

1 ILLINOIS FINANCE AUTHORITY
2 SPECIAL MEETING OF THE DIRECT AND ALTERNATIVE
3 COMMITTEE MEMBERS
4 August 8th, 2016, at 10:33 a.m.
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8 Report of Proceedings had at the Special Meeting of the
9 Direct and Alternative Committee of the Illinois Finance
10 Authority on August 8th, 2016, at the hour of 10:30 a.m.,
11 pursuant to notice, at 160 North LaSalle Street, Suite
12 S1000, Chicago, Illinois.
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1 APPEARANCE:
2 COMMITTEE MEMBERS

3 MR. LERRY KNOX, Chairman (Via audio conference)
MR. ERIC ANDERBERG (Via audio conference)
4 MR. JAMES J. FUENTES (Via audio conference)
MS. ARLENE JURACEK
5 MR. ROGER POOLE (Via audio conference)
MR. LYLE McCOY
6 MR. R. ROBERT FUNDERBURG, Ex-Offi c i o (Via audio
conference)

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8 ILLINOIS FINANCE AUTHORITY STAFF MEMBERS

9 MR. BRAD FLETCHER, Assistant Vice-President
MS. ELIZABETH WEBER, General Counsel
10 MR. CHRISTOPHER B. MEISTER, Executive Director
MR. PATRICK EVANS, Agricultural Banker
11 MS. DENISE BURN, Deputy General Counsel

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13 FINANCIAL ADVISORS

14 MS. MELANIE SHAKER
MS. PHOEBE SELDEN

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16 GUEST

17 MR. PETER MATUSZAK

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1 CHAIRMAN KNOX: Then what I would like do is go
2 ahead and call the meeting to order. Will the
3 Assistant Secretary please call the roll?

4 FLETCHER: Certainly. The time is 10:33 a.m.
5 I will call the roll. Mr. Anderberg?

6 MR. ANDERBERG: Here.

7 FLETCHER: Mr. Fuentes?
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8 FUENTES: Here.
9 FLETCHER: Ms. Juracek?
10 JURACEK: Here.
11 FLETCHER: Mr. McCoy?
12 McCOY: Here.
13 FLETCHER: Mr. Pool e?
14 POOLE: Here.
15 FLETCHER: Mr. Zeller?
16 ZELLER: Here.
17 FLETCHER: Chair man Knox?
18 CHAIRMAN KNOX: Here.
19 FLETCHER: And Mr. Funderburg, ex-offi ci o
20 non-voti ng?
21 FUNDERBURG: Here.
22 FLETCHER: Mr. Commi ttee Chair man, a quorum of
23 Commi ttee Members has been consti tuted.
24 CHAIRMAN KNOX: Wonderful. Thank you. Then
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1 what I would like to do then is proceed with the
2 agenda, and the first would be review and adoption
3 of the meeting minutes from June 8th of this year.
4 Does anyone wish to make any addi ti ons,
5 edi ts, correcti on of the mi nutes from June 8th, of
6 2016? Hearing none, I would like to request a
7 moti on to approve the mi nutes. Is there such a
8 moti on?
9 JURACEK: So moved.
10 McCOY: Second.
11 FLETCHER: Moved by --

12 CHAIRMAN KNOX: All those in favor -- I'm
13 sorry. Go ahead.

14 FLETCHER: Sorry. Moved by Ms. Juracek and
15 seconded by Mr. McCoy.

16 CHAIRMAN KNOX: All those in favor?
17 (A chorus of ayes.)

18 CHAIRMAN KNOX: The ayes have it. What I would
19 like to do next is go to the Presentation and
20 Consideration of the Project Reports. What I would
21 like to ask is for the general consent of Members to
22 consider the Project Reports and Resolutions
23 collectively, and have the subsequent recorded vote
24 apply to each respective and Individual Project and
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1 Resolutions, unless there are any specific Project
2 Reports or Resolutions that a Member would like to
3 consider separately.

