ILLINOIS FINANCE AUTHORITY BOARD
TAX-EXEMPT CONDUIT TRANSACTIONS COMMITTEE MEETING
March 9th, 2016 at 10:30 a.m.

Report of Proceedings had at the Meeting of the Illinois Finance Authority Board of Directors Tax-Exempt Conduit Transactions Committee Meeting on March 9th, 2016, at the hour of 10:30 a.m., pursuant to notice, at 160 North LaSalle Street, Suite S1000, Chicago, Illinois.

APPEARANCE:

COMMITTEE MEMBERS

MR. LYLE McCOY, Chairman
MR. ADAM ISRAELOV
MR. JAMES J. FUENTES (Via audio conference)
MR. MICHAEL W. GOETZ (Via audio conference)
R. ROBERT FUNDERBURG, Ex-Officio (Via audio conference)

ILLINOIS FINANCE AUTHORITY STAFF MEMBERS

MR. BRAD FLETCHER, Assistant Vice-President
MR. RICH FRAMPTON, Vice-President
MS. PAMELA LENANE, Vice-President
MS. ELIZABETH WEBER, General Counsel
MR. CHRISTOPHER B. MEISTER, Executive Director
MR. MASANARI KATSUMI, Legal Extern
MR. PATRICK EVANS, Agricultural Banker (Via audio conference)

CHAIRMAN McCOY: In the Chairman's absence, I will be chairing the meeting. I'm Lyle McCoy.

One point of order, I think we've got two of us here on the committee in person; and obviously when seconding, or putting a motion forward, I would ask the people on the phone that might be doing that to just announce yourself so that we have a record of that, please.

If we can move forward, I would ask General Counsel, Ms. Weber, to call the roll to ascertain the attendance of members, please.

WEBER: Certainly. Vice-Chair Lyle McCoy?

VICE-CHAIR McCOY: Here.

WEBER: Adam Israelov?

ISRAELOV: Here.

WEBER: Mike Goetz?

GOETZ: Here.

WEBER: Jim Fuentes?

FUENTES: Here.

WEBER: Rob Funderburg?

FUNDERBURG: Here.

WEBER: Mordecai Tessler? Robert Horne? And Brad Zeller? Those last three are not in attendance. We have a quorum.

♀

CHAIRMAN McCOY: Excellent. Moving to Point 2, Review and Adoption of the Tax-Exempt Conduit Transaction Committee meeting minutes from February 11th, 2016.

Do any members wish to direct to General Counsel, Elizabeth Weber, to make any edits back in the minutes of the special meeting of the Committee held on February 11th, 2016?

(No response.)

CHAIRMAN McCOY: If not, can I have a motion to approve the minutes, please?

ISRAELOV: So moved to approve the minutes.
CHAIRMAN McCOY: Do I have a second?
GOETZ: This is Mike Goetz. Second.
CHAIRMAN McCOY: Okay. Seconded by Mr. Goetz, and moved by Mr. Israelov. All those in favor?
(A chorus of ayes.)
CHAIRMAN McCOY: Opposed?
(No response.)
CHAIRMAN McCOY: The ayes have it. Moving on to No. 3 now, Presentation and Consideration of Agricultural Products. Patrick Evans will be presenting the two projects. Patrick?
EVANS: Today we have two beginner farmer

bonds, both have --
FLETCHER: Pat, can turn your volume up?
EVANS: I've got mine up all the way.
FLETCHER: Okay. We can hear you better now.
EVANS: Okay, thanks. Today we have two beginner farmer bonds, both have FSA guarantees relating to them. The first is Tim W. Ringger.
The State Bank of Toulon will retain the first mortgage on 45 percent of a $617,639 land purchase or $301,000. IFA would provide the beginner farmer bond on this portion of the debt. These bonds will be used for 80 acres of farmlands for $7,720. This will be a beginner bond.
WEBER: Pat?
EVANS: Yes.
WEBER: We were just losing you there.

LENANE: Pam isn't getting any of this.

WEBER: Can you go back to what you were just saying?

EVANS: Sure. This will be a 30-year bond with an initial interest rate of 3.25 adjustable after five years. The interest rate will adjust at 25 basis points below Wall Street Journal prime, and the property is located in North Central Stark

♀

County.

The second beginner farmer bond is Kyle Loepker. First National Bank of Carlyle will retain a first mortgage loan on 59.8 percent of a $870,000 land purchase or $502,000 worth of debt.

IFA will provide a beginner farmer bond for the senior portion of debt. These funds will be used to purchase 153.5 acres of farmland for $5,668 per acre.

