

1 ILLINOIS FINANCE AUTHORITY  
2 SPECIAL MEETING OF THE AUDIT PLUS COMMITTEE

3 June 11, 2018 at 10:05 a.m.  
4

5 REPORT OF PROCEEDINGS had at the Special  
6 Meeting of the Audit Plus Committee on June 11, 2018,  
7 at the hour of 10:00 a.m. pursuant to notice, at  
8 160 North LaSalle Street, Suite S-1000, Chicago,  
9 Illinois.

10 APPEARANCES VIA AUDIO CONFERENCE:

11 MS. GILA BRONNER, Chairwoman

MR. LYLE McCOY

12 MR. GEORGE OBERNAGEL

MR. ROGER E. POOLE

13 MS. BETH SMOOTS  
14

ILLINOIS FINANCE AUTHORITY STAFF MEMBERS

15 MR. CHRISTOPHER B. MEISTER, Executive Director

16 MS. ELIZABETH WEBER, IFA General Counsel

MR. RYAN OECHSLER, IFA Associate General Counsel

17 MS. XIMENA GRANDA, Controller

18 ALSO PRESENT:

19 Mr. Malcolm Simmons, IFA Intern

Mr. Ryan Breach, IFA Intern

20 Ms. Tiffany McCoy  
21  
22  
23  
24

1 CHAIRWOMAN BRONNER: Good morning, everyone.  
2 This is Gila Bronner and I would like to call the  
3 meeting to order.

4 Will the Assistant Secretary please  
5 call the roll.

6 OECHSLER: Certainly. The time is 10:05 a.m.

7 Mr. McCoy via audio conference?

8 McCOY: Yes.

9 OECHSLER: Mr. Obernagel via audio conference?

10 OBERNAGEL: Yes.

11 OECHSLER: Mr. Poole via audio conference?

12 POOLE: Yes.

13 OECHSLER: Ms. Smoots via audio conference?

14 SMOOTS: Yes, I'm here.

15 OECHSLER: And Committee Chairwoman Bronner via  
16 audio conference?

17 CHAIRWOMAN BRONNER: Here.

18 OECHSLER: And is Chair Anderberg on the line?

19 (No response.)

20 OECHSLER: All right. Ms. Committee  
21 Chairwoman, a quorum of Committee Members has been  
22 constituted.

23 CHAIRWOMAN BRONNER: Great. Thank you very  
24 much.

1 I'd like to move to Item No. 2, which  
2 is Review and Adoption of the Audit, Budget, Finance,  
3 Investment, and Procurement Committee Meeting Minutes  
4 from April 3rd, 2018.

5 Does anyone wish to make any  
6 additions, edits, or corrections to the Minutes of  
7 April 3rd, 2018?

8 (No response.)

9 CHAIRWOMAN BRONNER: Hearing none, I would like  
10 to request a motion to approve the Minutes.

11 Is there such a motion.

12 OBERNAGEL: Obernagel moves.

13 McCOY: Second.

14 WEBER: Who was the second?

15 McCOY: McCoy.

16 WEBER: Oh. McCoy. Thank you.

17 CHAIRWOMAN BRONNER: Great. Thank you very  
18 much.

19 All those in favor?

20 (Chorus of ayes.)

21 CHAIRWOMAN BRONNER: Opposed?

22 (No response.)

23 CHAIRWOMAN BRONNER: The ayes have it.

24 We now move to Item No. 3, which is

1 really the -- a substantive issue for the purpose of  
2 our meeting today, which is the Presentation and  
3 Consideration of a Resolution Adopting the Budget of  
4 the Illinois Finance Authority for Fiscal Year 2019.

5 Executive Director Meister and  
6 Controller Granda will discuss this item with us.

7 MEISTER: Thank you. Thank you so much, Chair  
8 Bronner.

9 I do want to -- if we didn't already,  
10 I do want to introduce a couple of the interns that  
11 we have here. Malcolm Simmons from Eastern Illinois  
12 University, from Oak Lawn, Illinois; and Ryan Breach  
13 from University of Illinois, Chicago, from Kankakee.  
14 So we've asked them to sit in, and then you will be  
15 meeting them tomorrow at our meetings.

16 So thank you for the opportunity to  
17 present the Fiscal Year 2019 Budget of the Authority.  
18 As the Members know, we run as a business and we are  
19 not reliant on state taxpayer appropriations. Also,  
20 as the Members know, we have had a very successful,  
21 yet challenging year in the current fiscal year over  
22 the next six months. And I think, perhaps, the  
23 number one challenge was the actions by the U.S.  
24 Congress in November and December that threatened the

1 very existence of federally tax-exempt conduit  
2 financing as well as the main tool of the Authority  
3 to meet its public mission, and the major revenue  
4 source that keeps the Authority open.

5           What we have done is -- is that I have  
6 presented two budgets for consideration by the  
7 Authority. I'm recommending that we adopt the  
8 Transformation Initiative, which is identified in  
9 your material as Version 1B [sic]. What that is is  
10 that for the first time in the Authority, to my  
11 knowledge -- and I've been doing this since December  
12 of '09 -- that we are presenting for consideration by  
13 the Board a deficit budget. We do have an  
14 alternative budget without the new transformation  
15 initiative, version -- what is it, Ryan?

