



Illinois Finance Authority  
Report of the Executive Director  
May 12, 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 unaudited financial position for the ten months ending 04/30/2009, reports total assets of \$42,648,584, liabilities of \$1,629,710 and total equity of \$41,018,874. This compares favorably to the April 2008 balance sheet, with \$38,419,462 in total assets, liabilities at \$1,847,999 and total equity of \$36,571,463.

Gross revenue YTD for April was \$6,199,695, or \$809,922 (-11.6%) below plan. The unfavorable plan performance is primarily due to fee income and investment income. Total operating expenses were \$4,342,228, or \$1,043,130 (-19.4%) below plan. This is primarily due to a reduction of employee related expenses, professional services and loan loss provision/bad debt.

Gross revenue YTD of \$6,199,695, was \$1,097,008 (-15.0%) below same period last fiscal year 2008. This is primarily due to reductions from interest on loans (\$202,193), fee income (\$557,411) and investment income (\$280,947). Operating expenses YTD were \$4,342,228, or \$1,258,708 (-22.5%) lower than same period last fiscal year 2008. This is due to a reduction in employee related expenses, professional services and reduced loan loss reserve.

Year-to-date net income for April was \$1,877,592, or \$253,333 higher than plan and \$665,627 lower than same period last fiscal year.

**Consolidated Results:**

The Illinois Finance Authority's unaudited financial position as of 04/30/2009 reports consolidated total assets of \$171,807,538, liabilities of \$58,197,779 and total equity of \$113,609,758. This compares favorably to the April 2008 balance sheet of \$158,112,033 in total assets, liabilities of \$61,037,409 and total equity of \$97,074,623.

## **Audit and Compliance**

The fiscal year 2008 audit opinions, for the financial and compliance audits, will be rendered on May 6, 2009.

Attached is the status of fiscal year 2007 audit findings for your review.

## **Financial Services**

### *Market Update*

Recent weeks have demonstrated the initial positive impact of the 2009 Federal Stimulus Bill (formally, “The American Reinvestment and Recovery Act of 2009” or “ARRA”) on pricing in the traditional municipal bond market.

### **Build America Bonds:**

Under ARRA, units of State and Local Government may issue Taxable Tax Credit Bonds (i.e., “Build America Bonds” or “BABs”) instead of traditional, Tax-Exempt municipal bonds for governmentally-owned capital projects until 2011.

As a result of ARRA, many local government issuers have opted to issue the new Build America Bonds.

The Build America Bonds pay Taxable Interest Rates to the bond investor, while the Issuer receives a cash subsidy equal to 35% of the Taxable Interest paid as a direct payment from the US Treasury (e.g., on a Taxable Bond with a 10% coupon, the Issuer would receive a direct cash payment equivalent to 35% of the interest payments – thus, the effective interest rate to the Borrower would be approximately 6.5%).

Several Investment Banking firms have noted that because many municipal issuers have higher ratings than many corporate obligors (and also carry backing of general obligation taxing powers); the Taxable Build America Bonds have proven to be a good value for the taxable bond investor. Additionally, because the Bonds do not carry any US income tax benefit for investors, these Bonds have been successfully marketed to an international investor base, thereby increasing demand for these Bonds, resulting in more favorable pricing for the Borrower.

Furthermore, Build America Bonds are sold to a distinct, Taxable Investor base, thereby helping to reduce oversupply problems in the traditional, fixed rate, tax-exempt bond market. New issuance of taxable bonds hit its highest level since June 2003 in April attributable to Build America Bonds.

*By diverting supply from traditional fixed rate tax-exempt bond issues, to the global taxable market, Build America Bonds have helped to reduce ongoing oversupply problems that have plagued pricing in the traditional, tax-exempt market since Fall 2008.*

This recent reduction in traditional tax-exempt municipal bond supply attributable to Build America Bonds has had a significant positive initial impact on tax-exempt yields as evidenced by a 34 basis point (0.34%) reduction in MMD’s 30-year Fixed Rate GO Bond Index to 4.42% as of 5/1 (compared to 4.76% as of 4/1).

