ILLINOIS FINANCE AUTHORITY BOARD
TAX-EXEMPT CONDUIT TRANSACTIONS COMMITTEE MEETING
April 14th, 2016 at 8:30 a.m.

Report of Proceedings had at the Meeting of the Illinois Finance Authority Board of Directors Tax-Exempt Conduit Transactions Committee Meeting on April 14th, 2016, at the hour of 8:30 a.m., pursuant to notice, at 160 North LaSalle Street, Suite S1000, Chicago, Illinois.

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APPEARANCE:
COMMITTEE MEMBERS

MR. ROBERT HORNE, Chair
MR. LYLE McCOY, Vice-Chair
MR. JAMES J. FUENTES
MR. MICHAEL W. GOETZ
R. ROBERT FUNDERBURG, Ex-Officio

ILLINOIS FINANCE AUTHORITY STAFF MEMBERS

MR. BRAD FLETCHER, Assistant Vice-President (added at 9:07 a.m.)
MR. RICH FRAMPTON, Vice-President
MS. PAMELA LENANE, Vice-President
MS. ELIZABETH WEBER, General Counsel
MR. CHRISTOPHER B. MEISTER, Executive Director

CHAIRMAN HORNE: It is 8:30 exactly. It looks like we have a quorum, but I will ask Elizabeth if she could take the roll.

WEBER: Certainly. I'll take a roll of those Members physically present. Chair Robert Horne?

CHAIRMAN HORNE: Here.

WEBER: Vice-Chair Lyle McCoy?

MCcOY: Here.
WEBER: Mike Goetz?
GOETZ: Here.
WEBER: Jim Fuentes.
FUENTES: Here.
WEBER: And Rob Funderburg?
FUNDERBURG: Here.
WEBER: Ex-Officio.
CHAIRMAN HORNE: All right. Thank you. I guess the first order of business is a review of minutes, and we distributed minutes from the last meeting.
Are there any comments on the minutes? Any amendments to the minutes? If not, do I have a motion for approval of the minutes?
GOETZ: So moved.
FUENTES: Second.
CHAIRMAN HORNE: All in favor?

(A chorus of ayes.)
CHAIRMAN HORNE: Thank you. So our next item is -- I think Brad's not -- Brad, are you going to present over the phone, or do you want us just to wait?
FLETCHER: I think because Rich has a very difficult project, he wants to go first.
CHAIRMAN HORNE: Okay. So the first item on the agenda was the Association House, but we could -- if you want to do that, Rich, or we can move to the second one, which I think is the housing deal.

FRAMPTON: Yes, we'll move on to Item 2, which is a one-time Final Bond Resolution for Lindran Properties, LLC, and IRG Bronzeville Group, LLC. The project is known as the Better Housing Foundation Shoreline Portfolio Project. The Better Housing Foundation is a 501(c)(3) organization based in Rocky River, Ohio.

This, in fact, is their first undertaking of a 501(c)(3) bond financing. This will be the first project that they own, but as I'll mention a bit later, S&P, which will be rating the bonds, reviews each of these projects as a stand-alone project financing.

They review these through their structured finance group. So, really, what they're looking at is not the corporation, but they're looking at the property management and the historical performance of the property.

And just to provide a quick overview of the financial performance, these properties collectively are currently at 89.4-percent occupancy. After the bonds are issued, break-even occupancy is 85 percent. So even now, without filling any additional units, the projects are already cash flowing.

So that's really the basis on which S&P will base their ratings. So while I'm on the topic of S&P and the ratings, I'm just going to pass out an informational item that describes a sampling of

35 out of the 372 projects that S&P has rated over time, and this includes a number of financings that are from 2011 to 2016.

And several of these have been issued by State Housing Authorities. All of these have been originated on behalf of 501(c)(3) entities. Each of the 501(c)(3) entities has contracted out the management and the upfront development of these

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properties.

The Better Housing Foundation has been established really to undertake preservation projects for affordable housing in the Midwest, and with the property manager whom they're working with, which is Desak Development and their related companies, which include Integrus Realty.

Their intention is to build a portfolio of properties. The property manager has an existing portfolio of 300 properties that they manage, including 16 affordable properties in the same neighborhoods where these are located.

Several of them have -- all their affordable properties are HUD Housing Choice Voucher properties. None of them have HAP contracts. So all of the subsidies are actually tenant based.

GOETZ: They are all tenant based?

FRAMPTON: Yes.

GOETZ: None of them are project based?

FRAMPTON: That's correct.

GOETZ: Where do the tenants get their vouchers from, Chicago Housing Authority?

FRAMPTON: Yes, from CHA.

GOETZ: Is there a pretty substantial waiting

list?

FRAMPTON: There is a waiting list for those, but thirteen of the properties already have HCV tenants. The only one that doesn't is the Vincennes property, and that's the property to be filled.

So what this -- what the property manager is hoping for is they will be targeting HCV-qualified tenants to help fill the building.

