

1 ILLINOIS FINANCE AUTHORITY
2 SPECIAL MEETING OF THE AUDIT, BUDGET, FINANCE,
3 INVESTMENT AND PROCUREMENT COMMITTEE
4 July 12, 2017 at 11:02 a.m.

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8 Report of Proceedings had at the Special Meeting of the
9 Audit, Budget, Finance, Investment and Procurement Committee of
10 the Illinois Finance Authority on July 12, 2017, at the hour of
11 11:00 a.m., pursuant to notice, at 160 North LaSalle Street, Suite
12 S-1000, Chicago, IL.

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1 APPEARANCE:

2 COMMITTEE MEMBERS

- 3 MS. GILA J. BRONNER, Chair, (Via audio conference)
- MR. LYLE McCOY
- 4 MS. BETH SMOOTS
- MR. GEORGE OBERNAGEL (Via audio conference)
- 5 MR. ROGER POOLE (Via audio conference)
- MR. ERIC ANDERBERG, Ex-Officio (Via audio conference)
- 6 MR. LERRY KNOX

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ILLINOIS FINANCE AUTHORITY STAFF MEMBERS

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MR. BRAD FLETCHER, Assistant Vice-President

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MS. ELIZABETH WEBER, General Counsel (Via audio
conference)

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MS. XIMENA GRANDA, Controller

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1 CHAIRWOMAN BRONNER: Good morning. I would
2 like to call the meeting to order. Will the
3 Assistant Secretary please call the roll?
4 FLETCHER: Certainly. The time is 11:02 a.m.
5 Mr. Knox?
6 KNOX: Here.
7 FLETCHER: Mr. McCoy?
8 McCOY: Here.
9 FLETCHER: Mr. Obernagel on the line?
10 OBERNAGEL: Here.
11 FLETCHER: Mr. Poole on the line? Roger?
12 POOLE: Roger, here.
13 FLETCHER: Ms. Smoots?
14 SMOOTS: Here.
15 FLETCHER: Chairwoman Bronner?
16 CHAIRWOMAN BRONNER: Here.
17 FLETCHER: And did someone just join the line?
18 WEBER: Yes. Elizabeth Weber on the line.
19 CHAIRWOMAN BRONNER: Mr. Committee Chair, a
20 quorum of Committee Members has been constituted.
21 CHAIRWOMAN BRONNER: Great. Thank you. Let's
22 move on to item No. 2, Review and Adoption of the
23 Audit Budget Finance Investment and Procurement
24 Committee meeting minutes from June 8th. Does
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1 anyone wish to make any additions, edits or

2 corrections from the minutes from June 8th?

3 Hearing none, I would like to request a

4 motion to approve the minutes. Is there such a

5 motion.

6 OBERNAGEL: Obernagel makes.

7 KNOX: Second.

8 FLETCHER: Motion by Obernagel and seconded by

9 Mr. Knox.

10 CHAIRWOMAN BRONNER: Great. Thank you. All

11 those in favor?

12 (A chorus of ayes.)

13 CHAIRWOMAN BRONNER: Opposed?

14 (No response.)

15 CHAIRWOMAN BRONNER: The ayes have it. Let's

16 move now to Presentation and Consideration of the

17 Resolution Authorizing and Confirming the Execution

18 and Delivery of an Intergovernmental Agreement

19 between Central Management Services regarding the

20 Provision of Internal Auditing Functions and Other

21 Matters Related Thereto.

22 Now that was a mouthful. Executive

23 Director Meister and General Counsel Weber, could

24 you please lead us in a discussion on this item?

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1 MEISTER: Thank you very much. I'm actually
2 going to turn over this issue to our Controller, Six
3 Granda. Six?

4 GRANDA: Good morning, everyone. In your
5 packet, there is two actually items included, and
6 they are the Intergovernmental Agreement and a copy
7 of an audit plan.

8 So back in June 20 -- 18 of 2017, the
9 Authority actually executed an intergovernmental
10 agreement with the Department of Central Management
11 to provide internal auditing functions.

12 The Authority is actually mandated to have
13 an internal audit function. So we did the
14 agreement. The Authority is going to be in
15 compliance with this mandate.

16 The Department of Central Management has
17 provided to the Authority a two-year audit plan,
18 which is included in your folder for your review,
19 and the estimated start time for the internal audit
20 is going to be at the beginning of September.

