

1 ILLINOIS FINANCE AUTHORITY
2 AUDIT PLUS COMMITTEE SPECIAL MEETING
3 February 14, 2019, at 9:05 a.m.
4

5 REPORT OF PROCEEDINGS had at the Audit Plus
6 Committee Meeting on February 14, 2019, at the hour
7 of 9:00 a.m., pursuant to notice, at 160 North
8 LaSalle Street, Suite S-1000, Chicago, Illinois.

9 APPEARANCES:

10 ILLINOIS FINANCE AUTHORITY
11 AUDIT PLUS COMMITTEE MEMBERS

12 COMMITTEE CHAIR MIKE GOETZ

13 MR. E. LYLE McCOY

MR. GEORGE OBERNAGEL

14 MR. ROGER POOLE (via audio conference)

MS. BETH SMOOTS

15 MR. ERIC R. ANDERBERG, ex officio, non-voting

ILLINOIS FINANCE AUTHORITY STAFF MEMBERS

16 MR. CHRISTOPHER B. MEISTER, Executive Director

MR. RICH FRAMPTON, Executive Vice President

17 MR. BRAD FLETCHER, Vice President

MR. RYAN OECHSLER, Associate General Counsel

18 MS. ELIZABETH WEBER, General Counsel and Legal

Adviser to the Board

19 MS. LISA BONNETT, Illinois Finance Authority

MS. KATHY LYDON, IFA Federal Policy (via

20 audio conference)

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1 CHAIR GOETZ: First of all, I'd like to thank
2 Chairman Anderberg for asking me to chair this
3 Committee.

4 I'd like to call the meeting to order.
5 Will the Assistant Secretary please call the roll?

6 OECHSLER: Certainly. The time is 9:05 a.m.

7 Mr. McCoy?

8 McCOY: Here.

9 OECHSLER: Mr. Obernagel?

10 OBERNAGEL: Here.

11 OECHSLER: Mr. Poole on the line?

12 POOLE: Yes.

13 OECHSLER: Ms. Smoots?

14 SMOOTS: Here.

15 OECHSLER: Committee Chair Goetz?

16 CHAIR GOETZ: Here.

17 OECHSLER: And Chair Anderberg, ex-officio,
18 non-voting.

19 ANDERBERG: Here.

20 OECHSLER: Committee Chair Goetz, a quorum of
21 Committee Members has been constituted.

22 CHAIR GOETZ: Okay. Does -- Review and
23 Adoption of the Audit, Budget, Finance, Investment,
24 and Procurement Committee Meeting Minutes from

1 June 11th, 2018.

2 Does anyone wish to make any
3 additions, edits or corrections to the Minutes from
4 June 2018?

5 (No response.)

6 CHAIR GOETZ: Hearing none, I'd like to request
7 a motion to approve the Minutes.

8 Is there such a motion?

9 OBERNAGEL: I make a motion, Mr. Chairman.

10 McCOY: Second.

11 CHAIR GOETZ: All those in favor?

12 (Chorus of ayes.)

13 CHAIR GOETZ: Opposed?

14 (No response.)

15 CHAIR GOETZ: At this point, I think I turn it
16 over to Chris for Review, Consideration, and
17 Acceptance of the Illinois Finance Authority
18 Financial Audit for year ending June 30th, 2018.

19 MEISTER: Thank you very much, Mr. Chairman.

20 It is my pleasure to present our
21 controller, Six Granda, and our outside accounting
22 advisor Jeff Klein, to present the Auditor General's
23 Fiscal Year 2018 Financial Audit and a brief report
24 of the -- on the -- both the future plans of the

1 Auditor General's office for our external audit and
2 our internal audit plan for the Authority.

3 Ms. Granda?

4 GRANDA: Good morning, everyone.

5 The Fiscal Year 2018 Financial Audit
6 was released on December 27 of 2018. The highlights
7 for the Fiscal Year 2018 audit is as follows:

8 The auditors expressed an unmodified
9 opinion on the Authority's basic financial
10 statements. So, basically, what that means, we
11 received a clean audit.