The observed reduction in MMD's 30-year Fixed Rate GO Bond Index is more significant when evaluated against 30-year Treasury rates which increased to 4.09% as of 5/1, a 103 basis point increase compared to 4/1. Without the supply increase attributable to the Build America Bonds, it is likely that rates on 30-year Tax-Exempts would have also increased (instead of decreasing).

According to Citigroup Managing Director George Friedlander, "The Build American Bonds will take a huge bite out of the amount of tax-exempt issuance that would come to market until December 31, 2010, when the federal subsidy expires". The success of the Build America Bonds issues puts a ceiling on what yields on comparable tax-exempt issues are likely to be: if the required yield as a tax-exempt issue is higher than what the Build American Bonds market appears to require, the issuer will attempt to sell the Build American Bonds instead." *The Bond Buyer* has reported that market participants estimate that between \$75 billion to \$100 billion of Build America Bonds could come to the market in 2009, thereby reducing ongoing pricing pressure due to oversupply in the traditional, tax-exempt bond sector.

Consistent with these preliminary estimates, California led April's issues, which included approximately \$7.6 billion of Taxable Build America Bonds. According to Bloomberg, issuances of long-term, fixed rate, tax-exempt bonds dropped to about \$25.3 billion from \$35.6 billion in April 2008. Undoubtedly, a considerable portion of this volume decrease is attributable to issuance of taxable Build America Bonds. On April 29<sup>th</sup>, Southern Illinois University announced plans to issue \$48 million of Build America Bonds (which will be combined with a \$6.0 million Tax-Exempt issue) – the proposed SIU issue represents the first significant Build America Bonds issue announced by an Illinois governmental issuer. Additionally, the May 4<sup>th</sup> edition of *The Bond Buyer* reported that market participants have reported that the Illinois State Toll Highway Authority is considering issuance of \$400 million of Build America Bonds along with \$100 million of Tax-Exempt Bonds to finance the next phase of the Illinois Tollway's rebuilding and expansion plan.

Because many of the initial Build America Bond issues have been large (i.e., over \$1 Billion), BAB's have successfully diverted an excess supply of Tax-Exempt paper into the Taxable Market. According to the financial trade press, these large Build America Bond issues have been purchased by international, taxable investors – an investor class that does not typically invest in the U.S. municipal bond market (since international investors have no need for income exempt from U.S. income taxes). As a result of this reduction in supply in the traditional tax-exempt market, yields on 30-year, Double-A rated Tax-Exempt General Obligation Bonds declined by 34 basis points over the first 3 weeks of April (noted below in the interest rate report).

#### Impact of Build America Bonds on IFA

The impact of Build America Bonds on IFA and our conduit borrowers has been indirect, but significant. In particular, the reduction in Tax-Exempt supply resulting from the purchase of BAB's by international investors has eased over-supply pressure across all Tax-Exempt Bond sectors, including both (1) governmental-purpose bonds and (2) conduit bonds issued for 501(c)(3) entities and other borrowers.

In particular, recent all-in fixed rates on 30-year Healthcare bonds for comparably-rated borrowers dropped by over 30 basis points (i.e., 0.30%) compared to pricings just 3-4 weeks ago.

The direct impact of BAB's on IFA's Local Government Bond issuance volume is less certain and is likely to evolve as the market develops. Although, BAB's have been issued both by small municipalities (e.g., the initial BAB was a \$3.65 million government purpose issue by Stevens Point, Wisconsin) and large issuers (e.g., the New Jersey Turnpike Authority issued \$1.375 Billion of BAB's), it is unclear whether there will be sustainable demand for smaller BAB issues going forward. In particular, market participants have noted that the investor base for small BAB's (i.e., under \$50 million) may be limited to traditional municipal bond purchasers (e.g., domestic banks and funds), whereas international taxable investors are primarily interested in issues of \$100 million or more.

As government issuers of all sizes test the market, *The Bond Buyer* reports that many municipalities and school districts (and their professional advisors) are requesting proposals for both Tax-Exempt and Taxable BAB pricing as they seek the lowest possible effective borrowing cost.

Consequently, it is likely that some IFA's Local Government Program prospects may forego traditional Tax-Exempt issuances for Taxable BAB's.

