



IFA

ILLINOIS FINANCE AUTHORITY

STRATEGIC PLAN  
FISCAL YEARS 2013—2015

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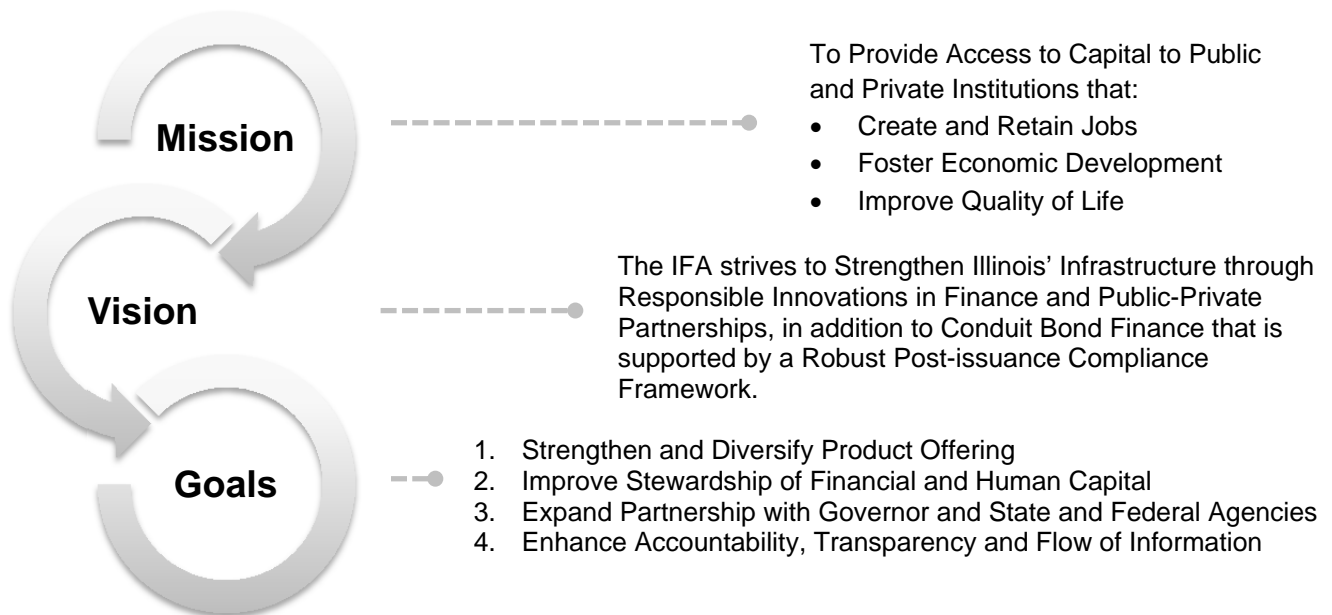
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# Introduction

The Illinois Finance Authority (the “IFA”) is an Illinois body politic and corporate that provides capital asset financing to 501(c)(3) non-profit organizations and private-sector companies that retain and create jobs. A construct of federalism, the IFA is the primary Illinois delivery system for federal tax benefits that support lower interest rate financing of capital projects by qualified borrowers under the federal tax code (also known as “conduit debt”). In addition to issuing conduit debt, the IFA administers certain State-backed loan guarantee and credit enhancement programs as well as a limited number of direct and participation loan programs to support businesses and essential purpose infrastructure for local governments.

There are a number of challenges on the horizon that necessitate a broadening of the IFA’s current strategic focus. The IFA needs to identify new programs and invest in new expertise to ensure long-term operational sustainability in an era of increased economic challenges. Over the past three years, the IFA has completed multiple rounds of cost-cutting initiatives. However, it is now vital that the IFA evaluate potential profitable, revenue-generating opportunities that leverage the organization’s strengths.

In August 2011, the IFA initiated a strategic planning process that engaged its Board, staff and outside stakeholders to evaluate the competitive strengths as well as the best opportunities to maximize the value that the IFA can add in supporting job retention and creation in Illinois. The strategic planning process was led by IFA Board Member Heather D. Parish and IFA Executive Director Christopher B. Meister and included an analysis of the IFA’s existing programs. The end result is a strategic plan that will ensure the long-term success of the IFA as a leading public financial institution.



