ILLINOIS FINANCE AUTHORITY

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From: Chris Meister, Executive Director

Subject: ***Message from the Executive Director***

Dear Member of the Authority:

An Update on Climate Finance and Environmental-Social-Governance ("ESG")

On March 21, 2022, the United States Securities and Exchange Commission ("SEC"):

> "... proposed rule changes that would require registrants to include certain climate-related disclosures in their registration statements and periodic reports, including information about climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements. The required information about climate-related risks also would include a disclosure of the registrant's greenhouse gas emissions ("GHG"), which have become a commonly used metric to assess a registrant's exposure to such risks." SEC Release 2022-46

The proposed SEC rules are wide-ranging, lengthy (510 pages), and not without controversy (which we will leave to others).

Two items in the proposed SEC rules are of direct interest to the Authority. First, GHG, regulated through the United States Environmental Protection Agency ("USEPA"), are referenced 906 times in the 510 page SEC document. The measurement, quantification, monitoring and verification of GHG benefits are of particular importance to the federal funding opportunity available to Illinois through the United States Department of Agriculture ("USDA") addressed in agenda item number 7 in partnership with the Illinois Department of Agriculture.

Second, in the disclosure context, the SEC extensively highlighted ESG (referenced 99 times) as well as green or sustainable financing. Of particular note in the SEC document is the December 1, 2021 paper by Shirley Lu of Harvard Business School: "*The Green Bonding Hypothesis: How* *do Green Bonds Enhance the Credibility of Environmental Commitments?*[1]*"* Among Professor Lu's findings was when a municipal borrower "issues green bonds, the issuer experiences a reduction in financing costs for both traditional and green bonds issued on the same day, consistent with green bonds being an environmental commitment for an entity, rather than a security-level commitment.*"* Lu, S., *The Green Bonding Hypothesis.*

As recently as the past week, a market participant noted that promoting ESG designation in a conduit borrower's presentation "is wise as it can help a deal stand out in a rockier market.[2]" The chief executive officer of this conduit borrower, SSM, stated: "I hope it is self-evident how our mission, strategies and goals naturally lead to an environmental, social and governance focus[3]." As the Members know, this is consistent with the Authority's experience in pricing our Series 2019 and 2020 green-designated State Revolving Fund/Clean Water Initiative ("SRF/CWI") bonds on behalf of the Illinois Environmental Protection Agency ("IEPA").

Given their long-recognized positive financial and social benefits, federally tax-exempt conduit bonds can be viewed as natural ESG bonds. Time will tell whether this view gains wider acceptance among market participants. Nonetheless, the Authority looks forward to continuing to play its role within the large and fast-developing climate-finance/ESG/green/sustainable finance sector[4].

Heightened Muni Market Volatility Continues Unabated

Last month's theme of market volatility has continued into April.

The following quote from Mr. Peter Block, managing director of credit strategy at Ramirez & Co., aptly summarizes the current state of the municipal market as cited in **The Bond Buyer's** April 5, 2022, article ***"Munis vastly outperform a UST selloff"***: *"Munis are as fragile as ever on fixed income market turmoil, resulting in a continued avalanche of fund outflows, selling pressure, and constrained market liquidity."* This has been further evidenced by market access challenges experienced by many weaker credit borrowers (including non-rated borrowers).

The Authority aims to assure that our universe of conduit bond borrowers attain their objectives of (i) taking advantage of current market interest rates to restructure and streamline their outstanding debt and to issue new debt as quickly as reasonably possible; (ii) maximizing potential marketing time in advance of bond pricing; and, (iii) assuring the IFA Bond Resolution provides

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[1] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3898909

[2] Bond Buyer, *"SSM Health shines light on finances, ESG as it readies deal,"* Yvette Shields, April 6, 2022.

[3] Laura Kaiser, SSM CEO, Bond Buyer, Shields, Y., April 6, 2022.

