NEW ISSUE - BOOK-ENTRY ONLY **RATINGS:** *Moody's: Aa3*
S&P: AA
Fitch: AA
See "THE OFFERING-RATINGS" herein

Subject to compliance by the State with certain covenants, in the opinion of Co-Bond Counsel, under present law, interest on the Bonds is not includible in gross income of the owners thereof for federal income tax purposes and is not includible as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Interest on the Bonds is not exempt from income taxes imposed by the State of Illinois. (See the caption "THE OFFERING-TAX MATTERS" regarding a description of other tax considerations.)

$275,000,000
STATE OF ILLINOIS
GENERAL OBLIGATION BONDS
Series of November 2004

Dated: Date of Delivery **Due:** November 1, as shown herein

This Official Statement contains information relating to the State of Illinois (the "State") and the State's General Obligation Bonds, Series of November 2004 (the "Bonds"). The Bonds will be issued only as fully registered book-entry bonds in denominations of $5,000 or any integral thereof. The Bonds, when issued, will be registered under a global book-entry system operated by Cede & Co., as a nominee of The Depository Trust Company ("DTC"), New York, New York. See "APPENDIX C - GLOBAL BOOK-ENTRY SYSTEM." The Bonds will bear interest at the rates shown on the inside cover of this Official Statement. Interest on the Bonds will be payable May 1 and November 1 of each year, commencing May 1, 2005. Details of payment of the Bonds are described herein.

The Bonds are subject to redemption prior to maturity as described in this Official Statement under the caption "THE OFFERING – Redemption."

The Bonds are direct, general obligations of the State, secured by a pledge of its full faith and credit. The Bonds are issued under the General Obligation Bond Act of the State of Illinois, as amended, to finance various capital projects and pay the cost of issuance of the Bonds.

Payment of the principal of and interest on the Bonds maturing on November 1 of the years 2009 through 2029 (the "Insured Bonds") when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Insured Bonds. See "THE OFFERING – Bond Insurance."

Ambac

The Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Arnstein & Lehr LLP, Chicago, Illinois, and Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Freeborn & Peters LLP, Chicago, Illinois, and Burris, Wright, Slaughter & Tom, LLC, Chicago, Illinois. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about November 10, 2004.

Morgan Stanley

Lehman Brothers **Ramirez & Co., Inc.**
Cabrera Capital Markets Inc. **Siebert Brandford Shank & Co., LLC**
First Midstate Incorporated **SBK Brooks Investment Corp.**

The date of this Official Statement is October 27, 2004

MATURITY SCHEDULES

$275,000,000 General Obligation Bonds, Series of November 2004

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS

MATURITY (NOVEMBER 1)	PRINCIPAL AMOUNT	INTEREST RATE	PRICE	YIELD	CUSIP
2005[a]	$11,000,000	5.000%	103.029	1.850%	452151RX3
2006[a]	11,000,000	5.000%	105.780	2.000%	452151RY1
2007[a]	11,000,000	5.000%	108.110	2.170%	452151RZ8
2008[a]	11,000,000	5.000%	109.601	2.450%	452151SA2
2009	11,000,000	5.000%	110.639	2.700%	452151SB0
2010	11,000,000	5.000%	111.211	2.940%	452151SC8
2011	11,000,000	5.000%	111.768	3.110%	452151SD6
2012	11,000,000	5.000%	112.132	3.260%	452151SE4
2013	11,000,000	5.000%	112.285	3.400%	452151SF1
2014	11,000,000	5.000%	112.537	3.500%	452151SG9
2015	11,000,000	5.000%	112.599	3.600%	452151SH7
2016	11,000,000	5.000%	112.897	3.660%	452151SJ3
2017	11,000,000	5.000%	110.321*	3.750%	452151SK0
2018	$11,000,000	5.000%	109.623*	3.830%	452151SL8
2019	11,000,000	5.000%	108.930*	3.910%	452151SM6
2020	11,000,000	5.000%	108.243*	3.990%	452151SN4
2021	11,000,000	5.000%	107.646*	4.060%	452151SP9
2022	11,000,000	5.000%	106.968*	4.140%	452151SQ7
2023	11,000,000	5.000%	106.463*	4.200%	452151SR5
2024	11,000,000	5.000%	105.878*	4.270%	452151SS3
2025	11,000,000	5.000%	105.131*	4.360%	452151ST1
2026	11,000,000	5.000%	104.472*	4.440%	452151SU8
2027	11,000,000	5.000%	103.900*	4.510%	452151SV6
2028	11,000,000	5.000%	103.656*	4.540%	452151SW4
2029	11,000,000	5.000%	103.412*	4.570%	452151SX2

[a] Not insured.

* These maturities have been priced to call at par.

STATE OF ILLINOIS

Rod R. Blagojevich, ***Governor***

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SECTION HEADING

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No dealer, broker, salesperson, or other person has been authorized by the State of Illinois or the Underwriters to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the State. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion set forth herein have been furnished by the State and include information from other sources which the State believes to be reliable. Such information and expressions of opinion are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change since the date thereof.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

In making an investment decision, investors must rely on their own examination of the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

References in this Official Statement to statutes, laws, rules, regulations, resolutions, agreements, reports and documents do not purport to be comprehensive or definitive, and all such references are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. This Official Statement is submitted in connection with the sale of the bonds referred to herein and may not be reproduced or used, in whole or in part for any other purposes.

$275,000,000
STATE OF ILLINOIS
GENERAL OBLIGATION BONDS,
SERIES OF NOVEMBER 2004

INTRODUCTION

This introduction contains only a brief summary of certain terms of the Bonds being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Illinois Constitution and laws of the State of Illinois and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions.

The purpose of this Official Statement (which includes the cover page and the Appendices) is to set forth certain information concerning the State of Illinois (the *"State")* and the State's $275,000,000 aggregate principal amount of General Obligation Bonds, Series of November 2004 (the *"Bonds"*). The issuance will consist of aggregate principal amounts and authorizations in the approximate amounts as follows:

$74,500,000	for Capital Facilities purposes authorized by Section 3 of the General Obligation Bond Act of the State, as amended (30 ILCS 330/1 et seq.) (the *"Bond Act");*
$88,500,000	for Transportation A-Highway purposes authorized by Section 4(a) of the Bond Act;
$32,500,000	for Transportation B-Mass Transit and Public Airport Facilities purposes authorized by Sections 4(b) and 4(c) of the Bond Act;
$74,500,000	for School Construction purposes authorized by Section 5 of the Bond Act; and
$5,000,000	for Anti-Pollution purposes authorized by Section 6 of the Bond Act.

Illinois is a sovereign state of the United States and issuer of debt securities. The State's powers and functions are subject to the Illinois Constitution of 1970 (the *"Illinois Constitution"*) and to laws adopted by the Illinois General Assembly (the *"General Assembly"),* limited only by federal law and jurisdiction. See "STATE OF ILLINOIS – ORGANIZATION."

The State has diversified economic strengths. Measured by per capita personal income, the State ranks fourth among the ten most populous states and tenth among all states. Illinois ranks seventh among all states in total cash receipts from crops, second in agricultural exports and ranks among the top states in several measures of manufacturing activity. Chicago, the largest city in the State, is the third most populous city in the United States and serves as the transportation center of the midwestern U.S. and the headquarters of many of the nation's major corporations and financial institutions. See "STATE OF ILLINOIS," "STATE FINANCIAL INFORMATION" and "APPENDIX A – ECONOMIC DATA" for further information regarding the State.

AUTHORITY FOR ISSUANCE

The Bond Act authorizes the State to issue and sell direct, general obligations of the State (the *"GO Bonds"*). GO Bonds may be issued in the aggregate amount of approximately $16.9 billion (excluding refunding bonds) for capital purposes and in the amount of $10 billion of GO Bonds (the *"GO Pension Funding Bonds")* for the purpose of funding or reimbursing a portion of the State's contributions to State retirement systems. Giving effect to the issuance of the Bonds, the State will have GO Bonds outstanding for capital improvements in an aggregate principal amount of approximately $9.9 billion and GO Pension Funding Bonds outstanding in an aggregate principal amount of $10 billion. See "AUTHORITY FOR ISSUANCE," "INDEBTEDNESS – GENERAL OBLIGATION BONDS."

SECURITY

The Bonds are direct, general obligations of the State, and, pursuant to the Bond Act, the full faith and credit of the State is pledged for the punctual payment of interest on all GO Bonds issued under such act, including the Bonds, as it comes due and for the punctual payment of the principal thereof at maturity, or any earlier redemption date, and premium, if any. These provisions are irrepealable until all GO Bonds issued under the Bond Act are paid in full as to both principal and interest. See "THE OFFERING – SECURITY."

TAX MATTERS

In the opinion of Arnstein & Lehr LLP and Pugh, Jones, Johnson & Quandt, P.C., Co-Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes. Co-Bond Counsel are further of the opinion that under existing law, interest on the Bonds is not exempt from present State income taxes. See "THE OFFERING – TAX MATTERS."

AUTHORITY FOR ISSUANCE

The Bond Act authorizes the State to issue and sell GO Bonds, including the Bonds. The Bond Act consolidated the authorization contained in prior bond acts into a single act. The Bonds constitute an installment of non-refunding multi-purpose GO Bonds under the Bond Act.

The Bond Act authorizes the State to issue and sell multi-purpose GO Bonds in the aggregate amount of $26,927,149,369, excluding refunding bonds referred to below, for the purposes and in the amounts listed below:

$7,320,235,369	for capital facilities within the State;
$3,432,129,000	for use by the Illinois Department of Transportation, Roads and Bridges;
$1,881,270,000	for use by the Illinois Department of Transportation, Public Transportation, Air and Rail;
$3,150,000,000	for grants to school districts;
$480,315,000	for anti-pollution purposes;
$663,200,000	for coal and energy development purposes; and

$10,000,000,000	of GO Pension Funding Bonds for the purpose of funding or reimbursing a portion of the State's contributions to State retirement systems. See "PENSION SYSTEMS."

The Bond Act provides that after issuance of the Bonds, the Governor of the State (the *"Governor")* and the Director (the *"Director")* of the Governor's Office of Management and Budget of the State (the *"GOMB")* may provide for the reallocations of unspent proceeds to any of the purposes described above (other than refunding purposes). The State may, from time-to-time in the future, make such reallocation of unspent proceeds of the Bonds, so long as such reallocations do not adversely affect the tax-exempt status of the Bonds.

The Bond Act authorizes the issuance of GO Bonds in the amount of up to $2,839,025,000, at any time and from time-to-time outstanding, for the purpose of refunding any outstanding GO Bonds. See "INDEBTEDNESS – GENERAL OBLIGATION BONDS" for a description of the authorized and previously issued GO Bonds under the Bond Act.

The State is also authorized to issue additional forms of debt, including short-term certificates. See "INDEBTEDNESS" herein. Short-term certificates are authorized pursuant to the Illinois Constitution and the Short Term Borrowing Act of the State, as amended (30 ILCS 340 *et seq.)* (the *"Short Term Borrowing Act")*. The Short Term Borrowing Act constitutes an appropriation out of any money in the State Treasury of an amount sufficient to pay the principal and interest on such short-term certificates. See "INDEBTEDNESS – SHORT-TERM DEBT" for a further discussion of the authorized, previously issued and currently outstanding short-term certificates under the Short Term Borrowing Act.

Public Act 93-0839 (effective July 30, 2004) amends the Bond Act and places certain restrictions on the issuance of GO Bonds, including the following: (i) at least 25% of the GO Bonds issued within a fiscal year must be sold pursuant to notice of sale and public bid; (ii) GO Bonds must be issued with principal or mandatory redemption amounts in equal amounts in each fiscal year beginning the year following issuance and for a term not to exceed 25 years, with the first maturity issued occurring within the fiscal year in which the GO Bonds are issued or within the next succeeding fiscal year; and (iii) GO Bonds may not be issued if, after their issuance, in the next State fiscal year, the amount of debt service on all then-outstanding GO Bonds exceeds 7% of the General Funds and Road Fund appropriations for the fiscal year immediately prior to the fiscal year of the issuance (the hereinafter defined Treasurer and Comptroller, acting together, can waive this requirement). Public Act 93-0839 also requires the GOMB to comply with the Business Enterprise for Minorities, Females, and Persons with Disabilities Act (30 ILCS 575, *et seq.)* in respect to procuring services for the issuance of GO Bonds. Finally, no GO Bonds can be issued for refunding purposes unless (i) the refunding produces a net present value savings of at least 3% of the bonds being refunded and (ii) the maturities of the refunding bonds do not extend beyond the maturities of the bonds they refund.

THE OFFERING

DESCRIPTION OF THE BONDS

The Bonds will bear interest from their issue date and will mature on November 1 of each of the years and in the amounts set forth on the inside front cover page of this Official Statement. Interest on the Bonds is payable semiannually on the first days of May and November of each year, beginning on May 1, 2005, at the rates per annum set forth on the inside front cover page of this Official Statement.

The Bonds will be issued in denominations of $5,000 principal amount or any integral multiple thereof, and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York *("DTC")*. DTC will act as securities depository of the Bonds. Principal of, premium, if any, and interest on the Bonds will be paid by the Treasurer of the State (the *"Treasurer"),* as bond registrar and paying agent (the *"Bond Registrar"*), to DTC or its nominee, which will in turn remit such payment to its participants for subsequent disbursement to the beneficial owners of the Bonds. (See APPENDIX C – GLOBAL BOOK-ENTRY SYSTEM).

MATURITY SCHEDULE

The maturity schedule for the Bonds is as follows:

MATURITY AMOUNT	NOVEMBER 1	MATURITY AMOUNT	NOVEMBER 1
$11,000,000	2005	$11,000,000	2018
11,000,000	2006	11,000,000	2019
11,000,000	2007	11,000,000	2020
11,000,000	2008	11,000,000	2021
11,000,000	2009	11,000,000	2022
11,000,000	2010	11,000,000	2023
11,000,000	2011	11,000,000	2024
11,000,000	2012	11,000,000	2025
11,000,000	2013	11,000,000	2026
11,000,000	2014	11,000,000	2027
11,000,000	2015	11,000,000	2028
11,000,000	2016	11,000,000	2029
11,000,000	2017		

REDEMPTION

Optional Redemption

The Bonds maturing on or after November 1, 2017 are subject to redemption prior to maturity at the option of the State as a whole, or in part, in integral multiples of $5,000, from such maturities as may be selected by the State (less than all of the Bonds of a single maturity to be selected by lot by the Bond Registrar as described under "Redemption Procedure" below), on November 1, 2014, and on any date thereafter, at the redemption price of par plus accrued interest to the redemption date.

Redemption Procedure

Bonds will be redeemed only in the principal amount of $5,000 and integral multiples thereof. Notice of any redemption of Bonds will be sent by first-class mail not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption to the registered owner of each Bond (or portion thereof) to be redeemed at the address shown on the registration books of the State maintained by the Bond Registrar, or at such other address as is furnished in writing by such registered owner to the Bond Registrar.

For purposes of any redemption of less than all of the outstanding Bonds, the particular Bonds or portions of Bonds to be redeemed will be selected by the Bond Registrar from the outstanding Bonds subject to such redemption by lot using such method as the Bond Registrar deems fair and appropriate. So long as DTC or its nominee is the registered owner of the Bonds, if fewer than all of the Bonds of any maturity are called for redemption, DTC will determine the portions of such maturity to be redeemed as described in "APPENDIX C – GLOBAL BOOK-ENTRY SYSTEM."

APPLICATION OF BOND PROCEEDS

The Bond proceeds will be applied approximately as set forth below:

Authorized Projects	$296,200,600.00
Costs of Issuance	286,413.90
Underwriters' Discount	694,375.00
Insurance	614,021.10
Total	$297,795,410.00

SECURITY

Direct, General Obligations

The Bonds, together with all other GO Bonds, are direct, general obligations of the State, and by law the full faith and credit of the State is pledged for the punctual payment of interest on the Bonds as the interest becomes due and for the punctual payment of the principal thereof at maturity, or any earlier redemption date, and premium, if any. The Bond Act provides that the sections of the Bond Act making such pledge are irrepealable until all GO Bonds issued under the Bond Act, including the Bonds, have been paid in full.

In order to pay its general fund obligations, including without limitation, principal and interest on the Bonds, the State currently imposes various taxes and fees. See "STATE FINANCIAL INFORMATION – TAX STRUCTURE."

State Funding Payments

To provide for the manner of repayment of the Bonds, the Bond Act requires the Governor to include an appropriation in each annual State Budget of moneys in such amount as will be necessary and sufficient, for the period covered by such budget, to pay the interest, as it becomes payable, on all outstanding GO Bonds and to pay and discharge the principal and premium, if any, of such GO Bonds falling due during such period. The Bond Act also creates a separate fund in the State Treasury called the "General Obligation Bond Retirement and Interest Fund" (the *"GOBR&I Fund")* to be used for such repayment. The Bond Act requires the General Assembly to annually make appropriations to pay the principal of, interest on and premium, if any, on outstanding Bonds from the GOBR&I Fund.

If for any reason there are insufficient funds in the General Revenue Fund, or with respect to bonds issued for Transportation A-Highway purposes (or bonds issued to refund bonds issued for such purposes) in the Road Fund, to make transfers to the GOBR&I Fund as required by the Bond Act, or if for any reason the General Assembly fails to make appropriations sufficient to pay the principal of, interest on and premium, if any, on the Bonds, when due, the Bond Act constitutes an irrevocable and continuing appropriation of all amounts necessary for that purpose, and the irrevocable and continuing authority for and direction to the Treasurer and the Comptroller of the State (the "*Comptroller")* to make the necessary transfers, as directed by the Governor, out of and disbursements from the revenues and funds of the State.

Upon delivery of the Bonds, the Bond Act requires the Comptroller to compute and certify to the Treasurer the total amount of principal of and interest on the Bonds that will be payable in order to retire such Bonds and the amount of principal of and interest on such Bonds that will be payable on each payment date during the then current and each succeeding fiscal year.

