

1 ILLINOIS FINANCE AUTHORITY  
2 AUDIT PLUS COMMITTEE SPECIAL MEETING  
3 May 14, 2019, at 9:02 a.m.  
4

5 REPORT OF PROCEEDINGS had at the Audit Plus  
6 Committee Meeting on May 14, 2019, at the hour of  
7 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. LERRY KNOX

14 MR. E. LYLE McCOY

15 MR. GEORGE OBERNAGEL

16 MS. ROGER POOLE

17 MS. BETH SMOOTS

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

19 ILLINOIS FINANCE AUTHORITY STAFF MEMBERS

20 MR. CHRISTOPHER B. MEISTER, IFA Executive Director

21 MR. RICH FRAMPTON, Executive Vice President

22 MR. RYAN OECHSLER, IFA Associate General Counsel

23 MR. JACOB STUCKEY, IFA Deputy Executive Director

24 MS. XIMENA GRANDA, IFA Senior Controller

MS. SARAH MANKOWSKI, HR Manager

MS. ELIZABETH WEBER, General Counsel and Legal

Adviser to the Board

MS. LISA BONNETT, Vice President, Water Policy

25 GUESTS VIA TELECONFERENCE:

26 MR. TODD HABERER, Central Management Services

27 MS. DAWN MEIER, Central Management Services

28 SULLIVAN REPORTING COMPANY, by

29 Brad Benjamin, CSR

1 CHAIR GOETZ: Okay. I'd like to call the  
2 meeting to order.

3 Will the Assistant Secretary please  
4 call the roll?

5 OECHSLER: Certainly.

6 The time is 9:02 a.m.

7 Mr. Knox?

8 KNOX: Here.

9 OECHSLER: Mr. McCoy?

10 McCOY: Here.

11 OECHSLER: Mr. Obernagel?

12 OBERNAGEL: Here.

13 OECHSLER: Mr. Poole?

14 POOLE: Here.

15 OECHSLER: Ms. Smoots?

16 SMOOTS: Here.

17 OECHSLER: And Committee Chair Goetz?

18 CHAIR GOETZ: Here.

19 OECHSLER: Chair Anderberg,

20 ex-officio/non-voting?

21 ANDERBERG: Here.

22 OECHSLER: Committee Chair Goetz, a quorum of  
23 Committee Members has been constituted.

24 CHAIR GOETZ: All right. For Review and

1 Adoption of the minutes from February 14th, does  
2 anyone wish to make any additions, edits, or  
3 corrections to the minutes from February 14th?

4 (No response.)

5 CHAIR GOETZ: Hearing none, I would like to  
6 request a motion to approve the minutes.

7 Is there such a motion?

8 OBERNAGEL: I'll make a motion, Mr. Chairman.

9 SMOOTS: Second.

10 CHAIR GOETZ: All those in favor?

11 (Chorus of ayes.)

12 CHAIR GOETZ: Opposed?

13 (No response.)

14 CHAIR GOETZ: The ayes have it.

15 Six Granda -- where did she go? I'll  
16 turn it over to you.

17 GRANDA: I -- I --

18 MEISTER: Jacob.

19 GRANDA: Jacob is the one on this one that is  
20 going to --

21 GOETZ: Oh. Jacob? Okay.

22 STUCKEY: Good Morning, everybody. I'd like to  
23 turn your attention to the Authority's audit update.

24 And you can also find this memo on Tab 12 of your

1 Board Book, if you have that open. This is an update  
2 for the Authority's current audits and general audit  
3 process.

4 This is consistent with Governor  
5 Pritzker's Executive Order 2019-01, which directs the  
6 agencies to review past audit findings and to develop  
7 a plan to address them. Currently the Authority is  
8 engaged in both internal and external audits.  
9 The first section was the update on the external  
10 audit. The first part of it is just a general  
11 reminder of the -- about the Auditor General.

