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ILLINOIS FINANCE AUTHORITY BOARD
PUBLIC NOTICE OF DIRECT AND ALTERNATIVE FINANCING
COMMITTEE MEETING
June 8th, 2016, at 11:15 a.m.

Report of Proceedings had at the Meeting of the
Illinois Finance Authority Board Meeting, Public Notice of
Direct and Alternative Financing Committee Meeting on June
8th, 2016, at the hour of 11:15 a.m., pursuant to notice, at
160 North LaSalle Street, Suite S1000, Chicago, Illinois.

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1 APPEARANCE:
2 COMMITTEE MEMBERS

3 MR. LERRY KNOX, Chair
MR. LYLE McCOY
4 MR. ROGER POOLE
MS. ARLENE JURACEK
5 MR. BRADLEY ZELLER (Via audio conference)
MR. ERIC ANDERBERG (Via audio conference)
6 R. ROBERT FUNDERBURG, Ex-Offi cio (Via audio conference)

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8 ILLINOIS FINANCE AUTHORITY STAFF MEMBERS

9 MR. BRAD FLETCHER, Assi stant Vi ce-Presi dent
MR. RICH FRAMPTON, Vi ce-Presi dent
10 MS. PAMELA LENANE, Vi ce-Presi dent
MS. ELIZABETH WEBER, General Counsel
11 MR. CHRISTOPHER B. MEISTER, Execu ti ve Di rector
MR. PATRICK EVANS, Agri cul tural Banker
12 MS. SIX GRANDA, Control ler

13 GUESTS:

14 Mr. HAVEN ALLEN
MR. BILL FIENUP

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1 CHAIRMAN KNOX: It is approxi mately 11:15. I
2 would like to call the meeting to order. Will the
3 Assistant Secretary please call the roll?

4 FLETCHER: Certain ly. Mr. Anderberg on the
5 phone?

6 ANDERBERG: Here.

7 FLETCHER: Ms. Juracek?

8 JURACEK: Here.
9 FLETCHER: Mr. Knox?
10 CHAIRMAN KNOX: Here.
11 FLETCHER: Mr. McCoy?
12 McCOY: Here.
13 FLETCHER: Mr. Pool e?
14 POOLE: Here.
15 FLETCHER: Mr. Zeller?
16 ZELLER: Here.
17 FLETCHER: And Mr. Funderburg as ex-offi cio
18 non-voti ng?
19 FUNDERBURG: Here.
20 FLETCHER: Mr. Chair man, we have a quorum at
21 thi s time.
22 CHAIRMAN KNOX: Thank you. Does anyone wi sh to
23 make any addi tions or edi ts or correcti ons to the
24 mi nutes from December 10th?

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1 Hearing none, I would like to request a
2 moti on to approve the mi nutes.
3 JURACEK: So moved.
4 POOLE: Second.
5 CHAIRMAN KNOX: All those in favor?
6 (A chorus of ayes.)
7 CHAIRMAN KNOX: Opposed?
8 (No response.)
9 CHAIRMAN KNOX: The ayes have it. At thi s time
10 I would like to get to the Presentati on and
11 Consi derati on of the Project Reports and

12 Resol uti ons.

13 I would liked to ask for the general
14 consent of the Members to consider the Project
15 Reports and Resol uti ons collecti vely, and to have
16 the subsequent recorded vote applied to each
17 respecti ve i ndi vi dual project and resol uti on, unless
18 there are any speci fi c Project Reports and
19 Resol uti ons that a member would like to consider
20 separatel y.

21 Hearing none, I would like to ask the
22 staff to now present the Project Reports and
23 Resol uti ons, whi ch wi ll be consi dered collecti vely.
24 Executi ve Di rector Meister, I understand we have

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1 guests today.

2 MEISTER: Yes. Mr. Chairman, I would like to
3 introduce Mr. Randy Kowal ski. Randy?

4 KOWALSKI: Hello.

5 MEISTER: He is DCEO Deputy Director of the
6 Bureau of Entrepreneurship and Innovation. I've
7 asked him to attend today's meeting, in order to
8 encourage producti ve worki ng rel ati onshi ps and
9 partnerships between the Authority and IFA. So
10 wel come.

11 KOWALSKI: Thank you, Chris.

12 MEISTER: I also have i nvi ted Mr. Bi ll Fi enup,
13 Presi dent of Catal yze Chi cago, not-for-profi t, and
14 Mr. Haven Al len wi th Worl d Busi ness Chi cago.
15 They're going to be here to discuss the mHub Agenda
16 I tem 4 today.

17 CHAIRMAN KNOX: Fantastic.

18 ALLEN: Thank you.

19 CHAIRMAN KNOX: Mr. Evans, you can proceed.

20 EVANS: Sure. Today I have one Ag credit, Ag
21 restructure guarantee. Before I start into the
22 presentation, I would hope that, you know, I can
23 pass on what I've learned in my 30-year career in
24 that each loan we treat as if it is our own money.

