



**Illinois Finance Authority
Report of the Senior Staff
November 10, 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
Art Friedson, Director of Human Resources
Rich Frampton, Vice President and Director of Funding Managers
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Financial Performance:

General Fund:

The Illinois Finance Authority's General Fund unaudited financial position for the month ending October, 2009, reports total assets of \$41,703,252, liabilities of \$1,634,993 and total equity of \$40,068,258. This compares favorably to the October 2008 balance sheet, with \$39,052,741 in total assets, liabilities at \$2,008,866 and total equity of \$37,043,875.

Gross revenue YTD (other than loan repayments) for the period ending October, 2009 was \$2,694,910, or \$240,238 (9.8%) above the approved FY10 budget. The favorable variance is primarily due to fee income. Total operating expenses were \$1,751,522, or \$50,329 higher than budget. This is primarily due to a retroactive adjustment for an operational change to the 401(a) Plan.

Gross revenue YTD of \$2,694,910 was \$482,029 (21.8%) higher than same period last fiscal year. This is primarily due to fee income. Operating expenses YTD were \$1,751,522 or \$31,487 higher than same period last fiscal year. This is mainly due to increased reserves for bad debt.

Year-to-date net income for October was \$975,327 or \$221,849 higher than budget and \$469,356 higher than same period last fiscal year.

Consolidated Results:

The Illinois Finance Authority's unaudited financial position for its fourteen (14) funds, as of October 31, 2009, reports consolidated total assets of \$172,042,396, liabilities of \$57,943,649 and total equity of \$114,098,748. This compares favorably to the October 2008 balance sheet of \$175,192,294 in total assets, liabilities of \$62,594,172 and total equity of \$112,598,123.

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 Trends

- *Build America Bonds (“BAB’s”)*: October was a record month for issuance of Taxable Build America Bonds. Taxable Bonds represented 37% of municipal bond issuance in October, up from 28.2% in September. BAB issuance has been increasing as a proportion of municipal fixed rate issuance (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).
- According to a Wells Fargo BAB Index, the average yield on 30-year BAB’s is currently approximately 6%, thereby implying a cost to the Issuer (after the 35% Treasury subsidy) of approximately 3.9%. Recent Tax-Exempt rates on comparable 30-year Tax-Exempt issues have been 10 to 30 basis points (i.e., 0.10% to 0.30%) higher than these BAB rates for Double A and Triple A credits.

Interest Rate Data:

Tax-Exempt Rates:

- Variable Index (* SIFMA): 0.26% (10/29), down 8 basis point from last month’s report (and approaching historical lows).
- Fixed GO Bond (** MMD-30yr-AA): 4.00% (10/29), up 39 basis points from last month’s report.

Taxable Rates:

- Fed Reserve Benchmark Target Rate: 0.25% (10/29) unchanged from last month
- *** 90-day LIBOR: 0.28% (10/29), unchanged from last month
- **** Prime Rate: 3.25% (10/29), unchanged since 12/15/2008.
- 2-yr Treasury: .99%, (10/29) up 12 basis points from last month
- 30-yr Treasury: 4.34% (10/29) up 37 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).*

Economic Data:

Gross Domestic Product ("GDP"):

Real Gross Domestic Product -- the output of goods and services produced by labor and property located in the United States -- increased at an annual rate of 3.5 percent in the 3rd calendar Quarter of 2009, according to the "advance" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP decreased 0.7 percent.

This estimated 3rd Quarter increase in real GDP resulted from positive trends in personal consumption expenditures (PCE), exports, private inventory investment, federal government spending, and residential fixed investment. Imports, which are deducted from GDP, increased.

Employment:

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

Since the start of the recession in December 2007, the number of unemployed persons increased by 7.6 million to 15.1 million, and the unemployment rate has doubled to 9.8%.

According to ADP's monthly National Employment Report released 11/2/2009, private sector employment decreased by 203,000 in October. Nonfarm private employment decreased 203,000 from September to October 2009 on a seasonally adjusted basis. October was the seventh consecutive month during which the decline in employment was less than in the previous month. Nevertheless, despite recent indications that overall economic activity is stabilizing, employment, which usually trails overall economic activity, is expected to decline for at least a few more months.

Illinois' unemployment rate held flat at 10% for the month of September as reported by the Illinois Department of Employment Security; unemployment data for October will be available on November 19th.

Manufacturing:

The recovery in manufacturing strengthened in October as the PMI Index registered 55.7, which is 3.1 points higher than the 52.6 reported in September, and the highest reading for the index since April 2006 (56.0). A monthly PMI Index reading above 50 indicates that the manufacturing sector is generally expanding; below 50 indicates that the manufacturing sector is generally contracting.