## Challenges

Federally tax-exempt conduit debt represented 98 percent of the total dollar value of IFA's program activity between Fiscal Year ("FY") 2009 and FY 2011. See Appendix III for the FY 2009-2011 Program Analysis. As IFA's core revenue source, federally tax-exempt financing faces a trifecta of unprecedented challenges: existential, regulatory and economic.

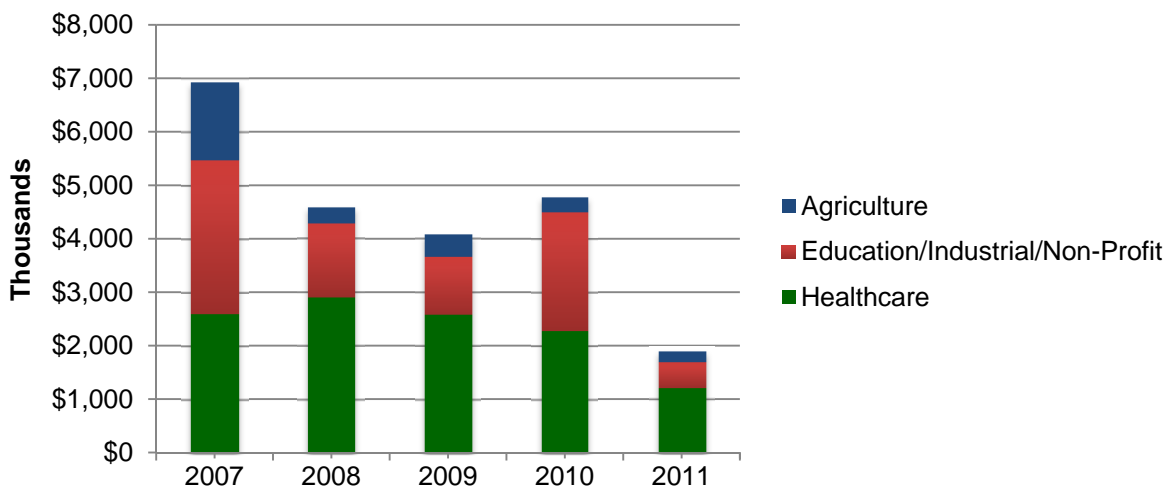
There is likely to be ongoing pressure at the federal-level to restrict or eliminate federally tax-exempt conduit financing in order to reduce the federal budget deficit. Any reduction or limitation on tax-exempt bond financing will have a material adverse effect on IFA's primary job retention and creation tool. Needless to say, this would diminish one of IFA's competitive advantages as a conduit issuer with statewide jurisdiction.

Additionally, expanded regulatory efforts by the Internal Revenue Service and the Securities & Exchange Commission could increase the compliance costs associated with conduit debt, thus reducing its viability as a job retention and creation tool.

Furthermore, efforts by the Federal Reserve to keep short-term interest rates low have temporarily reduced the effectiveness of tax-exempt conduit bonds as a job retention and creation tool. Difficult economic conditions have dissuaded borrowers from making capital investment decisions that require long-term conduit debt. Tax-exempt municipal market issuance volume fell to historically low-levels in the recent economic downturn. Certain proposed federal and State efforts to reduce deficits are expected to reduce funding for non-profit organizations which will further limit their debt capacity.

Every sector in which the IFA currently operates faces unprecedented challenges including, increased regulation, government deficit control, global competition and forecast for limited economic growth over the next several years.

