



**Illinois Finance Authority
Report of the Senior Staff
December 8, 2009**

To: IFA Board of Directors and Office of the Governor

**From: Chris Meister, Deputy Director and General Counsel
Yvonne Towers, Chief Financial Officer and Chief Technology Officer
Art Friedson, Director of Human Resources
Rich Frampton, Vice President and Director of Funding Managers
Pam Lenane, Vice President and Associate General Counsel
Eric Reed, Southern Illinois Regional Manager**

Financial Performance:

General Fund:

The Illinois Finance Authority's General Fund unaudited financial position for the month ending November, 2009, reports total assets of \$41,639,319, liabilities of \$1,552,416 and total equity of \$40,086,903. This compares favorably to the November 2008 balance sheet, with \$39,188,821 in total assets, liabilities at \$1,720,773 and total equity of \$37,468,048.

Gross revenue YTD (other than loan repayments) for the period ending November, 2009 was \$3,106,109, or \$239,434 (8.4%) higher than the approved FY10 budget. The favorable variance is primarily due to fee income. Total operating expenses were \$2,153,399, or \$26,907 (1.3%) higher than budget. This is primarily due to employee related expenses.

Gross revenue YTD of \$3,106,109 was \$24,630 (0.80%) higher than same period last fiscal year. This is primarily due to fee income. Operating expenses YTD were \$2,153,399 or \$11,061 lower than same period last fiscal year. This is mainly due to declines in professional services, accompanied by increased loan loss provision.

Year-to-date net income for November was \$993,972 or \$253,790 (34.3%) higher than budget and \$63,828 (6.9%) higher than same period last fiscal year.

Consolidated Results:

The Illinois Finance Authority's unaudited financial position for its fourteen (14) funds, as of November 30, 2009, reports consolidated total assets of \$172,261,480, liabilities of \$58,099,489 and total equity of \$114,161,991. This compares favorably to the November 2008 balance sheet of \$175,906,229 in total assets, liabilities of \$62,813,571 and total equity of \$113,092,658.

Audit and Compliance

The fiscal year 2009 audit field work is in its final weeks.

Attached is the status of fiscal year 2008 audit findings for your review.

Financial Services

Market Trends

- Approximately \$37.76 billion of municipal debt was issued in November 2009, making it the third busiest November on record, according to *Thompson Reuters*, and a 46.7% increase compared to November 2008.
- **Build America Bonds (“BABs”)**: In 2009, BABs have grown to be an integral funding tool for municipalities who use them to finance new capital expenditures. JPMorgan Securities has projected 2010 BAB issuances to reach \$110 billion compared to \$54.5 billion issued through November 2009. JPMorgan believes that continued BAB issuances will continue to support more favorable pricing of tax-exempt securities and a flatter yield curve.
- *The Bond Buyer* has estimated that the Treasury’s 35% subsidy for Governmental Issuers of BABs could total to \$1.2 billion, based on the average coupon of 6.31% on the BABs in the Wells Fargo BAB index (with the securities having an average maturity of 28.4-years). Illinois issuer’s have issued \$2.8 billion of BABs to date. The US Treasury believes that some costs associated with the BAB subsidy will be recouped from the taxes paid by investors on the Taxable BAB coupons. The Treasury believes that BABs have infused billions of dollars of private sector funds to support governmentally owned projects.

Interest Rate Data:

Tax-Exempt Rates:

- Variable Index (* SIFMA): 0.27% (11/25), up 1 basis point from last month’s report.
- Fixed GO Bond (** MMD-20yr-AA): 4.33% (11/24), up 33 bps from last month’s report.

