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Governor, Rod R. Blagojevich
Authorized Officers, Karen Walker and Christopher Meister



Illinois Finance Authority
Authorized Officers Report
August 12, 2008

To: IFA Board of Directors and Office of the Governor

From: Karen L. Walker, Authorized Officer and
Christopher B. Meister, Authorized Officer

Financial Performance

Consolidated Results: Illinois Finance Authority's financial position remains strong with total assets of \$174,448,052 consisting of equity of \$112,808,512 and liabilities of \$61,639,540. This compares favorably to the July 2007 balance sheet of \$153,814,580 in total assets comprising of \$95,453,425 in equity and \$58,361,154 in liabilities and bonds payable.

Gross Income YTD for July ended at \$715,044 or \$346,684 below plan. The unfavorable plan performance is primarily due to fee income and investment income. Total operating expenses ended at \$724,027 or \$99,108 below plan. This is primarily due to a reduction in professional services and employee related expenses and the loan loss provision/bad debt.

Audit and Compliance

As of July 31, 2008, the Authority had achieved 100% completion of two more audit findings; (1) Allowance of old accounts receivables not performed and, (2) Bad debt not referred to the Illinois Office of the Comptroller.

Attached is the status of the current audit findings for your review.

Sales Activities

Funding Managers will be presenting 20 projects totaling \$705,372,900 for approval in August, 2008. Agriculture projects total \$1,672,900; Business and Industry total \$84,600,000; Communities and Culture projects total \$37,700,000; Healthcare projects total \$560,000,000; and Higher Education projects total \$705,972,900. These projects are expected to create 511 new jobs and 2,905 construction jobs.

Agriculture

During the month of July 2008, the Agriculture Team continued their efforts to diversify projects in the areas of agriculture and agri-business by continuing calling efforts to lender and potential clients for bond issuances. Additionally, members of the Ag Team attended the Champaign County Agri-business Council's monthly meeting held in Champaign, Illinois.

Agriculture Closings, July 2008		
Closing Date	Issuance\$\$	Borrower
07/24/2008	\$250,000	Jayson Entwistle

Healthcare

During the month of July, 2008 the Healthcare Team closed three conversions (Northwestern Memorial Hospital, Evanston Northwestern Healthcare and Centegra Health System) that were prompted by the auction rate market crisis, and started working on a marketing letter to promote the 1985 Revolving Fund Pooled Financing Program. Currently, there is approximately \$50 million in funds available.

Additionally, the Healthcare Team worked to collect past due invoices for annual fees associated with bonds issued by the Illinois Health Facilities Planning Board. So far, over \$50,000 in past due fees have been collected, and Borrower's with remaining outstanding fees are expected to pay shortly. Finally, the Healthcare Team researched safety-net hospitals with the goal of determining what kind of programs and services the IFA can provide to these designated hospitals that fit within the mission of the IFA.

There were no Healthcare closings in July, 2008

Higher Education

During the month of July, 2008 the Higher Education Team had taken on several initiatives that are anticipated to result in a new slate of IFA program offerings for private and community colleges in Illinois. Plans are being formulated for a

short-term borrowing program and a long-term pooled bond program for independent colleges and universities in Illinois. Additionally, an equipment loan program for community colleges is in the preliminary planning stages.

Members of the Higher Education Team attended and participated in the Lt. Governor's Third Annual Sustainable University Symposium which was held at the University of Illinois Chicago campus. Symposium speakers included environmental experts from businesses as well as college and university professors. The Financial Administrator from the Los Angeles Community College District, which is the second largest community college district in the United States, spoke on various green projects including retrofitting existing buildings, parking lots, and new construction and how the community college district financed these projects. The topics included financing programs for green renovations and for new facilities, and examples of colleges and universities that have used IFA conduit financing to fund such projects. Townsend Albright served as the co-panelist for one of the break-out sessions. The session was well attended with over 70 participants.

As a result of the session, funding managers were invited to discuss financing programs with Campus Acquisitions, a consulting firm specializing in new campus facilities and renovation projects. A current project of the group is the University of Illinois' YMCA campus in Champaign, Illinois. Staff will be meeting with representatives from the group in early August, 2008 to discuss the YMCA and future project financings.