4 Hearing none, I would like to ask the
5 staff to present the Project Reports and Resolutions
6 which would be considered correctly. Mr. Fletcher,
7 please proceed.

8 FLETCHER: Thank you, Mr. Chairman. Mr.
9 Chairman, Committee Members, the first project,
10 which is tab No. 4 in your Board book, is an
11 authorizing resolution on behalf of IEPA State
12 Revolving Fund to issue tax-exempt bonds in a
13 not-to-exceed amount of \$600,000,000.

14 Over the last several months, we requested
15 your approval for various engagements, including
16 underwriters, co-managers, Bound Counsel and

17 Issuer's Counsel, culminating in this transaction
18 before us today.

19 Each state, including Illinois, has a
20 State Revolving Fund whereby it makes revolving
21 loans to municipal local governments for United
22 States EPA eligible capital projects relate to clean
23 waste water and safe drinking water.

24 Under each program, the USEPA provides
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1 capitalization grants to the states. In this case,
2 to the Illinois EPA to capitalize the State
3 Revolving Loan Programs.

4 The Illinois EPA then lends out the grant
5 money to units of local government for their water
6 infrastructure needs. Repayment of loan principal
7 and interest earnings are then recycled back into
8 the programs to finance new projects; hence, the
9 revolving aspect.

10 In Illinois, the EPA assigned each loan a
11 fixed-interest rate as set forth by the Joint
12 Commission on Administrative Rules, otherwise known
13 JCAR. Currently, the IEPA's Clean Water Revolving
14 Loan Program is 1.75 percent, while the Drinking
15 Water Revolving Loan Program rate is 1.86 rate.

16 The variance in interest rates between the
17 two programs is because the Clean Water Program is
18 currently set at a rate equal to 50 percent of the
19 mean of The Bond Buyer's 20 bond index for the
20 previous state fiscal year, which is July 1st to

21 June 20th.

22 While the safe drinking water program is
23 currently set at a rate equal to 50 percent of the
24 mean interest rate for The Bond Buyer's 20 bond

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1 index for the previous federal fiscal year. The
2 federal fiscal year, of course, is October 1st to
3 September 30th.

4 Some Members on the phone may recall from
5 2013 when we issued bonds for IEPA, both programs
6 had the same low fixed interest rate. Since then,
7 JCAR approved IEPA changing that interest rate for
8 the Clean Water Program to align with the state
9 fiscal year, instead of the federal fiscal year.

10 However, JCAR has not done so yet on the
11 Safe Drinking Water Program Rules. Nevertheless,
12 this low interest rate induces demand and allows
13 IEPA to effectively make loans within the required
14 spend-down requirement time frame under federal law.

15 Additionally, these low interest rates
16 incentivize highly-rated borrowers to also
17 participate in the Revolving Loan Programs, such as
18 the Metropolitan Reclamation District of Greater
19 Chicago, which provides waste water management for
20 roughly 50 percent of the State's population.

21 So in order for IEPA to receive these
22 federal capitalization grant monies, and make loans
23 at these very low interest rates, USEPA requires
24 each state to cover a 20-percent state match.

1 As was the case in 2013, the 20 percent
 2 state match will be funded with bond proceeds.
 3 Specifically, the 2016 bond proceeds will cover the
 4 Clean Water Program state match for federal fiscal
 5 years 2016 and 2017. So for two years.

6 While for the Safe Drinking Water Program,
 7 the 20-percent state match funding with bond
 8 proceeds will cover three years, fiscal years 2015,
 9 2016 and 2017. Because bond proceeds are funding
 10 the 2017 percent -- excuse me, 2017 state match in
 11 advance, another \$95,000,000 in federal of grants
 12 will be leveraged within the next 24 months.

