ILLINOIS FINANCE AUTHORITY

SPECIAL MEETING OF THE TAX-EXEMPT CONDUIT TRANSACTIONS COMMITTEE MEMBERS AND THE DIRECT AND ALTERNATIVE FINANCING COMMITTEE MEMBERS

February 8, 2018, at 8:31 a.m.

REPORT OF PROCEEDINGS had at the Special Meeting of the Tax-Exempt Conduit Transactions Committee and the Direct and Alternative Financing Committee on February 8, 2018, at the hour of 8:30 a.m., pursuant to notice, at 160 North LaSalle Street, Suite S-1000, Chicago, Illinois.

APPEARANCES:

ILLINOIS FINANCE AUTHORITY
TAX-EXEMPT CONDUIT TRANSACTIONS COMMITTEE MEMBERS

MR. ROBERT HORNE, Chair
MR. LYLE McCOY, Vice Chair
MR. MICHAEL GOETZ
MS. ARLENE JURACEK
MR. BRADLEY R. ZELLER
MR. GEORGE OBERNAGEL (via audio conference)
MR. ERIC ANDERBERG, Ex-Officio/Non-Voting

ILLINOIS FINANCE AUTHORITY
DIRECT AND ALTERNATIVE FINANCING COMMITTEE MEMBERS

MR. LYLE McCOY
MS. ARLENE JURACEK
MR. BRADLEY R. ZELLER
MR. ERIC ANDERBERG, Ex-Officio/Non-Voting

ILLINOIS FINANCE AUTHORITY STAFF MEMBERS

MR. CHRISTOPHER B. MEISTER, IFA Executive Director
MR. BRAD FLETCHER, IFA Assistant Vice President
MS. PAMELA LENANE, Vice-President
MR. RICH FRAMPTON, IFA Vice President
MR. STANLEY LUBOFF, IFA Vice President, Loans and Guarantees
MS. ELIZABETH WEBER, IFA General Counsel
MR. RYAN OECHSLER, IFA Associate General Counsel

GUESTS

MR. JIM BURNETT, StoneCastle (via audio conference)

CHAIR HORNE: So I'd like to call the meeting of the Members of the Tax-Exempt Conduit Transactions Committee to order.

Will the Assistant Secretary please call the roll.

OECHSLER: The time is now 8:31 a.m.

Mr. Fuentes is not here.

Mr. Goetz?

GOETZ: Here.

OECHSLER: Ms. Juracek?

JURACEK: Here.

OECHSLER: Mr. McCoy?

VICE CHAIR McCOY: (No response.)

OECHSLER: Mr. Obernagel via audio conference?

OBERNAGEL: Yes.

OECHSLER: Mr. Zeller?

ZELLER: Here.

OECHSLER: Chairman Horne?

CHAIR HORNE: Yes.

OECHSLER: And Mr. Anderberg, Ex-Officio/Non-Voting?

ANDERBERG: Here.

OECHSLER: Chair Horne, a quorum of Committee Members has been constituted.

CHAIR HORNE: Great. Thank you.

Does anyone wish to make any additions or corrections to the Minutes from November 9th or December 13th of last year?

(No response.)

CHAIR HORNE: Hearing none, I'd like to request a motion to approve the Minutes.

JURACEK: So moved.

GOETZ: Second.

CHAIR HORNE: All those in favor?

(Chorus of ayes.)

CHAIR HORNE: Opposed?

(No response.)

CHAIR HORNE: The ayes have it.

Okay.

ZELLER: I've been asked by the Chair of the Direct and Alternative Financing Committee to conduct this meeting in his absence. That would be...

FLETCHER: Lerry's

ZELLER: Lerry. Oh, good.

I'd like to call the meeting to order of the Direct and Alternative Finance Committee. Will the Assistant Secretary please take a roll call of such Committee Members.

OECHSLER: Yes. Mr. Fuentes?
FUENTES: (No response.)
OECHSLER: Ms. Juracek?
JURACEK: Here.
OECHSLER: Mr. McCoy?
VICE CHAIR McCOY: Here.
OECHSLER: Mr. Zeller?
ZELLER: Here.
OECHSLER: And Mr. Anderberg, Ex-Officio/Non-Voting?
ANDERBERG: Here.
OECHSLER: Mr. Zeller, a quorum of Committee Members has been constituted.
ZELLER: Thank you.
Does anyone wish to make any additions, edits or corrections to the Minutes from the August 17th, 2017, meeting?
(No response.)
ZELLER: Hearing none, I would like to request a motion to approve the Minutes.
Is there such a motion?
JURACEK: So moved.
ZELLER: A second?

VICE CHAIR McCOY: Second.

ZELLER: We've got a motion and a second.

All in favor?

(Chorus of ayes.)

ZELLER: Opposed?

(No response.)

ZELLER: The ayes have it.

Next, we'll do the Presentation of Project and Resolutions. We have the Agriculture Projects.

Mr. Evans?

EVANS: Yes.

ZELLER: Will you present your two Beginning Farmer Bonds.

FLETCHER: Patrick, before you begin --

EVANS: Sure. We'll begin --

FLETCHER: Patrick?

EVANS: Excuse me?

FLETCHER: Before you begin, we'll note for the record the arrival of Member McCoy for the Tax-Exempt Committee.

Thanks, Pat. Go ahead.

EVANS: Today, we have two Beginning Farmer Bonds. Both Bonds will be a first mortgage position related -- effort in the position related to them.

The first borrower is Justin Joseph Bergbower. Justin is purchasing 69 -- 65.9 acres of bare farm real estate for $204,290 or $3,100 per acre. People's State Bank of Newton will finance 42.5 percent of the purchase price for $86,820 through the IFA Beginning Farmer Bond Program. The borrower will inject 15 percent or the purchase price of the -- of the purchase price or $365 [sic] with the bank utilizing the FSA Beginning Farmer Bond Program to finance the remaining porchase- -- excuse me -- the remaining portion of this purchase. As stated, IFA will have a first mortgage position. The property is located in the southeast portion of Jasper County, and the terms of the Bonds are identified in the writeup.