On or before the last day of each month, the Bond Act requires the Treasurer and Comptroller to transfer from the General Revenue Fund, or with respect to bonds issued for Transportation A-Highway purposes (or bonds issued to refund bonds issued for such purposes) the Road Fund, to the GOBR&I Fund an amount sufficient to pay the aggregate of the principal of and interest on such Bonds payable by their terms on the next payment date divided by the number of full calendar months between the date of the Bonds and the first such payment date, and thereafter, divided by the number of months between each succeeding payment date after the first payment date. This transfer of moneys is not required if moneys in the GOBR&I Fund are more than the amount otherwise to be transferred as hereinabove provided, and if the Governor or his authorized representative notifies the Treasurer and Comptroller of such fact in writing.

The moneys in the GOBR&I Fund are used only for the payment of the principal of and interest on all GO Bonds issued under the Bond Act and for the payment of the principal of and interest on short-term cash flow obligations issued from time to time as described under the heading "INDEBTEDNESS – SHORT-TERM DEBT." However, moneys deposited into the GOBR&I Fund to provide for the payment of short-term debt certificates are excluded from any calculation used in determining the ability of the State to suspend transfers to the GOBR&I Fund for the payment of the Bonds as described in the preceding paragraph.

DEPOSIT OF PROCEEDS AND INVESTMENT OF FUNDS

The proceeds of the sale of GO Bonds are deposited into the following bond funds in the State Treasury according to the use and purpose for which they were sold: the Capital Development Fund; the Transportation Bond, Series A Fund; the Transportation Bond, Series B Fund; the School Construction Fund; the Anti-Pollution Fund; and the Coal Development Fund (collectively, the *"Bond Funds"*).

The Treasurer may, with the Governor's approval, invest and reinvest any money in the Bond Funds which is not needed for current expenditures due or about to become due from the Bond Funds, as permitted in the Deposit of State Moneys Act of the State, as amended, and in the Public Funds Investment Act of the State, as amended. All earnings from investment of moneys in the Transportation Bond, Series A Fund will be paid into the Road Fund and all earnings from investment of moneys in all other Bond Funds will be paid into the General Revenue Fund.

The Treasurer may, with the Governor's approval, invest and reinvest any money in the GOBR&I Fund which is not needed for current expenditures due or about to become due from such Fund in securities constituting direct obligations of the United States Government, or obligations the principal of and interest on which are guaranteed by the United States Government, or certificates of deposit of any state or national bank or savings and loan association. For amounts not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or their lawful successors, as security the Treasurer is required to accept securities constituting direct obligations of the United States Government, or obligations the principal of and interest on which are guaranteed by the United States Government. Earnings received from such investments will be paid into the GOBR&I Fund.

BOND INSURANCE

The following information has been furnished by Ambac Assurance Corporation (*"Ambac Assurance"*) for use in this Official Statement. Reference is made to Appendix E for a specimen of Ambac Assurance's policy.

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Treasurer. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Treasurer has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **$8,142,000,000** (unaudited) and statutory capital of approximately

$4,824,000,000 (unaudited) as of **June 30, 2004**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;
2. The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004;

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004;

4. The Company's Current Report on Form 8-K dated July 21, 2004 and filed on July 22, 2004;

5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2004 and filed on August 9, 2004;

6. The Company's Current Report on Form 8-K dated August 19, 2004 and filed on August 20, 2004; and

7. The Company's Current Report on Form 8-K dated October 20, 2004 and filed on October 20, 2004.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "**Available Information**."

RATINGS

Moody's Investors Service, Inc. *("Moody's")* has assigned a rating of Aa3 to the Bonds, Standard & Poor's Rating Services *("S&P")* has assigned a rating of AA to the Bonds and Fitch Ratings *("Fitch")* has assigned a rating of AA to the Bonds. The S&P rating carries a "negative" credit outlook for possible downgrade.

The Insured Bonds also have been assigned insured ratings of "Aaa" by Moody's, "AAA" by S&P, and "AAA" by Fitch. The insured ratings are based on the policy to be issued by Ambac Assurance upon delivery of the Insured Bonds. See "THE OFFERING – BOND INSURANCE" and "APPENDIX E – SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

Each of these ratings reflects the views of the respective rating agency and an explanation of the significance of such rating may be obtained only from the respective rating agency. As part of the State's application for the ratings on the Bonds, certain information and materials, some of which are not contained herein, have been supplied to Moody's, S&P and Fitch. None of the ratings are a "market" rating or a recommendation to buy, sell or hold the Bonds, and the ratings and the Bonds should be evaluated independently.

The ratings are subject to change or withdrawal at any time and any such change or withdrawal may affect the market price or marketability of the Bonds. The State will provide appropriate periodic credit information necessary for maintaining ratings on the Bonds to the rating agencies. Except as may be required by the Undertaking described below under the heading "CONTINUING DISCLOSURE," the State undertakes no responsibility to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of such ratings or to oppose any such revision or withdrawal.

LEGAL OPINIONS

Legal matters incident to the authorization, issuance, sale and delivery of the Bonds by the State are subject to the unqualified approving opinions of Arnstein & Lehr LLP, Chicago, Illinois, and Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois, Co-Bond Counsel. The forms of the approving opinions expected to be delivered by Co-Bond Counsel are contained in APPENDIX B – PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Freeborn & Peters LLP, Chicago, Illinois and Burris, Wright, Slaughter & Tom, LLC, Chicago, Illinois.

TAX MATTERS

General

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The State has covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludible from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includible in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to the State's compliance with the above-referenced covenants, under present law, in the opinion of Co-Bond Counsel, interest on the Bonds is not includible in the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations and in computing the "branch profits tax" imposed on certain foreign corporations.

In rendering their opinions, Co-Bond Counsel will rely upon certifications of the State with respect to certain material facts solely within the State's knowledge. Co-Bond Counsel's opinions represent their legal judgment based upon their review of the law and the facts that they deem relevant to render such opinions and are not guarantees of a result.

The Internal Revenue Code of 1986, as amended (the *"Code")* includes provisions for an alternative minimum tax *("AMT")* for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income *("AMTI"),* which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (excluding S Corporations, Regulated Investment Companies, Real Estate Investment Trusts, REMICs and FASITs) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax-exempt interest, including interest on the Bonds.

Under the provisions of Section 884 of the Code, a branch profits tax is levied on the "effectively connected earnings and profits" of certain foreign corporations, which include tax-exempt interest such as interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity, or in the case of a Bond issued with original issue discount, its issue price plus accreted original issue discount, the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Co-Bond Counsel express no opinion regarding any pending or proposed federal tax legislation.

Interest on the Bonds is not exempt from income taxes imposed by the State of Illinois.

Bond Premium

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

CERTIFICATE OF THE DIRECTOR OF THE GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET

The Director will provide to the Underwriters at the time of delivery of the Bonds a certificate confirming that, to the best of his knowledge, the Official Statement was, as of its date, and is, at the time of such delivery, true and correct in all material respects and did not and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE

The State will enter into a Continuing Disclosure Undertaking (the *"Undertaking")* for the benefit of the beneficial owners of the Bonds to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the *"Rule")* adopted by the Securities and Exchange Commission (the *"SEC")* under the Securities Exchange Act of 1934, as amended (the *"1934 Act").* See "APPENDIX D – CONTINUING DISCLOSURE UNDERTAKING" for a description of the information to be provided annually, the events which will be noticed on an occurrence basis and a summary of other terms of the Undertaking, including termination, amendment and remedies.

The State is in compliance with each and every undertaking previously entered into by it pursuant to the Rule. A failure by the State to comply with the Undertaking will not constitute a default under the Bond Sale Order, adopted by the Governor and the Director authorizing the issuance of the Bonds (the *"Bond Sale Order"*), and beneficial owners of the Bonds are limited to the remedies described in the Undertaking. See "APPENDIX D – CONTINUING DISCLOSURE UNDERTAKING - Consequences of Failure of the State to Provide Information." A failure by the State to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

LITIGATION

There is no litigation pending, or to the knowledge of the State threatened, in any way questioning the title of the officials of the State or any of the proceedings of the State incident to the authorization and issuance of the Bonds, or in any way concerning the validity or enforceability of the Bonds, or the manner of payment thereof or the appropriation for the payment thereof.

The following describes certain pending lawsuits in Illinois.

In October 1997, the Illinois Supreme Court ruled that the insurance privilege tax, as it existed in Illinois law between 1993 and 1997, was unconstitutional. The cases challenging this tax were consolidated and remanded to the Circuit Courts of Cook County and Sangamon County for a determination of damages. In October 2002, the majority of the pending cases, both in terms of number of cases and dollar value, were dismissed by the Cook County and Sangamon County Courts pursuant to a settlement agreement between the parties. The settlement agreement provides for the release of $57.9 million from the Protest Fund, which has been transferred to the State's general funds. A total of $20.2 million was paid out of the Protest Fund in settlement to certain plaintiffs (see "STATE FINANCIAL INFORMATION – MONEY PAID TO THE STATE UNDER PROTEST"). There remains approximately $11.4 million in the Protest Fund from insurance privilege taxes. While the State cannot predict the exact amount of further settlements or damages that may be awarded, the State expects that such settlements or awards would not materially adversely affect the security for the Bonds or the State's ability to pay debt service on the Bonds.

In April 2004, a Federal District Court ruled that the State was not entitled to $125 million in trust fund dollars held by the Illinois Clean Energy Community Foundation (ICECF) that had been earmarked to support statewide environmental programs under Public Act 93-32. ICECF had been created in 1999 when Commonwealth Edison sold its fossil fuel power plants for several billion dollars. Commonwealth Edison was required to dedicate a small portion of these proceeds towards ICECF to be used to support environmental programs to improve Illinois' environmental quality. In June 2003, the Illinois legislature enacted a law designed to help close a significant budget shortfall. That law required ICECF to transfer $125 million of its funds into the State treasury largely to support environmental programs funded by general revenue funds. ICECF sued the State to block the transfer of these funds on both state and Federal constitutional grounds. In April 2004, the Federal District Court ruled in favor of ICECF holding that ICECF is a private entity and the funds in the trust are private funds, unaffected by the June 2003 law. This case is currently on appeal to the United States Seventh Circuit Court of Appeals.

UNDERWRITING

The group of underwriters shown on the cover page of this Official Statement (the "**Underwriters**"), on behalf of which Morgan Stanley & Co. Incorporated is acting as Senior Managing Underwriter, has agreed, subject to certain conditions, to purchase all, but not less than all, of the Bonds at a price of $297,101,035 (equal to the principal amount of $275,000,000 plus $22,795,410 of original issue premium and less $694,375 of Underwriters' discount). The State has been advised by the Underwriters that the Bonds may be offered and sold to certain dealers and others at prices lower than the initial public offering prices and the public offering prices may be changed from time to time by the Underwriters. Any obligations of the Underwriters are the sole obligations of the Underwriters and do not create any obligations on the part of any affiliate of the Underwriters, including any affiliated banks.

STATE OF ILLINOIS

ORGANIZATION

The State is formally organized according to executive, legislative and judicial functions. The Governor is the chief executive of the State and is generally responsible for the administration of the government exclusive of the offices of other constitutionally-elected officials. The other elected officials of the executive branch include the Lieutenant Governor, the Attorney General, the Secretary of State, the Comptroller and the Treasurer. The Illinois Constitution provides that all elected officials of the Executive Branch of the State Government hold office for four-year terms. Pursuant to the Illinois Constitution, these officials were elected at a general election in November 2002 and took office January 13, 2003.

The legislative power of the State is vested in the General Assembly, which is composed of the Senate and the House of Representatives. Both the Senate and the House meet in annual sessions to enact, amend or repeal laws and to adopt appropriation bills. The judicial branch is composed of the Supreme Court, the Appellate Courts and the Circuit Courts.

CONSTITUTIONAL PROVISIONS RELATING TO REVENUES AND EXPENDITURES

Article VIII, Section 2 of the Illinois Constitution requires the Governor to prepare and submit to the General Assembly, at a time prescribed by law, a State budget for the ensuing fiscal year. Proposed expenditures may not exceed funds estimated to be available for the fiscal year as shown in the budget. Article VIII also requires the General Assembly to review the proposed budget and make appropriations for all expenditures of public funds by the State, which appropriations for a fiscal year may not exceed funds estimated by the General Assembly to be available during that fiscal year.

The Illinois Constitution provides that the Governor may reduce or veto any item of appropriations in a bill passed and presented to him by the legislature. Portions of a bill not reduced or vetoed become law. An item vetoed is returned to the house in which it originated and may become law upon approval of three-fifths of the members of each house. An item reduced in amount may be restored to the original amount upon approval of a majority of the members elected to each house.

GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET

The GOMB, previously known as the Bureau of the Budget, was created in 1969 by an act of the General Assembly. The GOMB is headed by the Director, who is appointed by the Governor. In addition to assisting the Governor in developing the budget, the GOMB provides financial and other information regarding the State to securities investors, Nationally Recognized Municipal Securities Information Repositories (each, a *"NRMSIR")* and others as required by federal securities rules (see "THE OFFERING – CONTINUING DISCLOSURE" and "APPENDIX D – CONTINUING DISCLOSURE UNDERTAKING").

STATE FINANCIAL INFORMATION

FINANCIAL STATEMENTS

The tables that follow present pertinent financial information about the State. Data are for the State's fiscal years which run from July 1 through June 30. Tables 1 through 4 of this section, unless otherwise noted, are based on information contained in the detailed Annual Report or records of the Comptroller. Tables 5 through 11 are based on records of the GOMB. For purposes of Tables 1 through 4 of this section, expenditures are deemed to be recognized when payment warrants are issued.

TABLE 1

REVENUES AND EXPENDITURES[1], GENERAL FUNDS[2]
FISCAL YEARS 2000-2004
($ IN THOUSANDS)

	FY 00	FY 01	FY 02	FY 03	FY 04
Available Balance, Beginning	1,350,636	1,516,653	1,125,673	256,219	316,654
Receipts					
State Revenues					
Income Tax	8,923,027	9,031,831	8,274,251	8,079,435	8,208,215
Sales Tax	6,026,860	5,957,929	6,050,553	6,059,374	6,330,857
Public Utility Tax	1,115,855	1,146,458	1,103,784	1,005,985	1,079,334
Cigarette Tax	399,600	399,600	399,600	399,600	399,600
Inheritance Tax	348,009	361,039	329,168	236,950	221,723
Liquor Gallonage Tax	127,872	124,319	122,000	122,767	126,778
Insurance Tax & Fees	209,130	245,576	272,361	313,219	361,801
Corporate Franchise Tax	138,581	146,024	159,419	142,365	163,268
Investment Income	233,017	274,062	135,419	65,547	55,322
Intergovernmental Transfer	245,116	245,116	245,116	354,904	428,336
Other	231,754	441,054	550,396	382,891	516,182
Total, State Revenues	17,998,821	18,373,008	17,642,067	17,163,037	17,891,416
Federal Revenues					
Reimbursement for Welfare & Social Service Expenditures[3]	3,891,359	4,319,764	4,258,146	3,939,973	5,189,402
Transfers In					
Transfers from Other State Funds[4,5,6]	1,359,471	1,413,171	1,478,751	2,127,377	3,598,338
Total Revenues & Transfers In	23,249,651	24,105,943	23,378,964	23,230,387	26,679,156
Short Term Borrowing	0	0	0	1,675,000	0
Total Cash Receipts	23,249,651	24,105,943	23,378,964	24,905,387	26,679,156
Cash Disbursements					
Warrants Issued[7]	21,054,470	22,280,485	22,088,781	22,103,498	23,303,822
Transfers Out					
for Short Term Borrowing[8]	0	0	0	710,464	1,416,000
to Debt Service Funds[9]	450,866	467,987	556,576	623,624	584,225
to Other State Funds[4]	1,578,298	1,748,451	1,603,062	1,407,366	1,508,775
Total Cash Disbursements	23,083,634	24,496,923	24,248,419	24,844,952	26,812,822
Available Balance, Ending	1,516,653	1,125,673	256,218	316,654	182,988

1 Based upon information from the Office of the Comptroller.
2 General Funds include the General Revenue Fund, Common School Fund, General Revenue-Common School Special Account Fund and Education Assistance Fund.
3 Federal Receipts excludes $86 million earned in FY 03 that was not received until July 2003 due to a processing error.
4 Excludes transfers to and from the Budget Stabilization Fund.
5 Fiscal Year 2004 includes $1,498 million of Pension Obligation Bond proceeds.
6 FY 2003 Transfers In includes a $144 million transfer on July 1, 2003 that was budgeted for FY 2003.
7 Warrants Issued were adjusted to reflect the timing difference described in footnote 6.
8 The short-term certificates issued on May 22, 2003 were fully retired by May 15, 2004 . See "INDEBTEDNESS – SHORT-TERM DEBT."
9 Reflects debt service on all GO Bonds.
Note: columns may not add due to rounding.

TABLE 1-A

CASH EXPENDITURES BY CATEGORY[1]

	FY 00	FY 01	FY 02	FY 03	FY 04
Operations	6,286,524	6,631,262	6,938,549	6,560,813	6,357,318
Awards and Grants	14,659,071	15,592,205	15,866,647	15,467,802	16,236,067
Permanent Improvements and Road and Waterway Construction	31,067	20,432	20,867	11,967	8,631
Refunds	57,209	41,549	38,032	27,802	23,383
Vouchers Payable[2]	10,413	656	(770,333)	50,430	726,528
Prior Year Adjustments	10,187	(5,620)	(4,981)	(15,316)	(48,105)
Total Warrants Issued	21,054,471	22,280,484	22,088,781	22,103,498	23,303,822

[1] Based upon information from the Office of the Comptroller.
[2] Vouchers Payable were adjusted to reflect the $144 million timing difference as noted in footnote 6 of Table 1.
Note: columns may not add due to rounding.