This will be a 30-year bond with an initial rate of 2.5 adjustable after five years. The interest rate will be adjusted to the five-year treasury note plus 1 percent. The interest rate will have a floor of 2.75 with a ceiling of 8 percent.

There is a cap of 2 percent on any adjustment period. The property is located in southwest part of Clinton County. Is there any questions on these?

(No response.)

CHAIRMAN McCOY: We're good. Thank you. Is there a motion to recommend for approval to the Board the beginning farmer bonds?
ISRAELOV: So moved.

♀

CHAIRMAN McCOY: Second?
GOETZ: Second. This is Mike.
CHAIRMAN McCOY: Mr. Goetz seconded. Mr. Israelov moved it. Thank you. If we vote, all in favor, please say aye.
(A chorus of ayes.)
CHAIRMAN McCOY: Opposed?
(No response.)
CHAIRMAN McCOY: The ayes have it. Thank you. Moving to No. 4, Presentation and Consideration of Educational, Cultural and Non-Healthcare 501(c)(3) Projects. Mr. Frampton will present DePaul University.
FRAMPTON: Thank you, Mr. McCoy. DePaul is requesting consideration of a Final Bond Resolution. This will be a one-time consideration. The not-to-exceed amount is going to be for $85,000,000.
The principal use of the proceeds will be to finance a new School of Music building. The components of the school and music building are noted in the bullets that are listed towards the bottom of page 4. There will be a 505-seat concert hall, two recital halls, a Jazz performance, and a Jazz performance hall, as well as an underground

parking garage.

In addition to the music center project, DePaul is also contemplating -- they have a whole menu of capital -- of prospective capital expenditure projects that would use proceeds. Those include or the principal -- the components include the library at their Lincoln Park Campus.

In addition to that, they own and lease several buildings downtown. They would expect to use up to $10,000,000 of proceeds for the projects located downtown.

Just some updates on the project. The par amount actually is now estimated at approximately $70.4 million. In addition to that, since this report was published and mailed last week, the ratings are in for both Moody's and S&P. As expected, Moody's rated -- awarded or assigned an A2 rating to the 2016 bonds, as well as affirming the rating on all $260,000,000 of existing debt with a stable rating.

Earlier this week, S&P assigned a single A rating with a stable outlook for the 2016 bonds and all their prior debt. The Fitch rating is forthcoming. One other change that is expected,

just looking at market conditions, it's anticipated the maximum maturity on the bonds to be sold will be roughly $25,000,000. I'm sorry, the maturity will be 25 years rather than 30 years.

The net and actually the combined impact of the anticipated reduction in principal amount from $80,000,000 to $70,000,000, and the shortening of the maturity of the maximum maturities from 30 years to 25 years will have no impact on the proforma debt coverage.

That's reported on page 8 of the report, and actually the debt -- the proforma debt coverage on the 2016 debt, based on the original $80,000,000 par amount and 30-year maturity, is the same as the $70.4 million par amount and 25-year maturity.

They will be shaving a few basis points off the rate; and net-net, the structure will save $181,000 compared to what they had originally planned.

Just in terms of the financial performance, you'll note in reviewing the financials on page 8, that there has been a lot of variance in operating net income, as well as EBIDA and debt service coverage. All that can be tracked through

one factor, and that is explained on page 9 of the report.

The driver of the variance is an early retirement incentive program that DePaul implemented during fiscal year '14. So roughly $23,000,000 was allocated to the early retirement program. So that accounts for virtually all the variance and performance; and as you could see, their debt service rebounded in 2015.

One other -- and just to note one other recent development that has been in the press, due to the state budget impasse, and the fact that the state has been unable to pay the Monetary Awards Program grants to students, this is reported on page 11 of the report, three-quarters of the way down.

DePaul will -- in the event that that Monetary Award Program is not honored by the State, DePaul will be forgiving the tuition payments attributable to the MAP grants on a one-time basis this year.

And just relative to -- and the number published in the press has been $20,000,000. So that's $20,000,000. When you look at the university's liquidity, just in terms of days cash

♀

and investments, it's -- they have -- they had 523 days of cash as of June 30, 2015; and just in terms of approximate dollars, this is less than 3 percent of their unrestricted combined cash and investment balances. So they're solid.

ISRAELOV: I had a question just regarding the financials. So I understand that a forecast hasn't been provided to us given the high investment grade, but the notes here do mention that there might not be federal and state financial aid to students.

And also, that the funding -- there are

funding issues associated with Monetary Award Program. Are there financials that we could see that account for that?

FRAMPTON: No, they're not. What I have presented on page 10 is exactly what is posted in the securities document to prospective investors. Prospective investors were not obtaining any information that is not available to prospective public investors; and actually for a member of the Board, that mitigates risk to you, personally.