13 Therefore, the \$500,000,000 to
 14 \$600,000,000 proposed bond transaction, with an
 15 initial federal match of approximately \$130,000,000,
 16 as well as \$200,000,000 in current loan repayments,
 17 and \$75,000,000 in Illinois EPA funds on hand,
 18 brings to about \$1,000,000,000 in the amount
 19 available for loans.

20 This aligns with what IEPA currently has
 21 in its loan pipeline, approximately \$1.2 billion in
 22 loan applications under review. 70 percent or
 23 \$840,000,000 in clean water applications, and
 24 30 percent, or \$360,000,000, in drinking water

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1 applications.

2 In 2013, a new master trust agreement was

3 drafted. That will remain in place for this
4 transaction and be supplemented. That is to say,
5 the underlying pledged loan agreements under 2013
6 master trust agreement will be pledged as repayment
7 on the 2016 bonds.

8 As a result, the proposed Series 2016
9 bonds, and the existing outstanding 2013 bonds, will
10 be on parity. Accordingly, the SRF cash model will
11 have strong cash flow and coverage ratios because a
12 substantial sum of the current \$3.15 billion in
13 loans will be pledged to the bonds.

14 The bonds are additionally secured by
15 funds on deposit in the master trust agreement
16 equity fund. As a result of these strong cash flows
17 and coverage ratios, and in addition to the strength
18 of the underlying securities, which are GO pledges
19 or alternate revenue bond pledges, the proposed bond
20 transaction is expected to be rated by AAA by both
21 S&P and Fitch. The authorizing resolution before
22 you provides a not-to-exceed maturity of 30 years
23 for the proposed bonds, which will likely be issued
24 with serial maturities.

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1 I looked this morning at recent AAA deals
2 in the market. It shows interest rates at just
3 below 3 percent on 30-year paper. This past Friday,
4 IEPA and IFA gave its rating presentations, and
5 public ratings are expected to be received before
6 the preliminary offering statement is posted the
7 week of August 15th.

8 Upon final pricing, the transaction is
9 expected to close the first week of September.
10 Right? Bank of America Merrill Lynch is the senior
11 manager, and Citi is the co-senior manager
12 underwriting the deal.

13 Page 8 of the report before you provides a
14 comprehensive list of the various co-managers and
15 other transaction participants as well. Finally,
16 the authorizing resolution before you also provides
17 for execution of a second amendment to the existing
18 memorandum of agreement between IFA and IEPA. Under
19 the existing MOA, IEPA pays on an annual basis a fee
20 to IFA for engaging a firm to fill the arbitrage
21 rebate calculations, posting continuing disclosure
22 documents on EMMA, reconciling monthly trust
23 statements with the trustee and the Comptroller's
24 Office, and on potentially managing investments of
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1 trustee held funds for the transaction.

2 The second amendment will namely
3 accomplish two things. First, it will provide that
4 the annual fee will be potentially more than in
5 prior years, but that is still under negotiation.

6 MEISTER: Well, I think that we've had some
7 conversations with the IEPA Director on that point
8 in recent days.

9 FLETCHER: And second, stipulates that IEPA
10 will provide a certificate to IFA when a pledged
11 loan is: One, written down; two, forgiven; or

12 three, replaced in a pledge pool. Previously, IEPA
13 only provided a certificate to IFA when a loan paid
14 off.

15 So what this is, this is a play on the
16 numbers. If you take a pool of \$3,000,000,000, and
17 with an interest rate of 2 percent, that's
18 \$60,000,000 in interest being paid into the program.
19 While you are borrowing \$500,000,000 at, let's say,
20 4 percent, that's \$20,000,000 in interest being paid
21 out.

22 So the numbers work. This is a leveraged
23 structured transaction. I can take any questions on
24 the phone or from Lyle.

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1 MEISTER: And General Counsel Weber has a
2 statement to make quickly.

3 WEBER: Please let the record note that Mayor
4 Juracek left the room at 10:37. She's Mayor of
5 Mount Prospect and some of the existing pledge loans
6 we believe may include debt from Mount Prospect. So
7 she left the room to abstain.