Taxable Rates:

- Fed Reserve Benchmark Target Rate: 0.25% (11/24) unchanged from last month
- *** 90-day LIBOR: 0.26% (11/24), down 2 basis points from last month
- **** Prime Rate: 3.25% (11/24), unchanged since 12/15/2008.
- 2-yr Treasury: 0.74%, (11/24) down 25 basis points from last month
- 30-yr Treasury: 4.25% (11/24) down 9 basis points 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.*

** *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).*

Economic Data:

Gross Domestic Product ("GDP"):

Real Gross Domestic Product -- the output of goods and services produced by labor and property located in the United States -- increased at an annual rate of 2.8% in the 3rd calendar Quarter of 2009 (i.e., Q3-2009), as announced by the U.S. Commerce Department on 11/24 (this compares to the Commerce Department's initial 3.5% GDP growth estimate).

According to economists, the Q3-2009 increase in real GDP resulted from positive trends in business efficiency, exports, and federal government spending.

Employment:

According to ADP's monthly National Employment Report released 12/2/2009, private sector employment decreased by 169,000 in November, a decline from the 195,000 jobs that were lost in October. Still, the actual decrease of 169,000 was worse than the 160,000 November cuts expected by economists polled by *Thomson Reuters*. The eight consecutive monthly decreases in job losses at private companies provide support to the belief that the economy is slowly recovering..

According to the ISM's December 1st report, ISM's employment index for the manufacturing industry slipped to 50.8 in November from 53.1 in October (October's 53.1 index was the strongest showing since April, 2006).

Manufacturing:

According to the Purchasing Manager's Index report, the U.S. manufacturing sector grew for the fourth straight month in November.

Nevertheless, the decline in the PMI Index to 53.6 in November from 55.7 in October, indicating decelerating growth. The November index of 53.6 was also 1.4 points lower than November's anticipated 55.0 reading. The drop seems to be attributed to flat construction spending.

A monthly PMI Index reading above 50 indicates that the manufacturing sector is generally expanding; a reading below 50 indicates that the manufacturing sector is generally contracting.

Other Economic News:

On a seasonally adjusted basis, the Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3% in October, the Bureau of Labor Statistics reported 11/18/2009, a 0.1% increase in the CPI-U over September.

Sales Activities

Funding Managers will be presenting twelve financings totaling \$692,599,327.50 for consideration at the December 8, 2009 Board Meeting including:

- Agriculture projects totaling \$1,518,695
- Business and Industry projects totaling \$25,475,632.50
- Healthcare projects totaling \$664,955,000
- Non-Healthcare projects (Cultural and other 501(c)(3) projects) totaling \$650,000

The twelve financings presented for consideration today are expected to create 160 new jobs and 1,401 construction jobs.

IFA Industry Updates and Closing Reports:

Agriculture

The agriculture staff continues to receive strong interest in the Beginning Farmer Bond program and Agricultural Guarantees. Customer calls and sales calls by staff range from land purchases and potential Beginning Farmer Bonds, equipment purchases and potential Ag Participation Loans, and livestock operations, which require Ag guarantees.

Staff continues to receive calls from lenders who have concerns with clients involved in the swine industry. Although the general outlook for the industry calls for improved prices and profitability in 2010, many producers have suffered large losses over the past 18 months. Staff expects to continue to receive applications for Ag guarantees and requests for loan modifications to allow borrowers to weather this market downturn.

The agricultural area continues to work on analyzing the current ag guaranteed loan portfolio. The Ag intern has hired in October has completed file reviews on approximately 90% of the portfolio and has been able to complete approximately 40% of the credit scoring models for the existing loans. The intern has also provided a list of deficiencies in each file, which staff will use to contact the originating lenders, obtain, and resolve deficiencies.

Staff will be presenting 4 Beginning Farmer Bonds and I Agri-Debt Restructuring loan guarantee for approval consideration by the IFA Board of Directors. Staff is very pleased that 2 of the Beginning Farmer Bond applications utilize the new maximum limit of \$469,200, which significantly decreases interest costs for the borrowers and increases fee income for the IFA.