ISRAELOV: Okay, thank you. That is an explanation.

FRAMPTON: If that's a comfort.

CHAIRMAN McCOY: One of the things that they have done right, when they had -- due to student decline, was they were able to react. It cost them some money, but they had the program in, what, '14.

So I think they've got the flexibility and willingness to be able to do that. And also, I mean, they got, as you note, cash on hand, and I think obviously a deep support when you look at the board and things like that.

FRAMPTON: And the rating agencies have viewed their early retirement program as being a proactive approach to maintain their financial condition. So that's a positive factor.

The other key positive factors are if you look at their long-term debt as of each year, 2013, '14, and '15, it's steadily amortizing. Another positive factor is all of their long-term debt is fixed rate.

So all those are factors that, in addition to just strong management, play into the fact that the rating agencies have them at single A, and equally importantly with a stable outlook. So in spite of some of the indicators like enrollment that haven't been completely positive, the rating

agencies have awarded stable outlooks. So that should be taken as a strong signal.

Any other questions?

ISRAELOV: I did have a couple more questions. First is relating to the use of proceeds. So on page 5, at the very bottom there's a summary of where the money is going.

Do we have a breakdown of exactly how much money is being used for each of those items?

FRAMPTON: This description is derived from the Bond Resolution which provides -- the purpose of the Bond Resolution is to define parameters. So the idea is you want to throw every potential expenditure that you can think of into the scope of the finance -- into the prospective scope of the financing.

That does not mean that each of the projects identified within either the report, or within the description that is provided here, will actually be funded. Generally -- and the whole purpose behind that is to provide the University with some flexibility to proceed with projects as they deem fit, but also after they've had an opportunity to review the useful life of the assets,

♀

because the general idea is when they look at various elements of the project, they want to maximize the life vis-a-vis the maturity on the bonds.

One other reason, in the music center, you can also conceive that there may be concession stands and other private uses. So as bond counsel looks at the project, and actually approves the expenditures, that there will be decisions to instead of proceeding with expenditures on the Lincoln Park Campus, they may elect to do something instead on the Loop Campus.

So not all that is known at this point. What is disclosed to the bondholders, and what was published in the TEFRA public hearing notice, is cited here.

They may spend -- they may elect to spend all the proceeds on the Lincoln Park Campus, and they may use up to $10,000,000 of the proceeds at the Loop Campus, and there's nothing unusual about this.

Even at the time of the Bond Resolution, these are structured to provide some flexibility in how the proceeds of the bond issue are ultimately

♀

deployed.

MEISTER: Counsel Weber, do you agree with everything that Mr. Frampton said?

WEBER: I do, and part of the reason is, you know, you have an estimate of cost, but you might have cost overruns. You might have savings. You want to have the flexibility so they can deploy bond proceeds in the best possible way.

ISRAELOV: Thank you.

FLETCHER: Which is why almost always you will be approving not-to-exceed amounts, not a particular specific bond amount; and as Rich noted for this specific transaction, you are approving not to exceed 85. Right now they are --

FRAMPTON: And they are contemplating roughly $70,400,000.

ISRAELOV: The other question is do we have any more visibility into new jobs projected?

FRAMPTON: Well, let me explain that by referencing the employment table at bottom of page 9 of the report. DePaul has just gone through implementing an early retirement incentive program.

And what they are saying with this new music school building project, they will see how

♀

enrollment forces justifies the additional faculty positions. So they are just not -- they are not in a position to forecast jobs.

And what the University has represented to us is exactly what is reported here; and based on the facts as we know them, I think that's a reasonable response by the University.

Any further questions?

CHAIRMAN McCOY: The only comment I make is when you look at this, and you think about within Chicagoland and the State, you know, the quality of the higher-academic schools that we have, and I think looking at something like this and adding culturally, this is a great project to have. I think it's different and certainly worthy of our support.

FRAMPTON: You know, if I can add just one fact. In addition to serving students at the University, as I note in the middle of page 5, the school of music programs also serve 750 children and adult learners who are participating in their community music division. So this does serve the outside community.

CHAIRMAN McCOY: Good. Thanks, Rich.

FRAMPTON: Okay.

CHAIRMAN McCOY: Any other questions for Rich? If not, is there a motion to recommend for approval to the Board for DePaul University?

FUENTES: Fuentes so moves.

CHAIRMAN McCOY: Thank you. Second?

ISRAELOV: Second.

CHAIRMAN McCOY: Mr. Israelov, thank you. Now we need to vote. All those in favor, please say aye.

(A chorus of ayes.)

