



January 1, 2009

Dear Hoosier Customers:

This year marks the fourth year since Governor Daniels took office and the beginning of his second term as Indiana's 49th Governor. It has also been four years since he created the Indiana Finance Authority (IFA) to more effectively manage State-related finances under one entity.

Last year was one filled with many challenges to the strength of the State of Indiana's economy. The Indiana Finance Authority was busy in 2008 preparing for and responding to a tumultuous year in the financial world. The municipal bond market was hit especially hard with the downgrades of many of the world's banks, resulting in illiquidity throughout the financial system. In early 2008, the demand for auction rate securities began to diminish, and the IFA was one of the first issuers in the country to convert its auction rate securities to variable rate demand bonds, avoiding the high interest rates that many issuers experienced. The IFA was also able to convert the remainder of its variable rate bonds to fixed rate bonds, avoiding the risk of further bank downgrades. As a result, the IFA realized a combined net present value savings in excess of \$20 million.

Even in a difficult market, the IFA was able to issue the bonds necessary to finance two important projects for the State of Indiana, the completion of Lucas Oil Stadium and the expansion of the Indiana Convention Center. In July 2008, the IFA issued \$55 million of bonds to finance the completion of the Lucas Oil Stadium project, and in August of 2008, the IFA issued \$120 million of bonds to finance the initial stages of the Indiana Convention Center expansion.

The IFA's Tax-Exempt Conduit Bond Program and Volume Cap Program issued \$2.4 billion in tax-exempt bonds assisting in the creation of approximately 352 jobs. The applicants for these bonds included manufacturers, 501(c)(3) organizations, health care facilities, private institutions of higher education and certain other qualified entities. By issuing these tax-exempt conduit bonds, the applicants were able to acquire a lower interest rate than if they used traditional financing.

The IFA's Environmental Programs also had a productive and successful year, reaching out to many Indiana communities by providing assistance and funding to residents statewide.

The IFA manages two environmental financial programs: the State Revolving Fund Loan Program and the Indiana Brownfields Program.

In 2008, the SRF provided nearly \$68 million to 16 communities in Indiana at an average interest rate of 3.5%, significantly below open market rates. Over the life of the loans, these 16 Indiana communities will realize over \$16 million in interest rate savings, when compared to an open market loan. As a result of the loans closed through SRF in 2008, more than 240,000 Hoosiers will see improvements to their drinking water and wastewater systems. The SRF arsenic remediation grant program provided more than \$500,000 in grants to 10 public water systems to help them achieve compliance with the Arsenic Rule and to protect consumers against the effects of long-term exposure to arsenic in drinking water. 2008 also marked a significant year for SRF as it introduced a sustainability incentive program to offer an interest rate reduction to communities that include sustainable infrastructure components in projects. Indiana's SRF Loan Program is the first SRF program in the country to offer such an incentive program.

Since the inception of the State Revolving Fund (SRF) Loan Program in 1993, the SRF has provided more than \$2.1 billion in low-interest loans to Indiana communities for projects that improve wastewater and drinking water infrastructure. The SRF has realized many successes in their programs since 1993, and continues to develop new programs and strategies to meet the growing needs of Indiana's aging infrastructure.

In 2008, the Indiana Brownfields Program (Program) continued work under the Petroleum Remediation Grant (PRG) incentive as restructured in 2007, dividing the State into seven regions and allocating \$750,000 per region with the intent of more efficiently utilizing available funding. Prior to the Indiana Finance Authority's assumption of management of the Program in July 2005, only 14 sites statewide had been provided funding totaling just above \$1 million for remediation of petroleum contamination on brownfield sites. Through the Program's efforts over the last two years, the total budget for approved PRG projects is estimated at close to \$6.3 million, a little over \$3.5 million of which has already been disbursed, making the restructuring a major success.

Last year, the Program awarded 40 stipulated grants totaling nearly \$3.7 million. This funding for site assessment and remediation activities will leverage a projected \$62 million in private and local government investment in brownfield redevelopment projects across the State, an exceptional projected return on investment of State funds of 17:1.

For the second consecutive year, in April 2008, the U.S. Environmental Protection Agency (U.S. EPA) awarded the State a competitive grant in the amount of \$2 million to create a Revolving Loan Fund (RLF) incentive to facilitate brownfield redevelopment by making low-cost funding available through low-to-zero interest loans to finance environmental cleanups.

Indiana was one of only 12 recipients of the competitive RLF grant nationwide and received the largest RLF award of the Midwest states in its U.S. EPA region. In September 2008, the Indiana Finance Authority entered into a cooperative agreement with the U.S. EPA that added the April 2008 RLF award of \$2 million to funds revolved from a loan issued with funds from a prior RLF grant to the State, which made \$2.8 million available in federal loan funding for brownfield cleanup in the State.

The annual audit of the IFA's programs and finances resulted in an unqualified opinion with no audit findings, adjustments or management letter. Such a clean audit is noteworthy because of the complexity that results from the required analysis of multiple state programs that fall under the IFA umbrella.

Governor Daniels aims to improve the overall health of Hoosiers, stimulate the economy and provide necessary funding for Indiana's infrastructure, and the IFA strives to play a significant and positive role in implementing programs to achieve these goals. The IFA is proud of its efforts and the impact it was able to achieve when faced with so many challenges this past year. The IFA will continue efforts to best serve Hoosiers in the coming year. Thank you for your continued interest in the Indiana Finance Authority.

Best Regards,

A handwritten signature in cursive script, reading "Jennifer M. Alvey".

Jennifer M. Alvey

Public Finance Director

of the State of Indiana