ILLINOIS FINANCE AUTHORITY

CONDUIT FINANCE COMMITTEE MEETING

REPORT OF PROCEEDINGS had at the Conduit Financing Committee meeting of the Illinois Finance Authority held Tuesday, March 10, 2020 at 8:30 a.m., pursuant to notice at 160 North LaSalle, Chicago, Illinois.

PRESENT:

LYLE McCOY, Chairman
JAMES FUENTES
MICHAEL GOETZ
WILLIAM HOBERT
ARLENE JURACEK
BRADLEY ZELLER
ERIC ANDERBERG, ex-officio, non-voting

ALSO PRESENT:

ELIZABETH FLEMING WEBER - General Counsel
MICHAEL MOSS - Associate General Counsel, Assistant Secretary
BRAD FLETCHER, Vice President
RICH FRAMPTON, Executive Vice President
SARA PERUGINI, Vice President, Healthcare/CCRC, (via audio conference)
LORRIE KARCHER, Loan and Guarantee Coordinator, (via audio conference)

CHAIRMAN McCOY: I'd like to call the meeting to order.
Will the Assistant Secretary please call the roll?
MR. MOSS: Certainly. The time is 8:30 a.m.
Member Fuentes?
MEMBER FUENTES: Here.
MR. MOSS: Member Goetz?
MEMBER GOETZ: Here.
MR. MOSS: Member Hobert?
MEMBER HOBERT: Here.
MR. MOSS: Member Juracek?
MEMBER JURACEK: Here.
MR. MOSS: Member Zeller?
MEMBER ZELLER: Present.
MR. MOSS: Committee Chair McCoy?
CHAIR McCOY: Yes.
MR. MOSS: Chair Anderberg, ex-officio, non-voting?
CHAIR ANDERBERG: Here.
MR. MOSS: Committee Chair McCoy, a quorum of Committee members has been constituted.
CHAIR McCOY: Thank you very much.

Does anyone wish to make any additions, edits, or corrections to the minutes of the February 11, 2020 meeting?

(No response.)

Hearing none, I would like to request a motion to approve the minutes.

Is there such a motion?

MEMBER GOETZ: So moved.

MEMBER JURACEK: Second.

CHAIR McCOY: Thank you.

All those in favor?

(A chorus of ayes.)

Opposed?

(No response.)

The ayes have it.

Presentation and consideration of new business. 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 to each respective, individual item, unless there's any specific New Business items that a Member would like to consider separately.

MEMBER GOETZ: Mr. Chairman, I would like to clarify my position regarding Item 2, St. Anthony SLF and Deer Path SLF.

In April of 2012, I abstained from a vote on this project because I was at that time involved in the day-to-day operations of Laborers' Home Development, which shared a material vendor, Gardant Management Solutions, with both of these SLFs. As I am no longer responsible for the day-to-day operations of Laborers' Home Development, I will not abstain from voting on this project today. Just clarification.

CHAIR McCOY: Thank you very much.

Moving on, Ms. Perugini, please present Item 1.

MS. PERUGINI: Absolutely. Good morning.

Tab No. 1 in your Board book is a resolution for a not-to-exceed amount of $75 million for Christian Horizons Obligated Group.

The IFA has issued bonds for Christian Horizons Obligated Group entities in the past, specifically Christian Homes, who is the borrower in this financing, and we are excited to welcome them back, in this case with a multi-state transaction.

It is currently contemplated that both tax-exempt and taxable bonds will be issued. Page 1 provides a summary of the transaction and what the proceeds of the issue will be used for.

The new money purposes, which will consist of capital expenditures at several of the facilities of the Obligated Group as well as the large project at Crown Point Christian Village in Indiana where a majority of the new money will be used to renovate the current assisted living units to create 42 independent living units, construct 61 new assisted living apartments, construct 24 assisted living memory care units, and to demolish 8 garden homes that no longer meet market expectations.

The proceeds will also be used to refinance existing taxable indebtedness in the amount of approximately $12 million;

To refund the Series 2010 Bonds issued by the IFA, currently outstanding in the principal amount of approximately $6.6 million;

To fund a debt service reserve fund with respect to the tax-exempt bonds;

To fund interest and to pay certain

expenses.

Page 1, Job Data. As the majority of the new money will be spent in Indiana, there will be approximately 42 new Indiana jobs created, and in Illinois, there will be 5 construction jobs and approximately 100 in Indiana.