The second borrower is Brett D. Jaeger. Brett is purchasing a undivided 60 percent of a 100-acre of farm real estate. His portion of the purchase price is $606,000 or about $10,000 per acre. There is a grain bin on the property valued at 600 -- $6,000. Raymond National Bank will utilize the first -- will utilize IFA Beginning Farmer Bonds to purchase 50 percent of the purchase price or

$303,000 -- excuse me -- or $5,000 per acre.

Brett will inject 5 percent or $30,300 with the remaining portion of the purchase being funded through the FSA Beginning Farmer Program with the 5- -- 45/50 Percent Program. As stated, IFA will be in first mortgage position. The property is located in the central portion of McCook -- I mean, Montgomery County. The terms of this Bond are identified (inaudible).

Any questions?

(No response.)

GOETZ: I have none.

ZELLER: Are we going to pass all these in one motion?

CHAIR HORNE: Yes.

ZELLER: I assume so.

CHAIR HORNE: Yeah.

ZELLER: And Mr. Frampton with Item 2.

FRAMPTON: Okay. Next, we'll move on to Item 2, which is a one-time consideration Final Bond Resolution for BHF Chicago Housing Group C. This will be the fourth housing project that IFA has worked on with the Better Housing Foundation over the last 18 months or so. The previous three have all been investment-grade rated, and performance information of background on the first three projects are noted on pages 7 and 8 of the report.

With this project, the Better Housing Foundation is seeking to acquire a 17-property portfolio located on the south side of Chicago. Page 14 of the report has a general site map, which shows the locations of all 17 projects. This financing is very similar in composition and project location and project profiles and age to the first two Better Housing financing projects that we did in Chicago.

Based on the -- the forecasts that have been presented to S&P and are noted on page 15 of the report, the proforma forecast for the project would attain the minimum covenants required by S&P to attain at least an A- rating on the senior bonds and a BBB- rating on the subordinate bonds. So the forecast 1.54 and 1.24 coverages beginning in 2019 are well above S&P's minimum requirements.

Just in terms of the project cost line items, they conform closely to the first two projects that we financed in Chicago, and the project budgets and proformas have all been submitted to S&P. S&P's completed their site visits and they expect the ratings to be assigned next week. The maximum maturity on the Bonds is 40 years. The anticipated life when they get the bonds priced is 35. That's the target, just as with the first two financings.

Just in terms of the Project Profiles on page 10, there's a report that shows the unit mix, and significantly, there are a number of three-, four-, and five-bedroom apartments associated with this portfolio acquisition. And 69 out of the 186 units are either three-, four-, or five-bedroom units. So there is a high concentration of units in this portfolio that would be appropriate for lease to families, which is a plus. The other key thing to note is as of January 1st, the portfolio posted an occupancy rate of 98.4 percent.

So there are a lot of positives associated with this financing. Based on our prior experience, it appears that the target S&P ratings are attainable. They are -- S&P is also requiring the foundation to pre-fund 24 months of real estate taxes. That's over -- that's approximately $300,000. You can see that provided for in the uses of funds. And with their first portfolio project in Chicago, it took them 12 months to obtain -- to obtain a full exemption from the Cook County Assessor. So based on that, S&P has made a two-year assumption. So that's how the deal has been structured. A portion of the taxable proceeds will be used to fund that real estate escrow. So --

CHAIR HORNE: Does that get rebated if, after 12 months, they would say, Yes, you're right; you're tax-exempt?

FRAMPTON: Yes.

CHAIR HORNE: Doesn't matter. I'm just curious.

FRAMPTON: Yeah. Well, it -- are you asking --

CHAIR HORNE: Because I didn't see that in the flow of funds, if it came back into the --

FRAMPTON: -- specifically in terms of the escrow?

CHAIR HORNE: Yeah.

FRAMPTON: In -- that will be -- they will be amortizing that, but the expectation is that would just be repaid if they obtain the exemption.

CHAIR HORNE: I see. Okay.

GOETZ: So are these tax credit properties?

FRAMPTON: No, they are not.

GOETZ: They're not?

FRAMPTON: None of these Better Housing Foundation portfolio financings require any additional equity. The way S&P underwrites these portfolio properties, they're not -- their S&P Structured Finance group is the group that underwrites these, so they underwrite it based on portfolio risk. They're really not looking at it -- at these as standalone apartment buildings. So there is --

GOETZ: Well, they're -- why are they income restricted?

FRAMPTON: Well, they're income restricted because of tax-exempt bond limitations. So due to that, at least 40 percent of the units have to be leased to tenants who earn less than 60 percent of area median income.

GOETZ: And so the rest of them are market rate?

FRAMPTON: Actually, all of -- all of the units actually are eligible to be market rate. It's just that --

GOETZ: Okay.

FRAMPTON: And all are technically eligible for housing choice vouchers.

GOETZ: Okay.

FRAMPTON: Just in terms of housing choice vouchers, 41 percent of the units, right now, have vouchered tenants.

GOETZ: Okay. But the tenants are vouchered, the project is not?

FRAMPTON: Correct. Yes. These are all currently privately owned at market rate.

GOETZ: Yeah. Okay.

FRAMPTON: And one additional restriction, income-based restriction, is associated with Better Housing Foundation's (c)(3) status, and that mandates that in order for the Better Housing Foundation to maintain their 501(c)(3) status --

GOETZ: Sure.

FRAMPTON: -- a minimum of 75 percent of the units have to be leased to tenants at 80 percent at -- or less of area median income.

GOETZ: Okay. Thanks.

FRAMPTON: And then just one final point, if you're curious about how S&P underwrites these -- the confidential box on page 18 reports their unique methodology they apply on portfolio-based financings.

FRAMPTON: Any other questions or comments?

(No response.)

FRAMPTON: Okay. Next, I'll move on to Item 3 for University of Chicago. I will keep this discussion simple.

