



Illinois Finance Authority  
Authorized Officers Report  
October 14, 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 \$176,050,953 consisting of equity of \$113,742,306 and liabilities of \$62,308,646. This compares favorably to the September 2007 balance sheet of \$159,520,103 in total assets comprising of \$94,655,209 in equity and \$64,864,893 in liabilities and bonds payable.

Gross Income YTD for September ended at \$2,896,523 or \$275,174 below plan. The unfavorable plan performance is primarily due to fee income and investment income. Total operating expenses ended at \$1,970,617 or \$516,529 below plan. This is primarily due to a reduction in professional services and employee related expenses and the loan loss provision/bad debt.

### **Financial Services**

As widely reported, the past several weeks have been plagued with unprecedented market turmoil. Management and staff assessed the impact on IFA operations and borrowers and determined IFA exposure was manageable and borrowers were in process of assessing and managing their risks. In addition, the Financial Services area made progress with the ongoing strategic planning effort and new business development.

## Market Recap and Impact

September 15, 2008:

- Lehman Brothers declared bankruptcy; Bank of America announced purchase of Merrill Lynch and AIG was downgraded. The stock market suffers its biggest loss since 9/11/01. Treasury yields drop to all time low.

Post September 15, 2008:

- Management and staff reviewed borrowers' exposure to Lehman Brothers, Merrill Lynch and AIG and offered assistance as needed with any restructuring plans or other changes that may require IFA approval.
- Highlights of the history making news include: European Financial Markets negatively impacted Barclays announced offer to purchase Lehman Brother's investment banking and capital markets businesses; JP Morgan Chase announced offer to purchase Washington Mutual; Citigroup announced offer to purchase Wachovia's commercial and investment banking operations; Wells Fargo announced offer to purchase Wachovia operations; investor flight to quality; credit markets freeze; Fed announced plan to secure money market funds and purchase mortgage-backed securities; Fed approved \$700B Rescue Plan; world financial markets negatively impacted; Fed announced plan to secure commercial paper market; Depfa downgraded; Dexia downgraded.
- The volatile market was characterized by dramatic fluctuations in interest rates and stock prices:
  - The municipal variable rate index (SIFMA) rose from 1.79% on 9/10 to 7.96% on 9/24; reset at 5.74% on 10/1.
  - The municipal fixed rate index (RBI) rose from 5.09% on 9/11 to 5.69% on 10/2
  - 90-day LIBOR (taxable variable rate index) rose to 5.25%; currently 4.32%
  - The DJIA dropped to its 5-yr low; below 9600
- IFA Impact:
  - New issue municipal volume down 40% nationwide in September
  - Six deals worth \$282MM have been delayed due to market conditions
  - Pending fixed rate transactions on hold due to lack of demand
  - Pending variable rate transactions require higher maximum rate set; outstanding floaters re-setting at higher rates or being put back to LOC providers.

## Sales, Marketing & Credit

Financial Services activities included:

- GreatPoint Energy meeting - joined Chairman Brandt, Chris Meister, John Filan, Steve Frenkel, and representatives from DCEO and the Coal in a meeting with the Great Point Energy team to present the \$700MM coal gasification project to the Governor's Office for consideration of moral obligation and/or volume cap. Follow up meetings and calls.
- Chicago Mission (sports facility) prospect – upon further due diligence, staff determined the project does not meet the IFA's mission. The project is withdrawn.
- Volume Cap – in the process of revising credit standards for IRB's to ensure Governor's Office concerns are addressed.
- Strategic Planning – continued progress on market sector plans; met with Diane Hamburger and Stacy Flota to discuss the overall IFA plan.
- Special Healthcare Committee Meeting – participated in the meeting to discuss safety net hospitals.
- IDOT/Amtrak project – met with IDOT officials to discuss next steps.
- Governor's Office-IDOT proposed project. Possible loan program to assist disadvantaged businesses in becoming IDOT vendors.
- Governor's Office "Food Desert" proposed program. Possible loan program to help remedy "Food Deserts" in urban and rural areas.

## Audit and Compliance

The FY 2008 audit continues to be on schedule. The Auditors will be meeting with the Interim Treasurer during the week of October 13 to discuss any outstanding items and preliminary audit findings. The audit is scheduled to be completed by December 31, 2008. Attached is the status of the current audit findings for your review.

