



**ILLINOIS HOUSING DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING MINUTES
Friday, October 20, 2023**

The meeting of the Finance Committee of the Illinois Housing Development Authority took place on Friday, October 20, 2023, at 9:00 a.m. at 111 East Wacker Drive, Chicago, IL. Attending the meeting were Finance Committee Chair, Mr. Sam Tornatore, Mr. King Harris, Ms. Luz Ramirez, Mr. Tommy Arbuckle, Ms. Sonia Berg, Mr. Daniel Hayes, Mr. Brice Hutchcraft, and Mr. Tom Morsch. Attending from IHDA's Executive team were Ms. Kristin Faust, Mr. Lawrence Grisham, Ms. Maureen Ohle, and Mr. Keith Evans.

I.A. Mr. Tornatore called the meeting to order at 9:00 a.m.

I.B. Ms. Geishecker called the roll. Finance Committee Chair Tornatore, Mr. Arbuckle, Ms. Berg, Chairman Harris, Mr. Hayes, Mr. Hutchcraft, Mr. Morsch, and Vice Chair Ramirez were present.

I.C. Mr. Tornatore called a motion for the approval of the September 15, 2023, minutes to be approved as presented. Motion carried.

II.A. Information Technology Update

Mr. Evans stated: This is the regularly scheduled update of where we are in the IT world. The biggest update is around our Oracle project. Revisiting our objectives with the project, we are looking to drive efficiencies throughout all accounting processes, redefine the Chart of Accounts, deliver a quality system on time and on budget, while implementing based on best practices and a "fit to standard" vs. custom approach. We kicked off the project in March and are looking at a completion of July 1, 2024, to coincide with the start of the fiscal year. A chart of the modules we are implementing was shown as was the larger picture timeline. This timeline includes the ERP or financials part of the program as well as the EPM or budget module to prepare for the go-live date of 7/1/24.

Mr. Evans continued: The key changes and enhancements are the changing of the Chart of Accounts to include six segments with the addition of project/program level data, utilizing encumbrance accounting/budgetary control, replacing Concur with Oracle Expense, implementing Oracle Grants Management, and converting manual A/R processes to standard Oracle A/R with new lockbox. The project recap is as follows, Going Well is our staff engagement, we are on schedule and are sticking with standard functionality. Improvement opportunities include Mythics personnel where we've needed to change out some individuals and the procurement/vendor management. Other comments include the complexity of integrations of our other systems utilizing our Chart of Accounts and scope changes.

Mr. Evans continued: In keeping with the IT Strategic Themes, 1) Update core technologies, 2) Drive employee efficiency and effectiveness through technology by supporting

IHDA's workforce and continuing to build the resiliency of IHDA, 3) Enhancing our cybersecurity profile, 4) Developing software solutions to meet IHDA's key business initiatives, 5) Strengthening our management of the existing IT environment, 6) Continued development of IT team personnel, slides were shared detailing specifics related to each of these themes.

II.B. Cybersecurity Update

Ms. Hardrick stated: I'm reporting in accordance with the Safeguard Rule of 2023 on the current cybersecurity posture at IHDA. A video on Cybersecurity with many interesting statistics was shown. In addition to the eye-opening statistics in the video, the cost of a breach to a small organization in 2020 was ~\$2M, in 2023 that increased to \$4.4M and is expected to continue to increase at that rate. Government was the #1 targeted industry in the first half of 2023 with 145.9K malware detections.

Ms. Hardrick continued: The key challenges that we face here at IHDA is the everchanging landscape. Social engineering and phishing attacks are getting more and more sophisticated including personal email and personal phones to target individuals. Cyber hygiene becomes more complicated, and we need to review printers, a/v equipment, and all things connected to the internet. Hybrid work increased the attack surface as well as legacy systems, insider threats, both intentional and unintentional, and bad threat actors have different motivations as 88% are motivated by money, the other 12% are motivated by hacktivism or because they can. Details of existing security measures we use including staff training, and an outline of our dedicated cybersecurity team were shared. Our future focus will include the continuation to move to cloud services, data sensitivity labeling, enhanced vendor management, and continuing to assess and implement additional tools and establish metrics and reporting mechanisms.