When U of C requested approval of a bond resolution last month, they included all kinds of different modes because they didn't know what was going to happen with the tax law. The one mode that they did not include was a taxable mode. So this resolution would supplement the resolution the Board approved in December, enable a taxable mode, and also authorize the underwriter to distribute a preliminary official statement for a taxable series of bonds. And that's essentially what's being requested here.

Any questions?

(No response.)

FRAMPTON: Next, we'll move on to Item 4.

FLETCHER: Can I ask who joined the line, please?

MR. JIM BURNETT: Sure. It is Jim Burnett from StoneCastle.

FLETCHER: Okay. Thanks for calling in, Jim.

MR. JIM BURNETT: Thank you.

CHAIR HORNE: So I think at this point, we're going to -- we're going to request approval of Items 1A, 1B, 2 and 3 before we move to the next items on the agenda.

Can we take a roll on approval of Items 1A, 1B, 2 and 3?

FLETCHER: First of all, we need a motion and a second to approve the subprojects.

ZELLER: So moved.

GOETZ: Second.

CHAIR HORNE: All those in favor?

ZELLER: Did you want a roll?

JURACEK: We need a roll.

CHAIR HORNE: Was that a roll vote?

JURACEK: Yeah.

CHAIR HORNE: Sorry.

FLETCHER: Call the roll.

OECHSLER: I'll call the roll. Mr. Fuentes is not here [sic].

Mr. Goetz?

GOETZ: Here -- yes.

OECHSLER: Ms. Juracek?

JURACEK: Yes.

OECHSLER: Mr. McCoy?

VICE CHAIR McCOY: Yes.

OECHSLER: Mr. Obernagel via audio conference?

OBERNAGEL: Yes.

OECHSLER: Mr. Zeller?

ZELLER: Yes.

OECHSLER: Chair Horne?

HORNE: Yes.

OECHSLER: Chair Horne, the motion carries.

CHAIR HORNE: Thank you.

ZELLER: Mr. Frampton and we will consider Items 4, 5, 6, 7 and 8.

WEBER: Well, I think he still needs to present those, right?

CHAIR HORNE: Yes.

ZELLER: For presentation.

WEBER: Right.

FRAMPTON: Okay. Next, we will move on to Item 4, which is a Preliminary Bond Resolution. It's a Nonbinding Preliminary Bond Resolution in the amount up to $250 million of financing to capitalize a Community Bank Bond Program to be managed by StoneCastle Advisors, LLC, as the program sponsor.

First of all, this request is for a conduit bond financing. These bonds would be non-recourse to the Authority just as every other conduit bond financing the Authority undertakes. Because the underlying purpose does not satisfy Internal Revenue Code restrictions in terms of what qualifies for private activity bond, these bonds would be issued on a taxable basis. StoneCastle approached the Authority to create this Community Bank Bond Program.

Just in terms of the -- who is StoneCastle, pages 3 and 4 provide profile and background information on StoneCastle. StoneCastle Partners, the original entity, was formed in 2003 as a company that seeks to bridge institutional investors to the community bank industry. So since their founding, they have established a number of affiliates that have engaged in a variety of debt and equity financing products, some of -- many of which have been rated and privately placed institutional investors, so they have a long history of undertaking this activity.

They have identified -- well, just as background, in terms of what StoneCastle defines as their target market, community banks from their point of view include -- include banks, savings -- savings banks and bank holding companies with assets of $10 billion or less. Nationally, there are approximately 5,700 banks that satisfy this profile, and they've identified over 450 in Illinois. So out of 5,700 community banks in the United States, almost 8 percent are in Illinois. And out of the 450 or so that they've identified, they've already gone through and applied credit evaluations to those banks, and they've identified that roughly three-quarters of the community banks in Illinois could qualify for this program.

The reason StoneCastle has brought this financing to the Authority -- and this is Point C on page 2 -- is they are targeting so-called ESG investors -- environmental, social, and governance -- or socially responsible investors, for this program. And the notion is that community banks provide affordable credit to small businesses and community organizations and local governments and rural and underserved areas, and that's in a large sense the ESG angle that they're looking at.

StoneCastle wanted to come to the Board to get a sense that -- that the Authority and the Board would be supportive of their continued efforts to develop this program. So following this approval, StoneCastle's plan would be to continue due diligence, working with Kroll Bond Rating Agency to develop credit criteria, while on the other side of the deal, StoneCastle would be discussing this concept also with ESG and other institutional investors.

And just to provide some additional context regarding the plan and also StoneCastle's experience structuring portfolios that have attained investment-grade ratings, Attachment 2 on page 8 presents a Moody's Rating Report on a similar subordinate debt obligation portfolio bond issue that StoneCastle had undertaken nationally back in 2015.

On that particular issue, Moody's assigned a rating of single-A3. The proposed IFA bonds are not -- are not being structured using identical structure, but this is just to give you an idea that the rating agencies have -- are familiar with this concept and it had been rated.

Moving on next, Attachment 3 is a Kroll Bond Rating Agency Research Report on community banks, and in that report they note the fact that Kroll has actually provided investment-grade ratings to roughly 100 commercial banks nationally.

And in terms of StoneCastle's experience with Kroll, StoneCastle also manages a closed-end fund, and as of May 2017, Kroll assigned an A+ rating to this closed-end fund. The closed-end fund includes both debt and equity products. The debt products also include subordinate debt.

So again, in terms of the Authority's role in this financing, we would be serving as a conduit issuer. The Bonds would be nonrecourse to the Authority. The benefit to community banks is that the maximum $250 million loan amount would potentially leverage up to $2 billion in loans. So the idea here is IFA issues these bonds; ultimately, they benefit Illinois community banks; and given the fact that these subordinate loans would be considered Tier 2 loans and serve as regulatory capital, it would generate nine times leverage and up to $2 billion of loans.

So that's the notion. StoneCastle is seeking approval of the Preliminary Bond Resolution. Among other things, it will convey -- it will enable them to convey the Authority's interest in developing the program when they discuss this with institutional investors.

So we recommend approval.

CHAIR HORNE: Has any other, like, authorities like IFA around the country ever done a program like this?