16           OECHSLER: Version 2 Budget.

17           MEISTER: The Version 2 Budget that delivers a  
18 small \$104,000 profit.

19           I will tell you that Controller Granda  
20 as well as the three main revenue actors of the  
21 Authority, Pam Lenane, Rich Frampton, and Brad  
22 Fletcher, we have spent a lot of time. And in the  
23 months since January -- or since mid-December when it  
24 became apparent that conduit financing was not going

1 to be totally eliminated as of January the 1st, yet  
2 there were certain structural changes to the U.S. Tax  
3 Code that were, in the judgment of people in  
4 December -- and this has proved to be the case in the  
5 months since -- that there would be a certain erosion  
6 of the economic benefit of federal tax exemption to  
7 our market and, well, both to the buyers and to the  
8 borrowers that we use.

9 As a result, what we have done is --  
10 and as Chair Bronner well knows, over a period of  
11 time, we have struggled to meet the administrative  
12 mandates imposed on us by the State, and that has  
13 been generally an expensive and onerous proposition.  
14 We have -- Six and I and Elizabeth and Ryan, in the  
15 months since January 1st, we have had a number of  
16 successes, both with the installation of a  
17 comprehensive internal audit plan, which we are not  
18 paying for that is being provided by our sister  
19 agency, the State Department of Central Management  
20 Services.

21 We have also utilized the personal  
22 services contracts to address -- and there have been  
23 ongoing developments in the regulation connec- -- the  
24 multiple regulations connected with hiring people in

1 the public context in this state.

2 And finally, that I think, due to a  
3 collective effort largely led by Six, we have  
4 successfully transitioned our payroll and our health  
5 benefits out of the long-time provider, and I think  
6 made significant forward movement on a variety of  
7 external-audit-related issues.

8 Just to give everybody an idea of the  
9 magnitude of the cost to the organization of the  
10 external audit process, I signed a check, I think  
11 within the past several weeks, for approximately  
12 \$233,000 that represents --

13 CHAIRWOMAN BRONNER: Crazy.

14 MEISTER: Yes. Yes, thank you. You can say it  
15 again, Chair Bronner.

16 CHAIRWOMAN BRONNER: Yeah.

17 MEISTER: -- it represents the cost of the  
18 Authority of both the two-year external audit process  
19 and the one-year financial audit.

20 To the people on this phone, and I'm  
21 thinking particularly George and Roger, who have been  
22 in board positions and probably dealt with external  
23 audits, I mean, we know that an organization of our  
24 size in any sort of conventional local government or

1 nonprofit or for-profit context would simply not have  
2 a bill of that size. And again, similar -- there are  
3 similar costs, magnitudes of costs in the procurement  
4 regulatory context and in the -- and in the personnel  
5 hiring and recruitment context.

6 Before I go on, does anybody have any  
7 questions on -- on that overview?

8 McCOY: No.

9 MEISTER: But the good news is -- and I really  
10 want to be optimistic and I want to thank all the  
11 Chairmen, the Members of the Executive Committee and  
12 all of the Members of the Board because I had the  
13 pleasant experience of, over the last few weeks in  
14 preparation for this budget, looking at a to-do list  
15 that I had prepared towards the end of January when  
16 the staff collectively set about this transformation  
17 initiative.

18 And I was very pleased that on just  
19 about every item that we had -- that I had identified  
20 in, like, January, we have made material progress  
21 forward. And the material progress is towards the  
22 goal of diversifying the tools that we have in order  
23 to meet the Authority's broad public mission, so what  
24 we can deliver, our products, and the revenues that

1 make the delivery of the products possible in our  
2 business context.

3           And so while I highlighted them in the  
4 message from the Executive Director, I really want to  
5 point out the success of the legislation that -- that  
6 was really owned and led by both Brad Fletcher and  
7 Stan Luboff. Senate Bill 2773 passed both chambers  
8 on a bipartisan roll call. I'd also like to thank  
9 George Obernagel who called a large number of  
10 representatives in the waning days, and I think that  
11 effort paid off.

12           So that, in essence, gives the  
13 Illinois Finance Authority a seat at the table on the  
14 Property Assessed Clean Energy financing tool that  
15 was enacted into the law last year. We think that  
16 this can be a significant new mission product and  
17 revenue source for the Authority, and Brad along with  
18 Elizabeth and Ryan did an extraordinary amount of  
19 work on this.

20           Similarly, Stan Luboff, Six, Brad,  
21 Elizabeth, and Ryan did an extraordinary amount of  
22 work on Senate Bill 43, which clarifies both our  
23 Participation Loan authority and does some  
24 administrative improvements with respect to Property

1 Assessed Clean Energy Act.

2 But the most important part of it is  
3 that it frees up probably over \$26 million of  
4 restricted funds of the Authority, some of which are  
5 held by the State Treasurer, some of which are  
6 locally held, and frees them up for both bridge  
7 lo- -- both Participation Loans to small businesses,  
8 veterans, women, minorities, other disadvantaged,  
9 agricultural, other sorts of small businesses, as  
10 well as bridge loans for the PACE program. These  
11 were extraordinary accomplishments in this time of  
12 rancor in this state, and our team is to be  
13 complemented.

14 In addition, Pam Lenane has made  
15 significant progress towards two, one revived and one  
16 new initiative, of her -- a medium turn IT financing  
17 tool and an asset purchase and ownership tool. A  
18 large part of Pam's -- of the health care budget is  
19 reliant on both these two revenue streams, which are,  
20 as optimistic as I am, they are untested.