CHAIRMAN McCOY: Opposed?

(No response.)

CHAIRMAN McCOY: The ayes have it. Thank you. The next one on to Section 5, Presentation and Consideration of Healthcare Projects. Miss Lenane, please? Excuse me.

LENANE: That's okay. First, we have Westminster Place and Lake Forest Place, also known as Presbyterian Homes Obligated Group, are seeking Final Bond Resolution for $135,000,000, and they are refunding their series 1996A, 2001, 2006 and 2007 variable rate demand bonds.

They are also funding Town Center

♀

renovations at the Lake Forest Place Campus and other routine capital projects for Westminster Place and Lake Forest Place.

The renovations at the Town Center consist of -- the Town Center is like a general community area for all of the people living there, and they are going to do new common -- they are rehabbing the common spaces, the living rooms and the dining rooms.

Since this has already been to the Board and approved, the preliminary, we did secure some job information. The construction jobs projected for these projects are 50 construction jobs. Also, they have applied for ratings, but haven't received them yet, but the bonds will carry an investment grade.

They currently actually don't have a rating right now, but they will have an investment grade rating. Those are the only changes that I've made in the report. If somebody has questions.

As you can see, if you go to the financials on page 6, they are very strong with the 7.02 debt service coverage. Days cash on hand is $1,000. These numbers are very, very good for a

♀

CCRC.

ISRAELOV: I just had a question on the financials. Do the financials reflect the entities that are responsible for servicing the debt? I just wanted to confirm that.

LENANE: Good question. The new borrowing entity is -- they've just gone through a corporate restructuring. The new borrowing entity is Westminster Place and Lake Forest Place, and the new entity does not yet have financial statements, but Pres Homes has indicated that those two entities comprise 60 to 65 percent of the operating revenue of the old Obligated Group, and that's what we're looking at. This is the old Presbyterian Homes Obligated Group financials.

Did I explain that properly?

CHAIRMAN McCOY: So this is the 65 percent then?

LENANE: Yes.

CHAIRMAN McCOY: Okay.

LENANE: Yes -- no, no, this is 100 percent.

CHAIRMAN McCOY: 100 percent, okay.

LENANE: And 65 percent. It's 65 percent of 100 percent. Now I could do that, but --

ISRAELOV: Is this the Obligated Group?

LENANE: These are publicly-traded bonds, and they are rated. I think I have the same issue that Rich has of breaking it down into 60 to 65 percent.

FRAMPTON: Well, but that's going to be -- let me just ask in the final official statement, there will be a representation --

LENANE: It will. Of course.

FRAMPTON: -- that reports all this. So the investors will see that it was not -- it's still in the works.

LENANE: Yes, it is still in the works. This transaction is a little ahead of securing a rating, doing a draft, preliminary offering statement, and that's why we don't have that particular information right now.

CHAIRMAN McCOY: And they're targeting April?

LENANE: Yes. They want a price within the next few weeks.

ISRAELOV: So in understanding these

financials, should we be discounting it by between
35 and 40 percent?
LENANE: Yes, exactly. Exactly.
ISRAELOV: The entities that are responsible

♀

for the debt obligation?
LENANE: I suppose we could do that, but then I get into problems with information that's not on EMMA.
FRAMPTON: It's not being presented to the investors.
LENANE: Not being presented to the public, to the investors. It may, at a subsequent time, be formatted differently in the POS, but I don't have the POS yet.
MEISTER: Preliminary official statement.
LENANE: Sorry, preliminary official statement. We could show it to you when it comes out, or -- what would you like to say, Rich? Do you have an idea?
FRAMPTON: No. I was just going to say since this is a refunding, isn't it true, Pam, that what they are attempting to do here is maximize market time?
LENANE: Well, yes, they are, but it's also new money. It's not only just a refunding of $104,000,000, it is will $9,000,000 in new money. So they are trying to move as fast as they can to get to market and get the benefit of low rates right

now.
MEISTER: And, Counsel Weber, do you agree with concerns that were articulated by Rich and Pam?
WEBER: I do.
MEISTER: On this issue of communicating to the world the potential -- the universe of current bondholders and potential bondholders?
WEBER: Yes. I mean, I think it's best to have information that is a public forum, in this case, since there's no preliminary official statement available. Pam is using what is available for what's audited and out there in the public format.
FLETCHER: Because the new legal borrowing entity has no operating history, per se.
LENANE: It has no operating history, that's right.
MEISTER: And, Adam, because these are publicly traded, these bonds are currently available on the MSRB's EMMA website, and I think it is emma.msrb. So it would be dot org. So that's a free resource available to anyone with an Internet connection.
LENANE: But they will be trading under Presbyterian Obligated Group, which will -- which contains 35 percent more. This is the old

Presbyterian Obligated Group.
They formed a new Presbyterian Obligated

Group that is the directing agent for Westminster Place and Lake Forest Place, because they want to issue the bonds in the name of Presbyterian Obligated Group, Presbyterian Homes, because the marketplace is familiar with that, but they have spun out four other entities out of Presbyterian Homes Obligated Group that were minor, very minor entities.

