



**Illinois Finance Authority  
Report of the Senior Staff  
August 11, 2009**

**To: IFA Board of Directors and Office of the Governor**

**From: Chris Meister, Deputy Director – General Counsel  
Yvonne Towers, Chief Financial Officer and Chief Technology Officer  
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**I. Financial Performance**

**General Fund:**

The Illinois Finance Authority's General Fund unaudited financial position for the month ending July, 2009, reports total assets of \$40,760,718, liabilities of \$1,334,011 and total equity of \$39,426,707. This compares favorably to the July 2008 balance sheet, with \$37,683,222 in total assets, liabilities at \$1,278,150 and total equity of \$36,405,072.

Gross revenue YTD (other than loan repayments) for July was \$710,171, or \$23,216 (3.4%) above the approved FY10 budget. The favorable variance is primarily due to fee income. Total operating expenses were \$408,334, or \$16,965 (4.0%) below budget. This is primarily due to a reduction of employee related expenses, professional and office services.

Gross revenue YTD of \$710,171 was \$346,043 (95%) higher than same period last fiscal year 2009. This is primarily due to fee income. Operating expenses YTD were \$408,334, or \$88,627 (-17.8%) lower than same period last fiscal year 2009. This is due to a reduction in employee related expenses, professional and office services.

Year-to-date net income for July was \$333,776 or \$72,119 higher than budget and \$466,608 higher than same period last fiscal year.

**Consolidated Results:**

The Illinois Finance Authority's unaudited financial position for its fourteen (14) funds, as of July 31, 2009, reports consolidated total assets of \$171,868,431, liabilities of \$58,551,995 and total equity of \$113,316,436. This compares

favorably to the July 2008 balance sheet of \$176,175,273 in total assets, liabilities of \$63,439,540 and total equity of \$112,735,733.

### **Financial Services**

- **Tax-Exempt Volume:** Municipal issuers totaled \$23.6 billion in tax-exempt issues in July, according to *Thomson Reuters*, a 36.4% decline from July 2008. Investors continue to purchase high quality fixed-rate bonds. The decline in bond volume in July resulted from a significant reduction in variable-rate issuance volume. Issuers borrowed \$21.5 billion at a fixed rate in July a 25.4% decrease compared to July 2008 (which requires credit enhancement – which continues to be in short supply).
- **Taxable Municipal Volume:** Issuance of Taxable Municipal Bonds posted a new monthly volume record of \$18.9 billion in July. According to *The Bond Buyer*, as a result of the continued acceptance of Build America Bonds (“BAB’s”, created under the “ARRA” Stimulus Bill) by investors.
- **Trends for Conduit Borrowers:** Confirming experiences of many Illinois borrowers, *The Bond Buyer* reported that Conduit Borrowers with stressed credit or hopes for selling credit-enhanced, variable-rate bonds continue to face market access challenges. Additionally, *The Bond Buyer* noted that pricing for Bank Letters of Credit is still high by historical standards. As a result, issuance volume for bonds secured by letters of credit increased/fell by 82.9% compared to July 2008.

### *Market Trends*

- **Build America Bonds (“BAB’s”):** Consistent with prior reports, the emergence of BAB’s has had a favorable impact on pricing in the Tax-Exempt market with rates and credit spreads declining due to a significant diversion of prospective Government Purpose Issues to the Taxable BAB market. (Issuance of BAB’s is limited to Governmental Purpose Projects – rather than the conduit financings for non-governmental third parties that are IFA’s focus) Accordingly to *The Bond Buyer*, from April through July, there were 215 issuers using BAB’s which comprised approximately 18.6% of all long-term new issues during this period.

## **Interest Rate Data:**

### **Tax-Exempt Rates:**

- Variable Index (\* SIFMA): 0.41% (7/29), up 11 basis points from last month's report.
- Fixed GO Bond (\*\* MMD-30yr-AA): 4.36% (7/30), down 10 basis points from last month's report.

