

1 ILLINOIS FINANCE AUTHORITY
2 SPECIAL MEETING OF THE DIRECT &
3 ALTERNATIVE FINANCING COMMITTEE MEMBERS

4 May 8, 2018, at 8:35 a.m.

5
6 REPORT OF PROCEEDINGS had at the Special
7 Meeting of the Direct and Alternative Financing
8 Committee on May 8, 2018, at the hour of 8:30 a.m.,
9 pursuant to notice, at 160 North LaSalle Street,
10 Suite S-1000, Chicago, Illinois.

11 APPEARANCES:

12 ILLINOIS FINANCE AUTHORITY
13 DIRECT AND ALTERNATIVE FINANCING COMMITTEE MEMBERS

14 COMMITTEE CHAIRMAN LERRY KNOX

15 MR. JAMES J. FUENTES

16 MS. ARLENE A. JURACEK

17 MR. E. LYLE McCOY

18 MR. BRADLEY R. ZELLER (via audio conference.)

19 MR. ERIC R. ANDERBERG, Ex-Officio/Non-Voting

20 ILLINOIS FINANCE AUTHORITY STAFF MEMBERS

21 MR. CHRISTOPHER B. MEISTER, IFA Executive Director

22 MS. ELIZABETH WEBER, IFA General Counsel

23 MR. RYAN OECHSLER, IFA Associate General Counsel

24 MR. STANLEY LUBOFF, IFA Vice President, Loans and

Guarantees

1 CHAIRMAN KNOX: What I'd like to do is I'd like
2 to call the meeting to order.

3 Will the Assistant Secretary please
4 call the roll?

5 OECHSLER: Certainly. The time is 8:35 a.m.

6 Mr. Fuentes?

7 FUENTES: Here.

8 OECHSLER: Ms. Juracek?

9 JURACEK: Here.

10 OECHSLER: Committee Chairman Knox?

11 CHAIRMAN KNOX: Here.

12 OECHSLER: Mr. McCoy?

13 McCOY: Yes.

14 OECHSLER: Mr. Committee Chairman, a quorum of
15 Committee Members has been constituted.

16 CHAIRMAN KNOX: Thank you.

17 What I'd like to do is go through
18 Review and Adoption of the Direct and Alternative
19 Finance Committee Meeting Minutes from April 10,
20 2018.

21 Does anyone wish to make any
22 additions, edits, or corrections to the Minutes from
23 April 10, 2018?

24 (No response.)

1 CHAIRMAN KNOX: Hearing none, I'd like to
2 request a motion to approve the Minutes.

3 Is there such a Motion?

4 FUENTES: So moved.

5 JURACEK: Second.

6 CHAIRMAN KNOX: All in favor?

7 (Chorus of ayes.)

8 CHAIRMAN KNOX: Opposed?

9 (No response.)

10 CHAIRMAN KNOX: The ayes have it.

11 JURACEK: I believe he may have dialed in.

12 CHAIRMAN KNOX: Ryan?

13 OECHSLER: Has someone joined the line?

14 ZELLER: Brad Zeller.

15 OECHSLER: Let the record reflect that
16 Mr. Zeller has joined the meeting.

17 CHAIRMAN KNOX: Thank you.

18 WEBER: And the time is...?

19 OECHSLER: The time is 8:36 a.m.

20 CHAIRMAN KNOX: For the Presentation

21 Consideration of New Business, I would like to ask
22 for the general consent of the Members to consider
23 each of the New Business items collectively, and to
24 have the subsequent record vote -- I apologize -- the

1 subsequent recorded vote applied to each respective,
2 individual item, unless there are any specific New
3 Business items that a Member would like to consider
4 separately.

5 (No response.)

6 CHAIRMAN KNOX: Okay. Hearing none, what I
7 would like to do is turn it over to Mr. Luboff for
8 Item 1 of New Business.

9 LUBOFF: Thank you. Good morning.

10 This is a \$20,000 Participation Loan
11 for Hernon Blanco and Peggy Chamarro doing business
12 as PSD Printing in Rockford. This project came to us
13 from Rockford Local Development Corporation. Let me
14 explain their role and how we plan on working with
15 them in the future.

16 There are banks in the Rockford area
17 that are willing to handle deals for companies that
18 are somewhat challenged in terms of their access to
19 capital, with support for Rockford Local Development
20 Corporation. So for instance, on your real estate
21 deal, the bank might be willing to go 80 or 75
22 percent, or 80 percent, and there's a gap.

