ILLINOIS FINANCE AUTHORITY
BOARD MEETING
Tuesday, March 8, 2011
Chicago, Illinois

COMMITTEE OF THE WHOLE
8:30 a.m.
Two Prudential Plaza - IFA Chicago Office
180 North Stetson Ave., Suite 2555
Chicago, Illinois

AGENDA

I. Call to Order & Roll Call
II. Chairman's Remarks
III. Message from the Executive Director (with attachments; Tab A)
IV. Senior Staff Reports
V. Committee Reports
VI. Project Reports
VII. Other Business
VIII. Adjournment

BOARD MEETING
10:30 a.m.
One Prudential Plaza Conference Center
130 East Randolph Ave., 7th Floor
Chicago, Illinois

I. Call to Order
II. Chairman's Remarks
III. Roll Call
IV. Acceptance of Financial Statements and Minutes
V. Project Approvals
VI. Other Business
VII. Adjournment

Board Meeting Agenda*
March 8, 2011

AGRICULTURE

Tab	Project Name	Location	Amount	New Jobs	Const. Jobs	FM
Beginning Farmer Bonds *Final (One-Time Consideration)*						
1	A) Craig A. & Cara Mz Huber	Lanark (Carroll County)	$295,450	0	0	JS/LK
	B) James V. Mickley	Colona (Henry County)	$248,000	0	0	JS/LK
	C) Kane Richard Vandersnick	Annawan (Henry County)	$326,000	0	0	JS/LK
TOTAL AGRICULTURE PROJECTS			**$869,450**	**0**	**0**	

HEALTHCARE

Tab	Project Name	Location	Amount	New Jobs	Const. Jobs	FM
501(c)(3) Revenue Bonds *Preliminary*						
2	Methodist Medical Center of Illinois	Peoria (Peoria County)	$133,000,000	0	0	PL/NO
501(c)(3) Revenue Bonds *Final*						
3	(Withdrawn)					
4	Sarah Bush Lincoln Health System	Mattoon (Coles County)	$45,000,000	17	60	PL/NO
5	The Carle Foundation	Urbana (Champaign County)	$400,000,000	0	275	PL/NO
TOTAL HEALTHCARE PROJECTS			**$578,000,000**	**17**	**335**	
GRAND TOTAL			**$578,869,450**	**17**	**335**	

RESOLUTIONS

Tab	Project Name	FM
Amendatory Resolutions		
6	Request for Release of manufacturing equipment currently held as collateral for IFA Loan Participation #B-LL-TX-6134	JS
7	Ratification of Settlement Amount for IFA Loan Participation #B-LL-TX-6224	JS
8	Ratification of Authorization of Counsel to Pursue Remedies under Default Provisions for IFA Agri-Debt Guarantee #2004-AI-0078	BC
9	Resolution to Proceed with IT Investments	CM
10	Request for Financial Covenant Compliance Waiver IFA Agri-Business Guarantee #A-AI-TX-GT-6120	BC/RF
11	Authorize Executive Director to negotiate settlement for IFA Agri-Debt Guarantee #2007-SL-0101	JS
12	Authorize Executive Director to negotiate settlement regarding sale of Harmonic Vision, Inc.	XG

*Agenda revised as of Friday, March 4, 2011 at 5:00 PM

Illinois Finance Authority
Board of Directors
Committee as a Whole Meeting
March 8th, 2011

Additional Information

1. Message from Executive Director

2.
   - Information on Agenda Item #7
   - Information on Agenda Items #10
   - Information on Agenda Item #11

3. Procurement Communications Guidance

4. Ethics Training Materials

5. IT Project Materials (Agenda Item #9)

6. IFA Comments to the SEC

7. IFA Media Relations "Clip-Tracker", prepared by Marj Halperin Consulting, with media clips enclosed

ITEM #2

IFA
ILLINOIS FINANCE AUTHORITY

180 North Stetson Ave.
Suite 2555
Chicago, IL 60601
312-651-1300
312-651-1350 fax
www.il-fa.com

March 8, 2011

TO: William A. Brandt, Jr., Chairman
Dr. William Barclay
Gila J. Bronner
Ronald E. DeNard
John E. Durburg
James J. Fuentes
Norman M. Gold
Dr. Roger D. Herrin
Michael W. Goetz, Vice-Chairman
Edward H. Leonard, Sr.
Joseph McInerney
Terrence M. O'Brien
Heather D. Parish
Roger E. Poole
Bradley A. Zeller

RE: Message from the Executive Director

Dear Members of the Authority:

Higher Education – help to both private and public institutions

In February 2011, not-for-profit higher education was the focus of the Illinois Finance Authority's ("IFA") tax-exempt conduit bond closings.

After having received final approval from the IFA board in November 2010, we opened the month by closing DePaul University's $164.440 million bond issuance on February 2, 2011. DePaul University is using bond proceeds to further develop both its Lincoln Park and Loop campuses creating new academic space. The DePaul project is consistent with the University's Vision 2012 plan. The IFA is proud to assist this great Illinois institution of higher learning.

The IFA also assisted two of our State's leading public institutions of higher learning – Illinois State University and Northern Illinois University. On February 23, we closed the CHF-Normal, LLC project to finance the building of dormitories constructed by a not-for-profit developer in the amount of $59.610 million. The CHF-Normal, LLC project will provide housing for students at Illinois State University in Normal. This week, a similar student housing project in the amount of approximately $133 million, CHF-DeKalb, LLC is also expected to close.

Downstate Illinois – an upsurge in hospital financing

March promises to be a significant month for IFA hospital financing in Downstate Illinois. We welcome Carle Foundation's decision to use the IFA as its conduit issuer. Today, the IFA Board will consider final approval of Carle's $380 million conduit bond issuance to acquire and build a nine-story heart and vascular institute in Urbana and to invest in a modern expansion of its existing hospital.

Sarah Bush Lincoln Hospital in Mattoon has decided to restructure its proposed financing (previously approved at our November 2010 meeting). Sarah Bush Lincoln will expand and renovate in Mattoon, maintaining its position as one of the leading healthcare providers in Southeast Illinois.

Finally, we are very pleased to see Methodist Medical Center in Peoria come before the IFA for preliminary consideration of a $133 million financing to reimburse Methodist for previous construction investments at its hospital. Methodist last borrowed through the IFA in 1998.

These conduit financings - Carle (Urbana), Sarah Bush Lincoln (Mattoon), and Methodist (Peoria) - illustrate the IFA's commitment to service borrowers from across our State. These hospital financings together with the dormitory projects in DeKalb and Normal represent a total capital investment in buildings and other construction of over $873 million in Downstate Illinois. These five projects are expected to collectively create 33 new jobs and 635 construction jobs.

Illinois House of Representatives: Appropriation Hearing

On March 2, the IFA appeared before the House Appropriations-Public Safety Committee. We thank Chairman Arroyo, Vice-Chairperson Harris and Minority Spokesperson Reis for the opportunity to appear and inform the committee of the important economic development role played by the IFA in our State.

SEC Rule Making: Volunteer Board Members to be regulated as "municipal advisors"

On February 22, the IFA filed its comments in opposition to the SEC's proposal to regulate its board members as "municipal advisors." In our view, this proposed additional regulation will increase the cost of financing; reduce the pool of willing candidates to serve on the IFA Board and unnecessarily duplicate multiple layers of accountability and transparency that already exist under federal and Illinois law.

Conclusion

I look forward to working with the Members of the Authority to continue to complete projects that retain and create jobs for all of Illinois.

Respectfully,

Christopher B. Meister

Attachments:

Attachment 1 – General Fund, Financial Results, Consolidated Balance Sheet and Audit Tracking Schedule

Attachment 2 – Schedule of Debt; FY'11 Closed Projects

Illinois Finance Authority

Memorandum

To: Ad Hoc Risk Committee

From: Jim Senica

Date: January 28, 2011

Re: Precision Laser Manufacturing, Inc.
IFA Project No. B-LL-TX-6224

The Precision Laser Manufacturing, Inc. Participation Loan referenced above has been on the loan watch list for nearly one year, and in that regard, staff has worked diligently with the banker at Morton Community Bank to assist the borrower to bring the loan current. As you may recall, the IFA Board approved interest-only payments for the six-month period July through December, 2009, a decrease in IFA's interest rate from 6.5% to 5.0% and deferral of the April though June, 2009 principal and interest payments until the end of the loan term, October 23, 2014.

Staff met at length with the Morton Community Banker, Josh Graber, and Morton Community Bank President, Jim Mamer on Wednesday afternoon, January 26th, to further discuss the Precision Laser loan to develop a solution to the delinquency situation. Ideas presented included extending the maturity date of the loan, requesting another deferral of principal and interest payments and possible buyback of IFA's participation. Staff also discussed with the banker the likelihood of the Company being profitable enough to become current on the loan. The banker indicated that Caterpillar again comprises in excess of 70% of the Company's business due to the inability of obtaining/ retaining more new customers. The heavy reliance on Caterpillar significantly increases the risk of further erosion of the Company's business.

Conversation this morning, Friday, January 28th, with the Bank President, Jim Mamer, indicated that the Bank would like to pursue a buyback of IFA's loan participation at a discount (50% was discussed at the Wednesday meeting) and the President requested that I present the possibility of a discounted buyback to management. Jim Mamer indicated that the Bank would most likely not add the IFA portion to the borrower's total outstanding balance to provide payment relief to the borrower. Both the Banker and the Bank President felt that it would take at least 3 or 4 years for the Company to fully recover, if at all, and payment relief is in needed immediately.

Staff questions the probability of the Company's revival and suggests that a buyback of the loan participation at a discounted rate would at least present partial recovery of the borrower's loan.

ILLINOIS FINANCE AUTHORITY

Memorandum

To: IFA Board of Directors

Date: March 8, 2011

From: Rich Frampton

Re: Request for Financial Covenant Compliance Waiver for **Illinois Finance Authority ("IFA")** Agri-Business Guarantee #A-AI-TX-GT-6120

IFA Agri-Business Guarantee # A-AI-TX-GT-6120
Original IFA Guarantee Amount (61% of Loan): $15,036,500
Balance as IFA Guarantee of 12/31/2010: $14,417,350
Interest Rate on Fifth Third Loan: 4.26%
Original Note Date: 5/9/2008
Bank Term Loan Maturity Date: 11/3/2011

Request:

On Friday, March 4, 2011, **Fifth Third Bank** (the **"Bank"**) in Clayton, Missouri, informed IFA that (1) Fifth Third Bank is currently in the process of requesting formal credit approval to waive two specific financial covenant violations and (2) it requests that the IFA Board of Directors consider approval of a formal waiver of the same financial covenants for the period ended December 31, 2010.

Specifically, Fifth Third Bank has notified IFA that the underlying Borrower for the above-referenced loan did not satisfy (1) the required minimum Fixed Charge Ratio Test of 1.25x and (2) the maximum funded Debt to EBITDA Ratio test of 5.00x for the quarter ended December 31, 2010.

Recommendation:

Accordingly, IFA staff recommends approval of the accompanying request.

Because the Bank has agreed to waive these financial covenants, failure to approve the requested waiver would trigger a technical default on Fifth-Third Bank's Loan Agreement with the Borrower and could risk a call on the 61% IFA Agri-Business Guarantee that is further securing the above-referenced loan for Fifth Third Bank.

Comment:

Because the underlying borrower is an SEC reporting entity, information on the Borrower is being presented in a manner consistent with pertinent SEC restrictions and an executed Confidentiality Agreement. The underlying Borrower will release details regarding covenant compliance in connection with its next scheduled SEC filing (anticipated on or around March 31, 2011).

Illinois Finance Authority

Memorandum

To: IFA Board of Directors

Date: March 8, 2010

From: Jim Senica, Funding Manager/Lorrie Karcher, Program Administrator

Re: Husser, Gregory L. & Meyers, Cynthia Eileen d/b/a Husser Dairy
Request for pay out on State Guarantee

Loan # 2007-SL-0101 (*Specialized Livestock Guarantee 85%*)
Original Amount: $292,000.00
Current Balance: $ 46,973.00 *(as of 10/13/10)*

Community State Bank ("Bank") in Fulton has requested the payout on State Guarantee 2007-SL-0101 held in the name of **Gregory L. Husser and Cynthia Eileen Meyers ("Borrower")** by the Illinois Finance Authority as of March 4, 2011 pursuant to the original bankruptcy filling dated June 23, 2009.

The application was presented for approval to the Board of Directors in January 2007 and the loan closed on April 18, 2007 for the purchase of 110 milk cows with off spring, machinery, equipment and down payment for contract sale due to seller on real estate and buildings.

The collateral as presented would consist of a 1st lien position on machinery, equipment, livestock, accounts receivables, government payments and on recreational property and an assignment of life insurance on Greg Husser. The equipment had a value of $57,000, livestock of $287,000 and real estate of $150,000. Total loan appraised loan to value would be adjusted to 65% on equipments, 75% on livestock and 80% on real estate. The repayment terms on the loan were a 10 year amortization with monthly payments.

It was brought to the Bank and IFA's attention early on, June 2008 that the Husser Dairy project was experiencing financial difficulties due to cash flow. Various meetings were held by the Bank and Borrowers assist the Borrower's. It was suggested to divert non earning assets of the lake property to purchase additional cows for increased production or sell to pay down debt. Throughout this time, in July 2008, Mr. Husser had left the day to day operation to accept a position with a steel construction company and was going to sell out. It was apparent by June 2009 that the Husser's would file bankruptcy. As liquidation continued of all collateral, re-payments were made to the IFA loan through 2009 and 2010 with the final sale and closing of the Lake Property in December 2010.

Guidance for the Agencies under the Jurisdiction of the Governor Regarding Procurement Communications Reporting Requirement 30 ILCS 500/50-39

February 22, 2011

Who must report?

The reporting requirement applies to all State agency employees involved in discussions with individuals outside of their own agencies concerning procurement decisions presently under consideration or to be considered in the near future (as further explained below). For purposes of this guidance, a "State employee" is (a) any person employed full-time, part-time or pursuant to a personal services contract with the State and whose employment duties are subject to the direction and control of the State with regard to the material details of how the work is to be performed; (b) all appointed or elected commissioners, trustees, directors, or board members of a board of a State agency; or (c) any other appointed or person in a State agency regardless of whether the position is compensated.

Where do I report?

Reports are made on the Procurement Policy Board (PPB) website at http://www2.illinois.gov/ppb/Pages/default.aspx

What is a reportable communication?

"Any written or oral communication received by a State employee that imparts or requests **material information** or makes a **material argument** regarding **potential action** concerning a **procurement matter**, including, but not limited to, an application, a contract, or a project." 30 ILCS 500/50-39(a) (excerpt, emphasis added).

A communication must:

(1) Be material
(2) Be regarding a potential action,
(3) Pertain to a procurement matter

If all three requirements are satisfied and none of the exceptions explained below apply, then the communication must be reported.

What is "material information" or a "material argument?"

"Material information" is information that a reasonable person would deem important in determining his or her course of action. It is information pertaining to significant issues, including, but not limited to, price, quantity, term and terms of payment or performance. It does not include communications that are a part of the formal procurement process such as the posting of procurement opportunities, the process for approving a Procurement Business Case ("PBC"), submission of bids and the like.

A "material argument" is a communication that a reasonable person would believe was made for the purpose of influencing procurement decisions. It does not include general information about products, services or industry best practices, or a response to a communication initiated by an employee of the

State for the purposes of providing information to evaluate new products, trends, services, or technologies.

In determining whether a communication is material, the State employee should consider (a) whether the information conveyed is new or already known to the State agency involved in the communication and/or (b) the likelihood that the information would influence a pending procurement matter. Information that is already in the State agency's possession is not material.

What is a "potential action" regarding a procurement matter?

A "potential action" is one that a reasonable person would believe could affect the initiation, development or outcome of a pending procurement matter. A "potential action" is not a matter that has occurred or will occur after the procurement matter has concluded.

What topics are "procurement matters" that may need to be reported?

"Procurement matters," unless otherwise excluded, are the processes of procuring specific goods, supplies, services, professional or artistic services, construction, leases of real property, whether the State is lessor or lessee, or capital improvements, and include master contracts, contracts for financing through use of installment or lease-purchase arrangements, renegotiated contracts, amendments to contracts, and change orders. Procurement matters are activities that occur during the time period (a) beginning with the time an agency has identified a need for a procurement as documented by the initiation of a Procurement Business Case or equivalent document, and (b) continuing through the publication of an award notice or other completion of a final procurement action, the resolution of any protests, and the expiration of any protest or Procurement Policy Board review period, if applicable.

If procurement matters meet the tests of materiality and potential action and are not otherwise excluded, they may include the following:

1) Drafting, reviewing or preparing specifications, plans or requirements;
2) Drafting, reviewing or preparing any invitations for bids, requests for proposals, requests for information, sole source procurement justifications, emergency procurement justifications, or selection information;
3) Evaluating bids, responses, or offers, other than communications among an evaluation team and any technical advisors thereto relating to the evaluation of a procurement not yet awarded;
4) Letting or awarding a contract;
5) Resolving protests;
6) Determining inclusion on prequalification lists or prequalification in general;
7) Identifying potential conflicts of interests or the voiding or allowing of a bid, offer or subcontract for a conflict of interest;
8) Approving change orders or the renewal or extension of an existing contract.

Guidance for the Agencies under the Jurisdiction of the Governor
Regarding Procurement Communications Reporting Requirement 30 ILCS 500/50-39
February 22, 2011

What communications are excluded from the reporting requirement?

(1) Statements by a person publicly made in a previously scheduled, organized public forum, including but not limited to those meetings subject to the Open Meetings Act. A meeting may be a public forum even if a reasonable fee is required. Examples include educational seminars and press conferences.
(2) Statements regarding matters of procedure and practice, such as format, the number of copies required, the manner of filing, and the status of a matter.
(3) Statements made to or from a State employee and the agency head or other employees of that agency.
(4) Statements made to the employees of the Executive Ethics Commission (but, pursuant to the statute, not statements received from the EEC if material and not otherwise exempt).
(5) Communications which are privileged, protected or confidential under law including, but not limited to, the attorney-client privilege.
(6) Communications regarding the administration and implementation of an existing contract, except communications regarding change orders or the renewal or extension of a contract.
(7) Communications regarding matters exempt from the Illinois Procurement Code in section 30 ILCS 500/1-10:
    a. Contracts between State governmental bodies
    b. Grants
    c. Purchase of care
    d. Hiring of an individual as an employee and not as an independent contractor, whether pursuant to an employment code or policy or by contract directly with that individual
    e. Collective bargaining contracts
    f. Purchase of real estate
    g. Contracts necessary to prepare for anticipated litigation, enforcement actions, or investigations
    h. Procurement expenditures by the Illinois Conservation Foundation when only private funds are used
    i. Procurement expenditures by the Illinois Health Information Exchange Fund.
(8) Communications regarding small purchases pursuant to 30 ILCS 500/20-20.
(9) Communications regarding change orders, contract amendments or contract extensions that do not contain any other material changes and are at or below the small purchase dollar threshold.

What are the penalties for non-compliance?

State employees who knowingly and intentionally fail to comply with the reporting requirements will be subject to suspension or discharge. 30 ILCS 500/50-39(e)

If the communication of one party is exempt while communication from the other party is not exempt, must the non exempt communication be reported?

Yes, only the non-exempt communication is required to be reported. For example, communications made to employees of the Executive Ethics Commission need not be reported whereas communications made by an employee of the Executive Ethics Commission must be reported by the receiving employee unless otherwise exempt.

Are communications conducted during contract negotiation and before contract execution exempt from disclosure?

Yes, these communications occur after the procurement matter is complete.

Are communications that are already published on a public medium, such as the Procurement Bulletin, exempt from the disclosure requirement?

Yes, all information published on a State of Illinois electronic or print medium is considered published in a public forum. As a result, the communication does not have to be reported.

What details must be reported?

Three categories of information must be reported:

Public Information	State Employee Information	General Details
• Identity of each person issuing the written or oral communication • Identity of the individual or entity represented by the person issuing the communication, if applicable. • Description of the action requested or recommended by the person issuing the communication • Phone number of the person issuing the communication (if the communication occurred by phone) • The location of the person issuing the communication.	• Identity of employee(s) receiving the communication • Job title of employee(s) receiving the communication • Identity of the employee(s) responding to the communication • Job title of employee(s) responding to the communication • The location of the employee(s) involved in the communication • Phone number of employee(s) involved in the communication (if the communication occurred by phone)	• Summary of points made by each person involved in communication • Duration of communication • Date of communication • Time of communication transmission • Communications should be reported within 30 days

Procurement Communications Reporting Worksheet

This worksheet is not to be used for official Procurement Communications Reporting.
It is a tool to assist users in obtaining the necessary information for reporting a communication.

Topic: ______

Method of Communication: ☐ Phone ☐ Email ☐ Group Meeting ☐ Mail ☐ In Person ☐ Other

Date of Communication: ______ Time of Communication: ______ ☐ AM ☐ PM

Duration in minutes: ______

Reference Number *(if applicable)*: ______

Initiator Information

Name: ______

Type: ☐ State Employee ☐ Lobbyist ☐ Vendor ☐ Other State Dept. Employee ☐ Local Agency Employee

☐ Other *(please specify)*: ______

Job Title: ______

Representing: ______

Address: ______

Phone Number: ______

Email Address ______

Recipient Information

Name: ______

Type: ☐ State Employee ☐ Lobbyist ☐ Vendor ☐ Other State Dept. Employee ☐ Local Agency Employee

☐ Other *(please specify)*: ______

Job Title: ______

Representing: ______

Address: ______

Phone Number: ______

Email Address ______

Action requested or recommended:

Summary of communication:

Additional Information:

ITEM # 7

2011 ETHICS TRAINING

FOR APPOINTEES TO STATE OF ILLINOIS BOARDS

SUBJECT TO THE AUTHORITY OF THE OFFICE OF EXECUTIVE INSPECTOR GENERAL
FOR THE AGENCIES OF THE ILLINOIS GOVERNOR

DATE OF ISSUE: JANUARY 2011

Note: This training course has been developed in accordance with the requirements of the State Officials and Employees Ethics Act (5 ILCS 430/5-10). It has been developed for this purpose under the direction of the Office of Executive Inspector General for the Agencies of the Illinois Governor ("the OEIG"). Not for use by other than State of Illinois employees, appointees or officials without the express prior consent of the OEIG.

Table of Contents

Introduction/General Principles

As a person appointed to a position in or with a state agency, board, or commission, you are subject to various laws, rules, and policies that typically apply to state employees. Although many appointees to state boards and commissions receive no compensation from the state and may only serve on a part-time or intermittent basis, they are nevertheless subject to the State Officials and Employees Ethics Act (5 ILCS 430 et seq.). For purposes of the Ethics Act, all appointees are considered state employees.

Generally, the Ethics Act and many other ethics-related laws, rules, and policies apply to you regardless of who appointed you and, with few exceptions, apply regardless of other positions that you may hold, such as that of a locally elected official or municipal employee. These laws and rules are intended to ensure that the functions of state government are conducted with fairness, honesty, and integrity. That is, in part, what it means to follow the principles of **ethics.**

Your official actions and those of your fellow appointees may have significant economic and social consequences for the citizens of Illinois. Therefore, it is important that your official actions are made in the best interests of the state and in a manner that is consistent with all applicable laws, rules, policies, and regulations.

Like others who serve the state as appointees, employees, or officials, you must use state-provided resources in the most productive and efficient way possible and generally, only for the work of state government. You must avoid placing your personal or financial interests in conflict with those of the state. If you have knowledge of conduct by a state employee, appointee, or official, or those doing business with the state that is either unethical or unlawful, you have an obligation to notify the appropriate authorities.

It is your responsibility to become familiar with and obey the laws, rules, policies, and regulations that apply to you. If you have a question about either the legality or ethics of a matter related to state government, you may discuss the matter with the ethics officer for the state board or commission which you serve or you may seek private legal counsel.

What's New

In the lesson materials that follow, you will find updated explanations of the law and new examples of ethics obligations and review questions. You will also find a new lesson concerning recent amendment to the Illinois Procurement Code that, by law, all state employees must be informed of.

Ethics Officers

By law, each state agency, including each state board, is required to designate an ethics officer. Ethics officers:

- act as liaisons between their state agencies and the appropriate Executive Inspector General and the Executive Ethics Commission;

- review employees' statements of economic interests before they are filed with the Secretary of State (these statements will be discussed later in this training); and
- provide guidance to state employees in the interpretation and implementation of the State Officials and Employees Ethics Act.

You should have been provided the name of your board's ethics officer and information on how to contact him or her when you were notified of the need to complete this training course. It is recommended that you write the name and contact information for your board's ethics officer on the cover sheet of this training package and keep it as a reference should you have future questions concerning an ethics matter related to your position with the state.

For your reference, a list of ethics officers for state agencies and boards under the jurisdiction of the Office of Executive Inspector General for the Agencies of the Illinois Governor may be found via the Internet at: http://www.inspectorgeneral.illinois.gov.

Executive Ethics Commission (EEC)

Established in 2004, the Executive Ethics Commission, in conjunction with the Executive Inspectors General and the Attorney General, is responsible for the oversight of, compliance, implementation, and enforcement of the State Officials and Employees Ethics Act. The commission consists of nine commissioners, appointed on a bipartisan basis, and it exercises jurisdiction over all officers and employees of state agencies under the six executive branch constitutional officers of the state, as well as the nine state public universities. The commission also promulgates rules governing investigations of the Executive Inspectors General and holds administrative hearings related to alleged violations of the Ethics Act. For further information about the Executive Ethics Commission, visit its Web site at: http://www2.illinois.gov/eec.

Office of Executive Inspector General (OEIG)

Established in 2003, the OEIG is an independent state agency whose primary function is to investigate fraud, abuse, and violations of laws, rules, and policies in state government. The OEIG investigates allegations of misconduct by the employees, appointees, and elected officials under its jurisdiction.

The OEIG's jurisdiction includes the state public universities, the Office of the Governor, the Office of the Lt. Governor, and all state agencies and departments of the executive branch of state government, except for those agencies under the jurisdiction of other executive branch constitutional officers, specifically the Attorney General, the Comptroller, the Treasurer, and the Secretary of State (other Inspectors General have jurisdiction over the four executive branch constitutional officers not under the OEIG's jurisdiction, and the state legislature).

Additionally, the OEIG has responsibility for investigating misconduct by those doing business with state agencies under the OEIG's jurisdiction.

For additional information about the Office of Executive Inspector General for the Agencies of the Illinois Governor, visit its Web site at: http://www.inspectorgeneral.illinois.gov.

Ethics Training (Ethics Act, Section 5-10)

Under the Ethics Act, executive branch employees are among those who must, at least annually, complete ethics training under appropriate oversight. Additionally, by law, new employees must complete ethics training within 30 days of their initial employment. Because state employees are defined within the Ethics Act to include, "any appointee," appointees must also complete ethics training. **Elected** commissioners, trustees, directors, or board members of boards of a state agency, including any retirement system or investment board subject to the Illinois Pension Code, are also state employees for purposes of the Ethics Act.

This training course is specifically required of appointees to entities under the jurisdiction of the Office of Executive Inspector General for the Agencies of the Illinois Governor. It is the responsibility of each state agency, board, commission, etc. to conduct ethics training and to annually report to the OEIG and the Executive Ethics Commission those individuals who have or have not completed training.

Failure to complete training when directed to do so exposes employees and appointees to disciplinary or other action by their state agencies or boards and/or the appropriate ultimate jurisdictional authority (i.e., the Governor, Lt. Governor or in the case of the state public universities, their boards of trustees). This may include action up to and including termination of employment or withdrawal of appointment. Additionally, the failure to complete ethics training and to submit a signed certification of completion of the training, in accordance with the training's instructions and the requirements of the Ethics Act, may be found to constitute a violation of the Ethics Act. This could result in possible administrative action by the Executive Ethics Commission, including its levy of a fine of up to $5,000.

Your state board will notify you and provide instructions to you concerning when and how to participate in ethics training. By carefully reading and reviewing the material in this package and, signing and submitting the attached acknowledgement form, you are completing this training for the current year.

What's New

Procurement Communications Reporting (30 ILCS 500/50-39)

Among its other goals, the Illinois Procurement Code is intended to ensure that state purchases are made fairly and in the best interests of the state. A recent amendment to the Procurement Code requires that employees be informed, via annual ethics training, of new requirements to report certain communications received by state employees related to state procurement (purchasing) matters.

Under the Procurement Code, any written or oral communication (e.g., a phone call, email, or letter) received by a state employee that provides or requests material (i.e., important) information or makes a material argument about a procurement matter (such as a request for proposals (RFP)), must be reported to the state's **Procurement Policy Board**. Communications related to the following matters are among those that must be reported:

- Establishing or defining a procurement need or method of source selection
- Drafting, reviewing, or preparing specifications, plans, or requirements
- Drafting, reviewing, or preparing any invitations for bid, requests for proposals, requests for information, sole source procurement justifications, emergency procurement justifications, or selection information
- Evaluating bids, responses, or offers
- Publishing notices to the Procurement Bulletins

Communications reports to the Procurement Policy Board must be submitted using the Procurement Communications Reporting System (PCRS) at: **http://pcrs.illinois.gov** within 30 days and must include:

- The date and time of each communication
- The identity of each person from whom each communication was received, the individual or entity represented by that person, and any action requested or recommended by that person
- The identity and job title of the person to whom each communication was made
- The identity and job title of the person providing a response to each communication, if a response is made
- A detailed summary of the points made by each person involved in the communication
- The duration of the communication
- The location(s) of all persons involved in the communication (including their phone numbers, if via telephone)
- Any other pertinent information

When an **oral communication** to a state employee, which is subject to the above-mentioned reporting requirement, **is made by a lobbyist**, all individuals who participate in the oral communication must submit a written report to the state employee which documents the above-listed report elements (i.e., date, time, etc.). These "lobbyist reports" will be included in the report submitted to the Procurement Policy Board and will be available to the public via the Board's Web site at: **http://ppb.illinois.gov**.

Communications related to procurement matters **<u>not</u> required to be reported** to the Procurement Policy Board include:

- Statements by a person publicly made in a public forum
- Statements regarding matters of procedure and practice, such as the format or number of copies required related to a contract bid
- Statements made by a state employee to other employees of the same agency or to employees of the Executive Ethics Commission

Generally, communications regarding the administration and implementation of an existing contract do not need to be reported to the Procurement Policy Board; however, communications regarding contract change orders or the renewal or extension of a contract must be reported.

Contact your state agency's ethics officer for additional information concerning these reporting requirements or visit the Procurement Policy Board's Web site (http://ppb.illinois.gov) for additional instructions and information.

Official Misconduct, Bribery, and Solicitation Misconduct (Criminal Code of 1961 (720 ILCS 5/33-3))

Public officers or employees commit misconduct when, in their official capacity, they commit any of the following acts:

- Intentionally or recklessly fail to perform any mandatory duty as required by law
- Knowingly perform an act which they know they are forbidden by law to perform
- With intent to obtain personal advantage for themselves or another, they perform an act in excess of their lawful authority
- Solicit or knowingly accept for the performance of any act a fee or reward which they know is not authorized by law

Public officers or employees convicted of violating any these provisions forfeit their office or employment. In addition, they commit a Class 3 felony.

For Example:

A state employee may be committing official misconduct if he approves a state contract, which he knows he does not have the authority to approve. Also, as an example, a state employee may be committing official misconduct if he uses state property or equipment for unauthorized purposes, such as for his personal use or other non-state business.

Among other circumstances, **bribery** occurs when state employees ask for or accept property or personal advantage, such as, but not limited to, money or free services, in exchange for taking or not taking (or influencing someone else to take or not take) an official act.

For Example:

It is unlawful for state employees to accept something of value, such as a promise of future employment, or travel expenses, in exchange for making official decisions, such as the authorization of state financial aid, approval of a state contract, or issuance of a professional license.

If state employees or officials accept a bribe, they could face criminal charges and if convicted, they could go to jail. It is also a criminal violation of the law if state employees or officials fail to report a bribe to the Illinois State Police.

If state employees have regulatory authority over a person, such as responsibility to investigate, inspect, license, or enforce regulatory measures related to the person's business or activity, and they knowingly ask for or receive political campaign contributions from that person, they have committed **solicitation misconduct.** If convicted of solicitation misconduct, they will lose their state jobs.

Personnel Policies (Ethics Act, Section 5-5)

State employees are required to follow the personnel policies of their state agency, board, or commission. These policies must include elements related to the following:

- Work time requirements
- Documentation of time worked/time sheets
- Documentation for reimbursement for travel on official state business
- Compensation
- Earning and accrual of state benefits for those eligible for benefits

As an appointee, you are expected to become familiar with and adhere to the personnel policies of your board or commission.

Time Sheets (Ethics Act, Section 5-5)

As a state employee, you are required to periodically submit time sheets documenting the time spent each day on official state business to the nearest quarter hour. **As a state board appointee, you are expected to accurately report the hours that you work for the state, on a timely basis, as directed by your state board.**

Conflicts of Interest

Many appointees to state boards and commissions serve the state on a part-time basis and are also employed elsewhere. As a result, appointees may be more likely than other state employees to have personal, financial, or business interests that have the potential to conflict with their official work on behalf of the state. It is vital to the proper operation of state government and the public's confidence in the integrity and basic fairness of state government, for appointees to avoid not only actual conflicts of interest, but also those situations that may be perceived by others as a conflict of interest.

A conflict of interest occurs when the interests of an appointee are in conflict with the interests of the state. This might occur, for example, when a decision or recommendation that an appointee makes, relative to his or her official position, either affects or is affected by his or her personal interests or those of a family member, friend, or associate.

> For Example:
>
> **An appointee has a conflict of interest when she participates in a decision to award a contract for state business to a company owned by a business associate. Another example of a conflict of interest occurs when an appointee attempts to influence the vote of a fellow board member in order to benefit the financial interests of a friend.**

Official actions taken by an appointee to a state board, such as, but not limited to, voting on an issue before the board, or approving a license application, or granting a contract, or hiring an employee of a board, should be in the best interests of the state.

Do What's Right!

Recommended Best Practice

In any instance where you believe you may have a conflict of interest with respect to your membership on a state board or commission, it is your responsibility to immediately take steps to appropriately disclose the conflict and take action to remedy it. Disclosure should be made in accordance with any applicable policies of your board or commission. In the absence of a relevant policy, disclosure should be made to the head of the board or commission and to its ethics officer. Every immediate effort must be made to either eliminate the conflict or to recuse yourself from any official business related to the conflict.

Any preexisting, potential, or real conflicts of interest should be disclosed to the state by state employees or appointees during their hiring/appointment process.

For Example:

A prospective appointee to a state board whose husband is employed by a law firm that provides legal services to the board should disclose that relationship to the appointing authority.

Additionally, it is unethical for state employees and appointees to use information made available to them as result of their official duties and which is not generally known to the public, to benefit themselves, their friends, their family, or associates. The use of such insider information to benefit themselves or another person is unlawful under the Illinois Procurement Code (30 ILCS 500/50-50).

For Example:

It would be inappropriate and illegal for a state board member to provide confidential information about a competitive bidding process for a state contract to a friend whose business is participating in that same bidding process.

Conflicts of Interest Lesson Review Questions

Review Question #1

Jack is a department head within city government. He was recently appointed to a state board that deals with issues affecting local government.

Anna, another member of Jack's state board, owns a company that does business with the city Jack works for. Jack is interested in gathering support for a proposal he plans to make to the state board. He has told Anna that if she supports his proposal, he may be able to steer some city business to her company. Anna has agreed. Are Jack's and Anna's actions ethical?

A. No, their actions represent a conflict of interest (and possibly much worse).

B. Yes, their actions are nothing more than the typical "horse-trading" that goes on in any organization, including government.

C. Yes, their actions are okay, since it is not clear that either of them will receive financial benefit as a result of Jack's plan.

Select the best answer(s) and then compare your response to the explanation below.[1]

Review Question #2

Tanya is an appointed member of a state board that makes recommendations to a state agency concerning the agency's issuance of funding grants to various nonprofit service organizations. Tanya's daughter-in-law works for one of those nonprofits that receive funding from the state agency that Tanya's board advises. Should Tanya disclose her daughter-in-law's employment to anyone, since it may be a conflict of interest?

A. No, because Tanya is only one of several board members who must vote on funding recommendations. She cannot individually make such a recommendation. Therefore, her situation does not represent a conflict of interest.

B. Yes, Tanya should disclose to her state board her daughter-in-law's employment, since it may be a conflict of interest.

C. No, because Tanya's board only makes recommendations rather than final decisions about funding, she is not required to disclose her daughter-in-law's employment.

D. No, because only full-time state employees and not appointees are responsible for avoiding conflicts of interest.

Select the best answer(s) and then compare your response to the explanation below.[2]

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[1] The best response to Review Question #1 is A. Jack's and Anna's planned actions represent a conflict of their interests with those of the state, since it appears as though Anna has agreed to take official action on Jack's board proposal, based on Jack's offer to steer business to her company. Furthermore, Jack's offer to Anna may violate the policies of the city he works for. Worst of all, both Jack's and Anna's planned actions may represent official misconduct and/or bribery, both of which are potential criminal offenses.

[2] The best response to Review Question #2 is B. Tanya should disclose her daughter-in-law's employment to her state board's ethics officer and/or its chairperson. Despite the fact that Tanya's board makes only recommendations, others would view Tanya's decisions as affecting or being affected by her daughter-in-law's employer. This is true even though Tanya cannot individually make a decision affecting the organization that employs her daughter-in-law. The fact that Tanya is an appointee and not a full-time state employee has no relevance to the existence of her conflict of interest. The ethics officer and Tanya's board should develop a plan to ensure that the interests of Tanya and her daughter-in-law do not come into conflict with those of the state. This may be achieved by ensuring that Tanya does not participate in board actions that have the possibility of being affected by or affecting Tanya's daughter-in-law's employer.

Prohibited Political Activities (Ethics Act, Section 5-15)

State employees and appointees may not participate in any of the following activities while acting, or appearing to act, as state employees or appointees or while conducting state business. If state employees or compensated appointees take part in any of these activities during normal work hours (i.e., during compensated time), then they must use vacation, personal, or compensatory time off. Additionally, state employees or appointees may never engage in any of these activities using state property or resources (such as state-provided telephones, cell phones, photocopiers, or computers):

- Prepare for, organize, or participate in any political meeting, political rally, political demonstration, or other political event

  For example, a state employee may not send an email to fellow workers during work hours and/or using a state email account, encouraging them to attend a rally for a candidate for public office. Nor may state employees use a state email account, at any time, to, for example, issue invitations to or advertise a political event to anyone.

- Solicit contributions, including but not limited to purchasing, selling, distributing, or receiving payment for tickets for any political fundraiser, political meeting, or other political event

- Solicit, plan the solicitation of, or prepare any document or report regarding any thing of value intended as a campaign contribution

- Plan, conduct, or participate in a public opinion poll in connection with a campaign for elective office or on behalf of a political organization for political purposes, or for or against any referendum question

- Survey or gather information from potential or actual voters in an election to determine probable vote outcome in connection with a campaign for elective office or on behalf of a political organization, or for or against any referendum question

  For example, it is unlawful for state employees, during their workday, to call potential voters on behalf of a candidate to find out whom they might vote for in an upcoming election.

- Assist at the polls on Election Day on behalf of any political organization, political candidate, or for or against any referendum question

- Solicit votes on behalf of a candidate, political organization, or for or against any referendum question, or help in an effort to get voters to the polls or participate in a vote recount on behalf of a candidate or political organization

- Initiate, prepare, circulate, review, or file a petition on behalf of a candidate for elective office or for or against any referendum question

- Make a contribution on behalf of any candidate for elective office

- Prepare or review responses to candidates' questionnaires in connection with a campaign for elective office or on behalf of a political organization for political purposes

- Distribute, prepare for distribution, or mail campaign literature, campaign signs, or other campaign material on behalf of any candidate for elective office or for or against any referendum question

- Campaign for an elective office or for or against any referendum question

- Manage or work on a campaign for elective office or for or against any referendum question

  For example, it is unlawful for state employees to use state-provided telephones, even during an uncompensated lunch period or before or after their normal work hours, to work on someone's campaign for elective office.

- Serve as a delegate, alternate, or proxy to a political party convention

Lastly, a supervisor may not compel a state employee to perform political activities at any time.

Do What's Right!

Recommended Best Practice
State employees or appointees must not engage in political activities during the hours they work for the state or while using any state resource (such as phones, copiers, letterhead, fax machines, email accounts, etc.). In some instances, state agencies or state boards and commissions may have policies that more severely restrict the political activities of their employees and appointees, including those activities that may take place outside of the time which employees and appointees work for the state. If you are in doubt as to whether an activity or action may be prohibited by law or policy, you may ask your state board's ethics officer for guidance.

Prohibited Political Activities Lesson Review Questions

Review Question #3

James is an unpaid appointee to a state commission. James is actively involved in promoting a referendum to increase property taxes in his town. Is it possible that some of James' activities in support of the referendum may be restricted by state law?

A. No, because James does not receive a salary from the state, he is not subject to the legal restrictions, such as the Ethics Act, that apply to most full-time state employees.

B. Yes, the political prohibitions of the Ethics Act, some of which relate to referendum questions, apply to James.

C. No, since the prohibitions on certain political activities of state employees and appointees only apply to their support of candidates for elective offices and not to referendum questions.

Select the best answer(s) and then compare your response to the explanation below.[3]

Review Question #4

Linda is a full-time appointee to a state commission. As such, she has a state email account that she uses to communicate with her commission's staff. Linda also occasionally receives messages via her state email account, from individuals or entities outside of state government, which are unrelated to state business. She recently received a brief email from an acquaintance urging her to vote for a particular candidate for a federal elective office. The email suggests that Linda forward the message to 10 of her friends in an effort to drum up additional support for this particular candidate. Linda isn't sure if she can do so without violating the Ethics Act. What should she do?

A. Forward the message to her friends, since it's only a few people. Furthermore, Linda plans to send the email on her own time, not when she's supposed to be working on the activities of her state commission.

B. Seek the advice of her commission's ethics officer, because she is unsure whether using the state's email system for political purposes is unlawful.

C. Delete the message she received from the acquaintance and inform that person that state law prohibits the use state property and resources, such as the state's email system and Linda's time as a commissioner for political purposes (such as soliciting support for someone running for elective office).

Select the best answer(s) and then compare your response to the explanation below.[4]

[3] The best response to Review Question #3 is B. The restrictions that pertain to certain political activities under the State Officials and Employees Ethics Act apply to all executive branch employees, including most appointees to state boards and commissions, regardless of whether the appointees receive compensation. Some of the Ethics Act's restrictions on political activities apply to employee or appointee actions in support of candidates for elective office, in support of political parties, **and for or against referendum questions**.

[4] The best response to Review Question #4 is C, although it's also appropriate for Linda to seek the advice of her commission's ethics officer. The Ethics Act prohibits state employees, including appointees, from intentionally misappropriating state property or resources, such as the state's email system, to engage in any prohibited political activity. This includes the use of a state email account to solicit support for a candidate for elective office, regardless of whether its use takes place on an employee's own time (outside of normal work hours or when using vacation, personal, or compensatory time off).

Political Contributions on State Property (Ethics Act, Section 5-35)

As an appointee to a state board or commission, you may not intentionally solicit, accept, offer, or make political campaign contributions on state property. These prohibitions also apply to public officials, state employees, candidates for elective office, lobbyists (i.e., persons required to be registered under the Lobbyist Registration Act), or any officers, employees, or agents of any political organization.

State property includes, for example, buildings or portions thereof that are owned or exclusively leased by the state.

Prohibited Offer or Promise (Ethics Act, Section 5-30)

A state employee, appointee, or official may not promise **anything of value** related to state government in consideration for a contribution to a political committee, political party or other entity that has as one of its purposes the financial support of a candidate for elective office.