21 Similarly, I have included about a  
22 \$100,000 each for both the rejuvenated Participation  
23 Loan Program and a place at the table for the IFA on  
24 the PACE program. Again, these are untested.

1           So the -- but the next steps, and I  
2 think that we are at a -- in a time in our state  
3 where the Authority's knowledge based governance  
4 structure, transparency, and knowledge of municipal  
5 financing, will really be a significant asset to the  
6 State and to the policymakers. Because I believe  
7 that sometime between November and next May, this  
8 state will need to cross some significant bridges  
9 and -- in the direction of solving parts of our  
10 longstanding financial challenges.

11           There was obviously significant  
12 bipartisan success with the state budget. And of  
13 course, when there's not significant state bipartisan  
14 success with the state budget, the Authority, its  
15 borrowers and its tools and our revenues pay the  
16 price for, that. So there is a tie.

17           But we -- given our institutional  
18 expertise; given the governance model; and frankly,  
19 given our place at the table of -- at any one of a  
20 number of action- -- or number of different sectors,  
21 I think that we do have the opportunity to make  
22 significant progress. I wouldn't go so far to say  
23 that we're going to provide the bridge. Perhaps we  
24 can provide the engineering plans for the bridge and

1 some of structural members for the bridge.

2 But the three that I am most  
3 interested in is this idea of monetization of public  
4 assets, which Ray Kljajic presented briefly in the  
5 February meeting; the idea of taking a look at the  
6 Canadian model of public/private partnerships based  
7 on Infrastructure Ontario; and finally, building on  
8 our State Revolving Fund Partnership with IEPA to  
9 take a look at additional equity sources that are  
10 available, like, through the Clean Energy Community  
11 Foundation and other sources that may be available,  
12 including our balance sheet, to address a very large  
13 context of water, both drinking water and wastewater,  
14 infrastructure financing, some of which may take the  
15 form of sorts of passive rather than concrete bricks  
16 and mortar and pipe.

17 So we do have folks that or identified  
18 to fulfill both -- all three of these roles. We  
19 would -- that -- you know, given that it's a public  
20 meeting and I want to have the Board -- the Board's  
21 approval, but I've had conversations with each of  
22 them and I've had conversations to make sure that  
23 these policy initiatives are aligned with the  
24 Governor's priorities. So we have those, I would

1 anticipate a personal service contract that we have  
2 used very successfully since last December.

3           And then in addition to that, it's a  
4 longstanding administrative support making permanent  
5 our infrastructure -- our infrastructure for  
6 procurement and building on the HR employer/employee  
7 value proposition and identifying some starting  
8 positions and secondary positions so that we can  
9 manage a generational -- an anticipated generational  
10 shift within the staff of the Authority. So that's  
11 the overall picture.

12           Six, did I miss anything?

13           GRANDA: No, you didn't.

14           MEISTER: Elizabeth, did I miss anything?

15           WEBER: Nope.

16           MEISTER: Okay. So I'll take any questions and  
17 then I will ask for an "aye" vote on which version of  
18 the budget, Ryan?

19           OECHSLER: Version 1.

20           MEISTER: On Version 1 --

21           CHAIRWOMAN BRONNER: 1.

22           MEISTER: -- of the budget the deficit of just  
23 over \$1 million to be taken from retained earnings.

24           CHAIRWOMAN BRONNER: Chris, this is Gila, Gila

1 Bronner. I would like to -- it looks like, really,  
2 the difference is exclusively -- or primarily in both  
3 the employee-related expense, where we would see an  
4 increase of approximately \$426,000, as well as the  
5 service increases of a approximately -- of a million.

6 MEISTER: Yes.

7 CHAIRWOMAN BRONNER: And are usually -- but the  
8 dogs cry out over this.

9 MEISTER: Yes. Gila, are you unleashing the  
10 hounds on me?

11 CHAIRWOMAN BRONNER: Right. Exactly. I was  
12 was just going to say we're not trying to hound you,  
13 but perhaps you could speak just a little bit more.  
14 You spoke generally that -- of that \$426,000, how  
15 many positions that might correlate to, and then on  
16 the professional services, would you anticipate a  
17 pool of vendors that would be utilized -- we would be  
18 utilizing in support of this initiative that would be  
19 reflected in support that?

20 MEISTER: Six is going to run through them, and  
21 then then I will chime in and answer questions.

22 GRANDA: So the \$426,000 increase, it has  
23 currently about four -- one, two, three -- five  
24 positions.

1 CHAIRWOMAN BRONNER: Okay.

2 GRANDA: No, I'm sorry. Four, four positions.

3 So we have one for procurement; one  
4 for an accountant; HR related: we have the admin  
5 communications and HR manager.

6 CHAIRWOMAN BRONNER: Okay.

7 MEISTER: And the two analysts.

8 GRANDA: No. The two analysts are in the  
9 information --

10 CHAIRWOMAN BRONNER: And that includes the  
11 additional material you have provided to us on  
12 personnel?

13 GRANDA: Yes. And also it includes, of course,  
14 a merit based discretionary increase, and I think  
15 that's all.

16 MEISTER: And on that one, we will be moving --  
17 we'll be going through the evaluations process. That  
18 was another one of the things that we were revisiting  
19 in connection with this payroll and other admin  
20 strengthening over the last six months. We  
21 anticipate doing that within the next several weeks.  
22 And that would also include any promotions.

