ILLINOIS FINANCE AUTHORITY

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Date: December 8, 2020

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From: Christopher B. Meister, Executive Director

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

Dear Member of the Authority:

Annual Appointment of the Executive Director

Since 2009, the Authority has been considering the appointment of its Executive Director each year at its December meeting. With respect to this matter, the Illinois Finance Authority Act states:

> From nominations received from the Governor, the members of the Authority shall appoint an Executive Director who shall be a person knowledgeable in the areas of financial markets and instruments, to hold office for a one-year term. The Executive Director shall be the chief administrative and operational officer of the Authority and shall direct and supervise its administrative affairs and general management and perform such other duties as may be prescribed from time to time by the members and shall receive compensation fixed by the Authority. The Executive Director or any committee of members may carry out such responsibilities of the members as the members by resolution may delegate.
>
> 20 ILCS 3501/801-15

Since 2016, matters relating to the selection, evaluation and compensation of the Executive Director have been the jurisdiction of the Authority's Executive Committee.

The Members of the Authority, in Resolution No. 2016-0310-AD07, set forth the following factors and goals to be considered for evaluation of the Executive Director particularly as it relates to increased compensation in the form of bonus payments:

1. Compliance with all laws and policies;
2. Overall Authority performance relative to financial and operational condition including budget, asset quality, growth opportunities, job creation, taxpayer savings, market access, etc.;
3. Staff development, team building and training;
4. Administration objectives and initiatives; and
5. Ongoing Board objectives and directives.

Pursuant to Resolution No. 2016-0310-AD07, these factors are meant to be considered individually as well as collectively in evaluating performance and bonus potential. They are meant to be guidelines and are not the only measures that could be used.

December Agenda

COVID-19 has posed a particular challenge to higher education in general and public higher education in particular. Generally, the Authority issues bonds on behalf of not-for-profit institutions of higher education as public universities may issue bonds on their own under state law. However, the Authority has long played a catalytic role with respect to student housing and other complementary projects that are developed, owned and operated by not-for-profit borrowers on or near the campuses of Illinois public universities. In addition to the federal tax-exemption, the primary advantage of this structure is expedited project delivery. This month, the Authority is pleased to play a constructive role with respect to the conduit bond-financed projects of ***The McKinley Foundation at the University of Illinois*** (serving the Urbana-Champaign campus) and ***CHF–Chicago, L.L.C.-University of Illinois at Chicago Project***.

In addition, the Authority will consider an amendment with respect to ***SwedishAmerican Hospital*** in Rockford. With respect to the Authority's developing product and market for Property Assessed Clean Energy ("PACE") financing, adding ***Petros PACE Finance Titling Trust*** as a qualified capital provider is under consideration as well.

Finally, the Authority will consider the resolution of intent requesting an ***Initial Allocation of Private Activity Volume Cap*** from the Governor's Office of Management and Budget ("GOMB"). Volume Cap is a federal economic resource, created by the federal tax law, that is necessary to support a federally tax-exempt conduit bond issued on behalf of projects owned and operated, for example by an individual (*e.g.*, a Beginning Farmer Bond) or a private company (*e.g.*, an industrial revenue bond). Under federal tax law, Volume Cap is allocated by a dollar-based formula on a per capita basis to each state. In Illinois, the Volume Cap allocation is divided between the State and municipal issuers, including constitutional home-rule units of local government. The Authority, along with other issuers, must seek an allocation of Volume Cap from the GOMB through an application process.

Authority Accomplishments of the Past Twelve Months

Despite the extraordinary challenge posed by COVID-19, Calendar Year 2020 has been productive and successful for the Authority. We are proud to highlight a few of the Authority's many accomplishments:

1) Shift to Remote-Work because of COVID-19

On March 15, 2020, the Authority moved to full "remote/work from home" operations due to the spread of the COVID-19 global pandemic. On March 20, 2020, Governor Pritzker issued Executive Order 2020-10 requiring all Illinoisans to stay in their homes to prevent the further spread of COVID-19. Numerous additional orders, directives and suggestions followed. In addition, the second half of March 2020 saw disruption in the municipal capital markets, including those sectors served by the Authority, until the federal government took decisive action.

COVID-19 and the resultant series of orders from Governor Pritzker challenged the ability of the Members of the Authority to meet in person, as had been the Authority's longstanding practice pursuant to State law. As a result of this uncertainty, along with the disruption in the municipal capital markets, the Authority cancelled its April 14, 2020 regular scheduled meeting. Ultimately, outside bond counsel approved of remote meeting language incorporated into Governor Pritzker's series of executive orders with respect to COVID-19. On May 12, 2020, the Authority held its first remote meeting of its Members. In June 2020, State law was clarified with respect to remote meetings as well. As of this date, the Authority has successfully held seven remote meetings of its Members, on the dates of the regularly scheduled meetings, the second Tuesday of each month. As a result, the Authority has continued to fulfill its public mission by executing and closing conduit bond transactions, generating revenue, and conducting ongoing organizational operations while Authority staff works remotely from home.

2) Integration of the Senate Bill 1300 lending into Authority Operations

Senate Bill 1300 ("SB 1300") was enacted into law as Public Act 101-0610 with an effective date of January 1, 2020. SB 1300 creates two new investment funds: the Police Officers' Pension Investment Fund and the Firefighters' Pension Investment Fund (the "Funds"). Through the creation of the Funds, and the consolidation of the $14.2 billion of associated pension assets, the downstate and suburban police and fire pension investment fund system will go from 650 investment portfolios to two. The Funds will take material steps to ensure the retirement security of Illinois local first responders by increasing investment returns in a prudent manner. In doing so, the Funds should reduce the future burden on hard-pressed Illinois property taxpayers.