23 And what Rockford Local Development
24 Corporation does is they try to fill the gap, but

1 they have limited funding. And so we help Rockford
2 Local Development Corporation leverage their funds by
3 splitting the gap 50/50. Our role with them is
4 typically on a pari passu basis. Although, both of
5 us are subordinated to the commercial bank that's
6 providing the bulk of the financing.

7 One of the reasons why I enjoy working
8 with Rockford Local Development Corporation is that
9 their target includes minority, women, disabled, and
10 veteran businesses, just as one of our target --
11 targeting happens to be.

12 The purpose of this loan is to
13 purchase real estate located at 2415 and 2421 North
14 Court Street -- two buildings adjoined, by the way --
15 in Rockford.

16 The total cost of the real estate
17 itself is \$190,000, and there's \$2,000 in soft costs
18 involved. The structure has Alpine Bank, and at
19 present, Midland State Bank providing a first
20 mortgage loan of \$152,000, and that's supported by
21 the Rockford Local Development Corporation second
22 mortgage loan of \$40,000 in which we're participating
23 50 percent, or \$20,000.

24 Currently, the borrowers lease 100

1 percent of the lease -- of the space being purchased.
2 However, the borrower's projected principal and
3 interest loan payments would be on a par with what
4 the company now pays in rent. Of course, they will
5 have some extra costs including property taxes and
6 insurance, but they will be able to build equity and
7 they'll be able to take tax deductions on the
8 mortgage interest, so there is an offset in there.

9 The current property owner has been
10 wishing to sell the real estate for a while and the
11 market's been improving, and the borrowers are
12 concerned that they might be forced to vacate the
13 premises unless they bought it. They feel that in
14 buying the property they will have more control of
15 their work space and be better able to make
16 modifications to accommodate their expanding
17 operations and expected growth in employment.

18 I mentioned that we will be pari passu
19 with Rockford Local Development Corporation and both
20 of us will be subordinated to Midland State Bank.

21 PSD Printing began as a resale
22 business. In other words, they buy shirts and then
23 they do printing or embroidery and then sell them,
24 focusing on embroidered products targeting the Metro

1 Chicago and Rockford markets where Hispanic
2 restaurants and supermarkets are prevalent. They've
3 since expanded their market area and their product
4 portfolio including printing techniques over and
5 beyond just embroidery. They've also expanded an
6 online presence and are now selling far beyond the
7 Chicago and Rockford markets, for instance, Texas and
8 Florida and elsewhere, again, still focused on the
9 Hispanic market, but also expanding into other
10 markets.

11 These borrowers need assistance
12 because they have limited equity available to
13 participate in purchasing the property itself. They
14 have avoided credit. Typically, it's been credit
15 cards and friends and family. They have avoided
16 revolving lines of credit. They've avoided all term
17 debt. They've only used their cash generated by
18 their business to purchase equipment, and that is
19 creating this need for the subordinated debt for this
20 particular project.

21 We will be supported by the second
22 mortgage on the real estate property, but we'll also
23 have a first priority lien on all the business assets
24 of the company. They may not seem very robust, but

1 by my calculations, the collateral is marginally
2 adequate, just barely adequate, mostly because
3 there's a lot of equipment that's owned free and
4 clear, and that adds to the value. And the equipment
5 is printing equipment, which has a fairly long life.

6 There will be a ten-year amortization
7 schedule, but the initial loan will be five years
8 followed by a five-year balloon -- balloon. IFA will
9 be repaid fully after five years. We're not in for
10 the full ten years. And we're not required -- and,
11 in fact, in our approval letter, we state that we
12 will not be involved in the following five years.

13 The interest rate to the borrower will
14 be 6.75, which is a combination of IFA's rate of six
15 percent and the RLDC rate of seven-and-a-half
16 percent, so we do a blending and weighting.

17 PSD is a growing minority company. As
18 I mentioned, they've developed a business outside of
19 their market area. They've been focusing on
20 restaurants and supermarkets, but now they are
21 providing -- especially because of their expansion
22 into digital printing -- they're now providing all
23 sorts of other products.

24 This company was started by Hernon

1 Blanco's father. He's been involved in it since --
2 since his youth. However, he's been more involved in
3 it as the primary owner since 2007. Their
4 high-quality results have enabled them to expand.
5 The demand was, Well, since you're doing embroidery,
6 why don't you do these other things that we need for
7 our business? So that's how they've expanded their
8 business portfolio.

9 The -- Herman Blanco is primarily a
10 Spanish speaker. His wife, Peggy Chamarro, is
11 bilingual. She's a teacher in the Rockford school
12 area, but she generally handles the sales end of it,
13 mainly since she can deal with clients all over the
14 United States.

