

1 ILLINOIS FINANCE AUTHORITY BOARD
2 TAX-EXEMPT CONDUIT TRANSACTIONS COMMITTEE MEETING
3 December 10th, 2015 at 9:52 a.m.

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7 Report of Proceedings had at the Meeting of the
8 Illinois Finance Authority Board of Directors Tax-Exempt
9 Conduit Transactions Committee Meeting on December 10th,
10 2015, at the hour of 9:30, pursuant to notice, at 160 North
11 LaSalle Street, Suite S1000, Chicago, Illinois.

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MARZULLO REPORTING AGENCY (312) 321-9365

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1 APPEARANCE:
2 COMMITTEE MEMBERS

3 MR. ROBERT HORNE, Chair
4 MR. JAMES J. FUENTES
5 MR. MICHAEL W. GOETZ
6 R. ROBERT FUNDERBURG, Ex-Offi ci o

PRESENT TELEPHONICALLY:

7 MS. ARLENE JURACEK

8
9 ILLINOIS FINANCE AUTHORITY STAFF MEMBERS

10 MR. BRAD FLETCHER, Assi stant Vi ce-Presi dent
11 MR. RICH FRAMPTON, Vi ce-Presi dent
12 MS. MELINDA GILDART, CFO
13 MS. PAMELA LENANE, Vi ce-Presi dent
14 MS. ELIZABETH WEBER, General Counsel
15 MR. CHRISTOPHER B. MEISTER, Executi ve Di rector
16 MR. PATRICK EVANS, Agri cul tural Banker

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1 CHAIRMAN HORNE: I would like it call to order
2 the Subcommittee for Tax-Exempt Conduit
3 Transactions.

4 Can we take a roll call?

5 FLETCHER: Certainly. The time is 9:52 a.m.

6 I'll call the roll. Mr. Fuentes?

7 FUENTES: Here.

8 FLETCHER: Mr. Goetz?
9 GOETZ: Here.
10 FLETCHER: Mr. Horne?
11 CHAIRMAN HORNE: Here.
12 FLETCHER: And Ms. Juracek on the phone?
13 JURACEK: Here.
14 FLETCHER: At this time, Mr. Horne, we have a
15 quorum of the Committee.
16 CHAIRMAN HORNE: Great. Thank you. I think
17 just going through the agenda, we've got
18 presentation and consideration of agricultural
19 projects. In our books, we had a presentation of
20 beginning farmer bonds for -- I think it was four
21 different bonds.
22 Do we need to have a discussion around
23 that?
24 MR. EVANS: All four being farm bonds are bank
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1 purchase loans conduits with rates set by the bank,
2 and the bank holds the risk. If there's any
3 questions on the bonds, I would be glad to answer
4 it.
5 FLETCHER: We can take a motion to recommend it
6 to the full Board.
7 GOETZ: I'll make that motion.
8 FUENTES: Second.
9 FLETCHER: All those in favor?
10 (A chorus of ayes.)
11 FLETCHER: Opposed?

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(No response.)

13 FLETCHER: The ayes have it.

14 CHAIRMAN HORNE: So our next agenda item is
15 presentation and consideration of education,
16 cultural and non-healthcare projects.

17 So there were two items, Norwegian
18 Lutheran Bethesda Home Association, which is a
19 final, and then Adler University, also a final.

20 I know we've had discussion on Adler at a
21 prior meeting. I don't recall the Lutheran, but
22 both were in our books. Do you want to --

23 FRAMPTON: Sure. I will take agenda item 3.
24 I'm Rich Frampton, for the record, and Norwegian
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1 Lutheran Bethesda is requesting a final bond
2 resolution for \$7,517,000.

3 The bonds will be direct purchase by MB
4 Financial Bank as initially contemplated. The terms
5 have now been finalized. The initial term on MB's
6 purchase will set the interest rate for seven years.
7 The principal payments will be amortized over 25.

8 Normally what happens after the seven-year
9 term is up, Norwegian Lutheran Bethesda and MB will
10 return to amend this initial agreement. So just as
11 with the commercial bank loan, the terms will be
12 extended in seven years, assuming everything works
13 out right.

