



Illinois Finance Authority
Report of the Executive Director
January 13, 2009

To: IFA Board of Directors and Office of the Governor

From: John B. Filan, Executive Director

Financial Performance

General Fund:

The Illinois Finance Authority's General Fund financial position as of 12/31/2008 reports total assets of \$41,923,775 consisting of equity of \$40,151,676 and liabilities of \$1,772,099. This compares favorably to the December 2007 balance sheet of \$38,488,821 in total assets comprising of \$36,467,352 in equity and \$2,021,469 in liabilities.

Gross Income YTD for December ended at \$3,648,406 is \$545,584 below plan. The unfavorable plan performance is primarily due to fee income and investment income. Total operating expenses ended at \$2,658,137 which is \$571,492 below plan. This is primarily due to a reduction in employee related expenses, professional services and loan loss provision/bad debt.

In YTD comparison for actual fiscal year 2009 gross revenue ended at \$3,648,406 or \$1,537,423 below actual fiscal year 2008. This is primarily due to a decrease in interest on loans, fee income and investment income. Expenses YTD fiscal year 2009 ended at \$2,658,137 or \$896,673 lower than same period last fiscal year 2008. This is primarily due to a reduction in employee related expenses, a reduction in professional services and a reduction on loan loss reserve.

Consolidated Results:

Illinois Finance Authority's un-audited financial position as of 12/31/2008 reports total assets of \$176,983,898 consisting of equity of \$113,446,284 and liabilities of \$63,537,614. This compares favorably to the December 2007 balance sheet of \$161,546,717 in total assets comprising of \$96,667,712 in equity and \$64,879,005 in liabilities and bonds payable.

Gross Income YTD for December ended at \$6,147,559 is \$228,061 below plan. The unfavorable plan performance is primarily due to fee income, interest on loans and investment income. Total operating expenses ended at \$4,017,675 which is \$976,434 below plan. This is primarily due to a reduction in professional services, employee related expenses and loan loss provision/bad debt.

Financial Services

Market Update

The unprecedented demand for Treasuries, resulting from turmoil in the stock and credit markets, pushed the 3-mo T-bill to a negative yield (below zero), on 12/24, for the first time in its 79-year history. Some analysts project that significant increases in federal spending will further deflate Treasury bond prices and force investors to reduce their Treasury holdings. The 2-year Treasury yield declined to 0.80% last week, while the 10-year Treasury fell to 2.51%; near 50-year lows. The weakening in the Treasury market led to a slight correction in yield ratios between taxable and tax-exempt bonds.

Slight improvements in the municipal market over the holiday season were due to light volume and a modest return of institutional investors to the market. Retail investors continued to lead demand. Yields were down in the short-term, intermediate and long-term range, with long-term bonds down 12 basis points from the prior week. The fixed rate index (RBI) reset at 6% last week, down from the mid-December high of 6.07% and lowest level since the October spike (but roughly 140 basis points higher than the Jan. 08 low of 4.63%).

The variable rate index reset at 0.90% last week, which was 35 basis points lower than the prior week and 13 basis points below the prior month. However, only higher rated deals are pricing close to the index level. The IFA expects to price Northwestern Hospital's \$207mm variable rate transaction on January 12.

Economic data continues to be dismal with consumer confidence continuing to plunge and the manufacturing index reflecting record contraction in the sector. A loss of 500,000 jobs and an increase in the unemployment rate to 7% is expected for December. The Illinois unemployment rate was 7.3% in November with 486,100 unemployed persons.

FGIC Insurance was downgraded by Moody's with a negative outlook and S&P withdrew its rating on ACA.

Despite the dismal economic outlook and continue deterioration in the insurance market, an improving municipal market outlook for 2009 is expected. Issuers have begun to boost their supply in anticipation of investors search for portfolio improvements. Institutional demand is expected to improve.