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1 And I hope that, you know, everybody
2 perceived it that way. Today we have a request from
3 Flanagan State Bank is for \$357,588 as an Ag
4 restructure guarantee. The bank is preposing a
5 loan, which is twofold. The first is to consolidate
6 existing equipment debt through one loan that would
7 be amortized over seven years with FSA guaranteeing
8 it.

9 The second one will be with a -- with IFA
10 guaranteeing, excuse me. Using the acronyms, I'm
11 not always -- I get confused sometimes.

12 The second loan is an FSA 90-percent loan,
13 in which FSA will be taking in loan \$1.3 million,
14 consolidating all the real estate into one.

15 Through these actions, the borrower would
16 be able to lower his debt requirements by about
17 \$75,000, improving the cash flow, and Flanagan Bank
18 would become the sole provider of the credit for
19 this borrower.

20 IFA prefers to obtain real estate for

21 their guarantees; however, the borrower's real
22 estate is being pledged as security for the
23 \$1.3 million FSA guarantee.

24 Just a little history on Flanagan Bank.

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1 Flanagan Bank is a small \$171,000,000 bank with loan
2 deposit of 61 percent, equity of \$17,000,000. Total
3 debt to this borrower will reach about \$3,000,000.
4 Through this action, IFA will mitigate some of the
5 risk to this small Ag bank.

6 Going on to the borrower, I think that we
7 need to talk about the five Cs: Character,
8 capacity, capital, collateral and condition. The
9 borrower character, farming is his livelihood. He's
10 been a farmer for over 30 years.

11 He has supported himself through the
12 farming activities. He has a good relationship with
13 the bank. Capital, over the years, the farmer --
14 this borrower has built 2.5 million in equity,
15 mainly equipment and land.

16 The borrower maintains about 50-percent
17 equity, meaning that he does have skin in the game.
18 The debt has increased over the past year by about
19 \$445,000; however, he's purchased over \$650,000 in
20 that same period.

21 Capacity, per the tax return 2004 was a
22 poor year; however, in other years, the borrower has
23 generated sufficient funds to service debt with a
24 limited expense of \$90,000.

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1 The accrual basis indicates that 2014 was
2 extremely hard on the borrower, as his -- as
3 high-input cost and lower falling commodities
4 affected him. The commodities continued to fall in
5 2015, with the change in commodity prices
6 influencing earnings by \$71,000.

7 This, coupled with the wet and compact
8 fields, reduced yields and earnings, influenced his
9 operation by \$76,000. The 2000 projection
10 anticipates sufficient earnings to service debt.
11 The projection reflects a 2. -- I mean, a 1.1 debt
12 coverage, using living expense of \$90,000.

13 The bank is attempting to control his
14 expenses by monitoring his checking account and, you
15 know, monitoring his spending. They are hoping to
16 reduce it by \$70,000, creating a \$20,000 improvement
17 in cash flow.

18 Collateral, I feel that IFA is very well
19 secured on this loan, that the values are realistic
20 for the equipment. It's a loan to value of
21 38 percent, with a risk to value of IFA of about
22 32 percent.

23 We do have the hours on the equipment and
24 discounting equipment. There's four items there

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1 that are very big items; but if you discount them
2 30 percent, the value of them 30 percent, the

3 collateral value will still be \$430,000, with
4 leaving an additional \$410,000 in other equipment.

5 As I said, this is a very secured loan by
6 my perception. We'll be in first position. We'd be
7 paying off all the other loans. We won't, but the
8 bank will be paying off all the other loans that
9 this loan guarantees.

10 Condition, this would be one loan for
11 \$357,000. The bank, Flanagan State Bank, will be
12 taking the initial risk of \$54,000 on the first
13 15 percent, leaving the IFA with \$303,000 worth of
14 risk. The debt is amortized over seven years,
15 paying down approximately 15-percent debt annually.

16 Is there any questions? I recommend this
17 loan.

18 JURACEK: This seems to be the riskiest loan
19 that I've seen in an Ag loan side, in my short time
20 on here. The character description, certainly they
21 are diversified. Their income source is they seem
22 to be industrialist.

23 I guess my concern would be the stability
24 of the Flanagan Bank. You know, what -- this is a

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1 significant portion of their capital value.

2 EVANS: Exactly.

3 JURACEK: And what do their other customers
4 look like? You know, do we have a bank that is
5 highly leveraged, highly risky, and could they be
6 taken over at some point, adding to the risk?

7 EVANS: The bank could be taken over any time.

8 With the regulations and stuff that has evolved in
9 banking, there is incentive to take over.

10 The major risk in this would be more the
11 collateral position, because if he doesn't pay --
12 you know, the bank is important because that loan
13 officer monitors, you know, the equipment that is
14 our collateral on an annual basis.