Ms. Hardrick concluded: We partner with experts such as Secureworks that provide us with 24x7x365 coverage, Microsoft for endpoint virus and malware detection, and Zscaler, the largest security cloud in the world for web traffic monitoring. The beginning of this presentation started with some eye-opening numbers, here are a couple more. Upguard is a threat intelligence platform that monitors us from the outside and provides a score / rating. It also compares us to others in our vertical. Our overall score was a solid 839 of 950 or an A. We are ranked higher than our competitors such as the Illinois Tollway Authority and Illinois Department of Transportation.

III.A. Presentation of Monthly Interim Financial Statements

Mr. Jalaluddin stated: Today, I will present our consolidated financial statements covering both the admin and the governmental fund. Starting this month, we will provide stand-alone financials for both funds to enhance visibility into our operations and programs that receive administrative reimbursements. This aligns with our ongoing initiative to offer greater clarity regarding our financials. Let's dive into the numbers. We're looking at fiscal YTD data from July 1, 2023 to Sep 30, 2023, or Q1 of FY2024.

Mr. Jalaluddin continued: Consolidated Operating Revenues YTD are \$21.9M, a favorable

deviation of \$10.6M from the budget. Key drivers include \$1.2M from Origination Fees due to 4% & 9% Tax Credits reservation fee and a \$9.8M increase in Investment Income. This favorability is largely due to market conditions that have now changed than how we budgeted for the fiscal year. As these market conditions have changed, this has resulted in favorability within the receipt of payments in connection with terminating Single Family hedge contracts. These contracts continue to mitigate the Authority against interest rate risk. Under our current and past practice, we realize the receipt of these payments within the administrative fund. The favorability in investment income was also attributed due to the gain on sale of TBA securities in Q1.

Mr. Jalaluddin continued: Consolidated Operating Expenses YTD are \$22.1M, which is \$3M under budget. Favorability is attributed to Salaries and Benefits of \$1.3M due to Open Positions and Professional fees of \$2.1M driven by combination of favorable spend on Contractual Services and Consultants Fees this favorability was offset by higher spend due to Temporary employee expenses of \$2.2M for various COVID programs.

Mr. Jalaluddin continued: Administrative Fund Operating Revenues and Expenses, here we are looking at the operating revenues and expenses for just the admin fund. This fund analysis shows favorability in both the operating revenues and expenses due to the same factors as discussed in the previous slide and shows the financial performance of just the admin fund excluding administrative reimbursements.

Mr. Jalaluddin continued: Governmental Fund Operating Revenues, Governmental fund operating revenues which comprises of Administrative Reimbursements for all the authority expenses. In Q1 reimbursements reached \$13M, close to the budgeted amounts. The favorability of \$0.7M is attributed to higher reimbursements for some programs that are in full swing in Q1 like CBRAP2 and ASERAP, offset by lower reimbursements for other programs that are either in the winddown mode or just commencing like HOME, HAF and SLFRF programs.

Mr. Jalaluddin concluded: Governmental Fund Operating Expenses, Operating Expenses for the Governmental Funds YTD are \$13M, in line with the budget. Favorability is due to Salaries/Benefits and Professional Fees of \$0.6 and \$1.2M respectively, which is offset by unfavorable Temporary employee expenses of \$2.2M.