12 The Auditor General is a  
13 constitutional officer that performs several types of  
14 audits including the fiscal compliance audits, which  
15 are mandated by law.  
16 Pursuant to the Fiscal Act, the Auditor General is  
17 allowed to bill agencies for the audit costs. For  
18 the Fiscal Year '18 the Authority was charged 233 --  
19 almost \$234,000.

20 RSM US LLP, or RSM, is the external  
21 auditors that are assigned to the Authority. This is  
22 a six-year engagement which began Fiscal Year 2016.  
23 Currently, there's been an entrance conference  
24 between RSM and the Authority, which was held on

1 April 12th this year. And it marks the beginning for  
2 the audit process for Fiscal Year '19.

3 For Fiscal Year '19, the Authority has  
4 a fiscal audit and a two-year compliance examination  
5 that are going to be performed.

6 Down in the next section, for the  
7 internal audit update, we just want to remind the  
8 committee that on June 30th, 2017, the Authority and  
9 CMS, or Central Management Service, internal audit  
10 division entered into an intergovernmental agreement,  
11 or IGA, for CMS to perform the internal audit services  
12 for the Authority.

13 The Authority is on track to complete  
14 the first year of its two-year audit plan for  
15 2019/2020. So far the Authority has received mostly  
16 observations. The Authority has received findings.  
17 An example of one finding was that the Board did not  
18 have 15 members at any point during the audit period.  
19 Other example of findings the Authority had will be  
20 discussed in the next section.

21 So the Authority has found the  
22 relationship between CMS internal audit to be an  
23 effective management tool to assist the Authority in  
24 preparation for external audits and ensure the

1 Authority's policies and procedures are consistent  
2 with best practices.

3 To date, CMS has not charged the  
4 Authority. But the Authority finds it such a useful  
5 tool that, if CMS chose to charge the Authority, we  
6 would be willing to pay.

7 That's it for the update. If anybody  
8 has any questions...?

9 CHAIR GOETZ: Does anybody have any questions  
10 for Jacob?

11 (No response.)

12 CHAIR GOETZ: Do the internal auditors have  
13 anything to say?

14 MS. DAWN MEIER: I just want to say that you  
15 guys seem very, very transparent and very  
16 forward-thinking and proactive. You know, you are  
17 always willing to make changes and increase internal  
18 control to deter any problems before they come up.  
19 And we truly enjoy working with the director and with  
20 Six.

21 I think we do an audit -- they kind of  
22 average between three and four months, which some  
23 agencies that we work with, it might take six months.  
24 So, you know, kudos to you guys. Thanks for being so

1 willing and thanks for being proactive.

2 CHAIR GOETZ: All right. Resolution Approving  
3 Certain Updates to the Illinois Finance Authority  
4 Bond Handbook, Ryan, you're going to handle that?

5 OECHSLER: I would like to bring your attention  
6 to Item 7 on the Board Agenda and Item 7 in your  
7 Board Books. This was actually distributed  
8 separately in your manila folder and is contained  
9 within your Audit Committee packets.

10 The title is "Safeguarding State  
11 Resources While Preserving Transparency and  
12 Accountability with Respect to Federally Tax-Exempt  
13 Conduit Bond Standard Documents." It's a long title,  
14 but we'll go through what that means.

15 This item includes four separate  
16 documents: first, a memorandum providing an overview  
17 of recommended updates to the Authority's Bond  
18 Handbook and background for changes; 2, Exhibit A to  
19 that memo, containing past compliance audit findings  
20 relating to bonds; 3, the resolution authorizing  
21 certain updates to the Bond Handbook; which updates  
22 are shown in 4, the Exhibit to the Resolution and  
23 which I will summarize for you today.

24 As part of the preparation for the

1 biennial compliance audit of the Authority, and in  
2 connection with Governor Pritzker's Executive Order  
3 2019-01, Authority staff recently undertook a  
4 comprehensive review of its standard bond documents  
5 with a view towards resolving certain outstanding  
6 audit findings relating to bond compliance.