8 FLETCHER: And at 10:37 a.m. was before I began
9 my presentation. So are there any questions from
10 any of the Members regarding the State Revolving
11 Fund? Okay, thank you.

12 MEISTER: General Counsel Weber, how should we
13 deal with the vote on that since that was an
14 unexpected absence rather than the --

15 FLETCHER: Take three votes. There is only
16 three projects.

17 MEISTER: Okay.

18 WEBER: Right.

19 FLETCHER: So, Lerry, we're going to recommend
20 that we just take three individual's votes. It's a
21 short agenda.

22 CHAIRMAN KNOX: Okay. I'm fine with that. Do
23 we want to wait until the end, or do we want to take
24 a vote on the first project while the Mayor is out

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1 of the room?

2 MEISTER: Let's take a vote on the first
3 project.

4 CHAIRMAN KNOX: Okay. Mr. Fletcher, if you
5 could do the roll.

6 FLETCHER: First, we'll need a motion to
7 recommend approval.

8 ANDERBERG: So moved.

9 FLETCHER: And who moved?

10 ANDERBERG: Anderberg, Eric.

11 FLETCHER: Second?

12 ZELLER: Second.

13 FLETCHER: On the motion by Mr. Anderberg and
14 the second by Mr. Zeller, I'll call the roll. Mr.
15 Anderberg?

16 ANDERBERG: Yes.

17 FLETCHER: Mr. Fuentes?

18 FUENTES: Yes.

19 FLETCHER: Ms. Juracek left the room.
20 Mr. McCoy?

21 McCOY: Yes.
22 FLETCHER: Mr. Pool e?
23 POOLE: Yes.
24 FLETCHER: Mr. Zeller?
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1 ZELLER: Yes.
2 FLETCHER: And Chairman Knox?
3 CHAIRMAN KNOX: Yes.
4 FLETCHER: Chairman Knox, the motion carries.
5 CHAIRMAN KNOX: Thank you. We'll wait. I
6 assume Mayor Juracek will be back for the remaining
7 items.
8 WEBER: Yes. I think Chris just went to get
9 her.
10 CHAIRMAN KNOX: Okay.
11 JURACEK: I apologize. Our commitment to the
12 program is apparently so tiny and so old, it was not
13 on my radar.
14 FLETCHER: So we will let the record reflect
15 that Mayor Juracek has returned to the Committee
16 Meeting at 10:44 a.m.
17 CHAIRMAN KNOX: Very well. Thank you. Are we
18 ready to proceed to item No. 2?
19 EVANS: Yes. Today -- this is Patrick Evans.
20 Today, I'll discuss the loan guarantee of Mark and
21 Karen Donoho and People's State Bank request to
22 defer the combined principal and interest payment
23 due June 11th, 2016, to November 11th, 2016.
24 This request relates to a 2009 IFA

1 agri-credit restructured guaranteed loan. Upon
 2 approval of this request, IFA will require the bank
 3 to waive the payment default associated with the
 4 past due of the June 11th, 2016, payment, and any
 5 other events in default, under the promissory note
 6 between the bank and the borrower.

7 Currently, the balance is \$425,000,
 8 approximately, and exposure -- IFA exposure is
 9 \$361,000. The financial statements located on page
 10 5 and 6 of the -- and 7 of the writeup reflects a
 11 leverage operation, especially after the assets of
 12 the current appraisals are adjusted permanently.

13 The entity reflects a negative net worth
 14 -- a negative working capital. The cash flow also
 15 supports this with reflecting inadequate funds to
 16 service debt. However, the collateral reflects that
 17 we have a first position, and that on page 9 of the
 18 writeup reflects very conservative approach to
 19 analyzing the collateral.