35 percent of this they've spun out. I don't know if you can digest this all at one time.

CHAIRMAN McCOY: I think it would be fair to say that if you know the assets and the financial quality that is here, it doesn't seem like it's going to materially alter on the downside at all.

LENANE: I don't think so. It's still all --

CHAIRMAN McCOY: It's quality projects, from what I see, being close to one. The financials wouldn't differ a whole bunch, I don't think.

LENANE: No, they won't. They won't.

FLETCHER: And the refunding, of course, would be beneficial.

CHAIRMAN McCOY: Right.

LENANE: Well, right, exactly. Yeah, because these are -- well, they are variable rate debt, and they are going to fixed. I can't say variable rate debt that they are going to see a substantial savings in interest rate because variable rate debt is always trading on a short-term basis.

So you're getting short-term rates on

variable rate debt. Fixed rate generally is a little bit longer, but they are also fixing these bonds because rates are so low right now.

FRAMPTON: They are hedging, effectively.

LENANE: Yes, they are fixing them so that -- right, so that they get a certain -- a rate certain.

FLETCHER: Which is a credit positive.

LENANE: Yes.

FRAMPTON: It eliminates variable rate risk going forward.

LENANE: It eliminates variable rate risk going forward.

CHAIRMAN McCOY: Any additional questions on this credit? If not, should we move on to Iowa Health?

LENANE: Okay. We're going to take these together, then? Yeah, we can.

♀

CHAIRMAN McCOY: Yes. I think that's the way we have it structured.

LENANE: Good. Unity Health -- excuse me, Iowa Health System, doing business as UnityPoint Health, is coming back to the Board for -- they were here at the end of last year in December of 2015 to do a $51.2 million refunding of the Methodist Memorial Hospital Bond. Methodist Memorial is located in Peoria, Illinois.

They are now coming back seeking a Preliminary Bond Resolution for a not to exceed

$53,000,000 to refund the Proctor Hospital bonds, the 2006A bonds. They also -- they've acquired Methodist, and they've acquired Proctor Hospital, and now they are refunding the Proctor Hospital bond.

They're going to spend $17,000,000 on Methodist -- for the benefit of Methodist Medical Center located on Glen Oak Avenue in Peoria to purchase, renovate and equip an 81,000 square-foot building, which will include classrooms, laboratories, faculty offices and support space for the College of Nursing, along with an additional 45,000 square-foot warehouse space, all on War

Memorial Drive, which is on the other side of the highway from Methodist.

And they are also going to spend $11,000,000 for the exterior renovation of the Glen Oak and east wing -- east-west buildings located on Glen Oak at Glen Oak where the hospital is. They expect to have 365 construction jobs projected.

UnityPoint Health is an Iowa not-for-profit corporation that controls directly or indirectly 12 hospitals in ten Iowa cities, four hospitals in three Illinois cities, and one hospital in Madison, Wisconsin. They have approximately 860 employed physicians.

These are going to be tax-exempt, fixed-rate bonds to be underwritten by Morgan

Stanley. They have current rating from Moody's of A little A3 and Fitch double A minus. They expect to have those ratings reaffirmed. They have not been to the rating agencies yet.

If we go to page -- let's see, where are we? Well, I've described the project for the new College of Nursing and the facade renovation. I told you about Iowa Health System. If we go to the

♀

financials, we have their unaudited 2015 financials. Their year ended 12-31. These have not been signed off on by their auditor, but they are final as far as, you know, they are as final as an unaudited statement could be.

Their debt service ratio is 5.0, and their days cash on hand is 219; and this is a combination of UnityPoint Health, Methodist and also Proctor. Proctor's numbers are contained in here.

I make note here of support and revenues from 2013 to 2014 went down because they acquired Meriter Health System, the teaching hospital at the University of Wisconsin, which has 448 beds.

They have a difference in that income from 2014 to '15 going down because their physician plus insurance company has a couple of large non-recurring adjustments in 2014.

UnityPoint Clinics made a significant investment in growth and added physicians, and they have not seen increased volume, patient volume, as a result of that; and the Quad Cities region has had significant staff and provider labor cost increases due to market pressures.

