Metropolitan**Planning**Council

May 15, 2012

Chicago Infrastructure Trust:
An Innovative Financing Tool to Address Critical City Infrastructure Needs

Consistent with its advocacy for innovative infrastructure financing, the Metropolitan Planning Council strongly supports the creation of a Chicago Infrastructure Trust. This statement lays out some history, the need, and the evolution of this tool.

Background

On April 24, 2012, the Chicago City Council approved the Chicago Infrastructure Trust (the Trust), the first city in the nation to adopt such a financing tool. The Trust is intended to complement the city's traditional capital plan by attracting private sector funds to build and maintain Chicago's aging infrastructure. Given the scarcity of state and federal funds available to make even the most essential of needed investments, the Trust could be a valuable tool to supplement traditional funding, granting the city access to untapped capital resources to pay for necessary investments sooner. The Trust also could increase Chicago's global competitiveness by allowing the city to invest in transformative projects that might not otherwise be built.

Projects funded through the Trust are intended to first be evaluated and then be operated independently, each with unique financing streams and repayment terms. As the city identifies projects that meet its infrastructure needs, it will solicit investors to fund that project. The Trust will run as a not-for-profit, led by an executive director and a board of directors made up of five voting members and three non-voting members, all approved by the City Council. One City Council member will be a voting board member. To date four financial institutions: Citibank N.A. and Citi Infrastructure Investors; Macquarie Infrastructure and Real Assets Inc.; J.P. Morgan Asset Management Infrastructure Investment Group; and Ullico Investment Co., issued statements of support for investing in the Trust. The first announced project to be funded is Retrofit Chicago, a $200 million energy-efficiency plan for City facilities and schools. Once implemented, Retrofit Chicago could recoup $20 million annually in energy savings which would be used to repay investors.

An innovative approach to funding infrastructure

Chicago's infrastructure needs far outweigh available resources. Water and sewer pipes have not been modernized in half a century, transit stations are crumbling and inaccessible to the disabled, while slow zones abound because the rails have not been refurbished in decades. Gridlock impedes growth; MPC research documented traffic congestion costs Chicago-area residents more than $7.3 billion a year or a "congestion tax" of almost $3,000 per Chicagoan. To compete globally, it's essential to move forward on major transit, road, bridge, technology and energy investments. However, budget constraints prevent sorely needed maintenance, let alone expansion.

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For that reason, policy makers must identify strategies to navigate the "new normal." Even as the economy struggles to rebound, our growing regional population is demanding smarter investments to expand and improve transportation options, create more quality housing near jobs and transit, and conserve our energy and water. Given limited public funds, governments must tap innovative financing tools to address infrastructure needs. Around the world and here in the U.S., governments are using new types of investment vehicles to advance projects. Examples include the P3 Canada Fund, European Investment Bank, California's Infrastructure and Economic Development Bank ("I-Bank"), and U.S. Transportation Infrastructure Finance and Innovation Act (TIFIA) federal loan program.

City's response to MPC concerns

As Mayor Rahm Emanuel's proposal was being reviewed by Chicago's City Council, MPC initially raised concerns with the city regarding whether the Chicago Investment Trust would operate consistent with the following MPC guiding principles:

1. Trust goals should be clear and measurable, and advance both community and economic development objectives.
2. Projects should be selected based on objective, quantifiable criteria, consistent with adopted economic development and capital plans.
3. Projects must advance multiple goals such as enhanced mobility, improved air quality, reduced congestion, community development, enhanced housing near transit, quality employment growth, and balanced land use.
4. An extensive, detailed contract, clearly describing the responsibilities of both the public and private partners is vital and should include a clearly defined method of dispute resolution in the case of unforeseen contingencies.
5. An independent review process must be identified to serve the public's interests.
6. The public should be made aware of project details in advance of its approval.
7. There must be a guaranteed means to repay investors. A pricing mechanism must be pegged not only for construction/expansion but to maintaining the asset's useful life.
8. Existing assets should not be leased solely for temporary monetary gain.
9. Follow up audit of each project to ensure economic and financial goals are met and to disseminate lessons learned.

After discussions with top city officials, MPC is satisfied that the administration has embraced these issues through amendments to the authorizing ordinance, Mayor Emanuel's Executive Order, and further clarification on Trust operations. The Executive Order mandates a high standard of transparency, independent evaluation of projects including evidence of economic benefit to the city and region as a result of the investment, and rigorous oversight and auditing. To ensure transparency, an independent evaluation of a project must be delivered to the Mayor and City Council and posted on the Trust's website no later than 15 days prior to any vote required of the City Council, governing body, or participating government with regard to the proposed transaction. The city also has confirmed that projects it chooses to be funded through the Trust will not be driven by investor wants or private sector profit. Further, the Trust is not a tool for leasing assets or for temporary budgetary relief.

The Trust can be a valuable investment vehicle because project budgets will account for lifecycle maintenance costs, which are often ignored in traditional public financing plans. The Trust also has the added benefit of creating a replicable framework for future financing plans. Further, properly negotiated agreements can create incentives for efficiencies, and shift risk to private investors, who can bear responsibility for cost overruns or revenue shortfalls in return for the opportunity to profit from their investment. That is why it is vital that the executive director and board who govern the Trust have expertise on financing these types of agreements and ensure a high-quality evaluation process is performed for each project prior to contract execution.

These are not grants. Just like a general obligation bond that must be repaid to investors, the Trust will also require a reliable source of public funding as collateral. That makes it even more important that potential investments are chosen based on their ability to address multiple goals, generate much-needed economic development, improve Chicago's global competitiveness, and promote community livability and sustainability.

Tackling the ever-growing backlog of capital infrastructure maintenance requires an innovative approach. By rethinking how we invest in our communities, and rewarding the public and private sector for working together to more efficiently and effectively deploy resources, we can regain the Chicago region's competitive edge, secure good jobs, and shape a new era of sustainable economic prosperity that supports city and regional business plans. The Trust can advance projects that would not otherwise be built using traditional funding methods. The idea is a promising one, and we will continue to be engaged to help ensure that the implementation of projects demonstrate the transparency outlined above. The Metropolitan Planning Council believes the Trust can be a valuable tool in addressing Chicago's infrastructure financing needs and urges other elected officials and civic leaders to work with the city to ensure it is successfully implemented.