**Revenue by Market Sector**



# Strategic Goals

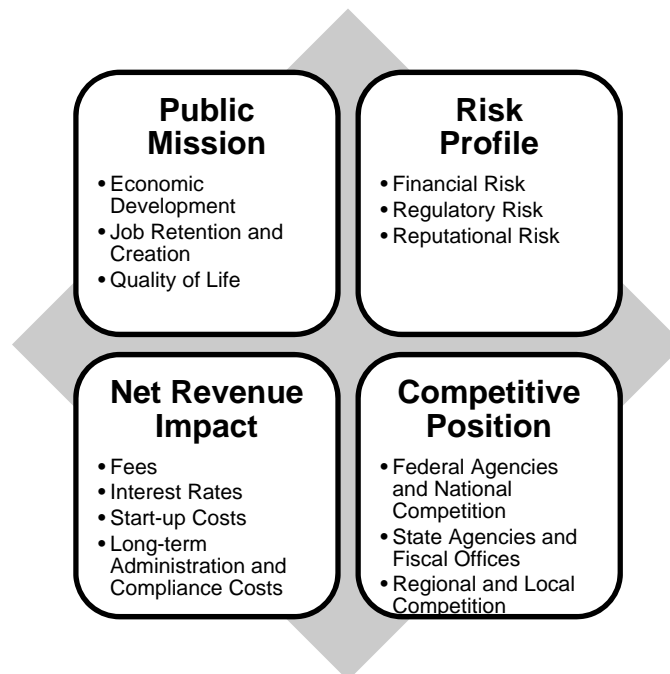
The IFA has developed four strategic goals that it will use to guide investments and asset allocations going forward. Each strategic goal includes action items and evaluation criteria that will facilitate the effective implementation of this strategic plan.

1

## Strengthen and Diversify Product Offering

- **Establish a Framework to Evaluate New Programs**

The IFA will evaluate proposed initiatives through a four-point test: (i) appropriateness to public mission; (ii) evaluation of risk; (iii) evaluation of competitive position; and (iv) net revenue impact.



Additionally, the viability of future programs will be assessed by evaluating funding capacity from the IFA or other available resources. Financing products should be replicable and funded adequately to generate a minimum of 20 to 30 closed projects in order to be both marketed and managed effectively by the IFA. Financing products that cannot be replicated may be developed selectively on a pilot basis.

- **Eliminate Inactive Programs and Consolidate Related Programs**

The IFA markets 30 programs on its website, many of which have not closed a transaction since FY 2009. It is time to streamline the IFA's product offerings. The IFA will work with its Board and the Illinois General Assembly, where applicable, to eliminate:

- Motion Picture Production Program;
- Emerald Ash Borer Revolving Loan Program;
- E.D.A. Title IX Restricted RLF; and
- Other inactive programs.

Inactive or unviable programs create an unnecessary compliance burden on the IFA's staff and also result in increased audit expenses that compound over time.

Additionally, as part of the IFA's efforts to reinvigorate its long-standing agricultural guarantee programs, the IFA will combine its Young Farmer and Farm Purchase guarantee programs.

## 2

## Improve Stewardship of Financial and Human Capital

- **Maintain Adequate Reserves against Financial Risk**

The IFA will construct reserves for each of its agricultural guarantee programs, which are backed by the Illinois Farmer and Agri-business Loan Guarantee Fund, the Illinois Agricultural Loan Guarantee Fund and the Industrial Revenue Bond Insurance Fund, based on a widely-used methodology.

Currently, the IFA maintains a 1:1 reserve ratio due to recent payoffs on several guarantees. This is too high. Over the past 8 fiscal years, the default rate for these programs has been 0.27 percent.

Program	Number of Loans	Default Amount	Percentage of Total Default Amount
Original Guarantee	1	\$431,998	22.85%
Specialized Livestock	4	\$460,232	24.35%
Ag Industry	2	\$998,168	52.80%
<b>TOTAL</b>	<b>7</b>	<b>\$1,890,398</b>	<b>100%</b>

After having surveyed several banks, the IFA recommends establishing a reserve policy for its agricultural guarantee portfolio based on a conservative loan-to-value ratio method:

- 5 percent reserve for loans with a loan-to-value ratio above 70 percent;
- 3 percent reserve for loans with a loan-to-value ratio between 50 and 70 percent; and
- 1 percent reserve for loans with a loan-to-value ratio less than 50 percent.

Further, the IFA will augment reserves for two of its guarantee programs with the greatest financial exposure: Specialized Livestock and Ag Industry. It will add an additional 10 percent reserve for a loan to one borrower, who represents 75 percent of the Ag Industry portfolio and an additional 5 percent reserve for the entire Specialized Livestock portfolio, where collateral is less likely to be farmland.