That particular building is actually under an additional rental restriction that dates to 2001, and actually 30 percent of the units in that 60-unit property. So 18 out of the 59 must be rented to tenants who earn less than 50 percent of the area median income.

And just to give you an idea what the area median incomes are, for a one-person household, it's $43,000. For a two-tenant household, it is $49,000; and then from there, for each additional family member, there is a $5,000 allowance. So for four, it would be $59,000 or $60,000, and it would go up from there.

One other feature of these properties, of this collection of properties, which if you turn to page 20, there is a report on the occupancies and

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performance of each of the 14 properties. One thing to note, out of the 321 units in the portfolio, 42 of these units are three-bedroom, two-bath units.

So these aren't just targeted to single people. There are 42 -- there are actually 42 units targeted to families. So Integrus, the property manager, intends to bring in HCV-qualified tenants into Vincennes. That will make the effective or net rate paid by their tenants effectively less.

Just in terms of the rental comps from the appraisal, the rental rates in these properties are, on average, lower than those cited in the appraisal report.

All of the appraisal's property conditional reports and environmental reports have been prepared by consultants that have been engaged by other project owners on S&P-rated projects. So the Gill Group has been --

GOETZ: I'm very familiar with them. They are very prominent in this business. Are they going to use four-percent credits?

FRAMPTON: No.

GOETZ: Why?

FRAMPTON: No credits on this deal.

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GOETZ: Why wouldn't they use four-percent credits to provide equity?

FRAMPTON: Well, based on the way that S&P is underwriting these deals, they are going to -- they're going to realize 100-percent financing.

GOETZ: Okay.

FRAMPTON: And, actually, that is the -- that's actually the model that has been used successfully on a number of other projects, and I have Official Statements from some other recent deals that demonstrate what's being done here is completely in line with the practice.

GOETZ: I'm just surprised.

FRAMPTON: The projects that seem to pursue this model simply elect -- I think the foundations elect to, since they don't have an equity gap, I think -- one other thing on these properties, they are not subjected to the strict rental rate restrictions that they would be subject to if they chose to use credits. So they have a little bit more flexibility.

GOETZ: Okay.

McCOY: Richard, just a quick question. The sample report you gave us, is that all deals or just

the Stifel deals?

FRAMPTON: Actually, from what -- I did a quick research on EMMA to pull up whatever I could, and out of 53 pages of projects from 2011 to 2016, these were the ones that popped up.

So all, in fact, were Stifel deals, with the exception of No. 23.

MCcOY: Right.

FRAMPTON: And then there was another one; and then 16, with Raymond James and CFG. That was the only one, in fact, where Stifel or its predecessor Merchant, were not the bankers.

McCOY: So expertise in this area is I guess where I'm getting to.

FRAMPTON: Yes. So this is a niche product that Merchant really came up with, but that's probably one of the reasons why Stifel decided they wanted to be in this space and purchase Merchant, which was a boutique that was primarily a housing outfit.

McCOY: Based in Birmingham.

FRAMPTON: Any other -- and then just to reflect on performance, out of these 35 projects, two were upgraded, three have been downgraded. The

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two that have been downgraded were downgraded twice. One was a more problematic property.

In terms of the debt service coverages, what's forecast for the Shoreline portfolio at 1.35 or better going forward is consistent with the range of ratings that we see in what S&P has rated to date.

Now, the -- without a doubt, the biggest risk on this project is where does the Cook County Assessor come out, in terms of making a decision regarding the borrower's property tax-exemption request.

The developer's plan is to file that immediately upon acquiring the properties. Last year 2015, their total property tax payments were roughly $195,000. Of that, roughly $18,000 was attributable to the commercial spaces. Seventeen out of the 18 commercial spaces are filled.

Presumably, after the acquisition, the property taxes on the commercial units will be passed through in the leases. So that would provide a small bump.

But clearly, and I've laid this out in the report on the very last page 23, what, in fact,

happens if there is a failure to obtain the property tax exemption, and that's laid out in the last captioned section on page 23.

Under those scenarios, you are probably looking at a triple B or triple B minus, if the bonds were to be rated just as a single tranche. Given that, it's possible that the underwriter may discuss further with S&P, split the cash flows into two tranches, have a higher-rated tranche that obtains the A minus rating, and the lower-rated tranche would probably be triple B, maybe even triple B minus.

Out of the projects in the report, there are only two that have been structured with subordinate debt so far. The subordinate tranches have each time been rated triple B. We were hoping that the developer would be able to obtain the rating assignment from S&P in advance of our mailing; but irrespective of that, given our bond program handbook requirements for bonds that are sold on a retail basis, as long as the bonds carry a minimum rating, investment grade rating, which is triple B minus, it would satisfy IFA policies for sale into the retail market.

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CHAIRMAN HORNE: So we can make it subject -- approval subject to that approval of rating?

FRAMPTON: Yes. And, as a matter of fact, on page 2, the recommendation and conditions, that is the condition that staff and Credit Review Committee have imposed.