14 And in terms of the project, the project
15 will refund roughly \$550,000 of existing bonds, and
16 we will also be issuing roughly 7.4 million that

17 will be used to construct a new 2,000 square foot
18 addition that will add 16 beds and increase their
19 capacity of skilled nursing beds from 46 to 62.

20 Operationally, the key impact of this
21 project will be to enable Norwegian Lutheran
22 Bethesda, as noted on page 4, to expand their
23 rehabilitation services.

24 They've entered into an alliance with
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1 Alliance Rehabilitation Services; and as noted on
2 page 7 of the report, their operating results have
3 been improving as a result of a number of strategic
4 initiatives.

5 One them has been an outgrowth of this
6 alliance with Alliance Rehab Services. They've been
7 able to increase the proportion of private pay
8 patients, and that has improved their operations,
9 particularly in 2014. This project will enable that
10 to continue, and we recommend approval.

11 CHAIRMAN HORNE: Okay. Should we vote on each
12 of these, one at a time?

13 FLETCHER: You can take them collectively.

14 CHAIRMAN HORNE: I was encouraged. I read the
15 whole summary. I thought this is an organization
16 that has been doing this for a long time. They are
17 clearly serving a good purpose in the city, and it
18 seemed pretty straightforward.

19 FRAMPTON: Indeed.

20 FLETCHER: Should I do Adler, No. 4? Move on?

21 CHAIRMAN HORNE: Yeah, why don't we do Adler,
22 and then we will take a vote on both.

23 FLETCHER: Okay, that's fine. That works. Tab
24 number 4 in your Board book is Adler University.

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1 This was presented last month for preliminary
2 consideration. They are coming back for a final.

3 The business terms of the transaction
4 remain the same. If you recall, Adler is attempting
5 to acquire their downtown Chicago campus for the
6 purchase price of \$25,000,000 which it currently
7 leases. This is a direct-purchase transaction with
8 MB Financial Bank, their relationship bank.

9 If you look at their 2014 rent expense, it
10 was \$2.49 million. Their scheduled annual debt
11 service payments, their mortgage, if you will, their
12 tax-exempt mortgage, which is really what this is.
13 The tax-exempt loan will be \$1.17 million.

14 They are saving, in the first year alone,
15 on an annual recurring basis, \$1.77 million. So we
16 recommend approval. I can take any questions.

17 GOETZ: Why didn't they do this sooner?

18 FRAMPTON: This is the first opportunity they
19 had under the lease to exercise the purchase option.

20 GOETZ: Okay, got you.

21 FRAMPTON: They put in a lot of improvements.
22 Those were embedded in their lease payments, in
23 addition to what we financed in 2010.

24 CHAIRMAN HORNE: But it does beg the question

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1 to me of other organizations, other institutions
2 statewide, that are in a lease situation that if
3 that analysis were done, this would prove out to be
4 as favorably economically. I don't know how we as
5 an organization can do outreach to those
6 institutions.

7 FLETCHER: Right.

8 CHAIRMAN HORNE: But I'm sure we are. But, to
9 me, that's a no-brainer.

10 FLETCHER: Right.

11 GOETZ: And we make \$67,000 doing it.

12 CHAIRMAN HORNE: Yes.

13 FRAMPTON: And we've actually done financings
14 very similar to this for a number of other
15 institutions, including Roosevelt University and
16 Chicago School of Professional Psychology. There
17 have been a number.

18 FLETCHER: One key note here is this is a
19 repeat borrower. They, in fact, when they made the
20 leasehold improvements in 2010, we were the issuer.