23 Now, again, the 5 percent, we're not  
24 thinking about that across the board, but we are

1 thinking about that as a budgetary number to allow a  
2 discretionary-based recommendations --

3 CHAIRWOMAN BRONNER: Perfect.

4 MEISTER: -- for both increases and promotion.

5 CHAIRWOMAN BRONNER: What I was going to --  
6 where I was really going with that, we will  
7 separately be considering and looking at that matter.

8 MEISTER: Yes.

9 CHAIRWOMAN BRONNER: Okay. Great.

10 But right now, we're just approving it  
11 in overall budgetary authority, and then the details  
12 of that, which we typically approve every year, will  
13 still come back to this committee?

14 MEISTER: Yes. Or we do have the separate  
15 governance personnel --

16 CHAIRWOMAN BRONNER: I'm sorry. What --

17 MEISTER: But again, I mean, the former  
18 chairman of that is also the chairman of the entire  
19 Authority, so we're --

20 CHAIRWOMAN BRONNER: Yes.

21 MEISTER: -- we're still working on where that  
22 will go.

23 CHAIRWOMAN BRONNER: Okay. I just wanted to  
24 clarify that for my colleague.

1                   But -- and then if you could, Six,  
2           just speak a little bit about the professional  
3           services line item.

4           GRANDA: Right.

5                   So in the professional line item,  
6           we -- you're probably seeing that the \$2 million that  
7           we are requesting for FY '19, that actually includes  
8           all of the items that Director Meister was talking  
9           about, the transformation. That was roughly, I  
10          believe, about \$1.2 million in this transformation  
11          line item.

12          MEISTER: And it includes senior folks on a  
13          professional -- on a personal services contract for  
14          public/private partnerships for asset -- asset  
15          management and monetization and on SRF Water  
16          Development. It also includes additional dollars for  
17          legal and for financial advisors.

18                   You know, one of the -- one of the  
19          things that we were -- we were involved in a  
20          significant way -- and I can discuss the details  
21          offline -- in the closing days of the general  
22          assembly with a rather significant challenge to the  
23          State and us playing a role with some proposed  
24          legislation.

1                   The types of -- the types of  
2           legislation and expertise that we need as an  
3           organization to make -- to make credible tools  
4           credible to both -- to the market and to policymakers  
5           are costly, and they do require a high degree of  
6           experience and expertise. We are fortunate that we  
7           have those existing contractual relationships with  
8           top-flight, internationally ranked law firms that  
9           helped us develop that proposal in the closing days  
10          of the General Assembly. So...

11           CHAIRWOMAN BRONNER: Good.

12                   Does anyone have any comments or  
13          questions?

14           McCOY: Yes. Lyle McCoy.

15                   You know, I guess, Chris, when I look  
16          at this, certainly on the employee-related, it makes  
17          sense under either scenario that we have to address  
18          that, and we see it going up.

19                   Professional services is a big number.  
20          You know, there's no -- for this year, there's -- if  
21          I look at it, there's no impact on revenues. I think  
22          if I'm looking at this correctly, if we spend the  
23          money, there's no impact this year.

24                   Do you have any idea, as we look

1 forward, what the level we can expect of success in  
2 doing what we do this year will translate to next  
3 year?

4 MEISTER: An initial, in the Board Book --  
5 under which -- tab, Six?

6 McCOY: Okay.

7 GRANDA: Page -- I mean, it's Tab 13, page 3.

8 McCOY: Okay.

9 MEISTER: These are -- these are very  
10 conservative numbers, and I think that the most --  
11 the most significant --

12 McCOY: Tab 13?

13 GRANDA: Yes. It's Tab 13, page -- it is page  
14 number 3.

15 MEISTER: 3 of 3.

16 GRANDA: 3 of 3, it's the last page.

17 McCOY: Yes. Thank you.

18 OECHSLER: It's also the last page of Committee  
19 materials.

20 MEISTER: Ryan?

21 OECHSLER: Yeah. It's also the last page of  
22 your Committee materials that were provided.

23 McCOY: Yes.

24 MEISTER: So that's a great question, Lyle,

1 because really -- and just to go into a little bit  
2 more detail about the consequences of the federal tax  
3 legislation from December, it eliminated advanced --  
4 advance refunding, "advanced" without a "d" on the  
5 end, despite what I want to say. And advance  
6 refunding has provided in recent years a rather  
7 significant part of our revenue and budget.

8 In essence -- and again, Elizabeth can  
9 correct me, but it's basically the mortgage  
10 refinancing for a lower interest rate tool that is --  
11 that had been available until midnight on  
12 December 31st, 2017, to the municipal tax-exempt  
13 market. And there were any number of borrowers that  
14 were utilizing that, and indeed, one of the reasons  
15 why we were able to make the 12-month -- the 12-month  
16 budget in 7 months was because we had a rather large  
17 proportion of advanced refunding projects that came  
18 in in November and December and closed, and a couple  
19 of them drifted over into 2018 calendar year.

20 But I think that really the conduit  
21 closing fee, under Roman Numeral 1 of Health Care  
22 CCRC, is \$381,000. Now, we are taking this budget to  
23 the Board about 30 days earlier than our traditional  
24 efforts, but -- and just given the way that pure

1 conduit -- the business cycle goes, it's very, very  
2 hard in May and June to see what October, November,  
3 December, and January are going to look like. But I  
4 will tell you that that \$381,000 is very, very, very  
5 low, and I've been working with Pam on budgets since  
6 '08 or '09.