12 The Authority didn't have any
13 Government Auditing Standard findings. The prior
14 year GAS finding was not repeated.

15 The Authority has two major funds,
16 which are the General Operating Fund and the Other
17 State of Illinois Debt Fund. The General Operating
18 Fund is the primary operating fund of the Authority.
19 It generated \$4.9 million in revenues with spending
20 held under \$3.9 million, which the General Operating
21 Fund realized an increase in net position of \$3
22 million. That increase includes a transfer from
23 other funds of \$2 million.

24 The \$2 million in transfer were from

1 the termination of the Renewable Energy Loan Program
2 and the termination of the Intermediary Relending
3 Program. This will allow us to simplify our balance
4 sheet in the future.

5 The Other State of Illinois did Debt
6 Fund accounts for bond proceeds, principal and
7 interest payments bonding notes receivable
8 transactions. These funds includes the Illinois
9 Environmental Protection Agency, the Illinois Medical
10 District Commission, and the Northern Illinois
11 University Foundation. This fund generated \$27.5
12 million in revenues and \$27.5 in expenses. The net
13 position for this fund is \$0.

14 The bonds issued on behalf of the
15 Illinois Medical District Commission are considered a
16 moral obligation of the State of Illinois. In Fiscal
17 Year 2018, the IMDC redeemed all of its outstanding
18 Series 2006B bonds.

19 As a June 30, 2018, no state taxpayer
20 dollars are exposed to our pledge of the state moral
21 obligation within the portfolio of bonds issued by
22 the Authority or its predecessors.

23 Are there any questions on the
24 financial audit?

1 (No response.)

2 CHAIR GOETZ: I'd like to request a motion to
3 recommend the Resolution for approval.

4 McCOY: So moved.

5 SMOOTS: Second.

6 CHAIR GOETZ: There's been a second.

7 And all those in favor?

8 (Chorus of ayes.)

9 CHAIR GOETZ: Any opposed?

10 (No response.)

11 CHAIR GOETZ: The ayes have it.

12 So next is the Presentation and
13 Consideration of a Resolution Approving and
14 Confirming the Selection of Underwriters for the
15 State of Illinois Clean Water Initiative State
16 Revolving Fund Calender Year 2019 and Related
17 Matters.

18 MEISTER: Thank you, Mr. Chairman.

19 Before we go on to that matter, I do
20 just want to point out for the Members and for the
21 record, the management discussion and analysis
22 contained in the audited financials for fiscal year
23 2018. It covers new legislation as well as the
24 Authority's Transformation Initiative that was begun

1 in February of 2018. And then, maybe before we go on
2 to the next Agenda item, Six, if you could just
3 briefly highlight for the Members both a timeline for
4 the external audit, the financial, and now every
5 two-year compliance audit and the state of the
6 internal audit in partnership with our sister agency,
7 Central Management Services.

8 I'll note also, for the record, that
9 the Office of the Auditor General, that performs the
10 external audit function for state creative entities
11 like the Illinois Finance Authority, is a
12 constitutional officer and is -- reports to the
13 Legislative Branch not the Executive Branch. And, as
14 such, it undertakes a more robust, time consuming,
15 and costly compliance and financial audit effort than
16 the Members may traditionally be familiar with in
17 their private lives.

18 Six?

19 GRANDA: So our external auditors, we are
20 thinking they're going to be coming in sometime in
21 April to do their entrance conference, and they'll
22 start their fieldwork in -- sometime in May. They
23 will be here probably until the end of June doing
24 their preliminary work, and then probably come back

1 sometime in September. We're estimating that
2 hopefully, if everything goes well, that they'll have
3 the financial audit hopefully completed before year
4 end. And then, the two-year compliance, we're also
5 playing part in there, and they -- I'm thinking that
6 might -- the report might be released sometime in
7 January of 2020.