According to the Institute of Supply Management ("ISM"), a PMI index in excess of 41.2, over a period of time, generally indicates an expansion of the overall economy. In October, the PMI indicated growth for the sixth consecutive month, as well as expansion in the manufacturing sector for the third consecutive month. According to ISM economists, "The past relationship between the PMI and the overall economy indicates that the average PMI for January through October (44.6) corresponds to a 1.1 percent increase in real gross domestic product (GDP). However, if the PMI for October (55.7) were annualized, it would correspond to a 4.5 percent increase in real GDP annually."

Other Economic News:

On a seasonally adjusted basis, the Consumer Price Index for All Urban Consumers (CPI-U) rose 0.2 percent in September, the Bureau of Labor Statistics reported 11/2/2009. The increase was less than the 0.4 percent rise in August. The index has decreased 1.3 percent over the last 12 months on a non-seasonally adjusted basis.

Program Development

Local Government Pooled Bond Issue – Scheduled for consideration at today’s meeting, this Pool currently has 8 Local Government Pooled Bond projects totaling approximately \$4,775,000. This will be IFA’s first Local Government Pooled issuance since May, 2008. IFA’s Local Government Pooled Bond Program enables small, non-rated Units of Local Government to aggregate small borrowings to obtain economies of scale to obtain access to the national tax-exempt markets.

Sales Activities

Funding Managers will be presenting eighteen financings totaling \$1,231,219,000 for consideration at the November 14, 2009 Board Meeting including:

- Agriculture projects totaling \$1,714,000
- Business and Industry projects totaling \$6,200,000
- Healthcare projects totaling \$1,149,000,000
- Non-Healthcare projects (Cultural and other 501(c)(3) projects) totaling \$70,000,000
- Local Government projects totaling \$4,305,000

The twelve financings presented for consideration today are expected to create 150 new jobs and 2,455 construction jobs.

IFA Industry Updates and Closing Reports:

Agriculture

The Agricultural staff began the month of October by attending the annual conference for the National Council of State Ag Finance Programs (“NCOSAFP”). This organization is comprised of peer agencies for IFA across the country, that utilizes the Aggie Bond program (i.e., Beginning Farmer Bond Program), provide loan guarantees, and direct loans to farmers and agribusinesses. The conference, which rotates from State to State each year, provides an opportunity for attendees to learn about regional differences in the agricultural markets, share ideas for programs used in each state, as well as focusing on program improvements, which are common to all States. IFA Staff has worked with the NCOSAFP prior to bring federal legislative improvements to the Beginning Farmer Program, including the recently adopted increased limit. The NCOSAFP is contemplating additional Washington D.C. lobbying over the next year to seek a modification of prior land ownership limitations to widen availability for eligible beginning farmers.

IFA hired an Agricultural Intern in October to help with an ongoing project to review and evaluate all outstanding guaranteed loan files for information content, financial analysis, collateral analysis, and to run each loan through a credit scoring model. The intern, who is a senior in Agribusiness Economics at Southern Illinois University, will work in the Mt. Vernon office on a part time basis for approximately 2 months. The goal is to assign a credit grade to all open guaranteed loans, as well as each new loan at the time a loan is approved. A credit grade and collateral summary will be provided to Mabsco Capital (IFA's loan servicing provider), who upon receipt of completed file information will be able to provide a detailed and comprehensive report on the entire IFA guaranteed loan portfolio to management and the IFA Board of Directors.

Project inquiries from lenders and producers continue to vary each month, but primarily focus on Beginning Farmer Bonds and Loan Guarantees related to the livestock industry. Applications for Beginning Farmer Bonds have increased, however staff has yet to receive an application at the new maximum Beginning Farmer Bond limit of \$469,000. Staff received confirmation through the NCOSAFP that the 2010 limit for Beginning Farmer Bonds will be \$470,100. For the November Board Meeting, staff has submitted 6 Beginning Farmer Bond applications for consideration, as well as one Agri-Debt Guarantee.

There were no Agriculture Closings in November, 2009.

Business and Industry

IFA's B&I Team met with several economic development organizations including the Lawndale Business Development Corporation, Choose DuPage Economic Development, and the Rockford Local Development Corporation to discuss Industrial Revenue Bond, 501(c)(3) Revenue Bond, and Recovery Zone Facility Revenue Bond financing. IFA's B&I Team also met with a Chicago-area steel service center about financing the acquisition, renovation, and equipping an expansion to their existing facility.

Downstate B&I Team Members called on economic development representatives in Quincy, Moline, Rock Island, and Galesburg to discuss Participation Loans, Industrial Revenue Bonds, Beginning Farmer Bonds, 501(c)(3) Bonds, and Local Government Bonds.