TABLE 2

REVENUES AND EXPENDITURES[1], ROAD FUNDS
FISCAL YEARS 2000-2004
($ IN THOUSANDS)

	FY 00	FY 01	FY 02	FY 03	FY 04
AVAILABLE BALANCE, BEGINNING	**471,028**	**589,999**	**843,454**	**838,683**	**336,742**
REVENUES					
State Sources					
Motor Vehicles & Operators License Fees	530,668	620,257	613,077	566,983	653,208
Certificates of Title	37,894	142,819	147,887	145,154	148,088
Property Sales (City and County)	43,890	48,362	63,391	61,846	64,304
Miscellaneous	56,965	73,215	55,897	40,785	117,787
Total, State Revenues	**669,417**	**884,653**	**880,252**	**814,768**	**983,387**
Federal Revenues	**853,606**	**905,790**	**834,455**	**718,164**	**887,438**
Transfers In					
Transfers from Motor Fuel Tax Fund	397,902	319,623	318,137	363,943	331,646
Transfer from Other Funds	----	----	----	----	----
Total, Transfers In	**397,902**	**319,623**	**318,137**	**363,943**	**331,646**
TOTAL REVENUES & TRANSFERS IN	**1,920,925**	**2,110,066**	**2,032,844**	**1,896,875**	**2,202,471**
CASH EXPENDITURES					
Warrants Issued	1,618,391	1,664,718	1,826,684	2,138,447	2,027,739
Transfers Out:					
To Debt Service Funds[2]	183,389	191,717	210,780	225,139	227,366
To other state funds	174	176	151	35,230	132,917
Total, Transfers Out	183,563	191,893	210,931	260,369	360,283
TOTAL CASH EXPENDITURES	**1,801,954**	**1,856,611**	**2,037,615**	**2,398,816**	**2,388,022**
AVAILABLE BALANCE, ENDING	**589,999**	**843,454**	**838,683**	**336,742**	**151,191**

[1] Based upon information from the Office of the Comptroller.
[2] This item is for the debt service on General Obligation Transportation Bonds, Series A, sold for highway purposes.
Note: columns may not add due to rounding.

TABLE 3

GENERAL FUNDS APPROPRIATIONS[1,2]
FY 2004 VS. BUDGET FY 2005
($ IN MILLIONS)

CATEGORY	CURRENT FY04	BUDGET FY05	$ CHANGE	% CHANGE
Elementary & Secondary Education	5,509	5,808	299	5.4%
Higher Education	2,120	2,106	(14)	-0.7%
Public Aid	5,704	6,042	338	5.9%
Revenue	172	133	(39)	-22.7%
Human Services	3,702	3,769	67	1.8%
Corrections	1,270	1,192	(78)	-6.1%
Children & Family Services	819	781	(38)	-4.6%
Central Management Services	1,052	1,034	(18)	-1.7%
State Police	198	172	(26)	-13.1%
Other Agencies[2]	3,007	2,650	(357)	-11.9%
Governor's Savings Initiatives	(71)	(86)	(15)	21.1%
Governor's Severance Plan	0	(56)	(56)	0
Budgeted Appropriations	**23,482**	**23,545**	**63**	**0.27%**
Unspent Appropriations (Salvage)[3]	(791)	(539)		
Net Appropriations (Spending)	**22,691**	**23,004**	**314**	**1.38%**

[1] Includes over $250 million in increased Federal funds, occurring primarily in Public Aid and Human Services.

[2] FY 2004 includes $12 million General Revenue Fund payment of Judicial Cost of Living Increases related to a Supreme Court decision where no appropriation existed.

[3] Additional salvage in FY 2004 related to unspent appropriations budgeted or reimbursements to the General Revenue Fund for contributions paid through use of Pension Obligation Bond proceeds on a monthly basis during the year. P.A. 93-0665 immediately transferred the balance of such proceeds still on hand in March 2004 to the pension systems, rather than as a monthly reimbursement to the General Revenue Fund. The net difference resulted in an additional $11 million in FY 04 salvage (*i.e.,* unspent appropriations).

Note: columns may not add due to rounding.

TABLE 4

CASH RECEIPTS FY 2003 ACTUAL VS. FY 2004 BUDGET & ACTUAL
($ IN MILLIONS)

	FY 2003 Actual	FY 2004 Revised Budget	FY 2004 Actual	CHANGE-FY 04 Actual versus FY 03 Actual Amount	CHANGE-FY 04 Actual versus FY 03 Actual Percent
AVAILABLE CASH BALANCE – JULY 1	$ 256	$ 317	$ 317	$ 61	23.8%
Cash Receipts:					
State Sources, Cash Receipts:					
Gross Individual Income Tax	7,979	8,265	8,235	256	3.2%
Gross Corporate Income Tax	1,011	1,282	1,377	366	36.2%
Less Deposits to Income Tax Refund Fund	(911)	(1,377)	(1,404)	(493)	54.1%
Net Income Taxes	**8,079**	**8,170**	**8,208**	**129**	**1.6%**
Sales Taxes	**6,059**	**6,359**	**6,331**	**272**	**4.5%**
Other Sources:					
Public Utility Taxes	1,006	1,073	1,079	73	7.3%
Cigarette Taxes	400	450	400	-	0.0%
Inheritance Tax (gross)	237	215	222	(15)	-6.3%
Liquor Gallonage Taxes	123	125	127	4	3.3%
Insurance Tax and Fees	313	317	362	49	15.7%
Corporation Franchise Tax & Fees	142	175	163	21	14.8%
Investment Income	66	100	55	(11)	-16.7%
Cook County IGT	355	440	428	73	20.6%
Other	383	1,312	517	134	35.0%
Total: Other State Sources	**3,025**	**4,207**	**3,353**	**328**	**10.8%**
Total: State Revenues	**17,163**	**18,736**	**17,892**	**729**	**4.2%**
Transfers In:					
Lottery Fund	540	560	570	30	5.6%
State Gaming Fund	554	767	661	107	19.3%
Pension Contribution Fund	300	1,600	1,489	1,189	396.3%
Other Funds[1]	733	984	878	145	19.8%
Total: State Transfers In	2,127	3,911	3,598	1,471	69.2%
Total: State Sources	19,290	22,647	21,490	2,200	11.4%
Federal Sources					
Cash Receipts[2]	3,904	4,128	5,125	1,221	31.3%
Transfers In	36	119	64	28	77.8%
Total: Federal Sources	**3,940**	**4,247**	**5,189**	**1,249**	**31.7%**
TOTAL: REVENUES AND TRANSFERS IN	**23,230**	**26,894**	**26,679**	**3,449**	**14.8%**
Short-Term Borrowing	1,675	-	-	(1,675)	0.0%
TOTAL: CASH RECEIPTS	**$24,905**	**$26,894**	**$26,679**	**$1,774**	**7.1%**

Source: Office of the Comptroller and GOMB.
[1] FY 2003 Transfers in includes a $144 million transfer on July 1, 2003 that was budgeted for FY 2003.
[2] FY 2003 Federal Sources do not include $86 million received in July 2003 due to a processing delay.
Note: columns may not add due to rounding.

TABLE 5

FY 2003 - FY 2005 BUDGET PLANS

	Fiscal Year 2003 Actual		Fiscal Year 2004 Actual		Fiscal Year 2005 Budget Plan[1]	
CASH RECEIPTS						
Revenues						
State Sources	$ 17,163		$ 17,891		$ 18,574	
Federal Sources[2]	$ 3,940		$ 5,189		$ 4,688	
Total Revenues (Before Transfers)		$ 21,103		$ 23,080		$ 23,262
Transfers						
Transfers In[3]	$ 1,827		$ 2,109		$ 2,340	
Pension Obligation Reimbursement Transfers	$ 300		$ 1,490		$ ----	
Total Transfers		$ 2,127		$ 3,599		$ 2,340
Short-Term Borrowing Proceeds		$ 1,675		$ -------		$ -------
TOTAL RECEIPTS (Revenues, Transfers and Short Term Borrowing Proceeds)		$ 24,905		$ 26,679		$ 25,602
CASH DISBURSEMENTS						
CURRENT YEAR EXPENDITURES						
Less: APPROPRIATIONS (Total Budget)	$ 22,335		$ 23,483		$ 23,685	
Less: Governor's Cost Savings Initiatives (Unspent Appropriations & Transfers)			$ (70)		$ (86)	
Governor's Severance Plan (net savings)					$ (56)	
Unspent Appropriations (Unspent Budget plus Uncashed Checks)	$ (442)		$ (781)		$ (539)	
Equals: CURRENT YEAR EXPENDITURES (Net Appropriations Spent)[4]		$ 21,893		$ 22,632		$ 23,004
Equals: Available Resources		$ 3,012		$ 4,047		$ 2,598
AVAILABLE RESOURCES USED FOR CURRENT YEAR PURPOSES:						
Legislatively Required Transfers (Diversions to Other Funds)	$ 2,031		$ 2,043		$ 2,103	
Pay Pension Obligation Bond Debt Service	$ ------		$ -------		$ 495	
Repay Current Year Short-Term Borrowing	$ 710					
Additional Transfer to Rainy Day Fund (Budget Stabilization Fund)	$ ------		$ 50		$ ------	
Less: TOTAL RESOURCES USED FOR CURRENT YEAR PURPOSES		$ 2,741		$ 2,093		$ 2,598
CASH AVAILABLE FOR PRIOR YEARS' BILLS						
AVAILABLE RESOURCES USED FOR PRIOR YEAR PURPOSES:						
Reduce Outstanding Accounts Payable (Change in Lapse Period Amounts)						
Account Payable at End of Prior Fiscal Year	$ 1,476		$ 1,266		$ 593	
Less: Account Payable at End of Current Fiscal Year	$ (1,266)		$ (593)		$ (593)	
Equals: Paydown/(Increase) of year-end Accounts Payable	$ 210		$ 675		$ -	
Repay Prior Year Short-Term Borrowing	$ -		$1,416		$ -	
Less: TOTAL RESOURCES USED FOR PRIOR YEAR PURPOSES		$ 210		$2,089		$ --
CASH POSITION						
Increase (Decrease) in Cash During FY		$ 61		$ (135)		$ (0)
Plus: Cash Balance in General Funds at Beginning of Fiscal Year		$ 256		$ 317		$ 182
Equals: Cash Balance in General Funds at End of Fiscal Year		$ 317		$ 182		$ 182
Plus: Cash Balance in Budget Stabilization Fund at End of Fiscal Year		$ 226		$ 276		$ 276
Equals: Total Cash at End of Fiscal Year		$ 543		$ 458		$ 458

[1] Beginning in FY 2005, all capital spending will be budgeted in the separate FY 2005 Capital Budget, which does not include any capital spending appropriated from the general funds.
[2] FY 2003 Federal Receipts excludes $86 million not received until FY 2004 due to a processing delay.
[3] FY 2003 transfers in includes a $144 million transfer on July 1, 2003 that was budgeted for FY 2003.
[4] The FY 2003 and FY 2004 current year expenditures include capital appropriations of $79 million and $33 million respectively. FY 2003 also includes capital expenditures of $24 million.

FISCAL YEAR 2004 GENERAL FUNDS UPDATE

As illustrated in Table 4, the fiscal year 2004 actual General Fund sources (excluding the pension bond proceeds transfers for Fiscal Year 2004 pension appropriations) totaled $25,190 million, which was $104 million (0.4%) less than the enacted budget of $25,294 million. The net shortfall of $104 million consists of a $158 million under-performance of receipts of a one-time nature, offset by a $54 million over-performance of receipts of a recurring nature. When compared to fiscal year 2003 revenues and transfers in, and again excluding proceeds of $300 million from the GO Pension Funding Bonds as well as short term borrowings of $1,675 million, total General Fund sources grew by $2,260 million or 9.9% over fiscal year 2003 comparable collections of $22,930 million.

The State's three main General Funds revenues represent 57% of total sources. They consist of corporate income tax, personal income tax (including the tax amnesty program) and the State's share of sales taxes. Together these primary sources grew by over $400 million (or approximately 2.9%) as compared to fiscal year 2003 collections. Fiscal year 2004 net income tax collections increased by $129 million or 1.6% higher than fiscal year 2003, despite a significant increase of almost $500 million set aside in the Income Tax Refund Fund. The increased refund fund allowed the State to reduce the backlog of delayed income tax refunds from over $425 million in June 2004 to $116 million at June 30, 2004. Fiscal year 2004 sales tax collections increased by $272 million over fiscal year 2003, representing a 4.5% growth factor. The majority of the increased collections for all three taxes occurred in the second half of 2004, reflecting an improving economy.

During 2004 other revenue sources increased by $328 million, or 10.8% over fiscal year 2003 collections. Significant increases included utility and insurance taxes as well as various fees. Transfers In also increased and were attributable to administrative cost recoveries from other State funds from services provided by the General Revenue Fund. Finally, lottery and gaming revenues increased by a combined total of $137 million over fiscal year 2003 collections. Gaming revenue increases were primarily attributable to an increase in marginal gaming tax rates that will expire at the end of fiscal year 2005.

As illustrated in the Fiscal Year 2004 Budget Plan in Table 5, fiscal year 2004 appropriations of $23,483 million resulted in $22,632 million of actual expenditures due to cost savings initiatives, spending reserves and other spending control initiatives including a budget allotment system that were instituted during 2004. When compared to the actual expenditures of fiscal year 2003, which totaled $21,893 million, 2004 total expenditures increased by approximately 3.4% despite significantly higher increases in Medicaid and healthcare spending, which were deferred in prior years.

The fiscal year 2004 budget and actual operations resulted in a significantly improved liquidity position by the end of the year. Beyond the reduced amount of outstanding tax refunds due, accounts payable at year end were reduced by $673 million (from $1,266 million to $593 million at June 30, 2004), and short term borrowings were reduced by approximately $1 billion (from $1,425 million to $417 million at June 30, 2004). The 2004 short term borrowing of $850 million was incurred in June 2004 in order to accelerate payment to Medicaid providers during that fiscal year as a means of receiving a higher federal reimbursement rate (53% versus the normal 50%) that expired at June 30, 2004. (Additional federal reimbursements of $433 million were realized resulting in $417 million of the $850 million borrowed to be repaid from State sources in 2005.) As a result of this borrowing, federal Medicaid reimbursements will increase incrementally by approximately $25 million, as a one-time additional cost recovery technique.

FISCAL YEAR 2005 BUDGET

The fiscal year 2005 Operating Budget was adopted by the General Assembly on July 24, 2004 and signed by the Governor on July 30th. The fiscal year 2005 Capital Budget will be addressed during the Fall session of the General Assembly in November.

As illustrated in Table 5, fiscal year 2005 appropriations will increase by $202 million over the final 2004 budget, including supplemental appropriations, representing a 0.8% increase. The 2005 operating budget reflects a general 4% cut across State agencies, although aid to K-12 education will increase by $389 million (or a net of $364 million after appropriation transfers) and approximately $400 million for increased spending on Medicaid, aging and other social services. As part of the agency cuts, state employee headcount is expected to be below 60,000. Actual headcount at the end of the last three fiscal years was 68,993 (FY2002), 59,332 (FY2003) and 59,247 (FY2004).

Total fiscal year 2005 receipts are expected to decrease by about $1,077 million, primarily attributable to the one-time transfer of proceeds of the GO Pension Funding Bonds in fiscal year 2004 as well as one-time Federal reimbursements including $422 million from the Jobs and Growth Tax Relief Reconciliation Act of 2003. There is no increase in income or sales tax rates in fiscal year 2005. New recurring revenues include approximately $200 million from increased fees and closed tax loopholes that broaden the tax base for the sales and income taxes.

State source revenues are expected to increase to $18,574 million, a $683 million (3.8%) increase over fiscal year 2004 actual collections. State transfers in are expected to increase by $231 million, representing an 11% increase over fiscal year 2004 actual transfers. Federal revenues are expected to decline by $501 million, or a 9.7% decrease from 2004, attributable to the one-time nature of the Jobs and Growth Tax Relief Reconciliation Act of 2003 as well as the higher Medicaid reimbursement rate that applied to Fiscal Year 2004 only; however, there are also recurring increases in Federal Revenues due to successful eligibility claims by the Department of Public Aid and the Department of Human Services, which were not implemented in prior years.

BUDGET STABILIZATION FUND

Legislation enacted in 2000 required the State to transfer any unencumbered balance in the Tobacco Settlement Recovery Fund as of June 30, 2001 to the newly created Budget Stabilization Fund. The State transferred $225 million to the Budget Stabilization Fund in July 2001. Public Act 92-11, effective June 11, 2001, authorized the Comptroller to direct the transfer of money from the Budget Stabilization Fund to the General Revenue Fund to meet short-term cash flow needs, with the requirement that all money so transferred must be repaid within the same fiscal year. In July 2003, the Comptroller directed the transfer of approximately $226 million on deposit in the Budget Stabilization Fund to the General Revenue Fund to meet cash flow needs. These funds were repaid to the Budget Stabilization Fund prior to June 30, 2004. The fiscal year 2004 budget included an additional $50 million contribution to the Budget Stabilization Fund, bringing the end of year balance to $276 million. The fiscal year 2005 operating budget proposes the Budget Stabilization Fund be maintained at that same level as well as holding year-end accounts payable to the same amount as at June 30, 2004, or $591 million, which is less than the historical approximate amount of $850 million.

BASIS OF ACCOUNTING

The Comptroller is responsible for the maintenance of the State's fiscal accounting records. The Comptroller provides accounting control over the cash on hand in a specific fund or funds (the *"cash balances")* for which the Treasurer is accountable, control over the issuance of warrants for payments of agencies' expenditures and control to ensure that State payments do not exceed legal appropriations and available fund balances. The Comptroller's records are kept on a basis of accounting wherein receipts are recognized at the time cash funds are ordered into the Treasury by the Comptroller. Prior to fiscal year 1998, disbursements were recognized when payment warrants were issued. Since fiscal year 1998, disbursements are recognized when vouchers are approved and released for payment.

As the fiscal control officer of the State, the Comptroller issues an Annual Report detailing receipts and expenditures for each year. Also, since 1981, the Comptroller has issued a Comprehensive Annual Financial Report *("CAFR")*, which includes General Purpose Financial Statements prepared according to generally accepted accounting principles *("GAAP")* and statements of budgetary fund balances and changes in budgetary fund balances for all fund groups.

GAAP FINANCIAL REPORT

The complete General Purpose Financial Statements for fiscal year 2003, prepared in accordance with GAAP, have been filed with each NRMSIR and are incorporated herein by reference thereto. Such Statements are also available upon request from the Office of the Comptroller at (217) 782-6000 or from the Comptroller's webpage at www.illinoiscomptroller.com. These statements were prepared by the Comptroller and examined and certified by the State Auditor General. For fiscal year 2003, the Auditor General has expressed an unqualified opinion on the General Purpose Financial Statements.