8 So, just briefly on the internal
9 audit, you know, our internal auditors have been
10 working with us; doing a great job. Which basically
11 we're using them as a brain tool for us, for
12 management, as they're brining up certain items and
13 certain issues that we're able to correct -- correct
14 them prior to our external auditors coming through.

15 So currently we do have two audits
16 that are in progress: one is the Payroll Personnel
17 and Personal Information Audit that's ongoing. At
18 this point we don't have any -- nothing to report.
19 It's still ongoing, and hopefully they're going to
20 try to be done with that report by the end of
21 February.

22 There is one report, which is the
23 Statutory Mandate Audit. It's in a draft form.
24 We're still reviewing certain items with the

1 auditor -- with the internal auditors. And once that
2 is final, it will be presented to the board as well.

3 MEISTER: And, on the Compliance Examination,
4 which is, in essence, a two-year survey of all the,
5 quote, shalls, end quote, within the Illinois
6 compiled statutes as well as all of the, quote
7 shalls, end quote, within the Illinois
8 Administrative Rules. Plus within something that
9 governs matters of state finance, which fortunately
10 we have little dealings with. It's called the SAMS
11 Manuel, similarly the number of shalls found within
12 that.

13 And the Internal Compliance Audit,
14 while still in draft form, has one potential finding,
15 which we have some counter-arguments too. But the
16 Members should know that findings in the internal
17 audit are likely to find their way into findings in
18 the actual external compliance audit. We received
19 this on Monday. We had a robust discussion --
20 internal discussion yesterday on this one particular
21 finding. And we, I think, have an argument to
22 downgrade that potential finding from a finding to an
23 immaterial finding or an observation.

24 CHAIR GOETZ: What does it involve?

1 MEISTER: It involves a difference between a
2 2017 statute as reflected in our internal policy,
3 which -- on the topic of sexual harassment, which we
4 had ensured that we had the sister agency personally
5 train our team on in-person before the statute was
6 passed. And then the entire team and, I believe, all
7 the Board Members have been trained on sexual
8 harassment, with elements that incorporate the
9 additions of the 2017 statute. So, in practice, we
10 have complied with everybody who could possibly be
11 within a circle of perpetrating, reporting, or false
12 reporting. And so we hope that the internal auditors
13 will listen to our argument that we complied in
14 substance.

15 The immaterial findings really speak
16 to the need to continue to invest in the
17 administrative infrastructure of the Authority.
18 Members know that for a long time we ran very, very
19 thin, and a most prominent result of that were
20 findings, both financially and in the compliance
21 audit.

22 We've begun a robust process of
23 investing to address these areas. In my view, the
24 internal audit just underscored the need to continue

1 on that path.

2 CHAIR GOETZ: Okay. So you're going to give a
3 report on the selection of the underwriters?

4 MEISTER: Yes. Thank you, Mr. Chairman.

5 As some of the Members of this
6 committee know, the former IEPA director, Lisa
7 Bonnett, has joined the Authority, and she is with us
8 in this meeting today. And she presented the
9 Resolution for the 2019 Series Clean Water Initiative
10 State Water Revolving Fund. That is a federal,
11 state, and local program that uses federal grant
12 dollars to -- and tax exemption to reduce the cost of
13 capital in loans to local governments for capital
14 water and sewer infrastructure projects.

15 In 2017, we undertook -- the Authority
16 undertook a robust, objective, transparent selection
17 process for investment bankers in connection with the
18 State Revolving Fund. There are three types of
19 bankers that are being selected. The lead
20 underwriter/lead book-runner, which, on cover of the
21 official statement is the top -- bottom-left of the
22 page. The co-senior manager, which -- of
23 transactions in the size of hundreds of millions of
24 dollars, like this one is projected to be, they have

1 a senior comanager and then a number of comanagers
2 that usually widen the potential universe of buyers
3 for these funds.

