ILLINOIS FINANCE AUTHORITY

CONDUIT FINANCING COMMITTEE MEETING

November 12, 2019, at 9:00 a.m.

REPORT OF PROCEEDINGS had at the Conduit Financing Meeting of the Illinois Finance Authority on November 12, 2019, at the hour of 9:00 a.m. pursuant to notice, at 160 North LaSalle Street, Suite S-1000, Chicago, Illinois.

APPEARANCES:

CHAIRMAN BRAD ZELLER

MR. ERIC ANDERBERG, (via telephone)

MR. JAMES J. FUENTES

MS. ARLENE JURACEK

MR. WILLIAM HOBERT

ILLINOIS FINANCE AUTHORITY STAFF MEMBERS

MR. BRAD FLETCHER, Vice President

MS. ELIZABETH WEBER, General Counsel and Legal Adviser to the Board

MS. SARA PERUGINI, Vice President, Healthcare

MR. RICHARD FRAMPTON, Executive Vice President

SULLIVAN REPORTING COMPANY, by Renee E. Brass, CSR, RPR.

CHAIR ZELLER: Good morning, everyone. Thank you, everyone, for showing up.

I have been asked by the executive director to lead this meeting of the Conduit Financing Committee as Chair McCoy is unavailable today.

I'd like to call the meeting to order.

Will the Assistant Secretary please take the roll.

FLETCHER: Certainly. The time is 9:00.

Mr. Fuentes.

FUENTES: Here.

FLETCHER: Mr. Hobert.

HOBERT: Here.

FLETCHER: Ms. Juracek.

JURACEK: Here.

FLETCHER: Mr. Zeller.

CHAIR ZELLER: Here.

FLETCHER: Chair Anderberg, ex-officio non-voting.

ANDERBERG: Here.

FLETCHER: Thank you. Member Zeller, a quorum of committee members has been constituted.

CHAIR ZELLER: Thank you. Does anyone wish to make any additions, edits, corrections to the minutes from October 8, 2019?

(No response.)

CHAIR ZELLER: Hearing none, I would request a motion to approve the minutes. Is there such a motion?

FUENTES: So moved.

JURACEK: Second.

CHAIR ZELLER: So moved and seconded.

All those in favor?

(Chorus of ayes.)

CHAIR ZELLER: Opposed?

(No response.)

CHAIR ZELLER: The ayes have it.

Next I would like to ask for the general consent of the members to consider each of the new business items collectively and to have the subsequent recorded vote applied in each respective, individual item, unless there are any specific new business items that a member would like to consider separately.

If there is a need to recuse or abstain or an expectation that you are going to vote no on any new business item, now is the time to inform the other members.

(No response.)

CHAIR ZELLER: Hearing nothing, Item 1.

PERUGINI: Good morning, everyone. Item No. 1 in your Board books is a resolution for a not-to-exceed amount of $210 million for Lutheran Life Communities Obligated Group.

We have issued bonds for Lutheran Life Entities in the past, and we are excited to welcome them back.

Lutheran Home and Services for the Aging did a financing in 1996 with the Illinois Health Facilities Authority for its Arlington Heights campus.

Concurrently with this transaction, a new obligated group will be formed, but the same conscientious management team remains, as well as the thoughtful and informed Board whose chair is the managing partner of a Chicago law firm.

As a result of this new obligated group, the IFA has the ability to issue multi-state bonds for an Indiana entity and also refinance bonds that were issued through the Upper Illinois River Valley Development Authority.

I'd like to draw your attention first to the bullet points on Page 1 of your Board book as they provide a good summary of the transaction.

It's contemplated that the bonds will be issued in two series, the Series 2019A and 2019B.

The Series 2019A bonds will be tax exempt and publicly offered, and the proceeds will be used to refund the currently callable Series 2006A bonds, the Series 2006B bonds, Series 2009A bonds and Series 2012 Pleasant View bonds of the borrowers.

It will also be used to refinance non-callable

Series 2010 bonds and Series 2012 bonds that the holders agree to surrender at a negotiated premium.

There's also been an addition since the printing of the Board book that the bonds will be used to refinance certain taxable indebtedness of the borrowers which was used to pay costs at the borrowers four continuing care retirement communities.