### **Taxable Rates:**

- Fed Reserve Benchmark Target Rate: 0.25% (7/30) unchanged from last month
- 90-day \*\*\*LIBOR: 0.48% (7/31), down 12 basis points from last month
- \*\*\*\*Prime Rate: 3.25% (7/31), unchanged since 12/15/2008.
- 2-yr Treasury: 1.00%, (7/31) down 13 basis points from last month
- 30-yr Treasury: 4.25% (7/31) unchanged from last month

\* *SIFMA (i.e., "Securities Industry and Financial Markets Association"); The SIFMA Variable Index is an index of High-Grade 7-Day Floating Rate (VRDN) bonds compiled from market sources; [www.sifma.org](http://www.sifma.org).*

\*\* *MMD (i.e., "Municipal Market Data"); Thomson Financial compiles several proprietary indices of High Grade Municipal Bonds of varying maturities under their "MMD" indices.*

\*\*\**LIBOR (i.e., London Interbank Offering Rate); "LIBOR" is the world's most widely used benchmark for short-term interest rates.*

\*\*\*\**Prime Rate: the interest rate benchmark most commercial banks charge their most creditworthy customers (typically for Revolving Lines of Credit and other short-term loans).*

The Tax-Exempt SIFMA Variable Rate Index rose 11 basis points from June, reaching its highest level since late May. Still, the SIFMA Index remains near historical lows.

The 30-Year MMD (AA-rated) rate decreased 10 basis points from last month, while the 30-Year Treasury remained flat from June. These minor fluctuations in MMD have been typical recently, as rates have traded within a narrow range.

Among Taxable rates, 90-day LIBOR, which is used to determine borrowing rates for many interbank loans, continued to decline in July, approaching its lowest levels since 2004. 90-day LIBOR (plus a margin) is frequently used as a benchmark for determining variable rate commercial loan interest rates.

## **Economic Data:**

### **Gross Domestic Product Estimate:**

According to an estimate released by the Bureau of Economic Analysis on July 6th, Real Gross Domestic Product ("GDP") -- the output of goods and services produced by labor and property located in the United States -- decreased at an annual rate of 1.0% in the second calendar quarter of 2009 ("Q2 2009"), compared to a Q1 2009 decrease of 6.4%,

according to final estimates released by the US Commerce Department on Friday 7/31/09. (The 6.4% decline in Q1 2009 was the sharpest contraction in nearly 30 years.)

Following this Q2 2009 GDP decline, the US economy has now contracted for a record four consecutive quarters for the first time on record since 1947.

Based on this decline in the rate of GDP contraction, many economists believe that Q1 2009 represented a “bottoming” in economic performance (as widely reported).

Consistent with this conclusion, Federal Reserve Chairman Ben Bernanke has said that he expects the recession to end in late 2009.

#### Employment:

The Federal Reserve has estimated that unemployment, now at a 26-year high of 9.5%, will continue to rise – topping 10.0% by late 2009. The Fed believes that businesses will be unlikely to boost hiring until any recovery has demonstrated staying power.

#### Manufacturing:

The July ISM manufacturing survey rose 4.1 points to 48.9, continuing its rebound from the June low of 44.8. Production jumped to its highest level in more than two years as manufacturers worked to restock customers' bare shelves, the Institute for Supply Management, a trade group of purchasing executives, said Monday. A figure below 50 means manufacturers are reducing stockpiles.

#### Consumer Spending:

The U.S. Census Bureau announced August 3rd that advance estimates of U.S. retail and food services sales for June, has fallen 1.4 percent compared to June of 2008, as a 25.5 percent decline in the energy index has more than offset increases of 2.1 percent in the food index and 1.7 percent in the index for all items less food and energy.

On a seasonally adjusted basis, the CPI-U increased 0.7 percent in June after rising 0.1 percent in May. This acceleration was largely caused by the gasoline index, which rose 17.3 percent in June and accounted for over 80 percent of the increase in the all items index. The index for energy rose 7.4 percent in June, with a decline in the electricity index partly offsetting the sharp increase in gasoline. The food index, which had fallen each of the last four months, was unchanged in June.

#### Other Market News:

- Illinois' credit took a double-notch drop on July 29<sup>th</sup>, to A1 by Fitch Ratings. Moody's and S&P have yet to have taken action
- The House Financial Services Committee will vote on three municipal bond-related provisions this fall and will take up legislation to regulate municipal derivatives.

#### IFA Sales, Marketing and Credit

**Marketing** – Spurred by the 2009 Recovery Act (or “ARRA”), and the related need to upgrade public infrastructure and educational facilities, IFA's Local Government Team is implementing marketing and development plans to encourage (1) conduit financings for

large municipalities, school districts, and community college districts and (2) pooled financings for small municipalities.

IFA's Local Government team continues to focus marketing efforts to associations including the Illinois Municipal League, the Illinois State Board of Higher Education, the Illinois Government Finance Officers Association, the Illinois City and County Management Association, and the Illinois Association of School Business Officials. IFA will continue to submit newsletter articles and arrange to speak at regularly scheduled conferences held by these organizations. Ongoing emphasis will be educating prospective users on the benefits of using IFA as a conduit issuer for use of the double exemption and the state revenue intercept.