15 Their balance sheet is modest. In
16 terms of their net worth, they're only at 26 -- a
17 little bit over \$26,000 of net worth, but it's been
18 steadily, pretty much at the same level. In terms of
19 their operating ratios, their current ratio is very
20 strong, their quick ratio is very strong even on a
21 pro forma basis adding on this debt.

22 FUENTES: Well, I think the pro forma's very
23 lacking. I don't see -- I see one column of pro
24 forma. I mean, I'd like to see what they plan on

1 doing with this money and how many salespeople
2 they're going to add.

3 I mean, I think this -- this whole
4 plan is pretty lacking in information for us to --
5 you know, it's a very risky business. And I think
6 part of the small business need to have more
7 discipline in showing a business plan than less,
8 right? That helps them and it helps us. But that's
9 just my point on this.

10 I mean, here, one column of pro forma,
11 what does that mean? What's in data? You know,
12 what's the time frame on it? How are they going to
13 get there and what's their value added? So I think
14 this is a very risky business.

15 LUBOFF: Well, again, this is not a projection.
16 This is a pro forma. This is a sign of what their
17 performance would be if they already had this debt on
18 their books. So there's a difference between the
19 projection and pro forma here.

20 The fact of the matter is this
21 business has been in existence for over two decades,
22 and the current management has been operating it
23 since 2007.

24 FUENTES: Well, it's a very competitive

1 business. What's the value --

2 LUBOFF: They --

3 FUENTES: -- add that they're going to do?

4 LUBOFF: They have a niche. They're not --

5 they're not -- they're not competing with

6 RR Donnelly. They have a niche with Hispanic --

7 FUENTES: Well, I'm not asking for answers like
8 that. I mean, I -- what I said was what's their
9 value add? What are they -- where specifically are
10 they going? How many salespeople are they adding? I
11 mean, these are -- I'm surprise they're getting the
12 money from Alpine. So...

13 MEISTER: Well Stan, why don't you -- I think
14 you and I have talked about this, is there is -- this
15 debt does add something particular to the viability
16 of this business, and obviously there's a
17 demonstrated history. Why don't you go into that a
18 little bit more.

19 LUBOFF: Well, the rents of the company have
20 been growing dramatically as the area has been
21 improving. And so, basically, right now in lease
22 payments they're paying over \$18,000 a month, and
23 here, with principal and interest payments, they
24 would be paying an equal amount. So we're not seeing

1 a dramatic increase in their operating costs. In
2 fact, they're going to be building equity, which is
3 one of the things we want them to do.

4 They have been just operating it and
5 reporting on their tax returns and not showing great
6 profits, but they're not relying on this company to
7 provide them their living expenses. They're relying
8 more on Peggy Chamarro's \$68,000 teacher's salary.

9 Their debt service coverage is very
10 strong, has been strong all the way through. 2015,
11 it was 1.21; 2016, it was 2.15, and then 2017, it's
12 1.18. These are people who pay their debts. Yeah,
13 their credit score, I believe, is an average of 650,
14 but after intense survey, they have never missed a
15 payment.

16 FUENTES: Then why isn't it higher?

17 LUBOFF: Because they have a lot of credit
18 cards, and this will enable them to start off saving
19 some of that kind of activity. They're growing.
20 They have to learn how to behave like a growing
21 company. And that means that they have to provide
22 better financial statements, as you mention, and they
23 have to stop using credit cards and start using a
24 revolving line of credit, for example. They've never

1 used any term debt to buy any equipment. They've
2 never used a revolving line of credit for working
3 capital. They just simply earn money in the company
4 and throw it back into the company.

5 CHAIRMAN KNOX: I have a quick question.

6 LUBOFF: Yes, sir.

7 CHAIRMAN KNOX: So all three of these loans,
8 the one that's coming from Alpine and the two
9 subordinated loans, these are five-year balloons?

10 LUBOFF: Yes.

11 CHAIRMAN KNOX: And what is the -- do we know
12 what their current monthly payment is on their rents?
13 And what -- I'm just trying to understand is it looks
14 like the monthly debt service payment will be about
15 \$1,500 a month.

16 LUBOFF: Yes. And their annual rent payment is
17 about \$18,050 dollars, I think.

18 CHAIRMAN KNOX: Currently?

19 LUBOFF: Yes.

20 CHAIRMAN KNOX: Under Rents?

21 LUBOFF: Right.

22 CHAIRMAN KNOX: So their mortgage --

23 LUBOFF: In fact, I think I have something like
24 that in here, on page 6.

1 Okay. Note that PSD is basically
2 being incentivized to purchase the above real estate.
3 Borrower has seen its rent rise quickly in recent
4 years, going from 10-and-a-half thousand a year to
5 \$18,000 -- in 2017 to \$18,000 a year in 2018.