15 He also determines if he's purchasing more
16 equipment, which increases risk, but our main risk
17 is in the collateral and in the repayment.

18 JURACEK: So that would be my second question.
19 How robust is the secondary market for this farm
20 equipment, you know? In our village, we have got
21 deals.com to sell all our stuff, and it's really
22 great. We got great value. If you're relying on a
23 local John Deere dealer or --

24 EVANS: Actually, Auction, or there's Tractor
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1 House also.

2 JURACEK: Okay.

3 EVANS: Which is an open-to-public auction and
4 everything. And, you know, I sit down every
5 Wednesday and pick up the Tractor House.

6 JURACEK: Okay.

7 EVANS: To look up value. So it's at a local
8 filling station. I step in there, and I drink a
9 thing of milk, chocolate milk.

10 JURACEK: Secondary market, okay.

11 EVANS: But I always look, and the values are

12 holding true. Now, the true test would be from the
13 farmers and everything that what they see out there,
14 because I'm using what documentation I have
15 available to me.

16 ANDERBERG: If I may. This is Eric Anderberg.
17 Arlene, Chris called me last week about this, and
18 with my background and familiarity with it, you
19 know, my first question was condition of equipment,
20 the hours, the values, and I looked into it a little
21 bit.

22 And after seeing the list, and when Chris
23 gave me the hours, I was at first, you know, a
24 little bit leary because of the commodity price

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1 collapse and what's going on with the farm equipment
2 economy, but the values that they have listed on the
3 sheet, I'm very, very comfortable with. I'm
4 comfortable with this loan.

5 JURACEK: That's helpful. Thank you.

6 EVANS: Thanks.

7 CHAIRMAN KNOX: We'll get an UCC against --

8 ZELLER: This is Brad Zeller, too, on the
9 phone, and also being involved in the farming
10 community.

11 Farming condition has depreciated rather
12 rapidly, but everybody that's new to the Board, and
13 this is a new project, and by nature this particular
14 venue of loaning is going to have the clientele that
15 needs our products.

16 So, by nature, these are going to be the

17 weakest deals. That's not to say that we can or
18 cannot accept it, but we don't do this all the time
19 with these clients because they are seeking State
20 help. So, therefore, they are they are highly
21 leveraged, or their cash flow is short.

22 And obviously this individual has had some
23 trouble because he's here knocking on our door. So
24 if we're collateralized, and it's part of our

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1 mission, then I do agree with Eric that this is what
2 we should do, and it is questionable, and it is --
3 it will be if another deal like this comes up, there
4 will be very similar questions involving it.

5 CHAIRMAN KNOX: Okay.

6 McCOY: Quick question.

7 EVANS: Yes.

8 CHAIRMAN KNOX: Talking about troubles.

9 McCOY: Being in business, being a farmer for
10 30 years, whatever, did he find himself in this
11 position not because of the core business, but
12 because of the asset purchases?

13 You know, the house, the, you know, 500 or
14 650 grand over the last few years, is that the
15 catalyst?

16 EVANS: That's probably the biggest catalyst is
17 the house, and then the falling commodity prices.
18 2012 was fairly good with the insurance prices and
19 everything from the drought that we had, and they
20 went out and overspent probably on the house.

21 McCOY: He has core --
22 ZELLER: Does he have crop insurance?
23 EVANS: Yes, he does. I can't remember if it's
24 80 or 85.

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1 McCOY: It's 80.
2 EVANS: I think it's 80, yes, that's what I
3 think. It was in the writeup.
4 CHAIRMAN KNOX: The UCC will be filed against
5 us, we can't sell the tractor?
6 EVANS: Correct, I'm going to have him file a
7 UCC, and I'm going to make sure they terminate, you
8 know, evidence of termination of the -- there's six
9 UCCs out there now: Three to Farm Credit, and three
10 to John Deere.
11 The one to John Deere was refinanced by
12 Farm Credit. So, you know, it's just sitting there.
13 They never terminated it that year, but one of the
14 guidelines in the letter to him will be that he
15 would terminate --
16 CHAIRMAN KNOX: The UCC assignment to us?
17 EVANS: The UCC, uh-huh.
18 CHAIRMAN KNOX: Okay. Are there any questions?
19 Okay. Thank you, Mr. Evans.
20 EVANS: Sure.
21 CHAIRMAN KNOX: We'll turn to the local
22 government and government purchase projects.
23 MEISTER: I just want to set the stage a little
24 bit.

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1 CHAIRMAN KNOX: Sure.

2 MEISTER: And compliment Rich. Local
3 government financing has long been part of our
4 mission.

5 A couple of years ago we exited the
6 portfolio of old world Bond Bank loans that had been
7 backed by the State's moral obligation, and Rich has
8 been working diligently to find out how to replicate
9 that program because the old program, for a whole
10 variety of reasons, was not really replicable in the
11 current environment.