CHAIRMAN HORNE: Got it.

FRAMPTON: We'll give it the green light, provided that the lowest-rated bond is at least triple B minus.

CHAIRMAN HORNE: Can I ask just a couple questions?

FRAMPTON: Sure.

CHAIRMAN HORNE: Mike, you have a lot of experience, I think. I mean, in terms of your review of this, how did you --

GOETZ: Well, I'm just surprised they're not using four-percent credit. That provides equity. I'm surprised they are not using four-percent credits, because those credits provide equity. It doesn't have to be paid back as part of the financing deal.

And, you know, Rich has seen this both ways. Obviously, there is a lot of housing people

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doing without the four-percent credits.

CHAIRMAN HORNE: And the four-percent credits adds some restrictions to the renter pool?

FRAMPTON: Yes. Well, they actually impose rents, maximum rents, on the units.

CHAIRMAN HORNE: Okay. So, yes, I see.

GOETZ: Yes.

CHAIRMAN HORNE: So there's -- I understand both sides.

GOETZ: It gives them a little bit more leverage.

CHAIRMAN HORNE: And then I guess another question I have, and I've been with this group for a short period, but this is really the first time I've seen this type of, you know, proposal.

So I guess my question is how familiar are we with this type of loan? Have we done many of them? What's been the performance in the loans that we've issued on this?

FRAMPTON: I also prepared a report on IFA's historical bond issuance, housing bond issuance activity; and, actually, in terms of the projects in this list --

GOETZ: There are a lot of SLFs.

FRAMPTON: But the SLF projects I should add were all non-rated. So those bonds were non-rated and sold in minimum denominations of $100,000. William Blair, who underwrites -- who is the underwriter for all of those, was able to get those sold on a non-rated basis.

And, as you know, Mike, one of the factors relating to the SLF program was it -- Illinois was the first state with that product, and S&P was just the -- any of the rating agencies weren't prepared to rate a one-state program.

GOETZ: Right. Well, it's a whole different model.

FRAMPTON: And, you know, those also had construction, the lease-up risk. Although on the other hand, the tenants were also Medicaid eligible.

GOETZ: Right.

FRAMPTON: And they were able to assign their Medicaid.

GOETZ: Right.

CHAIRMAN HORNE: So it appears there's been historic blending in this area. Maybe not as recently as -- it looks like there is kind of a larger confluence before '06, '07; less since '07.

Personally, I think it's a really important area that I'm happy to see our

involvement; and, you know, there is a real need for this in our state. And so the fact that we're involved is important, I think. I'm glad we're doing it.
GOETZ: Doesn't IHDA usually do these kind of deals? Do they know we're doing this deal?
FRAMPTON: I have no -- IHDA and other issuers, who were approached by the borrower in this development team, they approached several --
GOETZ: Did they?
FRAMPTON: They approached several issuers. One of the issues on this deal is that actually these properties have been tied up on contracts for a little over two years.
CHAIRMAN HORNE: Wow.
FRAMPTON: And, actually, the Better Housing Foundation actually bought the purchase contract rights from prior purchasers. So the sellers have been strung along for quite a while. And, actually, the purchase contracts end at the -- terminate at the end of the month.
GOETZ: So did they decide we could move

quicker than IHDA?
FRAMPTON: Yes.
GOETZ: Because I know it's very slow.
FRAMPTON: IHDA conceded that they could not move in the required timeframe. So another reason why we felt it was appropriate not to wait for the rating, assuming that they are able to get the

rating, which we think we have reason to believe is very feasible, this would be able to close before the end of the month.

And then the Foundation will not have to wait for -- potentially have to put down additional earnest money to extend the purchase contracts, so which would not serve the purpose of the borrowing. You know, it might lay more debt onto the project.

GOETZ: Okay, that makes sense, if we can do it quicker than they can.

CHAIRMAN HORNE: Two other quick questions. I know we're kind of constrained on time, but one was the cost of borrowing. I'm just kind of curious, you know, I look at borrowing for housing, and it's generally very competitive, and I'm just curious what strikes -- what drives the pricing of this offering?

FRAMPTON: Well, in terms of the ratings or blended rate, that's Stifel's take on what they expect to get when they --

CHAIRMAN HORNE: When they go to market?

FRAMPTON: When they go to market.

CHAIRMAN HORNE: Okay. I was just more curious than anything. And then last question, the note says the borrowers are joint and several on the loan, but aren't the borrowers technically just LLCs collateralized with the asset? So is it really just -- really the assets are the guarantee on the loan?

FRAMPTON: That's exactly right.
CHAIRMAN HORNE: There is really no guarantee of entity beyond the asset?
FRAMPTON: That's exactly right. So one of the things, actually, that we pushed for, if you look at uses in the third line item under "uses, third-party reports and other pre-acquisition costs," those include the escrow payments that have been put down by the Better Housing Foundation's consultant to tie up the properties, and -- to tie up the properties, also to pay for the 14 environmental -- phase-one environmental reports, the appraisals, the property condition assessments, all those things.

