



**Illinois Finance Authority
Report of the Senior Staff
October 14, 2009**

To: IFA Board of Directors and Office of the Governor

**From: Chris Meister, Deputy Director and General Counsel
Yvonne Towers, Chief Financial Officer and Chief Technology Officer
Stuart Boldry, Chief Administrative Officer
Rich Frampton, Vice President and Director of Funding Managers
Pam Lenane, Vice President and Associate General Counsel
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Financial Performance:

General Fund:

The Illinois Finance Authority's General Fund unaudited financial position for the month ending September, 2009, reports total assets of \$41,683,560, liabilities of \$1,640,667 and total equity of \$40,042,893. This compares favorably to the September 2008 balance sheet, with \$38,503,987 in total assets, liabilities at \$1,726,651 and total equity of \$36,777,336.

Gross revenue YTD (other than loan repayments) for the period ending September, 2009 was \$2,079,883, or \$24,183 (1.2%) above the approved FY10 budget. The favorable variance is primarily due to fee income. Total operating expenses were \$1,292,597, or \$16,702 higher than budget. This is primarily due to a retroactive adjustment for an operational change to the 401(a) Plan.

Gross revenue YTD of \$2,079,883 was \$558,671 (36.7%) higher than same period last fiscal year 2009. This is primarily due to fee income. Operating expenses YTD were \$1,292,597 or \$2,309 lower than same period last fiscal year 2009. This is mainly due to a reduction in legal and accounting fees, office supplies, and miscellaneous office services, offset by an increase in bad debt.

Year-to-date net income for September was \$819,224 or \$39,420 higher than budget and \$579,793 higher than same period last fiscal year.

Consolidated Results:

The Illinois Finance Authority's unaudited financial position for its fourteen (14) funds, as of September 30, 2009, reports consolidated total assets of \$173,305,477, liabilities of \$59,290,268 and total equity of \$114,015,209. This compares favorably to the September 2008 balance sheet of \$176,564,193 in total assets, liabilities of \$62,826,504 and total equity of \$113,737,689.

Audit and Compliance

The fiscal year 2009 audit field work is underway.

Financial Services

Market Trends

- ***Build America Bonds (“BAB’s”)***: continued to reshape public finance last month, shifting more than a quarter of state and local government debt into the taxable bond market. Accordingly to *The Bond Buyer*, over 92% of taxable issuance volume in August was through the BAB Program. Issuers have sold \$25.15 billion BAB’s in September up from \$20.19 billion in August last year. Taxable Bonds represented 28.2% of municipal issuance in September. (Issuance of BAB’s is limited to Governmental Purpose Projects – rather than the conduit financings for non-governmental third parties that are IFA’s focus).

Interest Rate Data:

Tax-Exempt Rates:

- Variable Index (* SIFMA): 0.34% (10/1), down 5 basis point from last month’s report.
- Fixed GO Bond (** MMD-30yr-AA): 3.61% (10/2), down 93 basis points from last month’s report.

Taxable Rates:

- Fed Reserve Benchmark Target Rate: 0.25% (10/2) unchanged from last month
- *** 90-day LIBOR: 0.28% (10/2), down 13 basis points from last month
- **** Prime Rate: 3.25% (10/2), unchanged since 12/15/2008.
- 2-yr Treasury: .87%, (10/2) down 31 basis points from last month
- 30-yr Treasury: 3.97% (10/2) down 45 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.*

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

****LIBOR (i.e., London Interbank Offering Rate); “LIBOR” is the world’s most widely used benchmark for short-term interest rates.*

*****Prime Rate: the interest rate benchmark most commercial banks charge their most creditworthy customers (typically for Revolving Lines of Credit and other short-term loans).*

The Tax-Exempt SIFMA Variable Rate Index dropped 5 basis points from the previous month. The SIFMA Index remains near historical lows.

The 30-Year MMD (AA-rated) rate decreased 93 basis points from last month, while the 30-Year Treasury dropped 45 basis points from July. This signals an undersupply of long-term investors in the tax-exempt market relative to the taxable market.

Among Taxable rates, 90-day LIBOR, which is used to determine borrowing rates for many interbank loans, continued its downward trend in with a 13 basis point decline in August, 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 second quarter Estimate:

Real gross domestic product -- the output of goods and services produced by labor and property located in the United States -- decreased at an annual rate of 0.7 percent in the second quarter of 2009, (that is, from the first quarter to the second quarter), according to the "third" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP decreased 6.4 %.

