



Illinois Finance Authority
Report of the Executive Director
December 9, 2008

To: IFA Board of Directors and Office of the Governor

From: John B. Filan, Executive Director

Financial Performance

As of November 30, 2008 the Illinois Finance Authority's financial position was strong with total assets of \$176,393,504 consisting of equity of \$113,131,071 and liabilities of \$63,262,433. This compares favorably to the November 2007 balance sheet of \$159,639,190 in total assets comprising of \$95,265,473 in equity and \$64,373,717 in liabilities and bonds payable.

Gross income year-to-date for November ended at \$5,114,412 or \$177,080 below plan. The unfavorable plan performance is primarily due to fee income, interest on loans and investment income. Total operating expenses ended at \$3,299,741 or \$856,047 below plan. This is primarily due to a reduction in professional services, employee related expenses and loan loss provision/bad debt. Staff will continue to close monitor these items in light of the current economic recession.

Audit and Compliance

The Authority is scheduled to appear before the Legislative Audit Commission on December 11, 2008 to discuss the FY 07 Material Audit Findings. Six of eight of the FY 07 Material Audit Findings have been implemented and eight of nine of the FY 08 Immaterial Audit Findings have been implemented.

Due to a question published in the 2008 version of the GASB implementation guide the definition of the financial reporting entity was clarified to include all entities of the State of Illinois. Because of this, several bond issues that were treated as conduit debt no longer meet the definition. Since the bonds were issued to the State of Illinois or component units of the State, the Authority has to record the activity of these bonds in its financial reporting system. This effects the June 30, 2008 financial statements, since we have to record the activity for fiscal year 2008. We are currently working with the Office of the Comptroller and the auditors to expedite this process. We anticipate having this issue resolved by the end of this month.

Attached at the end of this report is the current status of the audit findings for your review.

Financial Services

Market Update

The volume of new municipal market transactions fell 22% nationwide in November, compared to last year, due to the ongoing lack of investor demand. Retail investors continued to support higher quality transactions, primarily "AA" or better rated, while institutions generally showed negligible interest. A small number of lower rated deals found buyers willing to accept higher risk for higher yields. The fixed rate index (RBI) remained fairly flat for the month, resetting at 6.06% last week. Though lower than the mid-October high of 6.48%, this index is roughly 140 basis points higher than the year to date low of 4.63% (1/17). Higher fixed rates are expected to continue due to limited demand.

The variable rate index dropped further due to investor demand for liquidity. The index reset at 1.03% last week. However, as with the fixed rate market, only higher rated deals are pricing close to the index level. The market faces ongoing challenges stemming from bank and insurance company downgrades and credit constraints. Lower rated and downgraded deals are resetting at high rates and/or having their bonds put back to the liquidity provider. Issuers with expiring liquidity facilities are also facing renewal risk as some banks are unwilling to renew existing facilities for lower rated credits.

On November 14, Assured Guaranty Ltd agreed to purchase Financial Security Assurance Holdings Ltd. from Dexia SA. Both FSA and Assured Guaranty were downgraded, leaving no insurer with triple-A ratings from all three rating agencies. Bond insurer downgrades during November were as follows:

- AMBAC downgraded to Baa1 by Moody's (11/5) and to A by S&P with negative outlook (11/19)
- MBIA downgraded to Baa1 by Moody's (11/7)
- Assured Guaranty downgraded to Aa2 by Moody's (11/21) with stable outlook
- FSA downgraded to Aa3 by Moody's (11/21)

New issue volume is expected to rebound the week of December 1, after the November holiday lull, and continue through mid-December. December volume will be led by the IFA's \$500 million University of Chicago transaction, scheduled to price December 3.

The 2-year Treasury yield declined to 0.98% last week, while the 10-year Treasury fell to 2.93%. The Dow Jones Industrial Average was up 172 on December 3, 2008 to close at 8591.

Sales, Marketing and Credit

Director of Financial Services efforts were focused on marketing and program development. November activities included the following:

- Marketing – (1) Attended conferences and other marketing/networking events, including the Bond Buyer Midwest conference, the Illinois Independent Colleges and Universities Fall Reception, the Fifth Third Presidential Outlook breakfast, the Mid-America Club reception and the Bank of New York reception. (2) Held

strategy meeting with staff to review the impact of the economy and credit markets on business plans.