There were no Higher Education closings in July, 2008

Communities and Culture

Several activities and projects are evolving in this market segment in down-state Illinois. A workshop was coordinated and conducted by IFA, with Edward Jones as a sponsor, on July 29 in Springfield for Public School Superintendents. The focus of the workshop, attended by 43 participants, was the 1% Sales Tax Legislation ("County School Facility Occupation Tax Law" Public Act 095-0675) that passed last fall which enables school districts to obtain sales tax revenue on

a countywide basis by meeting specified criteria. The revenue must be spent on school facilities. The Springfield YMCA is planning a new building on the west side of the city in the next few months and has discussed financing options with IFA for this project. East Richland Community Unit School District #1 in Olney is working with the IFA to finance a project that would involve renovating the middle school and refinancing existing debt. Several faith-based contacts have been made recently, including the Illinois United Ministries in Higher Education, West Side Christian School and Calvary Academy. Sacred Heart Griffin is planning a renovation project later in 2008 or early 2009 for their high school and has discussed financing options with the IFA for this effort. Additionally, Springfield IFA staff are partnering with staff of the Donor's Forum to sponsor workshops for not-for-profit organizations South of I-80.

Members of the Community & Culture Team participated in a meeting hosted by the Department of Commerce and Economic Opportunity for consultants who represent Japanese firms and other Japanese entities wishing to locate a subsidiary, new business or foundation in Illinois. Lastly, staff members attended a reception hosted by the law firm of Chapman & Cutler LLP. At the reception, staff had the opportunity to discuss ratings concepts and criteria for higher education and non-profit debt financings with representatives from Standard and Poor's Investors Service.

Community & Culture Closings, July 2008

Closing Date	Issuance\$\$	Borrower
07/01/08	\$19,360,000	Jewish Federation RAN 2008-2009A
07/24/08	\$5,082,400	Achievement Unlimited, Inc.
07/31/08	\$30,000,000	Chicago Horticultural Society [Chicago Botanic Garden]

Business & Industry

IFA staff from Peoria and Springfield attended the annual meeting of the Illinois Development Council at the Hilton Hotel in Springfield, Illinois on July 17. There were 125 participants from various economic development groups throughout the state who attended, and staff presented IFA programs during a round table session.

Consistent with seasonal increases in Industrial Revenue Bond activity, closing activity for IRB's is peaking as typical in late Summer. IFA has three IRB applications on the August 12, 2008 board meeting agenda for a final bond resolution. The August board meeting is likely to be the peak month for new final bond resolution requests for IRB's this year.

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

Both IRB and 501(c)(3) borrowers will have additional options for financing expansion projects with Tax-Exempt Bonds thanks to approval of a provision in the federal Housing Relief Bill signed by the President on Wednesday July 30th. This provision amended the Internal Revenue Code to enable the 12 regional Federal Home Loan Banks to lend their respective credit ratings to FHLB Member Banks by providing their Direct Pay Letter of Credit to further credit enhance each Member Bank's Letter of Credit. The Federal Home Loan Banks each have their own respective ratings -- all are rated AA+ or AAA (LT) and A-1+ (ST). All project risk will be borne by the Member Bank, not the FHLB's. Additionally, the FHLB's will be fully collateralized as required by their regulator. The FHLB's are actually member-owned cooperatives chartered by Congress with the implied backing of the US Government. Unlike FNMA and FHLMC, however, the FHLB's members both hold stock and are required to post collateral in order to obtain advances (i.e., loans or a Letter of Credit) from the FHLB.

The prospective impact on Municipal Bond Market are (1) The FHLB's LOC could benefit any Member Bank whose Long Term or Short Term Rating is less than that of the FHLB (i.e., less than AA+ or AAA (Long Term) or A-1+ (Short Term)); (2) the 12 FHLB's collectively have 8,100 members nationally -- community banks, regional banks, super-regional banks, and national (Money Center) banks are all members of the FHLB system. In certain cases, the FHLB Letter of Credit may help certain borrowers (working through their Member Banks) to obtain a lower interest rate as a result of the FHLB having a higher rating than the Member Bank; (3) FHLB Member Banks will now be able to offer their borrowers direct access to a rated Letter of Credit by using their membership in the appropriate FHLB to obtain an overlaying, rated Letter of Credit. As a

result, FHLB Member Banks will more readily be able to offer access to 7-day variable rate demand bonds; (4) Prospective borrowers (through local FHLB Member Banks) should be able to choose from multiple tax-exempt bond structures as a result of the FHLB LOC Provision.

