



**Illinois Finance Authority
Report of the Senior Staff
July 14, 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
Stuart Boldry, Chief Administrative Officer
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Financial Performance

General Fund:

The Illinois Finance Authority's General Fund unaudited financial position for the full year ending June 30, 2009, reports total assets of \$40,393,352, liabilities of \$1,313,024 and total equity of \$39,080,329. This compares favorably to the June 2008 balance sheet, with \$37,951,001 in total assets, liabilities at \$1,413,097 and total equity of \$36,537,904.

Full year gross revenue (other than loan repayments) for June was \$7,181,973, or \$1,186,480 (-14.2%) below the approved FY09 budget target. The unfavorable variance is primarily due to fee income and investment income declines. Total operating expenses were \$5,436,959, or \$1,027,543 (-15.9%) below the approved budget target of \$6,464,502. This is primarily due to a reduction of employee related expenses, professional and office services and the loan loss provision/bad debt.

Full year gross revenue of \$7,181,973, was \$3,105,378 (-30.2%) below same period last fiscal year 2008. This is primarily due to reductions from interest on loans (\$235,286), fee income (\$2,596,546) and investment income (\$202,141). Full year operating expenses were \$5,436,959, or \$844,521 (-13.4%) lower than same period last fiscal year 2008. This is due to a reduction in employee related expenses, professional and office services and reduced loan loss reserve.

Full year unaudited net income for June was \$2,542,423 or \$638,472 higher than budget and \$10,373 lower than same period last fiscal year.

Consolidated Results:

The Illinois Finance Authority's unaudited financial position for its fourteen (14) funds, as of June 30, 2009, reports consolidated total assets of \$171,224,266, liabilities of \$58,298,781 and total equity of \$112,925,485, with slight variances compared to the June

2008 balance sheet of \$174,368,079 in total assets, liabilities of \$61,550,584 and total equity of \$112,817,495.

Audit and Compliance

The fiscal year 2009 audit field work is underway.

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

Financial Services

Market Update

- *IFA continues to be Among Leading National Issuers for the First Half of 2009:*

According to the *Thomson Reuters' "AT 15 League Table"*, the Illinois Finance Authority was the #2 issuer nationally in number of issues with 20 and ranked as the #5 Issuer nationally in issuance volume with \$2.259 Billion for the six months ended 6/30/2009. [These national rankings exclude Short-Term Notes and Private Placements/Direct Purchase transactions.]

Among peers, IFA was the #2 Conduit Issuer nationally, both in dollar volume and number of issues for the six months ended 6/30/2009. (The #1 Conduit Issuer, both in number of issues (22) and issuance volume (\$3.162 billion) was The New York State Dormitory Authority, whose broad mandate also includes issuing Tax-Exempt Bonds for State Universities, in addition to issuing 501(c)(3) Revenue Bonds.)

- *June Tax-Exempt Volume:* Muni issuers sold \$41.38 billion in tax-exempt issues in June, according to *Thomson Reuters*, an 18.5% decline from June 2008. Investors are still buying fixed-rate bonds. The decline in bond volume in June stemmed entirely from a significant reduction in variable-rate issuance. Issuers borrowed \$37.19 billion at a fixed rate in June a 25.6% increase over last June. Fixed-rate issuance for the first half of the year is up 15.3% over the first half of 2008.
- *June Taxable Municipal Volume:* According to *The Bond Buyer*, as a result of the continued acceptance of Build America Bonds (or "BAB's", created under the "ARRA" Stimulus Bill) by investors, issuance of Taxable Municipal Bonds posted a new monthly volume record of \$8.08 billion in June.
- *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 paper 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 fell by 90.9% compared to June 2008.

Market Trends

- *Build America Bonds (“BAB’s”)*: Consistent with recent 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 Borrowers for non-conduit bond issues.)

According to The Bond Buyer, from April 15 through June 11, 79 issuers in 25 states and the District of Columbia had issues BAB’s and BAB’s comprised approximately 16% of all long-term new issues during this period

Interest Rates:

Tax-Exempt Rates:

- Variable Index (* SIFMA): 0.30% (7/6), down 12 basis points from last month
- Fixed GO Bond (** MMD-30yr-AA): 4.46% (7/6), up 33 basis points from last month.

Taxable Rates:

- Fed Reserve Benchmark Target Rate: 0.25% (7/6) unchanged from last month
- 90-day LIBOR: 0.548% (7/6), down 10 basis points from last month
- 2-yr Treasury: 1.13%, (7/6) up 25 basis points from last month
- 30-yr Treasury: 4.25% (7/6) 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.*

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

The Tax-Exempt SIFMA Variable Rate Index attained a new all-time historical low in June (i.e., 0.30% as of July 6th) consistent with continued strong investor demand for liquidity, as in last month’s report.

The 30-Year MMD (AA-rated) rate increased 33 basis points from last month, while the 30-Year Treasury remained flat. Part of the recent increase in MMD was attributable to a typical decrease in demand during the week prior to the Independence Day weekend.

