ILLINOIS HOUSING DEVELOPMENT AUTHORITY

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MEETING MINUTES
Friday, June 21, 2024

The meeting of the Finance Committee of the Illinois Housing Development Authority took place on Friday, June 21, 2024, at 10:00 a.m. at 111 East Wacker Drive, Chicago, IL. Attending the meeting were Finance Committee Chair, Mr. Sam Tornatore, Mr. King Harris, Ms. Sonia Berg, Mr. Brice Hutchcraft, Mr. Tom Morsch, and Ms. Ms. Erika Poethig. Attending from IHDA's Executive team were Ms. Kristin Faust, Mr. Lawrence Grisham, Ms. Karen Davis, Mr. Seth Runkle, and Ms. Maureen Ohle.

I.A. Mr. Tornatore called the meeting to order at 10:00 a.m.

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

I.C. Mr. Tornatore called a motion for the approval of the May 17, 2024, minutes to be approved as presented. Motion carried.

II.A. Presentation of Consolidated Interim Financial Statements

Mr. Jalaluddin stated: We're examining fiscal YTD data from July1, 2023 to May 31, 2024, covering 11 months of FY'24. Operating Revenues YTD are $70.3M, reflecting a favorable deviation of $28.6M from the budget. This increase is primarily due to rise in origination fees related to Tax-Exempt Bond issuances and investment income, both of which have capitalized on favorable market dynamics throughout this fiscal year, exceeding our projections. As we approach the final month of the fiscal year, we expect to continue seeing a favorable variance in investment income. This is due to the economy maintaining balance, with interest rates remaining higher than forecasted, at least until later in calendar year 2024. Additionally, the strength of our Single-Family (SF) Pipeline and increased warehousing activities continue to positively impact our investment income. The Administrative reimbursements were $51.7M, $6.6M favorable to budget, which I will get into further in the upcoming slide.

Mr. Jalaluddin continued: Operating Expenses YTD are $79.6M, which is $12.3M under budget. Favorability is attributed to underspending in Salaries and Benefits of $3.8M due to unfilled positions; Professional fees of $7.8M driven by a combination of favorable spend on Contractual Services & Consultants Fees; and Financing fees of $3.4M, due to cost savings on the cost of issuance covered by indentures vs admin fund. However, this was partially offset by a rise in office administration expenses which increased by $1.2M, primarily due to higher (G&A) general & administrative charges on the governmental side for postage and shipping, along with increased overhead charges. These overhead costs are allocated based on the number of hours charged to the programs. Furthermore, unfavourability in operating expenses is also due to temporary employee expenses of $4.2M due to increased activity across various governmental

COVID related programs. As we progress towards the end of the FY, we can see these expenses decrease in conjunction with the winding down of these programs.

Mr. Jalaluddin continued: Focusing solely on the admin fund, we observe favorable trends in both operating revenues and expenses, reflective of the factors previously outlined. This fund analysis provides an isolated view of the administrative fund's financial performance, excluding reimbursements.

Mr. Jalaluddin continued: Shifting our attention to the Governmental fund's operating revenues which comprises of Administrative Reimbursements for incurred authority expenses, FYTD reimbursements reached $51.7M, favorable to budget by $6.6M. This is largely due to higher reimbursements from programs such as IAHTF, CBRAP2 and ASERAP reflecting increased time charged for various supportive housing efforts. This is balanced by a decrease in reimbursements for phasing out initiatives like the ERA2 and HAF program.

Mr. Jalaluddin concluded: Operating Expenses for the Governmental Funds YTD are $51.7M, unfavorable to budget by $4M. This is primarily due to Temporary employee expenses of $4.5M which is due to increases in temporary employee expenses as mentioned earlier and new positions added due to heightened activity in CBRAP2, ASERAP programs. This unfavourability is also due to increases in Salaries and Benefits and Office administrative exp amounting to $3.2m and $1.3m respectively, mainly from higher program hours in IAHTF (Illinois Affordable Housing Trust Fund) and various State and local fiscal recovery fund programs. These additional expenses are mitigated by rise in reimbursements, effectively neutralizing the unfavorable expense variance. Additionally, this budget overage in operating expenses has been partly offset by favorable spend in Professional Fees of $4M. Lastly it is important to note that our operating income is at break-even which demonstrates effective cost management and operational efficiency through accurate time reporting Authority wide and efficient overhead allocation. This balanced performance showcases our robust financial management. A comment was made about how well we've done.