- Program Development – (1) Completed summary of IFA bond and loan programs. (2) Bridge Financing – ongoing development of new programs to fund cash flow needs of non-profits, local governments and school districts. (3) Energy – assessment of resources and development of new IFA strategy and developing P3's. (4) Agriculture – assessment of resources and development of overall strategy. (5) Local Government – program assessment and development of request for qualifications for underwriters.

Calendar Year 2008 Volume Cap Summary

- Current Year IRB Cap - Of the \$90 million in current year IRB cap received from the State, the IFA has used or committed \$46.1 million and has \$43.9 million unused. The IFA received \$15.6 million in transferred IRB cap from local municipalities, \$7.6 million of which has been used or committed and \$7.9 million is unused. The total \$51.8 million balance of unused cap will be carried forward and available for IFA solid waste, water utility and/or housing financings over the next three years. The following is a summary:

	<u>IFA Cap</u>	<u>Transferred Cap</u>	<u>Total</u>
Received	90,000,000	15,589,615	105,589,615
Closed	29,079,730	4,509,270	33,589,000
Allocated	<u>17,052,025</u>	<u>3,147,975</u>	<u>20,200,000</u>
Unused	43,868,245	7,932,370	51,800,615

- Number of IRB Projects Closed: 9 (Includes December 2008 activity)
- Average IRB Project Amount Financed: \$5,976,556
- Average IFA State Agency Cap Used per project: \$5,125,751

- Current Year Beginning Farmer Bond Cap - Of the \$12 million in cap received from the State, \$11.5 million has been used or committed and only \$469k is unused. The unused cap will be carried forward and available for IFA solid waste, water utility and/or housing financings over the next three years.

- 66 farms financed with average farm size of 53.56 acres

- Carryforward Cap – The balances and activity for carryforward cap are summarized below:

<u>Expiring</u>	<u>Housing</u>	<u>Solid Waste</u>	<u>Single Family</u>	<u>Water</u>
12/31/2008	19,629,360	18,527,522	25,000,000*	-
12/31/2009	17,663,520	112,399,153	-	-
12/31/2010	<u>11,800,000</u>	<u>70,029,920</u>	-	-
Total	49,092,880	200,956,595	25,000,000*	-

- \$51.2 million in solid waste cap was used for 1 project (Prairie State).

*The \$25 million of single family cap has been converted the Mortgage Credit Certificate program for use in the Military-Veterans Housing Program with the Illinois Housing Development Authority and Illinois Department of Veterans Affairs.

Sales Activities

Funding Managers will be presenting 8 projects totaling \$53,297,590.75 for approval in December, 2008. Agriculture projects total \$1,682,590.75 Business and Industry total \$38,700,000; Communities and Culture projects total \$7,715,000; and Higher Education projects total \$5,200,000 according to applicants. These projects are expected to create 93 new jobs and 309 construction jobs.

Agriculture

On the afternoon of December 9, the Executive Director will meet with the Presidents of the University of Illinois, Southern Illinois University and Western Illinois University to discuss cooperation on issues relating to agriculture and rural development.

During the month of November, the Agriculture staff continued to receive strong interest from lenders for Beginning Farmers Bonds. Staff received several new applications for approval at the December board meeting. Staff also worked toward closing seven pending Beginning Farmer Bond transactions. While interest from lenders focused primarily on the Beginning Farmer Bond Program, the Ag staff also received inquiries for potential Participation Loans and Livestock Guarantee programs.

Activities outside the IFA for the Agriculture Staff included attending the annual Illinois Commodity Conference in Bloomington. This conference is attended by various commodity and producer groups from across the State. Staff also attended the Champaign County Agri-Business Council Meeting and toured the Illinois Sustainability Technology Center at the University of Illinois to learn about their research with biofuels.

For the December board meeting, the Agriculture staff will be presenting eight Beginning Farmer Bonds for consideration.