7           Some of those audit findings are the  
8 ones contained in the exhibit.

9           Authority staff determined that  
10 further updates to the Bond Handbook, which contains  
11 standard bond document terms and provisions, are  
12 advisable in order to clarify the Authority's role,  
13 rights and responsibilities with respect to federally  
14 tax-exempt conduit bonds. By doing so, the Authority  
15 believes it will better meet its duty to address  
16 audit findings and the goals of Executive Order  
17 2019-01.

18           The Authority provides two primary  
19 deliverables in connection with the closing of a  
20 federally tax-exempt conduit bond transaction: one, a  
21 duly adopted bond resolution; and, two, an approval  
22 letter from the Governor of the State of Illinois as  
23 required under federal tax law. Importantly, the  
24 Authority is not the regulator or supervisor of the



1 conduit borrower or its project under federal law,  
2 state law, or contract law.

3 State taxpayers and the Authority have  
4 no obligation to repay the federally tax-exempt  
5 conduit bonds other than from payments from the  
6 conduit borrower or assets pledged by the conduit  
7 borrower. The obligation to make payments sufficient  
8 to pay the bonds belongs solely to the conduit  
9 borrower, which conduit borrower is typically a  
10 nonprofit 501(c)(3) private organization, a qualified  
11 private business or individual, or an Illinois unit  
12 of government.

13 After a federally tax-exempt conduit  
14 bond transaction closes, the Authority does not  
15 retain any rights or responsibilities to enforce  
16 post-issuance compliance. Those rights and  
17 responsibilities are assigned to the bond trustee  
18 acting on behalf of the bondholders or, in the case  
19 of a direct bond purchase by a financial institution,  
20 directly to the actual lender.

21 The Authority's post-closing  
22 involvement with federally tax-exempt conduit bonds  
23 is generally limited to, one, collecting and tracking  
24 the state-mandated Form C-08, which provides notice

1 of payment of bond interest and/or principal for the  
2 bonds; and, two, coordinating with the federal  
3 Internal Revenue Service and the conduit borrower in  
4 the rare event of an audit. And in that case the  
5 Authority is indemnified for any costs involved.

6           Federally tax-exempt conduit bonds  
7 involve a federal economic benefit -- that is,  
8 exemption of interest income on such bonds from  
9 federal income tax, generally resulting in a lower  
10 cost of funds to the qualified borrower. The federal  
11 government, and not the Authority or the State, is  
12 the steward of that federal benefit as the federal  
13 government sets the rules for obtaining tax-exempt  
14 status and determines if those rules have been  
15 followed.

16           Federally tax-exempt conduit bonds do  
17 not involve any state tax exemption except in the  
18 limited case of local government conduit borrowers,  
19 like we saw earlier today in our Tax-Exempt meeting  
20 with the school districts; any State guarantee; or any  
21 State-appropriated funds unless specifically issued  
22 with a State moral obligation or additional security  
23 pledge, of which none currently exist in the  
24 Authority's name.

1           Local government conduit borrowers  
2 represent only 5 percent of all of the Authority's  
3 outstanding conduit bond debt. The remaining 95  
4 percent is for non-governmental conduit borrowers,  
5 the majority of which are nonprofit 501(c)(3)  
6 organizations.

7           The Authority is now updating its Bond  
8 Handbook to clarify the Authority's role in federally  
9 tax-exempt conduit bond transactions and to eliminate  
10 legacy reporting requirements that are no longer  
11 needed.

12           Specifically, these updates eliminate,  
13 on a prospective and retrospective basis, legacy  
14 compliance and reporting requirements which mandate  
15 reporting that is no longer necessary, especially in  
16 light of current disclosures made publicly by conduit  
17 borrowers via the Municipal Securities Rulemaking  
18 Board's EMMA website.

19           These updates also add a single, more  
20 flexible provision that will enable the Authority to  
21 monitor certain items at its sole discretion. They  
22 clarify the Authority's role in conduit bond  
23 transactions and the limitations of that role and  
24 make certain other clean-up changes.



1 and as some of the longer-termed tenured Board  
2 Members know, this issue of what the Auditor General  
3 has broadly characterized as bond and/or covenant  
4 compliance has been with the Authority since its  
5 creation in '04, when we would struggle with various  
6 investments of resources at times. And, in fact,  
7 five or six years ago we were on the verge of investing  
8 about a half a million dollars in a software platform  
9 to address this.