III.B. Multifamily Update

Ms. Moran stated: This morning we are sharing the Multifamily Quarterly Update. We are underwriting 92 developments which will create or preserve 5,943 units across the state. Our 9% transactions track at approximately 50 units per development while the 4% transactions average about 150 units per development. The balance of the transactions represents our Permanent Supportive Housing and Housing for Justice Involved developments. IHDA received an award for program excellence for the Housing for Justice Involved at the NCSHA conference. This next chart shows the same data but by geographical set-aside. Projects continue to be distributed around the state with 32% in Chicago, 29% in the Chicago metro area, 23% in other metro areas, and 16% in rural areas. The next slide illustrates the number of new construction vs. preservation transactions in the pipeline, there is a 60/40 split between the

two.

Ms. Moran continued: The next slide shows the units created and preserved by program over the past five quarters. 1Q23 was significantly higher than 1Q24 as 1Q23 included the Housing for Justice Involved Individuals grams program as well as several large 4% preservation transactions. We do expect to see an increase over the next several quarters. The volume of 4% transactions will continue to lag until we are in a more favorable interest rate environment. The following slide shows the same projects by new vs. preservation. We currently have 95 projects, 6,005 units under construction. The following two slides show multifamily lending originations and private activity bond issuances for FY23 and forecasted numbers for FY24.

Ms. Moran concluded: The multifamily team has three items on the main agenda today; Two Towers, Riverwoods Apartments, and Madison Park Place. Our department updates include the presentation of the 2024-2025 Qualified Allocation Plan at today's board meeting. PPAs will be due in December with full applications due in March 2024. We are also wrapping up our concept meetings for the tenth RFA for the Permanent Supportive Housing funding round. To date we have had fifty concept meetings with service providers and developers.

II.C. Single Family/Homeownership Update and Quarterly Update

Ms. Pavlik stated: Reservations for September 2023 were at 1,431 first mortgage loans or \$284.9 million, 456 or \$99.4 million for GNMA and 939 or \$185.5 million for Conventional. Prior year reservation comparisons were \$97.8 million, \$51.0 million for GNMA and \$46.8 million for Conventional.

Ms. Pavlik continued: For September 2023, IHDA Mortgage Program Statistics were as follows: Access 4% accounted for 3.0% or \$7.1 million, Access 5% accounted for 4.0% or \$12.0 million, Access 10% accounted for 6.0% or \$18.6 million, Opening Doors accounted for 73.0% or \$206.5 million, and Illinois HFA1 accounted for 14.0% or \$40.6 million. Geographical percentages were 15% for the Central region, 68% for Chicago, 9% for the Northwest, and 8% for the Southern regions, respectively. There are 5,271 loans in the pipeline at a total of \$1,040.1 million. The time from reservation to approved for purchase is 47 days average, 51 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 – 0.7% to 0.6% with 42.08% success rate, Asian/Pacific Islander – 2.1% to 6.3% with 57.73% success rate, Black – 15.2% to 14.7% with 45.67% success rate, Hawaiian/Other Pacific Islander – 0.1% to 0.1% with 42.19% success rate, White – 66.4% to 76.1% with 62.63% success rate, Two or More Races – 1.3% to 2.2%, Information not Provided/Unknown – 14.2% to N/A. Ethnicity comparison for Hispanic or Latino is 24.8% for IHDA compared to 18.3% for State of Illinois with 53.60% success rate. A graph comparing reservations for 2019 through September 2023 was shared.

Ms. Pavlik concluded: The past five quarters of production show that Q2 and Q3 of this year continue to surpass the preceding three quarters. The next slide shows a snapshot of the

past ten years with FY23 having the highest reservation total in homeownerships history. Currently for FY24, we are over \$891 million reserved. This represents the first 90 days of production in 1Q24 and have surpassed six years of fiscal year production.