Consequently, in addition to receiving Direct Purchase proposals (i.e., fixed for 3-5 years with reset provisions extending to final maturity), Borrowers should also receive Variable Rate proposals (i.e., 7-day variable rate demand bonds).

More options for both lenders and Borrowers means that it is more likely that Borrowers will have access to a Tax-Exempt Bond financing that fits their needs, and the FHLB LOC Provision will enable local banks, particularly in rural communities, to more easily jointly participate in credit enhancing both essential purpose and 501(c)(3) projects that benefit the local area. The FHLB LOC can now provide the necessary "wrap" LOC on behalf of the local FHLB Member Banks financing the local project. This will help local banks finance local projects with tax-exempt bonds for Local Government and 501(c)(3)'s. The FHLB LOC Provision will provide banks that would normally consider structuring a Direct Purchase Bond transaction with a second option to finance an IRB, 501(c)(3), or local government project. The FHLB LOC Provision will particularly help non-rated Member Banks assist customers interested in pursuing a 7-day Variable Rate Demand Bond.

The FHLB LOC Provision is not a panacea solution that will materially expand access to tax-exempt bond financing. Each Member Bank will be responsible for making the credit decision, just as on direct purchase transactions. The underlying credit profile of IFA customers will not change materially.

The FHLB LOC Provision will not increase IRB or 501(c)(3) Bond Issuance Volume materially. Instead, to the extent the FHLB LOC Provision is used, it will result in a substitution of structure. Consequently, the market share of LOC-secured 7-day floaters should increase compared to Bank Direct Purchase Transactions for financings in the \$4 million to \$15 million range. Most IRB and 501(c)(3) financings under \$4 million will continue to be purchased directly by Banks and held directly as an investment.

The FHLB's will not be undertaking any project-related risk when they advance LOC's on behalf of Member Banks. The FHLB's will merely provide access to their credit rating to their Member Banks -- as a result, the Member Banks will be in a better position to provide LOC's to support local projects.

There were no Business & Industry Closings in July, 2008

Energy

Prairie Power is seeking the IFA's final approval for the issuance of \$51,200,000 in Solid Waste Disposal Facilities Revenue Bonds at the August 12, 2008 board meeting. Prairie Power expects to close on this issue in late September, 2008. IFA staff recently met with a developer evaluating Illinois' as a site for a coal gasification to synthetic natural gas plant. The developer is considering the IFA to issue the bonds as part of an incentive package to locate in Illinois. The developer hopes to select the site within the next couple of months.

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

Local Government

During the month of July, the 2008A Local Government Pool closed. Six communities participated in the \$1.8 million pool. In addition, members of the Local Government Team reached out to other market sectors (in the business and not-for-profit communities) to enhance funding efforts. As a result, Achievement Unlimited, a CILA, closed in July. Going forward, staff looks forward to exploring local government pools without the moral obligation enhancement as well as continuing efforts in the not-for-profit and business and industry sectors. Staff has received inquiries from approximately twelve units of local government (for stand-alone and pooled financing) during the month of July. In addition, staff participated in the Illinois Development Counsel's round table discussion for financing opportunities for business and local governments in Illinois. Members of the Local Government Team also hosted and participated in an informational session encompassing the County School Facility Occupation Tax Law.

Local Government Closings, July 2008		
Closing Date	Issuance\$\$	Borrower
07/22/08	1,800,000	Bond Bank Revenue Bonds, Series 2008A

Financial Services

During the month of July, the Financial Services area continued to focus on year-end closing activities, Strategic Planning, Governor's Office Initiatives and municipal market activity.