### **Program Development**

Fire Truck and Ambulance Revolving Loan Funds – Payment is nearly completed for these programs and has been sent to the Comptroller. To date, 51 fire truck loans have been funded totaling \$10,627,465 and 10 ambulance loans have been funded totaling \$993,200.

Local Government Pooled Bond Issue -- Local Government Staff is continuing to work with prospective borrowers to facilitate interim financing of credit-approved borrowers with a dedicated \$1,737,316 (unencumbered balance as of July 30, 2009) IRBB Special Reserve Fund (established and capitalized for the benefit of the Illinois Rural Bond Bank, an IFA predecessor). Today's agenda includes \$625,000 interim loan request from the Village of Kane interim financings would enable (i) creditworthy borrowers to proceed with their financings immediately and (ii) provide additional time for each IFA Local Government Pool to aggregate sufficient volume to provide optimal economies of scale to participants.

SBA Micro Loan Program – IFA staff has substantially completed the SBA Micro Loan application and intends to submit the U.S. Small Business Administration in August.

IFA Credit and Documentation Criteria -- Credit and documentation criteria for the Authority's products are currently in substantially final draft form and will be presented to the IFA Audit Committee in August.

### **Sales Activities**

Funding Managers will be presenting four financings totaling \$11,110,000 for consideration at the August, 2009 Board Meeting:

- Agriculture projects total \$485,000.
- Business and Industry projects total \$10,000,000
- Non-Healthcare Projects (Cultural and other 501(c)(3) projects) total \$625,000.

**The four financings presented for consideration today are expected to create 50 new jobs and 275 construction jobs.**

## **IFA Industry Updates and Closing Reports**

### **Agriculture**

In the month of July, staff received a number of calls from lenders, producers, and small businesses. Of these calls, inquiries ranged from Beginning Farmer Bond Loans, Agri-Industry Guarantees, Livestock Guarantees, and Participation loans. Discussions from these calls provided possible future opportunities for financing farm land, equipment, and a possible milk bottling plant located in Southwestern Illinois, which would sell fresh milk in the St. Louis market.

Staff also spent significant time working with new owners of a proposed Bio-Diesel Plant project in Southeastern Illinois. This project has submitted information to the IFA Energy Team for review and consideration. The project, which has significant local investment and support, would likely reinvest an IFA loan guarantee.

For the August Board meeting, staff is presenting 1 Beginning Farmer Bond and 1 Participation loan, which will finance a single wind turbine to enable a company to generate its own electrical power producing the company's electrical needs. This project provides an excellent example of small, sustainable renewable energy projects.

Staff also continues to receive several requests from lenders and their borrowers requiring IFA Board approval for amendments and changes to existing loans. Many of these changes are due to adverse changes in livestock markets which changes with market conditions.

*There were no Agriculture Closings in July, 2009.*

### **Business and Industry**

Members of IFA's B&I Team spoke on a panel and presented information on the Authority's financing programs at the Illinois Development Council's Annual Conference on July 16th in Lisle Illinois. Approximately 125 economic development practitioners from both the public (e.g., municipalities, counties, and DCEO) and private sectors attended.

Members of the B&I Team also attended a Business Networking Reception hosted by the Lawndale Business Development Corporation on Chicago's West Side on July 15th. Approximately, 35 business owners, consultants, attorneys, and accountants attended.

IFA's B&I Team also participated in a joint presentation with DCEO and DuPage County Economic Development at a presentation hosted by CenterPoint Properties in West Chicago.

IFA's B&I Team continues to focus calling activity on Illinois-based manufacturers that service industries that remain relatively healthy during the current recession including (1) component suppliers to the wind turbine and other alternative energy sources, (2) the medical products industry.

Separately, discussions with several commercial lenders in Northern and Central Illinois confirm a lack of lending activity for new Business and Industry projects, and a general reluctance by owners of these companies to undertake expansions given current market conditions.

Additionally, it has become evident from informal discussions with Borrowers and investment bankers who serve this market that Bank Letter of Credit pricing for prospective Industrial Revenue Bond, Intermodal, and Solid Waste Transactions is substantially higher than 18 months ago. As a result, Bank LOC-enhanced Tax-Exempt Financings for these Borrowers provide relatively less benefit now than at any time in recent years.

*There were no Business and Industry Closings in July, 2009.*

### **Healthcare**

Bond investors in the Healthcare Market have increased buy-side demand for lower rated credits. Additional evidence of the recovery in investor interest is provided by the recent initiation of documentation for the Park Place project, an unrated CCRC. Park Place is the first project that has contemplated using a non-rated structure since the market deterioration in 2007.