Access to Bank Letters of Credit for Industrial Revenue Bond, Intermodal, and Solid Waste Transactions remains tight while pricing has increased far beyond historical norms. 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 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 drinking water systems necessary for that ultimately serve the general public and local industrial, commercial, governmental, and 501(c)(3) customers.

The B&I team will continue to approach eligible utilities in Illinois for Exempt Facilities Revenue Bond financings for drinking water system and gas distribution system projects to generate additional financing bond activity in this sector.

Business and Industry Closing for 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

After last month’s continued improvement and all time low MMD of 3.81% on October 2, 2009 we have seen fixed rates increase by approximately 40 bps. Organizations are still contemplating refunding of variable rate debt to fixed rate given the increases. This month we have Advocate, Rehabilitation Institute of Chicago, Resurrection and Southern Illinois Healthcare coming for final approval. Illinois Valley Community Hospital will be utilizing the small and rural hospital program and plans to come to the board for the preliminary approval this month.

The Healthcare Team hosted a discussion with several Illinois Safety-Net Hospitals to discuss the viability of creating a program to securitize Safety Net Adjustment Payments (“SNAP”) and Critical Hospital Adjustment Payments (“CHAP”). Illinois Hospitals which are heavily dependent on the SNAP and CHAP payment streams have been fiscally hampered by delays in payments from the State, due to the current ARRA legislation and the prompt payment rules. A follow-up meeting to discuss the size and the structure of the program is set to be held by conference call on November 6, 2009 after the Budget Implementation Bill has been passed as SNAP and CHAP lobbyist are hopeful that monies may be set aside to help make payments to these critical Illinois Hospitals.

The Team also met with representatives of Memorial and Holy Cross Hospitals to discuss present and future financing needs and options. A meeting was also held with representatives of Estrada Hinojosa a minority owned underwriting firm to discuss the firm’s experience with Healthcare transactions as well as introduce the firms Chicago representative to the IFA Healthcare Team and 501(c)(3) Team.

The Healthcare Team continues to reach out to potential IFA Borrowers and Financial Professionals as well as foster its current relationships.

Healthcare October, 2009 Closing(s)

Closing Date	Amount	Borrower
October 16, 2009	\$52,000,000	Lake Forest Hospital
October 28, 2009	\$43,500,000	Edward Hospital

Non-Healthcare 501(c)(3)'s (Higher Education/Cultural/General 501(c)(3)s):

Credit challenges due to (1) bank rating downgrades and (2) related failed remarketings of impaired variable rate paper will continue to result in additional IFA borrower requests for Amendments and Restructurings.

One of IFA's primary key strategic initiatives during calendar 2010 has been to educate various market participants about the new Federal Home Loan Bank Letter of Credit initiative that was added to the Internal Revenue Code the 2008 Housing Recovery Act (effective July 30, 2008).

The Federal Home Loan Bank LOC product offers prospective assistance to 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.

After closing (1) the \$22.87 million Trinity International University bond issue and (2) the \$30.0 million Concordia University transaction in October, IFA has now closed 5 FHLB LOC-enhanced transactions to date. Additionally, on October 1st, IFA closed on a \$27.0 million restructuring for the Adler Planetarium was further secured by an FHLB LOC.

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.

IFA's 501(c)(3) Team will be working with both the National Association of Healthcare and Higher Education Authorities ("NAHEFFA") and the Council of Development Finance Agencies ("CDFA") to support an extension by the US Congress in early 2010.

IFA's 501(c)(3) Team also met with community leaders regarding the rehabilitation of Downtown buildings by a local 501(c)(3) organization.

IFA's 501(c)(3) Team also met with representatives of Lebenthal & Co., a woman-owned investment banking firm based in New York to discuss Lebenthal's experience financing 501(c)(3) and Industrial Revenue Bond projects.

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

Closing Date	Amount	Borrower
October 28, 2009	\$22,870,000	Trinity International University
November 2, 2009	\$30,000,000	Concordia University Chicago

Local Government

The Local Government Team will be bringing 8 projects participants with an aggregate estimated issuance amount of approximately \$4.2 million for a variety of projects in 7 counties for final approval and acceptance into the Local Government Pooled Bond Program issue to today's Board meeting. The IFA Series 2009 Local Government Pool is planned to price in Mid November and close in early December. Two participants (the Villages of Kane and Girard) previously approved by the Board will refinance outstanding IFA Interim Direct Loans into the Pool. The Villages of Cowden and Farmersville were previously approved for participation while four borrowers, will be presented to the Board for the first time (and will request final approval).

Pursuant to an RFP, IFA has engaged Stifel Nicolaus to underwrite this initial 2009 Local Government Pooled Bond issue while Chapman and Cutler will serve as Bond Counsel.