II.B. Multifamily Update

Ms. Sanchez stated: We have five projects on the main agenda for consideration today, as well as the HJIIP Round 2 Technical Assistance Grant. In 2023, IHDA entered into a TA Grant with IFF Real Estate Solutions for its first HJIIP Round. To date, we have closed 17 projects. Today's request is for IHDA to enter into a TA Grant with IFF for its second HJIIP Funding Round. Phoenix Manor is the proposed rehabilitation of a 7-story, 55 unit non-elderly building in the city of Peoria. HODC LCHA Preservation is the proposed rehabilitation and preservation of 10 affordable single family home rentals located in Lake Zurich, Mundelein, Prairie View, and Wauconda in Lake County. Steer Place Apartments is the proposed rehabilitation of a 108 unit elderly apartment complex located in Urbana in Champaign County. Churchview Garden Homes, LLC is the proposed new construction of 47 units of non-elderly housing in apartment and townhome style buildings in Peoria. Willa Rawls is the proposed rehabilitation and preservation of an elevator building containing 123 elderly units located in the Bronzeville neighborhood in Chicago.

Ms. Sanchez concluded: Department updates – On March 29 we received 44 applications for your 2024 Low Income Housing Tax Credit competitive funding round. We expect to bring the awards to Board in July. On May 3, we released our HJIIP RFA – Round 2. Applications will be due on September 27, 2024. Additionally, we are working on a new Request for Applications to fund non-congregate shelter(s) and expect to release it in late August or September.

II.C. Single Family/Homeownership Update

Mr. Gumucio stated: Homeownership reservations for the month of May 2024 totaled just over $123 million in first mortgages, we had a variance decrease of 45% by loan count and 42% by loan volume compared to the same month in 2023.

Mr. Gumucio continued: The breakdown IHDA DPA offerings were as follows: Access 4%, our forgivable program, accounted for 23% of total volume, Access 5%, our deferred program, made up 42%, and Access 10%, our repayable program, made up the remaining 35%. Chicagoland was the largest of the regions by loan count and volume, followed by Central, Northwest, and Southern. As of 5/31/24, our pipeline is just over $402.3M. The pipeline is the total number of loans in the reservation and loans purchased not yet pooled status. Average count is 45 days from reservation to purchase by our master servicer.

Mr. Gumucio continued: Regarding GNMA/conventional loan reservation history for the IHDA programs over the last 13 months, the green line on this chart represents our rates compared to the red line which represents the Freddie national 30-day offered rate. Currently our rates are slightly above the FHLMC offering rate for two reasons, first our rates are a blend of both government and conventional loan rates, not just conventional products we are benchmarking against in the graph. In addition, our deferred and repayable programs have been getting more appeal due to the higher DPA amounts. These programs have slightly lower mortgage rates, contributing to the lower interest rate value.

Mr. Gumucio continued: IHDA Demographic Analysis compared to State of IL year-to-date race comparisons through 5/31/24, those who identify as Black or African American households of IHDA's purchased loans was 17.7% compared to the state of IL's total population at 14.7%, while those who identify as Hispanic or Latino of IHDA's purchased loans was 28.2% compared to the State of IL total population at 18.3%. Homeownership is aware that the Black/African American race and Hispanic/Latino ethic categories rose this month and we are continuing our targeted outreach and marketing efforts for further improvements and evaluation.

Mr. Gumucio concluded: Here is a year-to-date comparison for years 2021-2024. As you can see, we are returning to a more traditional volume flow. For comparison, in February 2024 we only had a 5% increase in units compared to February of 2021, however yielded over $30 million dollars more in volume, this increase in volume is due to the purchase price increases we have seen in recent years.