IV.Add. Resolution Regarding Renewal of Agreements for Investment Banking Services

Mr. Nestlehut stated: One additional item we wanted to bring to your attention today relates to exercising the first of the two-year renewal(s) underneath the Investment Banking contract on today's consent agenda. Under this contract, we have engaged twenty-eight firms, broken out between thirteen Senior Managers, and fifteen Co-Managers. Eleven of these firms are defined as either Minority, Woman, or Veteran Owned firms, or DEI firms. These firms have been i) engaged under the contract, ii) in a variety of roles, iii) in lead roles, and iv) multiple times in most cases for these firms. Including the deal we are closing in October, DEI firms represent 32% of utilization of the syndicate and will have been lead issuers on over \$211M of Authority debt. This is in contrast from 0% under the prior contract on Authority recommended syndicates. While there are many positives that have come from the relationships established under this contract, from all firms, two years is not enough time to adequately utilize this large of syndicate. This is one of the reasons we are seeking the extension today.

IV.A.1. Resolution Authorizing Expenditure of Funds for Fiscal Year 2022 Audit Expenses

Mr. Jalaluddin stated: I'd like to draw your attention to Section 6z-27 of the State Finance Act, which empowers the State Auditor General to bill entities for the cost of audits, studies and investigations conducted on their behalf and subsequently request reimbursements for these audit expenses. This resolution authorizes payment for services rendered by the State selected auditing firm. The total amount for these services was \$561,177. These services pertain to the annual financial audit and the annual Federal compliance audit, as mandated by the Federal Single Audit Act, for the fiscal year ending June 30, 2022.

Mr. Jalaluddin concluded: In comparison to the cost of the audits for the fiscal year ended June 30, 2021, the Authority's total cost increased by 8.1% or \$42,107. The cost of the Federal compliance audit increased by \$63,404. The financial audit cost decreased by \$21,297 versus the prior fiscal year.

IV.A.2. Resolution Ratifying Permitted Financial Activities

Mr. Witt stated: This is a recap of the financial activities during the quarter ending September 30, 2023. Our book value was \$3,238,739,360. Purchases were \$1,049 million, sales were \$9.5 million, and maturities were \$373.7 million. We are outperforming the weighted average Treasury curve with our return on investments. Payouts and draws for the quarter were at \$57.6 million and bond debt service was \$51.8 million over the course of the quarter. We had eighteen interest rate swaps, three caps, and \$1,042.8 million in hedges outstanding.

IV.A.3. Resolution Authorizing Single Family Revenue Bonds Series 2023 PQRS

Mr. Babcock stated: The 2023 Series P, Q, R, and S Bonds is a tax-exempt and taxable fixed rate and variable rate new money and refunding bond (“Offered Bonds”). Series P include short and intermediate term, tax-exempt fixed rate bonds; Series Q include short and intermediate term taxable fixed rate bonds; Series R consist of taxable variable rate bonds; Series S 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 and 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 for new money to redeploy capital for future originations and lock in long-term spread for the Authority. Offered Bonds are anticipated to create subsidy for use of the Authority.

Mr. Babcock continued: The 2023 Series P Bonds will be tax-exempt, fixed rate debt, refunding issuance, AAA rated securities to strengthen the credit of the Indenture and are Planned Amortization Class (“PAC”) Bonds; 2023 Series Q Bonds are taxable fixed rate debt, new money issuance, AAA rated securities to strengthen the credit of the Indenture and are PAC Bonds; 2023 Series R and S Bonds are taxable and tax-exempt variable rate debt, new money issuance, AAA rated securities to strengthen the credit of the Indenture and are a swap agreement and hedge against interest rate risk and lower cost of funds.

Mr. Babcock concluded: We are requesting authorization for the Issuance of Revenue Bonds, 2023 Series P, Q, R, and S not to exceed \$300,000,00 in aggregate principal amount with a final maturity for any 2023 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% or 11% per annum, based on tax-exempt or taxable series and bond interest rate on any variable rate series bonds to not exceed 12% or 15% per annum, based on tax-exempt or taxable series. A projected schedule and list of transaction participants was shared.