TABLE 6

STATE OF ILLINOIS
GENERAL FUNDS RECONCILIATION
FISCAL YEAR 2003
($ IN MILLIONS)

	Cash Basis	Adjustments for Budgetary Basis	Budgetary Basis	Adjustments for GAAP	GAAP Basis
Revenues:					
Income Taxes (net)	$ 8,079	$ -	$ 8,079	$ (822)	$ 7,257
Sales Taxes (net)	6,059	-	6,059	(1,522)	4,537
Public Utility Taxes (net	1,006	-	1,006	(52)	954
Federal government (net)	3,940	(37)	3,903	539	4,442
Other (net)	2,019	(30)	1,989	(123)	1,866
Total revenues	21,103	(66)	21,037	(1,980)	19,057
Expenditures:					
Current:					
Health and Social Services	9,837	(20)	9,817	284	10,101
Education	8,594	(1)	8,593	(4,331)	4,262
General Government	1.493	(156)	1,337	192	1,529
Employment and Economic Development	153	(2)	151	15	166
Transportation	65	(3)	62	(3)	59
Public Protection and Justice	1,705	(10)	1,695	(4)	1,691
Environment and Business Regulation	182	(3)	179	8	187
Debt Service:					
Principal		-	-	-	11
Interest		-	-	-	2
Capital Outlays		29	29	(5)	24
Total expenditures	22,029	(166)	21,863	(3,844)	18,032
Excess of revenues over Expenditures	(926)	99	(827)	1,865	1,025
Other sources (uses) of financial resources:					
Proceeds from general obligation bond issues			1,675	(1,675)	-
Operating transfers-in	3,802	765	4,567	(2,810)	1,757
Operating transfers-out	(2,815)	(2,610)	(5,425)	1,469	(3,957)
Proceeds from capital lease financing	-	-	-	2	2
Net other sources (uses) of financial Resources	987	(170)	817	(3,014)	(2,198)
Excess of revenues over expenditures and net other sources (uses) of financial Resources	61	65	126	(1,299)	(1,172)
Fund balances (deficit) July 1, 2002	256	(1,476)	(1,220)	(1,925)	(3,145)
Restatement for change in accounting principle					(3)
Restatement of fund balance				-	
Fund balances (deficit), July 1, 2002, as restated	256	(1,476)	(1,220)	(1,925)	(3,148)
Restated	806,213	(761,497)	44,716	(47,864)	(3,148)
Fund balances (deficit), June 30, 2003	$ 317	$ (1,411)	$ (1,094)	$ (3,223)	$ (4,320)

Source: Based on information from the Office of the Comptroller and derived from the State's Annual Report.

NOTE 1 – CASH/BUDGET TO GAAP PERSPECTIVE DIFFERENCE

On the GAAP basis, the Medicaid Provider Assessment Program Funds and the Income Tax Refund Fund are reported as part of the General Fund; they are not considered part of the General Fund on the budgetary basis or the cash basis.

NOTE 2 – CASH TO BUDGET ADJUSTMENTS

The budgetary basis fund balance deficit of $1,094 equals the June 30, 2003 cash balance of $317 less cash lapse period expenditures of $1,411. Adjustments from the cash basis of accounting for fiscal year 2003 to the budgetary basis include adding fiscal year 2003 lapse period spending (July 1 - August 31, 2003) and subtracting fiscal year 2002 lapse period spending (July 1 - August 31, 2002). Lapse period expenditures are payments between July 1-August 31 for services received and for goods "encumbered" (ordered or contracted for) on or before June 30 and received no later than August 31 which are paid from fiscal year 2003 "lapsing accounts." These expenditures include refunds which have been netted against the related revenue.

NOTE 3 – BUDGET TO GAAP ADJUSTMENTS

A detail of the reconciliation of the budgetary basis vs. GAAP is presented in the Notes to Required Supplemental Information in the Comprehensive Annual Financial Report. Significant differences noted in the financial statements include recording accounts receivable, deferred revenue and accounts payable at year-end. Accounts payable include liabilities which will be paid from future year appropriations *(e.g.,* income tax refunds, Public Aid medical reimbursements and payments to local school boards for State Board of Education reimbursement programs).

There were also classification differences between the budgetary basis and GAAP. Interest paid on income tax refunds is reported as general government expenditures for GAAP reporting purposes and as a reduction of revenues in the budgetary presentation. In addition, transfers from the General Revenue Fund to the Common School Fund and from the Common School Special Account to the Common School Fund, which are reported on the budgetary basis, have been eliminated for GAAP reporting purposes.

NOTE 4 – RESTATEMENT FOR CHANGE IN ACCOUNTING PRINCIPLE

The fund balance for the General Fund has been restated due to the implementation of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* and a prior year error in reporting of receivables.

TAX STRUCTURE

General Funds

The general funds receive the major share of tax revenues from the following five sources:

Personal Income Tax: The personal income tax liability is 3.0 percent of each taxpayer's Illinois base income with an exemption allowed for the taxpayer and each dependent. There are also additional exemptions for the elderly, blind and disabled. The standard exemption is $2,000.

There is a tuition tax credit for parents equal to 25 percent of qualified school expenses exceeding $250 per year. The tax credit cannot exceed $500 per household in any one year.

The Income Tax Refund Fund (the *"Refund Fund")* was created in 1989. Both corporate and personal income tax refunds are paid from the Refund Fund rather than the General Revenue Fund. Statutorily, the annual percentage of corporate or personal income tax collections deposited into the Refund Fund (the *"Refund Fund rate")* is determined by a formula, the numerator of which is the prior year income tax refunds paid or approved for payment, and the denominator is the prior year income tax collections.

The Refund Fund rate for personal income taxes was statutorily set at 7.1 percent for fiscal years 1999 through 2001 to accommodate increases to the personal exemption. In fiscal year 2002, the Refund Fund rate for personal income taxes was determined by the statutory formula, with a cap of 7.6 percent. In fiscal year 2003, the Refund Fund rate for personal income taxes was set at 8.0 percent pursuant to Public Act 92-600. The Refund Fund rate for fiscal year 2004 for personal income taxes is set at 11.7 percent pursuant to Public Act 93-32. After fiscal year 2004, Public Act 93-32 provides that the Refund Fund rate for personal income taxes will be determined by the statutory formula.

All personal income tax collections not deposited into the Refund Fund are deposited into the general funds. During fiscal year 2003, the personal income tax accounted for approximately 31.8 percent of general funds revenues.

The Illinois Constitution requires that the basic corporate income tax rate not exceed the personal income tax rate by more than a ratio of 8 to 5.

Corporate Income Tax: The corporate income tax liability is 4.8 percent of each corporation's taxable income with a $1,000 exemption. Multi-state corporations have corporate income tax liability based on their property, payroll and sales attributable to Illinois.

The Refund Fund rate for corporate income taxes was statutorily set at 19.0 percent for fiscal years 1999 through 2001 to accommodate the changes to the apportionment formula. In fiscal year 2002, the Refund Fund rate for corporate income taxes was determined by the statutory formula, with a cap of 23.0 percent. In fiscal year 2003, the Refund Fund rate for corporate income taxes was set at 27.0 percent pursuant to Public Act 92-600. The Refund Fund rate for fiscal year 2004 for corporate income taxes is set at 32 percent pursuant to Public Act 93-32. After fiscal year 2004, Public Act 93-32 provides that the Refund Fund rate for corporate income taxes will be determined by the statutory formula.

State corporate income taxes not deposited into the Refund Fund are deposited into the general funds. During fiscal year 2003, corporate income taxes accounted for approximately 3.2 percent of general funds revenues.

Corporations are subject to a supplemental income tax at a rate of 2.5 percent (1.5 percent for a partnership, trust, or Subchapter S corporation), imposed to replace for local governments the corporate personal property tax which was abolished on January 1, 1979. The replacement income tax is distributed to local governments by the State.

Sales Tax: The State levies a tax on retail sales subject to certain exemptions, including food and drugs. The sales and use tax rate is 6.25 percent, comprised of the State's portion of 5.0 percent and the local government's portion of 1.25 percent. The 6.25 percent tax is applied to a standard base, meaning counties and municipalities must tax the same items as the State. In fiscal year 2003, sales taxes provided approximately 26.2 percent of general funds revenues.

Public Utility Taxes: Public utility tax receipts are comprised of taxes on electricity, natural gas, and telecommunications. In fiscal year 2003, public utility taxes provided 4.4 percent of general funds revenues. The tax for natural gas is imposed on gas utilities at the lesser of 5.0 percent of gross receipts or 2.4 cents per therm. The tax on electricity is a per kilowatt-hour tax on end-user usage, with the marginal tax rate declining as usage increases during the month. Non-residential customers may opt to be "self-assessing purchasers" and pay at the rate of 5.1 percent of purchase price of the electricity that is used or consumed in a month.

The Telecommunications Excise Tax Act was amended in 1998 to raise the tax on all telecommunications billed to Illinois consumers from 5.0 to 7.0 percent of gross receipts. One-half of the additional revenue is deposited into the Common School Fund, a general fund, and one-half is deposited into the School Infrastructure Fund. Transfers from the School Infrastructure Fund are made to the GOBR&I Fund as a supplementary source for debt service on school construction bonds issued under Section 5(e) of the Bond Act.

Cigarette Tax: The cigarette tax is 98 cents per package of 20 cigarettes and was last increased 40 cents per package of 20 cigarettes in June 2002. From the total tax collected, $33.3 million a month is deposited into the general funds and $5 million a month is deposited into the School Infrastructure Fund for debt service payments on an expansion of the school construction grant program. Remaining cigarette tax revenues are deposited into the Long Term Care Provider Fund.

Other

Road Fund

The Road Fund receives the bulk of its State revenues from motor fuel taxes and vehicle registration fees.

Motor Fuel Tax: The State imposes the following taxes on motor fuel used for highway transportation on a per gallon basis:

- motor fuel tax of 19 cents per gallon;
- additional diesel tax of 2.5 cents per gallon; and
- Leaking Underground Storage Tank (LUST) tax of 0.3 cents per gallon.

Motor fuel tax receipts are deposited into the Motor Fuel Tax (MFT) Fund. The revenues from the MFT Fund are split between the State and local government units after certain administrative expenses and a series of transfers out to other State funds. These revenues are split 45.6 percent to the State and 54.4 percent to the local governments. Of the State's share, 37 percent is deposited into the State Construction Account Fund and 63 percent is deposited into the Road Fund. The local share of receipts is awarded as grants to municipalities, counties, townships and road districts.

The revenues from the additional diesel tax are deposited directly into the State Construction Account Fund which is used for highway construction. The revenues from the 0.3 cents per gallon LUST tax are scheduled to be transferred into the Underground Storage Tank Fund until January 1, 2013.

Motor Vehicle Fees: Revenue from motor vehicle fees is derived primarily from vehicle registrations, with fees from operators' and chauffeurs' licenses and vehicle titles representing a smaller portion of the total. Approximately 60 percent of these fees is paid into the Road Fund, and the remainder is paid into the State Construction Account Fund and other smaller funds. Motor vehicle registration fees are $78 annually and large truck and trailer registration fees were on a scale ranging from $135 for an 8,000 pound truck to $2,790 for an 80,000 pound truck. Certificate of title fees are $65. Since calendar year 2000, $48 of each title fee increase have been deposited into the Road Fund and the remaining $4 have been deposited into the Motor Vehicle License Plate Fund.

Tax Burden

Two of the most commonly cited measures of tax burden are tax receipts per capita and tax receipts per $1,000 of personal income. According to the United States Department of Commerce, Bureau of the Census, State Government Finances: 2002 (March 2004), to assess tax burden in a state, these measures are applied to the State's total general revenue collections (general revenue includes state taxes, intergovernmental revenue, current charges and other miscellaneous general revenue) and to State tax collections (State tax collections include sales and gross receipts, corporate income, personal income and other taxes). In 2002, the State's general revenue collections per capita of $3,203 ranked ninth lowest among the states, below the national average of $3,691. When taking into consideration the wealth of states in the United States, the State's 2002 total of $97 General Revenue funds collected per $1,000 of personal income ranked well below the national average of $122.

With respect to state tax collections only, the State's 2002 per capita collections of $1,784 ranked as the twenty-sixth lowest among the states in the United States, about $74 below the average nationwide. The State's 2002 total of $54 collected per $1,000 of personal income compares to the national average total of $62 collected per $1,000.

MONEY PAID TO THE STATE UNDER PROTEST

Money paid to the State under protest is required to be placed by the Treasurer in a special fund known as the Protest Fund. After 30 days from the date of payment into the Protest Fund, the money is to be transferred from the Protest Fund to the appropriate fund in which it would have been deposited had there been no protest. However, the party making the payment under protest may, within that 30-day period, file a complaint and secure a temporary injunction restraining the transfer from the Protest Fund. Under the injunction, the money is to remain in the Protest Fund until a final order or decree of a court determines the proper disposition of the money. As of August 18, 2004, the total Protest Fund balance was $209.0 million.

INDEBTEDNESS

SHORT-TERM DEBT

Pursuant to the Illinois Constitution and the Short Term Borrowing Act, the Governor, Comptroller and Treasurer are authorized (i) to borrow an amount not exceeding 5% of the State's appropriations for any fiscal year in anticipation of revenues to be collected in that fiscal year, which borrowing is to be repaid by the close of that fiscal year and (ii) to borrow an amount not exceeding 15% of the State's appropriations for any fiscal year to meet failures in revenues, which borrowing is to be repaid within one year.

The Short Term Borrowing Act constitutes an appropriation out of any money in the State Treasury of an amount sufficient to pay the principal and interest on short term certificates issued pursuant to such Act.

The following table summarizes the State's history of issuing short term debt.

TABLE 7

SHORT TERM CERTIFICATES ISSUED
(AS OF JUNE 30, 2004)
($ IN MILLIONS)

DATE ISSUED	AMOUNT ISSUED	DATE FINAL MATURITY RETIRED
June 2004	850	October 2004
May 2003	1,500	May 2004
July 2002	1,000	June 2003
August 1995	500	June 1996
August 1994	687	June 1995
August 1993	900	June 1994
October 1992	300	June 1993
August 1992	600	May 1993
February 1992	500	October 1992
August 1991	185	June 1991
February 1987	100	February 1988
June–July 1983	200	May 1984

As shown in the preceding table, the State issued short term certificates in the amount of $850 million on June 17, 2004, which certificates were repaid on October 22, 2004. These certificates were repaid from matching receipts under the Federal Medicaid Assistance Percentage (FMAP) program and revenue sources included in the fiscal year 2005 budget. The proceeds of these certificates were used to pay Medicaid providers. See "STATE FINANCIAL INFORMATION – FISCAL YEAR 2005 BUDGET."

GENERAL OBLIGATION BONDS

GO Bonds of the State may be authorized by a vote of three-fifths of the members of each house of the General Assembly or by a majority of the voters at a general election. The Bond Act consolidated the authorization contained in prior bond acts into a single act and currently authorizes the issuance of multiple purpose GO Bonds in the aggregate amount of $16,927,149,369, excluding general obligation refunding bonds, for capital purposes and up to $10 billion of GO Pension Funding Bonds. The State issued $10 billion of GO Pension Funding Bonds in June 2003 for the purpose of funding or reimbursing a portion of the State's contributions to State retirement systems. See "PENSION SYSTEMS – ISSUANCE OF GO PENSION FUNDING BONDS AND ALLOCATION OF PROCEEDS."

The following table shows the statutory general obligation bond authorization and all GO Bonds outstanding as of September 30, 2004.

TABLE 8

GENERAL OBLIGATION BONDS
(AS OF SEPTEMBER 30, 2004)

	AMOUNT AUTHORIZED	AMOUNT ISSUED	AUTHORIZED UNISSUED	AMOUNT OUTSTANDING
Anti-Pollution[1]	$ 599,000,000	$ 599,000,000	$ 0	$ 24,120,000
Capital Development[1]	1,737,000,000	1,737,000,000	0	0
Coal and Energy Development[1]	35,000,000	35,000,000	0	0
School Construction[1]	330,000,000	330,000,000	0	0
Transportation Series A[1]	1,326,000,000	1,326,000,000	0	0
Transportation Series B[1]	403,000,000	403,000,000	0	0
Pension Funding	10,000,000,000	10,000,000,000	0	10,000,000,000
Multi-purpose	16,908,149,369	12,808,386,352	4,099,763,017	7,575,550,456
Subtotal – New Money	$ 31,338,149,369	$ 27,238,386,352	$ 4,099,763,017	$ 17,599,670,456
Refunding[2]	2,839,025,000	3,965,574,239	811,868,345	2,027,156,655
Total – New and Refunding	$ 34,177,174,369	$ 31,203,960,591	$ 4,911,631,362	$ 19,626,827,111

[1] These bonds were issued under predecessor statutes to the Bond Act.
[2] The State is authorized to issue $2,839,025,000 of GO Bonds, at any time and from time to time outstanding, for the purpose of refunding any outstanding GO Bonds. The authorized unissued amount of refunding bonds is the difference between the amount authorized and the amount outstanding.
Note: columns may not add due to rounding.

Pursuant to the Bond Act, amounts in the Anti-Pollution bond retirement and interest fund were transferred to and consolidated in the GOBR&I Fund. The GOBR&I Fund is used to make debt service payments on outstanding GO Bonds issued for these purposes, on multiple purpose and refunding bonds issued under the Bond Act, and on short term certificates issued as described above under "SHORT-TERM DEBT."

As of June 30, 2004 a total of $608.1 million was available in the GOBR&I Fund. Since these moneys are not segregated as to amounts of principal and interest, the amounts of outstanding GO Bonds shown above have not been reduced by this $608.1 million.

Interest Rate Swap Agreements

The State is authorized to enter interest rate exchange agreements under terms pursuant to the Bond Act, for the purpose of managing its interest cost or limiting its interest rate exposure. In October 2003, the State entered into five separate, but substantially identical, interest rate exchange agreements (collectively, the *"Swap Agreements")* to convert the variable rate on its Variable Rate General Obligation Bonds, Series B of October 2003, to a synthetic fixed rate. The Swap Transactions have an aggregate notional amount of $600 million, bear a fixed rate of interest of 3.89% and were allocated to five separate counterparties.