21 CHAIRWOMAN BRONNER: Great.

22 GRANDA: Is there any additional questions that
23 you want to ask?

24 MEISTER: I would also just like to thank Six

1 and Elizabeth. This was a culmination of a
2 multi-year effort working with successive management
3 teams at the State's Central Management Services,
4 and I think that we have a group of people in their
5 internal audit function that understand the role,
6 understand our needs.

7 And they have also been in touch with our
8 external auditors, the Auditor General's Office.
9 And I understand from the CMS folks, that there was
10 no objection, and that CMS and the Auditor General's
11 Office are aligned on this.

12 And, frankly, the resolution of this
13 matter, and our hope for course of action going
14 forward, is State Government working as it should,
15 which is there is an agency that provides support
16 services. One of their functions within those
17 services is an internal audit.

18 They speak State Government, and they
19 speak the language that the Auditor General speaks,
20 and they not an outside firm, or necessarily an
21 internal person, should be fulfilling this role.

22 So thank you Six. Thank you Elizabeth,
23 and thank you CMS.

24 FLETCHER: Did someone else join the line?

1 CHAIRWOMAN BRONNER: Great. And thank you,
2 Chris. Are there any questions or comments? In
3 that case, I would like to --

4 MEISTER: And one moment. Somebody may have
5 joined the line. Brad had raised that.

6 FLETCHER: Did someone else join the line?

7 POOLE: No. It's Roger. I hit the -- I was
8 hitting the mute button here, and I hit the wrong
9 button, so I called back.

10 FLETCHER: Thanks for calling back in.

11 CHAIRWOMAN BRONNER: We're so glad you did. At
12 this point, I would like to request a motion to
13 recommend for approval the Internal Auditing
14 Resolution. Is there such a motion?

15 McCOY: So moved.

16 KNOX: Second.

17 FLETCHER: Moved by Mr. McCoy and seconded by
18 Mr. Knox.

19 CHAIRWOMAN BRONNER: Thank you. All those in
20 favor?

21 (A chorus of ayes.)

22 CHAIRWOMAN BRONNER: Opposed?

23 (No response.)

24 CHAIRWOMAN BRONNER: The ayes have it. Moving

1 on to item No. 4, for subject matter only discussion
2 purposes. Six, Controller Granda, will provide us
3 with a status report on findings in connection with
4 the IFA financial audit for the year end June 30,
5 2016, performed by RSM, as Special Assistant
6 Auditors for the Audit General. Six?

7 GRANDA: So in fiscal year 2016, as it was
8 discussed in the previous meeting, we received an
9 audit finding for the uncollectibles, the
10 uncollectible balances.

11 So the Authority actually engaged with an
12 outside firm to help us with the uncollectible
13 accounts and needs to be submitted to the Attorney
14 General's Office.

15 So on June 26th, all of the
16 certifications, along with an affidavit from me, was
17 submitted to the Attorney General's Office to
18 request authorization to write off these
19 uncollectible balances.

20 Since then, we had some communication with
21 the Office of the Attorney General, and I would let
22 Chris comment on those communications.

23 MEISTER: So, first of all, just to underscore
24 a point is that it has been the practice of the

1 Authority, and Six can provide the clearer
2 description than I can, but we are not carrying any
3 phantom assets.

4 These are long-ago losses that have long
5 ago been written off and reduced to zero on our
6 balance sheet. This is a statutory requirement is
7 that as a statutory state body politic, we cannot
8 write down anything that was considered state debt.
9 That is a power that belongs to a separate
10 constitutional officer -- office, the Attorney
11 General.

12 Now, at the end of our last audit cycle,
13 and with this same firm that we engaged this time,
14 law firm, we actually had probably the greatest
15 amount of success that the Authority had ever had.
16 And, again, most of this, quote-unquote,
17 uncollectible state debt, there have been efforts
18 even going back before 2004 in the consolidation.

19 So it was clear from the wrap-up of the
20 FY2016 audit, that the Auditor General had also
21 gotten the attention of the Attorney General's
22 Office. And when this paperwork was submitted, we
23 heard back from both the Chicago office and the
24 Springfield office on submissions asking follow-up

1 questions. We're in the process of responding to
2 those.

3 The only element that has not yet been
4 submitted is there remains an open question on the
5 Chicago Housing Partnership, which was a statutory
6 loan through our predecessor, the Development
7 Finance Authority, to the City of Chicago that was
8 repaid over the last year, and there were some open
9 questions of accounting treatment and other things
10 as to whether or not this step with the Attorney
11 General's Office will ultimately be necessary.

12 So if it is, we will work, we will get
13 this submitted. If it is not, we will be in
14 alignment on this issue, we hope, with the external
15 auditors.