Other Market News

- The Wachovia - Wells Fargo merger closed, effective Dec. 31, 2008, creating North America's most extensive distribution system for financial services.
- The Bank of America – Merrill Lynch merger closed, effective Jan. 1, 2009, creating the largest U.S. bank.
- Congressional Democrats are seeking to expand funding for airport runways, housing projects and sewage-treatment plants through a new tax break for municipal bondholders.
- President-elect Barack Obama's economic stimulus package is expected to include up to \$310 billion in tax cuts for businesses and the middle class, with total stimulus spending of up to \$800 billion.

- The Municipal Securities Rulemaking Board proposed a partial delay in the rollout of a new transparency system for short-term securities in response to industry requests for more time to test and implement the system. Broker-dealers are scheduled to begin reporting auction-rate securities information to the system by January 30.
- The Dow Jones Industrial Average was down 284.58 on January 7, 2009, closing at 8730. Over the last 30 days, the DJIA had a low of 8,419 (12/23) and a high of 9,034.

Sales, Marketing and Credit

December activities included the following:

- Agriculture & Rural Development Initiative – planning for statewide coordinated effort to leverage resources in support of projects.
- Energy Initiative – assist in planning for statewide effort to leverage resources in support of projects.
- Program Development
 - Researched various tools available for financing IFA projects including:
 - Clean Renewable Energy Bonds
 - New Market Tax Credits
 - Bonding for Energy projects – volume cap allocation or tax-exempt bonding authority
 - Federal Home Loan Bank Line of Credit – IFA will present its first transaction using the FHLB LOC. Use of the FHLB LOC for non-housing 501(c)3 entities was provided for in the 2008 Housing Bill.
 - Participation Loan Program – conducting program analysis of program guidelines and portfolio
 - Volume Cap - annual request – the IFA is requesting \$156,900,000 in current year volume cap, including \$141.9mm in IRB cap and \$15mm in agriculture cap. Both requests represent an increase from the prior year. Most of the \$66.9mm increase in IRB cap is expected to fund small energy supply companies. The \$3mm increase in agriculture will accommodate the planned increase in the beginning farmer bond cap.
 - Local Government – RFP for underwriters

Sales Activities

Funding Managers will be presenting 6 projects totaling \$668,019,644 for approval in January, 2009. Agriculture projects total \$1,334,644; Business and Industry total \$6,685,000; Communities and Culture projects total \$10,000,000; and Healthcare projects total \$650,000,000 according to applicants. These projects are expected to create 64 new jobs and 130 construction jobs.

Agriculture

For the month of December, the Ag staff attended two outside events related to Agriculture. These events were the annual Peoria Farm Show, which is attended by area farmers and agribusinesses. Several area lenders had informational booths at the show, which provided opportunities to meet with seven lenders to discuss IFA programs. Staff also attended the Illinois Farm Economics Summit in Bloomington and Mt. Vernon, which were sponsored and provided by the University of Illinois. These conferences provided valuable information on topics related to the agriculture market,

including the 2009 outlook for grain and livestock prices, expected crop input costs, the effect of the financial crisis on the availability of Ag credit, updates on crop insurance, and the outlook for farm land prices. Staff also had 4 calls to lenders to discuss potential projects. As evidenced by the eight Beginning Farmer Bonds brought for approval at the January board meeting, staff has continued to receive interest from lenders in the Beginning Farmer Bond program.

The Ag staff began a project, which will obtain recent financial and collateral value information from lenders on outstanding IFA guaranteed loans. This project is part of an overall risk management project, which will ultimately provide comprehensive loan reporting on outstanding loan balances, collateral position, payment status, risk rating, and IFA liability on the entire guaranteed loan portfolio.