The State entered into the Swap Agreements as a means of achieving a lower net fixed rate interest cost rather than issuing fixed-rate bonds at the time of issuance. The Swap Agreements may expose the State to certain market, tax rate and credit risks. The State may terminate the Swap Agreements at any time at market value, or upon the occurrence of certain events. In addition, the State or the Swap Providers may terminate the Swap Agreements if the State fails to perform under the terms of the contracts. If the Swap Agreements are terminated, the Series 2003B Bonds would bear interest at a variable rate, and the State could be liable for a termination payment if the Swap Agreements have a negative market value.

Historical Borrowing

The following table summarizes the level of bond sales from fiscal years 2001-2004.

TABLE 9

GENERAL OBLIGATION BOND SALES
($ IN MILLIONS)

FISCAL YEAR	CAPITAL IMPROVEMENT	PENSION FUNDING
2001	1,165	-
2002	1,500	-
2003	1,650	10,000
2004	1,175	-

Indebtedness in Prior Years

The following table shows the outstanding general obligation indebtedness of the State at the end of each fiscal year from 2000-2004.

TABLE 10

GENERAL OBLIGATION BONDS OUTSTANDING
FISCAL YEARS 2000-2004
($ IN MILLIONS)

END OF FISCAL YEAR	CAPITAL IMPROVEMENT	PENSION FUNDING[1]
2000	5,885.8	-
2001	6,600.0	-
2002	7,629.9	-
2003	8,812.6	10,000.0
2004	9,556.3	10,000.0

[1] Principal and interest on the Pension Bonds is funded with corresponding reductions to the Unfunded Actuarial Accrued Liability payments appropriated from the general funds as an unfunded liability replacement financing pursuant to Public Acts 88-593 and 93-009.

Debt Service Payments

Debt service of the State's GO Bonds is paid from the GOBR&I Fund. The GOBR&I Fund receives transfers from the Road Fund to pay debt service on bonds issued for Transportation A purposes (highways), from the School Infrastructure Fund and the General Revenue Fund to pay debt service on bonds issued under Section 5(e) of the Bond Act and from the General Revenue Fund to pay debt service on bonds issued for all other purposes.

Not including expected debt service on the Bonds, the following table shows debt service payments on GO Bonds from fiscal year 2001 through 2005 and the funds from which the transfers originate.

TABLE 11

GENERAL OBLIGATION BONDS
DEBT SERVICE PAYMENTS[1]
($ IN MILLIONS)

	FY 01	FY 02	FY 03	FY 04	FY 05[3]
Road Fund	198.3	195.7	215.0	192.7	192.6
School Infrastructure Fund	49.4	73.2	127.5	155.2	233.6
General Funds	542.8	582.6	628.9	583.4	659.9
General Funds-Pension[1]	-	-	481.0	496.2	496.2

[1] Principal and interest paid on outstanding GO bonds.
[2] Interest on General Obligation Pension Bonds for FY 2003 was funded from Pension Bond proceeds. Principal and interest on the Pension Bonds is funded with corresponding reductions to the Unfunded Actuarial Accrued Liability payments appropriated from the general funds as an unfunded liability replacement financing pursuant to Public Acts 88-593 and 93-009.
[3] GOMB Estimate.

Measures of Debt Burden

Tables 12, 13, 14 and 15 show various measures of the relative burden of the State's general obligation debt and debt service.

TABLE 12

RATIO OF GENERAL OBLIGATION DEBT SERVICE
TO TOTAL EXPENDITURES
FISCAL YEARS 2000-2004

FISCAL YEAR	TOTAL EXPENDITURES[1] ($ IN MILLIONS)	CAPITAL IMPROVEMENT % OF EXPENDITURES	PENSION BONDS % OF EXPENDITURES
2000	24,886	2.88%	-
2001	26,354	3.00	-
2002	26,286	3.24	-
2003[2]	27,253	3.57	1.76%
2004[3]	29,326	3.18	1.69%

[1] Principal and interest paid on outstanding GO bonds.
[2] Interest on General Obligation Pension Bonds for FY 2003 was funded from Pension Bond proceeds. Principal and interest on the Pension Bonds is funded with corresponding reductions to the Unfunded Actuarial Accrued Liability payments appropriated from the general funds as an unfunded liability replacement financing pursuant to Public Acts 88-593 and 93-009.
[3] GOMB Estimate.

TABLE 13

RATIO OF GENERAL OBLIGATION DEBT TO ILLINOIS PERSONAL INCOME FISCAL YEARS 2000-2004

FISCAL YEAR	ILLINOIS PERSONAL INCOME[1] ($ IN BILLIONS)	CAPITAL IMPROVEMENT % OF PERSONAL INCOME	PENSION BONDS % OF PERSONAL INCOME
2000	386.1	1.52	-
2001	409.5	1.61	-
2002	415.7	1.84	-
2003	423.1	2.08	2.36
2004	446.9	2.14	2.24

[1] U.S. Department of Commerce, Bureau of Economic Analysis.

TABLE 14

GENERAL OBLIGATION DEBT PER CAPITA FISCAL YEARS 2001-2005

	2001	2002	2003	2004	2005
Population (in Thousands)[1]	12,482	12,279	12,601	12,651[3]	12,701[3]
Capital Improvement Debt Per Capita			$700	$756	$736
Pension Bonds Debt Per Capita[2]	-	-	$795	$792	$787

[1] Population figures are based on actual census data (1990 and 2000) and estimates from the U.S. Department of Commerce, Bureau of the Census, December 2001 press release.
[2] Population figures are based on actual census data (1990 and 2000) and estimates from the U.S. Department of Commerce, Bureau of the Census, December 2001 press release.
[3] GOMB Estimate.

TABLE 15

MATURITY SCHEDULE—GENERAL OBLIGATION BONDS
AS OF SEPTEMBER 30, 2004

	General Obligation Capital Improvement Bonds						General Obligation Pension Bonds		
Fiscal Year Ending June 30	Anti-Pollution	Multiple Purpose	Refunding	Total Principal	Total Interest	Total Debt Service	Total Principal	Total Interest	Total Debt Service
2005	5,280,000	206,805,000	111,740,000	323,825,000	350,015,620	673,840,620	-	496,200,000	496,200,000
2006	6,160,000	408,776,803	126,913,084	541,849,887	553,066,987	1,094,916,874	-	496,200,000	496,200,000
2007	4,960,000	369,954,579	133,283,057	508,197,635	539,000,406	1,047,198,041	-	496,200,000	496,200,000
2008	4,560,000	359,474,415	140,405,980	504,440,394	526,870,534	1,031,310,929	50,000,000	496,200,000	546,200,000
2009	2,360,000	342,975,376	137,685,768	483,021,143	516,939,374	999,960,518	50,000,000	494,950,000	544,950,000
2010	800,000	358,739,814	143,194,938	502,734,753	460,925,837	963,660,590	50,000,000	493,550,000	543,550,000
2011	-	311,141,202	168,948,829	480,090,031	447,881,287	927,971,318	50,000,000	491,900,000	541,900,000
2012	-	292,498,439	150,005,000	442,503,439	401,072,735	843,576,174	100,000,000	490,125,000	590,125,000
2013	-	212,330,751	234,750,000	447,080,751	363,703,955	810,784,706	100,000,000	486,375,000	586,375,000
2014	-	214,289,607	234,640,000	448,929,607	320,996,584	769,926,191	100,000,000	482,525,000	582,525,000
2015	-	342,935,720	126,795,000	469,730,720	273,666,421	743,397,141	100,000,000	478,575,000	578,575,000
2016	-	372,071,341	86,835,000	458,906,341	251,854,759	710,761,100	100,000,000	474,525,000	574,525,000
2017	-	367,276,341	62,740,000	430,016,341	223,543,315	653,559,656	125,000,000	470,175,000	595,175,000
2018	-	354,007,806	52,795,000	406,802,806	190,777,728	597,580,534	150,000,000	464,737,500	614,737,500
2019	-	334,502,317	40,730,000	375,232,317	167,410,658	542,642,975	175,000,000	458,212,500	633,212,500
2020	-	319,651,629	29,780,000	349,431,629	151,301,158	500,732,788	225,000,000	449,550,000	674,550,000
2021	-	295,045,883	38,245,000	333,290,883	127,234,005	460,524,888	275,000,000	438,412,500	713,412,500
2022	-	314,757,410	7,670,000	322,427,410	101,254,040	423,681,450	325,000,000	424,800,000	749,800,000
2023	-	298,492,922	-	298,492,922	90,369,865	388,862,788	375,000,000	408,712,500	783,712,500
2024	-	262,653,968	-	262,653,968	69,622,595	332,276,563	450,000,000	390,150,000	840,150,000
2025	-	221,388,835	-	221,388,835	59,270,040	280,658,875	525,000,000	367,200,000	892,200,000
2026	-	212,030,000	-	212,030,000	45,602,875	257,632,875	575,000,000	340,425,000	915,425,000
2027	-	200,945,000	-	200,945,000	35,089,000	236,034,000	625,000,000	311,100,000	936,100,000
2028	-	166,605,000	-	166,605,000	25,374,625	191,979,625	700,000,000	279,225,000	979,225,000
2029	-	135,370,000	-	135,370,000	17,652,500	153,022,500	775,000,000	243,525,000	1,018,525,000
2030	-	80,260,000	-	80,260,000	12,819,000	93,079,000	875,000,000	204,000,000	1,079,000,000
2031	-	59,815,000	-	59,815,000	9,625,500	69,440,500	975,000,000	159,375,000	1,134,375,000
2032	-	37,335,000	-	37,335,000	7,378,125	44,713,125	1,050,000,000	109,650,000	1,159,650,000
2033	-	42,625,000	-	42,625,000	5,486,875	48,111,875	1,100,000,000	56,100,000	1,156,100,000
2034	-	80,795,000	-	80,795,000	2,662,625	83,457,625	-	-	-
Total	24,120,000	7,575,550,456	2,027,156,655	9,626,826,811	6,348,469,030	15,975,295,841	10,000,000,000	11,452,675,000	21,452,675,000

REVENUE BONDS

Revenue bonds are either those bonds for which the State dedicates a specific revenue source for debt service or those bonds under which the State is committed to retire debt issued by certain authorities or municipalities created and organized pursuant to law and operating within the State. The State's commitment is based upon various Illinois statutes and upon contractual arrangements with the issuers. Table 16 identifies the type and current level of revenue bonded indebtedness. A description of each bond program follows the table.

TABLE 16

REVENUE BONDS
(AS OF JUNE 30, 2004)
($ IN MILLIONS)

	REVENUE BONDS OUTSTANDING
Build Illinois (Sales Tax Revenue Bonds)	$2,117.2
Metropolitan Exposition and Auditorium Authorities – Civic Center Program	136.1
Metropolitan Pier and Exposition Authority – Dedicated State Tax Revenue Bonds	238.9
Metropolitan Pier and Exposition Authority – McCormick Place Expansion Project and Refunding Bonds	2,260.8
Illinois Sports Facilities Authority	461.9
Certificates of Participation	30.7
	$5,245.6

Note: Column may not add due to rounding.

Build Illinois

The Build Illinois program funds initiatives in business development, infrastructure construction and replacement, education, and environmental protection. The Build Illinois Bonds are dedicated State tax revenue bonds. The current Build Illinois bond authorization is $3,806 million. Public Act 93-0839 (effective July 30, 2004) amended the Build Illinois Bond Act, 30 ILCS 425 et seq., to include restrictions similar to those contained in the Bond Act. (See "AUTHORITY FOR ISSUANCE").

The Build Illinois Fund receives 3.8 percent of State sales tax collections to support debt service on Build Illinois Bonds and project spending. To the extent these revenues are insufficient in any month to provide specified amounts set forth in law to secure Build Illinois Bonds, an amount equal to the deficiency will be paid from the State's sales tax collections. Subject to market conditions, the State anticipates issuing up to $350 million Build Illinois Bonds in fiscal year 2005.

Build Illinois Bonds are limited obligations of the State payable solely from the specified State tax receipts. Build Illinois Bonds are not general obligations of the State and are not secured by a pledge of the full faith and credit of the State. The holders of Build Illinois Bonds may not require the levy or imposition of any taxes or the application of other State revenue or funds to the payment of the bonds, except for the specified tax revenues pledged to the bonds.

Metropolitan Exposition and Auditorium Authorities – Civic Center Program

In 1989, the GOMB was authorized to issue Civic Center Bonds. Prior to this change, eligible civic center authorities and later the Department of Commerce and Community Affairs issued state-supported bonds to finance the development of community civic centers.

State of Illinois Civic Center Bonds are direct, limited obligations of the State payable from and secured by an irrevocable pledge and lien on moneys deposited in the Illinois Civic Center Bond Retirement and Interest Fund. The payment of debt service is subject to annual appropriation by the General Assembly. The bonds are not general obligations of the State and are not secured by a pledge of the full faith and credit of the State. The bondholders may not require the levy or imposition of any taxes or the application of other State revenues or funds to the payment of the bonds.

Metropolitan Pier and Exposition Authority – Dedicated State Tax Revenue Bonds

Legislation effective in July 1984 dedicated a revenue stream from a variety of State sources to provide financing for the North Building expansion of the McCormick Place complex in Chicago and to redeem outstanding Exposition Building Revenue Bonds. These bonds are secured primarily by revenues from State sales and hotel taxes. The Dedicated State Tax Revenue Bonds are special obligations of the Metropolitan Pier and Exposition Authority *("MPEA")*; neither the full faith and credit nor the taxing power of the State, other than the specific dedicated taxes, is pledged to the payment of the principal or interest on the bonds. Debt service on the bonds is subject to annual appropriation.

Metropolitan Pier and Exposition Authority – Expansion Project Bonds

MPEA is authorized to issue McCormick Place Expansion Project Bonds. These bonds are secured by locally imposed taxes including hotel/motel, restaurant, car rental and airport departure taxes. Surplus from the Illinois Sports Facilities Authority hotel tax also is pledged as security for the bonds. If revenues from the taxes imposed by MPEA are insufficient to pay debt service on the Expansion Project Bonds, remaining State sales tax revenues, following required deposits to the Build Illinois Fund, are pledged to meet the deficiency. To date, receipts from the MPEA taxes have been sufficient to meet all debt service requirements.

Illinois Sports Facilities Authority

The Illinois Sports Facilities Authority *("ISFA")* was created in 1987, with authorization to finance construction of a professional sports stadium within the City of Chicago. Pursuant to legislation effective June 1, 2001, ISFA was authorized to finance reconstruction of a stadium for the Chicago Bears and related lakefront improvements in Chicago (the *"Soldier Field Project")*. Debt issued by ISFA is an obligation of ISFA and is not backed by the full faith and credit of the

State. In 1989, ISFA issued $150 million of revenue bonds to finance construction of a new Comiskey Park stadium (the *"1989 ISFA Bonds"),* now known as U.S. Cellular Field, and such bonds were refunded in 1999 from the issuance by ISFA of revenue bonds (the *"1999 ISFA Bonds"*).

On October 12, 2001, ISFA issued $399 million of revenue bonds to finance the Soldier Field Project (the *"2001 ISFA Bonds").* The 1999 ISFA Bonds and the 2001 ISFA Bonds are payable, subject to appropriation, from (i) a $10 million subsidy derived equally from State hotel tax revenues and amounts allocable to the City of Chicago under the State Revenue Sharing Act and (ii) an advance of State hotel tax revenues in the amount of $23.425 million in fiscal year 2003, increasing by 5.615% each fiscal year thereafter, which advance is required to be repaid annually by receipts derived from a two percent hotel tax imposed by ISFA within the City of Chicago. In the event the ISFA tax is insufficient to repay the advance of State hotel tax revenues, the deficiency will be paid from additional amounts allocable to the City of Chicago under the State Revenue Sharing Act. The State expects that all amounts advanced as described in clause (ii), above, will be repaid to the State.

In addition, in October 2003 ISFA issued $42.535 million of additional revenue bonds (the *"2003 ISFA Bonds"*) to finance a portion of certain renovations to U.S. Cellular Field. The 2003 ISFA Bonds are payable from the same revenue sources as the 1999 ISFA Bonds and the 2001 ISFA Bonds.

Certificates of Participation

Public Act 93-0839 provides that the State shall not enter into any third-party vendor or other arrangements relating to the issuance of certificates of participation or other forms of financing relating to the rental or purchase of office or other space, buildings, or land unless otherwise authorized by law. The State has issued two series of certificates of participation for the acquisition of real property, $21.0 million in October 1995 and $17.7 million in May 1996. The proceeds of these certificates were used to finance the construction of correctional facilities. The certificates are payable from lease or installment purchase payments which are subject to annual appropriation and are not a full faith and credit obligation of the State.

Other Obligations

The State has other long-term obligations in the form of lease-purchase payments. Third party vendors have issued certificates of participation to finance renovations and buildings which are leased to State agencies.

In addition, the State has obligations in the form of agricultural loan guarantees issued through the Illinois Finance Authority as successor to the Illinois Farm Development Authority. The Illinois Finance Authority may have up to $210 million in outstanding loans, of which eighty-five percent is guaranteed by the State. As of August 2, 2004, the Illinois Finance Authority had $93.0 million in outstanding loans, of which 85 percent is guaranteed by the State.