So one of the other push points that we had with the borrower was to defer payment -- I shouldn't say payment, reimbursement for that $556,000, thereby keeping cash in the project for another year, for at least another year.
CHAIRMAN HORNE: Did they agree to that?
FRAMPTON: Yes.
CHAIRMAN HORNE: Great. Okay.
FRAMPTON: So they'll only be taking $250 out at closing, and they provided documentary evidence on the rest of it.
CHAIRMAN HORNE: Okay.
GOETZ: What about their developer fee?
FRAMPTON: Well, that's built into the $556.
GOETZ: Okay.
MEISTER: Chairman Horne, just a couple of very

quick points. Number one, we're very excited about this project. As Rich described, this is a case of first impression for the Authority.

The other housing projects that we've done are different types rather than the structure that is proposed today. Housing has always been in our statute. It's also in the name and the statue of the Housing Development Authority; and over the past

several years, including with the new Executive Director, we've had very good relationships with IHDA.

I want to draw the Members' attention to the issuers on the sample stand-alone conduit housing bonds between 11 and 16, which show these models in other states.

Numbers 20 through 35 I believe are all the Wisconsin-based Public Finance Authority that I mentioned to the Members in the past is a Wisconsin-based purported issuer of national conduit bonds.

Also, project number one, the California Statewide Communities Development Authority is tied to or some of the same people are also involved with the public Finance Authority of Wisconsin, but I want to highlight that.

I would have mentioned this project and highlighted it in my message for the Executive Director. Obviously, given the complexity, we weren't quite ready when the Board book went to print, but we're excited about it. Rich deserves compliments. He spent --

FRAMPTON: It really was 14 projects.

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MEISTER: I think that he spent hundreds of hours on this project, it's innovative for us. And I think the rest of the state, the Illinois Commerce Commission asked me to participate, along with IHDA, a couple weeks ago when a forum that the Commission was having on energy efficiency and affordable housing, and the advocates pointed out housing of the type described in this project is naturally occurring low-income housing that should be preserved and strengthened. And given Rich's leadership, the Finance Authority is moving in that direction.

CHAIRMAN HORNE: I think it's a great direction. I commend the staff for doing that. Well, are there any other questions on this, or should we move to vote on this one?

If none, I would ask for a motion to approve this.

GOETZ: So moved.

CHAIRMAN HORNE: Second?

McCOY: Second.

CHAIRMAN HORNE: All in favor?

(A chorus of ayes.)

CHAIRMAN HORNE: Great. Thank you.

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FRAMPTON: I would like to just note to Mark DeAngelis, who is the president of Desak and Integrus, will be making an appearance at the 9:30 meeting.

CHAIRMAN HORNE: Great.

MEISTER: And before we go on to the next projects, I would like to introduce Eric Buske. He's is the Associate General Counsel of the Governor. He comes from Kirkland & Ellis, and he's going to be working with the Authority in the future in the role formerly played by Emily Bastedo, and to a lesser extent Mitch Holster.

BUSKE: I look forward to working with you all.

CHAIRMAN HORNE: I think, Pam, do you want to do Rockford?

LENANE: Me?

CHAIRMAN HORNE: Yes.

LENANE: I can.

CHAIRMAN HORNE: I think -- Brad, what's your ETA, Brad?

FRAMPTON: Maybe he's on lower Wacker.

CHAIRMAN HORNE: All right. Let's do Rockford.

LENANE: Okay.

CHAIRMAN HORNE: I'm sorry.

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LENANE: MercyRockford Healthcare System Corporation is seeking a Final Bond Resolution for

$525,000,000. These proceeds will be used to fund new money projects, especially the Rockford Memorial Hospital, the new second campus for Rockford Memorial.

Also, refinance all or a portion of the Rockford Memorial Hospital bonds for 2008 and 2012, and also refund all or a portion of the Mercy Alliance Obligated Group Bond for 2010A.

It will also fund one or more debt service reserves, pay a portion of the interest accruing, and pay certain swap termination payments.

You saw this last month at the Board meeting, and the vote was in favor of it. 331 new jobs will be created with the new hospital; and during the period of construction 1,000 to 1,500 construction jobs will be used.

MercyRockford Health System is a sole member of Rockford Memorial Hospital. MercyRockford Health System was created in January 2015 between the merger of Mercy Alliance in Janesville, Wisconsin and Rockford Memorial Hospital in Rockford. You've seen this before.

I take you back -- oh, Mercy Rockford expects to receive a rating from Moody's later today, a AA3.

CHAIRMAN HORNE: Great.

LENANE: And Fitch -- excuse me, no, they are just going with one. Sorry. Excuse me. Yes, just one, Moody's AA3. And if we go back, we've gone over the financials at the last month's Board meeting.