Among Taxable rates, 90-day LIBOR, which is used to determine borrowing rates for many interbank loans, continued to decline in June, 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 5.5% in the

first calendar quarter of 2009 (“Q1 2009”), compared to a Q4 2008 decrease of 6.3%, according to final estimates released by the Bureau of Economic Analysis.

Jobs:

In economic data released July 3rd, non-farm payrolls fell 467,000 in June after a revised 322,000 drop in May. Economists surveyed by *Thomson Reuters* had predicted a loss of 363,000 jobs.

The national unemployment rate rose to 9.5% in June, its highest rate since August 1983, compared to 9.4% rate in May. (Economists polled by *Thomson Reuters* had projected a 9.6% unemployment rate.)

Initial jobless claims for the week ending June 27 fell 16,000 to 614,000 after a revised 640,000 the previous week. Economist polled by *Thomson Reuters* had predicted 615,000 initial claims.

Manufacturing:

The June ISM manufacturing survey rose 2.0 points to 44.8, continuing its rebound from the December low of 32.9; the inventory component of the report showed a further drop in inventory levels, as anticipated. The inventory index fell to 32.9 from 33.6. A figure below 50 means manufacturers are reducing stockpiles.

New factory orders for manufactured goods climbed 1.2% in May. The factory order increase to \$347.9 billion was larger than the 0.8% increase projected by *Thomson Reuters* and came after a revised 0.5% increase to \$343.8 billion in April.

Consumer Spending:

The U.S. Census Bureau announced June 11th that advance estimates of U.S. retail and food services sales for May, adjusted for seasonal variation, holiday and trading-day differences, but not for price changes, were \$340.0 billion, an increase of 0.5 percent from April 2009, but 9.6 percent below May 2008.

According to the Census Bureau estimates, total retail/food service sales for the March through May 2009 period were down 9.7% compared to the same period in 2008.

Other Market News:

- The Council of Development Finance Agencies released its National 2008 Annual Volume Cap Usage Report on Wednesday July 8th and among key findings:
 - 2008 Industrial Revenue Bond issuance volume was down 57.4% compared to 2007 (i.e., to \$1.3 billion in 2008 from \$3.0 billion in 2007).
 - IFA’s results were consistent with the national results, as IFA’s 2008 new issue volume dropped by 64.6% (i.e., from \$127.9 million in 2007 to \$45.3 million in 2008).

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 both conduit financings for larger borrowers and pooled financings for small municipalities.

IFA's Local Government team is also undertaking focused 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.

IFA's Local Government Team attended an annual legislative staff meeting in Springfield to discuss IFA's enhanced Local Government financing programs on Monday June 15th. This event served as a kick-off for our enhanced Local Government, Fire Truck and Ambulance marketing initiative that will be delivered to local legislative offices through out the State.

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.

Dormitory Sprinkler Revolving Loan Fund -- IFA staff finalized the administrative rules for the Sprinkler Revolving Loan Program and submitted them to the Index Division of the Secretary of State. This is in accordance with the administrative rules process for the Joint Committee on Administrative Rules (JCAR).

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 \$2,561,229 (as of April 30, 2009) IRBB Special Reserve Fund (established and capitalized for the benefit of the Illinois Rural Bond Bank, an IFA predecessor). This IFA interim financing would (i) enable creditworthy borrowers to proceed with their financings and (ii) enable each IFA Local Government Pool to aggregate sufficient volume to provide optimal economies of scale to participants.

SBA Micro Loan Program – IFA staff has completed the SBA Micro Loan application and intends to submit the application in July.

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 as a discussion item at the July Committee of the Whole Meeting.

Sales Activities

Funding Managers will be presenting ten financings totaling \$141,100,602 for consideration at the July 14, 2009 Board Meeting:

- Agriculture projects total \$500,602.
- Non-Healthcare Projects (Cultural and other 501(c)(3) projects) total \$17,700,000.
- Healthcare Projects total \$91,300,000
- Higher Education Projects total \$31,600,000

The ten financings presented for consideration today are expected to create 75 new jobs and 110 construction jobs.

IFA Industry Updates and Closing Reports

Agriculture

IFA Ag Staff marketing effort began with the Community Banker's Association annual Ag Lenders conference in Springfield. The IFA Ag Staff attended the two-day Community Banker's Association Annual Ag Lenders conference in Springfield and participated as part of three person panel with the Farm Service Agency and Farmer Mac to discuss various Ag lending and loan guarantee products. Approximately 65 bankers from across the State attended the Community Banker's Association conference.

During the month of June, the Ag staff received a variety of inquiries from producers and lenders interested in IFA programs. Overall, Ag Staff received 16 inquiries on products including Beginning Farmer Bonds, Participation Loan, and Guaranteed loans. From these inquiries, Ag Staff has received two applications for consideration.

For the July board meeting, IFA Ag Staff is presenting 3 Beginning Farmer Bonds for consideration.

There were no Local Government Closings in June, 2009

Business and Industry

IFA's B&I Team will continue 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.

IFA's B&I Team has also noticed an uptick in calls from manufacturers seeking federal stimulus funds.

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.

IFA's B&I Team will be attending and speaking on a panel discussion at the Illinois Development Council's Annual Conference on July 15-17 in Lisle, Illinois. Approximately 100 economic development practitioners from both the public (e.g., municipalities, counties, and DCEO) and private sectors are expected to attend.