Transactions that have priced recently include Provena Health (8.00%) and Rush University Medical Center (6.72%). Additionally, IFA has upcoming pricings for (1) a \$50MM fixed rate issue for University of Chicago Medical Center and (2) \$67MM of bond financing for Riverside Health going to market in the upcoming weeks.

The Healthcare Team met with Johnson Controls to discuss their Energy Savings & Infrastructure Renewal Program. Johnson Controls provides energy performance contracts and evaluations to several Healthcare Market Hospitals in Illinois. Under these contracts, Johnson Controls monitors current energy and equipment usage and evaluates solutions and provides recommendations for reducing energy costs through changes in HVAC systems and related infrastructure. Johnson Controls has the ability to guarantee up to \$3 Billion of savings from its services (to prospective users nationally), has identified several Illinois Healthcare prospects that may be able to utilize financing through IFA's 1985 Healthcare Pool program. The average transaction size of these financings is expected to range from \$5MM to \$15MM. Further discussions on prospective deals are tentatively scheduled for the coming months.

In July, the Healthcare Team continued progress developing the "Proposed HAP Program" by engaging the following participants to serve as the "HAP Team": Illinois Department of Healthcare and Family Services, Katten Muchin Rosenman (Issuer's Counsel), Jones Day (Bond Counsel), Goldman Sachs & Co. (Co-Senior Underwriter), Loop Capital Markets (Co-Senior Underwriter), and Ungaretti & Harris, LLP (Underwriter's Counsel). The HAP Team met several times during July to discuss the structuring of the new program for presentation to Assured Guaranty insurance to credit enhance a fixed rate bond pool issue. The team also discussed methods of mitigating potential risks (e.g., establishing reserve funds to support lower credits, guaranteeing non-closure of systems' struggling hospitals, and the use of the Authority's Moral

Obligation). The structure of the program is scheduled to be presented to Assured Guaranty during the first week of August.

Finally, the Healthcare Team has scheduled an underwriter diversity forum at the Oak Brook DoubleTree Hotel on September 10, 2009. The purpose of this forum is to introduce Illinois minority underwriting firms to the Illinois Healthcare Hospital community. It has been the objective of the IFA's Diversity Committee to encourage the participation of minority underwriters on IFA transactions and the Healthcare Team believes that this forum will help achieve that goal.

**Healthcare July, 2009 Closing(s)**

<b>Closing Date</b>	<b>Amount</b>	<b>Borrower</b>
7/09/2009	\$116,000,000	Provena Health
7/23/2009	\$13,607,000	Alexian Brothers Health System
7/29/2009	200,000,000	Rush University Medical Center

**Non-Healthcare 501(c)(3)'s:**

Members of the Higher Education Team continue to meet with market participants to discuss both opportunities and challenges in the Higher Education and Cultural subsectors, as well as other K-8 education, social services, and other 501(c)(3) sub-markets.

The IFA will host a webinar on August 5 for not for profits statewide to learn about the benefits and structure of the Jewish Federation of Metropolitan Chicago's longstanding Revenue Anticipation Note Program which funds seasonal cash flow deficits for Federation's social service agencies. Representatives of the Federation and Bond Counsel believe the Program could serve as a template for a similar financing program for non-affiliated not for profit corporations (subject to approval of a common LOC Bank for such a program). Invitees include the Federation of Independent Illinois Colleges and Universities and their members, the Associated Colleges of Illinois and their members, The Axelson Center for Not for Profit Management and its clients, and financial advisors.

**Non-Healthcare 501(c)(3) July, 2009 Closing(s)**

<b>Closing Date</b>	<b>Amount</b>	<b>Borrower</b>
7/9/2009	\$14,370,000	Jewish Charities Revenue Anticipation Notes
7/16/2009	\$8,500,000	Hospice of Northeastern Illinois
7/22/2009	\$30,000,000	Illinois Institute of Technology

## **Local Government**

Currently, there are approximately 15 local units of government (primarily rural communities Downstate) interested in participating in the next Local Government Pool. IFA staff is working with these Borrowers to expedite completion of applications. Today's Board Meeting Agenda features an application (the Village of Kane) for interim financing under IFA's Local Government Direct Bond Purchase Program. IFA plans to provide interim financing to aggregate interested local governments until sufficient volume has been aggregated to justify a Bond Issuance.

IFA's Local Government Team continues to meet with market participants to discuss the outlook and to discuss opportunities for financing proposed capital projects particularly by Illinois school districts and community college districts.