Agriculture - November, 2008 Closings		
Closing Date	Issuance\$\$	Borrower
11/06/2008	236,250	Clint Niemerg
11/06/2008	149,150	Joel Hartman
11/19/2008	22,500	Allan & Cyndi Adams
11/19/2008	160,000	Steve & Edward Cushing

Healthcare

The month of November was another busy month for the Healthcare staff. Most Healthcare borrowers who passed final resolutions in the last several months are proceeding in December with the variable rate portion of their financing. The Healthcare Group anticipates closing five transactions in December. Borrowers who were planning on issuing fixed rate debt have delayed until January and February, because of the "freeze" in the fixed rate credit market; only one AA rated fixed-rate credit priced in November. Also, several other Borrowers, including OSF Health System, wanted to begin their financing this month, but have been delayed because of the recent merger/acquisition activity in the commercial banking sector.

This month the Healthcare staff attended several market-related seminars. Ungaretti and Harris hosted their Third Annual Healthcare Conference regarding, "The Continuing Challenges to the Charitable Exemption of Illinois Not for Profit Hospitals". The conference featured presentations regarding the Procedural Issues and Challenges to Tax Exemption for Currently Exempt Property and Acquired Non-Exempt Property, A Case Statement for Not for Profit Healthcare and a presentation from the Cook County Assessor. Wells Capital Management hosted an annual seminar featuring James Paulsen, Chief Financial Strategist for Wells Capital, in which he discussed his views on the economy and more specifically the effects on the capital markets.

The Healthcare staff has also been working on familiarizing themselves with the FHA Mortgage Insurance Program (Section 242) for hospitals, which may become more attractive for credits that may have trouble entering the capital markets during the difficult time in the economy.

There were no Healthcare closings in November, 2008

Higher Education

The Higher Education team continues to move ahead with marketing efforts that focus on the immediate needs of most independent Illinois colleges and universities need for sprinkler systems that are mandated by State law to be completed by 2013. Many colleges and universities have cancelled campus expansion projects because of the economy, but they must comply with the sprinkler mandate.

Staff has prepared a memo for memberships to The Federation of Independent Illinois Colleges and Universities and also to the Associated Colleges of Illinois. The Federation has 57 members and the Associated Colleges have 23 members mostly located in the Chicagoland area. The memo outlined using the IFA's Participation Loan program to partner with local banks to fund immediate sprinkler installation expenses. The loan could be combined with future campus projects and taken out with bonds when the economy improves. The Director of the Associated Colleges of Illinois forwarded the memo to Association members, and the Director of the Federation discussed the IFA proposed program with members at the Federation's annual meeting that was held on November 12, 2008 in Chicago. The Directors of both organizations have informed Townsend Albright, IFA Senior Funding Manager, that members were searching for a program to help them fund smaller expenses since bond issues in this economic environment would never receive their respective board's approval. Mr. Albright will

follow-up with both organizations to find out if they are ready to participate in the program.

Additionally, Karen Walker, Director of Financial Services and Townsend Albright, Senior Funding Manager, attended a reception hosted by the Federation of Independent Illinois Colleges and Universities after their board meeting, and talked to several of the attending college Presidents about the IFA's financing programs.

There were no Higher Education closings in November, 2008

Communities and Culture

Smaller not-for-profit project bond financings which rely on direct placement with banks for investing are having difficulty closing as banks have reduced their tolerance for risk and banks are strengthening their capital structures. However, the IFA continues to receive requests for financing and applications for Board inducement.

Townsend Albright is scheduled to meet with the CFO, and other staff, from the Soaring Eagle Academy. The school will be a demonstration school for autistic children and will be located in the Chicagoland area.

Mr. Albright attended the grand opening of the Field House of Barrington, which the IFA Board approved in the fall of 2007. The reception was well attended, and the proprietor emphasized that all contracts are in place. Mr. Albright also attended a reception for the financing team of Loyola University which was held at the University's Water Tower Campus. The University has scaled back its plans to construct a new 700-bed student housing facility due to current economic conditions.

There were no Community & Culture closings in November, 2008

Business & Industry

General Business Update: Recession fears continue to constrain application and closing activity for Industrial Revenue Bonds. The owners of many companies are scaling back or deferring capital expansion projects.

Most new projects will be for companies that have a diversified customer base that manufacture components used in non-cyclical industries (e.g., medical products/diagnostic equipment), growth industries (e.g., wind energy, mining, drilling), or food manufacturing/processing.

The owners of many companies will elect to defer new building construction or acquisition projects as long as possible. The consensus of most IFA lenders is that business owners will continue to be cautious in pursuing expansion plans in 2009. Most lenders believe that the owners of small and middle market manufacturing companies will focus on equipment purchases to enhance long-term viability by (1) enabling the company to further diversify its customer base by providing complimentary service/production capacity, (2) better serve existing customers by reducing backlogged orders and increasing production capacity.