IFA staff will continue to assess the impact of BAB's on prospective Local Government Program issuance volume as we implement our FY 2010 Local Government marketing plan.

#### General Market Conditions for IFA Borrowers:

Nevertheless, the credit markets remains volatile and access to bank credit, either through Letters of Credit or Bank Direct Purchases, continues to be challenging for many borrowers (and particularly for borrowers with projects over \$25 million).

According to informal discussions with several market participants, many investment grade borrowers (i.e., Triple-B/Single-A Credits) have experienced difficulty in obtaining (1) access to fixed rate financing and (2) access to Bank credit to support (i) Letters of Credit to support variable rate financings or (ii) Direct Purchase financings since September 2008. As a result, several IFA borrowers have been involuntarily deferred projects since they cannot be financed within their target maximum interest rate.

*Quarterly Upgrade-Downgrade Summary Reports by Rating Agencies (affects large, institutional municipal and conduit issuers):*

Moody's: Moody's reported the first 3 months of 2009 was the first time that all municipal sectors, including state and local government, housing, healthcare and higher education, received a **negative outlook** (the Industrial Development Bond sector is not rated by any of the three rating agencies).

- Symptomatic of deteriorating liquidity and general balance sheet strength, Moody's Investors Services reported that the Ratio of Upgrades to Downgrades fell to 0.86 (for Q1-2009) from 1.10 (for Q4-2008).

- In the Healthcare sector, the ratio of upgrades to downgrades was 0.25 (or 1 to 4).
  - Moody's noted that Healthcare issues are facing declining patient volume, increased bad debt expense, and increased charity care expense compared to prior years.

Fitch Ratings: Fitch also reported more downgrades than upgrades during Q1-2009 and noted that downgrades had reached their highest absolute number since at least 2002, when it began to issue quarterly aggregate outlook/rating change reports.

Standard & Poor's: S&P reported 327 downgrades for Q1-2009 – which exceeded the 262 downgrades reported during calendar 2008.

**Interest Rates:**

Tax-Exempt Rates:

- Variable Index (\* SIFMA): 0.57% (4/22), up 4 basis points from last month
- Fixed GO Bond (\*\* MMD-30yr-AA): 4.42% (5/1), down 34 basis points from last month.

Taxable Rates:

- Fed Reserve Benchmark Target Rate: 0.25% (5/1) unchanged from last month
- 90-day LIBOR: 1.00% (5/1), down 19 basis points from last month
- 2-yr Treasury: 0.92%, (5/1) up 6 basis points from last month
- 30-yr Treasury: 4.09% (5/1) up 103 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](http://www.sifma.org).

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

The Tax-Exempt SIFMA Variable Rate Index still remains near historical lows, consistent with strong investor demand for liquidity, as in last month's report. Typical of April performance, however, the SIFMA index increase by 4 basis points from March due to redemptions from tax-exempt money market funds to pay income taxes.

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

Additionally, the impact of the new Taxable Build America Bonds on long-term Tax-Exempt interest rates is further highlighted by comparing the direction of the 30-Year MMD Tax-Exempt Fixed GO Rate (i.e., declining 34 b.p. in April) to comparable 30-Year Treasuries (which increased by 103 b.p. in April). Accordingly, the reduction in supply of 30-Year Tax-Exempts due to the BABs was more than sufficient to offset a general increase in long-term taxable rates.

The Federal Reserve is expected to hold rates near 0% for an extended period of time. Long-term Treasury rates are expected to remain low for most of 2009 given the ongoing recession and anticipated Fed purchases of Treasuries.

### **Economic Data:**

Business conditions in the Chicago region improved in April, according to the NAPM-Chicago's business barometer released Thursday 4/30. The index improved to 40.1 in April from 31.4 in March. The new orders index also improved to 42.1 from 30.9 in March. The employment index improved to 31.8 from 28.1 in March. (For each of these indices, any reading below 50 indicates contraction.)

According to an April 17<sup>th</sup> report released by the US Bureau of Labor Statistics, Illinois' unemployment rose to 9.1% in March from 8.6% in February. Estimated Illinois jobless claims increased by approximately 39,600 in March. Illinois' 2009 unemployment rate is 3.6% higher than the 5.5% rate posted in March 2008.