Agricultural Closing(s) for November, 2009

Closing Date	Amount	Borrower
11/2/2009	\$201,000	Reeves, Jeremy & Tara

11/18/2009	\$150,000	VanFleet, Ryan
11/18/2009	\$101,500	Swanson, Matthew & Angela

**Correction to November Board Book - Agriculture Closings totaled \$ 1,125,602 in October, 2009*

Business and Industry

Access to Bank Letters of Credit for Industrial Revenue Bond, Intermodal, and Solid Waste Transactions remains tight while pricing has increased far beyond historical norms. As a result, Bank LOC-enhanced Tax-Exempt Financings for these Borrowers provide relatively less benefit now than at any time in recent years.

IFA staff hopes to continue to build on its new relationship with American Water Capital Corp. (Illinois-American Water Company) and Aqua Illinois, Inc. to generate additional bond financing activity in the Business and Industry segment, particularly while Industrial Revenue Bond activity remains below historic averages. Water Utility Revenue Bonds finance investments in local drinking water systems necessary for that ultimately serve the general public and local industrial, commercial, governmental, and 501(c)(3) customers.

Reflective of these efforts, Illinois – American has submitted a new application for \$25 million of Water District Facilities Revenue Bonds that will be considered at today’s Board Meeting.

The B&I team will continue to approach eligible utilities in Illinois for Exempt Facilities Revenue Bond financings for drinking water system and gas distribution system projects to generate additional financing bond activity in this sector.

There were no Business and Industry Closings in November, 2009.

Healthcare

With MMD near historical lows and credit spreads remaining relatively constant many of our borrowers plan to come to market and finance acquisitions, new money and potentially converting floating rate debt to fixed rates in the coming month. Advocate Health Care, Resurrection Health and Memorial Health System all plan on pricing fixed rate deals in the market during the first two weeks of December.

Saint Anthony’s plan to borrow under the healthcare capital leasing program and finance \$7 million of equipment and \$3 million of renovations. The project will be requesting preliminary bond resolution at the December meeting (it’s first such request at the IFA).

Last month, after the Healthcare Team hosted a discussion with several Illinois Safety-Net Hospitals to discuss the viability of creating a program to securitize Safety Net Adjustment Payments (“SNAP”) and Critical Hospital Adjustment Payments (“CHAP”) an amendment to the Budget Implementation Bill added funding for the these groups at the state level. This has been great news for Illinois Safety Net Hospitals.

The Healthcare Group hosted a discussion with the SLF Coalition to discuss a pool program to securitize Medicaid receivables. Due to ongoing State of Illinois budgetary and fiscal issues the State has been several months late in paying the Medicaid accounts for all of the 115 supportive living facilities (SLF) in Illinois. These payments are utilized by the SLFs to provide affordable assisted living services for their frail and disabled residents who receive Medicaid assistance. Typically, the State processes the Medicaid invoices and reimburses the SLFs within 60 – 90 days and up to 120 days of invoice. Due to budgetary shortfalls, the State may have to extend the reimbursement intervals to 180 – 365 days. Absent any legislative or other fiscal breakthroughs which will be necessary to balance the State budget and to bring these accounts receivable current, the underlying SLFs will be facing a severe cash crunch just to pay their employees and vendors and to provide the required services under the SLF Program. Many if not most of these facilities have arranged local bank financing which is covering them for 60-90 days but the local banks traditionally cannot or will not go beyond 90 days of receivables. Given the situation, the SLF coalition plans to secure a rating with S&P and sell one year fixed rate bonds in a pooled structure. The IFA would act as the purchaser of the receivables.

During November, Pam Lenane and Chairman Brandt spoke at the Healthcare Transaction’s Conference discussing the current market conditions, the changing investor base, rating agency responses and market opportunities in distressed assets.

Healthcare November, 2009 Closing(s)

Closing Date	Amount	Borrower
11/18/2009	\$240,000,000	Central DuPage Health
11/19/2009	\$100,000,000	Northshore University HealthSystem

Non-Healthcare 501(c)(3)’s (Higher Education/Cultural/General 501(c)(3)s):

Credit challenges due to (1) bank rating downgrades and (2) related failed remarketings of impaired variable rate paper continue to result in additional IFA borrower requests for Amendments and Restructurings. On today’s agenda, the IFA Board will be considering an amendment for Embers Elementary School.

