

## Closing Agreement on Final Determination Covering Specific Matters

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Relating to  
\$150,000,000  
Illinois Development Finance Authority  
Local Government Financing Revenue Bonds  
Series 1999A and 1999B

Under section 7121 of the Internal Revenue Code,

the Illinois Finance Authority (EIN 87-1091967), statutory successor to the Illinois Development Finance Authority (EIN 37-0988139) (the "Issuer"), Two Prudential Plaza, 180 North Stetson Avenue, Suite 2555, Chicago, Illinois 60601; and the Commissioner of Internal Revenue (the "Commissioner", "IRS" or "Service") (the Issuer and the IRS are sometimes referred to herein collectively as the "Parties")

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make the following closing agreement:

WHEREAS, this closing agreement (the "Agreement") is in settlement of issues raised in an examination by the IRS of the \$150,000,000 Illinois Development Finance Authority Local Government Financing Revenue Bonds Series 1999A and 1999B.

WHEREAS, the Issuer was a duly established body politic and corporate and political subdivision of the State of Illinois.

WHEREAS, as set forth in its proposed adverse determination issued by the Service on April 26, 2004, the Service made a proposed determination that interest on the Bonds is subject to Federal income tax.

WHEREAS, the Issuer disagrees with the Service's proposed determination.

WHEREAS, the Service and the Authority desire to resolve their disagreement regarding the Bonds.

WHEREAS, the Service has not formally asserted any claims against the Issuer.

WHEREAS, the Issuer believes that it has good and valid defenses to any claims which the Service may formally assert.

WHEREAS, the Service and the Issuer desire to fully resolve any such claims.

WHEREAS, this Agreement is for the benefit of the Issuer, certain persons related to the Issuer and past registered and beneficial owners of the Bonds (the "Bondholders.")

WHEREAS, the terms of this Agreement were arrived at by negotiation among the Service and the Issuer, and may differ from the terms of other agreements relating to the Bonds and other bond issues.

WHEREAS, the Bonds were redeemed in full in July, 2002 and September, 2002.

WHEREAS, the fact that the Issuer has entered into this Agreement with the Service shall not be construed as an admission by the Issuer of any wrongdoing or liability by the Issuer or any other person with respect to the Bonds.

**NOW IT IS HEREBY DETERMINED AND AGREED FOR FEDERAL INCOME TAX PURPOSES THAT:**

1. The Issuer shall cause \$150,000.00 plus interest from April 15, 2002, amounting to \$24,921.00, to be remitted to the Service. The remittance shall be made by check payable to the United States Treasury delivered to the Appeals Office, attention Tim Jarvis, 55 N. Robinson, Suite 939, Oklahoma City, Oklahoma, 73102.
2. The Bondholders are not required to include in gross income any interest on the Bonds.
3. This Agreement is executed with respect to a Federal income tax liability of the Bondholders.
4. No income shall be recognized by any Bondholder as a result of this Agreement or any payments made pursuant to this Agreement.
5. The Service shall not assert or impose any penalties pursuant to section 6700 of the Code against the Issuer. This does not preclude the IRS from pursuing IRC 6700 penalties against other parties to the transaction.
6. This Agreement shall not preclude any action by the Service with respect to parties not named or otherwise referred to herein.
7. The Issuer is not entitled to claim a deduction for the payment discussed in paragraph 1 or any portion thereof under section 162 of the Code or any other provision of the Code. Neither the \$150,000 payment nor the interest thereon are refundable or subject to a tax credit or offset under any circumstances.
8. No party to this Agreement shall endeavor by litigation or other means to attack the validity of this Agreement.
9. This Agreement may not be cited or relied upon as precedent in the disposition of any case by any person or entity other than the Issuer, the other persons named or otherwise referred to in paragraph 5, and the Bondholders.
10. This Agreement is, and shall be construed as being, solely for the benefit of the Service, the Issuer, the other persons named or otherwise referred to in paragraph 5, and the Bondholders. Except as otherwise noted, this Agreement shall not be construed as creating any liability or obligation of the parties

to any third party and it creates no rights against the parties in favor of any third party.

11. This Agreement does not constitute a ruling by the Service and, except as provided in paragraph 8, may not be cited or relied on as precedent in the disposition of any other matter.

12. The Issuer shall issue a press release substantially in the form of Exhibit 1 attached hereto within three (3) business days after it receives a copy of this Agreement bearing the original signature of a duly-authorized representative of the Commissioner of Internal Revenue.

13. This Agreement and its contents are subject to the confidentiality requirements of section 6103 of the Code and shall not be disclosed by the Service to any third party except as provided by law, provided, however, that the Issuer hereby consents to the disclosure by the Service of information concerning the existence and subject matter of this Agreement to Members of Congress, the press, and the general public:

- (a) in the event of a default by the Issuer with respect to any term in this Agreement; and
- (b) to the extent the Service deems necessary to correct any material misstatement with respect to this Agreement in response to a public statement by the Issuer or an agent of the Issuer.