The bonds will also be used to fund the project, fund a debt service reserve fund with respect to the A bonds and pay costs of issuance.

The Series 2019B bonds will be taxable bonds directly purchased by a bank. The proceeds will be used to refinance the currently non-callable Series 2010 bonds and Series 2012 bonds that the holders do not surrender and pay costs of issuance.

The Series 2019B bonds are Cinderella bonds, which means they are issued taxable, but have the ability to be converted to tax exempt on the first optional redemption date of such bonds upon satisfaction of certain tax authority and other requirements as provided in the bond documents.

The project will be located across the four campuses and will be used for general capital expenditures in an amount totaling approximately $10 million.

And as I mentioned above, a portion of the proceeds of the 2019 A bonds will be used to refinance prior bonds issued for and for capital expenditures at Wittenberg Village, which is a senior living community located in Crown Point, Indiana.

In addition, there are some extraordinary conditions. The borrowers are requesting a waiver of the Board policy set forth in the IFA bond handbook, which states that non-rated bonds must be offered to the public or privately placed with a bank in minimum denominations of $100,000. However, borrowers can request a waiver to this Board policy.

The borrowers have informed the Authority that they satisfy the conditions of the waiver because the borrowers are not currently in default on any of the bonds; the borrowers have not missed a payment date relative to any bonds in the immediately preceding three years, and the borrowers are securing a financial forecast from CliftonLarsonAllen, LLP, which will demonstrate the financial viability of the project, and also the bonds are being issued to refund prior bonds, and the refunding will provide a positive impact on the financial viability of the borrowers.

If you turn to Page 2 of your Board book, you will see that there's about 30 construction jobs anticipated with respect to the projects in Illinois. There's also a description of the new six-member obligated group that will be formed and also the four communities that they own.

Lutheran Life Ministries will also be -- is the sole member of each obligated group member and will serve as the obligated group representative on the transaction, but they will not be a member of the obligated group.

You can also see a totality upon completion of the financing of where the obligated group communities will serve and how many units they will have.

If you look at credit indicators, as we discussed, the bonds will not carry a rating, and this waiver that they are anticipating is with respect to all the bonds.

Security and maturity, you can see they will be secured by an obligation of the obligated group and a pledge of revenues, debt service reserve fund with respect to the A’s and mortgages on each of the four communities.

Estimated sources and uses: You can see there's a breakdown of the par amounts. The 2019 A’s will be about $150 million. The 2019 B’s will be about $30 million, and on the top of Page 3, you see it broken down in another way with respect to the refunding, which will be about $145 million.

There will be about $10 million a project and about $10 million of a reserve fund with respect to the A bonds.

We have a lot of repetitive information. I'm going to skip you over to Page 6.

The top of Page 6 gives you a business summary. The anticipated interest rates with respect to the fixed rate bonds, about 5 percent, and First Midwest will set the interest rate on the B bonds on the day of appraising and is estimated to be between 3 and 6 percent.

If you turn to Page 9, you can see the service area of the four communities.

Page 10, confidential information: Our fee is listed at the top. You will see the financial statements from the year's end June 2017 through June 2019.

The revenues in support of the obligated group have been improving over the last three fiscal years with days cash on hand of 105 in 2019, and debt service coverage is about 2.05 in 2019.

It's also important to note footnote 2. To calculate the debt service coverage, it was used pro forma maximally on the debt service, which shows in 2019 they could have easily serviced the debt that they are issuing now at over two times.

On the bottom of Page 10, there's an explanation of the change in unrestricted net assets, so from 2017 to 2018 there was an increase, and this was due to a monetization of the sale of lease payments on a land lease that's outside of the obligated group.

You can see that number decreased from 2018 to 2019 due to some transfers from the obligated group to outside of the obligated group. But excluding these transfers, there's been a steady and consistent growth in net income available for debt service.

Also, on Page 11 you can see on the forecasted financial ratios, as we discussed, the borrowers are securing an examination of a financial forecast by CliftonLarsonAllen which will demonstrate the financial viability of the project and also the positive impact of the refunding of the prior bonds.

While the numbers and excerpts below are substantially final, they are in draft form and subject to change.