16 Any questions?

17 CHAIRWOMAN BRONNER: All right. Thank you.
18 Moving on, then, to item No. 5, the Presentation and
19 Consideration of a Resolution Adopting the Budget of
20 the Illinois Finance Authority for Fiscal Year 2018.

21 Chris, Director Meister, could you please
22 lead us in this discussion?

23 MEISTER: Yes. Actually, I am going to turn it
24 over to Six.

1 CHAIRWOMAN BRONNER: Okay.

2 MEISTER: And she is going to -- and then, I'll
3 be a back stop, if necessary. Six?

4 CHAIRWOMAN BRONNER: Great.

5 GRANDA: So in your packet, we provided a copy
6 of our operating budget, and also there are some
7 details along with it.

8 So, with that, this year budget actually
9 is very conservative, and so I will start with
10 revenue. Our total projected revenues are at
11 \$4.027 million, and the key components for those
12 revenues are closing fees from our healthcare at
13 \$1.4 million.

14 We have closing fees from our business and
15 industry in the amount of \$1.5 million. We have
16 interest on loans from an old rural bond bank in the
17 amount of \$581,000. Interest on loans from other
18 local governments in the amount of \$46,000.

19 We also have our annual fees from the
20 IEPA, IMDC, our agricultural sector and the
21 predecessor IEFA educational annual fees in the
22 total aggregate amount of \$280,000. Our projected
23 net investment income currently is at \$127,000.

24 Is there any questions on the revenues?

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1 Hearing none --

2 CHAIRWOMAN BRONNER: Let's move to the
3 expenditures.

4 GRANDA: I will move on to the expenditures.
5 So our total projected operating expenses are at
6 \$4,000,000. Compared to fiscal year 2017 actual,
7 this is an increase of 16.2 percent.

8 The major increase is employer-related
9 expenses, an increase of \$481,000 in comparison to
10 fiscal year 2017 actual. The key components are we
11 are hopefully hiring six full-time employees to
12 start roughly in September, hiring two interns, and
13 an increase in salary adjustments for the current
14 employees for a total aggregate -- total increase of
15 \$402,000 compared to fiscal year 2017.

16 Other employee-related expenses, which
17 includes travel, education, memberships, is a total
18 increase of \$79,000 compared to fiscal year 2017.
19 Like I said, the results are detailed for you in
20 your packet detailing all of the employee-related
21 expenses.

22 Is there any questions on that line item?

23 CHAIRWOMAN BRONNER: Well, perhaps Chris or
24 Six, you could talk a little bit about how this

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1 budget has changed from our current fiscal year
2 budget, just in terms of allocation, particularly on
3 the expenditure side, if there's anything that is
4 noteworthy.

5 MEISTER: Six?

6 GRANDA: I believe that there was -- we had
7 actually last year's budget. There was, I believe,
8 additional hiring that we had planned, which that is
9 one of the biggest differences.

10 We had -- if I am correct, if I remember
11 correctly, there was roughly about maybe 10
12 positions that we had budgeted and compared to this
13 year's budget, there's only about six. And I
14 believe that's one of the items.

15 And I believe the other item was we had
16 budgeted for a debt management system that was also
17 going to be a huge amount in there from last year's
18 budget.

19 MEISTER: What we also did, too, was -- and
20 again with the hiring, and I've talked to various
21 Board Members about this issue, through most of my
22 tenure with the Authority, and frankly with most of
23 the Board Members, hiring for mid- and lower-level
24 employees, just given a revenue situation, was not

1 one of our priorities because revenues were not
2 supporting it.

3 I think we're in a much stronger situation
4 now with both revenues, a right-sized organization,
5 and, most importantly, the resolution of or
6 management of various legacy matters.

7 But over the past couple of years, it had
8 become clear that the U.S. Supreme Court's Rutan
9 case, and how it has flowed down through hiring and
10 promotions within State Government, had become more
11 and more relevant to our operations.

12 And the challenge that I had, as Executive
13 Director, was how to craft a process or a protocol
14 to follow that I could turn to the Board and, in my
15 view, would withstand third-party scrutiny.

16 And that was complicated by the fact, and
17 some of the Board Members have heard me give this
18 analogy, but in the Rutan part of it, in regular
19 Executive Branch State Government, is really fused
20 with two other areas that are not applicable to the
21 IFA, the Personnel Code and Collective Bargaining
22 Agreements.

23 And so very quickly, in trying to take a
24 template from State Government, and apply it to our

1 unique circumstance, there were certain translation
2 difficulties. We're working with outside counsel.