Agriculture – December, 2008 Closings			
Closing Date	Issuance\$\$	Borrower	Location
12/01/2008	190,000	Allen Kasten	Hillsboro, IL
12/01/2008	250,000	Thomas W. Burnside	Kansas, IL
12/01/2008	250,000	Steven & Rhonda Calvert	Sciota, IL
12/05/2008	160,000	Jonathan & Marlene Weaver	Xenia, IL
12/05/2008	160,000	Rex Gehrig	Dunlap, IL
12/05/2008	81,250	Benjamin & Bryann Odom	Benton, IL
12/12/2008	225,000	Mathew Beeler	Raymond, IL
12/15/2008	100,000	Jason Tubbs	Wayne City, IL
12/19/2008	195,000	Kevin D. Woods	Newton, IL
12/19/2008	99,240	Luke Burling	Carthage, IL
12/22/2008	167,000	Matthew DeSutter	Woodhull, IL
12/22/2008	213,750	John & Staci Kramer	Avon, IL
12/22/2008	250,000	Nicholas Dolder	Serena, IL
12/22/2008	250,000	Aaron Hilmes	Carlyle, IL
12/22/2008	205,600	Ryan Hilmes	Carlyle, IL
12/22/2008	250,000	Matt McClain	Brocton, IL
12/22/2008	164,000	William Timmerman	Breese, IL

Healthcare

Recent media articles have referred to potential hospital closings and merger activity in rural areas as well as urban areas with excess hospital beds and a lot on poor, uninsured patients. Both Moody's and Fitch rating agencies have recently revised their general healthcare sector outlooks from stable to negative for the following reasons:

1. Rising charity care and bad debt expense because of an increase in unemployment
2. Softening of discretionary patient demand
3. Reductions in Medicaid as state economies struggle
4. Likely reductions in Medicare funding
5. Tougher negotiations with commercial payers as payer margin erodes
6. More merger and acquisition activity

Hospitals have also been struggling with poor investment returns and fewer donations. There are also concerns over a deep and protracted recession, which could result in patient volumes showing further softening and access to capital being even more limited.

Our experience at the Authority over this last month has been as follows:

1. **There is very little fixed rate debt being sold.** The Authority's last fixed rate transaction to close was for the Advocate acquisition of Condell on December 1st. Advocate is a AA hospital and priced at 6.57% all in. Northwestern tried to price their \$235 million refunding in early December, but pulled the offering because the rates were too high, between 7.00-7.50%. They will be issuing variable rate debt in January.
2. **The variable rate market is highly volatile.** This market is only available to higher rated credits that are able to secure Bank Letters of Credit – for example Rockford Hospital, Southern Illinois Healthcare and Rush University Health System. (Rush priced their weekly variable rate debt in early December at a very attractive rate of 0.55%).
3. **Hospitals are delaying and re-evaluating their capital needs** – quite a few hospitals find themselves in this situation. Most of the higher rated credits will be pricing and closing in January and February – i.e. Carle Foundation, Central DuPage Hospital, Silver Cross Hospital, OSF, Northwestern Memorial Hospital and the University of Chicago Medical Center.
4. **Lesser rated credits (BBB and below) will not be able to enter the market.** Hospitals, such as BroMenn Healthcare Hospitals (BBB) will have difficulty entering the market. Non-rated hospitals and senior living financings such as Bethany Methodist and The Admiral, respectively, will have to be restructured in order to enter the capital markets.
5. **Merger activity is increasing.** Hospital Sisters Health System (Springfield) is acquiring St. Anthony's Hospital in Alton. Northwestern Memorial Hospital has indicated an interest in Lake Forest Hospital. Advocate Health Care has indicated an interest in BroMenn Healthcare Hospitals and Rockford Memorial Hospital.

A potential resource to hospitals is the Federal Home Loan Bank (FHLB) Letter of Credit. The Housing and Economic Recovery Act of 2008, which was passed last summer, extended the authority of FHLB's to provide letters of credit for tax-exempt health care bonds. The participation of FHLB's enables more regional banks to offer letter of credits. Currently, two hospitals that will be issuing bonds through the IFA are in the process of applying to regional banks as well as the Federal Home Loan Bank.

Additionally, we have been looking into the FHA Section 242 Mortgage Insurance Program as another way to help certain hospitals access capital and will be reaching out

to representatives from Housing and Urban Development (HUD) locally, regionally and nationally to learn more about the FHA Section 242 Program. Recent efforts by HUD to increase access to the program, streamline the application process, and decrease the time necessary to complete a financing, have made the program more attractive to hospitals. In this current economic environment, this program may be the only way Critical Access Hospitals and Safety-Net Hospitals will be able to access the capital markets.