At the bottom of Page 1, there is a description of the borrower, the parent, which is not a member of the Obligated Group, and the 8-member Christian Horizons Obligated Group, which is a multi-facility system that has a total of 8 communities, including, in total, approximately 980 beds of skilled nursing care, 282 assisted living units, and 348 independent living units located at senior communities in Illinois, Indiana, Iowa, and Missouri.

Upon completion of the project, the system will have a total of approximately the same amount of skilled nursing beds, 980; 318 assisted living apartments, which is up from 282; and 382 independent living units, which is up from 348.

If you turn to Page 2, The Structure. This structure will consist of one or more series of tax-exempt and taxable fixed rate bonds sold in a public offering by Ziegler, and there's a breakdown in that section of tax-exempt versus taxable purposes.

Under Credit Indicators, the Christian Homes Obligated Group has a long-term rating of BBB- in Fitch with an outlook of stable, assigned as of November 8, 2018. It is expected that the rate will be affirmed mid-March and assigned to the Bonds.

Securities. The bonds will be secured by an obligation under the Master Trust Indenture, which includes a pledge of gross revenues and mortgages on all Obligated Group properties. The tax-exempt bonds will also fund and be secured by a Master Debt Service Reserve Fund, which is sized to aggregate maximum annual debt services.

The bonds have a maturity of no later than 2050.

At the bottom of Page 2, you can see a breakdown of the estimated sources and uses, which include approximately $60 million of tax-exempt bonds and $12 million of taxable bonds.

Turning to Page 4, you can see that the Resolution provides for an interest rate of not-to-exceed 5.5 percent. The actual rate will be determined on the day of pricing.

Page 6 -- Page 5, excuse me, provides a board summary.

And on Page 6, there is a chart which details the current breakdown of the unit mix on each Obligated Group campus, as well as overall occupancy rates. That is followed by the Board and Deal Team, a service area map on Page 7, and if you turn to Page 8, confidential information, at the top is the estimated IFA fee. And that fee is based on the par amount of the tax-exempt bonds only.

Next is the presentation of the audited financials for the fiscal years ended June 2017 through 2019.

Overall, the Obligated Group ended 2019 with a 3.6 percent growth in operating revenue, a $3.4 million or 33.4 percent growth in EBITDA, days cash on hand of 183, and debt service coverage of about 2.53 times, which is well over the covenant requirement of 1.2 times.

Now, if you turn to fiscal year 2018, you will see that there is a decrease in EBITDA and net income. In the discussion section, there's a paragraph that details the factors that contributed to these decreases.

With respect to EBITDA, there's a decrease due in part to slightly higher Medicaid payer mix in the skilled nursing versus 2017, an increase in wages to increase worker retention, lower turnover in independent living units, which reduces net entrance fees, and the reduction in revenues from the Indiana IGT/UPL program.

The decrease in net income of about $1.2 million is for non-cash related items, consisting of reserve for bad debts increased due to concern over Illinois' untimely Medicaid reimbursements, change in the recovered penalty adjustments, and arbitrage accrual reversal. But overall, the Obligated Group showed strong liquidity growth over the period as days cash on hand steadily improved from 2017 through 2019.

On Page 9, I also wanted to make mention that there will be an examination of financial forecast prepared by Plante Moran, which will demonstrate the financial viability of the new money purposes and also the positive impact of the refunding. This will be finalized prior to printing

later this week and included in the POS and OS.
The bonds will be offered to the public in denominations of less than $100,000. While it is anticipated that the bonds will carry an investment grade rating, in the event that the bonds are rated below investment grade, the borrower will satisfy the conditions for a waiver of the Board policies set forth in the IFA Bond Handbook, and such waiver will be contingent on the receipt of a finalized and executed financial forecast.
Also in the middle of Page 9, there's an estimate of net present value savings from the refunding, which is approximately $1.1 million, or 6 percent.
Does any member have any questions or comments?
CHAIR McCOY: I think we're good, Sara. Thank you very much.
MS. PERUGINI: Thank you.
CHAIR McCOY: Mr. Frampton, can you please present Item 2.
MR. FRAMPTON: Thank you, Mr. Chairman.
Item 2 is a one-time final bond resolution for St. Anthony SLF and Deer Path SLF

LLC, the not-to-exceed amount of the final bond resolution is $45 million.

Just to provide an overview and background, please turn to Page 2, and the section heading Credit Indicators and Ratings.

The first four bullet points provide a concise summary of where we've been and where this one is going.