The debt service coverage for both entities combined is 4.0 and day's cash on hand is 238.7. Strong financials. Hence, they are going to be able to receive a rating from Moody's of AA3, and Henry Seybold, the CFO of Mercy Rockford Health System, will be here today to answer any questions. And he's supposed to have an artist's rendering of the hospital, architect's rendering with him. I haven't seen him yet.

CHAIRMAN HORNE: Great.

LENANE: Any questions?

CHAIRMAN HORNE: Just one question I had. So when you go through the sources and uses, it says you've got the bonds and then premium of $56,000,000. I just didn't know what premium meant.

You got the bond amount.

LENANE: Yeah, premium bonds. Let me explain that.

CHAIRMAN HORNE: I was trying to understand what that was.

LENANE: I know. I know. Let me -- well, we have Trustee held bonds.

WEBER: If the rate is higher than what the market would otherwise pay, then you get some premium from the sale of the bond?

CHAIRMAN HORNE: So it's basically rate

related?
WEBER: It's rate related.
CHAIRMAN HORNE: It allows the bond amount to go up or down?
WEBER: Right. Right. Bonds can be sold at a discount.
CHAIRMAN HORNE: At par?
WEBER: At par, which is 100 percent.
CHAIRMAN HORNE: For a premium based on the rating. Okay, that's exactly what I thought. I just didn't know what that was.
WEBER: Pam?
LENANE: Yes. Thank you, Elizabeth.

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WEBER: I just wanted to make sure that you didn't have a different understanding.
LENANE: No, no, that's excellent.
WEBER: Okay.
LENANE: Thank you.
CHAIRMAN HORNE: Is there any other questions? Okay, Pam, thank you.
Should we take a vote on -- I would like to move for approval of the Rockford -- MercyRockford and Iowa Health Systems.
LENANE: No, Iowa, just Mercy Rockford Health Systems. It says Iowa?
CHAIRMAN HORNE: And Iowa.
LENANE: In your script? Oh, I'm sorry I apologize. Typo.
CHAIRMAN HORNE: Motion?

GOETZ: So moved.
FUENTES: Second.
CHAIRMAN HORNE: All in favor?
(A chorus of ayes.)
CHAIRMAN HORNE: Thank you. Brad Fletcher just entered the room.
WEBER: At 9:07.
CHAIRMAN HORNE: At 9:07. Thank you. So,

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Brad, I don't know if you want to be take a deep breath before you present. You're on the agenda to present the Association House of Chicago.
FLETCHER: So tab No. 1 in your Board book is Association House of Chicago. Association House is a safety net social services provider. It is located in Humboldt Park, which is just northwest inside the City of Chicago here.
They are seeking to refinance their Series 2007 bonds, which we originally issued for construction of their main headquarters on Kedzie Avenue. At this time they are also seeking to, on a tax-exempt basis, finance approximately $1,000,000 in facility improvements.
If you turn to page 3 of the report, it lists some of the proposed changes to the facility, upgrades, if you will. They include replacing two steam boilers in the basement, adjusting the chimney heights on the main facility, replacing one of their elevators, cooling tower replacement, as well as

some design soft cost; architectural, engineering.
The refunding current outstanding amount is approximately $4.8 million. So there will be interest savings there going forward.

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If I could turn your attention, please, to the confidential section of the report. On the top of page 8, you'll see that we have an estimated fee there that is discounted from our regular fee schedule.

Because Association House is a safety net social services provider, and because of the reasons listed there, mainly the funding challenges given the budget impasse in the State of Illinois, we would like to recommend a discounted fee of $20,000.

To provide a little context there, with the expected par issuance amount of $5.9 million, we're giving them a break of roughly $9,000; whereas, if we let another home-rule municipality issues these bonds, we would only receive $10,000.

So we're kind of splitting the difference, trying to be amenable to a safety net social services provider here. So we would like your approval on that as well.

They're a non-rated entity. The bonds will be purchased directly by PNC Community Development Company, which is an affiliate of PNC Bank. Because they're non-rated, we provided a forecast on page 8, which is summarized in the chart there.

2013 and 2014 were average expected years for an entity of this type and its size. In 2015, you'll note that they experienced quite a variance in their operating net loss, which was approximately $198,000 in the negative. Resulting EBIDA earnings before interest depreciation amortization was likewise lower.

That was due to the overall economy, as their financial advisor explained; whereas, the years prior, the S&P 500, the market value of securities, on average, went up 20 percent; and in the 2015 fiscal year, they only went up 5 percent.

So that restriction on growth greatly affected their revenues as well as Medicaid revenues.

CHAIRMAN HORNE: Can you back up for a minute?

FLETCHER: Sure.

CHAIRMAN HORNE: I'm not sure I followed that last comment about the S&P 20 percent, 5 percent. I don't remember 20 percent S&P earnings.

FLETCHER: In 2014, S&P, on average, was increased 20 percent in the value of securities.

CHAIRMAN HORNE: How does that translate to

this?