FRAMPTON: No. No. This would be a first -- since we're issuing taxable bonds, the question here is -- you can see from prior transactions that StoneCastle's been able to execute these products without using a conduit. So the key for them is going to be assuring that the product can be delivered cost effectively to the community banks, so obviously on this, they're going to be very sensitive about costs. Unlike on tax-exempt transactions, we're not generating a spread attributable to the -- attributable to the tax-exemption.

So the -- our sole value added in this case is going to be that ESG perception, and the question is, of course, what is that going to be worth? And really, that is going to be what StoneCastle is going to be testing when they go into the market and discuss this with institutional ESGs.

CHAIR HORNE: I just -- because we don't do a tax-exempt here, it just -- I don't know why we need to be even involved. I mean, I like the idea --

FRAMPTON: Yes.

CHAIR HORNE: -- don't get me wrong. I just think why can't these guys just go to the market themselves and do that?

FRAMPTON: No. That's a very good point.

From time to time, we've seen concepts introduced for taxable financings ever since the '86 Tax Act went into law. So whenever we see anything like this, we're happy to do it, but we always wonder, you know, how much spread is there and how sustainable can it be.

CHAIR HORNE: Yep. Okay.

VICE CHAIR McCOY: So us issuing drives ESG?

FRAMPTON: That is the proposition.

VICE CHAIR McCOY: Okay.

FRAMPTON: Any other questions or comments?

HORNE: It --

GOETZ: So --

FRAMPTON: Go ahead.

GOETZ: So they've got to come back to us.

FRAMPTON: Yes.

GOETZ: This is just showing an interest on our part to --

FRAMPTON: That's exactly right.
GOETZ: We would to see this project pursued.
FRAMPTON: Yes.
GOETZ: Are they working with the Community Banker's Association?
FRAMPTON: They -- if they haven't been, they will be.
GOETZ: Okay.
FRAMPTON: I'm sure of that. And, you know, their plan is to -- you know, they've already identified over 350 banks.
GOETZ: Sure.
FRAMPTON: So I'm sure it's their intent to call on all of them.
VICE CHAIR McCOY: Question is quite a -- concentrated in Illinois, got the, you know, eight percent of total. There's nothing -- reason, if successful, we could -- they could just step out and use this in other states?
FRAMPTON: There is most definitely thought being given to that. Given the Authority's statutory powers, that is -- that's actually a matter that StoneCastle also has identified.
Yes?

JURACEK: So I'm a neophyte in this world of finance. To me, this seems to be adding brand cachet to their target market of ESGs by saying Illinois Finance Authority makes -- sort of opens the door for ESGs to be comfortable talking with them.

FRAMPTON: Correct.

JURACEK: And their social passion, or whatever is dealing with the ESGs. Okay. And you're not even --

FRAMPTON: Exactly.

JURACEK: Okay.

VICE CHAIR McCOY: To be tested.

FRAMPTON: Yeah. That's exactly -- that's correct too.

CHAIR HORNE: Because there's obviously a cost that we have to apply to the transaction that has to be imbedded into that situation.

FRAMPTON: We essentially add load to the transaction.

CHAIR HORNE: Yeah. Exactly. There's a load fee there.

CHAIRMAN ANDERBERG: And I'll -- I was -- when -- I was out of the room, but Chris and I met with these gentleman back in late August. And it's -- dealing with community banks is all they do, but an ESG is something I think Chris and Lerry Knox have been working on as part of our, you know, diversification. So for us, it would be great.

JURACEK: Okay.

FRAMPTON: So that's it.

CHAIR HORNE: Okay.

FRAMPTON: Okay. Thank you.

FLETCHER: Okay. Next is Item 5 in your Board books.

Item 5 requests your approval of a Resolution delegating to the Executive Director the power to develop and administer a Commercial Property Assessed Clean Energy program. Property Assessed Clean Energy, formally known a PACE, is a financing tool that currently exists in at least 30 other states. And according to the U.S. Department of Energy, approximately $400 million of projects were financed through these PACE programs in other states as of early last year.

This past August, Commercial PACE was signed into law here in Illinois. As provided for under the Property Assessed Clean Energy Act, owners of privately-owned commercial, industrial, non-residential agricultural, or multifamily properties in Illinois can now finance up to 100 percent of their energy efficiency and renewable energy projects through a local government that has established a PACE area within its jurisdiction.

Local units of government fund these energy efficiency projects for private borrowers and are repaid through an assessment which is imposed by the county, which then constitutes a lien against he property.

Commercial property owners throughout the country and other states voluntarily utilize PACE because it eliminates the need for upfront capital and spreads the cost over 15 or 20 years so that the energy savings generated from the energy efficiency project are greater than the annual PACE loan assessment.

Just a couple bullet points on PACE in general: Since the PACE loan is a special assessment obligation, it is very secure for the lender. Up to 100 percent of energy efficiency projects' costs can be covered under this PACE special assessment. Notably, PACE special assessments, quote, unquote, run with the land. That is to say the owner can sell the property and the new owner simply picks up the assessments going forward. So it's not necessarily tied to the borrower; it's tied to the property.

And finally, PACE special assessments feature terms of 10 to 20 years or up to the useful life of the improvements which are made, which is much longer than a traditional bank loan would otherwise be made available for these type of financings.

Thus far, the Authority has spent considerable time researching this financing tool. We've been developing our relationships in the PACE market, and we've been working to establish a uniform PACE program here in Illinois so that there are not multiple competing PACE programs throughout the state.

With that said, we view our role potentially as issuing conduit bonds for PACE assessments, for units of local government. So this would be a new revenue sector for us if everything goes successfully.

At this point, in fact, we have developed legislative language that we're prepared to introduce in the General Assembly, which would amend the Property Assessed Clean Energy Act, and would also read in, if you will, the Authority into the Act so that assessment contracts entered into with units of local government and commercial properties could be assigned to the Authority, and then we would issue bonds to finance those projects.