The St. Anthony project and the Deer Path projects were each originally financed on a stand-alone basis. The original Series 2012 Bonds issued by IFA and by the Upper Illinois River Valley Development Authority were sold on a non-rated basis in minimum denominations of $100,000 and there is on a combined basis $37,400,000 currently outstanding. And those Series 2012 Bonds currently bear a fixed interest rate of 6 and a half percent. So they're starting at 6 and a half now.

So, second bullet, the co-borrowers have applied the S&P Global Ratings for the cash flows and securities to be combined and rated together on a portfolio basis.

The Sources and Uses table at the bottom of the page reports the anticipated structure.

So under Sources, the first two lines are for a tax-exempt senior series in the amount of $32.2 million approximately and a taxable senior series in the amount of $8,685,000.

The anticipated rating on the bonds is anticipated in the BBB+ to A- range.

In addition to the rated bonds, there will also be one tax-exempt non-rated series, the 2020Cs. The estimated par amount for those is $2,785,000.

And as noted in bullet 4, the subordinate tax exempt IFA series 2020C bonds will be sold in minimum denominations of $100,000 to accredited investors and qualified institutional buyers, all consistent with IFA Bond Handbook requirements.

So as a result of this financing, there is $37.4 million outstanding, that's currently non-rated, bearing interest at 6 and a half percent. After this financing, the par amount of non-rated bonds will be reduced to $2,785,000.

In addition to that, the final maturity date on the existing non-rated 2012 bonds is 12-1-2032. The new Series of subordinate bonds, the 2020C bonds, will be paid off in just over five years, and the underwriter has structured level debt service payments that will accelerate repayment of the subordinate bonds first.

So that's the background on the prior financing in this financing.

Moving back to Page 1, under description, the two projects are located in Lansing and Huntley. Bullet points 2 and 3 under Description on Page 1 describe the nature of the projects.

The 125-unit St. Anthony project is located -- is targeted to low income seniors age 65 and over. It was completed in August 2013 and fully occupied -- 100 percent occupied as of May 2015. And IFA issued the bonds for the St. Anthony project.

The Deer Path project bonds were originally issued by the Upper Illinois River Valley Development Authority and that project is a 128-unit project that is targeted to non-elderly, disabled, aged 22 to 64, who need assisted living services. That project was also completed in August 2013 and was fully occupied as of -- 100 percent occupied as of March 2015.

The next section below reports the owners. The managing member, really the general partner, is Zach Leonard. He has been the general partner and managing member of these projects since inception. Both of these projects were financed with 4 percent Low Income Housing Tax Credit Equity.

The equity investor in both of these transactions is Affordable Housing Partners, Inc., which is a wholly-owned subsidiary of Berkshire Hathaway. And the managers of Affordable Housing Partners were previously with Sun America, which is part of AIG with their tax credit unit, and they invested in some prior IFA affordable housing projects.

MEMBER GOETZ: Are they going to stay in this deal?

MR. FRAMPTON: Yes. They are staying in. They will be in these deals for full 15 years.

Moving next to Page 5, under rationale, Paragraphs 2 and 3, so again, what this financing would accomplish, it will take $37.4 million of outstanding non-rated bonds including $18.16 million of IFA Series 2012 Bonds issued for the St. Anthony project and replace that $37.4 million of non-rated debt with $40,895,000 of investment grade IFA Series 2020A and B Senior Bonds as well as the $2,785,000 of non-rated bonds that will be paid off in 2025.

One thing to note just under the Sources and Uses on Page 2, and it is also mentioned as the last sentence in the rationale section in the parenthetical, this is a disclosure item to the Board: Out of the $8,685,000 that are being issued as senior taxable bonds that will be rated by S&P, approximately $5.22 million of that taxable bond proceeds will be paid to the owners and used to accelerate payment of performance-based deferred developer fees associated with both series of 2012 bonds. These performance-based deferred developer fees have been accrued but not paid. And I'll explain the justification for that in just a bit.

Moving to Page 7, there's a summary and comparison of the two projects. The St. Anthony project again is 125 one-bedroom units. One thing that's unique about the St. Anthony project compared to other nearby supportive living facility projects is St. Anthony is all one-bedroom units, whereas their competition includes several that are primarily studio units. So in terms of age and quality and condition, the appraisal reports note that St. Anthony is a superior property compared to its competitors.

The Deer Path project, again that's targeted to non-elderly disabled. There are 44 studio units and 84 one-bedroom units.