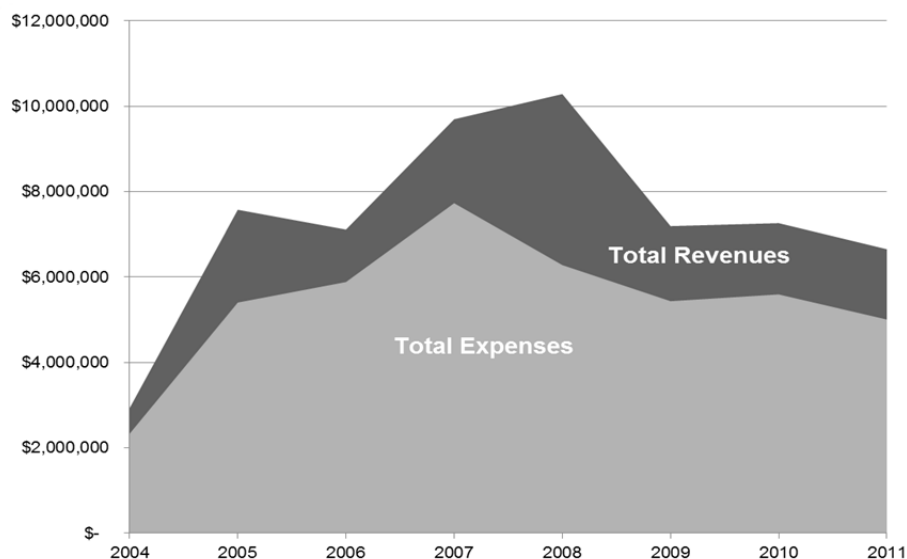
Combining these adjustments, the IFA will reserve approximately \$2 million for its agricultural guarantee portfolio, which will provide the IFA capacity to approve an additional \$18 million in guarantees.

As for the IFA's participation loan portfolio, the IFA will continue to reserve 100 percent of the total outstanding balance of delinquent loans, in addition to a 5 percent reserve of the entire participation loan portfolio. As of May 31, 2012, the loan loss provision for this portfolio was approximately \$1.3 million.

Lastly, the IFA will continue to judiciously monitor outstanding IFA bonds secured by the State of Illinois' moral obligation as well as any new proposals to use the IFA's moral obligation issuance authority.

- **Secure Operating Reserves for Three Years**

The IFA will set-aside approximately \$12 million in operating reserves for the next 36 months. In a time of economic recession and budgetary crisis at the State, local and national levels, it is vital that the IFA have sufficient reserves to sustain its current operations.



- **Actively Manage Funds**

The IFA will procure an investment manager to improve investment return on its available funds pursuant to the Accountability for the Investment of Public Funds Act. As of May 31, 2012, the amount held by the IFA was approximately \$62 million. The asset allocation of the IFA's investments is:

	Book Value	Book Yield	Percentage of Portfolio
Money Market Accounts	\$40,448,599	.11%	65.21%
Bank Certificates	\$85,000	.45%	.14%
Repurchase Agreements	\$21,497,034	.03%	34.65%
<b>TOTAL</b>	<b>\$62,030,633</b>		<b>100%</b>

The IFA has accumulated several funds – some from predecessor authorities and others from participating in federal programs. See Appendix I for the description of each fund. As of May 31, 2012, the balance of each fund was:

State Held	Ambulance Revolving Loan Fund \$3,484,538	Fire Truck Revolving Loan Fund \$4,432,552	Illinois Farmer and Agri-business Loan Guarantee Fund \$7,743,993	Illinois Agricultural Loan Guarantee Fund \$10,027,323
Cannot Be Co-Mingled	Renewable Energy Development Fund \$587,050	EDA Title IX Restricted Revolving Loan Fund \$749,059	Rural Development Revolving Loan Program \$1,979,077	Rural Bond Bank Bond Fund \$9,147,307
Can Be Co-Mingled	Credit Enhancement Development Fund \$609,250	Illinois Housing Partnership Program \$1,828,305	IRBB Special Reserve Fund \$2,661,375	Industrial Revenue Bond Insurance Fund \$11,649,624
	General Operating Fund \$41,966,891			

The IFA received an American Recovery and Reinvestment Act grant (not shown above) from the Illinois Department of Commerce and Economic Opportunity (“DCEO”) to set-up a credit enhancement program for renewable energy and energy efficiency projects.

To clearly understand the IFA's cash balances and how they can be deployed in the future to support program activity, these balances need to be disaggregated into:

- IFA's General Fund (Unrestricted); and
- IFA's Restricted Funds for Specific Programs.