Healthcare – December, 2008 Closings		
Closing Date	Issuance\$\$	Borrower
12/1/2008	180,000,000	Advocate Healthcare
12/4/2008	55,000,000	Southern Illinois Healthcare
12/9/2008	50,000,000	Rush University Medical Center, Series 2008A
12/11/2008	60,800,000	Rockford Memorial Hospital
12/11/2008	75,000,000	NorthShore University HealthSystem [Evanston Northwestern]

Higher Education

The higher education team is pursuing several opportunities with Illinois private college and universities. Townsend Albright is talking with the Planning and Development staff of Lewis University at its main campus in Romeoville. The University is in the planning stages to construct two new academic buildings at its main campus. The University borrowed through the IDFA, an IFA predecessor authority, and will borrow funds through the IFA for the project. A date has not been set for construction. Mr. Albright will be talking to the decision makers in January about the future project.

Loyola University, Chicago, approached Townsend Albright about helping the University create a program whereby the University could issue bonds to provide loans to students to fill the "gap" between any student dollars, Pell and other grants, FASFA and other assistance, and the cost of the academic year's tuition. Such a program could solve the lack of credit available for students trying to obtain necessary funds to attend college. Mr. Albright discussed the concept with analysts at Standard & Poors and with the Presidents of the Illinois independent colleges and universities umbrella organizations. The result could be a unique program whereby the institutions "guarantee" the debt with a pledge to replenish draws to a debt service reserve fund. The loan rate needs to be competitive with what is available in the marketplace. The program is a concept, and there needs to be an assessment for demand.

Mr. Albright met with executive staff members at the Federation of Independent Illinois Colleges and Universities and The Associated Colleges of Illinois to assess the possibility of a loan program for Illinois colleges and universities to fund necessary sprinkler and HVAC installation expenses for campus buildings. This assessment will continue into January.

There were no Higher Education Closings in December, 2008

Communities and Culture

Chicago International Charter School Foundation approached Townsend Albright to learn of programs the Foundation could use to finance campus HVAC and other improvements which total approximately \$1 million - an amount too small to be effectively financed through a bond issue. Mr. Albright will be meeting with the CFO and others in January to discuss the Not-for-Profit Lease and Participation Loan programs as an alternative for financing the projects. Mr. Albright discussed future financing plans with the CFO of Soaring Eagle Academy, which will be a unique demonstration school located in one of Chicago's western suburbs. The Academy will teach academics and social skills to autistic children and children with special needs. The school hopes to open its doors by September, 2009.

The investment banking firm of William Blair & Company and the law firm of Ice Miller contacted Townsend Albright to discuss a program that both firms are developing to issue disaster relief bonds to finance the repair of agricultural, public utility, and commercial real estate damaged by floods in qualifying Illinois counties. The program could total approximately \$1.1 billion. Participating Illinois banks could commit for funds to make discreet loans to pay for actual repairs or replacements of disaster damaged property. The IFA is the conduit financier. The IFA program would be open to any bank or investment banker that has a qualifying client. The program needs to be developed and refined in such a way that there is no taint of a blind bond pool.

The proposed program provides a financing vehicle for the Heartland Disaster Tax Relief Act which was enacted in October, 2008 and designed to give relief to areas in the Midwest damaged by natural disasters similar to that previously provided to Hurricane Katrina victims. The disasters covered by the Act must have occurred on or after May 20, 2008 and before August 1, 2008 by reason of severe storms, tornado, or flooding. Specific counties in these damaged areas were designated by FEMA on October 15, 2008.

There were no Community & Culture Closings in December, 2008

Business & Industry

The December 2008 Manufacturing Institute of Supply Managements *Report on Business* (R) indicated that (1) manufacturing sector activity declined for the fifth consecutive month, (2) all manufacturing sectors are suffering from declines in activity, and (3) new orders have contracted for 13 consecutive months (and are the lowest since January 1948).

Many of IFA's prospective business/industrial borrowers are middle market companies that (1) produce components used in specific products (with growing sales) and (2) serve recession-proof industries (e.g., food processing; medical equipment components).

