedings of said hearing as appears from my stenographic notes so taken and transcribed under my personal direction.

IN WITNESS WHEREOF, I do hereunto set my hand at Chicago, Illinois, this 20th day of August, 2013.

____

MARI BETH KAWULIA
C.S.R. No. 084-2873