FLETCHER: For their revenues, I'll draw your attention, if I may, on page 9 to the third paragraph. So their net realized and unrealized gains were significantly lower in 2015 compared to the year prior. Their dividend and interest income was lower as well as their net realized and unrealized investment gains.

Specifically, in 2014, they had unrealized and realized gains of net approximately of $1.5 million; whereas, in 2015, that was reduced to only $151,000. So that significantly is reflected on their income statement.

MEISTER: Brad, is this the importance of the investment gains for social service agencies? If I recall, this agency has some sort of foundation or annuity or something behind it.

FLETCHER: That's correct. They have an investment endowment value of approximately $10,000,000. That's really the catalyst here. That is really what is driving their ability to continue to finance forward.

CHAIRMAN HORNE: Do they have to sell assets to operate if they're in the red? Do they reduce that

endowment?

FLETCHER: Generally, the endowment value of the fund is unrestricted, which allows it to be sold for operating, if needed.

PNC's commitment letter, in fact, when they calculated the debt service coverage for Association House, which we likewise reflect in our report, assumed that 4.5 percent of the investments would be sold on a per-annum basis, if needed, for operating.

CHAIRMAN HORNE: To cover its spread on the debt?

FLETCHER: That's correct.

CHAIRMAN HORNE: Got it.

FLETCHER: So going forward, because they are facing this new reality with the State of Illinois budget impasse, because they don't want to rely on investment gains being as high as they were, in at least 2014, they've increased some of their fee revenue upwards of 900 percent.

They've undertaken an aggressive fundraising campaign; and, as well, they've lowered their operating expenses. So the fact is they are showing effective management. So on a forecast

basis, we projected they'll generate sufficient operating cash flow to cover the proposed debt service on the bonds.

And I should add $4.8 million of this $5.9 million financing is simply a refunding at a lower interest rate.

CHAIRMAN HORNE: Right.

FLETCHER: So they're smoothing out their debt service and lowering their payments, so we're providing a benefit.

CHAIRMAN HORNE: Great. Are there any

questions for Brad on this? If none, motion to approve?

GOETZ: So moved.

McCOY: Second.

CHAIRMAN HORNE: All in favor?

(A chorus of ayes.)

CHAIRMAN HORNE: What do we have left? We have some resolutions.

LENANE: Me. Iowa Health Systems.

CHAIRMAN HORNE: I'm sorry.

LENANE: That's okay.

CHAIRMAN HORNE: I thought I was merging that with Rockford.

FUENTES: Me, too.

CHAIRMAN HORNE: Okay. I'm sorry.

LENANE: I'm sorry that happened in the script.

CHAIRMAN HORNE: No, no, that's fine. Pam, if you could present Iowa.

LENANE: Yes, I'd be happy to. Iowa Health System, doing business as UnityPoint Health, is coming -- seeking a final resolution for $60,000,000.

The bond proceeds will be used to refund the Proctor Hospital 2006A bonds. $22,000,000 will be for the benefit for the Methodist Medical Center in Peoria to purchase and renovate 81,000 square-foot warehouse building space, which will include classrooms, laboratories, faculty offices and support services for the College of Nursing,

along with an additional 45,000 square feet for
warehouse space.
Also, they will be doing exterior
renovations on the Glen Oak and east-west building
of Methodist Memorial Hospital. This was approved,
the Preliminary, at last month's Board meeting.
UnityPoint Health is currently rated AA3 and
AA minus by Moody's and Fitch.

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If we go back to the financials, they are
still the same, very strong debt service coverage of
5.0, and day's cash on hand of 219 days.
CHAIRMAN HORNE: Great. That's solid. Are
there any questions? If none, I would ask for a
motion.
GOETZ: So moved.
FUENTES: Second.
CHAIRMAN HORNE: All in favor?
(A chorus of ayes.)
CHAIRMAN HORNE: Great. Thank you. All right.
Now we move to -- I believe there are a few
resolutions requiring our attention. I'll go to the
first one.
FLETCHER: The first one is tab No. 5 in your
books, which is the resolution on behalf of Chinese
American Service League and U.S. Bank. Our
predecessor agency, IDFA, originally issued bonds
for this borrower in 2002 for construction of their
community center, which is located in the Chinatown

on Princeton just north of Cermak.
            This borrower came back to IFA in 2010 to privately place the outstanding bonds, which at the time was RBS Citizens, which then became acquired by

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Charter One, which is now U.S. Bank.
            So at this time, U.S. Bank is the sole bondholder of these outstanding bonds, which are currently outstanding in the principal amount of $2.9 million.
            They are simply seeking an interest rate reset and extension of that interest rate period for the next five years. This would be considered a reissuance for tax purposes. We've seen quite a lot of these. Rich and I talked about this at length recently. It's upwards of two to three almost on a monthly average, at least, for interest rate resets.
            So at this time and going forward, and we put this in the resolution, we would like to request a $500 closing fee to cover the cost that go into our review of this, as well as Elizabeth's.
            Because we are seeing two or three of these a month. So that's in the report, and it will likewise be in a resolution.
     CHAIRMAN HORNE: I would just ask on the $500, does that cover our cost?
     FLETCHER: Well --
     CHAIRMAN HORNE: I mean, my question is about fees generally. You know, should we be at a loss on

fees; or should we be, at a minimum, be at a break even on fees in that situation?