The IFA is scheduled to come before the Legislative Audit Commission ("LAC") on December 11, 2008 at 10:00 a.m. The LAC is responsible for overseeing the State Audit Program, reviewing the stewardship of public funds, and monitoring the correction of weaknesses disclosed by the audits of state agencies. The Legislative Audit Commission membership consists of 12 legislators appointed

by the General Assembly leadership and is equally apportioned between the two houses and political parties. LAC members include: Senators Chris Lauzen (co-chair), Deanna Demuzio, Iris Martinez, Kwame Raoul, Dale Righter and Dale Risinger; and Representatives Frank Mautino (co-chair), Rich Brauer, Marlow Colvin, Julie Hamos, Sidney Mathias, and Sandra Pihos.

### **Sales Activities**

Funding Managers will be presenting 21 projects totaling \$1,499,432,325.67 for approval in October, 2008. Agriculture projects total \$1,192,325.67; Business and Industry total \$3,700,000; Communities and Culture projects total \$184,540,000; Healthcare projects total \$810,000,000; and Higher Education projects total \$500,000,000. These projects are expected to create 537 new jobs and 1,530 construction jobs.

### **Agriculture**

The Ag Team continues to market the various Ag programs to lenders across the State. Overall, funding managers met with 21 lenders. As the busy season in Agriculture approaches, inquiries from lenders have also increased. Funding managers continue to receive inquiries for beginning farmer bonds and participation loans, but have also seen a recent increase in potential projects for agricultural guarantees. Staff anticipates an increase in these projects in the coming months.

During the month of September, Funding Manager Eric Reed represented the IFA at a "Green Energy" conference held in Mt. Vernon. The conference was sponsored by the Illinois Electric Council. Approximately 20 people were in attendance.

<b>Agriculture Closing, September 2008</b>		
Closing Date	Issuance	Borrower
09/03/2008	\$90,200.00	Milner, Allan & Kathleen
09/12/2008	\$161,850.00	Steidinger, Clint
09/12/2008	\$161,850.00	Steidinger, Colin
09/19/2008	\$100,000.00	Webster, Nathan
09/19/2008	\$190,000.00	Wood, Will
09/19/2008	\$250,000.00	Halloran, Jared
09/19/2008	\$119,000.00	Worsfold, Jason & Joline

<b>Ag Guarantees, September 2008</b>		
Closing Date	Issuance	Borrower
9/2/2008	\$125,000	Lemke, Everett & Diana
9/2/2008	\$500,000	Lemke, Everett & Diana
9/2/2008	\$650,250	Roanoke Milling Co./amended In amt 5/13/08

### **Healthcare**

The month of September was very busy for the Healthcare Team. Immediately following the September Board Meeting, the Healthcare Committee held a special meeting to discuss Illinois Safety-Net Hospitals. Barry Maram, Director of Health and Family Services, spoke about State and Federal programs that

positively impact safety-net hospitals. Representatives from underwriting firms, Raymond James and Cain Brothers, presented at this meeting. Raymond James was the underwriter for Norwegian American Hospital, a safety-net hospital located in Chicago. The approximately \$24 million transaction funded capital and safety improvements at Norwegian American. The representatives from Raymond James highlighted the challenges associated with financing a safety-net hospital. Cain Brothers successfully underwrote a \$16 million refunding for Holy Cross Hospital, a safety-net hospital also located in Chicago. The representative from Cain Brothers discussed the challenges of getting this safety-net hospital to market successfully. Overall, this meeting created open dialogue on the opportunities and challenges of bringing a safety-net hospital to the capital markets.

The Healthcare Funding Managers were called upon this month almost daily to deal with various crises in the markets and how they were affecting our Borrowers. The bankruptcy of Lehman Brothers, the collapse of AIG and the tightening of liquidity, which resulted in both the variable rate and fixed rate municipal markets shutting down. The Healthcare Funding Managers continued to work with borrowers to prepare their transactions to price and close as soon as the markets open.

Also during the month of September, the Healthcare Funding Managers attended the IHA Payment Symposium in Oak Brook. The Funding Managers had the opportunity to speak with several Hospital CFO's about their upcoming capital plans.