TABLE 17

MATURITY SCHEDULE—REVENUE BONDS
(AS OF JUNE 30, 2004)

Fiscal Year Ending June 30	Build Illinois	MPEA DSTRB	MPEA Expansion Project Bonds	Civic Center Program	Sports Facilities Authority	Illinois Certificates of Participation	Total Principal	Total Interest	Total Debt Service
2005	99,207,836	17,595,000	36,585,000	6,455,000	9,245,000	1,500,000	170,587,836	217,562,218	388,150,054
2006	105,311,275	18,715,000	22,716,705	6,790,000	9,705,000	1,580,000	164,817,980	227,566,728	392,384,708
2007	113,322,627	19,920,000	50,741,928	7,175,000	10,190,000	1,660,000	203,009,555	202,062,446	405,072,000
2008	118,237,846	21,170,000	33,085,032	7,610,000	10,841,388	1,750,000	192,694,266	228,858,278	421,552,544
2009	117,196,350	22,515,000	40,491,052	8,100,000	12,331,033	1,850,000	202,483,434	226,476,112	428,959,547
2010	121,500,756	24,015,000	50,821,819	8,595,000	13,810,316	1,945,000	220,687,891	215,440,906	436,128,796
2011	122,879,169	25,595,000	63,169,091	9,085,000	2,041,432	2,055,000	224,824,692	212,931,673	437,756,365
2012	122,188,399	26,735,000	36,347,441	9,555,000	2,947,861	2,170,000	199,943,702	239,311,102	439,254,804
2013	125,537,124	28,145,000	36,411,366	10,095,000	3,797,354	2,305,000	206,290,844	237,384,730	443,675,574
2014	133,064,306	29,600,000	35,906,812	10,705,000	4,594,695	2,440,000	216,310,813	230,779,772	447,090,585
2015	131,071,038	4,850,000	36,149,751	11,415,000	5,347,832	2,590,000	191,423,621	231,293,684	422,717,305
2016	132,125,000	-	45,756,956	12,020,000	6,063,337	2,750,000	198,715,293	216,501,363	415,216,656
2017	117,105,000	-	49,980,228	5,488,409	6,716,095	2,915,000	182,204,733	223,591,558	405,796,291
2018	102,345,000	-	49,937,243	5,668,835	4,770,418	3,140,000	165,861,496	232,181,045	398,042,541
2019	89,355,000	-	57,060,083	5,875,462	4,829,442	-	157,119,987	232,521,678	389,641,665
2020	73,310,000	-	65,149,453	6,103,026	5,067,726	-	149,630,206	233,619,224	383,249,430
2021	58,620,000	-	104,087,400	5,405,000	5,279,845	-	173,392,245	197,967,439	371,359,684
2022	52,910,000	-	80,998,012	-	5,472,537	-	139,380,549	234,479,928	373,860,478
2023	40,585,000	-	140,142,495	-	5,651,172	-	186,378,667	190,427,754	376,806,420
2024	33,325,000	-	80,186,436	-	5,813,953	-	119,325,388	251,227,827	370,553,215
2025	32,130,000	-	85,227,449	-	5,916,669	-	123,274,118	247,666,220	370,940,338
2026	30,205,000	-	143,681,189	-	11,715,731	-	185,601,920	185,258,024	370,859,944
2027	24,640,000	-	185,710,836	-	28,327,372	-	238,678,208	128,898,617	367,576,825
2028	21,035,000	-	162,087,687	-	32,430,797	-	215,553,485	151,107,759	366,661,244
2029	-	-	169,405,321	-	36,915,210	-	206,320,531	142,547,456	348,867,988
2030	-	-	10,277,690	-	52,405,825	-	62,683,515	290,800,810	353,484,325
2031	-	-	9,145,954	-	75,355,000	-	84,500,954	273,831,221	358,332,175
2032	-	-	8,140,997	-	84,295,000	-	92,435,997	271,068,428	363,504,425
2033	-	-	7,243,844	-	-	-	7,243,844	267,750,831	274,994,675
2034	-	-	6,447,732	-	-	-	6,447,732	268,546,943	274,994,675
2035	-	-	5,737,216	-	-	-	5,737,216	269,257,459	274,994,675
2036	-	-	5,107,150	-	-	-	5,107,150	269,887,525	274,994,675
2037	-	-	4,545,622	-	-	-	4,545,622	270,449,053	274,994,675
2038	-	-	4,043,951	-	-	-	4,043,951	270,950,724	274,994,675
2039	-	-	3,600,523	-	-	-	3,600,523	271,394,152	274,994,675
2040	-	-	3,202,467	-	-	-	3,202,467	271,792,208	274,994,675
2041	-	-	66,137,223	-	-	-	66,137,223	208,857,452	274,994,675
2042	-	-	265,360,000	-	-	-	265,360,000	9,638,738	274,998,738
Total	2,117,206,725	238,855,000	2,260,827,153	136,140,732	461,878,040	30,650,000	5,245,557,650	8,551,889,086	13,797,446,737

Note: Columns may not add due to rounding.

MORAL OBLIGATION BONDS

Currently, seven entities in the State may issue moral obligation bonds. The moral obligation pledge generally provides that in the event the authority issuing moral obligation bonds determines that moneys of the authority will be insufficient for the payment of principal and interest on such bonds during the next State fiscal period, the authority shall certify to the Governor the amount required to pay such principal and interest and any amounts withdrawn from bond reserve funds to pay principal and interest on moral obligation bonds. The Governor shall then submit the amounts so certified to the General Assembly. The Governor's recommendations for these and all other State appropriations are a matter of executive discretion. Thus, the moral obligation pledge does not constitute a legally enforceable obligation of the Governor to recommend a State appropriation. Moreover, the General Assembly is not statutorily required to make an appropriation for the amount so certified by the authority, nor must the Governor sign any such appropriation bill if passed by the General Assembly.

Debt evidenced by moral obligation bonds is not debt of the State, and is not secured by any State funds.

TABLE 18

MORAL OBLIGATION BOND AUTHORITIES' DEBT[1]
(AS OF JUNE 30, 2004)
($ IN MILLIONS)

	MORAL OBLIGATION BONDS OUTSTANDING
Illinois Housing Development Authority	$138.9
Southwestern Illinois Development Authority	62.7
Quad Cities Regional Economic Development Authority	0.0
Upper Illinois River Valley Development Authority	24.0
Tri-County River Valley Development Authority	0.0
Will-Kankakee Regional Development Authority	0.0
Western Illinois Economic Development Authority	0.0
Illinois Finance Authority	88.2
Total[2]	313.8

[1] The amounts listed include only those bonds issued under the moral obligation pledge.
[2] The Illinois Rural Bond Bank, Illinois Research Park Authority and the Illinois Development Finance Authority were consolidated into the Illinois Finance Authority, which was created on January 1, 2004 pursuant to Public Act 93-205. The Illinois Finance Authority also has the power to issue moral obligation bonds.

From time to time, the State has received notices from certain entities which have issued moral obligation bonds that insufficient monies are available for the payment of principal and interest on one or more series of moral obligation bonds or that amounts withdrawn from bond reserve funds to pay principal and interest on moral obligation bonds have not been replenished.

To date, such amounts requested from the State have not been material. The State does not have a legal obligation to pay any such amounts and cannot predict whether appropriations for such amounts will be enacted. No assurance can be given that future requests for state appropriation will not be received by the State or that such requests will not be for material amounts. Further, no assurance can be given that an appropriation would be enacted with respect to such future request.

PENSION SYSTEMS

The State has five Retirement Systems: the State Employees' Retirement System of Illinois (the *"SERS")*, the Teachers' Retirement System of the State of Illinois (the *"TRS")*, the State Universities Retirement System (the *"SURS")*, the Judges Retirement System of Illinois (the *"JRS")*, and the General Assembly Retirement System (the *"GARS")* (collectively, the *"Retirement Systems"*). The Retirement Systems provide benefits upon retirement, death or disability to employees and beneficiaries.

Pursuant to the Illinois Pension Code, as amended (the *"Pension Code"*), the State is responsible for funding employer contributions of the Retirement Systems. As of June 30, 2004 (the most recently completed fiscal year of the State), the Retirement Systems had an aggregate membership of 304,670 active members, 160,910 inactive members entitled to benefits and 165,348 retired members and beneficiaries. As of June 30, 2003, based upon the most recent available actuarial valuation of the Retirement Systems, the actuarially determined accrued liabilities of the Retirement Systems were approximately $83.8 billion, the fair market value of their assets was approximately $40.7 billion, and the aggregate unfunded accrued actuarial liability *("UAAL")* with respect to the Retirement Systems was approximately $43.1 billion.

Members of each Retirement System contribute a portion of their annual salary for retirement purposes. The contribution rate ranges from 4 to 11.5 percent depending on the fund to which contributions are deposited and whether or not the member participates in the Federal Social Security program. Benefits paid to retirees generally are based on a fixed benefit plan. Under this type of plan, benefits are generally computed as a percentage of final average salary multiplied by the number of years of service of the employee.

The following chart sets forth the number of participants, assets, liabilities and UAAL for each individual Retirement System.

TABLE 19

RETIREMENT SYSTEMS' PENSION FUND STATISTICS (AS OF JUNE 30, 2004)

	PARTICIPANTS				($ IN MILLIONS)		
RETIREMENT SYSTEM	ACTIVE	INACTIVE/ ENTITLED TO BENEFITS	RETIREES AND BENEFICIARIES	TOTAL	ASSETS[1]	LIABILITIES[2]	UAAL[3]
TRS	154,690	75,983	73,336	304,009	$23,124.8	$46,933.4	$23,808.6
SURS	78,686	61,447	36,390	176,523	9,714.5	18,025.0	8,310.5
SERS	70,192	23,325	54,375	147,892	7,502.1	17,594.0	10,091.9
JRS	920	42	864	1,826	330.1	1,076.2	746.2
GARS	182	113	383	678	49.7	196.5	146.8
TOTAL	304,670	160,910	165,348	630,928	$40,721.2	$83,825.2	$43,104.0

[1] Net assets are reported at fair market value per Governmental Accounting Standards Board Statement 25.
[2] Actuarially determined accrued cost of projected benefits.
[3] As a result of the transfer of Pension Bond proceeds on July 3, 2004, total assets increased by $7.317 billion while the UAAL decreased by $7.317 billion.

STATE LAW REQUIREMENTS FOR RETIREMENT SYSTEMS FUNDING

State law regulates the State's funding of the Retirement Systems. Public Act 88-593, effective July 1, 1995, created an actuarially-based funding method for the Retirement Systems with an ultimate goal of achieving 90 percent funding of Retirement System liabilities. Pursuant to this law, the State's percentage of payroll contribution to each Retirement System began increasing in fiscal year 1996 and is scheduled to increase each year through fiscal year 2010. In fiscal years 2011 through 2045, the State's contribution is scheduled to level off to an equal percentage of payroll as necessary to amortize 90 percent of the Retirement Systems' unfunded liabilities by the end of the 50-year period (1995 to 2045). The legislation also provided for continuing appropriations to the Retirement Systems beginning in fiscal year 1996. This provision requires the State to provide contributions to the Retirement Systems without being subject to the annual appropriation process. In the event that the General Assembly fails to appropriate the amounts certified by the Retirement Systems, Public Act 88-593 provides for payments to be made by the Comptroller and the Treasurer, in amounts sufficient to meet the requirements of the Act.

ISSUANCE OF GO PENSION FUNDING BONDS AND ALLOCATION OF PROCEEDS

In April 2003, pursuant to the Bond Act, the State was authorized to issue and sell the GO Pension Funding Bonds, for the purpose of making contributions to, and funding the UAAL of, the Retirement Systems. Pursuant to the Bond Act, the State was required to deposit into the Pension Contribution Fund (the *"Pension Contribution Fund")*, a newly created fund held in the State Treasury, the proceeds from the sale of the GO Pension Funding Bonds less an aggregate amount of proceeds representing up to 12 months' capitalized interest on the GO Pension Funding Bonds and the aggregate amount of proceeds used to pay expenses of the offering of the GO Pension Funding Bonds. Out of the initial net proceeds of GO Pension Funding Bonds deposited into the Pension Contribution Fund, the State was obligated to reserve for transfer to its General Revenue Fund $300 million, representing a portion of the required State contributions to the Retirement Systems for the last quarter of the State's fiscal year 2003, plus the sum of $1.86 billion, representing the required State contributions to the Retirement Systems for the State's fiscal year 2004 (collectively, the *"Reimbursement Amounts"*). Upon the deposit of such $300 million in the Pension Contribution Fund, the State immediately transferred such moneys to its General Revenue Fund. Whenever any payment of State contributions for fiscal year 2004 is made to any Retirement System, the State will transfer from the Pension Contribution Fund to its General Revenue Fund an amount equal to the amount of that payment.

The Bond Act further mandates that all net proceeds of GO Pension Funding Bonds deposited into the Pension Contribution Fund, other than the Reimbursement Amounts described above, be transferred by the State to the Retirement Systems to reduce the UAAL. The amount of the transfer to each Retirement System constituted a portion of the total transfer amount that is the same as such Retirement System's portion of the UAAL of the Retirement Systems as a whole, as most recently determined by the GOMB. The GOMB was required under the Bond Act to complete the allocations among the Retirement Systems as described in the preceding sentence and notify each such Retirement System and the Comptroller within 15 days after net proceeds of GO Pension Funding Bonds in excess of the Reimbursement Amounts have been deposited into the Pension Contribution Fund. Each Retirement System then submitted a voucher to the Comptroller for its allocation and such allocated amount was paid from the Pension Contribution Fund in fiscal year 2004. The total amount paid to the Retirement Systems was $7.3 billion.

On June 12, 2003, the State issued $10 billion of GO Pension Funding Bonds. The net proceeds of the GO Pension Funding Bonds were used to (i) reimburse the State's General Revenue Fund for a portion of the contributions made to the Retirement Systems for the last quarter of the State's fiscal year 2003, or a total of $300 million, (ii) reimburse the State's General Revenue Fund for the State's contributions to the Retirement Systems for the State's fiscal year 2004, up to a total of $1.86 billion, and (iii) fund a portion of the UAAL for the net balance of the proceeds after capitalized interest and issuance costs, or $7.3 billion. The net proceeds of the GO Pension Funding Bonds were not sufficient to fully fund the UAAL.

FUTURE STATE CONTRIBUTIONS TO RETIREMENT SYSTEMS

Following the issuance of the GO Pension Funding Bonds, pursuant to the Pension Code, the State's contributions to the Retirement Systems from the General Revenue Fund for fiscal year 2005 and thereafter will be decreased by the debt service payments for such fiscal year on the then outstanding GO Pension Funding Bonds. The State's contribution for fiscal year 2005 and for each fiscal year thereafter with respect to each Retirement System will not exceed an amount equal to (i) the amount of the required State contribution that would have been calculated under the provisions of the Pension Code if such Retirement System had not received its allocation of net proceeds of GO Pension Funding Bonds (other than Reimbursement Amounts) as described in the proceeding paragraph, minus (ii) that portion of the State's total debt service payments for that fiscal year on the GO Pension Funding Bonds that is the same as such Retirement System's portion of the total net proceeds transferred to the Retirement Systems as a whole (other than the Reimbursement Amount).

The State, through its legislation, may modify from time to time its computation methodology for purposes of calculating its net UAAL.

DESCRIPTIONS OF RETIREMENT SYSTEMS

Teachers' Retirement System of the State of Illinois

The General Assembly created the TRS in 1939. TRS administers a cost-sharing, multiple-employer public pension plan and provides its members with retirement, disability and survivor benefits. Generally, members of TRS include all full-time, part-time and substitute Illinois public school personnel, excluding personnel employed within the city of Chicago, in positions requiring certification by the Illinois State Board of Education. Individuals employed in certain state agencies relating to education are also members of TRS.

As of June 30, 2003, there were 154,690 active members and 75,983 inactive members entitled to benefits. In addition, 73,336 retirees and beneficiaries were receiving benefits. Funding for TRS benefit programs is obtained from member contributions, TRS-covered employers contributions, the State, and investment income. The TRS Board of Trustees annually certifies a minimum State contribution based on the statutory formula. The State is obligated to pay this amount on a continuing appropriation. For fiscal year 2004, the State made a contribution of $1,032 million. Moreover, TRS uses outside investment managers, a general consultant and TRS staff to invest the trust assets in accordance with investment guidelines established by the Board of Trustees and the fiduciary standards imposed by state law. Upon termination of service, a member is entitled to a refund of total contributions to TRS. The refund does not include interest or contributions for survivor benefits. By accepting a refund, the member forfeits rights to benefits from TRS.

General Assembly Retirement System

The GARS provides retirement annuities, survivors' annuities and other benefits for members of the General Assembly, certain elected state officials and their beneficiaries.

In 2003, the total membership of GARS was 295. There were 182 active members and 113 inactive members entitled to benefits. Moreover, 383 retirees and beneficiaries were receiving annuities. Contributions are made by members, employers and returns from the investment of trust assets. For fiscal year 2004, the State made a contribution of $5.8 million. Upon termination of service, a member is entitled to a refund of total contributions to GARS, without interest. Acceptance of a refund forfeits all accrued rights and benefits by the member and his or her beneficiaries.

State Employees Retirement System of Illinois

The SERS provides retirement, disability and survivor benefits for, generally, all persons entering state service after serving a six-month qualifying period, unless their position is subject to membership in another state supported system.

In 2003, the total membership of SERS was 93,517. There were 70,192 active members and 23,325 inactive members entitled to benefits. Moreover, 54,375 retirees and beneficiaries were receiving annuities. As of January 2002, most employers now pay all or part of the required employee contributions on behalf of its employees. Contributions are also made by members, employers and returns from the investment of trust assets. For fiscal year 2004, the State made a contribution of 13.439% of the eligible payroll. Upon termination of service, a member is entitled to a refund of total contributions to SERS, without interest. Acceptance of a refund forfeits all accrued rights and benefits by the member and his or her beneficiaries.

Judges' Retirement System of Illinois

The JRS provides retirement annuities, survivors' annuities and other benefits for persons elected or appointed as a judge or associate judge of a court.

In 2003, the total membership of JRS was 962. There were 920 active members and 42 inactive members entitled to benefits. Moreover, 864 retirees and beneficiaries were receiving annuities. Contributions are made by members, employers and returns from the investment of trust assets. For fiscal year 2004, the State made a contribution of $36.5 million. Upon termination of service, a member is entitled to a refund of total contributions to JRS, without interest. Acceptance of a refund forfeits all accrued rights and benefits by the member and his or her beneficiaries.

State Universities Retirement System

The SURS generally provides retirement, disability and survivor benefits for all permanent status employees with an appointment of 4 months or one academic term, whichever is less. Employees now have the option of selecting the type of account into which their money is deposited. The three options are: (1) the traditional benefits plan, (2) the portable benefits plan, and (3) the self-managed benefits plan. In 2003, there were 78,686 active members in SURS, with 61,447 inactive members entitled to benefits. An additional 36,390 retirees and beneficiaries were receiving annuities.

Under the traditional benefits plan, the State and members contribute to the retirement fund for each employee. The amount of the employer's contribution is determined each year dependent on many variables but usually ranges between 8 and 10%. Upon termination of services, a member may receive a refund consisting of the amount of the member's contribution plus interest credited (not to exceed 4.5%). Any employer or State matching funds will be forfeited.