7           And I think there's a lot of reasons  
8 for it. I think that there continues to be mergers  
9 and acquisitions among nonprofit health-cares, which  
10 ha- -- borrowers that has the net result of reducing  
11 the overall universe of potential borrowers.

12           These nonprofit health systems are  
13 going to be investing and borrowing, but they are not  
14 likely going to be doing it in bricks-and-mortars  
15 hospital. The method of delivery is changing. And  
16 then with the -- so those are the two big elements.

17           Sort of on the buy side, you have this  
18 really -- this situation where the lowering of the  
19 tax rates for certain categories of borrowers,  
20 specifically property and casualty insurance  
21 companies that had been traditionally large-scale  
22 buyers of federally tax-exempt debt, that is -- as an  
23 asset class, tax-exempt is no longer as attractive to  
24 them due to tax changes.

1                   In addition, we have heard anecdotally  
2                   that the tax law changes have made it more  
3                   attractive -- they have made tax-exempt more  
4                   attractive for life insurance companies. But since  
5                   we're only six months into this experiment, we don't  
6                   really have a clear picture. It's always possible  
7                   that rates could increase rather dramatically over  
8                   the next 12 months, and with those rates that -- that  
9                   the delta between taxable rates being higher and  
10                  tax-exempt rates being lower would increase thus,  
11                  making our product more attractive, but at this  
12                  point, we really don't see it.

13                  The interesting thing is the amount --  
14                  and again, Pam and I discussed this in some detail.  
15                  The amount of money that -- of projected revenue,  
16                  just over \$1 million: \$700,000, for the asset  
17                  purchase and \$360,000 for the medium-term financing.  
18                  That is, you know, \$1,000,060 of our projected  
19                  revenue.

20                  We have not closed any of those. We  
21                  have -- we have serious interest, we have serious  
22                  leads, but I will tell you that it's possible that a  
23                  year from now, I could be talking to the Board and  
24                  saying, you know, this simply did not turn out.

1 These are good faith estimates, we feel good about  
2 them, but they are ambitious and optimistic.

3 Similarly, with Property Assessed  
4 Clean Energy and New Participation Loan interest --  
5 this is all under Item 5, under the Projected  
6 Operating Revenues Detail Budget.

7 The \$100,000, again, particularly with  
8 PACE, what I've heard anecdotally, that could be low.  
9 But PACE will -- assuming it's signed, and I'm  
10 optimistic that it will be signed, and it will become  
11 a law on January 1st. And that gives IFA, to work  
12 with any number of partners, a runway to come up with  
13 the -- a runway to come up with the documents and  
14 regulations and things that we need to do.

15 The Participation Loan interest,  
16 again, you know, we had at least one Board Member  
17 voice some concerns at the last meeting on this. I  
18 remain committed to this and I remain optimistic.  
19 This gives us a tool that I think that we can manage  
20 well, manage appropriately, and most importantly, be  
21 very transparent with the potential risks to  
22 Authority funds, with the Board and with the public.

23 But importantly, it gives us a place  
24 at the table among any number of economic development

1 and business-attraction conversations that are  
2 happening. And simply, at the moment, we do not have  
3 a have a place at that table. And I think that  
4 because we ha- -- because we are building this tool  
5 out and it's been favorably received, one of the, for  
6 the Authority, very promising results of the  
7 bipartisan budget agreements was the state House and  
8 the -- the state house and the Governor's Office  
9 cooperating to bring some accountability to the  
10 statutory regional authorities, our competitors. And  
11 there could be a benefit to the Authority.

12 But one of the things that these  
13 regional areas want, particularly in downstate and  
14 particularly given our longstanding commitment to  
15 agriculture, we need a tool that works for the  
16 lenders and works for the borrowers, and I think that  
17 this rejuvenated Participation Loan interest is that  
18 tool.

19 So those -- we have built in even to  
20 the nondeficit budget a very aggressive  
21 transformation strategy. On the three that I really  
22 look at, we are probably going to know by January  
23 whether or not there is interest and what -- what the  
24 revenue and public-benefit outcome will look like for

1 public/private partnerships, public asset  
2 monetization and pension funds, and non-SRF financing  
3 tools. We will know by January.

4           A lot of -- a lot of -- I mean, I've  
5 put, personally, a lot of time in each of these  
6 transformation initiatives, but I really need expert  
7 help and I need people being focused on it, because  
8 despite the commitment of my time, we do need Pam and  
9 Rich and Brad to run the business of the Authority on  
10 the revenue side. We need Elizabeth and Ryan and Six  
11 to make sure that our current operations move forward  
12 effectively, and I do not want to take our eye off  
13 the ball of the core business. So that's why I'm  
14 asking for the additional expensive high-priced  
15 resources.

16           And unfortunately, to the heart of  
17 your question, I do not have projections at this  
18 time. I will tell you that our track record has been  
19 very good over the past several years. I think one  
20 of the significant diversification victories that the  
21 Authority has embarked on since '04 -- or since 2014  
22 is the State Revolving Fund, which accounts for about  
23 \$4 million of our annual budget an annual issuance  
24 fee of about \$250,000, and \$150,000 annual

1 maintenance fee.