The decrease in real GDP in the second quarter primarily reflected negative contributions from private inventory investment, nonresidential fixed investment, residential fixed investment, personal consumption expenditures (PCE), and exports. These reductions were partly offset by positive contributions from federal government spending and state and local government spending. Imports, which results in reductions to GDP, decreased.

Employment:

Nonfarm payroll employment continued to decline in September (-263,000), and the unemployment rate 9.8 % continued to trend upward, the U.S. Bureau of Labor Statistics reported October 2, 2009. The largest job losses were in construction, manufacturing, retail trade, and government.

Nonfarm private employment decreased 254,000 from August to September 2009 on a seasonally adjusted basis, according to the ADP National Employment Report. The estimated change of employment from July to August was revised by 21,000, from a decline of 298,000 to a decline of 277,000.

September's employment decline was the smallest since July of 2008 and employment losses have diminished significantly over the last two quarters. Nevertheless, employment, which usually trails overall economic activity, is likely to decline for at least several more months, with losses continuing to diminish, according to the ADP National Employment Report.

Illinois' unemployment rate held flat at 10% for the month of August as reported by the Illinois Department of Employment Securities; the data for September will be available on October 16th.

Manufacturing:

According to the September Purchasing Manager's Index ("PMI") report, the manufacturing sector posted 52.6 for the month. Although 0.3 points higher than the previous month, the September index reading was below consensus expectations. Still,

the September PMI index posted its second consecutive monthly reading over 50. (A PMI reading over 50.0 indicates that the manufacturing sector is generally expanding; while a reading under 50.0 indicates that it is generally contracting.)

The PMI index had been below 50 for an extended period prior to the August report.

Other Economic News:

- Personal bankruptcies topped the 1 million mark in the first nine months of the year, the first time in four years, released on October 1, 2009. Personal bankruptcies were up 35% from the same period in 2008, according to the report from the American Bankruptcy Institute (ABI).

Program Development

Local Government Pooled Bond Issue – Scheduled for the November 10th meeting, the pool currently has 9 Local Government Pooled Bond projects totaling approximately \$5,000,000. This will be IFA's first Local Government Pooled issuance since May of 2008. IFA's Local Government Pooled Bond Program enables small, non-rated Units of Local Government to aggregate several small issues to obtain economies of scale to participants.

Fire Truck and Ambulance Revolving Loan Funds – Invoices for outstanding Fire Truck Loans for prior fiscal years (2005-2008) were completed and mailed for collection. Additionally, the Administrative Rules for the Ambulance and Fire Truck Revolving Loan Programs were finalized and submitted for a 2nd Reading. The Joint Administrative Review Committee has scheduled a meeting to discuss these Rules on October 13, 2009.

Sales Activities

Funding Managers will be presenting eighteen financings totaling \$1,447,364,500 for consideration at the October 14, 2009 Board Meeting including:

- Agriculture projects total \$614,000
- Business and Industry projects total \$10,000
- Healthcare projects total \$1,165,500,000
- Non-Healthcare Projects (Cultural and other 501(c)(3) projects) total \$271,750,000

The twelve financings presented for consideration today are expected to create 418 new jobs and 3,121 construction jobs.

IFA Industry Updates and Closing Reports:

Agriculture

In September, the Agriculture Team attended the National Farm Progress Show in Decatur. This is the nation's largest outdoor trade show, which is an annual event that rotates between Decatur, IL and Boone, IA. The IFA was able to partner with the Illinois Department of Agriculture to obtain tent space for an informational booth. Ag Team

attended the 3-Day show, which afforded IFA the opportunity to meet with a large number of farmers, lenders, and other agencies.

During the month, staff received a variety of calls from lenders and producers inquiring about the IFA's Guaranteed Loan programs and Beginning Farmer Bond programs. As noted last month, the market seems to be more interested in loan guarantees than in the past two years as commodity prices have declined. The livestock industry continues to be a concern within the agricultural industry. Staff received an inquiry from the Illinois Department of Agriculture regarding programs available to those producers in the swine industry. It is anticipated that staff will either meet directly with the Illinois Pork Producers or attend a joint meeting with the Farm Service Agency and the Illinois Department of Agriculture in the near future.

