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Chicago Infrastructure Trust Still Teasing with PACE.

What Mayor Rahm Emanuel once hailed as an innovative conduit to more than \$1 billion in private-sector dollars for public works projects has evolved into a low-budget broker of new ideas and interagency cooperation.

Since the Chicago Infrastructure Trust was announced in early 2012, with former President Bill Clinton at the mayor's side, only one \$13 million project is underway—retrofitting city buildings to save energy. Trust CEO Stephen Beitler, a former private-equity executive, says he is close to a deal to finance roughly \$50 million in energy-saving upgrades at 141 city swimming pools and is working on financing a \$27 million upgrade of wireless service for the Chicago Transit Authority.

Yet Mr. Beitler manages to keep expectations high by touting a \$1.5 billion pipeline of potential deals, including a voluntary property tax assessment of commercial properties to pay for energy-related improvements. The trust is evaluating a dozen proposals totaling about \$1 billion from 15 firms for the Property Assessed Clean Energy program, although not all those Pace bids will be accepted, he adds.

The trust's slow progress is the result of several factors, including the novelty of a middleman trying to bring together City Hall and investment firms. Despite its hype, the trust is a small venture, financed with an estimated \$1.5 million in city funds over its first two years ([see the PDF](#)). And the deals are difficult to do, with Mr. Beitler discarding more than a dozen proposals.

While the cash-strapped city's need for "transformative" improvements in transportation and other infrastructure has not gone away, the trust has suffered from overly ambitious predictions.

"When the trust was set up there were certainly some high expectations set up for it," says Peter Skosey, an expert on infrastructure finance and executive vice president of the Chicago-based Metropolitan Planning Council, where the trust's board holds its meetings. "Many of those expectations weren't warranted."

After Mr. Emanuel announced plans for the trust in March 2013, it took almost a year just to appoint a board of directors, create a charter, approve bylaws and hire Mr. Beitler.

Mr. Beitler now distances himself from the earlier, lofty predictions, saying, "I wasn't present when the expectations were set."

Although Mr. Clinton called the trust an "infrastructure bank," it doesn't have a pool of money to invest. Instead, Mr. Beitler, one of the trust's two full-time employees, must painstakingly assemble complicated financing deals.

"The market's the market, unless they have millions and millions of dollars to give out," says Steve Steckler, chairman of Bethesda, Maryland-based Infrastructure Management Group Inc., a consulting firm that values public assets.

Mr. Beitler says he is pleased with the progress of the trust, which has about 20 deals in the works.

"That's an outstanding growth rate for an organization like ours," he says. "You can't get it done in a day."

The Pace program could be the trust's most ambitious plan. Commercial landlords must agree to a special property tax used to pay the upfront cost of energy-efficiency improvements. The idea is that energy savings would exceed the added tax. Because it is structured as a tax, the landlord can pass the cost on to tenants.

'DEFINITE OPPORTUNITIES'

Pace financing is used in some other cities, with nearly \$83 million in funding approved for 261 projects, according to PaceNow, a Pleasantville, New York-based nonprofit that promotes the concept.

"There are some definite opportunities with Pace funding for certain buildings that might not like other kinds of financing," says Ron Tabaczynski, director of government affairs at the Building Owners and Managers Association of Chicago, which represents large downtown office buildings. "But I don't know how many buildings will be looking to increase their property taxes at this point in time, given the uncertainty about where property taxes are going in light of pension issues."

Acceptance by lenders, who must approve Pace deals, also is uncertain because the Pace assessment has priority over mortgage payments. The Federal Housing Finance Agency, which regulates residential lenders Fannie Mae and Freddie Mac, does not allow Pace financing.

Mr. Beitler says Pace could finance energy-saving improvements on city-owned structures, although he acknowledges he doesn't have a "clear, final answer" on how.

If it can't, Pace seemingly would divert the trust away from its core mission of financing public works projects. But Mr. Beitler says it's a route worth pursuing.

"It reduces the cost of doing business in Chicago," he says. "It seems to me this is a transformative infrastructure project. To get a bunch of different city, county and state agencies to work together is not a small task."

Crain's Chicago Business

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