ILLINOIS FINANCE AUTHORITY

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From: Christopher B. Meister, Executive Director

Subject: ***Message from the Executive Director***

Dear Member of the Authority:

Status and Future of Local Pension Consolidation

On January 29, 2020, Governor Pritzker gave the annual State of the State address and highlighted local pension consolidation:

> We've also begun the long work of tackling our pension problems. In addition to expanding our state pension buyout program, in the fall veto session we accomplished something that eluded governors and General Assemblies for almost 75 years by consolidating 650 downstate and suburban first responder pension systems – which will alleviate local property tax burdens and strengthen the funds that offer a decent retirement to our police and firefighter. Maybe more significantly – the bill we passed was supported by both a leading progressive Representative, Will Guzzardi, and an outspoken conservative Senator, Dan McConchie. All I can say is, anything is possible.
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> *These changes, along with* ***our landmark pension reform that consolidated police and firefighter pensions, can make a serious dent in property taxes***.

The Illinois Finance Authority has demonstrated its effectiveness in support of Governor Pritzker's local pension consolidation. Accordingly, we should be prepared to assist in future initiatives, keeping in mind the overall goal to lower property taxes and improve the quality of life of Illinois residents. Members can be proud of the Authority's role in this landmark reform.

Governor's Climate Agenda and Authority Involvement

Governor Pritzker also discussed climate and energy in his State of the State address, highlighting that the spring legislative agenda must also address adopting new clean energy legislation that reduces carbon pollution, promotes renewable energy, and accelerates electrification of the transportation sector.

Governor Pritzker noted that Illinois saw the effects of climate changes last year with a polar vortex, devastating floods, record lake levels, and emergency declarations in more than a third of Illinois' counties."

The Authority is already at the forefront of bringing financial tools that will assist in a significant way in achieving the Governor's climate agenda.

The ***PACE*** program at the Authority has been warmly received by market participants thus far, and counties and municipalities have been reacting by procuring or appointing program administrators that will work with the Authority to issue PACE bonds. Meanwhile, the Authority's ***PACE*** program has in place approvals for hundreds of millions of dollars of private capital throughout the state to fund PACE projects which will lower energy consumption, reduce carbon pollution, conserve water, and promote sustainable development.

Evidence of the positive impacts of the PACE program is the PACE project at 208 South LaSalle Street, Chicago, IL to be known as The Reserve Hotel, which is reported to have energy savings of 954,546 kWh and 4,875 therms per annum while also conserving 2,272,700 gallons of water each year. Further proof is the PACE project located at 6810 Mannheim Road, Rosemont, IL for three hotels and one restaurant, which is reported to have energy savings of 2,681,625 kWh and 40,899 therms per annum while also conserving 134,167 gallons of water each year.

The Authority has also successfully priced and closed the State of Illinois' inaugural ***Clean Water Initiative Revolving Fund Revenue Bonds, Series 2019 Green Bonds*** on behalf of the Illinois Environmental Protection Agency. Designating the $450 million 2019 SRF Bonds as "Green Bonds" prioritized the Authority's commitment Environment, Social and Governance ("ESG")-related project funding.

The Series 2019 Green Bond proceeds will fund loans to wastewater and drinking water treatment facilities, including providing financing for energy efficiency and renewable energy projects. An example is a drinking water project for the City of Chicago to convert a pumping station from steam to electric power. This change will reduce operating expenses approximately $4.5 million annually and will reduce the pumping station's carbon footprint by 58%.

In addition to the Governor's State of the State speech, there are two major developments that make this topic particularly relevant to the Authority. First, the McKinsey Global Institute released its report (January 2020) entitled "*Climate risk and response: physical hazards and socioeconomic impacts.*" ("McKinsey Report"). The McKinsey Report specifically highlights the importance of governments to mobilize financing to fund adaptation measures, including public-private partners. The report stresses that financial markets could bring forward risk recognition in affected regions, with consequences for capital allocation and insurance. Greater understanding of climate risk could make long duration borrowing unavailable, impact insurance cost and availability, and reduce values. Second, Larry Fink, Chair and Chief Executive Officer of Blackrock, released a letter (January 2020, "Blackrock Letter") recognizing that "the evidence of climate risk is compelling investors to reassess core assumptions about modern finance" that will lead to "a fundamental reshaping of finance." Both the McKinsey Report and the Blackrock Letter will be discussed in today's meeting.

The Authority has the opportunity to build on our leadership in financing climate change projects by committing additional resources to this topic under the umbrella of the ***Transformation Initiative.*** In addition to the McKinsey Report and the Blackrock Letter, the UN Sustainability Development Goals

(2015) provide are good starting points for this discussion, as they identify 17 goals, which reflect job creation, elimination of poverty, reduced inequalities, clean energy, clean water, and climate action to mention a few.

USEPA Environmental Finance Advisory Board/Stormwater Funding Task Force

The USEPA Environmental Finance Advisory Board (EFAB) and the Stormwater Funding Task Force will meet on February 11-13, 2020 in Washington D.C. to among other business, consider a report by the EFAB Stormwater Infrastructure Finance Task Force Workgroup

The Stormwater Funding Task Force has issued a draft report in response to the 2018 America's Water Infrastructure Act, which directed EPA to conduct a study on, and develop recommendations to improve the availability of public and private sources of funding for the construction, rehabilitation, and operation and maintenance of stormwater infrastructure. The Task Force report makes recommendations that are practical to implement, actionable at the federal level and understandable to the public. They present suggestions to use existing funding mechanisms, increase accessibility to those funding mechanisms, identify additional funding opportunities, and enhance public education. Since 2016, I have been proud to contribute to the work of EFAB.

Diverse Agenda

We are proud to present for consideration additional bond resolutions for qualified borrowers seeking to benefit from the tax-exempt financing market and the Authority's continual excellent customer service, including ***DeKalb Community Unit School District Number 428 Project,*** an important refinancing to reduce the burden of local property taxpayers. Members will also consider projects on behalf of ***Northshore University Health System, The University of Chicago, and Beginning Farmers in Macoupin and Woodford Counties,*** for a total of 92.77 acres.

Advanced Refunding with Taxable Debt Trend

After attending *The Bond Buyer's* National Outlook 2020, the Authority left with a few key takeaways. As highlighted in recent meetings, more traditional conduit borrowers are issuing taxable debt due to the possibility of higher savings and reduced compliance costs (*e.g.*, the need to keep track of their assets with a federally tax-exempt conduit bond). In 2020, taxable debt is projected to be 25% of the total predicted municipal debt issuance. Bank of America predicts that as long as rates stay where they are (historically low), the taxable trend is here to stay. It is possible for borrowers to issue taxable bonds through the Authority, and certain financial advisors have found that if the taxable financing is less than $300 million, there may be a benefit to issuing through the Authority.

Respectfully,

Christopher B. Meister
Executive Director

Enclosures: 1. Transformation Initiative: Update to Senate Bill 1300