Lastly, Pam Lenane and Chris Meister attended the National Association of Bond Lawyers Conference annual conference in Chicago. Panel discussions were on the subjects of "Default, Workouts, and Bankruptcy Issues in Public Finance", "Health Care Facilities - Non-tax matters", and "Post-Issuance Tax Compliance" and others.

Healthcare Closings, September 2008		
Closing Date	Issuance	Borrower
09/10/2008	\$16,000,000	Commercial Paper Revenue Notes OSF Healthcare
09/19/2008	\$154,765,000	Northwest Community Hospital, Series 2008A

## **Higher Education**

Funding Managers continue discussions with the Federation of Illinois Independent Colleges and Universities and NatCity to implement a pooled bond program for private colleges and universities. A program in Pennsylvania has been successfully operating for several years and it is the goal of the Federation to consider replicating this program in Illinois as a membership service.

Funding Managers talked with representatives from McCormac College about a proposed \$6.5 million new money financing for administration and classroom facilities at the College's Elmhurst campus. The College wants to begin construction no later than March, 2009, and anticipate having the construction completed by the Fall, 2009 semester. The North Central College \$7.3 million bond issue closing was postponed to a tentative October 9, 2008 date due to turmoil in the financial markets.

Funding Managers are preparing for the strategic planning meeting scheduled for October 22, 2008. Concepts for financial programs include (1) expanding the Commercial Paper Not-for-profit Bond takeout for financing renovations and long term projects as was used for DePaul and Loyola Universities to financing said projects this year. (2) Direct placement with banks for smaller financings for HVAC and mandated sprinkler systems. IFA staff anticipates private colleges and universities will move ahead with their respective project financings after the financial markets return to normalcy.

*There were no Higher Education Closings in September, 2008*

## **Communities and Culture**

Funding Managers hosted an exhibit table at "Green Town", a one-day conference hosted by the Aurora, Illinois Economic Development Corporation. The Conference drew approximately 300-500 representatives from local governments, not-for-profits, and other community groups statewide, to learn about green options for future city planning.

Units of local government are inquiring about financing options as the result of a statewide mailing that was completed in mid-September. Three community-based organizations in Springfield have expressed an interest in working with IFA on future bond issues. On-going discussions and meetings are being held to secure these projects for financing. Funding Managers are also discussing workshop possibilities for the Spring of 2009 with the Department of Commerce and Economic Opportunity (DCEO) and the Illinois Donors Forum.

During the week of September 15, 2008 the Internal Revenue Service released guidance on use of the new Federal Home Loan Bank Letter of Credit for non-housing projects. The IRS has determined that Refundings will also qualify provided they meet the test of comprising a "new issuance" under the Code. This guidance should help accelerate use/adoption of the Federal Home Loan Bank Letter of Credit.

Sharnell Curtis-Martin met with a potential 501(c)(3) candidate, Luther High School South and Seaway National Bank regarding a private placement 501(c)(3) bond. The project will refinance an existing mortgage and renovate the existing facility. The IFA anticipates receiving an application in Fall 2008. Sharnell also met with another 501(c)(3) candidate, Montessori Elementary of Southwest Cook County's Board of Directors and MB Financial regarding a private placement 501(c)(3) bond. The transaction will be presented to the IFA Board at the October meeting, with an anticipated closing in Fall 2008.

Ms. Martin also made a presentation at MB Financials' Community Development Lenders Breakfast. Approximately 15 small banks participated and had questions about IFA programs and services. Ms. Martin also met with Health Gate Consortium of Illinois, a 501(c)(3) social service agency interested in purchasing facilities that they presently lease. The Borrower is attempting to locate a bank partner that will either purchase the bonds or provide a Letter of Credit.

At a panel discussion on the new Federal Home Loan Bank Letter of Credit for IRB's, 501(c)(3) and Local Government Projects at the National Association of Health and Higher Educational Facilities Finance Authorities, Rich Frampton provided insight on the applicability of the new Federal Home Loan Bank Letter of Credit 501(c)(3) projects. The audience was comprised of 165 bond market professionals, including issuers, underwriters, financial advisors, and bond counsel.

