ILLINOIS HOUSING DEVELOPMENT AUTHORITY

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FINANCE COMMITTEE MEETING MINUTES
Friday, October 21, 2022

The hybrid meeting of the Finance Committee of the Illinois Housing Development Authority took place virtually via Zoom on Friday, October 22, 2022, at 9:00 a.m. Attending the meeting were Finance Committee Chair, Mr. Sam Tornatore, Mr. King Harris, Ms. Luz Ramirez, Ms. Sonia Berg, and Mr. Tom Morsch. Attending the meeting from IHDA were Ms. Kristin Faust, Mr. Ed Gin, Mr. Lawrence Grisham, Ms. Karen Davis, Ms. Maureen Ohle, Mr. Keith Evans, Ms. Christina Lopez, Ms. Tracy Grimm, Mr. Tim Hicks, Ms. Tara Pavlik, Mr. Andrew Nestlehut, Mr. Muhammad Jalaluddin, Mr. Jack Wambach, Mr. Javier Gumucio, Mr. Richard Ess, Mr. Aleem Mohammad, Mr. Kevin Hall, Mr. Keith Pryor, Ms. Tracy Sanchez, Ms. Miriam Weaver, Ms. Jennifer Miller, Ms. Allison Roddy, Ms. Cheramie Hibbler, Mr. Benjamin Medina, and Ms. Sheri Geishecker.

I.A. Mr. Tornatore called the meeting to order at 9:01 a.m.

I.B. Mr. Tornatore called a motion for the approval of the September 16, 2022, minutes to be approved as presented. Motion carried.

II.A. IT Update

Mr. Evans stated: Mr. Evans opened with an introduction of himself as he is new to IHDA. The guiding principles Mr. Evans works with include 1. Curiosity/Challenge the Status Quo, 2. Prioritization of Effort/Focus to include compliance, incident management, and highest value projects, 3. Service Orientation with a customer first mentality, 4. Technology Selection utilizing the re-use, then buy, then build methodology, and 5. Fact vs. Opinions. Mr. Evans shared a chart of the initiatives and their status that were previously started. Mr. Evans was asked if he was aware of the financial reporting challenges, and he confirmed that we've implemented Workiva to help with that.

Ms. Evans concluded: IHDA's Strategic Themes were discussed. These seven themes include updating our core technologies, i.e., JDE to Oracle conversion, Loan Servicing and Grant Management; Driving employee efficiency through technology, such as teams/OneDrive, Teams Voice; Enhancing our cybersecurity profile by completing remediations from Crowe cybersecurity audit and moving systems password management to a cloud solution; developing software solutions to meet our key business objectives; Strengthening our management of the existing IT environment; Building data analytics capabilities i.e., implementing Power BI (business intelligence) solutions and developing a cross department data warehouse; and continuing development of IT personnel.

III.A. Presentation of Monthly Interim Financial Statements

Mr. Hicks stated: Operating Revenues for YTD are $14.2M which is $0.8M favorable to budget and Administrative Reimbursements YTD are $11.6M. Key Drivers for the favorability in Operating Revenues is Ongoing Fees $3.4M and Origination Fees $1.4M.

Mr. Hicks continued: Operating Expenses for the Admin Fund YTD are $16.6M which is $6.1M favorable to budget while the Operating Expenses for the Government Funds YTD are $9.5M which is $2.1M favorable to budget. For the Admin Fund the Key drivers are Salaries & Benefits of $1.3M favorable and Professional Fees $2.5M offset by Other Expense $0.1M unfavorable.

Mr. Hicks continued: Operating Revenues for the Admin Fund are unfavorable $9.3M and Administrative Reimbursements are favorable to prior year $1.8M. For Operating Revenues, key driver is Investment Income which is unfavorable $10.6M.

Mr. Hicks concluded: Operating Expenses for the Admin Fund are $1.8M favorable to prior year while the Expenses for the Governmental Funds are flat to prior year. Key driver for both Admin Fund and Governmental Funds is Professional Fees.