In the context of a prohibited offer or promise related to a political contribution, **anything of value** includes, but is not limited to:

- positions in state government
- promotions
- salary increases
- other employment benefits, including, but not limited to, modified compensation or benefit terms; compensated time off; or change of title, job duties, or location of office or employment. An employment benefit may also include favorable treatment in determining whether to bring any disciplinary or similar action or favorable treatment during the course of any disciplinary or similar action or other performance review
- board or commission appointments
- favorable treatment in any official or regulatory matter
- the award of any public contract
- action or inaction on any legislative or regulatory matter

For Example:

It is unlawful for a state employee or appointee to offer an action by a state board, or to offer someone a state job or to offer an appointment to a state board, or to offer the award of a contract, in exchange for a political campaign contribution.

Ban on Gifts from Prohibited Sources (Ethics Act, Sections 10-10, 10-15 and 10-30)

Generally, as a state appointee, you must not ask for or accept anything of value (other than the compensation you may receive from the state) in relation to your position with the state. Asking for or accepting a gift may be illegal under the Ethics Act, or prohibited by your state board's policies. Furthermore, anything of value, if offered to you **in exchange for an official act**, may be considered a bribe.

Prohibited gifts include a variety of things, some of which you might not ordinarily think of as gifts. Gifts are defined by the Ethics Act to include, among other things, tickets to sporting events, hospitality, specially discounted merchandise or services, entertainment, loans, reimbursement of travel expenses, gratuities, cash, food, drink, and honoraria for speaking engagements. In addition to the restrictions on the solicitation or acceptance of gifts from prohibited sources that are contained in the Ethics Act, your state board may have its own policies, which in some instances, may be more restrictive than those of the Ethics Act.

Under the Ethics Act, state employees or appointees may not intentionally solicit or accept prohibited gifts from certain individuals or entities that are defined by law as a "prohibited source" or in violation of any federal or state statute, rule, or regulation. It is also unlawful for employees' or appointees' spouses or immediate family members living with them to solicit or accept a prohibited gift from a prohibited source.

Prohibited sources include a person or entity that:

- Seeks official action from the state employee or the employee's state agency or other employee directing the employee
- Does business or seeks to do business with the employee, state agency, or other employee directing the employee
- Conducts activities that are regulated by the employee, the state agency, or other employee directing the employee
- Has interests that may be substantially affected by the performance or non-performance of the official duties of the state employee
- Is a registered lobbyist under the Lobbyist Registration Act
- Is an agent of, a spouse of, or an immediate family member who is living with a prohibited source

Under the Ethics Act, there are a limited number of specific circumstances under which you may lawfully accept certain items of value from a prohibited source, such as the reimbursement of travel expenses for a meeting to discuss state business when the situation meets specific criteria <u>and</u> when such expenses have been approved in advance by your board's ethics officer.

The list of exceptions is limited to:

- Opportunities, benefits, and services available to the general public on the same conditions
- Anything for which a state employee pays market value
- A lawful contribution under the Election Code or the Ethics Act or activities associated with a fundraising event in support of a political organization or candidate
- Educational materials and missions (as further defined below *)
- Travel expenses for a meeting to discuss state business (as further defined below **)
- A gift from a relative
- Anything provided on the basis of personal friendship, unless the employee has reason to believe that, under the circumstances, the gift was provided because of the official position of the employee and not because of the personal friendship

- Food or drink that does not exceed $75 per calendar day
- Food, drink, lodging, and transportation related to outside business or employment activities, if the benefits are customarily provided to others in similar circumstances and are not offered because of the recipient's official position
- Intra-governmental or inter-governmental gifts (e.g. gifts between agency employees or between government employees)
- Bequests, inheritances, and other transfers at death
- Any item or items from any one prohibited source during any calendar year that has a cumulative total value of less than $100

*Illinois Executive Ethics Commission Rule 1620.700 states that educational materials and missions are those that have a close connection to the recipient's state employment; predominately benefit the public and not the employee; and are approved by the employee's ethics officer in advance of the mission or receipt of the materials. If advance approval is not practicable, the missions and materials shall be reported to the ethics officer as soon as practicable and shall contain a detailed explanation of why approval could not be obtained in advance.

**Illinois Executive Ethics Commission Rule 1620.700 further states that travel expenses of a meeting to discuss state business are those that have a close connection to the recipient's state employment; predominately benefit the public and not the employee; are for travel in a style and manner in character with the conduct of state business; and are approved by the employee's ethics officer in advance of the travel, if practicable. If advance approval is not practicable, the travel shall be reported to the ethics officer as soon as practicable and shall contain a detailed explanation of why approval could not be obtained in advance.

Under the Ethics Act, if state employees or appointees **unintentionally** receive a prohibited gift from a prohibited source, they may correct the situation and not be in violation of the law if they promptly do any of the following:

- Return the gift to the giver
- Give the gift to a not-for-profit organization, a 501(c)(3) organization
- Give an amount of equal value to a not-for-profit organization, 501(c)(3) organization

Be aware that **any gift that is intended to improperly influence your official conduct** as a state appointee **must not be accepted**. Such a gift may constitute a bribe under state or federal law. Questions you may have related to gifts solicited or received in your capacity as a state appointee or while conducting state business may be referred to your state board's ethics officer.

Do What's Right!

Recommended Best Practice
In general, it is recommended that you simply decline anything of value offered to you (other than the compensation you may receive from your state board) in relation to your official duties, unless it meets one of the exceptions to the Ethics Act's gift ban and is allowable under your state board's policies.

It is advisable that prior to accepting anything of value in connection with your official duties, that you discuss the matter with your board's ethics officer. Exceptions to the suggestion that you discuss the acceptance of a gift with your board's ethics officer should be limited to situations where you are fully confident that your acceptance of a gift does not violate any law, rule, policy, or regulation and does not create the perception of wrongdoing.

Gift Ban Lesson Review Questions

Review Question #5

Binh, who is a member of a state board, is shopping for a used car with his son. While Binh and his son look over cars on a local car dealer's lot, the salesman asks Binh what he does for a living. Binh mentions he's employed full time, but also serves on a state board. In response, the salesman says he will discount the price of the car by an extra 5% because Binh works for the state and the dealer wants to maintain a good relationship with state employees since the dealership has a vehicle maintenance agreement with a state agency. Is it lawful for Binh to accept this special discount?

A. Yes, since the Ethics Act's gift ban only applies to employees and not appointees.

B. Yes, since it is likely that the salesman makes similar offers of special discounts to others and since the car salesman isn't asking for anything in exchange for his offer.

C. Yes, since the dealer's maintenance agreement is with another state agency, and not with Binh's state board.

D. No, because the offer does not appear to be one that is made available to the general public on the same conditions.

Select the best answer(s) and then compare your response to the explanation below.[5]

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[5] The best response to Review Question #5 is D. It is unclear whether this same offer is made available to members of the public on the same conditions. The car dealer is a prohibited source because it is a state vendor, whether or not its contract with the state is with Binh's state board. The Ethics Act's gift ban generally applies to appointees to state boards and not just to other state employees. Therefore, Binh's acceptance of a merchandise discount, from a state vendor, that is not made available to the general public on the same conditions would be a violation of the Ethics Act.

Furthermore, the gift ban applies to the spouse and immediate family members living with a state employee (or appointee), and therefore, it would apply, in this instance, even if Binh's son was paying for the car and receiving a special discount.

Review Question #6

Aran is office manager for a small state board. Among his many duties, he orders office supplies and is responsible for the installation and repair of his office's copiers, telephones, printers, and fax machines. Recently, one of his office's two laser printers broke down. When the repairman was in the office to fix it, he offered Aran two free ink cartridges to compensate the office for any inconvenience caused by the printer's malfunction. Aran knows the board's budget is tight and the printer's failure delayed some of the staff's work. Is it lawful under the Ethics Act for Aran to accept the repairman's offer?

A. Yes, it is lawful under the Ethics Act to accept a gift offered by a prohibited source to a state agency, rather than to an individual state employee.

B. No, because the value of the printer cartridges is not known.

C. Yes, since the cartridges are offered to compensate the state for its inconvenience, they are allowable under the Ethics Act's gift ban.

Select the best answer(s) and then compare your response to the explanation below.[6]

Revolving Door (Non-State Employment) Restrictions (Ethics Act, Section 5-45)

The Ethics Act contains restrictions that may, under certain circumstances, affect whether you, as a state appointee, (or one of your family members) may lawfully accept employment, compensation, or fees from another person or entity after you end your state service.

Employment Restrictions and Procedures that Apply to Employees or Appointees Who Participate in Contract, Licensing or Regulatory Decisions:

Depending on your state appointment and its responsibilities, you may be required to immediately notify the OEIG if you are offered non-state employment from certain persons or entities and to seek a determination from the OEIG regarding whether you may lawfully accept such an offer (before its acceptance).

[6] The best answer to Review Question #6 is A. Aran's acceptance of the printer cartridges for use by his state agency is lawful under Ethics Act's gift ban. The gift ban only applies to items of value offered by a prohibited source to state employees, appointees and officials and not to those which are offered, as in this instance, to a state agency. In this case, the value of the printer cartridges is not relevant to determining whether they may be lawfully accepted under the Ethics Act nor is whether they are offered to compensate the state for its inconvenience.

It is advisable that prior to accepting a gift on behalf of a state agency that state employees verify that the gift's acceptance does not violate state agency policy or other laws or policies, which may be more restrictive than the Ethics Act.

The Ethics Act requires each executive branch constitutional officer to adopt a policy which identifies those positions under his or her jurisdiction and control, which, by nature of their duties, may have the authority to participate personally and substantially in the award of state contracts, the issuance of contract change orders, or in regulatory or licensing decisions. Certain employment restrictions apply to these positions. Furthermore, the appropriate Executive Inspector General has the authority to determine additional state positions under his or her jurisdiction that, due to their involvement in the award of state contracts or in regulatory or licensing decisions, are also subject to these employment restrictions.

If you are in a position that is determined as being subject to these employment restrictions, you should be provided written notification that they apply to your position upon hiring, promotion, or transfer into a relevant position; and at the time your duties are changed in such a way as to qualify your position for the restrictions.

Generally, the revolving door restrictions apply to state employees or appointees, or immediate family members living with state employees or appointees whose positions allow them the authority to participate in certain regulatory, licensing, or contracting decisions. These general employment restrictions apply during a period of one year immediately after termination of state employees' or appointees' state employment or appointment. During that time period, state employees, appointees, and their immediate family members may not knowingly accept employment or receive compensation or fees for services from a person or entity if the state employees or appointees, during the year immediately preceding termination of state employment:

1. Participated personally and substantially in awarding to the person or entity a contract for services or the issuance of change orders with a cumulative value of $25,000 or more.

2. Participated personally and substantially in a regulatory or licensing decision that directly applied to the person or entity.

Any employee or appointee in a position which has been identified as having this regulatory, licensing, or contracting authority and who is offered non-state employment during state employment/appointment or within a period of one year immediately after termination of state employment/appointment must, prior to accepting such non-state employment, notify the appropriate Executive Inspector General. Within 10 calendar days after receiving such notification, the Executive Inspector General must make a determination as to whether the state employee or appointee is restricted from accepting such employment. An Executive Inspector General's determination may be appealed to the Executive Ethics Commission no later than 10 days after the date of determination.

Additional Employment Restrictions and Procedures that are Independent of an Employee's Duties:

A limited number of state officers, employees, or appointees, in certain positions, are strictly prohibited from knowingly accepting employment or receiving compensation or fees for services from certain individuals or entities during a period of one year after the termination of their state positions – **regardless of whether the state officers, employees, or appointees were involved in regulatory, licensing, or contract decisions.**

These restrictions apply to employment or compensation offers from a person or entity or its parent or subsidiary, that during the year immediately preceding termination of the officer, employee or appointee's state position, was a party to a state contract or contracts with a cumulative value of $25,000 or more involving the officer, member, or state employee's state agency, or was the subject of a regulatory or licensing decision involving the officer, member, or state employee's state agency. **These more absolute restrictions apply to:**

- **members of the general assembly or constitutional officers (such as the Governor);**
- **members of a commission or board created by the Illinois Constitution;**
- **persons whose appointment to office is subject to the advice and consent of the Senate;**
- **the head of a department, commission, board, division, bureau, authority, or other administrative unit within the government of this State;**
- **chief procurement officers, state purchasing officers, and their designees whose duties are directly related to state procurement; and**
- **chiefs of staff, deputy chiefs of staff, associate chiefs of staff, assistant chiefs of staff, and deputy governors.**

To reiterate, the employment restrictions on these positions apply regardless of whether the officer, employee, or appointee participated personally and substantially in the award of the state contract or contracts or the making of the regulatory or licensing decision in question. Furthermore, **there is no process for seeking an exception to the employment restrictions on these positions.**

If you find yourself in a situation where you are offered employment or compensation by an individual or business that conducted official state business with you or your state board, you may discuss the matter with your state board's ethics officer or private legal counsel to ensure that you comply with the law.

The Executive Ethics Commission has the authority to issue a fine to a state employee or appointee in an amount of up to three times the total annual compensation that would have been obtained in violation of the Ethics Act's revolving door employment restrictions.

Revolving Door Lesson Review Question

Review Question #7

Two months ago, Mora terminated her employment by a state board in a position that has the authority to participate in the award of state contracts. Therefore, Mora is subject to revolving door restrictions under the Ethics Act. Mora's son, who lives with her, recently accepted a job offer from a vendor that does business with the state board that previously employed Mora. What actions, if any, should Mora or her son have taken prior to the son's acceptance of the employment offer?

A. None, since employment restrictions only apply to current or former state employees and not to any of their family members.

B. Mora should have informed her son's new employer that it could be fined for making an employment offer to her son.

C. Mora or her son should have notified the Office of Executive Inspector General and sought its determination prior to his acceptance of the employment offer.

Select the best answer(s) and then compare your response to the explanation below.[7]

Additional Appointee Restrictions (Ethics Act, Section 5-55 and Lobbyist Registration Act, 25 ILCS 170/3.1)

Appointees to state boards, commissions, authorities and task forces have specific additional laws and rules that apply to them.

Registered Lobbyists (Lobbyist Registration Act, 25 ILCS 170/3.1):

A lobbyist is any person who communicates with an official of the executive or legislative branch of state government for the purpose of influencing executive, legislative, or administrative action. Registered lobbyists are those individuals who meet certain criteria under the Lobbyist Registration Act and are therefore, required to register with the Illinois Secretary of State.

A person required to register as a lobbyist may not serve on a state board, commission, authority, or task force authorized or created by state law or by executive order of the Governor if the lobbyist is engaged by nature of a client's business in the same subject area of the board and commission. Exceptions to this prohibition are limited to instances where the lobbyist serves:

- In an elective public office, whether elected or appointed to fill a vacancy
- On an advisory body that makes nonbinding recommendations to an agency of state government, but does not make binding recommendations or determinations or take any other substantive action

Any registered lobbyist who serves on a board, commission, authority, or task force under one of these exceptions must not take part in any decision that may affect one of his or her clients.

Spouses and immediate family members who are living with a person required to register as a lobbyist also may not be appointed to a board, commission, authority, or task force unless they fall under one of the exceptions above.

[7] The best response is C. By law, Mora or her son was required to notify the Office of Executive Inspector General **prior to** Mora's son's acceptance of an offer of employment from the consultant, regardless of whether Mora participated personally and substantially in the awarding of state contracts to the consultant.

Holders of State Contracts (Ethics Act, Section 5-55):

A person, his or her spouse, or any immediate family member living with that person, may not serve on a board, commission, authority, or task force if that person meets any of the following criteria:

- The person has more than a 7 ½ percent interest in a state contract
- The person, together with his or her spouse and immediate family members living with them, has more than a 15 percent interest in a state contract

This ban does not apply if one of the following exceptions occurs:

- The contract in question is an employment contract
- The person, the spouse, or the immediate family member is serving in an elective public office
- The person, the spouse, or the immediate family member is serving on an advisory body that makes non-binding recommendations

Any person who serves on a board, commission, authority, or task force under one of these exceptions must not take part in any decision that may affect the contract in question.

Any individual appointed to a board, commission, authority, or task force must disclose all contracts the individual has with the state.

State Contract-Related Conflicts of Interest (Governmental Ethics Act (5 ILCS 420/3A-35)):

An appointed member of a board, commission, authority, or task force authorized or created by state law or executive order of the Governor, may not have or acquire a contract or a direct financial interest in a contract with the state that is related to the board, commission, authority, or task force on which they sit. This restriction applies during the appointee's term of office and for one year after the conclusion of the appointee's term. This restriction also applies to the appointee's spouse or an immediate family member of the appointee living in the appointee's residence.

Whistle Blower Protection (Ethics Act, Article 15)

State employees, including appointees, may be reluctant to report violations of the law, rules, or regulations out of fear that those affected by their report will do something to harm them or their careers. Such **retaliation is generally against the law.**

An officer, state employee (or appointee), or state agency may not lawfully take any retaliatory action against a state employee for doing any of the following:

- Disclosing or threatening to disclose to a supervisor or to a public body an activity, policy, or practice of any officer, member of the General Assembly, state agency, or other state employee that the state employee reasonably believes is in violation of a law, rule, or regulation

- Providing information or testifying about any violation of a law, rule, or regulation by any executive or legislative branch constitutional officer, member of the General Assembly, state employee, or state agency
- Assisting or participating in a proceeding to enforce the State Officials and Employees Ethics Act

Retaliatory action includes, for example, reprimanding, firing, demoting, transferring or suspending the state employee, changing the terms or conditions of the state employee's employment, or denying the state employee a promotion.

Whistle blower protections do not however prohibit a state employee from being disciplined for matters unrelated to the above-listed protected activities. For example, a state employee who discloses an unlawful act of another state employee may still be disciplined for failing to complete a required work assignment. Such discipline is allowable if it is demonstrated by clear and convincing evidence that the discipline (in this example, for failing to complete a work assignment) would have been imposed in the absence of the employee's disclosure of the unlawful act.

If a state employee retaliates against another state employee for reporting a violation of law or assisting in an investigation, then the individual taking the retaliatory action would be subject to disciplinary action up to and including discharge by his or her state agency, as well as potential administrative action by the Executive Ethics Commission for violating the Ethics Act. In addition, the employee subjected to the retaliatory action could file a lawsuit seeking compensation and other remedies as provided by law.

A list of potential remedies, including, but not limited to reinstatement of employment and back pay, may be found in the State Officials and Employees Ethics Act (5 ILCS 430/15-25). The state circuit courts have jurisdiction to hear cases brought under this section of the Ethics Act.

Reporting Violations of Law, Rule, Regulation, or Policy (Administrative Order #6, 2003)

To put an end to misconduct it is important if you witness misconduct or have evidence of it, you report it to the proper authorities. As a state employee, it is your ethical duty to report violations of laws, rules, or regulations by another state officer, employee, or other relating to state business.

To report a **non-emergency** violation of law, rule, or regulation, you should contact the Office of Executive Inspector General for the Agencies of the Illinois Governor (OEIG) via its toll-free Hotline at 866-814-1113. Questions and/or reports of alleged violations may also be submitted via the Internet at http://www.inspectorgeneral.illinois.gov. For those who require it, the OEIG may also be contacted toll-free via a telecommunications device for the disabled (TTD) at 888-261-2734.

Alleged violations may be reported to the OEIG anonymously. However, in many instances, investigations may be conducted more efficiently if investigators are provided the identity of the person who reported the matter so, if necessary, investigators may ask follow-up questions to obtain additional information relating to the alleged violation.

In the event of an emergency situation requiring an immediate police response, one should contact the Illinois State Police or the county, municipal, or campus police agency that can provide the fastest response (for example, by dialing "911"). Examples of emergency situations include those that involve the illegal use or possession of a weapon, bodily injury or threat of bodily injury, or criminal sexual assault.

If anyone attempts to improperly influence your official actions as a state appointee, particularly if there is an attempt by anyone to have you or another state employee act or fail to act in a manner that is unlawful or violates your state board's policies, it is your responsibility to immediately report this matter to the appropriate authorities.

In certain instances, a state employee's failure to report a violation is itself a violation of the law, as is the case where a state employee fails to report a bribe (720 ILCS 5/33-2).

Rights and Responsibilities During Investigations (Ethics Act, Section 20-70, EEC rules, 2 Ill. Admin. Code Section 1620.300(c)(8), and Administrative Order #6, 2003)

State board employees and appointees who become involved in an investigation conducted by the Office of Executive Inspector General or the Illinois Attorney General have a duty to cooperate. This means, among other things, that employees and appointees must participate in interviews as requested, tell the truth, not withhold information, and respect the confidentiality of any investigation.

By law, every state agency, officer, and employee must cooperate with and provide assistance to the Executive Inspector General and her or his staff in the performance of any investigation. In particular, each state agency must, to the extent permitted by applicable laws and the rules governing the conduct of Executive Inspectors General, make its premises, equipment, personnel, books, records, and papers readily available to the Executive Inspector General. Investigators may enter the offices or grounds of any state agency at any time, without prior announcement, if necessary to the successful completion of an investigation.

In the course of an investigation, investigators may question any state officer or employee, and any other person transacting business with a state agency. Investigators may also, to the extent permitted by applicable laws and the rules governing the conduct of Executive Inspectors General, inspect and copy any books, records, or papers in the possession of the state agency, including those made confidential by law. Investigators must take care to preserve the confidentiality of information contained in responses to questions or books, records, or papers that is made confidential by law.

All OEIG requests for the production of or viewing of documents or physical objects under the control of a state agency must be made in writing. The recipient of such a request, should he or she believe that the release of the subject matter of the request may violate existing rights or protections under state or federal law, has the right to seek a determination from the Executive

Ethics Commissions (EEC) relative to such rights or protections. The EEC's rules governing this process may be found at its Web site at http://www2.illinois.gov/eec.

The Executive Inspector General may compel any employee in a state agency to truthfully answer questions concerning any matter related to the performance of his or her official duties. If so compelled, no statement or other evidence therefrom may be used against an employee in any subsequent criminal prosecution, other than for perjury or contempt arising from such testimony. The refusal of any employee to answer questions if compelled to do so shall be cause for discipline, up to and including discharge. Failure to cooperate includes, but is not limited to, intentional omissions and knowing false statements.

When instructed by an OEIG investigator, an employee or appointee who participates in an investigative interview should not inappropriately disclose any matter discussed during the interview, or even the existence of the investigation, except for example, when necessary to consult with private legal counsel.

With respect to OEIG investigations, EEC rules (2 Ill. Admin. Code Section 1620.300) provide for rights of employees during investigations, including, among other elements:

- If investigators reasonably believe an employee who is the subject of the investigative interview will likely face discipline, the investigators must notify the employee whether the underlying investigation is criminal or administrative in nature.
- If the underlying investigation is **criminal** in nature, the interviewee must be presented a form that outlines the interviewee's rights during the interview, including **the right to the presence of an attorney, union representative, or coworker** uninvolved in the investigation
- If the underlying investigation is **administrative** in nature, the interviewee must be presented a form that outlines the interviewee's rights during the interview, including **the right to presence of a union representative, or coworker** uninvolved in the investigation

In both criminal and administrative investigations, the interviewee must sign the above-mentioned form, attesting only to the fact that the form was presented to the interviewee and he or she was given the opportunity to read it.

Investigators may not infringe upon a state employee's right to seek advice from his or her agency's ethics officer on the interpretation and implementation of the Act, or to seek advice from private legal counsel.

The full text of the rules governing OEIG investigations may be found at the EEC's Web site: http://www2.illinois.gov/eec.

Ex Parte Communications

There are laws which govern how information received by state agencies and their employees in relation to rulemaking and regulatory, quasi-adjudicatory, investment, and licensing procedures must be treated, especially when communications are received by state employees outside of a public forum. These laws are intended to make these procedures fair and to ensure that related communications received by the state and its employees are appropriately disclosed to others who are involved.

Most state employees are not affected by laws governing ex parte communications; however, if you are an employee of one of the several entities listed below or are involved in formal rulemaking, it is especially important that you understand these requirements. If you have questions about ex parte communications, please seek appropriate counsel, such as, by talking to your board's ethics officer.

There are similar, but different requirements related to ex parte communications that apply to (1) rulemaking under the Administrative Procedures Act, and (2) regulatory, quasi-adjudicatory, investment, and licensing matters under the Ethics Act. In addition, the Executive Ethics Commission has established specific reporting requirements related to ex parte communications. These three sets of requirements are discussed below.

Ex Parte Communications in Rulemaking (Administrative Procedures Act, 5 ILCS 100, Section 5-165):

Under the Illinois Administrative Procedures Act, an ex parte communication is defined as any written or oral communication by any person, during the rulemaking period, that provides or requests information of a material nature or makes a material argument regarding potential action concerning an agency's (or board's) general, emergency, or peremptory rulemaking that is communicated to the head of the agency or an employee of the agency, and is:

- Not made in a public forum
- Not a statement limited to matters of procedure and practice
- Not a statement made by a state employee to fellow employees of the same board or agency

An ex parte communication (i.e., one that is not made in a public forum, not limited to matters of procedure and practice, or not made by one employee to another of the same state agency or board) that is received by any agency or board, its head, or its employee must be immediately reported to the agency or board's ethics officer. The ethics officer must require that the communication be made a part of the record for the rulemaking proceeding and must promptly file the communication with the Executive Ethics Commission. **These requirements under the Illinois Administrative Procedures Act apply to all state agencies and boards.**

The intent of this section of the Administrative Procedures Act is to ensure that all parties who are interested in **administrative rules** under consideration by a state agency or board are made aware of communication that may occur outside of a public forum between the agency or board and other interested parties.

Ex Parte Communications in Regulatory, Quasi-Adjudicatory, Investment, and Licensing Matters (Ethics Act, Section 5-50):

Requirements that are different from (albeit seemingly similar to) those explained above, apply to ex parte communications involving only the following state agencies:

Executive Ethics Commission
Illinois Commerce Commission
Educational Labor Relations Board
State Board of Elections
Illinois Gaming Board
Health Facilities and Services Review Board
Illinois Workers' Compensation Commission
Illinois Labor Relations Board
Illinois Liquor Control Commission
Pollution Control Board
Property Tax Appeal Board
Illinois Racing Board
Illinois Purchased Care Review Board
State Police Merit Board
Motor Vehicle Review Board
Prisoner Review Board
Civil Service Commission
Personnel Review Board for the Treasurer
Merit Commission for the Secretary of State
Merit Commission for the Office of the Comptroller
Court of Claims
Board of Review of the Dept. of Employment Security
Department of Insurance
Department of Professional Regulation and its licensing boards*
Department of Public Health and its licensing boards
Office of Banks and Real Estate and its licensing boards**
State Employees' Retirement System Board of Trustees
Judges' Retirement System Board of Trustees
General Assembly Retirement System Board of Trustees
Illinois Board of Investment
State Universities Retirement System Board of Trustees
Teachers' Retirement System Board of Trustees

* The Department of Professional Regulation is a division of the Department of Financial and Professional Regulation

** The Office of Banks and Real Estate is a division of the Department of Financial and Professional Regulation

Under the Ethics Act, an ex parte communication is defined as any written or oral communication by any person that imparts or requests information of a material nature or makes a material argument concerning regulatory, quasi-adjudicatory, investment, or licensing matters pending before or under consideration by a state agency or board, that is:

- Not made in a public forum

- Not a statement limited to matters of procedure and practice
- Not a statement made by a state employee to fellow employees of the same board or agency

An ex parte communication received by an agency or board, its head or an agency or board employee/appointee from an interested party or its representative, must be promptly made a part of the related official record. "Interested party," means a person or entity whose rights, privileges, or interests are a subject of the matter under consideration by the agency or board.

An ex parte communication received by an agency or board, its head, or an agency or board employee/appointee from other than an interested party or its representative must be reported to the agency's or board's ethics officer. The ethics officer must promptly require the communication to become a part of the record and will promptly file the communication with the Executive Ethics Commission.

The intent of this section of the Ethics Act is to ensure that all parties who are interested in certain matters under consideration by the above-listed state agencies are made aware of related communications that may occur outside of a public forum between those state agencies and other interested parties.

Applicable EEC Rules (EEC Rules, 2 Ill. Admin. Code Section 1620.820):

The rules of the Executive Ethics Commission require that any state officer or employee who receives an ex parte communication from a non-interested party as excluded by Section 5-50(b-5) and Section 5-50(d) of the Ethics Act or an ex parte communication from any person that imparts or requests material information or makes a material argument regarding an agency's rulemaking pursuant to Section 5-165 of the Illinois Administrative Procedures Act shall report this communication within seven (7) days to his or her agency's ethics officer. The full text of the EEC's rule may be found at its Web site: http://www2.eec.illinois.gov/eec.

If you have any questions concerning whether or not a communication is subject to these ex parte rules, you may seek the advice of your state board's ethics officer.

Ex Parte Communications Lesson Review Question

Review Question #8

Max is an administrative law judge who hears matters related to licenses granted by his state agency. Max recently received an email from someone who is not a party to an ongoing hearing that he is presiding over. The email was informal; however, it offered information that is relevant to the hearing and Max's decision making. Is Max required to take any official action in response to the email?

A. Yes, Max needs only to ignore this additional information that he received via the email when making any future decisions related to the hearing.

B. Yes, Max needs to notify the ethics officer for his state agency regarding the email he received.

c. No, Max should reply to the email with an explanation that such communication should take place during the formal hearing process.

Select the best answer(s) and then compare your response to the explanation below.[8]

Disclosure of Economic (Financial) Interests (Illinois Governmental Ethics Act, 5 ILCS 420 et seq.)

Members of a state board or commission created by the Illinois Constitution, and candidates for nomination or election to such a board or commission are among those required by law to annually (by May 1 of each year) file a statement of economic interests with the Secretary of State.

Generally, the requirement to file statements of economic interests also applies to compensated employees who:

- Are, or function as, the head of a department, commission, board, division, bureau, authority or other administrative unit within state government, or who exercise similar authority with state government
- Have direct supervisory authority over, or direct responsibility for the formulation, negotiation, issuance or execution of contracts entered into by the state in the amount of $5,000 or more
- Have authority for the issuance or promulgation of rules and regulations within areas under the authority of the state
- Have authority for the approval of professional licenses
- Have responsibility for the financial inspection of regulated nongovernmental entities
- Adjudicate, arbitrate, or decide any judicial or administrative proceeding, or review the adjudication, arbitration, or decision of any judicial or administrative proceeding within the authority of the state
- Have supervisory responsibility for 20 or more state employees
- Negotiate, assign, authorize, or grant naming rights or sponsorship rights regarding any property or asset of the state, whether real, personal, tangible or intangible
- Have responsibility with respect to the procurement of goods and services

It is the responsibility of the chief administrative officer of each state agency to annually certify to the Secretary of State the names and addresses of those members who are required to file a

[8] The best response is B. Under the Ethics Act, the email received by Max regarding the subject of his ongoing hearing represents an ex parte communication that must be reported by Max to his state agency's ethics officer. Additionally, it is the ethics officer's responsibility to report the matter to the Executive Ethics Commission and to require that the ex parte communication be made a part of the record of the hearing. It would be insufficient for Max to just alert the message's sender of the need to communicate the information through the hearing process and it would be inappropriate for Max to consider the information in his future decisions without disclosing it as part of the record of the hearing and reporting it to his agency's ethics officer.

statement. If you are subject to the requirement to file a statement of economic interests, on or before April 1 annually, the Secretary of State will notify you of the need to file a statement. This notification typically includes a form for filing the statement. Alternatively, the form may be obtained via the Secretary of State's Web site at: http://www.cyberdriveillinois.com/publications/pdf_publications/i188.pdf.

The information required for disclosure via a statement of economic interests includes, for example, but is not limited to:

- The name and means of ownership that a member of a state board or commission may have in any entity doing business in the State of Illinois, in which the ownership interest is in excess of $5,000 (including, for example, real estate or stock, but not including a time deposit in a bank nor any debt instrument)
- The name and address of any professional organization in which the board or commission member is an officer, director, associate, partner, or proprietor from which the member derived income in excess of $1,200 during the preceding calendar year
- The identity (such as, the address or legal description) of any capital asset such as real estate from which a capital gain of $5,000 or more was realized during the preceding year
- The identity of any compensated lobbyist with whom the member maintains a close economic association
- The name of any entity doing business in the State of Illinois from which income in excess of $1,200 was derived by the member during the preceding calendar year

If you have a question about a statement of economic interests, you may seek the advice of your state board's ethics officer.

Truthful Oral and Written Statements

It is vital to the integrity of state government that all oral and written statements made by you, in your official capacity as a state appointee, be made in what you believe to be an honest and truthful manner. This requirement applies to all means of communications and applies to documents, including, but not limited to:

- Time sheets
- Employment or appointment applications
- Statements of economic interests
- State board or commission rulings, orders, decisions, findings, etc.
- Letters, emails, and reports

Falsification of official documents or untruthful statements made in the conduct of state business are unethical, may violate state policies or law and may subject a state employee or appointee to administrative action up to and including fine and/or termination of state service, and in some instances may result in criminal prosecution.

State Agency Policies

It is important that state employees, including appointees, adhere to those applicable laws, rules, policies, or regulations that are unique to their state agency, including, in the case of appointees, those that are specific to their board or commission. These policies may include for example:

- A quorum requirement, which dictates that a minimum number of appointees be present in order for the board or commission to conduct official business
- Rules specifying limitations or requirements related to how an appointee might designate someone to act in his or her absence at a state board meeting
- Rules explaining how board or commission decisions will be made or how its meetings will be conducted
- Requirements that minutes be kept and/or published for each board or commission meeting
- Specifications regarding how a board or commission may operate in "executive session"
- Term limitations which dictate how long an appointee may serve on a state board or commission
- Restrictions or reporting requirements related to conflicts of interest
- Requirements for board employees to avoid being tardy, strictly limit lunch and break periods, and not misuse or abuse state resources by, for example, using state telephones, computers, vehicles, office supplies, or time for personal business

It is important that the business of state agencies is always conducted in accordance with all applicable laws, rules, policies, and regulations. Please be aware that many laws and rules, including the Ethics Act, are applicable to appointees even in instances where an appointee is not compensated or serves on a board or commission that is only advisory in nature or serves on a board that meets only intermittently or is convened for a limited period of time. These laws and rules may, for example, prevent those who are not formally appointed (or otherwise properly designated in accordance with applicable rules, law, or policy) from participating in state board decisions. Under certain circumstances, individuals who participate in official state business without proper authority may be subject to criminal prosecution (e.g., for "official misconduct").

There may also be policies that are specifically applicable to a particular state agency, board, or commission that may be more restrictive than the more general laws and rules that apply to all state employees. These policies may include, for example:

- Restrictions concerning the solicitation or acceptance of gifts, which may be more stringent than the general gift ban contained within the State Officials and Employees Ethics Act
- Prohibitions on certain political activities, which may be more restrictive than those prohibitions contained within the State Officials and Employees Ethics Act
- Rules governing purchasing procedures
- Special time reporting or other personnel-related rules

- Hiring practices
- A code of conduct

It is important that you familiarize yourself with all the laws, rules, and policies which apply to you, and that you abide by them. If necessary, you may ask the chairperson of the board or commission which you serve, its legal counsel, its chief administrative officer (e.g., its staff's executive director, if one exists), its ethics officer, or private legal counsel for guidance concerning those laws and rules that apply to your service to the state.

Penalties

Penalties for violations of ethics-related laws, rules, and policies by state employees and appointees are dependent upon the specific circumstances. Penalties may include administrative action up to and including termination of employment or appointment. In addition, the Executive Ethics Commission may levy administrative fines in the case of violations of the Ethics Act. Illegal acts, such as bribery, or official misconduct, may result in referrals to the appropriate authorities for criminal prosecution, which, if substantiated, may result in jail time.

Disciplinary action under the State Officials and Employees Ethics Act against a person subject to the Ethics Act and the Personnel Code is under the jurisdiction of the Executive Ethics Commission. Any hearing to contest disciplinary action against a person subject to the Act pursuant to agreement between the Executive Inspector General and an ultimate jurisdictional authority will be conducted by the Executive Ethics Commission.

Ethics Questions or Concerns

State board employees and appointees who have questions or concerns about a work-related ethics issue may contact their board's ethics officer. Under the Ethics Act, ethics officers, among their other duties, serve to provide guidance to state employees, including appointees, in the interpretation and implementation of the Ethics Act, which guidance employees may in good faith rely upon.

Examples of the Ethical Obligations of State Employees and Appointees

The following are examples of actions or situations concerning the various ethical obligations of state employees, appointees, and officials:

1. **Situation:** An appointed member of a state board asks one of the board's staff members to use the board's copy machine to duplicate a hand-out for a meeting. The hand-out is not related to state business and is related to the appointee's full-time job as an employee of a large corporation. The appointee requested the copies be made only because she is running late for a business meeting due to the fact that a meeting of her state board has run longer than she expected it to.

Ethical Assessment: It is improper for a state board member to ask a state employee to engage in any activity that is not official state business or is not allowed by the board's policies during the employee's scheduled work times or while using state property or resources.

2. **Situation:** A state board member agrees to vote in favor of a regulatory rule change proposed by a company subject to his board's oversight. The board member does so after the company privately informed him that it would fund improvements to a school attended by his son.

   Ethical Assessment: It is unethical and a violation of the law for a state appointee to exchange something of value for an official action. Such conduct may result in criminal prosecution.

3. **Situation:** An appointed board member tells the board's executive director that he is in favor of having the board make an employment offer to the board member's nephew. The nephew is well-qualified for a position with the board's staff.

   Ethical Assessment: Regardless of the circumstances, it is unethical for any state employee or appointee to attempt to influence any state employee's official action in order to benefit a family member, friend, or associate.

4. **Situation:** Because of an employee's outstanding job performance, a state board member authorizes additional benefit time for a board employee in contradiction to the board's personnel policies

   Ethical Assessment: It is unethical to violate a state board's policies, regardless of the reason. Depending on the circumstances, such an action may represent official misconduct, which is subject to criminal prosecution.

5. **Situation:** A state board employee arrives at work 30 minutes late due to weather-related traffic delays. She does not report her tardiness on her official time sheet since it was not her fault.

   Ethical Assessment: It is unethical and unlawful to provide false information in a time report used as a basis for compensating a state board employee, regardless of the reason.

6. **Situation:** A manager who works for a state commission is directed by another state employee to gather information during the manager's state work day related to the commission's functions for use by a candidate for elective office in his election campaign.

   Ethical Assessment: The State Officials and Employees Ethics Act prohibits this and certain other political activities from being done during a state employee's compensated time, other than vacation, personal, or compensatory time off or at any time when using state property and resources. It is also a violation of the Ethics Act for any official, director, supervisor, or state employee to require another state employee to perform a prohibited political activity.

7. **Situation:** A state board member suggests to an employee of a company that is subject to his board's licensing authority that the company may receive a favorable licensing decision if it steers some work to a consultant that is a business associate of the board member.

   Ethical Assessment: It is unethical and unlawful for state board employees and appointees to exchange favors for an official action. Such conduct will result in discipline up to and including termination of employment/appointment and possible criminal prosecution.

8. **Situation:** In an attempt to avoid violating the Ethics Act's gift ban, a state appointee asks a state vendor who offered him a pair of tickets to a charity dinner (valued at $500) to give the tickets instead to the appointee's spouse.

   Ethical Assessment: The Ethics Act's prohibitions on accepting a prohibited gift apply to the spouse of and immediate family living with a state employee or appointee. Therefore, simply having a prohibited source give the tickets to an appointee's spouse does not prevent a violation of the law.

9. **Situation:** A state board employee accepts a $150 honorarium (speaker's fee) for participating in a presentation at a conference hosted by a trade association that both lobbies the employee's board and participates in regulatory matters before that board.

   Ethical Assessment: Acceptance of such a fee from such a prohibited source (i.e., from an entity that does business with the employee's state agency, or has interests that may be substantially affected by the employee or from an entity that is a registered lobbyist) is prohibited under the Ethics Act.

9. **Situation:** The husband of a former state board appointee is offered employment by a company that is subject to the regulatory authority of the board that his wife was previously a member of. The employment offer was made nine months after the expiration of his wife's term of appointment. The husband wants to accept the employment offer without delay, since such offers are few and far between.

   Ethical Assessment: Depending on the circumstances, not only are some former appointees, employees, appointees, or officials prohibited from accepting employment or compensation offers from an entity subject to state regulation or licensing, but these restrictions may also apply to their spouses or immediate family members living with them. The restrictions generally apply in instances where the former appointee, employee, appointee, or official participated personally and substantially in making a regulatory or licensing decision that directly applied to the entity making the offer. The husband of the former state employee must submit a revolving door determination request to the OEIG and must not accept this employment offer unless and until the OEIG makes a favorable determination. It is also advisable for those subject to the revolving door prohibitions of the Ethics Act to carefully review the law or seek private legal counsel prior to acceptance of employment or compensation from entities that are subject to state licensing or regulatory authority. Penalties for violations of the Ethics Act's revolving door employment restrictions may include a fine of up to three (3) times the total annual compensation that would have been obtained in violation of the law.

10. **Situation:** A state employee uses his state-provided computer to access pornographic images via the Internet, email, and/or by accessing files on a portable storage device (e.g., a jump drive or portable hard drive), which he has connected to his state computer.

    Ethical Assessment: Intentionally accessing such material is wrong and in most instances is specifically prohibited by state agency policies. Violation of such policies will result in disciplinary action, up to and including, termination of state employment, and may depending upon the circumstances result in referral of the matter to appropriate authorities for possible criminal prosecution.

11. **Situation:** A manager within the staff of a state commission is angered upon learning that one of his employees has filed a complaint with appropriate authorities alleging misconduct by a fellow employee of the commission. The manager believes the employee's actions show disloyalty to the commission and may bring embarrassment to the commission. The manager plans to teach the employee a lesson by changing the employee's work schedule.

    Ethical Assessment: State law prohibits state officials, employees, appointees, or agencies from taking retaliatory action against a state employee who discloses or threatens to disclose to a supervisor or public body misconduct by a state official, employee, appointee, or agency that the state employee reasonably believes is in violation of a law, rule, or regulation. Among other things, retaliatory action includes changing the terms or conditions of employment of a state employee.

12. **Situation:** A member of a state board, who is subject to the requirement to file an annual Statement of Economic Interests, is reviewing instructions for the form in anticipation of submitting it. He remembers receiving a generous birthday gift from his parents and wonders whether it must be reported.

    Ethical Assessment: Among other items, state law requires that gifts totaling more than $500 received during the preceding calendar year from an entity, **including those from any individual(s)**, be reported by state employees, appointees, or officials who must file a Statement of Economic Interests.

(This page is intentionally left blank to facilitate two-sided printing and to enable the following Acknowledgement form to be detached as a stand-alone page for submittal)

Acknowledgement of Participation in:

2011 Ethics Training for Appointees to State of Illinois Boards

I certify that I have carefully read and reviewed the content of, and completed 2011 Ethics Training for Appointees to State of Illinois Boards. Furthermore, I certify that I understand my failure to comply with the laws, rules, policies, and procedures referred to within this training course may result in disciplinary action up to and including termination of state employment/appointment, administrative fine, and possible criminal prosecution, depending on the nature of the violation.

____

Signature

____

Printed Name
(first, middle initial, last)

____

Month and Day of Birth
(for example, July 15)

____

Date

____

State Agency, Board, or Commission Name
(for example, Illinois Commerce Commission)

(To be properly credited for participating in ethics training, please submit this form as directed by your state agency)

January 2011

CATALYST
CONSULTING GROUP, INC.

EXECUTIVE BRIEF

Illinois Finance Authority – Server Virtualization Project

The purpose of this document is to provide an executive brief related to the server virtualization project, which is pending approval by the Board of Directors at the Illinois Finance Authority (IFA).

Catalyst Consulting Group, Inc. (Catalyst) is the primary IT service provider for the IFA and is in their second year of the contract established to support the IFA technology infrastructure.

Catalyst was asked by the IFA to assess the current systems infrastructure and conduct a gap analysis on the existing technology capabilities while providing recommendations on any areas where future improvement could be realized.

One of the first documented deficiencies that Catalyst recorded was the relative age of all server hardware running within the IFA technology infrastructure. The most recently procured servers are near their "usable end of life". These devices are roughly 3-4 years old. The oldest procured server hardware is well past its "usable end of life". These devices are roughly 6-7 years old.