There were no Business and Industry Closings in June, 2009

Healthcare

Improved conditions in the credit markets have led a rush to the fixed rate market for many of the Authority's Healthcare borrowers. This summer, IFA's Healthcare Team anticipates many longstanding borrowers including the University of Chicago Medical Center, Rush University Medical Center, Central DuPage, Riverside Health, OSF Health System and Alexian Brothers Health System will proceed with financings. The total dollar volume of these proposed bond issues exceeds \$1 billion.

On June 17th, Provena Health priced \$200 million of BBB+ rated bonds. The pricing included a 25-year maturity and the all-in cost to the borrower was 8.00%. This was a significant accomplishment to finance an outstanding term loan and solidifies the capital structure of this struggling health system.

The Healthcare Team selected Goldman Sachs and Loop Capital Markets to lead the Hospital Assessment Program ("HAP") Securitization Program. A kick-off meeting has been scheduled for the week of July 6th with the Department of Health and Human Services. Document preparation and review will begin shortly.

In June, the Healthcare Team attended the Illinois Hospital Association's 30th Annual Small and Rural Hospital Conference in Springfield. The Healthcare Team spoke with numerous providers regarding their future financing plans. The Healthcare Team had booth space and golfed with the new chairman of the small and rural hospital association. In total, the IFA expects 6-7 new financing opportunities in the next year due to relationships solidified at the conference.

IFA's Healthcare Team will continue to work with Borrowers who are restructuring their plans of finance to try to move on the improvements in the credit markets for non-rated investments grade projects, such as The Admiral and Timothy Place, which are financing new facilities. Many of these systems are partnering with stronger parent organizations that may potentially provide credit support to support long term financing.

Healthcare June, 2009 Closing(s)

Closing Date	Amount	Borrower
6/11/2009	\$260,000,000	Silver Cross Hospital
6/23/2009	\$200,000,000	Provena Health

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 501(c)(3) subsectors.

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

Closing

Date	Amount	Borrower
6/16/2009	\$15,200,000	Notre Dame College Prep

Local Government

Currently, there are approximately 15 local units of government (primarily rural downstate) interested in participating in the next pool IFA staff is working with these Borrowers to expedite completion of applications. IFA plans to aggregate interested local governments in this Interim Financing Program until sufficient volume has been generated to justify a Bond Issuance.

IFA's Local Government Team met with market participants to discuss the outlook and to discuss opportunities for financing capital projects undertaken 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 contact prior conduit borrowers in our portfolio.

There were no Local Government Closings in June, 2009

Energy

US Department of Energy's Loan Guarantee Program

In June, we informed the Board that IFA was selected as one of eight conduit issuers across the country to advise the US Department of Energy on criteria for selecting conduit issuers such as IFA to serve as Designated Lenders for the Section 1705 Loan Guarantee Program. As currently envisioned, DOE plans to work with Designated Lenders from both the public and private sectors who will be tasked with undertaking a substantial portion of the evaluation of projects proposed for DOE Loan Guarantees. DOE plans to issue its solicitation for Designated Lender later in July, seek responses within two months or so and make selections by or before the end of 2009.

Project Vetting

IFA is preparing to conduct several days of project reviews with designated members of the Illinois Energy Team over the next several weeks. The purpose of this review is to identify the most viable projects for IFA to consider for support via a issuance of State Moral Obligation and/or other financing assistance, and potentially, sponsorship for a DOE Loan Guarantee. IFA is preparing over the next few days to formally invite developers of about 15 projects that DCEO and IFA believe are most promising to submit written project summaries and participate in an in-person review.

There were no Energy Closings in June, 2009

Operations:

Risk Management: The primary insurance carrier for IFA's professional liability insurance was changed from AIG to ACE. With a new policy limit of \$10,000,000; a secondary policy with a \$5,000,000 limit is in place with AIG as the insurance carrier. The total insurance limit has been increase by \$5,000,000 over the previous year. The effective date of the new policies is July 1, 2009.

Performance Reviews: The performance review process for Fiscal Year 2009 was completed.

Employee Handbook: The IFA Employee Handbook was updated and distributed to all IFA staff. The effective date is June 30, 2009.

New Hire: Employment offer was extended to Kim Du'Prey . Kim has accepted and will begin work at the IFA on July 6, 2009, Andrew Belsky, a summer intern, was hired to work on energy-related financing projects with Steve Trout.

Treasury: The Investment Policy is completed and has been approved. Implementation of IFA's investment strategy will commence once investment partners have been identified as a result of completed solicitations.


Legal/Legislative: *An oral report will be provided at the July 14, 2009 Committee of the Whole Meeting.*

**Illinois Finance Authority
 FY08 Audit Findings: Material and Immaterial
 Update as of June 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.	
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.	
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.	
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.	
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.	
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.	
08-07	No Formal Record Retention Plan	Noncompliance and Significant Deficiency	Applications on file with State Archives. Currently being reviewed by State Archives Field Representative and State Archive Director. Records Retention Schedule pending finalization by State Archives.	

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