20 I've considered the homestead exemption
 21 for the two adults and the unpaid interest through
 22 November 11th on this. You can see the analysis on
 23 page 11 -- on page 10 of the writeup, by
 24 deferring -- my conclusion is by deferring the

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1 combined principal and interest payment due
 2 June 11th to November 11th, 2016, the bank will

3 defer potential demand on IFA 85-percent guarantee
4 for which a bank must absorb that initial
5 15 percent.

6 The bank will also have additional time to
7 assess the situation. Ultimately, propose a
8 suitable forbearance, re-structural or distribution
9 of assets. This will provide IFA more time to
10 assess the situation to optimize the ultimate
11 result.

12 Also, by deferring this to November 11th,
13 the borrower should have his crops out and can be
14 converted to cash for payment. I recommend the
15 resolution be approved. Any questions?

16 JURACEK: Just a brief point.

17 CHAIRMAN KNOX: Hearing none, is there a
18 motion?

19 FLETCHER: Lerry, Mayor Juracek had a question.

20 JURACEK: Lerry, just a quick question.

21 CHAIRMAN KNOX: Mayor Juracek, sure.

22 JURACEK: You're waiting for the crops to come
23 in and get cash payments on those crops, so that's
24 sufficient cash to meet its short-term obligations,

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1 as well as make this payment?

2 EVANS: By his cash flow he submitted, we hope
3 so. It's a great year for corn, the production,
4 depending upon the price will have a big influence
5 on the payment.

6 JURACEK: Okay, thanks.

7 EVANS: Any motion?

8 POOLE: Where is he -- could I ask a question?
9 Where is he going again with this after he's cleared
10 on the -- if we grant him the deal?

11 EVANS: He hopes to get the payments made. You
12 know, People's State Bank is hoping that he will
13 make the payments. And then depending upon the
14 alternatives that you may see on page 10 in the last
15 paragraph, they anticipate possibly restructuring
16 his payment until March where he has adequate time
17 to harvest and market the grain appropriately.

18 POOLE: Okay. You know -- okay. I understand
19 now. I was looking at his financial thing. He
20 needs some help big time, don't he?

21 EVANS: Yes. If you look at from his cash
22 perspective, there is a lot of inconsistency.
23 That's due to the change in prices and the cash
24 basis of accounting in which he prepays and defers

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1 payment year to year, but his operation is very
2 tight, if not inadequate to make payments.

3 POOLE: It looks that way, yeah. Okay. Well,
4 I hope he does good on his crops.

5 EVANS: I do, too.

6 POOLE: We're in trouble if he don't.

7 EVANS: But we are perceived to be adequately
8 secured by current appraisal of May the 25th.

9 POOLE: Okay.

10 EVANS: Anymore questions or motions?

11 POOLE: We should approve it, I guess. I

12 recommend it to the Committee, the whole Committee.

13 FLETCHER: Is there a second?

14 McCOY: Second.

15 FLETCHER: Okay. Roger moved and Mr. McCoy

16 seconded it. All those in favor?

17 (A chorus of ayes.)

18 FLETCHER: Opposed?

19 (No response.)

20 FLETCHER: The ayes have it.

21 CHAIRMAN KNOX: No roll call vote for that one?

22 We can do it with ayes?

23 FLETCHER: We can do a roll call vote since

24 Mayor Juracek has returned. So on the motion and

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1 second, I'll call the roll. Mr. Anderberg?

2 ANDERBERG: Yes.

3 FLETCHER: Mr. Fuentes?

4 FUENTES: Yes.

5 FLETCHER: Ms. Juracek?

6 JURACEK: Yes.

7 FLETCHER: Mr. McCoy?

8 McCOY: Yes.

9 FLETCHER: Mr. Poole?

10 POOLE: Yes.

11 FLETCHER: Mr. Zeller?

12 ZELLER: Yes.

13 FLETCHER: And Chairman Knox?

14 CHAIRMAN KNOX: Yes.

15 FLETCHER: Chairman Knox, the motion carries.

16 CHAIRMAN KNOX: Thank you. Let's proceed to

17 item No. 3, General Counsel Weber.