12 And I think he's got a project which is --
13 which, frankly, I'm excited about, because I think
14 it's a solid project. It is a community here in
15 northeastern Illinois that needs the assistance of
16 the Authority.

17 And beyond that, what Mr. Frampton has
18 done is laid out a plan going forward that could be
19 a template for a new and sustainable line of
20 business.

21 FRAMPTON: Okay. Thanks, Chris. Good morning
22 everyone. Just as background, the Board actually
23 approved the City of Blue Island direct bond
24 purchase in a different form last August.

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1 At that time we're still talking about an
2 alternate -- a general obligation alternate revenue

3 bond structure. However, due to the basket of
4 assets that are being acquired by the City of Blue
5 Island, after Bond Counsel reviewed the project
6 further, in order to simplify the security structure
7 of the project, the City, and we agreed, decided to
8 make this an alternate bond structure with sales
9 taxes as the pledged source of security.

10 With the water fund that was originally
11 pledged, there was 1.93 times coverage. With this
12 new structure, if you turn to page 13 of the report,
13 on page 13 of the report, there is a debt service
14 run based on the City's audits, both for their most
15 recently-completed fiscal year of 12-31-14, which
16 was an eight-month stub year, that resulted from the
17 change of their fiscal year end, as well as their
18 most recently completed 12-month year, April 30,
19 2014.

20 In any case, with an eight-month stub
21 year, the coverage of the maximum annual debt
22 service payments, which are in the third column at
23 \$168,655, the coverage of the eight-month revenues,
24 which are in the second column \$953,000, is 5.65

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1 times.

2 And I should note that maximum payment of
3 \$168,600 is in the first year, and that includes a
4 deferred payment that would otherwise be due this
5 December. For the final nine years of the bond
6 issue, the maximum payments will be \$153,000, rather
7 than \$168. So that would result in coverage of 6.23

8 times.

9 So the coverage offered by the sales tax
10 pledge is very strong, just comparing it to some
11 recent transactions that where we were able to find
12 the computations available in the market.

13 The Ci ty of Rockford, for example, for
14 their sales tax alternate bonds issued last
15 December, they had 4.77 times coverage, and the
16 Village of Westchester last year had 1.96 times
17 coverage.

18 Of course both Rockford and Westchester,
19 unlike Blue Island, each have investment grade
20 ratings. So the strength of the GO pledge, which is
21 really what is the ultimate source of repayment in a
22 worst-case scenario, is not as strong as on ei ther
23 Rockford or Westchester. It's still very
24 significant.

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1 And, really, what protects the Authority
2 on this transaction is the security structure
3 offered by the alternate revenue bonds. The Ci ty
4 will be lockboxing in a stand-alone bank account in
5 a debt service fund of the exact amount of payments
6 required for the next levy year.

7 And the Ci ty will be provi di ng evi dence of
8 the monies in that account each February to the Cook
9 County clerk so that the County clerk can then abate
10 the GO tax levy.

11 So wi th the payment structure based on --

12 well, there will be some annual payments June 1 and
13 December 1. The June 1 payment will be interest
14 only. The December 1 payments will be principal and
15 interest. Because this will be closing later this
16 month as contemplated. The next levy cycle will not
17 begin until calendar 2017 of course.

18 So because of that, we're deferring the
19 initial interest payment that would otherwise be due
20 12-1-2016 into 2017 and accruing interest. So the
21 security structure offered by the alternate bonds
22 really serves to protect us; and based on the
23 coverages offered, we recommend approval.

24 Just some background on the City and their
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1 finances, the citizens of Blue Island elected a new
2 mayor entered office in 2013. His -- prior to his
3 entering office, the City posted a general fund
4 deficit of approximately \$2,000,000 in 2013.

5 After his first year of office for the
6 fiscal year ended April of 2014, the City posted a
7 general fund surplus of \$100,000; and for the
8 eight-month stub period audit ending 12-31-14, they
9 posted a general fund surplus of \$989,000.

10 The City of Blue Island was actually
11 written up with eight or nine other Illinois
12 municipalities in an article in the Bond Buyer in
13 May of 2015. At that point, it was noted that as of
14 their fiscal '13 year end, they had a general fund
15 deficit of approximately \$11,000,000.

16 Since that time, they have reduced it to
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17 \$2,900,000. They -- in addition to posting the
18 surplus last year, they also transferred
19 approximately \$5.6 million from the water fund.

20 The water fund has been consistently
21 profitable. That's a bright spot in their financial
22 picture. Last year they posted -- the water fund
23 posted revenues of approximately \$3.38 million, and
24 they posted an operating surplus of \$717,000, but

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1 that \$717 is after deducting depreciation expense of
2 \$357.

3 So between the million dollar surplus in
4 their general fund, which also reflected a
5 \$4.3 million reduction in operating expenditures
6 compared to budget, the City really seems to be
7 delivering on their promise to improve their
8 operations.