The waiver with respect to the A bonds is contingent upon the receipt by the Authority of a finalized and executed forecast, which is acceptable to the Authority.

The chart below shows the financial ratios that have been projected for the obligated group based on various assumptions, so you can see that in 2020 the forecast results in a debt service coverage of 2.03 times in the first year of testing, which is above the proposed covenant level of 1.2 times.

These numbers also take into account the issuance of an approximately $15 million bank loan and the bank loan is also included in the forecast in MADS, and the chart also shows days cash on hand levels 2020 through 2022 that are projected to range from 121 to 176, which exceeds the minimum covenanted levels of 80 to 100.

On Page 12 and 13 you can see a little bit more about the assumptions that were used, including occupancy impairments.

And, finally, the estimated not present value savings of the refunding is about $24 million.

So it's a good savings.

Does anybody have any comments or questions?

CHAIR ZELLER: The waiver, is that customary? Do we do that --

FRAMPTON: That was most recently done in 2017, so the bond program handbook actually reports a Board-approved policy and the exceptions -- well, this project satisfies all the prerequisites for obtaining the waiver, so this satisfies all of those requirements.

And those waivers have been in place for many years, and they are primarily applicable to projects in the CCRC subsector.

CHAIR ZELLER: Okay. Any questions from anyone?

(No response.)

CHAIR ZELLER: Item 2, Mr. Frampton.

FRAMPTON: Thank you, Mr. Zeller. Moving on next to the Illinois Institute of Technology, which is Tab 2. It's also Page 48 in the conduit financing packet.

To be brief, IIT is looking to current refund an amount not-to-exceed $140 million of their Series 2006A bonds and also fund costs of issuance.

This 2006A bond issue comprises approximately 75 percent of IIT's long-term debt, so this is the most significant debt component in their capital structure.

So IIT just publically released their audits last week, so this transaction is moving quickly to get positioned to apply for a rating and go to pricing, hopefully, before the year-end December crunch hits, so the fact that the Board is able to meet today is a big help to IIT.

In any case, IIT's current debt on these Series 2006 bonds bears an interest rate of 5 percent with maturities currently through 2036. Just based on where the municipal tables are at the moment, they'll easily be able to meet that.

And if you look at Page 8 and the pro forma coverage, for 2019 their actual coverage was above 1, but below 120.

As a result of this proposed refinancing, with no other changes, their coverage would go up above 120, and that would be a significant credit positive.

The biggest challenge IIT has faced, you will note from the top line on Page 8, which is their full-time equivalent student enrollment. They were particularly hard hit, as you can see, in the fall '17, which corresponds to fiscal year '18 on the financial statements, and the primary impact was attributable to a drop in international graduate student enrollment.

They had issues with student visas, and so as a result of that, as you can see in the table, if you look at the table at the bottom of the handout, you can see that graduate enrollment declined from 3,600 in 2016/'17 to 3,200 the next year, and as of this fall, it's down to 2,300.

What IIT's administration and board have decided to do has been to double down and focus on domestic undergraduate student recruitment and program building.

And the results of that initiative are reflected in their undergraduate enrollment increases, particularly this fall, so 2018-2019, 2019-2020, their undergraduate enrollment has rebounded to where it was before.

Just as importantly, IIT has looked to leverage their existing capital in the form of their student residences to further leverage their undergraduate enrollment.

In 2018 they acquired what had been a privately-owned student housing facility. The impact of adding that facility and also requiring lower division freshmen and sophomores to live on campus in 2019 is almost entirely responsible for the revenue increase, the unrestricted operating revenue increase posted from 2018 to '19.

So management's efforts to double down and focus on undergraduate enrollment have been producing the desired results.

Furthermore, next year IIT will open an additional 330 student housing beds geared towards undergraduates, so this fall was the first semester in which the undergraduate on-campus residency requirement was in effect. Their student housing occupancy went from 83.7 percent last year to 94 percent this year.

So in fiscal 2020 the acquisition of the student housing should be further accretive, so all of that combined with a 2018 sale of Wireless Spectrum to Clearwire for $65 million has significantly improved their liquidity and financial position.