III.A.1. Resolution Authorizing Acceptance of Ceded Volume Cap

Mr. Babcock stated: Pursuant to the Illinois Private Activity Bond Allocation Act, and guidelines and procedures of the office of the Governor of the state of Illinois, authorities who received home rule units' volume cap may reallocate to state agencies all or any unused allocation of such volume cap. The Authority has been working with both the City of Champaign and the City of Urbana and received the necessary approvals to re-allocate unused cap for the calendar year 2024 to the Authority, in the amount of $6,122,625. This ceded cap will be used to finance either Single Family or Multifamily Revenue Bonds during the required scope period.

III.A.2. Resolution Regarding the FHLB – BNY Tri-Party Collateral Transfer

Ms. Sanders stated: The Capital Markets Team is seeking approval to move collateral currently held in custody at JPMorgan, on behalf of the Federal Home Loan Bank (FHLB), to BNY Mellon Bank. The collateral held at JPMorgan is used as support for our line of credit with FHLB and is in the form of Mortgage Backed Securities (MBS). The reason for the change in custody is FHLB is going to materially limit wire transfer activity as part of their operations. The Capital Markets Team selected BNY Mellon as the third party from FHLB's existing list of approved banking partners. Considering BNY Mellon is currently a custody provider to IHDA, this was the most efficient option. IHDA legal reviewed the agreement and INDA plans to make this collateral transfer prior to fiscal year end.

III.B.1. Multifamily Revenue Bonds 2024 Series D (Willa Rawls)

Mr. Babcock stated: IHDA will issue Multifamily Revenue Bonds Series 2024 D to finance the acquisition and rehabilitation/new construction of a 123-unit elderly (62+) development known as Willa Rawls located at 4120 South Indiana Avenue in the Bronzeville Neighborhood in Chicago. The Series 2024 D bonds will be privately placed with the AFL-CIO Housing Investment Trust. The short-term bonds will be cash collateralized through construction, and the long-term bonds will be backed by a risk-share loan issued at initial closing. The 2024 D bonds will be long term and special limited obligation.

Mr. Babcock continued: Today's request is for the authorization of the issuance of Multifamily Revenue Bonds Series 2024 D in an amount not to exceed $26.5M, with an interest rate not to exceed 8.5% per annum, and a maturity not to exceed 46 years from the date of issuance. The amount of variable rate debt in the Mutifamily Revenue Bonds Indenture will decrease from 9% to 8% after the transaction. The estimated closing date is August 28th. A list of transaction participants was shared.

III.C.1. Resolution Authorizing the Operating and Capital Budget for FY2025

Mr. Runkle stated: Before addressing the budget presentation itself, a few economic and related notes to provide some context for the last year. Economically: Unemployment has remained low from a historical perspective, though has crept up to 4.00%, or a ½ percent higher than when the FY24 budget was set. As we know, market rates have also risen, with the 10-year treasury rate up 75 bps and the average 30-year fixed rate mortgage up by approximately 60 bps over the last 12 months. So while the market has not changed as much over the last year as compared to the preceding year, no doubt the market's expectations for rates to fall have not materialized. Keeping this in mind as we look ahead, while the market may anticipate the Federal Reserve to cut rates by approximately 1% over the next 12 months, that story can certainly change.

Mr. Runkle continued: In terms of IHDA's performance: In FY2024 we recognized record performance in both single family and multifamily volumes. This includes more than $830 Million in multifamily bond issuances and on the single-family side, a record level of purchase volume of more than $1.6 Billion. As we look ahead to FY25 and the proposed budget, these were foundational considerations in constructing this proposed budget. Of note, while we anticipate some normalization of volumes, indeed we have seen this already over the last few quarters, we do still expect business to remain strong, albeit not anticipated to be record-setting. In addition, we will continue to be focused on technology, with technology related investments helping to drive efficiencies and strengthen controls. This will include the launch of Oracle as our ERP and new general ledger.