In addition to various calls and meetings with lenders and producers, staff also attended a business development dinner in Lawrence County sponsored by the Greater Wabash Regional Planning Commission. The dinner provided the opportunity for an informational booth, as well as the opportunity to network with various County Board Members, Mayors, area Legislators, and representatives from USDA, DCEO, as well as other agencies. Observations from the program were that many community leaders in the area are aware of DCEO and USDA, but not all were aware of the programs offered by the IFA.

Staff will be presenting two Beginning Farmer Bonds and one Young Farmer Guarantee for consideration of approval. While the two Beginning Farmer Bond applications do not yet utilize the new increased bond limit, staff anticipates an application in November that will.

There were no Agriculture Closings in August, 2009.

Business and Industry

IFA's B&I Team continue to focus calling activity on economic development representatives to build awareness about IFA, with special emphasis on the "Southern 21 counties". The response to IFA has been very positive, with economic development representatives showing interest in IFA's Local Government Pooled Bond Program, IRBs and IFA's Participation Loan Program; the B&I team has scheduled follow-up meetings with these economic development representatives to meet with commercial banks and manufacturing operations.

Additionally, it has become evident from informal discussions with Borrowers and Investment Bankers who serve the B&I market that Bank Letters of Credit for prospective Industrial Revenue Bond, Intermodal, and Solid Waste Transactions are continuing to see substantially higher pricing than observed in the recent past. As a result, Bank LOC-enhanced Tax-Exempt Financings for these Borrowers provide relatively less benefit now than at any time in recent years.

IFA staff hopes to continue to build on its new relationship with American Water Capital Corp. (Illinois-American Water Company) and its renewed relationship with Aqua Illinois, Inc. to generate additional bond financing activity in the Business and Industry segment, particularly while Industrial Revenue Bond activity remains below historic averages. Water Utility Revenue Bonds finance investments in local water systems necessary for quality of life and economic development.

Although there are considerable credit challenges in the B&I segment, the American Water Capital Corp. financing priced at 5.25% fixed for a 30-year term – a favorable rate for a Baa2/BBB+ rated credit (Moody’s/S&P).

Business and Industry Closing for September/Early October, 2009 Closing(s)

| Closing Date | Amount | Borrower |
|---------------------|---------------|------------------------------------|
| 10/1/2009 | \$28,500,000 | American Water Capital Corp. |
| 10/1/2009 | \$5,010,000 | Liberty Towers Associates II, L.P. |

Healthcare

The Healthcare credit markets continue to improve evidenced by yields decreasing by 50 basis points in the last two weeks. We expect activity to increase with many borrowers converting floating rate debt to fixed rates. This month we have Edward Hospital, Lake Forest Hospital, and Central DuPage Hospital, coming for final approval. Prior to the end of the calendar year, we anticipate eight to ten additional financings to close.

The Healthcare Team is working through credit terms of the HAP Program with Assured Guaranty and continues to receive positive feedback. Due to the current Federal Healthcare Reform agenda and the risk associated with changes to the Hospital Assessment Program the willingness of Assured has diminished without recourse to the hospital.

The Team also hosted the IFA’s first Underwriter Diversity Forum on September 10, 2009. Representatives of several hospitals as well as financial advisors attended the event along with numerous minority and women owned underwriting firms. The event successfully provided the opportunity for both the healthcare community professionals and financial underwriting firms to network with each other and the IFA staff.

The IFA was chosen to host the annual National Association of Health and Education Facilities Finance Authorities (NAHEFFA) conference in Chicago from September 23rd to the 25th. Rich Frampton, Vice President & Director of Funding Managers and Pam Lenane, Vice President of Healthcare & Associate General Counsel worked with agencies from throughout the nation to successfully organize this event. The IFA sponsored an architectural boat tour and moderated discussion panels on both “Current Economic Forecast” and “Innovative Technology & Energy Solutions for Higher Education and Health Care”. The conference provided the opportunity for local finance and legal professionals to build new relationships with Authorities from other states.

The Healthcare Team attended the annual Illinois Hospital Association Leadership Summit in Galena, Illinois on September 24th and the 25th to promote the HAP Program. A booth was set-up and run by members of both IFA and Loop Capital Markets to inform executives of hospitals of the IFA’s new program. The Healthcare Team discussed the program with representatives of Kewanee Hospital, St. Mary’s Hospital located in Streator, St. John’s Hospital located in Springfield, and with many other hospital representatives which attended the conference. As reported in past months there was significant interest in the program.