18 WEBER: Yes, thank you. The Authority, as
19 successor to the Illinois Development Finance
20 Authority, otherwise referred to as IDFA, is a party
21 to a legacy loan agreement entered into by IDFA in
22 1986 with the City of Chicago.

23 IDFA obtained funds to a loan to Chicago
24 from appropriations by the General Assembly. Under

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1 the loan agreement, Chicago is obligated to finance
2 a series of zero-interest loans used to rehabilitate
3 multifamily housing for persons of low and moderate
4 income.

5 The final payment under the loan agreement
6 was to have been made by Chicago on August 1st,
7 2016, in the amount of \$3,000,000. Despite repeated
8 communications with the city regarding this payment,
9 and despite the fact that the city had periodically
10 confirmed this payment in late July, the city
11 contacted the Authority to request that the due date
12 be extended.

13 The city stated there was a shortfall on
14 funds established for the program, and that their
15 recordkeeping of the various funds was in disarray
16 after several successive computer system changes
17 over the years.

18 A first amendment was prepared and
19 executed to provide a six-month extension. The
20 first amendment also requires the city to provide

21 the Authority with a report setting forth, with
22 reasonable specificity, an accounting for the
23 payment history of the loan and the use of funds
24 disbursed.

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1 This report is important to the Authority
2 so that the Authority may properly account for these
3 funds. Any repayments of this loan are held by the
4 Authority in a separate fund. Due to the source of
5 funds for this program, which is appropriations from
6 the General Assembly, it's likely that repayments
7 received from Chicago will need to be used for the
8 same or similar purposes; i.e., further loans to
9 Chicago for loans for multi family housing for
10 persons of low and moderate income.

11 I recommend that the Committee approve,
12 confirm the execution and delivery of this first
13 amendment. Any questions?

14 CHAIRMAN KNOX: Hearing none, is there a
15 motion?

16 JURACEK: So moved.

17 McCOY: Second.

18 FLETCHER: On the motion by Ms. Juracek and the
19 second by Mr. McCoy, I'll call the roll.

20 Mr. Anderberg?

21 ANDERBERG: Yes.

22 FLETCHER: Mr. Fuentes?

23 FUENTES: Yes.

24 FLETCHER: Ms. Juracek?

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1 JURACEK: Yes.

2 FLETCHER: Mr. McCoy?

3 McCOY: Yes.

4 FLETCHER: Mr. Pool e?

5 POOLE: Yes.

6 FLETCHER: Mr. Zeller?

7 ZELLER: Yes.

8 FLETCHER: And Chair man Knox?

9 CHAIRMAN KNOX: Yes.

10 FLETCHER: Chair man Knox, the moti on carries.

11 CHAIRMAN KNOX: Is there any other business to

12 come before the Members and the Commi ttee? Hearing

13 none, is there any public comment for the commi ttee?

14 Hearing none, I would like to request a

15 moti on to adjourn. Is there such moti on?

16 ZELLER: So moved.

17 CHAIRMAN KNOX: Is there a second?

18 McCOY: Second.

19 CHAIRMAN KNOX: All those in favor?

20 (A chorus of ayes.)

21 CHAIRMAN KNOX: The ayes have it. Thank you

22 for your time and your service. We'll meet on

23 Thursday for the full IFA Board Meeting. Thank you

24 everyone.

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1 FLETCHER: The time is 10:54 a.m.

2 (WHICH WERE ALL THE PROCEEDINGS HAD AT 10:54 a.m.)

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

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4 PAMELA A. MARZULLO, C. S. R., being first duly sworn,
5 says that she is a court reporter doing business in the city
6 of Chicago; that she reported in shorthand the proceedings
7 had at the Proceedings of said cause; that the foregoing is

8 a true and correct transcript of her shorthand notes, so
9 taken as aforesaid, and contains all the proceedings of said
10 meeting.

11

PAMELA A. MARZULLO
License No. 084-001624

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