I have a copy of our current legislative proposal I was going to pass around to the Committee Members. Just by taking a cursory glance at the language, you can see how we're attempting to stand up this current nascent program which doesn't exist. Like I said, the legislation was signed into law August 2017, and no one's done any PACE financings at all yet.

So we're trying to get ahead of the curve here, develop a uniform PACE program throughout the state, help local governments reach economies of scale, and potentially earn a new source of revenue here at the Authority.

So this Resolution simply puts a flag in the ground, if you will, that the Authority is here and we're going to work on PACE, and we recommend approval.

GOETZ: Hey Brad, has anybody reached out to

IHDA, the Illinois Housing Development Authority, to get them to, you know, possibly look at this program to use for their multifamily?

FLETCHER: I haven't here.

GOETZ: Yeah. Just a thought.

FLETCHER: Yeah. No -- I --

GOETZ: We probably should because --

FLETCHER: Because one of the available properties, if you will, is five or more multifam- -- five or more unit multifamilies.

GOETZ: Yeah.

FLETCHER: And I can also say from the people I've talked to and I know Chris has talked to, they have not mentioned the Housing Development Authority, but it's an excellent point.

GOETZ: Yeah.

CHAIR HORNE: So I'm familiar with PACE. I'm doing -- I'm working on two PACE deals in Missouri right now.

FLETCHER: Great. Okay.

CHAIR HORNE: So -- and --

FLETCHER: Show Me PACE, I'm familiar with it.

CHAIR HORNE: Yeah. It's -- and it's -- we're using it specifically for hospitality, and it's a really good tool because you can basically add on to your room invoice at the end, the tax, and basically it becomes a passthrough kind of to, you know, the consumer. So it's a really good tool for hotel financing.

But what we're doing, we hired a firm to raise the money for us. There's an administrator in Missouri, but we rais- -- were using a firm outside to help source the capital.

So I'm just trying to understand it. In Illinois, you're saying we would be the provider of the capital, or through these bonds? But the --

FLETCHER: Sure.

CHAIR HORNE: Like, we're looking at a firm in Texas, a firm in California who basically provides that financing and they, you know --

FLETCHER: The way this is mod- -- it's not a federal tool, it's a state tool. So every state works around margins and changes things here and there. Generally speaking, most states develop joint power authorities. Counties subscribe, they become members of that joint power authority. And that joint power authority then procures a program administrator to run the day-to-day management of the

PACE Program. And the program administrators facilitate access to capital, the capital providers, if you will.

We have been told that the preferred financing for this are municipal bonds, albeit on a taxable basis. And my understanding is the current PACE Act was a modeled off after the Michigan law that was enacted into law.

In Michigan, the program administrators originate and underwrite, if you will, and then they facilitate access to one of their preferred capital providers, oftentimes an affiliate. If you think of commercial banks, sometimes they have affiliates that specialize in green financing, if you will.

The way Chris and I have talked about this, and we've talked about it and Staff -- with Rich as well, we're already here. We're already meeting once a month. We're already efficient at the issuance of conduit bonds. So there's really no need to create a new joint power authority. We're already here.

So where we would assist, let's say DuPage County develops a PACE area. They procure a program administrator, and then they want to bond out a project. Well, the problem under the current legislation is the bond mechanism that you would use is the Supplemental -- sub- -- Special Assessment Bond Act in Illinois.

That is a very tedious process. It's a very expensive process. Voters in a PACE area can object. There's timing requirements of 60 days or more, and that's unique to Illinois. And so that's a problem here in Illinois.

So the idea is rather than the local governments going out and issuing supplemental bonds themselves to fund these energy projects, they would assign the assessments to us. Just like our traditional deals, every transaction brings their own party. We're an open house. They bring our capital providers to purchase our bonds. And then we're issuing it on a conduit basis, eliminating the need for a local government to go out there and get the financing arranged.

CHAIR HORNE: Now I get it. Thank you. Okay. That makes sense.

VICE CHAIR McCOY: I guess my one comment is, you know, when you look at the Community Bank Bond

Program, the size of, what it could grow to becomes -- could be substantial, right? Even going to other states and things like that.

When I look at this, and maybe I'm reading it wrong, is that, you know, $400 million of projects have been done in 30 states?

FLETCHER: Right.

VICE CHAIR McCOY: It's not a lot of volume.

FLETCHER: It's not a lot, but New York is not currently online with PACE; they're getting there; Chicago is not currently online with PACE. Once these markets develop, I mean, it's really --

VICE CHAIR McCOY: But what do we think we can -- like, what's a logical bottom line?

FLETCHER: The reality is many of these --

VICE CHAIR McCOY: We've spent a lot of time --

FLETCHER: Yeah.

VICE CHAIR McCOY: The reality, is it worth it? That's what I'm coming to.

FLETCHER: Yeah.

CHAIR HORNE: That's a good question.

FLETCHER: The reality is many of these assessments tend to be on the lower end of the scale, $50,000, $100,000. That's where we can play another role to help reach economies of scale. If we serve as an interim financier, if you will, we allow assessments to pool on our balance sheet; put our balance sheet to use so that there's $1 million that can be bonded out over 20 assessments. Each commercial property owner's only paying that prorated cost of issuance, if you will.

We have been told, and I have been told specifically, that I would be very surprised about the number of multi-million dollar projects that can be financed with PACE here in Illinois. So -- and I can tell you, they're knocking on our door repeatedly.

VICE CHAIR McCOY: Yeah. It's just that when you look at it, you want to make sure -- I mean, I think it's great that we look to do other things --

FLETCHER: Right.

VICE CHAIR McCOY: -- but it's making sure we spend our time --

FLETCHER: Yeah. Absolutely. Yeah.

VICE CHAIR McCOY: -- hit across in the right places.

FLETCHER: And we feel, thus far, it's worth it. We think we can be successful in standing up a uniform PACE program. You know, Bob mentioned Missouri. There's already three different PACE programs there. If we can get one standard one with uniform bond documents, that benefits the program, administrators, capital providers, as well as the units of local governments.

So typically what I've been told, the issuer fee, if you will, is anywhere from 75 basis points to 150, which is significant. You know, once --

CHAIR HORNE: Yeah. We're paying, like, 150.