There were no Healthcare Closings in September, 2009

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

Credit challenges due to (1) bank rating downgrades and (2) related failed remarketings of impaired variable rate paper have resulted in a steady stream of Amendments and Restructurings. The Federal Home Loan Bank Letter of Credit initiative – which was added as a result of the 2008 Housing Recovery Act (effective July 30, 2008) -- continues to provide considerable assistance to existing 501(c)(3) borrowers who are (1) facing expensive LOC renewals at expiration, (2) are seeking replacement LOCs from non-rated banks, or (3) are further enhancing existing LOC-enhanced transactions to improve the interest rate to Borrowers. IFA has closed 3 FHLB LOC-enhanced transactions to date -- with two additional transactions expected to close within the next 45 to 60 days for Non-Healthcare 501(c)(3) Borrowers.

IFA staff originally projected that approximately 5-6 FHLB-enhanced transactions would close each calendar year. Given that 4 of IFA's initial 5 FHLB-enhanced transactions have restructured existing tax-exempt transactions and propped-up market access for 501(c)(3)'s, IFA and NAHEFFA are hopeful that the actual cost of the FHLB Letter of Credit provision to the Treasury will be less than originally projected by the Joint Committee on Taxation, thereby improving the likelihood of extension of the FHLB LOC provision beyond 12/31/2010.

The 501(c)(3) Team participated in the following events:

- Local Community Foundations to discuss IFA programs and how the Authority could provide financing for 501(c)(3) not-for-profits in Downstate.
- The Team gave a presentation at US Bank to their middle market bankers and portfolio managers. 501(c)(3) bond financing, IRBs and Participation Loans.
- IFA staff continued to work closely with both (1) the Federation of Independent Illinois Colleges and Universities and (2) the Associated Colleges of Illinois to educate Illinois private colleges and universities about the IFA Energy Retrofit Financing Program to provide gap financing for energy and HVAC upgrades that are partially funded by ARRA grants and/or State of Illinois Energy grants.
- Women in Public Finance Conference and Reception

Hales Franciscan High School, a 501(c)(3) private high school for boys will be coming before the IFA Board in October for approval of a \$13 million construction/renovation project to their campus, anticipated to close by winter 2009. SOS Children's Villages is scheduled to close October 8, 2009. IFA closed on a \$27.0MM restructuring for the Adler Planetarium on October 1st that added a Confirming LOC from the Federal Home Loan Bank of Boston.

Non-Healthcare 501(c)(3) Closing for September/Early October, 2009 Closing(s)

| Closing Date | Amount | Borrower |
|---------------------|---------------|-------------------|
| October 1, 2009 | \$27,000,000 | Adler Planetarium |

Local Government

The Local Government Team focused efforts on collecting information in preparation for the Local Government Pooled Bond Program issue planned for to close in late November or early December. There are 9 participants included with an overall issuance amount of approximately \$5 million for a variety of projects in 8 counties. Additionally, work has been completed in preparation for one Interim Direct Loan scheduled for closing on October 6, 2009 for the Village of Kane in the amount of \$625,000. Pursuant to an RFP, IFA has engaged Stifel Nicolaus to underwrite this initial issue and Chapman Cutler to serve as Bond Counsel.

The Local Government Team continues to meet with city officials to build awareness about IFA in the Southern 21 counties. The response to IFA has been very receptive, with community leaders showing interest in IFA's Local Government Pooled Bond Program.

The Team has scheduled presentations with the Community Funding Forum October 8th to the Franklin County Mayors. The Local Government Team participated in a similar forum in Matton on September 8th

- IFA was an exhibitor at the annual Illinois Municipal League Conference held in Chicago in late September. IFA Staff worked the booth on the two-day event. Approximately 300 Mayors and other local government officials attended the Annual Conference.
- IFA Staff phone calls, meetings, and presentations have generated several leads for sewer and other infrastructure projects from communities across Illinois, including Plano (Kendall County), Lincoln (Logan County), Lawrenceville (Lawrence County), Roxana (Madison), and Shiloh (St. Clair).