4 State Water Revolving Fund, we are
5 very proud to say, is the only State of Illinois bond
6 issue with a AAA rating with S&P and Fitch. It is
7 attributable to the essential public purpose nature
8 of the use of the Bond proceeds and, frankly, the
9 structure of the transaction. And so as a result
10 of -- rating agencies view this as separate and
11 distinct from the ratings of the main state.

12 So, after a great deal of work and
13 regular and extended conversations with our partners
14 at IEPA, and, again, this is where Lisa, who has been
15 involved not only in the very first one of these that
16 the State did back in 2002 but beginning about in
17 2010, when she would she was CFO for IEPA then as
18 Director, she basically drew the roadmap for the
19 modern 2013, 2016, 2018, and now 2019 State of
20 Illinois Clean Water Initiative State Revolving Fund.
21 So we are very lucky that she's come back into public
22 service to join us.

23 We analyzed the grate from the 2017 --
24 the 2017 selection, and we analyzed the performance

1 of the team in 2017 for best execution. For -- the
2 Members may know that the State of Illinois,
3 financially, has somewhat of a bruised reputation in
4 the capital markets. And we thought that it was
5 important to reach best execution, which means lowest
6 possible interest rate for the bonds and buying the
7 securities.

8 We also had a secondary objective with
9 our 2017 solicitation, and that was to reflect the
10 diversity of our state and the diversity of ownership
11 of companies with -- within our professional teams.

12 So, as a result, the decision was
13 made, because after a great deal of analysis, IEPA
14 conveyed to us that they needed the money, the bond
15 proceeds, very quickly, within 75 days of today. And
16 Lisa, given her financial expertise, particularly in
17 the area of IEPA, confirmed that need.

18 And so the goal is to move forward
19 with a transaction that is fast, that has best
20 execution. And the important -- the sole addition to
21 this transaction is that we will self-label these as
22 green bonds. We believe that this will expand the
23 number of buyers who are interested in these -- in
24 these bonds, but also we are challenging this team to

1 do something that the capital markets have, to date,
2 not been able to demonstrate, which is basically a
3 positive price differential, basically lower interest
4 rates, green-labeled, federally tax-exempt State
5 Revolving Fund Bonds, rather than simply enlarging
6 the number of potential buyers.

7 We are challenging our team to
8 demonstrate this. We believe that it is consistent
9 with Governor Pritzker's executive orders on climate
10 and the direction of this administration. But it is
11 also good economics and good policy, and I think it
12 is well reflected by the essential environmental
13 nature of the use of the proceeds.

14 So with all of that being said, we are
15 recommending that we keep the exact same team in
16 place as 2017. This is supported by our comments
17 in -- before the board in 2017. It is supported by
18 the scores, and it is supported by the best execution
19 that we believe we received in 2017, and Chairman
20 Anderberg appeared -- or was with us on the day of
21 pricing.

22 When I conclude, there is an
23 interesting story that occurred on the afternoon
24 between the first and the second day of pricing that

1 sort of demonstrates the need for certainty and
2 reliance on performance of this team.

3 So, as the Members know, we do have
4 two contractual financial advisors, both are
5 woman-owned firms, both were competitively selected.
6 And so we have representatives of Acacia and
7 Sycamore. They will be a team working with Lisa on
8 this transaction.

9 After a lot of discussion,
10 particularly looking at the positive results of the
11 '17 transaction, we have decided to keep the same
12 bond counsel and issuer's counsel who are
13 Elizabeth --

14 WEBER: And Schiff Hardin. Schiff Hardin.

15 MEISTER: Issuer's counsel.

16 And who is bond counsel?

17 WEBER: Oh. Katten Muchin.

18 MEISTER: And then it is -- our recommended --
19 that the lead book-runner be Merrill Lynch, Pierce,
20 Fenner Smith, Incorporated, also known as BAML, the
21 lead book-runner and co-senior manager. The
22 co-senior manager, but not the senior book-runner, is
23 Citibank. They appear on the official statement to
24 the upper right of the bottom.