3 I think we've got the right counsel and
4 the right lawyer within that firm. They are
5 experienced in this, and we're also working very
6 closely with the Governor's legal folks, who have
7 also done an enormous amount of work on this topic
8 over the last two years and will be the beneficiary
9 of this work.

10 So I think that the other thing that we
11 did last year was that we had set aside certain
12 vendor costs, primarily with financial advisors, but
13 also some other vendors because while we were
14 successful, and this was highlighted in the message
15 from the Executive Director, we were successful over
16 the last 12 months in managing and resolving a lot
17 of these legacy issues.

18 Going into last fiscal year, many of these
19 had the potential exposure for additional spending
20 litigation, other forms of management of the
21 problem; and we were, by and large, able to avoid
22 that.

23 And in the message from the Executive
24 Director, while we did have a substantial income or

1 profit revenues after expenditures, it was really
2 while part of that, a significant part, was
3 higher-than-budgeted closing fees, two other big --
4 there were two other big components of that.

5 The payment of a long locked-up debt
6 service reserve that the Governor's Office and
7 Management and Budget worked with us on, so that we
8 got the full \$600,000; and then spending below
9 budget, which was a combination of not hiring and
10 not spending on vendors.

11 Did that answer the question, Gila?

12 CHAIRWOMAN BRONNER: Yes. Yes, it did. Does
13 anyone else have any other questions?

14 McCOY: So just going back to last year, when
15 we thought we had these bases, what's the
16 probability that we get there on these bases?

17 MEISTER: I think it's a high probability. I
18 shared with Eric and shared with Gila, there's a
19 former colleague of mine at a state agency, who is
20 close to vesting on her benefits.

21 She's somebody that I would characterize
22 as bilingual in State Government, and she's got a
23 lot of experience on the Rutan implementation
24 aspects. I would characterize her as sort of a

1 cornerstone hire to help us build out the other
2 hires.

3 And I think that the other thing that has
4 changed since 12 months ago, that really -- there
5 was a lot of work that, frankly, Elizabeth had the
6 conversations over the past several months, both
7 with the lead lawyer on employment issues and the
8 Governor's Office, and the outside law firm, in
9 finding the right person within that firm.

10 So we've got it teed up, once the budget
11 is adopted to go back to them and say, "These are
12 the folks. This is the hiring plan. These are the
13 skills that we expect."

14 Now we can -- now we can come -- you can
15 come back to us about how that -- how that fits
16 within a Rutan-compliant wrapper, and we can proceed
17 from there.

18 That Rutan-compliant wrapper, given the
19 evolution over the last couple of years, was
20 something that was missing. So --

21 McCOY: So you're fairly confident we'll get
22 there by the end of the year?

23 MEISTER: Yes.

24 McCOY: This calendar year, so six months?

1 MEISTER: I'm cautiously optimistic.

2 McCOY: Okay.

3 MEISTER: It depends on if things work out with
4 the cornerstone candidate.

5 McCOY: Yes.

6 MEISTER: And we've been having discussions,
7 and I think that the big question is: Is she at a
8 point where her benefits are vested and then
9 bulletproof.

10 If we are, I think things will move
11 forward expeditiously. If not, it could lengthen
12 the timeline. Any other questions?

13 CHAIRWOMAN BRONNER: Thank you.

14 MEISTER: Because I do want to highlight future
15 management designations, Roman Numeral IV on the one
16 page, Proposed Budget Snapshot, because thanks to
17 discussions that Six and our outside accounting
18 consultant, Jeff Pruyn, has had, and then we've also
19 talked with Gila and with Eric on this point.

20 One of the challenges that, frankly, I've
21 had here is, at least during my tenure as Executive
22 Director, has been our reliance on one-time closing
23 fees and the lumpy revenues that -- lumpy or
24 episodic revenues that followed from that.

1 And it's been difficult to figure out how
2 to really move into new business lines or pilots and
3 experiment consistent with the four legs of the new
4 program screen in our now -- that was found in our
5 now outdated strategic plan.

6 But those four elements of a new program
7 screen are basically within our public mission.
8 Does it have a revenue model that will serve both
9 the short-term and long-term operational needs of
10 the Authority? Are we avoiding competition with
11 other branches of government, the private sector,
12 the nonprofit sector?

13 And a clear articulation of financial and
14 reputation risk, an operational risk, to the
15 Authority. Those are the screens.

16 So we've had a lot of discussion with the
17 Board over the -- on an individual basis, generally
18 not in a public forum, over the last month. I'm
19 sorry, over the last 12 months.

