



**Illinois Finance Authority  
Executive Director's Report  
July 8, 2008**

To: IFA Board of Directors and Office of the Governor

From: Kym M. Hubbard, Executive Director

**Financial Performance**

**Consolidated Results:** Illinois Finance Authority's financial position remains strong with total assets of \$173,878,363 consisting of equity of \$112,443,770 and liabilities of \$61,434,593. This compares favorably to the June 2007 balance sheet of \$151,584,689 in total assets comprising of \$92,039,232 in equity and \$59,545,456 in liabilities and bonds payable.

Gross Income YTD for June ended at \$14,626,381 or \$851,847 over plan. The above plan performance is primarily due to fee income and interest on loans. Total operating expenses ended at \$9,201,705 or \$1,090,046 below plan. This is primarily due to a reduction in our professional services and employee related expenses. Net income ended at \$20,404,538 including the \$2,000,000 grant received in July 2007, \$9,000,000 from State Appropriations for the Fire Truck Revolving Fund and \$4,000,000 for the Ambulance Revolving Fund received in May, 2008.

**Audit and Compliance**

The fiscal year 2007 interim audit field work is complete. The auditors are expected to be back in August/September to complete the FY 2008 audit.

Attached is a status update on the resolution for the FY 07 compliance audit findings for your review.

## **Sales Activities**

Funding Managers will be presenting 21 projects totaling \$628,609,100 for approval in July, 2008. Agriculture projects total \$1,609,100; Business and Industry total \$44,400,000; Communities and Culture projects total \$47,700,000; Healthcare projects total \$505,900,000; and Higher Education projects total \$29,000,000. These projects are expected to create 681 new jobs and 1,195 construction jobs.

## **Agriculture:**

During the month of June 2007, the Agriculture team was afforded great opportunities to expand and build on relationships with lenders from community banks across the State. The Agriculture team began the month of June by attending the annual Community Bankers Ag Lending Conference in Springfield, Illinois. Approximately 75 lenders from across the State attended the two day conference. The IFA was provided space for an informational booth, which was visited by many of the lenders in attendance. A designated member of the Agriculture team was selected to moderate a four person panel to discuss risk management issues for Ag lenders.

Additionally, the Agriculture team attended the Champaign County Agribusiness Committee meeting, which promoted the Wine industry in Illinois, as well as attended an outing sponsored by Prairie Power. The month ended with members of the Agriculture team participating in the State at the Illinois Bankers Association's annual conference in Chicago. The conference provided the opportunity for members of the Agriculture team to meet with lenders from across the State of Illinois and maintain an informational booth for the Authority.

Agriculture Closings, June 2008		
Closing Date	Issuance\$\$	Borrower
06/20/08	\$82,500	Cave, Andrew Thomas
06/20/08	\$200,000	Cave, Adam
06/20/08	\$90,000	Peter, Ragan
06/20/08	\$30,000	Ochs, Mark J.
06/20/08	\$100,000	Breeze, Michael & Peggy
06/27/08	\$241,200	Klauser, Lance L.

## **Healthcare:**

In June, the Healthcare team closed five large financing transactions that were prompted by the need to refund and/or convert auction rate bonds. Most Illinois health systems that have issued auction rate bonds have now refunded or converted their auction rate debt into another mode.

During the month of June, 2008, the Healthcare team attended the Illinois Hospital Associations' Small and Rural Hospital Constituency Conference in Springfield, Illinois. At the conference, members of the Healthcare team met and spoke with several small and rural hospitals to discuss possible upcoming bond financings and equipment financings. Additionally, members of the Healthcare team spoke with Kewanee Hospital, a Critical Access hospital in Kewanee, Illinois, that issued tax-exempt bonds in 2006 to finance their replacement hospital. The new Kewanee Hospital is now open and the management team indicated that they were very pleased with the financing transaction.

The Healthcare team is continuing to speak with investment bankers and financial advisors to generate new ideas for a program to extend the Healthcare Initiative to safety-net hospitals and that have been experiencing financial difficulties.

Lastly, Loop Capital Markets has been chosen by Northwestern Memorial Hospital as the Remarketing Agent for their Series 2004C-4 of approximately \$35,000,000 weekly Variable Rate Demand Bonds, which is currently being converted from auction rate securities under the Conversion Resolution passed by the Board on March 11, 2008.