1 And then the co-managers, we had very
2 good results with in 2017, Academy Securities. That
3 is a firm that is veteran-owned; Cabrera Capital
4 Markets, which is a locally owned Illinois firm, also
5 Latino-owned; Janney Montgomery, a regional firm with
6 a lot of experience in places like New Jersey and
7 Connecticut, also performed well in 2017; Loop
8 Capital Markets, locally here and led by African
9 Americans; and Mesirov Financial, that is also
10 locally based here in Chicago.

11 This team performed extraordinary
12 well, in my view, in 2017, and I asked the board
13 members to adopt this team. I think that as -- if we
14 do, we'll have the best possible chances for best
15 execution, fast execution, and hopefully --
16 hopefully, with establishing, which -- something
17 which for years the capital markets have failed to
18 establish, which is a positive price differential for
19 the buyers with the labeling of securities as green
20 bonds.

21 One final note -- and this goes to the
22 story that Chairman Anderberg was able to witness
23 firsthand in 2017. Best execution in our experience,
24 both in the Conduit world, where we are indirectly

1 involved, and in State Revolving Fund, where we have
2 a more direct leadership and management role with the
3 transaction, much rides on the desk of the
4 underwriter.

5 This transaction, other than the
6 labeling of green bonds, will hopefully be a replica
7 of the 2017 with respect to structure. And so that
8 means that there will be no modifications to the
9 indenture or changes to the structure or anything
10 like that. We want to take what we have and worked
11 well and execute it exactly again. And then try and
12 get greater savings for the program as a result of
13 the green designation.

14 The lead book-runner's desk plays an
15 essential pivotal role in this objective. It is led
16 by somebody named Dave Anderson, who is very
17 positively and widely favored on Wall Street. He is
18 from the Midwest, and he took a special interest in
19 the Illinois State Revolving Fund.

20 To give the example to the Members of
21 some of the uncertainty that accompanies the day of
22 pricing: In 2017, we started the day. Again, we had
23 done our work with the rating agencies. We've done
24 education of potential buyers. We had had a digital

1 road show. But what happened was that there was
2 another Illinois credit that had recently been in the
3 market and had faced some challenges, mainly because
4 of some political noise that had nothing or little to
5 do with our credit. Nonetheless, the market was more
6 than happy to try and award a premium to our AAA
7 credit. And, of course, a premium means that our
8 program would be paying a higher interest rate rather
9 than a lower interest rate.

10 What happened -- and it was
11 brilliantly leveraged by Dave Anderson and his
12 team -- was that at the afternoon of the first day of
13 pricing, the North Koreans shot a rocket over the
14 nation of Japan. And, when the market opened the
15 next day, Dave Anderson deployed his team to take
16 full advantage of the immediate flight to quality
17 that the market was seeking, and that worked very,
18 very well for our credit and our ultimate all-in
19 interest rate.

20 I'll take any questions.

21 ANDERBERG: You shredded all the documents of
22 your trip to North Korea?

23 MEISTER: Yes, I did.

24 (Laughter.)

1 CHAIR GOETZ: So can I have a motion?

2 McCOY: So moved.

3 OBERNAGEL: Second.

4 CHAIR GOETZ: All those in favor?

5 (Chorus of ayes.)

6 CHAIR GOETZ: Any opposed?

7 (No response.)

8 CHAIR GOETZ: Any other business to come before
9 the Members?

10 (No response.)

11 CHAIR GOETZ: Hearing none, is there any public
12 comment?

13 (No response.)

14 CHAIR GOETZ: Hearing none, can we have a
15 motion to adjourn?

16 SMOOTS: So moved.

17 McCOY: Second.

18 CHAIR GOETZ: Make up for this long-windedness.

19 OECHSLER: The time is 9:30.

20 (Whereupon the above
21 matter was adjourned.)

22

23

24