20 We did pass some legislation, thanks to
21 Senator Bertino-Tarrant and Representative Manley
22 that helped us with an audit issue on the guarantee
23 program, but also created a new program for
24 guarantees for veterans-owned small business.

1 We've been working with one of the
2 legislative advocates there, and we can take some of
3 the money out of the existing guarantee funds.
4 Public/private partnerships impact investing,
5 whether we're going to be able to ultimately do
6 something with the Chicago Housing Partnership money
7 and other ideas.

8 And so after a lot of discussion, rather
9 than lump this -- lump spending under these
10 categories, just clearly out of general funds, I
11 would like to think of them as new business lines.

12 And one thing, after discussions with Six
13 and Jeff Pruyn and Gila that we came up with, within
14 the framework of government accounting standards, is
15 that I would expect at future dates to come back to
16 the Board and say, "We're going to be pursuing X
17 with a set period of time, with a rough budget of Y,
18 and certain standards or benchmarks and timelines,
19 and we will take X amount out of our general fund
20 and try and get it started up that way."

21 So that's what I propose to do, and I
22 expect to do, over the next 12 months. That seems
23 to be an approach that will work for government
24 accounting standards.

1 It was also convenient because the
2 Governor has a new Chief of Staff as of Monday
3 morning, and we've been asked for ideas and
4 proposals by 3:00 o'clock on Friday. And so this is
5 an opportunity, then, to formally submit some of
6 those, in case we're working with other branches of
7 State Government.

8 That's a forum at the same time that I'm
9 having conversations with Board Members and then
10 come back. Obviously, a lot of these particular
11 public profit partnerships would almost, by
12 definition, have some internal state customers.

13 So we can go from there. So that would be
14 the approach. That way, we do not risk
15 cannibalizing our current core mission and core
16 business model of our full -- our giving our full
17 organizational commitment to our conduit borrowers.

18 And that was a risk under prior
19 managements where there were efforts to do that in
20 various sectors. I think that the management
21 designation for new business lines and new mission
22 lines addresses that so we don't take our eye off of
23 our current customers, and I think it also provides
24 clarity and accountability from the staff and

1 ultimately the Board.

2 CHAIRWOMAN BRONNER: All right. Thank you.

3 Any other comments before we move on?

4 In that case, I would like to request a

5 motion to recommend for approval the Authority's

6 FY2018 Budget Resolution.

7 Is there such a motion?

8 McCOY: So moved.

9 OBERNAGEL: Second, Obernagel.

10 FLETCHER: Mr. McCoy moves. Mr. Obernagel

11 seconds.

12 CHAIRWOMAN BRONNER: Thank you. All those in

13 favor?

14 (A chorus of ayes.)

15 CHAIRWOMAN BRONNER: Opposed?

16 (No response.)

17 CHAIRWOMAN BRONNER: The ayes have it. Moving

18 on to item No. 6, Other Business, is there any other

19 business to come before the Members?

20 Thank you. Hearing none, we'll move on to

21 item No. 7, Public Comment. Hearing none, is there

22 any public comments, additional public comments of

23 the Committee, or any other items to discuss?

24 Hearing none, I would like to request a

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1 motion to adjourn. Is there such a motion?

2 OBERNAGEL: So moved.

3 POOLE: Second.

4 FLETCHER: Roger Poole moves. Is there a

5 second?

6 MEISTER: Or, actually, I thought it had been

7 Obernagel moved, Poole seconded. Do I have that

8 right, gentlemen?

9 POOLE: That's right. That's right.

10 OBERNAGEL: Yes, sir.

11 CHAIRWOMAN BRONNER: All those in favor?

12 (A chorus of ayes.)

13 CHAIRWOMAN BRONNER: Opposed?

14 (No response.)

15 CHAIRWOMAN BRONNER: The ayes have it. Meeting

16 is adjourned.

17 MEISTER: Thank you very much, everyone.

18 FLETCHER: The time is 11:30 a.m.

19 (WHICH WERE ALL THE PROCEEDINGS HAD AT 11:30 A.M.)

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1 STATE OF ILLINOIS)
2)SS:
3 COUNTY OF C O O K)

4 PAMELA A. MARZULLO, C.S.R., being first duly sworn,
5 says that she is a court reporter doing business in the city
6 of Chicago; that she reported in shorthand the proceedings
7 had at the Proceedings of said cause; that the foregoing is
8 a true and correct transcript of her shorthand notes, so
9 taken as aforesaid, and contains all the proceedings of said
10 meeting.

11 _____
12 PAMELA A. MARZULLO
13 License No. 084-001624

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