FLETCHER: Right. I mean, I would imagine, depending on how this works, you know, if we can stand this up by July, we would recapture our cost thus far, you know, within a year or two. And that's standard. Most programs I've talked to, it took them a year or two to recapture their costs in developing the program.

VICE CHAIR McCOY: Thanks, Brad.

FLETCHER: Sure.

GOETZ: So does this have to pass in order for this program to be implemented?

FLETCHER: Yeah. Right now, there's no current assignability, right? Right now, the PACE Act requires the issuance of Supplemental Act Bonds by the units of local government, which is a nonstarter, which is why there is no current PACE financing in Illinois. It's just not worth it.

Okay. Thank you.

Next, let me introduce Stan Luboff, new to the Authority. And Stan's going to be presenting a Participation Loan Resolution.

LUBOFF: Good morning. My name is Stan Luboff. I was an investment banker for 28 years. I'm doing this so that I might get into heaven. I apologize for that.

CHAIR HORNE: So am I.

LUBOFF: I also was with the Department of Commerce and Economic Opportunity for 16 years. During that period of time, I created something called the Advantage Illinois Program, the largest, most successful small business lending program that the state has had, using approximately $79 million in federal funds under the State Small Business Credit Initiative. We were involved in over $820 million in loans and investments, utilizing $92 million including recycled funds, state funds, and helping to create and maintain 5,200 jobs.

My assignment, I guess, is to bring that kind of a program, an efficient program, a good use of Authority funds to IFA, and to, at least initially, focus it on a veterans finance program.

So basically, our request is to revise and relaunch the Authority's previous Participation Loan Program utilizing the kinds of guidelines and due diligence that was utilized under the Department of Commerce's Advantage Illinois Program, and also to have you approve the use of available Authority funds, direct funds, at least to get the program started for financing these veteran-focused businesses.

We feel that the approval of this Resolution will allow us to quickly establish a veterans' loan program as was the original object of the legislation that passed in 2015. It's now carried out by a product line that is -- has proven to be ineffective, and that is the Guarantee Program. We feel that this Advantage Illinois-type program will be more attractive to lenders and more effective in assisting veterans.

There was supposed to be a complete Master Agreement attached. It says, "Attached."

It's apparently not attached. But basically, it is an agreement that over 120 banks that were in the Advantage Illinois Program have already signed, and many have operated under, so they'll be familiar with it right away. Of course it was tailored and checked through all of the many legal -- legal gates that we could check through to fit IFA's needs and requirements.

Though the goal is to establish the Veterans' Participation Loan Program, we also anticipate that the Authority will be able to expand the program once it proves itself out, especially to agriculture, to supplant the current Guarantee Program, and also to assist other small businesses under 500 employees, especially those that are owned and operated and controlled by minority, women, disabled, and, of course, veterans.

Once a track record is established, which we think will be six to twelve months, we anticipate developing a state legislative strategy to allow the conversion of some of those Guarantee Funds into funds that would support this ongoing Participation Loan Program, thus allowing IFA to more appropriately use its funds in a more responsible way, a more useful way.

When I first got here, I was asked to conduct an in depth review of the IFA Agricultural and Veterans' Guarantee programs. And although my original writeup was pretty harsh, the fact of the matter is those programs are uncompetitive, especially against the programs that they mostly compete against. That's the USDA Guarantee programs and the Small Business Administration programs.

Those other programs are well staffed; they are more widely marketed; they are supported by a very robust centralized system; and with no offense meant, they're linked to the federal government rather than to Illinois. And I know that our program is not a State of Illinois program, but the name makes a difference.

The current legislation under the Guarantee program requires that the lenders provide below market interest rates. None of the opposing programs provide that. IFA has the capability of instituting that kind of regimen, but without demanding that the banks provide the below market interest rates. That makes it more acceptable to the banks.

In addition to that, if you take a look at the pricing of the current Guarantee programs, it turns out that it is -- well, it frankly -- it inadequately compensates IFA for the risks it's taking on either -- I think we're talking about one quarter of a percent per annum, one-half percent per annum for taking on 85 percent of risk of a loan program -- of a --

CHAIR HORNE: Guarantee.

LUBOFF: -- program -- Guarantee program.

The current program also requires that the exposure of IFA in the guarantee be completely covered by collateral. That works -- works in some cases in the agricultural area because of loans that are supported by land. But all of a sudden it's not supportive when it comes to equipment or other working capital needs.

This is especially evident when you talk about the IFA guarantee for veterans. Veterans, although they are earnest in what they want to do, they have skills and experience, they're more involved in service industries and in taking on franchises and buying, operating companies that are being -- where the management is leaving, and so this is an acquisition that they find. Or creating new products where they have a ready market, but they don't have the kind of collateral that is required. The current program requires the kind of collateral that is highly lendable: land and major capital equipment. That's not what veterans have.

So what we're trying to do is to work with the kinds of collateral that they have and to compose loan transactions that are supported in other areas: in personal guarantees, in friends and family, in franchises that -- where franchisors provide excellent training and marketing and other capability. If it's through an acquisition, it's to -- it's an acquisition of a company that was working well and is being sold, not because it's failing, but because the owners are retiring or moving or go on to other ventures.

Another thing with veterans is that they tend to establish their business initially in leased facilities. And one of the requirements in starting a business is leasehold improvements. Well, of course in the event a liquidation, leasehold improvements go to the owner of the building. And so there, again, there's a lack of collateral. The idea is collateral is only one of the supports of a loan and we have to find other ways of getting that loan to stand up and to convince a bank to take on the risk of supporting these veteran businesses.

The problem is -- and I mentioned this to Senator Bertino-Tarrant -- when all is said and done, there's a lot more said than done in this market when it comes to bank-supported veterans. They talk a big time, they talk a lot of publicity, but generally what they do is if a veteran comes to them, they simply refer them to the SBA. And then if the small business administration is willing to provide a guarantee, then and only then, does the bank provide any support. Mostly, veterans have been relying on friends and family for startup capital.