The days cash on hand from 2014 to '15

♀

went down, as you can see from 43 to 219, because of market returns and the additional expenses noted that above -- that I just noted.

I think that would cover it. Once -- I think Chris would like me to mention, once again, that UnityPoint is in Iowa, and they are using us to issue these bonds in Illinois.

Are there any questions?

CHAIRMAN McCOY: I think we're good here. Any questions on the phone? If not --

GOETZ: It sounds good, the downstate project.

LENANE: Absolutely.

GOETZ: Yes.

LENANE: South of I80.

GOETZ: It's down here.

LENANE: Yeah.

CHAIRMAN McCOY: Is there a motion to recommend for approval to the Board Westminster Place and the Lake Forest Place, as well as Iowa Health System UnityPoint Health?

ISRAELOV: So moved.

FUENTES: I'll make a motion. This is Mike.

CHAIRMAN McCOY: Thank you. So Mike seconded.

FLETCHER: Seconded, yes.

♀

CHAIRMAN McCOY: Mr. Israelov moved.
WEBER: Take a vote.
CHAIRMAN McCOY: Thank you. You can tell I'm a rookie. Quick vote, if we can. Please, all in favor, say aye.
(A chorus of ayes.)
CHAIRMAN McCOY: Opposed?
(No response.)
CHAIRMAN McCOY: The ayes have it. Thank you. Moving on to No. 6, Presentation and Consideration of Local Government and Government Purpose Projects. Mr. Fletcher will present, please.
FLETCHER: Thank you. Before I begin, did we lose someone on the phone? Do we still have everyone? Mr. Goetz?
GOETZ: Yes, I'm here. Mike.
FUNDERBURG: Bob, I'm here.
FUENTES: I'm here, Fuentes.
FRAMPTON: Patrick?
EVANS: I'm still here.
CHAIRMAN McCOY: Okay. It's the ringing in your ears.
FLETCHER: Yeah, right. Okay. This project is a proposed Final Bond Resolution for School District

♀

No. 3, which is based in Harrisburg out of Saline County.

Mr. Fuentes and Mr. Goetz on the phone, you recall we approved this back in July as a Final Bond Resolution. Subsequent to that approval, various events occurred with the co-managers on the transaction, notably of which Edward Jones and Company was fined $20,000,000 by the SEC, unrelated to this transaction, which effectively removed them from the business; and, likewise, BMO Capital Markets no longer plays in this area, as a way of saying it. Right.

So because of the various parties switching out, as well as a transaction being scaled back or coming back to the Board for IFA approval, before I get into the details, because to the best of my recollection that I can recall this is the first local government deal this Committee has considered, so I wanted to give a little background here, if I could.

So the Authority has a local government revenue bond program whereby the Authority's bonds are sold into the capital markets, the proceeds of which are used to purchase local government

securities of a local government issuer, which can be a unit of local government, such as a school district, village, township, and so on and so forth.

That is to say, we're not using the Authority's balance sheet funds to purchase these local government securities. We're simply remaining a conduit. So, in that regard, it is similar to our product offerings for our non-profit sector as well as our healthcare sector.

The local government bonds that we issue into the markets are sold based on the underlying ratings of the borrower, itself, or if there's bond insurance, with a bond insurance rating.

The State of Illinois, neither the Authority, provide any type of credit enhancement on these local government revenue bonds. Instead, what differentiates these bonds from our other product offerings is Illinois-based investors that purchase these securities are both federally tax exempt and state income tax exempt.

That's derived from our statute. So if you were to purchase a healthcare bond, an industrial revenue bond, a higher-education bond, the interest you earn is only exempt from federal

♀

income taxes.

If you purchase the Authority's local government revenue bond, and you are based in Illinois, you are an Illinois income tax filer, you're exempt both federally and state tax exempt. So that's the play, and that's why some underwriters participate in this market for certain of their investors.

So with that background, I'll get into the transaction. Again, this first received approval in July '15. Subsequent to that, the two co-managers were replaced, now with the single co-manager, which is RBC Capital Markets. Additionally, the IFA transaction was scaled back from approximately $22,000,000 to now $15,000,000.

That is not to say that the project, itself, has been reduced, rather we are issuing only one series of bonds, and the district, itself, is issuing their own undertaking for the remaining portion of the project.

The reasoning there is because the district will be issuing bank-qualified, general-obligation, tax-exempt debt. Play with the numbers there, according to the underwriters, works

with them issuing one series as BQ, and then us issuing alternate revenue bonds as double tax exempt if you are an Illinois investor.

So that is the rationale for the lower par amount that we are issuing compared to July 2015. The bonds we are issuing are for reconstruction of one of the three wings of the Harrisburg High School main facility.