14. This Agreement is final and conclusive except that:

- (1) the matter it relates to may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact committed by the Issuer or by one of its officers, agents, attorneys or employees in connection with this agreement or the examination of the Issuer relating to the Bonds;
- (2) it is subject to the Internal Revenue Code sections that expressly provide that effect be given to their provisions (including any stated exception for Code section 7122) notwithstanding any other law or rule of law; and
- (3) if it relates to a tax period ending after the date of this Agreement, it is subject to any law, enacted after the Agreement date, that applies to that tax period.

15. This Agreement may be executed in counterparts, each of which will be an original, but all of which will constitute one and the same instrument.

By signing, the above parties certify that they have read and agreed to the terms of this document.

"ISSUER"

By: 

Date: MAY 9, 2005

Name: JILL RENDLEMAN

Title: INTERIM EXECUTIVE DIRECTOR

"IRS"

Commissioner of Internal Revenue

By: \_\_\_\_\_

Date: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

## Instructions

This agreement must be signed and filed in triplicate (All copies must have original signatures.)

The original and copies of the agreement must be identical.

The name of the taxpayer must be stated accurately.

The agreement may relate to one or more years.

If an attorney or agent signs the agreement for the taxpayer, the power of attorney (or a copy) authorizing that person to sign must be attached to the agreement. If the agreement is made for a year when a joint income tax return was filed by a husband and wife, it should be signed by or for both spouses. One spouse may sign as agent for the other if the document (or a copy) specifically authorizing that spouse to sign is attached to the agreement.

If the fiduciary signs the agreement for a decedent or an estate, an attested copy of the letters testamentary or the court order authorizing the fiduciary to sign, and a certificate of recent date that the authority remains in full force and effect must be attached to the agreement. If a trustee signs, a certified copy of the trust instrument or a certified copy of extracts from that instrument must be attached showing:

- (1) the date of the instrument;
- (2) that it is or is not of record in any court;
- (3) the names of the beneficiaries;
- (4) the appointment of the trustee, the authority granted, and other information necessary to show that the authority extends to Federal tax matters; and
- (5) that the trust has not been terminated, and that the trustee appointed is still acting. If a fiduciary is a party, Form 56, Notice Concerning Fiduciary Relationship, is ordinarily required.

If the taxpayer is a corporation, the agreement must be dated and signed with the name of the corporation, the signature and title of an authorized officer or officers, or the signature of an authorized attorney or agent. It is not necessary that a copy of an enabling corporate resolution be attached. See 26 C.F.R. §601.504(b)(2)(ii) as to dissolved corporations.

Use additional pages if necessary, and identify them as part of this agreement.

Please see Revenue Procedure 68-16, 1968-1 C.B. page 770, for a detailed description of practices and procedures applicable to most closing agreements.

Closing Agreement with: Illinois Finance Authority

I have examined the specific matters involved and recommend the acceptance of the proposed agreement.

I have reviewed the specific matters involved and recommend approval of the proposed agreement.

(Receiving Officer)

(Date)

(Reviewing Officer)

(Date)

(Title)

(Title)

EXHIBIT I

COPY OF PRESS RELEASE

The Illinois Finance Authority, the successor to the Illinois Development Finance Authority (the "Authority"), announced today that it has entered into a closing agreement with the Internal Revenue Service ("IRS") which resolves an examination by the IRS of the Authority's \$150,000,000 Local Government Financing Program Revenue Bonds, Series 1999A and 1999B. All bonds in these series were redeemed before the examination commenced.

The IRS has taken the position that certain aspects of the bidding process for the guaranteed investment contract (the "Agreement") relating to the Bonds involved an "abusive arbitrage device." More specifically, in the IRS's view, questionable bidding practices coupled with an alleged overpayment by the provider of the Agreement for a taxable obligation issued at the same time as the Bonds was a diversion of arbitrage profits to, among other things, fund issuance costs for the Bonds.

The IRS believes that the bidding was structured to allow the winning bidder to underpay for the Agreement and fund issuance costs from other proceeds.

The IRS informed the Authority that certain bidding participants have exercised their Fifth Amendment rights.

At the present time, the Authority does not have sufficient information to determine whether the IRS's factual allegations are true or that its legal conclusions are valid. Nevertheless, the Authority, in order to protect the interests of the holders of the Bonds, has resolved the examination by entering into the closing agreement and making a payment to the IRS.

As a result of this closing agreement, the IRS will continue to treat the interest received by the holders of the Bonds as excludable from gross income.