There doesn't appear to be a genuine proactive pursuit of veterans and their businesses. Something that we've already started here at IFA, I recently attended the Illinois Association of County -- County Veterans to -- Assistance Commissions. I'm also involved in Veterans Affairs. And so we're going to be sourcing business proactively rather than waiting for somebody to walk into a bank.

We also investigated the possibility of maybe making loans that would be guaranteed by the SBA, but apparently they want us to form a CDFI, a community development financial institution, and that's just too time consuming for this immediacy that we're looking for here.

We feel that the best near-term cost of action is to establish a veterans small financing vehicle by revising and reinvigorating the Participation Loan Program, which we think can implemented quickly, a master agreement has already been prepared. All the application documents have already been prepared. And it can be implemented quickly, obviously, because of Board approval rather than going through the legislative track. That might be something for the future.

The banks view this kind of program as less ambiguous and administratively burdensome. And we, ourselves, will find it less burdensome by passing on all of the servicing requirements onto the bank, and carefully monitoring them through the master agreement.

Again, there are about a 120 lenders that are already familiar with the Advantage Illinois

Program, and we anticipate most of them will be signing up for this program.

By the way, in terms of supporting below market interest rates, IFA has more flexibility and pricing than the banks seem to provide. We'll be able to reward IFA for the risks it's taking, and yet still provide a blended weighted rate that is below market, assisting the veterans in their businesses. And so we're requesting approval of this Resolution.

Are there any questions?

(No response.)

LUBOFF: The main idea is to get this program going and then to spread it out to other facets of the economy.

VICE CHAIR McCOY: What do you think the average would be in terms of the average loan?

LUBOFF: I think the average -- I think the average loan, probably for veterans businesses, would probably be about $250 to 300,000, and we would be providing approximately 40 percent in the subordinated matter. The reason for that is that that's the area for some of better franchisors -- franchises.

And, in fact, another path we're going

to take is to work with companies that are pursuing veterans. For instance, UPS has a program to seek out veterans to open UPS stores in various locations. So if they are seeking veterans, we will seek those same veterans, but not by going to a bank, but by going to those that are hiring and seeking out veterans.

VICE CHAIR McCOY: I think the proactiveness is good. I think that's -- you know, how do marketing is key to getting things out there. So being proactive is key, rather than just putting out a shingle and saying we're here. So then -- it's a great thing to do.

Out of the 120 banks, I assume there are banks in there that -- there are 120, but I assume that there might be 15 that are very keen on this. That there are some that are more --

LUBOFF: Well, obviously, there are some that are more active than others. I expect a great deal of activity from, especially, the Wintrust Group and from MB Financial as well as Signature Bank.

However, south of I-80, there are a number of very active community banks, and that's where I expect the a lot of the business to be coming from. The bigger banks sometimes look at veterans-owned businesses as, well, it's a little deal. We don't have to deal with it.

But of those 120 banks, I tell you, about a hundred of them are smaller community banks or part of community networks, and that's where the business is going to come from.

VICE CHAIR McCOY: Okay. Appreciate it.

LUBOFF: You're welcome, sir.

LENANE: I'll try to be very quick here. We have four minutes.

The first is the IFA Ownership and Project Finance Program. I just handed out to you a replacement PowerPoint for the book. The Executive Summary -- the -- Loop Capital Markets brought this program to us and will coordinate any projects through this program. And what we're just -- what we're asking you to do here is just to approve the development of the program, not any specific project financing because they'll be working on those and then bringing them to us.

Traditionally, 501(c)(3) organizations issue tax-exempt bonds through a conduit to fund projects. We have that as a -- IFA has the legislative authority to issue governmental bonds, tax-exempt, to acquire or own assets. And the IFA Ownership and Project Finance Program serves to ease debt capacity concerns of certain entities because this would be considered off balance sheet.

We would issue the bonds, and then the -- for the project, and then Loop -- well, first, Loop would bring the project to us. They would review the credit quality of the project. Joint -- then we'll review the credit quality, and we'll bring it to the Board with the recommendations. There will also be feasibility studies. This project -- this particular program has been executed by them through a nationwide issuer. Also, DASNY, the Dormitory Authority of New York, has a similar program.

We would seek to -- each -- we'd talk to our insurance broker, Alliant Mesirow, under the Master Contract. We would insure our liability as well as the manager-developer would insure their issue. This could be quite lucrative for the Authority. Generally, they charge 30 basis points on closing and 20 basis points annually on the remaining balance of the loan.

Some of the examples that it has been

used for are proton therapy centers, also, cancer centers, heart centers. You could do a building that only had -- an office building that only had employed doctors in it. You couldn't have private physicians, because then you would lose the tax-exemption. There would be agreements between the IFA and the trustee.

The trustee will do all the managing. The trustee would collect -- collect the revenue, pay the bills, and then pay the -- the revenue net of expenses would be deposited into the indenture, and there's a nice flow chart here on page 4.

I think this will all become clearer when we actually have a real project in front of us and how we're going to do it. It would have been nice had we had this program. We could have done the Center of DuPage Cadence now Northwestern Proton Therapy Center out in --

GOETZ: Warrenville.

LENANE: I think it's in --

GOETZ: Warrenville.

LENANE: Yeah, in Warrenville. We could have done that if we had this project because -- but we couldn't do it because it had a private ownership, and also the docs put money in it, and we could manage that all within this structure to do a proton beam therapy center.

Also, we'd be able to use this with our multi-state. Maybe if something is here, we have a situs here, we could go beyond. But this is a program in development.

Any questions?

(No response).

ZELLER: Okay. I'd like to request a motion to recommend approval by the Board Members --

LENANE: I've got one more. One more. One more. Now, this is even --

GOETZ: Now, behave yourself, Brad.

LENANE: This is No. 8 if you'll look at the -- we had a very similar program to this and I termed it the MedCap Program, and I've been trying to sell it for three years. It has never gotten off the ground, we never made a loan under it. Loans have been made all over the United States under the similar program. So I thought maybe the name was too catchy, so I changed the name to Medium-Term Healthcare Finance.