2                   So that's been successful. And as I  
3 said, I'm very pleased with the midterm prospects of  
4 Pam -- the two health care initiatives, asset  
5 ownership, and medium turn, and with Property  
6 Assessed Clean Energy and rejuvenated Participation  
7 Loan. I'm very pleased about the progress that we've  
8 made in a very short period of time to making those a  
9 reality.

10                   I will also point out that while  
11 health care, which traditionally provides the largest  
12 single revenue and largest single dollar volume, I  
13 was very pleased that in Rich Frampton's area, you  
14 know, that \$858,000 is a pretty solid number. It is  
15 frankly much more solid than the Roman Numeral 5,  
16 Transformation Initiatives.

17                   So I think, you know, again, rising  
18 interest rate environment, increase spreads between  
19 taxable and tax-exempt debt, that could bring certain  
20 categories of borrowers back to the Authority that  
21 have been gone for a number of years, and that would  
22 fall primarily within Rich's area.

23                   Did I answer your question, Lyle?

24                   That was probably longer.

1           McCOY: You did. You know, it was good.

2                     The -- where I'm coming out from,  
3 obviously, revenues, you don't know, right? I mean,  
4 you budget for revenues and you hope you get to the  
5 number. And what the makeup is at the end of the  
6 year is probably different than when you go into it  
7 in the budget process, because you don't have control  
8 like you do expenses.

9                     There's no question that we're in  
10 different times now, challenging times. And you and  
11 I have talked. You know, I'm a big supporter of  
12 looking into different things. I think it's  
13 important for the organization to do that.

14                    I think you've done a great job and  
15 the organization's done a great job since I've been  
16 involved on the expense side and managing expenses.  
17 The only concern I have here is -- I support  
18 transformational; we've got to do different things,  
19 no question -- is that when you look at spending a  
20 million dollars -- a million dollars-plus on the  
21 professional services side, I just want to make sure  
22 that those are value added and give us -- you know,  
23 I -- because it's different times, I just -- as they  
24 say, I just want to make sure we get value for money,

1 if I can use that expression. And I think, you know,  
2 maybe the way that I get comfort from that is we do  
3 have a procurement process that, you know, we're able  
4 to look at things and evaluate them at that stage.

5 But there's no question we've got to  
6 do stuff; it is a big number. But it -- you know,  
7 but it's -- we're probably at a time, as you say,  
8 that we've to take some risks to grow the business  
9 and do something a little different. So...

10 MEISTER: Well -- and I -- thank you, Lyle, for  
11 that, that vote of confidence.

12 I think I will say that as I've  
13 wrestled with -- as I've wrestled with these issues  
14 and frankly learned from past Authority experiences  
15 in this area, I do have a couple of lessons, and I  
16 think one of which is we need to remain absolutely  
17 focused on our core current customers and our core  
18 current revenues, and I believe that this structure  
19 allows us to do that, so that's number one. That, I  
20 think, was an error that maybe past transformation  
21 efforts were not as successful at, and we have  
22 learned from that.

23 The second item -- and I've really  
24 come to appreciate the commitment of time and the

1 interest of the Board in the operations of the  
2 Authority and its team -- is I think what we have  
3 that is a competitive advantage is the transparent  
4 end and accountable governance that is provided by  
5 the body politic and corporate legal structure and  
6 our monthly board meetings and the degree of  
7 transparent discipline that is demanded by the Board.  
8 It has thought -- it has required the staff to be  
9 more succinct and persuasive when we develop ideas.  
10 And I think, importantly, it allows a structured,  
11 organized, transparent avenue to report back  
12 regularly on the issues that you so rightly  
13 identified, Lyle.

14                 So I would anticipate that over the  
15 next couple of months -- and again, I was gratified,  
16 not only by looking at my January to do list, but  
17 looking at the February, April, and May messages from  
18 the Executive Director -- we've been very transparent  
19 informing the Board as to the progress of these  
20 various steps, and I would anticipate that continuing  
21 to occur in the 20- -- in the coming months.

22                 I'll also just note is I really think  
23 that we're either going to be able to develop these  
24 engineering plans and certain structural members that

1 policymakers will be able to take off the shelf or we  
2 won't. And at least we will have tried and there may  
3 be an idea or two that has not met expectations, or  
4 in the Illinois context, does not deliver the  
5 form -- the sort of impact that the Board and the  
6 staff of the Authority as well as the executive  
7 branch and the legislative branch, you know, to  
8 believe -- to have the value for money.

9           So -- and if -- and in that case, you  
10 know, I'm -- I'm more than happy to back away and  
11 say, Look, we invested in X, and X is not going to do  
12 it for us. We have had failed initiatives and failed  
13 tools in the past. I've -- I'll admit I played a  
14 major role in some of those. But I think that the  
15 hallmark of the Authority is identifying our mistakes  
16 or where things are not going to turn out as planned,  
17 and then having the flexibility to -- not to double  
18 down on a -- on the wrong route, but to redirect,  
19 repurpose, and take another look at our navigation  
20 and set a course in a different direction.

21           For the other Board members, Lyle used  
22 a great phrase that has particular relevance to the  
23 public/private partnership. In Canada, in  
24 Infrastructure Ontario, which I've highlighted as a

1 potential model for the Authority, they use this  
2 phrase, "value for money" on the difference between a  
3 conventional operation and procurement and  
4 acquisition of a capital project and what the  
5 public/private partnership path, and that delta is  
6 known as value for money. So thank you for injecting  
7 that into the discussion.