Widely accepted industry standards associated with the "usable life" of server hardware, state that the average life of a server is approximately 3-5 years. The IFA server environment is well past this industry benchmark and should be upgraded to accommodate required operating parameters.

Additionally, resources such as processor, memory and storage on these servers are all at capacity with little to no overhead available for additional expansion or to accommodate future growth. Further exhaustive reviews of these devices also identified that these servers cannot be covered under manufacturer warranties for replacement parts, and are also not eligible for manufacturer service due to age and excessive cost of warranty coverage and maintenance services.

When taking a look at the environment from an operational perspective, changes to the environment create a "trickle down" effect and adversely impact interdependent systems when upgrades, reconfiguration and other minor system changes are enacted upon. The sheer number of servers has also created environmental constraints within the IT environment and the climate control systems are having a hard time keeping up with the heat output of the systems in the IFA server room.

All of these variables combined strongly suggest that a significant upgrade is required to keep the IFA's mission critical IT infrastructure running at an optimal level.

Catalyst Consulting Group, Inc. 211 West Wacker Drive, Suite 450 312.629.0750 *tel*
www.catconsult.com Chicago, Illinois 60606 312.629.0751 *fax*

ILLINOIS FINANCE AUTHORITY
Memorandum

To: Chris Meister, Executive Director

From: Rob Litchfield, IT Manager

Ximena Granda, Assistant Chief Financial Officer

Date: Thursday, March 3, 2011

Re: Proposed IT Agenda

IFA's current IT systems infrastructure has exceeded its useable life. The infrastructure is at risk for imminent failure and is at its capacity with little to no overhead available for additional expansion. Because of the advanced age of the hardware (some as old as seven years) it cannot be covered under manufacturers' warranties for replacement parts or service. The deferred infrastructure investment (IFA has only spent approximately $40,000 on server hardware since 2004) has resulted in a system that is at jeopardy and one that cannot accommodate future growth.

We recommend replacing our current IT systems infrastructure with Catalyst's proposed virtual server environment (please see attached Executive Brief regarding Server Virtualization Project). This upgrade will establish the foundation for future projects such as document management, enhanced disaster recovery, and project management.

IFA has taken advantage of the State's master contracts for server hardware and software. Also, Catalyst consulting has reduced their hourly fee for an additional savings. We have budgeted for this project in the fiscal year 2011 capital budget.

Below is an estimated cost of the IT systems infrastructure upgrade:

Hardware	$48,000
Software	$20,000
Consulting time	$25,000
	$93,000

This project will provide the long-needed foundation to the following projects that are required for the efficient operations of IFA:

- Migrate accounting software to new infrastructure
- Electronic document management system
- Mobile technologies such as tablet PCs

IFA
ILLINOIS FINANCE AUTHORITY

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COMMENTS OF THE
ILLINOIS FINANCE AUTHORITY
FEBRUARY 22, 2011

Securities and Exchange Commission Proposed Rule on Registration of Municipal Advisors (File No. S7-45-10)

The Illinois Finance Authority ("IFA") respectfully submits these comments to the Securities and Exchange Commission ("SEC") regarding the definition of 'municipal advisor' under the "Proposed Rule" (17 CFR Parts 240 and 249; Release No. 34-63576; File No. S7-45-10; RIN 3235-AK86; pp. 40-41) pursuant to the new authority in Section of 975 of Title IX of the Dodd Frank Wall Street Reform and Consumer Protection Act. The IFA requests that the SEC specifically exclude appointed members of a governing body of a municipal entity from the proposed definition of 'municipal advisor.'

Under the Proposed Rule, employees of municipal entities as well as elected members of the governing body of a municipal entity are already specifically excluded from the definition of 'municipal advisor.' The SEC believes that appointed members of a governing body of a municipal entity should be defined as 'municipal advisor' due to its concern that appointed members "are not directly accountable for their performance to the citizens of the municipal entity." Proposed Rule, p. 41. The IFA disagrees with the SEC's position on this point.

Governmental Conduit Issuers: A Construct of Federalism

Federally tax-exempt conduit finance is both a construct of federalism and a private-public partnership that has harnessed private sector capital investment to national public policy priorities articulated in the federal tax code. These federal policy priorities encourage capital investment in not-for-profit institutions including hospitals and continuing care retirement communities, cultural institutions and higher educational institutions; small and midsized manufacturers (industrial revenue bonds-not to exceed $10 million); beginning farmers (not to exceed $477,000); projects that safely dispose of solid waste or that ensure the distribution of clean water; multifamily housing; freight transfer facilities; and a variety of other projects. The benefit of federally tax-exempt conduit financing to the borrower is primarily reduced interest costs for capital projects.

The policy benefits for the nation and the State in which the project is located is the retention and creation of jobs, the general promotion of economic development, as well as promotion of the aforementioned national policy priorities. The borrower, not the conduit issuer, is responsible for the payment of the principal and interest under federally tax-exempt conduit financing. However, these federal benefits are not delivered directly from the federal government to an individual borrower. Instead, these federal benefits are delivered through the mechanism of a state or municipal (local) conduit issuers created by State law and governed by appointed, often volunteer, boards. Conduit issuers exist within architecture of state policy and statutory priorities, including those of accountability and transparency, created by governors, state legislatures, and state courts. This is the case in Illinois with the IFA.

Moreover, a primary benefit to all borrowers of tax-exempt financing is the reduced cost of borrowing money. The savings are used to stimulate the economy and to acquire, construct and equip qualified projects. The Proposed Rule change has the effect of substantially increasing the cost of each financing, requiring increased insurance premiums covering increased liability of Board Members and legal costs, possibly eliminating the entire savings to a borrower in the tax-exempt market.

The Illinois Finance Authority – an example of a conduit issuer

The IFA is a body politic and corporate of the State of Illinois, created and governed by the Illinois General Assembly through the Illinois Finance Authority Act, 20 ILCS 3501/801-1, *et seq.* (the "Act"). The IFA's major governmental function is that of a state issuer of federally tax-exempt conduit debt. In calendar year, 2010, the IFA issued $3.1 billion in federally tax-exempt conduit debt. In calendar year 2009, the IFA issued $4.7 billion in federally tax-exempt conduit debt.

Under the Act, the IFA is governed by a fifteen (15) member board, appointed by the Governor subject to the advice and consent of the Illinois Senate. IFA board members must be "persons of recognized ability and experience in one or more of the following areas: economic development, finance, banking, industrial development, small business management, real estate development, housing, health facilities financing, local government financing, community development, venture finance, construction and labor relations." 20 ILCS 3501/801-15. The Chairman of the IFA is selected directly by the Governor. The Executive Director of the IFA is nominated by the Governor and appointed by the IFA board members. The Act also sets out limited terms for these positions: the Chairman serves a two-year term; the board members serve for staggered three-year terms; and the Executive Director serves for a one-year term. Any official action by the IFA board requires the approval of at least eight members present in the same physical location. The Governor may remove any IFA board member for incompetence, neglect of duty, or malfeasance in office.

IFA board members are volunteers who serve without compensation, save for reimbursement for travel expenses, based on a belief in public service. Under the Act, IFA board members have the authority to hire staff and vendors, including financial advisors, also known as 'municipal advisors.' The IFA members meet once a month, or more, in open session, to consider and approve conduit finance projects, prepared by IFA staff and reviewed by IFA financial advisors, critical to the State of Illinois and the nation as a whole. The lengthy project materials prepared by the IFA staff for IFA board member consideration are posted online at www.il-fa.com/public. The State of Illinois and the nation as a whole directly benefit from the decades of experience in a wide variety of professions provided by the IFA's volunteer board members. See attached list of brief IFA board member biographies. Under the conduit approval and issuance process undertaken by the IFA, IFA board members may be the clients of 'municipal advisors' but IFA board members certainly do not act as 'municipal advisors.' The IFA board members have a fiduciary duty to the IFA as an organization and are thus accountable to the IFA for their actions in their official capacity.

At the January 18, 2011 meeting, IFA staff informed the IFA board members of the potential adverse consequences resulting from the adoption and implementation of the Proposed Rule both to the IFA as an organization and to the board members as individuals. The IFA board authorized IFA staff to proceed with drafting these comments.

Multiple Layers of Direct Accountability for Actions and Performance

As a conduit issuer, IFA board members are subject to the following (but not exhaustive) multiple layers of direct accountability for their actions and performance in their official capacity:

1. ***Accountability to the Federal Government:*** The Internal Revenue Service of the United States Treasury Department regularly asserts its right to audit conduit bond issues to determine that the requirements for the tax exemption have been met. Poor performance by board members of a conduit issuer could mean penalties, interest and compliance costs for the issuer. In addition, if conduit issuers are not meeting the national priorities established by Congress under the tax code, the federal benefits delivered through the conduit issuers could be reduced or eliminated.

2. ***Accountability to the Governor:*** Illinois Governor Pat Quinn may, in his discretion, choose not to re-appoint members of the IFA. In addition, and as noted above, the Illinois Governor may remove any IFA board member for incompetence, neglect of duty, or malfeasance in office. The Illinois Governor is directly accountable for his actions and performance to the citizens of Illinois.

3. ***Accountability to the Illinois Legislature:*** The appointment of IFA board members is subject to the advice and consent of the Illinois Senate. The Illinois Senate has a robust view of its powers of advice and consent. See Senate Resolutions 2 and 25, 97th Illinois General Assembly. The members of the Illinois Senate are directly accountable for their actions and performance to the citizens of Illinois.

4. ***Accountability to the Illinois Auditor General:*** The actions and performance of IFA board members is subject to an annual statutory compliance audit and a financial audit by the Illinois Auditor General, an Illinois Constitutional Officer appointed by the Illinois Legislature. The audit process conducted by the Illinois Audit General's Office is lengthy and exhaustive. The audit process culminates in the consideration and approval in a public meeting of both the compliance and financial audits by the Legislative Audit Commission, a bipartisan body representing both chambers of the Illinois General Assembly.

5. ***Accountability to the Illinois Attorney General:*** The actions and performance of the IFA board members is subject to oversight by the Illinois Attorney General, the chief law enforcement officer of the State. The Illinois Attorney General is directly accountable for her actions and performance to the citizens of Illinois.

6. ***Accountability and Transparency under Illinois Law:*** In addition to the direct accountability mechanisms described above, the actions and performance of IFA board members are also subject to the Freedom of Information Act ("FOIA"; 5 ILCS 140/1 *et seq.*), the Open Meetings Act ("OMA"; 5 ILCS 120/1 *et seq.*), the Procurement Code (30 ILCS 500/1-11 *et seq.*) and the State Officials and Employees Ethics Act ("Ethics Act"; 5 ILCS 430 /1-1 *et seq.*). The Ethics Act also created the Office of the Executive Inspector General which also has jurisdiction over IFA board members. The Attorney General also

has enforcement authority for FOIA, OMA, the Procurement Code and the Ethics Act.

Based upon the above list, which is far from exhaustive, IFA board members are arguably subject to more direct accountability for their individual actions and performance than if they were elected officials or employees of a municipal entity in most other states. In addition, Illinois State elected officials and State employees are, in fact, subject to many of the same accountability measures described in items 2-6, above, as IFA board members. Therefore, the distinction drawn by the SEC in the Proposed Rule between elected officials and government employees, who are excluded from the definition of 'municipal advisor' and appointed members (presumably IFA board members), who are subject to regulation and liability as 'municipal advisors' is without logic or merit. Both IFA board members and State elected officials are subject to detailed standards that require regular arduous and thorough third-party reviews.

Conclusion:

Under the Proposed Rule, it appears that the SEC will view individual members of the IFA volunteer board as "municipal advisors" subject to SEC regulation as well as the potential liability that comes with such regulation merely by virtue of their voluntary public service. If adopted and implemented, the Proposed Rule will undermine the IFA's ability to fulfill both its State statutory mission as well as its federal policy missions by chilling the desire of qualified board members to serve as volunteer board members. Without willing, qualified volunteer board members appointed by the Governor and confirmed by the Illinois Senate pursuant to the Illinois Constitution and Illinois statute, the IFA would cease to operate. Finally, in the event that the IFA board is able to find board members to serve and muster a quorum for official action, the cost of additional regulatory compliance associated with the Proposed Rule would increase the cost of conduit issuance to a point where it would outweigh the value of the tax exemption. That would severely and negatively impact the IFA's mission to retain and create jobs and to promote economic development in Illinois.

The IFA would not be the only Illinois Authority to suffer the consequences that the Proposed Rule would have on board member recruitment and retention. The Illinois Housing Development Authority, the Metropolitan Pier and Exposition Authority, The Illinois Student Assistance Commission, the Southwestern Illinois Development Authority, and the Illinois Tollway –to name just a few- will be negatively impacted.

Accordingly, the IFA asks that appointed members of a municipal entity be excluded from the definition of 'municipal advisor' under the Proposed Rule.
Respectfully submitted,

Christopher B. Meister
Executive Director, Illinois Finance Authority

MARJ HALPERIN
CONSULTING

IFA
ILLINOIS FINANCE AUTHORITY

Date	Publication	Headline	Message	Link
2/23/2011	*Chicago Tribune*	Business leaders expect Emanuel to maintain Chicago's world-class profile	"We have the benefit now of two greats in finance, Rahm and Alderman Ed Burke," said Democratic fundraiser Bill Brandt. "If they can find a way to work together," Chicago will be on the way to solving its problems."	http://www.chicagotribune.com/business/ct-biz-0224-rahm-biz-react-20110223,0,1097975.story
2/24/2011	*CarmiTimes*	Reis ranking member of Public Safety Appropriations	State Rep. David Reis (R-Ste. Marie) will once again serve as the Republican spokesman for the House Public Safety Appropriations Committee, which considers budgetary requests that impacts many departments throughout state government, including the Illinois Finance Authority.	Agn
3/2/2011	*Downers Grove Patch*	With Fewer Seniors Able to Afford Retirement Housing, Fairview Village Files for Bankruptcy	A retirement community and several other not-for-profit corporations associated with VibrantLiving Communities & Services filed for Chapter 11 bankruptcy protection. Fairview Ministries owes at least $59.8 million to between 1,000 and 5,000 creditors, including the Illinois Finance Authority.	http://downersgrove.patch.com/articles/with-fewer-seniors-able-to-afford-retirement-housing-fairview-village-files-for-bankruptcy
3/3/2011	*Chicago Sun-Times*	130-room Hyatt hotel slated for Hyde Park	A six-story, 130-room Hyatt Place hotel will become part of the redevelopment of Harper Court, a former shopping center owned by the University of Chicago. The Illinois Finance Authority is to cover the financing through Recovery Zone Facility Bonds.	http://www.suntimes.com/business/4121208-420/130-room-hyatt-hotel-slated-for-hyde-park.html

ITEM # 10

PUBLICATION: CHICAGO TRIBUNE
DATE: February 23, 2011

Chicago Tribune

Business leaders expect Emanuel to maintain Chicago's world-class profile

By Wailin Wong and Becky Yerak, Tribune reporters
8:05 PM CST, February 23, 2011

Rahm Emanuel is no stranger to Chicago's business elite. Now the mayor-elect has to show he can tackle economic and financial concerns such as jobs and the city's budget deficit while building Chicago's reputation as a global business center.

Emanuel's deep ties with the local business community stem from his political career and his 2 1/2 years as a Chicago-based investment banker. The heads of many Chicago corporations backed Emanuel, with the roster including Kenneth Griffin of Citadel Investment Group LLC, Miles White of Abbott Laboratories and John Canning of Madison Dearborn Partners LLC.

Local business leaders are looking to Emanuel to continue elevating Chicago's profile as a world-class hub for business and cultural institutions, a goal that outgoing Mayor Richard Daley prioritized during his tenure.

"We know how important it is to elevate Chicago's reputation on the international stage," said Sheila O'Grady, president of the Illinois Restaurant Association and Daley's former chief of staff. "I think that's something (Emanuel) said repeatedly throughout the campaign. That's critical. You have to be a global city, a world-class city, or you're nothing, really."

Businesses also want Emanuel to make fixing the city's solvency problems a top priority.

The budget "will lead to everything else," said Norm Bobins, the former LaSalle Bank chief executive now with PrivateBank. "From that, (Emanuel) has to figure out how to deal with the unions at City Hall and the board of education.

"Everything is in paralysis, waiting for him to learn and decide" about those issues, said Bobins, who backed Gery Chico in the mayoral race.

"We have the benefit now of two greats in finance, Rahm and Alderman Ed Burke," said Democratic fundraiser Bill Brandt. "If they can find a way to work together," Chicago will be on the way to solving its problems.

Edward Wehmer, CEO of Lake Forest-based Wintrust Financial Corp., said the business community can take the lead in revitalizing the local economy if Emanuel creates the right conditions.

"He needs to understand that fostering a conducive business environment in the city will create the jobs we need, increase the revenue base necessary to resolve the fiscal problems we currently have and provide support for bigger, future projects," said Wehmer, whose $14 billion-asset bank holding company runs 15 community banks in the Chicago and Milwaukee areas. "If he just wants to tax and spend ... he will drive business out and we will start a slow death spiral."

Business leaders who had backed Emanuel's rivals expressed a willingness to work with the new mayor and said they will push for pro-business initiatives. Arthur Velasquez, chairman of Azteca Foods Inc. and a Chico supporter, said he would like to see "innovation and efficiency in government services," especially for small businesses seeking permits. And Elzie Higginbottom, who co-chaired Carol Moseley Braun's finance committee, said Emanuel's administration should enable higher participation by minority businesses in city contracts.

Of course, business leaders will also be watching to see how Emanuel adopts what Brandt calls "a long Chicago tradition of having the mayor put his hand in the pockets of business people."

"We as business people aren't uncomfortable with the occasional mayor's hand in our pocket, but we often draw the line when the mayor grabs us by the ankles, holds us upside down and shakes," said Brandt, CEO of turnaround consulting firm Development Specialists Inc.

Having worked closely with Daley for about two decades on everything from the development of Millennium Park to the failed bid for the Olympics, longtime Chicagoland Chamber of Commerce CEO Jerry Roper knows that it won't be business as usual — at least initially.

"There is something lost, to a certain extent," he said. "We know Mayor Daley, we know his agenda. We don't know Rahm entirely yet."

Filling the shoes of a larger-than-life persona, Emanuel and his high profile will help open doors in distant lands, according to Roper.

"I've traveled the world with Mayor Daley, and when Mayor Daley travels, he is a rock star," Roper said. "We need that type of a person to keep the momentum going, and I think Rahm is perfectly suited to fill that role."

Roper, who met with Daley regularly, has yet to have a sit-down with Emanuel since his return to the city. But they have crossed paths on a daily basis during their morning workouts at the East Bank Club, acknowledging each other with a wave and a smile.

While Roper said he isn't expecting anyone to match Daley's passion for Chicago, Emanuel's intense focus during his workouts bodes well for the city, according to Roper.

"All one has to do is watch this man work out in the morning," Roper said. "He's over the top."

Tribune freelance reporter Robert Channick contributed to this report.

PUBLICATION: CARMI TIMES
DATE: February 24, 2011

CarmiTimes.com

Reis ranking member of Public Safety Appropriations

SPRINGFIELD, ILL – State Rep. David Reis (R-Ste. Marie) has announced his committee assignments for the two-year legislative cycle.

Reis (whose 108th District includes about half of White County) will once again serve as the Republican spokesman for the House Public Safety Appropriations Committee. The committee considers budgetary requests that impacts many departments throughout state government, including Department of Transportation, Capitol Development Board, Department of Corrections, State Police, Illinois Finance Authority, Illinois Emergency Management Board and Department of Military Affairs.

"It is a real honor to be asked by our leadership team to be the spokesperson for this committee," said Reis. "The state faces great budgetary challenges and many tough decisions will need to be made to keep our state solvent. Many important departments that affect the citizens of the 108th District are funded through this committee and I look forward to serving and representing the needs of not only our region but all of rural Illinois."

Reis will also serve on the House Elementary and Secondary Education, Judiciary II (criminal law), Elections & Campaign Reform, and Insurance committees.

Anyone wishing to comment on legislation during the upcoming spring session may do so by contacting Reis's district office at 618-392-0108 or by visiting his website at www.davidreis.com

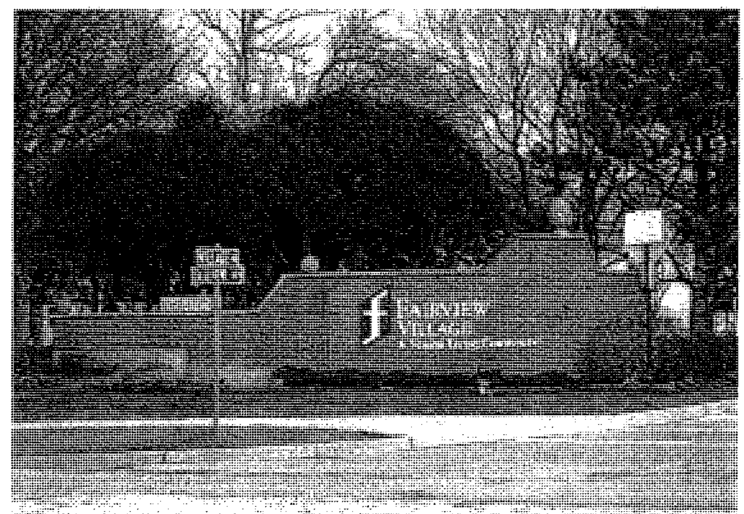
PUBLICATION: DOWNERS GROVE PATCH
DATE: March 2, 2011

DownersGrovePatch

With Fewer Seniors Able to Afford Retirement Housing, Fairview Village Files for Bankruptcy

Petition cites declining occupancy as precipitating factor.

By **Elaine Johnson** | March 2, 2011



The Fairview Village retirement community and several other not-for-profit corporations associated with Downers Grove-based VibrantLiving Communities & Services filed for Chapter 11 bankruptcy protection Feb. 4 in the U.S. Bankruptcy Court for the Northern District of Illinois.

A motion has been made to consolidate the five bankruptcy cases under the proposed lead debtor, Fairview Ministries Inc., which oversees and manages Fairview Village, Fairview Baptist Home and Fairview Residence of Rockford.

Court documents paint a picture of an organization hurt by the prolonged economic downturn. Declining real estate values and investment losses have "made it difficult, if not impossible, for seniors to move into retirement housing facilities such as Fairview Village, as many older adults rely on the proceeds from the sale of their home to fund the upfront entrance fee required by most (continuing care retirement communities)," according to the petition.

As a result, Fairview Village's independent living occupancy declined from 95 percent in 2007 to a 12-month rolling average of 83.3 percent by Nov. 30, 2010. The facility's skilled nursing and assisted living population is stable at 74.6 percent and 82.8 percent respectively, according to the filing.

The lower-than-anticipated occupancy and entrance fees have contributed to declining cash balances, the petition states. Among the company's top 20 unsecured creditors are 17 former residents who are owed "refund claims" totaling $2.94 million, according to court documents.

One former resident has filed a breach-of-contract complaint in DuPage County Circuit Court seeking a judgment of $32,667 plus interest for the remaining balance owed under the entrance fee obligation, according to court documents.

Fairview Village enters into such agreements with each resident, offering a choice of either a 90 percent or a 100 percent refund upon termination of the residency agreement, either voluntarily or by death. In February 2010, the company began making those payments on a deferred installment plan basis.

Entrance fees at the facility range from about $141,000 to $385,000, depending on the size of the residential unit. Monthly fees, which cover operational costs and various services, range from about $1,050 to $2,600 per Downers Grove resident. Residents also are required to select a "lifecare plan" as part of the residency agreement.

To address declining occupancy, Fairview Ministries retained a marketing consultant and began offering "new and more competitive entrance fee programs." It also began escrowing deposits and entrance fees from new residents in December 2010.

The company implemented a cost-cutting plan in 2009, and in 2010 hired a consultant who provided more than 30 recommendations for improving revenues and reducing costs. VibrantLiving's board also instructed management to seek out a buyer for the company's Crimson Pointe assisted living facility, which is operated by Fairview Residence of Rockford.

The company's expansion plans in Downers Grove and the Pacific Northwest, which were primed with $12 million in cash from a 2008 bond refinancing, were placed on permanent hold later that year "due to the inability to access capital markets and ongoing liquidity issues," according to the filing.

In 2007, Fairview Village had proposed the addition of 197 apartments, a new nursing home and a fitness center on its existing 40-acre campus, as well as the construction of 32 senior apartments with entry fees in the $600,000 range on the west side of Fairview at Lynn Gremer Court. The Village Council voted to deny its petition to rezone that property from single- to multi-family housing in November 2008.

During the council's deliberations, Fairview Village was praised as a good corporate neighbor and established centerpiece of the community. The company, whose roots extend back more than 100 years, moved to Downers Grove in 1973 and 20 years later added residential living facilities including garden homes, townhomes and apartments to its landscaped campus.

According to the bankruptcy petition, Fairview Ministries owes at least $59.8 million to between 1,000 and 5,000 creditors, including the Illinois Finance Authority, an agency of state government. The petition lists assets of $10 million to $50 million and asks that the recently established escrow account of nearly $1 million be excluded from payments to lenders or other creditors.

Fairview Ministries believes its creditors would be better served if the company continues to operate than if it liquidated, according to the petition. Mesirow Financial is managing the restructuring effort.

Calls to Fairview Village were not returned and the company's website does not address the Chapter 11 filing.

A hearing is scheduled for March. 8.

PUBLICATION: CHICAGO SUN-TIMES
DATE: March 3, 2011

CHICAGO
SUN-TIMES

130-room Hyatt hotel slated for Hyde Park

By SANDRA GUY Business Reporter March 3, 2011

A six-story, 130-room Hyatt Place hotel will become part of the redevelopment of Harper Court, a former shopping center owned by the University of Chicago.

The hotel, slated to be built by Smart Hotels LLC of Beachwood, Ohio, and Olympia Cos. of Portland, Maine, is slated to open in 2013 in the first phase of the redevelopment on Harper Avenue, just north of 52nd Place.

The hotel is to feature a restaurant, wine bar, fitness center and underground parking, according to a news release. The Illinois Finance Authority is to cover the financing through Recovery Zone Facility Bonds.

Vermilion, which the city and the university selected to redevelop the site, has said the New Harper Court also will include a movie theater, retail stores, office space and residential apartments. A city report from October said the developers are in advanced talks with Whole Foods to anchor the retail space.

The $100-million first phase of the project is to include the hotel, retail and an office building. The project results from the demolition of the former Harper Court shopping center.

Illinois Finance Authority
Board of Directors
Committee as a Whole Meeting
March 8th, 2011

Additional Reading

1. *Standard and Poor's* Outlook for Not-For-Profit Health Care Providers
2. *Bond Buyer* article on Chapter 9 use
3. *Bond Buyer* article on February Volume
4. *Fitch Ratings* article on College & University Rating Criteria
5. *Business Wire* article on Fitch Downgrade of IIT
6. *Wall Street Journal* article on Estimated Muni Defaults
7. *Wall Street Journal* article on Efforts to Rein In Medicaid
8. Trinity Health press release on Purchase of Loyola U. Health System
9. *Chicago Tribune* article on Purchase of Loyola U. Health System

Outlook Is Stable For Not-For-Profit Health Care Providers This Year, But Unsettling Times Loom

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Overview

- Standard & Poor's expects the U.S. not-for-profit health care sector to remain stable in 2011.
- A gradual economic recovery, cost containment by providers, and significant efforts to improve economies of scale, product and process standardization and quality of care underpin the sector's credit quality.
- Beyond 2012, providers will find it tough to sustain their stability due to weaker revenue environment, declining inpatient utilization, a long-term decline in employer-based health insurance, and uncertainties about the implementation of health care reform.

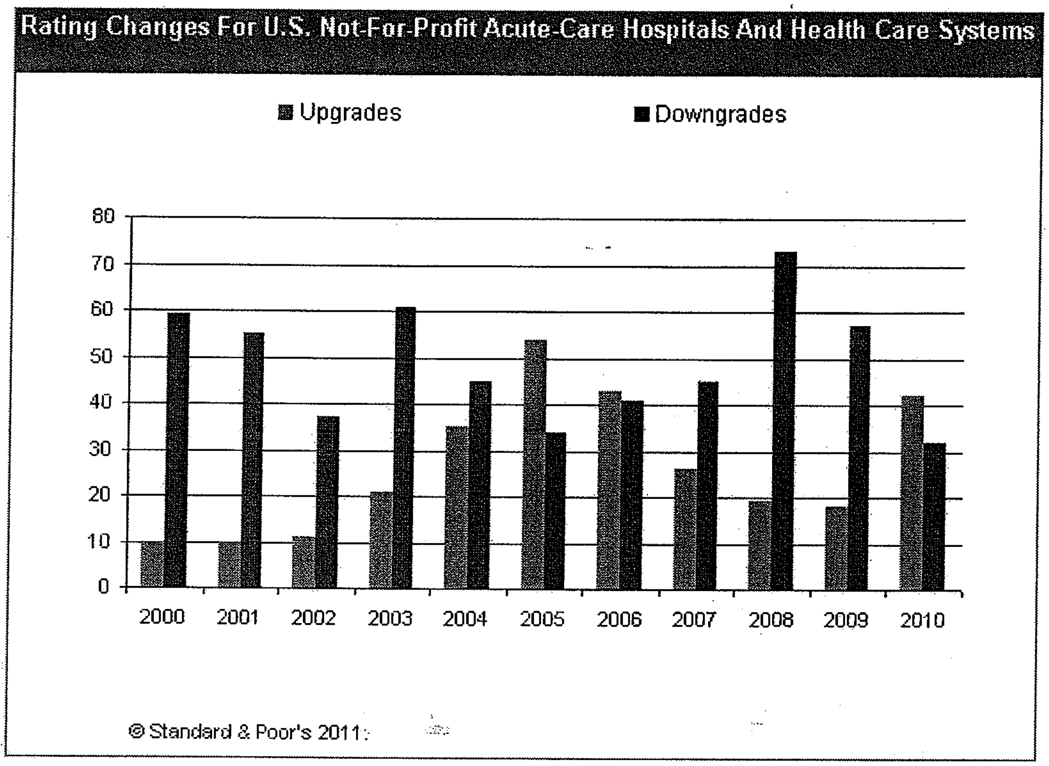
U.S. not-for-profit health care providers have been doing better since 2009, and Standard & Poor's Ratings Services expects credit quality to be stable in 2011. The economy's gradual recovery and providers' cost containment and significant efforts to improve economies of scale, product and process standardization, and quality of care, have supported their credit quality, in our view (see chart 1). In addition, we believe that providers' shift toward more-conservative balance sheet management two years ago has also contributed to the stability.

Nevertheless, we believe the going could get difficult again. We have several questions about the sustainability of the sector's progress. Can providers manage through a period of weaker revenues and declining inpatient utilization? Will a long-term decline in employer-based health insurance threaten revenues? And how will the accelerated adoption of potentially expensive physician alignment strategies affect profitability? In addition, we see significant uncertainties about the implementation of health care reform that may not be clarified for a few years.

Furthermore, the sector's financial position is not as strong as it was a few years ago. Both income statements and balance sheets have stabilized at levels that are generally below the industry's peak performance in 2006 and 2007. The overall decline in volume--which we attribute to the recent recession and changes in medical practices--has also resulted in what we consider a less-robust, more risky sector. We believe the stability could extend into 2012 and possibly 2013 before longer-term negative influences begin to outweigh the positive factors.

In our opinion, providers will continue to manage short-term problems effectively this year, as they did in 2010, while also preparing for health care reform. We expect that they will accomplish this through cost control and increased consolidation, among other strategies. While managing costs is an effective near- to medium-term strategy, we believe its effectiveness is limited in the long term unless the broader business model also changes.

Chart 1



Key Revenue Sources Will Be Constrained

We believe that 2011 will be another year of constrained revenue from three major sources: Medicare, Medicaid, and commercial insurance.

Medicare provided a net negative 0.4% update factor for the federal fiscal year 2011 that started Oct. 1, 2010. Medicare is also mandated to reduce the scheduled update factor by 0.25% for federal fiscal 2012 under the health reform act, and we expect it will also likely consider another "documentation and coding" adjustment, which was the primary reason for the overall negative update factor for federal fiscal 2011.

Medicaid revenue is also at risk in 2011, in our view, due to the difficult choices states, especially those whose fiscal year starts July 1, 2011, will have to make to balance their budgets. In particular, the additional federal funding for Medicaid that began with the American Recovery and Reinvestment Act of 2009 expires June 30, 2011. As a result, we believe many state administrations will likely try to protect their financial position by developing proposals to reduce Medicaid program costs. Potential cost-cutting moves that we foresee include raising eligibility thresholds, reducing covered services, and decreasing provider reimbursement. While the impact of Medicaid cost cuts will vary by hospital--since each hospital has a unique exposure to Medicaid cuts due to its payor mix and location--it will be negative in some way for all of them.

One narrower concern is states' willingness to lower "safety net funding," which they often distribute through special bad-debt and charity-care pools. We believe that providers that are very dependent on these types of funds could find their ratings at risk since historical assumptions about states' willingness to maintain funding levels may no longer be correct. This may lead to significant reductions in funding and what we believe could be long-term fiscal damage to some providers. Moreover, in our view, Medicaid reductions are likely to also hurt long-term-care providers, which in turn may create difficulties in the acute care discharge process, leading to longer hospitalizations and higher costs.

Finally, we believe that the ability of managed care companies to deliver robust rate increases to providers will likely continue to weaken, a factor that preceded the health reform act, but which we believe will accelerate now. While commercial health care insurance companies have stabilized, we understand that they expect thinner margins in 2011 and face Medicare funding reductions, new constraints on their ability to limit members' medical expenses, and requirements to meet the new medical loss ratio targets in the health reform law (see "U.S. Health Insurance 2011 Outlook: The Sector Is On the Mend As Ratings Stabilize", published Dec. 6, 2010, on RatingsDirect on the Global Credit Portal). Providers have been reporting modest single-digit annual rate increases that are well below the peaks of the past decade.

Adding to the soft revenues for hospitals is the continued weakness in volumes, particularly on the inpatient side. Inpatient volumes have shrunk due, we believe, to several factors in the past few years, including the continued technology-driven shift to less-invasive procedures that have shortened hospital stays but increased outpatient business; the recession, which has reduced demand, particularly for elective procedures; and competition from physician-owned ambulatory and specialty hospital providers.

A Focus On Health Reform Readiness

In 2011, we believe that most providers will continue to develop and hone their health care reform readiness strategies. Since the law passed, hospitals' senior management and boards have had to grapple with the question of what reform will mean for their organization. While reform readiness is not a uniform set of activities across the sector, there are many common elements that in our view reflect sound strategies no matter which direction reform ultimately takes. However, the direct short-term impact of adopting reform readiness strategies can vary. For example, most providers are trying to reduce costs in response to an expected drop in reimbursement per unit of service due to continued squeezing of Medicare revenues, among other reasons, as reform moves forward. We view this as positive for the sector because cost reduction is a key way to help improve performance. To date, the cost cutting we have seen has more than offset weaker reimbursements. Over time, we believe reimbursement growth will likely remain weak and well below the growth rates of a few years ago. But it remains unclear if hospitals can control costs year after year to compensate for anemic revenues.

We have seen a mixed impact of reform readiness in the early adoption of disease management techniques, reduced readmission strategies, or other delivery system changes such as medical home models that help reduce utilization. These techniques are positive for patients, but also reduce reimbursement to providers as the payment systems do not yet compensate for the lost revenue these improved techniques imply under the current fee for service business model.

Another significant reform readiness strategy we have seen has been physician alignment and practice acquisition strategies. These strategies, which predate health care reform, reduce patient outmigration and retain or expand patient volumes. We believe they are accelerating because many of the expected incentives under reform call for providers to manage a set of services that are bundled together for reimbursement purposes or to care for large groups of people. We understand that many hospital management teams' goal is to have the hospital and physician share a common payment within the same organization because most believe success under reform will mean care coordination, reducing redundancies, and keeping patients in lower-cost facilities such as nursing homes or in outpatient treatments. In the short term, this can be costly because it frequently requires subsidizing physician practices operating at a loss. While we expect that the benefits to an organization--including the ability to manage a changing payment structure and improve business volumes--are likely to accrue over the long term, the higher cost base and losses need to be managed now.

More Mergers And Acquisitions Are Likely

We expect an acceleration in merger and acquisition (M&A) activity this year. Although consolidation has been commonplace for more than a decade in this sector, we believe the drive to lower costs, enhance information technology (IT) capabilities, prepare for health care reform, and increase the range of collaboration with others – both horizontally and vertically -- will likely boost M&A activity. We expect system-to-system mergers to increase, but we also believe many stand-alone providers will need to overcome traditional community control concerns and seek larger partners to prepare for future challenges.

A Calm Before The Storm?

While providers are preparing for the future by maintaining profitability, rebuilding balance sheets, implementing new IT systems, and employing physicians, we believe it is increasingly difficult to see how they will sustain these measures through the decade in the face of their expected reductions in unit cost, ongoing volume declines, capital needs, and uncertainty about health care reform. As a result, we see the potential for long-term weakening in the sector.

In our opinion, the health care sector remains beset with chronic problems such as:

- Growing levels of uninsured and underinsured patients;
- Smaller rate and reimbursement increases from commercial payors as well as federal and state sources;
- Reduced patient volumes;
- Heightened competition among physicians;
- The continued growth of and demand for expensive treatment modalities (such as proton beam therapies); and
- Weaker trends in nonoperating revenues, including fundraising and investment performance.

In addition, we believe the cost of health care and its relative high percentage of the gross national product still need to be remedied. These issues are compounded by a still-fragile economy and high unemployment, which in our view has contributed to the continued fraying of the traditional employer-sponsored health insurance platform.

While health care reform legislation aims to address some of these issues, we believe that challenges in reforming the delivery system will be hard to identify and evaluate because the key rules are not yet available.

Health Care Reform Remains Controversial

Health care reform legislation remains a controversial topic. It figured prominently in the November 2010 congressional elections, and the House of Representatives has just voted to repeal it and is also considering ways to withhold funding for portions of the law. In addition, there are numerous legal challenges to some key components of the law. Our expectation is that all of these issues will foster continued debate and discussion, but that no major actions will derail health care reform this year. We expect that the legal issues will take some time to move through the judicial system toward resolution, and we do not expect the Senate to follow the House in repealing the law. Despite the controversy, we believe that many of the forces that powered the health reform effort remain in place, such as the rising cost of insurance premiums, a decline in employer-based insurance coverage, and a growing population of uninsured and underinsured people. We believe that reform itself has ushered in cost cuts that have reduced cost inflation to its lowest in many years, but health care costs still consume an ever-larger share of the U.S. gross national product.

In our view, these forces will not likely go away, and the debate on health care reform is unlikely to diminish. We expect the government will continue to implement the law in accordance with the legislated timeline, although many of the key provisions are still a few years away. Providers are beginning to develop plans to participate in the many pilot and demonstration projects, including the bundling of payments and accountable care organizations. In addition, the federal government is moving ahead with various initiatives that link the quality of care to payment, including value-based purchasing (fiscal 2013), reduced payment to hospitals for high readmission rates (fiscal 2012), and reduced payment for certain hospital-acquired infections (fiscal 2015), in step with the law's timeline.

A Shift Toward More Fixed-Rate Debt

While credit markets have improved since the 2008-2009 credit crisis, many providers have shifted their debt away from variable-rate modes toward a fixed-rate structure. Even though variable interest rates are at a historical low, we see many hospitals unwilling to accept the types of risk that they and their peers experienced during the recent credit crisis when bank backing for variable-rate demand bond liquidity was difficult and expensive, if not impossible, to purchase. Amid rising industry pressure, we believe that many providers do not want to increase their financial risk by being unable to accurately budget for interest expense on variable-rate debt or potentially having to post collateral on an associated swap or deal with potential acceleration or renewal issues. Fixed-rate debt is more expensive, but we think many hospitals prefer its stability and predictability as well as the length of bondholders' commitment. We believe that the higher cost of debt service for fixed-rate bonds offsets the risks in variable-rate debt. Still, for many providers, especially larger systems and highly rated hospitals, we see variable-rate debt remaining an integral and manageable financing strategy. We continue to carefully monitor bank renewals, potential for acceleration and terms for any negative impact on a borrower.

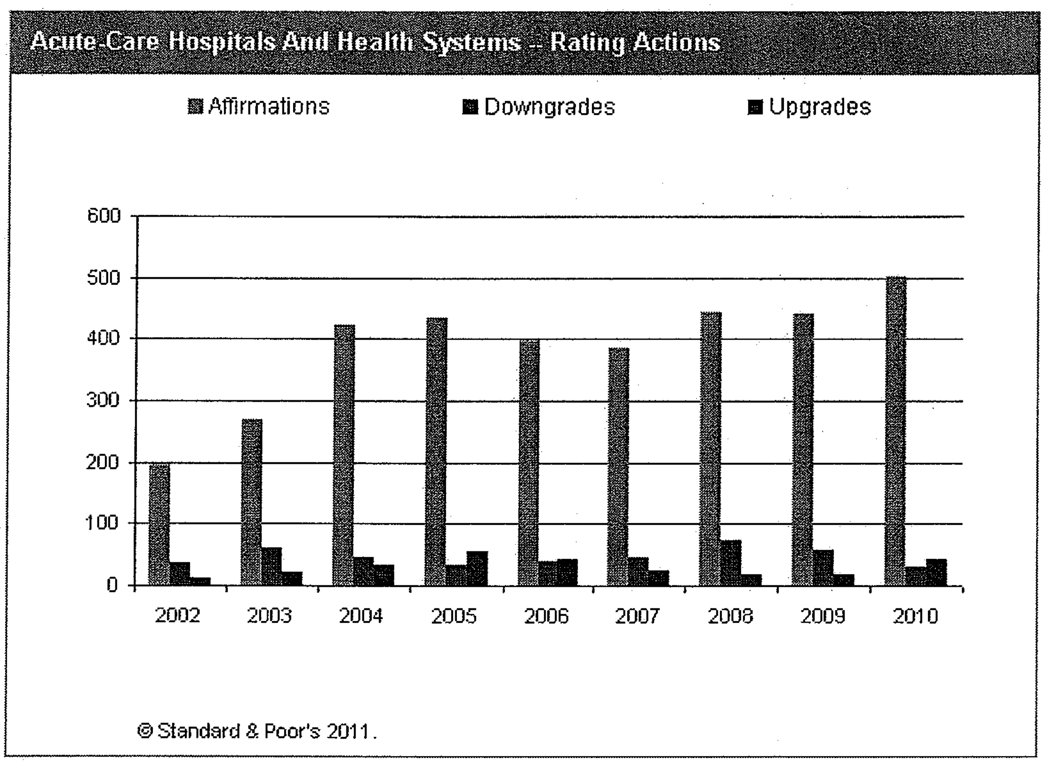
In addition, after the credit crisis of 2008 and 2009, many hospitals converted variable-rate debt into short-term bank loans with maturities of three to five years. We are carefully watching these loans as they mature to see whether the hospitals have a manageable refinancing plan. In addition, we consider the debt banks hold under independent loan agreements (private placements, direct purchase debt agreements, and bank bonds), many of which have the potential for acceleration of the loan based on a wide range of monetary and nonmonetary covenant defaults over and above the traditional "hard" defaults of failure to pay and filing for bankruptcy. In those cases, borrowers must demonstrate that they have sufficient liquid investments to repay the potential acceleration, along with procedures outlining how the repayment will meet the required timeline.

2010 Ratings Review Shows A Moderate Improvement In Credit Quality

In 2010, the number of upgrades exceeded the number of downgrades for the first time since 2006, reflecting our view of the stabilization and moderate improvement in credit quality for not-for-profit acute health care providers (see chart 2). There were 42 upgrades and 32 downgrades, for a ratio of 1.3:1. The sector's overall recovery was particularly evident in the fourth quarter, when there were 18 upgrades and only four downgrades. While the rating trend reflects our view of the sector's stabilization, we also do not believe those positive results are sustainable and expect only relative rating stability in 2011.