- **Invest in Professional Development and Subject Matter Expertise**

The IFA will continue to invest in professional development of its current staff and consider the addition of subject matter experts. Currently, the IFA's existing competencies include, but are not limited to:

- Marketing, originating and closing conduit 501(c)(3) revenue bonds; and
- Assessing fixed asset capital expansion projects for manufacturers, distributors and other businesses.

Moreover, the IFA must address existing gaps, which include:

- Insufficient operational capacity to fully comply with State and federal laws and regulations;
- Inadequate administrative and legal capacity to originate, service and work-out direct loans across the State; and
- Insufficient internal capacity to analyze infrastructure and local government credit.

- **Implement Managerial Cost Accounting**

The IFA will implement managerial cost accounting to demonstrate accountability, improve program performance and, most importantly, allocate human capital more efficiently.



### **3 Expand Partnership with Governor and State and Federal Agencies**

- **Support the Governor's Illinois Jobs Agenda**

The IFA will partner with Governor Quinn on his Illinois Jobs Agenda to put the people of Illinois to work today and develop Illinois' workforce for jobs tomorrow. Already, the IFA is facilitating the Governor's jobs goals by financing higher education and affordable housing projects and working with the Illinois Environmental Protection Agency on his Clean Water Initiative.

Additionally, the IFA will partner with its sister State agencies on infrastructure, transportation and energy projects. The IFA will continue to work with the Illinois Department of Central Management Services, the Capital Development Board and DCEO on an energy efficiency financing program based on performance contracting. The IFA will also work with the Illinois Department of Transportation on leveraging private capital, expertise and efficiency through public-private partnerships.

**4****Enhance Accountability, Transparency and Flow of Information**

- **Annually Reexamine and Reenact Policies and Handbooks**

The IFA will annually reexamine and reenact its policies and handbooks to reduce audit exposure from outdated or inapplicable mandates. These include:

- Policies & Procedures Manual
- Bond Handbook
- Employee Handbook
- By-Laws Resolution
- Omnibus Resolution

The IFA will also continue to work with the Illinois General Assembly to amend the Illinois Finance Authority Act so that it reflects the actual mission and operation of the IFA.

- **Move Towards a Paperless Office Environment**

The Moving Towards Paperless initiative consists of (i) the adoption of paper reduction policies, (ii) the acquisition and use of paper reduction technologies, and (iii) the implementation of a records management program.

The IFA will consider the implementation of online applications as a next step.

- **Improve Data Access for Board, Staff and Stakeholders**

The Easy Data Access project consists of (i) the acquisition of a new bond and loan database management system, (ii) the integration of existing procurement and accounting databases, and (iii) the implementation of data reporting and mapping applications.