8 CHAIRWOMAN BRONNER: Does anyone else have  
9 comments or questions?

10 SMOOTS: I do; this is Beth.

11 And perhaps I'm just saying this in  
12 different words, but what I am understanding -- and  
13 if someone would confirm to me -- is that what we're  
14 counting on in both budgets is \$1.26 million in what  
15 I'll call transformation income, using our existing  
16 resources.

17 MEISTER: Yes.

18 SMOOTS: And what we're asking for in  
19 transformation budget is also an allowance of \$1.2  
20 million to amplify these initiatives further?

21 MEISTER: Yes.

22 SMOOTS: So if we do some simple math, in  
23 transformation version, you could do a very  
24 conservative budget and say, Okay. X out the \$1.2

1 million revenue, x out the \$1.2 million initiatives,  
2 and would really end up at the same place.

3 MEISTER: Yes.

4 SMOOTS: Okay.

5 MEISTER: But I would --

6 SMOOTS: We're con- -- we're confident that --  
7 but we need to move forward. I'm not suggesting  
8 that.

9 MEISTER: Yeah.

10 SMOOTS: I'm just -- I'm just going through the  
11 math in my head. But since we're confident enough  
12 that, with our current team, we can put just short of  
13 \$1.3 million in our top line, it's the appropriate  
14 time to also invest to amplify those programs using  
15 additional resources for the benefit of the future.

16 MEISTER: Yes.

17 SMOOTS: Okay. I'm just making sure I  
18 completely understand.

19 CHAIRWOMAN BRONNER: Although, if you look at  
20 the budget from FY '18 to '19, we're projecting lower  
21 revenues than for FY '18. We're going from \$4.1 to  
22 \$3.6.

23 SMOOTS: Got it.

24 CHAIRWOMAN BRONNER: So I --

1           SMOOTS: But I'm just understanding the  
2 transformation piece of that, which is the flex, the  
3 change.

4           CHAIRWOMAN BRONNER: I mean, to me, I see  
5 expenses going up -- going up and revenue going down.

6           McCOY: In both cases.

7           CHAIRWOMAN BRONNER: So I think, Chris, you  
8 maybe want to just speak to that for a moment.

9           MEISTER: Yes.

10                         So I think one of -- so let me just  
11 address Chair Bronner's point. There is a way for us  
12 to completely pull back and live within projected --  
13 projected revenues. But I believe that we would be  
14 doing a disservice to our public mission, a  
15 disservice to the Board, a disservice to the staff,  
16 and a disservice to our current and potential clients  
17 and customers if we were to do that.

18                         Over the past number of years, we  
19 have -- we have really pulled back on a lot of  
20 resources and we've used temporary staff, at least on  
21 some significant core functions. And I have cut  
22 before and we know how to do it, and we know how to  
23 do it successfully.

24           CHAIRWOMAN BRONNER: Uh-huh.

1           MEISTER: That is an option, and we have --  
2 we've done it in the past.

3                   I think what I'm underscoring for the  
4 future, that, over the mid- to long-term, that will  
5 be a losers game for the public mission of the  
6 Authority because our core business is not as  
7 economically attractive to our customers as it was  
8 maybe 10 years ago, and it promises to be less  
9 attractive in the future. And there are --  
10 importantly, there are fewer qualified borrowers with  
11 fewer qualified projects. And that has to do with  
12 the transformation that health care is undergoing and  
13 the transformation that education, both K through 12  
14 and higher Ed is undergoing.

15                   So we could continue to -- you know,  
16 to bop along, I think doing a very credible job. But  
17 what this state needs at this moment is a Board with  
18 broad-based experience that approaches public policy  
19 challenges on a nonpartisan basis and has a vision  
20 for the future, and I think that's what I'm  
21 outlining. Because I think -- I do not want to be  
22 executive director of the Buggy Whip Manufacture and  
23 Distributing Company. I would like to be Tesla. And  
24 if I can't be Tesla, I'd like to be Ford or Toyota.

1 CHAIRWOMAN BRONNER: Very good.

2 Could you just speak to us, just for a  
3 moment as well as, Chris, on the implications of  
4 adopting a deficit budget, just in terms of State of  
5 Illinois financial management.

6 MEISTER: Well, yes. From the State  
7 perspective, the appropriated state, the State is not  
8 allowed, and as I understand it, although most of  
9 my -- all of my experience is in the State of  
10 Illinois, I understand that no state is allowed to  
11 run deficit budget.

12 Now, as a practical matter, between  
13 the long-term pension obligation and the late paying  
14 of vendors and the statutory 1-percent-a-month Prompt  
15 Payment Act penalty and cutting long-term commitments  
16 to things like education and various battles over how  
17 we pay appropriated public employees, as a practical  
18 matter, if you would talk to an outside observer,  
19 they would say, Well, the State has been running  
20 deficit, at de facto deficit.

21 The Authority, since its inception,  
22 has taken this business model very seriously. And  
23 since I've been executive director since '09, you  
24 know, I've taken it very seriously under two

1       governors and three chairs. We were created in '04,  
2       a successful example of governmental consolidation.  
3       And we have operated outside of the state budget  
4       during our history, and we have successfully managed  
5       to successful exit the -- I won't necessarily call  
6       them mistaken commitments, but obligations that did  
7       not turn out as planned of our predecessors. So we  
8       taken have responsibility for legacy.