6 Basically, the seller is trying to
7 sell the property, but these people would like to buy
8 the property so they can stay where they are, stay
9 with their customer base.

10 One of the things that Rockford has --
11 Rockford Local Development Corporation pointed out
12 was that this was basically a smart move to control
13 their destiny in terms of this particular location.

14 MEISTER: Stan, can you go into a little bit
15 more about the role of Rockford Development
16 Corporation [sic] and how they engage with businesses
17 like this.

18 LUBOFF: Rockford Local Development
19 Corporation, which it has as its executive director
20 John Phelps, also controls a number of other
21 revolving funds and other resources in that area. It
22 includes Rockford Local Development Corporation,
23 Northern Illinois CDC. By the way, Rockford Local
24 Development Corporation is able to issue SBA 504

1 activity on its own. It also controls Northwest
2 Illinois CDC, and also the funds that are available
3 to Winnebago County to help local businesses.

4 These are not the kinds of deals that
5 a bank would take on -- on its own without help. And
6 also, that's actually the mandate that we have in our
7 program. If we are doing a deal that a bank is
8 willing to do on its own without support, then we're
9 not supposed to be there. We're not supposed to be
10 competing with -- with commercial banks. We're
11 supposed to be supplementing those banks, helping
12 them to serve those that are challenged in their
13 access to capital.

14 Rockford Local Development Corporation
15 is -- or was the leading user of the Advantage
16 Illinois Program at the Illinois Department of
17 Commerce. And it was the main path to especially
18 minority-and-women-owned businesses, and that's one
19 of our key social goals of the Illinois Finance
20 Authority.

21 MEISTER: And Stan -- morning.

22 Were there any losses on Rockford
23 Development Corporation loans when you were at
24 Advantage?

1 LUBOFF: There was one for \$18,000 on a tire
2 company, and that's out of about 40 deals.

3 CHAIRMAN KNOX: Quick question.

4 MEISTER: Oh. Arlene had a question.

5 CHAIRMAN KNOX: Oh. I didn't see her.

6 JURACEK: Yeah. So the Rockford LDC, they also
7 provide mentorship, right?

8 LUBOFF: Oh yeah. Sure.

9 JURACEK: So to me, it seems like this kind of
10 business that started out the way they did, you know,
11 basically a family business, used to using credit
12 cards, et cetera, they need a mentor to get them over
13 the hurdle of behaving like a real business. And so
14 I kind of view this -- I understand the concern, but
15 we're only in this for 20 grand, and with the
16 mentorship, et cetera, it gets this business in the
17 big leagues in terms of how businesses are supposed
18 to behave.

19 LUBOFF: One of the --

20 JURACEK: And so I balance the risk with it's
21 supposed to be a risky investment.

22 LUBOFF: One other thing is --

23 FUENTES: Well, I agree, but I think should --
24 the work needs to be done before the money gets

1 there, not post.

2 JURACEK: Uh-huh.

3 FUENTES: That's what my concern is. I agree
4 100 percent with helping. But I want to see a
5 business -- I want to know how they're going to spend
6 their money before they get it. I want to see what
7 they're planning to do. I want to see -- it's a very
8 competitive market, this kind of stuff, and, you
9 know, what are they doing -- what's their value add?
10 All this stuff to make this successful.

11 LUBOFF: Well --

12 FUENTES: And that's the -- that's the thing to
13 me, is -- I agree. The mentoring is what's
14 important. I agree in supporting the minority
15 businesses. I just thing the w- --

16 JURACEK: Well, I agree. Yeah.

17 FUENTES: I like to read a report that tells me
18 how they're going to get there.

19 JURACEK: The uses funds is --

20 LUBOFF: Fairly clear.

21 JURACEK: -- very generic here. It's very
22 generic here.

23 CHAIRMAN KNOX: Yeah. It's a --

24 LUBOFF: I mean, they're buying -- they're

1 buying real estate to replace the rent payments that
2 they make.

3 JURACEK: I know, but their business plan is --
4 is -- it also says they're going to hire two extra
5 people, et cetera. This is a hugely competitive
6 business. I can't tell how many we have in the Mount
7 Prospect area and how many are out there in Carroll
8 County. This is, like, the go to business for people
9 who retire and are looking to make a little money.

10 CHAIRMAN KNOX: Are you sure?

11 LUBOFF: These are --

12 JURACEK: And that's not this case. This one's
13 been around for 20 years or so, but they're
14 competitive market share. At some point they're
15 going to have to show what they're doing to compete
16 beyond the Hispanic grocery stores.