IV.A.4. Resolution Authorizing the Issuance of Multifamily Revenue Bonds 2023 Series G (Maywood Supportive Living Facility)

Mr. Babcock stated: This request is for the rehabilitation of 100 elderly (62+) units at 316 Randolph Street, Maywood, IL. IHDA will issue Multifamily Revenue Bonds to pay off the Series 2021C Note. The Bonds will be placed tax-exempt, publicly offered, and variable rate. At initial closing, the Authority entered into a forward starting, fixed rate swap to lock in the permanent rate for the borrower. The offered bonds are Special Limited Obligations of the Authority and will be issued on a parity basis with other parity bonds within the Indenture. IHDA takes 50% credit risk on the underlying loan via FHA risk share insurance.

Mr. Babcock concluded: Multifamily finance is requesting approval for the Issuance of Multifamily Housing Revenue Bonds, Series 2023G in an amount not to exceed \$24,995,000 with a final maturity no later than 46 years from the date of issuance at an Interest rate not to exceed 12% per annum. A slide showing the debt profile, and slides with the projected schedule and list of transaction participants was shared.

III.B.1. Multifamily Housing Revenue Note Series 2024A and Subordinate Revenue Note Bond Series 2024 (Two Towers)

Mr. Babcock stated: This request is for the rehabilitation of 239 non-elderly units at 647 16th Avenue, East Moline, IL. IHDA will issue Multifamily Revenue Bonds, Series 2024A and Multifamily Housing Subordinate Revenue Bonds, Series 2024 (Two Towers) to finance the acquisition and rehabilitation of the project. Series 2024A Bonds will be placed directly with AFL-CIO Housing Investment Trust. The Series 2024 Subordinate Bonds will be placed directly with the Greater Metropolitan Area Housing Authority of Rock Island County or an affiliate thereof, Series 2024A will be privately placed and long term. The 2024 Subordinate Bonds will be privately placed and short term. IHDA takes 50% risk on the underlying loan via FHA risk share insurance.

Mr. Babcock concluded: Multifamily finance is requesting approval for the Issuance of Multifamily Housing Revenue Bonds, Series 2024A in an amount not to exceed \$21,000,000 with a final maturity no later than 46 years from the date of issuance at an Interest rate not to exceed 8.5% per annum if fixed rate and 12% of variable rate, and the Issuance of Multifamily Housing Subordinate Revenue Bonds Series 2024 in an amount not to exceed \$9,000,000 with a final maturity no later than December 31, 2026, with an interest rate not to exceed the lesser of 8.5% per annum if fixed rate and the lesser of 12% per annum or the maximum interest rate permitted under Illinois law if variable rate. A projected schedule, and list of transaction participants was shared.

III.B.2. Multifamily Housing Revenue Note Series 2023 (Riverwoods)

Mr. Ess stated: This request is for the rehabilitation of 125 elderly (62+) units at 300 East River Street, Kankakee, IL. IHDA will issue Multifamily Housing Revenue Note Series 2023 (Riverwoods) to finance the acquisition and rehabilitation of the project. The Notes will be privately placed with Merchants Bank of Indiana, or an affiliate thereof. This is Conduit financing, the Series 2023 Note will be tax-exempt, variable rate, short term, and privately placed. The Bonds are limited obligation - no IHDA G.O. The permanent financing will be an IHDA risk-sharing loan which will be fixed rate, taxable, and have a 40-year maturity. IHDA will also issue a junior loan which will be fixed rate, taxable, and have a 40-year maturity.

Mr. Ess concluded: Multifamily finance is requesting approval for the Issuance of Multifamily Housing Revenue Note, Series 2023 (Riverwoods) in an amount not to exceed \$11,875,000 with a final maturity no later than March 1, 2027, and at an Interest rate not to exceed the lesser of 12% or the maximum rate permitted under Illinois law. A projected schedule, and list of transaction participants was shared.