FLETCHER: Right now we're collecting zero fee. We've been simply doing these --

MEISTER: The custom on these, raising it up and getting the Board input, the custom had been this was part of the longer-term Authority service as the issuer to the borrower.

FRAMPTON: For charging a significant upfront fee?

MEISTER: Yes.

CHAIRMAN HORNE: So it's really kind of the test of the rationale historically?

FLETCHER: As far as this specific project, you know, in 2010, when these bonds were amended, if you will, they were put into private placement mode, we collected a regular fee there; and with $2.9 million, this is likely the last time we'll see this transaction. So we wanted to collect just a small check just to --

CHAIRMAN HORNE: I will tell you my own experience, I borrow, like, CMBS debt, and any time you just pick up the phone you're charged. So, I mean, it's not uncommon at all for both paying the

upfront fee, but also a maintenance fee, if you will.

So I don't see it as being outside of market, and my only question is, you know, in terms of us as an organization, our fee structures.
FLETCHER: Our application fees for new projects are generally $1,000. So this is discounted from that even.
CHAIRMAN HORNE: Yes.
FLETCHER: We recognize that -- go ahead.
FRAMPTON: It's less time than reviewing an application, certainly.
FLETCHER: That's true, much less time.
CHAIRMAN HORNE: Okay. If you're supporting it.
MEISTER: Yes.
CHAIRMAN HORNE: I just want to make sure that we operate it --
FUNDERBURG: That's a great question, and I think what we should do is have a conversation going forward.
MEISTER: Yes.
FUNDERBURG: And report back as to what the plan is going to be. That's satisfactory?

CHAIRMAN HORNE: Yes, I like that fact, yes.
MEISTER: And, also, just in the context of fees, at consolidation in '04, there were a number of different fee models in the predecessors. Some had annual fees, some had upfront fees.
I think probably going forward, this is the first step that the Board will have to be

informed of the history, the expectations of the borrower, and future needs, but I think that that's a conversation going forward.

CHAIRMAN HORNE: Well, I think I would add that you should look at the market and just look outside of our walls and say, "What are other people doing? What's Wisconsin doing?"

What's -- you know, in terms of how we're setting fee structure, we have to look at --we have to, A, be competitive.

MEISTER: Yes.

CHAIRMAN HORNE: We can't outprice ourselves, but at the same time we don't want to be under priced either.

MEISTER: Yes.

CHAIRMAN HORNE: Okay. So anyway. All right. Any other thoughts on this resolution? If none,

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motion to approve?

McCOY: Motion to approve.

FUENTES: Second.

CHAIRMAN HORNE: All in favor?

(A chorus of ayes.)

CHAIRMAN HORNE: Okay. Rich, you had a resolution, I believe.

FRAMPTON: There's one more.

CHAIRMAN HORNE: One more? Oh, I'm sorry. Here we go.

FLETCHER: So tab number 6 is the next

resolution in your book. That's a resolution on behalf of Precision Resource, through it's affiliate 700 Hickory Hills Drive, LLC, and Wells Fargo Bank.

Unlike the previous resolution, we're treating this as a technical amendment. They're simply looking to change the definition of the interest rate through the bond documents; and, in fact, to be more specific, what they're attempting to do is add an interest rate floor.

The interest rate formula through the bond documents is based on LIBOR, which I'm sure Members of this Committee are familiar with. In the unlikely event that LIBOR was to go negative, they

wanted to be ensure they had an interest rate floor of 0.00 percent.

Something like this, we provide customer service on that.

FRAMPTON: So Wells wouldn't be paying Precision Resource.

FLETCHER: Unlike the previous resolution where they're actually resetting the rate and extending the interest rate period, this is just a change in the definition. We're happy to provide this type of customer service as a technical amendment. So no fee.

CHAIRMAN HORNE: Motion to approve that?

GOETZ: So moved.

McCOY: Second.

CHAIRMAN HORNE: All in favor?

(A chorus of ayes.)

FRAMPTON: Next item 7. Okay?

CHAIRMAN HORNE: Yes.

FRAMPTON: Item 7 is a resolution to authorize a transfer of $4,000,000 of the Authority's remaining Qualified Energy Conservation Bond issuance allocation to the Metropolitan Water Reclamation District of Greater Chicago.

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This Qualified Energy Conservation Bond issuance allocation goes back to the 2009 American Recovery and Reinvestment Act; and under that, there was -- under those provisions, the State of Illinois, as a whole, was allocated roughly $133,000,000.

Out of that $133,000,000, the Authority ultimately received an allocation of approximately $22.6 million to provide to projects statewide. Although, initially, we had contemplated actually issuing these bonds through our local government program.