17 LUBOFF: Okay. Number one, I know that there
18 are a lot of printing companies in Mount Prospect,
19 but how many of them have lasted this many years and
20 focused primarily on Hispanic market and had
21 longstanding relationships with companies like
22 Supermercado and some others that are -- that are
23 actually small Hispanic chains around the country?

24 What are they doing to grow? They've

1 already established their online presence and they're
2 already selling in Texas and in Florida and elsewhere
3 outside -- and in Missouri, but outside of the state
4 of Illinois.

5 You want to see what they're doing
6 with the money? It's very simple. They're
7 substituting their lease payments with an actual
8 ownership of the property. They're actually building
9 equity. They're actually going to be able to start
10 acting like a bigger company.

11 Part of the mentorship has included
12 the fact that you'll notice that there's a change in
13 the way they present their -- their income statement.
14 And one of the reasons for that change, you'll see --
15 notice that the change in the presentation of the
16 sales and general and administrative, and also
17 their -- their costs of goods sold. The reason is
18 that instead of going with tax returns as they did in
19 2015 and 2016, they're now going with QuickBooks and
20 they're now hiring an outside accountant. And that
21 was part of the mentorship from Rockford Local
22 Development Corporation.

23 Is this a world beater? No. This is
24 a nice, little steady business that will keep on

1 keeping on, I think.

2 CHAIRMAN KNOX: Are there any concerns about
3 this balloon payment and the risk associated with
4 that in five years and the amount they need to cough
5 up?

6 LUBOFF: Well, by then --

7 CHAIRMAN KNOX: \$180,000?

8 LUBOFF: By then, they will have some equity in
9 the building, and by then, half of the loan will be
10 paid down and we will still have the building as
11 collateral.

12 MEISTER: And Stan, one of the points that you
13 made was this is -- the location of this building a
14 rising real estate --

15 LUBOFF: Yes.

16 MEISTER: -- market?

17 ANDERBERG: I'm not voting on this, but I'll
18 speak to that. Rockford's been in a real estate
19 depression it's been rejuvenation tho- -- motiva- --
20 they're on the edge of the big development of
21 Downtown Rockford, just on the edge of downtown.
22 This is a desirable area where you're seeing law
23 firms, you're seeing other professional services
24 buying buildings and coming back to that part of

1 town. So it is up and coming. This is a -- if this
2 came before my BLC at our bank, I have no problem get
3 on board business situation.

4 FUENTES: Just because of the property value,
5 that you're saying that's where the equity --

6 ANDERBERG: That's the property value.

7 FUENTES: That's the equity --

8 ANDERBERG: Yeah.

9 FUENTES: -- on the deal.

10 Still -- I still think the business
11 plan is lacking, and if you're going help businesses,
12 part of the -- there should be more rigor put into
13 this.

14 LUBOFF: You're talking about projections over
15 years. This is a company that just goes year by
16 year. I agree with you. This is not -- this is not
17 a company --

18 JURACEK: You know what would have helped me,
19 like, you mentioned the deal with Supermercado.
20 Apparently, that's a big deal. I've seen the name
21 Supermercado. I have no idea if it's a chain, how
22 big it is, is it just Chicago Metro or anything.

23 So just -- the story's compelling,
24 absolutely. I'm going to vote "yes" on it. But for

1 us who are not intimate with that market, I think it
2 just would have helped to have a little better
3 explanation.

4 ANDERBERG: And John Phelps, RLDC, he handles
5 all the SBA financing and loan guarantees for the
6 banks, and he's got a -- I sat next to him two weeks
7 ago at a dinner, and he's got a stellar track record.
8 I mean, he's not gone -- He knows Alpine. He's a
9 local development as he was supposed to be.

10 McCOY: So I guess my take is when I look at
11 this, and I share the concerns of my fellow members
12 and comments they've made, is I guess we saw one last
13 month with Neighbors.com, you remember, right? That
14 was what, 250 or whatever it was. It was a larger
15 number.

16 When I look at this and discussion
17 raised because look upon the interest, this is a
18 small deal, has potentially a lot of dirt because we
19 don't have a lot of the answers, and respectfully, a
20 ma-and-pa type of thing.

21 Are we going to see more in the plan?
22 Is this more a marketing tool to get out to get some
23 deals done? Or is this --

24 MEISTER: Actually, I'll take that.

1 McCOY: Yeah.

2 MEISTER: And again, this was a concern that
3 was raised by Chairman Horne at our meeting last
4 month. And what I found particularly useful, and
5 obviously, Stan and I had discussed this in some
6 detail and it had gone through the internal staff
7 credit committee. I think that the answer is yes,
8 it's my intent that we're going to see more of these
9 transactions that will raise our profile in this
10 space. And if appropriately underwritten and if
11 appropriately presented towards the Board, is going
12 to provide us with an alternative line of business in
13 areas where we have not been active, but we will have
14 availed ourselves of partnerships with established,
15 longstanding organizations that frankly, in my view,
16 because they are established and longstanding, are
17 not going to let us down.