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### Community & Culture Closings, September 2008

Closing Date	Issuance	Borrower
9/10/2008	\$6,500,000	New Hope Center
9/18/2008	\$9,440,000	Prairie Crossing Charter School

### **Business & Industry**

IFA staff members have continued to work on an *ad hoc* planning group for upcoming Business Financing Outreach Expos to be held in the South Suburbs, Belleville, and Mount Vernon that are being organized by the U.S. Department of Housing and Urban Development and will be held in late 2008 and early 2009. So far, these HUD Business Expos have attracted an average of 200 participants.

There were no Business & Industry Closings in September, 2008

### **Energy**

Blackhawk Biofuels retrofit of a biodiesel plant in Danville is proceeding on schedule and on budget. This project is supported by a \$15,000,000 Agri-Industry Guarantee. IFA's Board Chairman is scheduled to represent the IFA at a ribbon-cutting ceremony in Danville, Illinois on November 19.

The IFA is currently in discussion with developers seeking to build plants using gasification to produce natural gas from coal and a second to produce power from municipal waste. The Board has preliminarily approved requests to build gasification plants to produce power (Christian County Generation) and natural gas (Power Holdings).

IFA staff also met with representatives of Great Point, a proposed coal gasification project in Tuscola, Illinois. Details of the meeting are noted in the Financial Services Report.

Gasification uses heat and pressure in a low oxygen environment to transform coal and other lower-cost carbon materials into electricity, natural gas, transportation fuel and other chemicals. It promises to reduce dependence on imported oil and natural gas, competitive production costs and reduced emissions than traditional technologies. IFA staff attended a Gasification Technologies Conference in Washington, DC for an update on advances in technology and regulation, including Carbon Capture and Storage.

There were no Energy Closings in September, 2008

## **Local Government**

Kristi Conrad and Eric Reed served as faculty members for two, one-day professional training workshops organized by the University of Illinois at Urbana-Champaign that were held on September 10, 2008 in Springfield and Thursday September 11, 2008 in Mount Vernon. IFA's session focused on a general overview of IFA's programs, 501(c)(3) and local government financing programs and, financing energy efficiency/conservation and other "green" projects in connection with larger facilities financing projects. Approximately 75 professionals from utilities, not-for-profits, professional service firms (e.g., civil engineers, architects) attended these seminars in Springfield and Mount Vernon.

During September, IFA staff has experienced the results of the August direct mailing targeting local governments and school districts. At least fifteen local governments have inquired about IFA programs related to municipal financing.

In addition, staff met with the State Fire Marshal's Office to begin marketing the Fire Truck and Ambulance Revolving Loan Programs. The Fire Truck Revolving Loan Fund and the Ambulance Revolving Loan Fund were provided an additional \$9 million and \$4 million at the end of fiscal year 2008. It is anticipated that the IFA will be able to help over 150 Illinois rural communities receive 0% financing for needed fire trucks and ambulances during fiscal 2009. Downstate staff continues efforts to reach out to other market sectors in the business and not-for-profit communities resulted in one participation loan that will be presented at the October Board meeting. The project is anticipated to close this Fall.

Lastly, the Local Government Team participated in two conferences and spoke at the Illinois Municipal League Conference, and also mailed out over 4,000 letters to units of local government. Specifically working with more than 15 borrowers needing funds for various projects located throughout the State.

There were no Local Government Closings in September, 2008

## **Human Resources/Operations**

**Audit:** The Chief Operating Officer provided materials requested by the auditors for the FY2008 audit presently underway.

**Human Resources:** The IFA Employee Handbook was updated and distributed to all staff. Key policies regarding computer and Internet usage were revised. Other policies were revised/updated for clarification purposes and to make minor corrections. The employee benefits summary has been updated and meetings have taken place with the Illinois Department of Human Rights. Reviewed and received sign-offs for the third and fourth quarter EEO/AA reports previously submitted on time.

**Venture Capital:** The Chief Operating Officer attended board meetings for Smart Signal, Firefly, Harmonic Vision, and ZuChem. Meeting notes were prepared and distributed to involved IFA staff and members of the Venture Capital Board Committee. Stuart Boldry also prepared and submitted a recommendation for engaging a third party to review and update IFA's portfolio companies in the IFA Venture Fund.