Moving to Page 8, table 2 at the top is important. That reports the average annual census and occupancy rates from 2017 through January 2020. These statistics will be posted in the official statement.

As you can see, as of January 2020, Deer Path, just based on their average census, that they are essentially fully occupied. St. Anthony posted a dip in occupancy in early 2019. They have been recovering from that, but by combining the two projects over the historical period reported in Page 2, they posted a combined occupancy rate over 96 percent.

Moving on to Page 9, just some information about the supportive living facility program. The purpose of the program really is to deinstitutionalize people who don't require full skilled nursing care to an affordable assisted living facility environment and in addition to providing a better living arrangement for the residents, the other thing that -- the other important result of this program has been to reduce the outlay by the state for these -- for the residents who are placed in the SLF facilities.

Originally, the SLF daily Medicaid reimbursement rate, which is the primary source of revenue to these SLF facilities, was pegged at 60 percent of the nursing home daily reimbursement rate. It was reset as of January 1 to be 54 percent of the SLF reimbursement rate.

So as a state budgetary matter, these SLF projects have a positive impact on the state's budget.

Moving onto Page 13, I have one additional vendor to note.

Under Environmental Reports, the vendor for the environmental -- for the Phase 1 Environmental Reports is Intertek Professional Service Industries Inc. of Hillside. So those reports were just delivered yesterday.

Moving on to the Confidential section, top of Page 14, reports our fee based on the $43,675,000 issuance amount. So because this is a developer tax paying entity, IFA's fees on this are higher than they are for any of our nonprofits.

Moving on to the table 6 on Page 16, this shows how -- this demonstrates the payments for each Medicaid eligible resident, and there are three principal components. There is a room and board allowance. Generally, what happens is the resident assigns their Social Security payments, all but $90 a month to the SLF. That covers their room and board for the month, but the principal component of revenues for these SLFs are the Medicaid reimbursement rate. And as you can see, they're approximately $104 now and they generate 80 percent of facility revenues.

Moving on to Page 18, given the fact that the SLF daily Medicaid reimbursements are the primary source of revenues, the fact that those reimbursements were increased by 24 percent effective on January 1st is the primary driver, aside from the savings derived from the refinancing in generating the improved operating results that are reported on Page 19.

The two keys on Page 19 are lines 3 and 24. Line 3 demonstrates the increase in Medicaid reimbursement payments, and as you can see going from 2019 to 2020, the revenues just from the Medicaid reimbursement will jump by roughly $107,000,000 and that will directly flow through to line 23, the debt service -- the reported debt service coverage. And the savings attributable to the refinancing are reported on Page 24.

So the savings reported here, which range from the mid $200,000 to low $300,000s, will benefit the viability of these projects. Clearly this refinancing will improve the viability of both of these projects.

Moving on to Page 22, just some disclosure from the property condition reports. This is the last section and set of bullet points on Page 22. Based on the property condition reports, there are more than sufficient replacement reserves and unreserved cash balances to cover all identified capital expenditures through the year 2030.

On Page 23, there was an exception

reported on a fire alarm control panel. That, of course, has since been addressed. So currently there are no violations outstanding according to the project owner.

So based on the fact that with this deal, we will be taking $37.4 million of non-rated debt, converting it mostly to investment grade-rated debt, additionally both of these projects have audited financial statements. That has not always been a requirement by S&P, but in this case, the audit reports will be included as a disclosure item in the official statement. All these are positive factors and why we support and recommend approval of this financing.

So with that, I'll conclude my remarks and ask if there are any questions or comments.

CHAIR McCOY: No. We're good, Rich. Thank you very much.

MR. FRAMPTON: Okay. You're welcome.

CHAIR McCOY: Mr. Fletcher, Item No. 3.

MR. FLETCHER: Next in your Board books is Item No. 3, University of St. Francis final bond resolution. We're requesting your consideration for approximately $37 million. This will be a refunding of the University's Series 2013 as well as Series 2016 A and 2016 B bonds.

We issued the 2013 bonds to refund previous bonds issued by the Authority. We issued the 2016 bonds to finance construction of the University's new science building, approximately $15 million.

Turning to the confidential section of the report, you will see that because the University is a non-rated entity, we did a four-year financial forecast as well as analyzed the previous three years. Overall, 86 percent on average of unrestricted operating revenues are attributable to net tuition. As you can see, during the last three years, unrestricted operating revenues were relatively flat.

Accordingly, net income over the last three years has gone down. This is due to the coupling of flat revenues with increased resources being put into the classroom as well as the modernization of various capital expenditures such the new science building.