18 And I understand the concern. But I
19 came back from the conference of our national group
20 of Health and Ed issuers yesterday evening. I think
21 that the impact of the November and December federal
22 tax legislation is still reverberating within our
23 peer organizations, and that we are well positioned
24 to use the resources that we have in an appropriate

1 way to raise our profile and look for other
2 opportunities.

3 I agree with Member Fuentes. I think
4 that there are some things in the future that we can
5 add to the reports to make them more persuasive and
6 compelling and to establish the level and depth of
7 due diligence and the strength of the partnerships.
8 But I think that we are very well positioned with
9 respect to our peer organizations because we do have
10 a balance sheet. We have little in the way of
11 liabilities at the moment. And us being out there in
12 these areas allow us to have the conversations that
13 may lead to bond deals.

14 Also -- I'm sorry. Chairman?

15 CHAIRMAN KNOX: Just a quick question.

16 So along this program lines, I'm going
17 to kind of dovetail on the last conversation and what
18 was raised here, from a flow through-put, how many of
19 these kinds of transactions should we expect as an
20 authority on an annual basis going forward?

21 MEISTER: I'll answer the first. The piece of
22 legislation that we have going through the General
23 Assembly that they highlighted in the message from
24 the Executive Director, Senate Bill 43, is through

1 the Senate with only one opposition vote that was --
2 I was told by the sponsor it was a mistaken vote.
3 Somebody pushed red rather than green. But that will
4 open up up to \$20 million and above of -- of funds,
5 two State Treasurer fund and one locally-held fund,
6 that now back the State Guarantee Program.

7 In addition, I will tell you one of
8 the reasons why we are pursuing this path is because
9 in comparison with the Agricultural Guarantee
10 Program, this is a less risky, higher return,
11 higher-profile business that will likely lead to
12 other lines of business.

13 But I will turn it over to Stan.

14 McCOY: Yes. I guess my --

15 LUBOFF: In terms --

16 McCOY: Just one second.

17 When I look at this, you know, my
18 worry is not -- I look at it and say who knows
19 because it is what it is. And I think the risk is in
20 the first 18 months or something like that. If they
21 survive, it will be fine for five years or ten years.
22 It's the front end that I worry about. I worry
23 about -- I get to a point that this is mission a bit.

24 MEISTER: Uh-huh.

1 McCOY: Right? Rather than dollars and cents
2 at the bottom line for us, which is fine. But I then
3 worry how many of these -- because it -- these take a
4 long time to do. And, you know, to Staff, again, how
5 many, you know, \$20,000 deals can you do without this
6 thing of, Well, the reason we're doing it is this is
7 seed money to go for a deal that's \$1 million or, as
8 you say, that leads to a bond deal somewhere?

9 So I don't have a problem now. As
10 long as we're looking at it that way, it's not -- you
11 know, we're not going to have -- it would be great if
12 we had 20 a month or something, but that's not going
13 to happen, I don't think. But that's my -- my only
14 concern, and I guess it dovetails with what happened
15 last month.

16 LUBOFF: Our next deal is \$396,500 for a
17 women-owned manufacturing business. It's an
18 acquisition in the Rockford area. So we will have
19 larger deals. Will we have more of these \$20,000
20 deals where the company is just going year by year
21 and doesn't really do projections? After this
22 meeting, I don't think so.

23 MEISTER: Well --

24 CHAIRMAN KNOX: Well, I mean, it's --

1 LUBOFF: I think I'll be more diligent in
2 forcing the company to come up with more information.

3 FUENTES: But my only point on that is it helps
4 the company. I mean, it's -- we don't ask this --
5 true, you want to have a story ready when you get
6 your money is all I'm saying. It goes pretty fast
7 once you get it and you need to have it written down.
8 Everybody can monitor it; it helps them as well.
9 Everything changes, but having a plan and the actual
10 discipline to do that is -- and all I'm saying, helps
11 companies. I mean, I --

12 JURACEK: Yeah. It's part of the mentorship.

13 LUBOFF: Yes. I absolutely agree with you.

14 JURACEK: Yeah. We should be doing this to
15 mentor them.

16 FUENTES: That's my point.

17 LUBOFF: Yes. I absolutely agree with you.

18 It's just that this company is thinking, Well we've
19 been working profitably all these years and now we're
20 just switching lease payments for principal.