9 And on top of that, they've been diligent
10 about repaying their debt obligations. On page 20,
11 there's a table that reports how the City has paid
12 down their debt obligations.

13 One other thing to note, in addition to
14 the \$1,300,000, that is contemplated here on Agenda
15 Item 10, the City of Blue Island also is among the
16 17 applicants for an ambulance loan under the Office
17 of the State Fire Marshal - IFA Ambulance Revolving
18 Loan Fund Program, which provides zero percent
19 money.

20 The one other comment to make just about

21 the underlying project is that page 8, there is a
22 summary of the various project components. There
23 are a variety of things relating to their water and
24 sewer system. There are also improvements on the

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1 City-owned golf course, which was formerly a
2 landfill.

3 They will also be reimbursing themselves
4 for the purchase of one ambulance, a replacement
5 ambulance that they purchased last fall. So there
6 will be one ambulance here, and a second ambulance
7 to completely refurbish their fleet, in connection
8 with the ambulance loan.

9 So -- and then as Chris had alluded to
10 earlier, just in terms of our local government
11 direct bond purchase program, when the Bond Bank
12 bonds were defeased, and effectively purchased by
13 IFA in 2014, we purchased a balance of \$25,000,000
14 of bonds comprising 79 underlying projects.

15 Since two years ago, the outstanding
16 balance has been paid down to \$17.2 million. So
17 it's gone from \$25 to \$17, and the outstanding
18 number of underlying bonds has dropped from 79 to
19 64.

20 So we look to this loan as being a first
21 step in reinvigorating this program, which is really
22 designed to help finance capital projects for
23 non-rated, non-Home Rule Units.

24 We also look to be able to use this

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1 project downstate as well, and our primary focus is
 2 going to be on municipalities, just in terms of
 3 competitive issues. We're aware we will keep the
 4 maximum loan amount at a million-and-a-half or
 5 under.

6 Maximum loan term no more than ten years.
 7 We don't want to be exposing the Authority to
 8 interest rate risk and other risks. That ten-year
 9 limit is really consistent with other limitations on
 10 IFA financings.

11 And, you know, we want these to be
 12 financings for new projects, not refinancings; and
 13 compared to what many of the banks are doing, many
 14 banks will not extend loans for more than five
 15 years. So we might be able to offer an advantage
 16 there.

17 Additionally, just given some of the
 18 municipal advisory rules, there may be an angle to
 19 play there, too, in terms of obtaining financing
 20 from a governmental entity. That may simplify
 21 things. So there may be some opportunities to
 22 enhance our yield and return, too.

23 CHAIRMAN KNOX: Okay. One question from this
 24 side. Since 70 percent of the projects are water

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1 and sewer related, or related directly to the IEPA,
 2 will they be able to refinance us out through a SRF

3 offering?

4 FRAMPTON: These particular assets -- the City
5 made an inquiry of IEPA about financing this, either
6 through IEPA programs or through SRF. Neither
7 option proved feasible, and actually the City was
8 working with DCEO, and DCEO referred Blue Island to
9 the Authority to seek financing, and they were
10 actually seeking financing through the Bond Bank
11 program.

12 So -- and that was also true of another
13 transaction that the Authority preliminarily -- that
14 the Board approved back in December of 2013 for the
15 Village of West Salem.

16 So this has been a concept that I've been
17 working on and attempting to optimize and make
18 viable for the Authority for quite some time; and
19 thanks to some good counsel, and some helpful
20 feedback I've gotten from the market, I think we
21 have a product that has some potential here.

22 CHAIRMAN KNOX: Okay. Are there any other
23 questions?

24 JURACEK: Quick one on sales tax revenue. How

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1 diversified are their sales tax revenue generators?
2 Are they dependent on one or two big car dealers, or
3 do they have a broad economy?

4 FRAMPTON: They have a broad economy, although
5 they did lose a Jewel-Osco store recently. They do
6 have a lot -- there are a lot of ma-and-pa stores
7 there, and that's the bulk of their base. They

8 really don't have a lot of big-box development.
9 JURACEK: So it's not like a big Sports
10 Authority that then shuts down and then they're up
11 the creek?

12 FRAMPTON: Exactly.

13 CHAIRMAN KNOX: Any others questions? Okay,
14 hearing none, Chris, can we go to the Resolutions?

15 MEISTER: Yes. On May 31st, the General
16 Assembly passed Senate Bill 324. It creates a new
17 program within the Authority to help qualify
18 veteran-owned small businesses.

19 It is structured in the same way as the
20 Agricultural guaranteed programs that we just
21 discussed. Legislation does several things. Just
22 to correct the documents, and it was a typo on my
23 part, it resolves a FY15 finance audit issue in that
24 finding.