Year-End Closing Activities: The Director of Financial Services visited with each of the three regional offices and completed all funding manager and financial service administrator performance reviews. FY09 revenue targets for each of the funding managers and market sectors are in process of being finalized.

Strategic Planning: The Director of Financial Services is currently reviewing draft strategic plans for each of the market sectors, prepared by the Marketing and Business Development Coordinator. New program concepts include a (1) Mini Bond program targeting small to mid-sized borrowers with projects in the \$1MM to \$3MM range; (2) a Local Government Pooled Bond program that does not utilize moral obligation; (3) a short-term direct bank placement cash flow borrowing for local governments and school districts; (4) a direct placement interim bond with a 10-year final maturity; and (5) a safety net hospital financing program. The Director of Financial Services is coordinating development efforts with staff.

Governor's Office Initiatives: The Director of Financial Services and General Counsel followed up on a number of initiatives, including (1) an IDOT/Amtrak proposal to improve rail service, (2) an IDOT proposal to improve MBE participation on contracts; (3) a Department of Veteran's Affairs initiative to offer home mortgage assistance to veterans and active duty members. In connection with the DVA initiative, the IFA will consider a transfer of its remaining single family housing volume cap to support this initiative. The Director of Financial Services and General Counsel met with the Governor's Office at their request to discuss state-sponsored programs, including moral obligation, state guarantees and volume cap. Participation loans were also discussed.

Market Activity: The market continued to show increased volatility and uncertainty due to the ongoing credit crunch and insurance ratings impacts. On July 21, 2008, Moody's placed Assured Guaranty and FSA (Aaa rated) on watch for possible downgrades. As a result, some variable rate demand obligations are pricing significantly higher than the market index. Federal and state regulatory agencies, including the SEC, continued to inquire and investigate a number of broker-dealer firms' involvement in the auction rate securities market. The new Housing Bill offers (1) potential for relief in the credit market with the new FHLB LOC and (2) potential for further review of IFA's volume cap allocation. Finally,

the IFA was ranked the 3rd largest issuer of municipal bonds during the first half of calendar year 2008, with \$3.18 billion in bonds.

Human Resources/Operations

Human Resources:

The Authority's Chief Operations Officer completed, and submitted 4th Quarter EEO/AA Report to the Illinois Department of Human Services, (2) Completed and submitted the EEO/AA Plan for Fiscal Year 2009 to the Illinois Department of Human Services, (3) Produced and distributed the Employee Turnover Report, (4) Updated all of IFA's required employer postings, (5) Hired two summer interns through the Illinois Department of Employment Security's program for individuals with disabilities.

Benefits:

The Chief Operations Officer hosted and annual trustee meeting for the IFA's Individual Account Plan [401(a)], (2) Reviewed the performance of investment alternatives available to plan participants, (3) Approved adding two new investment alternatives to the menu of investment selections available to participants, (4) Completed and adopted an Investment Policy, (5) Hosted an all employee meeting to update IFA staff on the investment performance of the plan, new investment alternatives, and to review the current climate of the capital markets.

Venture Capital:

The Chief Operations Officer attended board meetings for ZuChem (Glycochemicals), Harmonic Vision (Educational Software Development and Publishing), and FireFly(Lead Acid Battery Technology); Prepared and distributed Board Meeting notes to the Venture Capital Committee. Additionally, staff liaisons and members of the Venture Capital Committee met to identify next steps in evaluating the Venture Capital Fund.

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Information Technology:

Updates continued on the IFA's IT Disaster Recovery Plan.

Compliance

The Chief Operations Officer completed and submitted the TA2 Report.

Marketing/Public Relations

The Director of Marketing and Public Relations continues to work on strategic planning, sector overviews and key initiatives have been drafted for healthcare, business & industry, community & culture, and higher education sectors.

End-of-year/new fiscal year updates, as well as revisions to accommodate Kym Hubbard's resignation, were made to our stationery items, literature, website and various press activities. The management information/data base development project continues to make excellent progress. A beta version of our intranet project was introduced for employee comment and content development.

FOIA requests in July:

- James Edwards, Medill – bond measures for projects in south suburban Cook county
- T. Novak, Sun-Times – Univ. of Chicago and Univ. of Chicago Medical Center project documents