It's further supported by a $150 million gift that was announced on October 25, so all of those are positive factors. IIT will be applying for a rating.

They are currently rated Baa3 by Moody's. They intend to just apply to Moody's at this time for a rating.

So hopefully I have addressed the primary challenge for IIT, which has been addressing their long-term enrollment decline, but they appear to be turning the corner, and we recommend approval.

Are there any questions?

JURACEK: Just a comment. As an IIT graduate and former member on the Armour College of Engineering Board of Overseers, I know that they have had a good handle on their enrollment for many, many, many years.

And because so much of the graduate is foreign, which they like because they pay full freight, and there have been hiccups in the past due to visa issues and all kind of things, so it's not just a wing and a prayer here. They have got a good handle on it.

And that $150 million gift is just an amazing affirmation of the business community's endorsement of what they're doing.

FRAMPTON: Along with the opening of the Kaplan Center, which is headed by Howard Tullman. That should help enrollment further.

JURACEK: And I haven't been on the Board of Overseers for more than five years, so I'm clean.

FRAMPTON: Very good.

JURACEK: But they keep on coming for donations.

FRAMPTON: They are doing their job.

JURACEK: Yeah, they are.

CHAIR ZELLER: Mr. Fletcher, item 3.

FLETCHER: Certainly. We're functionally out of time, so I'll be very brief.

Tab 3 in your Board books is a final bond resolution on behalf of Hinsdale Township High School District No. 86, which is located in both Cook County and DuPage County.

The Illinois Public High District provides education for students at both Hinsdale South and Hinsdale Central campuses.

Enrollment district wide totaled 4221 students during the last 2018 to 2019 school year. And the district forecasts stabilized enrollment over the next five years.

This past April, voters in the district approved a referendum to issue approximately $140 million of general obligation bonds to finance a master facility improvement.

This plan includes installing school safety and emergency response systems and equipment, making facilities ADA compliant, repairing 60-year-old infrastructure and improving the overall electrical capacity and lighting in older classrooms.

To the transaction, the District is seeking to issue bonds through the Authority for its second tranche bonds, which will finance approximately 18 months of construction.

The proposed bonds will be competitively bid through a negotiated sale by the District's financial advisor, PMH

Securities. The bonds have been assigned a AAA rating.

Are there any questions?

(No response.)

FLETCHER: Thank you.

CHAIR ZELLER: 4.

FLETCHER: Next is Item 4, which is a PACE bond resolution for Enhanced Capital.

Similar to previous PACE bond resolutions approved by the Authority, this authorizes us to issue bonds purchased by Enhanced Capital over the next three years.

This resolution is before you today importantly because they will be financing approximately $10 million of PACE improvements at the redevelopment of the old Copley Hospital in Aurora.

Are there any questions?

(No response.)

FLETCHER: Thank you.

CHAIR ZELLER: Is there any guest for these projects? Sara, Brad or Rich?

FRAMPTON: On IIT, we will just introduce Michael Horan, but they are not expecting to speak. They can hold their comments until the end.

CHAIR ZELLER: That's fine. I would like to request a motion to recommend the approval of the following new business items: Items 1, 2, 3, and 4.

Is there such a motion?

FUENTES: So moved.

JURACEK: Second.

CHAIR ZELLER: Motion and a second.

FLETCHER: Motion and second. I'll call the roll. Mr. Fuentes.

FUENTES: Yes.

FLETCHER: Mr. Hobert.

HOBERT: Yes.

FLETCHER: Ms. Juracek.

JURACEK: Yes.

FLETCHER: Mr. Zeller.

CHAIR ZELLER: Yes.

FLETCHER: Mr. Zeller, the motion carries.

CHAIR ZELLER: Thank you. Is there any other business to come before the committee?

(No response.)

CHAIR ZELLER: Public comment?

(No response.)

CHAIR ZELLER: Hearing none, we'll move on. I would like to request a motion to adjourn. Is there such a motion?

HOBERT: So moved.

FUENTES: Second.

CHAIR ZELLER: All those in favor?

(Chorus of ayes.)

CHAIR ZELLER: Opposed?

(No response.)

FLETCHER: Motion carries. Thank you.

(Whereupon the above matter was adjourned.)