Accordingly, IFA staff has reason to believe IFA transaction volume for Participation Loans and Industrial Revenue Bonds in 2009 will result in volumes similar to 2008.

Business & Industry – December, 2008 Closings		
Closing Date	Issuance\$\$	Borrower
12/18/2008	3,200,000	SBLV Investments LLC [Jasper Meats, Inc.
12/30/2008	7,000,000	Overton Gear & Tool Corporation

Energy

The Chairman, Executive Director and IFA staff members met with the presidents of the University of Illinois and Southern Illinois University on December 8 to propose undertaking a joint Energy Initiative together with the Authority and the Department of Commerce and Economic Opportunity. The Director articulated the Authority's vision that Illinois has an unprecedented opportunity to leverage its natural, economic, transportation, intellectual and human resources in a clean and independent energy future. By harnessing its resources and developing a clear and compelling vision and plan of action, Illinois can capture the attention of decision makers in federal government, private equity, the capital markets and the energy and utilities industries. Our goal is make Illinois the center of the nation's energy future and position the State at the "top of the list" for developers, private equity community and federal energy policy makers.

Both presidents wholeheartedly agreed that Illinois is well-positioned to benefit from the nation's renewed interest in domestic, renewable and clean energy production and enthusiastically pledged their institution's resources to this effort. The participants agreed to focus on quickly developing a business plan to leverage the State's resources to make Illinois the center of national clean coal, renewable energy and energy dependence efforts. By the end of December, both universities identified individuals to develop such a plan in January together with representatives from IFA, DCEO, and IEPA.

We also agreed to seek out additional partners from leading utilities, industry associations, research institutions, private investors, labor and the farm community. Another goal is develop a legislative agenda to present to state and federal officials who support energy development in Illinois.

Other accomplishments include launching a new web page on the Authority's website (www.il-fa.com). The Authority is currently scheduling meetings with sponsor of a number projects in varying stages of development.

There were no Energy Closings in December, 2008

Local Government

During the month of December, IFA staff has received over ten inquiries regarding the IFA's Local Government Pooled Bond Program. Two local governments fit the parameters of the Pooled Program and have been submitted for management's preliminary approval. It appears that small communities are finding long-term fixed rate

financing (from local resources) difficult to achieve and are therefore turning to the IFA for assistance. Local governments have either been prior Illinois Rural Bond Bank participants, Fire Truck Revolving Loan participants or received our mass mailing that was distributed last fall. The desire for long-term financing by local governments has not diminished; however, concerns about the availability of funds to repay the debt are apparent.

There were no Local Government Closings in December, 2008

Venture Capital

Staff has nearly completed collecting the most recent financial information available for each of the active investments in the Venture Fund portfolio. This is part of standard operating procedure and needs to take place before a valuation review can be undertaken. A one page summary of key information about the Fund was prepared and distributed accordingly.

IFA is participating in the orderly wind down of the Champaign Urbana Venture Fund. This investment has already been written down to zero, and IFA's COO attended the ARCH Fund annual meeting and Harmonic Vision board meeting. Additionally, the IFA has sent Jaros Technology Corporation a demand letter requesting payment of equity risk premium and late fees owed to the IFA.

Lastly, the IFA is in receipt of a Freedom of Information Act request from Jaros requesting all information related to the Jaros/IFA transaction.

Human Resources/Operations

IFA held its annual holiday party on December 18, 2008. Staff selected two charities to which IFA is donating \$1,500 each. The charities are The Illinois Hunger Coalition and the Children's Home and Aid Society.

- The Agency Workforce Report was completed and submitted to the appropriate State authorities.
- A review was completed to insure that the IFA is in compliance with the Information Technology Accessibility Act.
- A health benefits review and comparison of IFA's and the State plan options is in process.
- IFA successfully responded to a Microsoft browser security breach.
- Staff participated in the Legislative Audit Commission hearing on December 12, 2008.
- Development of an Investment Strategy Funds session after the February, 2009 board meeting is being drafted to provide guidance for managing fund balances in each of the Funds IFA is responsible for overseeing.