Of the total number of ratings we raised, 10 were on health care systems and 32 were on stand-alone hospitals. These numbers are relatively consistent with the overall mix of systems and stand-alones in Standard & Poor's portfolio of rated not-for-profit acute care borrowers. A further breakdown indicates a relatively even split between rating levels, with 52% of the total upgrades occurring in the medium to high investment-grade category ('A-' and above), 43% in the low investment-grade category ('BBB' category) and 5%, or two upgrades, in the noninvestment-grade category ('BB+' and below). The lowered ratings were disproportionately stand-alone hospitals, which accounted for 28 downgrades, while only four health care systems were downgraded. About 69% of the lowered ratings occurred in the low to non-investment-grade categories, highlighting the longstanding credit quality gap between the higher- and lower-rated providers.

Chart 2



Other evidence of improved credit quality were changes in the rating outlook actions and total affirmations for the

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year. The number of positive and negative outlook actions in 2010 reflects our view of potential credit quality over a 12- to 24-month horizon, while a predominance of rating affirmations reflects our belief in the relative stability of the majority of our portfolio. In 2010, positive outlook changes without any rating change totaled what we consider to be a very strong 82, while negative outlook changes without any rating change totaled 43, for a 1.9:1 ratio. Furthermore, over the past 10 years, positive outlook actions have never surpassed 60 in any given year. A substantial portion of the positive outlook changes in 2010 included a return to a stable outlook from negative, while almost all unfavorable outlook changes last year were to negative. Rating affirmations totaled 501, representing what we view as a very strong 87% of the rated organizations reviewed at least once in 2010. Standard & Poor's reviewed a total of 575 not-for-profit hospitals or hospital systems in 2010, or more than 95% of its rated acute care portfolio (see charts 3 and 4).

Chart 3

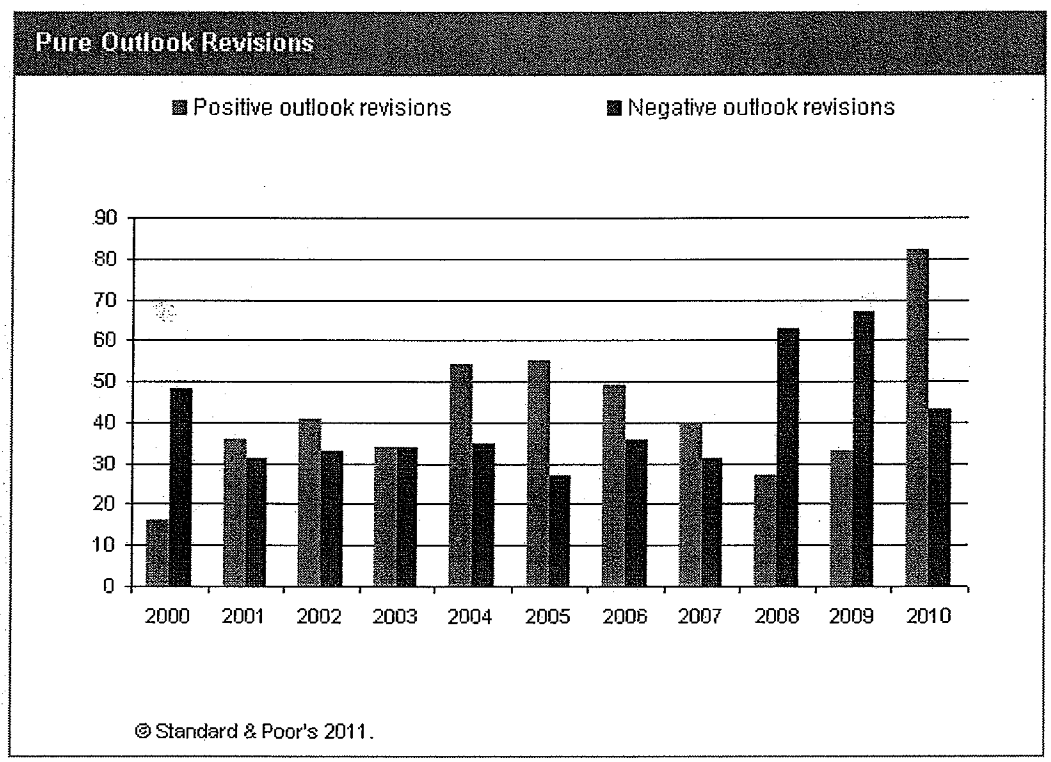

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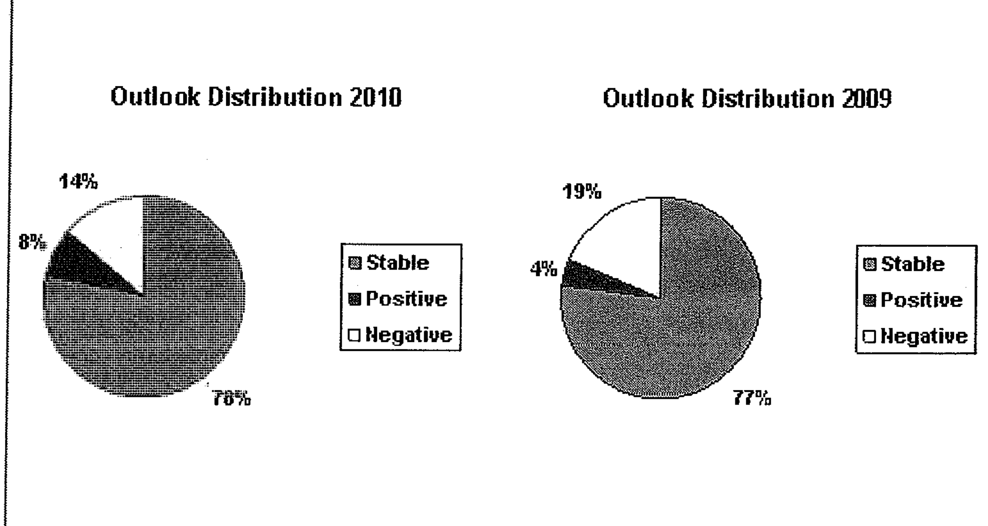
Chart 4



Key Factors Behind Our Rating Actions

The main factors for upgrades in 2010 included our view of the positive results from management's focus on core operations in the face of soft volumes, a weak economy, adverse payor mix changes, and reduced nonoperating income. In many cases, issuers improved their operations through rigorous expense management, partly because of the recession but also with an eye toward health reform. In our view, revenue cycle management remained important. Most organizations also benefited from a rebound in investment markets, which contributed to greater nonoperating income compared with the prior two years. Positive investment returns, along with enhanced cash flow from operations, also enabled the rebuilding of cash reserves and balance sheet strength. Finally, many providers are successfully integrating IT throughout their organizations and physician practices, allowing management access to more-detailed data sets for analysis and continued benchmarking across many business lines and segments. We believe this level of benchmarking enables senior management to react swiftly to rising expense pressures or changing market conditions. Many providers also recognize that the investment made in IT will be crucial in preparing for the shifting reimbursement landscape under health reform. Many of the upgraded providers were still able to boost patient volumes despite the broader market trends of volume declines. This underscores the importance of business growth and business position to overall ratings.

Our assessment of operating pressure was a key reason for many of the downgrades in 2010, highlighted by generally weak economic conditions and revenue pressures. While many organizations had cut back on capital spending, some of the downgrades were attributed to our assessment of increased capital expenditures and higher debt levels, which pressured key metrics, including debt service coverage and liquidity. As providers continually face high expenses and operating challenges, we have cited the inability to respond adequately to these challenges as a key reason for many of our downgrades.

Upgrades

The par amount of upgraded debt totaled $12.8 billion, exceeding the $5.3 billion of downgraded debt by nearly 2.5 times. The gap between the par amounts of upgraded and downgraded debt is attributable, in our view, to several factors, including the fact that there were more upgrades than downgrades, and that the upgrades were more heavily weighted toward larger hospitals and health systems. For example, two of the larger system providers we upgraded in 2010--Adventist Health System, Fla. and Memorial Hermann Health, Texas--accounted for approximately $5 billion in debt outstanding, nearly equal to the total downgraded par of $5.3 billion. The 42 issuers we upgraded exhibited various credit strengths to support the higher ratings, including a record of improved financial performance, favorable liquidity trends, a solid business position with good volume growth, and very strong and stable governance and management practices (see table 1).

Among the upgrades, Mount Sinai Hospital in New York, Scottsdale Healthcare System in Arizona, and Huntington Hospital in New York went to 'A-' from 'BBB+'. An overriding theme behind these upgrades was what we consider solid market positions contributing to good business growth, which boosted operating results. More specifically, the higher rating on Mount Sinai Hospital reflected consistent patient volume and business growth, excellent physician recruiting, and a strong financial profile. Scottsdale Health System's upgrade reflected improved operating performance, coupled with a dominant and growing market position. We raised our rating on NYU Hospital twice in 2010 -- to 'BBB' from 'BB+' in the first quarter, and then again to 'BBB+' in the fourth quarter. The higher rating reflects what we view as rapid financial improvement, strong physician recruitment efforts, successful philanthropy, and a strong management team with an integrated relationship between the hospital and medical school. Finally, we raised the rating on St. Francis Health System, Okla. to 'AA+' from 'AA', in recognition of the system's very strong financial performance, with a five-year average annual operating and excess margins of 8.9% and 10.2%, respectively, and a leading market share of 38%. Additional factors supporting the upgrade were our view of St. Francis' very low debt leverage and robust debt service coverage. The upgrade makes St. Francis one of only four not-for-profit health care providers to have an unenhanced 'AA+' rating in the U.S. No unenhanced not-for-profit hospitals or health systems have 'AAA' ratings due to our view of the sector's risk.

Downgrades

The 32 downgraded acute care providers experienced operating performance that was weaker than we expected, and in some cases persistent operating losses, declining business volume, and weaker balance sheet metrics. Most of the downgrades were for small and midsize hospitals with relatively low debt. As a result, the average par amount for downgrades in 2010 was $165 million, compared with $305 million for upgrades. While size does not necessarily determine rating changes, we have found that larger hospitals and systems tend to have better business positions, more tertiary services, and revenue and geographic diversity and economies of scale (see table 2).

We lowered the rating on PeaceHealth in Washington to 'A+' from 'AA-' due partly to our view of weak margins, a strained balance sheet with high capital spending, and planned increases in debt. We downgraded Tuomey Healthcare System, S.C. to 'BBB' from 'BBB+' after it announced that it deposited a large portion of its unrestricted cash reserves in an escrow account pending an appeal of a judgment that ordered the hospital to pay the government for Stark Law violations. The downgrade reflected our view of Tuomey's weaker liquidity. We also downgraded Reid Hospital, Ind. to 'A+' from 'AA-' because of its weaker-than-expected balance sheet and operating pressures following the opening of a new hospital in late fiscal 2008. The hospital's equity contribution toward the project and investment losses hurt the balance sheet considerably. Although there was some strengthening in the past year, unrestricted liquidity, which had been a central strength of the rating, had not improved enough for us to affirm the rating. At the same time, industry pressures and the new facility's cost weighed on Reid's operating margins and overall cash flow.

Chart 5

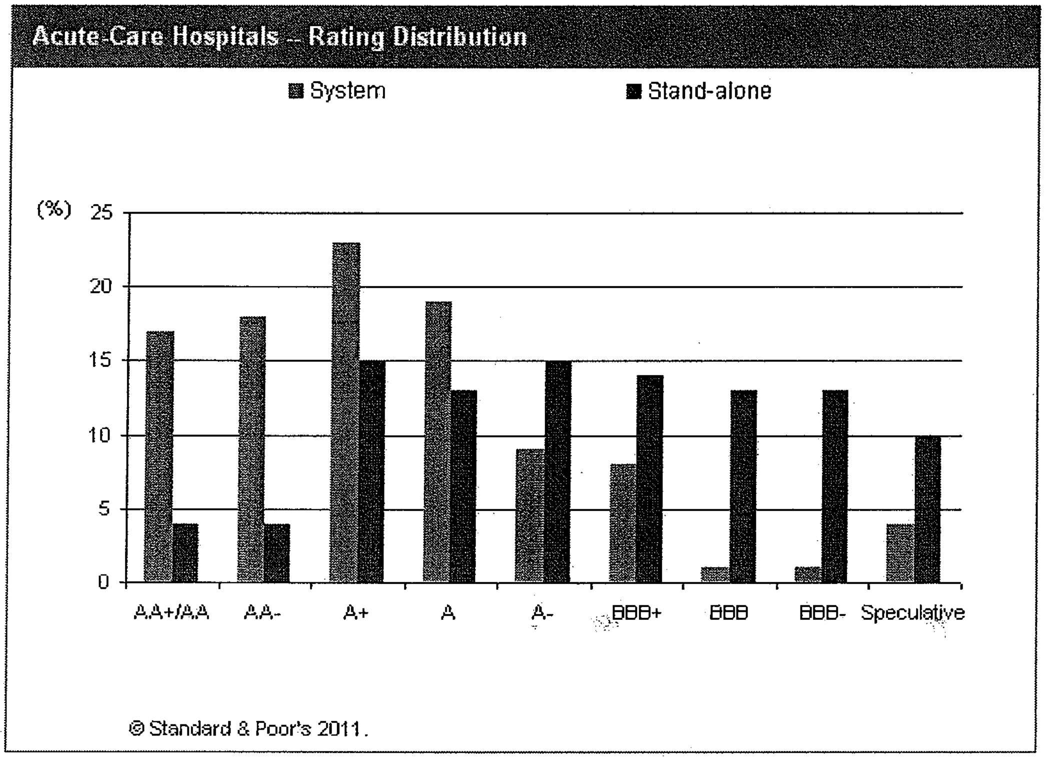


Table 1

Ratings Raised

Organization	State	Ratings To	Ratings From	Outlook To	Outlook From	Month
Adventist Health System/Sunbelt Obligated Group	FL	AA-	A+	Stable	Positive	January
Baptist Health System of South Florida	FL	AA	AA-	Stable	Stable	November
Bellin Health	WI	A	A-	Stable	Stable	October
Cape Cod Healthcare Inc Obligated Group	MA	BBB	BBB-	Positive	Stable	January
CaroMont Health	NC	AA-	A+	Stable	Stable	July
Children's Hospital of Central California	CA	A	A-	Stable	Positive	December
Community Foundation of Northwest Indiana	IN	BBB+	BBB	Stable	Stable	November
Community Medical Center*	MT	BBB-	BB+	Stable	Positive	February
Holy Spirit Hospital	PA	BBB+	BBB	Stable	Positive	November
Huntington Hospital	NY	A-	BBB+	Stable	Stable	December
Jackson Hospital and Clinic	AL	BBB	BBB-	Stable	Stable	November
Jefferson Health System	PA	AA	AA-	Stable	Stable	June
Lake Forest Hospital	IL	AA+	A-	Stable	Positive	March
Massachusetts Eye and Ear Infirmary	MA	BBB-	BB+	Stable	Positive	August

Table 1

Ratings Raised (cont.)

Memorial Health Services	CA	AA-	A+	Stable	Positive	January
Memorial Hermann Health	TX	A+	A	Stable	Positive	November
Mercy Memorial Hospital Corp.	MI	BB+	BB	Positive	Negative	January
MetroHealth	OH	A-	BBB+	Stable	Positive	November
Mount Sinai Hospital Obligated Group	NY	A-	BBB+	Stable	Stable	May
NYU Hospitals Center	NY	BBB	BB+	Stable	Positive	March
NYU Hospitals Center	NY	BBB+	BBB	Stable	Stable	December
Oregon Health and Science	OR	A	BBB+	Stable	Stable	September
Poudre Valley Health System	CO	A	A-	Stable	Stable	August
Prairie Lakes Health Care System	SD	A+	A	Stable	Stable	November
Princeton Community Hospital	WV	BB	BB-	Positive	Stable	April
Richardson Regional**	TX	BBB-	BB+	Developing	Developing	June
Riverview Hospital Association	WI	A	A-	Stable	Stable	November
Sara Bush Lincoln Health Center	IL	A+	A	Stable	Positive	June
Scottsdale Healthcare	AZ	A-	BBB+	Stable	Stable	July
Scripps Health	CA	AA-	A+	Stable	Stable	January
Self Regional Healthcare	SC	A+	A	Stable	Stable	November
Sharp Healthcare	CA	A	A-	Stable	Stable	December
St. Barnabas Health System	NJ	BBB-	BBB+	Stable	Negative	November
St. Francis Health System of Tulsa	OK	AA+	AA	Stable	Positive	December
St. Tammany Parrish Hospital	LA	A-	BBB+	Stable	Stable	May
Suburban Hospital	MD	A+	A	Stable	Stable	May
Thorek Hospital and Medical Center	IL	A	A-	Stable	Stable	August
Union Regional Medical Center	NC	A+	A	Stable	Positive	May
United Regional Health Care System	TX	A+	A	Stable	Stable	June
Vail Valley Medical Center	CO	A-	BBB+	Stable	Stable	December
Westchester County Health Care Corp	NY	BBB	BBB-	Stable	Stable	February
White County Medical Center	AR	BBB+	BBB	Stable	Stable	December

*Rating was withdrawn in August. **Now known as Methodist Regional Medical Center.

Table 2

Ratings Lowered

	State	Ratings		Outlook		Month
Organization		**To**	**From**	**To**	**From**	
Beebe Medical Center	Del.	CCC	BBB+	CW Developing	Stable	April
Blue Ridge Healthcare System	S.C.	A	A+	Stable	Stable	March
Boston Medical Center	Mass.	BBB+	A-	Negative	Watch Negative	January
Children's Hospital and Research Center at Oakland	Calif.	A-	A	Stable	Developing	June
Chippewa County War Memorial Hospital	Mich.	BB	BB+	Negative	Stable	May
Deaconess Health System, Inc.	Ind.	A	A+	Stable	Negative	May
Duncan Regional Hospital	Okla.	A-	A	Stable	Negative	December
Firelands Community Hospital	Ohio	A-	A	Stable	Negative	April
Fremont Rideout Group	Calif.	A	A+	Negative	Negative	March

Table 2

Ratings Lowered (cont.)

Good Samaritan Hospital of Lebanon	Pa.	BB+	BBB-	Negative	Negative	August
Health Quest System	N.Y.	A-	A	Stable	Negative	October
Jewish Hospital and St. Mary's Healthcare	Ky.	A-	A	Negative	Stable	July
King County Public Hospital District #2 DBA Evergreen Healthcare	Wash.	A-	A	Negative	Stable	June
Lake Regional Healthcare Corp.	Minn.	BBB	A-	Stable	Negative	August
Memorial Health System of East Texas	Texas	BBB	BBB+	Negative	Negative	June
Memorial Health University Medical Center	Ga.	BB+	BBB-	Negative	Stable	August
Northern Berkshire Health System	Mass.	CCC	BB	Negative	Negative	August
PeaceHealth	Wash.	A+	AA-	Stable	Negative	December
Piedmont Healthcare Inc	Ga.	AA-	AA	Stable	Negative	October
Pomona Valley Medical Center	Calif.	BBB-	BBB	Negative	Stable	June
Proctor Hospital	Ill.	BB+	BBB-	Stable	Negative	March
Reid Hospital	Ind.	A+	AA-	Stable	Negative	May
Roger Williams General Hospital	R.I.	BB-	BB	Negative	Negative	September
Ryder Memorial Hospital	P.R.	BB	BB+	Stable	Stable	March
Scott & White Memorial Hospital and Scott Sherwood and Brindly	Texas	A	A+	Stable	Stable	May
Spartanburg Regional Health Services	S.C.	A	A+	Stable	Stable	March
St. Joseph Health Services	R.I.	B-	BB-	Negative	Negative	September
Tuomey Healthcare System	S.C.	BBB	BBB+	Developing	Negative	August
UC Health	Ohio	BBB+	A-	Stable	Watch Negative	April
Valley Baptist Health System	Texas	BBB-	BBB	Negative	Negative	February
Valley Health System	Calif.	D	C	NM	Developing	June
West Penn Alleghany Health System	Pa.	BB-	BB	Stable	Negative	June

NM -- Not meaningful.

THE BOND BUYER

THE DAILY NEWSPAPER OF PUBLIC FINANCE

BANKRUPTCY

Chapter 9 Past May Not Be Prologue

Priority Uncertain For Bondholders

Wednesday, March 2, 2011

By Patrick McGee

Third of a three-part series.

As municipalities confront unprecedented budget shortfalls in the aftermath of the Great Recession, some analysts are questioning whether the history of prioritizing bondholders during bankruptcy proceedings will be of much help in gauging future outcomes.

As positive as that history has been, critics say, the data set of municipal bankruptcies is too small to have any meaning relative to the vast variety of issuers in the muni marketplace.

Just three major issuers and 250 municipalities in total have filed for Chapter 9 protection in the last 30 years, according to data compiled by bankruptcy expert James Spiotto of Chapman & Cutler. The majority of cases were for small special-tax districts and entities that did not issue municipal bonds.

Of those that did, most borrowed for nonessential services, like railroad stations without an accompanying railroad. Or they went bankrupt as a result of mismanagement, financial calamity or fraud.

The atypical nature of these cases underscores that history isn't necessarily full of useful examples to cite and be comforted by.

PAST CAN'T FORECAST FUTURE

Peter Kaufman, head of restructuring and distressed mergers and acquisitions at New York-based Gordian Group, is one expert who won't be surprised if municipalities start compromising on their debt in greater numbers.

"If we see one, two, or three prominent or semi-prominent Chapter 9 filings, you may then see a lot more say, 'This is a powerful tool and the stigma is lessening,' " he said. "Just being willing to credibly threaten Chapter 9 may result in consensual restructurings outside of it."

Kaufman said it doesn't make economic sense to trim bond interest payments because they are usually a tiny percentage of a municipality's budget. But that could matter less in the coming years if there's a populist backlash resulting from cuts to public employee pensions while a select few bondholders are paid in full.

"How does a municipality force its unions to take haircuts, and not its bondholders, who the public perceives as wealthy investors?" he asked. "You need an equitable sharing of the pain."

Kaufman concedes there is little precedent of municipal bond payments being forced to take a haircut. But having worked on the Chapter 11 case for General Motors — where unions got protected and bondholders took a hit — he believes similar outcomes are possible in Muni Land.

Jon Schotz, chief investment officer at Los Angeles-based Saybrook Capital, added that it would be foolish to base investment decisions merely on a few historical examples.

“Just because history says, 'This is what’s happened in the past with defaults or Chapter 9s,’ does not mean that that’s what is going to happen in the future, and you shouldn’t base your decision on that,” Schotz said.

Each bond needs to be carefully reviewed on its own to determine how strong the pledge is, he said, adding that he is skeptical of generalizations for a market with more than 60,000 issuers of varying quality.

“You really have to look at the facts and circumstances around the particular bankruptcy or particular issue that you’re talking about,” Schotz said.

IS A G.O. THE BEST WAY TO GO?

Justin Hoogendoorn, managing director at BMO Capital Markets, suggests the 4.7% decline in general obligation issuance last year is a reflection of investor anxiety about the full-faith-and-credit pledge that backs such bonds.

“Investors have found comfort in knowing specific revenues are backing deals, as the bankruptcy topic has eroded some confidence around the typically higher-credit-perceived GO bond,” he said.

Revenue bonds, whose volume jumped 12.1% last year, have the advantage of being backed by a dedicated revenue stream which cannot be disrupted by the municipality, the bankruptcy court, or anyone else.

GO debt, however, is treated as a general unsecured credit in a Chapter 9 proceeding. As such, an automatic stay is imposed during the protection period, allowing the municipality to restructure such debt.

Municipalities have traditionally opted to keep bondholders happy to ensure access to capital markets, but legally there is nothing binding them to make that decision.

That can make essential-service or special revenue bonds a safer bet than a GO during the Chapter 9 protection period, depending on the particular health and wealth of the issues being compared.

Often the official statement will include a rate covenant that requires taxes or utility rates to be raised so that revenue shortfalls aren’t passed onto investors. But for GO bonds lacking a defined revenue stream, pessimists forecasting more defaults are correct to point out that when push comes to shove in bankruptcy court, some GO credits are little more than a voluntary payment.

For that reason, Richard Ryffel, managing director at Edward Jones, recommends sticking only to the top credits.

“An ounce of prevention is worth a pound of cure,” he said, “so our ounce of prevention is to recommend securities that are GOs of highly rated issuers or essential-service revenue bonds.”

Muni market participants can’t stress highly enough how important the motivation among issuers is to retain market access.

“The last thing they want to do is mess around with their credit ratings,” said Bill Mason, vice president of fixed-income trading at David Lerner Associates. “The stronger they are, the more they can come to the marketplace.”

And while in theory it could be compelling for a distressed municipality to seek to restructure its bond debt in a Chapter 9 bankruptcy, there are no significant examples of such an accomplishment so far.

“The reason there have been so few Chapter 9 filings is because the solution is to address the problem rather than throw everything up in the air,” Spiotto said. “That matters to municipalities because they need access to the market, they need credibility, and they need to be efficient in solving their problems.”

Those incentives don’t change much from municipality to municipality, said Duane McAllister, investment manager at M&I Investment Management.

He noted that in the years leading up to the global financial crisis, investors were over-reliant on rating agencies and market data relating to home prices.

A STURDY HISTORY

The shock of the meltdown has caused all investors to double-check the premises of history-based arguments. But in the case of public finance, the history is unusually sturdy.

"Here we are looking at the soundness of the legal structure," McAllister said. "We're a land governed by laws, and if you can't rely on those, what's the sense of having a Constitution, a Supreme Court?"

Moreover, a third of Chapter 9 filings in the past three decades weren't even accepted by the courts. To file, municipalities need to prove insolvency, show that previous efforts to renegotiate debts have failed, and display a willingness to pay creditors. More than half of states — 26 — even prohibit their municipalities from filing unless specific authorization is granted.

Jefferson County, Ala., has been threatening to file for Chapter 9 as it struggles to pay $3.2 billion of sewer debt. But the threat is an empty one, Spiotto said, because the sewer debt is backed by revenues that the court can't interfere with.

"Many people mention bankruptcy not because they want to do it, but strictly as a positioning to tell people, 'We have a problem, we need help, you ought to be listening to me,' " Spiotto said.

An alternative, such as refunding the outstanding debt, is more attractive because it would offer a surgical solution to the problem.

This high threshold for eligibility means that if there is an increase in filings this year, it won't represent a greater risk to bondholders, according to Richard Lehmann, president of Income Securities Advisor.

In fact, filings can be viewed positively in some cases because it gives investors a forum to voice their disputes, he said. Otherwise, a municipality can just default, leaving bondholders with little leverage.

"These are governmental entities," he said. "You can't take them into court and put them into bankruptcy, the way you can [with] a private company."

Ryffel, of Edward Jones, added: "Unless there are legal changes, I don't know why anyone would assume that anything different is going to happen. There would have to be some legal change. Otherwise, the law is the law. It will be carried out the way it's prescribed."

THE BOND BUYER

THE DAILY NEWSPAPER OF PUBLIC FINANCE

VOLUME

February Sees Anemic Volume of $16.16B

Lightest for the Month Since 2000

Tuesday, March 1, 2011

By Dan Seymour

The municipal bond market remained comatose in February, with state and local governments reluctant to try and raise money in the face of unreliable demand and volatile borrowing costs.

Long-Term Bond Sales: February

Municipalities floated just $16.16 billion of debt in February, according to Thomson Reuters, a 40.6% plunge from the same month last year and the lightest February issuance since 2000.

After a historically meager slate in January, municipalities have sold $28.91 billion of bonds so far in 2011, a 52% drop from the first two months of 2010 and the paltriest issuance for this time of year in a decade.

Most people expected volume to drop this year because of the blitz of issuance in December, which likely pulled forward into 2010 some deals that would have otherwise come this year.

The median forecast for 2011 issuance coming into the year was $395 billion, after a record $433 billion slate last year, according to a Securities Industry and Financial Markets Association survey of analysts who expected the Build America Bond program to expire, as it did on Dec. 31.

But with investors withdrawing more than $39 billion from municipal bond mutual funds in the past 15 weeks and 30-year triple-A rated muni bonds exhibiting 30-day yield volatility as high as 20% this year, issuance has fallen even more than expected.

Issuers are choosing not to test a turbulent market.

“Now, with the elimination of BABs, at least for the time being issuers are faced with issuing what would be higher-costing debt in the form of tax-exempt issuance,” said Howard Mackey, president of Rice Financial. “A lot of them are taking a look at what they can afford to issue. ... There are probably some limitations that are being addressed, in terms of debt issuance.”

With municipal governments and investors each sticking mostly to their own side of the dance floor, some researchers are revising their outlook for volume in 2011. John Hallacy, head of municipal research at Bank of America Merrill Lynch, last week cut his prediction for 2011 issuance to $350 billion, from $385 billion.

Hallacy’s predictions for January and February were both too high by $10 billion.

“The reality has been even harsher than what we considered to be cautious estimates going into the year,” he wrote in a research note.

JPMorgan analysts Chris Holmes and Alex Roever sliced their outlook — which at $345 billion was already well shy of the median — to a measly $300 billion.

That would represent a plummet of more than 30%, and if accurate would be the lightest annual issuance since 2001, without adjusting for inflation. Adjusting for the rate of inflation for state and local governments estimated by the Bureau of Economic Analysis, January was the lightest month of issuance since 1986, and excluding that February the lightest since 1989.

Among the numerous factors Holmes and Roever cited influencing volume, one major consideration was the big wave of financing in advance of projects municipalities conducted in the BAB craze late last year.

The BAB program, which enabled state and local governments to sell federally subsidized taxable bonds, expired at the end of December. Municipalities sold $44.1 billion of BABs in the fourth quarter to get in ahead of the deadline.

Some of these deals raised cash for future projects, which Holmes and Roever called "tactical prefunding."

Municipal governments in some cases have therefore already obtained the money for their capital projects this year, eliminating the need to borrow.

"Many issuers had advanced forward their calendars," said Phil Villaluz, head of municipal research and strategy at Sterne Agee.

The sharp drop in issuance relative to expectations, though, proves there is more to it than that.

Holmes and Roever also claimed market volatility, a substantial increase in yields since early in the fourth quarter, and wariness about sparse demand have depressed the number of deals coming to market.

"Higher funding costs are discouraging issuance," the two analysts wrote. "[Some] borrowers are simply delaying new-money issuance in hopes that yields will decline closer to last year's levels."

Issuance in virtually every category declined sharply. Tax-exempt sales cascaded 41.5%, to $11.1 billion. Taxable bond sales slipped 38.8% to $5 billion, as the expiration of the BAB program was offset in part by Illinois' taxable $3.7 billion pension bond deal – far and away the biggest sale of the month.

That offering represented 23% of issuance for the month and was larger than the next five-biggest deals combined.

Refinancings continued to play a smaller role in the market, with sales of refunding bonds dropping by more than half, to $3.9 billion.

The 20-year double-A rated municipal bond yield exceeds the five-year Treasury yield by more than 200 basis points, rendering advanced refundings uneconomical in most situations. Sales of variable-rate demand obligations are all but moribund. Municipalities sold $253.5 million of VRDOs in February.

With almost $200 billion of bank facilities on existing VRDOs scheduled to expire this year and next, according to SIFMA, many municipalities consider the bank guarantees that typically accompany VRDOs too expensive.

The contraction in VRDO issuance coincides with an increase in other types of deals seen as alternatives to puttable VRDO financing, such as floating-rate notes and non-puttable VRDOs. The slowdown in bond issuance is not being accompanied by a slowdown in needs to finance municipal capital projects.

Holmes and Roever expect governments to have to come to market eventually. Both municipalities and investors might feel better about completing deals when the exodus of cash from municipal bond mutual funds fully dies down, they wrote in a report last week.

"When the smoke clears, there will likely be an influx of pent-up supply," they said.

Bond insurance penetration for the quarter was 4.5%.

Higher Education
Sector-Specific Criteria

College and University Rating Criteria

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Related Research

- *Revenue-Supported Rating Criteria, Dec. 29, 2009*

Summary

This report represents a sector specific extension to Fitch Ratings' Research on "Revenue-Supported Rating Criteria," dated Dec. 29, 2009, available on Fitch's Web site at www.fitchratings.com, and provides elaboration and interpretation of operating profile and financial profile rating considerations for colleges and universities. It identifies factors considered by Fitch in assigning ratings to a particular entity or debt instrument within the scope of the criteria. Not all rating factors outlined in this report may apply to each individual rating or rating action. Each specific rating action commentary or rating report will discuss those factors most relevant to the individual rating action.

Operating Profile

For the vast majority of colleges and universities, their ability to meet financial obligations hinges on student demand for program offerings. While institutions vary in terms of ownership type (public versus private), operating scope (regional versus national), and educational focus (liberal arts versus research), the vast majority of revenues collected by schools are either generated directly by enrollment (tuition and fees) or are indirectly related to it (state appropriations). Consequently, to assess the effectiveness of an institution's business strategy, Fitch will review a college or university's historical enrollment patterns, marketing and pricing strategies, and admissions process. Generally speaking, Fitch views favorably a college or university's ability to demonstrate stable student headcount over a full business cycle and cultivate and maintain a robust pipeline of prospective students for successive incoming classes.

Although tuition and fee revenues and state appropriations are key credit drivers for most private and public universities, respectively, fundraising and investment income also play important roles. The purpose of fundraising may be to support operations, fund capital projects, or increase the size of financial assets invested over the long-term, including endowment. In most years, the benefit of a larger pool of invested funds is greater investment income. A successful history of fundraising and an increasing endowment are viewed favorably by Fitch, since both provide a more diversified source of revenues for the school.

Operational Effectiveness

Enrollment

To gauge overall trends in enrollment, Fitch reviews five years of data measured by headcount and FTE students. Stable to upward trending enrollment (1%-3%) is generally viewed favorably; a one-year decrease or increase is not considered a trend but should be explained by the school's management. Because of private schools' significant reliance on student-generated tuition and fees, and the role headcount and credit hours plays in a public university's receipt of state operating appropriations, significant, unbudgeted variance (more than 10%) in enrollment over a three-year period could be a credit concern, particularly if the unexpected gain or loss of students has had a material financial impact and cannot be managed.

Indicators of Student Demand

Indicators	Use of Indicators in the Rating Process
Number of Applicants	Stable to growing numbers reflect continued interest in the school.
Acceptance Rate	The higher the acceptance rate, the less flexibility the school has to increase future enrollment. A high acceptance rate is common for schools that focus on nontraditional students and for schools that offer unique programs to which only qualified students apply.
Matriculation Rate	The higher the matriculation rate, the greater the likelihood the school is the student's first choice.
Standardized Achievement Scores	Varies; scores are considered in conjunction with the mission of the school.
Part-/Full-Time Students	A higher number of part-time students may indicate volatility in enrollment during a strong economic cycle or a large segment of nontraditional students, which is reviewed in conjunction with the mission of the school.
Undergraduate/Graduate Students	A high percentage of graduate students is reviewed in conjunction with the reputation of the school, faculty strength, and program offerings.
Freshmen to Sophomore Retention Rates	Higher rates reflect student satisfaction.
Graduation Rates	High rates reflect success providing desired program offerings.
Reputation/Publicity for School	A history of a positive reputation is desired. Recent negative publicity can have an adverse effect on enrollment and future fundraising.

While headcount gives an indication of the overall demand for a school, the level of FTEs indicates shifts between full- and part-time students. Historically, a shift to more part-time students would signal less annual revenues for the school; however, through the acceptance of the lifelong learning concept, fueled by online, distance education and the cohort model for working professionals, many students are pursing college courses on a part-time basis. As long as overall enrollment is increasing, a rise in the percentage of part-time students may not diminish revenues. As a result, a school's administration must continually be aware of the needs of students and proactively change course offerings and formats in response to evolving patterns. When analyzing enrollment data, Fitch is careful to review the unique mission of the school, its dependence on each component of enrollment, and its strategic plan for maintaining enrollment.

Admissions

The trend in the number of students applying to a college or university can be an indicator of student demand. While a sustained decline in applications would raise concern, particularly if such decline was unplanned, Fitch does not necessarily view increasing application levels as reflective of strengthening demand for a particular institution. Given the increased use of and ease of online application filing and the growing popularity of the so-called common application, which allows students to apply to multiple institutions with a single form, the expectation for most schools is stable to growing applications over time. Management should be prepared to explain the reasons for stagnation or significant and persistent declines in application levels.

To provide context for application trends and better assess overall student demand, Fitch will discuss with a school's admissions staff its recruitment efforts, the pool of schools to which applicants apply as alternatives, and freshmen retention rates. Major strategic shifts in recruitment strategies or market positioning should also be discussed.

Acceptance rates demonstrate a school's ability to control future enrollment. Institutions that accept 75% or more of freshmen applications generally have less flexibility should the school suffer a decline in applications. In the case of state-supported colleges and universities, it is not uncommon to see even premier institutions with acceptance rates greater than 75%, as their mandate is to ensure affordable, accessible education to residents of their home state.

Matriculation rates, also known as student yield rates, and defined as the number of accepted students who chose to enroll divided by the total number of accepted students, are indicative of a college or university's relative position among competitors. Comparative matriculation rates are most informative when used to contrast institutions with similar degrees, programs, student quality, and markets. Comparisons among colleges and universities serving different needs or markets are not appropriate. For example, an Ivy League school with a 45% matriculation rate should not be compared with a regional college with a 50% matriculation rate. If data are available for peer group schools, trends in matriculation among cross admits, or students accepted to more than one institution, can denote a school's level of success enrolling the students it desires.

Student Quality Indicators

Typical measures used to reflect the scholastic aptitude, or student quality, of incoming freshman students include standardized tests, such as the Scholastic Aptitude Test (SAT) or American College Test (ACT). Fitch acknowledges that colleges and universities are seeking alternative methods for evaluating the success of prospective students, and some institutions have altogether eliminated standardized test scores as a requirement for admission. In lieu of ACT and SAT scores, Fitch will look to other indicators, including the percentage of freshmen from the top 10% of their high school graduating class and freshmen to sophomore year retention rates, to assess quality. For specialized institutions, such as colleges of art and design, Fitch will discuss with management the unique requirements of admission (e.g. portfolio submission) and compare these requirements with other like institutions.

In general, colleges and universities with high student quality indicators are in a better position to adjust admission levels during a period of declining applications. If a school's student quality indicators are favorable compared with those of its competitors, there is room to relax admission standards while maintaining strong quality. In addition to comparing student indicators with the college or university's primary competitors, Fitch also compares scores with the national average. An average score above the national average is usually viewed favorably because it provides flexibility for admissions. For schools that accommodate students who have not performed well historically on standardized tests, Fitch places less emphasis on these ratios in its analysis and, instead, focuses on the mission of the university or college and its success in achieving its recruitment goals.

Pricing Strategy

Tuition levels are a significant factor for students or parents choosing a college or university. Tuition competitiveness is most effectively measured through a comparison of tuition and fees among peer institutions. Tuition trends for an individual school are also analyzed on a net basis. Net tuition revenue is defined as gross tuition and fees, net of internally funded student aid. This information can be used to determine the extent to which the college or university is successfully passing along higher costs to students once the impact of tuition discounting (total scholarship and financial aid divided by gross tuition) is considered. A high level of tuition discounting without resources to support this aid could be viewed negatively and as a sign of demand weakness. While internally funded student aid may enable a school to be more tuition competitive, Fitch will review management's track record of providing a financial aid mix that buoys financial operations and helps to sustain enrollment levels.

Campus Life

While the costs of attending a college or university are a significant factor in selecting one institution over another, students and parents invest a substantial amount of time into researching and visiting campuses. Besides an institution's reputation, the aesthetic appearance of the campus, the success of athletic programs, and the availability of quality student housing weigh heavily in the college decision-making process. Fitch assesses the school's response by discussing with management short- and long-term strategic plans for addressing these needs. A review of annual spending for buildings and maintenance, along with the school's longer term master plan for facilities, is evaluated to assess management's readiness to allocate limited resources for these purposes.

Fundraising

Institutional development, commonly referred to as fundraising, provides an important resource for many colleges and universities. Gifts to an institution come from a variety of sources, including alumni, parents, foundations, and corporations, and are either made on an unrestricted basis or are restricted to a specific purpose or initiative. While a fundraising culture takes time to develop, many institutions initially cultivate strong annual fund giving, building off this base to launch comprehensive capital campaigns, which generally target a host of institutional priorities.

Generally speaking, there is a strong correlation between ratings and a college or university's fundraising prowess, particularly when proceeds of a capital campaign are designated for endowment or will help provide budgetary support for scholarship and financial aid. Among the best institutions for development activities are those colleges and universities, both public and private, with nationally recognized, competitive athletic programs, with teams participating in lucrative conferences. In addition, the world renowned Ivy League institutions possess strong fundraising capabilities.

Financial Profile

Financial metrics contribute significantly to rating determinations. With inputs derived from audited financial statements and other supporting financial documents, Fitch calculates and evaluates quantitative assessments of revenue diversity, operating performance, balance sheet resources, and debt burden, as well as historical trends of such measures. Expectations for future financial performance and, ultimately, the credit rating are informed by assessments of those factors. As long as a borrower's underlying strategic position remains sound, a certain amount of variability in financial performance should not affect the rating on the bonds.

Statement of Activities

Fitch analyzes both the revenue and expense sections of the statement of activities to determine concentration of revenues and flexibility of expenses. Schools deriving revenue from a wide variety of sources are less susceptible to fluctuations resulting from funding reductions or changes in demand for a particular program.

Significant changes in revenues or expenses from one year to another should be explained by management. The ability to generate excess revenues over expenditures on an annual basis is essential for maintaining or improving a school's long-term financial position and providing adequate debt service coverage.

Revenue Diversity

Colleges and universities have varying degrees of revenue diversity. For private universities, student-generated revenues (e.g. tuition and auxiliary receipts) are the primary funding source, often representing up to 90% of an institution's unrestricted revenues. For public universities, significant operating support is often provided by the state in the form of annual appropriations. Annual appropriations for operations could represent nearly 40% of some public institutions' total operating revenues. In addition, some public universities receive appropriations to offset debt service costs or to fund non-self-supporting capital projects, such as academic and research facilities. Given the importance of this funding for many public institutions, Fitch will consider the trend and likely direction of state appropriations for both operations and capital as part of its analysis.

Generally speaking, the more diverse a college or university's sources of revenue, which may include revenues derived from healthcare operations, research, annual giving, and investment income, the higher its credit rating. This stems principally from the increased financial flexibility afforded by the presence of multiple revenue sources that are often uncorrelated. For example, healthcare operations are not a function of enrollment or student-generated fees. Similarly, a public university's ability to secure federal and or private sponsorship of research (grants and contracts) is unrelated to its annual receipt of operating appropriations from its home state. Importantly, Fitch recognizes that sources of diversification often have their own associated risks that are considered in the rating process. In addition, while revenue concentration does increase a college or university's vulnerability, management's ability to closely manage the drivers of that key revenue stream, for example a tuition-dependent private university closely managing its demand pipeline, may tend to mitigate the dependency risk.

Select Operating Performance Metrics

Metric	Use of Metric in the Rating Process
Diversity of Revenue	Concentration in any one revenue source is a concern but may be mitigated by a history of stability.
Volatility of Revenue	A revenue source that contributes at least 10% of revenues is reviewed for changes that have affected its consistency.
Operating Margin	Operating surplus divided by total operating revenues. For a public university, the expectation is a break-even level of performance. For a private institution, the operating margin should be consistently at or above break-even level.

Note: Both revenues and expenses are reviewed over several years, usually five, to determine the consistency of the school's financial operating performance.

Operating Margin

The operating margin measures a college or university's ability to generate revenue from its core operations sufficient to meet annual expenditures, fund routine maintenance, and service financial obligations. While Fitch recognizes margins may vary from year to year, over a five-year period the expectation is for at least a break-even level of performance for public universities and a break-even to positive level of performance for private universities. By generating a consistent margin at or above a break-even level, a college or university is less reliant on its unrestricted reserves for operating support and can generally service debt from its annually available surplus.