One of IFA’s primary key strategic initiatives during calendar 2010 has been to educate various market participants about the new Federal Home Loan Bank Letter of Credit initiative that was added to the Internal Revenue Code the 2008 Housing Recovery Act (effective July 30, 2008).

The Federal Home Loan Bank LOC product offers prospective assistance to 501(c)(3) borrowers who are (1) facing expensive LOC renewals at expiration, (2) are seeking replacement LOCs from non-rated banks, or (3) are further enhancing existing LOC-enhanced transactions to improve the interest rate to Borrowers.

IFA has now closed 5 FHLB LOC-enhanced transactions totaling approximately \$89.2 million in calendar 2010. IFA staff originally projected that approximately 5-6 FHLB-enhanced transactions would close each calendar year.

IFA’s 501(c)(3) Team will be working with both the National Association of Healthcare and Higher Education Authorities (“NAHEFFA”) and the Council of Development

Finance Agencies (“CDFA”) to support an extension of the FHLB LOC provision by the US Congress in early 2010.

The 501(c)(3) team has several closings scheduled in Mid-December and early January.

There were no Non-Healthcare 501(c)(3) Closings in November

Local Government

The Local Government Team priced \$4,460,000 IFA Bond Bank Series 2009-A with Stifel Nicolaus as Underwriter. The pooled issuance included 8 borrowers: for a variety of projects in 7 counties on November 17, 2009. The Issue was rated “A-“ by Standard and Poor’s with serial maturities of 2 to 14 yrs, and two term bonds with maturities due in 20 and 30 years. The pool average life was 12.6 years with a Net Interest Cost for borrowers under 5%. The transaction is scheduled to close on December 4, 2009. Chapman and Cutler was engaged pursuant to an RFP to serve as Bond Counsel.

The Local Government Team continues to build awareness and educate Local Government officials and the general public about IFA's impending, expanded role in energy efficiency and renewable energy initiatives through a series of Green Conferences targeted to these local governments. Additionally, the Local Government Team is actively meeting with local governmental officials on projects that may involve the use of the Local Government Program (on either a conduit or pooled basis), and on a possible Pooled program for local governments specifically related to energy efficiency.

Local Government Closing for Late November/Early December, 2009

Closing Date	Amount	Borrower
December 4, 2009	\$4,460,000	IFA Bond Bank Revenue Bonds

Energy

- *Retrofit Ramp-Up Application to US DOE:* IFA is collaborating with the Governor's Office, DCEO, Siemens, the City of Rockford, the City of Chicago, the Clinton Climate Initiative and Chicago Metropolitan Agency for Planning (CMAP) to prepare an application to US DOE for up to \$75 million in grants to fund a debt service reserve to support financing for energy efficiency projects. IFA anticipates using powers authorized under SB 390 to offer "additional security" in the form of State moral obligation for some projects to provide access to capital that require this additional level of support. A debt reserve from DOE and other sources would provide a source of funds to be applied to make up any payment shortfall prior to drawing on the State moral obligation. Additional aspects of this application are currently being negotiated with partner organization. Responses are due December 14.
- *IFA's Application to Serve as a DOE "Designated Lender":* IFA is preparing a response to a Request for Information to participate in DOE's Financial Institution Partnership Program to sponsor projects for consideration for DOE Loan Guarantees. Selection as a Designated Lender would provide an opportunity for IFA to leverage

its capacity to provide "additional security" to finance qualifying energy projects. Responses are due January 15.

- *Seminars and Conferences:* IFA staff participated in the following events over the past month:
 - Midwest Clean Tech Conference: Steve Trout presented IFA financing options on November 23.

There were no Energy Closings in November, 2009

Venture Capital - Investments

Staff participated in board meetings for zuChem, Firefly Energy, and Ohmx Corporation (special meeting).

In addition to attending board meetings, management has begun reviewing the investment firm's financial statements, and developing controls and processes to ensure assets are monitored. While IFA management may look to a valuation service provider for the mechanics of the valuation, management requires sufficient information to evaluate and independently challenge the valuation.