According to the U.S. Labor Department, fewer Americans filed first-time applications for unemployment insurance last week, indicating the pace of job losses is slowing even as the total number of people on benefits continues to break records. Initial jobless claims decreased by 14,000 to a less-than- forecast 631,000 in the week ended 4/25, from a revised 645,000 the prior week. The number of people relying on jobless benefit rolls increased by 133,000 to 6.27 million for the week ended 4/25, the 13th straight week the figure has set a record.

Factory orders fell 0.9 percent in March to \$345.3 billion, according to U.S. Commerce Department data released on 5/1, a larger drop than expected. Factory orders have been down seven of the past eight months. In contrast, the April ISM manufacturing index rose to 40.1 from 36.3, a sign that the contraction in the manufacturing sector may be slowing. In particular a research note commented that: "The ISM report does not yet signal manufacturing growth, but the first step towards growth is for the rate of decline to ease, and this report signals an end to the period of manufacturing free-fall," said, Nigel Gault, chief U.S. economist for IHS Global Insight.

### **Other Market News**

- Berkshire Hathaway Inc. Vice Chairman Charles Munger said he supports an outright ban of credit-default swaps to prevent speculators from profiting on the failure of companies. At least 32 companies as of March 12 had more credit swap protection outstanding on their bonds than actual bonds, according to a March 27 research note by Christopher Garman, CEO of Garman Research LLC in Orinda, California.
- The Tennessee comptroller announced plans for a comprehensive overhaul of municipal bond market regulations for Tennessee issuers. The plan would prohibit small cities and counties from using derivatives.
- The U.S. Securities and Exchange Commission will evaluate the need for stricter municipal bond market oversight this summer and may seek authority from Congress to regulate the market more closely.

- Federal Reserve keeps key rates steady in order to reduce contraction within the economy. - Real gross domestic product decreased at an annual rate of 6.1% in the first quarter of 2009.

### **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 finalizing marketing and development plans to encourage both conduit financings for larger borrowers and pooled financings for small municipalities. IFA’s Local Government is also working with the Illinois Municipal League, the Illinois State Board of Higher Education, and various professional groups including the Illinois Government Finance Officers Association, the Illinois City and County Management Association, and the Illinois Association of School Business Officials to submit newsletter articles and to arrange speaking engagements at professional events.
- **Energy Initiative** – Participation at the American Wind Energy Association’s 2009 Conference in Chicago in early May with marketing initiatives geared towards wind energy turbine manufacturers and component suppliers. Additionally, IFA’s Energy Team is also working with the US Department of Energy and the Council of Development Finance Agencies to create a new category of Exempt Facilities Bonds that would enable (1) the construction of new electric transmission lines and (2) construction of renewable energy facilities with tax-exempt bonds.
- **Agriculture & Rural Development Initiative** – A more concise plan has been drafted and will be discussed during the next group call.
- **Treasury, Risk Management and Management Reporting** – committee meetings to improve practices

### **Program Development**

- **Local Government** – Today’s agenda includes a proposal to revise fees and streamline procedures for conduit Local Government Program Bonds. The objective of this proposal is to induce more activity. The recommended changes reflect input from various market participants.
- **Fire Truck and Ambulance Revolving Loan Funds** - IFA Legal began closing Fire Truck and Ambulance Loans immediately upon receipt of executed borrower Loan Agreements beginning the week of 4/27. Payment authorization has been sent to the Comptroller.
- The Spring 2009 Local Government Pool is now in marketing mode.
- Local Government Staff has already identified two borrowers that intend to finance through the Local Government Pool and submit applications within the next 30-60 days.