# Appendix I: Fund Descriptions

Name	Description
<b>Ambulance Revolving Loan Fund</b>	This fund is used to account for the activity of the Ambulance Revolving Loan Program as authorized by Public Act 94-829 (20 ILCS 3501/825-85). The program provides zero-interest loans for the purchase of Ambulances by fire departments, fire protection districts, or non-profit ambulance services based on need as determined by the State Fire Marshal. SB3373 provides the needed flexibility to make this program sustainable and predictable.
<b>Credit Enhancement Development Fund</b>	The IFA's Treasurer and Assistant Treasurer shall have custody of the fund which shall be held outside the State Treasury. Custody may be transferred to and held by any fiduciary with which IFA executes a trust agreement. All or any portion of such amounts may be used (i) to pay principal, interest and premium, if any, on bonds issued by the IFA or to fund any reserves or accounts created for such purpose, (ii) to pay the cost of any letter of credit, insurance or third party guarantee provided with respect to any bond issued by the IFA or loan made by IFA, (iii) to guarantee or otherwise enhance the credit of any bond issued by the IFA or loan made by the IFA, or (iv) to make loans to any person, corporation or unit of local government for any project authorized to be financed by IFA under this Act.
<b>E.D.A. Title IX Restricted RLF</b>	This fund is used by the IFA to account for the activity of the Revolving Loan Program capitalized by an Economic Adjustment Assistance Grant awarded to the Illinois Department of Commerce and Economic Opportunity. This fund provides low-cost supplemental financing to manufacturing companies located in areas declared eligible for Title IX assistance by the Economic Development Administration of the U.S. Department of Commerce.
<b>Fire Truck Revolving Loan Fund</b>	This fund is used to account for the fire truck revolving loan program authorized by Public Act 94-221 as a continuation and re-enactment of the fire truck revolving loan program enacted by Public Act 93-35 (20 ILCS 3501/825-80). The program provides zero interest loans for the purchase of fire trucks by fire departments, fire protection districts, or township fire departments based on need, as determined by the State Fire Marshal. SB3373 provides the needed flexibility to make this program sustainable and predictable.
<b>General Operating Fund</b>	The operating fund of the IFA which receives all revenues from program applications. All administrative expenses for establishing and monitoring the IFA's programs are paid out of this fund as set forth in Public Act 93-205 (as originally established by Public Act 83-669).
<b>Illinois Agricultural Loan Guarantee Fund</b>	The IFA is authorized to issue State Guarantees for farmers' existing debts held by a lender, as set forth in Public Act 93-205 (as originally established by Public Act 84-1027, as amended). The State Treasurer shall be custodian of this fund. All payments by IFA shall be made from the Illinois Agricultural Loan Guarantee Fund to satisfy claims against the State Guarantee Loan Program.
<b>Illinois Farmer and Agri-business Loan Guarantee Fund</b>	The IFA is authorized to issue State Guarantees to a lender for loans to eligible farmers and agri-business, as set forth in Public Act 93-205 (originally established by Public Act 84-1027, 87-1268 and 89-527, all as amended). The State Treasurer shall be the custodian of this Fund. All payments by the IFA shall be made from the Illinois Farmer and Agri-business Loan Guarantee Fund to satisfy claims against the State Guarantee Loan Program.
<b>Illinois Housing Partnership Program</b>	This program assists in financing housing improvements for low and moderate income residents. It provides zero-interest loans to municipalities for rehabilitation of affordable multi-unit housing. This fund consisted of a \$5,000,000 appropriation of State funds from the Build Illinois Bond Fund held by the State Treasury as set forth in Public Act 93-205 (as originally established by Public Act 84-110). The costs of operating and administering the program in excess of program income are met by the IFA with resources from the General Operating Fund.
<b>Industrial Revenue Bond Insurance Fund</b>	The operating fund of the IFA which accounts for the activity of the Industrial Project Insurance Fund Program was established to give small and midsize businesses access to Industrial Revenue Bond funds at advantageous rates as set forth in Public Act 93-205 (as originally established by Public Act 83-965) (20 ILCS 3501/805-15). Additionally, the IFA is authorized to make payments on State Guarantees from the Industrial Revenue Bond Fund pursuant to SB3719.

<b>IRBB Special Reserve Fund</b>	This fund accounts for the funds which were received as a result of appropriations by the State by the Illinois Rural Bond Bank prior to its merger with the IFA. The monies in this fund may be used for any lawful purpose under the IFA Act, including the payment of principal and interest on moral obligation bonds.
<b>Renewable Energy Development Fund</b>	This fund is used to account for the activity of the IFA's Renewable Energy Development Loan Program. The program provides loans and loan guarantees to qualified farmers and farmer co-operatives who construct wind turbines for use as alternative energy. This program was funded by a \$2,000,000 grant received from the Illinois Clean Energy Community Foundation.
<b>Rural Bond Bank Bond Fund</b>	This fund is a reserve fund into which is deposited (i) all money appropriated by the State for the purposes of the fund, (ii) all proceeds of bonds required to be deposited into the fund by the terms of any contract between the IFA and its bondholders or any resolution of the IFA with respect to the proceeds of bonds, (iii) any other money or funds of the IFA which it determines to deposit in the fund, and (iv) any other money made available to the IFA for the purposes of the fund from any other source(s). Money in this fund is to be held and applied solely to the payment of the interest on and principal of bonds issued by the Illinois Rural Bond Bank or the IFA, as its successor, and sinking fund payments related thereto. Money may not be withdrawn from the fund if the withdrawal would reduce the amount in the fund to an amount less than required debt service reserve (20 ILCS 3501/820-15).
<b>Rural Development Revolving Loan Program</b>	The operating fund of the IFA which accounts for the activity of loans received under the Farmer's Home Administration Intermediary Relending Program and was established to provide a source of monies for direct loans to business facilities and community development projects in rural areas as set forth under the loan agreement and Public Act 93-205 (as originally established by Public Act by 83-669).

# Appendix II: FY 2013-2015 Timeline