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1 It improves risk management powers for the
2 Authority by granting discretion to the Authority to
3 make payments out of one -- fully or partially out
4 of one of three funds. And for the new program, the
5 General Assembly recognized that we are-self funded.

6 And so out of the locally-held Industrial
7 Bond Project Fund, it allows the Authority to take
8 up to \$675,000 over three years. \$275,000 in the
9 first year to get the program up and running.

10 Given that it's a new program, and that
11 these sorts of businesses are likely to, frankly, be

12 riskier than, say, an agricultural loan backed by
13 agricultural land, I've asked the Authority to
14 create an advisory council, which is allowed under
15 our statute, not more than seven, not less than five
16 Members, subject to the Open Meetings Act, FOIA,
17 applicable ethics rules, and then to have the
18 Members of the Committee selected by the Authority
19 Chair, Mr. Funderburg, the Chair of the Authority
20 Direct and Alternative Financing Committee,
21 Mr. Knox, and myself. It's got a sunset on this,
22 and I'll take any questions.

23 The General Assembly has not yet passed
24 this bill over to the Governor's Office. I have

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1 been in communications with the Governor's staff,
2 and I've submitted our recommendation to sign.
3 Obviously signing of bills under the General
4 Assembly is the sole discretion of the Governor.

5 And, Lerry, if I may take this liberty, I
6 would like to nominate you to, given your Navy
7 background, to head up this advisory committee with
8 outside members.

9 CHAIRMAN KNOX: It would be my pleasure. Thank
10 you.

11 MEISTER: Great.

12 CHAIRMAN KNOX: Hearing no other questions, I
13 would like to request a motion to recommend the
14 approval of the following Projects, Reports and
15 Resolutions Items 1 through 3. Is there such a
16 motion?

21 ALLEN: Yes, absolutely. So my name is Haven
22 Allen. I am an economic development strategist at
23 World Business Chicago specifically focused on
24 assisting the manufacturing sector growth, both from
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1 a people, so a work force perspective, a process,
2 making sure our manufacturers are the most
3 innovative in the world so that they can compete, as
4 well as making sure that we're creating products
5 that are in demand for the future.

6 I am a product of Illinois. I went to the
7 University of Illinois Chicago, spent the last 25
8 years here in this state, minus a period between
9 2009 and 2013, where I served in the Peace Corps, as
10 well as got to complete my graduate work at the
11 University of Michigan.

12 This initiative, mHub, was built out of
13 two different reports: One produced by CMAP, the
14 Chicago Metropolitan Agency for Planning, that
15 looked at the manufacturing cluster and specifically
16 the means in which we need to drive innovation, work
17 force and infrastructure to support it.

18 It found that manufacturing had the
19 highest job multiplier effect in the industry in
20 Illinois, the highest money multiplier effect of any
21 industry in Illinois and drives over two-thirds of
22 our exports, which equates to about \$80,000,000.

23 In addition, there were two studies that
24 were commissioned by the U.S. Department of Commerce

1 that looked at manufacturing from a land use
2 infrastructure and logistics standpoint, as well as
3 a study that was conducted by S.B. Friedman that
4 tried to determine whether there was a need and
5 demand for a manufacturing incubator here in
6 northwestern Illinois or northeastern Illinois.

7 That study came back said, yes, there's a
8 huge opportunity in two different areas: One in
9 physical product innovation, and we have a great
10 organization in Catalyze Chicago that is starting to
11 show success, as well as in food innovation.

12 From those studies, we engaged the
13 business community to understand whether there was
14 really something feasible here that we could build
15 and what would be the scale necessary.

16 So we worked with Madison Dearborn, and
17 they sent over an analyst to go work with Bill to
18 build a financial model to understand what it would
19 take to get to what we would need.

20 We worked with architects from Gensler to
21 understand sort of spatial requirements and how that
22 would fit into a business model. Private Bank, to
23 think about how funding would come together, and all
24 the different revenue streams we would need to make

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1 sure this was successful.

2 In addition, we worked with Underwriter

3 Laboratories to think about demand and partnerships,
4 and further studied it through surveys and direct
5 conversations with local manufacturers; and lastly,
6 KPMG to develop a comprehensive business plan to set
7 this thing up for success.

8 I believe we've shared that initial
9 business plan. Through our continued exploration
10 with IFA, we hope to explore and provide more
11 information with you.

12 Our partners, beyond sort of those
13 business organizations, we're working with the
14 Illinois Manufacturers Association, Technology and
15 Manufacturers Aligned Association, the Illinois
16 Manufacturing Excellent Center, every major
17 university here, Northwestern, IIT, Argonne National
18 Labs, are all part of this board and we built a
19 great organization.

20 I'm going to turn it over to Bill so he
21 can talk about Catalyze, the organization that will
22 lead the mHub.

23 MR. FIENUP: And a bit about my background, I'm
24 Bill Fienu. I went to MIT for Undergraduate and

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1 Graduate Degree. I moved to Chicago, Illinois, to
2 take a job at IDEO, where I did about seven years of
3 physical product design and development.