21 FUENTES: Well, we had --

22 CHAIRMAN KNOX: Well, I remember this --

23 FUENTES: Remember the cupcake lady?

24 CHAIRMAN KNOX: Yeah, I remember.

1 FUENTES: We had one just like this, and we
2 said no because they -- she didn't do her due
3 diligence. She didn't do her business plan. She
4 didn't show us pro forma. She didn't show us
5 projections.

6 LUBOFF: Was it a startup?

7 CHAIRMAN KNOX: No.

8 FUENTES: No. She was around for a while. She
9 was selling to the -- you know, CPS. But anyway --

10 CHAIRMAN KNOX: I think that part of it is, you
11 know, too, is as we start to wrap our heads in volume
12 as it picks up, to understand what that volume looks
13 like, kind of in a go-forward basis, you know,
14 whether it's \$20,000, \$300,000, \$500,000. Are there
15 limits? Do we care about setting limits? You know,
16 \$20,000 just based off the work effort that it takes
17 to do this from a Staff perspective.

18 The other is, is that as we get ready
19 to dive back into this type of business from a
20 credit-review standpoint at the Board level or at
21 this Committee level is, you know, what is the
22 writeup going to look like and what are those
23 important aspects? From my standpoint, I consider
24 the risk, right? What is the risk? What is the true

1 risk that we're undertaking? I understand the
2 mission.

3 I understand, you know, the mentorship
4 and those type of things that we provide, but at the
5 end of the day, we're taking on certain risk. And
6 the risk that we have, it's backstopped by the assets
7 of the company, the physical assets, and then we have
8 a second lien on the mortgage against the -- the
9 security against the property.

10 So from the revenue-producing cash
11 flow, can they generate, you know, \$1,500 a month?
12 What do we think, they can do that against the next
13 five years? And then at the end of year five, what
14 do we think the real estate may be in case we're
15 stuck holding the bag? Can we sell it? Can we get
16 out of it to reclaim the money for \$20,000 for the
17 people of Illinois to redistribute in the future?

18 So I think that it's kind of along
19 those lines and how that gets baked in. It's going
20 to be a little bit iterative in these first few go
21 arounds as we rebuild this program. But I think,
22 that, you know, broadly, you know, these are kind of
23 the consistent themes of the comments that we've
24 heard over the past couple of these programs that we

1 start to build it up. As well as, you know, the
2 subordinate versus the senior position, understanding
3 that from a risk standpoint as well, because that was
4 from the Neighborhoods.com, LLC, transaction that we
5 talked about last week -- or last month. That was
6 kind of important.

7 So those are the things that I think
8 that we should consider when these types of
9 transactions come forward because that's kind of how
10 the Board members are thinking about them. But I
11 also want to keep us on time and on schedule.

12 So are there any other questions on
13 this item?

14 (No response.)

15 CHAIRMAN KNOX: Hearing none, what I'd like to
16 do, then, is go to the second item, Item No. 2.

17 OECHSLER: Item No. 2 concerns the DACA Loan
18 Program, which is also Item No. 8 in the Board Book.

19 As you may recall in 2013, the
20 Authority created a student loan program for medical
21 and dental students with DACA status. DACA being
22 Deferred Action for Childhood Arrivals, a federal
23 program. In 2014, the first group of students
24 receiving loans through the DACA Loan Program

1 enrolled at Loyal University's Stritch School of
2 Medicine. In 2015, a second group of students
3 enrolled at Stritch. I'm pleased to report today
4 that the first group will be graduating this
5 Saturday, and will enter medical residency programs
6 as detailed in the cover memo to this resolution,
7 which can be found in your Board Books.

8 Today's resolution authorizes the
9 Executive Director to make certain amendments to
10 program documents in order to accomplish two changes,
11 the first of which is to increase the per student
12 aggregate loan cap to account for increased tuition
13 and fees. This will ensure that the second group of
14 students, who have only one year of medical school
15 remaining, are able to fully cover their tuition and
16 fees.

17 This need can be met with funds
18 previously authorized for the program under the 2014
19 and 2015 Program Resolutions. It does not require
20 authorization of the use of additional Authority
21 funds. The resolution also authorizes the Executive
22 Director to expand the permitted specialties which
23 students may pursue as part of their service
24 obligation.

1 Students are currently authorized to
2 pursue six specialties. The Executive Director
3 intends to add two specialities, emergency medicine
4 and neurology, as permitted specialties.