The bonds that are going to be BQ and issued by the district, itself, are for refunding their Series 2007 bonds, which is approximately $3,000,000, as well as making life-safety improvements throughout the district, fire sprinklers, things of that nature.

So total the project is about $22,000,000. We're issuing 15. They are issuing about 7. So again, bonds that the district is issuing to us will be alternate revenue bonds. So that will not count against their legal debt margin.

If you have their report in front of you, for the members on the phone, we put a nice summary of what issuing alternate revenue bond entails on page 10. The district is pledging county facilities sales tax proceeds as securities for these bonds,

and then further collateralizing the alternate revenue bonds with a property tax pledge behind that.

The pledged county facility sales takes must equate to at least 1.25 debt service coverage in each outstanding calendar year that the alternate revenue bonds are outstanding.

Mr. Goetz, you will recall from last time we approved this, this is the same security, this county facilities sales tax.

GOETZ: Yes.

FLETCHER: In the State of Illinois, every county, except for Cook, has the ability by voter referendum to increase the sales tax in their respective county by an incremental 1 percent. That increment is called an occupational facilities sales tax.

That increment was approved by referendum by the voters of Saline County in July 2012, and sales tax receipts started coming in in

October 2012. So that would be the revenue pledge, if you will, for the alternate revenue bonds, and then they will be further collateralized by a general property tax levy.

ISRAELOV: Going back to the facilities sales tax, I just want to confirm that that tax was passed for the life of the bond.

FLETCHER: Yes, and that is a requirement by statute. While any school district, any county, has the ability to, you know, update their budget on an annual basis, pursuant to state law, if there are bonds outstanding that are backed by the county facilities sales tax, in the future no board or district can impair the security of those bonds.

So they would actually be violating state law, should they reduce that or impair those bonds. So to answer your question, yes. Is that okay?

ISRAELOV: Yes. Thank you very much.

FLETCHER: I just want to make sure. So D.A. Davidson & Company is still the senior manager here. They are still running the transaction. The district is currently rated A minus stable by S&P. That was refreshed as of late September 2015.

As is, that is what will be in a preliminary offering statement. They actually expect to refresh that. Once again, they expect no changes. Furthermore, what we almost never see recently in the last couple years, these bonds will be issued with bond insurance.

So Assured Guaranty will be providing that bond insurance. Therefore, the bonds will carry the rating of Assured Guarantee, which is currently single A double. So, actually, higher rated than the district's underlying rating.

ISRAELOV: And do we know what the AM Best rating is? It is an insurance kind of rating system.

FLETCHER: Double A stable. I correct myself. Thanks.

FRAMPTON: In the municipal bond world, the rating agency -- the rating agencies, the four ratings agencies, Moody's, S&P, Fitch and Kroll, are the entities that rate the municipal bond insurers that they operate in their own insurance; and, as a matter of fact, that's all that's reported to the investors.

GOETZ: So they don't get an AM best investment rating?

FRAMPTON: That's correct.

GOETZ: They just get rated by -- okay.

FLETCHER: Pages 11 through 15 of the report provides for tables and respective financial

information that will be available because these are publicly-sold bonds to investors in the market, when reviewing the preliminary official statement. You'll note that table 11 on page 14 is our forecast, which shows issuance of their contemplated BQ transaction, as well as -- of course, the alternate revenue bonds don't count against illegal debt margin, but nevertheless, they are still well within their legal debt capacity by approximately $3,000,000.

But our forecast does show their own undertaking through their BQ issue.

ISRAELOV: Going back to the bond insurance, you talk through the coverage that's being provided. Are there any material exclusions we should be aware of?

FLETCHER: Could you be a little more specific?

ISRAELOV: Well, kind of just the pecking order of security, the bond insurer is one party that will provide coverage, my understanding is if the tax isn't sufficient, right, to provide coverage?

FLETCHER: Right.

ISRAELOV: So I just want to make sure that the insurance will provide the coverage that the entity

would need.

FLETCHER: Sure. So bond insurance guarantees that principal and interest payments are made on a timely basis to the bondholders pursuant to the amortization schedule. That's number one.

FRAMPTON: Yes. And, really, it's a standby in the event that everything else fails. So the school facility occupation tax proceeds, if that fails, the levied property taxes are insufficient, which is really inconceivable.

FLETCHER: Unlikely.

FRAMPTON: Yeah, highly unlikely. So it would require both of those events to occur in order for the bond insurance policy to effectively be called on.

So the basis under which the bond insurers are underwriting this is they assume everything -- what's the probability of everything failing? So the alternate revenue bonds and then the GO pledge, the general obligation pledge.