Healthcare Closings, June 2008		
Closing Date	Issuance\$\$	Borrower
06/04/08	\$59,090,000	Delnor-Community Hospital, Series 2006 Refunding
06/05/08	\$100,000,000	Resurrection Health Care
06/17/08	\$42,500,000	Swedish Covenant Hospital, Series 2008B
06/17/08	\$127,410,000	Hospital Sisters Services, Inc.
06/18/08	\$88,030,000	Silver Cross Hospital

## **Higher Education**

The Higher Education team continues to collect information from Illinois colleges and universities to use as the team develops a financing program that could combine short term and long term financing components for financing campus renovations.

Higher Education Closings, June 2008		
Closing Date	Issuance\$\$	Borrower
06/04/08	\$95,000,000	Loyola University Chicago [Commercial Paper]
06/24/08	\$30,410,000	Illinois Wesleyan University [Refund IEFA 2003]
06/25/08	\$7,307,000	St. Augustine College
06/25/08	\$25,000,000	St. Xavier University
06/25/08	\$46,880,000	DePaul University, Series 2008
06/25/08	\$125,000,000	Northwestern University

## **Communities and Culture**

The Communities and Culture team met with Officers of Bank of America Securities Midwest Marketing Team to learn how and if the Bank's investment banking arm plans to pursue non profit financings. Bank of America acquired LaSalle Bank's corresponded banks, and their key investment banking personnel. Bank of America wants to pursue large and mid-sized non profit financings throughout Illinois, and hopes to work with the IFA as a conduit financier.

### Community & Culture Closings, June 2008

Closing Date	Issuance\$\$	Borrower
06/12/08	\$22,500,000	Chicagoland Laborers Training and Apprentice Fund

## **Business & Industry**

Consistent with seasonal increases in Industrial Revenue Bond activity, application activity for Industrial Revenue Bonds are up as reflected in new applications for Industrial Revenue Bond financings on the July 2008 Board Meeting Agenda. July is likely to be the peak month for new requests this year.

Recent IFA prospects are doing well in this economy, including companies that (i) manufacture components for multi-national Original Equipment Manufacturers (OEMs), (ii) manufacture component parts used in the oil/gas drilling and mining industries, and (iii) companies in the the food service industry that manufacture products used by the food service industry. The ongoing focus on production quality is also resulting in demands for equipment modernization. Equipment-driven improvements in production efficiency and quality represent an essential part of capital budgeting for many manufacturing companies.

Participation Loan demands has also slowed, reflecting concerns regarding the overall economy. Given existing vacancy rates for available manufacturing and warehouse space (with significant space available for lease at reasonable rates, particularly Downstate), equipment upgrades remain the principal focus of many manufacturers.

**Business & Industry Closings, June 2008**

Closing Date	Issuance\$\$	Borrower
06/27/08	\$49,830,000	Commonwealth Edison, Series 2008E

**Energy**

Construction continues to advance on the Prairie Energy Campus project, a 1,600 megawatt electric generation plant located in Washington County that will owned by a consortium of nine owners. In December 2007 and January 2008, the Authority gave its preliminary approval for the issuance of Solid Waste Disposal Facilities Revenue Bonds for three owners. One of the applicants, Prairie Power, is preparing to issue bonds for its share of the Project in late August or September, 2008. Prairie Power is seeking IFA's preliminary approval this month to increase the size of that issue of low-interest rate bonds, which, if approved, would enable Prairie Power to offer its Central Illinois clients with electricity at reduced prices.

Power Holdings and Tenaska are both awaiting the passage of new state legislation prior to advancing their projects. Power Holdings is seeking legislation that would raise the cap in rates payable by regulated natural gas utilities that enter into long-term gas purchase agreements. Tenaska is seeking legislation that permits regulated utilities to enter into long-term power contracts. That legislation may also include a provision that encourages regulated utilities to purchase power from Integrated Gasification Combined Cycle ("IGCC") power plants (of which the Erora-Tenaska project is one), which many environmentalists prefer over other power generation technologies.

Market conditions for ethanol and biodiesel plants remain difficult, primarily due to continued increase in the cost of corn and soy oil, the primary inputs, respectively, for most ethanol and biodiesel produced in the United States.