4 And then took a chance to be an
5 entrepreneur, and that's when I struggled. I found
6 that I left -- you know, all the resources, the
7 staff, the equipment at, you know, IDEO, and it was

8 challenging to develop a physical product.

9 And I struggled in my apartment with no
10 access of tools, resources, manufacturing
11 connections. It was difficult for me to raise
12 money, you know, because I didn't have connections
13 to angels or VCs, and it was a real struggle.

14 And I wasn't the only one having this
15 struggle, and several other entrepreneurs in the
16 physical product development and manufacturing, you
17 know, making things background, shared similar
18 struggles.

19 There are resources for digital startups,
20 you know, like 1871, Tech Nexus, but there was
21 nothing focused on making and manufacturing. So,
22 you know, we recognized these struggles, and we
23 built Catalyze Chicago to solve these problems.

24 So what we do is we provide access to
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1 talent. You know, there is mechanical engineers,
2 there's electrical engineers, IOS developer,
3 industrial designers. And in just that community,
4 with like-minded people, helped solve other problems
5 as well.

6 It's a very open collaborative community.
7 We also have, you know, a great mentorship network,
8 because not all the teams have the knowledge that it
9 takes to develop a product, manufacture and launch a
10 new business.

11 You know, I'm coming from a mechanical

12 engineering background. I struggled in some
13 electrical engineering and industrial design. I sit
14 next to both an electrical engineer and industrial
15 designer.

16 Also, the manufacturing connections are
17 difficult and challenging. So, you know, we've
18 partnered with several local manufacturers here, and
19 suppliers, to help those products scale after their
20 development.

21 You know, we've got a machine shop with
22 plenty of tools and equipment, and we're hoping to
23 scale that, you know, in the mHub initiative.

24 And so we've been around for about two
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1 years. We're got about 8,000 square feet of space,
2 510 active members; and in that first two years,
3 they had a number of fantastic accomplishments.

4 You know, the dollars that they raised
5 through the investment community here locally is
6 \$21,000,000, you know, across the 50 companies in
7 the space. They generated over \$57,000,000 in
8 revenue.

9 That came from selling about \$4,000,000
10 units of product that was manufactured here. The
11 patent portfolio is fantastic. They filed for 80
12 patents, our members, just in those first two years.
13 27 patents were awarded. They created a lot of
14 jobs, a lot of new hires.

15 81 people were hired full-time from the
16 companies that were developed in this space. A

17 couple case studies, to give you an idea of what's
18 being developed, this is a product called the Guard
19 Lima.

20 It's a panic remote FOB button. You
21 double click this, and it sends the police to your
22 location. They came out of Northern Illinois, and
23 they didn't have access to, you know, engineers that
24 would develop. So this we put them in touch with a

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1 mechanical engineer and industrial designer, a
2 firmware developer, to build this and manufacture it
3 within four months.

4 Now they are selling about 30 of these a
5 week, and they're scaling, focused more on the sales
6 and marketing, and we're helping them do that.

7 Also, another company called New Current
8 came out of Northwestern. They are developing
9 wireless-powered transmission devices. So this is
10 for recharging your cell phone wirelessly, so you
11 don't have to plug it in. Lots of applications.

12 They came in about a year-and-a-half ago
13 to Catalyze, and we gave them an office, about 1200
14 square feet. They raised \$3.5 million shortly after
15 they joined; and now they have, you know, been with
16 us for a year-and-a-half.

17 They moved across the street, and now
18 they're at 4,000 square feet and hired a bunch of
19 people. But, you know, right now it's a small
20 bootstrap organization.

21 You know, I put \$170,000 of my own money
22 to build this organization. I've worked, you know,
23 for three years with unpaid salaries, and now we're
24 really -- now is the time to really scale this

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1 operation. We've proven a lot of success in those
2 first two years.

3 You know, and we want to provide more
4 equipment. We want to provide \$2,000,000 worth of
5 equipment, something that a university or a
6 Microsoft or a Nike could offer their employees.

7 Imagine if every inventor had access to
8 that equipment and the mentorship. You know, we're
9 going to have a huge network of industry experts,
10 field application engineers from Arrow Electronics
11 and create educational curriculum and programming,
12 and bringing that investor community is very
13 important because you need capital, especially with
14 this capital-intensive manufacturing industry.

15 And, you know, the time is really now.
16 Our lease is expiring at the end of August, and we
17 have no home. We need to move into a new home.
18 We've identified a new facility that Motorola put
19 \$22,000,000 into this facility on Chicago Avenue.
20 It's about 63,000 square feet, and it will offer,
21 you know, us enough space to really scale this
22 operation.