21 CHAIRMAN HORNE: Right. Which I think we have
22 to do some amendment later on for that purchase.

23 FLETCHER: That's correct. All right, I'll get
24 to that. So do we want to take a motion on 3 and 4?

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1 CHAIRMAN HORNE: Yeah, I would like to take a
2 motion. Let's do it individually, but on the

3 Lutheran Bethesda first.
4 GOETZ: I will move for approval.
5 FUENTES: Second.
6 FLETCHER: All in favor?
7 (A chorus of ayes.)
8 FLETCHER: Opposed?
9 (No response.)
10 FLETCHER: The ayes have it.
11 GOETZ: I move that we approve Adler.
12 FUENTES: Second.
13 FLETCHER: All in favor?
14 (A chorus of ayes.)
15 FLETCHER: Opposed?
16 (No response.)
17 FLETCHER: The ayes have it.
18 CHAIRMAN HORNE: Our next item is a
19 presentation consideration for Iowa Health Systems.
20 So don't give them a negative for their name in the
21 IFA Board book as the Iowa Group.
22 LENANE: Okay. The Iowa Health System, doing
23 business as Unity Point, has acquired Methodist
24 Medical Center of Illinois located in Peoria.

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1 They are requesting a final resolution one
2 time only for \$53,000,000 to refund the series 2011
3 B bonds, a portion of, and pay cost of issuance.
4 This is a bank private placement variable rate.

5 The Iowa Health System carries an
6 underlying rating from Moody's, a double A3 and
7 Fitch double A minus. If we go back to their

8 financials, the debt service coverage is 6.0, and
9 the days cash on hand is 243.

10 This will leave outstanding the 2011 A
11 bonds, which will eventually be refunded. So we're
12 losing another borrower out of state.

13 Any questions?

14 CHAIRMAN HORNE: None from me.

15 LENANE: Okay. Next is a resolution. It's
16 tab 9. A resolution authorizing --

17 FLETCHER: Pam, we should make a motion.

18 GOETZ: I've got to leave for this discussion.

19 LENANE: Oh, that's right.

20 GOETZ: Yeah. So should we go ahead and vote?

21 CHAIRMAN HORNE: Let's vote on the Iowa, yes,
22 correct.

23 GOETZ: I'll make a motion we approve it.

24 FUENTES: I'll second.

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1 FLETCHER: All in favor?

2 (A chorus of ayes.)

3 FLETCHER: Opposed?

4 (No response.)

5 FLETCHER: The ayes have it.

6 GOETZ: So you're skipping to?

7 LENANE: I'm going to 9.

8 FLETCHER: So next on the agenda is Adler's
9 series 2010 amendment.

10 CHAIRMAN HORNE: Right.

11 FLETCHER: I'll do that real quick. Again, we

12 issued a series 2010 bond for Adler to make the
13 leasehold improvements, which they are currently
14 acquiring on a separate transaction, which we just
15 talked about.

16 At this time the bank is willing to extend
17 the initial interest rate period, as well as reset
18 the rate at a lower rate. So these are bank changes
19 we're simply being asked to approve. We charge no
20 fee for this, historically.

21 CHAIRMAN HORNE: So does this become, like, a
22 blended with the new offering, or they are still
23 separate?

24 FLETCHER: They are separate commitments.

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1 CHAIRMAN HORNE: Okay.

2 FLETCHER: That's for tax purposes, and they
3 will close 15 days apart for tax purposes.

4 CHAIRMAN HORNE: Okay.

5 FLETCHER: So that's why we are treating it
6 separately on the agenda.

7 CHAIRMAN HORNE: I see. Okay.

8 GOETZ: I make a motion we approve the
9 resolution.

10 FUENTES: Second.

11 FLETCHER: All in favor?

12 (A chorus of ayes.)

13 FLETCHER: Any opposed?

14 (No response.)

15 FLETCHER: The ayes have it. Thank you.

16 GOETZ: Pam, are you going to do or is somebody

17 going to do Sterling Lumber, or are we going to skip
18 over that.

19 LENANE: Rich, are you doing Sterling?

20 FLETCHER: I'm doing Sterling Lumber. So in
21 2014, we closed on the industrial revenue bond for
22 Sterling Lumber, which is a first-time borrower at
23 that time.

24 The bond was issued as a drawdown revenue

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1 bond, meaning the bank would advance funds as needed
2 on an ongoing basis, as opposed to funding all
3 \$10,000,000 at closing.