10           During this time federal law has  
11 changed. The EMMA platform has become -- which is,  
12 by the way, free and available for anybody with an  
13 internet connection -- has become more sophisticated,  
14 more robust, more publicized. But we still kept on  
15 having these conversations not only with the auditors  
16 but also with newspaper reporters; media outlets;  
17 and, indeed, investors. And so my contribution to  
18 this memo, which -- in my view, is very well done by  
19 Ryan.

20           Ryan and Elizabeth originally  
21 counselled against the bold, capital, underlining --  
22 both of them being very temperate, judicial lawyers.

23           Having dealt with both -- having dealt  
24 with auditors over a period of years, representatives

1 of the media, and people that have spent their own  
2 money to buy conduit bonds yet apparently not  
3 investigating what they are buying, we thought it was  
4 important that we have no nuance, no ambiguity --  
5 hence the old capitalized/underscored -- and to have  
6 this in our Board documents and to fully brief the  
7 Board as to what we do here at the Authority and,  
8 probably more importantly, what we do not. And that  
9 line was just made all the more important by  
10 Governor Pritzker's first executive order.

11 So, actually, before we take  
12 questions, representatives of the internal audit  
13 team, do you have any views or reaction? I know that  
14 we've been working with you hand to claw.

15 MR. TODD HABERER: No. I think we are kind of  
16 in agreement with the Authority that this kind of  
17 alleviates the long-standing issues with the  
18 reporting requirement that are currently in the Bond  
19 Handbook. And we think this will address those  
20 issues adequately.

21 CHAIR GOETZ: So any other questions for Ryan?

22 KNOX: Just one.

23 So this is for Conduit. Does the  
24 handbook also cover the SRF work that we do? And is

1       there a different mechanism because -- then, SRF work  
2       versus conduit work?

3               WEBER: SRF is conduit in the sense that we  
4       don't have any of our own funds at risk. What is  
5       pledged there is a bunch of loans that have been  
6       originated by the IEPA, and so that's the source of  
7       payment.

8                       So it's Conduit in that sense,  
9       although we -- there's always confusion here. It's  
10      always been considered by the Direct and Alternative,  
11      and we've left it. With the new committee  
12      reorganization, we specifically said that it's going  
13      to be under Direct and Alternative.

14                      It's clear in the official statement  
15      that payment is solely from those assets that have  
16      been pledged. We have -- none of our general funds  
17      at risk for it. So it's a little bit of a -- it's a  
18      little bit different from a conduit. We treat it as  
19      a conduit although it's not -- doesn't come before  
20      the Conduit Committee.

21               McCOY: It's alternative.

22               WEBER: It's alternative.

23               KNOX: Well, does the SRF fall underneath the  
24      Bond Handbook, or is that different?

1           WEBER: It's something different because  
2           there's not a true conduit borrower there. So that's  
3           why it's slightly different. But our disclaimers as  
4           to what the bonds are payable from and that it's a  
5           limited source is clear in the -- all written  
6           documents. But a lot of the provisions of the Bond  
7           Handbook that relate to indenture -- you know, loan  
8           agreement, we don't have that structure there. We  
9           just have an indenture. And then intergovernmental  
10          agreement with the IEPA, in the pledge agreement,  
11          where the loans are pledged.

12                        So it's a slightly different  
13          structure. But, clearly, it's a limited obligation  
14          payable from a specific source of funds, which are  
15          not our general funds.

16                        Does that answer your question?

17          KNOX: It does.

18          MEISTER: And we've done a couple of other  
19          delineations. Not only separate the jurisdiction  
20          from the con- -- what is, after the conclusion of  
21          this meeting, is going to be formally designated the  
22          Conduit Committee, to the include Commercial Property  
23          Assessed Clean Energy financing, which is a conduit  
24          structure without any sort of federal and state tax



1 exemption.