III.B. Multifamily Update

Mr. Wambach stated: Today we are sharing the Multifamily Quarterly Update for the 1st quarter of FY23. We have 112 projects, 7,253 units in the pipeline. Permanent Supportive Housing and Housing for Justice Involved Individuals program and represents 41% of our active projects. The second slide shows that the projects are reasonably distributed around the state, with 36% or projects in Chicago, 32% in the Chicago Metro area, 17% in Other Metro areas, and 15% of the projects in non-Metro and rural areas. The third slide shows an even split between New Construction and Preservation projects in the pipeline.

Mr. Wambach continued: Following the successes of FY22, the first quarter of FY23 is busy as we've closed 19 transactions this quarter. Our progress for Q2 we've already closed three projects and have 25 additional projects targeting a year end close. Our projects under construction are 70 across the state totaling 5,0777 units in 22 counties.

Mr. Wambach concluded: Multifamily department updates: Deadline for concept meeting requests was October 14, we received 30 requests. The 2023 LIHTC PPAs were due on October 20, we received 72 new PPAs bringing our total to 179 PPAs for the 2022-2023 QAP cycle. This is a 21% increase from the 2021-2022 cycle.

III.C. Construction Cost Update

Mr. Hall stated: I'd like to present the challenges we face on the increase in construction costs. This presentation will focus on the pressures and premiums we are facing. Since the beginning of the COVID related restrictions that started in the first quarter of 2020, and the recent national disasters and the war in Ukraine, construction costs across the board are experiencing unprecedented pressures. This volatility has created pressures on material costs, costs of services, and labor costs. Some of this pressure has started to abate with oil costs decreasing and supply chain disruptions easing.

Mr. Hall continued: All capital projects continue to experience increased construction costs due to an array of premiums, and reconstruction and rehabilitation projects experience higher costs than new construction. All construction has hazardous remediation and zoning premiums, rehabilitation projects also have historic preservation, building stabilization, building performance upgrades, sustainability, accessibility, and increased labor costs as these projects are labor intensive. The next slide shows the increases in construction items since the pandemic from April 2020 through June 2022. The next slide shows the producer price index changes from July 2021 through July 2022, showing the percentage changes with some items coming down in cost.

Mr. Hall concluded: The increases in costs have had an impact on IHDA projects, with changes in construction costs per square foot by area as follows: Chicago – 42% increase, Chicago Metro – 36% increase, Other Metro – 18%, and non-Metro – 16%. A sample of a new construction project in Chicago came in at $420/square foot and a newly constructed Chicago Metro area project at $340/square foot. Forecasts for the 2022-2023 period will continue to increase with materials and services as well as labor shortages because of a smaller talent pool, an aging workforce, and competition from other industries. The final slide shows IHDAs response to the pressures and premiums. A question regarding the cost per square foot for the Chicago area is extremely high and another question asked about the differences between union and non-union labor costs. There is a definite difference between the costs of adapt/reuse being more expensive while being more ESG friendly, while new construction costs are lower.

III.D. Single Family/Homeownership Update

Ms. Pavlik stated: Reservations for September 2022 were at 601 first mortgage loans or $98.02 million, 299 or $51.47 million for GNMA and 322 or $46.55 million for Conventional. Prior year reservation comparisons for the month of September were $109.90 million, $58.23 million for GNMA and $51.67 million for Conventional.

Ms. Pavlik continued: For September 2022, IHDA Mortgage Program Statistics were as follows: Access 4% accounted for 4.0% or $4.1 million, Access 5% accounted for 3.0% or $2.83 million, Access 10% accounted for 10.0% or $11.52 million, and Opening Doors accounted for 83.0% or $79.56 million. Geographical percentages were 24% for the Central region, 53% for Chicago, 16% for the Northwest, and 7% for the Southern regions, respectively. There are 1,407 loans in the pipeline at a total of $223.76 million. Timing from reservation to approved for purchase is 46 days average, 50 days average from reservation to purchase.