4 The hiccup here is for an industrial
5 revenue bond, unlike 501(c)(3) borrowers, or units
6 of local government, you require a volume cap. So
7 if they're going to advance the money over a period
8 of years, we agreed that we would provide the
9 necessary bonding cap in each year, okay, capped at
10 \$10,000,000 over a period of four years.

11 In 2014, we provided -- I don't have the
12 exact numbers in front of me, roughly \$5.6 million
13 in volume cap; however, by the end of calendar year
14 2014, the bank only advanced roughly 3.8 million
15 which, in effect, we provided a volume cap that was
16 not utilized. Okay?

17 Because volume cap has to be utilized by
18 the end of the year by the borrower or it expires.
19 So this resolution is us providing additional volume
20 cap. So, collectively, we're providing over

21 \$12,000,000 in volume cap, even though there's only
22 \$10,000,000 of project cost.

23 CHAIRMAN HORNE: Can you explain volume cap?

24 FLETCHER: Sure. So the IRS restricts the use
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1 of the ability of certain borrowers, such as
2 industrial revenue bond manufacturers to issue bonds
3 on a tax-exempt basis.

4 One of those restrictions -- the one way
5 they restrict it is by providing authorities and
6 states with volume cap, which is provided for on a
7 population basis. That's how it is prorated across
8 the states.

9 The idea is in better years of industrial
10 revenue bond volume, there is not such a hit to the
11 IRS, Internal Revenue Service, if you would.

12 FRAMPTON: Back in 1986, when they imposed a
13 tax reform, they wanted to put a cap or limit on
14 tax-exempt municipal bonds that were issued to
15 benefit private tax-paying entities.

16 So each state right now is able to issue
17 \$100 per capita per year. So in Illinois, that is
18 roughly a billion three. Volume cap really hasn't
19 been an issue for us for seven or eight years now.

20 It's not that important, but since it is
21 an allocated resource, we do charge extra for it.
22 In this particular case, the the bank and borrower
23 didn't draw down; and in order to correct this
24 mistake, and to allow them to issue \$10,000,000, we

1 need to provide them with this additional
2 allocation. The project, itself, is located --
3 CHAIRMAN HORNE: Excuse me. That doesn't have
4 any then impact with the IRS by us increasing this?
5 FRAMPTON: No.
6 CHAIRMAN HORNE: Okay.
7 FRAMPTON: No. Because the total project --
8 the aggregate bond issue, when we're finished, will
9 still be \$10,000,000. It won't be more than
10 \$10,000,000.
11 CHAIRMAN HORNE: Okay. I am just trying to
12 understand.
13 FRAMPTON: Yes.
14 GOETZ: So do they pay a penalty for letting
15 their volume cap expire?
16 FRAMPTON: They're paying it now.
17 FLETCHER: There's no penalty, but they need
18 additional volume cap to reach \$10,000,000 of money
19 advanced by the bank. To get that additional volume
20 cap, we are charging a fee. Roughly, it breaks down
21 to about \$8,000. We reduced our typical 77-basis
22 points fee in half.
23 GOETZ: Yeah. So the penalty is it has to come
24 back to us and pay the fee?

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1 FLETCHER: Yes.
2 FRAMPTON: And they are paying bond counsel as

3 well.

4 GOETZ: But there's no --

5 CHAIRMAN HORNE: Okay. Yeah, I just want to
6 make sure we're not trying to authorize something
7 that is out of our boundaries.

8 FLETCHER: No.

9 CHAIRMAN HORNE: Okay.

10 FRAMPTON: This is to make good on the deal.
11 The project is in Harvey and Phoenix. It straddles
12 the border of both.

13 FLETCHER: Okay. Speaking with bond counsel,
14 this was a rather unique case for a drawdown of an
15 industrial revenue bond, at least here in Illinois.
16 Rich has had some contacts with Massachusetts. This
17 is in Massachusetts more common.