There were no Local Government Closings in September, 2009

Energy Efficiency

On September 9th, Kim DuPrey served as the Harnetech LLC's keynote luncheon speaker, for a presentation entitled "Financing Green" to area Architects on IFA's role with Public and Private Issuers on financing energy efficiency and renewable energy projects. She outlined the IFA's coordination with other State and Federal Agencies like the DCEO, DOE and State for grants and loan guarantees.

IFA staff participated in the Illinois Government Finance Officers Association's Annual Conference in Springfield, Sept 21st – 22nd. Staff Presented the IFA's role in helping public and private sector finance energy efficiency and renewable projects. Our programs are used to finance "matching funds" and "supplemental funding" required to take advantage of the many ARRA incentives being offered by the State and the Federal Government.

IFA staff participated in the Illinois Municipal League's Annual Conference in Chicago, September 24th – 26th. This was attended by approximately 300 village administrators:

Mayors, Alderman, Trustees and Finance Directors. We staffed a vendor's booth showcasing our funding and financing programs for local governments, private businesses and not-profits. Townsend Albright served on a panel discussion with DCEO and the University of Illinois at Chicago to discuss IFA financing programs for local governments that could provide gap financing for energy and HVAC upgrades partially funded by ARRA grants administered through the State of Illinois' DCEO.

IFA plans to participate in the Green Town Chicago 2009 conference sponsored by the City of Chicago, Columbia College and Clinton Climate Initiative on October 15, 2009. We have been invited to speak on a panel moderated by the Clinton Climate Initiative on "Making Existing Buildings Energy Efficient" and will serve as a presenter in a session entitled: "Renewable Energy: Preparing Local Communities to Meet Regional Goals." We will share this session with staff from the Chicago-based Environmental Law & Policy Center. Topics addressed in this session will include pertain to energy efficiency and renewable energy finance, grants and incentives, environmental issues, and recent legislative changes expanding the IFA's role to help entities gain access to capital for these initiatives.

There were no Energy Closings in August, 2009

Venture Capital

IFA continues to monitor the orderly wind down of the Champaign Urbana Venture Fund and its one remaining asset, User Active. This investment has already been written down to zero. Final cash disbursements from the Fund have already been received. Timing of the formal dissolution of the Fund is later this year and early 2010.

Staff completed due diligence for documents Riverglass has asked IFA to sign related to a recent financing effort. IFA is not participating in this round and will submit the requested documents in early October.

Staff participated in board meetings for Stonewater and Ohmx, and met with the President and CEO and prospective new CFO of ZuChem.

Human Resources

IFA's EEO/AA Plan for fiscal year 2010 was submitted on time and approved by the Illinois Department of Human Rights. The new plan has been distributed to all IFA associates and the required postings have been completed. Staff met the Department to review and sign off on the third and fourth quarter reports submitted for fiscal year 2009.

Review of personnel files over the last two months was completed this month in anticipation of the upcoming audit.

The Board Compensation Committee met twice during the month of September.

Benefits

The Trustees for IFA's Individual Account Plan held a Trustee meeting. Fund performance was reviewed. The Trustees voted to add new fund to the selection of funds available for participants to invest in. The Trustees also voted to amend the Plan to include an explanation of a recent operational change and to meet two compliance responsibilities.

Compliance

Staff completed and submitted the State the Annual Real Property Report.

Procurement

Staff submitted three Procurement Business Cases (PLBC) for Treasury-related procurements (Government Bond and Government Security Money Market Funds, Managed Investment Services, and CDARS). The CDARS PBC was approved; questions concerning the other two are being addressed. The State has advised IFA to utilize Information for Bid (IFB) solicitation for all three pending final approval of the remaining two PBCs. This appears to be a more suitable approach than issuing Request for Proposals and will expedite the completion of these solicitations. IFB content was drafted for the Government Bond and Government Securities Money Market Funds and the Managed Investment Service solicitations.

Staff prepared content for submission of a PBC for Venture Capital Evaluation Services. The PBC should be submitted early in October. Work will commence immediately on the Request for Proposal solicitations.

Documentation of the human resource, payroll, and other services being provided to IFA by ADP TotalSource was completed. Content for the PBC for inclusion in the PBC is estimated to be 60% done and should be completed during the week of October 5th.

Legal/Legislative Update

An oral report will be provided at the August 11, 2009 Committee of the Whole Meeting.

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