The last review was completed as of June 30, 2006 utilizing a third party vendor. We expect to have the next valuation prior to the end of fiscal year 2010, to satisfy an audit finding during fiscal year 2009.

Human Resources

During the past month, we reached tentative agreements with all of the parties involved in the economic layoffs of October 14, 2009. A minor reassignment of office space was made to accommodate the needs of the existing staff.

In addition, we hired Carol Caponigro as a paralegal, reporting to Chris Meister. Ms. Caponigro brings many years of experience as a paralegal dealing specifically with municipal finance at DLA Piper and other fine firms.

Senior staff has been asked to schedule attendance at sexual harassment training for supervisors provided by the State of Illinois. We will be tracking actual attendance.

Compensation and Benefits

The Trustees for IFA's Individual Account Plan have been updated to include Art Friedson and Yvonne Towers.

We are in contact with CMS and working with our Procurement Officer to begin the process of bidding out our payroll services, employee health and welfare plans, and employment-related insurance coverage.

Finally, we are reviewing our current compensation plans to ensure that they recognize the current economic environment while incentivizing, to the extent possible, the behaviors that we wish to reinforce in our workforce.

Procurement

Financial Advisors:

Bids were received for the Financial Advisor solicitation. Staff will begin their evaluation during the week of November 30th. It is anticipated that new advisor's will be on board by 1/1/10.

Treasury/Investments:

Bids for the Government Bond Fund solicitation are due 12/2/09.

Staff continues to work on the solicitation documents for the Managed Investment Portfolio and CDARS. It is anticipated that the Managed Investment Portfolio solicitation which will be posted to the Procurement Bulletin by 12/04/09 and CDARS by the end of December.

Venture Capital Valuation:

The Procurement Business Case (PBC) for the Venture Capital was approved. The solicitation is underway.

Solicitations for additional services, including Career Transition and Insurance Brokerage, are in process.

Legislative/Legal


An oral presentation will be given at the December 8, 2009 Committee of the Whole Meeting.

Illinois Finance Authority
FY08 Audit Findings: Material and Immaterial
Update as of November 30, 2009

Number of Findings - 7

Item Number	Description	Finding Type	Comments	Percentage Completed																
				10	20	30	40	50	60	70	80	90	100							
Government Auditing Standards:																				
08-01	Draft Financial Statements Not Completed Timely	Significant Deficiency	People, processes and systems are in place to produce timely financial statements.	[Redacted]																
08-02	Failure to Provide a Listing of Laws and Regulations Applicable to the Authority	Significant Deficiency	Database developed; identification and tracking, and maintenance of the statutory mandate database have been executed.	[Redacted]																
Federal Compliance:																				
08-03	Missing Policy on Nondiscrimination	Noncompliance and Significant Deficiency	The product bulletin and the application for the Rural Development Program have been updated and posted to the IFA website.	[Redacted]																
State Compliance:																				
08-04	Failure to Report Revenue Bond Information to the Office of the Comptroller	Noncompliance and Significant Deficiency	Implemented a "reminder" process with trustees/paying agents. Changes required from the IOC to totally eliminate this finding.	[Redacted]																
08-05	No Established Rules to Administer Loan Program (Fire Sprinkler Dormitory Revolving Loan Program)	Noncompliance and Significant Deficiency	No appropriation to fund the program; rules filed with the Secretary of State.	[Redacted]																
08-06	Failure to Administer the Exporter Award Program	Noncompliance and Significant Deficiency	IFA posted an invitation on its website; nominated borrowers; actual award by DCEO were made on 06/29/09; none of the awardees were submitted by IFA.	[Redacted]																
08-07	No Formal Record Retention Plan	Noncompliance and Significant Deficiency	State Record Commission reviewed and approved the Records Retention Schedule.	[Redacted]																

**Illinois Finance Authority
Audit Findings Material and Immaterial
Update as of November 30, 2009**

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