Under the portable benefits plan, the State and members contribute to the retirement fund for each employee. The amount of the employer's contribution is determined each year dependent on many variables but usually ranges between 8 and 10%. Upon termination of services, with less than 5 years of service credit, a member is entitled to receive a refund consisting of total contributions plus the full effective rate of interest that has accumulated on the contributions. Upon termination of services with 5 or more years of qualified service, a member may receive a refund consisting of contributions plus interest and an equal match from the State. For fiscal year 2004, the State made a contribution of $289.7 million to this plan and the traditional benefits plan.

Under the self-managed plan, the State and members contribute to the retirement fund of each employee. For fiscal year 2004, the State made a contribution of $22.0 million to this plan. Upon termination of services with less than 5 years of service, a member forfeits the State contributions. Upon termination of services with 5 or more years of service, a member may receive his or her account balance in a lump sum.

FUNDING FOR RETIREMENT SYSTEMS

One measure of the fiscal condition of retirement systems, the degree of funding or the funding ratio, is the ratio of net assets to total liabilities. Table 20 summarizes the degree of funding for the Retirement Systems from fiscal year 1999 through fiscal year 2003.

TABLE 20

PENSION SYSTEMS
FUNDED STATUS
FISCAL YEARS 1999-2003
($ IN MILLIONS)

FISCAL YEAR	TOTAL ASSETS[1]	TOTAL LIABILITIES[2]	RATIO (%)
1999	41,442.4	56,787.7	73.0
2000	45,949.7	61,518.9	74.7
2001	42,789.3	67,768.9	63.1
2002	40,252.6	75,198.2	53.5
2003	40,727.2	83,825.2	48.6

[1] Net assets are reported at fair market value per Governmental Accounting Standards Board Statement 25.
[2] Actuarially determined accrued cost of projected benefits.

In fiscal year 2003, State appropriations and contributions to the Retirement Systems totaled $1.64 billion. In fiscal year 2004, in addition to its then current obligations to the Retirement Systems for fiscal year 2004 in the amount of $1.86 billion, the State appropriated approximately $7.3 billion to the Retirement Systems from the proceeds of the GO Pension Funding Bonds previously discussed.

Table 20 reflects the fair market value of the total assets of the Retirement Systems and the actuarially determined accrued cost of projected benefits of the Retirement Systems as of the fiscal years of the State contained therein. The UAAL has increased from time to time as a result of State legislation increasing benefits to participants in the Retirement Systems and declining performance of investments held within each such Retirement System. Notwithstanding the foregoing, no assurance can be given that the actuarial assumptions underlying the calculations of total liabilities of the Retirement Systems or underlying the calculations of the total assets of the Retirement Systems due to a reduced reinvestment rate on the Retirement Systems' investment portfolio could not be modified in a material manner from time to time in the future. Such modification could result in a significant increase in the UAAL of the Retirement Systems and, therefore, a significant increase in the obligations of the State. In addition, the UAAL may be affected by certain other factors, including, without limitation, inflation, changes in the Pension Code, and changes in benefits provided or in the contribution rates of the State.

Public Act 92-566, effective June 25, 2002, allowed eligible State employees to purchase up to 60 months of age and service in order to qualify for early retirement. To be eligible, a State employee needed to be on active payroll in June 2002, or on lay-off status with a right of re-employment or recall, or on disability leave for not more than two years, and have a minimum of eight years of creditable service exclusive of service time established by Public Act 92-566 and not previously retired under Article 14 or Article 16-133.3 of the Pension Code. Contractual employment with the State by a person who elects the early retirement incentive is prohibited other than as a 75-day temporary employee. This act established that the unfunded liability from this early retirement initiative would be amortized over a 10-year period. The estimated increase in unfunded pension liability was $622 million at the time Public Act 92-566 was enacted and $70 million was provided in the fiscal year 2004 budget to begin the l0-year amortization. The actual increase in unfunded pension liability, as calculated under the provisions of Public Act 92-566, was $2.452 billion. The errors in the estimate were due to the number of employees electing early retirement as well as their average compensation. Certain known benefit enhancements and the waiver of the early retirement monthly benefit reduction were not included in the original estimated cost. Public Act 93-839 redefined the amount subject to 10-year amortization from the increase in unfunded pension liability to the increase in the present value of future pension benefits, provided $70 million to fund amortization in fiscal year 2005 and calls for the l0-year amortization to begin in fiscal year 2006. The amount subject to 10-year amortization is $1.752 billion. Approximately 11,040 employees took advantage of this retirement option.

Public Act 93-839 authorizes the provision of certain incentives to non-frontline State employees to leave State employment. Included in these incentives is an offer to refund to employees their pension contributions, plus statutory interest, times two. Absent this incentive, employees leaving State employment and requesting a refund are only entitled to a refund of their contributions. Although the impact of this plan on the unfunded pension liability is dependent on the age and service distribution of the employees electing to participate, it is not expected to be material.

Financial Data for Retirement Systems

The tables that follow provide information on the assets, liabilities, income and expenses for each Retirement System for fiscal years 1999 through 2003. The data were obtained from the audited financial statements of the Retirement Systems.

TABLE 21

STATE RETIREMENT SYSTEMS
FISCAL YEAR 2003
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	TOTAL	SELF MANAGED PLAN STATE UNIVERSITIES
Begin, Net Asset Balances	7,673,892.7	22,366,284.8	9,814,676.6	54,050.6	343,659.3	40,252,564.0	134,753.7
Income	696,296.3	2,814,134.9	780,905.0	7,154.8	44,119.0	4,342,610.0	60,404.3
Member contributions	285,209.3	732,020.5	245,243.1	1,954.2	12,905.0	1,277,332.1	30,658.0
State contributions	396,067.2	929,709.8	249,329.8	5,163.0	31,373.0	1,611,642.8	20,316.2
Investment income	15,019.8	1,060,852.1	250,398.3	(233.1)	(226.1)	1,325,811.0	4,993.2
Other	0.0	91,552.5	35,933.8	270.7	67.1	127,824.1	4,436.9
Expenditures	868,077.6	2,055,596.4	882,076.0	11,529.1	57,724.7	3,875,003.8	3,628.9
Benefits	831,486.6	1,998,622.3	836,661.7	11,131.5	56,714.5	3,734,616.6	670.5
Refunds	28,369.8	43,114.7	32,218.8	106.7	582.5	104,392.5	2,958.4
Administration	8,221.2	13,859.4	11,913.0	290.9	427.7	34,712.2	0.0
Other	0.0	0.0	1,282.5	0.0	0.0	1,282.5	0.0
Equity Transfer			1,041.7				(1,041.7)
Ending Net Asset Balance	7,502,111.4	23,124.823.3	9,714,547.3	49,676.3	330,053.6	40,721,211.9	190,487.4
Actuarial Liabilities	17,593,980.0	46,933,432.0	18,025,032.0	196,510.1	1,076,232.0	83,825,186.1	N/A
Unfunded Accrued Liability	10,091,868.6	23,808,608.7	8,310,484.7	146,833.8	746,178.4	43,103,974.2	N/A
Asset/Liability Ratio	42.6%	49.3%	53.9%	25.3%	30.7%	48.6%	N/A

[1] The Self Managed Plan (SMP) under the State Universities Retirement System is not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability.
[2] Reflects valuation of assets on a market basis as of June 30, 1996, per GASB Statement 25.
[3] Actuarially determined accrued benefit costs.
Note: Numbers may not add due to rounding.

TABLE 22

STATE RETIREMENT SYSTEMS
FISCAL YEAR 2002
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	TOTAL	SELF MANAGED PLAN STATE UNIVERSITIES
Begin, Net Asset Balances	8,276,661.4	23,315,646.1	10,753,296.9	61,997.8	381,733.6	42,789,335.8	101,943.4
Income	36,920.6	864,522.7	(143,600.4)	2,359.0	15,525.4	775,727.3	33,685.8
Member contributions	196,915.4	681,151.8	251,573.7	1,552.3	12,487.3	1,143,680.5	25,904.0
State contributions	386,116.6	814,793.8	221,537.7	4,678.0	27,532.0	1,454,604.1	18,886.3
Investment income	(546,111.4)	(723,987.0)	(651,298.4)	(3,914.8)	(24,493.9)	(1,949,805.5)	(15,185.7)
Other	0.0	92,618.1	34,586.6	43.5	0.0	127,248.2	4,081.2
Expenditures	639,689.3	1,813,884.0	793,470.0	10,306.2	53,599.37	3,310,949.2	2,425.4
Benefits	617,918.5	1,759,748.7	743,267.1	9,953.2	52,822.3	3,183,709.8	2.8
Refunds	14,147.2	38,755.6	37,040.4	68.2	353.2	90,364.6	2,422.6
Administration	7,623.6	13,487.4	11,868.0	284.8	424.2	33,688.0	0.0
Other	0.0	1,892.3	1,294.5	0.0	0.0	3,186.8	0.0
Equity Transfer			(1,549.9)				1,549.9
Ending Net Asset Balance	7,673,892.7	22,366,284.8	9,814,676.6	54,050.6	343,659.3	40,252,564.0	134,753.7
Actuarial Liabilities	14,291,044.6	43,047,674.0	16,654,041.0	184,582.5	1,020,846.8	75,198,188.9	N/A
Unfunded Accrued Liability	6,617,151.9	20,681,389.2	6,839,364.4	130,531.9	677,187.5	34,945,624.9	N/A
Asset/Liability Ratio	53.7%	52.0%	58.9%	29.3%	33.7%	53.5%	N/A

[1] The Self Managed Plan (SMP) under the State Universities Retirement System is not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability.
[2] Reflects valuation of assets on a market basis as of June 30, 1996, per GASB Statement 25.
[3] Actuarially determined accrued benefit costs.
Note: Numbers may not add due to rounding.

TABLE 23

STATE RETIREMENT SYSTEMS
FISCAL YEAR 2001
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	TOTAL	SELF MANAGED PLAN STATE UNIVERSITIES
Begin, Net Asset Balances	8,910,900.7	24,481,412.6	12,063,949.6	70,471.4	422,933.7	45,949,668.0	73,412.4
Income	(72,495.0)	449,933.5	(584,898.7)	1,068.6	8,175.1	(198,216.5)	28,605.1
Member contributions	173,778.7	643,563.3	221,581.5	1,407.6	12,291.1	1,052,622.2	20,218.7
State contributions	366,029.0	724,007.8	216,349.1	4,305.0	24,218.0	1,334,908.9	16,254.9
Investment income	(612,302.7)	(1,015,255.2)	(1,053,627.0)	(4,650.9)	(28,464.9)	(2,714,300.7)	(11,043.1)
Other	0.0	97,617.6	30,797.7	6.9	130.9	128,553.1	3,174.6
Expenditures	561,744.2	1,615,700.0	723,227.5	9,542.2	49,375.3	2,959,589.2	2,600.6
Benefits	537,591.7	1,566,793.2	664,792.8	9,228.0	48,330.8	2,826,736.5	48.2
Refunds	17,012.2	35,849.1	45,747.1	37.8	633.6	99,279.8	2,552.4
Administration	7,140.3	12,640.6	11,185.2	276.4	410.9	31,653.3	0.0
Other	0.0	417.1	1,502.5	0.0	0.0	1,919.6	0.0
Equity Transfer			(2,526.4)				2,526.4
Ending Net Asset Balance	8,276,661.4	23,315,646.1	10,753,296.9	61,997.8	381,733.6	42,789,335.8	101,943.4
Actuarial Liabilities	12,572,240.1	39,166,697.0	14,915,317.0	177,546.1	937,091.5	67,768,891.8	N/A
Unfunded Accrued Liability	4,295,578.8	15,851,050.9	4,162,020.1	115,548.3	555,357.9	24,979,556.0	N/A
Asset/Liability Ratio	65.8%	59.5%	72.1%	34.9%	40.7%	63.1%	N/A

[1] The Self Managed Plan (SMP) under the State Universities Retirement System is not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability.
[2] Reflects valuation of assets on a market basis as of June 30, 1996, per GASB Statement 25.
[3] Actuarially determined accrued benefit costs.
Note: Numbers may not add due to rounding.

TABLE 24

STATE RETIREMENT SYSTEMS
FISCAL YEAR 2000
($ IN THOUSANDS)

	SERS	TRS	SURS	GARS	JRS	TOTAL	SELF MANAGED PLAN STATE UNIVERSITIES
Begin, Net Asset Balances	7,986,433.0	22,237,709.0	10,761,726.3	66,832.5	389,761.9	41,442,462.7	31,302.9
Income	1,436,928.2	3,686,437.2	1,957,900.1	12,830.2	78,265.4	7,172,361.1	37,289.7
Member contributions	164,792.4	619,622.8	222,459.5	1,317.5	12,005.4	1,020,197.6	15,554.0
State contributions	340,872.5	639,298.9	212,478.8	3,951.0	21,388.0	1,217,989.2	12,108.2
Investment income	931,263.5	2,336,217.1	1,494,329.6	7,561.7	44,848.4	4,814,220.1	7,007.8
Other	0.0	91,298.4	28,632.2	0.0	23.6	119,954.2	2,619.7
Expenditures	512,460.5	1,442,733.6	649,306.8	9,191.3	45,093.6	2,658,785.8	1,550.2
Benefits	489,915.4	1,402,246.0	590,206.2	8,840.7	44,218.7	2,535,427.0	12.9
Refunds	15,931.3	28,797.1	46,801.0	97.6	498.2	92,125.2	1,537.3
Administration	6,613.8	11,680.6	10,901.9	253.0	376.7	29,826.0	0.0
Other		9.9	1,397.7	0.0	0.0	1,407.6	0.0
Equity Transfer			(6,370.0)				6,370.0
Ending Net Asset Balance	8,910,900.7	24,481,412.6	12,063,949.6	70,471.4	422,933.7	45,949,668.0	73,412.4
Actuarial Liabilities	10,912,987.9	35,886,404.0	13,679,039.0	169,362.9	871,153.4	61,518,947.2	N/A
Unfunded Accrued Liability	2,002,087.2	11,404,991.4	1,615,089.4	98,891.5	448,219.7	15,569,279.2	N/A
Asset/Liability Ratio	81.7%	68.2%	88.2%	41.6%	48.5%	74.7%	N/A

[1] The Self Managed Plan (SMP) under the State Universities Retirement System is not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability.
[2] Reflects valuation of assets on a market basis as of June 30, 1996, per GASB Statement 25.
[3] Actuarially determined accrued benefit costs.
Note: Numbers may not add due to rounding.

TABLE 25

State Retirement Systems
Fiscal Year 1999
($ In Thousands)

	SERS	TRS	SURS	GARS	JRS	TOTAL	SELF MANAGED PLAN STATE UNIVERSITIES
Begin, Net Asset Balances	7,064,494.8	19,965,887.4	9,792,000.0	62,737.6	356,692.9	37,241,812.7	1,678.0
Income	1,383,227.0	3,592,632.8	1,552,871.5	12,797.1	74,572.3	6,616,100.7	15,661.10
Member contributions	159,580.2	866,375.9	212,965.7	1,413.7	11,270.1	1,251,605.6	6,709.3
State contributions	315,525.0	572,950.6	212,393.6	3,592.0	18,688.8	1,123,150.0	5,238.6
Investment income	908,121.8	2,089,661.0	1,102,031.7	7,683.6	44,613.4	4,152,111.5	2,518.2
Other	0.0	63,645.3	25,480.5	107.8	0.0	89,233.6	1,194.9
Expenditures	461,288.8	1,320,811.2	568,587.5	8,702.2	41,503.3	2,400,893.0	593.8
Benefits	440,842.4	1,284,126.6	525,966.1	8,333.7	40,851.6	2,300,120.4	0.0
Refunds	14,012.5	25,858.9	31,329.9	129.4	296.1	71,626.8	593.8
Administration	6,433.9	10,680.1	9,991.2	239.1	355.6	27,699.9	0.0
Other		145.6	1,300.3	0.0	0.0	1,445.9	0.0
Equity Transfer			(14,557.7)				14,557.7
Ending Net Asset Balance	7,986,433.0	22,237,709.0	10,761,726.3	66,832.5	389,761.9	41,442,462.7	31,302.9
Actuarial Liabilities	9,998,205.0	33,205,513.0	12,617,495.0	160,870.8	805,587.2	56,787,671.0	N/A
Unfunded Accrued Liability	2,011,722.0	10,967,804.0	1,855,768.7	94,038.3	415,825.3	15,345,208.3	N/A
Asset/Liability Ratio	79.9%	67.0%	85.3%	41.5%	48.4%	73.0%	N/A

[1] The Self Managed Plan (SMP) under the State Universities Retirement System is not included in the totals. The SMP is a defined contribution plan and, by definition, is fully funded and does not carry unfunded liability.
[2] Reflects valuation of assets on a market basis as of June 30, 1996, per GASB Statement 25.
[3] Actuarially determined accrued benefit costs.
Note: Numbers may not add due to rounding.

FINANCIAL ADVISOR

Mesirow Financial, Inc. is acting as financial advisor (the *"Financial Advisor")* to the State in connection with the offering of the Bonds. The Financial Advisor has assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Bonds.

ADDITIONAL INFORMATION

The information contained in this Official Statement is subject to change without notice and no implication is to be derived therefrom or from the sale of the Bonds that there has been no change in the affairs of the State or the information contained herein since the dates as of which such information is given. Any statements in this Official Statement involving matters of opinion or estimate, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not be construed as a contract or agreement between the State and the purchasers of any of the Bonds.

MISCELLANEOUS

Additional information regarding the Bonds and this Official Statement is available by contacting the Governor's Office of Management and Budget, 108 State Capitol, Springfield, Illinois 62706; telephone: (217) 782-4520.

The State has authorized the distribution of this Official Statement.

This Official Statement has been duly executed and delivered by the Director of the Governor's Office of Management and Budget on behalf of the State.