So they have an increase in

construction expense over the last three years as well as additional interest expense.

Today, they're seeking to refund all of their outstanding tax-exempt debt, which has been issued by the Authority. They'll save approximately 20 basis points. They expect to maintain the same final maturity date of May 1942.

I can answer any questions.

CHAIR McCOY: You mean 20 --

MR. FLETCHER: 2042. I'm sorry.

With that, I know Lorrie is on the line, too.

CHAIR McCOY: Okay. So moving on then, Ms. Karcher.

MS. KARCHER: Sure. Good morning.

Agenda Item 4A is a one-time Final Bond Resolution requesting the approval for a Beginning Farmer Bond for Zachary Paul Knobloch who is purchasing 40 acres of farmland in Stark County in the not-to-exceed amount of $200,000. The State Bank of Toulon is the purchasing bank for the conduit transaction.

And Agenda Item 4B is a one-time Final Bond Resolution requesting approval for a

Beginning Farmer Bond for Brandon Fredrickson, who is purchasing 35 acres of farmland in Warren County in the not-to-exceed amount of $303,000. First Mid Bank and Trust is the purchasing bank for this conduit transaction.

Those are the two Beginning Farmer bonds.

CHAIR McCOY: Any questions, anybody?

(No response.)

Okay. Thank you, Lorrie.

Rich, back to you.

MR. FRAMPTON: Yes, Item 6. This will be quick. This is an amendatory resolution for Roosevelt. All that they're doing is replacing Wells Fargo as underwriter with Stern Brothers. This amends the prior Resolution and also enables the Board to run its conflicts check in a public meeting.

CHAIR McCOY: Do you have any background or rationale why they replaced them?

MR. FRAMPTON: Yes. Because these are non-rated bonds -- well, let me backup.

The Higher Learning Commission approved the merger of the two universities last week and the university boards, it's my understanding also -- also approved those at the end of last week and they had actually set yesterday, Monday, to be the closing date, and given that these are non-rated bonds, it's my understanding that the prior underwriter had -- has extra procedural hoops on non-rated transactions, and they stepped aside.

CHAIR McCOY: Any other questions?

(No response.)

MR. FRAMPTON: Okay. Thank you.

CHAIR McCOY: Thank you.

I would like to request a motion then to recommend for approval of the following New Business Items: 1, 2, 3, 4A, 4B, and 5. Is there such a motion?

MEMBER HOBERT: So moved.

MEMBER GOETZ: Second.

CHAIR McCOY: Moved by Hobert, second by Mr. Goetz.

Will the Assistant Secretary please call the roll.

MR. MOSS: On the motion and second, I will call the roll.

Member Fuentes?

MEMBER FUENTES: Yes.

MR. MOSS: Member Goetz?

MEMBER GOETZ: Yes.

MR. MOSS: Member Hobert?

MEMBER HOBERT: Yes.

MR. MOSS: Member Juracek?

MEMBER JURACEK: Yes.

MR. MOSS: Member Zeller?

MEMBER ZELLER: Yes.

MR. MOSS: And Committee Chair McCoy?

CHAIR McCOY: Yes.

MR. MOSS: Chair McCoy, the motion carries.

CHAIR McCOY: Thank you very much.

Is there any other business to come before the Committee?

(No response.)

Hearing none, is there any public comment to come before the Committee?

(No response.)

Hearing none, I would like to request a motion to adjourn. Is there such a motion?

MEMBER ZELLER: So moved.

MEMBER GOETZ: Second.

CHAIR McCOY: Mr. Zeller, and second was Mr. Goetz.

All those in favor?

(A chorus of ayes.)

All those opposed?

(No response.)

The ayes have it. It's a wrap.

MR. FLETCHER: The time is 9:03 a.m.

(WHEREUPON, which were all the proceedings had in the above entitled cause.)

(Off the record at 9:03 a.m.)

REPORTER CERTIFICATION

I, JO ANN LOSOYA, a Certified Shorthand Reporter of the State of Illinois, do hereby certify that I reported in shorthand the proceedings had at the hearing aforesaid, and that the foregoing is a true, complete and correct transcript of the proceedings of said meeting as appears from my stenographic notes so taken and transcribed under my personal direction.

IN WITNESS WHEREOF, I do hereunto set my hand at Chicago, Illinois, this June 3, 2020.

JO ANN LOSOYA
C.S.R. No. 084-002437