The Local Government Team continues to build awareness and educate City officials and the public about IFA's impending, expanded role in energy efficiency and renewable energy initiatives through a series of Green Conferences targeted to these local governments. Additionally, the Local Government Team is actively meeting with local governmental officials on projects that may involve the use of the local government program (on either a conduit or pooled basis), and on a possible pooled program for local governments specifically related to energy efficiency.

There were no Local Government Closings in November, 2009

Energy

DOE Funding Opportunity for Energy Efficiency and Community Block Grant Retro-fit Ramp Up: IFA is pursuing a grant for up to \$20 million which may be used to fund a debt service reserve or otherwise facilitate a financing program for energy efficiency projects.

- ***DOE's Financial Institution Partnership Program:*** The Department of Energy issued its long awaited Request for Information to Public and Non-Profit Development Finance Organizations (DFOs) on October 29. Responses are due January 15, 2010 and will be used to identify Designated Lenders, which will be authorized to assist DOE in underwriting projects for Loan Guarantees. Eligible projects include Renewable Energy, Innovative Energy Efficiency and Advanced Transmission and Distribution Technologies. IFA plans to submit its response prior to the deadline to take advantage of DOE's offer to review submissions as soon as they are received. DOE intends to evaluate DFOs based on their: (1) capacity and willingness to assume or guarantee at least 5% of project debt for the life of the loan, (2) experience investing in, lending or making grants to energy sector projects, (3) credit processes, governance and expertise, and (4) portfolio management, transaction surveillance and restructuring processes and expertise.

IFA Presentations:

- Green Town Conference Oct 15 Chicago, *Renewable Energy: Preparing Local Communities to Meet Regional Goal*
- Green Town Conference Oct 15, Columbia College, Chicago *Making Existing Buildings Energy Efficiency*

- Building Green Chicago Conference & Expo, Oct 21 - Hilton, Chicago - *Financing Energy and Energy Efficiency Initiatives*
- RSM McGladrey 2009 Manufacturing and Wholesale Distribution Executive Summit, Oct 27 - Oak Brook, IL - Federal and State Incentives Panel,

There were no Energy Closings in November, 2009

Venture Capital

Since October 14, 2009, the CFO has undertaken the duties relating to the venture capital program. The SPO is preparing a procurement for a vendor to value the IFA venture capital portfolio. IFA staff monitored a board meeting of zuChem, a company within the IFA's venture capital portfolio.

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

Arthur Friedson joined the IFA on November 2, 2009, as the Human Resources Director.

Yvonne Towers was appointed IFA's EEO Officer on October 22, 2009, temporarily awaiting the arrival of the Human Resources Director, Arthur Friedson. The first quarter reports, due to the Illinois Department of Human Rights, were submitted per the extended deadline of November 10, 2009.

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.

Records Retention

Records Retention duties will be part of the duties of the Human Resources Director. IFA staff met with a representative of the State Library (Secretary of State's Office) regarding an efficient process to electronically store IFA records with the State Library. Storage with the State Library is a separate records retention requirement from the ongoing process with the State Records Commission and the State Archives. IFA Senior Staff continues to address the time and resource intensive process with respect to appropriate retention of records.

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.

Legislative/Legal

SB 390 passed the House on October 29, 2009 with a vote of 105-9-0. SB 390 was a joint initiative of the IFA and the Illinois Attorney General's Office. SB 390 adds energy efficiency projects to the list of projects eligible for credit enhancement/State guarantees from the IFA. This legislation will help to leverage federal and State funding that is available for energy efficiency projects that create and retain jobs in Illinois.


When enacted, SB 390 will share the same effective date as SB 1906 (P.A. 96-0103): January 1, 2010. SB 1906 clarified existing IFA authority to issue State guarantees for renewable energy and clean coal projects.

The Senate Sponsor was Senator David Koehler. The House Sponsors were Representatives Frank J. Mautino, Roger L. Eddy, Linda Chapa Lavia, Jehan A. Gordon, Dave Winters, Deborah L. Graham, Greg Harris, Patrick J. Verschoore, Karen May, Julie Hamos, Paul D. Froehlich, Harry Osterman, Naomi D. Jakobsson, Lisa M. Dugan, Sara Feigenholtz, Donald L. Moffitt, Robert W. Pritchard, William D. Burns, John E. Bradley and Barbara Flynn Currie.

With respect to the Spring 2010 Session of the Illinois General Assembly, the IFA, in conjunction with the Governor's Office, is working to prepare the following legislative proposals:

1. Increasing the IFA's general statutory bond authorization above \$28.15 billion;
2. Obtaining "multistate" bonding authority that competitor issuers in Indiana, Missouri, Colorado, Florida, and other states have; and
3. Measures to enhance the agricultural guarantee programs.

**Illinois Finance Authority
Audit Findings Material and Immaterial
Update as of October 31, 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	