- A meeting was set up to prepare for completing IFA's annual insurance policy renewal process.
- IFA was notified of attempted check fraud on one of its depository accounts maintained at Bank of America. Staff worked with bank personnel to implement all necessary actions to minimize the risk of any financial loss. Staff also completed and presented to the Executive Director a review of its existing bank accounts and relationships with the objective of consolidating and simplifying management of these services. Action on implementing recommendations has begun.
- IFA submitted a preliminary response to the findings from the Fiscal Year 2008 audit.
- IFA's State Purchasing Officer completed a review of vendors used in Fiscal Year 2008 requested by the Executive Director.

Marketing/Public Relations

The IFA presented successful testimony before the Legislative Audit Commission. Some press follow-up resulted in articles in the business and trade press. *IFA News* was issued in December featuring 24 project stories across all sectors of our operations, various news items and IFA updates. A new Energy section was created on the web site.

FOIA Activity

- Tribune request regarding Wrigley Field project
- AP request regarding Wrigley Field project and related appeal
- Request for documents regarding Jaros Technology project

Press coverage included:

- Food desert program
- Wrigley Field project
- Blackhawk Biofuels project
- Financial coverage of Carle Foundation, DePaul, Friendship Village, Southern IL Healthcare, Central DuPage Hospital, and Rush Medical Center.

**Illinois Finance Authority
Audit Findings Material and Immaterial
Update as of December 31, 2008**

Item Number	Description	Estimated Completion Date	Status Action Items/ (not final) Action Items Completed	Percentage Completed																	
				10	20	30	40	50	60	70	80	90	100								
Total Number of 9																					
FY 07 Immaterial Findings																					
IM07-01	Approval of Incomplete Travel and Marketing Reimbursement Forms	6/30/2008	3/4																		
IM07-02	Inadequate Processing and Untimely Deposit of Cash Receipts and Refunds	4/30/2008	4/4																		
IM07-03	Corrected Agency Workforce Report was not Filed Timely	4/30/2008	4/4																		
IM07-04	Use of Telecommunications Devices Not Properly Monitored	4/30/2008	3/3																		
IM07-05	Outdated Investment Report	4/30/2008	4/4																		
IM07-06	Allowance of Old Accounts Receivable Not Performed	7/31/2008	4/4																		
IM07-07	Statement of Economic Interest Report Not Filed Timely	4/30/2008	4/4																		
IM07-08	Failure to File for a Refund of Telephone Excise Tax	4/30/2008	2/2																		
IM07-09	Noncompliance with Printing Requirements	4/30/2008	2/2																		

<50% = Partially Completed or under review
60% = Substantially Completed
100% = Completed

IM07-01 A meeting is schedule to review the Travel and Marketing reimbursement process and to review the automated process we plan to implement.

**Illinois Finance Authority
Audit Findings Material and Immaterial
Update as of December 31, 2008**

Item Number	Description	Estimated Completion Date	Status Action Items/ (not final)	Percentage Completed																
				10	20	30	40	50	60	70	80	90	100							
Total Number of 8																				
FY 07 Material Findings																				
07-01	Missing Policy on Nondiscrimination	7/31/2008	2/2																	
07-02	Failure to Report Revenue bond Information to the Illinois Office of the Comptroller		4/3																	
07-03	Bad-Debts not Referred to the Illinois Office of the Comptroller	7/31/2008	4/4																	
07-04	Noncompliance with the Illinois Procurement Code and SAMS Procedures	6/30/2008	2/2																	
07-05	Lack of Segregation of duties in Managing Property and Equipment	4/30/2008	4/4																	
07-06	No Established Rules to Administer Loan Programs	12/31/2008	2/1																	
07-07	Authority is Not a Member of the Illinois Forestry Development Council	4/30/2008	2/2																	
07-08	Failure to Administer the Exporter Award Program	11/30/2008	2/2																	

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100% = Completed

Finding 07-02 The Authority is in constant communication with the Office of the Comptroller with formal discussion/meetings quarterly. They have agreed to send their delinquency report quarterly. We are currently working to send a letter to the trustee to remind them of their duty to avoid having late CO 8's.

Finding 07-06 A draft for the rules have been written, but not approved.