MEISTER: But again, I think that the question was, because I think Adam's questions, correct me if I'm wrong, are coming more from a non-municipal bond insurance perspective, and I'm just wondering. It's

probably a good question. I don't happen to know the answer.

Are there any exclusions that might be applicable here, you know, that would be analogous to director and officers, public officials, for liability insurance, and I don't know the answer? Elizabeth?

WEBER: You know, it's been a while since I looked at particular insurance policies, but I don't recall that there were exclusions, other than maybe if there was fraud.

FRAMPTON: Fraud, yes.
WEBER: Something along that line.
FRAMPTON: Yeah, if there were.
WEBER: But the other sources do have to be used.
FRAMPTON: Exhausted.
WEBER: And exhausted first before they come in, and then they make the rights of subrogation to go get those other revenues to reimburse them for what they paid into the insurance policy.
FLETCHER: Having worked at an insurance law firm before my time here, if there's an exclusion for God-based events, we just don't have that

answer, if that's what you're looking for. But there is a waterfall in place, which I think Rich did a fantastic job of describing. So --
CHAIRMAN McCOY: It may be covered by if a tornado comes through, it's covered under insurance, right?
FLETCHER: Right. And that's the whole -- that's why they're getting insurance.
FRAMPTON: And the Authority is not a party to the insurance agreement also.
FLETCHER: Sure. I was going to add that, too. We're not a party to that. We haven't seen those documents. So --
FRAMPTON: Good questions.
FLETCHER: Sure. That kind of concludes my summary. I'm more than happy to answer any

questions.

CHAIRMAN McCOY: Would it make sense to talk about the supplemental information on page 16?

FLETCHER: Absolutely. So for the members on the phone, the last page of the confidential section, which is page 16, we provided a summary.

Of course, Illinois Finance Authority is here to serve qualified borrowers. We are not a

♀

unit of local government regulator, nor are we the regulator for an education school district. Instead, that is the Illinois State Board of Education. The Illinois State Board of Education heavily watches the financial performance of any school district in the State of Illinois.

Saline County, as of 2014, was rated 2.9 in their scale, which goes from 1 to 4, 1 being financial watch, the worst category; 4 being the best. So they are 2.9. 2015 has not yet been made available by the State Board of Education.

So that will be in the official statement. That's why we provided that here. Due to their financial early warning status, you know, you recall they are still a single A rated underlying district, but due to the State Board of Education's financial early warning status, they have to submit a financial plan every three years to the State Board of Education, which the State Board of Education approves.

So that's just, you know, a credit positive, I suppose you could ascertain for a potential investor, because there is someone watching their -- you know, looking out for

♀

taxpayers of the school district, potential investors, and so on and so forth.
CHAIRMAN McCOY: It doesn't happen in a lot of other jurisdictions in areas of government.
FLETCHER: Sure. Illinois is very proactive with its school districts. Of course school aid funding is a politically-charged issue these days; but nevertheless, this is the information that you will see, more or less, in the POS, which is why we're providing it.
If it caused any concern, again, I would go back to S&P's view of this, who views many districts throughout the state. They are an A rated underlying entity. So --
CHAIRMAN McCOY: Thank you.
FLETCHER: Sure.
CHAIRMAN McCOY: Any other questions? If not, is there a motion to recommend for approval to the Board Community Unity School District No. 3 Saline County?
ISRAELOV: So moved.
GOETZ: Second. This is Mike.
CHAIRMAN McCOY: Thank you. Mr. Goetz seconded. Mr. Israelov so moved. Vote. All those

♀

in favor, please say aye.
(A chorus of ayes.)
CHAIRMAN McCOY: Opposed?
(No response.)
CHAIRMAN McCOY: The ayes have it.
FLETCHER: Thank you.
CHAIRMAN McCOY: Moving on to other business. Is there any other business? If not, public comment?
Okay, if not, is there a motion to adjourn?
ISRAELOV: So moved.
CHAIRMAN McCOY: Thank you. Second?
GOETZ: Second.
CHAIRMAN McCOY: Sorry, who was that?
GOETZ: Mike.
CHAIRMAN McCOY: Thanks, Mike. All those in favor?
(A chorus of ayes.)
CHAIRMAN McCOY: Opposed?
(No response.)
CHAIRMAN McCOY: Thank you very much everybody.
GOETZ: See everybody tomorrow.
FUENTES: Thank you.

♀

FLETCHER: The time is 11:26 a.m.
(WHICH WERE ALL THE PROCEEDINGS HAD at 11:26 a.m.)

STATE OF ILLINOIS)
) SS:
COUNTY OF C O O K)

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