One of the issues with this Qualified Energy Conservation Bond, along with the Build America Bonds at the time is whoever acts as issuer is the taxpayer, as far as the IRS is concerned.

And so if, for example, on this deal, IFA were to issue these bonds for the Water Reclamation District, we would actually be receiving the direct pay interest rebate from the Department of Treasury,

and then remitting it to the Water Reclamation District.
So we would have to be running that through IFA. We would also be potentially subject

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to IRS audits, to the extent -- well, there has been sequestration or reduction or discounting on the payments, on these payments.
We would be involved in all that. We would, no doubt, be having to report that to our auditors. So instead of doing that, what we're doing here is collecting the same fee that we would receive from issuing the bonds. That's 15-basis points.
So we have all the upside with none of the downside. So we will -- the recommendation is to transfer $4,000,000 of this QECB issuance authority to the Water Reclamation District; and as a result, this financing will benefit projects that serve over 3.1 million people in the state.
So our objective with this program was to -- has been to benefit as many Illinois taxpayers as possible. The example on page 2 notes the degree of the subsidy and how the mechanics of the rebate subsidy work.
The result is a 29-year fixed rate that is lower than anything that MWRD, or any other QECB borrower would be able to obtain through any other means, including tax-exempt bonds.

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CHAIRMAN HORNE: And that's a tax-exempt rate?
FRAMPTON: No, the bonds that are sold are taxable, and the mechanics of this are that the Department of Treasury actually provides a direct interest payment subsidy. So in the example --
CHAIRMAN HORNE: Under that example, that 2.31 percent is actually the taxable rate?
FRAMPTON: 5.48 percent is the taxable rate. The interest subsidy that's paid by the Department of Treasury back to MWRD is 3.17 percent. So the effective interest rate that is paid by MWRD would be 2.31 percent.
CHAIRMAN HORNE: Okay.
FRAMPTON: So it's the net rate that is the benefit.
CHAIRMAN HORNE: So after we do this transfer -- I see. I would call it -- is it a transfer?
FRAMPTON: Yes.
CHAIRMAN HORNE: We're down to $755,000.
FRAMPTON: Which is insufficient to justify undertaking another transaction.
CHAIRMAN HORNE: Which I guess then my next question is: Can't we transfer the entire balance

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to them?
FRAMPTON: MWRD has a capital plan, and this

QECB issuance is actually one part of their two-year financing plan. And their Board authorizing resolution for the QECBs, they have undertaken a tax analysis, and they've determined that with the projects that they are contemplating, they only have $4,000,000 of projects. So --

CHAIRMAN HORNE: Do we have any time limitation for us on this?

FRAMPTON: There is no expiration date. My recommendation on this is that, overall, there are 27 borrowers statewide, and probably about 20 of those still have a significant enough allocation to potentially be able to put this $700,000 to use.

So what I would suggest is that the Authority reach out to the other allocatees.

CHAIRMAN HORNE: Take it off our books, get it to work.

FRAMPTON: That is exactly right.

MEISTER: And one of the unforeseen challenges with the implementation of the stimulus ARRA several years ago was that in both. QECBs, but also with certain of the Recovery Zone Facility items that we

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used with the Navistar project, there was no state law mechanism to regather sort of the excess or the remainder.

CHAIRMAN HORNE: Unused.

MEISTER: Unused. And we passed a law, and we, I believe, have the legal Authority to cap this up for the QECBs, which are the I think the sole

remaining -- the sole remainder.
FRAMPTON: They are the remnant of the ARRA.
MEISTER: Of the '09. In our part of the world, they are the remnant.
CHAIRMAN HORNE: Right.
MEISTER: And just another note, Metropolitan Water Reclamation District is also the largest single borrower in the joint Finance Authority/Illinois Environmental Protection Agency state revolving fund borrowing. And so we're happy to be of assistance to them, and they are an excellent partner and an excellent borrower.
CHAIRMAN HORNE: Good. Okay. Any other questions? If none, motion for approval?
GOETZ: So moved.
FUENTES: Second.
CHAIRMAN HORNE: All in favor?

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(A chorus of ayes.)
CHAIRMAN HORNE: Okay. Is that it on this? I believe that covers the agenda.
Is there any public comment? If none, I would ask for a motion for adjournment.
McCOY: So moved.
GOETZ: Second.
FLETCHER: The time is 9:29.
(WHICH WERE ALL THE PROCEEDINGS HAD at 9:29.)

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STATE OF ILLINOIS)
) SS:
COUNTY OF C O O K)

PAMELA A. MARZULLO, C.S.R., being first duly sworn, says that she is a court reporter doing business in the city of Chicago; that she reported in shorthand the proceedings had at the Proceedings of said cause; that the foregoing is a true and correct transcript of her shorthand notes, so taken as aforesaid, and contains all the proceedings of said hearing.

____
PAMELA A. MARZULLO
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