Industrial Revenue Bonds: Credit is still available to manufacturers that demonstrate the ability to attain debt service coverage based on historical operations.

Although closings for bank-purchased Industrial Revenue Bonds have not been disrupted by turmoil in the credit markets, some owners that had contemplated pursuing LOC-enhanced Variable Rate Bond issues have either (1) deferred their Variable Rate Bond issues (until variable rates stabilize or until failed remarketing of LOC's from certain institutions subside) or (2) have opted to proceed with bank-purchased bond issues instead.

LOC-enhanced Fixed Rate Bond Issues are not a viable option for nearly all Industrial Revenue Bond borrowers since the issuance of Fixed Rate Bonds requires borrowers to disclose their underlying financial statements to the SEC. (Variable Rate Demand Bonds are exempted from this SEC disclosure requirement provided that the interest rate is reset at least once every 270 days.) This financial statement disclosure requirement makes issuance of LOC-enhanced Fixed Rate Bonds undesirable for owners of privately-held manufacturing companies (i.e., any private company that is not already subject to SEC financial reporting requirements to the market).

Accordingly, LOC-enhanced fixed rate financings are only viable for projects undertaken by publicly-traded companies (i.e., companies that are already subject to SEC-mandated financial statement disclosure).

Calendar 2007 activity was phenomenal. IFA successfully closed on financings for all pending applications, including a backlog of applications to May 2006, when the Internal Revenue Code was amended to increase the 6 Year Capital Expenditure Limitation applicable to IRB-financed projects from \$10 million to \$20 million.

Finally, as expected, 2008 IRB application and closing volume will be down significantly compared to 2007. Due to the recession, it's anticipated that 2009 IRB volume will be similar to 2008 IRB volume.

Participation Loan Update: Effective October 23, 2008, the Participation Loan interest rate formula changed to 1% Below the Bank Rate -- this higher rate should improve the Authority's return. Additionally, this modification will reduce interest rate risk for both the Authority and the Borrower (i.e., previously, IFA locked its interest rate upfront at the time of application).

This modification in IFA's interest rate formula will also simplify execution of closing documents, thereby expediting future Participation Loan closings with Banks.

Business & Industry – November, 2008 Closings		
Closing Date	Issuance\$\$	Borrower
11/14/2008	7,500,000	Monarch Holdings LLC
11/20/2008	8,189,000	Regis Technologies
11/20/2008	3,900,000	F&F Holding
11/6/2008	345,307	TCI Manufacturing and Equipment Sales

Energy

On the afternoon of December 8, the Executive Director will meet with the Presidents of the University of Illinois and Southern Illinois University as well as senior representatives of the Governor's Office and the Department of Commerce and Economic Opportunity to discuss further opportunities for cooperation on issues relating to energy.

Recent price volatility for oil and natural gas as well as ongoing instability in the Middle East, increased demand for electricity and growing awareness of global warming have spurred interest in projects that can produce energy in the U.S. efficiently, reliably and cleanly.

Illinois has vast coal reserves, corn and soybean production capacity, manufacturing, research and management talent that could be harnessed to increase energy production for use in the Midwest and throughout the nation. Many of these projects offer significant economic benefits, such as substantial investment in regions with little recent new economic activity, construction and permanent jobs in regions with high unemployment, the creation of coal mining jobs, increased income for farmers from higher prices for corn or soybeans or rent payments to site wind turbines, and opportunities to redeploy underutilized manufacturing capacity.

The Authority has recently supported this initiative through the issuance of bonds for ethanol projects (Illinois River Energy), coal power (Prairie Power) and loans for wind projects (Agriwind). This month, the Board will be asked to grant its final approval for the issuance of bonds for a supplier of parts to the wind power industry (Overton Gear).

The IFA has identified energy projects as a key market opportunity in 2009 and beyond. On November 19, members of the Authority's Executive Staff spoke at a ribbon cutting ceremony in Danville celebrating Blackhawk Biofuels' commencement of biodiesel production. On November 20 and 21, the Executive Director traveled to Washington, DC to meet with legislators and officials from the American Council of Renewable Energy (ACORE) and the Renewable Fuels Association.