STATE OF ILLINOIS

/s/ JOHN B. FILAN
Director of the Governor's Office of Management and Budget

APPENDIX A

ECONOMIC DATA

Illinois is a state of diversified economic strength. Personal income and workforce composition in Illinois are similar to that of the United States as a whole. Measured by per capita personal income, Illinois ranks third among the ten most populous states and ninth among all states. Illinois ranks second among all states in total cash receipts from crops, second in agricultural exports and ranks among the top states in several measures of manufacturing activity. Chicago serves as the transportation center of the Midwest and the headquarters of many of the nation's major corporations and financial institutions. Table A-1 compares the workforce composition of Illinois to that of the United States as a whole. Table A-2 shows the distribution of Illinois non-agricultural employment by industry sector.

TABLE A-1

PAYROLL JOBS BY INDUSTRY – 2003
(THOUSANDS)

	ILLINOIS	% OF TOTAL	U.S.	% OF TOTAL
Natural Resources and Mining	10	0.2	587	0.4
Construction	277	4.8	6,965	5.3
Manufacturing	720	12.4	14,392	10.9
Trade, Transportation and Utilities	1,187	20.4	25,407	19.3
Information and Financial Activities	537	9.2	11,218	8.5
Professional and Business Services	766	13.2	16,423	12.5
Education and Health Services	715	12.3	16,958	12.9
Leisure and Hospitality	497	8.5	12,546	9.5
Other Services	250	4.3	5,424	4.1
Government	857	14.7	21,961	16.7
Total	5,813	100.0	131,881	100.0

Source: U.S. Department of Labor, Bureau of Labor Statistics, May 2004.
Note: Columns may not add due to rounding. Beginning in March 2003, the basis for industry classification changed from the 1987 Standard Industrial Classification System to the 2002 North American Industry Classification System.

According to the U.S. Department of Commerce, Bureau of Economic Analysis (May 2003), agricultural employment in the State of Illinois totaled 98,943 in 2001, compared to national agricultural employment of 3,075,000.

TABLE A-2

NON-AGRICULTURAL PAYROLL JOBS BY INDUSTRY
ILLINOIS-1999 THROUGH 2003
(THOUSANDS)

	1999	2000	2001	2002	2003
Total Non-Agricultural Employment	**5,958**	**6,045**	**5,995**	**5,895**	**5,813**
Natural Resources and Mining	11	10	10	10	10
Construction	256	270	277	276	277
Manufacturing	882	871	815	756	720
Non-Durable Goods	324	322	311	298	287
Durable Goods	558	549	505	458	433
Trade, Transportation and Utilities	1,230	1,248	1,232	1,197	1,184
Wholesale Trade	317	321	317	306	306
Retail Trade	642	651	643	633	622
Transportation and Utilities	271	276	272	258	256
Information and Financial Activities	553	557	558	549	537
Professional and Business Services	813	838	814	786	766
Educational and Health Services	665	681	697	711	715
Leisure and Hospitality	479	487	491	494	497
Other Services	243	245	251	255	250
Government	826	840	850	861	857

Source: U.S. Department of Labor, Bureau of Labor Statistics, May 2004.
Note: Columns may not add due to rounding. Beginning in March 2003, the basis for industry classification changed from the 1987 Standard Industrial Classification System to the 2002 North American Industry Classification System.

AGRICULTURE

Illinois is a major agricultural state. Tables A-3 and A-4 summarize key agricultural production statistics.

TABLE A-3

ILLINOIS CASH RECEIPTS FROM CROPS AND LIVESTOCK
($ IN MILLIONS)

	1999	2000	2001	2002	2003	RANK AMONG STATES - 2002
Crops	5,233	5,312	5,704	5,924	6,487	3
Livestock	1,524	1,710	1,843	1,562	1,689	22
Total	6,757	7,022	7,547	7,486	8,176	7

Source: U.S. Department of Agricultural-Economic Research Service.

TABLE A-4

AGRICULTURAL EXPORTS
FEDERAL FISCAL YEAR 2002
($ IN MILLIONS)

AGRICULTURAL EXPORTS	U.S. TOTAL	ILLINOIS SHARE	PERCENT OF U.S.	RANK AMONG STATES
All Commodities	53,293.6	3,310.5	6.2	2
Feed Grain and Products	6,779.2	1,054.7	15.6	1
Soybeans and Products	7,325.7	1,211.1	16.4	2

Source: U.S. Department of Agricultural-Economic Research Service.

FINANCIAL INSTITUTIONS

Illinois serves as the financial center of the Midwest. The State ranks third among all states in total assets for commercial banks. As of September 30, 2003, there were 777 commercial and savings banks in Illinois with total assets of $53.2 billion. Additionally, as of February 4, 2004, there were 57 OTS-regulated and FDIC-insured thrift institutions in Illinois with total assets of $26.3 billion.

Source: Federal Deposit Insurance Corporation and Office of Thrift Supervision.

CONTRACT CONSTRUCTION

Contracts for future construction in Illinois averaged $14.5 billion annually during the period 1992 through 2002 and totaled $20.7 billion in 2002. During the period 1992 through 2002, building permits issued for residential construction averaged 49,778 annually, with an average annual valuation of $5.7 billion. Table A-5 presents annual data on contracts for future construction and residential building activity.

TABLE A-5

CONTRACTS FOR FUTURE CONSTRUCTION AND RESIDENTIAL BUILDING ACTIVITY

	RESIDENTIAL, NON-RESIDENTIAL AND NON-BUILDING CONTRACTS FOR FUTURE CONSTRUCTION[1]	RESIDENTIAL BUILDING ACTIVITY (PRIVATELY-OWNED HOUSING UNITS)[2]	
YEAR	($ IN MILLIONS)	PERMITS	VALUATION ($ IN MILLIONS)
1992	10,600	40,430	3,962
1993	11,161	44,742	4,487
1994	12,008	49,290	5,012
1995	11,726	47,467	4,844
1996	12,667	49,592	5,199
1997	12,703	46,323	5,087
1998	15,000	47,984	5,618
1999	16,450	53,974	6,538
2000	16,945	51,944	6,528
2001	19,393	54,839	7,141
2002	20,733	60,971	8,546

[1] U. S. Department of Commerce, Housing Units Authorized by Building Permits: Annual, various issues.
[2] Dodge Division, McGraw-Hill Information System Co.

PERSONAL INCOME

Per capita income in Illinois is greater than the average in both the United States and the Great Lakes Region. Table A-6 presents personal income data, and Table A-7 presents per capita income comparisons.

TABLE A-6

PERSONAL INCOME
($ IN BILLIONS)

	1990	2000	2001	2002	2003
Illinois	238.5	400.4	410.3	416	431.7
United States	4,861.90	8,422.10	8,703.00	8,900.00	9,380.50

Source: Department of Commerce, Bureau of Economic Analysis, June 2004

TABLE A-7

PER CAPITA PERSONAL INCOME

	1980	1990	2000	2001	2002	2003	RANK
Illinois	$11,005	$20,824	$32,187	$32,782	$33,053	$33,690	10
United States	10,114	19,477	29,847	30,527	30,906	31,632	--
Ten Most Populous States:							
New Jersey	11,707	24,572	38,372	39,077	39,461	40,427	1
New York	11,015	23,523	34,900	35,626	35,805	36,574	2
California	11,951	21,638	32,466	32,892	32,989	33,749	3
Illinois	**$11,005**	**$20,824**	**$32,187**	**$32,782**	**$33,053**	**$33,690**	**4**
Pennsylvania	10,085	19,687	29,697	30,318	31,116	31,998	5
Florida	9,933	19,564	28,511	29,247	29,758	30,446	6
Michigan	10,314	18,922	29,553	29,499	29,816	30,439	7
Ohio	10,046	18,743	28,208	28,627	29,195	29,944	8
Texas	9,880	17,421	28,313	28,943	29,039	29,732	9
Georgia	8,420	17,603	27,989	28,555	28,821	29,442	10
Great Lakes States:							
Illinois	**$11,005**	**$20,824**	**$32,187**	**$32,782**	**$33,053**	**$33,690**	**1**
Wisconsin	10,107	18,072	28,573	29,361	30,050	30,898	2
Michigan	10,314	18,922	29,553	29,499	29,816	30,439	3
Ohio	10,046	18,743	28,208	28,627	29,195	29,944	4
Indiana	9,374	17,491	27,134	27,619	28,032	28,783	5

Source: U.S. Department of Commerce, Bureau of Economic Analysis, April 2004.

TABLE A-8

UNEMPLOYMENT

	Number of Unemployed						Unemployment Rate (%)					
	1998	1999	2000	2001	2002	2003	1998	1999	2000	2001	2002	2003
United States	6,210,000	5,880,000	5,692,000	6,801,000	8,378,000	8,774,000	4.4	4.2	4.0	4.3	5.8	6.1
Illinois	267,802	273,113	308,862	389,118	418,457	423,065	4.2	4.2	4.8	6.1	6.5	6.7
Bloomington-Normal MSA	2,042	2,057	2,316	2,285	2,570	2,634	2.3	2.2	2.5	2.4	2.7	2.8
Champaign-Urbana MSA	2,662	2,508	2,434	2,798	3,227	3,292	2.8	2.5	2.4	2.8	3.2	3.3
Chicago PMSA	180,451	176,631	179,220	231,495	286,929	290,004	4.3	4.1	4.1	5.4	6.7	6.8
Davenport-Moline-Rock	4,023	5,916	5,584	5,695	6,048	6,182	3.9	5.6	5.3	5.5	6	6.2
Decatur MSA	3,287	2,981	3,074	3,698	4,656	4,134	5.6	4.8	5.0	6.3	8.2	7.4
Kankakee MSA	3,190	2,896	2,566	3,078	3,790	4,027	6.1	5.4	4.8	5.8	7.2	7.7
Peoria-Pekin MSA	6,800	7,660	7,354	8,606	9,694	9,967	3.7	4	3.9	4.6	5.3	5.5
Rockford MSA	8,874	9,236	9,573	13,150	15,408	16,486	4.5	4.5	4.7	6.5	7.8	8.4
Springfield MSA	4,259	3,969	3,889	4,280	4,986	5,505	3.9	3.6	3.5	3.9	4.6	5.2
St. Louis MSA, IL portion	15,195	14,237	15,013	16,751	18,002	18,792	5.2	4.8	5.2	5.9	6.4	6.6

Source: Illinois Department of Employment Security and U.S. Department of Labor, Bureau of Labor Statistics.

POPULATION

Illinois is the nation's fifth most populous state.

TABLE A-9

POPULATION: ILLINOIS AND SELECTED METROPOLITAN STATISTICAL AREAS

	1980	1990	2000
Illinois	11,427,409	11,430,602	12,419,293
Chicago CMS (IL Part)	7,348,874	7,507,113	8,272,768
St. Louis MSA (IL Part)	588,464	588,995	599,845
Rockford MSA	325,852	329,626	371,236
Peoria MSA	365,864	339,172	347,387
Springfield MSA	187,770	189,550	201,437
Champaign-Urbana MSA	168,392	173,025	179,669

Source: U.S. Bureau of the Census. (Populations for 1980 and 1990 reflect Metropolitan Statistical Area definitions as of June 30, 1993).

TABLE A-10

ILLINOIS POPULATION BY AGE GROUP

	1990	2000
Under 5 years	848	877
5-14 years	1,633	1,835
15-24 years	1,678	1,745
25-34 years	1,993	1,812
35-44 years	1,700	1,984
45-54 years	1,167	1,627
55-64 years	975	1,041
65 years and over	1,437	1,500
TOTAL	11,431	12,419

Source: U.S. Bureau of the Census.
Note: Columns may not add due to rounding

APPENDIX B

PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL

[LETTERHEAD OF ARNSTEIN & LEHR LLP AND PUGH, JONES, JOHNSON & QUANDT, P.C.]

[To Be Dated Closing Date]

We hereby certify that we have examined a certified copy of the proceedings of the Governor of the State of Illinois (the "State") and the Director of the Governor's Office of Management and Budget of the State authorizing the issue by the State of its fully registered $275,000,000 General Obligation Bonds, Series of November 2004 (the "Bonds"), dated the date hereof. The Bonds mature on November 1 of each of the years, in the amounts and bear interest as follows:

Year of Maturity	Principal Amount	Rate of Interest	Year of Maturity	Principal Amount	Rate of Interest
2005	$11,000,000	5.000%	2018	$11,000,000	5.000%
2006	11,000,000	5.000%	2019	11,000,000	5.000%
2007	11,000,000	5.000%	2020	11,000,000	5.000%
2008	11,000,000	5.000%	2021	11,000,000	5.000%
2009	11,000,000	5.000%	2022	11,000,000	5.000%
2010	11,000,000	5.000%	2023	11,000,000	5.000%
2011	11,000,000	5.000%	2024	11,000,000	5.000%
2012	11,000,000	5.000%	2025	11,000,000	5.000%
2013	11,000,000	5.000%	2026	11,000,000	5.000%
2014	11,000,000	5.000%	2027	11,000,000	5.000%
2015	11,000,000	5.000%	2028	11,000,000	5.000%
2016	11,000,000	5.000%	2029	11,000,000	5.000%
2017	11,000,000	5.000%			

the Bonds being subject to optional redemption as follows: Bonds maturing on and after November 1, 2017, are callable for redemption at the option of the State as a whole, or in part in integral multiples of $5,000, from such maturities as may be selected by the State (less than all of the Bonds of a single maturity to be selected by lot by the bond registrar), on November 1, 2014, and on any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption.

We are of the opinion that such proceedings show lawful authority for said issue under the laws of the State now in force.

We further certify that we have examined the form of Bond prescribed for said issue and find the same in due form of law, and in our opinion said issue, to the amount named, is valid and legally binding upon the State, except that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion, and constitutes a direct, general obligation of the State, for the prompt payment of which, both principal and interest as the same become due, the full faith and credit of the State have been validly pledged.

It is our opinion that, subject to the State's compliance with certain covenants, under present law, interest on the Bonds is not includible in gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such State covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

In rendering this opinion, we have relied upon certifications of the State with respect to certain material facts solely within the State's knowledge. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

APPENDIX C

GLOBAL BOOK-ENTRY SYSTEM

The Depository Trust Company *("DTC")*, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co., (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants *("Direct Participants")* deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation *("DTCC")*. DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly *("Indirect Participants")*. DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond *("Beneficial Owner")* is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners.

Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co., or such other nominee, do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments (including redemption proceeds) on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the State or the Treasurer of the State, as bond registrar and paying agent for the Bonds *("Bond Registrar")*, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest (including redemption proceeds) to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Bond Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State or the Bond Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this Official Statement concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

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APPENDIX D

CONTINUING DISCLOSURE UNDERTAKING

The following is a summary of certain provisions of the Undertaking of the State and does not purport to be complete. The statements made in this Appendix D are subject to the detailed provisions of the Undertaking, a copy of which is available upon request from the GOMB.

ANNUAL FINANCIAL INFORMATION DISCLOSURE

The State covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements (as described below) to each NRMSIR then recognized by the SEC for purposes of the Rule and to the repository, if any, designated by the State as the state depository (the *"SID")* and recognized as such by the SEC for purposes of the Rule. The State is required to deliver such information so that such entities receive the information by the dates specified in the Undertaking and described below.

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents, including other official statements (subject to the following sentence), which have been submitted to each NRMSIR and to the SID, if any, or filed with the SEC. If the information included by reference is contained in a final official statement, the final official statement must be submitted by the State to the Municipal Securities Rulemaking Board (the *"MSRB"*).

"Annual Financial Information" means financial information and operating data of the type contained herein (i) in Tables 1 through 3 and 6 under the heading "STATE FINANCIAL INFORMATION", (ii) in Tables 7, 8, 11, 12 and 17 under the heading "INDEBTEDNESS," and (iii) in Tables 20 and 21 under the heading "PENSION SYSTEMS." Annual Financial Information exclusive of Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, by 210 days after the last day of the State's fiscal year, which is currently June 30 of each year.

"Audited Financial Statements" means the General Purpose Financial Statements of the State prepared in accordance with generally accepted accounting principles applicable to governmental units. Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, within 30 days after availability to the GOMB. Audited Financial Statements are also available from the Comptroller as described in this Official Statement under the heading "STATE FINANCIAL INFORMATION – GAAP FINANCIAL REPORT."

MATERIAL EVENTS DISCLOSURE

The State covenants that it will disseminate to each NRMSIR or to the MSRB and to the SID, if any, in a timely manner the disclosure of the occurrence of an Event (as described below) with respect to the Bonds that is material, as materiality is interpreted under the 1934 Act. The "Events," certain of which may not be applicable to the Bonds, are:

- principal and interest payment delinquencies;
- non-payment related defaults;

- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the security;
- modifications to the rights of security holders;
- bond calls;
- defeasances;
- release, substitution or sale of property securing repayment of the securities;
- rating changes.

CONSEQUENCES OF FAILURE OF THE STATE TO PROVIDE INFORMATION

The State will give timely notice to each NRMSIR or to the MSRB and to the SID, if any, of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when they are due under the Undertaking.

If the State fails to comply with any provision of the Undertaking, the beneficial owner of any Bond may seek mandamus or specific performance by court order, to cause the State to comply with its obligations under the Undertaking. A default under the Undertaking shall not be deemed a default under the Bond Sale Order, and the sole remedy under the Undertaking in the event of any failure of the State to comply with the Undertaking shall be an action to compel performance.

AMENDMENT; WAIVER

Notwithstanding any other provision of the Undertaking, the State by a duly enacted order authorizing such amendment or waiver, may amend the Undertaking, and any provision of the Undertaking may be waived, if:

The amendment or the waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the State, or type of business conducted;

The Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

The amendment or waiver does not materially impair the interests of the beneficial owners of the Bonds, as determined by a party unaffiliated with the State (such as Co-Bond Counsel).

TERMINATION OF UNDERTAKING

The Undertaking shall be terminated if the State no longer has any legal liability for any obligation on or relating to repayment of the Bonds under the Bond Sale Order. The State shall give timely notice to each NRMSIR or to the MSRB and to the SID, if any, if there is such a termination.

ADDITIONAL INFORMATION

Nothing in the Undertaking will be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a material Event, in addition to that which is required by the Undertaking. If the State chooses to include any information from any document or notice of occurrence of a material Event in addition to that which is specifically required by the Undertaking, the State will have no obligation under the Undertaking to update such information or include it in any future disclosure or notice of occurrence of a material Event.

DISSEMINATION AGENT

The State may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

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APPENDIX E

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Robert J. Genader
President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Anne G. Gill
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Noraida Lauro
Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

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