Ms. Pavlik continued: IHDA Demographic Analysis compared to State of IL year-to-date race comparisons with the percentage of all applications is as follows: American Indian/Alaskan Native – 0.6% to 0.6% with .35% success rate, Asian/Pacific Islander – 1.2% to 5.9% with 6.29% success rate, Black – 19.4% to 14.6% with 5.05% success rate, Hawaiian/Other Pacific Islander – 0.03% to 0.1% with 0.07% success rate, White – 64.2% to 76.8% with 75.75% success rate, Two or More Races – 1.4% to 2.1%, Information not Provided/Unknown – 13.2% to N/A. Ethnicity comparison for Hispanic or Latino is 21.1% for IHDA compared to 17.5% for State of Illinois with 9.19% success rate. A graph comparing reservations for 2019 through 2022 was shared.

Ms. Pavlik concluded: Single family quarterly update shows inventory was 26.6% higher than a year ago due to homes lingering on the market. IHDA mirrors the Illinois market with closed loans by quarter. IHDA continues to serve low to moderate income borrowers. Programs provide assistance for homes ranging between $70-120K below the State of Illinois median sales price.

IV.A.1. Resolution Authorizing the Issuance of Revenue Bonds 2022 Series GHI

Mr. Nestlehut stated: The 2022 Series G, H, and I Bonds is a tax-exempt new money bond ("Offered Bonds"). The 2022 Series G Bonds include long term tax-exempt fixed rate bonds, Series H include short term fixed rate bonds, and the Series I Bonds consist of tax-exempt variable rate bonds. Offered Bonds are special limited obligations of the Authority. The collateral supporting all series are single family mortgage-backed securities. Offered Bonds will be issued on a parity basis with all previously issued Bonds in Revenue Bonds indenture. The purpose of the Offered Bonds is: 1. New money to redeploy capital for future originations and 2. Lock in long term spread for the Authority. The Offered Bonds are anticipated to use previously created subsidy for use of the Authority.

Mr. Nestlehut continued: 2022 Series G Bonds will be fixed rate debt, new money issuance, AAA rated securities to strengthen the credit of the indenture and is a Planned Amortization Class ("PAC") Bond. 2022 Series H Bonds will be fixed rate debt, new money issuance, short term, AAA rated securities to strengthen the credit of the indenture, 2022 Series I Bonds will be variable rate debt, new money issuance, AAA rated securities to strengthen the credit of the indenture. They will have a swap agreement and hedge against interest rate risk and lower cost of funds.

Mr. Nestlehut concluded: We are requesting authorization for the issuance of Revenue Bonds, 2022 Series G, H, and I not to exceed $275,000,000 in aggregate principal amount with a final maturity for any 2022 Series Bonds no later than 35 years after the issuance of the bonds. Bond interest rate on any fixed rate series bonds to not exceed 6% per annum, bond interest rate on any variable rate series bonds to not exceed 12% per annum. A projected schedule and list of transaction participants was shared.

IV.A.2. Resolution Ratifying "Permitted Financial Activities" under the Authority's Financial Management Policy

Mr. Nestlehut stated: This is a recap of the financial activities during the quarter ending September 30, 2022. Our book value was $2,108,255,991. Purchases were $741.65 million, sales were $64.66 million, and maturities were $430.91 million. Return on investments for this quarter were above the weighted average Treasury curve. Payouts and draws for the quarter were at $78.78 million and bond debt service was $67.39 million over the course of the quarter. We had three interest rate cap, nine swaps, and $195.59 million in hedges outstanding.

IV.A.3. Resolution Authorizing Agreement for Financial Advisory, Consolidated Cash Flow Management, Single Family Loan Pipeline Management, and TBA Hedge Execution Service

Mr. Nestlehut stated: In July of 2022, the Authority released a Request for Proposal ("RFP") for an appointment of one (1) firm to perform municipal housing quantitative analyses for the financial functions of the Authority. The services required of the analysts include the following: (i) consolidated cash flow management and (ii) financial advisory, and (iii) single family loan pipeline management and TBA hedge execution services ("Services"). Based on the results of the RFP, Caine Mitter & Associates Incorporated was awarded the appointment.

Mr. Nestlehut continued: Caine Mitter & Associates have been performing cash flow management and financial advisory for the Authority since February of 2016. Over the course of this term, they have done an exemplary job. For the proposal released in July, the Authority has added an additional function, single family loan pipeline management and TBA hedge execution services. Prior to taking this function in house in early 2016, Caine Mitter & Associates performed this function for the Authority.