23 ALLEN: So, you know, I want to say we're
24 talking about a real estate transaction, and how we

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1 can provide more resources to the community through
2 this transaction, both scaling those operations, as
3 well as giving more partners a home to continue
4 innovating.

5 Funding-wise, an opportunity, we've
6 secured about \$3.65 million right now through
7 sponsorships and tenants. I would be glad to go
8 into details, but some of those organizations are
9 GE, Marmion, Arrow Electronics, Auto Desk, TMA. We
10 had more conversations with a whole bunch more.

11 Our goal, as an mHub board, is to raise
12 \$12,000,000 over the first five years to support
13 this organization. We came to that amount because
14 that gives us some flexibility and assures
15 sustainability.

16 We achieved, based on our financial model,
17 sustainability in year six. All of these contracts
18 are for five-year deals. We're not going to be
19 chasing dollars year to year. We're setting up
20 long-term partnerships.

21 Types of tenants beyond the makers, we
22 have a group that wants to bring a lab from
23 Cincinnati to Chicago. They want 4,000 square feet
24 in this space. We've already agreed to terms.

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1 They're going to be able to move immediately ten
2 highly-skilled engineers and another ten in the

3 following year.

4 There's a lot of different companies that
5 are interested in this as well, and it's not just
6 because of this. It's because what's being built
7 here in Illinois between 1871, the TMVIs, and
8 Argonne, and all the rest of the universities.

9 We're just giving another home for
10 physical product innovation so that we can attract
11 and keep talent here in Illinois.

12 CHAIRMAN KNOX: So you'll come back for a
13 formal request?

14 ALLEN: If we're invited, absolutely, yes.
15 Yeah, I mean, thank you for your time and
16 consideration. We would like to entertain any
17 questions you have.

18 There are a lot more details we can go in
19 around our community engagement, our financial
20 model, education, our board representation, what our
21 sort of diversified revenue streams and general
22 leadership that is helping us take this to market.

23 CHAIRMAN KNOX: Well, thank you. Are there any
24 questions?

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1 JURACEK: Yes. I have a question. So I'm an
2 engineer by background. I have a lot of affiliation
3 with IIT and other places.

4 My question is: The market place for
5 incubators --

6 ALLEN: Yes.

7 JURACEK: -- there are many out there. You've

8 got clearly some very powerful supporters here, but
9 a lot of universities that you mentioned, IIT has
10 got an incubator space. U of I has got an incubator
11 space.

12 I was just at a meeting had a design like
13 that. I can't remember the name of it, big
14 incubator space. Harper College, College of DuPage,
15 the Golden Quarter Manufacturing Initiative.

16 There is a lot of this going on, and I
17 guess what I would want is your take on the
18 marketplace. Are we getting oversaturated with
19 incubator space, or are we just at the beginning of
20 this huge growth opportunity where you will
21 complement rather than compete with these other
22 incubator spaces?

23 ALLEN: I think we are very much in complement.
24 As Bill kind of alluded to, there are a lot of

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1 incubator spaces that focus on digital innovation,
2 not many that provide sort of that access to the
3 equipment or physical product innovation.

4 Groups like IIT, Northwestern, Argonne,
5 they are very much focused on their students. Once
6 their students leave, they no longer have access to
7 that equipment.

8 JURACEK: And they have specialties. IIT is a
9 bio-lab.

10 ALLEN: Absolutely. We want, when those
11 students that graduate, to have another place to

12 continue to developing an IP and actually
13 commercialize it and not just do the research for
14 research sake.

15 There is going to be a direct handoff
16 between Northwestern, just like you heard, you're
17 partnered with IIT, Northern, Chicago. We are very
18 focused on that.

19 JURACEK: I would encourage you to reach out to
20 College of DuPage and Harper. I was just with
21 Governor Rauner last year groundbreaking on their
22 huge manufacturing facility there. It's amazing.

23 ALLEN: Absolutely.

24 JURACEK: And my son is a student there. He's
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1 got a job.

2 CHAIRMAN KNOX: Well, thank you. Thank you for
3 your presentation and introduction. I appreciate
4 it.

5 ALLEN: Thank you.

6 CHAIRMAN KNOX: Is there any other business
7 before the Committee? Is there public comment?

8 Hearing none, I would like to request a
9 motion to adjourn.

10 JURACEK: So moved.

11 McCOY: Second.

12 CHAIRMAN KNOX: All in favor?

13 (A chorus of ayes.)

14 CHAIRMAN KNOX: Opposed?

15 (No response.)

16 CHAIRMAN KNOX: The ayes have it. Thank you,
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17 everyone, for your time.

18 FLETCHER: The time is 12:04 p.m.

19 (WHICH WERE ALL THE PROCEEDINGS HAD at 12:04 p.m.)

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1 STATE OF ILLINOIS)
2 COUNTY OF COOK) SS:

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

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PAMELA A. MARZULLO
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