18 FRAMPTON: Historically, it just hasn't been a
19 practice here in in Illinois, but -- so we're making
20 good. They'll get their \$10,000,000 of tax-exempt
21 bonds for the project.

22 FLETCHER: It will just take \$12,000,000 of
23 volume cap.

24 CHAIRMAN HORNE: I understand. Okay. So do we

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1 have a motions on this?

2 GOETZ: So moved.

3 FUENTES: Second.

4 FLETCHER: All in favor?

5 (A chorus of ayes.)

6 FLETCHER: Any opposed?

7 (No response.)

8 FLETCHER: The ayes have it. Thank you.
9 GOETZ: So on Northwestern, you want me to step
10 out, right?
11 LENANE: Yes. I guess that is going to be the
12 practice.
13 GOETZ: So I have a son that works for the
14 Northwestern's financial advisor.
15 CHAIRMAN HORNE: Okay.
16 GOETZ: He doesn't advise Northwestern, but he
17 works for them.
18 LENANE: On December 1st, 2015, Northwestern
19 Memorial Healthcare acquired Kish Healthcare System
20 or affiliated with them. The Authority had
21 previously issued bonds for Kish, the 2008 bonds,
22 the 2015 A bonds and the 2015 B bonds.
23 Northwestern is taking Kish Health System,
24 located in DeKalb, into the obligated group, and
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1 they are taking over the debt, and so we need to do
2 a lot of documents.
3 And Northwestern has negotiated with the
4 holders of the '15 A and '15 B bonds to accept an
5 obligation of Northwestern instead of Kish, and this
6 is closing on December 18.
7 And we need a delegation to the Executive
8 Director, the General Counsel, to execute documents
9 in connection with this. Rich Frampton, from
10 Chapman & Culter, represents --
11 FRAMPTON: Rich Tomei. That would be quite a

12 promotion for me.

13 LLENANE: Rich Tomei, from Chapman & Cutler,
14 represents Northwestern, in case anybody has
15 technical questions here.

16 CHAIRMAN HORNE: So is this, like, technically
17 a credit enhancement almost, because Northwestern
18 has a better balance sheet?

19 LLENANE: Well, no, they have acquired them, and
20 so now they are going to pay off their bonds.

21 CHAIRMAN HORNE: I see.

22 LLENANE: And replace them. Yeah, I mean, it's
23 better for the bond holders.

24 CHAIRMAN HORNE: So it's better the bonds
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1 holders.

2 LLENANE: Oh, yeah, it's a good thing for the
3 bond holders. Kish was solid. They weren't
4 floundering.

5 CHAIRMAN HORNE: No, I understand that.

6 LLENANE: That's why the acquisition.

7 CHAIRMAN HORNE: I understand that.

8 LLENANE: Oh, yeah.

9 CHAIRMAN HORNE: It would be very creative for
10 the bond holder.

11 LLENANE: Oh, yeah.

12 FUENTES: Okay. Motion to approve.

13 CHAIRMAN HORNE: Is there a second?

14 HORNE: Second.

15 FLETCHER: All all in favor?

16 (A chorus of ayes.)
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17 FLETCHER: Any opposed?
18 (No response.)
19 FLETCHER: The ayes have it.
20 LENANE: Thank you.
21 CHAIRMAN HORNE: Any other business to discuss
22 at this subcommittee? If not, I would ask for
23 adjournment.
24 FUENTES: I'll make a motion to adjourn.
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1 JURACEK: Second.
2 FLETCHER: All in favor?
3 (A chorus of ayes.)
4 FLETCHER: The meeting is adjourned. The time
5 is 10:10 a.m.
6 (WHICH WERE ALL THE PROCEEDINGS HAD at 10:10 a.m.)
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PAMELA A. MARZULLO, C. S. R., being first duly sworn, says that she is a court reporter doing business in the city of Chicago; that she reported in shorthand the proceedings had at the Proceedings of said cause; that the foregoing is a true and correct transcript of her shorthand notes, so taken as aforesaid, and contains all the proceedings of said meeting.

PAMELA A. MARZULLO
License No. 084-001624

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