In computing operating margin, four major adjustments are made by Fitch to determine operating revenues. The first adjustment, which impacts only private universities, involves the reclassification of "net assets released from restrictions for capital purposes" from operating revenues to non-operating revenues, since such amounts cannot be used to fund operating expenditures. Depending on audit presentation, this level of detail may or may not be discernible from the financial statements but may be obtained through a conversation with management. The second adjustment impacts only public universities and involves the reclassification of certain non-operating revenues, including state appropriations, noncapital gifts and grants, and investment income, to operating revenues. Without the reclassification of state appropriations, very few public universities would show a positive operating margin.

The third adjustment involves the reclassification of realized and unrealized investment gains and losses and impacts most private universities and well-endowed, highly rated public universities. Reclassifying gains and losses from operating to non-operating revenues helps provide consistency from one credit to the next as well as eliminates the impact of large market value swings, both positive and negative. These swings could have a significant impact on reported revenues, although they are generally out of a college or university's control and not reflective of how its finances are being managed. For example, unrestricted revenues may be improving in all categories for the year, but a significant market value could result in a loss in unrestricted net assets for the year.

The fourth, and final, adjustment to operating revenues involves treatment of investment spending policy distributions and, again, primarily impacts most private universities and well-endowed, highly rated public universities. Most institutions of this type include in their annual budget an amount they expect will be distributed from the endowment and other long-term investments to support operations. Spending policies are generally based on a 12-quarter moving average market value with annual payouts ranging from 4.5%–6.0%. A variance from this range is not necessarily viewed negatively by Fitch, but it will trigger further discussions.

The reporting on financial statements of spending policy distributions is not consistent among schools. Various reporting includes a separate line item under operating revenues such as "endowment distribution or payout, investment return designated for operations, or endowment income." For other schools, no specific amount is identified as endowment distribution; instead, the amount is included in realized and unrealized investment gains and losses. The lack of consistency in reporting has resulted in Fitch calculating two operating margins for institutions receiving a significant level (greater than 10%) of their revenues from spending policy distributions.

Under the first calculation of operating margin, all realized and unrealized investment gains or losses, including the portion of accumulated gains that may be recognized under an investment-spending policy, are eliminated from operating revenues. With this calculation, only a college or university's gross investment income, namely dividends and interest, is recognized. For institutions with large portfolios of nontraditional, nondividend, and interest-bearing financial assets (e.g. alternative investments), and those which heavily rely on the spending policy payout, a negative margin will generally result when the full payout is not fully recognized. As a result, Fitch also computes a second operating margin that includes spending policy related investment appreciation if such amount can be obtained from financial statements. For colleges and universities that budget a portion of expenses supported by investment returns, Fitch views the operating margin inclusive of the full spending policy payout as a better indicator of financial health. As long as the return on long-term investments exceeds distributions made under the spending policy, reliance on the payout alone is not in and of itself a negative credit factor. However, the greater a college or university's reliance on the payout, the less flexibility it maintains to ratchet back spending under the policy during times of prolonged financial market turbulence.

Balance Sheet Resources and Liquidity

In analyzing a college or university's resource base, Fitch examines the magnitude of financial assets and the liquidity of these holdings. In general, the largest component of a college or university's investment portfolio are assets held in perpetuity for the long-term benefit of the college, including endowment funds and other funds that function similarly to endowment assets but have fewer restrictions as to use. In addition to long-term financial assets, well-endowed public and private universities may also maintain sizable short- and intermediate-term cash and investment pools to support short-term working capital needs and variable-rate demand programs. Generally speaking, these

Select Measures of Balance Sheet Resources, Liquidity, and Leverage

Metric	Use of Metric in the Rating Process
Available Funds	Includes cash and investments not permanently restricted. Available funds provide a measure of balance sheet resources.
Adjusted Available Funds	Includes cash and investments not permanently restricted. Also excludes financial assets deemed as alternative investments per the audited financial statements.
Debt Service Coverage	Measures a school's ability to service debt from annual surplus.
MADS as % of Unrestricted Revenues	Measures the percentage of annual revenues needed to service MADS. Fitch considers debt burden as high if MADS represents 10% or more of unrestricted revenues.

investments tend to be highly liquid and available on demand, with minimal notice.

To gauge the magnitude of a school's resource base, Fitch calculates available funds, or an institution's total cash and investments not permanently restricted. This balance is then compared with expenditures and leverage as measures of financial flexibility. As part of its analysis of balance sheet resources, Fitch will review investment performance since the most recent fiscal year end audit and consider how recent market movement may or may not have impacted metrics derived from the audit.

For public universities, Fitch's calculation of available funds will include cash and investments held by organizations treated as blended component units in financial statements. In contrast, balances held by other affiliated organizations not considered by an auditor as part of a public college or university's primary reporting entity are generally excluded from the calculation of available funds. Fitch recognizes in its analysis that the size of these excluded holdings may be substantial and that these funds exist solely for the benefit of that particular public college or university. However, unlike the holdings of the blended component units, the excluded holdings may not be immediately accessible.

Fitch acknowledges that most private universities and well-endowed public universities have larger shares of their long-term investment portfolios in alternative asset classes, including hedge funds and private equity. While these investments, which are almost always held with a long-term horizon, provide the opportunity for enhanced return, they are generally illiquid, not immediately accessible, and sometimes require additional commitment of capital. In addition, their valuation is derived from a subjective assessment of an investment manager or managers, not an objective, transparent financial market, and is reported on a lagged basis.

Given these characteristics of alternative assets, and recognizing that because of these holdings, available funds no longer provide a sufficient proxy for liquid resources, Fitch will calculate an adjusted available funds metric that attempts to distil the core available funds calculation discussed above into its most liquid, most accessible components. In the adjusted calculation, Fitch typically includes traditional equity and fixed income investments as well as U.S. government-backed securities, mutual funds, and cash. Hedge funds, private equity, and real estate are the most common alternative investments stripped from the adjusted metric.

While for some colleges and universities adjusted available funds suggests a much weaker level of financial flexibility than does the traditional available funds computation, Fitch recognizes this calculation is conservative as it gives no credit to holdings that, while not immediately available, will, in fact, have a value at the end of their investment horizon. Moreover, these investments are rarely intended as a source of near-term liquidity or working capital. For these reasons, Fitch will continue to reference available funds and adjusted available funds in its credit analysis.

Fitch does not proscribe a target asset allocation. However, an institution's investment policy will be evaluated in the context of its overall financial position and financial management practices, including the level of internal reporting controls. For institutions with significant revenue concentration, stagnant demand trends, and erratic operating performance, the liquidity of balance sheet holdings becomes more important, as this type of college or university will rely more on liquid reserves for annual operating support. Fluctuation in available fund balances or overexposure to less liquid alternatives would, therefore, be viewed negatively. On the other hand, colleges and universities with more stable operating and financial characteristics have a greater capacity to withstand temporary fluctuations in available fund balances. These institutions are also better equipped to handle illiquidity risks associated with a heavy exposure to nonmarketable securities given their consistent ability to cover annual expenditures and meet financial obligations from operations.

Debt Burden

When assessing leverage, Fitch reviews the existing level of debt, debt structure, and future plans for debt issuance. For this reason, Fitch prefers to see the school has a capital improvement plan (CIP) with a documented process for assessing capital projects, the time horizon for funding the projects, and funding sources for the projects. The plan should cover a period of at least five years and be reviewed regularly.

When reviewing the level of debt for a school, Fitch calculates ratios that reflect the school's debt burden and ability to repay the debt. The most common ratio, pro forma maximum annual debt service as a percentage of unrestricted revenues from operations, indicates the school's debt burden or portion of revenues that must be used to meet the maximum amount of principal and interest payments for a year. Pro forma MADS typically includes debt service on proposed borrowings and outstanding bonds; notes payable; capital leases; line of credit draws; commercial paper draws; and noncancellable operating leases. Fitch considers a rate of 10% or greater to be an indication of a significant debt burden.

Debt service coverage is primarily measured by net income available for debt service. In calculating annual net income available for debt service, Fitch begins with the change in unrestricted net assets from operations and adds back noncash items such as depreciation and interest that was expensed during the year. Fitch eliminates any realized and unrealized gains or losses in its calculation of operating revenues. The stronger the coverage, the more likely the school will make timely debt service payments.

Peer Comparisons

With few exceptions, colleges and universities report demand and financial data in a standardized manner. While this standardization enables a meaningful comparison of key credit variables among institutions and helps facilitate the assignment of a bond rating, other intangible, qualitative variables, such as the strength of management, play an integral role.

For all college and university credits rated by Fitch, a college or university's individual metrics are compared with median values exhibited at the recommended rating level as well as to individual institutions at that rating level possessing similar operating and/or financial attributes. In marginal situations, Fitch will expand the universe of comparable institutions, including median values for colleges or universities above or below the recommended rating, to further support the rating rationale and highlight stark contrasts. Generally speaking, public universities are compared with other state-supported institutions, while private colleges and universities are compared with other private schools.

Importantly, ranges over which demand and financial metrics vary can be broad, and overlap among rating categories for certain metrics does exist. Moreover, ratings are forward looking and imply an expectation of the future rather than what has previously occurred. Nevertheless, improvement or deterioration in a college or university's demand and/or financial metrics is an important rating driver, with improvement or deterioration in such variables relative to medians and peers a potential source of positive or negative rating pressure.

Financial Metrics

Financial results correlate reasonably well with credit ratings. In the tables on pages 2, 5, and 7 are the definitions of select measures used by Fitch to evaluate and compare public and private college and universities. A report detailing median values for select demand and financial indicators, by rating category and institution type (public and private), is currently under development.

Median financial ratios will vary over time because bond ratings allow for a certain amount of performance variability and cyclicality, and no absolute floors or ceilings are prescribed for individual metrics to qualify for a particular rating level. Strong performance in one metric may or may not compensate for poor performance in another, depending on the metrics involved and other circumstances of the borrower. Also, qualitative factors and expectations for future performance often result in ratings for borrowers that may have one or several metrics that diverge from published medians.

Business Wire
A Berkshire Hathaway Company

March 04, 2011 04:47 PM Eastern Time

Fitch Downgrades Illinois Institute of Technology to 'BB-'

NEW YORK--(BUSINESS WIRE)--Fitch Ratings has downgraded the Illinois Finance Authority (IFA) $190 million revenue bonds (issued on behalf of Illinois Institute of Technology) to 'BB-' from 'BBB'.

The Rating Outlook is Negative.

RATING RATIONALE:

--The downgrade to 'BB-' primarily reflects a substantial decline in balance sheet resources, driven largely by Illinois Institute of Technology's (IIT) inability to bring structural balance to its operating budget, and the heavy reliance on endowment spending, including draws in excess of its annual payout policy, to offset sizeable annual operating deficits;

--The Negative Outlook continues to reflect the extremely limited financial flexibility provided by IIT's nearly depleted financial cushion, exacerbated by a fiercely competitive operating environment, and the institute's overall constrained ability to materially raise revenues to reduce or eliminate operating losses;

--Importantly, IIT's senior management team, many of whom joined IIT over the past three years, has made recent progress in reducing excess endowment draws and implementing budgetary strategies to better align annual operating expenditures with revenues going forward;

WHAT COULD TRIGGER A DOWNGRADE?:

--Inability to effectuate sustained, material improvement in operating performance, inclusive of a spending policy defined annual payout from endowment;

--Further deterioration of balance sheet resources from fiscal 2010 levels;

--Failure to maintain stable enrollment, including at the undergraduate level, where plans to institute a phased tuition increase would have their greatest potential negative impact.

SECURITY:

The bonds are secured by a general obligation pledge of IIT. The series 2009 bonds are additionally secured by a cash-funded debt service reserve.

CREDIT SUMMARY:

IIT has historically produced a deeply negative operating margin, averaging negative 15.4% over the past five fiscal years. Including endowment payout, the operating margin remains negative, with the average improving to only negative 7.1% - far below the break-even level typically expected for an investment grade, private university. This budgetary imbalance has required IIT to rely on significant excess endowment draws beyond the annual, spending policy-defined, base distribution. The history of negative operating margins indicates an inherent mismatch between revenues and expenses at IIT, which the current senior management team has taken steps to address. Beginning in fiscal 2010, management's actions have resulted in a decreasing the excess endowment draw required to support operations, and has budgeted to eliminate the reliance on excess endowment draws entirely by fiscal 2012.

While Fitch views management's decisive actions to correct the operating issues favorably, the excess draws, in combination with losses associated with investment in research ventures through the IIT Research Institute (IITRI) and general market losses, have critically depleted IIT's financial resources. IITRI is a non-profit research institute originally formed to work alongside and in support of IIT, but operates as an independent organization. IIT's available funds, defined by Fitch as cash and investments not permanently restricted, have plummeted 95.3% over the past five years. As of fiscal 2010, IIT's available funds represented only 3.2% of operating expenses and 3.5% of total debt. IIT's exposure to alternative investments (which amounted to approximately 13.1% in fiscal 2010) further reduces IIT's remaining financial flexibility.

IIT's enrollment has continued to grow year over year for the past five fiscal years, reaching 7,774 on a headcount basis in fall 2010. At IIT, graduate enrollment has historically comprised approximately two-thirds of total enrollment, with traditional undergraduate students making up the remainder. Demand is particularly strong at the graduate level, where the demand for programs allows IIT to charge tuition premiums in certain fields. In recent years, IIT has changed its approach to attracting undergraduate students, focusing attention on students who demonstrate a good fit with the institute's programmatic offerings. This strategy has resulted in a decline in application volume since fall 2008 and a slight increase in acceptance rate. However, the number of freshman matriculating at IIT has declined for both fall 2009 and 2010 - a problematic trend given IIT's annual revenue shortfalls and plans to increase net tuition revenue through a plan to increase tuition rates.

Despite an overall strong demand for programs, IIT's continued negative operating performance and significant deterioration of resources prompted the United States Department of Education (USDE) to allow IIT's participation in the USDE student financial aid (SFA) programs only on a provisional basis for fall 2010 - 2012. The provisional status requires that IIT maintain an irrevocable direct pay letter of credit payable to USDE. Should the USDE take further action eliminating the eligibility of IIT students to participate in the SFA programs, the potential negative impact on enrollment (particularly at the undergraduate level) could be significant, which could result in further negative rating actions.

IIT is a private, nonsectarian technical engineering institute established in 1940 through the merger of the Armour Institute of Technology and the Lewis Institute, which were both founded in the 1890s. IIT operates five campuses in the city of Chicago and its suburbs. Its main campus is located four miles south of downtown Chicago, on a 128-acre complex of approximately 50 buildings.

Additional information is available at 'www.fitchratings.com'

In addition to the sources of information identified in the Revenue-Supported Rating Criteria, this action was additionally informed by information from IIT.

Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria' (Oct. 8, 2010);
-- 'College and University Rating Criteria' (Dec. 29, 2009).

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564565
College and University Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493170

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BusinessWire

THE WALL STREET JOURNAL.
WSJ.com

MARKETS | MARCH 2, 2011

Muni Default Estimate: $100 Billion

By MICHAEL CORKERY

A consulting firm founded by economist Nouriel Roubini said there could be close to $100 billion of municipal-bond defaults over the next five years as state and local government-debt problems damp the U.S. economic recovery.

Bloomberg News

Nouriel Roubini

Related Reading

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Editors' Deep Dive: Muni Debt Watch

That figure would by most estimates represent a significant increase over defaults in recent history, but it doesn't appear to be as dire as a prediction last year by analyst Meredith Whitney.

Mr. Roubini is known for his prescient warnings about the 2008 financial crisis. In weighing in on the muni-bond market, his firm joins a chorus of high-profile commentators who have offered their take on the fate of the once-staid market. It took a dive late last year and in recent weeks has made up some losses.

The report, by David Nowakowski and Prajakta Bhide at Roubini Global Economics and released to clients Monday, says state and local debt problems aren't "systemic" in nature, nor will they "infect the financial system." The authors of the report declined to comment.

Most of the defaults will occur among special government projects and revenue-generating entities that aren't considered viable, it says. "Defaults will continue to be isolated events."

Tracking the total number of defaults can be difficult because they are concentrated among small bonds that aren't rated by national rating firms. Those firms typically track the bonds they rate.

S&P/Investortools Municipal Bond Index, which includes $1.27 trillion of municipal debt outstanding, reported $2.65 billion in defaults last year down from $2.9 billion of new defaults in 2009.

Combined defaults of rated and unrated bonds were as high as $8.5 billion in 2008, according to some estimates.

The Roubini report says that relying on the history of low default rates in the municipal debt market is "Pollyannaish."

"Avoiding a crisis will involve real austerity that has only partially been implemented thus far," the report states.

Still, the report points out that recovery rates for investors on defaulted muni bonds are typically about 80%, "far higher" than for corporate bonds. It also said an analysis of the Chapter 9 bankruptcy provision for municipalities shows bondholders retain strong protections.

Ms. Whitney, an independent analyst who correctly predicted future bank troubles in 2007, last year made a controversial prediction of 50 to 100 sizable muni-bond defaults, totaling "hundreds of billions of dollars."

Write to Michael Corkery at michael.corkery@wsj.com

THE WALL STREET JOURNAL.
WSJ.com

HEALTH INDUSTRY | FEBRUARY 28, 2011

Governors Scramble to Rein In Medicaid

By SARA MURRAY, JANET ADAMY and NEIL KING JR.

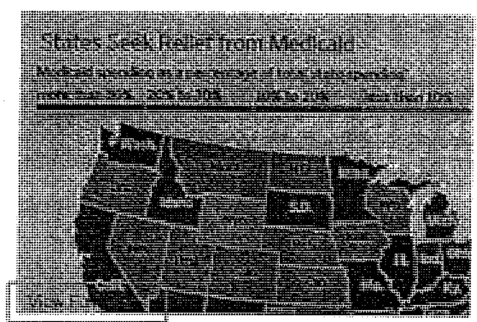
More than half the states want permission to remove hundreds of thousands of people from the Medicaid insurance program, a move that would represent a rare cut to a national social program.

Journal Community

Should states further cut spending on Medicaid?

○ Yes
○ No

View Results »



The push sets up a showdown between states struggling with fiscal 2012 budgets and the Obama Administration, which says it may lack the authority to allow such cuts. That means Congress could be forced to settle the matter.

Nearly every state has nipped at parts of the program, which currently insures 53 million Americans. Arizona stopped covering certain organ transplants, Washington pared vision and dental services and South Carolina has eliminated coverage of circumcisions.

But governors say those aren't enough to control a program that swelled during the downturn and is now tied with education as their top expense.

Created in 1965, Medicaid was designed as a federal-state partnership to provide a health coverage for the poorest Americans, particularly those with children.

As of 2009, states on average cut off working parents earning more than $11,616 a year, according to the Kaiser Family Foundation, although in some states the income threshold is as high as $48,400.

About eight million Americans joined the Medicaid rolls between 2007 and 2010, many because they lost jobs. The federal government picks up 57% of states' Medicaid tab, on average. But in July, $26 billion in additional federal Medicaid funding will expire, leaving states to plug a big budget hole.

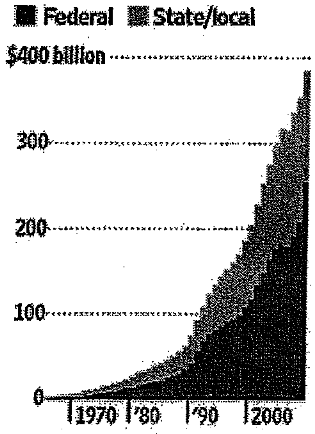
At issue is a provision in the health-overhaul law enacted in 2010 that says states can't limit Medicaid eligibility or else they'll lose federal funding.

As a result, every one of the country's 29 Republican governors has asked the federal government to waive the requirement, with New Jersey penciling a waiver into its budget. Some states with Democratic governors, including Washington, are also quietly pressing for the change.

"We're asking for cooperation...so that we can work our way through what is a very challenging time for us," Washington Gov. Christine Gregoire said at a meeting of the National Governors Association in Washington this weekend, where curbing Medicaid costs was a top issue.

Swollen Costs

Total Medicaid spending



Note: Includes children's coverage, 2009 (latest data available)
Source: Centers for Medicare & Medicaid Services

The Obama administration Friday moved toward allowing a small cut in eligibility and greater cost-sharing for enrollees, but gave no sign it will allow larger reductions.

Health and Human Services Secretary Kathleen Sebelius told states earlier this month they should close their Medicaid budget gaps through other means, such as via higher copayments and by purchasing prescription drugs more efficiently.

"An eligibility cut or even a provider cut can potentially bring in some savings, but it's really not going to get where the big dollars are," said Cindy Mann, director of the federal Center for Medicaid and State Operations.

States disagree, contending federal rules hamper them from touching the real cost drivers of the program, such as long-term care. Medicaid funds nearly two-thirds of all nursing-home residents.

A bigger issue may be whether federal officials have the power to grant such waivers. Some governors say Ms. Sebelius has told them she's unable to grant states the flexibility to reduce their Medicaid rolls.

While the law gives the HHS secretary some flexibility for enforcement, officials say they still haven't determined whether she could waive this particular requirement. "We're still looking at our waiver authority and whether we think we have the legal authority," Ms. Mann said.

The last time there were big changes to the social safety net was in the mid-1990s, after an overhaul of welfare crafted by a Republican Congress and signed into law by President Bill Clinton, a Democrat.

Since then, federal social programs have tended to grow, not shrink, including a big expansion of drug benefits signed by President George W. Bush, a Republican.

In recent years, Medicaid has grown into one of largest payers in the health system, accounting for 17% of all hospital spending. Experts say the program's funding woes stem from the rising number of people with expensive chronic health conditions, coupled with the recession. As of 2008, 1% of all beneficiaries ate up 25% of the program's expenditures, HHS says.

In 2000, Medicaid spending was $187 billion. That figure rose to $346 billion in 2009, the latest full calendar year for which figures are available, according to the Centers for Medicare and Medicaid Services. Governors are also casting a worried eye to 2014, when the health-care overhaul will add millions more to Medicaid.

Governors say the fastest way to pull back their costs is to allow states to cut people and costly benefits. Since taking office last month, Maine Gov. Paul LePage, a Republican, has brought his state's Medicaid woes to President Barack Obama, Vice President Joe Biden and Ms. Sebelius.

Maine has among the country's most generous Medicaid standards. Around a quarter of the state's residents are in the program, which costs $2.6 billion a year.

To help cover a nearly $1 billion budget gap, Mr. LePage wants the Obama administration to let Maine drop its standard to match the federal ceiling—a move he says would save the state at least $70 million a year. He says the administration is so far refusing to grant the state an exemption.

The health law allows states that have budget deficits to eliminate certain higher-earning enrollees, though that provision applies only in a narrow amount of cases.

"We are being penalized for being overly generous," said Mr. LePage. "All we are asking for is latitude in how we work our own system."

The state of Washington wants flexibility in the rates its pays health-care providers that treat Medicaid patients, the services it offers and its eligibility requirements.

"In our state, the least attractive of those tools is to just cut people off the program," said Jonathan Seib, a health-policy adviser to Gov. Gregoire, who is chairwoman of the National Governors Association. "But it's an authority we'd like to have in order to manage our budget."

Delaware Gov. Jack Markell, a Democrat, may also pursue a waiver to reduce Medicaid eligibility. "We haven't ruled anything particular in or out yet," Mr. Markell said, adding that it has been difficult to rein in Medicaid costs and "the population that qualifies has increased significantly."

Journal Community DISCUSS

This nation will never recapture its former greatness until we take health care insurance away from tens of millions of citizens. And by all means, let's start with the poor!

—Gail Willie

Some states have had to step back from planned Medicaid cuts after meeting political resistance. Washington halted a plan to cut adult prescription-drug coverage, and South Carolina reversed a decision to cut hospice care, both after an outcry from the health community.

In Mississippi, Republican Gov. Haley Barbour says he has reduced his state's Medicaid rolls 20% by simply requiring all recipients to apply annually in person to prove their eligibility. He believes he could make further advances by requiring annual physicals, a step he says the federal government doesn't allow.

"The administration is granting waivers out the yin yang to businesses and everyone else," he said. HHS has exempted more than 700 employers and others from providing richer insurance benefits mandated under the health law. "We'd like a little of that leeway, too."

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TRINITY HEALTH
Novi, Michigan

Loyola University Chicago and Trinity Health Sign Letter of Intent

03/04/2011

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Loyola University Chicago and Trinity Health Sign Letter of Intent

Loyola University Health System and Trinity Health Consolidation to Strengthen Catholic Health Care in Chicago and Beyond

CHICAGO, March 4, 2011 – Loyola University Chicago (LUC) and Trinity Health (Novi,Mich.) have signed a Letter of Intent (LOI) that could lead to the consolidation of Trinity Health and the Loyola University Health System (LUHS), a wholly owned subsidiary of the University.

The LOI provides a framework for the partnership and begins the formal process of creating the operating model for consolidating the two organizations.

Together, LUC, Trinity Health, and LUHS (Maywood, Ill.) would strive to become one of the nation's leading providers of Catholic health care, research, and medical education and a model for physician, provider, and community collaboration.

"After a number of conversations with both local and national Catholic health-care systems, LUC determined a partnership with Trinity Health provides the greatest opportunity to invest in and grow the Loyola University Health System while securing the future of the University's Stritch School of Medicine and Marcella Niehoff School of Nursing," said Michael J. Garanzini, S.J., president of Loyola University Chicago. "The consolidation would call for substantial investments to advance the future of health sciences and medical research, including $150 million for a state-of-the-art medical research enterprise on the medical center campus in Maywood."

With the LOI in place, leaders representing the three organizations are further evaluating the potential for consolidation and are completing a number of necessary steps, including filing for regulatory approvals, drafting a Definitive Agreement, planning for transition, and obtaining LUC and Trinity Health board approval.

"The health-care industry is going through accelerated change across the country, and so we believe that now is the right time for LUC and Trinity Health to seize the opportunity to strengthen Catholic health care," said Joseph R. Swedish, president and CEO of Trinity Health.

"While there is much work ahead during this transition period, I am confident that together, Trinity Health, in collaboration with LUC and LUHS, will become a catalyst for Catholic collaboration in Chicago and across the nation."

The consolidation will allow LUHS to accelerate progress on its strategic goals.

"This is a natural collaboration that is occurring at a pivotal point in our history. When Trinity Health's resources are combined with Loyola's renowned physicians and intellectual capital, our plan for growth in patient care, education, and research take a giant leap forward," said Paul K. Whelton, MB, MD, MSc, president and CEO of LUHS and senior vice president for health sciences at LUC.

The two health-care systems would complement each other and leverage their collective talent and size:

- Trinity Health, based in Novi, Mich., is the fourth-largest Catholic health system in the United States with operating revenue of more than $7.1 billion and 48,000 employees. It has one of the nation's most extensive electronic medical record systems and has been recognized by several national organizations for top quality and patient safety. Trinity Health's strong operating results and AA bond rating allow favorable access to financing and the ability to make needed capital, research, and medical education investments.

- LUHS is a leading Jesuit academic medical center with a multidisciplinary focus on delivering outstanding patient care, leading-edge research and rigorous medical, nursing, and graduate education. The system has one of the largest networks of practice sites in the region with a total of 28 facilities. LUHS serves as the training ground for students at Loyola University Chicago's Stritch School of Medicine and Marcella Niehoff School of Nursing. The Medical Center campus in Maywood includes the Cardinal Bernardin Cancer Center, the Ronald McDonald??Children's Hospital of Loyola, a leading Burn/Trauma Center, and the Center for Heart & Vascular Medicine. LUHS has a second medical campus in Melrose Park, Ill., which is the home of Gottlieb Memorial Hospital.

Trinity Health, LUC, and LUHS expect the consolidation to result in the implementation of new, innovative, and efficient health-care delivery models both regionally and nationally. Leaders of both organizations will collaborate to better serve people in our local communities, including those who are underserved and uninsured, and to strengthen and preserve both research and education.

About Loyola University Chicago

Committed to preparing people to lead extraordinary lives, Loyola University Chicago, founded in 1870, is the nation's largest Jesuit, Catholic university. Enrollment is nearly 16,000 students, which includes more than 10,000 undergraduates hailing from all 50 states and 82 countries. The University has four campuses: three in the greater Chicago area and one in Rome, Italy. Loyola also serves as the U.S. host university to The Beijing Center for Chinese Studies in Beijing, China, and now features an academic center in Saigon-Ho Chi Minh City, Vietnam. Loyola's 10 schools and colleges include arts and sciences, business administration, communication, education, graduate studies, law, medicine, nursing, continuing and professional studies, and social work. Loyola offers 71 undergraduate majors, 71 undergraduate minors, 85 master's degrees, and 31 doctoral degrees. Loyola is consistently ranked among the "top national universities" by U.S.News & World Report, and the University is among a select group of universities recognized for community service and engagement by prestigious national organizations, such as the Carnegie Foundation and the Corporation for National and Community Service. For more information about Loyola, please visit LUC.edu.

About Trinity Health (trinity-health.org)

Trinity Health is the fourth-largest Catholic health-care system in the country. Based in Novi, Michigan, Trinity Health operates 46 acute-care hospitals, 379 outpatient facilities, 33 long-term care facilities, and numerous home health offices and hospice programs in nine states. Employing more than 48,000 full-time staff, Trinity Health reported $7.1 billion in unrestricted revenue in fiscal year 2010. As a not-for-profit health system, Trinity Health reinvests its profits back into the community through programs to serve the poor and uninsured, manage chronic conditions like diabetes, health education and promotion initiatives, and outreach for the elderly. In fiscal year 2010, this included nearly $456 million in such community benefits. For more information about Trinity Health, visit www.trinity-health.org or become a fan of the Trinity Health Facebook page at www.facebook.com/trinityhealth.

About Loyola University Health System

Based in the western suburbs of Chicago, Loyola University Health System is a quaternary care system with a 61-acre main medical center campus, a 36-acre Gottlieb Memorial Hospital campus, and 28 primary and specialty care facilities in Cook, Will and DuPage counties. The main medical center campus is conveniently located in Maywood, 13 miles west of the Chicago Loop and 8 miles east of Oak Brook, Ill. The heart of the main medical center campus, Loyola University Hospital, is a 570-licensed bed facility. It houses a Level 1 Trauma Center, a Burn Center and the Ronald McDonald® Children's Hospital of Loyola University Medical Center. Also on campus are the Cardinal Bernardin Cancer Center, Loyola Outpatient Center, Center for Heart & Vascular Medicine and Loyola Oral Health Center as well as the LUC Stritch School of Medicine and the Loyola Center for Health & Fitness. Loyola's Gottlieb campus in Melrose Park includes the 250-bed community hospital, the Gottlieb Health & Fitness Center and the Marjorie G. Weinberg Cancer Care Center. The Marcella Niehoff School of Nursing is located on the University's Lake Shore Campus. A new nursing school building will break ground in spring 2011 on the Maywood Campus.

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chicagotribune.com

Loyola selling hospitals to Trinity Health

Maywood medical, nursing schools remain in university hands

By Bruce Japsen, Tribune reporter

9:28 PM CST, March 4, 2011

Amid the rapidly changing health care landscape, Loyola University Chicago on Friday said it will get out of the hospital business by selling its medical center complex to a large national Catholic hospital operator.

The market is demanding more from hospital operators to stay competitive. By merging, they can pool capital to buy new computer systems, electronic record-keeping systems and the latest medical technology.

The sale to Michigan-based Trinity Health ends decades of management led by the Jesuits at Loyola University Health System, parent of Loyola University Medical Center in west suburban Maywood.

The Jesuits will remain involved but no longer have an ownership role, the university said. The medical center will also retain its name and be considered a teaching hospital, training residents, fellows and nurses from the medical and nursing schools that will remain owned and operated by Loyola University Chicago on the 61-acre Maywood campus.

Under the proposed arrangement, Loyola faculty will continue to provide medical care and research to patients. Trinity Health, based in Novi, Mich., was founded by two Catholic orders of nuns and owns or manages 46 hospitals in nine states with more than $7 billion in annual revenue and a balance sheet with more than $3 billion in cash and investments.

"We are going to be getting scale while we contribute skill," said Loyola University Chicago's president, the Rev. Michael Garanzini.

Loyola's children's facility and its Gottlieb Memorial Hospital in Melrose Park also will fall under Trinity Health.

Specific financial terms were not disclosed, but Garanzini said the consolidation would call for "substantial investments." In the next three years, for example, Trinity will contribute $75 million to a new $150 million medical research center that Loyola University Chicago plans to add with proceeds from the Trinity deal.

"There is no way that could happen this quickly" without Trinity's investment, Garanzini said.

The deal has been in the works for some time. A letter of intent signed this week by the university begins a process that will include drafting a definitive agreement and seeking state and federal regulatory approvals. Trinity said it could seek partnerships with others in the Chicago area, such as Mokena-based Provena Health and Chicago-based Resurrection Health Care, which are already working on a proposal to merge their dozen hospitals.

"We have a Chicago vision that would go with this," said Joseph Swedish, president and chief executive of Trinity Health. "It is natural to look at the landscape and try to engage Catholic providers in the marketplace."

Like an increasing number of independent community hospitals, academic medical centers have been hurt financially as patients have had difficulties paying medical bills, a byproduct of economic woes. As a result, such hospitals are turning to partnerships aimed at creating economies of scale and looking for ways to create a streamlined patient experience.

Though Loyola health system has improved its cash position in recent years to nearly $250 million at the end of January, that is still several times less than its Chicago-area rivals such as Northwestern Memorial Hospital, which has more than $1 billion and has built two new hospitals in the last 15 years.

The new buildings, which can cost hundreds of millions of dollars, are needed because the health care overhaul encourages hospitals to operate more efficiently. For example, hospitals that have high rates of re-admissions for patients insured by Medicare might have their government payments reduced.

"The health care industry is going through accelerated change across the country, and so we believe that now is the right time for (Loyola University Chicago) and Trinity Health to seize the opportunity to strengthen Catholic health care," Swedish added.

Hospitals are expected to see an influx of business between now and 2014, when more than 30 million uninsured patients will gain access to subsidies to pay for their medical care under the health care overhaul.

Amid the economic downturn, Loyola's health system has cut scores of jobs and "taken $100 million out of (its) cost structure," said Dr. Paul Whelton, CEO of the Loyola health system.

The health system has about 6,800 employees, and Whelton would not rule out additional job cuts. But he said Loyola plans to expand in the Chicago area. "We are in growth mode," Whelton said.

Advocate confirms talks with Sherman Hospital

By Bruce Japsen
Posted yesterday at 7:54 a.m.

Sherman Hospital in northwest suburban Elgin, which last month rejected an overture to merge with Centegra Health System, has had recent talks to partner with Advocate Health Care, the Chicago area's largest provider of medical care.

Advocate has been among the most aggressive of the area's hospital operators in seeking mergers and acquisitions to grow its network of hospitals, clinics and doctor practices across the state. Advocate would not elaborate on the scope of the discussions or when the two parties last met.

Sherman is independent, like many of the facilities Advocate has merged with in recent years. Last year it opened a new 255-bed replacement hospital that has all private rooms. The facility was financed mostly with debt.

Across the country, independent hospitals are looking into partnerships, while others are seeking investors or mergers. The market is demanding economies of scale, and hospitals need large amounts of capital to stay competitive with new computer systems, electronic record-keeping and the latest developments in medical technology.

"We have had conversations with Sherman Hospital," Advocate said in a statement to the Tribune. "Given the current health care climate, Advocate Health Care has had discussions with multiple organizations. While there has been no recent escalation in any of our discussions, we certainly have the utmost respect for Sherman Hospital and their leaders."

Last month, Sherman's talks with Centegra, which owns hospitals in Woodstock and McHenry, broke down. Centegra had approached Sherman about a merger but the parties could not come to an agreement.

"Sherman's board has made no commitment to merging with another healthcare system and is committed to remaining independent for as long as possible," Sherman said in a statement to the Tribune. "We will continue to maintain open lines of communication with other healthcare providers as we consider the potential value of joining with other providers in order to strengthen Sherman and to better fulfill our mission."

Though hospitals are expected to benefit from an influx of more than 30 million uninsured patients who will gain access to subsidies to pay for their medical care under the health overhaul law, money for that coverage does not kick in until 2014.

In the meantime, hospitals continue to feel the effects of a stagnant economy and high unemployment. They are seeing more Americans struggling to pay their medical bills, rising numbers of charity-care patients who have no money to pay for their care and a dip in elective surgeries, such as knee or hip replacements.

Observers have also mentioned another potential partner for Sherman is rival Alexian Brothers Health System, a nearby rival that owns hospitals in Hoffman Estates and Elk Grove Village.
Alexian Brothers, however, told the Tribune that it is "has not been involved in discussions, negotiations or meetings related to joining or partnering with Sherman Hospital."

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Illinois Finance Authority
General Fund - Actual to Budget
Statement of Activities
for Period Ending
February 28, 2011

	Actual February 2011	Budget February 2011	Current Month Variance Actual vs. Budget	Current % Variance	Actual YTD FY 2011	Budget YTD FY 2011	Year to Date Variance Actual vs. Budget	YTD % Variance	Total Budget FY 2011	% of Budget Expended
REVENUE										
INTEREST ON LOANS	63,995	103,579	(39,584)	-38.22%	680,780	784,831	(104,051)	-13.26%	1,146,121	59.40%
INVESTMENT INTEREST & GAIN(LOSS)	3,059	1,709	1,350	78.99%	37,905	13,672	24,233	177.25%	20,500	184.90%
ADMINISTRATIONS & APPLICATION FEES	129,620	316,532	(186,912)	-59.05%	3,932,011	2,461,957	1,470,054	59.71%	3,569,338	110.16%
ANNUAL ISSUANCE & LOAN FEES	39,209	47,666	(8,457)	-17.74%	394,921	383,823	11,098	2.89%	582,892	67.75%
OTHER INCOME	7,317	6,878	439	6.38%	130,054	55,024	75,030	136.36%	82,537	157.57%
TOTAL REVENUE	243,200	476,364	(233,164)	-48.95%	5,175,671	3,699,307	1,476,364	39.91%	5,401,388	95.82%
EXPENSES										
EMPLOYEE RELATED EXPENSES										
COMPENSATION & TAXES	141,486	209,069	(67,583)	-32.33%	1,187,109	1,531,571	(344,462)	-22.49%	2,354,798	50.41%
BENEFITS	22,444	24,859	(2,415)	-9.71%	156,155	186,886	(30,731)	-16.44%	286,314	54.54%
TEMPORARY HELP	-	417	(417)	-100.00%	1,382	3,336	(1,954)	-58.57%	5,000	27.64%
EDUCATION & DEVELOPMENT	100	1,667	(1,567)	-94.00%	3,213	13,333	(10,120)	-75.90%	20,000	16.07%
TRAVEL & AUTO	4,414	6,250	(1,836)	-29.38%	27,799	50,000	(22,201)	-44.40%	75,000	37.07%
TOTAL EMPLOYEE RELATED EXPENSES	168,444	242,262	(73,818)	-30.47%	1,375,658	1,785,126	(409,468)	-22.94%	2,741,112	50.19%
PROFESSIONAL SERVICES										
CONSULTING, LEGAL & ADMIN	51,372	20,833	30,539	146.59%	257,297	166,667	90,630	54.38%	250,000	102.92%
LOAN EXPENSE & BANK FEE	8,572	10,875	(2,303)	-21.18%	79,437	87,000	(7,563)	-8.69%	130,500	60.87%
ACCOUNTING & AUDITING	26,418	26,326	92	0.35%	218,632	210,608	8,024	3.81%	315,904	69.21%
MARKETING GENERAL	421	2,083	(1,662)	-79.79%	13,159	16,664	(3,505)	-21.03%	25,000	52.64%
FINANCIAL ADVISORY	23,750	31,250	(7,500)	-24.00%	112,708	250,000	(137,292)	-54.92%	375,000	30.06%
CONFERENCE/TRAINING	1,410	1,667	(257)	-15.42%	5,009	13,336	(8,327)	-62.44%	20,000	25.05%
MISC. PROFESSIONAL SERVICES	21,095	15,375	5,720	37.20%	93,148	123,000	(29,852)	-24.27%	184,500	50.49%
DATA PROCESSING	4,085	4,583	(498)	-10.87%	27,382	36,664	(9,282)	-25.32%	55,000	49.79%
TOTAL PROFESSIONAL SERVICES	137,123	112,992	24,131	21.36%	806,772	903,939	(97,167)	-10.75%	1,355,904	59.50%

Illinois Finance Authority
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	Actual February 2011	Budget February 2011	Current Month Variance Actual vs. Budget	Current % Variance	Actual YTD FY 2011	Budget YTD FY 2011	Year to Date Variance Actual vs. Budget	YTD % Variance	Total Budget FY 2011	% of Budget Expended
OCCUPANCY COSTS										
OFFICE RENT	21,992	22,840	(848)	-3.71%	166,878	182,720	(15,842)	-8.67%	274,076	60.89%
EQUIPMENT RENTAL AND PURCHASES	3,133	1,700	1,433	84.29%	15,133	13,600	1,533	11.27%	20,400	74.18%
TELECOMMUNICATIONS	882	5,050	(4,168)	-82.53%	21,613	40,400	(18,787)	-46.50%	60,600	35.67%
UTILITIES	1,038	917	121	13.20%	7,735	7,336	399	5.44%	11,000	70.32%
DEPRECIATION	2,369	4,109	(1,740)	-42.35%	19,779	32,872	(13,093)	-39.83%	49,305	40.12%
INSURANCE	1,929	1,900	29	1.53%	15,433	15,200	233	1.53%	22,800	67.69%
TOTAL OCCUPANCY COSTS	31,343	36,516	(5,173)	-14.17%	246,571	292,128	(45,557)	-15.59%	438,181	56.27%
GENERAL & ADMINISTRATION										
OFFICE SUPPLIES	2,179	4,458	(2,279)	-51.12%	24,396	35,664	(11,268)	-31.59%	53,500	45.60%
BOARD MEETING - EXPENSES	3,609	3,000	609	20.30%	25,140	24,000	1,140	4.75%	36,000	69.83%
PRINTING	490	542	(52)	-9.54%	6,653	4,333	2,320	53.53%	6,500	102.35%
POSTAGE & FREIGHT	996	1,250	(254)	-20.32%	10,966	10,000	966	9.66%	15,000	73.11%
MEMBERSHIP, DUES & CONTRIBUTIONS	6,181	2,708	3,473	128.25%	27,463	21,664	5,799	26.77%	32,500	84.50%
PUBLICATIONS	83	250	(167)	-66.80%	1,486	2,000	(514)	-25.70%	3,000	49.53%
OFFICERS & DIRECTORS INSURANCE	15,619	15,833	(214)	-1.35%	131,462	126,664	4,798	3.79%	190,000	69.19%
MISCELLANEOUS	-	-	-	0.00%	-	-	-	0.00%	-	0.00%
TOTAL GENL & ADMIN EXPENSES	29,157	28,041	1,116	3.98%	227,566	224,325	3,241	1.44%	336,500	67.63%
LOAN LOSS PROVISION/BAD DEBT	25,000	25,000	-	0.00%	525,568	200,000	325,568	162.78%	300,000	175.19%
OTHER										
INTEREST EXPENSE	-	-	-	0.00%	-	-	-	0.00%	-	0.00%
TOTAL OTHER	-	-	-	0.00%	-	-	-	0.00%	-	0.00%
TOTAL EXPENSES	391,067	444,811	(53,744)	-12.08%	3,182,135	3,405,518	(223,383)	-6.56%	5,171,697	61.53%
NET INCOME (LOSS) BEFORE UNREALIZED GAIN/(LOSS) & TRANSFERS	(147,867)	31,553	(179,420)	-568.63%	1,993,536	293,789	1,699,747	578.56%	229,691	867.92%
NET UNREALIZED GAIN/(LOSS) ON INVESTMENT	-	-	-	0.00%	-	-	-	0.00%	-	0.00%
TRANSFER	12,192	-	12,192	0.00%	1,126,003	-	1,126,003	0.00%	-	0.00%
REVENUE GRANT	-	-	-	0.00%	-	-	-	0.00%	-	0.00%
APPROPRIATIONS FROM STATE	-	-	-	0.00%	-	-	-	0.00%	-	-
NET INCOME/(LOSS)	(135,675)	31,553	(167,228)	-529.99%	3,119,538	293,789	2,825,749	961.83%	229,691	1358.15%