There were no Energy Closings for the month of June, 2008

### **Local Government**

Local Government staff has participated in a few different round table seminars during the month of June, in addition to working on the necessary details to assure that the Local Government Pooled Bond Series 2008A closings will take place in July. In addition, the Local Government staff continues to meet with local governments, schools, private businesses, banks and not-for-profit organizations to further discuss lending options. The Local Government staff anticipates awarding at least 40 new zero-percent-interest fire truck revolving loans and 30 new ambulance revolving loans in fiscal year 2009 with the influx of \$9 million and \$4 million into the fire truck and ambulance revolving loan funds. Staff is investigating alternative local government programs that may be implemented in fiscal year 2009 that will offer new and additional financial support to Illinois school districts and local governments.

There were no Local Government Closings for the month of June, 2008

### **Human Resources/Operations**

Human Resources: Management has completed the discrimination and harassment training. Discretionary bonus payments under the IFA Merit Compensation Plan were paid out to staff members who meet the qualifications approved under the new Merit Plan.

Venture Capital: The COO, attended Board meetings for ZuChem (Glycochemicals), Harmonic Vision (Educational Software Development and Publishing), and RiverGlass (Real-time Data Analysis Technology); and Smart Signal (Predictive Analytics) June meeting. Notes from the meetings were prepared and distributed to the Executive Director.

Legal documents regarding the sale of Protez (Pharmaceuticals), one of IFA's venture capital investments, to Novartis were processed.

Facilities: Chicago office space and lease review project was completed.

Records Retention: Management and staff visited the State Record Retention Center in Springfield to review Illinois Farm Development Authority records scheduled for destruction.

Information Technology: Disaster recovery testing for IFA's accounting and e-mail systems was successfully completed.

Information Management: Work continues in three key areas: (1) documenting the business practices involved in developing and managing IFA deal flow (2) development of an Intranet for IFA, and (3) developing criteria for selecting contact management software.

### **Marketing/Public Relations**

The third issue of the IFA News newsletter is scheduled to be released in July. Strategic planning continues, in June phase two meetings were completed in each market sector; functional and administrative areas will be addressed in July/Aug. The Authority's management information/data base development project continues to make excellent progress. We are defining deal-related information requirements and also beginning to develop the Authority's intranet.

#### **FOIA** requests in June:

- T. Novak, Sun-Times – Financial team information and cost of issuance for IFA bonds - Completed
- Lowenstein – Documents related to B. Obama
- Lowenstein – Documents regarding D. Shomon
- Robinson, API – Documents regarding Rezko and related companies
- Boyd - Documents regarding Rezko and related companies
- Garland - Documents regarding Rezko and related companies
- T. Novak, Sun-Times - Documents related to B. Obama
- Hernandez, SEIU – Re: 1985 Revolving Fund Pooled Financing program










**Illinois Finance Authority  
Audit Findings Material and Immaterial  
Update as of June 30, 2008**

Item Number	Description	Estimated Completion Date	Status Action Items/ (not final) Action Items Completed	Percentage Completed
Total Number of 8				
<b>FY 07 Material Findings</b>				
07-01	Missing Policy on Nondiscrimination	7/31/2008	2/1	25%
07-02	Failure to Report Revenue bond Information to the Illinois Office of the Comptroller		4/3	100%
07-03	Bad-Debts not Referred to the Illinois Office of the Comptroller	7/31/2008	4/3	100%
07-04	Noncompliance with the Illinois Procurement Code and SAMS Procedures	6/30/2008	2/2	100%
07-05	Lack of Segregation of duties in Managing Property and Equipment	4/30/2008	4/4	100%
07-06	No Established Rules to Administer Loan Programs	7/31/2008	2/1	25%
07-07	Authority is Not a Member of the Illinois Forestry Development Council	4/30/2008	2/2	100%
07-08	Failure to Administer the Exporter Award Program	7/31/2008	2/1	25%

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



**Illinois Finance Authority  
Audit Findings Material and Immaterial  
Update as of June 30, 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				
<b>FY 07 Immaterial Findings</b>				
IM07-01	Approval of Incomplete Travel and Marketing Reimbursement Forms	6/30/2008	5/3	
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	4/3	
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	

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100% = Completed