The Authority plays a critical role in start-up and the consolidation of the Funds. SB 1300 authorizes the Authority to lend, and each of two funds to borrow, up to $7.5 million in capital to be used for start-up expenses. As of this date, the Authority has loaned a combined amount of $1,855,000 to the Funds. Given our broad statutory mandate and our tools that can have direct, material financial benefit to borrowers, the Authority is fortunate to have played a critical role with respect to projects, large and small, in the healthcare, educational, cultural, housing, water, industrial, agricultural and local government sectors. However, involvement with this effort, initiated and led by Governor Pritzker and Deputy Governor Dan Hynes, may be the single most consequential action taken by the Authority over a 12-month period since its creation in January of 2004.

The Authority's organizational and financial capacity to play its role with respect to development and implementation of SB 1300 was made possible by two Authority decisions. First, the Authority's intentional, lengthy and ultimately successful decisions to de-leverage its balance sheet and to prevent transferring legacy financial obligations to hard-pressed Illinois taxpayers provided the Authority with the necessary financial resources. Second, the Authority's decision to expand and enhance its staff capacity through the ***Transformation Initiative*** that resulted in the Authority having the necessary skills available to support the Governor's effort to support and implement the goals of SB 1300. The ultimate success of the Funds will become clear over the coming months as the transfer from interim to permanent governance contemplated by SB 1300 takes effect. The probability of the Funds' success is increased by the reasonable, auditable, prudent and transparent source of debt financing made possible by the Authority to the Funds under SB 1300.

3) Launch of the Climate Process of the Transformation Initiative

At the February 11, 2020 Authority meeting, we inaugurated the Sustainable Financing/Addressing Climate Change process ("Climate Process") within the Transformation Initiative. The Climate Process follows the direction of the Governor's Executive Order No. 2019-06 on climate change as well as builds upon the Authority's success with respect to the State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds, Series 2019 Green Bonds and Property Assessed Clean Energy ("PACE") taxable conduit debt financing. The Climate Process recognizes the importance of the view described in the

January 2020 Letter to CEOs by Larry Fink, the CEO of Blackrock which manages nearly $7 trillion in assets: "we are on the edge of a fundamental reshaping of finance" [due to climate change] . . . in the near future – and sooner than most anticipate – there will be a significant reallocation of capital." Events since January 2020 have only strengthened the persuasive power of Mr. Fink's words.

4) ***Trends and Potential with respect to the Authority's Core Product, Federally Tax-Exempt Conduit Bonds***

a. The move by the US Congress to eliminate federally tax-exempt conduit bonds ("Conduit Bonds") in late 2017 took the Authority and the entire industry by surprise. Yet, even before late 2017, negative trends with respect to economic value, utility and potential customer base were present with respect to Conduit Bonds. The present, enduring low-interest rate environment has reduced the spread between taxable and tax-exempt interest rates thus reducing the size of the potential economic benefit to both qualifying borrowers and bond holders. This situation shows no signs of changing.
b. Non-Profit Healthcare. This sector has traditionally been the largest generator of bond issuance volume, revenue and public impact for the Authority. However, the longstanding trend towards greater consolidation of non-profit healthcare borrowers into larger organizations impacts the Authority in two ways. First, consolidation reduces the number of potential borrowers. Second, the larger the organization, particularly once the organization has material footprints in multiple states, the greater choice the borrower will have with respect to public issuers of its Conduit Bonds.
c. Industrial Revenue Bonds. This tool has not been updated by the US Congress since the early 1980s. The prospects for such an update are not promising despite the positive potential impact on manufacturing employment. Industrial Revenue Bonds have not been a significant portion of the Authority's revenue and impact picture since 2007.
d. Non-Profit Higher Education. Traditionally this sector had been the second largest generator of bond issuance volume, revenue and public impact for the Authority. Even before COVID-19, this sector's business model had been under threat from rising prices, a declining number of potential students and a drastic drop in the number of foreign students due to federal policies of the past four years. COVID-19 has further undermined this sector's longstanding business model and its need for debt to finance capital improvements – including student housing. Non-profit student housing for public universities had been of increasing importance to the Authority before COVID-19.
e. Senior Living (market and low/moderate income)/Student Housing. COVID-19 poses a material threat to any type of congregate living project, including senior living and student housing.
f. Exempt Facilities Revenue Bonds (e.g., Solid Waste Disposal Bonds, Private Water Utility Bonds, Gas Supply Revenue Bonds, US DOT Bonds): Although issuance activity has been sporadic since 2008 and reflective of the compressed taxable/tax-exempt interest rate spreads, these financings (and refundings) have generated substantial fee revenues when issued.
g. Potential for Restored/Expanded Conduit Bond Tools. It is too early to tell the prospects for federal stimulus involving restored/expanded Conduit Bond Tools. Despite the time-limitations, the Authority was able to have significant impact as a delivery mechanism for certain expanded Conduit Bond Tools during the federal stimulus of 2009. This also had a positive impact on Authority revenues.

Finally, please stay safe and healthy. We deeply appreciate your volunteer public service on behalf of the people of Illinois.

Respectfully,

[redacted]

Christopher B. Meister
Executive Director