**Facilities:** The Chief Operating Officer completed all required lease disclosures for IFA leased office space and submitted to them CMS and completed a required response to an audit finding.

**Risk Management:** The Chief Operating Officer has reviewed all of the IFA's insurance policies brokered through Arthur J. Gallagher and obtained through IFA's relationship with ADP TotalSource that are underwritten by an AIG insurance company. Held meetings with Gallagher and ADP. Received assurance that IFA's policies are presently in good standing. Received assurances that back up plans for replacing policies and/or making good on policy claims are in place. Monitoring the situation on a regular basis.

**Contracts/Procurement:** the Chief Operating Officer posted on the Illinois Procurement Bulletin six small purchase contracts, and completed a required response to an audit finding. Also, completed two contract amendments with D.A. Davidson and Scott Alice.

**Information Management:** Work continues on the Information Management Project, venture capital assignments, records retention, Green Government initiative, risk management projects, and financial program research.

### **Marketing/Public Relations**

Press in September included articles about IFA's approval of \$1.7 billion in healthcare financings, projects for University of Chicago Medical Center, the Prairie Crossing Charter School, NIU's Proton Therapy Research Center, Norwegian American Healthcare, and the 2004 CCRC project The Clare. We will participate in a November groundbreaking event for the Blackhawk/REG biodiesel plant. Work continues on the intra-net and data base projects as well as updates to the website and newsletter issues.

### **FOIA Activity in September**

- Prequin – venture capital investment records
- Six requests were completed:
- K. Boyd -- documents regarding: Buena Vista Apartments Project-2004; Hispanic Housing Development Corp Project-2004; Mercy Alliance, Inc. Obligated Group-2005; Commonwealth Edison-2005; Oak Park Residence Corp-2001; HODA, LLC-2000

- C. Canary and D. Morrison, IL Campaign for Political Reform -- contracts, invoices, payment records for IFA lobbyists- FY2008
- D. Lawler, Bell, Boyd & Lloyd -- Northern IL Proton Therapy Research Center application
- T. Scrivner, Michael Best & Friedrich -- documentation of prevailing wage for 501(c)(3) projects in last 5 years
- R. Eyres (Brotherhood of Carpenter's Union) -- TEFRA hearing documents for Christian Homes project
- L. Fay -- Prairie Crossing Charter School documents

### **Legal/Legislative**

On September 23, 2008, SB790 passed both houses of the General Assembly and was enacted into law as Public Act No. 95-1000 on October 7, 2008. Public Act No. 95-1000 will sweep a total of \$3 million of the \$19.8 million in available State Agricultural Loan Guarantee funds used by the IFA to support its agricultural guarantee programs. \$2M will be swept from the Agricultural Loan Guarantee Fund (0994) and \$1M will be swept from the Farmer & Agri-Business Loan Guarantee Fund (0205)

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

Item Number	Description	Estimated Completion Date	Status Action Items/ (not final)	Percentage Completed	
				Action Items Completed	10 20 30 40 50 60 70 80 90 100
<b>Total Number of 8</b>					
<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	10/31/2008	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	10/31/2008	2/1		50%

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

**Illinois Finance Authority  
 Audit Findings Material and Immaterial  
 Update as of September 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	5/4	56%
IM07-02	Inadequate Processing and Untimely Deposit of Cash Receipts and Refunds	4/30/2008	4/4	100%
IM07-03	Corrected Agency Workforce Report was not Filed Timely	4/30/2008	4/4	100%
IM07-04	Use of Telecommunications Devices Not Properly Monitored	4/30/2008	3/3	100%
IM07-05	Outdated Investment Report	4/30/2008	4/4	100%
IM07-06	Allowance of Old Accounts Receivable Not Performed	7/31/2008	4/4	100%
IM07-07	Statement of Economic Interest Report Not Filed Timely	4/30/2008	4/4	100%
IM07-08	Failure to File for a Refund of Telephone Excise Tax	4/30/2008	2/2	100%
IM07-09	Noncompliance with Printing Requirements	4/30/2008	2/2	100%

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 60% = Substantially Completed  
 100% = Completed