I'm also not quoting low prices because I think low prices didn't attract anybody. It think they thought "low prices, it mustn't be any good." So now we're going to just charge on a regular fee schedule.

But I also think that this program did not work in the past because most hospitals bunched together their borrowing. They don't go out and borrow $20 million or $40 mil- -- or $50 million. They wait until they have an advanced refunding that they can do, throw a little new money in, and then they finance equipment or technology. That won't happen now because there won't be advanced refundings. There will only be current refundings and new money projects.

So this, I think will be a very attractive program over the next year. The rates, as you can see on page 3, are really competitive, incredibly competitive. And under this program, you can do a forward rate lock. There's no post-funding interest rate risk because there's no tax clause that if the tax law changes, you'd have problems.

I love this chart, but I'd have to kill you to explain it all, but you've seen this -- variations of it. We still are in historically hot, favorable interest rates, and hospitals are now looking at investment return as a -- because they have thin operating margins, they're looking at investment return as a way of making money. So I think, as I said, this program will have legs.

I put a marketing plan to keep myself honest here, and we're going to do a mailing of this. We're going to call people. We're going to go out and visit them. And I think -- I would say we could do at least two of these a quarter. That's what I'm aiming for, eight -- eight this year. Now, they'll be in the $30, $40 million range, but our fee schedule's sort of heavily weighted in there, so I think we'd do quite well. And it's also going to have standardized documents. It's not going to be as complicated as a bond deal. We already have those documents because we have them for the program we're refashioning or rebranding.

CHAIR HORNE: I don't know why people wouldn't use this.

LENANE: Well, as I say, it's small.

CHAIR HORNE: I get it.

LENANE: And I agree. I agree a hundred percent.

CHAIR HORNE: With money, that's great pricing.

LENANE: It is. It is. It's fabulous. So --

but as I say, it's like the old G.E. Equipment Loan Program. When rates were high, it was very attractive. When rates went down, it became less attractive. So I think in our current rate environment, I think -- and without advance refundings, I think this will be very attractive to the hospitals.

VICE CHAIR McCOY: Yeah.

LENANE: So...

VICE CHAIR McCOY: And we take -- and this is for our risk, correct.

LENANE: Our what?

VICE CHAIR McCOY: Our risk.

LENANE: No, we have no risk. No. The credit is being underwritten by Bank of America.

VICE CHAIR McCOY: Okay.

LENANE: And they're going to buy the note.

VICE CHAIR McCOY: Okay. Missed that part of it.

LENANE: Well, it's not really in here.

VICE CHAIR McCOY: Okay.

CHAIR HORNE: So you didn't miss it.

LENANE: You didn't miss it, no.

And I have -- they brought this

program to us and these rates, and if somebody else wants to do this, they're welcome to. I mean, if somebody else came up to me and said, I'll do this; we'll underwrite it; we'll charge these rates, I'll say fine. So it's, you know, open if somebody else wants to walk up to do it.

Very -- there were no banks that will finance technology alone, because the problem's always been there's no there, there. You can't go in and get electronic medical records. You can't pick it up and get it, but Bank of America will do that.

CHAIR HORNE: Interesting.

LENANE: And we're already coming to our second generation now of our electronic medical records. And we started out seven, ten years ago, so that equipment is out of date, so people are going to have to be --

CHAIR HORNE: Installing that.

LENANE: Yeah. Redoing all that.

VICE CHAIR McCOY: It's already been hacked?

LENANE: Huh?

VICE CHAIR McCOY: It's already hacked?

LENANE: Probably. Your healthcare information is everywhere.

So thank you.

Are there any more questions?

(No response.)

ZELLER: Are we good?

Okay. I'd like to recommend a motion to approve, by the Board Members of the Direct and Alternative Financing Committee, the following Project Reports and Resolutions: Items 4, 5, 6, 7, and 8.

Is there such a motion?

VICE CHAIR McCOY: So moved.

JURACEK: Second.

ZELLER: And a second.

Will the Assistant Secretary please take roll call of the Direct and Alternative Finance Committee Members?

OECHSLER: Certainly.

Ms. Juracek?

JURACEK: Yes.

OECHSLER: Mr. McCoy?

VICE CHAIR McCOY: Yes.

OECHSLER: Mr. Zeller?

ZELLER: Yes.

OECHSLER: Member Zeller, the motion carries.

ZELLER: Thank you.

We have Chairman Horne --

CHAIR HORNE: Yeah. Is there any other business before the Tax-Exempt Conduit Transactions Committee?

(No response.)

ZELLER: Is there any other business before the Direct and Alternative Finance Committee?

(No response.)

CHAIR HORNE: Is there any public comment for the Tax-Exempt Conduit Transactions Committee?

(No response.)

ZELLER: Is there any public comment for the Direct and Alternative Financing Committee?

(Laughter.)

CHAIR HORNE: I'd like to request a motion to adjourn the Tax-Exempt Conduit Transactions Committee.

Is there such a motion?

JURACEK: I'll make the motion.

VICE CHAIR McCOY: Second.

CHAIR HORNE: All those in favor?

(Chorus of ayes.)

ZELLER: I would like to request a motion to adjourn the meeting of the Direct and Alternative Financing Committee.

Is there such a motion?

JURACEK: So moved.

VICE CHAIR McCOY: Second.

ZELLER: We have a motion and a second.

All in favor?

(Chorus of ayes.)

ZELLER: Opposed?

(No response.)

OECHSLER: The time is now 9:38 a.m.

(Which were all the proceedings had.)

STATE OF ILLINOIS)
) SS:
COUNTY OF COOK)

Brad Benjamin, being first duly sworn on oath, says that he is a Certified Shorthand Reporter, that he reported in shorthand the proceedings given at the taking of said hearing, and that the foregoing is a true and correct transcript of his shorthand notes so taken as aforesaid and contains all the proceedings given at said Illinois Finance Authority Meeting.

Certified Shorthand Reporter
No. 084-004805