IV.A.4. Accounting Updates

Mr. Gin stated: The first slide of the Accounting Update is a picture of the cover of our most recent audit draft for the fiscal year ended June 30, 2022. Mr. Hicks advised the committee that we submitted our trial balance to CLA on time as well as providing the draft of the financials. Our submission was on-time thanks to the Workiva tool which enabled us to implement, test, and produce the financial statements and the fact that we've also been generating full-blown financial statements quarterly. Mr. Gin then reviewed the Accounting Transformation Timeline highlighting the four main workstreams: Transformation, General Audit Prep, Process Improvement, and JDE Replacement. The detailed dashboard followed with the Accounting Transformation items listed as green (on schedule) and the Oracle conversion items within that workstream in yellow (work in progress). The entire External Audit Prep workstream is all green, the Process Improvement workstream is mostly green, with documentation activities and AP processes yellow. The only red (reassessing target date) category is the general ledger maintenance. Our chart of accounts is over 500 lines therefore this is a very intensive project and over the next eight weeks we are hoping to scale this down to half. The JDE Replacement workstream is yellow but we are planning to accelerate the work to become green.

Mr. Jalaluddin stated: The good news is we submitted our FY22 financials to the auditors last Friday, on time. We are using the Workiva tool and the Auditors, our consultant firm, Crowe, and IHDA have the ability to view information, make notes, and see the detail of the entries. This has been well received. The next slide shows our Audit Checklist which we use to prepare for the audit and the following slide shows the audit preparation process. The next few slides detail the Workiva tool. Workiva has allowed IHDA to automate a process that was cumbersome, time consuming, and error prone. This tool is cloud based and has real time financial data which has reduced the overall audit cycle time and can track changes. The following slides show examples of how the data is linked and collaboration happens.

Mr. Jalaluddin continued: The next slide shows itemization of the Transformation Progress, listing new processes, automating the Board reports, ACFR Certification progress, and continuing staff development and the formation of the Financial Reporting and Analysis department which used the Oracle Enterprise Program Management system for the FY23 budget.

Mr. Gin concluded: IHDA overall handles many funds, 41 in all, each with balance sheets and income statements with funds flowing back to the admin funds. The auditors cited an issue with this as we were reporting $25 million. During the process of formalizing the intercompany process, we're down to $1.8 million. We're going after the Government Finance Officers Association Certification. This certification means that we our financial reporting would be considered "best in class." We've submitted our information and the turnaround time is approximately nine months, but we expect a good outcome. Mr. Gin shared a page showing our changes in net position. The next two slides show the Oracle program timeline for Enterprise Performance Management, Business Process Co-Sourcing, Enterprise Performance, and Enterprise Performance Management 2 followed by the Oracle implementation timeline. The last item is a recognition for all the hard work, support, and guidance we receive from our team, the Finance Committee, and our Board. Mr. Gin is a finalist for Financial Executives International Chicago Chapter's CFO of the Year.

IV.B.1. Resolution Authorizing the Issuance of Multifamily Housing Revenue Bonds, Series 2022 (1201 N. California Avenue)

Mr. Ess stated: This request is for the new construction of 32 non-elderly units at 1203 North California Avenue in the Humboldt Park Neighborhood of Chicago, IL. IHDA will issue Multifamily Housing Revenue Bonds, Series 2022 (1203 N. California Avenue) to finance the acquisition and construction of the project. The Bonds will be publicly offered by RBC Capital Markets, LLC. This is conduit financing – the Series 2022 Bonds will be tax-exempt, fixed rate and short-term with limited obligation - No IHDA G.O. The permanent financing will either be a Merchants Capital loan or a FHA 223(f) loan. Both loans will be fixed rate, taxable and long term.

Mr. Ess concluded: This request is for the issuance of MHRB, Series 2022 (1203 N. California Avenue) in an amount not to exceed $12,000,000 with a final maturity no later than December 1, 2026, and an interest rate not to exceed 8.5% per annum. A projected schedule and list of transaction participants was shared.

V. Mr. Tornatore adjourned the meeting at 10:56 a.m.