Mr. Runkle continued: Here you will see an overview of the FY25 budget with a comparison versus the current year, both the original FY24 budget and the most current FY24 Forecast. We will go into more detail in the subsequent pages. Overall, the proposed FY25 budget is projected to achieve $3.8 Million in operating income, which is driven by $53.9 Million in operating revenue, $31.5M in government reimbursements, and utilize $81.6 Million in expenses. In terms of some of the more significant changes that you'll see year-over-year, we are reflecting lower government reimbursement income, though also lower operating expenses, both primarily being associated with the wind down of a few larger emergency assistance programs (CBRAP, ASERAP) which are court based rental assistance program, asylum seeker emergency assistance program, both COVID funding.

Mr. Runkle stated: This slide shows IHDA's operating revenue for the FY25 budget in comparison to the FY24 Budget and the FY24 Forecast, with FY25 first, reading columns left to right. FY25 Operating Revenue is projected at $53.9 Million overall, and is made up of four primary categories shown here: Ongoing Fees, Origination Fees, Insurance Fees, and Interest and Other Income. Ongoing fees, are mainly bond administration and tax credit monitoring fees. Origination and allocation fees, primarily relate to the 9% and 4% tax credit reservation fees and MF development fees. Insurance fees, primarily risk sharing insurance fees for multifamily, and Investment Income, more than half our income, is investment income and gain on sale from SF mortgage originations. As mentioned, in FY24 we had record level bond issuances, in both multifamily and single-family. While we expect volumes to remain robust in FY25, we do anticipate them to moderate somewhat and income reflects that.

Mr. Runkle continued: Total Revenue is budgeted at $85.3 Million. The difference on this slide from the preceding is that Total Revenue includes government reimbursements. So, in addition to operating revenue of $53.9 Million, here you are seeing an additional $31.5M in government reimbursements. If we turn to the next slide, you will see additional detail on government reimbursements. The FY25 Operating Budget includes Government Reimbursements of $31.5M from our Government programs, with the Illinois Affordable Housing Trust Fund being the largest at 31%. The amount of government reimbursements budgeted for FY25 is lower versus FY24, which I'll again reference the exhaustion of COVID federal emergency assistance funds – most notably CBRAP and ASERAP, which in FY24 reimbursements for those two programs were about $17 Million.

Mr. Runkle continued: The proposed FY25 budget includes projected Operating Expenses of $81.6 Million, which is 19% lower than the FY 24 budget. You will see the primary expense categories listed here, of which the "other G&A category," or "general and administrative expenses" shown on the far right of the page, is the primary driver for the reduction. This category includes temporary staffing, which is 86% lower vs FY24, this again being related to emergency assistance program wind-downs. This next slide provides a standalone view of FY25 operating expenses by type, which I will call out Salaries & Benefits being at 62% of the overall budget, and Professional Fees at 16% of our expense budget. Salaries and Benefits reflect merit increases though also lower staffing levels.

Mr. Runkle continued: Finally, shown here are IHDA's budgeted and actual operating revenue, not including governmental reimbursements, for FY18 through FY24. A few points here. The blue bars show our actual revenue with the red bars being our budget. We have been, and continue to, utilize a conservative approach to forecasting. The other point to mention are the lines you see on this graph, which reflect operating margins. The green represents actuals and the purple, budget. You want to see green exceeding purple, which has been the case. We anticipate this to continue.

Mr. Runkle concluded: In conclusion, we anticipate continued strong volume in FY2025. Workload across IHDA is expected to continue its existing trends, with bond issuance and lending activity remaining high. I would also like to thank the members of the IHDA staff, with special mention to the Finance team, for the hard work in producing what we feel is a solid budget. A question was raised that since our budget it conservative, could we have done more. This was answered that each department addresses their needs and expectations frequently so we do not think this is an issue.

IV. Mr. Tornatore adjourned the meeting at 10:27 a.m.