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	Actual February 2011	Actual February 2010	Current Month Variance Actual vs. Actual	Current % Variance	Actual YTD FY 2011	Actual YTD FY 2011	Year to Date Variance Actual vs. Actual	YTD % Variance
REVENUE								
INTEREST ON LOANS	63,995	(255)	64,250	-25196.08%	680,780	689,455	(8,675)	-1.26%
INVESTMENT INTEREST & GAIN(LOSS)	3,059	2,497	562	22.51%	37,905	28,989	8,916	30.76%
ADMINISTRATIONS & APPLICATION FEES	129,620	174,821	(45,201)	-25.86%	3,932,011	3,595,251	336,760	9.37%
ANNUAL ISSUANCE & LOAN FEES	39,209	48,259	(9,050)	-18.75%	394,921	593,720	(198,799)	-33.48%
OTHER INCOME	7,317	7,701	(384)	-4.99%	130,054	206,353	(76,299)	-36.97%
TOTAL REVENUE	243,200	233,023	10,177	4.37%	5,175,671	5,113,768	61,903	1.21%
EXPENSES								
EMPLOYEE RELATED EXPENSES								
COMPENSATION & TAXES	141,486	232,832	(91,346)	-39.23%	1,187,109	1,885,998	(698,889)	-37.06%
BENEFITS	22,444	26,572	(4,128)	-15.54%	156,155	193,513	(37,358)	-19.31%
TEMPORARY HELP	-	2,296	(2,296)	-100.00%	1,382	22,089	(20,707)	-93.74%
EDUCATION & DEVELOPMENT	100	-	100	0.00%	3,213	11,035	(7,822)	-70.88%
TRAVEL & AUTO	4,414	2,203	2,211	100.36%	27,799	34,106	(6,307)	-18.49%
TOTAL EMPLOYEE RELATED EXPENSES	168,444	263,903	(95,459)	-36.17%	1,375,658	2,146,741	(771,083)	-35.92%
PROFESSIONAL SERVICES								
CONSULTING, LEGAL & ADMIN	51,372	16,304	35,068	215.09%	257,297	127,629	129,668	101.60%
LOAN EXPENSE & BANK FEE	8,572	9,910	(1,338)	-13.50%	79,437	80,387	(950)	-1.18%
ACCOUNTING & AUDITING	26,418	23,310	3,108	13.33%	218,632	187,892	30,740	16.36%
MARKETING GENERAL	421	2,070	(1,649)	-79.66%	13,159	5,212	7,947	152.48%
FINANCIAL ADVISORY	23,750	18,333	5,417	29.55%	112,708	146,664	(33,956)	-23.15%
CONFERENCE/TRAINING	1,410	1,185	225	0.00%	5,009	5,353	(344)	-6.43%
MISC. PROFESSIONAL SERVICES	21,095	17,142	3,953	0.00%	93,148	83,923	9,225	0.00%
DATA PROCESSING	4,085	3,273	812	24.81%	27,382	34,239	(6,857)	-20.03%
TOTAL PROFESSIONAL SERVICES	137,123	91,527	45,596	49.82%	806,772	671,299	135,473	20.18%

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	Actual February 2011	Actual February 2010	Current Month Variance Actual vs. Actual	Current % Variance	Actual YTD FY 2011	Actual YTD FY 2011	Year to Date Variance Actual vs. Actual	YTD % Variance
OCCUPANCY COSTS								
OFFICE RENT	21,992	22,420	(428)	-1.91%	166,878	171,781	(4,903)	-2.85%
EQUIPMENT RENTAL AND PURCHASES	3,133	2,200	933	42.41%	15,133	22,526	(7,393)	-32.82%
TELECOMMUNICATIONS	882	2,963	(2,081)	-70.23%	21,613	34,400	(12,787)	-37.17%
UTILITIES	1,038	1,104	(66)	-5.98%	7,735	7,877	(142)	-1.80%
DEPRECIATION	2,369	3,942	(1,573)	-39.90%	19,779	38,275	(18,496)	-48.32%
INSURANCE	1,929	1,932	(3)	-0.16%	15,433	15,500	(67)	-0.43%
TOTAL OCCUPANCY COSTS	31,343	34,561	(3,218)	-9.31%	246,571	290,359	(43,788)	-15.08%
GENERAL & ADMINISTRATION								
OFFICE SUPPLIES	2,179	2,438	(259)	-10.62%	24,396	27,539	(3,143)	-11.41%
BOARD MEETING - EXPENSES	3,609	2,173	1,436	66.08%	25,140	20,978	4,162	19.84%
PRINTING	490	629	(139)	-22.10%	6,653	4,603	2,050	44.54%
POSTAGE & FREIGHT	996	721	275	38.14%	10,966	10,217	749	7.33%
MEMBERSHIP, DUES & CONTRIBUTIONS	6,181	5,467	714	13.06%	27,463	27,161	302	1.11%
PUBLICATIONS	83	168	(85)	-50.60%	1,486	1,265	221	17.47%
OFFICERS & DIRECTORS INSURANCE	15,619	15,619	-	0.00%	131,462	125,012	6,450	5.16%
MISCELLANEOUS	-	-	-	-	-	-	-	-
TOTAL GENL & ADMIN EXPENSES	29,157	27,215	1,942	7.14%	227,566	216,775	10,791	4.98%
LOAN LOSS PROVISION/BAD DEBT	25,000	25,000	-	0.00%	525,568	582,202	(56,634)	-9.73%
OTHER								
INTEREST EXPENSE	-	-	-	0.00%	-	-	-	0.00%
TOTAL OTHER	-	-	-	0.00%	-	-	-	0.00%
TOTAL EXPENSES	391,067	442,206	(51,139)	-11.56%	3,182,135	3,907,376	(725,241)	-18.56%
NET INCOME (LOSS) BEFORE UNREALIZED GAIN/(LOSS) & TRANSFERS	(147,867)	(209,183)	61,316	-29.31%	1,993,536	1,206,392	787,144	65.25%
NET UNREALIZED GAIN/(LOSS) ON INVESTMENT	-	-	-	0.00%	-	-	-	0.00%
TRANSFER	12,192	-	12,192	0.00%	1,126,003	80,608	1,045,395	1296.89%
REVENUE GRANT	-	-	-	0.00%	-	-	-	0.00%
APPROPRIATIONS FROM STATE	-	-	-	0.00%	-	-	-	0.00%
NET INCOME/(LOSS)	(135,675)	(209,183)	73,508	-35.14%	3,119,538	1,287,000	1,832,538	142.39%

Illinois Finance Authority
General Fund
Unaudited
Balance Sheet

for the Eight Months Ending February 28, 2011

	Actual February 2011
ASSETS	
CASH & INVESTMENTS, UNRESTRICTED	$ 27,771,499
RECEIVABLES, NET	59,684
LOAN RECEIVABLE, NET	15,928,396
OTHER RECEIVABLES	140,095
PREPAID EXPENSES	111,424
TOTAL CURRENT ASSETS	44,011,098
FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION	54,859
DEFERRED ISSUANCE COSTS	317,111
OTHER ASSETS	
CASH, INVESTMENTS & RESERVES	1,581,617
OTHER	2,157
TOTAL OTHER ASSETS	1,583,774
TOTAL ASSETS	$ 45,966,842
LIABILITIES	
CURRENT LIABILITIES	$ 1,542,354
LONG-TERM LIABILITIES	462,542
TOTAL LIABILITIES	2,004,896
EQUITY	
CONTRIBUTED CAPITAL	4,111,479
RETAINED EARNINGS	24,759,631
NET INCOME / (LOSS)	3,119,538
RESERVED/RESTRICTED FUND BALANCE	1,732,164
UNRESERVED FUND BALANCE	10,239,134
TOTAL EQUITY	43,961,946
TOTAL LIABILITIES & EQUITY	$ 45,966,842

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	Actual February 2011	Budget February 2011	Current Month Variance Actual vs. Budget	Current % Variance	Actual YTD FY 2011	Budget YTD FY 2011	Year to Date Variance Actual vs. Budget	YTD % Variance	Total Budget FY 2010	% of Budget Expended
REVENUE										
INTEREST ON LOANS	241,860	279,917	(38,057)	-13.60%	2,112,103	2,216,742	(104,639)	-4.72%	3,291,666	64.17%
INVESTMENT INTEREST & GAIN(LOSS)	61,078	60,707	371	0.61%	516,498	485,656	30,842	6.35%	728,492	70.90%
ADMINISTRATIONS & APPLICATION FEES	129,620	316,532	(186,912)	-59.05%	3,932,011	2,461,957	1,470,054	59.71%	3,569,338	110.16%
ANNUAL ISSUANCE & LOAN FEES	39,209	47,666	(8,457)	-17.74%	394,921	383,823	11,098	2.89%	642,892	61.43%
OTHER INCOME	12,317	11,878	439	3.70%	1,138,762	95,024	1,043,738	1098.39%	82,537	1379.70%
	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUE	484,084	716,700	(232,616)	-32.46%	8,094,295	5,643,202	2,451,093	43.43%	8,314,925	97.35%
EXPENSES										
EMPLOYEE RELATED EXPENSES										
COMPENSATION & TAXES	141,486	209,069	(67,583)	-32.33%	1,187,109	1,531,571	(344,462)	-22.49%	2,354,798	50.41%
BENEFITS	22,444	24,859	(2,415)	-9.71%	156,155	186,886	(30,731)	-16.44%	286,314	54.54%
TEMPORARY HELP	-	417	(417)	-100.00%	1,382	3,336	(1,954)	-58.57%	5,000	27.64%
EDUCATION & DEVELOPMENT	100	1,667	(1,567)	-94.00%	3,213	13,333	(10,120)	-75.90%	20,000	16.07%
TRAVEL & AUTO	4,414	6,250	(1,836)	-29.38%	27,799	50,000	(22,201)	-44.40%	75,000	37.07%
TOTAL EMPLOYEE RELATED EXPENSES	168,444	242,262	(73,818)	-30.47%	1,375,658	1,785,126	(409,468)	-22.94%	2,741,112	50.19%
PROFESSIONAL SERVICES										
CONSULTING, LEGAL & ADMIN	53,455	23,749	29,706	125.08%	273,961	189,995	83,966	44.19%	285,000	96.13%
LOAN EXPENSE & BANK FEE	261,895	264,206	(2,311)	-0.87%	1,748,624	1,714,242	34,382	2.01%	2,771,070	63.10%
ACCOUNTING & AUDITING	28,264	28,422	(158)	-0.56%	233,398	227,376	6,022	2.65%	341,054	68.43%
MARKETING GENERAL	421	2,083	(1,662)	-79.79%	13,159	16,664	(3,505)	-21.03%	25,000	52.64%
FINANCIAL ADVISORY	23,750	31,250	(7,500)	-24.00%	112,708	250,000	(137,292)	-54.92%	375,000	30.06%
CONFERENCE/TRAINING	1,410	1,667	(257)	-15.42%	5,009	13,336	(8,327)	-62.44%	20,000	25.05%
MISC. PROFESSIONAL SERVICES	24,428	18,708	5,720	30.58%	119,813	149,664	(29,851)	-19.95%	224,500	53.37%
DATA PROCESSING	4,085	4,583	(498)	-10.87%	27,382	36,664	(9,282)	-25.32%	55,000	49.79%
TOTAL PROFESSIONAL SERVICES	397,708	374,668	23,040	6.15%	2,534,054	2,597,941	(63,887)	-2.46%	4,096,624	61.86%

Illinois Finance Authority
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	Actual February 2011	Budget February 2011	Current Month Variance Actual vs. Budget	Current % Variance	Actual YTD FY 2011	Budget YTD FY 2011	Year to Date Variance Actual vs. Budget	YTD % Variance	Total Budget FY 2010	% of Budget Expended
OCCUPANCY COSTS										
OFFICE RENT	21,992	22,840	(848)	-3.71%	166,878	182,720	(15,842)	-8.67%	274,076	60.89%
EQUIPMENT RENTAL AND PURCHASES	3,133	1,700	1,433	84.29%	15,133	13,600	1,533	11.27%	20,400	74.18%
TELECOMMUNICATIONS	882	5,050	(4,168)	-82.53%	21,613	40,400	(18,787)	-46.50%	60,600	35.67%
UTILITIES	1,038	917	121	13.20%	7,735	7,336	399	5.44%	11,000	70.32%
DEPRECIATION	2,369	4,109	(1,740)	-42.35%	19,779	32,872	(13,093)	-39.83%	49,305	40.12%
INSURANCE	1,929	1,900	29	1.53%	15,434	15,200	234	1.54%	22,800	67.69%
TOTAL OCCUPANCY COSTS	31,343	36,516	(5,173)	-14.17%	246,572	292,128	(45,556)	-15.59%	438,181	56.27%
GENERAL & ADMINISTRATION										
OFFICE SUPPLIES	2,179	4,458	(2,279)	-51.12%	24,396	35,664	(11,268)	-31.59%	53,500	45.60%
BOARD MEETING - EXPENSES	3,609	3,000	609	20.30%	25,140	24,000	1,140	4.75%	36,000	69.83%
PRINTING	490	542	(52)	-9.54%	6,653	4,333	2,320	53.54%	6,500	102.35%
POSTAGE & FREIGHT	996	1,250	(254)	-20.32%	10,966	10,000	966	9.66%	15,000	73.11%
MEMBERSHIP, DUES & CONTRIBUTIONS	6,181	2,708	3,473	128.25%	27,464	21,664	5,800	26.77%	32,500	84.50%
PUBLICATIONS	83	250	(167)	-66.80%	1,486	2,000	(514)	-25.70%	3,000	49.53%
OFFICERS & DIRECTORS INSURANCE	15,619	15,833	(214)	-1.35%	131,462	126,664	4,798	3.79%	190,000	69.19%
MISCELLANEOUS	-	-	-	0.00%	-	-	-	0.00%	-	0.00%
TOTAL GENL & ADMIN EXPENSES	29,157	28,041	1,116	3.98%	227,567	224,325	3,242	1.45%	336,500	67.63%
LOAN LOSS PROVISION/BAD DEBT	25,000	116,666	(91,666)	-78.57%	520,983	933,328	(412,345)	-44.18%	1,400,000	37.21%
OTHER										
INTEREST EXPENSE	503	503	-	0.00%	4,306	4,306	-	0.00%	6,317	68.17%
TOTAL OTHER	503	503	-	0.00%	4,306	4,306	-	0.00%	6,317	68.17%
TOTAL EXPENSES	652,155	798,656	(146,501)	-18.34%	4,909,140	5,837,154	(928,014)	-15.90%	9,018,734	54.43%
NET INCOME (LOSS) BEFORE UNREALIZED GAIN/(LOSS) & TRANSFERS	(168,071)	(81,956)	(86,115)	105.08%	3,185,155	(193,952)	3,379,107	-1742.24%	(703,809)	-452.56%
NET UNREALIZED GAIN/(LOSS) ON INVESTMENT	-	-	-	0.00%	-	-	-	0.00%	-	0.00%
TRANSFERS TO STATE OF ILLINOIS	-	-	-	0.00%	(3,302,000)	-	(3,302,000)	0.00%	-	0.00%
REVENUE GRANT	-	-	-	0.00%	-	-	-	0.00%	-	0.00%
APPROPRIATIONS FROM STATE	-	-	-	0.00%	-	-	-	0.00%	-	-
NET INCOME/(LOSS)	(168,071)	(81,956)	(86,115)	105.08%	(116,844)	(193,952)	77,108	-39.76%	(703,809)	16.60%

Illinois Finance Authority
Consolidated
Statement of Activities
Comparison
for February 2011and February 2010

	Actual February 2011	Actual February 2010	Current Month Variance Actual vs. Actual	Current % Variance	Actual YTD FY 2011	Actual YTD FY 2010	Year to Date Variance Actual vs. Actual	YTD % Variance
REVENUE								
INTEREST ON LOANS	241,860	249,744	(7,884)	-3.16%	2,112,103	3,169,299	(1,057,196)	-33.36%
INVESTMENT INTEREST & GAIN(LOSS)	61,078	150,282	(89,204)	-59.36%	516,498	699,278	(182,780)	-26.14%
ADMINISTRATIONS & APPLICATION FEES	129,620	174,821	(45,201)	-25.86%	3,932,011	3,595,251	336,760	9.37%
ANNUAL ISSUANCE & LOAN FEES	39,209	48,259	(9,050)	-18.75%	394,921	593,720	(198,799)	-33.48%
OTHER INCOME	12,317	30,874	(18,557)	-60.11%	1,138,762	430,331	708,431	164.62%
	-		-	0.00%	-		-	-
TOTAL REVENUE	484,084	653,980	(169,896)	-25.98%	8,094,295	8,487,879	(393,584)	-4.64%
EXPENSES								
EMPLOYEE RELATED EXPENSES								
COMPENSATION & TAXES	141,486	232,832	(91,346)	-39.23%	1,187,109	1,885,998	(698,889)	-37.06%
BENEFITS	22,444	26,572	(4,128)	-15.54%	156,155	193,513	(37,358)	-19.31%
TEMPORARY HELP	-	2,296	(2,296)	-100.00%	1,382	22,089	(20,707)	-93.74%
EDUCATION & DEVELOPMENT	100	-	100	0.00%	3,213	11,035	(7,822)	0.00%
TRAVEL & AUTO	4,414	2,203	2,211	100.36%	27,799	34,106	(6,307)	-18.49%
TOTAL EMPLOYEE RELATED EXPENSES	168,444	263,903	(95,459)	-36.17%	1,375,658	2,146,741	(771,083)	-35.92%
PROFESSIONAL SERVICES								
CONSULTING, LEGAL & ADMIN	53,455	17,137	36,318	211.93%	273,961	134,293	139,668	104.00%
LOAN EXPENSE & BANK FEE	261,895	1,458,399	(1,196,504)	-82.04%	1,748,624	2,989,068	(1,240,444)	-41.50%
ACCOUNTING & AUDITING	28,264	25,356	2,908	11.47%	233,398	217,846	15,552	7.14%
MARKETING GENERAL	421	2,070	(1,649)	0.00%	13,159	5,212	7,947	0.00%
FINANCIAL ADVISORY	23,750	18,333	5,417	29.55%	112,708	146,664	(33,956)	-23.15%
CONFERENCE/TRAINING	1,410	1,185	225	0.00%	5,009	5,353	(344)	0.00%
MISC. PROFESSIONAL SERVICES	24,428	20,475	3,953	0.00%	119,813	110,587	9,226	8.34%
DATA PROCESSING	4,085	3,273	812	24.81%	27,382	34,239	(6,857)	-20.03%
TOTAL PROFESSIONAL SERVICES	397,708	1,546,228	(1,148,520)	-74.28%	2,534,054	3,643,262	(1,109,208)	-30.45%

Illinois Finance Authority
Consolidated
Statement of Activities
Comparison
for February 2011and February 2010

	Actual February 2011	Actual February 2010	Current Month Variance Actual vs. Actual	Current % Variance	Actual YTD FY 2011	Actual YTD FY 2010	Year to Date Variance Actual vs. Actual	YTD % Variance
OCCUPANCY COSTS								
OFFICE RENT	21,992	22,420	(428)	-1.91%	166,878	171,781	(4,903)	-2.85%
EQUIPMENT RENTAL AND PURCHASES	3,133	2,200	933	42.41%	15,133	22,526	(7,393)	-32.82%
TELECOMMUNICATIONS	882	2,963	(2,081)	-70.23%	21,613	34,400	(12,787)	-37.17%
UTILITIES	1,038	1,104	(66)	-5.98%	7,735	7,877	(142)	-1.80%
DEPRECIATION	2,369	3,942	(1,573)	-39.90%	19,779	38,275	(18,496)	-48.32%
INSURANCE	1,929	1,932	(3)	-0.16%	15,434	15,500	(66)	-0.43%
TOTAL OCCUPANCY COSTS	31,343	34,561	(3,218)	-9.31%	246,572	290,359	(43,787)	-15.08%
GENERAL & ADMINISTRATION								
OFFICE SUPPLIES	2,179	2,438	(259)	-10.62%	24,396	27,539	(3,143)	-11.41%
BOARD MEETING - EXPENSES	3,609	2,173	1,436	66.08%	25,140	20,977	4,163	19.85%
PRINTING	490	629	(139)	-22.10%	6,653	4,603	2,050	44.54%
POSTAGE & FREIGHT	996	721	275	38.14%	10,966	10,217	749	7.33%
MEMBERSHIP, DUES & CONTRIBUTIONS	6,181	5,467	714	13.06%	27,464	27,161	303	1.12%
PUBLICATIONS	83	168	(85)	-50.60%	1,486	1,265	221	17.47%
OFFICERS & DIRECTORS INSURANCE	15,619	15,619	-	0.00%	131,462	125,013	6,449	5.16%
MISCELLANEOUS	-	-	-	0.00%	-	-	-	0.00%
TOTAL GENL & ADMIN EXPENSES	29,157	27,215	1,942	7.14%	227,567	216,775	10,792	4.98%
LOAN LOSS PROVISION/BAD DEBT	25,000	25,000	-	0.00%	520,983	577,865	(56,882)	-9.84%
OTHER								
INTEREST EXPENSE	503	550	(47)	-8.55%	4,306	4,684	(378)	-8.07%
TOTAL OTHER	503	550	(47)	-8.55%	4,306	4,684	(378)	-8.07%
TOTAL EXPENSES	652,155	1,897,457	(1,245,302)	-65.63%	4,909,140	6,879,688	(1,970,548)	-28.64%
NET INCOME (LOSS) BEFORE UNREALIZED GAIN/(LOSS) & TRANSFERS	(168,071)	(1,243,477)	1,075,406	-86.48%	3,185,155	1,608,191	1,576,964	98.06%
NET UNREALIZED GAIN/(LOSS) ON INVESTMENT	-	-	-	0.00%	-	-	-	0.00%
TRANSFER TO STATE OF ILLINOIS	-	-	-	0.00%	(3,302,000)	-	(3,302,000)	0.00%
REVENUE GRANT	-	-	-	0.00%	-	-	-	0.00%
APPROPRIATIONS FROM STATE	-	-	-		-	-	-	0.00%
NET INCOME/(LOSS)	(168,071)	(1,243,477)	1,075,406	-86.48%	(116,844)	1,608,191	(1,725,035)	-107.27%

Illinois Finance Authority
Consolidated
Unaudited
Balance Sheet
for the Eight Months Ending February 28, 2011

	Actual February 2010	Actual February 2011
ASSETS		
CASH & INVESTMENTS, UNRESTRICTED	$ 32,674,560	$ 41,301,268
RECEIVABLES, NET	74,873	59,685
LOAN RECEIVABLE, NET	44,440,567	37,576,994
NOTES RECEIVABLE	45,808,874	43,029,874
OTHER RECEIVABLES	1,531,498	1,612,930
PREPAID EXPENSES	118,352	111,424
TOTAL CURRENT ASSETS	124,648,724	123,692,175
FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION	61,014	54,859
DEFERRED ISSUANCE COSTS	515,285	430,017
OTHER ASSETS		
CASH, INVESTMENTS & RESERVES	39,517,859	40,614,144
VENTURE CAPITAL INVESTMENTS	5,377,739	2,247,981
OTHER	3,000,010	3,000,000
TOTAL OTHER ASSETS	47,895,608	45,862,125
TOTAL ASSETS	$ 173,120,631	$ 170,039,176
LIABILITIES		
CURRENT LIABILITIES	1,694,952	1,686,575
BONDS PABYABLE	54,385,000	53,715,000
OTHER LIABILITIES	2,530,475	2,475,222
TOTAL LIABILITIES	58,610,427	57,876,797
EQUITY		
CONTRIBUTED CAPITAL	35,608,692	35,608,692
RETAINED EARNINGS	27,173,957	26,144,175
NET INCOME / (LOSS)	1,608,191	(116,844)
RESERVED/RESTRICTED FUND BALANCE	37,471,193	37,878,185
UNRESERVED FUND BALANCE	12,648,171	12,648,171
TOTAL EQUITY	114,510,204	112,162,379
TOTAL LIABILITIES & EQUITY	$ 173,120,631	$ 170,039,176

Illinois Finance Authority
FY09 Audit Finding: Material
Update as of February 28, 2011

Number of Material Findings - 1

Item Number	Description	Finding Type	Comments	Percentage Completed
Government Auditing Standards:				10 20 30 40 50 60 70 80 90 100
09-01	**Valuation of Venture Capital Investments**	Significant Deficiency	**Auditor Recommendation:** The IFA has not had an independent valuation of its venture capital investments since fiscal year 2006. We recommend the Authority obtain an independent valuation of the investment portfolio periodically in order to support the amounts recorded and disclosed in the financial statements. **Authority Response:** The Authority accepted the auditor's recommendation. The Authority has procured a vendor and the valuation of the venture capital portfolio is underway.	

Illinois Finance Authority
FY09 Audit Finding: Immaterial
Update as of February 28, 2011

Item Number	Description	Percentage Completed
		10 20 30 40 50 60 70 80 95 100
Total Number of 4		
FY 09 Immaterial Findings		
IM09-01	Failure to Report Revenue Bond Information to the Illinois Office of the Comptroller	
IM09-02	Inaccurate Agency Report of State Property (C-15)	
IM09-03	Lack of Disaster Contingency Testing to Ensure Recovery of Computer Systems	
IM09-04	Weaknesses Regarding the Security and Control of Confidential Information	

Bonds Issued and Outstanding as of February 28, 2011

IFA ILLINOIS FINANCE AUTHORITY

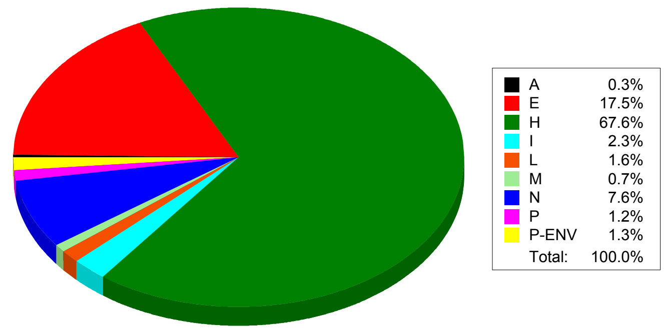
Bonds Issued Since Inception of Illinois Finance Authority

#	Market Sector	Principal Amount ($)
319	Agriculture **	61,174,831
102	Education	4,014,598,100
326	Healthcare *	16,022,288,508
86	Industrial	931,142,853
27	Local Government	378,145,000
19	Multifamily/Senior Housing	175,417,900
132	501(c)(3) Not-for Profits	1,776,708,195
8	Exempt Facilities Bonds	275,700,000
9	Environmental issued under 20 ILCS 3515/9	326,630,000
		$ 23,961,805,387

* Includes CCRC's

** Number of Agriculture bonds has been adjusted to reflect the actual number of Beginner Farmer Bonds issued.

Bonds Issued Since Inception

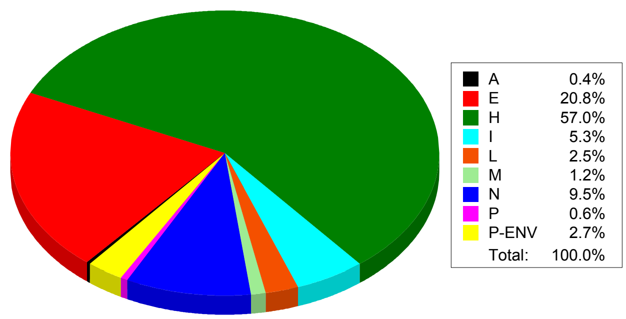


Schedule of Bonds Outstanding by Market Sector
Includes IFA and it's Predecessor Authorities

Market Sector	Amount of Original Issue	Principal Outstanding
Agriculture	294,795,709	92,783,613
Education	5,810,685,730	5,256,170,860
Healthcare *	16,465,612,337	14,404,147,564
Industrial	1,538,772,853	1,331,099,775
Local Government	1,116,059,413	625,956,238
Multifamily/Senior Housing	742,915,396	304,908,375
501(c)(3) Not-for Profits	2,925,349,996	2,406,453,102
Exempt Facilities Bonds	155,360,000	155,160,000
Environmental issued under 20 ILCS 3515/9	770,475,000	673,280,080
	$ 29,820,026,433	$ 25,249,959,606

* Includes CCRC's

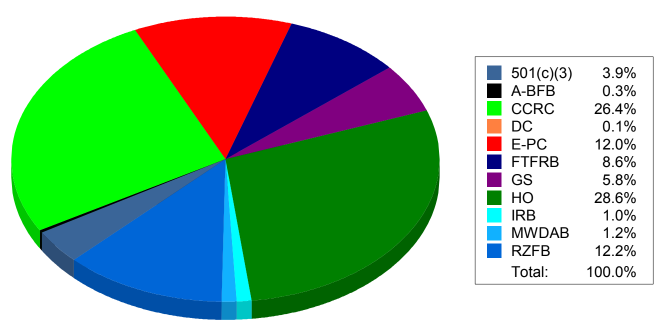
Principal Outstanding by Market Sector



Current Fiscal Year

#	Market Sector	Principal Issued
26	Agriculture - Beginner Farmer	4,525,669
5	Education	208,340,000
1	Financially Distressed Cities	1,985,000
2	Freight Transfer Facilities Bonds	150,000,000
2	Gas Supply	100,000,000
12	Healthcare - Hospital	497,820,000
16	Healthcare - CCRC	458,705,000
3	Industrial Revenue	17,329,184
1	Midwest Disaster Area Bonds	20,200,000
3	501(c)(3) Not-for-Profit	67,310,000
8	Recovery Zone Facilities Bonds	211,488,000
81		$ 1,737,702,853

Bonds Issued - Current Fiscal Year



Bonds Issued between July 01, 2010 and February 28, 2011

Bond Issue		Date Issued	Initial Interest Rate	Principal Issued	Bonds Refunded
A-BFB	Beginner Farmer Bonds, Series 2011	07/01/2010	Various-See Below	4,525,669	0
HO	NorthShore University HealthSystem, Series 2010	07/14/2010	2.00% to 5.25%	136,425,000	115,800,000
CCRC	The Clare at Water Tower, Series 2010A&B	07/15/2010	5.10% to 6.125%	87,505,000	87,505,000
CCRC	Christian Homes, Inc., Series 2010	07/29/2010	3.40% to 6.125%	25,000,000	8,090,000
IRB	Bison Gear & Engineering Corporation, Series 2010	07/29/2010	VRB 0.32%	9,230,000	0
HO	Institute for Transfusion Medicine, Series 2010	07/29/2010	VRB 3.60%	26,500,000	0
GS	Peoples Gas Light and Coke Company, Series 2010A	08/18/2010	VRB 2.125%	50,000,000	0
RZFB	Annex II, LLC - Rock City Development, Series 2010	08/24/2010	6.00%	4,585,000	0
CCRC	Greenfields of Geneva, Series 2010A-C	08/31/2010	7.50% to 8.25%	117,600,000	9,185,000
HO	Provena Health, Series 2010C&D	09/22/2010	VRB 0.29%	72,000,000	0
GS	Peoples Gas Light and Coke Company, Series 2010B	10/05/2010	2.625%	50,000,000	50,000,000
IRB	Fabrication Technologies, Inc., Series 2010	10/15/2010	DP-VRB	5,140,000	0
HO	Little Company of Mary Hospital, Series 2010	10/20/2010	5.25% to 5.50%	72,000,000	0
HO	Beloit Health System, Series 2010	10/21/2010	VRB	37,895,000	40,325,000
RZFB	Navistar International Corporation, Series 2010	10/26/2010	6.50%	135,000,000	0
DC	City of East St. Louis, Series 2010	10/26/2010	3.00%	1,985,000	1,650,000
HO	Swedish Covenant Hospital, Series 2010	11/03/2010	DP 4.99%	20,000,000	0
HO	University of Chicago Medical Center, Series 2010A&B	11/09/2010	VRB 0.24%	92,500,000	0
CCRC	Admiral at the Lake, Series 2010A-E	11/19/2010	7.25% to 8.00%	202,350,000	0
RZFB	BPJ Investments, LLC - Nueco, Inc., Series 2010	12/16/2010	DP-VRB 4.00%	2,803,000	0
HO	Proctor Hospital, Series 2010	12/16/2010	DP-VRB 2.59202%	15,500,000	0
E-PC	The Old Town School of Folk Music, Inc., Series 2010	12/20/2010	DP-VRB 4.25%	10,000,000	0
MWDAB	KONE Centre, Series 2010	12/21/2010	DP-VRB 2.30%	20,200,000	0
FTFRB	CenterPoint Joliet Terminal Railroad, Series 2010A&B	12/21/2010	DP-VRB 2.1074%	150,000,000	0
E-PC	East-West University, Series 2010	12/22/2010	DP-VRB 2.025%	30,000,000	0
501(c)(3)	Quest Academy, Series 2010	12/22/2010	DP-VRB 1.987016%	3,200,000	2,100,000
RZFB	Rochelle Energy LLC, Series 2010	12/22/2010	DP 4.53%	10,000,000	0
E-PC	Illinois College, Series 2010	12/23/2010	DP 4.22%	3,900,000	0
IRB	Alef Sausage, Series 2010	12/23/2010	DP 4.25%	2,959,184	0
HO	Silver Cross Hospital & Medical Center, Series 2010	12/27/2010	DP-VRB 1.1973%	25,000,000	0
501(c)(3)	St. Francis High School College Preparatory, Series 2010	12/28/2010	DP-VRB 2.18%	4,500,000	0
RZFB	JH Naperville Hotel, LLC, Series 2010	12/28/2010	5.16%	30,000,000	0
RZFB	1200 Internationale Parkway, LLC, Series 2010	12/28/2010	DP-VRB 3.97%	3,500,000	0
CCRC	Mercy Circle, Series 2010	12/29/2010	DP-VRB 2.10%	26,250,000	0
RZFB	SMART Hotels/Olympia Chicago, Series 2010	12/30/2010	DP-VRB 1.9876%	21,500,000	0
RZFB	Mayo Properties, LLC, Series 2010	12/30/2010	DP-VRB 3.825%	4,100,000	0
E-PC	DePaul University, Series 2011A&B	02/02/2011	5.25% to 6.125%	164,440,000	50,600,000
501(c)(3)	CHF-Normal, LLC-Illinois State University, Series 2011	02/23/2011	5.50% to 7.00%	59,610,000	0
		Total Bonds Issued in Fiscal Year 2011		**$ 1,737,702,853**	**$ 365,255,000**

Legend: Fixed Rate Bonds as shown
DP-VRB = initial interest rate at the time of issuance on a Direct Purchase Bond
VRB = initial interest rate at the time of issuance on a Variable Rate Bond that does not include the cost of the LOC arrangement .
Beginner Farmer Bonds interest rates are shown in section below.

Beginner Farmer Bonds

Borrower	Date Funded	Initial Interest Rate	Loan Proceeds	Acres	County
Stortzum, Brent A.	07/21/2010	4.25%	157,500	38.00	Effingham
Tolley, Daniel Steven	07/23/2010	4.50%	106,900	82.30	Knox
Justison, Keri L.	07/30/2010	4.25%	249,736	106.00	Montgomery
Justison, David M.	07/30/2010	4.25%	249,736	106.00	Montgomery
Will, Richard & Linda	07/30/2010	4.00%	206,712	71.30	Cumberland
Smithenry, Eric J.	07/30/2010	4.25%	135,000	20.00	Jasper
Stinnett, Sean & Cheryl	08/05/2010	4.75%	224,000	52.84	Macoupin
Alt, Lawrence & Loretta	08/12/2010	4.00%	100,000	26.67	Vermilion
Alt, James & Jo Ellen	08/12/2010	4.00%	102,667	26.67	Vermilion
Kopplin, Seth A.	08/16/2010	4.00%	184,000	73.62	Effingham
Gittleson, Brock	09/21/2010	4.46%	207,500	50.00	Lee
Mellendorf, Mark	09/21/2010	4.25%	25,200	20.00	Clay
Fritschle, Derek	10/07/2010	4.00%	125,000	78.00	Richland
Stahl, Rodney Lynn	10/25/2010	4.00%	122,500	50.00	Stark
Stahl, Kendall	10/25/2010	4.50%	137,500	50.00	Stark
Rosenthal, Darin T.	10/29/2010	4.00%	250,000	80.00	Montgomery
Stephens, Douglas & Cindy	11/05/2010	3.50%	240,000	60.00	Livingston
Stephens, Derek & Brynn	11/05/2010	3.50%	240,000	60.00	Livingston
Richter, Brett Alan	11/05/2010	2.76%	120,000	46.00	Clinton
Truckenbrod, Steven	11/18/2010	5.25%	104,000	40.00	Ogle
Elliott, Lee Wayne & Latisha	11/30/2010	4.25%	112,000	80.00	Jasper
Mattingly II, Douglas E.	12/27/2010	3.75%	77,120	30.00	Edgar
McLaughlin, Wade C.	12/27/2010	4.67%	150,000	60.70	Henry
Ridgely, Jordan	12/27/2010	3.95%	316,000	149.00	Hamilton
Werkheiser, Wade	12/27/2010	3.90%	345,330	161.00	Henry
Waldrop, Ryan D. & Heather D.	12/28/2010	4.25%	237,268	130.60	Lawrence
	Total Beginner Farmer Bonds Issued		**$ 4,525,669**	**1,748.70**	

AG Debt Restructuring Guarantee	Date Funded	Initial Interest Rate	Loan Proceeds	State Guarantee
Nelson, Kenneth	11/08/2010	6.00%	410,000	348,500
	Total AG Debt Restructuring Guarantee		**$ 410,000**	**$ 348,500**

AG Farm Purchase Guarantee	Date Funded	Initial Interest Rate	Loan Proceeds	State Guarantee
Kerber, Gregory & Jan	10/28/2010	5.85%	500,000	425,000
	Total AG Farm Purchase Guarantee		**$ 500,000**	**$ 425,000**
	Total Agriculture Guarantees		**$ 910,000**	**$ 773,500**

ILLINOIS FINANCE AUTHORITY

Schedule of Debt [a]

Conduit debt issued under the Illinois Finance Authority Act [20 ILCS 3501/845-5(a)] which does not constitute an indebtedness or an obligation, either general or moral, or a pledge of the full faith or a loan of the Authority, the State of Illinois or any Political Subdivision of the State within the purview of any constitutional or statutory limitation or provisions with special limited obligations of the Authority secured under provisions of the individual Bond Indentures and Loan Agreements with the exception of the bonds identified below in Section I (b) -- General Purpose Moral Obligation/State Component Parts -- which are subject to the $28.15B cap in Section 845-5(a).

Section I (a)

		Principal Outstanding June 30, 2010	Principal Outstanding February 28, 2011	Program Limitations	Remaining Capacity
Illinois Finance Authority "IFA"					
306	Agriculture	$ 46,455,000	$ 50,729,000		
93	Education	3,721,552,000	3,870,352,000		
234	Healthcare	10,851,968,000	11,558,768,000		
76	Industrial Development [includes Recovery Zone/Midwest Dis	345,870,000	834,653,000		
22	Local Government	264,060,000	257,110,000		
18	Multifamily/Senior Housing	157,979,000	159,244,000		
97	501(c)(3) Not-for Profits	1,313,239,000	1,356,436,000		
5	Exempt Facilities Bonds	130,500,000	130,300,000		
851	**Total IFA Principal Outstanding**	**$ 16,831,623,000**	**$ 18,217,592,000**		
Illinois Development Finance Authority "IDFA" [b]					
4	Education	42,196,000	41,506,000		
5	Healthcare	404,660,000	219,360,000		
69	Industrial Development	562,917,000	496,446,000		
33	Local Government	386,034,000	346,386,000		
16	Multifamily/Senior Housing	147,219,000	145,665,000		
99	501(c)(3) Not-for Profits	1,025,002,000	974,757,000		
1	Exempt Facilities Bonds	24,860,000	24,860,000		
223	**Total IDFA Principal Outstanding**	**$ 2,592,888,000**	**$ 2,248,980,000**		
Illinois Rural Bond Bank "IRBB" [b]					
17	Bond Bank Revenue Bonds	26,385,000	20,220,000		
1	Conduit Debt	2,390,000	2,240,000		
18	**Total IRBB Principal Outstanding**	**$ 28,775,000**	**$ 22,460,000**		
99	**Illinois Health Facilities Authority "IHFA"**	**$ 2,908,471,000**	**$ 2,626,020,000**		
49	**Illinois Educational Facilities Authority "IEFA"**	**$ 1,446,134,000**	**$ 1,419,572,000**		
561	**Illinois Farm Development Authority "IFDA" [f]**	**$ 42,055,000**	**$ 42,055,000**		
1,801	**Total Illinois Finance Authority Debt**	**$ 23,849,946,000**	**$ 24,576,679,000**	**$ 28,150,000,000**	**$ 3,573,321,000**

Issued under the Illinois Finance Authority Act [20 ILCS 3501/845-5(a)]

Section I (b)

		Principal Outstanding June 30, 2010	Principal Outstanding February 28, 2011	Program Limitations	Remaining Capacity
General Purpose Moral Obligations					
Illinois Finance Authority Act [20 ILCS 3501/801-40(w)]					
17	Issued through IRBB - Local Government Pools	$ 26,385,000	$ 20,220,000		
7	Issued through IFA - Local Government Pools	28,000,000	26,680,000		
2	Issued through IFA - Illinois Medical District Commission	40,000,000	39,640,000		
26	**Total General Moral Obligations**	**$ 94,385,000**	**$ 86,540,000**	**$ 150,000,000**	**$ 63,460,000**
Financially Distressed Cities Moral Obligations					
Illinois Finance Authority Act [20 ILCS 3501/825-60]					
2	Issued through IFA	$ 2,395,000	$ 3,825,000		
1	Issued through IDFA	4,660,000	3,565,000		
3	**Total Financially Distressed Cities**	**$ 7,055,000**	**$ 7,390,000**	**$ 50,000,000**	**$ 42,610,000**
State Component Unit Bonds [c]					
17	Issued through IRBB	$ 26,385,000	$ 20,220,000		
1	Issued through IDFA	14,580,000	13,890,000		
1	Issued through IFA	4,863,000	4,115,000		
19	**Total State Component Unit Bonds**	**$ 45,828,000**	**$ 38,225,000**		

Designated exclusive Issuer by the Governor of the State of Illinois to issue Midwest Disaster Area Bonds in Illinois, February 11, 2010.

Section I (c)

		Principal Outstanding June 30, 2010	Principal Outstanding February 28, 2011	Program Limitations	Remaining Capacity
1	**Midwest Disaster Bonds [Flood Relief]**	**$ -**	$ 20,200,000	**$ 1,515,271,000**	**$ 1,495,071,000**

Designated by the Governor of the State of Illinois to manage and coordinate the re-allocation of Federal ARRA Volume Cap and the issuance of Recovery Zone Bonds in the State of Illinois to fully utilize RZBs before December 31, 2010.