5 Does any member have any questions?

6 MEISTER: Elizabeth and Ryan, do you want to
7 mention...

8 WEBER: Yes. In a red folder that came with
9 your Board Book is a memo from outside counsel on --
10 just basically on the DACA program, some brief
11 background. It's intended to be attorney-client
12 privileged, so we want to keep it within the Board
13 Members, and the Legal Counsel, Executive Director.
14 But certainly available to answer questions to the
15 extent we can. I mean, a lot of this is in the
16 courts right now, and it's a little unknown, in terms
17 of the future of the DACA program.

18 CHAIRMAN KNOX: If anything changes with that,
19 at the federal level, does that affect the borrowers
20 against this program or does it affect our risk
21 position instead of --

22 MEISTER: It actually does, Chairman Knox.
23 We've been in close conversations with Loyola, and I
24 think one of the reasons why we're pursuing this, and

1 why we're updating the documentation is that a change
2 in the federal position could impact our risk
3 position. And again, the bargain that we have made
4 is that there are going to be a number of young
5 people becoming doctors that will return to Illinois
6 to serve as doctors in needed specialties and
7 medically-underserved areas. If they can't be in
8 Illinois and if they can't become doctors, that --
9 that raises some questions. But so far, as an
10 institution, Loyola Stritch has been a very strong
11 partner.

12 CHAIRMAN KNOX: So in the -- in the possibility
13 or event that the DACA Act gets rescinded in some
14 way, shape, or form, the students are no longer able
15 to repay their loans, are we -- is there any recourse
16 or are we -- you know, "we" as a State agency, you
17 know, as you said, taking the position that, you
18 know, by supporting these young people, that they'll
19 come back and provide services to the State, and if
20 that program goes away, you know, it's money that's
21 not necessarily down the drain, so to speak, because
22 we trained people, but we recognize that we will not
23 be recouped in that position.

24 MEISTER: In short, yes.

1 CHAIRMAN KNOX: Okay.

2 MEISTER: But my hope is -- is one element that
3 gives me confidence is the institutional commitment
4 by Loyola University, which is a substantial
5 organization. They've made, over two presidents and
6 two deans of their medical school, a substantial
7 organizational commitment. And I have every
8 expectation that they will pursue whatever remedies
9 are available. That was one of the reasons why we
10 shared the attorney-client memo with the Board
11 Members.

12 CHAIRMAN KNOX: Thank you.

13 Any other comments or questions on
14 Item No. 2?

15 (No response.)

16 CHAIRMAN KNOX: Okay. Hearing none, I have --
17 request a motion to pass and adopt the following New
18 Business items: Item 1 and Item 2.

19 Is there such a motion?

20 McCOY: So moved.

21 JURACEK: Second.

22 CHAIRMAN KNOX: Will the Assistant Secretary
23 please take the roll.

24 OECHSLER: Certainly. On the motion and

1 second, I will call the roll.

2 Mr. Fuentes?

3 FUENTES: Yes.

4 OECHSLER: Ms. Juracek?

5 JURACEK: Yes.

6 OECHSLER: Committee Chairman Knox?

7 CHAIRMAN KNOX: Yes.

8 OECHSLER: Mr. McCoy?

9 McCOY: Yes.

10 OECHSLER: And Mr. Zeller?

11 ZELLER: Yes.

12 OECHSLER: Mr. Committee Chairman, the motion
13 carries.

14 CHAIRMAN KNOX: Thank you.

15 Other Business: Is there any other
16 business to come before the Committee?

17 (No response.)

18 CHAIRMAN KNOX: Okay. Hearing none, I'll move
19 to Public Comments.

20 Is there any Public Comment before the
21 Committee?

22 (No response.)

23 CHAIRMAN KNOX: Hearing none, I would like to
24 request a motion to adjourn.

1 Is there such a motion.

2 FUENTES: So moved.

3 JURACEK: Second.

4 CHAIRMAN KNOX: All in favor?

5 (Chorus of ayes.)

6 CHAIRMAN KNOX: Any opposed?

7 (No response.)

8 CHAIRMAN KNOX: Hearing none, the ayes have it.

9 Thank you, everyone.

10 OECHSLER: The time is 9:14 a.m.

11 (Whereupon the matter

12 above was adjourned.)

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1 STATE OF ILLINOIS.)

) SS:

2 COUNTY OF COOK)

3 Brad Benjamin, being first duly sworn on oath,
4 says that he is a Certified Shorthand Reporter, that
5 he reported in shorthand the proceedings given at the
6 taking of said hearing, and that the foregoing is a
7 true and correct transcript of his shorthand notes so
8 taken as aforesaid and contains all the proceedings
9 given at said Illinois Finance Authority Meeting.

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Certified Shorthand Reporter

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No. 084-004805

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