- Local Government Staff intends to work with eligible (i.e., “creditworthy”) Borrowers to facilitate interim financing of credit-approved borrowers with an existing, dedicated \$2,561,229 (as of April 30, 2009) IRRB Special Reserve Fund (established for the Illinois Rural Bond Bank, an IFA predecessor). This IFA interim financing would enable (i) creditworthy borrowers to proceed with their financings and (ii) enable each IFA Local Government Pool to aggregate sufficient volume to provide economies of scale for participants.
- Local Government Staff have also been announcing changes in pricing to market participants (e.g., underwriters and financial advisors) and prospective borrowers as approved at the April Board Meeting.
- Proposals for Investment Bankers for the Local Government Programs are currently under review as of 5/1.
- SBA Micro Loan Program – Although the SBA Micro Loan Application is substantially complete, the application cannot be submitted to the U.S. Small Business Administration without a copy of IFA’s audited financial statements for FYE 6/30/2008 (which are due back to IFA in early May).
- Participation Loan and EDA Title IX Revolving Loan Fund, and USDA Rural Development Loan Programs: Additional review of these programs is underway. The option of redeploying IFA assets to provide guarantees (as a future alternative) will also be under review.

### **Sales Activities**

Funding Managers will be presenting six financings totaling \$35,358,950 for consideration at the May 12, 2009 board meeting:

- Agriculture projects total \$663,950.
- Business and Industry projects total \$4.0 Million.
- Non-Healthcare Projects (Cultural and other 501(c)(3)) total \$28.5 Million.
- Healthcare Projects total \$2,195,000.

**The six financings presented for consideration today are expected to create 39 new jobs and 199 construction jobs.**

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

#### **Agriculture**

IFA’s Ag staff fielded calls from fifteen lenders on inquiries for various projects. Additionally, staff also received calls from businesses and farmers seeking financing assistance. These inquiries included a beginning farmer bond, a rural development loan, and a potential application for the new micro-loan program at IFA that is currently under development.



For the month of May, staff is submitting 1 Beginning Farmer Bond and 1 Ag Restructuring Guarantee for consideration by the Board of Directors.

**Agriculture, Beginning Farmer Bonds, April, 2009 Closing(s)**

<b>Closing Date</b>	<b>Amount</b>	<b>Borrower</b>
04/01/2009	\$103,200	Crystal & Thomas Joos, Buda, IL
04/06/2009	\$164,000	James Nofftz, Tolono, IL
04/16/2009	\$175,000	Michael Urish, Morrison, IL
04/30/2009	\$229,632	Amber & Bradley Carriker, Raymond, IL
04/30/2009	\$250,000	David Hartke, Litchfield, IL
04/30/2009	\$107,500	Paul Shepherd, Hillsboro, IL
04/30/2009	\$220,000	Neal Nelson, Orion, IL
04/30/2009	\$240,000	Kal Engelkens, Milledgeville, IL
4/30/2009	\$250,000	Nick & Lynde France, Table Grove , IL

**Agriculture, Agri-Debt Guarantee, April 2009 Closing(s)**

<b>Closing Date</b>	<b>Amount</b>	<b>Borrower</b>
04/23/2009	\$325,000	John & Nancy Howard, Texico, IL

**Business and Industry**

As expected, IFA application and closing-related activity in the Business and Industry Sector remain well below levels posted in 2008. As a proxy for Business and Industry Activity, the following table compares 2009 and 2008 Industrial Revenue Bond applications and issuances for the first four calendar months (April 30th) of each year. Notably, although application volume is down, streamlined Volume Cap allocation procedures have enabled IFA's 2009 applications to close more expeditiously than in 2008.

<b>For the 4 months ended April 30th:</b>	<b><u># 2009</u></b>	<b><u># 2008</u></b>	<b><u>\$ 2009</u></b>	<b><u>\$ 2008</u></b>
IRB Applications	2	4	\$9,500,000	\$23,950,000
IRB Closings	2	0	\$20,000,000	\$0

The outlook for 2009 IFA Business & Industry activity suggested by IFA market participants is consistent with results from the US Department of the Treasury's Bank Lending Survey released April 15<sup>th</sup>: "Commercial and Industrial lending activity in February continued to weaken across all categories. Uncertain economic conditions have resulted in borrowers reducing expenses, paying down debt, and delaying capital expenditures... Companies continued to focus on preserving liquidity and strengthening their balance sheets..."

IFA's B&I Team will be focusing calls 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.

Additionally, IFA's B&I team will be focusing on Exempt Facilities Financings (e.g., Private Water Utilities and certain other categories) that represent significant countercyclical financing opportunities. These financings represent a significant prospective growth segment given the focus on renewing America's water supply infrastructure.