Energy - November, 2008 Closings

Closing Date	Issuance\$\$	Borrower
11/14/2008	51,200,000	Prairie Power

Local Government

The Local Government staff will be submitting two participants for the Local Government Direct Purchase Bond Program, Village of Freeman Spur and Village of West Salem for final board IFA Board approval. Also, staff closed one local government bond issue in November. In addition, the State Fire Marshal's Office announced the acceptance of applications for the Fire Truck and Ambulance Revolving Loan Programs. IFA staff anticipates that funds related to these programs will be distributed in late fiscal year 2009.

Local Government - November, 2008 Closings

Closing Date	Issuance\$\$	Borrower
11/26/2008	19,820,000	East Richland CUSD # 1

Venture Capital

Venture Capital: Board meetings for two of IFA's portfolio firms, FireFly and Harmonic Vision, were attended. Meeting summaries were completed and distributed. The IFA will begin to receive a dividend payout as a shareholder in Harmonic Vision.

A final proposal was received for engaging a firm to complete a valuation review of IFA's venture capital portfolio. The most recent valuation of the IFA venture capital portfolio was completed in June of 2006. In order to assess current portfolio value the IFA Venture Capital Committee has approved the engagement of a third party firm to conduct a "Calculation Engagement". A summary of the Venture Capital Fund program was provided to the Executive Director..

Human Resources/Operations

Human Resources: A health benefits review and comparison of IFA's and the State plan options is underway.

Records Management: Staff attended a meeting in Springfield with a State Archivist to understand and assess the scope of the impending records management project.

Marketing/Public Relations

Two stories dominated IFA's general press coverage in November: the appointment of John Filan as IFA's Executive Director on November 12. and the ribbon cutting of the Blackhawk Biodiesel plant in Danville on November 19. Other local stories ran in Girard City (potential water tower project) and in the Taylorville, Morrisonville, and Assumption area (approved Ag lender program) as well as coverage of key bond issues in the financial press. An interview with Director Filan will run in the January issue of the Illinois Issues magazine.

Updates to IFA materials (stationery, literature, website, etc.) have been made to reflect the change in Executive Director. IFA also promoted the call for nominations for the Illinois Governor's Export Award program and submitted two nominations. Work progresses on a number of fronts including database development and program support.

FOIA activity in November, 2008










Chicago Sun-Times (Tim Novak) – documents and bond transcripts regarding 2006 Chicago Christian Industrial League (CCIL) project.

**Illinois Finance Authority
Audit Findings Material and Immaterial
Update as of November 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 8				
FY 07 Material Findings				
07-01	Missing Policy on Nondiscrimination	7/31/2008	2/2	100%
07-02	Failure to Report Revenue bond Information to the Illinois Office of the Comptroller		4/3	75%
07-03	Bad-Debts not Referred to the Illinois Office of the Comptroller	7/31/2008	4/4	100%
07-04	Noncompliance with the Illinois Procurement Code and SAMS Procedures	6/30/2008	2/2	100%
07-05	Lack of Segregation of duties in Managing Property and Equipment	4/30/2008	4/4	100%
07-06	No Established Rules to Administer Loan Programs	12/31/2008	2/1	50%
07-07	Authority is Not a Member of the Illinois Forestry Development Council	4/30/2008	2/2	100%
07-08	Failure to Administer the Exporter Award Program	11/30/2008	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 November 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				
FY 07 Immaterial Findings				
IM07-01	Approval of Incomplete Travel and Marketing Reimbursement Forms	6/30/2008	5/4	
IM07-02	Inadequate Processing and Untimely Deposit of Cash Receipts and Refunds	4/30/2008	4/4	
IM07-03	Corrected Agency Workforce Report was not Filed Timely	4/30/2008	4/4	
IM07-04	Use of Telecommunications Devices Not Properly Monitored	4/30/2008	3/3	
IM07-05	Outdated Investment Report	4/30/2008	4/4	
IM07-06	Allowance of Old Accounts Receivable Not Performed	7/31/2008	4/4	
IM07-07	Statement of Economic Interest Report Not Filed Timely	4/30/2008	4/4	
IM07-08	Failure to File for a Refund of Telephone Excise Tax	4/30/2008	2/2	
IM07-09	Noncompliance with Printing Requirements	4/30/2008	2/2	

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