9                        But in the case of the Authority, I  
10       think that it's imp- -- from my perspective, we have  
11       avoided dipping into the General Fund to support  
12       operations to date. Even in the most dire of  
13       consequences, which was Fiscal Year '09, where Pam  
14       Lenane and I and the then Board -- where we engaged  
15       in mass economic-related layoffs of our colleagues at  
16       that time and then did not fill positions over an  
17       extended period of time. Even though we were facing  
18       very dire circumstances, even that year turned out  
19       better than planned.

20                       And over time, whether it was taking  
21       the General -- the General Fund to buy off the Rural  
22       Bond Bank local government loan program that was  
23       backed by the state taxpayers, and turn that into  
24       simply a loan program between the borrower and the

1 Authority, or whether it was the various efforts of  
2 the last two administrations to help us make sure  
3 that we were not looking at losses, either on the  
4 Medical District commission or other things like The  
5 Clinic at Altgeld [sic], we've really -- we've been,  
6 I'd like to say, wise -- but probably more than wise,  
7 we were lucky -- in taking -- in approaching past  
8 liabilities and turning them into assets and  
9 unforeseen revenue sources.

10 But one of the disadvantages of  
11 finally clearing out our balance sheet, and  
12 separately, I'm going to be asking the Board to give  
13 back the money on the longstanding USDA loan and the  
14 longstanding Clean Energy Community Foundation grant.  
15 We -- and that, combined with the payoff of the  
16 Medical Commission, we're going to be at a point  
17 where at long last -- and Gila has been involved with  
18 our balance sheet even since before she joined the  
19 Board -- we will have a far more simplified and  
20 streamlined balance sheet.

21 But the downside of that is where  
22 we're not going to be finding loose change under the  
23 cushions of the living room sofa anymore and having  
24 that be available -- or buried treasure in the

1 backyard that our aunt left us during the depression,  
2 because we will have identified everything, all the  
3 potential upside and all the potential downside will  
4 be gone.

5           And this FY '19 Budget will be, I  
6 think in large respect, the first time since the  
7 creation of the Authority that the legacy of the past  
8 seven entities, and specifically, the past five  
9 entities, will officially be in the rearview mirror.  
10 And so we will stand or keel over on the strength of  
11 these -- of the decision that the Board and the staff  
12 makes.

13           So that was one, two -- and as was  
14 pointed out to me, the second line -- or the first  
15 line of the message from the Executive Director for  
16 the June 12th meeting was, you know, despite very  
17 challenging times at the state level between FY '15  
18 and FY '18, the Authority, on a preliminary unaudited  
19 basis, earned a profit of approximately \$5.8 million.  
20 And when we --

21           GRANDA: For a period of years.

22           MEISTER: For a period of years. For those --  
23 you know, for those fiscal years. And that's a  
24 significant accomplishment.

1                   And again, we'll be able to have to  
2                   have the parade when the audited financial comes out.  
3                   But after, you know, the payoff of the Medical  
4                   District Commission; the exit of the Clean Energy  
5                   Community Foundation Fund, and that's payoff; the  
6                   exit of the USDA; the repayment by the City of  
7                   Chicago's longstanding loan; the management of the  
8                   money-losing agricultural guarantee program to a very  
9                   manageable amount; the complete exit with minimal  
10                  loss of the former Participation Loan Program, these  
11                  are significant achievements that all of the members  
12                  can really take credit for. It's been remarkable,  
13                  but that places this projected deficit spending in  
14                  context.

15                 CHAIRWOMAN BRONNER: Okay. Thank you.

16                         Does anyone else have any questions or  
17                         comments?

18                                 (No response.)

19                 CHAIRWOMAN BRONNER: Hearing none, I would like  
20                 to request a motion to recommend for approval the  
21                 Version 1 Budget for Fiscal Year 2019 by this  
22                 Committee to the full Board for its consideration at  
23                 the June meeting.

24                                 Is there such a motion?

1           McCOY: Yes. McCoy.

2           OBERNAGEL: Obernagel, second.

3           CHAIRWOMAN BRONNER: Moved by Member McCoy,  
4 second by Member Obernagel.

5                     All those in favor?

6                     (Chorus of ayes.)

7           CHAIRWOMAN BRONNER: Opposed?

8                     (No response.)

9           CHAIRWOMAN BRONNER: The ayes have it. Thank  
10 you. I know that was a very important matter for  
11 this committee.

12                    Is there any other business to come  
13 before the Members today?

14                    (No response.)

15           CHAIRWOMAN BRONNER: Hearing none, is there any  
16 public comment for the Committee?

17                    (No response.)

18           CHAIRWOMAN BRONNER: Hearing none, I would like  
19 to request a motion to adjourn.

20           POOLE: So moved. Roger Poole.

21           SMOOTS: Seconded --

22           McCOY: Second. McCoy.

23           CHAIRWOMAN BRONNER: Thank you.

24                    All those in favor?

1 (Chorus of ayes.)

2 CHAIRWOMAN BRONNER: Opposed?

3 (No response.)

4 CHAIRWOMAN BRONNER: The meeting is adjourned.

5 Thank you all very much.

6 OECHSLER: The time is 11:06 a.m.

7 (Whereupon the above

8 matter 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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