III.B.3. Multifamily Housing Revenue Note Series 2023A and 2023B (Madison Park Place)

Mr. Ess stated: This request is for the rehabilitation of 150 non-elderly units at 413 Federal Way in Springfield, IL. IHDA will issue Multifamily Housing Revenue Note Series 2023A and 2023B (Madison Park Place) to finance the acquisition and rehabilitation of the project. The

Notes will be privately placed with Citibank, N.A., or an affiliate thereof. This is Conduit financing, the Series 2023A Note will be tax-exempt, fixed-rate, and long term and the 2023B Note will be tax-exempt, variable rate, and short term. They are limited obligation - no IHDA G.O.

Mr. Ess concluded: Multifamily finance is requesting approval for the Issuance of Multifamily Housing Revenue Note, Series 2023A (Madison Park Place) in an amount not to exceed \$10,000,000 with a final maturity no later than January 1, 2058 and an interest rate not to exceed 10% per annum, and the Issuance of Multifamily Housing Revenue Note, Series 2023B (Madison Park Place) in an amount not to exceed \$22,000,000 with a final maturity no later than January 1, 2028 and an interest rate not to exceed 10% per annum. A projected schedule, and list of transaction participants was shared.

IV.C. Construction Cost Update

Mr. Hall stated: Although the extreme construction cost volatility, supply chain disruptions and labor shortages have dissipated, they have not been eliminated. The construction industry will never return to pre-pandemic norms; hence we need to navigate a new normal. We will review national trends with data from our consultant Rider Levett Bucknall as well as proposed next steps.

Mr. Hall continued: The first graph shows several commonly used construction material costs between 2018 and 2023. There was a steady rise and in 2020 a steep rise coinciding with COVID restrictions. The iron and steel category had the highest increase while lumber had one of the lowest impacts on costs. The next graph shows the percentage increases of construction costs across the country. Chicago has the highest with a 9.24% relative to other major cities. The drivers contributing are supply chain challenges and a shortage of labor. The cost review from Rider Levett Bucknall (RLB) covered three phases and was organized around four categories: Projects by Set-Aside, Projects by Type, Number of Units, and Total Square Footage.

Mr. Hall continued: The next two slides summarize construction cost data for IHDA projects escalated to 2023 values. The data is organized by new and rehabilitation projects by area. Median cost per square foot values are: Chicago new construction is \$360 and \$103 for rehab projects, Chicago Metro new is \$321 and \$212 for rehab, Other Metro is \$237 for new and \$183 for rehab, and Non-Metro is \$220 for new and \$117 for rehab. Median per square foot costs by project type are \$278 for new and \$144 for rehabilitation projects. The next two slides focus on the cost change by area for both new construction and rehabilitation projects. The maximum end of the range percentages is very high for new construction with Chicago at 13.3%, Chicago Metro at 34.92%, Other Metro at 53.30%, and Non-Metro at 8.92%. Rehabilitation cost changes for the same areas are Chicago at 10.8%, Chicago Metro at 10.83%, Other Metro at 11.9%, and Non-Metro at 12.4%.

Mr. Hall continued: The final set of data focuses on one of the project variables with a clear impact on costs. The cost impact of the incorporation of sustainability through the pursuit of green building certification at four levels, required, basic, advanced, and net zero energy. The data indicates that it is significantly more expensive to incorporate sustainability into

rehabilitation projects than new construction projects.

Mr. Hall concluded: Based on the results of the study, we are outlining next steps including restructuring and resetting our construction cost limits and redeveloping our design, construction, and regulatory requirements. We have addressed changes to the limits for our LIHTC program as well as our PSH program. In addition, the new design, construction, and regulatory requirements will replace the current Standards for Architectural Planning and Construction. Updates range from clarification on the requirements for property needs assessment to modifications of the requirements for reducing construction retainage. In addition, the current requirement to obtain an independent cost estimate from projects with teams that have an identify of interest, between the developer and the GC, has been extended to all projects. The objective behind this requirement is for IHDA to have more reliable information on construction costs at the time of application. A robust discussion of the data followed this presentation.

V. Mr. Tornatore adjourned the meeting at 10:47 a.m.