IFA B&I Industry Team member Jim Senica made a presentation on IFA's Business Financing Programs at an entrepreneurial development and financing seminar sponsored by State Treasurer Alexi Giannoulis ("Entrepreneurship in Tough Times") in Decatur. Over 60 people attended this event, which was held at the Richland College Entrepreneurship Center.

Finally, IFA's B&I Team participated in an Illinois Fresh Food Initiative task force meeting held in Chicago. The purpose of this meeting was to finalize recommendations for the Initiative, which includes funding this initiative on an ongoing basis from various sources for the next three years. IFA's Townsend Albright will be representing the Authority on this initiative.

**Business & Industry April 2009, Closing(s)**

<b>Closing Date</b>	<b>Amount</b>	<b>Borrower</b>
04/08/2009	\$10,000,000	Fitzpatrick Brothers, Quincy, IL

**Healthcare**

The Healthcare Team spent a majority of their time crafting the anticipated Medicaid Receivables and Hospital Assessment Program ("HAP") Securitization Programs with underwriters and attorneys. The Request for Proposal for underwriting firms was distributed and document preparation and review will begin shortly.

- IFA's Healthcare Team views this program extremely positively given that it will benefit both (1) the State of Illinois (i.e., resulting in increased federal funding as a result of having Medicare Account Receivables current) and (2) hospitals (by providing additional access to liquidity).
- As noted in last month's Executive Director's report, the Healthcare Team met with the President of the Illinois Hospital Association ("IHA") to discuss IFA programs that are under development to assist health care providers. There has been significant positive feedback from the President of IHA to IFA's Healthcare Team.

Also, during these discussions with Underwriters the Healthcare Team was able to determine 5 separate new issues for the 2009 fiscal year ranging from \$20 million to \$420 million.

In May, the Central DuPage Hospital financing for \$90 million closed. The fixed rate market has improved significantly for high-grade AA credits with CDH issuing pricing at all-in TIC of 5.42%, a substantially improved rate compared to just weeks ago.

IFA's Healthcare Team will continue to work with Borrowers who are restructuring their plans of finance to try to get into this very turbulent and unpredictable market, such as The Admiral, Timothy Place and Silver Cross Hospital, which are financing new facilities.

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

<b>Closing Date</b>	<b>Amount</b>	<b>Borrower</b>
04/09/2009	\$475,000,000	Northwestern Memorial Hospital, Chicago, IL
4/23/2009	\$15,000,000	Bethany Gardens Assisted Living Center, Morton Grove, IL

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

Credit availability continues to be an ongoing issue for many IFA borrowers. Market participants have informally reported that the supply of Letters of Credit to support projects at or above \$25 million remains tight. In particular, IFA has received reports from market participants that several mid investment grade, Non-healthcare borrowers with Triple-B and Single-A ratings have been having difficulties obtaining Letter of Credit financing commitments from banks.

Furthermore, 501(c)(3) entities with larger projects (i.e., \$50 million or greater) are finding that prospective Letters of Credit providers have constrained Letters of Credit capacity compared to recent history. As a result, larger projects are having to negotiate with a larger syndicate of banks to support any proposed Letters of Credit secured financing.

Although Direct Purchase transactions are also a possibility, according to market participants, many Banks active in the Direct Purchase market focus on smaller financings of \$15 million or under (or seek to be the Borrower's primary lender).

**501(c)(3)'s April 2009, Closings**

<b>Closing Date</b>	<b>Amount</b>	<b>Borrower</b>
4/29/2009	\$4,000,000	Namaste Charter School, Chicago, IL

**Staff Presentations/External Activities:**

Members of IFA's Higher Education Team discussed the impact of the new, \$30 Million Bank Qualification ("BQ") election provision with representatives of both (1) The Federation of Independent Illinois Colleges and Universities and (2) the Associated Colleges of Illinois.

- This Bank Qualification election provision will facilitate IFA issuances of Bonds of up to \$30 Million pursuant to temporary provisions in the Federal Stimulus Legislation that will be effective until 2011. (This Bank Qualification election enables Commercial Banks to write-off costs associated with purchasing Bank Qualification Bonds as a portfolio investment, thereby providing Commercial Banks with a second tax incentive, in addition to tax-exempt interest income, thereby enabling the Bank to pass through additional savings to the Borrower on Bonds with Bank Qualification status.)