IFA's Local Government Team is working to post information about issuing Conduit Bonds through IFA on the Illinois State Board of Education's website. The Team will continue to contact and arrange meetings with regional school district groups and prospective borrowers, which include community college districts. IFA will also be contacting prior conduit borrowers in our portfolio.

*There were no Local Government Closings in July, 2009*

## **Energy**

### *US Department of Energy Loan Guarantee Program*

IFA is in ongoing discussions with DOE's consultants regarding their pending solicitation for public sector Designated Lenders for a new Loan Guarantee program, Section 1705. Designated Lenders will be authorized to sponsor qualifying projects for DOE Loan Guarantees. Designated Lenders will be charged with underwriting projects, completing due diligence and submitting detailed credit memorandums that DOE will use to evaluate requests for guarantees. DOE expects Designated Lender to support recommended financings with their own capital. DOE is expected to issue this solicitation in August.

### *IFA Energy Initiative*

Staff has been working closely with the Energy Committee and Scott Balice Strategies to begin developing policies and procedures for the IFA Energy Initiative. This effort has included preparing credit criteria for wind power and other renewable energy projects, developing a fee structure, developing plans for how IFA will respond to inquiries, generate interest, qualify, and evaluate financing requests, close financings, and monitor projects after closing.

### **Project Vetting**

In July, staff invited developers of 15 projects that IFA and DCEO believes are most ready for development to participate in vetting sessions to be attended by IFA staff, Scott Balice Strategies and members of the Illinois Energy Team. The purpose of the vetting sessions is to complete a high level evaluation of each project's technology, environmental attributes and financial viability to identify a manageable set of projects

that merit further consideration for State Moral Obligation and perhaps, sponsorship for a DOE Loan Guarantee. Written responses are due August 15. In-person vetting sessions are expected to be scheduled in late August and in September, with preliminary vetting to be completed by September.

### Energy Efficiency

IFA is aggressively evaluating opportunities for financing energy efficiency projects. These projects are very attractive from a development and environmental perspective. The Federal government has announced numerous incentives to encourage investment in energy efficiency technology and renewable energy systems. These projects are often relatively low cost (ranging from several thousands to several million dollars), relatively easy to implement, promise significant cost savings and environmental benefits and represent an opportunity to quickly put many people back to work. IFA continues to receive financing requests for energy efficiency projects from a wide variety of project sponsors. To respond to these inquiries, develop financing programs and enhance outreach efforts, management has assigned the following funding managers to this effort:

Bill Claus:	Health Care
Townsend Albright:	501(c)(3) Non Healthcare
Kim DuPrey:	Local Government
Chris Meister and Eric Reed	Commercial and Industrial Organizations

To enhance our efforts, IFA recently began working with the Clinton Climate Initiative, an entity funded by the William Clinton Foundation that is charged with implementing energy efficiency projects in Chicago and other major US cities. Staff is also investigating an opportunities for funding and technical assistance that may be available from DOE and various foundations that are interested in encouraging energy efficiency.

*There were no Energy Closings in July, 2009*

### Human Resources

Two important compliance activities were completed in July. The TA-2 Report was submitted to the appropriate State authority and the EEO/AA Fourth Quarter Report was completed and submitted on time.

A training session, Employee Management Process, for IFA management staff has been scheduled August 20, 2009.

The bulk of IFA job descriptions were updated, distributed to impacted staff, and filed in the appropriate personnel files.

An employment offer was extended to Spencer Chang, a summer intern, who was hired to assist on numerous projects with Rich Frampton and Kim Du'Prey.

### Procurement

Janis Sinisi was named and confirmed as IFA's new State Purchasing Officer.

### Treasury

The Assistant Treasurer and Treasurer attended a variety of training webinars this month focused on the current market situation and investment products.

### Risk Management

The application for IFA's new Professional Liability insurance policy was completed, reviewed with the Deputy Director and General Counsel, and submitted for processing to our insurance broker.

Legal/Legislative: *An oral report will be provided at the August 11, 2009 Committee of the Whole Meeting.*



**Illinois Finance Authority  
Audit Findings Material and Immaterial  
Update as of July 31, 2009**

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<b>Item Number</b>	<b>Description</b>	<b>Percentage Completed</b>
10 20 30 40 50 60 70 80 90 100		
Total Number of 2		
<b>FY 08 Immaterial Findings</b>		
<b>IM08-01</b>	Statement of Economic Interest Report Not Filed Timely	
<b>IM08-02</b>	Inadequate Documentation of Internal Control Procedures	