[4] SEC Proposed Climate-Related Disclosure Rules, March 21, 2022; Federal Financial Stability Oversight Council-Report on Climate-Related Risk, 2021; 2021 SEC work under Acting SEC Chair Lee; Illinois Climate and Equitable Jobs Act, P.A. 102-0662, September 15, 2021; *Managing Climate Risk in the U.S. Financial System: Report of the Climate-Related Market Risk Subcommittee, Market Risk Advisory Committee of the U.S. Commodity Futures Trading Commission,* September 9, 2020; Illinois Finance Authority: *Climate Process,* February 11, 2020; Series 2019 and 2020, SRF/CWI green bonds; Commercial Property Assessed Clean Energy ("C-PACE") 2018 – present; Larry Fink, Blackrock, *A Fundamental Reshaping of Finance,* Letter to CEOs, January 2020; Task Force on Climate-Related Financial Disclosures ("TCFD"), 2015.

maximum "optionality" regarding the scope of their proposed bond issue (subject to bond counsel guidance) thereby enabling each borrower to optimally size and structure their bond issue based on market conditions at pricing.

While the Authority anticipates demand from refundings to continue in the upcoming year in advance of anticipated interest rate increases, the Authority has also financed several new-to-IFA tax-exempt borrowers over the past year, including, notably, the Howard Brown Health Center, a first-time conduit bond borrower featured on today's agenda and discussed further below.

Although the Tax Cuts and Jobs Act (through the reduction of the federal corporate tax rate from 35% to 21%) has essentially eliminated IFA's new money bond issues for conduit projects of less than $10 million since January 1, 2018, it is encouraging that the Authority has issued conduit bonds for several new, first-time tax-exempt borrowers over the past year. Sub-$10 million bond sizing has been the prevailing historical norm for most of the Authority's first-time tax-exempt borrowers.

Today's project agenda features the following borrowers:

- ***Lake Forest College:*** Lake Forest College returns to the Authority to request a Final Bond Resolution of not-to-exceed $50,000,000. The IFA Bond Resolution authorizes the following: (1) prospectively refunding 100% of the College's outstanding IFA Bonds from 2008, 2012, and 2014 while also (2) authorizing up to $17,000,000 of New Money Bonds that would be used to finance substantial renovations at several campus buildings, including several College on-campus residence hall facilities. Although the Bond Resolution authorizes the above parameters regarding the scope of the proposed financing, it is possible that depending on market conditions, Lake Forest College may elect to undertake only a portion of the scope of refunding bonds and new money bonds authorized by today's Bond Resolution. As of Fall 2021, Lake Forest College served 1,690 students.

- ***Howard Brown Health Center:*** Howard Brown Health Center ("Howard Brown Health" or "HBHC") is seeking approval of a Final Bond Resolution authorizing the issuance of up to $47,000,000 of tax-exempt bonds. The IFA Bond Resolution authorizes the following: (1) paying for and/or reimbursing Howard Brown Health for a portion of the costs of acquisition, construction, and equipping of an approximately 73,000 square foot, five-story medical and office building at 3501 North Halsted Street in Chicago; (2) refinancing certain indebtedness in connection with its primary care facility located at 6500 North Clark Street in Chicago. Howard Brown Health has been a nationally recognized leader in developing medical treatments and providing medical, dental, and social services to the LGTBQ community across Chicago.

  The Series 2022 Bonds will be purchased by Wintrust as the direct lender/investor. As cited earlier, Howard Brown Health is a first-time conduit tax-exempt bond borrower.

- ***Westminster Village, Inc.:*** The Authority is pleased to welcome back Westminster Village, Inc. ("Westminster Village"), which operates a Bloomington-based continuing care retirement community campus. Westminster Village is seeking approval of a Final Bond Resolution authorizing the issuance of up to $37,500,000 of IFA Bonds. The IFA Bond Resolution authorizes the following: (1) paying or reimbursing the costs of acquiring, constructing, renovating, remodeling and equipping improvements at the Westminster Village community in Bloomington, and (2) refunding all or a portion of Westminster Village's outstanding IFA Series 2018B and Series 2018C Bonds, which are currently outstanding in the aggregate principal amount of approximately $28,317,000.

Resolutions - Amendments: In addition to the new bond issues, today's agenda also includes three Resolutions that will authorize and approve various amendments or consents regarding outstanding conduit bond issues for the following borrowers: (1) CenterPoint Joliet Terminal Railroad LLC, (2) The Lodge of Northbrook, Inc., and (3) Daniel N. Feucht (a conduit Beginning Farmer Bond financing).

Congratulations on Senate Confirmation

By a unanimous vote, the Illinois Senate confirmed Governor Pritzker's appointment of Tim Ryan as an Authority Member on March 28, 2022. We appreciate your decision to volunteer your time to advance the economic development and climate finance priorities of our State.

/s/

Chris Meister
Executive Director