- The new Bank Qualification provision enables all 501(c)(3) entities with bond issues under \$30 Million to:
  1. use IFA as an Issuer of Bank Qualification Bonds for the first time (historically, only municipalities and other small issuers have been able to issue Bank Qualification 501(c)(3) Bonds).
  2. prospectively reduce interest expense further for any Bond issue up to \$30 Million that closes in calendar 2009 and 2010.

IFA Non-Healthcare 501(c)(3) Staff Members discussed financing projects with several Higher Education and General 501(c)(3) prospects.

Finally, IFA Senior Funding Manager Townsend Albright served as a Judge for an annual monetary grant award competition organized by the Alford-Axelson Center for Non-Profit Management (the “Center”) at North Park University. Over 40 Illinois-based 501(c)(3) not-for-profit entities participated in this competition.

### **Local Government**

IFA’s Local Government Staff and IFA Legal have begun closing loans for the Ambulance and Fire Truck Revolving Loan programs. Loans will continue to close as executed Loan Agreements are received from each Borrower.

IFA’s Local Government Team also made calls to all units of local government that approved referenda for school construction, community college expansion, and other local government capital projects. Additionally, IFA’s Local Government Team discussed financing through IFA’s mid-year Pooled Bond issuance with several prospects.

IFA’s Local Government Team is also assessing the prospective impact of the Stimulus Bill’s Taxable Build America Bonds as an alternative to traditional tax-exempt local government bond issues through IFA.

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

### **Energy**

Major initiatives include:

**SB 1912:** SB 1912 passed the Senate 54-1 on April 1<sup>st</sup>, and confirms IFA’s authority to issue State Moral Obligation Bonds for renewable energy projects and to expand capacity to issue Agricultural Loan Guarantees. Passage would (1) improve IFA’s ability to finance renewable energy projects consistent with the Obama Administration’s “Clean, Renewable and American Energy Initiative” and (2) enable IFA to leverage substantial federal resources that have been appropriated under ARRA (i.e., the 2009 Stimulus Bill), and anticipated to be funded later this year. The House Executive Committee has scheduled a hearing on SB 1912 on May 6.

**DOE Loan Guarantee:** The US Department of Energy (“DOE”) recently invited IFA to offer suggestions as to how conduit issuers might work with DOE to finance renewable energy projects on a joint basis. DOE is seeking to leverage the expertise and resources that conduit issuers, ratings agencies and private banks have to streamline and accelerate the process for evaluating

loan guarantee applications. DOE plans to begin accepting applications by early summer for its newest program, Section 1705, which authorizes issuance of up to \$70 billion in loan guarantees. DOE's consultants commended IFA for its commitment to energy development, depth of expertise assembled in its Illinois Energy Team, range of finance tools and a substantial project pipeline. The prospect of partnering with DOE offers an extraordinary opportunity to leverage State resources to attract projects and help developers obtain debt financing, today's most important development hurdle.

**Wind:** IFA is participating at the American Wind Energy Association ("AWEA") 2009 Conference, the world's largest wind conference, which is being held in Chicago on May 5<sup>th</sup>-8<sup>th</sup>. IFA and DCEO are co-sponsoring a booth and a reception that Governor Quinn and Chicago Mayor Richard Daley are expected to attend. Staff has been collaborating with the Illinois Power Agency to develop financing for wind power projects if SB 1912 is enacted into law.

**Tax-Exempt Bonds:** Relatively few privately owned energy projects can now be financed with tax-exempt bonds. IFA is working with the Council of Development Finance Authorities ("CDFA") to encourage Congress to authorize the issuance of Renewable Energy Bonds that would authorize the issuance of tax exempt bonds for privately owned renewable projects (such as wind power, hydro, solar and biodiesel) that can not now use them. Director Filan, Chris Meister and Rich Frampton attended the CDFA's 2009 Conference, which was held in Pittsburgh.

*There were no Energy Closings in April, 2009*

### **Venture Capital**

Staff participated in Board meetings for zuChem, OHMX, VHT, zuChem, and Harmonic Vision. Updates for all companies were completed and distributed to the Venture Capital Board Committee.