Section I (d)

		ARRA Act of 2009 Volume Cap Allocated [h]	City/Counties Ceded Voluntarily to IFA	Bonds Issued as of February 28, 2011	Available "Ceded" Volume Cap
-	**Recovery Zone Economic Development Bonds;**	**$ 666,972,000**	**$ 16,940,000**	**$ 12,900,000**	**$ 4,040,000**
8	**Recovery Zone Facilities Bonds**	**$ 1,000,457,000**	**$ 292,400,000**	**$ 218,720,000**	**$ 73,680,000**
-	**Qualified Energy Conservation Bonds**	**$ 133,846,000**	**$ -**	**$ -**	**$ -**

Issued under the Illinois Finance Authority Act [20 ILCS 3501/845-5(b)]

Section II

	Principal Outstanding June 30, 2010	Principal Outstanding February 28, 2011	Program Limitations	Remaining Capacity
Illinois Power Agency	**$ -**	**$ -**	**$ 4,000,000,000**	**$ 4,000,000,000**

ref: T:\Bond Reports\Schedule of Debt\Schedule of Debt by Market Sector.xls\Fiscal Year 2011

Prepared by: J. K. Kuhn
3/2/2011 10:58 AM

ILLINOIS FINANCE AUTHORITY

Schedule of Debt [a]

Illinois Finance Authority Act [20 ILCS 3501 Section 825-65(f); 825-70 and 825-75] - see also P.A. 96-103 effective 01/01/2010

Section III		Principal Outstanding June 30, 2010	Principal Outstanding February 28, 2011	Program Limitations	Remaining Capacity
Clean Coal, Coal ,Renewable Energy and Efficiency Projects	**Energy**	**$ -**	**$ -**	**$ 3,000,000,000** [d]	**$ 3,000,000,000**

Issued under the Illinois Finance Authority Act [20 ILCS 3501 Sections 830-25 (see also P.A.96-103); 830-30; 830-35; 830-45 and 830-50]

Section IV		Principal Outstanding June 30, 2010	Principal Outstanding February 28, 2011	Program Limitations	Remaining Capacity	State Exposure
	Agri Debt Guarantees [Restructuring Existing Debt]	**$ 20,300,000**	**$ 18,298,000**	**$ 160,000,000**	**$ 141,702,000**	**$ 15,527,000**
97	**Fund # 994 - Fund Balance $ 9,940,751**					
	AG Loan Guarantee Program	**$ 47,229,000**	**$ 43,261,000**	**$ 225,000,000** [e]	**$ 181,739,000**	**$ 31,129,000**
55	**Fund # 205 - Fund Balance $ 7,651,586**					
12	Agri Industry Loan Guarantee Program	$ 11,104,000	$ 10,342,000			8,791,000
1	Renewable Fuels	24,445,000	23,363,000			14,216,000
2	Farm Purchase Guarantee Program	491,000	991,000			842,000
29	Specialized Livestock Guarantee Program	8,625,000	6,131,000			5,211,000
11	Young Farmer Loan Guarantee Program	2,564,000	2,434,000			2,069,000
152	**Total State Guarantees**	**$ 67,529,000**	**$ 61,559,000**	**$ 385,000,000**	**$ 323,441,000**	**$ 46,656,000**

Issued under the Illinois Finance Authority Act [20 ILCS 3501 Sections 825-80 and 825-85

Section V			Principal Outstanding June 30, 2010	Principal Outstanding February 28, 2011	Appropriation Fiscal Year 2011	Fund Balance
116	Fire Truck Revolving Loan Program	**Fund # 572**	$ 18,730,135	$ 17,515,298	$ 6,003,342	$ 2,542,444
10	Ambulance Revolving Loan Program	**Fund # 334**	$ 993,200	$ 832,213	$ 7,006,800	$ 590

Note: Due to deposits in transit, the Cash Balance at the Illinois Office of the Comptroller may differ from the Illinois Finance Authority's General Ledger.

Issued under the Illinois Environmental Facilities Financing Act [20 ILCS 3515/9]

Section VI		Principal Outstanding June 30, 2010	Principal Outstanding February 28, 2011	Program Limitations	Remaining Capacity
	Environmental [Large Business]				
9	Issued through IFA	316,440,000	$ 316,115,000		
19	Issued through IDFA	372,065,000	357,165,000		
28	**Total Environmental [Large Business]**	**$ 688,505,000**	**$ 673,280,000**	**$ 2,425,000,000**	**$ 1,751,720,000**
	Environmental [Small Business]	-	$ -	**$ 75,000,000**	**$ 75,000,000**
28	**Total Environment Bonds Issued under Act**	**$ 688,505,000**	**$ 673,280,000**	**$ 2,500,000,000**	**$ 1,826,720,000**

Illinois Finance Authority Funds at Risk

Section VII #		Original Amount	Principal Outstanding June 30, 2010	Principal Outstanding February 28, 2011
	Participation Loans			
50	Business & Industry	23,020,157.95	17,018,322.85	13,998,526.86
22	Agriculture	6,079,859.01	4,969,295.79	4,572,789.57
72	**Participation Loans exluding Defaults & Allowances**	**$ 29,100,016.96**	**$ 21,987,618.64**	**$ 18,571,316.43**
			Plus: Legacy IDFA Loans in Default	1,143,112.67
			Less: Allowance for Doubtful Accounts	3,786,033.10
			Total Participation Loans	**$ 15,928,396.00**
1	**Illinois Facility Fund**	**$ 1,000,000.00**	**$ 1,000,000.00**	**$ 1,000,000.00**
4	**Local Government Direct Loans**	**$ 1,289,750.00**	**$ 309,303.50**	**$ 294,526.74**
5	**FmHA Loans**	**$ 963,250.00**	**$ 495,772.95**	**$ 326,472.42**
2	**Renewable Energy [RED Fund]**	**$ 2,000,000.00**	**$ 1,755,664.28**	**$ 1,705,249.65**
84	**Total Loans Outstanding**	**$ 34,353,016.96**	**$ 25,548,359.37**	**$ 19,254,644.81**

[a] Total subject to change; late month payment data may not be included at issuance of report.
[b] State Component Unit Bonds included in balance.
[c] Does not include Unamortized issuance premium as reported in Audited Financials.
[d] Program Limitation reflects the increase to $3 billion effective 01/01/2010 under P.A. 96-103.
[e] Program Limitation reflects the increase from $75 million to $225 million effective 01/01/2010 under P.A. 96-103.
[f] Beginner Farmer Bonds are currently updated annually; new bonds will be added under the Illinois Finance Authority when the bond closes.
[g] Midwest Disaster Bonds - Illinois Counties eligible for Midwest Disaster Bonds include Adams, Calhoun, Clark, Coles, Crawford, Cumberland, Douglas, Edgar, Hancock, Henderson, Jasper, Jersey, Lake, Lawrence, Mercer, Rock Island, Whiteside and Winnebago.
[h] Recovery Zone Bonds - Federal government allocated volume cap directly to all 102 Illinois counties and 8 municipalities with population of 100,000 or more. [Public Act 96-1020]
[i] IFA is working with all of the 110 entities to encourage voluntary waivers to ensure that these resources are used to support project financing before the program expires on December 31, 2010.

MINUTES OF THE FEBRUARY 8, 2011, MEETING OF THE COMMITTEE OF THE WHOLE OF THE BOARD OF DIRECTORS OF THE ILLINOIS FINANCE AUTHORITY

The Board of Directors (the "Board") of the Illinois Finance Authority (the "IFA"), pursuant to notice duly given, held a Committee of the Whole Meeting at 8:30 a.m. on February 8, 2011, at the Chicago Office of the IFA at 180 North Stetson, Suite 2555, Chicago, IL 60601.

Members Present:	**Members Absent**:	**Staff Present**:
1. William A. Brandt, Jr., Chairman 2. Michael W. Goetz, Vice Chairman 3. Dr. William Barclay (joined at 8:42 a.m.) 4. Gila J. Bronner 5. James J. Fuentes 6. Norman M. Gold (joined at 8:45 a.m.) 7. Terrence M. O'Brien 8. Bradley A. Zeller	9. Ronald E. DeNard 10. John "Jack" Durburg 11. Dr. Roger D. Herrin 12. Edward H. Leonard, Sr. 13. Joseph McInerney 14. Heather D. Parish 15. Roger E. Poole **Vacancies**: None	Christopher B. Meister, Executive Director Brendan M. Cournane, General Counsel Rich K. Frampton, Vice President Pam A. Lenane, Vice President Arthur S. Friedson, Chief HR Officer Ximena Granda, Asst. CFO Ahad F. Syed, Asst. Board Sect. /Admin. Asst. **Staff Participating by Telephone**: Jim Senica, Sr. Funding Manager **IFA Advisors Present**: Courtney Shea, Sr. VP, Acacia Financial Fiona McCarthy, Assoc., Acacia Financial Shannon Williams, Assoc., Scott Balice Strategies

GENERAL BUSINESS

Call to Order and Roll Call

Chairman Brandt informally called the meeting to order at 8:35 a.m. with the above Members present. He welcomed Members of the Board, IFA staff and financial advisors present at the meeting.

Chairman's Remarks

Chairman Brandt noted for the record that Mr. John Filan, former IFA Executive Director, is an employee of Chairman Brandt's company Development Specialists, Inc. Chairman Brandt stated that Mr. Filan will not be working on projects in the State of Illinois.

Dr. Barclay joined the meeting at 8:42 a.m.

The Chairman remarked that he noted number of the items on today's agenda and is concerned about the recent decrease in project volume.

Mr. Gold joined the meeting at 8:44 a.m.

The Chairman then asked the Executive Director to present his message.

Executive Director's Presentation

Director Meister thanked the Chairman and began his presentation. The Director stated that he understood the Chairman's concern regarding the relatively short agenda. In anticipation of shorter agendas for the March and April meetings the Director stated that he would encourage the Board to hold the March and April Board Meetings at 10:30 a.m.

The Director explained that in today's handouts to the Board, there is a chart which displays issuance comparisons between calendar year 2009 and calendar year 2010. The Director noted that the IFA staff reduced head count in anticipation of reduced volume of bond issuances for calendar year 2010. There was indeed a drop in volume early 2010. However, there was an upswing in the second half of 2009 due primarily to healthcare. There was also an upswing in issuances at the end of 2010 due to the expiration of a few key programs offered by the IFA.

The Chairman stated that he believed that 2011 would be a relatively difficult year due to the fact that healthcare may not be at 2010 levels. Furthermore, he noted that the Recovery Zone Facility Bond Program has expired at the end of 2010 and that Midwestern Disaster Area Bonds ("MDABs") are projected to be lower than 2010 levels.

Director Meister noted that the IFA is currently at 91% of revenue of our budget for the fiscal year. The Director explained to the Board that this trend in issuances may be due to increased anxiety in the bond finance markets. He noted that certain pundits are talking about a looming catastrophe for the "muni" market. However, the good news is that the IFA has a diverse array of important tools such as the MDABs and Qualified Energy Conservation Bonds ("QECBs"). The availability of these tools, however, hinges on their applicability and MDABs in particular are constrained to certain geographic areas. Furthermore, Director Meister explained that the Authority is working with Lake County Partners in a fee sharing agreement and would like to extend this partnership to other counties.

Vice Chairman Goetz asked Director Meister if the recent falloff in business volume was due to decreased head count. Director Meister answered in the negative and noted that the IFA core business volume is linked to the relationships Mr. Frampton and Ms. Lenane have established with repeat borrowers. He believes that our market share has remained constant.

Director Meister explained that Mr. Friedson is working diligently with the Farm Bureau and the Banker's Association in finding and recruiting an experienced agriculture lender as well as a junior agriculture lender. The Director was optimistic that once the financial community realizes that the State has made difficult policy decisions the market will once again value the State's moral obligation.

The Chairman then appointed Ms. Bronner as Chairwoman of the Audit Committee.

Director Meister moved the discussion to the proposed changes to SEC rules that would alter the definition of "municipal advisors" to include appointed members of Boards such as the Authority. The Director said that this definition would make it difficult for the IFA to retain and attract Board Members. Director Meister explained that the Authority had spoken to the offices of Senators Richard Durbin and Mark Kirk of Illinois as well as Representative Michael Quigley of Illinois regarding the proposed rule change. The IFA plans to file comments opposing the proposed changes to SEC rules.

Director Meister explained to the Committee of the Whole that the Office of the Auditor General of the State of Illinois believes that the financial cash flow figures of the IFA for FY09 have been mischaracterized due to a new accounting rule. The IFA believes that this issue is immaterial and has zero impact on its bottom line. Furthermore, the IFA believes, after speaking with knowledgeable individuals, that a restatement of the cash flow figures for these stale financials from FY09 will unnecessarily create difficulties for the IFA. The IFA has spoken with the Illinois Auditor General and he seems open to the IFA's position in this matter. Ms. Bronner asked Director Meister if the IFA has a draft message to the Auditor General regarding this matter ready at this moment. The Director stated that the Authority did not, however, the Authority would submit one shortly.

The Chairman thanked the Executive Director for his report and asked Ms. Granda for the financials.

Financial Reports

Ms. Granda presented her report on the financials.

She explained that the gross revenue year-to-date for January was $4.932 Million or $1.710 Million over budget. Total operating expenses were $2.791 Million or $169,639 under budget. Year-to-date net income thru January 2011 was $3.255 Million or $2.993 Million higher than budget and $1.759 Million higher than the same period last fiscal year.

Lastly, Ms. Granda reported that the Authority has received the first draft of the audit report. This draft audit report included only three (3) findings out of a total of eleven (11) items which leads her to believe that the other eight (8) findings will be considered immaterial. Due to the fact that this report is a draft it is subject to change.

The Chairman thanked Ms. Granda for her report and asked Mr. Cournane for his report on the Bond Watch List.

Mr. Cournane reported that as of yesterday, February 7, 2011, Midway Broadcasting had retained Loop Capital as a financial advisor and is prepared to file for foreclosure. The Chairman remarked that the Authority's priority ought to be to protect its position to collect on the deal.

Mr. Cournane explained that the Bank of Litchfield has realigned the collateral of its loan. The next court hearing is scheduled for late March 2011, after the March Board meeting.

The Chairman thanked Mr. Cournane for his report and asked Mr. Senica for his report on Participation Loans.

Mr. Senica reported that the new Pere Marquette deal, that will pay off IFA's existing loan, is proceeding and is expected close in approximately 60 days.

Mr. Senica explained that the IFA has been meeting with Morton Community Bank regarding the Precision Laser loan. The bank is seeking to buy-back the entire loan on an approximately 50% discount from the IFA.

Lastly, Mr. Senica stated that in regards to the Custom Wood loan the bank has leased a portion of the building the IFA has retained as collateral. The building is currently in the process of being sold.

Chairman Brandt thanked Mr. Senica for his report and asked for the Committee Reports.

Committee Reports

Venture Capital Committee

Mr. Fuentes, Chairman of the Venture Capital Committee, reported that the Venture Capital Committee had discussed the IFA Venture Capital portfolio. Mr. Fuentes reported that the valuation has been marked down as a result of the valuation study performed by Scott Balice Strategies ("Scott Balice"). Mr. Fuentes stated that Mr. Dean Balice and Ms. Lois Scott of Scott Balice believe that there is a potential market for the Authority's portfolio. There is limited discussion regarding pricing. Chairman Brandt recommends a Request for Proposal process.

Chairman Brandt thanked Mr. Fuentes for his report and asked Ms. Lenane for the Healthcare Committee's report.

Healthcare Committee

Ms. Lenane explained that Sarah Bush Lincoln will do a private placement with their bank. Furthermore, Smith Crossing and Roseland Community Hospital will close before the end of FY11. It is expected that in the coming months that the levels of mergers and acquisitions will increase and that the banks will be charging more for a letter of credit. At the moment the IFA staff is working on implementing a Medicaid Receivables program the Board approved at its December 2010 meeting. Lastly, Ms. Lenane noted the importance of Continuing Care Retirement Communities ("CCRCs") to the IFA financial picture. Ms. Lenane noted that it appears likely that the market will slowly "absorb" the high influx of CCRCs issuances from 2010 before new borrowers come to authorities such as the IFA.

Chairman Brandt thanked Ms. Lenane for her report and asked Mr. Zeller for the Agriculture Committee's report.

Agriculture Committee

Mr. Zeller reported that the Agriculture Committee met at its regular scheduled time to discuss some of the items on today's agenda. The Agriculture Committee gives its recommendation for the three (3) Beginning Farmer Bonds for today's Board Meeting. There is limited discussion regarding volume cap allocation for Beginning Farmer Bond closings.

Chairman Brandt thanked Mr. Zeller for his report and asked for the Project Reports.

Project Reports

Mr. Senica presented the following projects for consideration:

No. 1A: **Lucas John & Megan Marie Emmerich – $114,000 – 40 acres**

Request for approval of a Final Bond Resolution for the issuance of Beginning Farmer Bonds in an amount not to exceed $114,000 for the purchase of approximately 40 acres of farmland. This project is located in unincorporated Jasper County, near West Liberty, IL.

No. 1B: **Rodney A. & Christine M. King – $80,000 – 40 acres**

Request for approval of a Final Bond Resolution for the issuance of Beginning Farmer Bonds in an amount not to exceed $80,000 for the purchase of approximately 40 acres of farmland. This project is located in unincorporated Stark County, near Wyoming, IL.

No. 1C: **Joshua A. & Bonnie L. Dotson – $125,000 – 31 acres**

Request for approval of a Final Bond Resolution for the issuance of Beginning Farmer Bonds in an amount not to exceed $125,000 for the purchase of approximately 31 acres of farmland. This project is located in unincorporated Will County, near Lynwood, IL.

Higher Education, Cultural and Other Non-Healthcare 501(c)(3)'s

Mr. Frampton presented the following project for consideration:

No. 2: **Columbia College Chicago - $15,000,000 – Preliminary**

Columbia College Chicago is requesting approval of a Preliminary Bond Resolution in an amount not-to-exceed $15,000,000. The proposed project will enable Columbia College Chicago to (i) refund outstanding IFA Series 1998 Bonds; and (ii) pay costs of issuance.

Healthcare

Ms. Lenane presented the following items for consideration:

No. 3: **The Carle Foundation - $400,000,000 – Preliminary**

The Carle Foundation (the "Carle") is requesting approval of a Preliminary Bond Resolution in an amount not-to-exceed $400,000,000. The proceeds from the sale of the Series 2011 Bonds, together with other monies provided by the Carle, will be used to: (i) refinance existing taxable debt; (ii) pay or reimburse the Carle and/or the other tax-exempt affiliates of the Carle, for costs of acquiring, constructing, renovating, remodeling and equipping certain of its health facilities, including, but not limited to, costs associated with an approximately 360,000 square foot, approximately 136-bed, nine-story heart and vascular institute located in Urbana, Illinois; (iii) pay capitalized interest; (iv) fund a debt service reserve fund; (v) provide working capital; and (vi) pay costs of issuance.

Resolutions

Mr. Senica presented the following project for consideration:

No. 4: **Delegation of authority to Executive Director to negotiate the Repurchase of an IFA Loan Participation (IFA Loan #B-LL-TX-6224)**

The Board agreed to this delegation as proposed.

Other Business

None.

Adjournment

The Chairman thanked the Board, IFA staff and the financial advisors for appearing at the meeting and asked if there was any additional information for the Board's consideration. Hearing none he asked for a motion to adjourn the meeting. Mr. Gold moved to adjourn the meeting and Ms. Bronner seconded the motion. The Committee of the Whole unanimously agreed to adjourn the meeting.

The meeting adjourned at 11:10 a.m.

Minutes submitted by:
Ahad Syed
Assistant Board Secretary

MINUTES OF THE FEBRUARY 8, 2011, MEETING OF THE BOARD OF DIRECTORS OF THE ILLINOIS FINANCE AUTHORITY

The Board of Directors (the "Board") of the Illinois Finance Authority (the "IFA" or the "Authority"), pursuant to notice duly given, held a Board Meeting at 11:30 a.m. on Tuesday, February 8, 2011, at the Prudential Plaza Conference Center at 130 East Randolph Street, 7th Floor, Chicago, IL 60601.

Members Present:	**Members Absent**:
1. William A. Brandt, Jr., Chairman	9. Ronald E. DeNard
2. Michael W. Goetz, Vice Chairman	10. John "Jack" Durburg
3. Dr. William Barclay	11. Dr. Roger D. Herrin
4. Gila J. Bronner	12. Edward H. Leonard, Sr.
5. James J. Fuentes	13. Joseph McInerney
6. Norman M. Gold	14. Heather D. Parish
7. Terrence M. O'Brien	15. Roger E. Poole
8. Bradley A. Zeller	
	Vacancies: None

GENERAL BUSINESS

Call to Order, Roll Call and Chairman's Remarks

Chairman Brandt called the meeting to order at 11:30 a.m. with the above Members present. The Chairman welcomed Members of the Board, IFA staff and all guests. He then asked Assistant Board Secretary, Mr. Syed, to call the roll. There being eight (8) Members present, Mr. Syed declared a quorum present.

Chairman Brandt explained that certain financial tools available to the Authority have accelerated a number of projects to the Authority at the end of Calendar Year 2010. Due to this acceleration the agenda for the months of January and February 2011 has been relatively shorter.

Chairman Brandt noted that the Authority's March 8, 2011, Board Meeting will be moved to 10:30 a.m. if the agenda is as short as expected.

Acceptance of Financial Statements and Minutes

Financial statements for the period ending January 31, 2011, and Minutes for both the Committee of the Whole and Board of Directors Meetings held on January 18, 2011, were presented to the Board. Chairman Brandt stated that the Authority's Financial Statements and such Minutes were reviewed at the regularly scheduled Committee of the Whole Meeting held at 8:30 a.m. The Chairman requested a motion to approve the January 31, 2011, Financial Statements and Minutes for both the Committee of the Whole and Board of Directors Meetings held on January 18, 2011.

The motion was made by Vice Chairman Goetz and seconded by Dr. Barclay. The January 31, 2011, Financial Statements and Minutes for both the Committee of the Whole and Board of Director's Meetings held on January 18, 2011, were unanimously approved by the Members of the Board.

Project Approvals

Chairman Brandt asked Mr. Frampton, Vice President, to present the projects for consideration to the Board. The Chairman explained that all projects are reviewed by a staff Credit Committee and all agriculture, energy and healthcare projects are also reviewed at their respective committee's public hearing each month. Finally, each project is discussed at the Committee of the Whole Meeting held at 8:30 a.m. before the Board Meeting.

Mr. Frampton presented the following projects for approval:

Agriculture – No Guests

No. 1A: **Lucas John & Megan Marie Emmerich – $114,000 – 40 acres**

Request for approval of a Final Bond Resolution for the issuance of Beginning Farmer Bonds in an amount not to exceed $114,000 for the purchase of approximately 40 acres of farmland. This project is located in unincorporated Jasper County, near West Liberty, IL.

No. 1B: **Rodney A. & Christine M. King – $80,000 – 40 acres**

Request for approval of a Final Bond Resolution for the issuance of Beginning Farmer Bonds in an amount not to exceed $80,000 for the purchase of approximately 40 acres of farmland. This project is located in unincorporated Stark County, near Wyoming, IL.

No. 1C: **Joshua A. & Bonnie L. Dotson – $125,000 – 31 acres**

Request for approval of a Final Bond Resolution for the issuance of Beginning Farmer Bonds in an amount not to exceed $125,000 for the purchase of approximately 31 acres of farmland. This project is located in unincorporated Will County, near Lynwood, IL.

Higher Education, Cultural and Other Non-Healthcare 501(c)(3)'s – No Guests

No. 2: **Columbia College Chicago - $15,000,000 – Preliminary**

Columbia College Chicago is requesting approval of a Preliminary Bond Resolution in an amount not-to-exceed $15,000,000. The proposed project will enable Columbia College Chicago to (i) refund outstanding IFA Series 1998 Bonds; and (ii) pay costs of issuance.

Healthcare – No Guests

No. 3: **The Carle Foundation - $400,000,000 – Preliminary**

The Carle Foundation (the "Carle") is requesting approval of a Preliminary Bond Resolution in an amount not-to-exceed $400,000,000. The proceeds from the sale of the Series 2011 Bonds, together with other monies provided by the Carle, will be used to: (i) refinance existing taxable debt; (ii) pay or reimburse the Carle and/or the other tax-exempt affiliates of the Carle, for costs of acquiring, constructing, renovating, remodeling and equipping certain of its health facilities, including, but not limited to, costs associated with an approximately 360,000 square foot, approximately 136-bed, nine-story heart and vascular institute located in Urbana, Illinois; (iii) pay capitalized interest; (iv) fund a debt service reserve fund; (v) provide working capital; and (vi) pay costs of issuance.

Resolutions – No Guests

No. 4: **Delegation of authority to Executive Director to negotiate the Repurchase of an IFA Loan Participation (IFA Loan #B-LL-TX-6224)**

No guests attended with respect to Items Nos. 1A, 1B, 1C, 2, 3 or 4. Chairman Brandt asked if the Board had any questions with respect to Items Nos. 1A, 1B, 1C, 2, 3 or 4. There being none, Chairman Brandt requested leave to apply the last unanimous vote in favor of Items Nos. 1A, 1B, 1C, 2, 3 and 4. Item Nos. 1A, 1B, 1C, 2, 3 and 4 received approval with 8 ayes, 0 nays and 0 abstentions.

Other Business

None.

Adjournment

Chairman Brandt then asked if there was any other business to come before the Board. Hearing none, the Chairman requested a motion to adjourn. Upon a motion by Mr. Zeller and seconded by Dr. Barclay, the Board unanimously voted to adjourn by 11:42 a.m.

Minutes submitted by:
Ahad Syed
Assistant Board Secretary

ILLINOIS FINANCE AUTHORITY

Memorandum

To: IFA Board of Directors

From: Jim Senica and Lorrie Karcher

Date: March 8, 2011

Re: Overview Memo for Beginning Farmer Bonds

- **Borrower/Project Name:** Beginning Farmer Bonds
- **Locations:** Throughout Illinois
- **Board Action Requested:** Final Bond Resolution for the attached projects
- **Amount:** Up to $477,000 maximum of new money for each project
- **Project Type: Beginning Farmer Revenue Bonds**
- **Total Requested: $869,450**
- **Calendar Year Summary:** (as of March 8, 2011)
  - Volume Cap: $30,000,000
  - Volume Cap Committed: $2,131,545
  - Volume Remaining: 27,868,455
  - Average Acreage Farm Size: 49
  - Number of Farms Financed: 13
- **IFA Benefits:**
  - Conduit **Tax-Exempt Bonds** – no direct IFA or State funds at risk
  - New **Money Bonds:**
    - convey tax-exempt status
    - will use dedicated 2011 IFA Volume Cap set-aside for Beginning Farmer transactions
- **IFA Fees**:
  - One-time closing fee will total 1.50% of the bond amount for each project
- **Structure/Ratings:**
  - Bonds to be purchased directly as a nonrated investment held until maturity by the Borrower's Bank
  - The Borrower's Bank will be secured by the Borrower's assets, as on a commercial loan
  - Interest rates, terms, and collateral are negotiated between the Borrower and the Participating Bank, just as with any commercial loan
  - Workouts are negotiated directly between each Borrower and Bank, just as on any secured commercial loan
- **Bond Counsel:** **Burke, Burns & Pinelli, Ltd**
  Stephen F. Welcome, Esq.
  Three First National Plaza, Suite 4300
  Chicago, IL 60602

A.

Project Number:	**A-FB-TE-CD-8453**
Borrower(s):	**Huber, Craig A. & Cara Mz**
Borrower Benefit:	First Time Land Buyer
Town:	Lanark, IL
IFA Bond Amount:	**$295,450**
Use of Funds:	Farmland – 70.5 acres
Purchase Price:	$345,450 / ($4,900 per ac)
%Borrower Equity	5%
% USDA Farm Service Agency	45% *(Subordinate Financing)*
%IFA	50%
County/Region:	County/Region: Carroll / Northwest
Lender/Bond Purchaser	Farmers National Bank of Prophetstown / Doug Vanderlaan
Legislative Districts:	Congressional: 16th, Donald Manzullo
	State Senate: 45th, Tim Bivins
	State House: 89th, Jim Sacia

Principal shall be paid annually in installments determined pursuant to a thirty (30) year amortization schedule, with the first principal payment date to begin one year from the date of closing. Accrued interest on the unpaid balance hereof shall be paid annually, with the first interest payment date to begin one year from the date of closing with the thirtieth and final payment of all outstanding balances due thirty years from the date of closing.

B.

Project Number:	**A-FB-TE-CD-8454**
Borrower(s):	**Mickley, James V.**
Borrower Benefit:	First Time Land Buyer
Town:	Colona, IL
IFA Bond Amount:	**$248,000**
Use of Funds:	Farmland – 120 acres
Purchase Price:	$496,000 / ($4,133 per ac)
%Borrower Equity	5%
% USDA Farm Service Agency	45% *(Subordinate Financing)*
%IFA	50%
County/Region:	Henry / Northwest
Lender/Bond Purchaser	Farmers National Bank of Prophetstown / Garett Plumley
Legislative Districts:	Congressional: 17th, Bobby Schilling
	State Senate: 36th, Mike Jacobs
	State House: 71st, Richard Morthland

Principal shall be paid annually in installments determined pursuant to a thirty (30) year amortization schedule, with the first principal payment date to begin on March 1, 2012. Accrued interest on the unpaid balance hereof shall be paid annually, with the first interest payment date to begin on March 1, 2012 with the thirtieth and final payment of all outstanding balances due thirty years from the date of closing.

C.

Project Number:	**A-FB-TE-CD-8455**
Borrower(s):	**Vandersnick, Kane Richard**
Borrower Benefit:	First Time Land Buyer
Town:	Annawan, IL
IFA Bond Amount:	**$326,000**
Use of Funds:	Farmland – 116 acres
Purchase Price:	$580,000 / ($5,000 per ac)
%Borrower Equity	5%
% USDA Farm Service Agency	39% *(Subordinate Financing)*
%IFA	56%
County/Region:	Henry / Northwest
Lender/Bond Purchaser	Farmers National Bank of Prophetstown / Garett Plumley
Legislative Districts:*	Congressional: 14th, Randall Hultgren
	State Senate: 45th, Tim Bivins
	State House: 90th, Jerry Mitchell

Principal shall be paid annually in installments determined pursuant to a thirty (30) year amortization schedule, with the first principal payment date to begin on May 1, 2012. Accrued interest on the unpaid balance hereof shall be paid annually, with the first interest payment date to begin on May 1, 2012 with the thirtieth and final payment of all outstanding balances due thirty years from the date of closing.

CONDUIT

March 8, 2011

$133,000,000
Methodist Medical Center of Illinois

REQUEST	Purpose: The proceeds will be used to (i) currently call Methodist Medical Center of Illinois ("**Methodist**") Series 1998 fixed rate bonds; (ii) refinance a taxable line of credit used for hospital renovations; (iii) fund a portion of the swap termination costs associated with an outstanding fixed payor swap with a current notional value of $150,000,000; (iv) fund a debt service reserve fund, if applicable; and (v) pay certain Bond issuance costs. **Program**: Conduit 501(c)(3) Revenue Bonds **Extraordinary Conditions**: None.
BOARD ACTIONS	Preliminary Bond Resolution
MATERIAL CHANGES	None. This is the first time this project has been presented to the IFA Board.
JOB DATA	2,168 Current jobs; 0 New jobs projected 2,168 Retained jobs; 0 Construction jobs projected
DESCRIPTION	• Location: Peoria, Illinois (Peoria County) • Methodist, headquartered in Peoria, Illinois, is an Illinois not-for-profit corporation engaged in providing healthcare services to residents of Central Illinois. Methodist operates a hospital with 318 staffed beds, a large medical group with 39 different locations, and a College of Nursing with over 500 students.
CREDIT INDICATORS	• Current rating A2 (Moody's); may obtain additional rating(s). • Uninsured fixed rate bonds; uninsured variable rate demand bonds backed by Letter of Credit (PNC and US Bank)
SECURITY	• Secured by revenue pledge
MATURITY	• No later than 2041

SOURCES AND USES

Sources:		Uses:	
IFA Fixed Rate Bonds	$70,000,000	Project Fund	$111,200,000
IFA VRDBs	$63,000,000	Cost of Issuance	1,800,000
		Swap Termination	13,000,000
		Debt Service Reserve Fund[1]	7,000,000
Total	**$133,000,000**	**Total**	**$133,000,000**

RECOMMENDATION	Credit Committee recommends approval.

[1] If applicable

ILLINOIS FINANCE AUTHORITY
BOARD SUMMARY
March 8, 2011

Project: Methodist Medical Center of Illinois

STATISTICS

Project Number:	H-HO-TE-CD-8456	Amount:	$133,000,000 (Not-to-Exceed)
Type:	501(c)(3) Bonds	IFA Staff:	Pam Lenane and Nora O'Brien
Location:	Peoria	County/ Region:	Peoria County

BOARD ACTION

Preliminary Bond Resolution
Conduit 501(c)(3) bonds — No extraordinary conditions
Credit Review Committee recommends approval. — No IFA funds at risk

VOTING RECORD

This is the first time this project is being presented to the IFA Board.

PURPOSE

Bond proceeds will be used to (i) currently call Methodist Medical Center of Illinois Series 1998 fixed rate bonds; (ii) refinance a taxable line of credit used for hospital renovations; (iii) fund a portion of the swap termination costs associated with an outstanding fixed payor swap with a current notional value of $150,000,000; (iv) fund a debt service reserve fund, if applicable; and (v) pay certain expenses incurred in connection with the Bonds.

IFA PROGRAM AND CONTRIBUTION

501(c)(3) Bonds are a form of municipal bond financing that 501(c)(3) corporations can use to finance capital projects that will be used to further their charitable mission. IFA's issuance will convey federal income tax-exempt status on interest earned on the Bonds paid to bondholders, thereby reducing the Borrower's interest expense.

VOLUME CAP

501(c)(3) Bonds do not require Volume Cap.

ESTIMATED SOURCES AND USES OF FUNDS

Sources:		**Uses:**	
IFA Fixed Rate Bonds	$70,000,000	Project Fund	$111,200,000
IFA VRDBs	$63,000,000	Cost of Issuance	1,800,000
		Swap Termination	13,000,000
		Debt Service Reserve Fund[1]	7,000,000
Total	**$133,000,000**	**Total**	**$133,000,000**

[1] If applicable

JOBS

Current employment:	2,168	Projected new jobs:	0
Jobs retained:	2,168	Construction jobs:	0

FINANCING SUMMARY/STRUCTURE

Security:	The Bonds are expected to be secured by Master Trust Indenture that includes a pledge of gross revenues.
Structure:	The plan of finance contemplates the issuance of (i) traditional fixed rate bonds (sold based on Methodist's underlying rating) and (ii) variable rate demand bonds secured by a bank-issued letter of credit (by PNC and US Bank).
Interest Rate:	To be determined the day at pricing for the Fixed Rate Bonds and by prevailing market rates at reset for the Variable Rate Bonds.
Interest Modes:	It is anticipated that both (i) Fixed Rate Bonds and (ii) LOC-secured Variable Bonds will be sold based on the structure noted above.
Current Rating:	The Fixed Rate Bonds will be rated A2 Stable (Moody's); may obtain additional rating(s). The Variable Rate Bonds will carry the rating of the LOC provider.
Maturity:	2041 (30 Years)
Estimated Closing Date:	May 15, 2011

PROJECT SUMMARY (FOR PRELIMINARY BOND RESOLUTION)

The proceeds will be used to (i) currently call Methodist Medical Center of Illinois Series 1998 fixed rate bonds; (ii) refinance a taxable line of credit used for hospital renovations; (iii) fund a portion of the swap termination costs associated with an outstanding fixed payor swap with a current national value of $150,000,000; (iv) fund a debt service reserve fund, if applicable; and (v) pay certain expenses incurred in connection with the Bonds.

BUSINESS SUMMARY

Methodist Medical Center of Illinois is a tax-exempt 501(c)(3) Illinois corporation that provides inpatient, outpatient, ambulatory, emergency care, non-acute and professional services for residents of Peoria and 22 surrounding counties.

Methodist Medical Center of Illinois consists of three primary operating units:

Hospital: The hospital division consists of the traditional acute and sub-acute care services. The Hospital's total bed complement as of December 31, 2010 is 318 staffed beds (including nursery).

Methodist Medical Group: Methodist Medical Group ("**MMG**") provides primary and specialty care professional services to residents of Peoria and the surrounding area. MMG consists of 34 primary and specialty care physician practices; two in-school health programs, which serve multiple schools in both Peoria and Pekin; and a family practice residency program.

Methodist College of Nursing: The College of Nursing offers an accredited baccalaureate degree program in nursing. The College currently has over 500 full-time and part-time students enrolled.

ECONOMIC DISCLOSURE STATEMENT

Applicant:	Methodist Medical Center of Illinois 221 Northeast Glen Oak Avenue Peoria, IL 61636-0002
Website:	www.mymethodist.net
Project name:	Methodist Medical Center (IFA Series 2011 Bonds)
Organization:	501(c)(3) Not-for-Profit Corporation
State:	Illinois
Board Members:	Methodist Health Services Corporation (Parent) Board members: Karen Stumpe, Chairperson Joseph Henderson, Vice - Chairperson Michael Bryant Steve Graham Lee Graves Peter Johnsen Joseph O'Neill Michael Landwirth Mark Petersen James Richmond Michael Stone Donald White

PROFESSIONAL & FINANCIAL

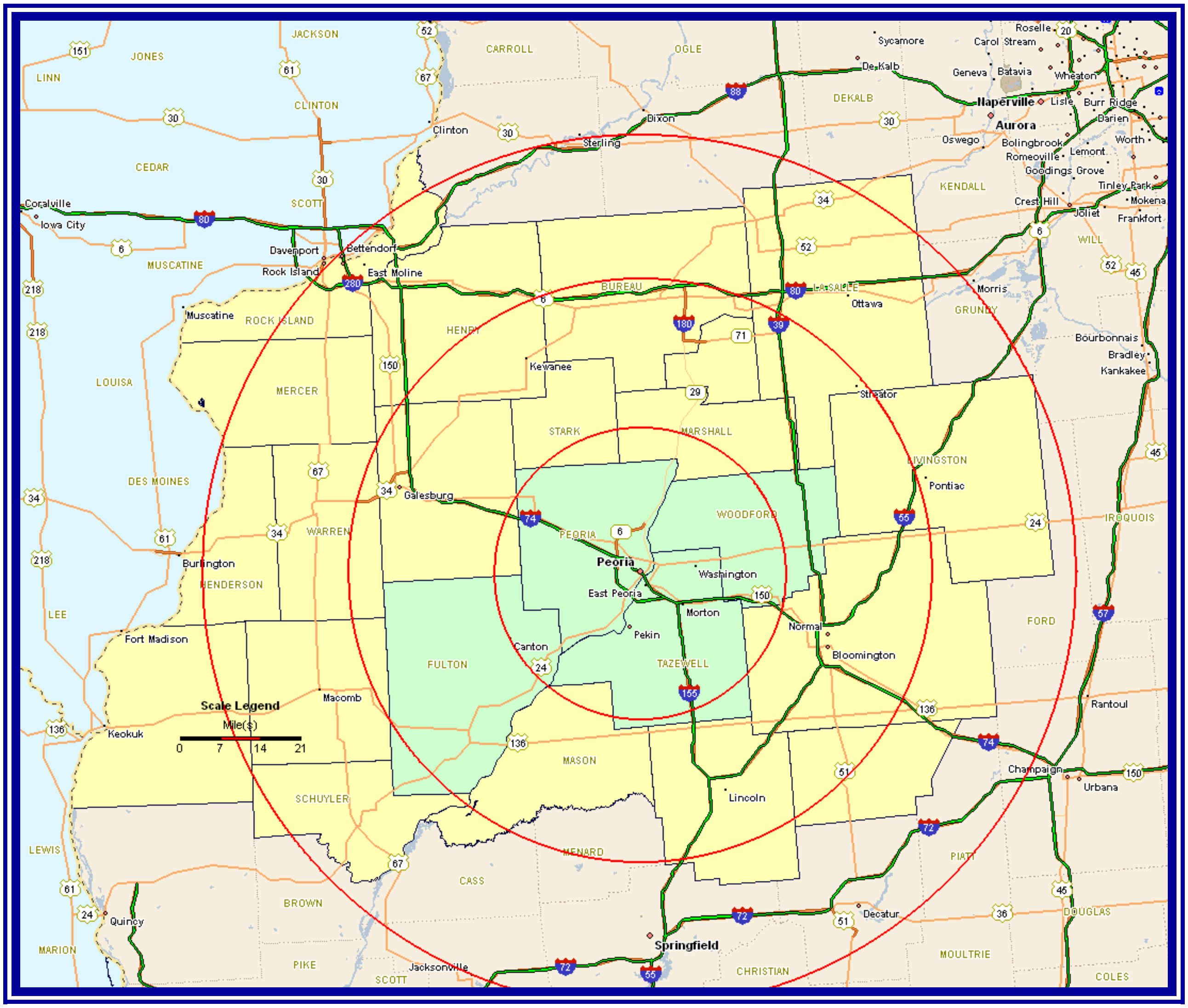
Borrower's Counsel:	McDermott, Will & Emery	Chicago	Dean Kant
Bond Counsel:	Jones Day	Chicago	Richard Tomei, Mary Kimura
Underwriter:	Morgan Stanley	Chicago	Brett Tande
Underwriter's Counsel:	To be determined		
Financial Advisor:	Ponder and Co.	Chicago, IL	Michael Tym
LOC Bank:	PNC Bank / US Bank		
Bank's Counsel:	To be determined		
IFA Counsel:	To be determined		
IFA Financial Advisor:	Acacia Financial Group, LLC	Chicago	Courtney Shea

LEGISLATIVE DISTRICTS

Congressional:	18	Aaron Schock
State Senate:	16	David Koehler
State House:	73	David Leitch

SERVICE AREA

The primary service area includes Peoria, and three surrounding counties. The secondary service area includes an additional 19 counties.



CONDUIT

March 8, 2011

$35,000,000
Roseland Community Hospital

REQUEST	**Purpose**: Bond proceeds from the sale of the Series 2011 Bonds together with other funds will be used to (i) refund existing debt of **Roseland Community Hospital** (the "**Hospital**" or "**RCH**"), (ii) pay or reimburse the Hospital for the payment of the costs of acquiring, constructing, renovating and equipping the Hospital's health care facilities, including renovation of administrative, labor and delivery, cardiopulmonary, radiology and intensive care units, a second and third floor expansion to include a surgery suite and shelled space, and construction and equipping of an adolescent behavioral center at its facilities located in Chicago (the "**Project**") and (iii) to pay cost of issuance on the Bonds. **Program**: Conduit 501(c)(3) Revenue Bonds **Extraordinary Conditions**: None.
BOARD ACTIONS	Final Bond Resolution
MATERIAL CHANGES	Voting Record for November 9, 2010: 11 ayes, 0 nays, 0 abstentions, 4 absent (Bronner, DeNard, Fuentes, Herrin), 0 vacancies.
JOB DATA	539 Current jobs; 12 New jobs projected 539 Retained jobs; 20 Construction jobs projected
DESCRIPTION	● Chicago (Cook County/Northeast Region) Roseland Community Hospital, located on Chicago's far South Side, was established over 80 years ago, and remains a constant presence in the community. RCH is a 162 bed, private, non-profit community hospital dedicated to providing a full range of health care services, including medical and surgical care in both inpatient and outpatient settings. Staffed with dedicated physicians, nurses, health care professionals, and support staff, RCH remains steadfast in its commitment to the community it serves.
CREDIT INDICATORS	● RCH is not currently rated ● No credit enhancement
SECURITY	● Secured by a security interest in the Pledged Revenues of the Obligated Group and any future Members of the Obligated Group and by a Mortgage and Parking Security Agreement including a Master Mortgage on the hospital site and associated parking, subject only to Permitted Encumbrances. ● No rating (Bonds to be purchased directly by institutional investors through a Limited Public Offering)
MATURITY	● No later than 2041
SOURCES AND USES	(see table below)
RECOMMENDATION	Credit Review Committee recommends approval.

SOURCES AND USES

Sources of Funds		**Uses of Funds**	
IFA Bonds	$35,000,000	Project Fund	$26,416,000
Equity Contribution	400,000	Debt Service Reserve Fund	3,190,000
		Payoff of Existing Loan	4,694,000
		Cost of Issuance	1,100,000
Total	**$35,400,000**	**Total**	**$35,400,000**

ILLINOIS FINANCE AUTHORITY
BOARD SUMMARY
March 8, 2011

Project: Roseland Community Hospital

STATISTICS

Project Number:	H-HO-TE-CD-8412	Amount:	$35,000,000 (not-to-exceed amount)
Type:	501(c)(3) Revenue Bonds	IFA Staff:	Pam Lenane & Nora O'Brien
Location:	Chicago	County/ Region:	Cook/Northeast

BOARD ACTION

Final Bond Resolution
Conduit 501(c)(3) Bonds — No IFA funds at risk
Credit Review Committee recommends approval. — No extraordinary conditions

VOTING RECORD

Voting Record for November 9, 2010: 11 ayes, 0 nays, 0 abstentions, 4 absent (Bronner, DeNard, Fuentes, Herrin), 0 vacancies.