2           The Clean Water Initiative/State  
3 Revolving Fund, while we do do this on behalf of a  
4 sister agency, the Illinois Environmental Protection  
5 Agency, we also carry these bonds on our books, on  
6 our balance sheet as a quote/unquote "component part"  
7 of the State of Illinois. So, when the Auditor  
8 General looks at all the various audits and then  
9 works with the general government to pull all of  
10 these numbers down in the CAFR -- which Jacob or Six  
11 are going to help me what CAFR stands for.

12           KNOX: Comprehensive --

13           WEBER: Government.

14           MEISTER: Comprehensive Annual Financial --

15           KNOX: Financial Report.

16           MEISTER: -- Report. Okay. Sorry. I'm used  
17 to thinking in acronyms. I couldn't pull up the --  
18 the full name.

19           The State Revolving Fund is considered  
20 and carried on our balance sheet. So, in the view of  
21 the auditors -- of the external auditors, we, the  
22 Authority, are accountable for those numbers. And,  
23 again, there's robust communication among Six; our  
24 counterpart at IEPA; Lisa Bonnett, who is sitting

1 here in the room with us and is also part of those  
2 conversations; and Jacob Stuckey, as Deputy Executive  
3 Director, is also going to be part of those.

4 So, unlike Northwestern Memorial or  
5 Rush or a nonprofit CCRC or De La Salle Institute, we  
6 carry those. Whereas the more pure conduit just go  
7 against our statutory cap.

8 The other difference is that we are --  
9 that the Authority is far more involved in the  
10 selection of investment bankers, financial advisors,  
11 trustees, bond counsel in that transaction. So there  
12 is more of -- I would say there's more engagement on  
13 the part the Authority and the Board. So that was  
14 the line. Although --

15 WEBER: We participate a little bit more in  
16 terms of the offering document versus true conduit  
17 financing, we are limited to the Authority section.  
18 We're clearly not responsible for anything --

19 MEISTER: Yes.

20 WEBER: -- else in there. With the State  
21 Revolving Fund we got a little bit more involved in  
22 the intergovernmental agreement.

23 Some sections are sourced as IEPA.  
24 But, you know, some of the others, we take a little

1 bit more responsibility for it.

2 MEISTER: But in the official statement, which  
3 we're going to be -- which are on the desks in the  
4 big board room for all the members. The language --  
5 the limited obligation language on the cover, which  
6 is bold, that Elizabeth referenced, and the  
7 representations of the Authority in the official  
8 statement are very similar to what we make in  
9 connection with our conduit.

10 But it's a great question. And part  
11 of the reason why we're delineating State Revolving  
12 Funds/Clean Water Initiative from the Conduit  
13 Committee.

14 KNOX: Thank you.

15 CHAIR GOETZ: Any other questions for Ryan?

16 (No response.)

17 CHAIR GOETZ: So I need a motion to recommend  
18 the Resolution for approval.

19 McCOY: So moved.

20 POOLE: Second.

21 CHAIR GOETZ: All those -- do we need a roll  
22 call, Ryan, or it's just voice --

23 OECHSLER: Just voice.

24 CHAIR GOETZ: -- for the consensus for

1 recommendation?

2 So all those in favor?

3 (Chorus of ayes.)

4 CHAIR GOETZ: Any opposed?

5 (No response.)

6 CHAIR GOETZ: The ayes have it.

7 Any other business to come before the  
8 Members?

9 (No response.)

10 CHAIR GOETZ: Hearing none, is there any public  
11 comment for the Committee?

12 (No response.)

13 CHAIR GOETZ: Hearing none, I would like to  
14 request a motion to adjourn.

15 POOLE: So moved.

16 KNOX: So moved.

17 KNOX: Second.

18 CHAIR GOETZ: All those in favor?

19 (Chorus of ayes.)

20 CHAIR GOETZ: Any opposed?

21 (No response.)

22 CHAIR GOETZ: The ayes have it.

23 OECHSLER: The time is 9:24 a.m.

24

(Whereupon the above  
matter was adjourned.)

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