Staff solicited proposals from three vendors interested in completing valuation reviews for companies in the Venture Fund. One vendor declined to respond. Two responses were received neither of which met either IFA needs or requirements. A draft outlining services required for use in a formal procurement solicitation was completed and circulated for internal review.

### **Facilities**

The Springfield office relocation project was completed.

### **Human Resources**

- Ethics training for all IFA staff and Board members was completed.
- All Statements of Economic Interest required of staff and board members were completed and submitted to the Secretary of State prior to the May 1, 2009 filing deadline.
- Open Enrollment for benefit plan year 2009-2010 was completed.
- Hired temporary staff to provide administrative services at the new Springfield office location.
- Completed and submitted IFA's Third Quarter EEOC/AA Report to the Illinois Department of Human Rights.

## **Treasury**

Work continues on implementation of IFA's Investment Strategy. A draft of an updated Investment Policy has been completed and is being circulated for review by the Management Team. An RFP is being developed for an Investment Advisory Service provider. Staff is working with ISAC to determine if RFPs are needed to select providers offering Money Market and Government Bond Funds.

## **Operations**

Risk Management: The insurance policy renewal was completed for IFA's Property and Casualty, and Crime Policy, insurance coverage. The current Professional Liability insurance coverage was extended for two additional months to provide time for the indemnification provision in IFA's by laws to be further reviewed and updated, and to allow IFA's insurance brokers more time to solicit proposals from underwriters.

## **Legal/Legislative**

*A verbal report will be provided at the April 14, 2009 meeting of the Committee of the Whole.*

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










Item Number	Description	Estimated Completion Date	Status Action Items/ (not final) Action Items Completed	<b>Percentage Completed</b>
				10 20 30 40 50 60 70 80 90 100
Total Number of 8				
<b>FY 07 Material Findings</b>				
<b>07-01</b>	Missing Policy on Nondiscrimination	7/31/2008	2/2	100%
<b>07-02</b>	Failure to Report Revenue bond Information to the Illinois Office of the Comptroller		4/3	75%
<b>07-03</b>	Bad-Debts not Referred to the Illinois Office of the Comptroller	7/31/2008	4/4	100%
<b>07-04</b>	Noncompliance with the Illinois Procurement Code and SAMS Procedures	6/30/2008	2/2	100%
<b>07-05</b>	Lack of Segregation of duties in Managing Property and Equipment	4/30/2008	4/4	100%
<b>07-06</b>	No Established Rules to Administer Loan Programs		2/1	50%
<b>07-07</b>	Authority is Not a Member of the Illinois Forestry Development Council	4/30/2008	2/2	100%
<b>07-08</b>	Failure to Administer the Exporter Award Program	11/30/2008	2/2	100%

<50% = Partially Completed or under review  
60% = Substantially Completed  
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. Letters have been sent to each trustee to remind them of their duty and to avoid having late CO 8's.

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

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

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														
<b>FY 07 Immaterial Findings</b>														
<b>IM07-01</b>	Approval of Incomplete Travel and Marketing Reimbursement Forms	3/31/2009	<b>4/4</b>											
<b>IM07-02</b>	Inadequate Processing and Untimely Deposit of Cash Receipts and Refunds	4/30/2008	<b>4/4</b>											
<b>IM07-03</b>	Corrected Agency Workforce Report was not Filed Timely	4/30/2008	<b>4/4</b>											
<b>IM07-04</b>	Use of Telecommunications Devices Not Properly Monitored	4/30/2008	<b>3/3</b>											
<b>IM07-05</b>	Outdated Investment Report	4/30/2008	<b>4/4</b>											
<b>IM07-06</b>	Allowance of Old Accounts Receivable Not Performed	7/31/2008	<b>4/4</b>											
<b>IM07-07</b>	Statement of Economic Interest Report Not Filed Timely	4/30/2008	<b>4/4</b>											
<b>IM07-08</b>	Failure to File for a Refund of Telephone Excise Tax	4/30/2008	<b>2/2</b>											
<b>IM07-09</b>	Noncompliance with Printing Requirements	4/30/2008	<b>2/2</b>											

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