PURPOSE

Bond proceeds, combined with other funds will be used to (i) refund existing debt of the Hospital, (ii) pay or reimburse the Hospital for the payment of the costs of acquiring, constructing, renovating and equipping the Hospital's health care facilities, including renovation of administrative, labor and delivery, cardiopulmonary, radiology and intensive care units, a second and third floor expansion to include a surgery suite and shelled space, and construction and equipping of an adolescent behavioral center, and (iii) pay cost of issuance of the Bonds.

IFA PROGRAM AND CONTRIBUTION

501(c)(3) Bonds are a form of municipal bond financing that 501(c)(3) corporations can use to finance capital projects that will be used to further their charitable mission. IFA's issuance will convey federal income tax-exempt status on interest earned on the Bonds paid to bondholders, thereby reducing the Borrower's interest expense.

VOLUME CAP

501(c)(3) Bonds do not require Volume Cap.

ESTIMATED SOUCES AND USES OF FUNDS

Sources:	IFA Bonds	$35,000,000	Uses:	Project Fund	$26,416,000
	Equity Contribution	400,000		Debt Service Reserve Fund	3,190,000
				Pay off of Existing Loan	4,694,000
				Issuance Costs	1,100,000
	Total	**$35,400,000**	**Total**		**$35,400,000**

JOBS

Current employment:	539	Projected new jobs:	12
Jobs retained:	539	Construction jobs:	20

FINANCING SUMMARY/STRUCTURE

Security:	Secured by a security interest in the Pledged Revenues of the Obligated Group and any future Members of the Obligated Group and will also be secured by a Mortgage and Security Agreement including Master Mortgage on the hospital site and associated parking, subject only to Permitted Encumbrances.
Structure:	The current plan of finance anticipates uninsured fixed rate bonds offered through a Limited Public Offering to institutional investors.
Interest Rate:	To be determined based on MMD rates and credit spreads at the time of pricing.
Interest Mode:	Fixed Rate Bonds
Rating:	None
Maturity:	2041 (30 Years)
Estimated Closing Date:	April 13, 2011

PROJECT SUMMARY (FOR FINAL BOND RESOLUTION)

To (i) refund existing debt of the Hospital, (ii) pay or reimburse the Hospital for the payment of the costs of acquiring, constructing, renovating and equipping the Hospital's health care facilities, including renovation of administrative, labor and delivery, cardiopulmonary, radiology and intensive care units, a second and third floor expansion to include a surgery suite and shelled space, and construction and equipping of an adolescent behavioral center and (iii) pay costs of issuance of the Bonds.

BUSINESS SUMMARY

Roseland Community Hospital, located on Chicago's far South Side, was established over 80 years ago.

RCH is a 162-bed, private, non-profit community hospital dedicated to providing a full range of health care services, including medical and surgical care in both inpatient and outpatient settings. Staffed with dedicated physicians, nurses, health care professionals, and support staff, RCH remains steadfast in its commitment to the community it serves.

As a community-based hospital, RCH is committed to providing quality care to every patient. Their new state-of-the-art emergency department is an example of their commitment to bringing high quality care to the Roseland community. The Hospital also has a Foundation which has been organized to raise and distribute funds exclusively for the purpose of advancing the mission of Roseland Community Hospital.

Inpatient Services

Roseland Community Hospital provides a full range of inpatient services to meet the evolving needs of the community. Inpatient services include, medical/surgical unit, level II nursery, obstetrics unit, telemetry unit detoxification services, pediatric unit, intensive care unit and social services.

RCH's professional, qualified staff is dedicated to excellence in clinical care and service, and devoted to serving the individual needs of each patient.

Outpatient Services

Roseland Community Hospital provides a full range of outpatient services to meet the evolving needs of the community.

Outpatient services include a comprehensive emergency department, urgent care services, outpatient and day surgery programs, physical therapy, hyperbaric facility, expanded cardiology outpatient services, on-site physician offices and cardiopulmonary services.

OWNERSHIP / ECONOMIC DISCLOSURE STATEMENT

Project name:	Roseland Community Hospital Project
Applicant:	Roseland Community Hospital 45 West 111th Street Chicago, IL 60628-4200
Contact:	Earmon Irons, Chief Executive Officer, 773.995.3012, eirons@roselandhospital.org
Website:	www.roselandhospital.org
Ownership (501(c)(3)):	501(c)(3) Not-for-Profit Corporation
State:	Illinois
Board Members:	Dian Powell Tunji Ladipo Earmon Irons Salim Al Nurridin Shirley Pickett Larry Mitchell Alan Jackson Craig Washington Almeda Dunn Catherine Nichols Genivee Chapman Ron Blackstone

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PROFESSIONAL & FINANCIAL

Borrower's Counsel:	Cullinane Law Firm	St. Louis, MO	John C. Derico
Bond Counsel:	Katten Muchin Rosenman LLP	Chicago, IL	Elizabeth Weber
Underwriter:	Raymond James & Associates	Chicago, IL	Richard Bratton Natalie Wabich
Co-Manager:	Grigsby & Associates, Inc.	Chicago, IL	Wayne Pierce
Underwriter's Counsel:	Foley & Lardner	Chicago, IL	Heidi Jeffery
IFA Counsel:	Neal & Leroy	Chicago, IL	Anne Fredd
IFA Financial Advisor:	Scott Balice Strategies	Chicago, IL	Lois Scott

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LEGISLATIVE DISTRICTS

Congressional:	2	Jesse L. Jackson, Jr.
State Senate:	14	Emil Jones, III
State House:	28	Robert "Bob" Rita

SERVICE AREA – ROSELAND COMMUNITY HOSPITAL

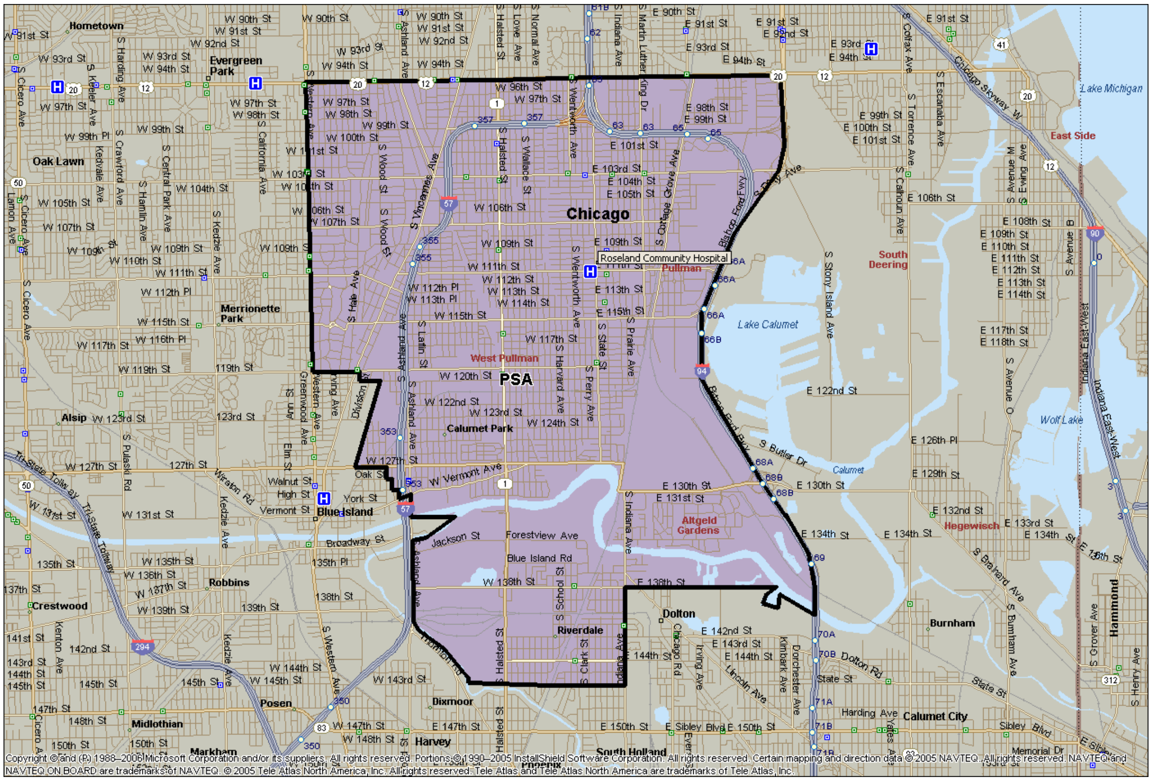


Figure 1, Source: Microsoft MapPoint

ILLINOIS FINANCE AUTHORITY

CONDUIT

March 8, 2011

$45,000,000
Sarah Bush Lincoln Health System

REQUEST	**Purpose**: Bond proceeds from the sale of the Series 2011 Bonds together with other funds, will be used to enable **Sarah Bush Lincoln Health System** ("**SBLHS**", the "**Health Center**", or the "**Borrower**") to (i) refinance existing Illinois Health Facilities Authority Bonds Series 1996 and Series 1996B, (ii) finance project costs to expand and renovate the Hospital in Mattoon and to undertake capital expenditures at the Borrower's other properties, (iii) finance a debt service reserve fund and (iv) pay cost of issuance on the Bonds. **Program**: Conduit 501(c)(3) Revenue Bonds **Extraordinary Conditions**: None.
BOARD ACTIONS	Final Bond Resolution
MATERIAL CHANGES	Structure finalized as Direct Bank Purchase. Voting Record for November 9, 2010: 11 ayes, 0 nays, 0 abstentions, 4 absent (Bronner, DeNard, Fuentes, Herrin), 0 vacancies.
JOB DATA	1,650 Current jobs; 17 New jobs projected 1,650 Retained jobs; 60 Construction jobs projected
DESCRIPTION	● Mattoon (Coles County) ● SBLHS has a total of 1,650 employees (1,250 FTE's) providing a full range of acute care services to residents of Coles County and the surrounding six counties. SBLHS serves a seven county region in East Central Illinois, encompassing a drawing population of approximately 156,000 people. The SBLHS medical staff includes physicians in 28 specialty areas and approximately 145 physicians with hospital privileges at Sarah Bush Lincoln Health Center. The Physician System Practices of SBLHS include approximately 57 employed physicians and 25 mid-level providers.
CREDIT INDICATORS	● Underlying rating of A+ (S&P) ● Bank private placement with JP Morgan Chase Bank
SECURITY	● Secured by gross revenue pledge and a negative pledge on assets
MATURITY	● No later than 2026
SOURCES AND USES	See table below
RECOMMENDATION	Credit Review Committee recommends approval.

SOURCES AND USES

Sources:		**Uses:**	
IFA Bonds	$45,000,000	Refunding account	$23,560,000
1996 DSRF	$ 6,710,000	Project Account	27,650,000
		Cost of Issuance	500,000
Total	**$51,710,000**	**Total**	**$51,710,000**

ILLINOIS FINANCE AUTHORITY
BOARD SUMMARY
March 8, 2011

Project: Sarah Bush Lincoln Health System

STATISTICS

Project Number:	H-HO-TE-CD-8416	Amount:	$45,000,000 (Not-to-Exceed)
Type:	501(c)(3) Revenue Bonds	IFA Staff:	Pam Lenane and Nora O'Brien
Location:	Mattoon	County/ Region:	Coles County / Southeastern

BOARD ACTION

Final Bond Resolution
Conduit 501 (c)(3) Bonds — No IFA funds at risk
Credit Review Committee recommends approval. — No extraordinary conditions

VOTING RECORD

Voting Record for November 9, 2010: 11 ayes, 0 nays, 0 abstentions, 4 absent (Bronner, DeNard, Fuentes, Herrin), 0 vacancies.

PURPOSE

Bond proceeds will be used to (i) refinance existing Illinois Health Facilities Authority Bonds Series 1996 and Series 1996B, (ii) finance project costs to expand and renovate the Hospital and properties owned by the SBLHS and other capital expenditures, (iii) finance a debt service reserve fund and (iv) pay cost of issuance on the Bonds.

IFA PROGRAM AND CONTRIBUTION

501(c)(3) Bonds are a form of municipal bond financing that 501(c)(3) corporations can use to finance capital projects that will be used to further their charitable mission. IFA's issuance will convey federal income tax-exempt status on interest earned on the Bonds paid to bondholders, thereby reducing the Borrower's interest expense.

VOLUME CAP

501(c)(3) Bonds do not require Volume Cap.

JOBS

Current employment:	1,650	Projected new jobs:	17
Jobs retained:	1,650	Construction jobs:	60

ESTIMATED SOUCES AND USES OF FUNDS

Sources:	IFA Bonds	$45,000,000	Uses:	Project Fund	$27,650,000
	Series 1996 DSRF	6,710,000		Refunding Account	23,560,000
				Issuance Costs	500,000
	Total	**$51,710,000**		**Total**	**$51,710,000**

FINANCING SUMMARY/STRUCTURE

Security:	The IFA Series 2011 Bonds will be secured by Master Trust Indenture that includes a pledge of gross revenues and a negative pledge on assets.
Structure:	Bank direct purchase (by JPMorgan Chase Bank). The Bonds will be non-rated.
Interest Rate:	Not to exceed 6%
Interest Mode:	Fixed for 7 to 10 years (with scheduled interest rate resets to maturity)
Underlying Borrower Rating:	Although the subject Bonds will not be rated (due to the bank direct purchase structure), the Borrower currently has a direct underlying rating of A+ by Standard and Poor's.
Maturity:	2026 (15 Years)
Estimated Closing Date:	March 10, 2011

PROJECT SUMMARY (FOR FINAL BOND RESOLUTION)

The proceeds of the IFA Series 2011 Bonds will be combined with other funds and used to (i) refinance existing Illinois Health Facilities Authority Bonds Series 1996 and Series 1996B, (ii) finance project costs to expand and renovate the Hospital and properties owned by the SBLHS and other capital expenditures in Mattoon and elsewhere in its service area, (iii) finance a debt service reserve fund and (iv) pay cost of issuance on the Bonds.

BUSINESS SUMMARY

Sarah Bush Lincoln Health System ("**SBLHS**") is centrally located between Mattoon and Charleston, Illinois, which are East Central Illinois communities located approximately 180 miles south of Chicago. The Health Center's primary service area consists of Coles County, Illinois. The Health Center's secondary service area consists of the six counties surrounding Coles County, which are Clark, Cumberland, Moultrie, Douglas, Shelby and Edgar counties. The tertiary service area consists of three additional counties, Effingham, Jasper and Crawford counties. The Health Center's entire service area is located within a 45-mile radius of the Health Center.

SBLHS has a total of 1,650 employees (1,250 FTE's) providing a full range of acute care services to residents of Coles County and the surrounding six counties. The SBLHS medical staff includes physicians in 28 specialty areas and approximately 145 physicians with hospital privileges at Sarah Bush Lincoln Health Center. The Physician System Practices of SBLHS include approximately 57 employed physicians and 25 mid-level providers.

The main health center facility was completed in 1977 as a four-story facility with a partial basement, consisting of 200,000 gross square feet (the "Main Health Center Facility"). The Health Center is licensed for 128 beds. Services currently located and provided in this facility include: Obstetrics/Gynecology, Level II Nursery, Pediatrics, Medical and Surgical Nursing Units, Operating Rooms, Outpatient Surgery Center, Emergency Department, Ambulatory Care Unit, Behavioral Health Services, Laboratory, Radiology, Physical and Occupational Services, Speech & Audiology Services, Cardiac Rehabilitation, Respiratory Therapy, Outpatient Pharmacy, Sleep Studies, Cancer Center, Cardiac Cath Lab, Illinois Breast and Cervical Cancer Center, Home Health and Hospice services.

The 82 employed physicians and mid-level providers service 21 clinics on the main campus plus clinics in the towns of Arcola, Arthur, Casey, Charleston, Mattoon, Neoga, Sullivan and Toledo, Illinois.

A Certificate of Need was not required for the subject projects.

OWNERSHIP / ECONOMIC DISCLOSURE STATEMENT

Project name: SBLHS Advance Refunding, New Construction and Project Reimbursement

Applicant: Sarah Bush Lincoln Health System
1000 Health Center Drive
Mattoon (Coles County), IL 61938-9253

Contact: Craig Sheagren, Vice President – Finance, 217.258.2513, CSheagren@sblhs.org

Website: www.sarahbush.org

Organization: 501(c)(3) Not-for-Profit Corporation

State: Illinois

Board Members:

Health Center Board Members

Steve Honselman - Chairperson	Linda Hance
Scott Lensink - Vice-Chair	Kiran Joag, M.D.
Gary Mikel, M.D. - Secretary	Larry Lilly
Ann Bacon – Treasurer	Timothy Mooney
Chris Considine	William Perry, Ph.D.
Jeanne Dau	Aldo Ruffolo, D.O.
Mark Donnell	Steve Wente

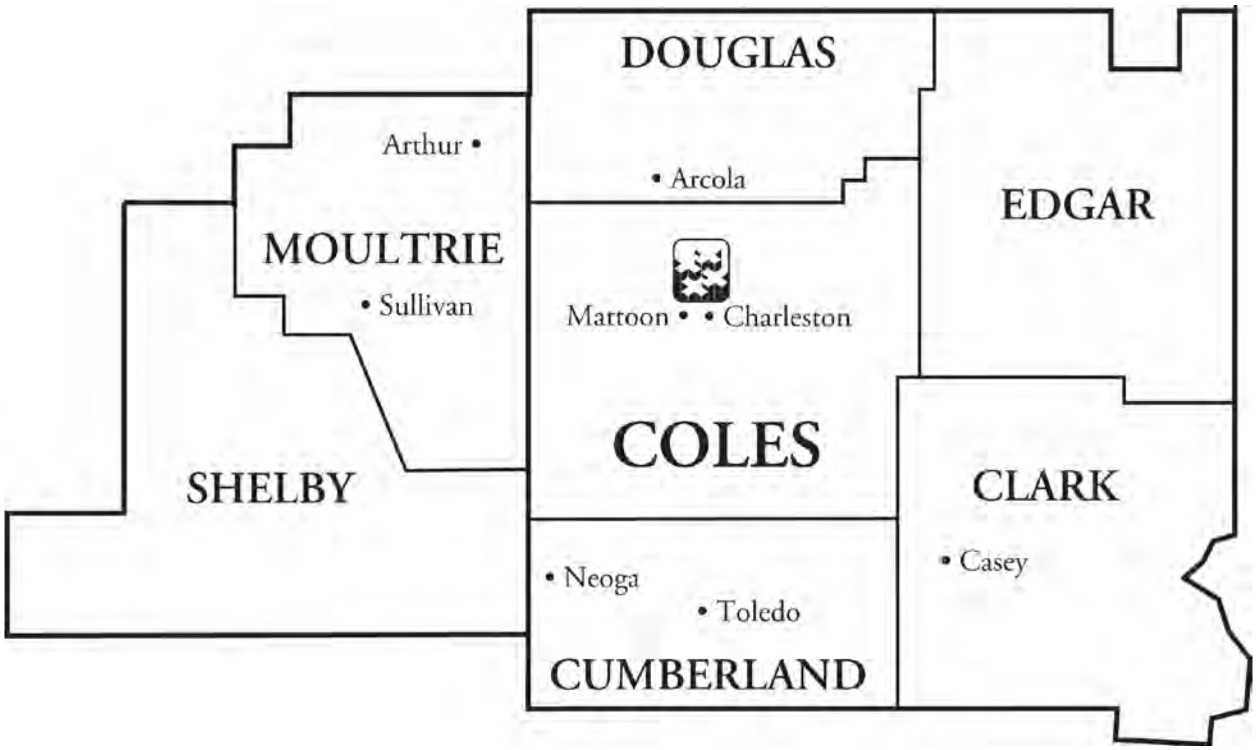
PROFESSIONAL & FINANCIAL

Borrower's Counsel:	Hinshaw & Culbertson	Chicago, IL	Leslie Richards-Yellen
Financial Advisor:	Ponder & Co.	Chicago, IL	
		Valparaiso, IN	Michael Tym
Bond Counsel:	Jones Day	Chicago, IL	Daniel Bacastow
Bank:	JP Morgan Chase	Chicago, IL	Tim Ruby
Bank's Counsel:	Foley & Lardner	Chicago, IL	Laura Bilas
Master Trustee:	First Mid-Illinois Bank	Mattoon, IL	Gary Kuhns
Bond Trustee:	Amalgamated Bank	Chicago, IL	Remonia Jamison
Bond Trustee Counsel:	Amalgamated Bank	Chicago, IL	Cherie Duve
Issuer's Counsel:	Sanchez Daniels & Hoffman	Chicago, IL	John Cummins
Issuer's Advisor:	Scott Balice Strategies	Chicago, IL	Lois Scott

LEGISLATIVE DISTRICTS

Congressional:	15	Tim Johnson
State Senate:	55	Dale Righter
State House:	110	Chapin Rose

SERVICE AREA



ILLINOIS FINANCE AUTHORITY

CONDUIT

March 8, 2011

$400,000,000
The Carle Foundation

REQUEST	**Purpose**: The proceeds from the sale of the Series 2011 Bonds, together with other monies provided by **The Carle Foundation** (the "**Corporation**") will be used to: (i) potentially refinance existing taxable debt; (ii) pay or reimburse the Corporation and/or the other tax-exempt affiliates of Carle for, the payment of the costs of acquiring, constructing, renovating, remodeling and equipping certain of their health facilities, including, but not limited to, acquiring, constructing and equipping an approximately 360,000 square foot, nine story heart and vascular institute consisting of approximately 136 beds located at its campus in Urbana, Illinois (collectively, the "**Project**") (also, see Project Summary Section); (iii) pay a portion of the interest on the Series 2011 Bonds, if applicable; (iv) fund a debt service reserve fund, if applicable; (v) provide working capital, if deemed necessary, and (vi) pay certain expenses incurred in connection with the issuance of the Series 2011 Bonds. **Program**: Conduit 501(c)(3) Revenue Bonds **Extraordinary Conditions**: None.
BOARD ACTIONS	Final Bond Resolution
MATERIAL CHANGES	Voting Record for February 8, 2011: 8 ayes, 0 nays, 0 abstentions, 7 absent (DeNard, Durburg, Herrin, Leonard, McInerney, Parish, Poole), 0 vacancies.
JOB DATA	4,900 Current jobs; 0 New jobs projected 4,900 Retained jobs; 275 Construction jobs projected
DESCRIPTION	● Location: Urbana (Champaign County/East Central Region) ● The Carle Foundation, headquartered in Urbana, Illinois, is an Illinois not-for-profit corporation engaged in providing health care services to residents of East Central Illinois.
CREDIT INDICATORS	● AA-/AA- from Standard & Poor's/Fitch ● Any variable rate demand bonds issued will be uninsured and backed by either (i) a Standby Bond Purchase Agreement or (ii) a Letter of Credit (the prospective Liquidity or LOC Bank(s) are to be determined, but will carry a long-term rating of A- or better). Any fixed rate bonds will carry the underlying rating of The Carle Foundation as successor to The Carle Foundation Obligated Group.
SECURITY	● The Bonds are expected to be secured by an obligation of The Carle Foundation under a Master Trust Indenture. Such obligation will include a pledge of revenues and may or may not include a debt service reserve fund or mortgages.
MATURITY	● Not more than 40 years.
SOURCES AND USES	See below
RECOMMENDATION	Credit Committee recommends approval.

SOURCES AND USES

Sources:		**Uses:**	
IFA Bonds	$400,000,000	Project Fund/Capitalized interest	$301,000,000
		Debt Service Reserve Fund	40,000,000
		Refinancing	55,000,000
		Costs of Issuance	4,000,000
Total	**$400,000,000**	**Total**	**$400,000,000**

ILLINOIS FINANCE AUTHORITY
BOARD SUMMARY
March 8, 2011

Project: The Carle Foundation

STATISTICS

Project Number:	H-HO-TE-CD-8450	Amount:	$400,000,000 (not-to-exceed)
Type:	501(c)(3) Revenue Bonds	IFA Staff:	Pam Lenane and Nora O'Brien
Location:	Urbana	County/ Region:	Champaign/East Central

BOARD ACTION

Final Bond Resolution
Conduit 501(c)(3) Bonds — No IFA funds at risk
Credit Review Committee recommends approval. — No extraordinary conditions

VOTING RECORD

Voting Record for February 8, 2011: 8 ayes, 0 nays, 0 abstentions, 7 absent (DeNard, Durburg, Herrin, Leonard, McInerney, Parish, Poole), 0 vacancies.

PURPOSE

The proceeds from the sale of the Series 2011 Bonds, together with other monies available to the Corporation, will be used to: (i) potentially refinance existing taxable debt; (ii) pay or reimburse Carle and/or the other tax-exempt affiliates of Carle for, the payment of the costs of acquiring, constructing, renovating, remodeling and equipping certain of their health facilities, including, but not limited to, acquiring, constructing and equipping an approximately 360,000 square foot, nine story heart and vascular institute consisting of approximately 136 beds located at its Urbana campus; (iii) pay a portion of the interest on the Series 2011 Bonds, if applicable; (iv) fund a debt service reserve fund, if applicable; (v) provide working capital, if deemed necessary, and (vi) pay certain expenses incurred in connection with the issuance of the Series 2011 Bonds.

IFA PROGRAM AND CONTRIBUTION

501(c)(3) Bonds are a form of municipal bond financing that 501(c)(3) corporations can use to finance capital projects that will be used to further their charitable mission. IFA's issuance will convey federal income tax-exempt status on interest earned on the Bonds paid to bondholders, thereby reducing the Borrower's interest expense.

VOLUME CAP

501(c)(3) Bonds do not require Volume Cap.

ESTIMATED SOURCES AND USES OF FUNDS

Sources:	IFA Bonds	$400,000,000	Uses:	Project Fund/Capitalized interest	$301,000,000
				Debt Service Reserve Fund	40,000,000
				Refinancing	55,000,000
				Costs of Issuance	4,000,000
	Total	**$400,000,000**	**Total**		**$400,000,000**

JOBS

Current employment:	4,900	Projected new jobs:	0
Jobs retained:	4,900	Construction jobs:	275

FINANCING SUMMARY

Security:	The Bonds are expected to be secured by an obligation of The Carle Foundation under a Master Trust Indenture. Such obligation will include a pledge of revenues and may or may not include a debt service reserve fund or mortgages.
Structure:	The plan of finance may include the issuance of both fixed rate and variable rate bonds, to be determined based on market conditions.
Interest Rate:	To be determined at the time of pricing based upon market conditions.
Interest Rate Modes:	Floating rate obligations for which interest rate is established periodically and paid monthly; fixed rate bonds on which interest is paid semiannually. Carle may consider issuance of additional variable rate alternatives.
Underlying Ratings:	"AA-"/"AA-" from Standard & Poor's/Fitch
Maturity:	2051 (Up to 40 Years)
Estimated Closing Date:	April, 2011

PROJECT SUMMARY (FOR FINAL BOND RESOLUTION)

The Corporation proposes to expand and modernize its current hospital facility by constructing a 350,027 gross square foot ("GSF") bed tower and modernizing 10,000 gross square feet of existing facilities. The budget for this project is $218 million with supplemental funds not provided through the Series 2011 Bonds being provided by The Carle Foundation.

In addition to the Tower project, proceeds from the Series 2011 Bonds will be used to refinance the Foundation's outstanding bridge loan, and outstanding notes related to mortgages on two of its facilities. Remaining Bond proceeds will reimburse Carle for previous capital expenditures, fund capitalized interest and working capital related to the new money projects, potentially fund a debt service reserve fund, and fund costs associated with the Series 2011 Bonds.

Timing (approximate): It is expected site work will begin in January 2011 and continue through August 2011; construction will commence in July 2011 and continue through June 2013; and start-up and IDPH inspection and certification will occur between July 2013 and September 2013.

The Carle Foundation Hospital submitted a Certificate of Need ("CON") application to the Illinois Health Facilities Planning Board ("Planning Board") on February 29, 2008. On August 12, 2008, the Planning Board approved the CON.

BUSINESS SUMMARY

The Carle Foundation Hospital ("**Hospital**") is a subsidiary of The Carle Foundation and is a 501(c)(3) corporation established under Illinois law.

The Foundation serves as the sole member and elects all of the trustees of, and thereby controls, the following Illinois not-for-profit organizations and affiliates:

a. *The Carle Foundation Hospital* operates a licensed 325-bed hospital, a certified home health agency, and a certified hospice, all which lease property and equipment from the Foundation. The Hospital also operates Rx Express, a multi-outlet retail pharmacy operation; Carle Medical Supply, a provider of medical equipment and supplies to the general public and hospital patients; the Danville Surgery Center and outpatient surgical recovery centers which are located in Champaign and Danville, Illinois; and Carle Risk Management Company which provides insurance claims processing and management services to the Foundation.

b. *Carle Health Care, Incorporated* operates Carle Arrow Ambulance and Airlife, an ambulance and an air medical transport service; The Caring Place, a day care center; and Carle Foundation Physician Services, LLC, which operates physician practices. Effective April 1, 2010, the clinical physician practices which were formerly operated by Carle Clinic Association., P.C. began to provide services through Carle Physician Group, a new division of Carle Health Care, Inc.

   Carle Health Care, Inc. also operates the Champaign SurgiCenter, LLC, a free-standing ambulatory surgery center located in Champaign, Illinois. Until April 1, 2010, it was owned 51% by Carle Health Care, Inc. and 49% by Carle Clinic Association, P.C. Due to the ownership changes noted above, the Foundation now owns 100% of the SurgiCenter.

c. *Carle Retirement Centers, Inc.* (Windsor) operates a 174-unit retirement living center located in Savoy, Illinois.

d. *The Carle Development Foundation* is engaged in fund-raising activities and also manages all activity relating to restricted and unrestricted contributions. In addition, it is the sole owner of Carle Community Health Corporation, which is engaged in funding charitable, scientific and educational community-based health care initiatives.

The Foundation serves as the sole stockholder and elects all the directors of, and thereby controls, the following for-profit affiliates:

a. *Health Systems Insurance, Limited*, an off-shore captive insurance company was established to underwrite the general and professional liability risks of the Foundation and, until April 1, 2010, those of Carle Clinic Association, P.C. and its subsidiaries and affiliates.

b. *Carle Holding Company, Inc.* is the sole owner of *Health Alliance Medical Plans* and its subsidiaries ("*Health Alliance*") which is a licensed life, accident, and health insurance company in the State of Illinois regulated by the Illinois Department of Insurance (DOI). Health Alliance was granted a certificate of authority to transact business as a health maintenance organization (HMO) on November 28, 1989. Health Alliance had approximately 318,000 members at June 30, 2010.

   Health Alliance has the following wholly-owned subsidiaries, Health Alliance-Midwest, Inc. which is incorporated as a licensed HMO to write health insurance policies in the states of Illinois and Iowa and Health Care Horizons, Inc. (HCH), which was acquired by Health Alliance on July 1, 2008. HCH's principal business is to provide support to its wholly-owned subsidiaries which act as third-party administrators for its client's health plans.

The **Carle Health Care System** consists of The Carle Foundation and its affiliates, all of which are either controlled by or all of the outstanding stock of which is owned directly or indirectly by the Corporation. The Carle Health Care System functions as a vertically integrated provider of a broad spectrum of inpatient, outpatient, and long-term health care services to a large and predominantly rural service area in East Central Illinois and West Central Indiana surrounding the cities of Champaign and Urbana, Illinois.

On April 1, 2010, the Foundation acquired **Carle Clinic Association, P.C. and its subsidiaries and affiliates** ("**Clinic**") which includes Health Alliance Medical Plans, Inc. and Subsidiaries (Health Alliance), a wholly owned subsidiary of the Clinic. The Clinic operated as a private, multi-specialty, group medical practice comprised of approximately 330 physicians and surgeons who have medical practices in the Clinic. In addition to the group medical practice, the Clinic also wholly owned Health Alliance, a licensed life, accident and health insurance company in the State of Illinois. After the purchase, substantially all of the assets and operations of the Clinic were transferred to various Foundation affiliates, while the Clinic retained certain liabilities and their ownership interest in the operations of Health Alliance. The Clinic also converted from a Professional corporation to a Limited Liability Company (LLC) and changed its name to **Carle Holding Company, Inc.** ("CHC") which merged into the Corporation. The acquisition has significant impact on the Corporation's scope of operations.

Upon issuance of the Series 2011 Bonds, the Corporation and its affiliates (The Carle Foundation Hospital, Carle Health Care, Incorporated, and Carle Retirement Centers, Inc.) will be the Obligated Group. Each Member of the Obligated Group is jointly and severally liable on each obligation now or hereafter issued and outstanding under the Master Indenture, and pursuant to the Master Indenture each Member of the Obligated Group pledges its unrestricted receivables to secure payment of the Obligations. Each of the Corporation, The Carle Foundation Hospital, Carle Health Care Incorporated, and Carle Retirement Centers, Inc. is an Illinois not for profit corporation and is exempt from federal taxation.

ECONOMIC DISCLOSURE STATEMENT

Applicant:	The Carle Foundation 611 W. Park St. Urbana (Champaign County), IL 61801-2595
Contact:	Scott Hendrie, Director – Treasury, 217.383.4369, scott.hendrie@carle.com
Website:	www.carle.com
Project name:	The Carle Foundation (IFA Series 2011 Bonds)
Organization:	501(c)(3) Not-for-Profit Corporation
State:	Illinois
Board Membership:	Kenneth Aronson, M.D. Phil Blankenburg Matthew Gibb, M.D. Donna Greene Thomas E. Harrington, Jr. Jane Hays David Ikenberry James C. Leonard, M.D. E. Phillips Knox J. Michael Martin Cora E. Musial, M.D. Martin K. Smith, Chairman Rick Stephens Paul Tender, M.D. George Timmons R. Bruce Wellman, M.D.

PROFESSIONAL & FINANCIAL

Borrower's Counsel:	McGuire Woods	Chicago	Kevin Dougherty
			Kevin Downes
Auditor:	McGladrey and Pullen	Champaign	Jon Trupin
			Randy Ragan
Financial Advisor:	Ponder & Co.	Chicago	Jennifer Brown
			Terrence Shirey
Bond Counsel:	Jones Day	Chicago	David Kates
			Valerie Pearsall
Underwriters:	Barclays Capital	Los Angeles, CA	James Kim
	Goldman Sachs	New York, NY	Rondy Jennings
Underwriter's Counsel:	Orrick Herrington	Sacramento, CA	John Myers
Credit Enhancement/ Standby Purchaser:	To be determined (only applicable if variable rate bonds are issued)		
Counsel to Credit Enhancer/ Standby Bond Purchaser:	To be determined (only applicable if variable rate bonds are issued)		
Architect:	To be determined		
General Contractor:	To be determined		
IFA Counsel:	Miller Canfield	Chicago	Paul Durbin
IFA's Financial Advisor:	Acacia Financial Group	Chicago	Courtney Shea

LEGISLATIVE DISTRICTS

Congressional:	15	Timothy V. Johnson
State Senate:	52	Michael W. Frerichs
State House:	103	Naomi D. Jakobsson

SERVICE AREA

The primary service area includes Champaign County and selected zip codes in east-central Illinois. The secondary service area includes Vermilion County and selected zip codes from 38 other counties in east-central Illinois and west-central Indiana. Based on zip codes of patient origin, 47.5% of total hospital inpatient admissions in the primary service area were to Carle, while 13.7% of total hospital inpatient admissions in the combined primary and secondary service area were to Carle, both during the 2010 fiscal year.

ILLINOIS FINANCE AUTHORITY

Memorandum

To: IFA Board of Directors

Date: March 8, 2011

From: Jim Senica

Re: Request to IFA Board of Directors for approval of: release of manufacturing equipment currently held as collateral on the following subject loan:

IFA Loan # B-LL-TX-6134
Original Loan Amount: $1,000,000.00
Balance as of 12/31/10: $575,809.95
Interest Rate: 4.35%
Original Note: 6/14/07

Citizens First National Bank (the **"Bank"**) in Princeton and **Wire Mesh Corporation** (the **"Borrower"**) have requested IFA concurrence of approval to release manufacturing equipment which is currently held as collateral on the IFA Participation Loan referenced above. The request is being made to accommodate additional working capital financing needed for the Company's accelerated growth. Wire Mesh Corporation is a Mexico-based manufacturer of welded wire fabric used for both commercial and residential markets in the production of concrete slabs. The Company has created 100 jobs in Oglesby, Illinois.

The Bank originated a $2,500,000 loan in June of 2006 in which IFA purchased a 40% participation in the amount of $1,000,000 to finance the acquisition of land and new manufacturing equipment and the construction of a new manufacturing building in Oglesby, Illinois. The borrower contributed equity in the amount of $3,149,993 to complete the financing and has paid down the IFA/Bank loan from the original $2.5 million to approximately $1.43 million.

Since the inception of the loan, the Borrower has advised the Bank that the Company requires additional working capital on a company-wide basis including the Oglesby plant to accommodate additional growth and needs the equipment located in the Oglesby plant to pledge for the additional financing. The Bank has already approved the Borrower's request supported by the substantial reduction in the outstanding principal balance of the combined IFA/Bank participation loan from $2.5 million in 2006 to approximately $1.43 million now.

When the IFA Board of Directors originally approved this loan at the June 13, 2006 Board meeting, supported by an original loan-to-value ("LTV") advance rate of 66.7% LTV based on (i) project real estate with an (undiscounted) appraised value of $3,250,000 and (ii) the value of new equipment purchased at a cost of $1,000,000 (and discounted 50% to $500,000 for collateral analysis).

Illinois Finance Authority

Memorandum

To: Ad Hoc Risk Committee

From: Jim Senica

Date: January 28, 2011

Re: Precision Laser Manufacturing, Inc.
IFA Project No. B-LL-TX-6224

The Precision Laser Manufacturing, Inc. Participation Loan referenced above has been on the loan watch list for nearly one year, and in that regard, staff has worked diligently with the banker at Morton Community Bank to assist the borrower to bring the loan current. As you may recall, the IFA Board approved interest-only payments for the six-month period July through December, 2009, a decrease in IFA's interest rate from 6.5% to 5.0% and deferral of the April though June, 2009 principal and interest payments until the end of the loan term, October 23, 2014.

Staff met at length with the Morton Community Banker, Josh Graber, and Morton Community Bank President, Jim Mamer on Wednesday afternoon, January 26th, to further discuss the Precision Laser loan to develop a solution to the delinquency situation. Ideas presented included extending the maturity date of the loan, requesting another deferral of principal and interest payments and possible buyback of IFA's participation. Staff also discussed with the banker the likelihood of the Company being profitable enough to become current on the loan. The banker indicated that Caterpillar again comprises in excess of 70% of the Company's business due to the inability of obtaining/ retaining more new customers. The heavy reliance on Caterpillar significantly increases the risk of further erosion of the Company's business.

Conversation this morning, Friday, January 28th, with the Bank President, Jim Mamer, indicated that the Bank would like to pursue a buyback of IFA's loan participation at a discount (50% was discussed at the Wednesday meeting) and the President requested that I present the possibility of a discounted buyback to management. Jim Mamer indicated that the Bank would most likely not add the IFA portion to the borrower's total outstanding balance to provide payment relief to the borrower. Both the Banker and the Bank President felt that it would take at least 3 or 4 years for the Company to fully recover, if at all, and payment relief is in needed immediately.

Staff questions the probability of the Company's revival and suggests that a buyback of the loan participation at a discounted rate would at least present partial recovery of the borrower's loan.

ITEM NO. 8
Ratification of Authorization of Counsel to Pursue Remedies under Default Provisions

TO BE DISTRIBUTED SEPERATELY

ITEM NO. 9

Resolution to Proceed with IT Investments

TO BE DISTRIBUTED SEPERATELY

ILLINOIS FINANCE AUTHORITY

Memorandum

To: IFA Board of Directors

Date: March 8, 2011

From: Rich Frampton

Re: Request for Financial Covenant Compliance Waiver for **Illinois Finance Authority ("IFA")** Agri-Business Guarantee #A-AI-TX-GT-6120

IFA Agri-Business Guarantee # A-AI-TX-GT-6120
Original IFA Guarantee Amount (61% of Loan): $15,036,500
Balance as IFA Guarantee of 12/31/2010: $14,417,350
Interest Rate on Fifth Third Loan: 4.26%
Original Note Date: 5/9/2008
Bank Term Loan Maturity Date: 11/3/2011

Request:

On Friday, March 4, 2011, **Fifth Third Bank** (the **"Bank"**) in Clayton, Missouri, informed IFA that (1) Fifth Third Bank is currently in the process of requesting formal credit approval to waive two specific financial covenant violations and (2) it requests that the IFA Board of Directors consider approval of a formal waiver of the same financial covenants for the period ended December 31, 2010.

Specifically, Fifth Third Bank has notified IFA that the underlying Borrower for the above-referenced loan did not satisfy (1) the required minimum Fixed Charge Ratio Test of 1.25x and (2) the maximum funded Debt to EBITDA Ratio test of 5.00x for the quarter ended December 31, 2010.

Recommendation:

Accordingly, IFA staff recommends approval of the accompanying request.

Because the Bank has agreed to waive these financial covenants, failure to approve the requested waiver would trigger a technical default on Fifth-Third Bank's Loan Agreement with the Borrower and could risk a call on the 61% IFA Agri-Business Guarantee that is further securing the above-referenced loan for Fifth Third Bank.

Comment:

Because the underlying borrower is an SEC reporting entity, information on the Borrower is being presented in a manner consistent with pertinent SEC restrictions and an executed Confidentiality Agreement. The underlying Borrower will release details regarding covenant compliance in connection with its next scheduled SEC filing (anticipated on or around March 31, 2011).

Illinois Finance Authority

Memorandum

To: IFA Board of Directors

Date: March 8, 2010

From: Jim Senica, Funding Manager/Lorrie Karcher, Program Administrator

Re: Husser, Gregory L. & Meyers, Cynthia Eileen d/b/a Husser Dairy
Request for pay out on State Guarantee

Loan # 2007-SL-0101 (*Specialized Livestock Guarantee 85%*)
Original Amount: $292,000.00
Current Balance: $ 46,973.00 *(as of 10/13/10)*

Community State Bank ("Bank") in Fulton has requested the payout on State Guarantee 2007-SL-0101 held in the name of **Gregory L. Husser and Cynthia Eileen Meyers ("Borrower")** by the Illinois Finance Authority as of March 4, 2011 pursuant to the original bankruptcy filling dated June 23, 2009.

The application was presented for approval to the Board of Directors in January 2007 and the loan closed on April 18, 2007 for the purchase of 110 milk cows with off spring, machinery, equipment and down payment for contract sale due to seller on real estate and buildings.

The collateral as presented would consist of a 1st lien position on machinery, equipment, livestock, accounts receivables, government payments and on recreational property and an assignment of life insurance on Greg Husser. The equipment had a value of $57,000, livestock of $287,000 and real estate of $150,000. Total loan appraised loan to value would be adjusted to 65% on equipments, 75% on livestock and 80% on real estate. The repayment terms on the loan were a 10 year amortization with monthly payments.

It was brought to the Bank and IFA's attention early on, June 2008 that the Husser Dairy project was experiencing financial difficulties due to cash flow. Various meetings were held by the Bank and Borrowers assist the Borrower's. It was suggested to divert non earning assets of the lake property to purchase additional cows for increased production or sell to pay down debt. Throughout this time, in July 2008, Mr. Husser had left the day to day operation to accept a position with a steel construction company and was going to sell out. It was apparent by June 2009 that the Husser's would file bankruptcy. As liquidation continued of all collateral, re-payments were made to the IFA loan through 2009 and 2010 with the final sale and closing of the Lake Property in December 2010.

ITEM NO. 12

Authorize Executive Director to negotiate settlement regarding sale of Harmonic Vision, Inc.

TO BE DISTRIBUTED SEPERATELY